International Journal of Advanced Educational Research
ISSN: 2455-6157; Impact Factor: RJIF 5.12
Received: 06-03-2019; Accepted: 08-04-2019
www.educationjournal.org
Volume 4; Issue 3; May 2019; Page No. 39-47

Effect of tax incentives on the growth of SMEs in Rwanda: A case study of SMEs in Nyarugenge district

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Abstract
The study analyze the effect of tax incentive on the growth of SMEs in Rwanda taking SMEs in Nyarugenge as the case study. Qualitative and quantitative research approach was adopted in this study. The population includes 49000 SMEs from agricultural, industrial, services and tourism sectors operating in Nyarugenge district. A sample of 136 SMEs was determined using the Silovin and Yemen's formula of sample size. Simple random and purposive sampling technique was used to select the sample. Data was analysed using descriptive statistics. A multiple regression analysis was used to explain between variables. The results from the study revealed that 75.7% of the respondents agreed that they know the tax laws, 78.7% agreed that they know the tax incentives that are available to SMEs. The results further revealed that wear and tear, loss carried forward and VAT refund as the most tax incentives are available to Rwandan SMEs as evidenced by 100%, 94.1% and 95.6% respectively. The study indicated that there was a strong positive and significant relationship between tax incentives and the growth of small and medium enterprises in Rwanda as approved by coefficients of correlation which was equal to 88.8% of R-square. This meant that only 11.2% of the variation in the growth of SMEs was outside the tested variables. The study concluded that tax incentives are the key to the sustainable growth of SMEs. The government should design policies that specifically address issues related to the sustainable growth of SMEs.

Keywords: key term, tax, tax incentive, SMEs, growth

1. Introduction

The theory behind using tax incentives to promote SMEs has at its core from the finance theory of net present value (NPV) decision rule. The rule implies that firms continue to spend on capital assets and R&D as long as the present value from an additional unit of capital or R&D is equal to or exceeds the cost of the additional unit. Consequently, it is assumed that businesses would consider tax implications in their calculation of the value of their expenditure decisions since any reduction in the cost of capital caused by tax policy leads to an equal increase in expenditure. However, there is a growing body of real options literature that highlights the role of uncertainty about returns on irreversible capital and R&D expenditure in determining the level of returns required from the expenditure (Hansson & Brokelind, 2014) [23].

A number of countries have used tax incentives, for both investors and listing firms, to promote activity on SME boards. Tax incentives for investors are the more common approach, particularly in advanced markets (Mintz & Chen, 2011) [37]. For instance, Poland for example adopted the policy of encouraging investment in shares SME boards through removing so-called "back-end" taxes, which are the taxes applied to profits made selling a security.

In South Korea and India, investors are benefited from reduced capital gains taxes on SME equity investments. This is done via the cutting of short-term capital gains tax in half, from 30 percent to 15 percent, for shares listed on SME boards. In UK and Spain they adopted tax incentive policy where the retail investors may deduct a set percentage of the value they invest in shares of SME equity. This happens via offering tax offsets only for acquiring shares in new SME equity offerings. In France, the investors can get a tax credit of 18 percent of the value invested in innovation mutual funds French acronym. The latter invest at least 60 percent of their portfolios in SME equity. Though these policies have been adopted the possible outcome may not significantly affect entrepreneurs, who may be interested in the capital influx from equity offerings in SMEs (Broersma & Gautier, 2017) [10].

Belgium offers several investment allowances. The general investment deduction for SMEs amounts to 10.5% of the depreciation taken on assets. The rate has varied between 10.5% and 12.5% since 2009. The incentive is restricted to companies with fewer than 20 employees. Unused amounts can be used in subsequent years with a maximum carry-forward of € 946,800 (or 25% if the unused part exceeds € 3,787,210). Additionally, an allowance of 20.5% is granted to SMEs for investments in safety measures either in the year of the investment or the following year. Concerning carry-forwards the same rules apply as for the above deductions. A notional interest deduction is available for all Belgian companies. It amounts to 4% of qualifying equity. SMEs, however, are allowed to deduct an additional 0.5%. Since 2012, carry-forwards are no longer possible (De Wit & De Kok, 2014) [14].

