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Abstract

In a low income country such as Kenya, the role of SMEs is crucial in pushing the country's social economic development agenda. SMEs are highly perceived to be the accelerators of growth and innovation in the economy. However, SMEs face challenges with regard to financing, disproportionate regulatory burdens and competition failures compared to large entities. An attractive business environment is therefore important to minimize the impact of these obstacles and provide a level playing ground for firms of all sizes. Reduction of the tax burden for SMEs through issuing incentives frees up funds to be used in innovation and efforts to access global markets which ultimately steer business growth. The study's objective was to determine the effect of tax incentives on growth of SMEs in Nairobi City County Kenya. This study was guided by the normative theory and the political systems theory. The research employed the descriptive research design. The collected data was edited and coded and fed into the SPSS computer package to generate both inferential and descriptive statistics. The inferential statistics was undertaken by performing two regressions on each of the independent variable against growth. The study found p values of 0.000 at 95% level of confidence on the association between each of the independent variables (tax exemptions and investment allowances) on growth of SMEs in Nairobi, County. This shows that the model adopted for this study was significant and that tax incentives affect the growth of SMEs. From the data analysis, it was concluded there are various tax incentives that have been formulated to accelerate the growth of SMEs in Kenya although their practical implementation has not been fully realized. The study recommends that the development of policies by Kenyan government geared to accelerate the growth of SMEs should have the target beneficiaries input before implementation to prevent the formulation of impractical and undesirable policies. The government should also provide frequent trainings to SMES on the available incentives which they could leverage on to boost their growth

Key words: *Firm growth, investment allowances, tax exemptions*

1.0 Introduction

The use of tax incentives to promote the growth of Small and Medium Sized Enterprises (SMEs) is derived from the theory of net present value (NPV) decision principle. The rule states that organizations commit their resources to research and development and capital assets provided that the present value from an extra unit of capital spend on research and development exceeds or is equal to the cost of the extra unit. Therefore, it is considered that firm would consider tax implications while estimating the value of their expenditure decisions since any reductions in the cost of capital attributed to the tax policy results to increased expenditure (Hasson & Brokelind, 2014). When enterprises thrive, economic growth is realized, it is for this reason that the Kenyan government has put in place different tax policies such as the tax incentives policy to offer assistance to SMEs through promotion of trade and investment and hence growth of small businesses (Karingi, 2005).

According to Ranti, Uwalomwa and Chineye (2016), Kenyan small scale enterprises face challenges such as infrastructural deficiency, difficult and unfavorable operating environment, inadequate funds for financing, difficulties in obtaining licenses and trade permits, poor working environment and exploitative taxes in form of double taxation or high tax rate. High tax rate act as a disincentive to enterprises for expansion and investment since it leaves them with inadequate funds for re-investment which in the long run discourages investment, output levels and the overall firms' productivity (Ranti & Kingsley, 2016).

Tax incentives are special offerings by tax agencies granting preferential provisions to certain investments or taxpayers (Klemm, 2010). Tax incentive can also be described as provisions that grant any activity or person favorable conditions that vary from the normal tax legislation provisions (KRA, 2016). Tax incentive includes; tax holiday, accelerated depreciation, increased tariff to protect domestic market and loss carried forward for tax purpose. Keen (2013) further describes tax incentives as all the strategies and measures that provide for better tax treatment to specific activities or sectors.

In Kenya, tax incentives can be classified into either export promotion incentive or investment promotion incentive. Examples of investments promotion incentives are the investment deductions allowances which was implemented to accelerate investments in physical assets for instance machinery and industrial buildings. Industrial building allowances was for instance advanced to encourage investment in buildings used for industrial purposes. Others investment allowances were advanced to encourage investors to delve into the mining sector which was capital intensive. On the other hand, the export promotion incentives constitute three key schemes namely the EPZ, the Tax Remissions and Exemption Office (TREO) and Manufacture Under Bond (MUB). The purpose of EPZ's was to accelerate economic activity and FDI while TREO and MUB purely promoted manufacture for export (Githaiga, 2013).

