Effects of government taxation policy on sales revenue of SME in Uasin Gishu County, Kenya

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ABSTRACT: *In Kenya, SME provide source of employment creation, innovation, competition, economic dynamism which eventually lead to poverty alleviation and national growth. Government taxation policy is one of the factors that constitute the SMEs" economic surroundings. This study sought to find out the effects of government taxation policy on sales revenue of SME in Kenya and particularly Uasin Gishu County. In order to achieve the purpose of this study, the specific research objective was addressed: to find out the effects of government taxation policy on sales revenue of SME. The data for this study was collected from primary and secondary sources. While the research instruments were questionnaire, interview and document analysis, the study population comprised of staff and management of SME within Uasin Gishu County, Kenya who formed the sample for the study. The explanatory research design was employed in the study. The samples for the study were selected using stratified random and simple random sampling methods. The data from the research instruments were coded and analyzed using the SPSS. Descriptive statistics, frequency tables, percentages, mean and standard deviation were used to present the data, while Correlation was used to test the hypotheses. Results of the study found statistically significant relationships between the three dimensions of government taxation policy and sales revenue. The researcher concluded therefore that government taxation policy had a significant impact on sales revenue of SMEs.*

KEY WORDS: *Taxation policy, Profitability, Growth*

I.   INTRODUCTION

Background Information : Taxation policy towards SME is an important issue because SME are a significant segment of the economy, despite being individually smaller in size than larger firms. In addition, they improve the standard of living of a majority of the population. Therefore, revenue authorities have to take all of the above features into account when establishing the components of taxation policy that are associated with SME. Despite the vibrancy of SME, they have a major negative characteristic: they often have an extremely short life span. Some of the factors that lead to the winding down of SME soon after their inception are tax related, including multiple taxation and enormous tax burdens. The perception of SME by policy makers often fails to acknowledge their significance as a mechanism of economic growth and development. Regarding SME as insignificant enterprises that have no impact on the economy is an oversight that can no longer be justified. This is because SME merely require a favorable regulatory environment in which to conduct business, and they will demonstrate their potential for profitability and growth. Thus they need to be granted a measure of flexibility in taxation which will allow them to maximize their potential. The profitability and growth of SME can be assessed through the parameters of sales revenue, asset accumulation, and returns on capital, therefore it is important to find out the effect that taxation policy has on them.

According to (Holban, 2007), taxation can contribute to development and to welfare through three sources; by generating sufficient funds for financing public services and social transfers at a high level of quality, by offering incentive for more employment and for an efficient and lasting use of natural resources, and by reallocation of income. However, this has to be balanced against the requirements of SME income and their need for survival. Without sufficient profitability, SME growth will be rendered impossible. Therefore, any prospective tax policy will have to evaluate the factors that encourage non-compliance with tax obligation by SME. Although it has been acknowledged that taxation is a constraint on the productivity and growth of SME, this does not mean that SME should not pay tax. Without tax revenue, governments will be unable to facilitate the environment in which SME thrive, therefore it is in SME own best interest to pay taxes. The government has to collect revenue in order to finance its expenditure. Income obtained from taxation of individuals and businesses is used to run governments and to build and maintain infrastructure such as good roads, water supply, and electricity which are essential for the smooth running of businesses. With the above in mind, the goal of the current study sought to determine the importance of government taxation policy on profitability of SME.

Statement of the Problem : Taxation is the lifeblood of government, as it provides the revenues which go towards ensuring that government is able to fulfill its role of maintaining law and order and facilitating trade and industry, among other duties. SME and taxation are not mutually exclusive by any means. Yet it has been noted, in previous studies (Tomlin, 2008) that SME sacrifice funds to pay taxes, which could otherwise be invested in business growth. This dilemma is at the crux of the issue under investigation in this study, which is: how can government taxation policy be designed to ensure that revenue is collected from SME without taxing them so heavily that they are unable to grow. Thus this study seeks and suggests ways and means in which taxes can be levied on SME, without subjecting them to the tax rates of large corporations which may diminish SME profitability.

