Effect of Income Tax on Financial Performance of Hotel Industry in Rwanda

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ABSTRACT

The study aims to assess the effect of income tax on the financial performance of hotels in Rwanda. According to the Rwanda Chamber of Tourism, taxes imposed on hotel's Staff feeding lesser hotel's financial performance consequently taxed on recurrent expenses rather than income raise tax avoidance or evasion to hotel investors. The general objective of this study is to assess the effect of income tax and hotel financial performance in Rwanda.During this study, a descriptive research design was used. The target population was 23 hotels selected from three to fivestar hotels. The data were collected from financial reports from the respondents. SPSS tool was used to analyze the data. Multiple regression analysis was used. The results of the study shown that Earnings Before Interest and Tax (r=. 290, p<0.091), net income (r=. 286, p<0.095), Net income adjusted (r=. 264, p<. 125), Return on Asset (r=. 261, p<. 130), liquidity (r=. 466**p>. 005), Firm age (r=. 143, p<. 411. Turnover has a positive low correlation on net income (r=.367*, p>.03), Net income adjusted (r = .351*, p>.039), return on asset (r= .301, p<.000) and firm age (r = .309, p<.16). this means that hotels has a number of expenditures thus lowered earnings though turnover can't be influenced by net income, neither adjusted nor return on asset. All controls showed a non-significant level on financial performance, for ROA (Hotel Category, p<0.215, Hotel size, p<0.331), Turnover (Hotel category, p<0.076, Hotel size, p<0.851) and EBIT (Hotel category, p<0.182; Hotel size, p<0.464). however, the result indicate also that Staff feedings has a positive significant effect on financial performance, ROA (p<0.001, Turnover (p<0.015), EBIT (p<0.001Through that recommendation were drawn where government should intervene with clear policies to help hotel reinvest their liquidity while hotels should more emphasize on formal accounting of staff feedings.

Key words: *Income taxes, financial performance, Hotel industry.*

1. Introduction

Globally, hotel identifies Staff feeding in their normal working framework as non-income characteristics, thus should not be added back to taxable income, although hotels expenditure incurred toward staff retention ploy for financial performance (Upneja&Dalbor, 1999; Gooroochurn& Milner, 2005). However, different Tax administration perceives differently on the staff feeding characteristicin terms of income tax as backward turnover for the hotel.

Developing countries today, mostly in Africa compete to attract foreign direct investment to their domestic hotel activities. Many have therefore already changed their policies on foreign investment in order to compete effectively (Gatsinzi &Donaldson, 2010). This has an effect on reducing taxes on income for the purpose of increasing their return on Asset (Nkurayija, 2011).

The Government of Rwanda, identified hotel sector as one of the key priorities in the tourism sector to impel Rwanda's economic growth (Carey, 2012). In a bid to promote the tourism industry, the government of Rwanda made critical efforts to restructure hotel through fasting investments, growth and development (MINECOFIN, 2012). This attracts investors, devising pro-active policies and regulatory framework and introduces a private-public partnership that contributes toward a sustainable hotel/tourism industry growth. Hotels are growing rapidly with a decipherable source of foreign currencies for example, reported receipts of US$404 in 2016 while the target is US$ 627million in 2020 and US$ 800million in 2024 (Minicom, 2017).

Rwanda Development Board (RDB) and other public institutions closely work with the Rwanda Chamber of Tourism (PSF) to guide development of hotels whilst propose an amendment on tax issues on hotels. Hence, more reforms on current tax regime embark on to enable hotels and tourism investors reach out instigated sector target, (PSF, 2017).

Divergence between the Chamber of Tourism (PSF) on hotels Complimentary products or services, Staff feeding on these services and feedings opened to tax administration due to a different perception of its taxable nature. Studies

revealed that some of the hotel operators once found themselves in such scenario; they tend to shift the taxes to consumers of their services, to avoid increased loss or reduced revenues. Consequently, hotels prices increases and competition in and out investors is contentious, (Dombrovski&Hodžic, 2010; Onyango, 2015).
The Rwanda taxation lawsprovidedlucidapproaching about treatment of hotels service taxes while highlight hotels service under exemption, although not including staff feeding and complimentary service. Its 'in this line this study assesses length to which Taxing some hotel services among others complimentary product or services offered by hotels and staff feeding upshot on hotel performance toward add value of empirical literature on taxable services in hotels.

2. Objectives

The general objective of this research is to find out the effect ofincome taxes on the financial performance ofthe hotel industry in Rwanda.

The study was guided by the following specific objectives:

i. To assess the level of income income tax in selected hotels in Rwanda.
ii. To analyze the level of financial performance in selected hotels in Rwanda.
iii. To find out the relationship between income tax and financial performance in selected hotels in Rwanda**.**