Governments across the globe utilize tax incentive to promote economic activities and investment by enterprises, they introduce these incentives to boost some crucial sectors of the economy where they appear dormant or lacking completely (Kaplan, 2011). Incentives increase return on capital thus making investments more attractive and which increases the firm's profitability. Despite the above benefits, tax incentives are rated poorly in investment climate and have been reported to be redundant since the investments they purport to support would still have been executed without the incentives. Their fiscal costs is also high which reduces the opportunities for infrastructure, social support or public services requiring higher taxes on other undertakings (James & Sebastian, 2014).

1.1 Research Problem

In a low income country such as Kenya, the role of SMEs is crucial in ensuring that the country's social economic development agenda is achieved. SMEs are highly considered to be the accelerators of innovation and growth in the economy (Braunerhjelm, 2012). However, SMEs face challenges with regard to financing, disproportionate regulatory burdens and competition failures compared to large entities. A favorable business environment is therefore important to minimize the impact of these barriers and seeks to provide a level playing ground for firms of all sizes. Reduction of the tax burden of SMEs through issuing incentives frees up funds to be used in innovation and efforts to access global markets and ultimately promote business growth (OECD, 2015). This can be achieved through alignment of tax-environment to the environmental specific growth needs for SMEs (Andersson, 2013).

The typology for SME tax incentives in Kenya depends on factors including firm size, firm age, input- output and the sort of activities performed by the SME (Matovu, 2010). Despite the significant contribution of tax incentives to SMEs' growth, unequal treatment of taxpayer's affects the tax system's efficiency and thus tax incentive's social benefits have to be weighed against related costs (Busom, 2014). As part of the big four Agenda, the government has aligned policies under the agriculture sector to boost small holder production and reduce initial cost of investment. A recent tax exemption policy was witnessed in 2017 when the government exempted materials used in the construction of storage facilities from VAT.

Studies have been conducted locally and globally on the subject of tax incentives. Globally, Nnubia & Obiora (2018) undertook a study on the impact of tax incentive on economic growth in Nigeria. The survey established that sufficient tax incentives enhance industrial growth and economy. These findings contradict with Holban (2007) who studied the contribution of tax incentives to development and welfare of the society and concluded that tax incentives only puts the income needs for survival of businesses under consideration ignoring the overall benefits that would have been accrued by the society at large if the same income had been used for provision of public goods. The findings by Holban were further affirmed by Tilahun (2017) in his research on the challenges of tax incentives on tax revenue. The author cited different challenges linked with the issuing of tax incentives such as complexity of the legal framework, lack of coordination with administrative procedures, administrative under capacity and poor mechanisms of monitoring and controlling which all lead to reduction of the overall revenue that would have been collected for fulfillment of other national development agendas.

Studies by Akinyomi and Chukwumerije (2011) looked into effect of the tax incentives on the performance of SMEs in Rivers State, Nigeria. The findings revealed that there exists a significant positive association between tax incentives and growth and development of SMEs. This study was similar to Twesige, and Gasheja, (2019) who delved tax incentives on growth of SMEs in Rwanda and found a strong positive and significant association between tax incentives and SMEs' growth. Although the two studies seemed to have produced consistent findings on the relationship between business incentives and business growth, the findings were not conclusive as the prior only focused on performance which is only one aspect of growth.

Locally, the findings were that tax incentives result to increase in profit, sales as well as business investments. A closely related study was conducted by Tembur (2016) in an investigation on effect of tax incentives on the performance of EPZs. The output revealed that corporate income tax investment, excise duty incentive, VAT incentives and custom duty incentive exhibited a positive and significant association with EPZ firms' performance as measured using total number of jobs and ROA. The two studies produced similar findings but the findings were not clear since different measurements of performance were adopted thus the findings do not form sufficient grounds for argument. Wangechi (2014) sought to ascertain the effect of taxation on SMEs' growth in Voi sub-county. The research focused more on tax administration and how tax remittance reduced the profits that would have been reinvested to expand the business as opposed to tax incentives which will contribute to more business gains. The findings showed that high tax rates have a significant impact on growth of SMEs in Voi County.

