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**A study of the impact of implementing Vat in KSA
on small and medium enterprises**

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دراسة تأثير تطبيق ضريبة القيمة المضافة في المملكة العربية السعودية
على المنشآت الصغيرة والمتوسطة

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Abstract

The introduction of taxation, including the Value-Added Tax (VAT), in Saudi Arabia has posed significant challenges for small and medium enterprises (SMEs) in the country. This research study aims to explore the impact of the tax system on SMEs in Saudi Arabia, with a particular focus on the challenges faced by small business owners in understanding and complying with tax regulations.

The study begins by providing an overview of the economic and social background, highlighting the growth of SMEs in the Kingdom and the government's efforts to promote entrepreneurship as part of Vision 2030. However, the lack of historical experience with taxation has resulted in a general lack of awareness and understanding among small business owners regarding the implications of taxes, including VAT, on their operations.

The research investigates the complexities of implementing the tax system and the negative impacts of non-compliance, such as financial penalties, increased administrative burdens, and the erosion of profit margins. The study also examines the specific difficulties encountered by SMEs in adapting to the VAT regime, which often requires changes to financial and accounting systems, leading to additional costs and operational disruptions.

The theoretical importance of this study lies in its contribution to the existing body of knowledge on the impact of taxation on SMEs, particularly in the context of developing economies like Saudi Arabia. The research aims to develop a theoretical framework that can assist policymakers and practitioners in understanding the challenges faced by small business owners and implementing strategies to enhance tax compliance and support the growth of the entrepreneurial ecosystem in the Kingdom

أدت مقدمة النظام الضريبي، بما في ذلك ضريبة القيمة المضافة (VAT)، في المملكة العربية السعودية إلى تحديات كبيرة أمام المنشآت الصغيرة والمتوسطة (SMEs) في المملكة. تهدف هذه الدراسة البحثية إلى استكشاف أثر النظام الضريبي على المنشآت الصغيرة والمتوسطة في المملكة العربية السعودية، مع التركيز بشكل خاص على التحديات التي يواجهها أصحاب المشاريع الصغيرة في فهم والالتزام بالأنظمة الضريبية.

تبدأ الدراسة بتقديم لمحة عامة عن الخلفية الاقتصادية والاجتماعية، مسلطة الضوء على نمو المنشآت الصغيرة والمتوسطة في المملكة وجهود الحكومة لتعزيز ريادة الأعمال كجزء من رؤية 2030. ومع ذلك، فإن نقص الخبرة التاريخية مع الضرائب أدى إلى نقص عام في الوعي والفهم بين أصحاب المشاريع الصغيرة بشأن آثار الضرائب، بما في ذلك ضريبة القيمة المضافة، على عملياتهم.

تبحث الدراسة في تعقيدات تطبيق النظام الضريبي والآثار السلبية لعدم الامتثال، مثل الغرامات المالية والأعباء الإدارية المتزايدة وتآكل هوامش الربح. كما تفحص الصعوبات المحددة التي تواجهها المنشآت الصغيرة والمتوسطة في التكيف مع نظام ضريبة القيمة المضافة، والذي غالبًا ما يتطلب إجراء تغييرات على الأنظمة المالية والمحاسبية، مما يؤدي إلى تكاليف إضافية واضطرابات تشغيلية.

تكمن الأهمية النظرية لهذه الدراسة في مساهمتها في المعرفة الحالية حول تأثير الضرائب على المنشآت الصغيرة والمتوسطة، وخاصة في سياق الاقتصادات النامية مثل المملكة العربية السعودية. تهدف الدراسة إلى تطوير إطار نظري يمكن أن يساعد صانعي السياسات والممارسين في فهم التحديات التي يواجهها أصحاب المشاريع الصغيرة وتنفيذ استراتيجيات لتعزيز الامتثال الضريبي ودعم نمو النظام البيئي للريادة في المملكة.

Chapter 1

Introduction:

Some of the literatures, which are being written regarding taxes, fail to distinguish between size and form of businesses and entrepreneurship. Therefore, this research or study will start with explanation of what is the meaning of small businesses: Therefore, this research or study will start with explanation of what is the meaning of small businesses:

It is any trade that is able to earn profits but it is not among those trade entities that crossed a certain high placed asset line. It include the owner, corporate business and partnership form of business. Also, who have income from self-employment or through free business, even if it is minor for them they are considered as people with business income.

Previously, the people working in the small business firm act as the tax compliance in terms of all administrative actions like revenue collection and taxation. It means that their behavior has some relation to the successful outcome of the project. The taxes are paid by the business owners themselves Act as treasurer or collector of the taxes (Christensen et al. , 2001). Independent traders are a considerable segment of population paying taxes for the country. Furthermore, small business owner-directors are likely to cheat more than other people in the society in terms of tax. Taxes is one of those subjects, which is crucial to the development of small businesses. However, the observed tax behaviors of small businesses and their actual experience in paying taxes did not attract good attention.

Consequently, this research can help advance knowledge regarding the aspects of tax compliance among small business owners, what the general population is aware of taxation, and how taxes influence small businesses in Saudi Arabia. Specifically, there were the distinctions in the assessment of efficiency of the tax substances and work experiences in corresponding fields among different groups of taxpayers and small business representatives. The business owners are the sole taxation entities in small businesses and in addition to them paying personal income taxes, they have to be responsible for business taxes such as corporate taxes, property taxes and payroll taxes among others; the business owners are also required to collect value added taxes such as the VAT in relation to sales taxes; and, in combination with having at least one employee, business owners have to withhold other personal income taxes from their employees' wages. I assume that the various types of taxes and taxation requirements may significantly shape the perceived tax situation of small business owners.

The practical aspect of the taxation of large companies is split and issues of the taxation are solved by professionals in the taxation effects. And all these do not have a direct correlation to the company's revenues. Furthermore, it will be necessary to take into account the psychological and economical prerequisites of compliance (Erender and Feinstein, 1994).

Tax non-compliance: It is any difference between the tax base and the actual taxes collected, in other words, It is the difference between the taxes that should have been collected and the taxes that were actually collected. This difference is witnessed when there is over-estimation and under-estimation of total income, total expenses and deductions.

Non-compliance leads to insufficient understanding of tax laws and also leads to accounting errors Tax: this word for free makes owners of business limited in the business that they run.

Problem Statement:

Because of the Kingdom 2030 vision and the introduction of social media, there has been a focus on the diversification of the economy and the encouragement of entrepreneurship. Having been fueled by social media networks, which offer accessibility to commerce, creation of SMEs, as well as networking, this change has been made possible.

Economic and Social Background

Thus, with Saudi Arabia's Vision 2030, the kingdom is moving away from oil dependency and towards entrepreneurship. This vision supports the Small and Medium Enterprises development particularly because they can spearhead the economic growth in the country, and the provision of new employment opportunities. Among these factors social media platforms have been helpful most especially in the aspect of starting up and expansion since it is cheap to start a business through social media platforms.

Small and Medium Enterprise' Growth

Thus, SMEs are at the focus of economic development because they constitute the major source of innovation. They help advance the economy insofar as adding various products and services, creating competition, and spurring innovation. As the rate of entrepreneurship increases, SMEs are gaining their relevance contributing to the targets of Vision 2030 in KSA.

Albeit, the development of the SMEs, the factor that has recently emerged in the course of the year is the taxation system that comprises of the VAT among others. Traditionally, the idea of taxation was not prevalent in the Saudi economy, and therefore the small business people especially the newly established ones lacked adequate knowledge on the effects that taxes would have on their business.

Most small business people lack adequate knowledge to handle the intricate procedures of taxes. Such ignorance and inexperience contribute to non-adherence to the requirements, and increased losses and penalties which hinders the success and the longevity of the SMEs. The situation is even worsened when incorporating VAT, since this results in embracing of new policies and handling of different financial mechanisms.

Negative Impacts of Non-Compliance

Violation of tax laws may lead to high costs to the SMEs and severe penalties. These overhead costs can cut profit volumes, dampen cash flow, and limit the capacity of corporate entities to fund their growth and development more so when they experiment with innovations. Furthermore, the compliance cost with the tax laws can take a lot of time and other resources away from the organizations' main functions, thus decreasing general performance.

Complexities of VAT Implementation

The input of VAT increases the number of taxes which make the tax system a little complicated. It is mandatory for the businesses to keep proper records of all financial transactions and file their taxes frequently. This is a major problem often time for SMEs as they may lack financial capital, or required personnel with adequate experience. Switching to the VAT system usually requires modification in the financial and accounting procedures, which can lead to increased expenses and turmoil in the organization's activity.

Importance:

The emphasis of this research lies in the determination of the way the tax systems affect or influence SMEs in Saudi Arabia but with the consideration of VAT. In terms of its significance for the Kingdom's entrepreneurial environment, this investigation focuses on the key issues that hinder small business proprietors from comprehending the tax rules and requirements, the specific difficulties they encounter, and the potential strategies to enhance tax compliance and support business growth.

Theoretical Importance:

- **Contribution to Knowledge:** This research proposal will contribute to the existing literature on the effects of taxation on SMEs with reference to developing economy of Saudi Arabia.
- **Framework Development:** It will contribute towards the development of theory concerning the relationship between tax compliance and SME growth which will be useful in subsequent studies.

Practical Importance:

- **Policy Implications:** The study findings can also help policymakers to identify the major issues that SMEs encounter while implementing the tax laws to come up with favourable tax policies and structures.
- **Support for Entrepreneurs:** The study will include suggestions and findings that can prove valuable in aiding small business owners in coming to grips with the tax situation and hence foster the minority businesses' growth and perpetuity.
- **Educational Value:** Thus, increasing the awareness of the significance of taxation compliance, this study could be used as a base for educational initiatives designed to let modern and prospective businessmen understand and apply proper taxation strategies.

Aims and Objectives of the study

Aim:

The purpose of this study is to increase the understanding of the public, especially the SMEs owners, regarding the ideas of the taxation and to show the impact of tax as well as its control.

Objectives:

1. To Analyze the Effect of Tax on Small Businesses in Saudi Arabia:

- o Identify how the taxes affect the business' finance and functioning.
- o Examine the difficulty SMEs encounter in order to adhere to the taxation laws.
- o List what you consider as clear determinants in taxation that negatively impact on the growth and sustenance of SMEs.

2. To Increase Awareness of the Concept of Taxation:

- o Inform the SMEs owners regarding the significance and advantages of the compliance with tax laws.
- o Get information on tax laws, procedures that ought to be followed, as well as tips in tax compliance.
- o on the same note, create literature and other materials that seek to enhance knowledge on the matter especially among the small business people.

3. To Understand the Conditions for Tax Imposition on Corporations:

- o Review on when and how corporations are subjected to taxes.
- o Numerical and/or qualitative evidence of the application and effects of taxation on SMEs.
- o Present suggestions that can be made to SMEs to ensure that they are able to meet all the set tax requirements.

By addressing these objectives, the study aims to provide comprehensive insights into the relationship between taxation and SMEs, offering practical solutions to enhance tax compliance and support the growth and sustainability of small businesses in Saudi Arabia.

Research Questions:

1. What is meaning of Tax and Vat?
2. What is the impact of corporate tax?
3. When is corporate tax imposed?
4. Does the tax have benefits and what are they?

Research Hypothesis:

Looking at the extended concept of tax among the business owners in this research, this study established a positive relationship between the idea of the impact of tax.

the following hypotheses have been formulated to guide the empirical investigation into the impact of VAT implementation on small and medium enterprises (SMEs) in Saudi Arabia: the following hypotheses have been formulated to guide the empirical investigation into the impact of VAT implementation on small and medium enterprises (SMEs) in Saudi Arabia:

Hypothesis 1: There is an influence of the BLEAK framework on business performance.

H1: VAT has a negative effect on the financial performance profile of the SME's in Saudi Arabia.

Rationale: VAT is another indirect tax which rises the price of particular products or services and has an impact on company's revenue streams, gross and net margin as well as general performance of SMEs.

Hypothesis 2: Compliance Costs

H2: Compliance costs which the implementation of VAT has brought along are considerably higher for the SMEs than those for the large firms.

Rationale: SMEs unlike their large counterparts are often resource constrained, and are likely to suffer higher costs when it comes to VAT compliance in terms of amount of time, accounting services, as well as other expenses incurred while dealing with taxes.

Hypothesis 3: Due to the nature of NTBA's business, the level of compliance they expect from their clientele is presumably high, and thus it can be postulated that:

H3: The SME owners' perception regarding the fairness of VAT and their trust towards the tax authorities predict their level of VAT compliance behaviour.

Rationale: The theories from psychological and behavioral economics perspectives indicate that taxpayers' perceived attitudes towards the tax systems and their perceived trust towards coercive institutions influence their compliance levels.

