



Tax System Evaluation Model in the Context of Entrepreneurship Promotion: Theoretical Aspect

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ABSTRACT

A model for evaluation of the tax system in the context of entrepreneurship promotion consisting of four stages was formed upon analysis of scientific readings. Analysis of the quantitative variables in evaluation of the tax system in the context of entrepreneurship promotion is made and the dimensions of self-employed persons and companies are evaluated in terms of quantity in the first stage. A matrix for identification of the type of the tax system is formed in the second stage of the model. The third stage of the formed model serves for establishment of the frequency of occurrence of the variables typical to one or another type of countries in the qualitative evaluation of the tax system in the context of entrepreneurship promotion. Based on the results of the second and the third stages of the model, a list of quantitative and qualitative variables of the tax system typical to one or another type of countries in the context of entrepreneurship promotion is made during the fourth stage. Based on this, a country can anticipate respective priorities for formation of the tax system in order to promote or limit entrepreneurship of certain dimensions in the country.

Keywords: Tax System, Entrepreneurship, Evaluation Model

JEL Classifications: E60, L26

1. INTRODUCTION

It should be noted that the tax system of each country is formed by taking into account its established priorities, economic-social programs, therefore the importance of the researches in the area of tax system evaluation in the context of entrepreneurship promotion is evidenced by not only rapidly growing scopes of changes in the tax system but also by emergence of various programs for support of innovations and promotion of entrepreneurship all over the world. The made analysis of statistical data enables to claim that strong economy, stable financial system, high level of new technologies, development of perspective innovations, and a high level of entrepreneurship have been reached by the countries focusing mostly on promotion of the quality of the higher education and improvement of business development opportunities. According to Giriuniene (2013), the main relations of the state and the business entities arise through the taxation system by means of which the state directly controls and affects business entities, the success of their development and growth

opportunities. The taxation system respectively affects business entities in this way influencing functioning of the economy, and this effect may vary depending on the types of taxes, rates thereof as well as the tax rates applicable to certain entities. So there is no coincidence that countries often review and improve the tax policy implemented by them in order not only to collect tax revenue more efficiently but also to increase the competitiveness of the country's economy. It should be emphasized that the effect the tax system has on the country's entrepreneurship, evaluation thereof and determination of the areas subject to improvement in the context of entrepreneurship promotion is not such a simple and clearly defined subject of the research: No unanimous tax system evaluation model has been prepared, therefore various authors use different methods for evaluation of the tax system. We should mention (Bruce and Deskins, 2012; Bruce et al., 2004; Bruce, 2000; Bruce and Mohsin, 2006), Schneider (2010); Schneider and Veugelers (2012), Poterba (1998, 2002, 2006), (Braunerhjelm and Henrekson, 2013; Eliasson and Henrekson, 2004; Fölster and Henrekson, 1999; Henrekson et al., 2010; Henrekson and

Sanandaji, 2011) and others out of foreign scientists who analyse the tax system in the context of entrepreneurship promotion. Meanwhile, this problem has not been analysed in wide world. Upon analysis of these and other sources of scientific readings, it turned out that detailed researches involving analyses of various modern business development opportunities reveal a variety of approaches to business development means, show perspective research areas in the field of management and economics, business activation, employment security, and increase of competitiveness of certain products by means of promotion of innovations and development of technologies, on the issues of tax development, theories and functions, elements, taxation principles and so on. However, these analyses are limited because the authors refer to only to one certain approach to taxation of business entities. So far the tax system has not been analysed as a factor affecting entrepreneurship, a set of certain variables in the context of entrepreneurship promotion. The scientific problem is formulated as a lack of a versatile tool for evaluation of the effect that the tax system has on entrepreneurship of self-employed persons and companies and identification of the tax system.

The subject of this study is the tax system and formation thereof in the context of entrepreneurship promotion.

The objective of the study is to form a model for evaluation of the tax system in the context of entrepreneurship promotion.

The present paper contains an analysis of research papers, empirical studies by authors and economic readings as well as practice study on the issues of formation and evaluation of the tax system in the context of entrepreneurship promotion. A model for evaluation of the tax system in the context of entrepreneurship promotion has been formed based on the identified tax system evaluation criteria and the research done.

