

THE ROLE OF TAX SYSTEMS IN ENCOURAGING SMALL AND MEDIUM ENTERPRISES TO OVERCOME THE CORONA PANDEMIC

Mohammed Mostafa Mohammed Qaied^{1*} and Kundan Basavaraj²

¹Department of Postgraduate studies and Research in Commerce Kuvempu University, Jnana Sahyadri, Shankaraghatta, 577451, India. E-mail: mmmq220@hotmail.com

²Associate professor Department of Commerce, Sahyadri Commerce and Management College Shivamogga, India. E-mail: dr.kundanbs@gmail.com

ARTICLE HISTORY

Received : 30 March 2021

Revised : 7 April 2021

Accepted : 9 April 2021

Published : 18 August 2021

TO CITE THIS ARTICLE

Qaied, MMM, & Basavaraj, K (2021). The Role of Tax Systems in Encouraging Small and Medium Enterprises to Overcome the Corona Pandemic. *Studies in Economics and International Finance*, Vol. 1, No. 1, pp. 23-29

Abstract: The most important elements in achieving economic development in all the countries of the world are small and medium enterprises, as they account for the highest percentage of all kinds of economic ventures of different sizes. The SME sector remains a vital sector for the Yemeni economy, as the major source of jobs, growth, and economic diversification. The SME sector is still a major source of jobs. This study aimed to find out the role of tax authorities in supporting small and medium enterprises overcome the Corona pandemic. The results showed there are several challenges facing SMEs in the light of the Corona pandemic, which limited the contributions of SMEs in economic development. Moreover, the researcher recommended certain strategies to boost and improve the role of tax authorities in supporting small and medium enterprises overcome their challenges.

Keywords: Authorities, Tax, Small, Medium, Enterprises, Economy.

I. INTRODUCTION

COVID-19 has become a global emergency with leaving of death, economic and business devastation, it impacted on the health system, economy, business, social movements, employees and employment opportunities. Business activity in China, the world's second-largest economy, ground to a halt for a few months after the outbreak of COVID-19 in China in January 2020. Tens of millions of small and medium-sized enterprises (SMEs) were shut down. Given that SMEs generate 80 percent of employment, it is important to understand the toll the

novel coronavirus is taking on SMEs, in order to ensure that policy measures are appropriately designed to meet their needs. However, gauging the impact of COVID-19 on SMEs is particularly challenging because these enterprises are plentiful in number but small in size. Unlike publicly listed firms, information on SMEs is scarce.

Small and medium enterprises play an essential role in the global economy, especially in developing countries. In many countries, more than 90% of all companies are small and medium enterprises, usually with fewer than 250 employees, and a large percentage of these establishments can be classified within small-companies, which have fewer than ten employees, according to the International Labor Organization. While most companies around the world are struggling under the coronavirus pandemic, SMEs in particular are fragile and may lack sufficient cash flow to keep their operations afloat. Recent data shows that 58% of the existing small and medium-sized companies reported a decrease in sales compared to the same month last year. More than half of them (51%) declared a sales decline of more than 50%, while many of them were unable to continue their activity.

II. RESEARCH METHODOLOGY

This research paper is a review research in nature, it adopts an exploratory descriptive method. The study uses secondary data for the analysis of the SME's. The secondary data is collected from websites, blogs, magazines, and newspapers. So the study an attempt to gain insight into the effect of COVID-19 on small and medium enterprises as well the role of tax authorities in supporting small and medium enterprises overcome the Corona pandemic.

Research Questions

What is the role of tax systems in encouraging small and medium enterprises overcome the Corona pandemic?

Objectives of the Study

1. To find out the challenges that faced SMEs during the Corona pandemic.
2. To study the role of tax systems in encouraging small and medium enterprises overcome the Corona pandemic.

Hypotheses

1. There are challenges faced SMEs during the Corona pandemic.
2. There are roles have taken by tax systems in encouraging small and medium enterprises to overcome the Corona pandemic.

Justification of the Study

This study focused on the role of tax systems in encouraging small and medium enterprises to overcome the Corona pandemic and the challenges that the SMEs encountered during this pandemic disease spreading from person to person, thus, The studies indicated that the COVID 19 had a significant impact on the SMEs and resulted that some of SMEs temporarily or permanently closed their business, as well as the studies and reports also indicated that the tax systems had a role in encouraging the owners of small and medium enterprises, through tax exemptions and others facilities which helped in improving the performance of the enterprises.