On the firm level, Austria does not offer special tax incentives for SMEs. There is only an adjusted minimum tax for newly founded companies of € 1,092 that only benefits low-income companies. On the shareholder level, Austria grants full exemption to income from participations in unlisted European SMEs (i.e., dividends, capital gains

and interest payments) for so-called intermediary investors. Intermediary investors must be corporate entities financed with equity capital. For individual investors, dividends from such intermediary investors are exempt from income taxation up to € 25,000. Enterprises are exempt from the value-added tax (VAT) if their turnover is lower than € 35,000. Moreover, enterprises with less than € 100,000 of turnover in the preceding year only have to file VAT returns and make VAT payments on a quarterly basis (instead of monthly). Suppliers with a turnover of less than € 110,000 may pay VAT on a cash basis (De-Wit & De-Kok, 2014) [14].

Bulgaria does not have special tax incentives for SMEs. Small companies are subject to administrative reliefs, though. Enterprises whose net sales in the previous year were below BGR 300,000 (≈ € 150,000) do not have to make advance tax payments and those with net sales below BGR 3,000,000 (≈ € 1,500,000) only have to make quarterly advance payments (instead of monthly). In addition to that, simplified accounting standards apply for SMEs. VAT registration is only required for enterprises with more than € 25,565 of turnover (De-Wit & De-Kok, 2014) [14].

Croatia provides comprehensive investment incentives for new undertakings. Income from new investments (also by existing enterprises) can be subject to corporate income tax rates that are reduced by up to 100% for 10 years. The exact amount of the reduction depends on the size of the investment and on the number of newly created jobs related to the investment: 100% reduction if investment of at least € 3 million and related to 15 new employees; 75% reduction if investment of at least € 1 million and related to 10 new employees; and 50% reduction if investment of less than € 1 million and related to 5 new employees (De-Wit & De-Kok, 2014) [14].

Finland does not provide tax incentives specifically targeted at SMEs. There is a regime of accelerated depreciation for fixed assets being used in production activities (200% of the usu-al depreciation rate on machinery, equipment and industrial buildings). The regime used to be restricted to SMEs until 2013 but is now available for all enterprises. Moreover, the super deduction of 100% of salary costs incurred for R&D projects is capped at € 400,000. SME should therefore benefit more than large enterprises. Businesses with less than € 8,500 of turnover are exempt from VAT. If turnover is below € 25,000, only yearly VAT payments need to be made, if it is below € 50,000, only quarterly payments are required (instead of monthly). Moreover, SMEs are subject to reduced documentation requirements with regard to transfer prices (De-Wit & De-Kok, 2014) [14].

France offers a multitude of tax incentives specifically designed for SMEs. The provisions include tax credits, special tax rates and various exemptions from income tax. Enterprises are generally considered SMEs if they comply with the SME criteria by the European Commission.

A special tax rate of 15% is available for SMEs with less than € 7,630,000 of turnover. The SME must be held directly or indirectly by individuals or other SMEs fulfilling the aforementioned condition. The special corporate income tax rate applies to income up to € 38,120 (in-stead of the usual rate of 33.33%). The surcharge of 3.33% is dispensed for all SMEs meeting the turnover criterion, whereas all other enterprises incur the surcharge on income tax payments beyond the threshold of € 763,000. Since 2012, another surcharge of 10.7% (5% until 287 (De-Wit & De-Kok, 2014) [14].

Zimbabwe provides investment incentives with six objectives in mind: employment creation; small business development; industrial development; export promotion; spatial development; and "upliftment" of the disadvantaged. Many of the incentives take the form of financing arrangements, which operate through the Ministry of Industry and International Trade, the Industrial Development Corporation and the Zimbabwe Investment Centre. The most extensive tax incentives accrue to exporters. Under the Export Processing Zone Act of 1995, enterprises in manufacturing, processing or services that are licensed by the EPZ (Kaplan, 2001) [25].

Authority to operate in an EPZ obtain a 5 year tax holiday, followed by a rate of 15 percent. EPZ companies also receive the standard duty-free access to imports and refunds on sales tax for domestically procured goods and services. In addition they are exempt from capital gains tax, shareholder's taxes and non-resident taxes on interest, fees, royalties and remittances.

