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TAX ADMINISTRATION AND FINANCIAL PERFORMANCE OF OIL MARKETING COMPANIES IN MOMBASA COUNTY, KENYA

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ABSTRACT

Kenya is among the countries with the highest fuel taxation globally, surpassing larger economies such as South Africa and the United States. As of 2024, taxes account for approximately 40% of the retail fuel price in Kenya, compared to 14% in Illinois—the U.S. state with the highest fuel tax—and 30% in South Africa. To raise revenue, the Kenyan government has implemented multiple levies on fuel, including the Road Maintenance Levy, Excise Duty, Gasoline Tax, and the Railway Development Levy. These tax measures have significantly increased the cost of doing business, particularly for oil marketing companies. The purpose of this study was to investigate the effect of tax administration on the financial performance of oil marketing companies in Mombasa County, Kenya. Specifically, the study examined the influence of tax planning, tax incentives, tax compliance costs, and tax policies on financial performance. The study was guided by Kalecki's Theory of Taxation, the Theory of Tax Planning, and the Benefit Theory of Taxation. A cross-sectional descriptive research design was employed. The target population consisted of all six medium-sized oil marketing companies licensed by the Energy and Petroleum Regulatory Authority (EPRA) and operating in Mombasa County as of December 2024, according to the Petroleum Institute of East Africa. A census approach was adopted due to the relatively small population size. Primary data was collected using structured questionnaires. Data was analyzed using the Statistical Package for Social Sciences (SPSS) version 29, employing both descriptive statistics (means and standard deviations) and inferential analysis through multiple regression to examine the significance of relationships between variables. The findings revealed that tax planning, tax incentives, and tax policies have a statistically significant positive effect on financial performance. In contrast, tax compliance costs were negatively related to financial performance but did not exhibit a statistically significant effect in this context. The study concluded that strategic tax administration practices are essential for enhancing the financial performance of oil marketing firms.

Key Words: Tax Planning, Tax Incentives, Tax Compliance, Tax Policies

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INTRODUCTION

Global energy consumption is expected to accelerate in 2024 with fossil fuels continuing to dominate, despite soaring demand for renewables (Daryanto & Nurfadilah, 2018). The Economist Intelligence Unit projects the global energy consumption to grow by 1.8 percent in 2024, supported by strong demand in Asia. While the momentum in renewable energy is expected to continue, high commodity prices will drive investment into oil and gas production. The International Energy Agency (IEA) projected that global oil demand in 2023 would reach 101.7 million barrels per day (mb/d) in 2023. This was a revision of 400,000 barrels per day owing to the impact of the weakening worldwide macroeconomic environment (Matheson, 2024). The impact of higher interest rates fed through the real economy while petrochemical activity shifted increasingly to China, undermining growth elsewhere. Europe was particularly soft amid the continent's broad manufacturing and industrial slump. In addition, tighter efficiency standards and an expanding electric vehicle fleet continued to curb oil use. Despite the weakened global economic climate, a resurgent in China's demand accelerated from 1.8 million barrels per day in 2022 to 2.2m/bd in 2023 drove the global demand.

Tax administrative practices refer to procedures and policies employed by the government authority to manage and enforce tax laws within a jurisdiction (Nayyar & Singh, 2018). They were introduced during the colonial period under British rule, but formalization began in the early 20th century. Since then, there have been many updates and reforms to the tax systems. These practices vary globally and are influenced by legal frameworks. They primarily include tax holidays, taxpayer registration, filing requirements, audits, tariffs, and penalties. Effective tax administration is crucial to maintaining economic stability (Aringo, 2023).

In US, oil marketing companies have faced the uncertainty on volatile prices in an American state such as New York (US Energy Information Administration, 2023). The US currently taxes petroleum production in two main ways: the income tax and an ad valorem royalty of 18.5 percent for oil pumped on federal lands. Effective income tax rates for both corporate and pass-through oil producers are lower than for most other industries due to sector-specific tax breaks (Matheson, 2024). Tax revenues from domestic oil production profits are lower in the US than in most other major oil producing countries. Moreover, that share falls when oil prices rise due to the US's heavy reliance on royalties, since oil companies' gross receipts rise much less than profits as prices rise. Further, in US for instance, fixed or determinable annual or periodical gains, profits, and income (FDAP income) is subject to a 30% gross-basis withholding tax. Much FDAP income and similar incomes, however, exempt from withholding tax or is subject to a reduced rate of tax under the Code or a bilateral income tax treaty (US Model Treaty, 2016). Deloitte (2019), reports that withholding tax rates in the US are subjects to domestic rates that apply to payments to non-resident companies and may be reduced under the provision of an applicable tax treaty

In Nigeria, its position as a critical player in the energy industry has experienced myriad of concerns over the underperformance of Nigerian oil and gas projects (Cui, Wang, Rui & Chun, 2018). Oil and gas production had been hampered in Nigeria in the past few years, due to the attack on oil and gas infrastructure by militants. Further, oil theft has been one of the major issues faced by the oil & gas market in Nigeria, which resulted in huge losses to operating companies in the country. Shell reports that criminal gangs are targeting, damaging and bunkering an estimated 150 000bbl/d in Nigeria (PwC, 2018).

In Tanzania, Puma and Total were the main oil marketing companies (OMCs) operating in Tanzania as of 2020. Each had a market share of 13.6 percent and 12.6 percent, respectively. Over 20 OMCs were active in the distribution and supply of petroleum products in the country. According to Energy and Water Utilities Regulatory Authority report (2022), in Tanzania with regard to consumption, there was overall decrease of 0.5% of petroleum products consumption in 2022 compared to the year 2021. Total consumption in the period under review was 3,288,719,874 liters compared to 3,304,653,807 liters consumed in year 2021.

Kenya is one of the country's collecting highest taxes on fuel surpassing bigger economies such as South Africa and United States of America (Mutua, 2024). Taxes on fuel, as of 2024, account for 40% of the cost per

litre compared to 14% in Illinois, which is the state with highest fuel taxation in the US, and South Africa at 30%. The government has introduced Road Maintenance Levy, Excise Tax, gasoline tax and Railway Development Levy on fuel to raise revenue which has resulted to high cost of operating business (Bitenge, 2001).

Mwarano, (2017) aver that Oil industry in Kenya is very competitive and capital intensive venture. The firms operate on the ever changing oil industry environment. However, recently, there has been high taxation of oil products hence making it hard to sustain profitability since the prices are extremely high (Gichuhi, 2023). Competition on the basis of price has brought with it a decline in margins, reduced profitability and contributed to operating losses. This is evidenced by Total Oil Kenya Limited, a publicly quoted company which reported a loss of Kshs 222 million in the year 2017 (Moronge, 2020). The Finance Act of 2023 and the proposed financial bill 2024 includes several changes such as modifications in VAT, the introduction of new taxes like the motor vehicle tax, and changes in taxation for digital marketplaces and multinational entities, which are expected to impact the cost structure and profitability of petroleum trading firms (KPMG, 2024).

