



**UNIVERSITI PUTRA MALAYSIA**

***EFFECTS OF FINANCIAL STRUCTURE, PREFERENTIAL TAX RATE  
AND TAX INCENTIVES ON DYNAMICS OF SMEs' GROWTH IN  
MALAYSIA***

**MOHD ARIF BIN ROMLI**

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By

**MOHD ARIF BIN ROMLI**

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,  
in Fulfillment of the Requirements for the Degree of Doctor of Philosophy**

**July 2018**

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

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**July 2018**

**Chairman : Professor Annuar Md Nassir, PhD**  
**Faculty : Economics and Management**

In the new global economy, the role of small and medium enterprises (SMEs) in economic development has emerged as powerful platforms for a country's growth policy. Leading world organizations such as the World Bank (WB) and the Organization for Economic Co-operation and Development (OECD) provide coherent policy framework that liberalisation in finance and special tax policies for SMEs holds the key to economic growth, innovation, poverty alleviation and redistribution. The same policy is practiced in Malaysia where SMEs are supported by diverse financing programs, preferential tax rate (PTR) and tax incentives to support their growth. However, limited is known on the current situation of SMEs in term of their financial structure and the efficacy of tax policy implemented in Malaysia. In addition, revenue forgone from tax policy implemented reduces billions of government's spending power is akin to government expenditures and entails risk of unproductive spending if the tax programs are not effective.

From that perspective, the study aims to achieve three objectives using the system generalized method of moments (GMM) as the main estimation technique. Firstly, the study investigates the role of financial structure to the growth of SMEs. Secondly, the study assesses whether preferential tax rate (PTR) supports the growth of SMEs and third, the study evaluates whether tax incentives enjoyed by SMEs are pro-growth policies in Malaysia. Data in this study are retrieved from confidential Malaysian corporation tax returns for the period of 2006 - 2015. The sample of firms in this paper follows the definition of SMEs under the Malaysian Income Tax Act (ITA) 1967. Therefore, only corporate small and medium firms are analysed in this study. The sample of SMEs are then categorized by two groups, namely the users and non-users of tax incentives so that the financial structure and the effect of SME tax policy can

be compared between these two groups.

The study contributes to the literature in three important ways. Firstly, unlike previous studies that use other definitions of SMEs, this study used the definition under ITA 1967 and gives evidence on the importance of financial structure and effectiveness of SMEs tax policy to firm growth. Secondly, unlike previous studies that give evidence on the importance of cash flow and debt to SMEs growth, the findings also give significant contributions on the importance of financial structure between the users and non-users of tax incentives. Furthermore, on the financial structure of SMEs, external finance is comparably important to SMEs growth that may give evidence access to finance is not an issue for SMEs in this study. Thirdly, unlike previous studies that uses dummy variable to evaluate the effectiveness of PTR and tax incentives, this study uses quantifiable variable to measure the tax advantage received by SMEs. Moreover, this study gives empirical evidence on the effectiveness of PTR to the users and non-users of tax incentives that little is known on the importance of PTR to these groups.

The findings revealed that on the aspect of financial structure, cash flow as the proxy of internal finance is slightly more sensitive to firm growth than debt which is a proxy of external finance. This provides evidence that internal finance is more important than external financing. Furthermore, internal finance is more important for the non-users of tax incentives while external finance is more important to users of tax incentives. PTR and tax incentives as part of external finance to SMEs are found to be pro-growth policies. Specifically, PTR as the main policy for SMEs promotes growth in sales and assets of SMEs. Comparison of the importance of PTR between the users and non-users of tax incentives is that PTR is more sensitive to the growth of non-users of tax incentives. For tax incentives, even though they promote the growth of sales, but the findings show that at the same time they discourage the growth of asset of the users of tax incentives.

Finally, the crucial implication of this study to policy makers is monitoring and controlling the effectiveness of tax policy through tax expenditure reporting is the key in reducing government budget deficit and the risk of unproductive tax policy. This study indicates that preferential policy can give positive impact to focused group and, it alleviates firms from relying more on internal finance which indicates that external finance is reachable by SMEs and it also reduces taxation pressure due to the tax advantage from PTR and tax incentives. Hence, given the advantage of SMEs, other preferential programs specifically designed and monitored could give positive effect to SMEs and aggregately to the growth of a country.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**KESAN – KESAN STRUKTUR KEWANGAN, KADAR CUKAI  
KEUTAMAAN DAN INSENTIF CUKAI KEPADA DINAMIK  
PERTUMBUHAN PERUSAHAAN KECIL DAN SEDERHANA DI  
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Dalam era globalisasi, peranan perusahaan kecil dan sederhana (PKS) kepada pembangunan ekonomi telah muncul sebagai satu platform yang signifikan untuk dasar pertumbuhan sesebuah negara. Pertumbuhan terkemuka dunia seperti Bank Dunia dan Organisasi Kerjasama Ekonomi dan Pembangunan (OECD) menyediakan rangka kerja dasar yang koheren bahawa liberalisasi dasar kewangan dan cukai khas untuk PKS adalah kunci kepada pertumbuhan ekonomi, inovasi, pengurangan kemiskinan dan pengagihan sama rata kekayaan negara. Dasar yang sama telah diamalkan di Malaysia di mana PKS disokong oleh pelbagai program pembiayaan, kadar cukai keutamaan (PTR) dan insentif cukai untuk menyokong pertumbuhan PKS. Walau bagaimanapun, berdasarkan dari kajian lepas, pengetahuan mengenai situasi semasa PKS dari segi struktur kewangan dan keberkesanan dasar cukai yang dilaksanakan di Malaysia adalah terhad. Di samping itu, pelaksanaan polisi pro-PKS melalui PTR dan insentif cukai bagi menggalakkan pertumbuhan PKS boleh mengurangkan hasil cukai negara. Pengurangan hasil cukai ini bersamaan dengan mengurangkan berbilion-bilion kuasa perbelanjaan pembangunan kerajaan yang boleh digunakan untuk kesejahteraan rakyat dan pertumbuhan ekonomi negara. Selain itu, program penggalakan pertumbuhan PKS melalui PTR dan insentif cukai ini juga berisiko tinggi keberkesananannya sebagai penggalak pertumbuhan PKS sekiranya pemantauan dan penilaian secara berkala tidak dilakukan oleh pihak kerajaan.