3. Literature review

Hotels operators provisionally do not see themselves liable with these taxes, one can ask him/herself what happens when they are taxed these on those issues. It was shown that these taxes may not have any impact on the revenue loss to hotels operators, which suggest that these taxes may be shifted to consumers resulting in increased prices (Bonham *at al.,* 1992). This may have a negative impact on the growth of Rwandan Tourism Industry.
Apart from the natural beauty and abundance of facilities also the price of overnight stay and food is the important factor in selection of the tourist destination. This is because tourists tend to choose a country with more convenient prices. Thus tax affectshotels'prices and subsequently also the competitiveness of each country(Dombrovski&Hodžic, 2010). Although the Rwanda hotels are generally thriving, the Chamber of Tourism Rwanda has expressed concern that the relatively high taxes turn visitors and developers away, harming the industry and the country's economy (PSF, 2017).
Though it is generally perceived that tax is an important source of fund for development of the economy and provision of social services, a significant negative relationship between income taxes and the business' ability to sustain itself and to expand was shown. Therefore in order to a vibrant tourism sector among in hotel, the tax policy needs to be appropriate such that it will not bear burden to the growth of hotels operations (Onyango, 2015).
The study done by Sheng (2017), related to factors determining the success or failure of a tourism tax, a theoretical model for spaint tourism among others hotels revealed that lower tax applied improve efficiency thus financial performance. Alhtough tourism sector is generalized the author highlihgted that tax policy must be formulated based on broader economic social and environmental consideration as well as sustainability issues. Thus the current study split the tourism and norrow down up to hotels which pin up the development of specific sector.
According to the study done by Harelimana (2017), the effect of budgetary Control on Financial Performance of Kigali Serena hotel. The author result revealed a solid budgetary control method positively affect financial performance (ROA) on its utilization money related execution. The budget control encompasses income tax as part of expenditures thus embrasse the ideal of budget control by incorporating staffs outincils reduce income tax as result financial performance (ROA) increases.
According to the study done by Manrique& Marti-Ballester (2017) on 2892 firms of developing and developed countries on large firms (Hotels) for the period running from 2008-2015 by analyzing the effect of corporate environmental performance on corporate financial performance focusing on role of development has revealed that policy on environmental activities such as hotels activities allowing Hotel to improve their corporate financial performance enhances taxes to be collected. This study analyzes the implication of tax administration on collecting income tax and financial performance fluctuation toward providing practical implication for Rwanda Government as policy makers.
Hotels pay corporate income tax based on taxation laws gotten through deduction from annual turnover with deductible expenses therefore special treatment should be based on expenditures as main part for tax base and taxable rate. Different studies on hotels and different companies have provided the result referring to taxable

rate(Peter, Nyataya, 2017;Gatsi*et al.*, 2013) and investment in sector (Gatsinzi& Donaldson, 2010) and prevent the exploitation of the factors determining taxable base. The other study analyzed single sample among others (Harelimana, 2017; Sheng, 2017). These studies did not link income tax on its own thus their result is generic. Another study such as Manrique& Marti-Ballester (2017), used pannel date in different countries although tax on financial performance in tourism and environmental business operators seems to be a hot braistorming topic their result was also pin up to tax thus gives a room backward to the current study to analyze factors like staff feeding in determination of income tax as to fill gaps and come up with new results benefiting tax administration and hotels instead of tax planning as proposed by previous studies.

There are other factors that affect the income tax determination as well as hotels age and size and liquidity this can be controlled at once to fill gaps of others who only considered firm age and size as the only key factors in tourism and hotels.

4. Methodology

The study used a descriptive casual design in particular a descriptive correlation design. The design enabled the researcher to describe the different strategies as they exist.

The study populations concerned with this study were hotels located mainly in Kigali City and secondary city like Rubavu, Musanze, Huye, Muhanga, Nyagatare Districts of Rwanda.

This study was mainly based on data derived from secondary sources of information that, despite the disadvantages of its possible inaccuracy, also present advantages mostly because of its major objectiveness.General information about hotels was collected using the reports from different hotels head office, their web page and studies carried out by PSF, RRA, RDB, as well as newsFrom newspaper specialized in tourism – Hotel ontheotherhand,inorder to obtain the basic informationabout the hotels and to classify them, data from the Official Hotels'Guidepublishedby RDB has been contrasted and completed with the information provided on the web pages of hotel enterprises.

The multiple regression analysis and ANOVA was used to predict the possible linear relationship of tax on Staff feeding, liquidity and firm age to test direct effect while the inclusion of controls was to test its effect on direct effect of endogenous variable. The following regression general model will be useful for the analysis of this study:

$$y_{it} = \beta_0 + x_{1t}\beta_1 + x_{2t}\beta_2 + x_{3t}\beta_3 + C_{1t}\beta_1 + C_{2t}\beta_2 + \varepsilon_{it}$$

Where:

y_{it} is representing dependent variable i(Financial Performance) at time t=1,2,3,4,5 years

β is constant and slope for the regression model

x_{1t} is representing variable Staff feeding at time t=1,2,3,4 ,5 years

x_{2t} is representing variable liquidity at time t=1,2,3,4,5 years.

x_{3t} is representing variable Firm age at time t=1,2,3,4,5 years.

C_{1t} is representing control variable Firm size at time t=1,2,3,4,5 years

C_{2t} is representing control variable hotel category at time t=1,2,3,4,5 years

ε_{it} is the terms error of variable i at time t=1,2,3,4 years.

Table 1: Measurement specifications

Measurement	Specification of measurement
Return On Asset (ROA)	Net income divided by total assets
Earnings Before Interest and Tax	Net Income before tax
Turnover	Total sales of the year
Net Income adjusted	Taxable income added back staff feeding and other complementary services minus income tax paid
Staff feeding	Food consumed by staff per year
Liquidity	Total cash and cash equivalent per year
Firm age	Number of years since incorporation
Firm size	Logarithm of total asset
Firm category	Dummies 1,2,3

5. Results and Discussion

This sectionprescribes mainly the results undermine the effect on Income tax (NI adjusted, Staff feedings, firm age, liquidity)on financial performance (ROA, EBIT, Turnover).

5.1Data presentation

This table shows the results of the findings collected from the survey.