Objective of the Study
- To find out the effects of government taxation policy on sales revenue of SME in Kenya

II. LITERATURE REVIEW

Effects of Tax Policy on Sales Revenue of SME : The majority of SME are concentrated in the service and commercial sectors. Therefore sales revenue is the lifeblood of such enterprises. However, such firms can only maintain sales at a high level by minimizing their operational costs, as was explained in the preceding section. If a large proportion of SME costs are devoted to paying tax, they will be forced to shift the tax burden onto the consumer, and this will ultimately make their goods and services uncompetitive, which will have a negative impact on their performance and growth. The impact of high taxes on sales revenue is demonstrated by the program of import substitution which was adopted in Kenya after independence (Republic of Kenya, 2006). The tax regime under import substitution was a protectionist policy, intended to promote local businesses, including SME, to produce essential goods instead of importing them. However, import substitution had a number of unforeseen consequences, including the creation and sustaining of an anti-export bias, due to high tariff structures and import controls that encouraged importation of inputs even where the same could be sourced locally. This was because, ironically, import substitution sought to boost local production, yet the local cost of capital equipment was very high (due to taxation) which forced SME to import equipment, contrary to the goals of the program.
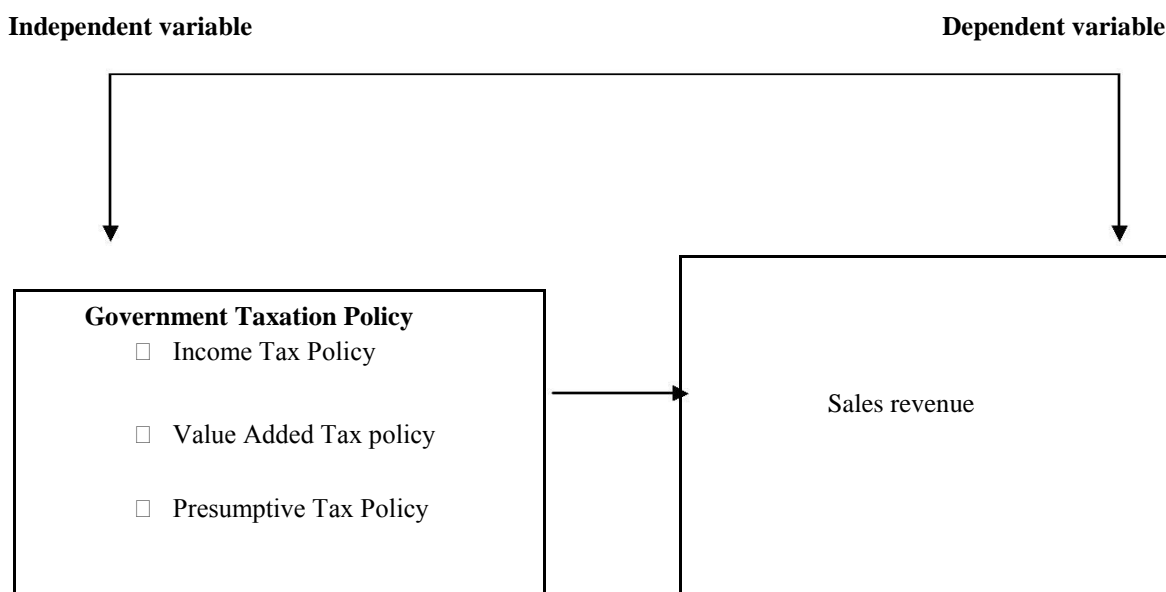
In addition, the import substitution process focused exclusively on producing goods for domestic consumption, and completely ignored the importance of export markets. Indeed, the post-independence period was characterized by high export taxes that discouraged exports and stifled economic activity. From the foregoing it is evident that tax policy actually does have a significant effect on the sales revenue of SME. By levying high taxes on exports and on the cost of locally procured capital equipment, local firms (including SME) were unable to generate enough sales to facilitate their growth, leading to a slump in the SME sector, forcing it to operate in informal channels to guarantee a level of sales turnover that would guarantee survival. The import substitution program is credited with the successful industrialization of sub-sectors producing consumer products such as textiles and garments, food and beverages and tobacco that became the leading manufactured goods during the import substitution period of 1963 to 1989. From an SME standpoint the import substitution program adversely affected sales revenue, as high taxation made the business environment hostile to SME. Consequently, the firms which benefitted the most from the program were large corporations which were capable of handling the tax requirements. The reluctance of SME in Kenya to formalize can partly be attributed to the tax policies instituted under export substitution (Republic of Kenya, 2006)..