Dari perspektif tersebut, kajian ini bertujuan untuk mencapai tiga objektif dengan menggunakan kaedah *System Generalized Method of Moments* (GMM) sebagai metodologi utama. Objektif pertama kajian ini ialah untuk mengkaji peranan struktur kewangan kepada pertumbuhan PKS. Objektif kedua, kajian ini pula menilai sama ada

kadar cukai keutamaan (PTR) menyokong pertumbuhan PKS dan ketiga, kajian ini seterusnya menilai sama ada insentif cukai yang dinikmati oleh PKS adalah dasar pro-pertumbuhan di Malaysia. Data dalam kajian ini diperolehi dari borang cukai syarikat bagi tempoh 2006 - 2015. Sampel PKS dalam kajian ini mengikut definisi PKS di bawah Akta Cukai Pendapatan Malaysia (ACP) 1967. Oleh itu, hanya PKS yang berstatus syarikat sahaja dianalisis dalam kajian ini. Sampel PKS kemudiannya dikategorikan kepada dua kumpulan iaitu pengguna dan bukan pengguna insentif cukai supaya struktur kewangan dan kesan dasar cukai PKS dapat dibandingkan antara kedua-dua kumpulan ini.

Kajian ini menyumbang kepada kajian lepas melalui tiga aspek utama. Pertama, tidak seperti kajian terdahulu yang menggunakan definisi PKS dari Suruhanjaya Syarikat Malaysia (SSM), kajian ini menggunakan takrif seperti di dalam ITA 1967. Justeru, kajian ini merujuk kepada kepentingan struktur kewangan dan keberkesanan dasar cukai kepada PKS yang berstatus syarikat sahaja. Kedua, tidak seperti kajian terdahulu yang memberikan bukti tentang pentingnya aliran tunai dan hutang kepada pertumbuhan PKS, penemuan ini juga memberikan sumbangan kepada kepentingan struktur kewangan PKS antara pengguna dan bukan pengguna insentif cukai. Selanjutnya, mengenai struktur kewangan PKS, kewangan luaran adalah sama pentingnya dengan pertumbuhan PKS yang boleh memberi keterangan akses kepada kewangan bukan masalah untuk PKS dalam kajian ini. Ketiga, tidak seperti kajian sebelumnya yang menggunakan pembolehubah patung (dummy) untuk menilai keberkesanan PTR dan insentif cukai, kajian ini menggunakan pembolehubah yang dapat dinilai untuk mengukur kelebihan insentif cukai yang diterima oleh PKS. Selain itu, kajian ini memberikan bukti empirikal mengenai keberkesanan PTR kepada pengguna dan bukan pengguna insentif cukai yang sedikit diketahui melalui kajian lepas mengenai kepentingan PTR kepada kumpulan-kumpulan ini.

Penemuan daripada kaedah GMM mendedahkan bahawa bagi aspek struktur kewangan, aliran tunai sebagai proksi kepada struktur kewangan dalaman lebih sensitif kepada pertumbuhan PKS berbanding keberhutangan melalui pembiayaan luar yang merupakan proksi struktur kewangan luar PKS. Ini memberikan bukti bahawa struktur kewangan dalaman lebih penting daripada pembiayaan luar. Penemuan tambahan untuk struktur kewangan di antara pengguna dan bukan pengguna insentif cukai seterusnya menunjukkan bahawa struktur kewangan dalaman lebih penting kepada PKS yang bukan pengguna insentif cukai. Walaubagaimanapun, bagi pengguna insentif cukai pembiayaan luar lebih penting kepada pertumbuhan PKS tersebut. PTR dan insentif cukai yang juga boleh ditakrifkan sebagai sebahagian daripada kewangan luar kepada PKS dijumpai sebagai dasar pro-pertumbuhan. Secara khususnya, PTR sebagai dasar utama untuk PKS menggalakkan pertumbuhan jualan dan aset PKS. Perbandingan kepentingan PTR di antara pengguna dan bukan pengguna insentif cukai adalah didapati PTR lebih sensitif terhadap pertumbuhan pengguna bukan insentif cukai. Untuk insentif cukai, walaupun insentif cukai menggalakkan pertumbuhan PKS dari indikator jualan, tetapi penemuan juga menunjukkan bahawa pada masa yang sama insentif cukai yang digunakan tidak menggalakkan pertumbuhan aset PKS.

Akhirnya, implikasi penting kajian ini kepada kerajaan Malaysia dan pembuat dasar adalah pemantauan dan kawalan kepada keberkesanan dasar cukai melalui pelaporan perbelanjaan cukai adalah kunci dalam mengurangkan defisit belanjawan kerajaan dan risiko dasar cukai tidak produktif. Kajian ini menunjukkan bahawa dasar pro-PKS boleh memberi impak positif kepada kumpulan fokus dan seterusnya mengurangkan PKS daripada bergantung kepada kewangan dalaman yang boleh memberikan impak negatif kepada pertumbuhan PKS. Implikasi kepada penemuan ini memberikan petunjuk bahawa pembiayaan luar menggalakkan pertumbuhan PKS dan polisi cukai melalui PTR dan insentif mengurangkan tekanan negatif dari percukaian untuk membantu mengukuhkan pertumbuhan positif PKS dalam kajian ini. Oleh itu, dengan kelebihan PKS yang signifikan kepada ekonomi negara, program pro-PKS lain yang direka dan dipantau secara berkala boleh memberikan impak positif kepada PKS dan seterusnya kepada pertumbuhan agregat ekonomi negara.



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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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## LIST OF ABBREVIATIONS

ACA	Accelerated Capital Allowance
CBPL	Creative Business Promotion Law
CIT	Corporate Income Tax
EU	European Union
FDI	Foreign Direct Investment
FEM	Fixed Effect Model
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
HMRC	Her Majesty Revenue and Custom
IRBM	Inland Revenue Board of Malaysia
ITA	Investment Tax Allowance
ITA 1967	Income Tax Act 1967
IMF	International Monetary Fund
KLSE	Kuala Lumpur Stock Exchange
OECD	Organization for Economic Co-operation and Development
MOF	Ministry of Finance
POF	Pecking Order Framework
POLS	Pooled Ordinary Least Square
PTR	Preferential Tax Rate
PS	Pioneer Status
QCE	Qualifying Capital Expenditure
R&D	Research and development
RA	Reinvestment Allowance

REM	Random Effect Model
SMEs	Small and Medium Enterprises
SME Corp	SME Corporation Malaysia
SI	Statutory Income
TRD	Tax Research Department
TI	Tax Incentives
UK	United Kingdom
USA	United States of America
VTP	Various tax programs
WB	The World Bank
YA	Year of Assessment

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of Study

Over the past decades, small and medium enterprises (SMEs) have emerged as powerful platforms in economic developments of many economic research studies. Recent evidence suggests that SMEs are not only a popular study among researchers but also one of the most widely used groups in government preferential policy of many countries. The reason of the special attention given to SMEs is because many policy makers believe that SMEs play a pivotal role in an economy of a country (Engelschalk, 2008; OECD, 2015) and contribute substantially to gross domestic product (GDP), employment and export in majority of the countries. In developed countries, SMEs are fundamental for innovation due to their efficiency and flexibility in production and market adjustments. Whereas, in poor and developing countries, the target of SME developments is to increase income and socioeconomics of the people and hence, it is known as a poverty alleviation tool (Teruel-Carrizosa, 2010). Therefore, SMEs receive special privileges and strong support from many governments' policies to promote growth of SMEs and to achieve the macroeconomic objectives (Crawford & Freedman, 2011).

