EFFECT OF COVID-19 TAX RELIEF ON THE FINANCIAL PERFORMANCE OF TOP 30 SMALL AND MEDIUM ENTERPRISES IN KENYA

BY

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DECLARATION

I do hereby declare that this is my original work and has not been handed over to any institution of higherlearning for examination.

Signed **…………… ……………..** Date **………22-11-2021………….**

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This research project has been submitted with the approval as the university supervisor.

Signed Date **…   November 22, 2021**

DR. HERRICK ONDIGO

DEDICATION

My special dedication to my parents, my unconditional friends, my colleagues and church members for your prayers and impact that transformed me to who I am today. The exposure to wisdom, knowledge and skills has created a new perspective of life in me. Thanks Again!

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TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

GDP   Gross Domestic Product

GoK   Government of Kenya

KNBS   Kenya Bureau of Statistics

KRA   Kenya Revenue Authority

MFI   Monetary Finance International

R&D   Research and Development

SMEs   Small and Medium Sized Enterprises

SPSS   Statistical Package for Social Sciences

EPZ   Export Processing Zone

ABSTRACT

This research sought to study sought to study the effect of Covid-19 Tax Relief on the

performance of SMEs in Kenya. The research looked at 30 SMEs using descriptive research design. The study was informed by the current prevailing circumstances that caused economic turmoil in the Return on Assets of SMEs in Kenya. The study focused on 30 SMEs using the descriptive research design with the help of SPSS. The research established the level of association amid the predictor variables was within the normal range. Furthermore, the data followed the normal distribution pattern while the association amid the regressor and the regressed variable was significant. The research also found that the study followed the linearity association. The findings from the study was reinforced by the regression model with the R value of 0.495 which indicate that the three variables of the study were informed by the 49.5%. Therefore, the variables that determine financial performance that were not captured in the study were 50.5%. The study found out positive association amid Covid-19 personal Tax Relief and Return of Assets of SMEs in Kenya. Furthermore, there was positive association between Covid-19 Tax relief and the Return on Assets of SMEs in Kenya. However, the research findings indicated negative association that linked the Covid-19 Tax relief and Return on Assets. The performances of SMEs were measured by the return on Assets. In a nutshell, the study was crucial for decision making, benchmarking and fact-finding. A unit change in either Covid-19 personal relief or covid-19 corporation relief will bring about a same direction change to ROA while a Unit Change in Covid-19 VAT tax will bring about a same change but to opposite direction. This study advocate for formulation of policies that fuels the growth.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The Covid-19 pandemic that spread worldwide had adverse effects on the globalization, international trades and affected many countries such as Kenya. The macroeconomic in totality experienced financial distress due to immense disturbance on the financial and product-based market. The SMEs accounts for the largest firms in Kenya economy. SMEs were shaken and had to absorb great shocks to withstand the great challenges. The initial case of Covid-19 was reported on 13th March 2020 in Nairobi, Kenya (Gok, 2020). The government initiated drastic measures to reduce the spread of the disease. The timely control measures include curfews, banning of public gatherings, closings learning institutions, working at home, social distance and wearing of facemasks to curb the spread of the disease. The movement in and out of Nairobi and Mombasa was prohibited to control the rampant spreading of the Covid-19 (ILO, 2020).

The theories underpinning the study are: Ability to pay theory proposes that the payment of tax must be basedon the financial capability and ability. The greater the income the greater the tax bracket and vice versa. (Jones &Rhoades, 2011). The greater the wealth, the greater the ability to pay taxes.Equal sacrifice theory demonstrates justice and equity in tax administration. The equal sacrificeprovides clear compass on tax administration that all the taxpayers must be subjected to same percentage or ratio of tax. New-Keynesian taxation theory states that the incremental in the governmental spending must be done at the lower rates to enhance the demand and reinforce theeconomic transformations.

Globally, governments have set up control and preventive mechanisms to safeguard the population under threat. In many developed nations, the preventive, control, and monitoring measures have been put in place to ensure the continuance of business. The predominant areas such SMEs have been considered precisely in these well-orchestrated efforts to curb the Covid-19 Pandemic. SMEs efforts aimed at the coordinated policies and multilevel governance matters to ensure the business continues their operation (Bosio, 2020).

The coronavirus pandemic has caused severe damages in business and human life. It has inflicted pain to the business operation, and it is the greatest imbroglio in public health. It has generated economic obstruction, halt the production, collapse of economy, and break the

consumption causing erosion in consumption as well as confidence.

Furthermore, stock exchanges respondednegatively to immense uncertainty. The large-scale loss of life and severe human suffering globally triggered the confusion in SMEs Marketplace (English & Liang 2020). SMEs make upto 80% of the worldwide business (World Bank, 2020). The great challenges worldwide causedby the Covid-19 pandemic cannot be ignored and need comprehensive research on SMEs.

1.1.1Tax Relief Measures

The government undertook several monitoring and control measures to curb the spread of covid-19. The government initiated economic recovery stimulus at the same time mitigated against covid risks. The profound measures include reduction of personal income tax from 30% to 25%, 100% relief to low-income earners. The government instituted low VAT from 30% to 25%, reduced VAT rate and lowered the turnover tax rate for all SMEs. SMEs records more than 75% of the total firms in Kenya Ministry of Finance (2020).

The tax relief was a major stimulus to the collapsing economy. The collapse of many SMEs ledto low revenues to the government and the subsequent government actions. The termination of employment contracts, skyrocketing increase in basic commodities prices demanded for the intervening policies structured to safeguard the SMEs from Collapsing. The SMEs were rampantly affected by Covid-19 and the circulation of money, transactions and free flows of goods were disrupted.

SMEs are very important in both the supply and demand sides. SMEs' financial performance affects the GDP. The impact is felt on the supply side where firms pass through several predicaments and the reduction on the workforce. The demand experiences dramatic and drastic fading of demand as well as diminishing SMEs revenues hence causing, solvency, financial distress, and illiquidity. The great effect of the pandemic has spill-over to financial markets anderoded the investors' confidence. The transformations underway have stagnated while the revenues, incomes and market entry have experienced brunt of a reduction OECD (2020). Tax relief are interventional measures that reduces the tax liabilities. It boosts the business and individuals from adverse challenges resulting from hard economic decisions (IMF, 2020). OECD (2020) postulated the parameters for measuring tax relief to be; refundable credit to the tax payers. The analysis of refunded credit should be compared with various years to arrive at

a conclusive decision. OECD (2020) further advocated for measuring tax relief through government forgone revenues. However, (IMF, 2020) promoted the use of credit earned at that specific period. Nevertheless, (Cobham, 2012) that the real change in the flow of revenue indicated tax relief. This study will optimize forgone tax revenues by the Kenya Revenue Authority. This is very crucial in determination of impact of covid-19 tax relief measures.

1.1.2 Financial Performance

Financial performance is the parameter for measuring the company's health. The organizations use the financial performance to balance-check the going concern and the value addition to the shareholders' wealth (Bartik, 2020). It is a great metrics that utilizes past, present, and futuristic financial status to shape the future. Financial experts use the financial performance to track the well-being of the companies. It is very critical in establishing and profitability and liquidity. Moreover, the corporate governance, large companies, small business uses it to assess their solvency, efficiency, and valuation (Parker, 2020). The financial performance of SMEs can be gauge through Return on Assets. Return on Assets is an integral parameter for measuring the profitability. Sound financial health of every firm ensures that SMEs are operational in the unforeseeable future. It portrays the ability of SMEs to prudential manage resources, generate wealth, and add value. It depicts the economical, efficient, and effective utilization of resources. Financial performance fuels the SMEs towards realization of their goals and objective of maximizing shareholders' wealth. Tax relief is special method that reinforces the stagnant SMEs(Rufus, 2020).

Ministry of Finance (2020) initiated Covid-19 economic stimulus that addressed the SMEs challenges and aimed at putting them back to the right track. Profitability is a great yardstick that demonstrates the SMEs progressive and prospective picture. The great uncertainty experienced has mandated the government to create and innovate the socio-economic measures to enhance living standards. The government stipulated roadmap and economic stimulus (CBK, 2020).

The zero-rating of products, provision of basic amenities, fiscal incentives, reallocation of budget to support key government function reinforced the stability though no economic progress made. The economic severity caused financial distress, illiquidity, and solvency in SMEs. SMEs

staff lost jobs for instance in US 20Millions jobs were lost in the month of April 2020, 11Million of this were SMEs while in New Zealand experience drastic reduction of 4% in the same period World bank (2020). SMEs have less persistency in absorbing cost shocks. Nevertheless, the firmmay face great challenges in terms of cost for mitigation, control and monitoring resulting fromtransformational shift to teleworking (Portes,2020).

1.1.3 Tax Relief and Financial Performance

Uwaume & Ordu (2014) studied tax incentives in Nigeria and concentrated on its impacts on theeconomic growth. The conclusion indicated the positive association amid tax incentives and economic growth. Holban (2007) researched on the benefit derived from tax reliefs and incentives on the societal development. The conclusion indicated the negative correlation. The study further postulated that tax relief measures are narrowed in looking into the business well-being without the overall consideration advantages that could accrued in the whole society whenever such incomes are utilized to the provision of public goods. However, the tax. Covid-19 Tax relief resuscitated the collapsing SMEs (English & Lian, 2020). The government policy on tax relief, allowed the continuous improvement of the SMEs. It ensures that SMEs' business operations were safe and sound despite the bedeviling pandemic that caused disturbance to the spontaneous SMEs' growth, innovations, and entrepreneurship.

A well-functioning tax relief provided effective driving force that sustained the business (Bachuza, 2020). Moreover, it was yardstick that supported employee retention, continuous implementation of projects and financial performance. Although the profit, sales and access to market were below par, tax relief created an assurance of prospective growth.

The financial performance was scale up by the government interventions. Covid-19 Tax relief aimed at offsetting the gloomy-ridden impacts of Covid-19 on the economy. Furthermore, the individual incomes relief promoted free cashflow circulation to ensure the financial market is well operational. The Covid-19 pandemic damaged SMEs with short-term demands and needs that needed urgent attention. The government also protected the borrowers from distressing default. Its objective is to improve financial performance through efficiency, inclusive markets, and tax relief policies.

