

The Role of Tax Incentives for Businesses Sustainable Development in Ethiopia

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Abstract

The sustainability of the business is very important in the economic development of nations across the world. In particular, they contribute to the development of the nation's economy by creating new job opportunities and paying taxes to the government and base for the expansion of world trade. This paper aims to examine the relationship between tax incentives and the business sustainability of micro, small and medium business enterprises in Ethiopia. The quantitative research approach was employed by the researcher. The primary data were collected through a questionnaire. Simple random sampling has been employed to select four hundred respondents. Multiple regression analysis has been employed to conduct data analysis. Hence, the regression model showed out of six variables tested through regression analysis, all variables were statistically significant. The current study was limited to six monetary tax incentives variables using primary data sources. To survive, small business needs support from the government in the form of tax incentives. Practically, the role of tax incentives in enhancing the growth of small business enterprises is very significant for their sustainability as well as the country's economy as a whole. It is recommended for further research work to incorporate non-monetary tax incentive variables and use both primary and secondary data sources to improve the findings of this study.

Keywords: tax incentives, sustainable development, small business enterprise

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Introduction

Small business enterprises comprise a major share of total business enterprises in both developed and developing countries. They represent about 90% of businesses and more than 50% of employment worldwide. Small business constitutes enterprises over 90% of total enterprises in most economies and is credited with generating the highest rates of employment growth. They play an important role as a source of employment, innovation, competition, and economic growth, and they stimulate entrepreneurial skills. SMEs also contribute to better income distribution by creating job opportunities [3-7].

An empirical study by [1 & 4] was showed that the coronavirus pandemic has an economic negative impact on the operations of businesses because they hit hardest by the fallout of the coronavirus pandemic. The labor market impact of the COVID-19 pandemic reveals the devastating effect on workers in the informal economy and hundreds of millions of MSMEs worldwide and as a result, businesses' contribution to national GDP, creation of employment opportunities, and other benefits are being hampered [2, 6, & 7]. This is why the studying topic effect of tax incentives on the sustainability of businesses operated in Ethiopia has become an important issue needs that investigation.³

“A tax incentive is an aspect of a country's tax policy designed to encourage a particular economic activity. It can have both positive and negative effects on the n growth of small and medium enterprises in particular and the economy of a country in general. Among the positive effects, if it is implemented and designed properly, tax incentives can attract investment, as well as increase employment rate, earnings per share of enterprise asset size of enterprises, increase in country's GDP” [1&9]. However, in lack of properly designed implementation can cause adverse effects such as a crease in revenue generation and reduce the unemployment rate, a decrease in earnings per share, and asset size of the enterprise in the particular and overall budget of a nation in general. It will also give a general insight to the policymakers, academicians, and professional groups of society and the public at large about the role of effect of tax incentives on the Sustainability of small businesses. It would be used as an implementation tool for 17 sustainable development goals designed by the United Nations and to be attained by

2030. Additionally, the study will have the following significance: It will provide valuable information for the regulatory body on the status of tax incentive policies and their implication in Ethiopia in particular, and the world, in general, It will be used by other countries in the world in enhancing the role of tax incentives in the growth of the small business. It will also serve as reference material for anyone who will undertake a further study on the same or related topic at national and international levels.

Research objectives

The general objective of this study was to identify the effects of tax incentives practices on the sustainability of micro, small, and medium-sized enterprises operating in Ethiopia. Specifically, this addressed the following objectives:

- a) To identify the effect of the tax holiday on the sustainability of the small business
- b) To investigate the impact of tax allowance on the sustainability of the small business
- c) To examine the effect, decrease in tax rate has on the sustainability of the small business
- d) To identify the impact of accelerated depreciation on the sustainability of MSMEs
- e) To investigate the effect of loss, carry forward on the sustainability of the small business
- f) To investigate the effect of tax exemption on the sustainability of the small business

The rest part of the paper has been organized into methodology, results, discussions, and conclusions. Finally, declaration statements and references are part of the paper.

Materials and methods

Research Data: The researcher employed an explanatory research design because the objective of the study is to identify the effects of tax incentives on the sustainability of small businesses in Ethiopia.

Research Approach: The research approach that was employed in this study will be a quantitative research approach due to the quantitative nature of the data.

Data source: In this study, primary sources were used to prepare the report.

Tools of data collection: To collect appropriate and sufficient data for the study structured questionnaire was used.

Table 1: Sampling Design.

Target Population	Sampling technique	Sample Size Determination Formula	Sample Size
2,490,645 business Enterprises licensed and operated in Hawassa city as of May 2022	Simple random sample technique and stratified sampling technique	Source [8]	400 business enterprises

Source: Deyganto (2022)

Methods of data Analysis: In this research, both descriptive and inferential statistics will make with the help of SPSS version 21.0.