The significance of special support policy for SMEs is also recognized by various world leading organizations. For instance, World Bank (WB), International Monetary Fund (IMF) and Organization of Economic Co-operation and Development (OECD) acknowledged the importance of SMEs for the economic growth of a country and provide a single coherent policy framework for action in favor of SMEs (Klemm, 2009; Klemm & Parys, 2009; OECD, 2015; World Bank, 2013). WB further reiterates that for the developing countries, the focus should be placed on SMEs due to the substantial number of business entities and the expanding of their establishments covers all industries and sectors that can boost employment and reduce poverty. Evidently, the funding of projects for SMEs' projects by WB is very high, averaging more than US\$ 3 billion a year in the period of 2006 – 2012 (The World Bank, 2014).

One of the advantages of promoting SMEs is not only due to the number of business establishments but potentially some SMEs can also create significant corporate titans of tomorrow (Freeman, 2015). Mazzucato (2013) documented that many of the technologies that put the “smart” into Apple’s smartphones originated from public programs. In addition, an obscure government body even lent Apple USD 500,000 before it went public. In the case of the research that produced Google’s search algorithm, the found of its wealth, was financed by a grant from the National Science Foundation. Therefore, the pro-growth SMEs policy has been a popular option in addressing the importance of innovation and new technology from the policy implemented (Foreman-Peck, 2013; Teruel-Carrizosa, 2010). It is in this context, there

are obstacles in promoting SMEs to grow without the support from the government. For that reason, it is well known that SMEs face challenges on the issue of accessibility to financing (Rahaman, 2011; Wang, 2016) and at the same time, the tax system can be a barrier to its growth (Chen & Mintz, 2011).

Policy makers in developed and developing countries take several measures to alleviate the impacts of poor financial accessibility and adverse impact of taxation by providing special fiscal policies and financing programs for SMEs in the forms of soft loans, grants, and facilitating the easy financing policy to financial institutions. It is also particularly common in many countries to have their own agencies that regulate and monitor these policies (i.e. small and medium enterprise agency in Japan, small and medium business corporation in Korea and executive agency for SMEs or EASME for European Union). In the case of taxation, the most common measures applied to reduce the negative effect of taxation are by providing preferential tax rates and tax incentives for selected activities or investments. Apart from promoting growth through taxation, tax preferences for SMEs are able to reduce cost of compliance, and cost of record and book keeping.

In Malaysia, the statistics showed that there were 907,065 SMEs or 98.5 percent of total firm establishments in 2016 (SME Corp). According to SME Corporation Malaysia (SME Corp.) annual report 2016/2017, these firms contributed to 36.6 percent of total Malaysia Growth Domestic Product (GDP) and the industries in SMEs hired more than 6.7 million employees or 65.3 percent of total employment<sup>1</sup>. In order to foster the development of SMEs, SME Corp. was established in 2009 to formulate the overall policies and strategies for SMEs and to coordinate the implementation of development programmes across related Ministries and Agencies. Even though, there are many programs (innovation and technology adoption, human capital development, market access, and infrastructure) under the coordination of SME Corp., the access to finance remains the key policy with support from Bank Negara Malaysia (central bank). Whereas for the tax policy, the Inland Revenue Board of Malaysia (IRBM) is responsible for the implementation the SME tax policy that is introduced and legislated by the Ministry of Finance (MOF) Malaysia.

### **1.1.1 Access to Finance**

To mitigate the problem of financial accessibility, the government takes initiative to support financial structure of SMEs by encouraging all financing institutions to facilitate the lending process. This situation leads to the accelerated growth of many financing programs that are available for SMEs (Bank Negara Malaysia, 2015; SME Corp, 2015). Over the years, Malaysia has offered a wide and diversified financing landscape for SMEs, where financial institutions (banking institutions and

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<sup>1</sup> For comparison, SMEs in OECD countries, SMEs establishments are on average 99 percent of total business establishments. They contribute more than 70 percent of employment and 60 percent in value added (OECD, 2017). The aim of the government is to increase the SMEs' contribution to GDP at 41 percent and export to 23 percent by 2020 (SME Annual Report 2015/2016)

development financial institutions) and government special funds and schemes are made available through the Bank Negara, Ministries and government agencies. SMEs are also eligible to enjoy facilities from non-banking institution such as venture capital, factoring and leasing and microfinance institutions.

Table 1.1 presents the statistics of SME financing from 2009-2015. The first to third row of the Table 1.1 shows the amount in Malaysian Ringgit (RM) and in the fourth row indicates the number of SMEs with outstanding loans to service. The data indicate a rising trend over the period with the financial institutions as the main lender to SMEs, while government schemes and loans show a decreasing trend. Share of financing extended to SMEs which average more than 40 percent of the financial institution's total business loans and approval rate is considered as high. Interestingly, SMEs in the service sectors are the main borrowers and this tendency is predictable as the SMEs in service sectors accounted for more than 90 percent of the total SMEs establishments (SME Corp. Malaysia, 2017). Evidently, the statistics in Table 1.1 also show that many SMEs have benefited from various sources of the external financing programs and therefore, this proves that borrowing money is not an issue in SME financing.