The long term effects of high taxation under import substitution also affected the sales revenue of large corporations. Some of these effects included oversaturation of the corporate sector, with a corresponding underdevelopment of SME, creating a gap between the largest corporations and the smallest microenterprises. New SME are doing their best to fill this entrepreneurship gap, but tax policies that are inimical to the generation and retention of sales revenue are forcing many of them to remain in the informal economy. Another consequence of tax policies that limited sales revenues was that there was lack of impetus among firms, large and small alike, to move the industrialization process beyond import substitution. This was because the high taxation had diminished sales revenue to such an extent that firms did not have the capacity to seek export markets, and even if they did look for markets beyond borders, they would still be hampered by high export taxes, which would eat into their sales revenues even further.   This state of affairs resulted in polarization of the economy between the extremes of very large and very small enterprises. These two kinds of enterprises had nothing in common, and thus the development of complementary working relationships and linkages between corporations and Small and Medium Enterprises did not take place. The current status of the manufacturing sector can attest to this, as it is completely dominated by large corporations, and SME are simply nonexistent. In

the commercial and services sectors SME are coming up, but they avoid formalization and incorporation due to the strain placed on their sales revenue by tax policy strictures. The absence of SME in certain sectors results in inefficiency, high production costs and monopolistic practices, which lead to price fixing. Any SME that attempt to compete in such a market will be unable to generate the sales revenue that they require in order to grow (Republic of Kenya, 2006)..Finally, it is worth mentioning that SME taxpayers under the current system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both SME as well as large enterprises. Modifying the taxation rate for SME in addition to reducing the compliance costs increases the sales revenues and profit margins of SME. It also increases the Government‟s tax revenue, since simplified tax provisions SME historically reduce the size of the informal economy and the number of non- complying registered taxpayers (Vasak, 2008)**.**

Conceptual Framework
Figure 2:1 Hypothesised factors affecting sales revenue of medium sized enterprises

Independent variable   **Dependent variable**

Government Taxation Policy
- Income Tax Policy
- Value Added Tax policy
- Presumptive Tax Policy

Sales revenue

Source: Author Construct
This study put emphasis on the relationships between government taxation on Sales revenue of SMEs in Kenya.

III. METHODOLOGY

Research Design : While carrying out the study, the researcher employed explanatory research design. Explanatory study is referred to as studies that establish casual relationship between variables. Explanatory research most often preceded by explanatory and descriptive research and the emphasis is basically on studying a situation or a problem in order to explain the relationships between the variables. (Saunders, Lewis, Thornhill, 2007). Explanatory or a causal study is aimed at ascertaining causal relationship between variables i.e. the relationship between government tax policy, growth and the profitability of SMEs. Since the study involves collecting the opinions of respondents concerning a particular issue, given the above stated attributes, explanatory research design was adopted in this study in order to establish relationship between government tax policy, growth and the profitability of SMEs between 2009 and 2011.

Target Population :A population consists of all elements-individuals, items, or object-whose characteristics are being studied. The population that is being studied is also called the target population. The population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular survey (Kerlinger, 2003). The target population in this research covers all SME in Uasin Gishu County. Of all Kenya biggest city in terms of numbers of SMEs, labor force, industrial outputs, trading and service volumes (Central Bureau of Statistics, 2010). In general, SMEs in the County may be viewed as representative of SMEs in the country. Therefore, the target population of this study comprises of 1785 SMEs operators mainly drawn from services (685) and manufacturing (1100) and 2 officials from the Ministry of trade and Uasin Gishu County. This is shown in the table 1.