According to Economic Survey (2024) importation dropped by 27.2 per cent while exported petroleum products were down 38 per cent. Imports of petroleum products: 6.4 Million Tonnes in 2019, 5.7 2020, 6.4 2021, 5.9 2022, 4.3 Million tonnes in 2023. This trend shows in decline in imports which equally reflects return on investments decline for the past 5 years (Economic Survey, 2024). The dealers have also raised concerns that withholding VAT on petroleum products will impact on cash flow, since Petroleum is a capital-intensive but low-maintenance business. Withholding VAT at two per cent of taxable supplies means more than the profits of the business are tied up.

Oil marketers are part of the oil industry's value chain that is broadly described as the downstream segment of the oil business (Seuring & Gold, 2017). They act as a link between the consumers, merchants, oil companies and the economy (retailing). The downstream activities of oil companies deal with the processing of crude oil in refineries, the distribution and the marketing activities of all the oil derived products (Raed, 2016).

In Kenya, as of December 2023, there were 122 registered Oil-Marketing Companies (OMCs). These companies market petroleum products; diesel, kerosene, gasoline (petrol), lubricants, and LPG (EPRA, 2024). The market share of these firms is as follows; Vivo Energy Kenya Limited 22.79%, Total Energies Marketing Kenya Plc 16.39%, Rubis Energy Kenya Plc 10.93%, Ola Energy Kenya Limited 7.64%, Oryx Energies Kenya Limited 5.51%, Stabex International Ltd 3.84%, Be Energy Limited 3.64%, Galana Oil Kenya Limited 2.65%, Lake Oil Limited 2.14%, Hass Petroleum Kenya Limited 1.94%, Petro Oil Kenya Limited 1.90%, Gapco Kenya Limited 1.78%, Tosha Petroleum (Kenya) Limited 1.50%, Gulf Energy Holdings Limited 1.49%, Texas Energy Ltd 1.41%, Fossil Supplies Limited 1.08%, Lexo Energy Kenya Limited 0.95%, Riva Petroleum Dealers Limited 0.72%, One Petroleum Limited 0.71%, Dalbit Petroleum Limited 0.71%, and Others, command only 10.28% (EPRA, 2024). However, out of these firms, over 70% of the market share is commanded by the top four OMFs Shell, Total Kenya, Oil Libya and National Oil Corporation of Kenya (NOCK). Shell and Total command largest market shares of 24% and 22% respectively as of 2020 (Petroleum Insight, 2020). EPRA is a regulator body of the oil marketing firms in Kenya.

Taxation is major government regulation aspect that adversely hurts the profit margins of these OMFs. For instance, government levies and taxes account for 43.94% and 49.98% respectively of the overall price for every liter of diesel and petrol (EPRA, 2021). In 2018, government introduce VAT charge of 16% on petroleum products is in accordance with the VAT Act, 2013 which deferred implementation for three (3) years up to September 2016, with a further two (2) year extension being granted under Finance Act, 2016 (KRA, 2018). However, higher VAT on fuel can contribute to inflationary pressure in the economy. Increased fuel prices can lead to higher transportation costs, affecting the prices of goods and services across various sectors. This can result in an overall increase in the cost of living for individuals and households. This is unfavorably compared with neighboring countries like Uganda and Tanzania where the cost of fuel is

relatively cheaper because of low level of taxes from the government. For instance, the taxes charged by Tanzanian government on price of every litre of diesel and petrol stand at 5.39% and 40.72% while the same figures in Uganda average at 27.78% and 34.02% respectively (Ingabo & Kihara, 2018). Mutua, (2023) reported that Oil marketers have petitioned parliament to exempt them from the two percent withholding tax on their fuel supplies in a move they say will improve their thin profit margins.

Statement of the Problem

Tax administrative practices have major effects on Oil marketing firms as they must adhere to tax laws, which include filling out accurate and timely tax returns. Failure to adhere to these practices can be fined or get penalties, which would affect their financial performance in a negative way (Haabazoka & Chiti, 2024). On the other hand, sometimes the government provides incentives and offers tax holidays to firms to encourage their activities and welcome them to the industry through the holiday, giving them a fair chance to play in the sector. And by doing so, they impact a firm positively and thus improve its financial performance (Wangare, 2024). Kenya's oil marketing industry is vital to the country's economy, contributing significantly to employment, government revenue and the provision of essential goods and services (Tyce, 2020). According to the Kenya Statistical Office, Kenya Economic Survey (2021), the industry contributed 2.6% to the country's GDP in 2020, with a total turnover of Kshs. 495.8 billion (US\$4.59 billion). Despite the important role it plays in the economy, the industry is facing challenges that include Shrinking profit margins which have resulted to some of the big oil marketing firms opt to close their operations in Kenya and relocate to the more profitable markets (Gichuhi, 2023) while others opting for mergers and acquisition like the case of acquisition of KenolKobil plc by Rubis Energie Sas. in 2019 and Gulf Energy Ltd by Auron Energy Ltd in 2020 according to report from the competition authority of Kenya (CAK). Country's Tax and Levies on a litre of fuel has crossed the 40 per cent mark underscoring the heavy taxation experienced by oil marketing firms. The country charges seven levies and two taxes on fuel. In 2023, Parliament passed law changes that doubled VAT on petroleum from 8% to 16% (Mutua, 2024).

Contextually, according to data from the Energy and Petroleum Regulatory Authority (EPRA), Kenyan oil marketing companies saw a drop-in profitability in the first quarter of 2022. During this time, the industry suffered a total loss of Kshs. 1.8 billion (\$16.7 million) (EPRA, 2023). In addition, in 2022 the Kenya's government decided to stop providing the customary subsidies that had been in place since 2021. The removal of subsidies increased both the cost of importing fuel and the cost of distributing it, resulting in a reduction in the profit margins of oil marketing companies. In the same period, the total domestic demand for petroleum products decreased by 2.58% to 2,802,129.80 m³ compared to a similar period in 2021 attributed to high taxation (Bowmans, 2024). The increase of VAT on petroleum products from 8% to 16% has particularly raised concerns about rising operational costs and pricing pressures on these firms (KPMG, 2023). The National Oil Corporation (NOCO) of Kenya reported losses amounting to Kshs. 808 million and Kshs 67 million for the financial years 2021/2022 and 2022/2023 (EPRA, 2024). Likewise, Vivo Energy reported a drop in net income from Kshs. 150 million to Kshs. 90 million in the financial year 2019 and 2020 respectively (EPRA, 2021).

Empirical studies done on taxation have given wide berth on taxation in Oil marketing companies. For instance, Chesire (2018) conducted a study to establish effects of excise tax on the profitability of cigarette and alcohol manufacturing firms listed in the Nairobi Securities Exchange. Nyangau (2017) established the effect of withholding VAT on tax compliance in Kenya. However, these studies have focused on different contexts and none has been done on Oil marketing firm's perspective. Base on the reviewed literature and contextual arguments, it is evident that very little has been done on tax administration and how it affects performance in Oil marketing companies sector thus the current study sought to establish the effect of tax administration on financial performance of Oil marketing companies in Mombasa County, Kenya.

Objectives of the Study

The purpose of this research was to determine the effect of tax administration on financial performance of Oil marketing companies in Mombasa County, Kenya. The study was guided by the following specific objectives

- To establish the effect of tax planning on financial performance of Oil marketing companies in Mombasa County, Kenya.
- To determine the effect of tax incentives on financial performance of Oil marketing companies in Mombasa County, Kenya.
- To investigate the effect of tax compliance costs on financial performance of Oil marketing companies in Mombasa County, Kenya.
- To find out the effect of tax policies on financial performance of Oil marketing companies in Mombasa County, Kenya.