**Table 1.1 : Statistics of Loan and Financing Programs for SME 2009-2015<sup>2</sup>**

Items		2009	2010	2011	2012	2013	2014	2015
Financing (b/f)	FI	135.6b	141.2b	182.1b	189.0b	212.9b	249.5b	274.5b
	Govt.	9.0b	18.8b	19.9b	7.2b	6.8b	5.9b	5.9b
	Others	4.1b	3.5b	4.3b	3.7b	4.5b	4.5b	4.4b
No. of SMEs with outstanding financing		648,236	659,679	677,499	682,849	693,115	735,435	729,983
Share of SME Financing to total financing (business)		-	37.6%	39.2%	41.6%	42.1%	43.8%	46.6%
Approval rate		78%	80%	80%	83.2%	81.8%	81.6%	80.6%
% loan to service sector		54%	55%	56%	58.5%	59.2%	60%	61%

(Source : Annual reports SME Corporation Malaysia, 2009- 2016)

Note : FI –consist of banking institutions and development financial institutions; Govt.- consist of loans that are provided by special loan and schemes through Bank Negara, ministries and agencies; and others- consist of venture capital, factoring and leasing

<sup>2</sup> The statistics in Table 1.1 shows financing to SMEs within the scope of SME Corp. Malaysia and it is different than definition of SME from Income Tax Act (ITA), 1967. It is important to highlight that their definition of SME is different from the one in this study which follows ITA 1967. These statistics intend to show the sources of financing, government role in promoting SMEs growth and related information financing. Therefore, the statistics do not reflect the firms (SMEs) that fall under the definition of ITA 1967.

### 1.1.2 SME Tax Policy

For tax policy, to further contribute to the growth of SMEs, the recognition of tax policy in SMEs was implemented in 2003. Prior to 2003 there was no definition of SMEs in Income Tax Act (ITA), 1967 and Promotion Investment Act (PIA) 1986. The main tax benefit enjoyed by SMEs in Malaysia is preferential tax rate (PTR). In relation to cases of tax incentives, there were no special tax incentives designed for SMEs until recently in 2009. But prior to 2009, SMEs were eligible to claim any tax incentives based on criteria set by the government. Among some of the tax incentives provided in ITA 1967 and PIA 1986 are; pioneer status, investment tax allowance, reinvestment allowance, accelerated capital allowance, incentives for R&D, geographic based incentives, incentives for service sectors, pre-package, export incentives and deductions that consist of special deductions, further deductions and double deductions<sup>3</sup>.

Since there is a different in the definition of SME between SME Corp. Malaysia and the ITA 1967, it is useful to look at the SMEs population in Table 1.2 under the definition of ITA 1967 which have benefited from the tax policy implemented by the government. The statistics also present the number of SMEs (Column i) to compare with non-SMEs (Column iii). On average from 2009 to 2015, SMEs that fall under the ITA 1967 comprises more than 94 percent of total corporate firms in this country. The statistics show the increasing number for both SMEs and non-SMEs. As of 2015, the total number of SMEs stands at 357,595 firms while non-SMEs with 18,864 firms. This justifies that the SMEs under the ITA 1967 which is a tax policy definition are still the majority of total firms<sup>4</sup>.

**Table 1.2 : Profiling of SMEs for SMEs Tax Policy 2009-2015**

Year	(i) No. of SMEs	(ii) % of SMEs to total firms	(iii) No. of non-SMEs	(iv) % non- SMEs to total firms	(v) Total Corporate Firms
2009	261,678	94.51%	15,202	5.49%	276,880
2010	281,594	94.62%	16,003	5.38%	297,597
2011	291,075	94.63%	16,508	5.37%	307,583
2012	300,815	94.60%	17,167	5.40%	317,982
2013	308,965	94.58%	17,697	5.42%	326,662
2014	352,939	94.93%	18,840	5.07%	371,779
2015	357,595	94.99%	18,864	5.01%	376,459

(Source : The Inland Revenue Board of Malaysia)

Note : Profiling of SMEs and non-SMEs above is based on the definition of SME by Income Tax Act (ITA), 1967

<sup>3</sup> All of these programs are explained in detail in Chapter 2.

<sup>4</sup> Because the statistics by SME Corp. Malaysia uses other definition that are different than tax policy definition under ITA 1967

From the background of the study which highlights the rapid growth of SMEs in Malaysia, it makes economic senses for the government to support the SMEs' industries given the many advantages of promoting SMEs to the economy. Government support programs for tax policy and financing are mostly to correct the market imperfection, and to continuously improve access to finance. The presence of distinct weaknesses of SMEs as a result of the market imperfection and taxation, the situation has called for government intervention in order to support incessantly the SMEs' growth.

Nevertheless, promoting SMEs has created much debated questions and arguments whether these support programs are effective to boost the growth of SMEs. For example, SME Corp., (2016a) denied the claim of inaccessibility of financing for SMEs by highlighting the availability of diversified sources of financing to address the SMEs needs at various stages of their business development. However, there has been little quantitative analysis and attention given in particular to the internal and external financial structure of SMEs businesses and the importance of financial structure offered to the growth of these firms in Malaysia. From the perspective of supporting SMEs via taxation, the issues on the effectiveness of these tax policies have been the subject of intense debate within the effectiveness of the pro-SMEs tax policy. Preferential tax policies given to SMEs can impose threat on government revenue as a result of wasteful spending, opportunity for manipulation and inability to manage the government budget deficit. Thus, one of the key challenges faced by the government is to design an efficient, fair and simple tax system that is conducive in promoting economic growth (Chen et al., 2002).

## **1.2 Problem Statement**

It is well established from numerous studies and empirical evidence on the importance of SMEs towards the nation's economy and global economic growth. To date, SMEs are still an important research topic, thus, many policy makers and researchers are still debating on which policies would be the best to promote SMEs growth. The supporters of pro-SME policies believe that SMEs contribute significantly towards economic growth, employment, innovation and niche market to support large firms (Coad et al., 2016; Foreman-Peck, 2013; Teruel-Carrizosa, 2010). In addition, with the establishments of more than 90% in majority of developed and developing countries, the target of SMEs developments is to increase income and the socio economic status of the people in a country practically stretching across all sectors and industries is very practical (OECD, 1996; SME Corp., 2015; The World Bank, 2014). Recent evidence suggests that despite SMEs having many advantages to the economy, they also face challenges especially in issues of financial accessibility and the burden of negative effect of taxation that limit their growth potential, which are the main focus of this study. Therefore, it is considered common in every country to have special policy for SMEs to address these issues.

The first challenge identified was the access to external finance that can be captured by the importance of financial structure to SMEs growth. Fazzari et al., (1988) argued whether investment can be affected by financial constraint<sup>5</sup>, while Carpenter & Petersen (2002) focused on the relationship of financial constraint on the dynamic of firm growth. The importance of financial constraint to firm growth is still significant to date as commercial banks become the single most important source of external finance to small firms (Meyer, 1998). Due to that reason, it is clear that even though there is policy proposed by the government to ease financing, there is risk that the banks are still reluctant to extend new loans (Honjo & Harada, 2006). The same situation may happen in the case of Malaysia which Bank is the main source of finance to SMEs. What is more, although SMEs in Malaysia have many options to get financing from financial institutions (banks), development financial institutions (DFI), Bank Negara (Central Bank), and other government agencies, there are also risks of these programs not meeting its objectives as found by Boocock & Shariff (2005) on credit guarantee scheme. In addition, Ismail et al., (2010) demonstrated that financial constraints are present in the local market and claimed that the capital structure is a significant determinant for corporate performance in Malaysia (Ong & Teh, 2011).