Table 1 Target population

Strata	Target population
Manufacturing industry	1100
Services industry	685
Officers from the Ministry of trade	2
TOTAL	**1787**

Source: Uasin Gishu County in 2012

Sampling Size and Techniques : Sampling is a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The sampling criteria for this study includes the following: the SMEs is either a service or production enterprise; the operations should involve the employment of a minimum of 20 workers; the SMEs operations must be using power and equipment in its operation and the company must be located in Uasin Gishu County and the SMEs must be using locally sourced raw materials as its major input. The sample size was determined using table for determining sample size from a given population by (Krejcie and Morgan , 1970). The researcher made use of stratified random and simple random sampling. Stratified random sampling is the process of selecting a sample in such a way that identified subgroups in the population are represented in the sample in the same proportion as they exist in the population (Frankel, et al, 2000), while a simple random sample is one in which each and every member of the population has an equal and independent chance of being selected as a respondent (Frankel, et al, 2000). From the 1885 SMEs, a sample size of 188 respondents was chosen from each of the strata whereby the target population was divided into strata, and samples of 10% of each stratum were selected. This ensured that all the strata within the study area were included in the study and thus taking into consideration the socio-economic dynamics of the area by spreading the sample in the whole Uasin Gishu County. Therefore in order to arrive at a statistically valid conclusion, the researcher administered at least 180 questionnaires.

Table 2 Sample size of respondents

Strata	Target population	Ratio %	Sample Size
SMEs (manufacturing)	1100	10 /100	110
SMEs (services)	685	10 /100	68
Officers from ministry of trade	2		2
TOTAL	**1787**		**180**

Source: Uasin Gishu County in 2012

Data Collection Instrument : The study data for the study were generated from both primary and secondary sources. Primary data were obtained using questionnaires, personal interviews and document analysis. Secondary sources includes: internet, textbooks, government publications, journals, libraries, archives and government offices among others. The study is both quantitative (Questionnaire and qualitative (interview schedule and document analysis) data. The study used the triangulation method of data collection, which usually involves the use of two or more research instruments to collect the necessary data. This is because no single method of data collection is perfect in itself (Okuni and Tembe, 1997).

Data Collection Methods : Data collection was conducted using questionnaire, personal interviews and document analysis as the main data collection tool. The questions were subdivided into sections to capture the response and details that were required. The researcher collected data from the selected respondents after receiving permission from the Washington International University authority and government of Kenya to carry out research in the identified area of study. The researcher before collecting data from the participant informed the Director of each SME in advance and sought for an appointment to enable data collection. After familiarization, data was then collected from the respondents using the three mentioned instruments. The service of research assistant was sought to assist in the collection of the questionnaires from the respondents, while the researcher personally distributed the questionnaire. The completed instruments were verified and collected from the respondents within a period of fifteen days from the day of distribution. Validity and Reliability of the Instruments : Reliability of research instruments were used to construct reliable measurement scales, to improve existing scales, and to appraise the reliability of scales already in use. In particular, reliability aided in the design and assessment of sum scales, that is, scales that are made up of multiple individual measurements. The assessment of scale reliability was based on the correlations between the measurements that make up the scale, relative to the variances of the items. In this context the definition of reliability is straightforward: a

measurement is reliable if it reflects mostly true score, relative to the error. In this study, the items were considered reliable when they yielded a reliability coefficient of 0.50 and above. This figure is usually considered respectable and desirable for consistency levels (Koul, 2002). However, the Cronbach's coefficient the research instruments are not reliable and the researcher should make necessary corrections before using the instruments to collect data. In addition, the reliability was established through the pilot-test whereby some items were either added or dropped to enable modification of the instrument. The interview schedules were pilot tested by using two directors of the SME within Uasin Gishu County. This was intended to establish the construct validity of the schedules. Validity refers to the level at which a test measures what the instruments actually wish to measure. The question on how government taxation policy affecting the profitability and growth of small and medium enterprises in Huruma Estate, Uasin Gishu County, Kenya will be validated by adopting (Yin, 2003) solution for validity. This includes use of multiple sources of information, to establish a chain of evidence, and to have key informants review the report. Also, multiple sources of information will be used in the form of three kinds of sources: literature review on previous empirical research, primary data in the form of interviews with SME within Uasin Gishu County, Kenya and researcher direct observation. In order to perform this technique several respondents will be asked to comment on some of the conclusions.