Table 2.Trend percentage analysis of staff feeding cost in hotels

2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
256,364	268302.8213	281579.7	284898.9	275494.4	100	105	110	111	107
10,679	9510.420561	11370	15000	15000	100	89	106	140	140
101,307	54269	45265	78398	56053	100	54	45	77	55
58,209	58208.88462	60056.79	61288.72	61288.72	100	100	103	105	105
41,578	68064.35714	55129.05	84079.5	84079.5	100	164	133	202	202
21,786	18121.44706	17307	17306.54	17306.54	100	83	79	79	79
26,696	27486.85944	28301.28	28708.5	28912.1	100	103	106	108	108

Source: Survey Data, 2020

A trend percentage analysis was conducted to analyze the staff feeding cost in the hotel industry. 2015 was considered as the base year in order to establish the increase or a decrease in the staff feeding costs in the hotels in Rwanda. For the first hotel staff feeding cost in 2016 was increased to 105%, in 2017 was increased to 110%, in 2018 was increased to 111%, in 2019 was increased to 107%. For the second hotel staff feeding cost in 2016was decreased to 89%, in 2017 was increased to 106%, in 2018 was increased to 140%, in 2019 was increased to 140%.For the third hotel staff feeding cost in 2016was decreased to 54%, in 2017 was decreased to 45%, in 2018 was decreased to 77%, in 2019 was decreased to 55%. For the fourth hotel staff feeding cost in 2016wasn't changed, in 2017 was increased to 103%, in 2018 was increased to 105% and in 2019 was also increased to 105%. For the fifth hotel, staff feeding cost in 2016was increased to 133%, in 2017 was increased to 164%, in 2018 was increased to 202% and in 2016 was also increased to 202%.For the sixth hotel, staff feeding cost in 2013was decreased to 83%, in 2017, in 2018 and in 2019 was decreased to 79%.For the seventh hotel, staff feeding cost in 2016was increased to 103%, in 2017 was increased to 106%, in 2018 was increased to 108% and in 2019 was also increased to 108%.Staff feeding is considered as a tax-deductible expense for corporate income tax (CIT) purposes. Therefore, the chamber considers that it is only fair that we in Rwanda conform to the practice of our partner's states in this regard (PSF, 2017). According to the article 21 of the law nº 16/2005 of 18/08/2005 on direct taxes on income1° they are incurred for the direct purpose of, and in the normal course of the business, staff feeding costs should be treated as a necessary business expense not a benefit in kind; thus, the chamber takes this practice as an allowable expense on Income Tax.

Table 3: Trend percentage analysis on the net income of hotels

2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
297,261	415,419	1,210,681	881,229	655,139	100	140	407	296	220

-523,257	-401,390	-469,289	-917,194	-251,461					
					100	77	90	175	48
188,522	-115,834	-163,755	-206,009	-178,617	100	-61	-87	-109	-95
-1,052,155	415,419	1,210,681	881,229	655,139	100	-39	-115	-84	-62
-523,257	-401,390	-482,704	-917,194	-251,461	100	77	92	175	48
170,048	-144,194	-202,237	-250,595	-250,741	100	-85	-119	-147	-147
-1,052,155	415,419	1,210,681	748,998	547,486	100	-39	-115	-71	-52

Source: Survey data, 2020

A trend percentage analysis was conducted to analyze the net income of hotels. 2015 was considered as the base year in order to establish the increase or a decrease in the net income in the hotels in Rwanda. For the first hotel the results show that in 2016 there have been an increase by 40%, in 2017 there have been an increase by 307%, in 2018 there have been an increase by 196% and in 2019 there have been an increase by 120%.For the second hotel the results show that in 2016 there have been a decrease by 23%, in 2017 there have been a decrease by 10%, in 2018 there have been an increase by 75% and in 2019 there have been a decrease by 52%.For the third hotel the results show that in 2016 there have been a decrease by 39%, in 2017 there have been a decrease by 13%, in 2018 there have been an increase by 9% and in 2019 there have been a decrease by 5%.For the fourth hotel the results show that in 2016 there have been a decrease by 61%, in 2017 there have been an increase by 15%, in 2018 there have been a decrease by 16% and in 2019 there have been a decrease by 38%.For the fifth hotel the results show that in 2016 there have been a decrease by 23%, in 2017 there have been a decrease by 8%, in 2018 there have been an increase by 75% and in 2019 there have been a decrease by 52%.For the sixth hotel the results show that in 2016 there have been a decrease by 15%, in 2017 there have been an increase by 19%, in 2018 there have been an increase by 47% and also in 2019 there have been an increase by 47%.For the seventh hotel the results show that in 2016 there have been a decrease by 61%, in 2017 there have been an increase by 15%, in 2018 there have been a decrease by 29% and in 2019 there have been a decrease by 48%.Jiang (2003) measured the effect of firm size on financial performance on firms listed on New York Stock Exchange. The secondary focuses of the study are first, the Measurement of firm size in terms of hotelAbility to its income tax. Secondly, Measure the firm Size in terms of accumulating assets through increasing of net income after tax have also observed in this Paper.