Other exporters outside EPZs qualify for a rebate or drawback of certain duties on imported inputs. Since January 2003, manufacturers that export 50 percent or more of their volume are taxed at 20 percent. Finally, exporters can take a double deduction for export marketing costs Tax holidays apply to other activities as well. Tourism operators in approved tourist development zones benefit from a 5 year holiday, followed by a 15 percent tax rate. The same provisions apply to industrial park developers. Build-own-operate-transfer projects obtain a 5 year holiday, followed by 15 percent for 5 years, 20 percent for 5 years, and then the normal tax rate. In growth point areas, approved manufacturers get a 10 percent tax rate, while certain infrastructure projects get a 15 percent rate. Special investment allowances also apply to a limited set of beneficiaries (Kaplan, 2001) [25].

The aim of Tanzania's tax incentive programs is to attract productive investment, create employment and enhance exports. The Tanzania Investment Act of 1997 provides the basic framework for investment promotion, though associated tax measures are incorporated into the respective tax legislation. The main change in 1997 was to end income tax holidays outside of export processing zones, in favour of expensing of capital assets and remission from customs duty on capital goods for holders of a Certificate of Investment from the Tanzania (Zee *et al*., 2002) [55].

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

objective of EPZ's is to generate and encourage economic activity and foreign direct investments while MUB and TREO regimes were meant to encourage investors to manufacture for export within the country (Githaiga, 2013) [18].

The Rwanda fiscal policy provides various tax incentives with the aim of enhancing business and foreign direct investment. The Rwanda investment board provides tax incentives such as accelerated depreciation of 50% for investment in new or used assets, preferential corporate income tax rate of 0% and 15% for the registered investors, tax holidays of seven and five years. In addition to tax incentives provided in the investment, there are number of tax incentives provided in the fiscal tax law. These include loss carried forward for a period of five years, exemption of some income and allowance of some expenses like research and development. All these incentives are aimed at promoting businesses in Rwanda (MINECOFIN, 2012) [34].

2. Theoretical and conceptual framework

Neo-classical theory

Neo-classical economic theory argues that providing tax incentives to one group of investors rather than another violates one of the principal tenets of a good tax system, that of horizontal equity. This inequality distorts the price signals faced by potential investors and leads to an inefficient allocation of capital (Comanor, 1967) [13]. The justification most often given for special incentives is that there are market failures surrounding the decision to invest in certain sectors and locations, which justify government intervention.

Market failures result in either too much or too little investment in certain sectors or locations. The key market failures most often cited; Positive externalities not internalized in the project's rate of return are higher in certain sectors than in others. An example is research and development where investment yields a higher social than private rate of return because not all the technological knowledge can be effectively patented and as such there exists an exalted justification for subsidizing research and development investment (Kaplan, 2001) [25].

Colmar (2005) [12] points out that there are other purported benefits of tax incentives, such as symbolic signaling effects and the need to compensate for inadequacies in the investment regime elsewhere. Provision of investment incentives is in the form of either tax relief or cash grants. International experience shows that such incentives play only a minor role in investment decisions. Firms make investment decisions based on many factors including projections of future demand, certainty about future government policy, prevailing interest rates and moves by competitors. In general, they see incentives as 'nice to have' but not deal breaking. Yet incentives remain a popular policy for both developed and developing countries.

Agency theory of tax Incentive

According to Zee *et al*. (2002) [55], despite the lack of evidence to support the efficacy or efficiency of fiscal incentives, governments continue to offer them. Tax incentives offer an easy way to compensate for other government-created obstacles in the business environment. In other words, fiscal incentives respond to government failure as much as market failure. It is far harder, and takes far longer, to tackle the investment impediments themselves low skills base, regulatory and compliance cost than to put in place a grant or tax regime to help counterbalance these impediments. Although it is a second-best solution to provide a subsidy to counteract an existing distortion, this is what often happens in practice.

