









groups of taxpayers, such as SMEs. The OECD Forum on Tax Administration has a well-established framework, referred to as Compliance Risk Management Model, which provides guidance in implementing such a structured approach (OECD, 2004). Compliance risk management systematically assesses risks and opportunities in relation to specific tax laws, segments and industries, taxpayer behavior and different tax processes. Strategies are designed to address those risks and include both upstream and downstream activities. “Upstream” refers to more preventive measures, such as taxpayer services, pre-filing audits, education and community outreach activities. “Downstream” are those measures targeted at detection and correction of flaws in tax returns after filing and will be more repressive. These strategies reinforce each other. Downstream activities such as audits have a direct effect in terms of revenue raised, but in SME sector the indirect effects may be even more important: reinforcing social norms supportive of compliance and protecting fair competition by showing that the tax administration will deal with cases of deliberate non-compliant behavior.

The compliance risk management model enables tax administrations to focus their attention on these domains and groups of taxpayers where non-compliant behavior is more likely to occur. Interventions should take a systemic approach, looking at the causes for particular behaviors, if possible trying to adapt the processes and services, or the legislation, in such a way that they encourage desired future behavior

## VI. CONCLUSION

In most countries, small and medium sized enterprises (SMEs) represent more than 95% of all firms. SMEs account for a large proportion of total employment and contribute significantly to national and global economic growth. As a large and important part of all national economies, SMEs often face challenges to their viability and growth, some of which are created by market failures, capital market imperfections and compliance costs.

Ideally, a country’s tax system should be neutral with regard to its impact on business decisions, including the creation, form and growth of SMEs. However; OECD reports show that many of the tax systems examined provide incentives to incorporate and distribute income in the form of capital, particularly as capital gains.

One of the important issues effecting SMEs is the disproportionately high impact that regulatory requirements and costs of tax compliance have on them. Even though many tax requirements may appear to be relatively “neutral” for businesses of all sizes, the significant fixed costs associated with compliance represent a higher cost for SMEs as a percentage of sales and income, and consequently have greater adverse impact upon SMEs than larger businesses. Another important issue effecting SMEs is, limited access to finance for growth and expansion. With limited access to equity financing, SMEs also face considerable constraints in relation to debt financing. Availability of debt finance and

term upon which it is granted to SMEs means that they are more finance-constrained and generally face greater costs in accessing finance than their larger competitors. Against this backdrop, many governments provide support to SMEs through non-tax programs, such as credit programs, as well as through special tax rules, including both tax preferences and simplification measures for SMEs. These measures include reduced corporate tax rates, more generous tax deductions, tax credits or tax exemptions; preferences that apply directly to the owner or investor of the SME, providing relief for initial investment ongoing income, or on disposal of the SME’s assets; and special simplification rules, including special presumptive tax regimes for small enterprises.

While many of these special SME tax rules are designed to support the growth and profitability of SMEs, their design and introduction can have distortive impacts by giving business an incentive to remain small or split up into different businesses to continue benefiting from the preferential tax treatment. These preferences need to be carefully targeted and designed to overcome the specific economic or tax difficulties identified or to provide support to companies providing positive spillovers to the economy

The taxation of SMEs is an important issue given their importance to the economies of countries. Careful design of government programs for SMEs including special tax rules, can address market failures and the disproportionately high compliance burdens faced by SMEs. Consideration of the heterogeneity of the SME sector and the different challenges faced by SMEs and their owners need to be considered in the design of the taxation rules as governments endeavor to promote the creation innovation and growth of SMEs

## REFERENCES

- [1] OECD Tax Policy Studies(2015), Taxation of SMEs in OECD and G20 Countries, No:23, <http://dx.doi.org/10.1787/9789264243507-en>
- [2] European Commission(2005), The new SME definition; User guide and model declaration, EC Publishing, Brussels, [http://ec.europa.eu/enterprise/policies/sme/files/sme\\_definition/sme\\_user\\_guide\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf).
- [3] OECD (2015), Entrepreneurship at a Glance 2015, OECD Publishing, Paris, [http://dx.doi.org/10.1787/entrepreneur\\_aag\\_2015\\_en](http://dx.doi.org/10.1787/entrepreneur_aag_2015_en).
- [4] European Commission(2015), SME Taxation in Europe An Empirical Study of Applied Corporate Income Taxation for SMEs compared to Large Enterprises, European Union, Brussels.
- [5] OECD (2009), Taxation of SMEs: Key Issues and Policy Considerations, OECD Tax Policy Studies, No:18, OECD Publishing, Paris, [http://dx.doi.org/10.1787/9789264024748\\_en](http://dx.doi.org/10.1787/9789264024748_en)
- [6] Freedman J (2009), Reforming the Business Tax System: Does Size Matter? Fundamental Issues in Small Business Taxation, [www.law.ox.ac.uk/themes/tax/documents/Ref.Bus.Tax.03.09.09.pdf](http://www.law.ox.ac.uk/themes/tax/documents/Ref.Bus.Tax.03.09.09.pdf)
- [7] OECD (2009b), The Impact of The Global Crisis on SME and Entrepreneurship Financing and Policy Responses, OECD Publishing, Paris.
- [8] OECD (2014), Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective, OECD Publishing Paris, [http://dx.doi.org/10.1787/978926422323219\\_en](http://dx.doi.org/10.1787/978926422323219_en)