Table 4: Trend analysis of the liquidity of the hotels

2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
369,017	860,659	329,064	452,183	371,859	100	233	89	123	101
369,017	860,659	329,064	452,183	371,859	100	233	89	123	101
738,034	1,721,318	658,128	904,366	743,718	100	233	89	123	101
1,107,051	2,581,977	987,192	1,356,549	1,115,577	100	233	89	123	101
1,845,085	4,303,295	1,645,320	2,260,915	1,859,295	100	233	89	123	101
2,952,136	6,885,272	2,632,512	3,617,464	2,974,872	100	233	89	123	101
4,797,221	11,188,567	4,277,832	5,878,379	4,834,167	100	233	89	123	101

Source: Survey Data, 2020

A trend percentage analysis was conducted to analyze the liquidity of hotels. 2015 was considered as the base year in order to establish the increase or a decrease in the liquidity of the hotels in Rwanda. For both seven hotelsthe results show that in 2016 there have been an increase by133%, in 2017 there have been a decrease by 11%, in 2018 there have been an increase by 23% and in 2019 there have been an increase by 1%. Furthermore, firm liquidity can increase the size of return on asset but increase in corporate income tax ratio in an industry's specific sector usually but not infrequently reveals decline in return on assetwhich might affect the return on asset in various listed hotels (Beck et al., 2006).

Table 5: Trend analysis of the Return on Assets of the hotels

2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
55.69232	41.60817	14.54692	20.45672	26.84881	100	74.7	26.1	36.7	48.2
-10.5085	-13.5536	-13.7286	-11.655	-49.5493	100	129.0	130.6	110.9	471.5
23.30225	58.38377	38.80236	30.11603	32.71443	100	250.5	166.5	129.2	140.4
-13.504	-24.8206	-43.429	-66.4366	19.77174	100	183.8	321.6	492.0	-146.4
-26.4666	-14.7767	163.348	-1.15559	-18.9206	100	-55.8	-617.2	4.4	71.5
9.930938	7.002322	5.905525	5.7834	4.425987	100	70.5	59.5	58.2	44.6
47.04041	14.15945	3.448062	4.266394	4.38604	100	30.1	7.3	9.1	9.3

Source: Survey Data 2020

Analysis was conducted to assess the return on assets of the hotels. 2015 was considered as the base year in order to establish the increase or a decrease in the return on assets of the hotels in Rwanda. For the first hotel the results show that in 2016 there have been a decrease by 25.3%, in 2017 there have been a decrease by 73.9%, in 2018there have been a decrease by 63.3% and in 2019 there have been a decrease by 51.8%.For the second hotel the results show that in 2016 there have been an increase by 29%, in 2017 there have been an increase by 30.6%, in 2018 there have been an increase by 10.9% and in 2019 there have been an increase by 371.5%.For the third hotel the results show that in 2016 there have been an increase by 150.5%, in 2017 there have been an increase by 66.5%, in 2018 there have been an increase by 29.2% and in 2019 there have been an increase by 40.4%.For the fourth hotel the results show that in 2016 there have been an increase by 83.8%, in 2017 there have been an increase by 221.6%, in 2018 there have been an increase by 392% and in 2019 there have been an increase by 46.4%. For the fifth hotel the results show that in 2016 there have been a decrease by 44.2%, in 2017 there have been an increase by 517.2%, in 2018 there have been a decrease by 95.6% and in 2019 there have been a decrease by 28.5%.For the sixth hotel the results show that in 2016 there have been a decrease by 29.5%, in 2017 there have been a decrease by 40.5%, in 2018 there have been a decrease by 41.8% and in 2019 there have been a decrease by 55.4%.For the seventh hotel the results show that in 2016 there have been a decrease by 69.9%, in 2017 there have been a decrease by 92.7%, in 2018 there have been a decrease by 90.9% and in 2019 there have been a decrease by 90.7%. Since there is general agreement that small firms have limited return on asset. Therefore, they should be more emphasized on internal investment (Beck *et al.*, 2006).

Table 6: **Trend analysis of the Income tax paid of the hotel**

2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
-811	-138,947	-160,351	203,047	469,270	100	17,133	19,772	-25,037	-57,863

-	-	19	-	-	-	-	-	-	-
238,459	115,834	163,754	206,008	178,617	100	49	69	86	75
-	-	-	-	-	-	-	-	-	-
7,448	-	13,415	-	-	100	-	180	-	-
18,474	28,360	38,482	44,586	72,124	100	154	208	241	390
-	-	-	132,231	107,653	-	-	-	-	-

Source: Survey Data, 2020

An analysis was conducted to analyze the income tax paid of the hotels. 2015 was considered as the base year in order to establish the increase or a decrease in the income tax paid of the hotels in Rwanda. For the third hotel the results show that in 2016 there have been a decrease by 51%, in 2017 there have been a decrease by 31%, in 2018 there have been a decrease by 14% and in 2019 there have been an increase by 25%. While For the seventh hotel the results show that in 2016 there have been an increase by 54%, in 2017 there have been an increase by 108%, in 2018 there have been an increase by 141% and in 2019 there have been an increase by 290%.The study related to the effect of corporate income tax liabilities on financial performance on listed firm in Malaysia with a sample of 7,306 hotels and restaurants for the accounting periods 1995 to 2000 revealed that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies (Rohaya*et al.*, 2010).

5.2Correlation analysis of Income Tax and financial performance

The analysis shows the strength of the dependent variable (Income Tax) and independent variable (financial performance).