III. CHALLENGES FACED SMES DURING THE CORONA PANDEMIC

Most enterprises of all sizes have been negatively affected by the Corona pandemic. With the issuance of curfews and complete closure decisions, most businesses and activities have stopped, which impedes income flows and puts the facilities ahead of a challenge to meet their obligations and fixed expenses, such as salaries, rents, and others. Therefore, the following figure clarified major challenges that faced SMEs during the Corona pandemic.



Source: Prepared by the researcher.

Although some measures have been taken to support small and medium enterprises in order to be able to overcome these problems, there is still a need for a more effective response in order to mitigate the effects of this crisis on the economic lifeline.

IV. THE ROLE OF TAX SYSTEMS IN ENCOURAGING SMALL AND MEDIUM ENTERPRISES OVERCOME THE CORONA PANDEMIC IN SOME COUNTRIES

The Tax systems, particularly in developing countries where the informal sector is increasing in size, should play an important role in assessing and monitoring the needs and challenges facing SMEs and providing the necessary support. This can be achieved through the so-called tax stimulus policy adopted by some countries through the establishment of a set of tax laws, which included, in essence, reducing the tax burden on small and medium-sized enterprises with the aim overcome the Corona pandemic. Where, the tax systems in some countries have taken several measures to alleviate the pressures caused by the pandemic. This included deferring tax or social security contributions, extending the deadline for filing tax returns, lowering interest rates, exempting or eliminating tax payments, exempting interest payments and late payment penalties, and expediting refunds.

While most policy and tax measures are applicable to companies of all sizes, some specifically target small and medium-sized companies and may substantially alleviate short-term liquidity problems as well as reduce compliance burdens. For example South Korea reduced the corporate income tax for small and medium-sized enterprises in some designated areas as disaster areas and lowered the value-added tax on small businesses by increasing the recording limit, the Chinese authorities made a series of decisions, including tax cuts and tax exemptions for small enterprises for a specific period, and the decisions also included reviewing monetary policy in order to support small and medium enterprises to withstand resilience. Hungary has expedited refunds of value-added tax for small and medium-sized companies, as these companies can now recover funds within 30 days of submitting the application instead of 75 days, and Italy launched 278 measures between March 5 and April 22, targeting six areas at the macro level, including reducing the tax burden and financing measures to support small and medium enterprises and their workers.

Despite these ongoing efforts, and although many economies are resuming their activities, some of them are facing a second wave of the pandemic, and many companies are still facing difficulties in order to make profits and may even face the risk of bankruptcy. It has become critical to conduct planning strategically from a policy and tax administration perspective to support companies recover, especially SMEs. Thus, several governments have taken decisive policy actions to support SMEs in the long term, where Chile reduced

the corporate income tax rate from 25% to 12.5% for SMEs for the fiscal years 2020, 2021, and 2022, In Japan, the burden of fixed assets tax and city planning tax on depreciable assets and corporate buildings for small and medium enterprises has been reduced to 0.5% or zero for one year of the 2021 tax period, Australia extended its wage subsidy by 50% for eligible small businesses until March 31, 2021, and expanded this benefit to include more medium-sized companies employing fewer than 200 people, and The Israeli government provided grants to support small and medium businesses to cover fixed expenses that could not be saved, and the Israel Tax Authority participated in designing policies and solutions from the beginning, based on existing data available to it. This model specifically divides small firms into three groups (based on volume data for 2019).

Tax administration includes many areas for providing greater support to small and medium enterprises. For example, the pandemic created a demand for electronic management. As the availability of electronic services to taxpayers accelerates, authorities may invest in technology infrastructure to enable more automation, improve digital capabilities, and the ability to manage risks.