Hypothesis 4: The members of the informal economy will move to the formal economy mostly with a view of becoming employees.

H4: Implementation of VAT pushes formalization of the SMEs that are operating in the informal economy.

Rationale: VAT is one of the measures of the Kingdom of Saudi Arabia's economic liberalisation process just to alter the informal economy. It can also make firms benefiting from such aspects as credit and markets but at the same time has to deal with compliance.

Hypothesis 5: Similarly Economic diversification benefits the economy.

H5: SMEs believe that the "Revenues from Value Added Tax", used in financing public services and infrastructure outweigh the taxes levied.

Rationale: The intention of the government is to utilize the collected amount of VAT for the endeavors of funding public services and infrastructure that would foster a favorable conditions for the functions of business entities.

Hypothesis 6: Sector-Specific Impact

H6: Saudi Arabian SMEs 'VAT implementation experiences are considerably different from one sector to another.

Rationale: There could be variations in the impacts on different sectors since the costs, ability to affect prices, and customers differ. For instance, it could be that some sectors are that badly hit than others; retail and service oriented SMEs may be affected than manufacturing SMEs.

Hypothesis 7 there exists a relationship between investment and innovation, read as Investment leveled $\times$ Innovation leveled.

H7: The implementation of this VAT reduces the investment and innovation actions that the SMEs in Saudi Arabia undertake.

Rationale: This may result in the reduction of investment funds as well as negatively affecting growth and competitiveness.

Hypothesis 8 can be formulated as follows: There is a positive correlation between awareness about the disease and level of education.

H8: Awareness creation and enhancing people's knowledge in VAT avert enhanced compliance levels among SMEs.

Rationale: Evaluating the method of disseminating information Furthering SME's knowledge and awareness of VAT will decrease intentional noncompliance.

All these hypotheses will be carried out through empirical research entailing quantitative and qualitative data gathering techniques. Such assumptions are expected to be verified or refuted by the results of the study, thus advancing the comprehension of how the implementation of VAT has affected Saudi Arabia's small and medium-sized enterprises.

Theoretical Foundations

This research is to study the impact of the application of the value-added tax (VAT) on small and medium-sized enterprises (SMEs) in the Kingdom of Saudi Arabia. this topic was selected because the VAT is critically important and strategically influential in impacting the economic and business fabric of the Kingdom. Therefore, the research seeks to establish how these organizations are impacted on by the economic changes occasioned by the implementation of the tax and employ a quantitative data collection and analysis technique. Based on the methods of data collection and its analysis, this research can be classified as quantitative.

Chapter 2

Introduction

The purpose of this study is to investigate the effect of the tax system especially, the aspect of VAT on the development and viability of SMEs in the Kingdom of Saudi Arabia. It will examine the issues that affect the response to tax compliance among the small business people and measures adopted by them in dealing with change in taxes. With regards to the fact that this study will comprehensively examine the issues that small and medium-sized enterprises face in the framework of this research, the findings will be useful and meaningful for policymaking, tax regulations, and the continued growth and development of the enterprises, for which this sector is vital. This will be done by identifying the number of previous works of research on the study of the effects of implementation of the VAT system.

Literature review

Tax knowledge, tax complexity and tax compliance: The perception that most of the funds come from taxpayers implies that these dollars are the people's money, hence the taxpayers' view.

In the paper regarding (Saad, 2014) focuses on the interactions between two parties and how the interaction influences the tax compliance of the individuals. The first entity is all the information that exists on the given tax laws. The second type of factor is the interaction between the complexity of taxation regimes in a certain country and various aspects of taxation compliance with the taxpayers. In the paper, he looks at consequences or possible causes of noncompliance to the tax system. As it was observed in the study done by Saad (2014), some behavior is not compliant willingly or knowingly. This is because business people fail to have adequate knowledge of the tax laws in a country hence involving the tax non-compliance unknowingly. While ignorance is squarely linked with non-compliance, thus having tax knowledge does not translate into every individual becoming tax compliant. The above tax structural display shows that there are many confusing factors that may deter people from being tax compliant. There are evidences that with the help of tax simplification the notions and the rules concerning taxes have been effectively introduced and explained to the population.

On the same note, Saad (2014) has defined tax compliance as the willingness of a citizen to follow set taxation rules and regulations. The road-map to reaching tax compliance compels an individual to provide tax returns willingly without pressure. It can also be summarized that knowledge is culture independent of tax compliance. There are some countries where people deliver income at due dates while the citizens of other countries have relatively higher non-compliance rates. The tax compliance behavior has several determinants which consist but are not limited to knowledge, income, rates, ethics, and tax complexity.

As mentioned from the recorded interviews by Saad (2014), tax law is relevant for every citizen; however, such information is not easily accessible; many people fail to conform to the law regarding taxes due to inadequate information. One of the biggest disadvantages that attract non-compliance is that it is complicated, people attempt to learn

the tax laws to no avail. There are two major issues, which result in non-compliance; non patriotism and thinking that one cannot be caught by the authorities.

Similarly, according to the work done by Brawnlee and his companions in the year 2016, taxation should be regarded as a penalty that is statutory charged on individuals or on their companies or organizations by the government with an aim of increasing funding for several expenditures that are public. Nonetheless, the majority of the people in the country always neglect to pay taxes, whether through avoiding or resisting taxes. Consequently, this makes the government to enforce punishment to those people and come up with a follow up of ensure that tax is paid as required. As specified by Ishikawa et al. (2018), tax is directly or indirect; and paid in money or in labor.

Many nations have a taxation regime that seeks to fund the public requirement and government operations. various taxes charge different amounts on people's earnings as well as earnings from their enterprises. some forms of taxation have fixed rates while others are considered scale based rates (Jeanne, and Korinek, 2018). There has been a separation between the legal and the economic concept of taxation in that while the former identifies many of the transfers—which is usually made to the government—as taxes, the latter does not. For instance, there are several transfers that are grouped under the category of prices. The money form of taxation is actually the modern way of imposing taxes where the government imposes taxes in form of money. The way chosen by a country to undertake taxation is looked at in economics and politics.

In distribution of wealth, taxation may be employed in relation to businesses and different people (Aghion et al. 2016). This is done to both individuals and even business people. This is simply because they both have different tax structures to deal with in as much as they drill for oil. This is an indication that a portion of people and corporations enjoy comparatively higher amount of total revenue than the rest. Thus, taxation can be said to play a very crucial role in promoting equality of wealth distribution.

Value- added tax (VAT) is also referred to as goods and services tax in some countries as discovered by Wallace (2015). It is a kind of tax that is charged progressively on the bases in the improvement in goods and services. The access of VAT is in form of destination based tax, that is the tax is made on the place of consumer as well as the selling price that has been adopted. In Saudi Arabia it contributes a fifth of the total tax collected in the country through

the implementing of value added tax. VAT like any other system is implemented not only in KSA but also in 193 other countries (Alumina and Lopez-Rodriguez, 2018). With respect to VAT tax, two procedures are used namely the credit invoice and the account based method. In credit invoices the taxation is done on all the transactions including the noticing of the customers. The other shrinkage, that resultant from taxation, may see involved businesses being credited on the VAT on the bases of the goods and services sold. Slemrord et al. (2015) discussed that the credit- invoice technique of tax calculation is the most employed method since it allow subtraction of the taxable purchases and the rate of the VAT is applied at the difference, at the end of the reporting period.

Purpose of Taxation On Small Businesses

Imposition taken on small business is very effective in the sense of ruling or controlling or even setting price level of goods and services for the purpose of demand regulation. In KSA, the government has been applying VAT taxation on goods and services supplied to several businesses with the aim of securing capital that is used in diverse endeavors. These include steering activities which are those that were spent on economic activities in the country such as construction of roads & sanitation, legal systems & public transport, health care and education among others. Though, it is equally possible that expenditures may be more than the tax revenue, hence leading to a build up of debt to the government. Some current tax component is applied in repayment of past debt in several instances (Minnis & Sutherland, 2017). For example; financing of welfare and public goods. These are pension, education, unemployment, water, energy as well as waste. Concisely, in Chartalist theory which is used into money creation, it is not mandatory to create money for government revenue especially where the government is in a position of providing fiat money.

This hence improves on the levels of taxation hence supporting the stability of currency in a country. Besides, this stability of currency in the country boosts operationalization of public policy in aspects such as distribution of wealth, partitioning the cost of benefits together with subsidization of industries. In fact taxation plays a critical role to the government in the country as it leads to the formation of the revenue; which is the base for the growth of economy. The following are other discussed reasons as to why tax has to be imposed on the small businesses;

Limit owners liabilities

In essence, the broader objective of taxation, particularly to small businesses, is towards restricting the owner's risks. In sole proprietorship structure all owners are made responsible for the obligation of the business and this makes creditors to seize the owners' personal property while recovering the debts (Wallance, 2015). Taxation enhances formation of corporation and its operation and this protect owners from such liabilities.

Enhance Credibility

Revenue improves incorporation of businesses and this in turn facilitates the verification of business after the business name. The named distinction means the business is immediately credible and immediately authoritative which means for a small business wishing to develop into an incorporated business, it will find the process easy to achieve.

This is because protecting the brand of the business is very important as it is the unique identity of the business.

VAT form of taxation improve small businesses so that they can fight to reclaim their membership in other organizations that produce the same product (Ishikawa et al. 2018), this is done by the business acquiring more marketing power and a strong brand image. Exactly, taxation aids in the increase in the branding perspective of a particular product.

Foreign investment

In the same way, the main determinant factor when it comes to opening of other branches within and outside the countries is the consistent payment of taxes. Hence, it becomes very crucial for the small organizations to meet all the tax impositions that the government entails to ensure it gets better positions for the organizations' development.

Enhance Legal Changes

Through taxation, the government can alter the laws frequently in regard to political regulations. This makes small businesses to be in a position of responding to such changes in legal frameworks. Such changes according to Slemrod et al. (2015) comprise of the national minimum wage creation. These wages are currently extended up to the age of 18 years Today Most of these wages are also buried up to the age of 18 years. This is simply because; taxation is sometimes done according to the size or the revenues of the business. This means that; small business people may not end up paying a lot of taxes and this enhances the business in terms of provision of employment and expanding of their production. In exchange, there is an increase in the amount of profit realised by the business.

Effects of taxations on businesses

Government applying the taxation policy in a country to make sure that organizations are placed in a position to compete with each other. The government from time to time alters the structures and parameters of taxation thus forcing businesses to alter the ways in which they conduct themselves. Such influences are as follows: The policy of taxation tends to impact small business by the following ways;

Raise costs of products

When taxation, The government placed an avoidable fee on certain goods in order to generate government revenue. While individuals engage in conducting economic activities in order to exist and or meet their day to day needs, businesses on the other hand engage in buying and selling of goods and services more so as a way of making profit (Jeanne and Korinek, 2018). This implies that taxation implies a cost consequences on goods. For instance; definite actions like increasing the taxes on goods and services leads to a direct increase in the price of goods and services. It is for this reason that businesses are called upon to factor this taxation and pass it to the customers to in an effort to mitigate on the impact of the tax. But it does impact on the turnover of the business too in one way or the other.

There are two kinds of taxes that can be imposed on these goods; environmental and Value Added Tax. Once these goods and service are subjected to taxes, their prices are high and this reduces the amount of sales that can be made. This in a way impacts business such that they are unable to compile with the required target of making the necessary profits.

This means that it should discourage investment in new as well as in existing goods.

As explained above, taxations influence small businesses in the sense that they lead to the hiking of prices of their products. The above policy makes the prices of the goods and services to be high and this retards the sales of the products. That is, businesses will not be able to make 'specific' or 'special' profits (Ishikawa et al. 2018). As a consequence, this will deter the investment on such goods and services. To those who have prior knowledge about business management, investment put up by a business in its new products and services allows it to grow. They will not be able to expand after paying taxes which translates to the fact that, taxation limits business growth.

In this case, taxation results in an addition of expenses borne by the producers, which leads to a rise in the price of final output, be it goods or services. This in return reduces the achieving of the stocks held which in turns reduces the sales of the goods hence the revenues of the organization .

Increase Business Expenses

Implementation of taxes makes the expense of the business to rise, and reduces the chances of achieving profitability as desired. Companies are levied on their sales and on their products, many taxes are imposed on them including; Payroll taxes, fees for licences or permits and property taxes among others. These all have an unfavorable impact on development of the business.

Theoretical Framework

Value Added Tax otherwise known as VAT is an indirect tax charged on the addition of value at every stage of the supply chain. It applies to final consumer, but is charged by business persons who then remit the VAT to the government. readily understood as an element of the modern tax systems, while playing the role of the stable and efficient source of revenue for governments. In Saudi Arabia specifically, in July 2017, the government commenced new tax measures which included Value Added Tax, VAT that commenced in January 2018 as more of the country's economic reform measures targeting the reduction of over-reliance on oil.