Table 1.7: Pearson Correlations analysis

		Staff feeding	EBIT	Turnover	Net income	NI_ Adjusted	ROA	Liquidity	Firm Age
Staff feeding		1							
EBIT	Pearson Correlation	.290	1						
	Sig. level	.091							
	N	35							
Turnover	Pearson Correlation	.757**	.371*	1					
	Sig. Level	.000	.028						
	N	35	35						
Net	Pearson Correlation	.286	1.000**	.367*	1				
Income	Sig. Level	.095	.000	.030					
	N	35	35	35					
Net	Pearson Correlation	.264	1.000**	.351*	1.000**	1			
Income	Sig. Level	.125	.000	.039	.000				
Adjusted	N	35	35	35	35				
ROA	Pearson Correlation	.261	.973**	.301	.973**	.974**	1		
	Sig level	.130	.000	.079	.000	.000			
	N	35	35	35	35	35			
Liquidity	Pearson Correlation	.466**	.677**	.594**	.673**	.667**	.672**	1	

	Sig. Level	.005	.000	.000	.000	.000	.000		
	N	35	35	35	35	35	35		
Firm age	Pearson Correlation	.143	.309	.243	.306	.305	.228	.168	1
	Sig. Level	.411	.071	.160	.074	.075	.188	.335	
	N	35	35	35	35	35	35	35	

*. Correlation is significant at the 0.05 level

Source: Survey Data, 2020

Pearson correlation analysis whereby N equal to 35 at significant level of 0.05. The result indicates that staff feedings has a positive weak correlation toEarnings Before Interest and Tax(r=. 290, p<0.091), net income (r=. 286, p<0.095), Net income adjusted (r=. 264, p<. 125), Return on Asset (r=. 261, p<. 130), liquidity (r=. 466**,p>. 005), Firm age (r=. 143, p<. 411). This means that increasing or reducing staff feeding will not influence positively the hotels' EBIT,neither net income or net income adjusted nor Return on Asset and firm age. Although it is the same for liquidity, it has an alternative influence at a high level since the staff feeding slot in payout.

Staff feedings has also a positive moderated correlation to total asset (r=.577**, p>.000), while it has a positive high correlation to turnover (r=.757** , p>.000). this simply show that the increases of assets ie big hotels or turnover reduce the influence of staff feedings in hotels.

The result indicates also that Earnings Before Interest and Tax has a positive weak significant correlation to turn over(r=.371*, p<. 028),this is due to Rwanda investment incentives which implied to hotels with big investment, whereas Big depreciation encounter into EBIT has a weak positive influence on turnover. Therefore, it is no significant and weak correlated to firm age (r=. 309, p<. 07) due to the fact that hotels last longer with weak EBIT while recap the investment.

Earnings Before Interest and Tax has a negative non-significant weak correlation to total asset (r= -.214, p< .217) whereby Income tax remain differed till its payout on due course, it has a positive and moderated correlation on Liquidity (r=.677**, p<.000)in view of the fact that the non-paid income tax hold into hotel's bank account till its payout on due period, a positive and high correlation on Return on Asset (r= .973**, p<.000) and Perfect correlation on Net Income (r= 1.000**, p<.000), Net Income adjusted (r= 1.000**, p<.000)given that it has an alternative influence due to income tax deduction.

Turnover has a positive low correlation on net income (r=.367*, p>.03), Net income adjusted (r = .351*, p>.039), return on asset (r= .301, p<.000) and firm age (r = .309, p<.16). this means that hotels has a number of expenditures thus lowered earnings though turnover can't be influenced by net income, neither adjusted nor return on asset. The results also indicate that firm age does not influence turnover since hospitality sector always requires up to date new improvement.

Turnover has also a positive moderated correlation on total assets (r=.674**, p>.000) and on liquidity (r = .594**, p>.000). The findings reveal that hotels renew its assets thus disposals occur frequently which increases its cash liquidity.

Net income has a positive and low correlation on firm age (r=.306, p<.074) due to the reasons that hotels' income depend on client behavior and other incentives applied by the management thus firm age matter less. It has also a positive and moderated correlation on liquidity (r=.673**, p>.000), a high correlation on return on asset (r = .973**, p>.000) and perfect correlation on net income adjusted (r = 1.000**, p< .000) ostensibly being part of its measurement. Therefore net Income adjusted has a positive and low correlation on firm age (r= .305, p< .075), a moderated correlation on liquidity (r = .667** , p>.000), a high correlation on return on asset (r = .974**, p>.000).

It is also find that return on asset has a low correlation on firm age (r = .228, p< .188) , a moderated correlation on liquidity (r= .672**, p> .000) while liquidity has a low correlation on firm age (r= .168, p<.335). This means that retain earnings in hotels increases or decreases is due to reinvestment and renovation but not duration of activities.

The results from the survey provided different views. Some findings concurred with the results from the previous studies whereas other findings contradicted from the previous findings. For example a study by PSF (2017) indicated a positive correlation on the financial performance of hotel industries. The study indicated a weak and negative correlation between earnings before interest and tax and the income tax. This contradicts with the

conducted by Gatsinze and Donalson (2010) which indicated a strong and negative correlation between earnings before interest and tax and the income tax. More to that, the study also indicated a positive correction between turnover and net income, this concurs with findings from the study conducted by Sheng (2017) who pointed out a positive correlation between turnover and net income.

5.3. Relationship between Income tax and financial performance

The following highlights provide key analysis using multiple regression model analysis especially ANOVA on income tax factors among others Adjusted Net income, Staff feeding, Liquidity, Firm age on Return on Asset and turnover as measurement of hotel financial performance.

5.3.1. Analysis on the relationship between adjusted Net income and financial performance**.**

The following tables provide the analysis of model constructed where Adjusted Net Income are considered as only the independent variable and financial performance as the dependent variable. After running the general model, each of the factors of the dependent variable (ROA, Turnover) is tested to see which one affect more the independent variable factors.