V. DISCUSSION

The current crisis has had a major impact on the country's economic lifeline, as the vast majority of small and medium enterprises suffer from complete closure and loss of daily revenue. As many companies depend on daily revenues to cover current expenditures, companies' ability to withstand this crisis is very limited. In fact, the government's decision to ease the closure measures came at the appropriate time, given that the majority of companies expressed their inability to bear their financial burdens if the closure continues. Despite the easing of the closure measures, the previous interruption still creates a great sense of anxiety among many, especially with regard to securing the costs due such as rent and salaries. On the other hand, the tax systems have taken some roles in encouraging the small and medium enterprises, but still those roles inefficient to overcome the challenges that faced SMEs. Thus, the previous discussion shows there are challenges faced by SMEs as well as there are roles have taken by some the governments for encouraging SMEs. Thereby confirms the acceptance of the alternative hypothesis stating that (There are challenges faced by SMEs during the Corona pandemic) and also acceptance of the alternative hypothesis stating that (There are roles have taken by tax systems in encouraging small and medium enterprises to overcome the Corona pandemic).

VI. CONCLUSION

Because tax administrations have access to data from a large number of taxpayers, they are able to process and analyze statistical data that may be useful when

designing targeted economic measures. Taxpayer information can be provided to the rest of government agencies to support them identify eligible taxpayers support. It also support other government authorities assess the income deficit of taxpayers so that they can benefit from rental reductions when necessary. Collaboration in this manner between government entities and the sharing of internal information can support such operations. However, it is worth noting that the tax administration should consider the risks associated with data and protect privacy, and consult with data protection authorities on sharing third-party data.

At the same time, tax authorities must also continue to monitor and analyze the spillover effect of the crisis, and there may be a need to review the current tax structure, redesign tax policies, and expand the digital tax system, thus, the government can seize this opportunity, and enhance the long-term sustainability of public finance, through appropriate tax initiatives.

Reference

- Dai, R., Feng, H., Hu, J., Jin, Q., Li, H., Wang, R., ... & Zhang, X. (2021). The impact of COVID-19 on small and medium-sized enterprises (SMEs): Evidence from two-wave phone surveys in China. *China Economic Review*, 101607.
- Gangl, K., Hofmann, E., Hartl, B., & Berkics, M. (2020). The impact of powerful authorities and trustful taxpayers: evidence for the extended slippery slope framework from Austria, Finland, and Hungary. *Policy Studies*, 41(1), 98-111.
- Kou, E., Sun, Y., & Yue, L. (2020). The response of small firms to VAT thresholds: evidence from China. *Applied Economics Letters*, 1-5.
- World bank 2020. Tax authorities have a role in support small and medium-sized businesses overcome the Corona pandemic, available at <https://blogs.worldbank.org/ar/voices/llsltat-aldrybyt-dwr-fy-msadt-alshkrat-alsghyrt-walmtwstt-ly-tjawz-jayht-kurwna>.
- Saleh, M. A. K., & Manjunath, K. R. Small and medium enterprises in Yemen: Navigating through additional obstacles during Covid-19.
- Saleh, M. A. K., & Manjunath, K. R. Small And Medium Enterprises In Yemen: Aiming For Resurgence While Facing Managerial Obstacles.
- Qaied, M. M. M., & Basavaraj, K. (2020). The Role of Small and Micro Enterprises in Light of the Current Crisis in Yemen. *International Journal of Recent Technology and Engineering (IJRTE)*, 8(5), 2454-2461.
- Baig, S., Qasim, M., Xuemei, L., & Alam, K. M. (2020). Is the China-Pakistan economic corridor an opportunity or a threat for small and micro-entrepreneurs? Empirical evidence from Northern Pakistan. *Sustainability*, 12(5), 1727.
- Qaied, M. M. M., & Basavaraj, K. (2020). Impact of the Current Conflict on Small and Medium-sized Enterprises in Yemen.
- Qaied, M. M. M., & Basavaraj, K. Small and Medium Enterprises in Yemen: Support and Contribution.

- Saleh, M. A. K., & Manjunath, K. R. (2020). Review of Historical and Temporary Challenges Facing Small and Medium Enterprises in Yemen. *International Journal of Trend in Scientific Research and Development*, 4(3), 752-764.
- Qaied, M. M. M., & Basavaraj, K. (2020). The Role of Small and Micro Enterprises in Light of the Current Crisis in Yemen. *International Journal of Recent Technology and Engineering (IJRTE)*, 8(5), 2454-2461.