2. LITERATURE ANALYSIS

A detailed analysis of research publications and other research papers by foreign scientists revealed existence of countless studies of the concept of entrepreneurship and variations thereof. It should be noted that unanimous concept of entrepreneurship has been a subject of discussions for over two centuries, therefore many different approaches to it have formed over such a long period. Today's understanding of entrepreneurship is associated with such scientists as (De Silva et al., 2011; Oakey, 2012; Oakey et al., 2010), Bygrave and Zacharakis (2010), Hisrich et al. (2014), Roper, 2012; Roper et al., 2008; Roper et al., 2010; Roper et al., 2011; Roper and Scott, 2009). The results of the made analysis of scientific readings enable to provide a comprehensive summary definition of entrepreneurship stating that entrepreneurship is a process directly affected by the environment existing at the state in case of which natural and legal entities, including academic institutions as well as other public sector entities, are nevertheless considered as the main implementers thereof, and it is most often developed with the help of innovations, taking into account the available resources, promoted values and other processes and it directly influences the economic and social welfare of the country. Provision of precisely such a summarized formulation of

the definition enables to see entrepreneurship in a slightly wider sense, therefore, precisely for this reason, the newly formulated summarized concept of entrepreneurship will be followed within the course of analysis of the tax system in the context of entrepreneurship promotion.

Meanwhile, promotion of entrepreneurship is normally defined and perceived as one of the main strategic objects specified in the Treaty of Lisbon in order to make the European Union countries more competitive than they have ever been before so that they could successfully compete in the global environment of the economic market. When comparing the potential for development in Europe and the USA, Mian (2011), Frydman et al. (2011) mentioned the lack of entrepreneurship and promotion thereof as one of the main causes of economic backwardness of the European Union. Paradoxically, although the business entities operating in the states of the European Union are less inclined to take risks, to make more drastic management-related decisions, but the made analysis of statistical data enable to claim that the latter have a better base for development of entrepreneurship: Better education, higher level of competences. On the other hand, in case of bigger business ambitions, competences, professional knowledge and practical experience of a single person is not enough. According to Giriuniene and Giriunas (2012), entrepreneurship can exist only in a certain environment, therefore the level of entrepreneurship depends on the specific measures used for encouraging entities to be entrepreneurial.

All empirical researches of evaluation of the tax system in the context of promotion of entrepreneurship carried out so far can be divided into two groups: Researches carried out using statistical fragmentary data and researches carried out using questionnaires or other surveys. Despite the existing differences between all these researches carried out, supporters of the first type, such as Bruce and Deskins (2012), Bruce (2000), Rin et al. (2011), have proven that the tax system actually influenced entrepreneurship and the scopes thereof: It was determined that a statistically significant relation actually existed between these two variables. They have also proven that excise taxes, property and income taxes had a direct but a small influence on the level of entrepreneurship. Slightly different research results are provided by the second group of scientists who have been analysing the relation between entrepreneurship and the tax system. For example, Schuetze (2000) substantiated the theory that entrepreneurship of self-employed persons directly and to a large scope depended on personal income tax and precisely the rate thereof determined the willingness to engage in entrepreneurship or further development thereof. This is also supported by Carroll et al. (2000), Edwards (1982) who claim that higher income tax rates existing in the country might even improve entrepreneurship, because in that case business entities tend to use various tax concessions more actively. However, the results of the empirical researches done by Hansson (2012), Kim et al. (2012), Kneller and McGowan (2012) enable to claim that high taxes inhibit the country's entrepreneurship. Thus, in order to identify the impact of the tax system on the two distinguished dimensions of evaluation, i.e., self-employed persons and companies, it is necessary to form such a model that could be used for evaluation of the direction how elements of the tax system

affected entrepreneurship: Whether they promoted it or limited it. In order to achieve the aforementioned goal, an analysis of various tax system evaluation methods was performed. It showed that although really a lot of evaluation techniques and methods existed in practice, they were intended for evaluation of the tax system from different aspects. Therefore, none of the analysed methods could be applied for analysis of the tax system in the context of entrepreneurship promotion. However, it was noticed that all methods have unanimous evaluation features which can be referred to as certain common criteria for evaluation of the tax system. Based on the identified results of expression of tax system evaluation criteria, we may claim that most of attention is paid to administration of the tax system after all, but the rest of the evaluation criteria, i.e. the structure of the tax system, external environment, or the level of complexity of accounting, is paid the same and equal amount of attention. It is assumed that following these criteria is expedient in order to evaluate the tax system in the context of entrepreneurship promotion and to select relevant indices describing them.