Table 8: Regression model considering Adjusted Net Income

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	.975[a]	.950	.945	.28058
Turnover	.922[a]	.850	.836	.31837

Source: Secondary data, 2020

The table 8 shows that the R square of ROA is 0.95 such as 95 percent while Turnover R square is 0.85 such as 85 percent which are acceptable when considering Adjusted Net Income as independent variables. Thus it provides general much strength of Adjusted Net income on Return on Asset. The following table provides the analysis of variance.

Table 2.9: Analysis of Variance between NI Adusted and financial performance variables

Model		Sum of Squares	df	Mean Square	F	Sig.
ROA	Regression	46.441	3	15.480	196.639	.000[a]
	Residual	2.440	31	.079		
	Total	48.881	34			
Turnover	Regression	17.808	3	5.936	58.564	.000[a]
	Residual	3.142	31	.101		
	Total	20.950	34			

Source: Secondary data ,2020

The result from the table 9 indicate that for the regression model on ROA (SSR = 46.441, MSR = 15.48) while on Turnvoer (SSR = 17.808, MSR = 5.936). Thus the interpretation is comparing the conditional of probability which the expected figure would be less than 0.05 for the predicted variables, this result shows that variance and sum of squares observed the requirement and though good enough to state the strength effect of Adjusted Net Income vis a vis ROA and Turnover at significant level on 0.000. The following table provides the detailed analysis on the level of significant of each independent variable factors.

Table: 10 linear relation between NI adjusted and financial performance variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
ROA	(Constant)	1.914	1.507		1.270	.214
	Firm category	-.121	.155	-.065	-.780	.441
	NI_Adjusted	.094	.004	.961	23.101	.000
	Firm size	-.201	.182	-.094	-1.108	.276
Turnover	(Constant)	15.237	1.710		8.911	.000

	Firm category	-.885	.175	-.730	-5.042	.000
	NI_Adjusted	.031	.005	.491	6.804	.000
	Firm size	.208	.206	.149	1.009	.321

Source: Researcher Secondary data 2018

The table9 above reveals that on Adjusted Net income as predictor and Hotel category together with firm size (hotel size) has different level of its effect to the ROA and Turnover. Via ROA, only Net income adjusted has a positive and significant effect with$p$>0.000,while present a negative and non-significant effect with Hotel category (p<0.214 and p<0.276) respectively. Via Turnover, apart from Hotel size with p> 0.321 which present a positive and non-significant effect, other variables present different angle of perception such that Hotel category which present a negative and significant effect on Firm performance with p<0.000 (turnover) and Net income adjusted present a positive and significant effect on firm performance (turnover) p<0.000,

This means that the level of the income tax paid by hotel after reintegration of nondeductible charge among in complementary, staff feeding and other allowances reduced hotels assets and turnover in general thus slowing reinvestment. The result indicates again that the most influential factor in dependent variable is the Turnover. The result indicates accepting alternative while rejecting null hypothesis. The following table provides the analysis on staff feedings.

5.4. Analysis on the relationship betweenStaff feedings and hotels financial performance

The analysis of model 2 is composed with firm performance as dependent variable with staff feeding. The following tables provide the analysis of the regression model.

Table 3.10 Regression model considering Staff feeding

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	.596[a]	.355	.292	1.00868
Turnover	.832[a]	.691	.662	.45665
EBIT	.585[a]	.342	.278	10.65232

Source: Secondary data, 2020

The table 10 showlow hotels' financial performance R square for ROA (0.355 ie36%), EBIT (0.342 ie 34.2%)while Turnover R square is 0.691 such as 69.1 percent. Since R-square justify the strength of exogeneousvarible toward change on dependent variable, the good threshold when testing direct effect is ranging from 50%, thus ROA and EBIT in flinge a non-acceptable strength while turnover pretense acceptable strength on staff feeding as exogenous variables. The following table provides the analysis of variance.

Table 4.11. Analysis of staff feeding considering residual factor and ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
ROA	Regression	17.341	3	5.780	5.681	.003[a]
	Residual	31.540	31	1.017		
	Total	48.881	34			
Turnover	Regression	14.486	3	4.829	23.156	.000[a]
	Residual	6.464	31	.209		
	Total	20.950	34			
EBIT	Regression	1827.374	3	609.125	5.368	.004[a]
	Residual	3517.627	31	113.472		
	Total	5345.001	34			

Source: Secondary data 2020

The result from the table 4.11 indicate that for the regression model on ROA (SSR = 17.341, MSR = 5.78), Turnover (SSR = 14.486, MSR = 4.829) while EBIT (SSR=1827.374, MSR=609.125). Thus the interpretation is

comparing the conditional of probability which the expected figure would be less than 0.05 for the predicted variables, this result shows that variance and sum of squares observed the requirement and though good enough to state the strength effect of staff feeding on financial performance at significant level on $p<0.003$, $p<0.000$ and $p<0.004$ consecutively.