From the foregoing, disputing findings exist on the effect of tax incentives on business growth with some stating that it allows small business owners to reinvest the funds that would have been otherwise committed to payment of taxes in expansion of the enterprises while others state that tax remittance reduces revenue collection by the government which would have been used to provide public goods such as adequate infrastructure which is important for business growth. Moreover, majority of the studies have examined tax incentives from the perspective of business welfare and economic growth and not specifically growth of SMEs. Therefore, this study sought to analyze the tax incentives available for SMEs and measure the extent to which these incentives have contributed to growth of SMEs in Kenya.

1.2 Research Objective

The objective of the study was to establish the effect of tax incentives on growth of small and medium sized enterprises in Nairobi County

2.0 Literature Review

2.1Theoretical Foundation

This part describes and discusses theories related to the study namely the Political System Theory and Normative Theory

2.2.1 Normative theory

The Normative theory was propagated by Cochran (1999). The model explains the how the existence institutional government structures create different incentives and the constraints faced by the governments. The incentives stipulate a clear development path and various governments may transition in different ways some of which might not be effective. Tax administrative reforms and tax policy-making therefore evolve symbiotically and simultaneously. The institutional theory provides a holistic framework which could be used to articulate the development of tax policy administrations across cultures over time.

According to Chua (1995), every incentive is associated with certain merits and demerits and it is thus extremely hard to ascertain the ones that are effective since different economies are faced with different circumstances and challenges. The proxies for establishing what works for a particular economy include budgetary constraints, the nature of investment being courted, the tax administration's competence, the extent to which the government stimulates investment, the available tax planning opportunities and the extent of revenue leakages.

Shah and Boadway (1995) postulate that any incentives allocated by politicians and public servants are potentially open to corruption and abuse. Therefore, there exists a strong believe that all potential investors should have access to incentives which is possible through transparent allocation criteria. Conversely, adequate incentives for investment should be availed to firms to promote positive growth. Therefore, each potential investment needs receives incentive specific to the precise situation.

The Normative theory is useful in illustrating the factors influencing the tax incentives' efficiency in impacting the growth of firms as well as the benefits and costs of tax incentive in the nation

2.2.2 Political System Theory

The political systems theory of entrepreneurial growth was developed by Hoselitz (1917). The theory argues that the political system creates favorable laws, adequate infrastructure, security to entrepreneurs, fair taxation system, provide subsides and incentives, creation of promoting policies and encourage individuals to engage in entrepreneurship. The state can provide an enabling environment for upcoming entrepreneurs. Therefore, the contribution of the political system can meaningfully lead to entrepreneurial advancement. The source of resources emanating from the judgment of government owners constitutes of entrepreneurial element in the government action. Lack of these elements implies that ownership, direction and judgment would basically imply monopoly powers as implied in the economic theory (Karol, 2013).

Hoselitz argues Japanese entrepreneurs flourished since their political system could integrate appropriately with different sectors such as the agricultural, industrial, handicraft industries, old-style and current social structure and labour intensive technologies. Boulding documents that the political structure is the pivotal factor for entrepreneurial growth in Russia and France. However, it didn't flourish before 1917 since the creative ability lacked expression.

The political systems theory of entrepreneurship is considered to be beneficial over other theories found in public literature since it does not rely on the anti-social, economically inefficient. The theory enlarges the potential scope of political entrepreneurship and could include definite bureaucratic functions other which may be decided through a political process. Even through the state does not directly control resources, it may regulate the flow of resources within the economy through different policy initiatives and regulatory frameworks. The entrepreneurs make decisions regarding use of resources but are beholden by higher authorities (Foss & Glein, 2010). The theory is applicable to the research since it emphasizes the function the government plays in bringing up enterprise development through different policy initiatives

2.3 Empirical Review

The subject of tax incentives has become a topic of interest in current times. This is mainly due to the fact that a significant amount of business profits is channeled to payment of taxes which reduces the anticipated profits or even business sustainability (Kitsios & Patnam, 2016). Globally, Rapuluchukwu, Ibukun and Belmoondo (2016) examined the effect of fiscal incentives on the productivity of the firm using firms in Cameroon. The survey contained specific measures of measuring the beneficiary status of firms from various groups of fiscal incentives for instance profit tax exemption, import duty exemption and, export financing. The study concluded that the preposition for government involvement in firm endeavors could be inclined towards reward of outputs thus providing an integral component of industrialization.