SMEs have a strategic importance in the Saudi Arabia's economy because of their contribution to employment, competitive alternative to large firms, and a solution to economic diversification. It is a crucial segment of the business environment mainly because SMEs constitute the majority of businesses while at the same time experiencing different obstacles compared to large companies. The consequences of introducing a VAT system greatly impact SMEs in terms of their revenues and expenses, regulatory requirements and business processes

Theoretical Perspectives on VAT

Public Finance Theory

Traditional theory of public finance principally concerns the society's means of advancing government expenditure outcomes through taxation and the consequent implications for economic stability. Out of all taxes, VAT is a type of indirect tax, which by design, is much clearer and less distorting than direct taxes. Thus, the influence on companies, especially those small ones, can be multifaceted. VAT impacts business decisions, pricing policies, and organisational financial effects making it imperative for one to understand these factors in the relation to public finance (Cepparulo, A. , Eusepi, G. , & Giuriato, L. 2024).

Economic Theory

Economics theory offers understanding on how tax influences the people's behavior. There is what is referred to as the theory of tax incidence on VAT and this indicates that the can be borne by either the consumer or the businesses. The latter affects SMEs most as the primary impact of VAT is the additional expense on their operations, which in turn influences price formation. Research hypotheses related to operations and objectives of taxes and economic behavior indicate that the general effects of VAT depend on the extent to which SMEs can transfer the costs to other parties and their capacity to bear the costs associated with the tax without having negative effects on their competitiveness (Adama, H. E. , Popoola, O. A. , Okeke, C. D. , & Akinoso, A. E. 2024).

Therefore, the study aims at establishing the effects of implementing VAT on SMEs.

Cost Burden

The result is that the introduction of VAT acts to increase the cost structure of a business. This has a particularly strong effect on the SMEs, as due to their generally lower financial capacity, the costs of VAT can be seen as a major problem. Previous research has established that while logistical costs of VAT there appear to be positively related to enterprise size, due to diseconomies of scale, relative cost of the SMEs to undertake VAT related activities seem higher than large firms.

Pricing and Competitiveness

VAT can has an impact on the pricing of the SMEs. To cover cost and attain break-even, it may require the SMEs to charge high price that reduces their market share. Therefore, the ability of SMEs to recover the costs of VAT depends on the conditions in working environment and the consumer sensitivity to price changes(Yang, Z., Fu, X., Gao, P., & Chen, Y. J. 2024).

Financial Performance

The findings of empirical literature indicate that SMEs' financial performance may be adversely affected by implementation of VAT. Fluctuations in operational costs and price changes have major impacts on absolute profits and financial sustainability. SMEs may also have problems with cash flow because VAT is paid monthly, and refunds occur later (Rahi, A. F. , Johansson, J. , Blomkvist, M. , & Hartwig, F. 2024).

Empirical Studies and Evidence

International Perspectives

Findings of prior studies can be extremely beneficial when it comes to implementation of vat. For instance, research on the experience of the member countries of the European Union and other world regions has identified the differences in the effects of VAT on SMEs, in particular, the growth of their direct and indirect expenses, and difficulties with managing their cash flows. These sorts of studies can present comparative views and guidelines for what may be anticipated in the Saudi Arabian circumstance (POLICY, E. 2024).

Local Evidence

VAT on SMEs has been reported and studied in Saudi Arabia as shown by the followings. Research indicates that informational effects are costly to compliance SMEs and present operational dilemmas; however, virtuous benefits include enhanced organizational standards and integration with official markets.

Challenges and Opportunities

Challenges

Specifically, several problems are typical of SMEs in relation to VAT, such as new administrative burdens, higher compliance costs, and the necessity to attract professional accountants. The switching to VAT system might be challenging more so for SMEs seeing that they have low resource endowments and little knowledge in the area.

Opportunities

However, there are prospects in the implementation of the VAT for SMEs as follows. The literature indicates that formalization results in some positive outcomes for instance; firms' access to credit and markets. Further, the VAT revenues are used to fund public services and infrastructure and therefore may help improve the operating conditions for businesses.

Regulatory Environment

To this end, the business environment of Saudi Arabia defines the effect of VAT on SMEs more especially with regards to the regulatory circumstances under which it operates. Decision aids that pertain to training and development and consultancies are some of the areas whereby government interventions towards SMEs can alter the strategic execution of businesses adapt to VAT requirements (Uzougbo, N. S., Ikegwu, C. G., & Adewusi, A. O. 2024).

Economic Conditions

The economic conditions of Saudi Arabia and its relation to SMEs can also influence the VAT whereby factors such as changes in the prices of oil and continued economic reforms affects the SMEs. Gross Domestic Product and inflation rates affect customers' purchase behaviour and organizational performance, which define the VAT effect .

Industry-Specific Characteristics

Thus, the impact of implementation of VAT may vary depending on the specific sector of the economy. For instance, the current drastic changes in circumstances may negatively affect SMEs such as the retail and service industries more than the manufacturing industries because of varying cost structures and abilities to alter price levels (Oh, J. , & Min, D. 2024) .

Conclusion

The theoretical background of the research helps to identify various changes that occurred in Saudi Arabian SMEs after the implementation of VAT and recognize the role of this theoretical framework in the comprehension of various effects linked to this tax measure. From the field of public finance theories, individuals and groups economic behavior, and empirical studies the framework shows pith and strength of SMEs. The hypotheses developed in this research will be examined to sense the generalizability of these theoretical understandings in an effort to advance the knowledge of VAT's influence over SMEs in the Saudi environment.

Chapter 3

Introduction

To achieve the objectives of this study and gain a comprehensive understanding of the impact of the tax system, particularly the implementation of VAT, on small and medium-sized enterprises (SMEs) in Saudi Arabia, a multi-faceted methodological approach will be employed.

The research will adopt the quantitative component of the study will involve the distribution of a survey questionnaire to a representative sample of SMEs across various sectors and regions in Saudi Arabia. The survey will collect data on the financial performance of the businesses, their tax compliance behaviors, the challenges they face in fulfilling tax obligations, and their access to resources and support mechanisms. Statistical analysis techniques, such as regression modeling and hypothesis testing, will be employed to identify the key determinants of tax compliance and the overall impact of the tax system on SME growth and sustainability.

Methodology:

In this research, the quantitative methodology will be used by creating an online survey. The survey will be distributed among people through the social media. It will be conducted in:

1. **Survey Design:**

- **Objective Setting:** Clearly define the objectives of the survey to align with the research aims.
- **Questionnaire Development:** Create a comprehensive questionnaire that includes questions designed to gather detailed information on the knowledge and perceptions of small business owners and Saudi citizens regarding taxation.
- **Pilot Testing:** Conduct a pilot test of the survey with a small group of participants to ensure clarity and relevance of the questions. Make necessary adjustments based on feedback.

2. **Target Group and Sampling:**

- **Population:** The survey will target small business owners and Saudi citizens aged 18 and above.
- **Sample Size:** Aim to collect responses from a sample size of 65 participants.
- **Distribution Channels:** Utilize social media platforms to distribute the survey, ensuring a wide reach and diverse participation from different regions in Saudi Arabia.

Analytical Methodology: The analytical methodology will be employed to analyze and interpret the survey results. This approach includes:

1. **Data Collection:**

- **Online Survey:** Conduct the survey online in Saudi Arabia in 2024, ensuring anonymity and confidentiality of the participants.

2. **Data Analysis:**

- **Quantitative Analysis:** Use statistical tools and software to analyze the collected data. This includes calculating frequencies, percentages, means, and standard deviations to summarize the responses.

- **Inferential Statistics:** Apply inferential statistical methods to draw conclusions about the larger population based on the sample data. Techniques such as chi-square tests, t-tests, and regression analysis may be used to identify relationships and correlations between variables.

3. Discussion and Interpretation:

- **Result Interpretation:** Interpret the findings in the context of the research objectives. Discuss the implications of the results for small business owners and policymakers.
- **Comparison with Existing Literature:** Compare the findings with existing literature on taxation and SMEs to identify consistencies or discrepancies.
- **Recommendations:** Based on the analysis, provide practical recommendations for improving tax awareness and compliance among SMEs.

4. Reporting:

- **Presentation of Results:** Present the results in a clear and structured manner, using tables, charts, and graphs to illustrate key findings.
- **Conclusion:** Summarize the main findings and their implications, highlighting the contributions of the research to the field of taxation and SME development.

By combining descriptive and analytical methodologies, this research aims to provide a comprehensive understanding of the impact of taxation on small businesses in Saudi Arabia and offer valuable insights for enhancing tax compliance and supporting the growth of SMEs.

Study tools

The following tools will be used to collect and analyze data:

1. Online Surveys

A comprehensive online survey will be designed to collect quantitative data. The survey will be distributed through social media to reach small business owners and Saudi citizens in Saudi Arabia. The survey aims to collect data from a sample size ranging from 100 to 150 individuals, aged 18 and above.

2. Social Media

Social media will be used as the primary tool for disseminating and distributing the online surveys. This method will help reach a wide range of target participants efficiently and quickly.

3. Statistical Data Analysis

After data collection, statistical analysis programs such as SPSS and Excel will be used to analyze the quantitative data gathered from the surveys. Various analytical techniques will be employed, including descriptive statistics, ANOVA (Analysis of Variance), and regression analysis, to examine relationships between variables and test research hypotheses.

Research community

The research will examine several areas of impact on SMEs, including but not limited to:

- **Financial Performance:** Assessing changes in revenue, profit margins, and overall financial health of SMEs post-VAT implementation.
- **Compliance Costs:** Evaluating the administrative and financial burdens associated with VAT compliance for SMEs.
- **Tax Compliance Behavior:** Understanding how SMEs perceive VAT and their compliance behaviors.
- **Formalization of Informal Enterprises:** Analyzing the effect of VAT on the formalization of businesses previously operating in the informal sector.
- **Economic Diversification Benefits:** Investigating the perceived benefits of VAT revenues being reinvested into public services and infrastructure.
- **Sector-Specific Impact:** Identifying how different sectors within the SME category are affected by VAT.

Data Collection Methods

The research will utilize quantitative methodology through online surveys distributed via social media platforms. The survey will aim to collect data from 100 to 150 respondents, providing a sufficient sample size for statistical analysis.

Analytical Techniques

The data collected will be analyzed using statistical methods, including descriptive statistics to test the research hypotheses and identify significant trends and patterns.

limitations

In this section of the proposal, the research will conduct a survey in Saudi Arabia and I hope the number of responses is around 65 respondents.

The scope of this research encompasses the following key areas to explore the impact of implementing Value-Added Tax (VAT) on small and medium enterprises (SMEs) in Saudi Arabia:

Geographic Scope

The research will be conducted within the Kingdom of Saudi Arabia. Data collection will target various regions across the country to ensure a comprehensive understanding of the impact on SMEs in different geographic areas.

Target Population

The primary focus will be on small and medium enterprises (SMEs) operating in Saudi Arabia. Additionally, the study will include Saudi citizens who are business owners or involved in the management of SMEs. The target group will comprise individuals aged 18 and above.

Time Frame

The study will be conducted in 2024, providing a current perspective on the effects of VAT implementation following its introduction.

Chapter 4

Introduction

The implementation of the Value-Added Tax (VAT) in Saudi Arabia has brought about significant changes for businesses, particularly small and medium-sized enterprises (SMEs). To understand the impact of VAT on various aspects of business operations, we conducted a comprehensive survey among SMEs. This survey aimed to gather insights on how VAT has influenced service quality, customer satisfaction, operational costs, employee morale, and overall business performance.

The following section presents a detailed statistical analysis of the survey responses. The statistics include the mean, median, and standard deviation for each question, providing a clear and concise summary of the collective experiences and perceptions of the respondents.

These metrics offer valuable insights into the challenges and opportunities faced by SMEs in adapting to the VAT regime. They also highlight areas where businesses have successfully mitigated negative impacts and areas where further support and improvement are needed.