The closer look at the Covid-19 impact in Kenya illustrated economic growth effect, financial

market effect and Currency volatility. CBK predicted reduction in economic growth from 4% to3.4% resulting from decline in demand hence the GDP was affected significantly (CBK, 2020).The financial market experienced immense financial shocks that recorded a decline of 23.5% investors. The currency volatility experienced a voluminous reduction in foreign inflows and other currency inflows. The Kenya shilling depreciate very much against dollar (MFI, 2020)

1.1.4 Small and Medium Enterprises in Kenya

SMEs in Kenya are defined as a business that sustains one 1-99 employees (Public Finance Management Bill, 2019). Furthermore, there turnover should not exceed Kenya Shillings Hundred Million. Despite the robust function of the SMEs in driving the economic growth, it isindicated that it contributes approximately 40% to the Kenya GDP. Most SMEs are financed by the individuals' owners. The registered Micro, small and Medium Enterprises are approximately1.56Million, while unregistered one are 5.85 million totaling to 7.41 million Kenya Associationof Manufacturers (2020). It is very important in generation of revenue to the government.

SMES contributes significantly to the economy. It creates more than 80% of the total jobs in Kenya. Furthermore, it plays a critical and predominant role in economic growth. The integral objective is to improve financial performance through efficiency, inclusive markets, and tax relief policies. SMEs promotes healthy competition through continuous showcasing their entrepreneurial activities and innovation. The increase in SMEs increases the source of income to the government (KRA, 2020). According to CBK (2020) SMEs are among the major sources of taxation in Kenya. Moreover, it employs 30% of all employees annually. Micro and Small Enterprises with less than 10 people have a maximum income of Kshs. 500,000 and maximum of 49 people while small enterprises have a maximum of Kshs. 5000,000. Kenya is dominated by Micro and small enterprise that ensure productivity.

Technological innovations have increased the number of SMEs in the market. This is demonstrated through proliferation and liberalizations that has mandated the inter-firm transfer of knowledge, skills, and innovations. The integration's incremental has turn the whole world tolike a village with the faster dissemination of innovation and quick transfer of information. SMEsenhance the competition hence the driving force towards financial stability (Rufus,

2020).

Tax relief in the SMEs reinforces inter-firm link hence increase efficiency and effectiveness (IMF, 2020). KRA (2019) postulated the economic growth is driven taxes collected from SMES. SMEs harness the untapped talents, knowledge and skills that are paramount in product improvement and advance quality productions. SMEs are crucial in global market progress and instrumental in equity in the necessities of the marginalized areas. Kenyan government has periodically initiated the measures that stimulates the SMEs growth (GoK, 2020). The role of SMEs in economic development and foreign exchange earnings must be met with commensurateefforts aimed transformation and financial performance. It is very important to foster SMEs through tax reliefs that cushion against losses and unhealthy business environment.

SMEs is the driving engine in economic growth. It is the critical source of entrepreneurship, innovation, and disruptive creativity. Rufus (2020) indicated that shareholders' wealth maximization is the paramount objective of the firm. Business Daily (2020) illustrated that despite the many advantages in the SMEs sector, it experiences inadequate management, inaccessibility to credit and poor management. The financial muscles of SMEs are in their human capital, innovation, and creativity. The utilization of all these into productive opportunities and financial performance must be supported by tax incentives and tax relief measures (Aluonzi & Sumil, 2013). In rejoider Tee & Opoku (2016) indicated that taxation must be very simple and promotes the ability to pay principle. SMEs plays important role in employment and generation of government revenue their taxation method must be holistic and friendlier.

1.2 Research problem

Tax reliefs enhance businesses to develop, blossom and mature especially during hard economic conditions. The government must provide tax incentive and tax relief to encourage the firms to grow. Tax relief and incentives increases economic growth (Uwaume & Ordu, 2014). The government alignment of the policies to include the tax measures was aimed at stimulating the performance. The effective tax system must support the financial growth. The efficiency increases the start-up firms and boost the growth. Tax relief reinforces industrial growth and economic productivity (Rufus, 2020). Tilahun (2017) indicated tax relief increases the retained earnings that are important for re-investment, continuous growth, and GDP.

Tax relief reduces the SMEs burden by reducing their tax exposure. SMEs can utilize the amount for re-investment and access to global market. Furthermore, it ensures the continuous growth and provide holistic and non-interrupted returns (Anderson, 2012). The friendly government policies that protect the investors and SMEs creates serene environment for the start-up SMEs. The Tax relief leads to immense number of start-ups hence increases the financial performance (GoK, 2020). Tax relief stimulated the increase in the SMEs performance. Moreover, the productivity, efficiency, and effectiveness are realistic when friendly tax policies such as tax incentives and tax relief are in place.

The covid-19 brought more disaster to the growing economy. Covid-19 pandemic caused great challenge to SMEs and their financial performance (English & Lian, 2020). The Covid-19 disease disturbed the social life and led to drastic measures that reduces the working hours. SMEs was affected immensely since it needs constant attention and mitigation measures. Government policy on tax relief, enabled the continuous improvement of the SMEs. A well-working tax relief enhanced business operation (Parilla, 2020). Moreover, it was benchmark that encourage the generation of profit, employee motivation and financial stability.

The spontaneous reductions in revenues and profit created great uncertainties on the future of the financial performance of SMEs. The reduction in customers' footfall led to collapse and staggering SMEs. The financial distress exposed financial state of the economy and the financial well-being of SMEs. The huge risk of imminent failure and collapse of the SMEs led to formulation of stimulating policies (Bell, 2020). Personal income tax Relief, VAT Tax Relief and Turnover tax relief were initiated to protect SMEs from collapsing and total closure.

Sukumar & Grant (2011) indicated that friendly taxation on SMEs improves their financial performance and nurtures their growth and performance. Taxation creates revenue to the government, therefore, there must be a balance-check measure to ensure that it does not cause great challenges to the business.

The major industries obtained soft loans from the government to mitigate against risk and created new strategies to curb the prevailing conditions. The inadequate resources, loss of key personnel and new technological advancement to suit the social distancing and working from home (GoK, 2020). Previous research concentrated on effect of taxation on financial performance of SMEs Bachuza (2020). There is minimal research on the effects of covid-19 tax relief on the financial

performance of SMEs since Covid-19 is still new phenomena hence existing research gap. Therefore, this research will answer the question; What are the effects of the Covid-19 tax relief on the financial performance of SMEs in Kenya?

1.3 Research Objective

To assess the effect of the Covid-19 tax relief on the financial performance of SMEs in Kenya.

1.4 Value of the study

The beneficiaries of the study will be academicians, scholars, national and county government. Furthermore, SMEs, low-income earners among others will benefit from this research. The paramount purpose of this research is filling the existing research gap. It will be useful for the public in upholding the Covid-19 restriction measures to curb the spread. It will enhance the knowledge addition and dissemination of information. Furthermore, it will help national government in prompt disbursement of funds to combat the Covid-19 Pandemic. It will promote budget allocation based on urgency and importance.

The policy makers will use the study in formulation of mitigation measures. It is a critical document for a forensic analysis, forecasting and correcting variance. Moreover, the research assists the international institutions to come up with policies and framework for grants and loans.

The study will help the counties and national government in coming up with legislations and monitoring policies. The research improves the understanding and help worldwide scholars withreferences and knowledge.

This research provides numerous studies and describes the scientific mitigation measures to curb against Covid-19. It illuminates the changing knowledge that provides coherent and systematicproblem-solving measures. The elucidates the importance of knowledge continuity and areas offurther studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presented theoretical framework, literature review, empirical evidence, and research gaps. This chapter was very important in elucidating the foundation, policies and theories that enhanced the research. This chapter anchored the association between the previous studies, the scholarly presumptions and the current findings.

2.2 Theoretical framework

The study will be reinforced by Ability to pay theory, Equal Sacrifice Theory and Neo-Keynesian taxation theory. Ability to pay theory indicates the payment of debts based on capability while Equal Sacrifice theory stipulates for commensurate compensation on the sacrifice and efforts. Neo-Keynesian taxation theory spearheads the division of taxation objects as per the consumption, by taxing the final cost of the consumed product and by taxing savings only as a % of the deposit.

2.2.1 Ability to pay theory

The scientific theory is historical in nature embedded and developed by Jean Jacques Rousseau (1712-1778). It was reinforced by Jean Baptiste say (1767-1832). The theory has undergone great and tremendous improvement can have been used in taxation to shape the policies and regulation. The supposition demonstrated that income portrays the ability to spend. This is an indicator of taxes that should be levied.

The theory set up the fundamental on which progressive tax is founded. It illustrates that the higher the income the greater the tax bracket (Jones & Rhoades, 2011). The proposition of the theory portrays that in scenarios of higher wealth or greater income then there is greater affordability to make payments. Therefore, individuals in that brackets should be taxed greater than the personnel in lower tax brackets. The theory has been adopted in Kenya (KRA, 2019) through progressive taxation. Furthermore, the theory has built a paramount extensive and industrialized economies.

The theory does not clearly stipulate the VAT. The divergent economic impact is illustrated in

the situation of VAT where the proportionality is not applied. The individual with different incomes and revenues are subjected to equal VAT tax without the consideration of their ability. Jones & Rhoades (2011) posit that VAT is a regressive in nature and has smaller spectrum of an individual revenue even in cases of more income generated. The theory lacks the predominant measurement of equity of sacrifice (Busom, 2014). The theory assumes that it can measurable via absolute, proportionate and in some cases can be portrayed in the marginal terms. The theory does not support hard work, the higher the individual work for higher revenue and tax brackets, the higher the tax brackets. The theory has socioeconomic consequences that are related to economic state.

Tax relief include Personal income, VAT and corporation tax reliefs is an incentive to encourage the continuous production, efficiency, and effective operation. It provides a supreme financial shock absorber. The theory advocates for fairness and equality to ensure low-income earners are not misuse. The exception of low-income earner that is less than Kshs 24,000 in Kenya supported the theory (GoK, 2020). Moreover, the reduction of VAT from 16% to 14 and Corporation Tax from 30% to 25% was in harmony with ability to pay theory.

2.2.2 Equal Sacrifice Theory

The theory put forward the principle of justice and equity. The tax system must at all times promote, equity, equality and justice. The equal sacrifice theory was postulated by Mill et al (1848). The theory provided clear road on tax administration. Taxation of wealth, revenues or transactions must be subjected to fixed percentage of taxation hence the higher the income the higher the tax (Musgrave &Musgrave, 1989). The classical economists state the equal sacrifice principle to promote fair and just taxation methods.

The equal sacrifice notion had three ranks. The initial measure contains the submission of the taxpayer. The taxation should match with the absolute degree of utility that is obtained from the taxpayer's income. The subsequent equal sacrifice parameter demonstrates that the taxpayer must at times sacrifice an equivalent proportion of utility to the benefit derived. The last measure of equal sacrifice indicates that the taxpayer must give out an equivalent level of utils as that of the income unit.