Ordu and Owaume (2014) undertook a survey to explore the impact of tax incentives on economic development of Nigeria between the time frame 2004 and 2014. The study's population involved 51 respondents from management, tax payers and staff of chosen manufacturing firms in the South political zones of Nigeria. The research established that sufficient tax incentives enhanced industrial growth and economic development and recommended the government to waive certain corporate taxes to assist them mature more so at their early stages. The government shouldn't focus on taxes that is lost at this point since the benefits will surpass in the long run what lost in the early stages.

Alhulial (2014) delved into effects of tax incentives on the sales performances of eco-friendly cars in Japan. The results showed that tax incentives have a strong positive effect on sales of eco-friendly cars. The above study creates a gap since it's evident that tax incentives were advanced in this case not only for the purposes of business growth but to promote the purchase of environmental friendly vehicles in order to control pollution of the environment and conserve natural resources.

Onyango (2015) explored the influence of tax incentives on performances of four-star hotels in Nairobi City County. The survey's findings showed that there exists a negative nexus between industrial deductions and investment reduction and performance of hotels of this classification. Other findings were that depreciation allowances had a positive impact on financial performance of the four star hotels in the County. The above study only used financial measures to measure performance yet tax incentives my affect other factors in the organization which may not be depicted through financial measurements and thus the study should have study should have considered the utilization of both financial and non-financial measures.

3.0 Research Methodology

The study employed a descriptive survey design. The population of this study was the 1539 SMEs operating in Nairobi Central Business District (Nairobi County Government Licensing Department, 2018).

Table 1: Population Distribution

Classification of SMEs	Population
Trade	247
Transport	231
Hospitality	211
Agriculture	205
Technical and Professional	217
Education	207
Manufacturing	221
TOTAL	**1539**

Source: Nairobi County Government, 2018

3.4 Sample Procedure

The survey used proportionate stratified random sampling where the population was split into seven strata depending on the sector the firm is operating in. Simple random sampling methodology was then applied within each stratum to select a sample from the population. The investigation used Mugenda (2003) rule that any sample of between ten and forty percent of the population is representative enough and worthwhile making deductions about the population hence the study took 10% of the target population of 1539 thus deriving a sample of 155 SMEs as the respondents.

Table 2: Sample Size

Classification of SMEs	Population	Sample size
Trade	247	25
Transport	231	23
Hospitality	211	21
Agriculture	205	21
Technical and Professional	217	22
Education	207	21
Manufacturing	221	22
TOTAL	**1539**	**155**

Source: Nairobi County Government, 2018

The study was purely relied on primary data Sources. The primary data was obtained from the selected sample of SMEs operating in Nairobi CBD through use of structured questions comprising closed ended questions. The questionnaire was administered to the owners or managers of the managers of the SMEs.

The data collected was cleaned, coded before performing the analysis. The study's descriptive elements were analyzed using descriptive statistics in form of percentages and frequencies. Regression analysis was carried out by the researcher in order to establish how tax incentives influence the growth of small and medium sized enterprises in the Nairobi, CBD. Regression was utilized to determine the association between the dependent variable (growth) and the independent variables (tax exemptions and investment allowances)

The linear regression model of the study was as depicted below;

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2\ \varepsilon$

Where;

Y= Growth; β0= Constant (coefficient of intercept); X_1= Tax exemptions; X_2= Investment allowances; ε= Error term

$\beta_{1,}\ \beta_2$ = Regression coefficients of the independent variables

4.0 Data Analysis, Results and Discussion

4.1 Tax Exemptions

The study purposed to ascertain the extent to which different tax exemptions had been availed to SMEs. The respondents were presented with statements related to tax exemptions and asked to rate in the five point Likert scale.