Despite many studies (Carpenter & Petersen, 2002; Chittenden et al., 1996; Fazzari et al., 1988; Heshmati, 2001; Honjo & Harada, 2006; Oliveira & Fortunato, 2006a; Rahaman, 2011) have investigated financial structure and firm growth in many perspectives (country, sector, age and many more), the situation in Malaysia differs, the study on financial structure among SMEs are still very limited. According to a study by Salikin et al., (2014), capital insufficiency is still the crucial problem among SMEs in Malaysia which might be due to difficulties in obtaining external fund. To date, this study believes that there is a relative paucity of empirical research focusing specifically on the financial structure of SMEs that fall under the scope of definition in Income Tax Act (ITA) 1967 for firm level data in Malaysia<sup>6</sup>. Therefore, the financial situation of these SMEs is not known.

The second issue is that in spite of numerous theories that highlighted the importance of SMEs towards its contribution in employment, innovation and economic growth, there is no concrete empirical evidence to validate those arguments to give special tax preferences to SMEs. Chen et al., (2002), Zee et al., (2002), Chen & Mintz (2011), Freeman (2013 & 2015) argued that tax incentives and pro-SMEs policy are rather ineffective and have departed from the fundamental subject of tax neutrality in tax policy. Granting tax incentives entails five types of costs: (i) distortions or bias between investments granted incentives and those without incentives; (ii) forgone revenue from the assumption that the government operates under a revenue constraint, and this lost revenue is normally to be compensated from alternative distortive taxes;

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<sup>5</sup> A firm with limited or no access to external capital may be seriously constrained in its ability to pursue an optimal investment policy which, in turn, may hinder the firm's growth (Demirguc-Kunt & Maksimovic, 1998; Knyazeva, Knyazeva, & Stiglitz, 2009; Levine, 2004; Rahaman, 2011; Rajan & Zingales, 1998).

<sup>6</sup> There are two definitions of SMEs in Malaysia and this study follows the definition of ITA 1967. The other definition is by SME Corp. Malaysia.

(iii) opportunity cost from revenue forgone that can finance development and socio-economic expenditure; (iv) administrative resources required to administer them; and (iv) the social costs of corruption and/or rent-seeking activities connected with abuse of tax incentive provisions (Zee et al., 2002).

Following on those arguments, in most countries, tax policy for SMEs consists of preferential tax rate (PTR) while the other option is to encourage SMEs to apply for the available tax incentives. The importance of PTR is that it is a main tax code in SME tax policy and each firm is eligible to enjoy the benefits of PTR if it falls under the definition of SMEs. Unlike PTR, tax incentive is based on firm's application and their eligibility based on the promoted projects, geographical area and technology used. Previous studies revealed that limited study on the effectiveness of PTR and tax incentives to firm growth is connected to lack of tax data available for research (Honjo & Harada, 2006; Mateev & Anastasov, 2012; Mateev & Ivanov, 2011; Zariyawati et al., 2010). For that reason, even though a few research have studied the subject matter, the measurement used to evaluate the effectiveness of tax policy is by non-numerical measurement (i.e. dummy variable) is common. Hence, the lack of tax data justified our concern on the measurements issue to measure the effectiveness of PTR and tax incentives and gap of knowledge on the effectiveness of these policies to firm growth.

Turning now to highlight the significance of the problem, the following statistics in Table 1.4 shows the general information on SMEs taxation from 2009 – 2015. The table presents the statistics of total SMEs (Column i) with comparison of taxable SMEs (Column ii), turnover (Column iv), taxable income (Column v) and tax payable (Column vii) for the period of 2009-2015. From the table, on average of less than 60 percent of total SMEs are taxable, less than 7 percent of turnover are taxable and from taxable income, only less than 24 percent are collected for tax revenue. What is interesting from these data is that the difference between total turnover to taxable income is partly due to the tax incentive. The difference is also called tax expenditure and it contributes to the revenue forgone. On this matter, little is known on the exact tax expenditure and the effectiveness of the expenditure to SMEs growth.

**Table 1.3 : Statistics of Taxable Income and Tax Payable by SME that are Taxable for the Period of 2001-2015**

Year	(i) Total SMEs	(ii) Taxable SMEs	(iii) 2/1	(iv) Turnover/ Sales	(v) Taxable Income	(vi) 5/4	(vii) Tax Payable	(viii) 7/5
2009	261,678	149,173	57.00%	918,094	51,040	5.56%	11,469	22.47%
2010	281,594	165,502	58.77%	999,125	58,059	5.81%	13,238	22.80%
2011	291,075	174,011	59.78%	1,094,856	66,933	6.11%	15,445	23.06%
2012	300,815	183,132	60.88%	1,164,093	74,142	6.37%	16,586	22.35%
2013	308,965	187,798	60.78%	1,195,688	74,097	6.20%	17,098	23.08%
2014	352,939	195,232	55.32%	1,244,751	79,455	6.38%	18,661	23.49%
2015	357,595	193,353	54.07%	1,254,027	83,962	6.70%	19,747	23.52%

(Source : Restricted Database from Inland Revenue Board of Malaysia (IRBM) and Department of Statistics Malaysia)

Note: The amount above is in RM (million)

Following to that, this study further justifies the factor that reduces tax payable from the tax expenditure analysis. Table 1.4 shows the tax expenditure estimations from 2009-2015 that reduces the taxable income of SME. Tax expenditure that reduces tax payable in this analysis is called revenue forgone which reduces tax payable of taxpayers (SMEs) (Romli et al., 2017). In order to measure the revenue forgone, the estimation used is based on a simple measurement by adding those tax programs spending amount to taxable income and multiply by prevailing tax rate, in aggregate-base calculation suggested and practiced by many OECD countries (Swift et al., 2004). Total tax expenditure (TE) in column (1) is a total tax expenditure which consists of two types expenditures which are preferential tax rate (PTR) and various tax programs (VTP).