The study was guided by the following Hypothesis

- **H₀₁:** Tax planning has no significant effect on financial performance of Oil marketing companies in Mombasa County, Kenya.
- **H₀₂:** Tax incentives has no significant effect on financial performance of Oil marketing companies in Mombasa County, Kenya.
- **H₀₃:** Tax compliance costs has no significant effect on financial performance of Oil marketing companies in Mombasa County, Kenya.
- **H₀₄:** Tax policies has no significant effect on financial performance of Oil marketing companies in Mombasa County, Kenya.

LITERATURE REVIEW

Theoretical Review

Kaleckies Theory of Taxation

The theory was propounded by Kaleckies, in 1971 as cited by Kent (2019) undertook an essential research to determine the effect of three different taxes. The taxes included tax on wage goods, capital tax and taxation on capitalist income. Subsequently, making an assumption that the proceeds of the taxation process were used on behalf of unemployed individuals. The research established that taxation imposed on the wage goods had no particular effect. On the other hand, the demand on dole receipts provided a boost on spending on its entirety but the products had a higher price by a figure similar to the taxation and without the fear that market share would be lost. Taxation was deemed ad valorem for all wage goods (Kent, 2019). Consequently, such taxation brings about only a rise in prices and not the production level.

On the other hand, there was a positive effect of the national income and employment. Subsequently, Kent (2019) was able to show that once tax was charged on income rather than goods, producers were more likely to decline extending that tax burden onto the consumers. The producers were fearful of losing their market dominance through a price increase. Consequently, a rise in demand emanating from dole receivers was satisfied through increased production. Therefore, the profits made by the capitalists in a class, heightened by an amount, as demonstrated, equaled to the reduction in income caused by the tax burden (Mwangi, 2014). Kent (2019) added that the positive effects of the tax may be limited by lenders ability to shift taxation to entrepreneurs with a resultant lowering of net profitability and investments. The theory supports tax policies variable and its effect on financial performance.

Performance Maximization Theory

Performance Maximization Theory was put forward by Koetter (2004) who argued that optimum production is the result of using the best output and price levels that maximize return. The implementation of this theoretical model can be beneficial to a company while also having an effect on customers when that

organization decides to raise commodity prices in order to maximize returns (Al-Hawar, 2014). Benefit maximization is the sole goal of companies, according to traditional economics. As a result, traditional theories are based on benefit maximization. It is regarded as an organization's most rational and profitable business goal. Besides that, profit maximization aids in predicting business behavior as well as the impact of various economic variables, such as price and output, in various market conditions (Kaushik & Rahman, 2015).

This theory has faced criticism mainly because of its assumptions. The profit maximization theory, for example, means that businesses are guaranteed of their maximum revenue. Profits, on the other hand, are very unpredictable because they are calculated based on the difference between future sales and expenses. Consequently, it is intolerable for businesses to increase profits in unpredictable times (Dabholkar, 2016). Furthermore, the firm's goal has little to no bearing on how the company is organized internally. For example, some managers seem to spend more than is necessary to increase the wealth or income of the firm's owners. They are found to place a premium on the firm's overall assets and profits as managerial priorities (Rishi & Saxena, 2014). The theory links with dependent variable, financial performance, in the study.

Tax Planning Theory

Tax planning theory by Hoffman (1961) argued that due to the sophisticated nature of the tax process and structure, loopholes in the legal system are inevitable, enabling taxpayers to benefit from their tax positions. Tax planning theory involves strategic decision-making to legally minimize tax liabilities. It encompasses various approaches aimed at optimizing the financial position of individuals and businesses within the bounds of tax laws. Tax planning plays a pivotal role in the financial landscape of manufacturing firms. It involves strategically organizing financial activities to optimize tax liabilities while ensuring compliance with legal obligations. It encompasses various aspects, including income recognition, deductions, and credits, with the primary goal of maximizing after-tax profit.

This theory posits that effective tax planning positively influences financial performance. Reduced tax burdens lead to increased cash flows, enhanced profitability, and an improved return on investment, ultimately contributing to the financial health of manufacturing firms. Effective tax planning strategies can lead to cost savings, improved cash flow, and increased profitability. By leveraging incentives, deductions, and credits, manufacturing firms can minimize their tax burdens, allowing for more resources to be allocated to core business activities. According to Maydew and Shackelford (2005), successful tax planning aligns with the broader corporate strategy of a manufacturing firm. It considers not only the short-term financial gains but also the long-term sustainable and growth objectives, ensuring a harmonious balance between tax optimization and strategic goals. The major aspect of tax planning involves maintaining a compliance with tax regulations to mitigate risks. Noncompliance can lead to penalties and reputational damage, and it underscores the importance of a comprehensive tax strategy.

In conclusion, this tax planning theory serves as a foundation for understanding how effective tax administration practices impact the financial performance of Oil marketing firms. It provides a lens through which we can analyze the intricacies of tax planning and its multifaceted influence on the economic success of entities.

Resource Based View

The proponent of RBV theory was the outcome of the major works published by Wernerfelt, B., Prahalad and Hamel, Barney, J. and others in 1980s and 1990s. The RBV theory suggests that dynamic managerial capabilities form the basis for differential firm performance (Barney 2018; Khan *et al.*, 2020; Huy & Zott, 2019; Mostafiz *et al.*, 2021). Scholars argue that the RBV theory of the firm posits that firms gain competitive advantage through bundles of valuable and rare resources and sustain that advantage over time when such resources are difficult to imitate or non-substitutable by competitors (Gupta, Modgil, Gunasekaran, & Bag, 2020).

The Resource Based View theory has two critical assumptions which are that resources must be heterogeneous and immobile. In this case, the first assumption is that capabilities, skills and other resources possessed by the firm differ from one firm to the other (Barney, 1991). For instance, if the firms could possess similar amount and mix of resources, they could not come up with varying strategies to compete with one another because what one firm can accomplish the other can too hence no competitive advantage can be realized. Resource based view theory assumes that competitive advantage can only be achieved by firms who can use different set of resources. Secondly, the RBV assumes that the resources possessed by firm are immobile and cannot be moved from one firm to the other. This immobility of resources makes it difficult for the organizations to copy competitors' resources hence failure to come up with similar strategies (Müller & Jugdev, 2012).

Based on the RBV theory, scholars argue that dynamic managerial capabilities are valuable intangible resources that enable firms to sustain superior performance over time in the dynamic environment (Mostafiz, 2020; Treviño & Cantú, 2020). Recent applications of RBV theory emphasize the role of managers in mobilizing and leveraging organizational resources and capabilities for achieving business objectives (Badrinarayanan *et al.*, 2019; Khan *et al.*, 2019). Under the resource-based view of the firm, dynamic capabilities (DCs) might be a fundamental source of competitive advantage, as they develop resources and capabilities having an effect on organizations' competitiveness and performance (Barney, 1991; Fainshmidt *et al.*, 2016). The theory is appropriate in explaining tax compliance costs variable in the study.