Agency problems also exist between government agencies responsible for attracting investment and those responsible for the more generic business environment. Whilst investment-promotion agencies can play an important role in coordinating government activities to attract investment, they also often argue for incentives without taking account of the costs borne by the economy as a whole (Zee *et al.*, 2002) [55].

Tax incentives

UNCTAD (2003) [50] defines tax incentives as any incentives that reduce the tax burden of any party in order to induce them to invest in particular projects or sectors. They are exceptions to the general tax regime and may include, reduced tax rates on profits, tax holidays, accounting rules that allow accelerated depreciation and loss carry forwards for tax purposes, and reduced tariffs on imported equipment, components, and raw materials, or increased tariffs to protect the domestic market. KRA defines tax incentive as a provision that grants any person or activity favourable conditions that deviate from the normal provisions of the tax legislation. Tax expenditures refer to revenue losses that a government incurs by providing tax exemptions, deductions or allowances, tax credits, preferential tax rates or deferral of tax payments legally to any party in the economy (Gravelle, 2013) [20].

The budget deficit of a government is a form of a negative saving and a reduction in the deficit can positively influence the net national savings more than any feasible changes in tax policies and encourage savings within an economy which will then stimulate investments (Goolsbee, 2004) [19]. (Keen, 2013) [27] defines Tax incentives as all measures and strategies which provide for more favourable tax treatment to a certain activities or sector, he went on to describe the following to be Typical Tax Incentives:

1. Tax holidays: is defined as the temporal exemption of business investment from certain specified taxes, typically at least corporate income tax. Partial tax holidays offer the reduced obligations rather than full exemption.
2. Special zones: are placed in geographically limited areas where qualified companies can locate and hence benefit from the exemption of various scope of taxes or administrative requirements.
3. Investment tax credit: this is the deduction of some fraction of an investment from the tax liability
4. Investment allowance: is the deduction of some fraction of an investment from taxable profits (in addition to depreciation).
5. Reduced tax rates: Are the reduction in a tax rate, specifically the corporate income tax rate.
6. Exemptions from various taxes: Are the exemptions from certain taxes, most of the time those collected at the border such as tariffs, excises and VAT on imported inputs.
7. Financing incentives: are the reductions in tax rates for the funds providers for example: the reduced withholding taxes on dividends.

Tax exemption in Rwanda

In order to promote the self-economic reliance and reduce reliance on foreign aid, the government of Rwanda has intentionally decided to offer tax exemptions. According to RRA (2015), Government of Rwanda has offered tax exemptions for the following reasons:

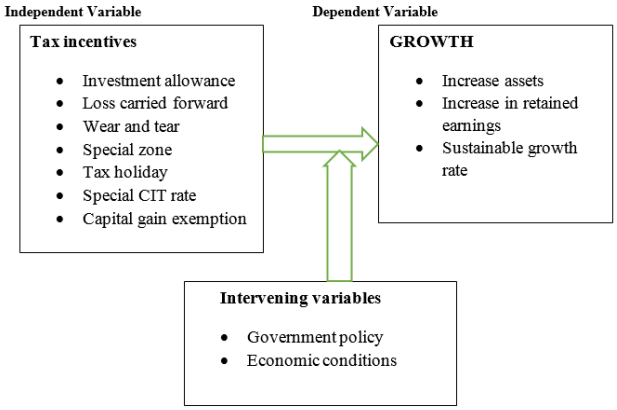
1. To reduce the regressive nature of VAT by lowering the price of goods and services consumed by the poor by exempting from VAT goods consumed by the poor such as water service.
2. Lowering the price of certain goods that are believed to have a direct beneficial impact on society such as medicines, health care and education materials by exempting them from VAT.
3. NGOs and religious groups whose activities are having a direct benefit to society also are exempted from tax.
4. To promote the agricultural transformations through exempting farm-household enterprises from income tax till they reach a turnover of 1.4 RWF a year as well as exempting from VAT agricultural products for all agricultural enterprises.
5. Providing incentives to stimulate economic growth to domestic and foreign investors. With expectations of an increased investment, employment, output growth and exports.