Table 3: Tax Exemptions

Tax exemptions	N	Mean	Std. Deviation
The business is exempted from certain taxes tariffs and excise duty on importation of machinery	121	3.85	.965
Tax compliance costs of the business have reduced due to tax holidays	121	3.64	.964
Most back-end taxes for trade of SME shares are eliminated by the government	121	3.42	.856
The business uses tax free weekend to collect information about their customers which it uses to create loyalty programs	121	3.34	1.136
The business receives temporal exemptions for certain activities	121	3.25	1.012
Most back-end taxes for trade of SME shares are eliminated by the government.	121	3.13	.681
The enterprise receives back-end exemptions on capital gains tax	121	2.93	.728
Overall mean	**121**	**3.37**	**0.894**

Source: Researcher (2019)

From the findings as shown in Table 3, most attributes were rated to a moderate extent as confirmed by a grand mean of 3.335. Precisely; the means and standard deviations were;

the business is exempted from certain taxes tariffs and excise duty on importation of machinery (M= 3.846, SD- 0.964), tax compliance costs of the business have reduced due to tax holidays (M- 3.641, SD- 0.964), most back-end taxes for trade of SME shares are eliminated by the government (M- 3.421, SD- 0.856), the business uses tax free weekend to collect information about their customers which it uses to create loyalty programs (M- 3.337, SD- 1.136), the business receives temporal exemptions for certain activities (M- 3.246, SD- 1.012), most back-end taxes for trade of SME shares are eliminated by the government (M- 3.133, SD- 0.681), the business receives reduces tax obligations during a period of time in the year (M-3.120, SD-0.808) and the enterprise receives back-end exemptions on capital gains tax (M- 2.933, SD-0.728). The overall mean of 3.335 implies that although there exists are many tax exemptions documented in policy, most have not been successfully implemented. Although the respondents agreed with statements such as the existence tariff and duty exemptions on importation of machinery for production, most disagreed that incentives such as back-end exemptions on capital gains existed.

4.2Investment Allowances

The study resolved to establish whether there were investment allowances for SMEs. The respondents were presented with statements related to the existence of investment allowances and asked to rate using a scale of 1-5. The findings were as shown in Table 4 below

Table 4: Investment Allowances

	N	Mean	Std. Deviation
The government offers special trade zones for establishment of business enterprises by potential investors	121	3.67	1.224
The business receives a reduction in tax rates for borrowed funds for investment	121	3.33	1.184
The business receives depreciation allowances on its assets	121	3.25	0.964
The business has ever received some form of Corporate income tax incentives	121	3.07	1.363
The business receives some percentage of tax relief on value invested in innovation	121	2.85	1.106
Average	**121**	**3.23**	**1.168**

Source: Researcher (2019)

The results as indicated in Table 4 above shows that majority of the respondents agreed that the government offers special trade zones for establishment of business enterprises by potential investors (M- 3.666, SD- 1.224) followed by the business receives a reduction in tax rates for borrowed funds for investment (M- 3.246, SD- 0.964) then, the business has ever received some form of Corporate income tax incentives (M- 3.066, SD- 0.363) while the least mean recorded was on business receives some percentage of tax relief on value invested in innovation (M- 2.845, SD- 1.106). The study produced an overall mean 3.231

implying that investment allowances had to a moderate extent been availed by the government. While investment allowances such as special trading zones and depreciation allowances were somehow visible, others such as corporate tax income incentives and relief in value invested in innovation had been realized to a small extent. The average standard deviation of 1.168 implies that the responses were dispersed around the mean response.