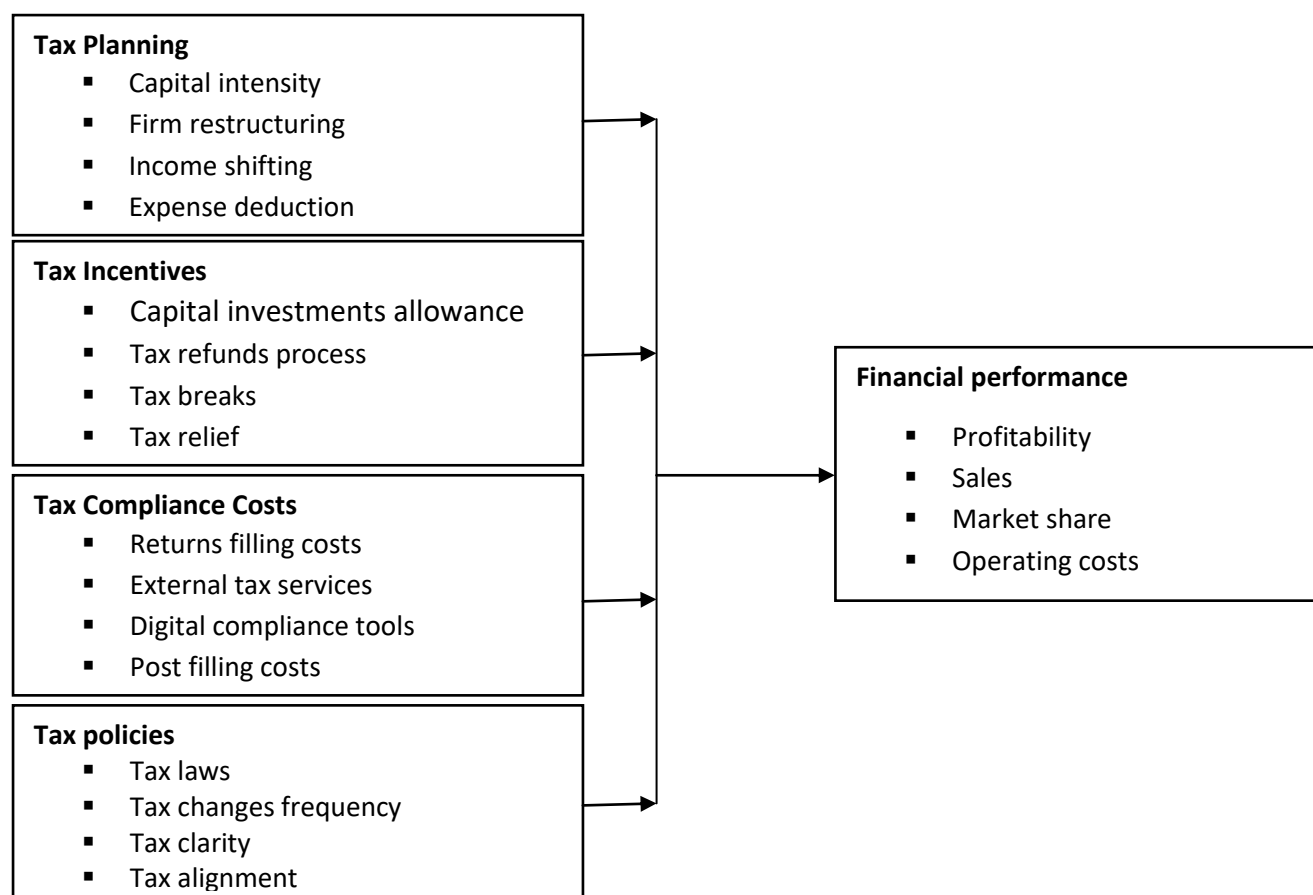
Benefit Theory of Taxation

In line with Erik Lindahl in 1919, this concept implies that residents ought to pay in according to the welfares they benefit from public expenditure financed by taxes (Weinzierl, 2014). By this concept, the government exercises taxes on people according to benefits they receive assuming that social goods are linear and homogeneous. This implies that the more an individual enjoys benefits accrued from government expenditure, the higher that individual has to pay taxes.

Taxes are paid in the proportion of benefits derived from the amenities catered for by the government. The benefit theory places emphasis on the two-way nature of government expenditure-tax decisions. If the public does not pay for the services such as national defense, roads, and hospitals they enjoy, then the government cannot be able to finance the provision of such amenities. However, measuring the benefits each individual has derived from public goods is difficult if not impossible. The benefit theory of taxation suggests a precise technique of spreading the tax encumbrance; that taxes have to be apportioned based on the welfares enjoyed from government spending (Mankiw, Weinzierl, & Yagan (2009).

The benefit theory of taxation practically determines what activities the Government will engage and who will pay for them. The individuals on whom the burden of taxes falls upon determines allocation of economic resources. Tenet posits that the levies paid by an agent must show the value that he derives from public amenities catered for by the State (Neill, 2000). The application of this theory in Kenya is explored through collection of taxes by various local governments in local jurisdictions and used to develop various social facilities which in the end results into social benefit to members of the public (Mbote & Akech, 2011). The theory, therefore, tax incentives variable in the study.

Conceptual Framework



Independent Variables

Dependent Variable

Figure 1: Conceptual Framework

Empirical Review

Chen et al. (2024) evaluated how business investments in energy sector were faced with economic policy uncertainty as a result of rapid changes in oil prices. The study included four thousand and seventeen energy related firms spurring from 1996-2022. Their reports were analyzed using GLM regression to ascertain that when there was uncertainty in oil prices, the performance of related firms was affected significantly. Notably, the negative effect of rapid price movements affected the firms located in the regions where oil was produced more, as compared to those outside the jurisdiction. However, Chen et al. (2024) failed to assess the effect that other fuel control measures such as subsidies, implementing price floors, and setting maximum prices affected the performance of these oil firms.

Majoni (2021) studied the effect of the introduction of VAT withholding tax on VAT compliance in Zimbabwe. The study used data of VAT registered clients in ZIMRA over a 24-month period. The study used an ordinary least squares multiple regression analysis to investigate the effects of VAT withholding tax on VAT revenue. The study further used a difference-in-differences estimator by classifying VAT taxpayers into two groups. Empirical evidence indicated that there was a positive significant relationship between implementing VAT withholding tax and VAT revenue. Inoti (2008) evaluated the effectiveness of tax administration through tax agents in Kenya.

Bisrat (2010) has undertaken a descriptive research design with the view of determining the link between tax administration and value added tax-compliance within Ethiopia. The study targeted 112 respondents who

provided essential data to the researchers in the study. Subsequently, following a comprehensive study the researchers came to the conclusion that government revenue from VAT can heighten through compliance by traders. Similarly, non-compliance by taxpayers can reduce through fairness of fines and penalties coupled with an environment that guarantees similar incomes by the different taxpayers.

Menjo and Kotut (2015) did a study on the decomposition of the tax-to-income elasticity of major taxes in Kenya. The study used time series on data from government institutions such as KRA, Central bank and KNBS. The study concluded that tax-to-income elasticity can heighten through raising responsiveness of the individual taxes. Subsequently, Menjo and Kotut (2015) recommend the use of appropriate policies to curtail discretionary measures on the tax and macroeconomic environment.