II.   DATA ANALYSIS

The data were analyzed statistically using correlation analysis, descriptive and percentage analysis methods. The analysis was undertaken to establish the degree of relationships between some pertinent factors and issues as well as to show the relative size or significance of each factor relative to the others. Specifically, correlation analysis was used to test hypotheses and show the extent of relationship between taxation policy and the sales revenue of SME; Multiple regression as a statistical technique was used to examine the way a number of independent variables relate to one dependent variable. The Multiple Regressions Analysis was used to determine the relationship between independent and dependent variables. The coefficient of multiple correlations is symbolized by the correlation R which indicates the strength of the correlation between the combination of the predictor variables and criteria variables. The analytical model for this research, which was developed and justified in the literature review, and which ultimately, provides structure to the empirical analysis. This analytical schema represented the model of the relationship between government tax policy and sales revenue of SMEs. The model demonstrated how SME sales revenue is expected to be influenced by government taxation policy. The following regression model was expressed in mathematical notation as follows:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Where Y = Government taxation policy X_1 = Sales revenue of SME

β = Beta.

ε = Error term

V: RESULTS AND DISCUSSION

Sales Revenue

Six items were proposed to measure the effect of government taxation policy on sales revenue of SMEs. Two factors were extracted and accounted for up to 58.69% of the total variance explained. The Kauser –Meyer – Olkin (0.641) and Bartlett"s test sphericity (p<0.0001) indicated that data were adequate for factor analysis. All factor loadings were above 0.60. The reliability coefficient for the five items extracted was 0.701 which shows that the five items were reliable in measuring effect of taxation policy on sales revenue. Table 3 presents results of the factor analysis of effects of taxation policy on sales revenue.

Table 3: Exploratory Factor Analysis Results for effect of Taxation Policy on Sales Revenue

Constructs and scales	Loading	Eigenvalues	Cum. Variance Explained
Effect of Taxation on Sales Revenue Factor1	**.701***	2.443	40.721
The regressive nature of taxes on SME reduces their revenue base	.805		

The uncertainty of taxes paid by SMEs interferes with their inventory cycles hence breaks and jumps in their tax Government taxation policy on SME does not consider much the scale of operation hence adversely affects their sales revenue	.833		
Factor2	.626	1.078	58.690
Most SMEs do not hold portfolio in their operations and are thus prone to higher risks of taxation and hence weak sales revenue	.730		
Taxation policy fails to deal with pricing aspects and hence does not focus on selling price of SMEs and lowers sales revenue	.820		
Kaiser-Meyer-Olkin MSA:	**.641**		
Bartlett's test of S	**.000**		

*   Reliability coefficient (Cronbach''s Alpha)

Normality of the study variables. : Statistical methods were used to examine the normality distribution of the independent and dependent variable using SPSS. The statistical method used was the Shapiro- Wilk test. It was used because of its versatility for small samples as well as samples sizes as large as 2000. Consequently, the test was used to identify variables that significantly deviate from a normal distribution. As suggested by Hair et al (2006), Significant values of the Shapiro –Wilk test greater than 0.05 indicated that the data was normally distributed. As shown in Table 4, all the variables were normally distributed since the significant values were all above 0.05.

Table 4: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Sales Revenue	.148	165	.221	.918	165	.235

a. Lilliefors Significance Correction

Sample demographic profile : The demographic characteristics analyzed for the sample of respondents included gender, age, marital status, education level, family size, and business experience. Table 4.12 presents summary statistics of these characteristics.

Background characteristics of the sample SMEs : Respondents were asked to provide background characteristics pertaining to their businesses. These characteristics included; ownership, management, annual turnover, number of employees, and range of asset size. Table 5 shows background characteristics of the sample SMEs.