From these two tax programs, VTP is the main contributor to TE but PTR spending is in upward direction due to increase of taxable income subjected to PTR<sup>7</sup>. First assessment from Table 1.4, it can be estimated (from Column i) that from 2009-2015, on average more than RM13 billion of revenue is forgone a year and the highest revenue forgone is in 2010 and 2012. The trend is declining, but the amount of revenue forgone is substantial which can be seen in column iv and column vi when revenue forgone is compared to total corporate tax collection and total revenue of the government respectively. In addition, the revenue forgone from tax expenditure is estimated to be larger than what is presented in Table 1.4 as the estimation excluded other types of taxpayers. This leakages in tax revenue demonstrate the urgency to have effective and productive tax policy in achieving the objectives of those incentives (PTR and tax incentives).

<sup>7</sup> The data on this is not shown here but can be assessed in Table 2.5 and 2.6 of Chapter 2

**Table 1.4 : Total Revenue Forgone to Corporate Tax and Total Government Revenue**

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
Year	TE	Total Revenue Forgone	Corporate Tax Revenue	2/3	Total Revenue	2/5
2009	45,477	7,628	15,590	49%	158,639	4.81%
2010	111,892	23,854	17,805	134% (+85%)	159,653	14.94% (+10.13%)
2011	60,398	10,507	20,203	52% (-82%)	185,419	5.67% (-9.27%)
2012	109,712	22,501	22,977	98% (+46)	207,913	10.82% (+5.15%)
2013	62,883	10,523	44,108	24% (-74%)	214,270	4.91% (-5.91%)
2014	60,439	9,591	65,240	15% (-9%)	220,626	4.35% (-0.56%)
2015	68,182	11,515	63,679	18% (+3%)	219,089	5.26% (+0.91%)

(Source : Restricted Database from Inland Revenue Board of Malaysia IRBM and Department of Statistics Malaysia.)

Note: The amount above is in RM (million) and the computation of the tax expenditure and revenue forgone are presented in Chapter 3 of this thesis in detail.

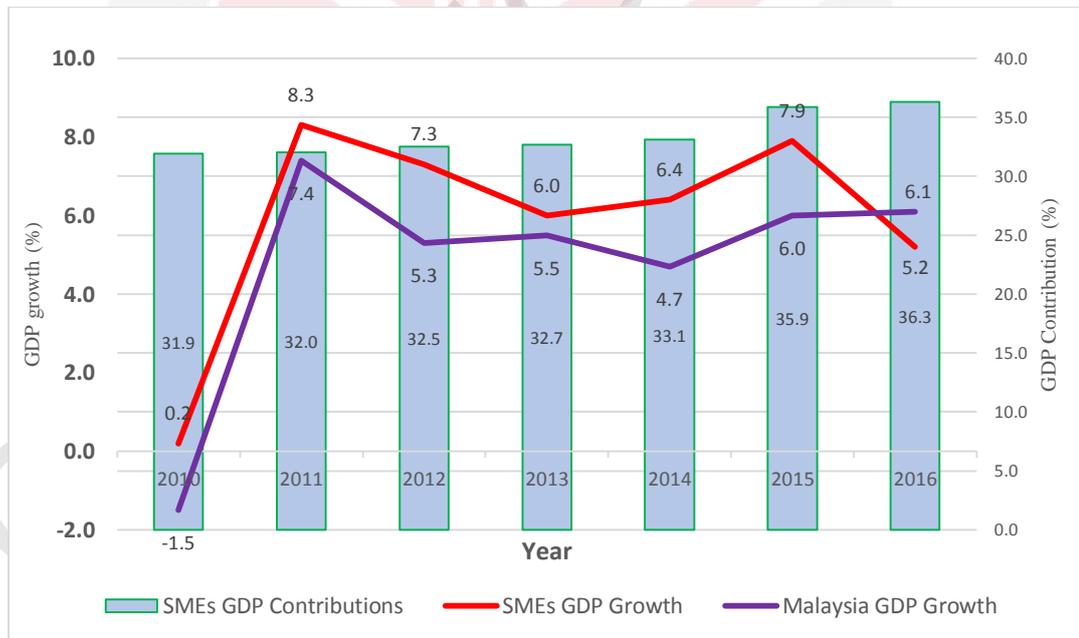
(1) Total revenue forgone is tax expenditure (TE) estimated from preferential tax rate (PTR) and various tax programs (VTP).

In conclusion, taken together the plethora of tax programs and the gargantuan amount of tax incentives, there is a growing concern on the importance of tax expenditure in controlling the budget deficit in Malaysia. On that account, there are many perspectives that one can use to explain on how to reduce the budget deficit. Familiar and frequent measures are to increase revenue, introduce new tax, reduce spending and many other ways. However, one perspective that is not included in the measure and yet to be implemented by Malaysia is controlling the tax expenditure. This is also one of the reasons why the government finds difficulties in controlling the budgets, because a major component of spending, in the form of tax expenditure and granted privilege status are treated as tax cut instead of spending (Burman & Phaup, 2012). Other advantage of controlling the revenue forgone from tax expenditure is that it can be utilized to reduce personal income tax that will increase disposable income of taxpayers. Accordingly, as explained earlier, due to the extremely large amount of tax expenditure, monitoring this expenditure is crucial to avoid wastage and there is limited empirical evidence to prove on how tax incentives can promote firm growth. Moreover, Hendricks et al., (1997) claim that lower tax rates for SMEs can discourage their growth by staying small. Hence, this study is to investigate the causal link between SME tax policy to sales and assets of SMEs that receive the tax incentives.

The final and third issue is on the importance of financial structure and how the relevant tax policy affects the two groups of SMEs; which are the users and non-users of tax incentives. The importance of treating these two groups separately is based on the assumption that not all firms seek growth (Barlet & Bukvic, 2014) and most firms start small, live small and die small (Davidsson et al., 2010). In this study, unlike the non-users, the users of tax incentives are more pro-growth oriented as they seek to enhance their growth through the benefits of granted tax incentives. Therefore, the importance of financial structure and tax policy are different to these two groups of

SMEs. The users of tax incentives are more likely to use external financing as compared to the non-users. Meanwhile PTR will likely to be more important towards the non-users of tax incentives as the users of tax incentives have more source of financing including tax incentives that is also part of external finance. As a result, the situations faced by these two groups in financial structure and the importance of PTR to their growth has not received adequate attention in finance research. Hence, potentially, this study and the findings can provide insights and advice to policy makers on what can be done to promote growth of both groups.

Overall, based on the issues presented in this study and parallel with the aim of the government to raise the contribution of SMEs to the nation's GDP at 41 percent, it is timely that the effectiveness of these policies should be evaluated whether they are promoting growth of SMEs. Figure 1.1 presents the SMEs' GDP growth and contribution to GDP. From 2010 to 2015, the growth of SMEs is higher than the growth of the country except for 2016. GDP contribution was at 31.9 percent in 2010 and in 2016 it was at 36.6 percent (SME Corp. Annual Reports, 2010-2017). What is notable is that, the increase of SMEs' contribution was only 4.7 percent in the past six years which denote, an average, the increase of contribution a year is very small which is 0.78 percent. With the same average contribution a year of 0.78 percent, it is projected that in year 2020, the SMEs contribution to GDP of the country will not meet the target of 41 percent (the estimated contribution is 37.76 percent).