Growth of SMEs

Countries that have tax incentives for SMEs claim that preferential tax treatment creates a large number of jobs and enhances the level of entrepreneurship that is associated with flexibility, speed, risk taking and innovation (Chen *et al*., 2002). According to Berger & Udell (1998) [7], emphasise the fact that SMEs are key drivers of economic success, because they are job creators, sales generators and the source of tax revenue. These authors base their assertion on the facts that a large percentage of SMEs contribute to the various countries' gross domestic product, they employ a large percentage of the workforce and the high ratios of small businesses to large businesses in the countries concerned.

According to Berger & Udell (1998) [7], SMEs represent fertile ground for the development of large, profitable, tax-paying employers and SMEs experience high growth rates in comparison to large enterprises. However, tax policies that are aimed at promoting the economic growth of small businesses should be evaluated judiciously, because the inherent characteristics of small businesses can make a specific differentiated tax policy undesirable. Studies undertaken in this regard have produced the following findings: the majority of SMEs have limited growth potential small businesses vary in terms of productivity, job growth, wages, innovation and export performance within the same industry subgroups. Small business also do not all follow the same growth pattern. Certain small businesses will remain small for most of their existence and it is for this reason that it is not obvious why a tax system should influence the growth process. Such intervention, to the extent that it does not act in a lump-sum way, influences marginal decisions and could lead to excessive risk taking and over investment (Heshmati, 2001) [24].

A conceptual framework represents the researcher's synthesis of literature on how to explain a phenomenon. It illustrates actions required in the course of the study given his previous knowledge of other researchers' point of view and his observations on the subject of research. It shows the relationship between variables.



***Source*:** Researcher's own impression 2017

Fig 1.1: Conceptual framework of the study

In this study, as illustrated in the figure 1.1, the independent variables those are determinant which are believed to play a role in the growth of SME as measured by increase in the assets, retained earnings and sustainable growth rate. These are: investment allowance, loss carried forward and wear and tear. However, for the relationship to hold, government policy and economic conditions must be put into consideration. Therefore, are here defined as intermediate variables.

3. Research Methodology

This chapter discusses the research methodology adopted in the study. It shows the description of the research methods and instruments that was employed in the study. It covers the Research design, survey population, sample size, sampling procedures, Sources of data, data collection instruments, validity and reliability of the research instrument, measure of research Variables, Measure of research instruments and it also shows how the research was processed, analysed and presented.

Research design

The study design was based on a multi-method strategy which used both qualitative and quantitative research approaches. A case study and a survey strategy were used in this study. This helped the researcher to have a triangulation of different strategies. According to Bell (1993) [5], a multi-method strategy occurs when more than one research approach and data source are used in a study of social phenomena. A multi-method approach can be undertaken within a single research strategy by using multiple sources of data or across research strategies (Bell, 1993) [5]. The combination of qualitative and quantitative design approach has been recommended and used by researchers in situations where one of the approaches is insufficient to reveal all that is required to be known about a phenomenon (Bell, 1993) [5].

Study population

The study population is a group of element/items/or people which the study interested in. The study population of this study was 49000 SMEs in Nyarugenge District registered with the RRA. However, the study targeted the managers/owners and the accountant/director of finance of each SME.

Sample size and sampling procedure

In selecting a sample an optimum sample size was considered. According to Kothari (2000) [30], an optimum sample is the one which fulfills the requirement of efficiency, representativeness, reliability and flexibility. To determine the sample size, the researchers used the Solvin and Yamen's formula (n = N/(1 + N(e)2 where 139 SMEs were determined.

Source of data and research instruments

Both primary and secondary data was used in this study. The primary data was sourced using questionnaire and oral and structured interview (Sekaran, 2005). and documentary techniques was utilized to collect secondary data.

Data processing and analysis

Data that was collected from the primary survey and secondary survey was compiled, sorted, edited, coded in order to have the required quality accuracy and was analysed statistically using statistical package for social scientist (SPSS). Principal component analysis approach and varimax rotation methods were used to determine those factors that explain or tax incentives. The result of the analysis was presented in form of tables for the interpretation. Pearson's correlation was used to establish the relationship between tax incentives and growth of SMEs. A multiple regression analysis was used to determine model on tax incentives and growth of SMEs. t-test was used to examine the variability of each variable of tax incentive.