The theory is subjective and limit the scope of state in protecting the marginalized. The

21

assumption that every taxpayer should contribute equal amount can mishandle the poor. Furthermore, there is ethical concern on interpersonal contrast of utilities (Costa and Pereira, 2014). However, the modern economists have put forward the marginal utility. The proposition states that marginal utility of income decreases as individual's income increases. The higher income earners experience higher rate of taxation. On the other hand, the lower income individuals are subjected to lower tax rates.

Equal Sacrifice Theory has some shortcomings, Musgrave & Mugrave (1989) illustrated the modern tax dispensations resulting from the progressive taxes. VAT means all individuals are taxed equally irrespective of wealth, incomes, revenues, and financial wealth. The theory is subjective since the utility derived is difficult to measure quantitatively. The theory presupposes interpersonal contrast of utils which is quite impossible in the current market. Furthermore, the diminishing income-marginal utility cannot be quantified both cardinally and numerically henceprogressive taxation is applied unpredictable. It is cumbersome to execute equal benefit theory for most public goods and services. This is due to the believe by the citizens that they are not inclined to shoulder for the publicly delivered service. It is utilized mostly in the excellent funding of roads, railways, airports

The equal sacrifice promotes the governmental measures that increases the production of the public goods to the citizens. It enhances the efficiency and effectiveness of the government through provision of services. The theory puts equal benefit paradigm that encourages equality in the benefit derived from the government utilities. The paradigm analytical tool is important for benchmark promoting the efficient service delivery, continuous production and improve in goods and services as per the taxes collected. The taxpayer can therefore see the value for their money. Equal Sacrifice theory encourages Personal Tax Relief, VAT tax relief and corporate income relief is a motivation to individuals and firms to continue discharge their mandates. This is a great incentive that ensure the continuance operation leading to greater pool of governments' revenue.

2.2.3 New Keynesian Theory of Taxation

The theory was formulated by British Economists John Maynard Keynes while trying to understand the Great Depression in 1930s. The theory stipulates the increment in governmental expenditures while at lower rates to encourage the demand and stimulates the economic transformations. The theory has been transformed in the 20th Century. The theory helps in

examining global markets and reinforces the need to have prudential expenditures.

The new Keynesian theory examines the behavioural factor in prices. The study focuses on the determinants of changes in prices. Furthermore, the study considers market inefficiencies resulting from asymmetric information. The theory stands to reinforce the deficit government's expenditure supporting the expansionary economic policy.

The new Keynesian Economics experienced significant effect in the year 1990-2008 financial crisis. However, the theory experienced mass failure in observance of the changing financial patterns. The pattern has not been logical, systematic, and coherent as per the Great Recession that during December 2007 to June 2009 (IMF, 2019).

Contrary, the theory assumes that all the economic agents, firms, and households are rational and can make judicious decisions, however, it is not possible due to asymmetric information. Furthermore, the proposition that firms set their prices and welcome a difficulty on sales, is impossible since creates price rigidity. The economic agents may not possess wide spectrum ofinformation therefore cannot change the prices. This will ensure that the expectations remain atthe status-quo. Thereby, it will encourage price rigidity.

The theory is paramount in handling market competition and inefficiency. The inefficiency experienced in the market account for the government intercede. The government stimulus includes the covid-19 tax relief measures which concentrated on personal tax relief, VAT tax Relief and corporation tax relief. In the market competition, the greater the wages, the greater the productivity. The decrease in wages may lead to high employees' turnover. The employee can re-look for the better salaries. This is great loss to the company especially the skilled personnel. This will be very cost to the company in rehiring and retraining the new employees. The recruiting process is very expensive and challenging. The theory reinforces the concept of sticky prices via menu cost that may cause market inefficiency.

2.3 Determinants of financial performance of SMEs

The determinants guiding the study will be personal tax relief, VAT Relief and Turnover tax relief. Financial performance is measured by return on assets.

2.3.1 Covid-19 Personal Tax Relief

Personal tax in Kenya is also called Pay As you Earn. The tax is direct taxation and the incident, and the impacts fall on the same person. Kenya taxation of individuals are done in their place ofwork and submitted to Kenya Revenue Authority. It is noteworthy that the employer acts on behalf of KRA (KRA, 2020). Taxation of individual generates revenues to the government, foster economic stability and reinforces the continuance production (Segal, 2020). The productivity of the nation can be well demonstrated on the taxation system supporting economical collection, effective use, flexible, equitable and diversified (Devereux & Maffini, 2012).

The ability to withstand the numerous challenges portrays a self-sustaining economy. The SMEStaxes the employee personal tax and submit to KRA (KRA, 2019). SMEs are mandated to act onbehalf of KRA and to value accuracy, transparency, accountability, and due diligence. However,SMEs employee more than 75% of the workers in Kenya, hence the tax relief is a shock absorber.Furthermore, it promotes the employees to continue to discharge their duties and responsibilitieshence increasing performance of SMEs (GoK, 2020).

Unfriendly taxation can subject the employee to financial distress, may leave the job and concentrate on other areas. This is great loss of skills, knowledge, expertise, and human capital that was being utilized in SMES. In nutshell, good, efficient, and effective taxation system promotes balance, diversified and simplified taxation method. In Kenya the PAYE for people earning less than Ksh, 24,000 per month were exempted from taxation during 2019-2020 to shoulder the employee from hard economic status. The employee earning more than Ksh. 25,000scale had their tax reduced from 30% to 25% to support the Kenyan employees (GoK, 2020).

2.3.2 Covid-19 VAT Tax Relief

VAT are applied equally irrespective of financial status. It is an indirect tax where the incidence and the impacts fall on different individuals. Indirect taxes are transferable, and any party can shoulder the liability (Ibadin & Oladipupo, 2015). VAT levied in each area of production. Individuals must register for VAT and offer periodic records to ensure they are not double-taxed.

SMEs is the major contributor of revenue to the government. The revenues are from taxations such as VAT among others (GoK, 2020). SMEs have been foreign exchange earner. They have promoted the local innovation and provided the employment to the majority. SMEs have promoted entrepreneurship (Parilla, 2020).

The formal and informal sectors should execute the taxation requirement as per the Kenya Revenue Authority Acts (Ndekwa, 2014). VAT is supreme source of revenue which may sink the performance of SMEs to oblivion. VAT is crucial in the financial performance of SMEs. SMEs can work at the maximizing their shareholders' wealth when the VAT is friendly. Tax administration must be equitable, flexible and support the going concern of the SMEs.

The government of Kenya introduced the new taxation as a relief against the covid-19 pandemic. The directive and execution process were targeted at reducing the standard VAT rate. The rate was declined from 16% to 14%. This was an immense measure that increased affordability, hence the people could purchase the goods at the cheaper prices. In Summary, friendly VAT canstimulate growth and financial performance of SMEs.

2.3.3 Covid-19 Corporation Tax

Corporation Tax is also known as Turnover tax. The companies submit their percentage of earning to KRA as per the regulation set (KRA, 2019). Companies submits their corporation taxes while SMEs submit their Turnover Tax. Turnover tax is chargeable on gross sales (KRA, 2019).

Taxation has far-reaching consequences performance of the business. SMEs taxation reduces thefinancial money available for the investments. Numerous scholars have advocated for tax holidays for the SMEs. The SMEs operation must be aligned with the economic financial performance (Rufus, 2020). SMEs provides the information of productive economic.

The growth of SMEs is paramount in the economic development. According to Rufus (2021) small enterprise business can grow whenever the serene environment is reinforced. The numerous methods of enhancing SMEs growth include, infrastructural development, good environment, funds financing, licensing, good working environment, friendly taxes, Tax incentives, and favorable government policies (Ranti and Kingsley, 2016). The tax relief measures that reduced the corporation tax from 30% to 25% and Turnover tax from 3% to 1%

indicates the reduction of predicaments and obstructions hence healthy for the business growth and financial performance (Everest, 2010). The Turnover Tax Relief can stimulate the stability of SMEs.

2.4 Empirical studies

The subject of tax relief is very crucial topic for research. Globally, Rapuluchukwu et., al (2016) assessed the effect of tax incentives on the productivity. The research was done in Cameroon's firms. The study utilized the survey and concentrated on tax exemptions, import duty exemption and export. The research was a four-year exercise running from 2011 to 2014. The study concluded that government involvement in the taxation of firms enhances an integral part of development. However, the research cannot be generalized in a Kenyan set-up.

Ordu & Owaume (2014) established the impact of tax incentives in Nigeria. The study focused on economic development in the time from 2004 to 2014. The research used questionnaires involving 51 respondents. The key respondent ranges from management to taxpayers of chosen companies in Nigeria. Manufacturing firms were selected since they were easier. The research optimized descriptive research design and concluded that tax incentives enhance the companies to mature earlier.

The regional studies, Sulaiman & Yusoff (2010) established a positive correlation between the Tax reliefs and financial performance of SMEs. The high taxation has resulted to heavy borrowings by the SMEs to fill the gap and to encourage the continuance operations. The research covered a period of 5years (2004-2009) and utilized descriptive research design. The research found out that profitability is crucial for the continuity of business and the supportive measures must be put in place to enhance their productivity. Contrary, SMEs have experienced the financial inadequacy and needs continuous financial support measures including the reliefs. However, Kenyan economic system has different taxations and policies hence there is necessity for the research on tax relief and financial performance of SMEs.

Rufus (2020) carried out the research on tax incentives and their implications on the financial performance of SMEs. The research sourced data through primary method via questionnaire. The population of the study factored in 1539 SMEs in Nairobi Town Centre. The research optimized the descriptive research method and came up with positive correlation between the tax incentive and financial performance. The research concluded that tax incentives aid the

business in realizing goals and objectives. It is paramount measure in stimulating growth, employment, financial sustainability, and performance. However, the research did not incorporate Covid-19 tax relief measures hence there is need for more exploration.

Kinyua (2020) focused on the effects caused by the tax incentives measures on the financial performance of Saccos in Kenya. The research utilized the descriptive research method and came up with positive association between taxation incentives and financial performance. This study was a rejoinder to previous study (Onyango, 2015) postulation that the prudent growth of SMEs results from good taxation measures that fosters the business growth.

Kabira (2011) studied tax reforms and tax revenues. The area of the study utilized the secondary data obtained from KRA. The period of the study included 10years period subdivided into two. The two parts were five years before reforms and five years after reforms. The study sought to do comparison to arrive at the conclusive findings. The research used descriptive design. The data analysis used correlation method.