3. THE COURSE OF THE STUDY AND RESULTS

3.1. Model Specification

Bhati (2012) claims that the quality of the model being formed and, most importantly, applicability and reliability thereof will depend on what specific model formation principles would be followed in the primary stage of development thereof, therefore identification of the principles to be applicable to formation of the model must be based on insight of the application benefits. It is for this reason why identification of the principles to be applicable to formation of the model can be referred to as the starting point in order to form a model for evaluation of the tax system in the context of entrepreneurship promotion. Thus formation of the latter started from identification of specific model formation principles, specification thereof as well as motivation of selection thereof. Upon analysis of scientific readings, it turned out that the model should be formed based on such principles as dynamism, innovation, and versatility. According to Ingeman and Bjerke (2009), the first principle distinguished for formation of the model, i.e., dynamism, is fundamentally different from the principle of immobility. Whereas the tax system, as a factor, is already regarded as dynamic, therefore the formed evaluation model should be characteristic of only dynamic structure instead of the immobile one. Realization of the principle of innovation includes not only generation of new ideas, but also aggregation of published literary sources, empirical data, and practical examples as well as synthesizing of new approaches. Therefore, in existence of present-day economic conditions when the tax system and the analysis thereof gains a more detailed meaning, formation of radically changed, new economic theories or concepts without taking into account already existing scientific theories or practice might be complicated. The model for evaluation of the tax system in the context of entrepreneurship promotion subject to formation must also be characteristic of the principle of versatility. According to Gudonavicius et al. (2009), if a model is formed exceptionally for someone situation, its scientific and practical value certainly

decreases. Thus the model must be versatile so that it could be applied in any foreign country in order to evaluate the tax system of the latter.

Evaluation of the tax system in the context of entrepreneurship promotion is developed on the basis of the carried out analysis of the theoretical approach and identified principles of the model formation which is also used for determination of certain specifics of the evaluation. Therefore, it is suggested to evaluate the tax system in the context of entrepreneurship promotion in four stages:

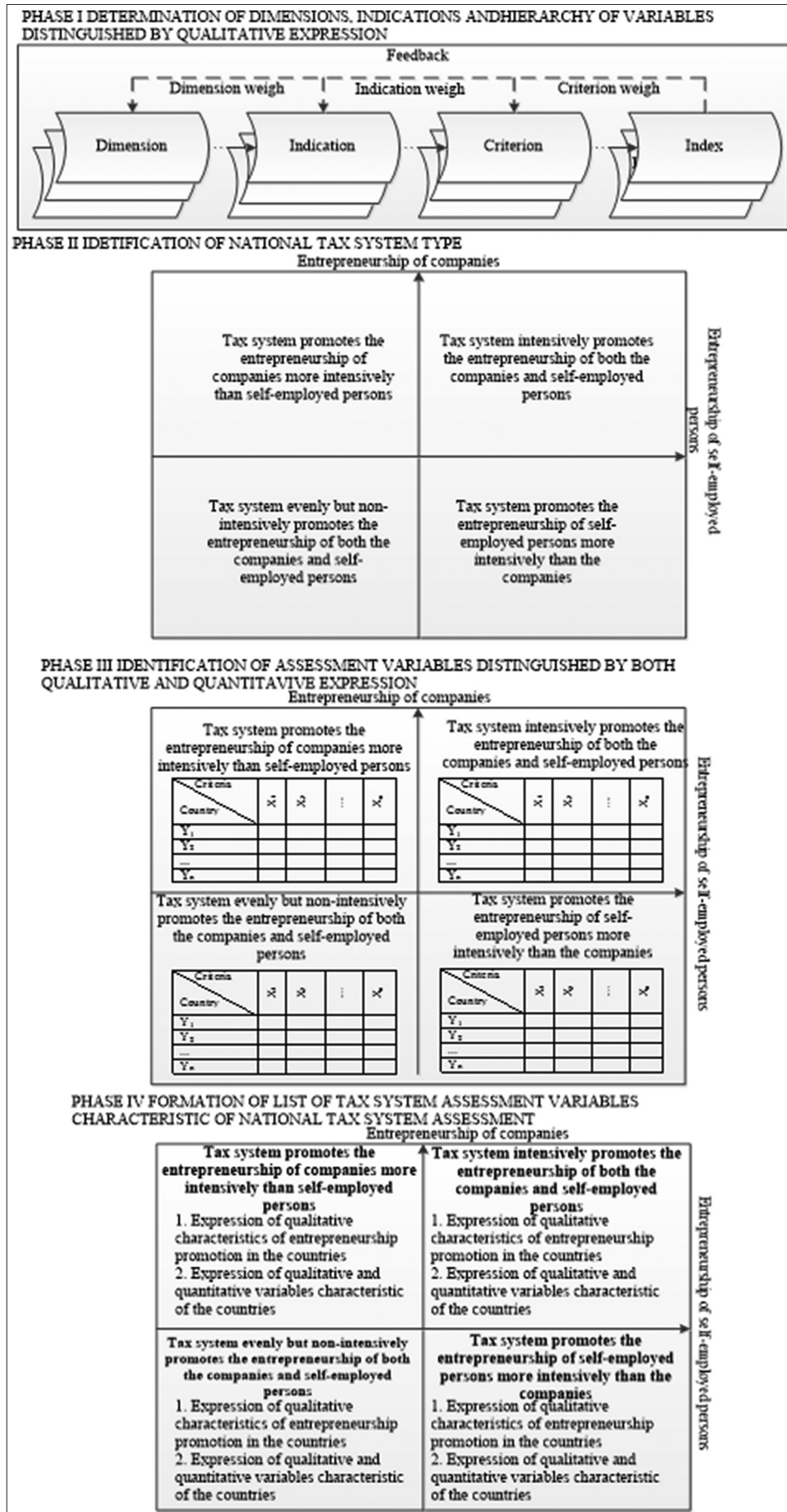
- To evaluate the impact of the tax system on entrepreneurship of self-employed persons and companies individually;
- To identify the type of the classification of the tax system;
- To identify of the frequency of occurrence of the variables typical to countries having different types of the tax system as the qualitative expression;
- To identify what elements of the tax system promoted or limited entrepreneurial opportunities in the country after all.

3.2. The Basic Layout of the Model

It should be noted that the model consists of a logical sequence of the four main stages of evaluation of the tax system enabling to evaluate it consistently and purposefully in the context of entrepreneurship promotion (Figure 1). Although all model implementation stages are closely related, but the need to individualize each of them is determined by the criterion of the need of different type of information. The latter is based on established theoretical assumption the purpose of which is evaluation of the tax system in the context of promotion of entrepreneurship. The purpose of the entrance of the formed model is to evaluate the impact on entrepreneurship in case of self-employed persons and companies, therefore upon identification of the list of the variables subject to evaluation in the quantitative expression, it is necessary to form a level of hierarchy. On the basis of Hiemstraand et al. (2012) technique all variables essential for the evaluation are classified as generic features reviewing a certain aspect of the tax system by means of logical analysis. It should be noted that when the evaluation features are clear, the latter must be divided into groups covering several dimensions.

It should be noted that two major dimensions have been distinguished in the model forming the highest level of hierarchy in the first stage of the model for evaluation of the tax system in the context of promotion if entrepreneurship. Based on the proofs that the tax policy has a direct impact on the country's entrepreneurship, then two dimensions, i.e., self-employed persons and companies, have been distinguished for the purpose of evaluation of the tax system. Precisely this type of evaluation has been selected based on the fact that entrepreneurship in many countries can be reflected not only by legal entities but also by natural entities who can engage in commercial activities independently. It should be noted that citizens who have acquired business licences or engage in individual activities based on certificates and pay respective taxes could be presented as examples of such activities in Lithuania. However, it should be emphasized that these two dimensions of the model for evaluation of the tax system in the context of entrepreneurship promotion are closely related and can influence each other indirectly. For example, there is a dominant opinion that if a too