Data analysis

Gender

- **Male:** 42 respondents
- **Female:** 24 respondents

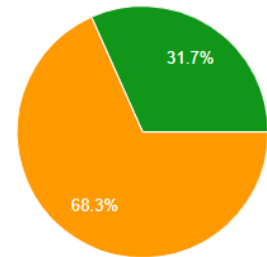


Figure 1 Gender

Age

- **20-30 years old:** 20 respondents
- **31-39 years old:** 19 respondents
- **40-49 years old:** 17 respondents
- **50 years old and above:** 9 respondents

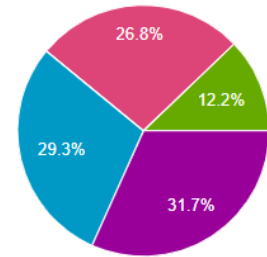


Figure 2 Age

Type of facility

- **Small:** 27 respondents
- **medium :** 17 respondents
- **Large:** 22 respondents

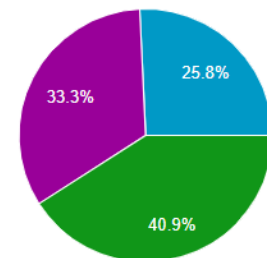


Figure 3 Type of facility

Business sector

- **e-commerce:** 26 respondents
- **service:** 27 respondents
- **manufacturing:** 13 respondents

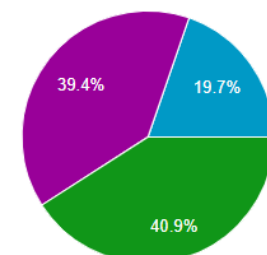


Figure 4 Business sector

Employees in your facility

- **less than 10 :** 22 respondents
- **from 10 to 50 :** 27 respondents
- **more than 50 :** 17 respondents

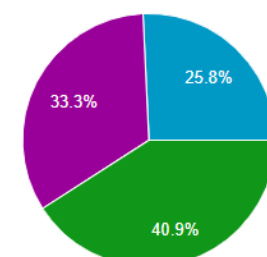


Figure 5 Employees in your facility

**Do you receive any government support to help you
comply with VAT**

- **yes:** 30 respondents
- **no:** 36 respondents

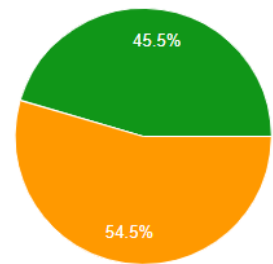
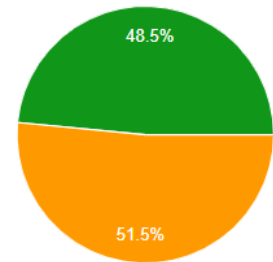


Figure 6 government support

Receive any training courses on VAT

- **yes:** 32 respondents
- **no:** 34 respondents



*Figure 7 Receive any training
courses on VAT*

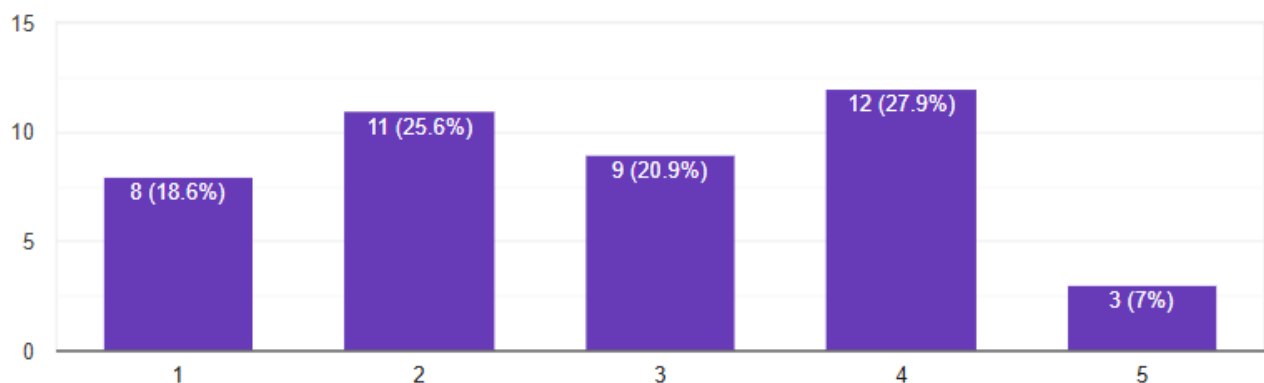
statements on a scale of 1 to 5, where 1 represents "Strongly agree" and 5 represents "Strongly Disagree." Kindly place a checkmark [✓] in the box that reflects your opinion:

The quality of service has declined since the implementation of VAT

This question evaluates the perceived decline in service quality since the implementation of VAT. The analysis provides statistical insights into how respondents view the impact of VAT on the quality of services provided by their businesses.

تراجعت جودة الخدمة منذ تطبيق ضريبة القيمة المضافة. The quality of service has declined since the implementation of VAT

ردًا 43



The quality of service has declined since the implementation of VAT

Customers have noticed a decrease in the quality of our products/services due to VAT

This question addresses the impact of VAT on the perceived quality of products and services from the customer's perspective. The following analysis explores the extent to which customers have noticed a decline in quality, using statistical measures to summarize the responses.

لا حظ العملاء انخفاضاً في جودة منتجاتنا/خدماتنا بسبب ضريبة القيمة المضافة. a. Customers have noticed a decrease in the quality of our products/services due to VAT

رداً 43

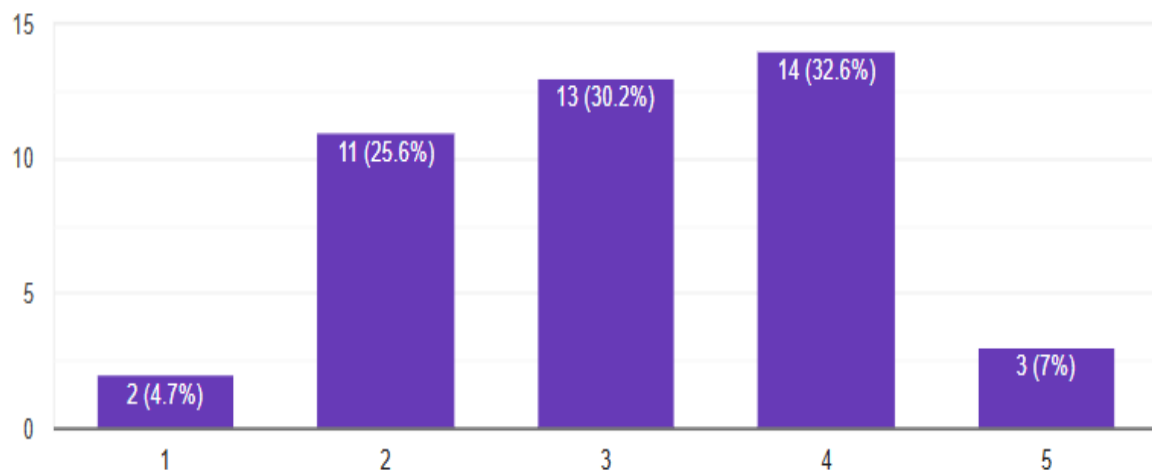


Figure 9 Customers have noticed a decrease in the quality of our products/services

The implementation of VAT has led to an increase in customer complaints

This question examines the relationship between the implementation of VAT and the increase in customer complaints. The analysis provides a statistical overview of how respondents perceive this impact, highlighting any significant trends.

The implementation of VAT has led to an. أدى تطبيق ضريبة القيمة المضافة إلى زيادة شكاوى العملاء.
increase in customer complaints

ردًا 43

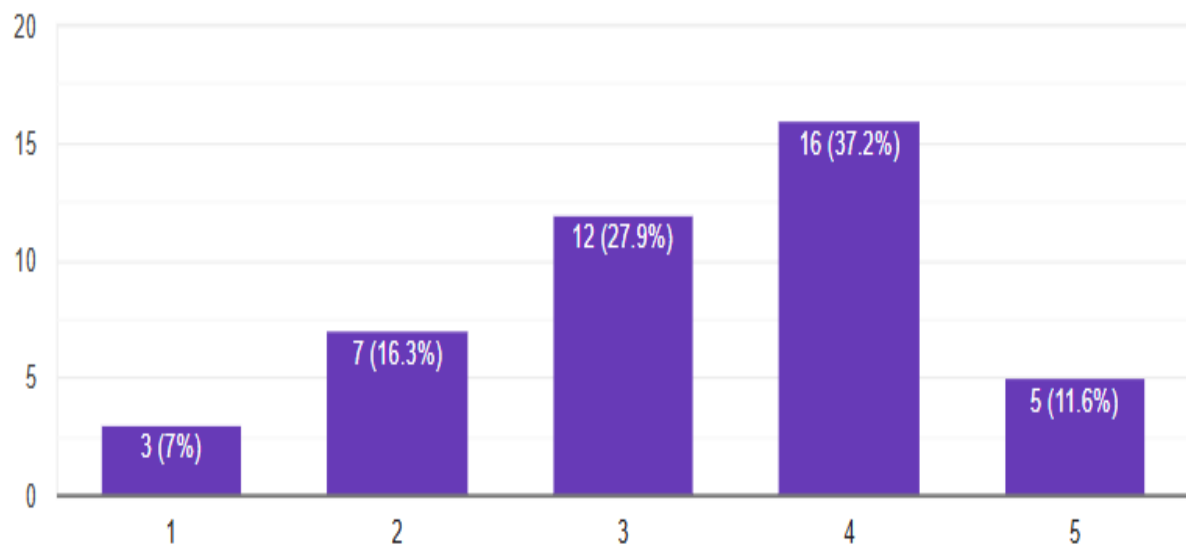


Figure 10 The implementation of VAT has led to an increase in customer complaints

We have had to reduce some services to deal with VAT requirements

This question focuses on how businesses have adjusted their service offerings in response to VAT requirements. The analysis looks at the degree to which services have been reduced and the variability in responses among different businesses.

اضطررنا لتقليل بعض الخدمات للتعامل مع متطلبات ضريبة القيمة المضافة.
We have had to reduce some services to deal with VAT requirements

ردًا 43

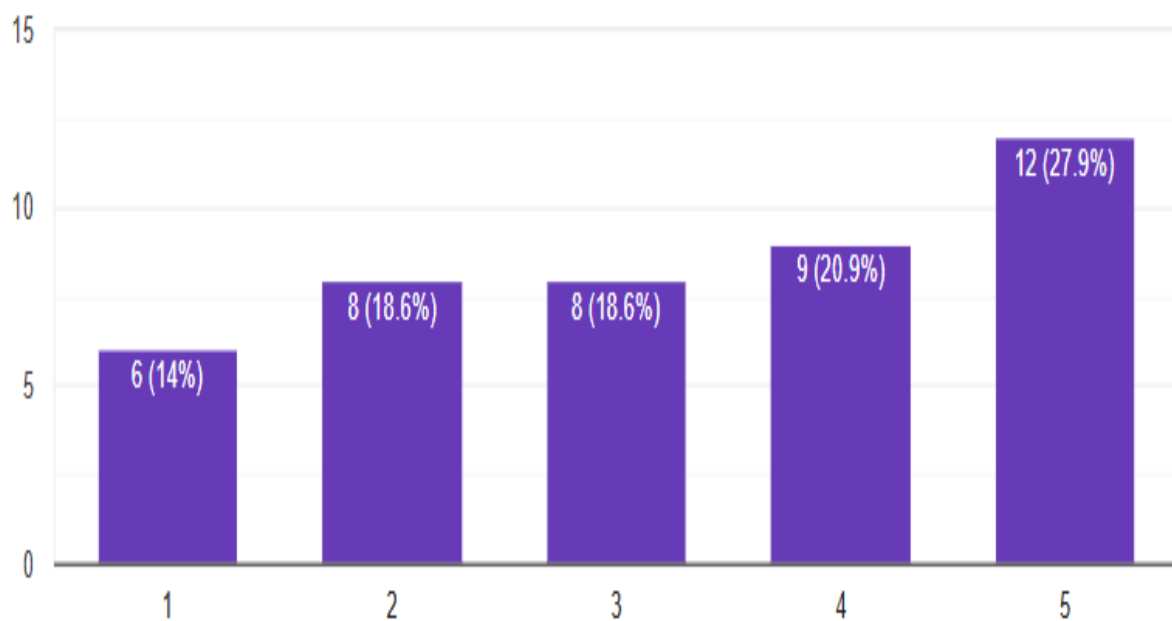


Figure 11 We have had to reduce some services to deal with VAT requirements

VAT forced us to increase prices, which affected customer satisfaction

This question explores the impact of VAT-induced price increases on customer satisfaction. The statistical analysis provides insights into how these price changes have influenced customer perceptions and satisfaction levels.