Growth (G) = F (tax incentives (TI))

$$G = \beta 0 + \beta 1TI + \alpha \quad \ldots\ldots\ldots\ldots\ldots\ldots 1$$

- TI = F (Accelerated depreciation (AD), loss carried forward (LC), wear and tear (WT) Special zone (SZ), tax holiday (TH) Special CIT rate (ST), capital gain exemption (CE)

Capital gain exemption

$$TI = \beta 0 + \beta 1AD + \beta 2LC + \beta 4WT + \beta 5SZ + \beta 6TH + \beta 7ST + \beta 8CE + \alpha$$

Substituting in one above

$$G = \beta 0 + \beta 1AD + \beta 2LC + \beta 4WT + \beta 5SZ + \beta 6TH + \beta 7ST + \beta 8CE + \alpha$$

4. Results and Discussion

This section presents the results and discussions from the survey

Table 1: Type of industry

Type of industry		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agriculture	0	0	0	0
	Commerce	73	53.7	53.7	53.7
	Service	49	36	36	83.8
	Consultancy	14	10.3	10.3	94.1
	Education	0	0	0	100.0
	Total	136	100.0	100.0	

***Source*:** Primary data, 2019

Results in table 1 show the type of industry of respondents in SMEs, where respondents in sector of agriculture constitutes 0%; Commerce constitutes 47.8%; Service constitutes 36%; Consultancy constitutes 10.3%; Education constitutes 0%. Basing on this results the majority of respondents are involved in commerce sector.

Table 2: Respondents' views on understanding the tax laws in Rwanda

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	42	30.9	30.9	30.9
	Agree	61	44.8	44.8	75.7
	Disagree	33	24.3	24.3	100.0
	Total	136	100.0	100.0	

***Source*:** Primary data, 2019

Results in table 2 shows the understandability of the tax laws in Rwanda, where 30.9% of respondents were strongly agree, 44.8% were agree and 24.3% disagreed that the understand the tax laws in Rwanda. The results from the survey revealed that, majority of respondent agreed they understand the tax laws as evidenced by 75.7% of the respondents. The result from the survey conforms to the findings from the study carried out by (Vann & Holland, 1998) [51]. The findings show that taxation means in other words the contribution imposed by the government to its people or individual, companies for the use of government to provide services or facilities the by government (Vann & Holland, 1998) [51].

Table 3: Respondents' views on awareness of the tax incentives available in the tax laws

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	39	28.7	28.7	28.7
	Agree	68	50	50	78.7
	Disagree	29	21.3	21.3	100.0
	Total	136	100.0	100.0	

***Source*:** Primary data, 2019

In table 3, respondents were asked whether there are aware of the tax incentives that are available in the tax laws. The results from the survey indicated that 28.7% of the respondents strongly agreed, 50% agreed and 21.3% disagreed. The results showed that a large number of respondents agreed that aware of the tax incentives are available in the tax laws. The results from the survey relates to the findings from the study carried out by Keen (2013) [27]. According to Keen (2013) [27], tax incentives as all measures and strategies which provide for more favourable tax treatment to a certain activities or sector

Table 4: Distribution of respondents with tax incentive have enjoyed by SMEs

Tax incentive	Frequency	Percentage
Accelerated depreciation	58	42.6
Wear and tear	136	100
Loss carried forward	128	94.1
Tax holiday	0	0
Listed shares	0	0
Research and development	80	58.8
Special zone	0	0
Special CIT	0	0
Capital gain exemption	58	42.6

***Source*:** Primary data, 2019

Table 4 shows that the tax incentives enjoyed by SMEs in Rwanda, where 42.6% of respondents mentioned that they accelerated depreciation; 100% of respondents mentioned wear and tear; 94.1% of respondents mentioned loss carried forward; none of the respondents mentioned tax holiday; special CIT and special zones and listed shares as a tax incentive; 58.8 % of respondents mentioned research and development and capital gain exemptions. The results from the survey revealed various tax incentives enjoyed by SMEs. However, the most ones include wear and tear; loss carried forward, and accelerated depreciation as evidenced in the table above. The results relates to the findings of the study carried out by (UNCTAD, 2003) [50]. The study revealed that they are various tax incentives that are available in the tax laws that support SMEs. The study defines tax incentives as any incentives that reduce the tax burden of any party in order to induce them to invest in particular projects or sectors. They are exceptions to the general tax regime and may include, reduced tax rates on profits, tax holidays, accounting rules that allow accelerated depreciation and loss carry forwards for tax purposes, and reduced tariffs on imported equipment, components, and raw materials, or increased tariffs to protect the domestic market.