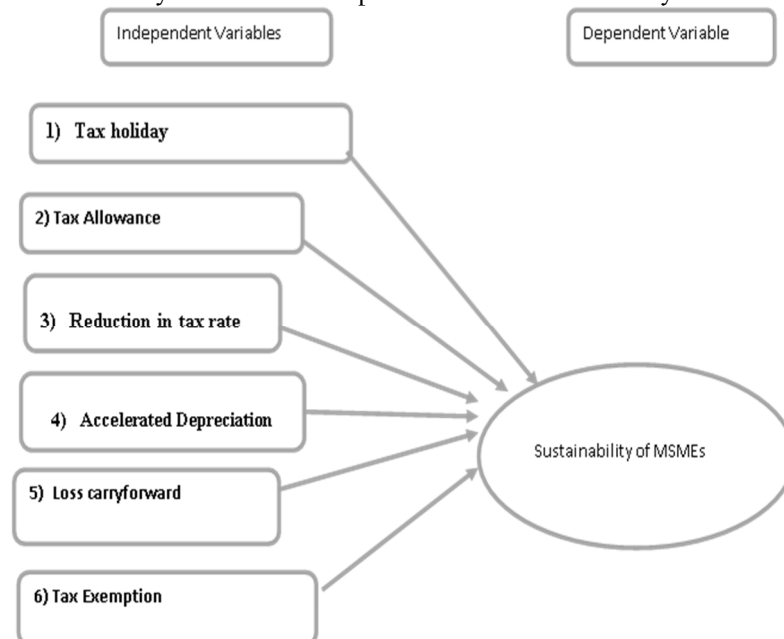
Model specification

To examine the effect of tax incentives on the sustainability status of the business, the multiple regression model has been employed to observe the relation of each tax incentive parameter with sustainability indicators such as increasing number of employees, sales volumes, market share, customer base, and assets growth using Likert scale due to tax incentives provided to the enterprises for last 12 months during the existence of COVID-19). The equation of the model was expressed as:

$$\text{Business sustainability} = \beta_0 + \beta_1 * \text{Taxholiday} + \beta_2 * \text{Tax allowance} + \beta_3 \text{Reduction in tax rate} + \beta_4 * \text{Accelarted depaeraction} + \beta_5 * \text{loss cary forward} + \beta_6 * \text{Tax exemption} + \text{Error term} \text{-----} (1)$$

Figure1: Conceptual framework

The conceptual framework is the road map that shows the relationship between dependent and independent variables incorporated in the study. Hence the conceptual framework of this study can be constructed as follow;



Source: Deyganto (2022).

Results

Response Rate

The analysis and discussion of this study are based on data collected from 300 MSMEs owners or operators out of 400 sample sizes in Ethiopia. The response rate was 75% consisting of, 100 micro-sized enterprises, 100 small-scale enterprises, and 100 medium-sized enterprises which implies almost more than 50% of business owners /operators have been taking part in the process of data collection. Then, the analysis of the reliability, validity, descriptive statistics person correlation matrix, linear regression model assumptions, regression analysis, and hypotheses testing.

Table 2: Reliability Test.

Cronbach Alpha	N of Items
0.947	46

Source: Deyganto (2022).

The minimum value Cronbach Alpha accepted is 0.70. So, the reliability shown in above table 1 meets the criteria. It can be concluded that the data collected from the respondents is reliable.

Table 3: Summary of Descriptive Statistics.

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Sustainability of Business	300	1.00	5.00	2.6700	1.20246
Tax holiday	300	1.00	5.00	2.6000	1.11541
Tax Allowance	300	1.00	5.00	3.1000	1.32509
Reduction in Tax Rate	300	1.00	5.00	3.2804	.96692
Accelerated Depreciation	300	1.00	5.00	2.9980	.75470
Loss Carry Forward	300	1.00	5.00	2.8300	1.24348
Tax exemption	300	1.00	5.00	2.8700	.96759

Source: Deyganto (2022)

The Sustainability of Business is a dependent variable has 2.67 or on average (59%) which implies that more than 50% sustainability of the business is delivered by the business activity they are involved in. Tax holiday mean value of 2.60 and standard deviation of 1.11541, Tax Allowance mean value 3.10 and standard deviation of 1.32509, Reduction in Tax Rate mean value of 3.2804 and standard deviation of 0.96692, Accelerated Depreciation with a mean value of 2.9980 and standard deviation of 0.75470, Loss Carry Forward with a mean value of 2.8300 and standards of 1.24348, and Tax exemption has mean 2.870 and standard deviation of 0.96759 respectively. To sum up, all variables included in this tax holiday, tax allowance, reduction in the tax rate, accelerated depreciation, loss carry forward, and tax exemption has more than 50% contribution to the customer satisfaction of five-star

hotels in Hawassa city administration. Hence, more than 50 percent of business sustainability has been achieved through the tax incentives mix elements.

Assessment of Ordinary Least Square Assumptions

Ordinary Least Squares (OLS) are the most common estimation method for linear models and that's true for a good reason. As long as your model satisfies the OLS assumptions for linear regression, we can rest easy knowing that we're getting the best possible estimates. The most common assumptions to be tested before running the final regression result are normality; Multicollinearity, autocorrelation, and Heteroscedasticity have been checked and confirmed.