Figure 1: Model for evaluation of the tax system in the context of entrepreneurship promotion



high income tax rate is set in the country, then it would promote entrepreneurship of self-employed persons rather than companies, in which case, according to Brixiova (2011), income tax rate has an inverse relation, i.e., an increase in the rate would not promote establishment of companies but rather encourage self-employed people to engage in activities using the tax policy prevailing in the country. However, despite this, the researches carried out by Bruce and Mohsin (2006), Bruce et al. (2004) enable to claim that profit tax rate, income gained by companies, or value added tax rate had no influence on the country's level of entrepreneurship. It should be noted that self-employed persons have more opportunities to avoid taxes subject to payment, therefore, according to Engstrom and Holmlund (2009), the tax policy should be formed in order to keep balance between promotion of entrepreneurship of companies and self-employed persons. However, in case of drastic reduction of tax burden of one or another group, it should be remembered that, if the purpose of the tax policy is not business capital development but just capital development in order to increase tax revenue of the state, then, according to Parker (2004), such "promotion" of entrepreneurship not only serves no purpose, but it is also harmful as it increases the scale of tax evasion and diminishes the culture of the tax payers. However, it should be noted that international competition of counties in the field of tax policy directly influences the level of entrepreneurship and entities may move freely of countries and compete not only in local markets. Therefore, the tax system can be formed in such a manner that entrepreneurship of self-employed persons would be promoted more in comparison to entrepreneurship of companies and vice versa. Precisely or this reason distinguishing two dimensions of entrepreneurship, i.e., self-employed persons and companies, is necessary of when analysing the tax system in the context of entrepreneurship promotion.

4. CONCLUDING REMARKS

The carried out study of tax system, as a prerequisite for promotion of entrepreneurship, confirmed that the tax system actually is one of the measures for promotion of entrepreneurship and abundance of its elements and arrangement thereof had a direct effect on the country's level of entrepreneurship. This is also illustrated by the theory confirmed within the course of analysis of scientific readings showing that one of the most common methods is direct or indirect promotion of entrepreneurship precisely through the tax system which is used not only for redistribution of the collected state's tax revenue among certain economic entities, but tax concessions are used for promotion of one or another business area, entrepreneurship of self-employed persons or companies. The carried out critical comparative analysis of models for evaluation of the tax system suggested in research papers showed that the provided models were not only very different, but also that none of the analysed models were comprehensive enough and were not able to evaluate the tax system in the context of entrepreneurship promotion: Instead they just indirectly identified certain trends of evaluation. It should be noted that models for evaluation of the tax system described in scientific readings provide a general understanding about the tax system and the elements of evaluation thereof, however, they do not offer a specific method to estimate or evaluate the tax system in set terms precisely in the context of entrepreneurship promotion, therefore it is expedient to

form a model for evaluation of the tax system in the context of entrepreneurship promotion characteristic of clear structure and logical sequence, involving evaluation of all dimensions - not only companies, but also self-employed persons. Upon analysis of scientific readings, a model for evaluation of the tax system in the context of entrepreneurship promotion, consisting of four stages, was formed. Analysis of the quantitative variables in evaluation of the tax system in the context of entrepreneurship promotion is made and the dimensions of self-employed persons and companies are evaluated in terms of quantity in the first stage. A matrix for identification of the type of the tax system is formed in the second stage of the model. The matrix is used for determination whether the tax system: Promotes entrepreneurship of self-employed persons more intensively in comparison to entrepreneurship of companies; promotes entrepreneurship of companies more intensively in comparison to entrepreneurship of self-employed persons; equally promotes entrepreneurship both of companies and self-employed persons; does not promote entrepreneurship of neither self-employed persons, nor companies intensively. The third stage of the formed model serves for establishment of the frequency of occurrence of the variables typical to one or another type of countries in the qualitative evaluation of the tax system in the context of entrepreneurship promotion. Based on the results of the second and the third stages of the model, a list of quantitative and qualitative of variables of the tax system typical to one or another type of counties in the context of entrepreneurship promotion is made during the fourth stage. Based on this, a country can anticipate respective priorities for formation of the tax system in order to promote or limit entrepreneurship of certain dimensions in the country.

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