Table 512: Linear relation between staff feeding and financial performance variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
ROA	(Constant)	-7.519	7.059		-1.065	.295
	Firm (Hotel)category	.865	.684	.468	1.265	.215
	Hotelsize	-.644	.652	-.301	-.988	.331
	Staffeeding	.954	.268	.780	3.563	.001
Turnover	(Constant)	12.225	3.196		3.825	.001
	Firm (Hotel)category	-.567	.310	-.469	-1.833	.076
	Firm (Hotel)size	.056	.295	.040	.190	.851
	Staffeeding	.311	.121	.388	2.563	.015
EBIT	(Constant)	-93.600	74.551		-1.256	.219
	Firm (Hotel)category	9.860	7.221	.510	1.365	.182
	Firm (Hotel)size	-5.105	6.881	-.229	-.742	.464
	Staffeeding	10.207	2.827	.799	3.611	.001

Source: Secondary data, 2020

The table12 result indicate that on Staff feeding as predictor and Hotel category together with firm size (hotel size) as controls has different level of its effect to the ROA, Turnover and EBIT. All controls showed a non significant level on financial performance, for ROA (Hotel Category, p<0.215, Hotel size, p<0.331), Turnover (Hotel category, p<0.076, Hotel size, p<0.851) and EBIT (Hotel category, p<0.182; Hotel size, p<0.464). However, the result indicate also that Staff feedings has a positive significant effect on financial performance, ROA ($p<0.001$, Turnover (p<0.015), EBIT (p<0.001). This means that the level of the income tax paid by hotel on staff feedings relate only on hotels incomes thus excluding them into taxable base does not affect assets neither earnings. The result indicates accepting alternative while rejecting null hypothesis.

5.5. Analysis on the relationship between hotel Firm age and financial performance**.**

The analysis of model 3 is composed with firm performance as dependent variable with firm age. The following tables provide the analysis of the regression model.

Table 6.12: Regression model considering firm age

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	.504[a]	.254	.181	1.08493
Turnover	.831[a]	.691	.661	.45706
EBIT	.541[a]	.292	.224	11.04604

The table 12 show how hotels' financial performance R square for ROA (0.254 ie25.4%), EBIT (0.292 ie 29.2%) while Turnover R square is 0.691 such as 69.1 percent. R-square conditional threshold when testing direct effect is ranging from 50%. Thus ROA and EBIT wreak a non-acceptable strength while turnover pretense acceptable strength on firm age as exogeneous variables.

Table 7.13:Analysis of firm age considering residual factor and ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
ROA	Regression	12.392	3	4.131	3.509	.027[a]
	Residual	36.489	31	1.177		
	Total	48.881	34			
EBIT	Regression	1562.536	3	520.845	4.269	.012[a]
	Residual	3782.465	31	122.015		
	Total	5345.001	34			
Turnover	Regression	14.474	3	4.825	23.095	.000[a]
	Residual	6.476	31	.209		
	Total	20.950	34			

Source: Secondary data, 2020

The result from the table 13 indicate that for the regression model on ROA (SSR = 12.392, MSR = 4.131), turnover (SSR = 14.474, MSR = 4.825) while EBIT (SSR=1562.536, MSR=520.845). Thus the interpretation is comparing the conditional of probability which the expected figure would be less than 0.05. for the predicted variables, this result shows that variance and sum of squares observed the requirement and though good enough to state the strength effect of firm age on financial performance at significant level on $p<0.027$, $p<0.012$ and $p<0.000$ consecutively. The model is acceptable. The following table provides the detailed analysis on the level of significant of each independent variable factors. The results from the survey conform with the study conducted by Jiang (2003). This found out a positive correlation between firm size and turnover levels in the hotel industries.

Table 814:Linear relation between Firm age and financial performance variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
ROA	(Constant)	16.181	6.320		2.560	.016
	Firmage	.045	.017	.458	2.601	.014
	Firmsize	-2.086	.776	-.977	-2.690	.011
	Firmcategory	-1.257	.648	-.679	-1.939	.062
Turnover	(Constant)	20.564	2.663		7.723	.000
	Firmcategory	-1.318	.273	-1.088	-4.826	.000
	Firmsize	-.496	.327	-.355	-1.519	.139
	Firmage	.019	.007	.289	2.550	.016
EBIT	(Constant)	171.723	64.347		2.669	.012
	Firmcategory	-13.964	6.599	-.722	-2.116	.042
	Firmsize	-22.100	7.897	-.989	-2.798	.009
	Firm age	.559	.177	.540	3.155	.004

Source: Secondary data 2020

The table14 above reveals that firm (hotel) age is significant on financial performance such as ROA, p>0.014, Turnover, p>0.016, EBIT, p>0.004. the result shows again that firm size a significant effect on financial performance such as ROA (p>0.011), EBIT (p>0.009)while being non significant on Turnover (p<0.139). It is also indicated from the table 4.14 a significant effect of firm category on financial performance such that turnover (p<0.016); EBIT (p>0.042) while being non-significant ROA (p>0.062). in summary, the results show a significant effect while testing the direct effect implication of firm age on income tax with financial performance of hotels.
This means that the level of income tax paid by hotel does not effect on how hotel takes longuer. Simply paying income taxes is not obstructing by its existing life span thus support the concept of paying tax when income is

available and vice versa when there is no income. The result shows that hypothesis three is rejected and accepting alternative.

5.6. Analysis of firm Liquidity and hotels financial performance**.**

The analysis of model 4 is composed with firm performance as dependent variable with firm liquidity. The following tables provide the analysis of the regression model.

Table 9.15:Regression model considering Liquidity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	.798[a]	.637	.602	.75632
Turnover	.924[a]	.853	.828	.32601
EBIT	1.000[a]	1.000	1.000	.21949

Source: Secondary data 2020

The table 15 show high hotels' financial performance R square for ROA (r^2 = 0.637 ie63.7%), EBIT (r^2=1.000 ie 100%) and Turnover (r^2=0.853ie85.3%). Thus the model shows a general strength effect of firm liquidity and financial performance. The following table provides the analysis of variance.