Table 5: Background Characteristics of the Sample Businesses

		f	%
Ownership of business	partnership	10	5.8%
	company	7	4.1%
	sole proprietorship	155	90.1%
	co-operative	0	.0%

	self-help group	0	.0%
Business management	owner	155	90.1%
	manager	7	4.1%
	partners	10	5.8%
	committee members	0	.0%
	director	0	.0%
Annual turnover	less than Ksh 10million	172	100.0%
	10-100m	0	.0%
	100-200m	0	.0%
	over 200m	0	.0%
Number of employees	less than 10	171	99.4%
	10-49	1	.6%
	59-199	0	.0%
	over 200	0	.0%
Range of asset size	less than Ksh 10million	172	100.0%
	10-100m	0	.0%
	100-200m	0	.0%
	over 200m	0	.0%

Results shown in table 4.13 indicate that a majority of the business were sole proprietorships (90%). Most of the business were owner managed (90.1%) with an annual turnover of less than Ksh. 10 million. Over 99% of the business had less than 10 employees and all the sampled businesses had an asset size less than Ksh. 10 million.

4.5 Descriptive statistics of the study variables
Means and standard deviations of the independent variables were obtained. The purpose was to gauge respondents' compliance with government taxation policy as well as to obtain a general picture of the prevailing status of SMEs in terms of sales revenue.

4.5.1 Respondents compliance with government taxation policy
Compliance with government taxation policy was treated as the independent variable in the present study. Three dimensions were used to measure compliance with government taxation policy. Five items were used to measure compliance with income tax, seven items were used to measure compliance with VAT policy, and four items were used to measure compliance with presumptive tax policy. The responses to the items were elicited using a 5point Likert scale.

Compliance with income tax policy
Respondents appeared to be complying with income taxation policy basing on their mean response to most items as well as the smaller values in variations. In particular, respondents tended to agree that SMEs have information on how much tax, where to pay and mode of payment (M=4.29, SD=0.527); that tax payable is economical to SMEs. They however tended to disagree that SMEs pay tax when it is convenient for them to pay (M=1.81, SD=0.975).

Compliance with VAT policy
Regarding compliance with VAT, respondents were in agreement with most items regarding compliance. They agreed that the businesses usually charged VAT on all goods and services purchased (M=4.23, SD = 0.930); that VAT was usually levied on part or full payment of suppliers (M=4.14, SD= 0.790); that they had VAT compliance certificates (M=3.72, SD=1.083); that they have never been penalized for failure to submit VAT returns (M=4.03, SD= 0.930); that most of them had installed the ETR machines (M=4.08, SD=0.798); and that the businesses maintain up-to date business records at all times. This means that the respondents lacked consensus regarding this particular item.

Compliance with presumptive tax policy
On presumptive tax, respondents were particularly keen to comply with its policy. This is because as presented in Table 4.14, most respondents found the mode of taxation under presumptive taxation quite favourable to them.

In particular, respondents strongly agreed that non requirement of returns filing under presumptive tax was an incentive to them (M=4.59, SD=0.560); they agreed that elaborate business records are not necessary (M=4.10, SD=0.886); that payments of levies is straight forward hence the business does not hire professional consultancy services. Hence allows for momentary closures of business (M= 4.10, SD= 0.947). The means and standard deviations of the independent variables of SMEs compliance with government taxation policy in terms of operational costs, sales revenue, asset accumulation, and returns on capital were presented in Table 6 below.

Table 6: Perceived Compliance with Government Taxation Policy

	Mean	Std. Deviation
Income Tax Policy		
SMEs have information on how much tax, when to pay tax, where to pay and mode of tax payment	4.29	.527
SMEs pay tax when it is convenient for them to pay	1.81	.975
The tax payable is economical to SMEs	4.33	.942
The government either increases or decreases tax rate at its own discretion	4.44	.623
There are diverse taxes imposed on SMEs	4.01	.725
VAT Policy		
The business usually charges VAT on all goods and services to the purchaser	4.23	.920
We normally charge VAT whenever we issue a certificate in respect of services	4.33	.733
VAT is usually levied on part or full payment of our supplies	4.14	.790
The business has a VAT compliance certificate	3.72	1.083
The business has never been penalized for failure to submit VAT returns	4.03	.930
The business has complied with VAT requirements by installing an ETR machine	4.08	.798
The business maintains up-to-date business records at all times	4.30	.891
Presumptive Tax Policy		
Non requirement of returns filing is an incentive	4.59	.560
Elaborate business records are not necessary	4.10	.886
Payment of levies is straight forward hence the business does not hire professional consultancy services	4.21	.677
Levies are only charged when the business is operating. Hence allows for momentary closures of business	4.10	.947