Table 4: The Regression Analysis.

R=.687, R2=.472, Ad R2.461, Std. Error of the Estimate = 0.88299, Durbin-Watson (d) = 1.932, F-statistic = 43.583, P-value = 0.000, ANOVA with (p-value of 0.000)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	-2.378	.378		-6.285	.000	-3.123	-1.633		
Tax holiday	.433	.050	.401	8.578	.000**	.333	.532	.824	1.214
Tax Allowance	.199	.047	.217	4.139	.000**	.103	.290	.658	1.519
Reduction in Tax Rate	.178	.056	.141	3.136	.002**	.065	.285	.897	1.115
Accelerated Depreciation	.170	.073	.107	2.314	.021*	.025	.314	.852	1.174
Loss Carry Forward	.341	.052	.353	6.594	.000**	.240	.443	.629	1.590
Tax exemption	.441	.062	.355	7.088	.000**	.318	.563	.720	1.388

The dependent variable, sustainability of the business, ** significant at the 0.01 level, *. significant at the 0.05 level (2-tailed).

Source: Deyganto (2022)

Concerning the model summary result, the adjusted R² value of 46% showed that all variables incorporated as independent variables together have a positive contribution of 46% to business sustainability but 54% of the influence of business sustainability is influenced by other variables out of the model. Out of six variables tested through regression analysis, all variables were statistically significant. Out of these, variables like (tax holiday+), (tax allowance+), (reduction in tax rate+) and (loss carry forward +), (tax exemption+) are positive and statistically significant at a 1% confidence level because their calculated absolute values of (t) are more 2.576 Wald (t) table value. Accelerated depreciation is positive and statistically significant at a 5% confidence level since their absolute value of Wald (t) calculated is more than the 1.96 table value of Wald (t). In summary, all variables incorporated in the model have a positive effect on the Sustainability of the business.

4. Discussion

The finding of this research proved that tax holiday has a statistically significant influence on business sustainability. The finding of the first research objective is consistent with the results of earlier research [1, 6, & 7]. Hence, the business developing body policymakers in Ethiopia should work on tax holiday enhances the business Sustainability of business. The finding related to the second hypothesis showed that an increase in tax allowance leads to an increase in business Sustainability of business. This is consistent with earlier research [1, &7]. Having sufficient tax allowance offered to business enterprises in establishing the business will have a positive influence on the sustainability of business enterprises. Hence, it can be recommended to the business enterprises developing body to facilitate the opportunities of the land premise to support the Sustainability of business enterprises in particular Ethiopia in the world at large. Also, the reduction in tax rate has a positive and statistically significant effect on the Sustainability of business. The finding of third research objective is consistent with result of earlier researches [1, 6, & 9]. Hence, business enterprises supporting agency government agencies should take into account tax rate to improve reduced tax rate that has a positive influence on the growth of business enterprises because business enterprises developing bodies should fear the tax rate. In my perspective decrease in the tax rate for business enterprises in comparison to corporate tax has a positive effect on the growth of business enterprises. Similarly, accelerated depreciation has a positive and statistically significant effect on the

sustainability of the business. The fourth finding of is consistent with result of earlier researches [1, 6, 7, &9]. Hence, business-supporting agency government agencies should take into accelerated depreciation rate to improve the growth of businesses. The study findings related to the fifth hypothesis tell us loss carry-forward has a positive and statistically significant on the sustainability of business enterprises. The fifth finding is similar with researches [1, 6, & 9]. Findings showed that growth of business enterprises should be taken into consideration by policymakers and government bodies who support business enterprises. The business should take into account the loss carry-forward because loss carry-forward has positively affected the growth of business enterprises. This helps the business enterprises to improve their business and promote the economic development of our country, Ethiopia. Finally, hypothesis six tells us tax exemption has a positive and significant on business sustainability. The finding of the last research objective is consistent with results of past research [1, 7, & 9]. So it is highly recommended to the government of Ethiopia work on tax initiatives for maintaining small business sustainability.

5. Conclusion

The sustainability of business enterprises is the basic goal of UNESCO. To achieve business suitability using tax incentives is the best way that encourages business enterprises to do more and more while enjoying the tax relief provided by the government. Hence, this study examined the effect of tax incentives on the sustainability of business enterprises in Ethiopia. The quantitative research method was employed by the researcher. The primary data sources were collected through a questionnaire. The probability sampling method has been employed to select 400 respondents or owners and operators of small businesses in Ethiopia. Then, the regression model analysis has been employed to conduct data analysis and to obtain reliable findings. Hence, the regression analysis showed that all monetary tax incentive variables were statistically significant. That means tax holidays, tax allowance, reduction in the tax rate; accelerated depreciation, loss carries forward, and tax exemption positively contributes to business sustainability. The current study was limited to six monetary tax incentive variables using primary data sources. It is recommended for further researchers to include non-monetary tax incentive variables and use both primary and secondary data sources to improve findings on the topic.

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