Maxwell (2015) studied the impact of tax incentives on the financial performance. The research used Five-star Hotels. The study used quantitative descriptive design. The use of questionnaire to arrive at conclusive result with the respondents being the management accountants of the seven hotels. The data analysis optimized regression and concluded on the strong positive link amid tax incentives and financial performance. The research recommended for the governmentalintervention on taxation to ensure productivity and efficiency.

Amos (2012) studied the effects of integrated taxation management on large corporation. The data was collected via structured questionnaires. The population of the study composed of thirty-three top corporate taxpayers in Kenya. The research used descriptive design and multiple regression analysis for the 589 large corporation which had turnover of over 800 million. The study was reinforced by the systematic sampling. The research established that the likelihood ofauditing, penalty measures, proficiency on taxation influenced tax compliance.

Klemm & Parks (2009) studied the impacts of tax incentives in investment promotion and tax healthy competition. The study covered a period ranging from 1985 to 2004. The research crisscrossed more than forty Caribbean and American states. The research used census method, descriptive analysis, and multiple regression. The study concluded that tax holidays had positive

association with investment promotion. Nevertheless, this research cannot represent the entire world and especially the Kenyan set-up.

Numerous studies have focused on tax incentives, Covid-19 pandemic, and financial performance of SMEs. None of the global, regional, and local research has focused on the effect of Covid-19 Tax Relief and financial performance of SMEs. Therefore, this study seeks to fill the existing research gap.

2.5 Conceptual Framework

A conceptual framework refers to a diagrammatical representation portraying the presumed correlation between variables. The paramount target of a conceptual framework is to show the association among predictor and predicted variables. The conceptual framework that highlights the independent (personal Tax Relief, VAT Tax Relief and Turnover Tax) and dependent variable (Financial Performance) will be created to demonstrate the existing relationship

The conceptual framework for this study is demonstrated in Figure 2.1

Independent   **Dependent**

Covid-19 Tax Relief   **Financial performance**
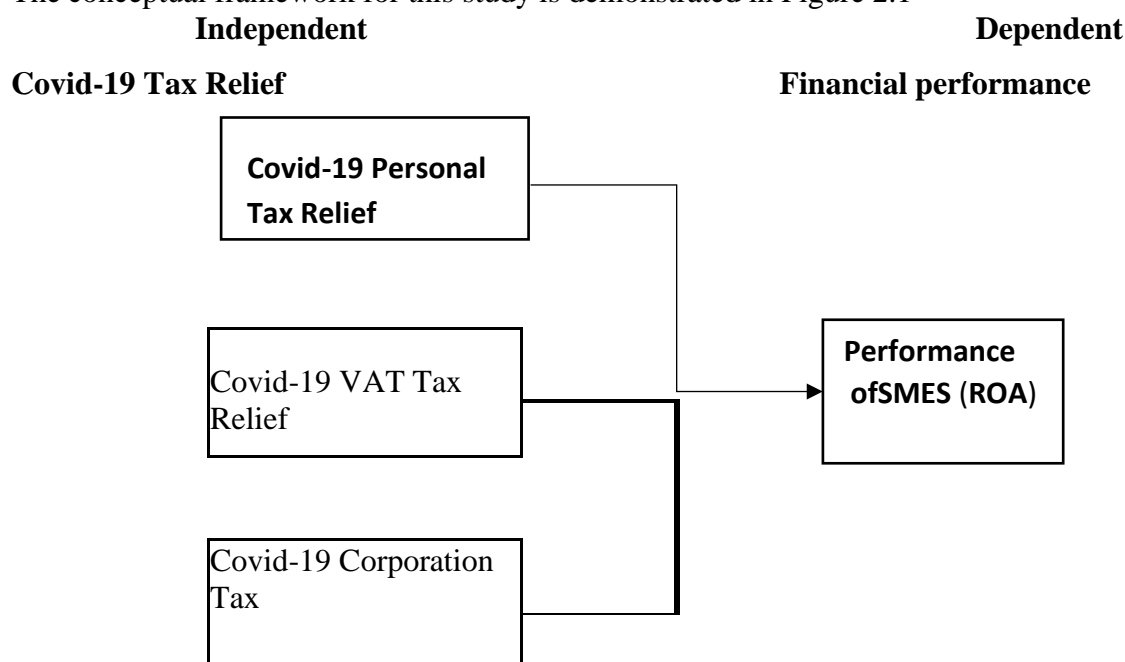
Figure 2.1 Conceptual Framework (Source: Researcher, 2021)

2.6 Summary of Literature review and Research gap

Several countries have speeded up the productive efforts that support SMEs continuity and enhances the advance work processes, increase digitalization and searching for new markets. New markets are possible through advance technology. The policies are paramount in addressing urgent problems that need immediate corrective measures OECD (2020). The structural way thatenhances growth is reinforced by bold policies aimed at innovation, creative and reengineering markets Anderson, J. et al. (2020). Teleworking and digitalization have promoted the continuityof SMEs.

The innovated technological way strengthens post-crisis competitiveness and their ability to provide solutions to the problems posed by megatrends. The technological advancement in the fast-changing market is very critical. Technology elucidates the business continuity. Technologyprovides coherent, systematic, and logical knowledge that is paramount emerging globalization.Tax relief and regulatory amendment enhanced in systematic improvement in the SMEs. The policies map out the course of entrepreneurial support, absorbs economic shocks and understanding the severe effects of covid-19. The policies are recovery stimuli that can be utilized in safeguarding SMEs.

Many scholars have demonstrated the financial performance with wide spectrum. Galy & Sauceda (2014) opined that tax relief supports business financial performance and growth. The progressive taxation method usually has a positive correlation with financial performance. Financial is a subjective parameter demonstrating the financial health of the organization. SMEs are paramount in poverty eradication in the global market (Bartik, 2020). Deterioration of financial performance of SMEs can collapse the economy. Further, the same study illustrated that SMEs accounts for 68% job risk in Australia. ILO (2020) shows that the jobs are at stake and the majority of population risk unemployment this was because of unfavorable taxation. Welter, Wolter and Kranzusch (2020) postulated for tax relief measures to encourage SMEs' growth. The performance of SMEs improves the economic growth, livelihood and increases theproductivity.

Quader and Hassan (2016). The taxes should be channeled to more innovative investments with greater returns. SMEs are special in provision of quality goods and services. The continuous improvement of SMEs can be explained in tax relief measures.Taxes exposes SMEs to financial torture, hence, a challenge to financial growth. Draconian taxation measures subject SMEs to unrealistic targets, tax evasion poor financial performance.

The empirical evidence provides comprehensive overview that SMEs should not be subjected tosimilar taxation and situation with large firms. Large firms have the financial muscles and shock financial absorbers. Excessive taxation must be done away with, instead tax holidays, incentives and tax relief must be incorporated to enhance the business growth, increased innovation, and creativity.

The several research have focused on tax incentives, Covid-19 pandemic, and financial performance of SMEs. None of the global, regional, and local research has focused on the effect of Covid-19 Tax Relief and financial performance of SMEs. There is a great knowledge gap in the Covid-19 Tax relief and financial performance of SMES. This research offers a road map onthe effect of Covid-19 Tax Relief measures on the financial performance of SMEs.

Table 2.1: Summary of Literature review and Research gap

Author the study	Focus of the study	methodology	Findings	Knowledge gap	Focus of the current study
Rufus (2020)	Tax incentives and financial performance	Descriptive research design	Tax incentives have positive correlation with financial performance	Covid-19 tax measures and financial performance	Covid-19 tax measures and financial performance of SMEs in Kenya
Kinyua (2020)	Effects of tax incentives on financial performance ofsaccos	Descriptive research Design	Tax incentives have positive association with the financial performance of saccos	Covid-19tax incentives measures and financial performance	Covid-19 tax relief measures and financial performance of SMEs in Kenya
Onyango (2015)	Effects of tax incentives on financial performance	Descriptive	Taxation incentive has positive correlation with performance	Covid-19 tax relief measures and financial performance	Covid-19 tax relief measures and financial performance of SMEs in Kenya

CHAPTER THREE: RESEARCH METHODS

3.1 Introduction

The chapter provides a roadmap on methodology utilized while undertaking the research. It isa masterplan providing detail information on the layout. This chapter is very important in providing a strategy on the findings. Furthermore, it provides sample size, data collection instruments and techniques for data analysis. It provides the pattern for collecting data on Covid-19 tax relief and financial performance of SMEs in Kenya.

3.2 Research Design

The study utilized a descriptive research design. This research adopted a descriptive in providing information on the current prevailing issues. Descriptive research provides a clear picture of an accurate profile without any manipulation (Saunders et al, 2009). Descriptive approach builds the research by enhancing in-depth knowledge and understanding the tax relief measures and financial performance of SMEs. The design provides comprehensive and contextual views. Research design elaborates the phenomena traits of a specific, settings while eliminating biasness and promoting reliability (Mugenda & Mugenda, 2003).

3.3 Target Population

The study focused on the SMEs registered in Kenya. MSMEs in Kenya are estimated at 7.41 million with 1.56Million registered and 5.85 million not registered. The population of the study will consist of top 30 SMEs rank in 2021 by the government of Kenya. Population refers to a group of elements, items, events, people, things, or objects taken for measurement (Mugenda & Mugenda, 2003).

3.4 Sample design

This research used systematic random sampling. It is convenient, exhaustive and provide sufficientinformation. Systematic sampling technique is chosen to eliminate biasness and give equal opportunity to respondent of being selected (Kothari, 2017). Polit and Beck (2003) narrates thata sample is a part of target population under study, it is the selected respondent on behalf of the population. The sample size of the present study consisted of 30 SMEs top ranked in Kenya 2020 (Business Daily, 2020). Mugenda and Mugenda (2008), that when the target population is known, then 10-20% is appropriate for the study.

3.5 Data Collection

The data collection was collected from secondary methods. Secondary data was compiled from the Kenya Revenue Authority and Kenya National Bureau of Statistics and World bank database. Data will be sourced from previous statistics, analysis, financial reports, and statements from spanning from 2018 to 2020. The data collected will be reviewed to ensure itis valid, reliable, and measurable (Creswell, 2013). Kothari (2004) posit that research design provides solution to both qualitative and quantitative data problems. Burns & Groves (2003) illustrated that research design minimizes the disturbance and eliminates impediments.