4.3 Business Growth

The study undertook an assessment to ascertain the rate in which the business has been growing over the last three years. To achieve this, the study examined the extent to which the different indicators of growth have been achieved. The responses were rated in a five point Likert scale of 1-Strongly disagree and 5-Strongly agree

Table 5: Business Growth

	N	Mean	Std. Deviation
The business has registered an increase in its sales revenue over the last three years	121	4.43	.728
The market share of the business has increased for the last three years	121	4.24	1.189
The innovative capabilities of the business have been increasing over time	121	4.13	.681
The asset base of the business has been expanding significantly for the last three years	121	4.03	.809
The business has diversified into new line of activities compared to the last three years	121	3.97	.765
The has more branches compared to the last three years	121	3.87	1.137
Increase in the ability to attain new customers	121	3.86	1.224
The business has more employees compared to the last three years	121	3.70	1.178
Average	**121**	**4.03**	**0.964**

Source: Researcher (2019)

From the above analysis, it is evident that the SMEs have registered substantial growth over the last three years as evidenced by a grand mean of 4.042. The individual means recorded were; the business has registered an increase in its sales revenue over the last three years (M= 4.433, SD- 0.728), the market share of the business has increased for the last three years (M- 4.243, SD- 1.184), the innovative capabilities of the business have been increasing over time (M- 4.133, SD- 0.681), the asset base of the business has been expanding significantly for the last three years (M- 4.033, SD- 0.808), the business has diversified into new line of activities compared to the last three years (M- 3.967, SD- 0.764), the has more branches compared to the last three years (M- 3.867, SD- 1.137), increase in the ability to attain new customers (M- 3.857, SD- 1.224) and The business has more employees compared to the last three years (M- 3.700, SD- 1.179). The average

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standard deviation was 0.963 implying that the responses were largely dispersed around the mean response.

4.4 Regression Analysis

A regression analysis was performed in the study to determine the association between each independent and business growth

4.4.1Relationship between Tax Exemptions and Business Growth

Table 6 as shown below shows the model summary, analysis of variance and regression coefficient on the association between tax exemptions and growth of SMES.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.350[a]	.122	.115	.91456

a. Predictors: (Constant), Tax exemptions

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	13.888	1	13.888	16.604	.000[b]
	Residual	99.534	119	.836		
	Total	113.421	120			

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.409	.316		7.611	.000
	Tax exemptions	.325	.080	.350	4.075	.000

Source: Researcher (2019)

As indicated in the Table 6 the variable growth can be predicted by 12.2% by tax exemptions with a standard error of 0.915. This means that 12.2 % of the changes in growth is determined by the variation in tax exemptions while the other 87.8% is attributable to other factors not related to the study. The coefficients of determination Table shows that tax exemptions has a significant impact on growth of SMEs (β= .325, t=4.075, p<0.000). The finding implies that 32.5 of change in growth is attributable to a unit change in tax exemptions. As per the SPPS version 23 generated output the equation for the relationship becomes:

$$y = 2.409 + 0.325\ x + 0.316$$

where x is independent variable (Tax exemptions); y is dependent variable (Business Growth.

4.4.2 Relationship between Investment allowances and Business Growth

Tables 6 as shown below shows the model summary, analysis of variance and regression coefficients on the association between investment allowances and growth of SMES.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.430[a]	.185	.178	.78484

a. Predictors: (Constant), Investment allowances

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.667	1	16.667	27.058	.000[b]
	Residual	73.300	119	.616		
	Total	89.967	120			

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.794	.433		4.143	.000
	Investment allowances	.556	.107	.430	5.202	.000

Source: Researcher (2019)

a. Dependent Variable: Growth

As indicated in the Table 6 the variable growth can be predicted by 12.2% by investment allowances with a standard error of 0.785. This means that 18.5 % of the changes in growth is determined by the variations in investment allowance while the other 81.5% is attributable to other factors not related to the study.