Table 5: Level of sales and profit of SMEs

Years	Sales	Profits
2013	6,765,146,070	135,302,934
2014	14,710,080,125	323,621,763
2015	19,052,671,910	476,316,798
2016	23,462,405,030	610,022,531
2017	31,050,521,520	838,364,081
2018	40.050,935,745	1,241,579,000

***Source*:** Primary data, 2019

Table 5 shows the level of sales and profit of SMEs from 2013 up to 2018, where the sales and profit had been increasing year to year. In 2013 sale and profit was 6,765,146,070 and 135,302,934 respectively. In 2014 sale and profit was increased to 14,710,080,125 and 323,621,763 respectively. In 2015 sale and profit was increased to 19,052,671,910 and 476,316,798 respectively. In 2016 sale and profit was increased to 23,462,405,030 and 610,022,531 respectively. In 2017 sale and profit was increased to 31,050,521,520 and 838,364,081 respectively. In 2018 sale and profit was increased to 40.050,935,745 and 1,241,579,000 respectively. Basing on these results from their financial statement the financial performance of SMEs is good. Profitability is a measure of the amount by which a company's revenues exceeds its relevant expenses. The results revealed an increase in the sales and profitability of SMEs during the study period. This means that tax incentives have an effect on the sales and profitability of SMEs. The findings relates to the study carried out by Külter& Demirgüneş (2007) [32] who point out that revenue and profitability of SMES are affected by tax incentives.

Table 6: Level of investment in assets SMEs

Years	Assets
2013	29,471,200,000
2014	38,901,984,000
2015	44,673,981,200
2016	49,451,730,600
2017	57,321,545,100
2018	68,345,217,000

***Source*:** Primary data, 2019

Table 6 shows the level of investment in assets SMEs from 2013 up to 2018, where the assets was 29,471,200,000 in 2013; 38,901,984,000 in 2014; 44,673,981,200 in 2015; 49,451,730,600 in 2016; 57,321,545,100 in 2017; 68,345,217,000 in 2018. Basing on these result the level of investment in asset SMEs was increasing this indicate the performance of SMEs is good. The findings from the study conform to findings from the previous studies. Agarwal & Jain (1993), assets is probable future economic benefits obtained or controlled by particular entity as a result of past transactions or events.

Relationship between tax incentives and growth of SMEs in Rwanda

Considering the effect of tax incentives on the growth of SMEs in Rwanda, the research established the statistical relationship between tax incentives and promotion of SMEs in Rwanda. The relationship was established through Pearson correlation analysis using Pearson Moment correlation coefficient as depicted in table below.

Table 7: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.888[a]	.788	.622	.24618

***Source*:** Primary data, 2019

Findings in Table 7 provide both the coefficient of determination is Adjusted R Square and the coefficient of correlation is R. The coefficient of determination (R2=0.622) explained the explanatory power of the model and indicates that 62.2% of variation in the growth of SMEs is being explained by the variation in the explanatory variable such as Investment allowance, Loss carried forward, Listing shares, Tax holiday. However, the adjusted R square of 62.2% indicates that there are other variables

that affect the growth of SMEs such as government policy, economic conditions which are not captured by the model formulated in the study that account for about 37.8% variation not explained by the model. The coefficient of correlation (R=0.888) is greater than 0.5. This indicates that there is a strong positive and moderate relationship between tax incentives and growth of SMEs. The results from survey relates to findings from previous studies. Colmar (2005) [12] identified a strong relationship between tax incentives and growth of SMEs. Similar findings are also seen in the study carried out by (Chukwumerije & Akinyomi, 2011) [11].