The data was reviewed, edited for meaning, coded, and interpreted. Stokes & Bergin (2006) stated the method chosen must be compatible, efficient, and effective. Therefore, this method has been chosen since the information is both qualitative and quantitative in nature.

3.6 Diagnostic Test

The researcher utilizes the linearity test to establish the association. It used the scatter graph to establish linearity and utilize regression to test the coefficient. The multicollinearity utilized Variance Inflation Factor. Normality test to assess thedistribution and was determine by the help of histographs, and auto-correlation to test relations. Correlation analysis was optimized in establishing degree of association amid tax relief measures and financial performance of SMEs.Multicollinearity was used to determine inter-link amid the two or more predictor variables that is personal tax relief,VAT tax relief and Turnover Tax in the SMEs. The test is targeted at establishing statistical measures, completeness, relevance, and accuracy. The test determines diagnostic a statistical measure of testing the accuracy. Inferential statistic was used to determine the level of significance in this study.

3.7 Data analysis

The data analysis utilized content analysis and SPSS to come up with accurate, relevant, and up to date information on the effect Covid-19 Tax Relief on the financial performance of SMEs. The complete raw data was reviewed, edited, coded, and analyzed to come up with logical, systematic, and prudent findings. Content analysis promotes the relevance, completeness, and coherent analysis of composition of objects (Hsieh & Shannon, 2005).

Diagnostic test and analytical model were key in determining the relation between independent and dependent variables. Descriptive analysis while optimizing graphs, tables and

charts was very crucial.

3.7.1 Empirical Model

Empirical framework is crucial in data analysis. An empirical model used portrays a linear regression. It is predominant to quantify the variables comprehensively and intensively. The measurable variable must be analyzed and tested to show the association.

Resnik (2003) postulated that empirical model is a yardstick that blueprint the relationship. A regression model shown below

$$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby

Y= Financial Performance of SMES (ROA).

A_0=y intercept of the regression. The constant variable.

X_1= Covid-19 Personal tax relief was measured as the percentage of aggregate personal tax relief to the total aggregate personal income in the SMEs

X_2= Covid-19 VAT Tax relief was measured as percentage of aggregate VAT Relief to aggregate Assets of SMEs

X_3= Covid-19 Corporation income tax relief/Turnover Revenue was measured as the percentage of Turnover tax relief to the total SMEs turnover.

ε= error term

3.7.2 Inferential Statistics

The researcher intends to determine the existing relations between the independent variable (Personal Tax relief, VAT Tax Relief and Corporation Tax Relief) and dependent variables (Return on Assets). The conceptual framework, regression and structured analytical model are paramount. Regression will be used in establishing degree and nature of between predictor and predicted variable (Ocharo, 2019). Moreover, the F-Test was undertaken. Values. $P \leq 0.05$, and $P > 0.05$ was interpreted for statistical significance, and insignificance, respectively.

CHAPTER FOUR: DATA ANALYSIS, RESULTS, AND FINDINGS

4.1 Introduction

This chapter was very important in the presentation of findings. It blueprints the various analysis from regression, diagnostics, and correlation among others. It formulates the crucial yardstick that is anchored by analytical calculations to arrive at the facts-finding. The study elucidates logical and systematic results that informed the study. It includes the descriptive statistics and regression. The research is very important in building an important source for knowledge.

4.2 Regression Diagnostics

The study analyzed linear regression diagnostics in order to provide the verifiability whether the data met the minimum threshold that inform the research. The diagnostics test undertaken included the linearity presumptions, normality test and homoscedasticity. The study was to determine to full all the requirement for the analysis that anchor the findings, presentation and interpretation.

4.2.1 Multicollinearity Test

The research explored the statistical presumptions that anchored the findings. The regression diagnostics assumed insignificant multicollinearity between pairs of variables. The independent variables Covid-19 personal relief, Covid-19 VAT tax relief and Covid-19 Corporation relief were tested for significance multicollinearity. The variance inflation (VIF) were used in the diagnosis, with correlation matrix used for further test.

Table 4.1: Variance Inflation Factor

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Covid-19 Personal Relief	.782	1.279
Covid-19 VAT Tax Relief	.395	2.534
1 Covid-19 Corporation Relief	.456	2.194

a. Dependent variable ROA

The table above shows that the VIF values were 1.279, 2.534, 2.194 for Covid-19 personal relief, Covid-19 VAT tax relief and Covid-19 Corporation relief respectively. The values are less than 10.00 meaning that there was no significant multicollinearity between these variables. Correlation between two independent variables should be less than 0.5 for linear regression to be reasonable. Otherwise, the pair of variables would have been considered to have Multicollinearity problem.

4.2.2 Linearity Test

A Linear regression presumes linear distribution of data. The linearity expounds the existing association amid the outcome variable and predictor variable. This assumption was tested using ascatter plot to show us the linear distribution of data.

Scatter graph on Covid-19 personal relief and ROA
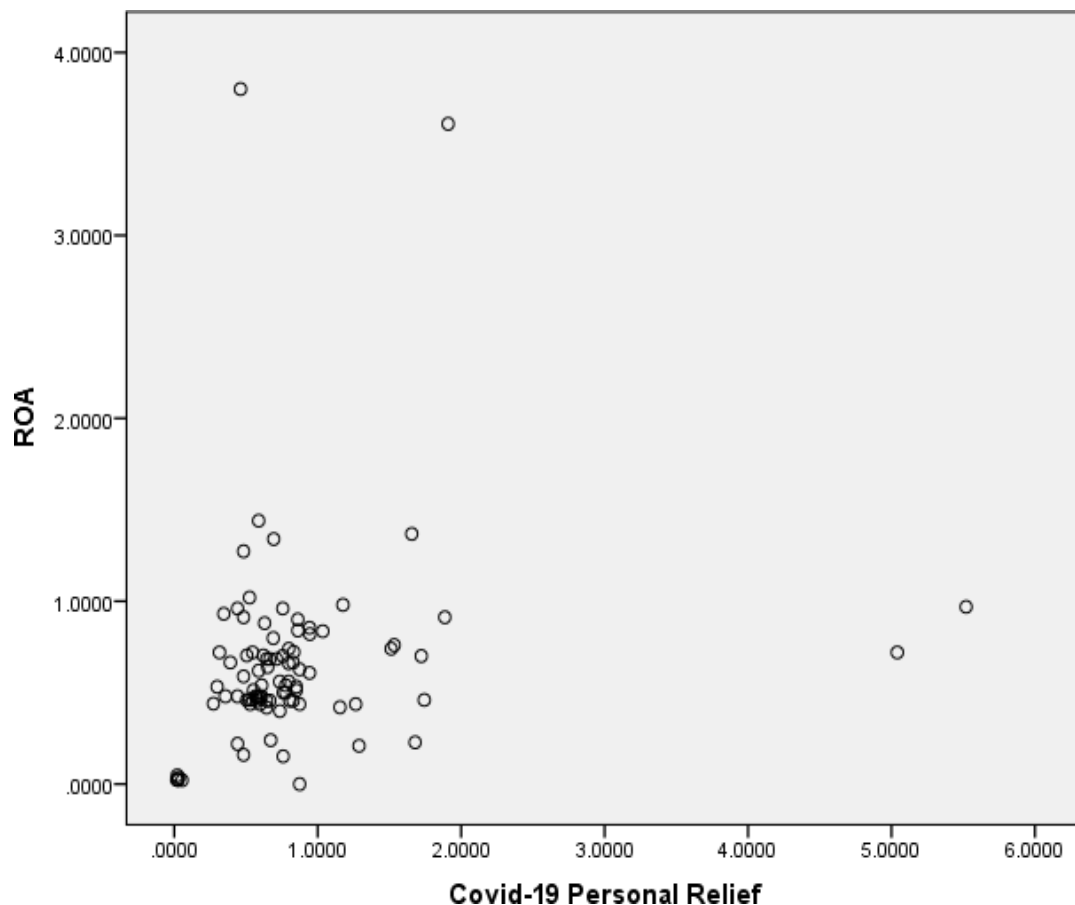
Figure 4.1: Scatter graph on Covid-19 personal relief and ROA

As illustrated by figure 4.1: Covid-19 personal relief is linear distributed to ROA. This is demonstrated from the scatter plots which lie in a more or less straight line. It is therefore possible to linearly regress ROAon Covid-19 personal relief.

Scatter Graph on Covid-19 VAT tax relief and ROA
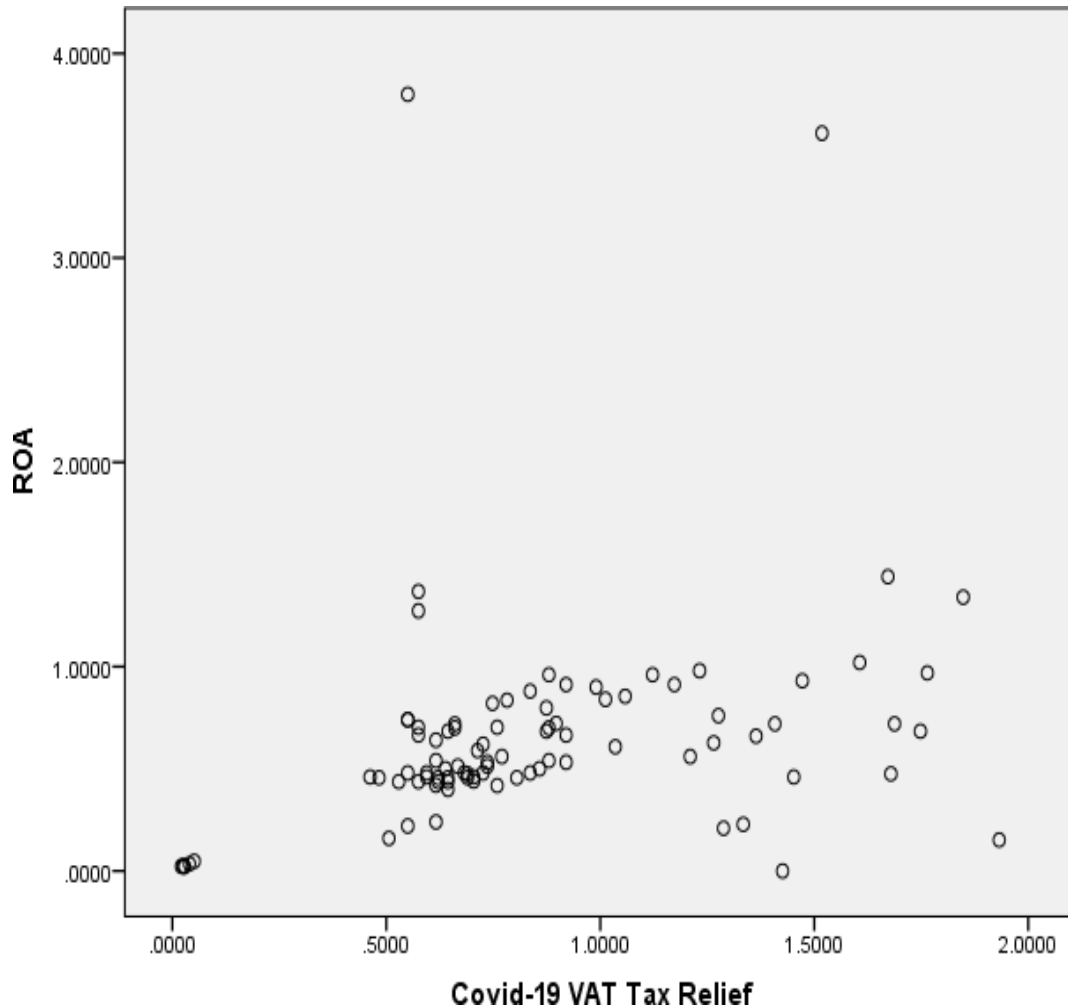
Figure 4.2: Scatter Graph on Covid-19 VAT tax relief and RO