The coefficients of determination table show that investment allowances has a significant effect on growth of SMEs (β= .556, t=5.202, p<0.000). The finding implies that 55.6% of change in growth is attributable to a unit change in investment allowances. As per the SPPS version 23 generated output the equation for the relationship becomes:

$$y = 1.794+ 0.556\ x$$

Where x is independent variable (Investment Allowances); y is dependent variable (Business Growth)

4.3 Discussion of the Findings

Governments across the globe use tax incentives to promote economic activities and investment by establishments, they introduce these incentives to boost some crucial sectors of the economies where they are dormant or lacking completely (Kaplan, 2011). Incentives increase return on capital thus making investments more attractive and in turn increase the firm's profitability (Njuguna, 2015). Despite the above benefits, tax incentives generally rank low among small and mediums sized enterprises and have been reported to be nonexistent and redundant (James & Sebastian, 2014).

The study found the businesses receives huge tax exemptions on certain tariffs and excise duty on importation of certain commodities which is true following recent policies such as the recent tax exemption policy was witnessed in 2017 when the government exempted materials used in the construction of storage facilities from VAT while most disagreed with the applicability of some such as back- end exemptions and temporal tax exemptions. However, it can be deduced from the overall mean of 3.335 there were different tax exemptions for SMEs designed to boost their growth. These findings agree with Rapululuchukwu (2016) that tax exemptions increase the level of profits of business by allowing the funds that would have been committed to tax payments to be re-invested in the business thus growth.

The study also found that there were different investment allowances available for SMEs. The analysis shows that the government offers special zones for establishment of business enterprises. This was found to have been implanted to the largest extent probably due to the need attract foreign investors or attract individuals to engage in export trade which improves economic growth. Other incentives such as depreciation allowances, reduction of tax on investment and corporate tax incentives were found to have been slightly implemented. The respondents however disagreed that the business receives innovation incentives which can be explained by the fact that innovation is an internal strength of the firm which describes its competitiveness in the market.

In practice capital expenditure on machinery/building used for manufacture is entitled to an investment deduction equal to 100% of the cost. It can be said from the above findings that the issue of investment allowances could be biased in that it might favor certain businesses such as export firms or foreign investors. These findings agree with Philips (2010) that investments allowances show same negative implication with respect to neutrality, transparency and simplicity as depreciation scheme.

From the regression analysis model on the effect of tax exemptions on the growth of SMEs, the study found that there exists statically significant association between tax exemptions and growth of SMEs and investment allowances and growth of as evidenced by p values 0.000 for both tests. This therefore implies that tax incentives can be used to predict the growth of SMEs in Nairobi, County. These findings concur with Edgcomb (2012) that tax incentives have significant impact on growth and performance of small enterprises and Simiyu (2018) who found that government interventions have a positive effect on growth of SMEs when properly managed from formulation to implementation

5.0 Conclusions

Following the study's results it can be said that tax incentives has a positive and significant impact on growth of SMEs as measures by increased number of employees, increased customer satisfaction, increased profitability and penetration into new markets. The study found that although many tax incentives have been documented in policy, their practical applicability remains low. The study found that while tax exemptions such as excise duty exemptions on importation of machinery were highly evident, others such as tax exclusion on funds invested in innovation were not visible. Similarly, the study notes that the government to a large extent offers investment allowances such as the EPZ while ignoring others such as depreciation allowances which might be of benefit to the small business owner. Concerning the effect of tax incentives on growth of SMEs, it was concluded that tax incentives have a statistically significant relationship with growth of SMEs at 0.05 significance level. It was therefore imperative for the government to introduce new tax incentives and fully implement the existing ones so as to accelerate the growth of SMEs in the country.

6.0 Recommendations

Based on the study's results, the study makes the following recommendations; further policy initiatives by the Kenyan government to accelerate the growth of SMEs should have user input before being concretized in order to mitigate against negative effects on SMEs to facilitate the desired growth trajectory. Therefore, for the government to realize the desired economic growth and even the big four agenda, policy design should be more inclusive and sensitive to the needs of SMEs. The policy initiatives must relate to tax incentives, business infrastructure and other regulatory regimes.

The government should also strengthen its partnerships with the private sector, promote higher value added services, increase coordination among various government value adding entities, dealing with SME promotion and set quantifiable targets through frequent monitoring of performance of different policy interventions. This is bound to boost SME growth. The government should also provide frequent trainings on the available incentives which SMEs can leverage on to boost their growth.

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