**Figure 1.1 : The SMEs Growth and GDP Contribution 2010-2016**

Therefore, in view of the inevitable uncertainties in the advantage of SMEs pro-growth policy, this study explores the financial structure and the causal relationship of the effectiveness of SME tax policy implemented on the growth of SMEs in Malaysia.

This is important due to the findings of this study can give insights on the effectiveness of the government policy to promote SMEs growth and whether it can support the aim of the government to achieve 41 percent of GDP contribution from SMEs.

### **1.3 Research Questions**

Based on the problem statements, the relevant research questions are developed for this study. The questions are as follows:

- i. Do financial structures importance to SMEs growth? What is the difference between the financial structure of SMEs which are users of tax incentives and non-users?
- ii. Does preferential tax rate a pro-growth factor for SMEs? To which group PTR is more important; whether the users or non-users of tax incentives?
- iii. Do tax incentives pro-growth factors for SMEs?

### **1.4 Objectives of Study**

The general objective is to investigate the importance of financial structure and the effectiveness of tax policy to SMEs growth. The initial interest is to fill in the gap on the situation of financial structure of SMEs in Malaysia and to compare the structure between users and non-users of tax incentives. Secondly, this study investigates the effectiveness of SME tax policy on the users and non-users of tax incentives. The relevant tax policy included in this study consists of preferential tax rate (PTR) and tax incentives. The specific objectives of the study are as follows:

#### **1.4.1 Objective 1 for financial structure**

To explore the significance role of financial structure to SMEs growth in Malaysia

**1a** : To investigate the effect of internal finance and external finance to firm growth between the two groups of SMEs which are the users and non-users of tax incentives.

#### **1.4.2 Objective 2 for preferential tax rate (PTR)**

To assess whether preferential tax rate (PTR) to SMEs is a pro-growth factor.

**2a** : To examine the influence of PTR to firm growth between the users and non-users of tax incentives.

### **1.4.3 Objective 3 for tax incentives**

To evaluate whether tax incentives for SMEs in Malaysia are pro-growth factors.

Additionally, apart from the three (3) stated objectives, to justify the importance and to give reliable evidence of this study for policy recommendation, therefore the other objective is to produce the tax expenditure analysis that validates the urgency of this study as presented in Chapter 2.

## **1.5 Motivation of Study**

In general, the importance of SMEs from previous literature can be sensed by the terms used such as economic backbone, strong domestic economy, engines for job creation, and key to poverty alleviation. Due to these postulations and the number of SME establishments in a country, many policy makers opine that by promoting growth in SMEs, that will help a country to accelerate growth, reduce unemployment rate and poverty and to support other government's social and economic objectives. Thus, promoting growth in SMEs is one of the most important research topics studied in finance literature and those pro-arguments are the three main justifications of motivation of this study.

The first motivation of this study is connected to the subject of finance and firm growth. Access to finance has always been the main feature of policy recommendations in many world organizations and previous literatures for SMEs survival and growth. In Malaysia, there are diversified sources of financing that are available to SMEs (Bank Negara Malaysia, 2015; SME Corp. Malaysia, 2016a; SME Corporation Berhad, 2015). However, there is less evidence to support the financial situation from the effect of ease of financing to promote the growth of SMEs. As far as this study is concerned, the literature in Chapter 3 has reviewed many theories on how firms finance their business activities. However, until now, the availability of studies on financial structure and financial constraint is limited and if any they mostly applicable to large firms in Malaysia (Ismail et al., 2010). The scarcity of related literature encourages this study to investigate the financial situation of SMEs under the definition of ITA, 1967.

On the other hand, taxation as a mean of increasing the country's revenue is unavoidable and to avoid the negative effects of taxation preferential tax policy is a common measure in fiscal policy of a government. Therefore, SME tax policy was implemented officially in Malaysia in 2003 with intention to reduce taxation burden, promote SME sectors and reduce cost of compliance and book keeping of SMEs. As this policy gives certain advantages to SMEs, some argue that it can cause adverse effects to the economy, where it may create opportunities for tax manipulation, thus making it ineffective and unproductive tax policy in promoting firms' growth. Following those arguments, there are several studies on SME tax policy but not many

investigated on the effect of those policies on firms' growth particularly on the effects of PTR. In Malaysia, tax data are not publicly available and this leads to scarce knowledge on tax incentives and tax expenditure analysis, previous studies have not provided adequately justification for revenue forgone analysis and the empirical evidence to show the causal relationship of the tax policy to firm growth. Therefore, this study attempts to undertake a clear investigation on the effect of tax policy to firm growth with justification from revenue forgone from tax expenditure analysis.

Hence, the primary reason of conducting this topic is attributed to my personal experience working at Tax Research Department (TRD) of the Inland Revenue Board of Malaysia. As a researcher in TRD, I witnessed an extremely large amount of tax incentives were awarded to many taxpayers and projects. As a result, the situation creates intuitive curiosity on the advantages of these programs. The key question was, are they effective? How do we know whether the incentives promote growth and bring more revenue to the country in the future? Furthermore, from the interest on the tax incentives, and its potential problems, SME financing came to my scope of interest as tax policy gives indirect financing to SMEs. Consequently, this study is to investigate and reveals report on tax expenditure analysis and to investigate and to give reliable evidence on causal relationship between SMEs tax policy to firm growth.

## **1.6 Significance of Study**

The significance of this study in this section is divided into two parts; the study's contribution to practice and its contribution to literature.

### **1.6.1 Contribution to practice**

The findings of this study can provide input to the policy makers with regard to the financial situation and the effectiveness of preferential tax rate and tax incentives to promote growth of SMEs in Malaysia. As mentioned earlier, the firms (samples) of this study will be grouped based on their usage of tax incentives, which falls into two groups; the users and non-users of tax incentives. Thus, by stratifying the firms into two distinct groups, the findings are able to differentiate the effect of financial structure and PTR to firm growth of the users and non-users of tax incentives. Then, the use of tax incentive among SMEs is investigated to see if the tax incentive is a pro-growth factor. Accordingly, this study provides three main contributions to practice by the end of the research.