As per figure 4.2, Covid-19 VAT tax relief are linear distributed to ROA. This is demonstrated from the scatterplots which lie in a more or less straight line. It is therefore possible to linearly regress ROA on Covid-19 VAT tax relief. The scatter graph was very important in analyzing the correlation that investigate the association that built the Return on Asset and Covid-19 VAT Tax Relief. The statistical assumption was in concurrence with the findings of this research. This is important milestone in informing the further analysis and the research.

Scatter Graph on Covid-19 Corporate Relief and ROA
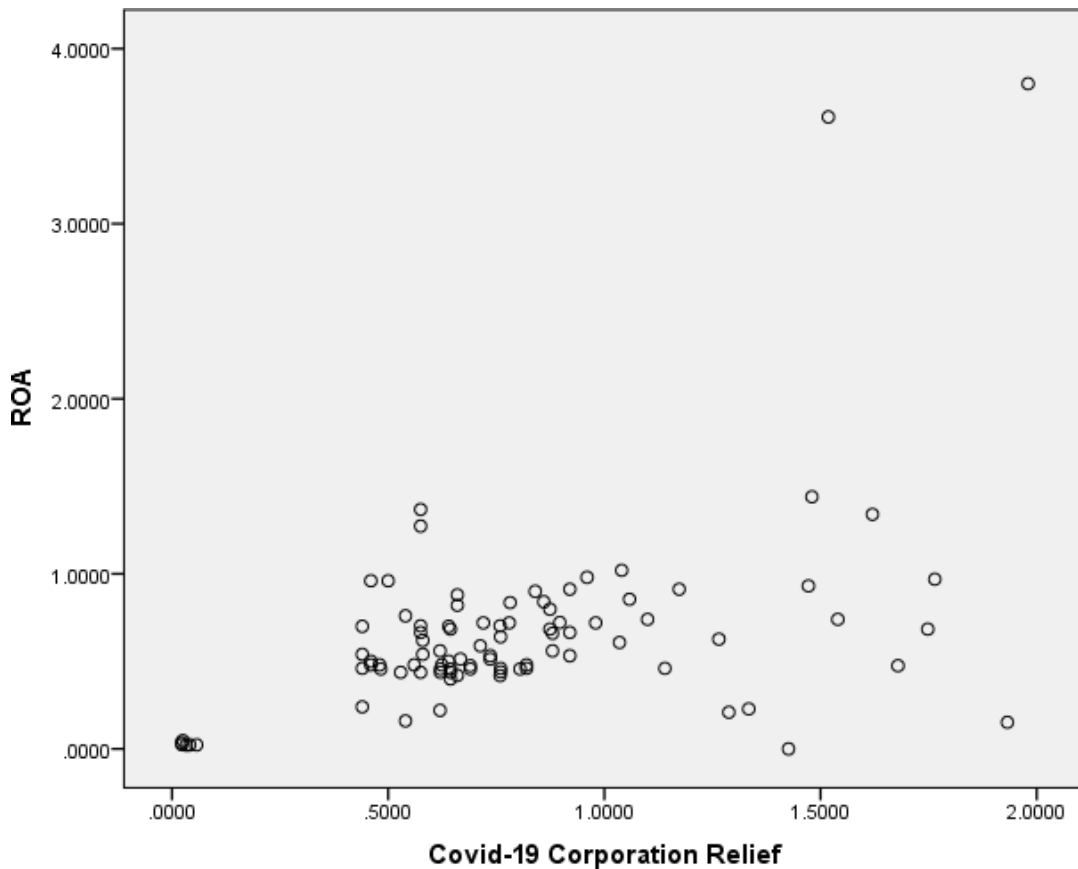
Figure 4.3: Scatter Graph on Covid-19 Corporate Relief and ROA

Figure 4.3 demonstrates that Covid-19 corporation relief and ROA are also linearly distributed. This is because more than two points can lie in a straight line. All other points are distributed near each other.

The scatter graph was very important in establishing the existing relationship. The study was promulgated by the need to meet the statistical threshold that are important in the realization of the objectives. The findings indicated by the scatter graphs met the statistical assumptions that informed the preceding analysis. The study sought to establish the effect of Covid-19 Tax Relief in the performance of SMEs in Kenya.

4.2.3 Normality Test

Linear regression assumes a normal distribution of data. The test was done using histograms shown below.

Covid-19 personal relief
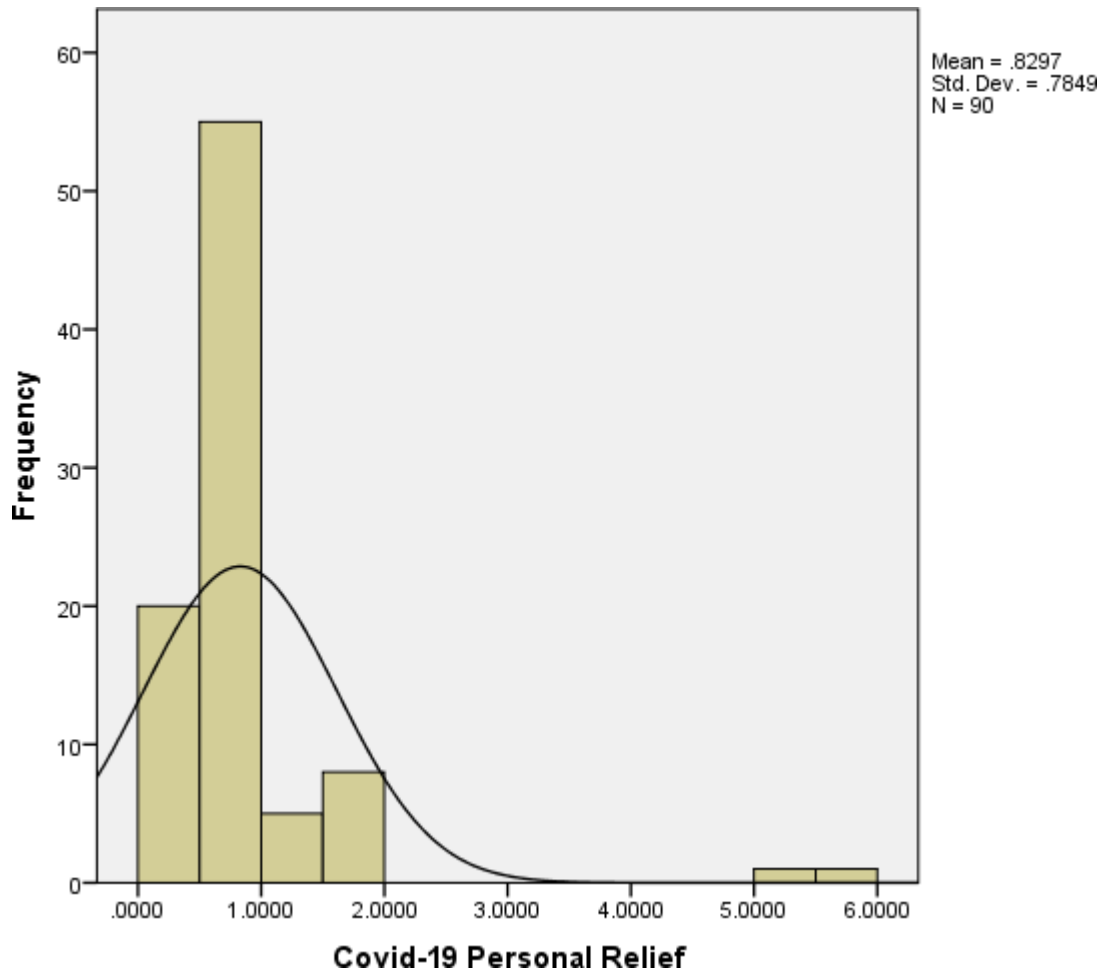
Figure 4.4: Covid-19 personal relief

The study findings postulate that normalcy in the distribution. The normal distribution curve is slightly tailed. The covid-19 personal relief rate is normally distributed.

Covid-19 VAT tax relief

Figure 4.5 illustrate that data distribution form a bell shaped curve meaning that the covid-19 VAT tax relief rate was normally distributed. The findings are in concurrence with presumption of statistical studies which advocates for normality in the distribution in order to obtain the realistic and valid results. It advocates for the far-reaching results, presentation and interpretation.