VAT forced us to increase prices, مما أثر على رضا العملاء, which affected customer satisfaction

43 ردًا

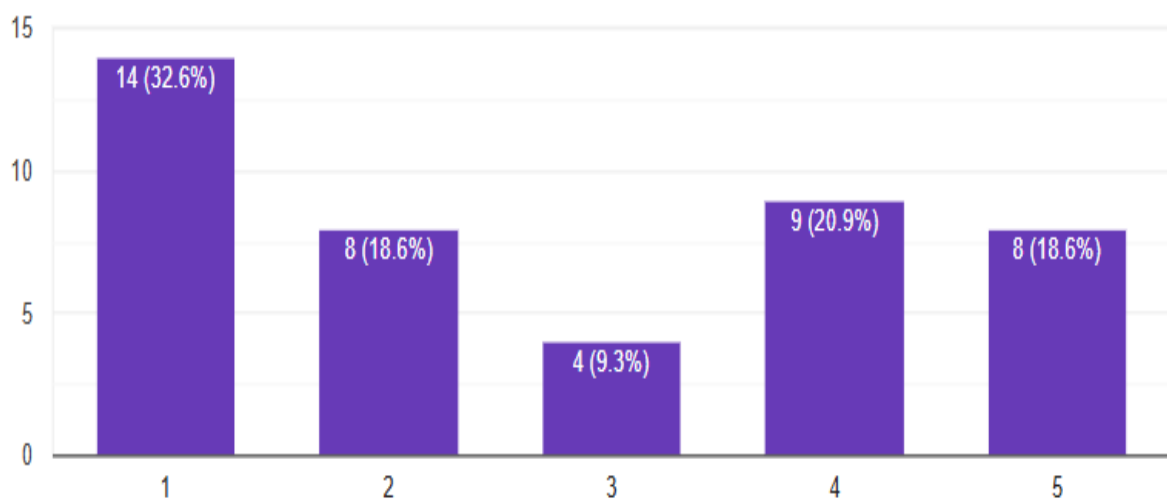


Figure 12 VAT forced us to increase prices, which affected customer satisfaction

Our facility has maintained high quality standards despite the challenges posed by VAT

This question assesses the ability of businesses to maintain high-quality standards in the face of VAT-related challenges. The analysis summarizes the responses to understand how well businesses have managed to uphold their quality standards.

Our facility has maintained high quality standards despite the challenges posed by VAT. حافظت منشأتنا على معايير الجودة العالية رغم التحديات التي فرضتها ضريبة القيمة المضافة.

43 ردًا

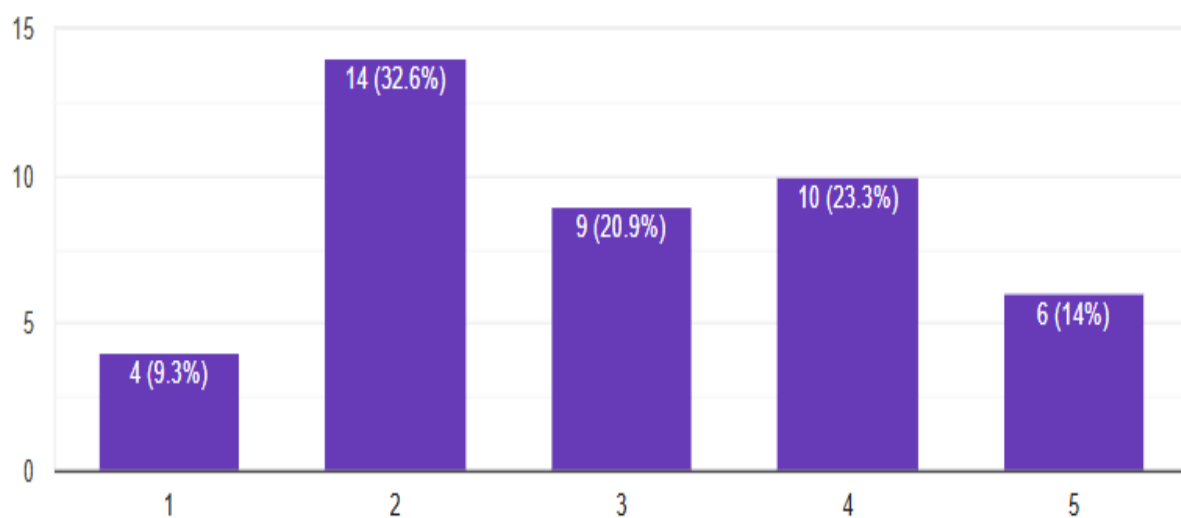


Figure 13 Our facility has maintained high quality standards despite the challenges posed by VAT

Implementing VAT has helped us improve our internal operations and service delivery

This question examines the positive impact of VAT on internal operations and service delivery. The analysis focuses on identifying how VAT implementation has driven improvements within businesses.

Implementing VAT has ساعدنا تطبيق ضريبة القيمة المضافة على تحسين عملياتنا الداخلية وتقديم الخدمات helped us improve our internal operations and service delivery

ردًا 43

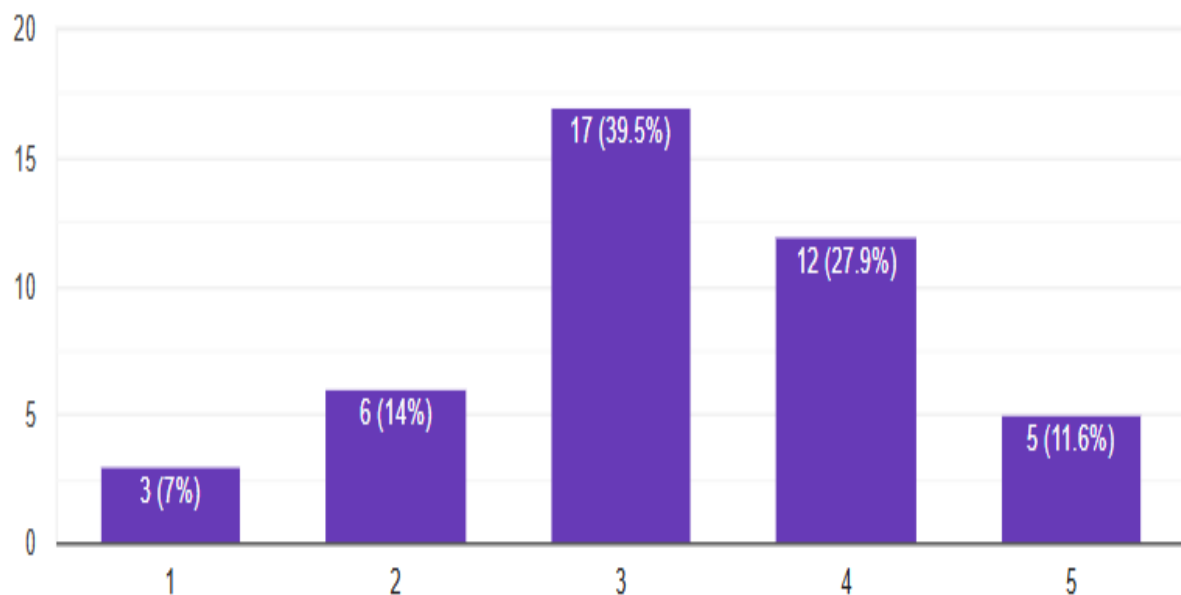


Figure 14 Implementing VAT has helped us improve our internal operations and service delivery

We have received positive feedback from customers about our handling of the VAT changes

This question highlights the customer feedback regarding how businesses have managed VAT-related changes. The analysis provides a statistical summary of the positive responses received from customers.

تلقينا ردود فعل إيجابية من العملاء حول تعاملنا مع التغييرات المتعلقة بضريبة القيمة المضافة.
positive feedback from customers about our handling of the VAT changes

ردًا 43

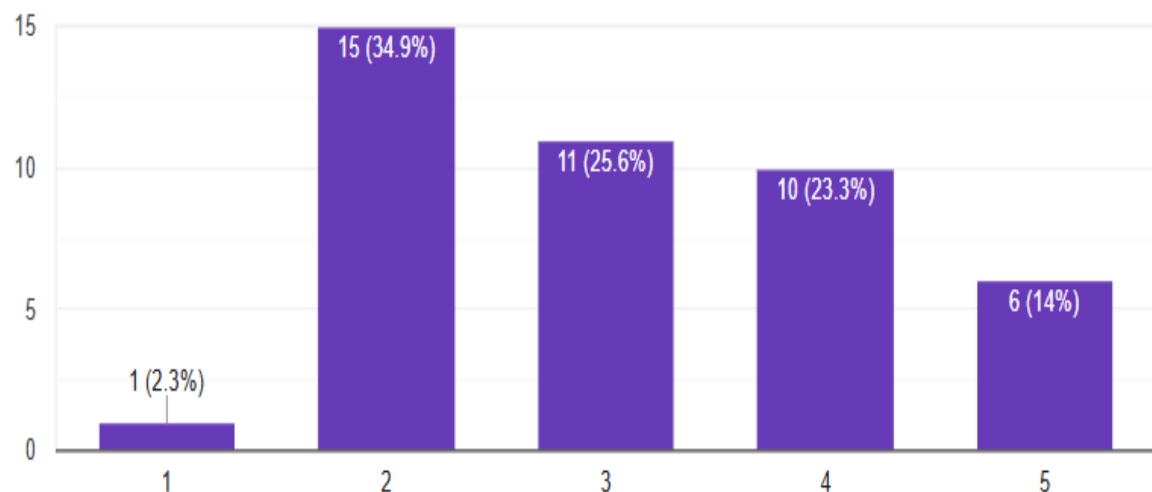


Figure 15 We have received positive feedback from customers about our handling of the VAT changes

The additional administrative burden of VAT has not affected the quality of our services

This question investigates whether the additional administrative burden of VAT has impacted the quality of services provided by businesses. The analysis uses statistical measures to determine if there has been any significant effect.

لم تؤثر الأعباء الإدارية الإضافية لضريبة القيمة المضافة على جودة خدماتنا.
The additional administrative burden of VAT has not affected the quality of our services

ردًا 43

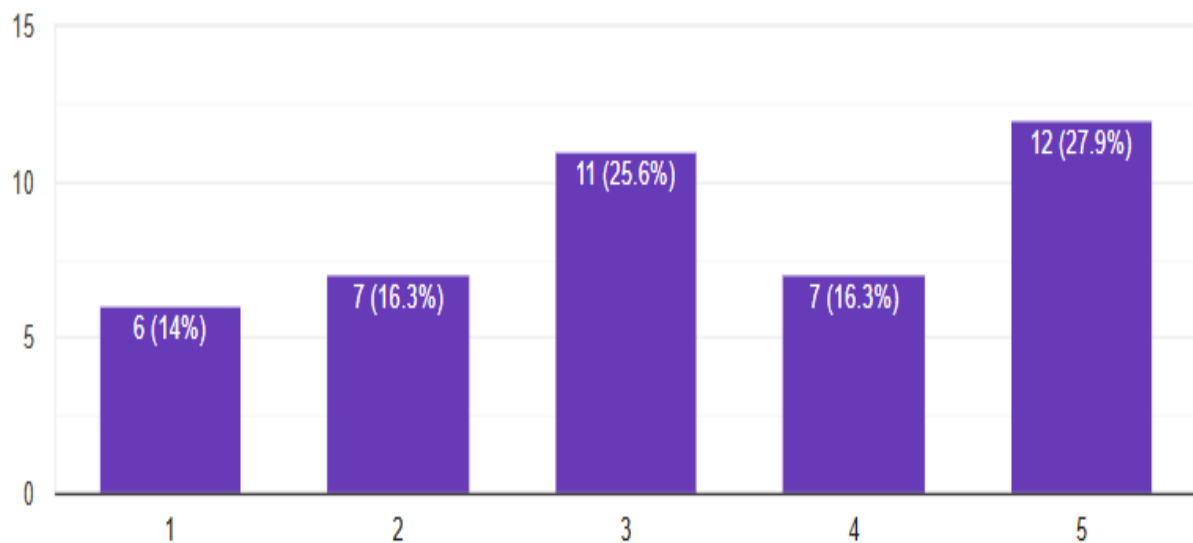


Figure 16 The additional administrative burden of VAT has not affected the quality of our services

Our employees have shown strong emotional intelligence in adapting to VAT changes

This question explores the role of emotional intelligence among employees in adapting to VAT-related changes. The analysis examines how well employees have managed these adjustments and the overall impact on business operations.