Nyangau (2017) established the effect of withholding VAT on tax compliance in Kenya. The explanatory study design was used. Data was compiled for a period spanning 7 years from the year 2011 to 2017 on Withholding VAT Revenue growth and VAT revenue growth as well as economic growth which is a control variable in the study. A regression model was used for establishing the relationship between the study variables. The one-way Anova was performed on the average figures for all the measures of performance. The results for the three categories of taxpayers revealed that there was a significant difference in the one-way Anova. From the results, the research concluded that there was significance improvement in tax compliance after the enforcement of withholding VAT tax policies in Kenya.

Chesire (2018) conducted a study to establish effects of excise tax on the profitability of cigarette and alcohol manufacturing firms listed in the Nairobi Securities Exchange. These companies were only BAT and EABL. The study used secondary data obtained from the companies' financial statement and NSE handbook. The study adopted a descriptive research design. Data was collected and analyzed using multiple regression where excise tax was the independent variable and net profit and liquidity as the control variables. The results of the correlation showed a negative correlation between excise tax and profitability.

METHODOLOGY

The study utilized cross-sectional survey research design. The study's unit of analysis comprised of all medium Oil marketing companies licensed by EPRA and operating in Mombasa County. The unit of observation for the study was management staff of the six Oil Marketing firms.

The sample frame for this study was medium Oil marketing companies operating in Mombasa County.

The study made use of purposive sampling technique. Simple random sampling was used to select the respondents to participate in the research study, but after it had been determined.

Cooper and Schindler (2013) posit that sample size is a representative of the population. In this study Yamane 1967 mathematical formula was adopted to select an appropriate sample size from a finite population.

$$n = \frac{N}{1 + N(\alpha)^2} = \frac{79}{1 + 79(0.05)^2} = 66$$

Where:

N = Total population

n = Sample population

α = Sampling error which is 0.05 (95% confidence level).

The study employed primary data, which was gathered by creating a structured questionnaire that measures every variable using a five-point Likert scale. The study objectives served as a guide for designing the questionnaire. Ratings on the Likert-scale questionnaire ranged from low to high, with 1 to 5 representing the

range. Information on the general respondent was covered in Section A of the questionnaire. Financial performance is in Section C, and tax administration is in Section B.

The researcher sought authorization from Jomo Kenyatta University of Agriculture and Technology by procuring authorization letter for data collection. The questionnaire administration to the respondents was carried out through the method of 'drop-and-pick-later' which offered convenience in the task of data collection and make it possible for the respondents to fill the questionnaires at their own time hence the chances of completing the questionnaire is ensured.

The study tested reliability and validity to measure the research instruments' quality so as to enhance the accuracy of study findings. Twelve (12) respondents selected from 12 Oil marketing firms in Kilifi County took part in a pilot test conducted by the researcher. The final research results included the pilot data. Riel (2010) states that if a pilot test is conducted on a minimum of 10% of the population, it may be adequate. The researcher made adjustments to the data collecting tool following the pilot test to make sure it is valid and dependable before the real data collection.

The study assessed the soft and informal face validity of the questionnaire. By asking the research supervisor to review the questionnaire items and provide guidance on whether the measuring items align with any particular conceptual domain of the idea being studied, the researcher guaranteed face validity. Furthermore, by depending on the study supervisor's understanding of the construct being measured, content validity was guaranteed.

Reliability is the capacity of the data collection tool to yield consistent outcomes when applied to different populations, at different times, or in different places (Bryman & Bell, 2015). Cronbach's alpha was used by the researcher to assess the reliability of the questionnaire (Kothari, 2014). By comparing each scale item's score to the sum of the scores for each individual survey respondent observation and comparing that observation to the variance of all individual item scores, Cronbach's alpha was calculated. The benchmark for item reliability was the Cronbach's alpha index of 0.70.

Data analysis is the act of converting data collected from respondents into useful information that can be used in the decision-making process in a diagnostic and cohesive manner (Knudsen & Kjeldgaard, 2014). The research analysis was based on panel regression model to measures the relationship between dependent variables and the independent variables. This study analyzed the gathered information using descriptive statistics and presented using tables. Multiple regression model was used to determine if any relationship between tax administration and financial performance. To analyze the gathered information, the study employed the use of the statistical Package for Social Science (SPSS Version 29).

The following regression equation was used

$$Y = \beta_0 + \beta_1 TP + \beta_2 TI + \beta_3 TCC + \beta_4 TP + \varepsilon$$

Where:

Y= Financial performance measured by ROI

β_0 = Regression intercept

β_1 - β_4 are the coefficient of the regression model

TP= Tax planning

TI= Tax incentives

TCC= Tax compliance costs

TP= Tax policies

ε = Error term

In order to address the stated objectives and formulated hypothesis, the necessary regression analysis diagnostic tests such as the test for multicollinearity was conducted to ascertain whether the data fits the basic assumptions of classical linear regression model or not.

Multi-collinearity test was examined by calculating Tolerance and Variance Inflation Factors (VIFs). VIF values falling between 1-10 was an indication on zero multi-collinearity. If the VIF value is less than 1 or greater than 10, it will be an indication of multi-collinearity presence.

FINDINGS AND DISCUSSIONS

Out of the 66 questionnaires distributed to respondents, 61 were duly filled and returned, yielding a response rate of 92.4%.

Descriptive Analysis of Study Variables

Tax Planning

The study sought to examine the respondents' perceptions of tax planning practices within Oil Marketing Companies in Mombasa County. Respondents rated their agreement with several tax planning statements on a 5-point Likert scale, where higher scores indicated stronger agreement. The descriptive results are presented in Table 1.

Table 1: Tax Planning

	Mean	Std. Deviation
We regularly consult tax professionals for planning purposes	4.93	.217
Tax planning is integrated into our investment and financial decisions	4.84	.263
We conduct internal reviews to optimize our tax obligations.	4.15	.989
The threshold for taxable sales should be revised to reduce administrative burdens on small businesses	4.97	.204
Tax planning helps our company reduce unnecessary tax liabilities.	4.91	.220
Our company takes advantage of legal tax-saving opportunities	4.86	.197
Tax planning activities are aligned with our long-term financial goals.	4.61	.276
We periodically assess risks related to tax exposures	4.80	.309

Results in Table 1 show that the highest-rated statement was "The threshold for taxable sales should be revised to reduce administrative burdens on small businesses", with a mean of 4.97 (SD = 0.204), indicating near-universal agreement. This implies strong support for tax policy reform that could enhance operational efficiency and reduce compliance complexity, especially for smaller players in the industry.

Similarly, high agreement was observed for the statement "We regularly consult tax professionals for planning purposes" (mean = 4.93, SD = 0.217) and "Tax planning helps our company reduce unnecessary tax liabilities" (mean = 4.91, SD = 0.220). These responses reflect that most OMCs actively seek expert guidance and perceive tax planning as an effective strategy for reducing tax burdens legally.