Figure 4.5: Covid-19 VAT tax relief

Covid-19 Corporation Relief
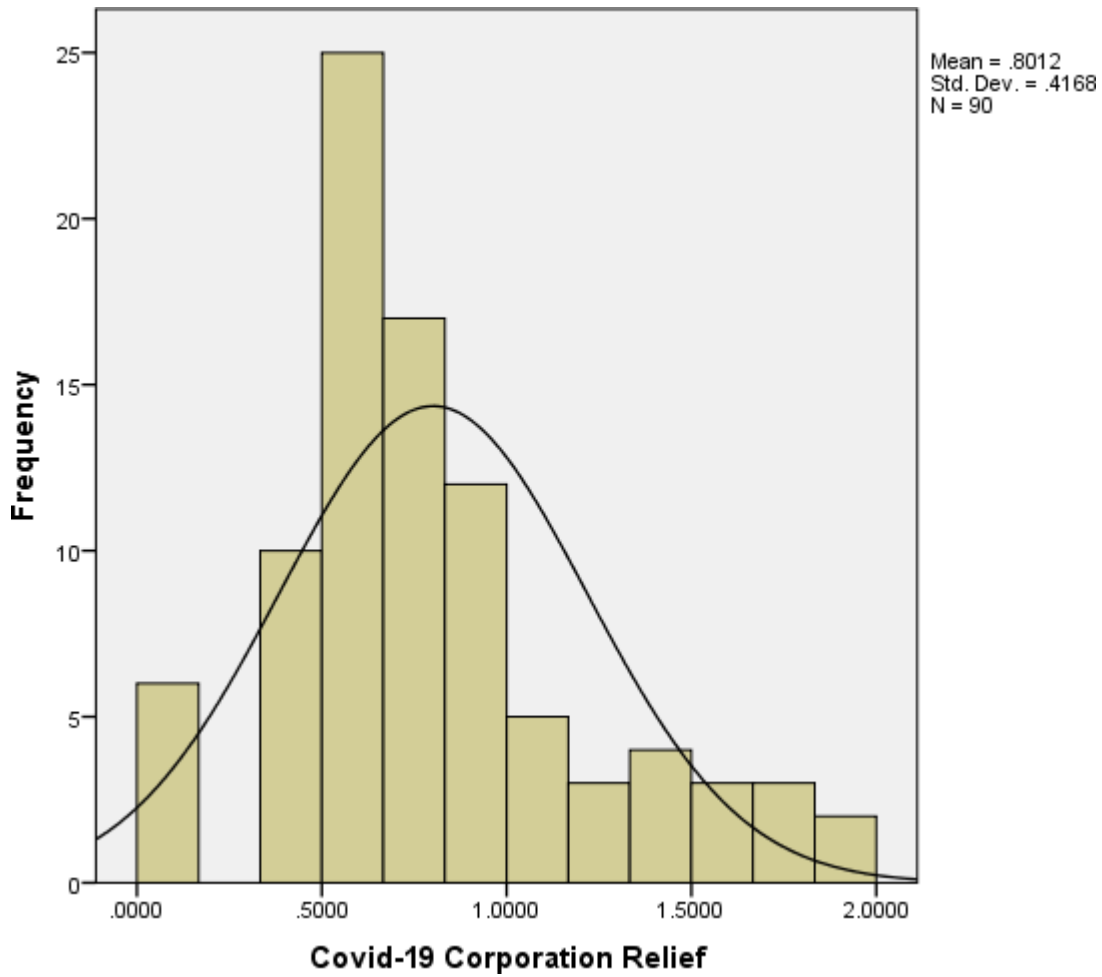
Figure 4.6: Covid-19 Corporation Relief

The research sought to assess the normality distribution of Covid-19 Corporation Tax relief. The study finding has been summarized in the histogram above figure 4.6. The data distribution forms a bell-shaped curve meaning that the covid-19 corporation relief rate is normally distributed.

4.3 Descriptive Statistics

Table 4.2: Descriptive Statistics

|	N	Range	Minimum	Maximum	Mean		Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error	Statistic	Std. Error
ROA	90	3.8000	.0000	3.8000	.655844	.0578696	.5489995	3.888	.254	20.235	.503
Covid-19 Personal Relief	90	5.5030	.0170	5.5200	.829742	.0827409	.7849487	4.257	.254	22.439	.503
Covid-19 VATTax Relief	90	1.9110	.0210	1.9320	.852983	.0450935	.4277942	.531	.254	.216	.503
Covid-19 Corporation Relief	90	1.9580	.0220	1.9800	.801157	.0439333	.4167882	.776	.254	.844	.503
Valid N (listwise)	90										

From the table above Return on assets (ROA) had a minimum of zero implying that at least one of the variables under study did not pay or was exempted from tax relief. The mean of ROA is 0.65584 representing 65.58%, this implies that the ROA among the covid-19 reliefs tends towards 65.58%. The standard deviation of ROA was 0.5489995, this represents 54.90% deviation from the mean.

The Covid-19 personal Relief was administered to the employees to assist them in tough economic challenges. The personal tax relief was reduced from 30% to 25% and has been summarized in the statistical data. As seen also, Covid-19 personal relief had a minimum of 0.0170 meaning that the lowest personal relief rate in the period under study was 1.70%. The highest personal relief stood at 5.52 representing a range of 5.50. The mean covid-19 personal relief was 0.829742, implyingthat personal relief tended towards 82.97% over the period under study.

The VAT Tax Relief was initiated to stimulate the economic growth while providing holistic development of the SMEs. Covid-19 VAT tax relief had a minimum of 0.0220 meaning that the lowest tax relief during the period was 2.22% while the highest was 1.9320. The range of VAT tax relief stood at 1.9110. The mean of covid-19 VAT tax relief was 0.852983 implying

that VAT tax relief tended towards 85.29% over the period under study.

The government introduced Covid-19 Corporation Tax Relief to cushion the SMEs from facing the financial distress. The study was spearheaded by various financial distress that had faced SMEs. The government investigated the welfare of the SMEs since it employed more than 80% of the total employees in Kenya (CoK, 2020). The findings indicated that Covid-19 Corporation Relief had a minimum of 0.0220, maximum of 1.9800. It had astandard 0.4168 representing 41.68% deviation from the mean.

4.4 Correlation Analysis

Correlation analysis signifies the degree to which two or more variables relate. A positive correlation indicates that a change in one variable leads to the change in other variables in the same direction. Variables are said to be negatively correlated when a change in a variable brings about a change in the other variable in the opposite direction.

Table 4.3 Correlation

		ROA	Covid-19 Personal Relief	Covid-19 VATTax Relief	Covid-19 CorporationRelief
				Correlations	
ROA	Pearson Correlation	1	.196	$.290^{**}$	$.478^{**}$
	Sig. (2-tailed)		.064	.006	.000
	N	90	90	90	90
Covid-19 Personal Relief	Pearson Correlation	.196	1	$.464^{**}$	$.306^{**}$
	Sig. (2-tailed)	.064		.000	.003
	N	90	90	90	90
Covid-19 VAT Tax Relief	Pearson Correlation	$.290^{**}$	$.464^{**}$	1	$.737^{**}$
	Sig. (2-tailed)	.006	.000		.000
	N	90	90	90	90
Covid-19 Corporation Relief	Pearson Correlation	$.478^{**}$	$.306^{**}$	$.737^{**}$	1
	Sig. (2-tailed)	.000	.003	.000	
	N	90	90	90	90

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

The Covid-19 personal relief, Covid-19 VAT tax relief and Covid-19 Corporation relief correlate each with ROA was +0.196, +0.290 and +0.478 respectively. The most significant correlation was noted between Covid-19 corporation relief and the ROA, with a correlation coefficient of 0.478 at a 0.01 significance level. Covid-19 personal relief and the ROA had a least positive correlation of 0.196 at a significance level of 0.01.

4.5 Regression Analysis

The study sought to determine the influence of predictor variable on the outcome variable (ROA). The model summary was used to determine the degree to which the three (Covid-19 personal relief, Covid-19 VAT tax relief and Covid-19 Corporation relief) jointlyexplained ROA.

4.5.1 Test of Coefficient

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.495[a]	.245	.219	.4852553

Predictors: (Constant), Covid-19 Corporation Relief, Covid-19 Personal Relief,

Covid-19 VAT Tax Relief

Dependent variable; ROA

The table above demonstrates that the coefficient of determination represented by the adjusted R Square was 0.245 representing 24.50%. The table further presents R=0.495 which postulates good projections of the predicted variable in the relation to three predictor variables. The findings indicate that the three variables for this study was 49.5% hence the 50.5% represented the variable that informed the Return on Assets but were not studied in this research. T Test is useful in the assessment of coefficient through usage of R^2 and the variance. The P Value from the illustration and the findings postulates a statistical significant.

4.5.2 Analysis of Variance

Table 4.6: Analysis of Variance

ANOVA

	df	SS	MS	F	Significance F
Regression	3	6.573984	2.191328	9.306079	2.15E-05
Residual	86	20.25065	0.235473		
Total	89	26.82464			

a. Predictors: (Constant), Covid-19 Corporation Relief, Covid-19 Personal Relief, Covid-19 VAT Tax Relief

b. Dependent variable; ROA

From the ANOVA table above, the significance p-value was 0.00002148 which is less than 0.01 and the F-ratio was 9.306079. This indicated that Covid-19 Corporation Relief, Covid-19 Personal Relief and Covid-19 VAT Tax Relief had significance influence on ROA.

Table 4.7: Model Coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.185	.120		1.539	.127	-.054	.424
	Covid-19 Personal Relief	.074	.074	.105	.994	.323	-.074	.221
	Covid-19 VAT Tax Relief	-.243	.191	-.190	-1.271	.207	-.624	.137
	Covid-19 Corporation Relief	.771	.183	.585	4.215	.000	.407	1.134

a. Dependent Variable: ROA

From the table of coefficients above we can generate our regression equation as

ROA = 0.185 + 0.074 Covid-19 personal relief-0.243 Covid-19V VAT Tax relief + 0.771 Covid-19 Corporation relief. This is captured in the equation as; $Y= \alpha_0+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+\beta_4X_4+ \mathcal{E}$ which was further replaced with the value established to show. $Y= 0.185+-0.074X_1+ -0.243X_2+.771X_3+ \mathcal{E}$

The regression above demonstrates that if all the independent variables were held constant ROA would increase by 0.185 representing 18.5%. A unit change in Covid-19 personal relief, Covid-19 VAT tax relief and Covid-19 corporation relief would lead to change in ROA by factors 0.771, -0.243 and 0.074 respectively.

4.6 Discussion of the Findings

The objective of the study was to determine the effect of Covid-19 Tax Relief measures on the performance of SMEs in Kenya. The findings postulate that an increase in one unit of Covid-19 Personal Relief led to an increase in the Return on Assets when all things are kept constant. Furthermore, an increase in one unit of Covid-19 VAT Tax Relief led to a decrease in the Return on Assets by 0.243 which is represented by 24.3%. An increase in the Covid-19 Corporation Relief led to increase in Return on Assets by 0.771 which is accounted by 77.1%. The study was crucial in determination of the current emerging issues. The findings of the research were in concurrence with previous studies that stipulated that Personal Tax incentive and corporate tax incentive has positive correlation with the performance of SMEs in Kenya (Bachuza, 2020). The data obtained obeyed the statistical assumptions of high degree of independence among the predictor variables. The study further displayed absence of

muticollinearity hence the data was good to provide indisputable findings. The data was crucial and quality for benchmark, forecasting and predictions. Quality data can be useful in benchmarking and decision making. It is crucial in establishing the key baseline, allow the SMEs to set goal and do proper forecasting.