Table 1016: Analysis of liquidity considering residual factor and ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
ROA	Regression	31.149	3	10.383	18.151	.000[a]
	Residual	17.733	31	.572		
	Total	48.881	34			
Turnover	Regression	17.868	5	3.574	33.625	.000[a]
	Residual	3.082	29	.106		
	Total	20.950	34			
EBIT	Regression	5343.604	5	1068.721	2.218E4	.000[a]
	Residual	1.397	29	.048		
	Total	5345.001	34			

Source: Secondary data 2020

The result from the table 16 indicate that for the regression model on ROA (SSR = 31.149, MSR = 10.383), Turnover (SSR = 17.733, MSR = 3.574) while EBIT (SSR=5343.604, MSR=1068.721). Thus the interpretation is comparing the conditional of probability which the expected figure would be less than 0.05. for the predicted variables, this result shows that variance and sum of squares observed the requirement and though good enough to state the strength effect of firm age on financial performance at significant level on $p<0.000$, $p<0.000$ and $p<0.000$ consecutively. The model is acceptable.

Table 11.17: Linear relation between liquidity and financial performance variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
ROA	(Constant)	-9.767	4.838		-2.019	.052
	Firm Liquidity	.870	.127	.825	6.835	.000
	Firmcategory	.683	.453	.369	1.509	.141
	Firmsize	-.209	.496	-.098	-.421	.677
EBIT	(Constant)	12.088	2.700		4.477	.000
	Firm Liquidity	.256	.071	.371	3.602	.001
	Firmcategory	-.666	.253	-.550	-2.639	.013

	Firmsize	.168	.277	.120	.608	.548
Turnover	(Constant)	12.088	2.700		4.477	.000
	Firm Liquidity	.256	.071	.371	3.602	.001
	Firmcategory	-.666	.253	-.550	-2.639	.013
	Firmsize	.168	.277	.120	.608	.548

Source: Secondary data 2020

The table17 above reveals that firm (Hotel) liquidity, firm (Hotel) category and firm (Hotel) size have different level of effect on financial performance (ROA, Turnover, EBIT). Firstly,firm (Hotel) size has a positive and non significant effect on EBIT(p<0.548) and Turnover (p<0.548)while present a negative and non significant effect on ROA(p<0.677). this meant that hotel liquidity has a little snapshot in total assets.
The table 16 shows again that firm category has a positive and non-significant effect on ROA (p<0.141) while being negative and significant on EBIT (p>0.013) and Turnover (p<0.013). this means the category of a hotel (such as 3,4,5 stars) effect the level of its earnings after tax, the turnover and Return on Asset.
Therefore the table 16 shows reveal that firm liquidity present a positive and significant effect on ROA (p>0.0), on EBIT (p>0.001) and on turnover (p>0.001). this means that income tax payout changes the level of cash flow of hotels thus increasing tax pay out reduce hotel cash flow thus investment activities. The result indicates accepting alternative while rejecting null hypothesis. The following chapter will summarize the results and data discussions.

6. Conclusion

The findings indicated can be observed that the income tax especially staff feedings has been actively affected hotels'financial performance in Rwanda. Furthermore, turnoverwas seen at the lower level of being affected by income tax through expenses among in staff feedings, complementary, direct expenses sincehotels income tax result from different deductions.The strengths found during this research study were as follows: a strong positive relationship was observed between the Net income adjusted, staff feeding together with liquidityand hotel financial performanceas the results of income tax payout. The strong significant correlation exists between EBIT and ROA whereby equity and assets are negatively affected by income tax, whereas the acceptance measure is ranged from 50 percent when n = 35.

However, the weaknesses found in this research study were as follows: staff feedings after adjustment and before adjustments were found affectedfor equity first and thereafter from earnings while hotel cash flow also is affected at the same time and other controls like category and size of hotels variable were not merely related to changehotel financial performance. Out of this, there are still improvements necessarily toward hotel financial performance and income tax though the following recommendations are envisaged.

5.3. Recommendations

From the findings of this research study, the following recommendations were drawn:

Hotels

It was observed that hotels may direct deduct all related expenses before income tax calculation while others assimilate them into other similar expenditure, but no formal way for accounting these hotel expenses, whereas the category of staffs benefiting are mainly junior staffs who in turn are lower wages holder. This does not leave space for hotel owners to take out this kind of incentives since they can loose the cheaper staffs. It was also observed that the lower category of hotels are doing the same while not accounted for which discharge them for adjusted income tax. The study recommends that all categories of hotels should not only account for staff feedings and rather deducting them from income tax since they are normal expenses to the hotels not any additional staff allowances due to the reason that it does not differentiate level of staff nor being given as staffs wants although to increase of hotels turnover and maximization of hotel earnings returns.

Tax Administration

Since Rwanda promotes investment and doing business for the private sector. The researcher recommends that the tax administration should also put more efforts in following tax procedures and law harmonized to all hotels and

consider the hotels sector business practicability which have been seen only as business in general compared to the other developed countries among in the USA. This will improve their competitive placement and sustain business investment the after tax base.

Policy Makers

The study revealed a high correlation on Adjusted net income, EBIT and ROA. This is due to different main reasons which would deprive the financial performance of the hotel. The establishment of clear regulation on staff feedings and other similar expenses should improve the portion income tax if portion reinvestment is applied.

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