أظهر موظفونا ذكاءً عاطفياً قوياً في التكيف مع تغييرات ضريبة القيمة المضافة.
Our employees demonstrated strong emotional intelligence in adapting to VAT changes

ردًا 43

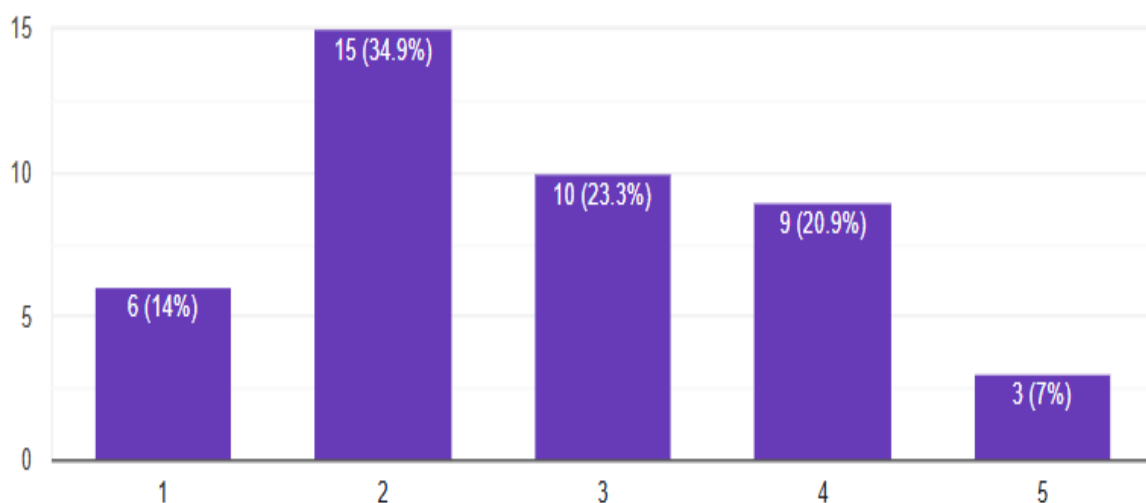


Figure 17 Our employees have shown strong emotional intelligence in adapting to VAT changes

The implementation of VAT has caused significant stress in the work environment

This question focuses on the stress levels within the work environment as a result of VAT implementation. The analysis highlights the prevalence and intensity of stress among employees, as indicated by the responses.

تسبب تطبيق ضريبة القيمة المضافة في ضغوط كبيرة بين موظفينا. a. The introduction of VAT has caused
lot of stress among our employees

ردًا 43

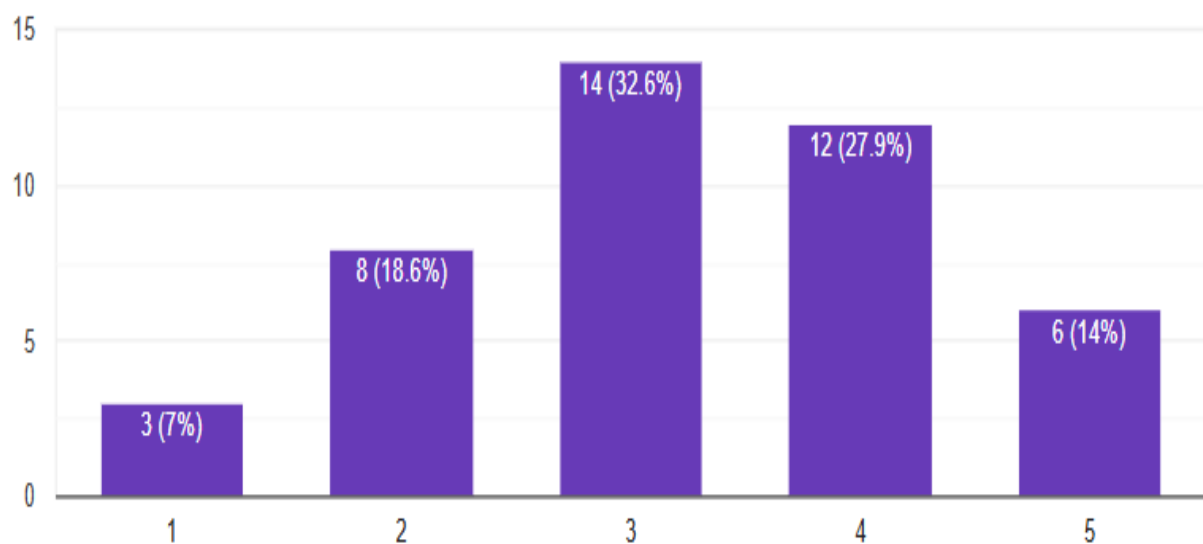


Figure 18 The implementation of VAT has caused significant stress in the work environment

Employees have been able to communicate effectively with customers regarding VAT impacts

This question looks at the effectiveness of communication between employees and customers about VAT impacts. The analysis provides a statistical overview of how well employees have conveyed relevant information to customers.

Staff were able to. **تمكن الموظفون من التواصل بفعالية مع العملاء بشأن التغييرات المتعلقة بضريبة القيمة المضافة.**
communicate effectively with customers about VAT related changes

ردًا 43

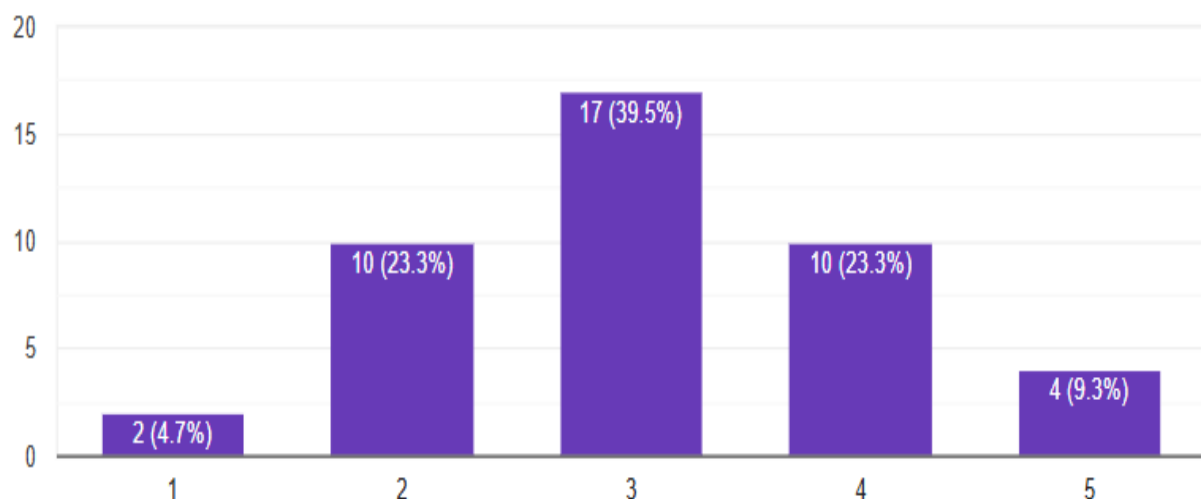


Figure 19 Employees have been able to communicate effectively with customers regarding VAT impacts

Employee morale has declined since the implementation of VAT

This question investigates changes in employee morale following the implementation of VAT. The analysis summarizes the responses to understand the extent of morale decline and its implications for the business.

Employee morale has declined since the. تراجعت معنويات الموظفين منذ تطبيق ضريبة القيمة المضافة.
introduction of VAT

ردًا 43

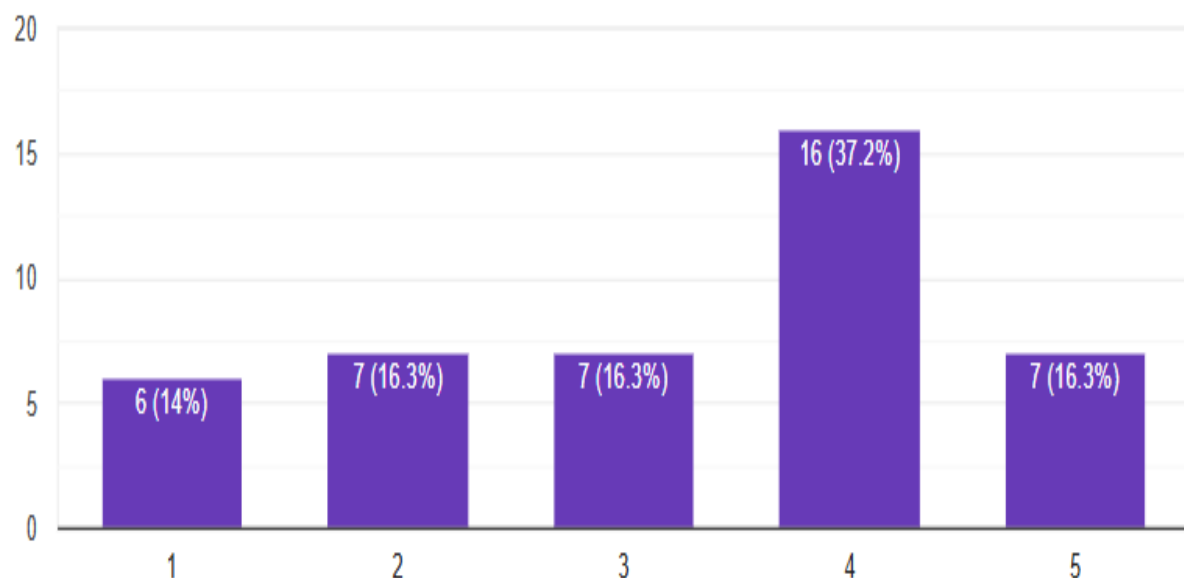


Figure 20 Employee morale has declined since the implementation of VAT

Our leadership has shown empathy towards employee concerns regarding VAT

This question assesses the empathy shown by leadership towards employee concerns about VAT. The analysis examines the extent of empathetic leadership and its effect on addressing employee worries.

أظهرت قيادتنا تعاطفاً تجاه مخاوف الموظفين بشأن ضريبة القيمة المضافة.
empathy towards employees' concerns about VAT

ردًا 43

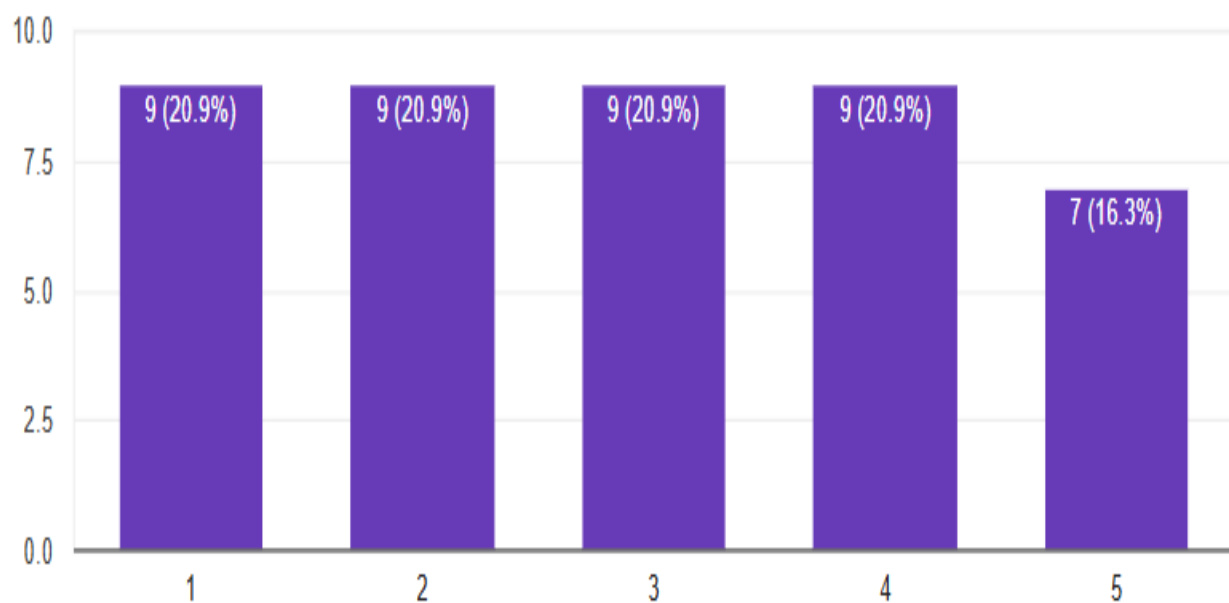


Figure 21 Our leadership has shown empathy towards employee concerns regarding VAT

The implementation of VAT has increased the operating costs of our facility

This question evaluates the impact of VAT on operating costs. The analysis focuses on how significantly these costs have increased, providing a detailed statistical summary of the responses.