The item "Our company takes advantage of legal tax-saving opportunities" also scored highly (mean = 4.86, SD = 0.197), reinforcing the notion that firms are deliberate in exploiting allowable provisions under tax laws. Additionally, "Tax planning is integrated into our investment and financial decisions" had a mean of 4.84, suggesting that tax considerations are fundamental to broader corporate strategy.

The lowest, albeit still high, mean score was recorded on the item "We conduct internal reviews to optimize our tax obligations" (mean = 4.15, SD = 0.989). The relatively higher standard deviation here suggests some

variability in the extent to which firms conduct internal tax audits, which may point to differences in internal capacity or policy emphasis across firms. These results are supported by empirical findings from Lestari and Wardhani (2020), who found that effective tax planning enhances firm value and financial performance by minimizing tax expenses and aligning tax behavior with long-term strategic objectives.

Tax Incentives

The study were asked to rate their agreement or disagreement on the various aspects of tax incentives. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 2.

Table 2: Tax Incentives

	Mean	Std. Deviation
Our company has benefited from capital investment allowances in the past financial years.	4.16	.641
Capital investment allowances have significantly reduced our taxable income.	4.29	.773
Our firm receives tax refunds from the Kenya Revenue Authority in a timely manner	2.23	.201
The process of claiming tax refunds is clear, efficient, and predictable. incentives.	3.48	.447
Our company has accessed tax breaks that have improved cash flow and profitability	2.11	.362
The availability of tax breaks influences our strategic investment decisions.	4.10	.764
Our firm qualifies for applicable tax reliefs provided under current legislation	4.72	.235
Tax reliefs offered by the government support the growth and sustainability of our operations	2.39	.311

The results in Table 2 revealed that the statement "Our firm qualifies for applicable tax reliefs provided under current legislation" had the highest mean score of 4.72 (SD = 0.235), suggesting that most firms are aware of and eligible for existing tax reliefs. Similarly, the statement "Capital investment allowances have significantly reduced our taxable income" recorded a high mean of 4.29 (SD = 0.773), and "Our company has benefited from capital investment allowances in the past financial years" followed closely at 4.16 (SD = 0.641). These results indicate that capital allowances are both accessible and impactful for many OMCs, helping them reduce taxable income and retain more earnings for reinvestment.

On the other hand, some aspects of tax incentives were rated poorly. For instance, the item "Our company has accessed tax breaks that have improved cash flow and profitability" had a low mean score of 2.11 (SD = 0.362), indicating limited access to such benefits. Similarly, "Our firm receives tax refunds from the Kenya Revenue Authority in a timely manner" had a mean of only 2.23 (SD = 0.201), reflecting dissatisfaction with the speed of refund processing. This is further supported by the relatively low mean of 3.48 (SD = 0.447) for "The process of claiming tax refunds is clear, efficient, and predictable."

Moreover, while many firms seem to qualify for tax reliefs, the perceived impact of these reliefs on firm sustainability and growth is low, as shown by the statement "Tax reliefs offered by the government support the growth and sustainability of our operations" with a mean score of just 2.39 (SD = 0.311). This suggests a disconnect between policy availability and practical impact on the ground.

Interestingly, the statement "The availability of tax breaks influences our strategic investment decisions" had a relatively high mean of 4.10 (SD = 0.764), indicating that when such incentives are accessible and substantial, they do play a role in guiding long-term investments.

These findings resonate with the empirical study by Atawodi and Sawyer (2010), who found that although tax incentives are intended to encourage business expansion and investment, their actual effectiveness is often constrained by bureaucratic inefficiencies, lack of transparency, and delayed implementation.

Tax Compliance Costs

The study respondents were asked to rate their agreement or disagreement on the various aspects of tax compliance costs. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 3.

Table 3: Tax Compliance Costs

	Mean	Std. Deviation
The cost of complying with tax regulations is high for our company	4.94	.219
We spend a significant number of staff hours on tax compliance activities.	4.27	.351
External tax advisory services represent a major expense in our budget.	4.89	.216
Maintaining tax compliance diverts resources from our core business	3.51	.634
Complying with digital tax systems (e.g., iTax, eTIMS) increases our operational costs.	3.66	.268
Our internal staff requires frequent training to remain tax compliant.	4.05	.447
We have had to invest in specialized systems for managing tax compliance.	4.13	.492
Tax compliance tasks increase during periods of tax policy changes.	4.66	.280

Table 3 results established that the item "The cost of complying with tax regulations is high for our company" had the highest mean score of 4.94 (SD = 0.219), indicating near-universal agreement among respondents that tax compliance is expensive. This is further supported by the high rating for "External tax advisory services represent a major expense in our budget" (mean = 4.89, SD = 0.216), reflecting the significant cost of hiring tax professionals to navigate complex and evolving tax laws.

Similarly, "Tax compliance tasks increase during periods of tax policy changes" recorded a high mean of 4.66 (SD = 0.280), underscoring the volatility and uncertainty associated with changes in the tax regime, which often trigger additional reporting obligations and adjustment costs.

The mean score for "We spend a significant number of staff hours on tax compliance activities" was 4.27 (SD = 0.351), suggesting that tax compliance is not only financially demanding but also labor-intensive. This aligns with the moderate to high mean scores for "Our internal staff requires frequent training to remain tax compliant" (mean = 4.05, SD = 0.447) and "We have had to invest in specialized systems for managing tax compliance" (mean = 4.13, SD = 0.492), highlighting the operational adjustments firms must make to stay compliant.

However, there was relatively lower agreement on the statements "Maintaining tax compliance diverts resources from our core business" (mean = 3.51, SD = 0.634) and "Complying with digital tax systems (e.g., iTax, eTIMS) increases our operational costs" (mean = 3.66, SD = 0.268). This suggests that while digital systems are seen to raise costs to some extent, they may not be as burdensome compared to other compliance factors, or firms may be adapting to these systems over time.

These findings are supported by Coolidge and Ilic (2009), who emphasized that high tax compliance costs — especially in developing economies — can undermine firm productivity, limit growth, and discourage

investment. Their study highlighted the hidden cost of compliance in the form of administrative burdens, professional fees, staff time, and technology upgrades, all of which resonate with the experiences of the oil marketing firms in this study.

Tax Policies

The study respondents were asked to rate their agreement or disagreement on the various aspects of tax policies. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 4.

Table 4: Tax Policies

	Mean	Std. Deviation
Frequent changes in tax policy disrupt our financial planning.	4.99	.110
Tax policies are aligned with the operational realities of oil marketing firms.	2.15	.177
The current tax policies affecting the oil sector are clear and predictable	2.21	.208
Our firm is consulted or engaged during tax policy formulation.	2.34	.215
We adjust our business strategies in response to changes in tax policy.	4.72	.316
Uncertainty in tax policy increases our business risk.	4.83	.131
Government tax policies are implemented transparently and consistently.	4.01	.957
Our management actively tracks tax policy trends and updates	4.86	.308

The results in Table 4 indicate that the highest mean score was recorded for the statement "Frequent changes in tax policy disrupt our financial planning" (4.99, SD = 0.110), indicating overwhelming agreement among firms that unpredictability in tax legislation hampers their ability to plan and execute financial strategies. This is closely aligned with the item "Uncertainty in tax policy increases our business risk", which had a similarly high mean of 4.83 (SD = 0.131), underscoring how tax instability is perceived as a major threat to operational stability and long-term viability.