Perceived Effects of Government Taxation Policy on Sales Revenue : Respondents' perceptions of effects of government taxation policy on SME sales revenue were measured using five items. The mean responses to all the items were approximately 4 indicating that most of the respondents perceived government taxation policy to have an adverse effect on their sales revenue. In particular, respondents agreed that the regressive nature of taxes on SME reduces their revenue base m=4.09, SD = 0.804), that the uncertainty of taxes paid by SMEs Interferes with their inventory cycles leading to breaks and jumps in their tax remittances and reduced revenue base (M=4.30, SD= 0.89); that most SMEs do not hold portfolio in their operations and are thus prove to higher risks of taxation leading to weak sales revenue (M=4.56, SD=0.563); that government taxation policy on SME does

not consider much the scale of operation and this adversely affects their sales revenue (M= 4.06, SD =0.866); and that taxation policy fails to deal with pricing aspects meaning that it does not focus on selling price of SME thereby lowering sales revenue (M=4.26, SD=0.746). As depicted in Table 7. Largest variation was 0.891 while the smallest was 0.563 which confirms that the taxation policy is viewed negatively in as far as sales revenue is concerned.

Table 7: Perceived Effect of Government Taxation Policy on SME Sales Revenue

	Mean	Std. Deviation
The regressive nature of taxes on SME reduces their revenue base	4.09	.804
The uncertainty of taxes paid by SMEs interferes with their inventory cycles hence breaks and jumps in their tax remittances and reduced revenue base	4.30	.891
Most SMEs do not hold portfolio in their operations and are thus prone to higher risks of taxation and hence weak sales revenue	4.56	.563
Government taxation policy on SME does not consider much the scale of operation hence adversely affects their sales revenue	4.06	.866
Taxation policy fails to deal with pricing aspects and hence does not focus on selling price of SMEs and lowers sales revenue	4.26	.746

Assumptions of linearity : The strength of linear relationship among variables was assessed using Pearson product moment correlation. Correlation was used since being a measure of the degree of association; it was likely to identify independent variable dimensions that provide best predictions. As shown in Table 8, correlation among the three government taxation policy dimensions (Income tax, VAT, presumptive tax) were significant and ranged from r= 0.271) (p<0.01) to r= 0.378 (p<0.001). Correlation between sales revenue and VAT policy (r= -0.125, p> 0.05) and between sales revenue and presumptive tax policy (r= 0.114, p> 0.05). Thus linearity assumptions were satisfied.

Table 8: Intercorrelation Matrix

	Income Tax policy	VAT Policy	Presumptive Tax Policy	Sales Revenue
Income Tax policy	1			
VAT Policy	.271**	1		
Presumptive Tax Policy	.378**	.280**	1	
Sales Revenue	.153*	-.125	-.016	1

**. Correlation is significant at the 0.01 level (2-tailed). *.
 Correlation is significant at the 0.05 level (2-tailed).

Assumptions of independence of Errors : The Durban-Watson statistic was used to examine if prediction of dependence errors were correlated. As presented in Table 4.20, The Durban –Watson statistics for the regressions of sales revenue (1.897), was within the 1.50 and 2.50 interval suggested by Tabachunck and Fidell (2001), the errors were adjusted to be uncorrelated. The assumption of independence of errors was therefore met.

Testing the effect of government taxation policy on sales revenue of SMEs : The study sought to establish the effect of government taxation policy on sales revenue of SMEs. It was therefore postulated that there was no significant statistical relationship between government taxation policy (income tax, VAT and presumptive tax) and sales revenue of SME. Results of the hierarchical regression analysis are presented in Table 9.