Table 8: Estimated coefficients of the model

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.821	.301		2.727	.004
	Investment allowance	.636	.216	.822	2.941	.037
	Loss carried forward	.773	.289	386	2.674	.000
	Tax holiday	.664	.234	.469	2.874	.056
	Wear and Tear	.686	.272	.356	2.522	.001
	Preferential CIT Rate	.715	.281	.427	2.544	.057

a. Dependent Variable: growth of SMEs
***Source*:** Primary data, 2019

A finding in Table 8 shows the estimated coefficients of the regression model of this study. From the findings, all the coefficients are statistically significant considering the positive value of the coefficients and a significance level great than 0.05. However, there is a correlation between investment allowance and growth of SMEs (b=0.636, sig=.037) indicating that the investment allowance itself explain 63.6% of the variation in the effectiveness of the growth of SMEs. Moreover, there is significant and strong positive relationship between loss carried forward and evaluations with growth of SMEs (b=0.773, sig=0.000) indicating that the 77.3% of the variation in the growth of SMEs is explained by loss carried forward. Tax holiday has significant and positive relationship with the growth of SMEs (b=0.664, sig=0.056) indicating that 66.4% of the variation in the growth of SMEs is explained by tax holiday. Wear and tear
has significant and positive relationship with the growth of SMEs (b=0.686, sig=0.001) indicating that 68.6% of the variation in the growth of SMEs is explained by listing shares. Preferential CIT Rate has significant and positive relationship with the growth of SMEs (b=0.715, sig=0.057) indicating that 71.5% of the variation in the growth of SMEs is explained by Preferential CIT Rate. The results from the survey relates to the findings of the study carried out by (Chukwumerije & Akinyomi, 2011) [11]. The findings revealed that investment allowances, loss carried forward, tax holiday listing shares and preferential tax rate be significantly.

5. Conclusion and Recommendations

This chapter represents the general conclusion and recommendations concerning the effect of tax incentives on the growth of small and medium enterprises in Rwanda.

5.1 Conclusion

On the basis of the discussed findings of this research work, the facts have been clearly confirmed that tax incentives are germane to the growth, development and continued sustenance of small and medium enterprises. However most of the tax incentives that are available in the tax law are not enjoyed by the SMEs. It is only the large taxpayers that do enjoy most of the tax incentives. Tax incentives plays a vital role in ensuring that small and medium enterprises thrive because the government has made available tax holidays for pioneer companies, the government also grants a number of general and industry specific incentives. Finally, for many SMEs, the decision to remain informal is deliberate because of the cost and procedural burden of joining the formal sector out weight the benefit of staying in the informal sector. Informal sectors make large contributions to nation economies, in both human and financial terms. But being visible to government agencies and formal sector companies, they can be easily reached with capacity building improvement schemes but they cannot compete for business with larger companies thus a need for the government to accelerate their growth by creating an enabling environment for them vide appropriate tax incentives when necessary to enhance their sustenance and growth.

5.2 Recommendations

On the basis of the findings in this research work the recommendations are as follows.

1. Government can address the direct need for start-up fund for SMES by providing incentives for SMEs funding.
2. People should enlighten themselves appropriately on the form of business they want to embark upon before venturing into it to make them better equipped by going for entrepreneurial training programs.
3. There is a need for the government to employ tax holiday as a major tax incentives for newly established small and medium enterprises because it stimulate their investing power thereby exempting them from other tax liabilities.
4. Government should promote the growth of small and medium enterprises by creating the necessary enabling frameworks and relax the burden of regulating measures and ensure that their efforts are geared towards granting tax incentives to micro, small and medium enterprises.
5. Building SMEs capacity through the localization of supply chains requires the leadership from the top localizing values creation through engagement with SMEs is a key contribution that large corporations can achieve, this undermine their license to operate by creating a positive local impact, considering partnership across segments, business planning skill, all these put in place goes a long way in ensuring that tax incentives granted to SMES have a significant impact on their growth.

6. Small and medium enterprise should emphasize on tax incentives, so that its operation continuing to be more efficiently and effectively.
7. Government should make the campaign to explain the role of taxation on development of countries and help small and medium enterprises to understand tax law in Rwanda.

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