The statement "Our management actively tracks tax policy trends and updates" received a high mean of 4.86 (SD = 0.308), suggesting that firms are proactively monitoring policy shifts to mitigate risk. Moreover, "We adjust our business strategies in response to changes in tax policy" also scored highly (mean = 4.72, SD = 0.316), reflecting firms' agility in adapting to the evolving tax environment.

In contrast, the lowest mean scores were observed in statements assessing inclusivity, clarity, and alignment of tax policies. For example, "Tax policies are aligned with the operational realities of oil marketing firms" scored a low 2.15 (SD = 0.177), while "The current tax policies affecting the oil sector are clear and predictable" followed closely at 2.21 (SD = 0.208). Additionally, "Our firm is consulted or engaged during tax policy formulation" recorded a mean of only 2.34 (SD = 0.215). These results suggest a perception of exclusion from the policy-making process and a lack of transparency or consistency in tax policy implementation.

Interestingly, the statement "Government tax policies are implemented transparently and consistently" had a moderate mean of 4.01 (SD = 0.957). While this suggests some level of agreement, the relatively high standard deviation indicates divergent views across firms — possibly influenced by size, compliance infrastructure, or past interactions with tax authorities.

These findings are in line with the study by Mabonga and Muturi (2019), who found that frequent and unpredictable changes in tax policies significantly disrupt business planning and performance in Kenya's manufacturing and petroleum sectors. Their study emphasized the need for participatory tax policy formulation, policy predictability, and better alignment with sector-specific realities to enhance compliance and improve financial outcomes.

Financial Performance

The study respondents were asked to rate their agreement or disagreement on the various aspects of financial performance. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 5.

Table 5: Financial Performance

	Mean	Std. Deviation
The firm operating costs have reduced over time.	3.69	.266
Our financial performance has improved steadily over the past few years.	3.95	.237
The market share of the firm has increased over time.	4.01	.329
The firm profitability has increased over time	4.19	.442

The results in Table 5 indicate that the highest-rated item was "The firm profitability has increased over time" with a mean of 4.19 (SD = 0.442), suggesting that most firms have experienced an upward trend in profitability. This is a strong indicator that, despite challenges in the tax environment, many OMCs are managing to maintain or grow their bottom line—possibly through strategic planning and resource optimization.

Closely following was the statement "The market share of the firm has increased over time", which recorded a mean of 4.01 (SD = 0.329). This points to growing competitiveness and business expansion among firms in the local oil marketing sector.

The item "Our financial performance has improved steadily over the past few years" had a mean of 3.95 (SD = 0.237), suggesting general satisfaction with the trajectory of financial outcomes, though perhaps less strongly felt than profitability or market share growth. This may reflect the influence of external pressures—such as tax burdens and policy changes—on overall financial consistency.

The lowest mean score was for "The firm operating costs have reduced over time" (mean = 3.69, SD = 0.266). Although still above the midpoint of the scale, this lower score indicates that many firms continue to face significant operational cost pressures. These could be attributed to high tax compliance costs, policy instability, or inefficiencies in the supply chain.

These findings are consistent with Kinyua and Githinji (2020), who found that firms with proactive financial planning and responsive strategies—especially in regulated sectors like oil and gas—report improved profitability and market performance, even when operating costs remain high due to regulatory burdens such as taxation.

Correlation Analysis Results

Correlation analysis was conducted to examine the strength and direction of the linear relationship between the dimensions of tax administration—namely, tax planning, tax incentives, tax compliance costs, and tax policies—and the financial performance of Oil Marketing Companies in Mombasa County, Kenya. Pearson's Product Moment Correlation Coefficient (r) was used for this analysis, as it is a widely accepted statistical technique for assessing the degree of association between continuous variables (Bryman & Bell, 2015). The results of the correlation analysis are presented in Table 6.

Table 4.16: Correlation Results

		Tax planning	Tax incentives	Tax compliance costs	Tax policies	Financial performance
Tax planning	Pearson	1				
	Correlation					
	Sig. (1-tailed)					
Tax incentives	N	61				
	Pearson	.091	1			
	Correlation					
Tax compliance costs	Sig. (1-tailed)	.035				
	N	61	61			
	Pearson	.179*	.206	1		
Tax policies	Correlation					
	Sig. (1-tailed)	.042	.085			
	N	61	61	61		
Financial performance	Pearson	.069*	.273	.081	1	
	Correlation					
	Sig. (1-tailed)	.009	.028	.013		
	N	61	61	61	61	
	Pearson	.487	.494*	-.128	.316	1
	Correlation					
	Sig. (1-tailed)	.019	.031	.000	.015	
	N	61	61	61	61	61

*. Correlation is significant at the 0.05 level (1-tailed).

From the bivariate correlation results presented in Table 6, it was established that tax incentives had the strongest and most statistically significant association with financial performance, as evidenced by a Pearson correlation coefficient of 0.494 and a p-value of 0.031 ($p < 0.05$). This suggests a moderate positive relationship, implying that oil marketing companies that effectively utilize available tax incentives—such as capital allowances and tax reliefs—are more likely to experience improved financial outcomes. This finding is consistent with Atawodi and Sawyer (2010), who noted that tax incentives enhance firm performance by easing financial burdens and enabling reinvestment.

The second strongest relationship was observed between tax planning and financial performance, with a Pearson coefficient of 0.487 and a p-value of 0.019 ($p < 0.05$). This indicates a moderate and positive correlation, suggesting that firms that proactively engage in tax planning—such as consulting professionals and aligning tax strategies with financial goals—tend to perform better financially. This aligns with the findings of Lestari and Wardhani (2020), who emphasized that structured tax planning enhances corporate value by reducing unnecessary tax liabilities and improving capital allocation.

Tax policies also showed a positive and statistically significant relationship with financial performance ($r = 0.316$, $p = 0.015$), albeit weaker compared to tax planning and incentives. This suggests that when tax policies are clear, stable, and transparent, they contribute positively to the performance of oil marketing firms. However, as indicated by earlier descriptive statistics, inconsistencies and unpredictability in tax policy remain a challenge. The observed relationship supports the study by Mabonga and Muturi (2019), which highlighted the need for participatory and predictable tax policy formulation to support business sustainability.

Interestingly, tax compliance costs had a negative but statistically insignificant correlation with financial performance ($r = -0.128$, $p = 0.000$). While the negative direction implies that higher compliance costs may erode financial performance, the lack of significance suggests that the effect is not uniform across firms. This finding resonates with Coolidge and Ilic (2009), who noted that although compliance costs are burdensome, their impact may vary based on a firm's tax management capabilities and resource allocation.