تطبيق ضريبة القيمة المضافة أدى إلى زيادة تكاليف التشغيل لمنشأتنا.
increased the operating costs of our facility

ردًا 43

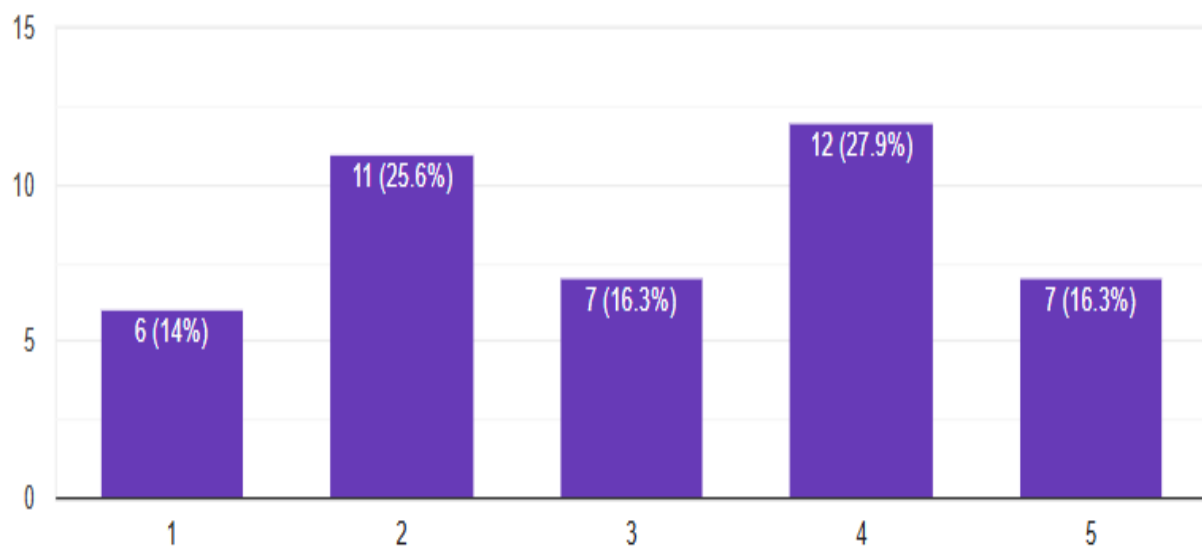


Figure 22 The implementation of VAT has increased the operating costs of our facility

Increased costs due to VAT have forced us to reduce staff

This question looks at the relationship between increased costs from VAT and staffing levels. The analysis highlights the extent to which businesses have had to reduce staff as a result of higher operating costs.

زيادة التكاليف الناتجة عن ضريبة القيمة المضافة أجبرتنا على تقليل عدد الموظفين.
Increased costs due to VAT have forced us to reduce staff

ردًا 43

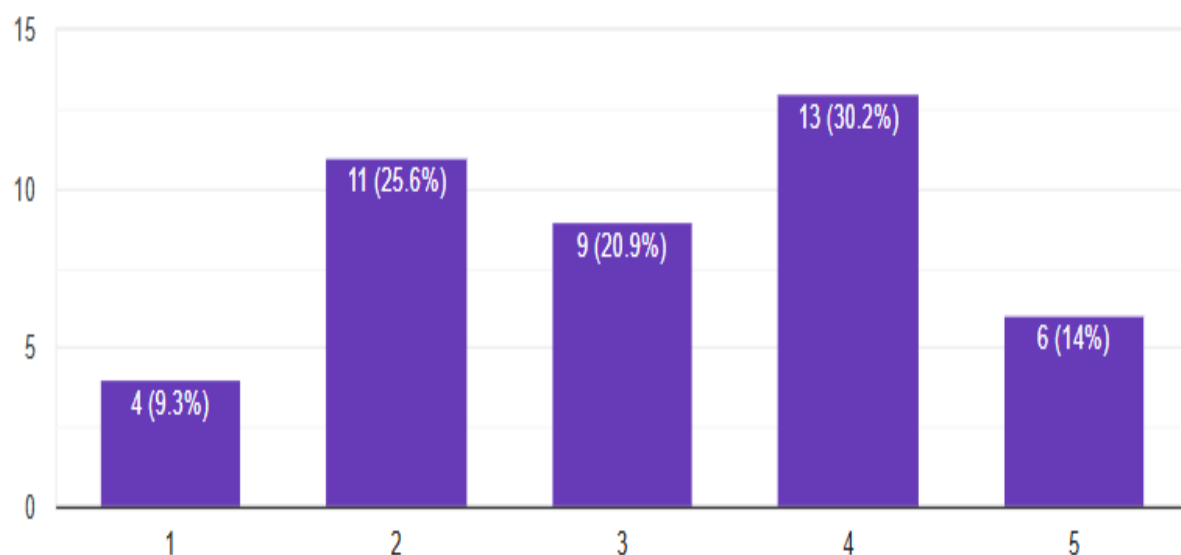


Figure 23 Increased costs due to VAT have forced us to reduce staff

There was a lack of government guidance and support on VAT compliance

This question examines the perceived adequacy of government guidance and support for VAT compliance. The analysis provides insights into the level of support businesses feel they have received and areas for potential improvement.

كان هناك نقص في التوجيه والدعم الحكومي بشأن الامتثال لضريبة القيمة المضافة.
government guidance and support on VAT compliance

ردًا 43

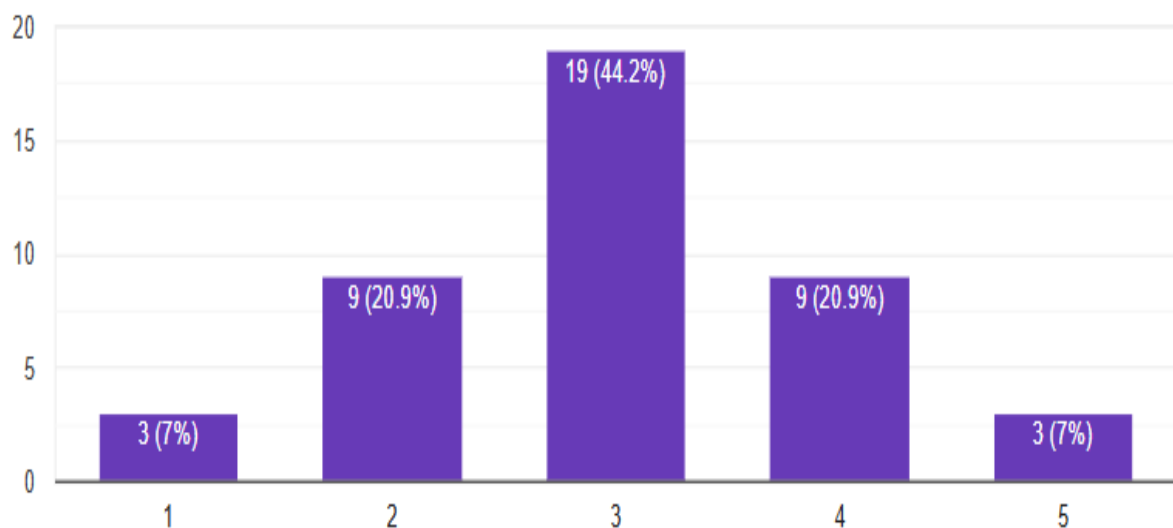


Figure 24 There was a lack of government guidance and support on VAT compliance

We believe that the implementation of VAT was necessary to achieve economic development in the Kingdom

This question explores the belief in the necessity of VAT for economic development. The analysis summarizes the responses to gauge overall support for VAT as a driver of economic growth.

نعتقد أن تطبيق ضريبة القيمة المضافة كان ضروريًا لتحقيق التنمية الاقتصادية في المملكة.
We believe that the implementation of VAT was necessary to achieve economic development in the Kingdom

ردًا 43

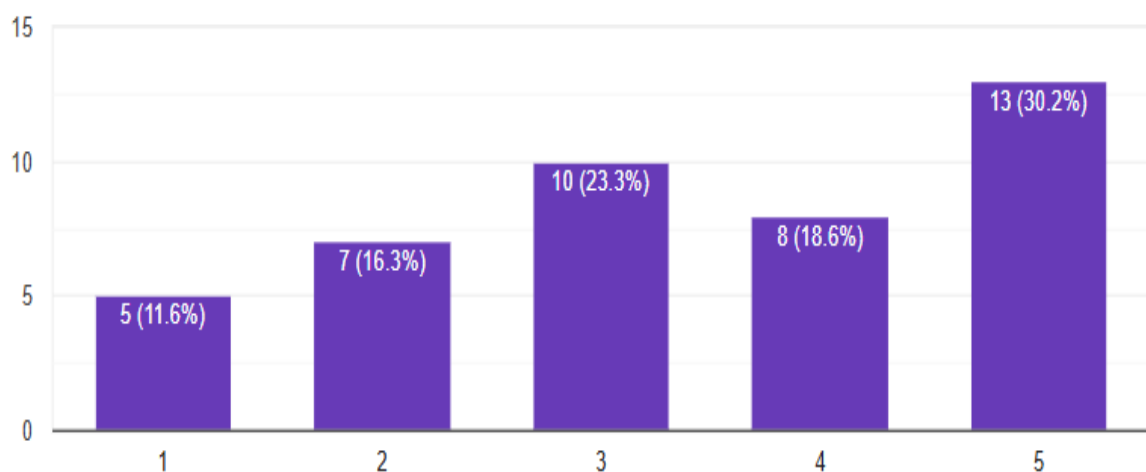


Figure 25 We believe that the implementation of VAT was necessary to achieve economic development in the Kingdom

VAT may lead to an increase in the prices of goods and services in general

This question assesses the impact of VAT on the general prices of goods and services. The analysis provides a statistical overview of how respondents perceive price changes due to VAT.

ضريبة القيمة المضافة قد تؤدي إلى زيادة أسعار السلع والخدمات بشكل عام.
the prices of goods and services in general

43 ردًا

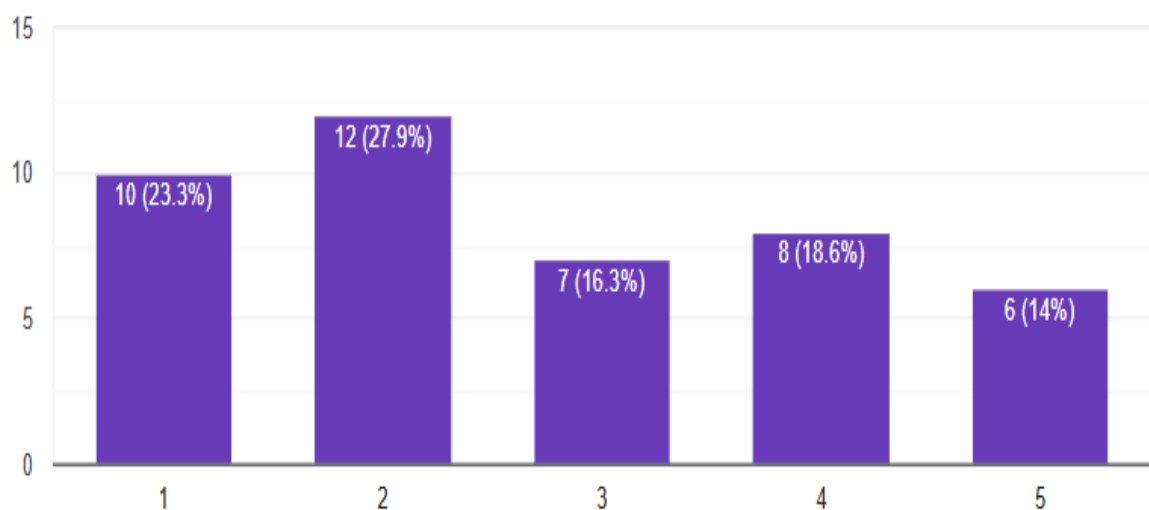


Figure 26 VAT may lead to an increase in the prices of goods and services in general

We have successfully found innovative solutions to adapt to the negative impacts of VAT

This question highlights the innovative solutions businesses have developed to mitigate the negative effects of VAT. The analysis examines the prevalence and effectiveness of these solutions among respondents.

نجحنا في إيجاد حلول مبتكرة للتكيف مع التأثيرات السلبية لضريبة القيمة المضافة.
innovative solutions to adapt to the negative impacts of VAT

43 ردًا

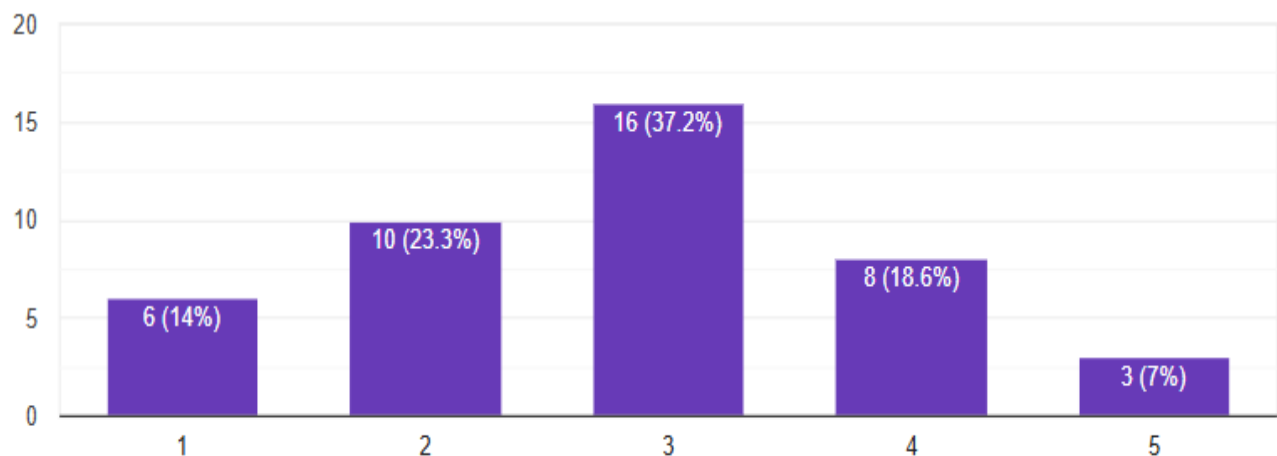


Figure 27 We have successfully found innovative solutions to adapt to the negative impacts of VAT

To gain a comprehensive understanding of the specific impacts of VAT on various aspects of SME operations, we have analyzed each survey question individually. The following section provides a detailed examination of the responses for each question, including the mean, median, and standard deviation. These statistical measures offer insights into the central tendencies and variability in the responses, allowing us to identify key trends and areas of concern.