First, the study seeks to contribute on in the aspect of financial structure. With diversified access to finance for SMEs in Malaysia, the findings from this study should provide the current situation of financial structure to its growth. The effect can be evaluated from the dependency of internal or external financing to support its growth. As SMEs' growth is argued to be constrained by firms depending more on internal finance, with the government support programs, ease of financing from financial

institutions and other sources of financing, the findings present sufficient empirical evidence of financing landscape for policy makers. The objective is also to give insights on the financial structure of users and non-users of tax incentives. These will help policy makers in justifying whether the objectives of government programs for access of finance are effective or they need some improvements.

Second is on the preferential tax rate (PTR) and tax incentives. This study has justified the importance of the effectiveness of SME tax policy to firm growth. From tax expenditure reports, the amount of revenue forgone estimated from corporate tax returns is substantial and it needs to be justified whether it is a pro-growth policy or not. In addition, the amount is estimated to be higher as the tax expenditure analysis presented here is only from SMEs and not including other types of taxpayers and indirect taxes. According to Veerinderjit Singh (2016), the most renowned tax expert in Malaysia, suggests that in light of the current fiscal position that Malaysia faces, there is a need for the country to grow its revenue and reduce, or at least contain, its expenditure (Singh, 2016). Therefore, the importance of this study is that, the findings are able to give justifications on the causal relationship of these support programs to SMEs growth in Malaysia. Policy makers will then have some insights to eliminate, reevaluate and improve any tax programs that are not meeting their objectives. This is because tax incentives are expenditure that reduce revenue and one of the factors for the increase of budget deficit. In this regard, it is paramount for Malaysia to eliminate tax incentives that are counterproductive and replace them with productive tax programs.

Lastly, this study is important to the Malaysian government as it will give suggestions on best current practices that it should implement. Policy makers should notice that giving tax incentives without evaluation or tax incentives which last for a long period of time can pose risk to the government's revenue, introducing capital rent and other macroeconomic problems as well as tax evasion and abuse of power. Thus, this study will give extra practical input for policy makers on how tax incentives should be implemented based on the latest literature on SME tax policy, recommendation from world organizations and most importantly from the finding of this study.

### **1.6.2 Contribution to literature**

Potentially, this research has four areas of contributions related to the literature. In general, this study provides empirical evidence on the importance of SMEs in Malaysian economic landscape which has not been provided by previous studies. In this study, the findings present empirical evidence on the importance of financial structure for SMEs under the definition of ITA, 1967 which excludes small and micro establishment such as sole-proprietorship and partnership. Additionally, the main concern here is that, the firms under this definition may have different financial structure due to distinct accessibility to finance when compared with other studies as a result of differences in the definition of SMEs.

Furthermore, the availability of unpublished tax data gives a niche to this study where the SMEs selected as samples can be divided into two sub-samples, which are the users and non-users of tax incentives. It is believed that there are differences in term of financial structure of the users and non-users of tax incentives due to the fact that the users of tax incentives are more pro-growth. This is based on the use of tax incentives justifies the intention of these firm to grow more to compare with non-users which have no interest in exploiting the tax advantage from the incentives. From here, the second contribution this study is to fill in the gap on the difference of financial structure of these two group that no previous studies have addressed. The difference of financial situation will give empirical evidence on the gap of financial structure and firm growth study.

The third contribution towards the literature is on the study of the importance of PTR to firm growth. As mentioned earlier, previous studies (Bilal et al, 2016; Cauwenberge et al, 2016; Honjo & Harada, 2006; Mateev & Anastasov, 2012) only investigated the effect of PTR to firm growth with different measurements. This study believe that those measurements used for PTR are not adequate to justify the effectiveness of PTR to firm growth. The results were limited to the effect of tax rate to firm growth and hence, there is argument on the suitability of the measurements from previous studies. For this reason, this study applies different measurement as I have the access of tax data to present precise empirical evidence of on the effectiveness of PTR to firm growth. Additionally, this study argues that there is a difference on the importance of PTR to SMEs that are users and non-users of tax incentives. This is because, SMEs that are users of tax incentives are pro-growth (due to the fact that tax incentives are to promote growth) and contribute to large in their size to compare with non-users. In short, the finding from this study is to fill the gap on the sensitivity of PTR to these two groups.

The fourth contribution towards the literature is on the importance of tax incentives to SMEs growth in Malaysia. Even though studies of the effectiveness of SMEs tax policy are available from the advanced countries, the empirical evidence which relate to tax incentives to SMEs growth is limited in Malaysian perspective. Indeed, the effectiveness of these incentives to SMEs remains unknown and comparison with previous studies is difficult due to the facts that each study has different focus of type of firms, sectors and most importantly, the definition of SMEs is different due to the country's definition. Therefore, the finding of this study is crucial for Malaysian perspective. In addition to that, unlike many previous studies that use dummy variable, this study presents qualitative and quantitative proxies for tax incentives in estimating the causal relationship of tax incentives to SMEs growth. Hence, this study provides clear evidence on the effectiveness of tax incentives from the perspective of definition of SMEs from Malaysian ITA 1967, and better understanding on the effectiveness of tax incentives to the users.

Finally, this study hopes to be an importance reference for the researchers who conduct research on tax policy and the topic of SMEs, tax incentives and firm growth as SMEs will always be an important economic affair by policy makers. The evidence from this study also fills in the gap of studies from emerging countries on financial structure and it gives justifications whether tax policy that reduces taxation pressure by acting as a source of external financing is pro-growth factors for SMEs. Thus, this study identifies the advantage to have special policies for SMEs as they are argued to be promoters of growth of a country.

## **1.7 Organisation of Study**

The thesis is composed of six themed chapters which is organized as follows. Chapter one starts with the introduction and background information on SMEs, its related financial structure and the relevant tax policy. In Chapter 2 the overview of SME and history of SME tax policy in Malaysia and tax expenditure reports to support the urgency of this study are reported. Meanwhile, Chapter 3 reviews all the relevant literature pertaining to the subject matter which is firm growth studies. Among the reviews covered are theories underlying the focus of the study which are financial structure and SMEs' tax policy. Other inter-related literatures from firm level study of SME tax policy and growth as well as other studies are reviewed too in this Chapter 3 Chapter 4 layouts the research design, relevant variables (dependent and independent), methodologies, data, issues and scope of the study. The results on the effectiveness of SME tax policy to SMEs growth as well as descriptive analysis of SME tax incentives in Malaysia from 2006-2015 are presented in Chapter 5. It deliberates on the findings and the extent that the study has achieved its intended objectives. Finally, Chapter 6 concludes the thesis by reiterating the key findings of the study and an overall discussion of the contribution of this thesis to the body of knowledge and recommendation for future studies.

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