Multiple Regression Analysis Results

Multiple regression analysis was conducted to examine both the combined and individual effects of the four dimensions of tax administration—tax planning, tax incentives, tax compliance costs, and tax policies—on the financial performance of oil marketing companies in Mombasa County, Kenya. The objective of this analysis was to determine the extent to which these tax administration variables predict financial performance within the sector.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788 ^a	.620	.579	1.09546

a. Predictors: (Constant), Tax incentives, Tax planning, Tax policies, Tax compliance costs

The results presented in Table 9 show that the model yielded a multiple correlation coefficient (R) of 0.788, indicating a strong positive relationship between the set of independent variables (tax administration dimensions) and the dependent variable (financial performance). The R Square value of 0.620 suggests that approximately 62.0% of the variance in financial performance can be explained by the combined effect of tax planning, tax incentives, tax compliance costs, and tax policies. This implies a good fit of the model to the data. These findings suggest that tax administration variables collectively play a substantial role in shaping the financial performance of oil marketing firms. The strength of the model aligns with findings by Kipkemboi and Kisaka (2019), who also observed that tax administration practices significantly affect firm performance, particularly in highly regulated sectors like petroleum.

Table 10: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.085	4	7.021	22.869	.000 ^b
	Residual	17.196	56	.307		
	Total	45.281	60			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Tax incentives, Tax planning, Tax policies, Tax compliance costs

The ANOVA results in Table 10 show that the F-statistic for the model is 22.869, with a corresponding p-value (Sig.) of .000, which is well below the conventional significance level of 0.05. This indicates that the regression model is statistically significant and that the set of independent variables, taken together, reliably predict the dependent variable—financial performance. In other words, the likelihood that these results occurred by random chance is extremely low. This confirms that at least one of the tax administration variables—tax planning, tax incentives, tax compliance costs, or tax policies—has a significant impact on the financial performance of oil marketing companies. These results are consistent with findings by Ochieng and Kosgei (2021), who emphasized the collective importance of well-structured tax frameworks in enhancing firm competitiveness and financial success in regulated sectors.

Table 11: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	1.645	.479			3.434	.000
	Tax planning	.397	.154	.386		2.578	.011
	Tax incentives	.452	.206	.488		2.194	.014
	Tax policies	.341	.119	.317		2.866	.002
	Tax compliance costs	-.209	.175	-.271		-1.194	.237

a. Dependent Variable: Financial performance

The optimal regression model is:

$$Y = 1.645 + .397X_1 + .452X_2 + .341X_3 - .209X_4$$

Holding all variables constant, the baseline financial performance score is 1.645, as indicated by the constant term. The standardized beta coefficients show that tax incentives ($\beta = 0.452$) had the strongest effect on financial performance, followed by tax planning ($\beta = 0.397$), tax policies ($\beta = 0.341$), and tax compliance costs ($\beta = -0.209$). The regression results showed that a unit change in tax planning, on average, would lead to a 0.397 unit change in financial performance. Further, regression results showed that a unit change in tax incentives, on average, would lead to a 0.452 unit change in financial performance. A unit change in tax policies, on average, would lead to a 0.341 unit change in financial performance, and a unit change in tax compliance costs, on average, would lead to negative change of financial performance by -0.209 coefficient factors.

CONCLUSION AND RECOMMENDATIONS

The general objective of the study was tax administration and financial performance of Oil marketing companies in Mombasa County, Kenya. Specifically, the study sought to assess the effects of tax planning, tax incentives, tax policies, and tax compliance costs on financial performance. The study employed both descriptive and inferential statistical techniques to analyze the collected data. A high response rate of 92.4% was attained, made possible through consistent follow-up, collaboration with company representatives, and institutional support.

Descriptive statistics revealed that respondents agreed to a large extent that their firms engage in proactive tax planning activities, including identifying allowable deductions, aligning financial practices with tax laws, and leveraging available tax reliefs. The inferential analysis indicated that tax planning had a significant and positive influence on financial performance. The regression results showed that a unit change in tax planning would, on average, lead to a 0.397 unit increase in financial performance. This signifies that effective tax planning helps oil marketing companies reduce tax liability, improve cash flow management, and enhance overall financial outcomes.

The study found that respondents moderately agreed that their firms benefit from government tax incentives, such as investment deductions and accelerated depreciation. Descriptive analysis supported the view that these incentives play a role in business decisions. Inferential analysis demonstrated a statistically significant and positive relationship between tax incentives and financial performance. The regression analysis indicated that a unit increase in tax incentives would result in a 0.452 unit increase in financial performance, confirming that well-targeted tax incentives can stimulate investment and improve firm profitability.

Descriptive statistics indicated that respondents generally disagreed that tax policies are clear, predictable, and aligned with the operational realities of oil marketing firms. However, they strongly agreed that frequent changes in tax policy disrupt financial planning and increase business risk. The inferential results showed that tax policies have a positive and significant effect on financial performance. The regression coefficient of 0.341 suggests that a unit change in the stability and clarity of tax policies is associated with a 0.341 unit improvement in financial performance, emphasizing the importance of a stable tax policy environment for business sustainability.

Respondents reported that tax compliance costs — including time, personnel, and financial resources spent on meeting tax obligations — are considerable. Descriptive statistics showed that high compliance costs were seen as burdensome. However, the regression analysis revealed a negative but statistically insignificant relationship between tax compliance costs and financial performance, with a coefficient of -0.209 ($p = 0.237$). This indicates that while tax compliance costs may erode firm profitability, their actual impact on performance among oil marketing companies in Mombasa County is not statistically conclusive.

The study concludes that tax planning significantly affect the financial performance of oil marketing companies in Mombasa County. Firms that actively engage in identifying tax-saving opportunities, complying with tax laws, and optimizing their tax obligations experience improved financial outcomes through enhanced liquidity and profitability.

The study also concludes that tax incentives significantly affect financial performance. Oil marketing companies that access and utilize government-provided tax incentives such as investment deductions and capital allowances are more likely to expand operations, reduce effective tax burdens, and improve profitability.

Further, the study concludes that tax policies have a significant and positive effect on financial performance. Clear, consistent, and business-friendly tax policies foster predictability in financial planning and encourage investment, thereby improving overall firm performance.

Finally, the study concludes that although tax compliance costs negatively affect financial performance, the effect is statistically insignificant. While high compliance costs may consume resources that could otherwise be directed toward productive investments, their influence on financial performance among oil marketing companies in Mombasa appears limited.

The study recommends that Oil marketing companies should invest in professional tax advisory services and build internal capacity for tax planning. This will help them identify legal tax-saving opportunities, minimize tax liabilities, and align tax strategies with overall business objectives, thereby boosting financial performance.

The study recommends that the government should ensure that tax incentives such as investment deductions, capital allowances, and tax rebates are clearly communicated and easily accessible to qualified firms. Oil marketing companies should actively pursue these incentives to lower their tax burden and reinvest the savings in operational expansion.

The study recommends that policymakers should ensure that tax policies affecting the oil sector are predictable, transparent, and stable to foster a conducive environment for long-term financial planning. Periodic stakeholder engagement between regulators and industry players is necessary to align tax policy with sector realities.

The study recommends that Kenya Revenue Authority (KRA) should automate more tax processes, simplify tax filing procedures, and provide support systems to reduce the time and resources firms spend on compliance. Reducing compliance costs can free up financial and human capital for more productive use in the company.

Suggestions for Further Research

This study focused solely on oil marketing companies in Mombasa County. Future research could replicate this study in other counties or extend it to other sectors such as manufacturing, logistics, or hospitality to assess the generalizability of the findings. Future researchers are encouraged to undertake longitudinal studies to examine the long-term impact of tax administration strategies on financial performance. This would provide deeper insight into trends and causal relationships over time.

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