By breaking down the responses question by question, we can better understand the nuanced effects of VAT implementation and develop targeted recommendations to support SMEs in navigating these challenges.

mean, median, and standard deviation for each numerical column:

Table 2 mean, median, and standard deviation for each numerical column

question	Mean	Median	Std. Dev.
The quality of service has declined since the implementation of VAT	2.80	3.0	1.23
Customers have noticed a decrease in the quality of our products/services due to VAT	3.15	3.0	1.04
The implementation of VAT has led to an increase in customer complaints	3.37	4.0	1.07
We have had to reduce some services to deal with VAT requirements	3.37	4.0	1.41
VAT forced us to increase prices, which affected customer satisfaction	2.83	3.0	1.55
Our facility has maintained high quality standards despite the challenges posed by VAT	3.00	3.0	1.18
Implementing VAT has helped us improve our internal operations and service delivery	3.24	3.0	1.09

We have received positive feedback from customers about our handling of the VAT changes	3.20	3.0	1.08
The additional administrative burden of VAT has not affected the quality of our services	3.32	3.0	1.39
Our employees have shown strong emotional intelligence in adapting to VAT changes	2.76	3.0	1.16
The implementation of VAT has caused significant stress in the work environment	3.24	3.0	1.14
Employees have been able to communicate effectively with customers regarding VAT impacts	3.15	3.0	0.99
Employee morale has declined since the implementation of VAT	3.29	4.0	1.29
Our leadership has shown empathy towards employee concerns regarding VAT	2.90	3.0	1.36
The implementation of VAT has increased the operating costs of our facility	3.10	3.0	1.32
Increased costs due to VAT have forced us to reduce staff	3.17	3.0	1.20
There was a lack of government guidance and support on VAT compliance	3.02	3.0	1.01
We believe that the implementation of VAT was necessary to achieve economic development in the Kingdom	3.44	3.0	1.36
VAT may lead to an increase in the prices of goods and services in general	2.71	2.0	1.35
We have successfully found innovative solutions to adapt to the negative impacts of VAT	2.76	3.0	1.09

Then we calculate the anova considering gender and age dependent values and the result is:

One-way ANOVA for gender:

	sum_sq	df	F	PR(>F)
C(gender)	8.144360	5.0	1.404023	0.245479
Residual	42.925408	37.0	NaN	NaN

One-way ANOVA for age:

	sum_sq	df	F	PR(>F)
C(age)	5.553534	3.0	1.586158	0.208204
Residual	45.516234	39.0	NaN	NaN

Results

The statistical analysis of the survey responses provides valuable insights into the impact of VAT on SMEs. Here are the key findings:

1. Service Quality:

- The mean response indicates a slight decline in service quality since the implementation of VAT (Mean = 2.80, Std. Dev. = 1.23).
- Customers have also noticed a decrease in the quality of products/services (Mean = 3.15, Std. Dev. = 1.04).

2. Customer Complaints:

- The implementation of VAT has led to an increase in customer complaints (Mean = 3.37, Std. Dev. = 1.07).

3. Operational Adjustments:

- Businesses have had to reduce some services to deal with VAT requirements (Mean = 3.37, Std. Dev. = 1.41).
- VAT has forced companies to increase prices, affecting customer satisfaction (Mean = 2.83, Std. Dev. = 1.55).

4. Quality Standards:

- Despite challenges, many businesses have maintained high-quality standards (Mean = 3.00, Std. Dev. = 1.18).

5. Internal Operations and Customer Feedback:

- Implementing VAT has helped improve internal operations (Mean = 3.24, Std. Dev. = 1.09).
- Positive feedback from customers about handling VAT changes has been reported (Mean = 3.20, Std. Dev. = 1.08).

6. Administrative Burden and Employee Morale:

- The additional administrative burden has not significantly affected service quality (Mean = 3.32, Std. Dev. = 1.39).

- Employee morale has declined (Mean = 3.29, Std. Dev. = 1.29).

7. Leadership and Adaptation:

- Leadership has shown empathy towards employee concerns regarding VAT (Mean = 2.90, Std. Dev. = 1.36).
- Businesses have found innovative solutions to adapt to the negative impacts of VAT (Mean = 2.76, Std. Dev. = 1.09).

Recommendations

1. Enhance Government Support and Guidance:

- Provide clearer and more comprehensive guidance on VAT compliance to reduce confusion and administrative burdens.
- Offer workshops and training sessions to help businesses understand and implement VAT regulations effectively.

2. Financial Incentives and Relief:

- Consider temporary financial relief or incentives for SMEs to offset the initial costs of adapting to VAT.
- Explore the possibility of reducing VAT rates for certain essential services or products to alleviate financial pressures.

3. Improve Customer Communication:

- Develop strategies to communicate VAT-related changes transparently to customers, helping them understand the reasons behind price adjustments.
- Collect and analyze customer feedback regularly to identify areas of concern and address them promptly.

4. Support for Maintaining Service Quality:

- Encourage SMEs to invest in quality management systems to ensure high standards despite the challenges posed by VAT.
- Provide resources and support for businesses to innovate and improve their services.

5. Employee Engagement and Morale:

- Implement programs to boost employee morale and engagement, recognizing the additional stress caused by VAT implementation.
- Foster a supportive work environment where employees feel their concerns are heard and addressed.

6. Encourage Innovation:

- Promote a culture of innovation within SMEs, encouraging them to find creative solutions to adapt to VAT-related challenges.
- Share success stories and best practices from businesses that have successfully navigated the VAT landscape.

By addressing these areas, SMEs can better manage the impacts of VAT and continue to thrive in a challenging economic environment.

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Appendix

عزيزي المشارك، تهدف هذه الدراسة إلى فهم تأثير تطبيق ضريبة القيمة المضافة على المنشآت الصغيرة والمتوسطة في المملكة العربية السعودية. نرجو منك التكرم بالإجابة على الأسئلة التالية بكل دقة وصدق. ستكون إجاباتك سرية ولن نستخدم إلا لأغراض البحث العلمي .

Gender النوع

Age السن

What type of facility is yours ما هو نوع منشأتك؟

What is your business sector ما هو قطاع عمل منشأتك؟

How many employees do you have in your facility كم عدد الموظفين في منشأتك؟

Do you receive any government support to help you comply with VAT هل تتلقى أي دعم حكومي لمساعدتك في الامتثال لضريبة القيمة المضافة؟

Have you received any training courses on VAT هل تلقيت أي دورات تدريبية حول ضريبة القيمة المضافة؟

statements on a scale of 1 to 5, where 1 represents "Strongly agree" and 5 represents "Strongly Disagree." Kindly place a checkmark [✓] in the box that reflects your opinion:

Service quality جودة الخدمة

The quality of service has declined since the implementation of VAT. تراجع جودة الخدمة منذ تطبيق ضريبة القيمة المضافة

Strongly agree أوافق بشدة

1

2

3

4

5

Strongly disagree لا اوافق بشدة

Customers have noticed a decrease in the quality of our products/services due to VAT. لاحظ العملاء انخفاضاً في جودة منتجاتنا/خدماتنا بسبب ضريبة القيمة المضافة

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree لا اوافق بشدة

The implementation of VAT has led to an increase in customer complaints. أدى تطبيق ضريبة القيمة المضافة إلى زيادة شكاوى العملاء

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

We have had to reduce some services to deal with VAT requirements. اضطررنا لتقليل بعض الخدمات للتعامل مع متطلبات ضريبة القيمة المضافة

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

VAT forced us to increase prices, أجبرتتنا ضريبة القيمة المضافة على زيادة الأسعار، مما أثر على رضا العملاء
which affected customer satisfaction

Strongly agree اوافق بشدة

- 1
- 2
- 3
- 4
- 5

Strongly disagree غير موافق بشدة

Our facility has حافظت منشأتنا على معايير الجودة العالية رغم التحديات التي فرضتها ضريبة القيمة المضافة
maintained high quality standards despite the challenges posed by VAT

Strongly agree اوافق بشدة

- 1
- 2
- 3
- 4
- 5

Strongly disagree غير موافق بشدة

Implementing VAT has ساعدنا تطبيق ضريبة القيمة المضافة على تحسين عملياتنا الداخلية وتقديم الخدمات
helped us improve our internal operations and service delivery

Strongly agree اوافق بشدة

- 1
- 2
- 3
- 4
- 5

Strongly disagree غير موافق بشدة

تلقينا ردود فعل إيجابية من العملاء حول تعاملنا مع التغييرات المتعلقة بضريبة القيمة المضافة. We have received positive feedback from customers about our handling of the VAT changes

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

لم تؤثر الأعباء الإدارية الإضافية لضريبة القيمة المضافة على جودة خدماتنا. The additional administrative burden of VAT has not affected the quality of our services

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

الذكاء العاطفي emotional intelligence

أظهر موظفونا ذكاءً عاطفياً قوياً في التكيف مع تغييرات ضريبة القيمة المضافة. Our employees demonstrated strong emotional intelligence in adapting to VAT changes

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

تسبب تطبيق ضريبة القيمة المضافة في ضغوط كبيرة بين موظفينا The introduction of VAT has caused a lot of stress among our employees

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

Staff were able to communicate effectively with customers about VAT related changes تمكن الموظفون من التواصل بفعالية مع العملاء بشأن التغييرات المتعلقة بضريبة القيمة المضافة

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

Employee morale has declined since the introduction of VAT تراجع معنويات الموظفين منذ تطبيق ضريبة القيمة المضافة

Strongly agree اوافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

أظهرت قيادتنا تعاطفًا تجاه مخاوف الموظفين بشأن ضريبة القيمة المضافة
Our leadership has shown
empathy towards employees' concerns about VAT

Strongly agree
أوافق بشدة

1

2

3

4

5

Strongly disagree
غير موافق بشدة

اسئلة عامة public questions

The implementation of VAT has increased the operating costs of our facility

Strongly agree اووافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

Increased costs due to VAT have forced us to reduce staff

Strongly agree اووافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

There was a lack of government guidance and support on VAT compliance

Strongly agree اووافق بشدة

1

2

3

4

5

Strongly disagree غير موافق بشدة

نعتقد أن تطبيق ضريبة القيمة المضافة كان ضروريًا لتحقيق التنمية الاقتصادية في المملكة. We believe that the implementation of VAT was necessary to achieve economic development in the Kingdom
اووافق بشدة Strongly agree

1

2

3

4

5

Strongly disagree غير موافق بشدة

VAT may lead to an increase in ضريبة القيمة المضافة قد تؤدي إلى زيادة أسعار السلع والخدمات بشكل عام
the prices of goods and services in general

اووافق بشدة Strongly agree

1

2

3

4

5

Strongly disagree غير موافق بشدة

نجحنا في إيجاد حلول مبتكرة للتكيف مع التأثيرات السلبية لضريبة القيمة المضافة. We have successfully found innovative solutions to adapt to the negative impacts of VAT

اووافق بشدة Strongly agree

1

2

3

4

5

Strongly disagree غير موافق بشدة

اسئلة مفتوحة open ended questions

What measures have you taken to ensure that the quality of service remains high despite the implementation of VAT
ما الإجراءات التي اتخذتها لضمان بقاء جودة الخدمة عالية على الرغم من تطبيق ضريبة القيمة المضافة؟

How has the implementation of VAT affected the overall performance of your business
كيف أثر تطبيق ضريبة القيمة المضافة على الأداء العام لمنشأتك؟

What are your suggestions for improving the VAT system for SMEs
ما هي اقتراحاتك لتحسين نظام ضريبة القيمة المضافة للمنشآت الصغيرة والمتوسطة؟