The research findings demonstrated the R Square of 0.245 which was explained by 24.5%. The research presented R=0.495 which provided crucial forecasting and in cases of the predictor and the outcome variables. The findings show that the three variables were explained by 49.5% informing the Return on Assets. The findings further state that 50.5% represented unexplained variables.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter encompasses some detailed and summarized findings that informed the results. The study provides the conclusive findings and illustrate the yardstick, recommendations, areas of further focus and foundation of the research. The study generalized the findings and elucidates the drawbacks and pivotal point of the study.

5.2 Summary

The research sought to find out the effects of Covid-19 Tax Relief on the performance of SMEs in Kenya. The study undertook various diagnostic test before proceeding with the analysis. The normality, linearity, and distribution. The research optimized scatter graphs and histograms. The findings indicated the existed of linearity. Furthermore, the research found out the normal distribution since the data fall within the normal range. The correlation test showed insignificant correlation amid the independent variables.

The research optimized good use of descriptive study, level of association variance and ANOVA. The study aimed at conclusive findings. The This is captured in the equation as; $Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ which is well explained as $Y = 0.185 +- 0.074 X_1 + -0.243 X_2 + .771 X_3 + \varepsilon$. The summary indicated that a unitary increase Covid-19 Personal Relief led to an increase in the Return on Assets by 0.074 that is 7.4% while an increase in one unit of Covid-19 VAT Tax relief led to a decrease in Return on Asset by 24.3% represented by negative 0.243 and increase in one unit of Covid-19 Corporation Tax Relief led to an increase in Return on asset by 77.1% as stipulated by positive 0.771.

5.3 Conclusion

This research anchored the previous findings which emphasized the importance of tax incentive in the financial of SMEs in Kenya (Bachuza, 2020). The determinants of the study were Covid-19 Personal Tax relief, Covid-19 VAT Tax Relief and Corporation Tax Relief. The predicted variable was Return on Assets. The study was crucial in benchmarking and forecasting of the performance of SMEs in Kenya.

The researcher was undertaken as an eye-opener in towards holistic findings that inform financial performance. The research was motivated by the prevailing circumstances and

emerging issues surrounding the Covid-19. The findings opined the positive association amid Covid-19 Personal Tax Relief and Covid-19 Corporation Tax. However, the study came up with negative between Covid-19 VAT Tax Relief and performance of SMEs in Kenya.

The preceding studies indicated that tax incentive are crucial for progressive development and performance of business. Owaume (2014) findings in the Nigeria set-up stipulated that tax incentive are crucial for the performance. However, this research did not agree fully since the findings on the Covid-19 Tax relief showed a negative correlation. The study was very important in the far-reaching conclusion that informed the decision making.

These findings were agreement with findings of Rufus (2020) postulation that tax relief enhance the business growth. This research provides indisputable findings that enhance setting of goals, implementation of objectives that enhance the performance of SMEs. The study was done using the secondary data by looking at the secondary data. The data collected met the threshold need statistically for the analysis and the findings.

5.4 Recommendations for policy and practice

The research recommends the further tax relief measures, tax incentives and tax cushions to promote the growth of SMEs during the Covid-19 pandemic. The research advocate for further consideration of policies formulation to stimulate the growth. The researcher advocate for the risk mitigation measures among the SMEs. The government should formulate policies that gear the desired development trajectory. The government should come up with an independent institution for training, funding and supporting SMEs in Kenya.

The researcher advocates for incubation institutions and tax holiday to support SMEs below five years in operation. The institution will boost the business and accelerate the growth. It fuels the business growth and promote innovation. Furthermore, the government should formulate policies that protect SMEs against unfair competition from large companies while striving to broaden the tax base without increasing the taxes.

5.5 Limitation of the study

The research optimized secondary data which is historical in nature. Furthermore, the research period covered was minimal and needed since it is the current emerging issues. The researcher

found the crucial data for analysis and far-reaching findings. The research was important in obtaining solution that are crucial for government implementation of tax relief. The researcher a lot of efforts sourcing the data since the authorities was guided by privacy and confidentiality. However, due to the academic purpose and confirmation of the purpose of this study, the authority allowed the use of the data.

5.6 Areas of Further Research

The researcher advocate for the research on the same topic using questionnaires both quantitative and quality method. The information and findings can utilize both quantitative descriptive design and content analysis to arrive at a conclusive finding. This research advocate for more study on the effect of Covid-19 Tax incentives on the growth of economy, effect of government policies on the performance of SMEs and Effects of Tax incentives on the Return on Investments. This research will shade lighter. It will be eye opener in reaching at a conclusive finding.

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APPENDICES

APPENDIX I: TOP 30 SMES IN KENYA

1	True Blaq Limited
2	Quipbank Trust
3	Rural Distributors Enterprises
4	Orange Pharma LTD
5	Professional Digital Systems LTD (PDSL)
6	ASA Limited
7	Kurrent Technologies LTD (KTL)
8	Dakawou Transport Limited
9	Spic and Span Cleaning Services
10	Questworks Limited
11	Sheffield Steel Systems LTD
12	Bella Safaris LTD
13	Isolutions Associates LTD
14	Myspace Properties LTD
15	Melvin Marsh International LTD
16	Victoria Courts Trading LTD
17	Eco Steel Africa LTD
18	General Cargo Services LTD
19	Imexolutions Limited
20	North Star Cooling Systems LTD
21	Tropical Brands (Afrika) Limited
22	Maridady Motors LTD
23	Lachlan Kenya LTD
24	Promokings Limited
25	Audiovisual Control Systems LTD
26	Atlancis Technologies LTD
27	MC Builder Limited
28	Boogertman& Partners Architects
29	Retail Management
30	Polucion Services

APPENDIX II: DATA COLLECTION TOOL

ROA	Covid-19 Personal Relief	Covid-19 VAT Tax Relief	Covid-19 Corporation Relief
0.6600	0.7980	1.3640	0.8800
0.5600	0.7980	1.2100	0.8800
0.4400	0.2730	0.7040	0.7600
0.6200	0.5880	0.7260	0.5800
0.4800	0.4410	0.6820	0.6240
0.4800	0.5880	0.5940	0.5600
0.5400	0.6090	0.6160	0.5800
0.5000	0.7770	0.6380	0.6400
0.7200	0.5460	0.6600	0.7200
0.4800	0.6090	0.8360	0.4800
0.5600	0.7350	0.7700	0.6200
0.5400	0.7770	0.8800	0.4400
0.4600	0.5040	0.7040	0.7600
0.7400	0.7980	0.5500	1.1000
0.4800	0.5670	0.7260	0.8200
0.7000	0.7560	0.6600	0.6400
0.9600	0.7560	0.8800	0.4600
0.9600	0.4410	1.1220	0.5000
0.7000	1.7220	0.8800	0.4400
0.4800	0.3570	0.5500	0.4600
0.4600	0.5250	0.4620	0.8200
0.4600	0.5460	0.5940	1.1400
0.4200	1.1550	0.6160	0.6600
0.2400	0.6720	0.6160	0.4400
0.7600	1.5330	1.2760	0.5400
0.5000	0.7602	0.8580	0.4600
1.0200	0.5250	1.6060	1.0400
0.7200	5.0400	1.6874	0.7800
1.4400	0.5880	1.6720	1.4800
0.7400	1.5120	0.5500	1.5400
3.8000	0.4620	0.5500	1.9800
0.4600	1.7430	1.4520	0.4400
0.1600	0.4830	0.5060	0.5400
1.3400	0.6930	1.8480	1.6200
0.2200	0.4410	0.5500	0.6200
0.9800	1.1760	1.2320	0.9600
0.7200	0.3150	1.4080	0.9800
0.6400	0.6510	0.6160	0.7600

0.9000	0.8610	0.9900	0.8400
0.8400	0.8610	1.0120	0.8600
0.8800	0.6300	0.8360	0.6600
0.8200	0.9450	0.7480	0.6600
0.0000	0.8740	1.4260	1.4260
0.6270	0.8740	1.2650	1.2650
0.5320	0.2990	0.7360	0.7360
0.4180	0.6440	0.7590	0.7590
0.5890	0.4830	0.7130	0.7130
0.4560	0.6440	0.6210	0.6210
0.4560	0.6670	0.6440	0.6440
0.5130	0.8510	0.6670	0.6670
0.4750	0.5980	0.6900	0.6900
0.6840	0.6670	0.8740	0.8740
0.4560	0.8050	0.8050	0.8050
0.5320	0.8510	0.9200	0.9200
0.5130	0.5520	0.7360	0.7360
0.4370	0.8740	0.5750	0.5750
0.7030	0.6210	0.7590	0.7590
0.4560	0.8280	0.6900	0.6900
0.6650	0.8280	0.9200	0.9200
0.9120	0.4830	1.1730	1.1730
0.9120	1.8860	0.9200	0.9200
0.6650	0.3910	0.5750	0.5750
0.4560	0.5750	0.4830	0.4830
0.4370	0.5980	0.6210	0.6210
0.4370	1.2650	0.6440	0.6440
0.3990	0.7360	0.6440	0.6440
0.2280	1.6790	1.3340	1.3340
0.7220	0.8326	0.8970	0.8970
0.4750	0.5750	1.6790	1.6790
0.9690	5.5200	1.7641	1.7641
0.6840	0.6440	1.7480	1.7480
1.3680	1.6560	0.5750	0.5750
0.7030	0.5060	0.5750	0.5750
3.6100	1.9090	1.5180	1.5180
0.4370	0.5290	0.5290	0.5290
0.1520	0.7590	1.9320	1.9320
1.2730	0.4830	0.5750	0.5750
0.2090	1.2880	1.2880	1.2880
0.9310	0.3450	1.4720	1.4720
0.6840	0.7130	0.6440	0.6440
0.6080	0.9430	1.0350	1.0350

0.8550	0.9430	1.0580	1.0580
0.7980	0.6900	0.8740	0.8740
0.8360	1.0350	0.7820	0.7820
0.0480	0.0210	0.0510	0.0250
0.0350	0.0320	0.0400	0.0220
0.0240	0.0170	0.0250	0.0230
0.0230	0.0250	0.0210	0.0410
0.0230	0.0260	0.0270	0.0570
0.0210	0.0550	0.0280	0.0330