Table 9: Results of regression analysis: Effect of Government Taxation Policy on Profitability and Growth of SMEs

Predictors	Operational costs		Sales revenue	
	Model1	Model2	Model1	Model2
	Std.	Std.	Std.	Std.
Step1:				
Controls				
Management	.042	.044	-.035	-.023
Employment	.084	.078	-.035	-.059
Step2:				
Tax. Policy				
Income		.129		-.217*
VAT		.309**		-.160*
Presumptive		-.206*		.341**
R^2	.010	.183	.003	.055
Adjusted R^2	.002	.158	-.009	.0026
ΔR^2	.010	.173	.003	.0052
Δ F-value	0.828	11.669**	0.230	3.019*
Durbin-Watson		2.487	1.897	

**p<0.01, *p<0.05

From table 9, it is seen that both management of the business and number of the employees had no significant effect on operational costs (R2 value = 0.013). On adding the government taxation policy variables, the R^2 value = 0.013). On adding the government taxation policy variables, the R^2 of operational costs increased to 0.183 indicating that the three dimensions of government taxation policy contributed an additional 17.3% to the variance in operational costs. Similarly, the R^2 of sales revenue increased to 0.055 showing that the three dimensions of government taxation policy contributed an additional 5.2% to the variance in sales revenue. The R^2 of asset accumulation increased to 0.082 meaning that government taxation policy contributed an additional 7.1% to the variance in asset accumulation. The R^2 of return on capital increased to 0.079 indicating that government taxation policy contributed an additional 6.7% to the variance in return on capital.

Of the three government taxation policy dimensions, income tax policy was found to be negatively and significantly-0.217,p<0.05) and related asset accumulation ((β-0.245,= p<0.01). It was also positively and significantly related to return on capital (β -0=.192, p<0.05). However, it had no significant relationship with operational and significantly related to on capital (β =0.156, significantly p<0.05) related it to sales was net revenue ($\square$ =0.160, p<0.05), but was not significantly related to asset accumulation ($\square$ =0.059, p=0.05). Presumptive tax policy had positive and significant relationships with sales revenue ($\square$ =0.341), p=0.01); asset accumulation ($\square$ =0.311, p=0.01); and return on capital ($\square$ =.264, p=0.01). It however had a negative relationship with operational costs ($\square$ =0.206, p<0.05).

The researcher (Table 9) concluded therefore that government taxation policy had a significant impact on profitability and growth of SMEs through positive and negative effects on profit and growth dimensions (operational costs, sales revenue, asset accumulation, return on capital).

Summary of Hypothesis Testing Results

Results of the hypothesis testing are presented in Table 10. The results indicated that the four hypotheses were statistically significant.

Hypothesis 1: Sales revenue is independent of government taxation policy
Hypothesis 2 tested the effect of government taxation policy (Income tax policy, VAT policy, and presumptive tax policy) on sales revenue of SMEs. The standardized coefficients for Income tax ($\square$ =0.217, p<0.01) were all statistically significant. This shows that the hypothesis was not supported. The standardized coefficient of -0.217 for income tax implies that a 1% increase in income tax policy is likely to reduce sales revenue by 0.217%; similarly, the negative coefficient of -0.160 for VAT means that a 1% increase in VAT is likely to reduce sales revenue by 0.160%. The positive coefficient for presumptive tax of 0.341 indicates that a 1% increase in presumptive tax policy is likely to increase sales revenue by 0.341%.

Table 10: Summary of Hypotheses Testing

Hypothesis	β-value	Result
Ho2 Sales revenue is independent of government	-0.217*	**Not supported**
taxation policy: Income tax policy	-0.160*	**Not supported**
VAT policy	0.341**	**Not supported**
Presumptive tax policy		
Presumptive tax policy		
VAT policy		
Presumptive tax policy		

**p<0.01, *p<0.05

III.   CONCLUSION AND RECOMMENDATION
The study sought to establish the relationship between government taxation policy on sales revenue of SMEs in Kenya. the study has pointed out demography information of the respondents, Kenya. From the findings of the study, the R2 of sales revenue increased to 0.055 showing that the three dimensions of government taxation policy contributed an additional 5.2% to the variance in sales revenue. The researcher concluded therefore that government taxation policy had a significant impact on sales revenue of SMEs that is positive and negative effects. Small and Medium Enterprises should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth and profitability. Additionally it will help SMEs get better equipped to survive in a competitive market.

IV.   ACKNOWLEDGEMENT

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