

# The Effect of Tax Rate on the Incentives to Grow Small Enterprises: The Case of Small Enterprises in Montserrado County, Republic of Liberia

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## Abstract

Over the years several developing countries have prioritized providing powerful new resources including incentives to grow the economy and small businesses in their region, revitalize targeted areas of various cities and promote strong, balanced growth throughout the communities. However, the provision of incentives to grow small businesses and the economy at large is still in its infant stage in Liberia. Against this background, the objective of this study was to investigate the effect of the tax rate on the incentives to grow small enterprises in Montserrado County, Republic of Liberia. The specific objective of this study was to identify the effect of the tax rate on the incentives to grow small enterprises in Montserrado County and identify the factors that leads to the high tax rate on incentives to grow small enterprises.

To carry out this study, the study used the casual mapping model and the Decision Explore software introduced by Ackermann et al. To identify these effects/factors. The study also used publish reports from the IMF (International Monetary Fund) on small enterprises in Liberia, specifically Montserrado County, Government official websites, including the Liberia Revenue Authority website (LRA), etc. These reports were cited and analysed using the casual mapping model, and coded using the Decision Explorer software. To identify the effects the of tax rate and the factors that lead to a high tax rate on incentives to grow small enterprises, the map central analysis was used for analysis purposes. Findings from the study revealed that there is a significant effect of the tax rate on the incentives to grow small enterprises in Montserrado County Republic of Liberia as a result of several factors. The study also concluded that tax is a tool for fiscal policy employed by the government to influence small Enterprises negatively or positively depending on the nature of enterprise activities in a country. The study recommended that the Government of Liberia adopt china's incentives policy that has been successfully implemented in providing incentives to small enterprises for them to grow. Considering how China's economy has grown tremendously over the years as a result of the incentives policy, the research conclude that if this practices is adopted and implemented in Liberia, this will boost the growth of small enterprises and the economy to a larger extent.

**Keywords:** incentives to grow, Monrovia, Liberia, small enterprises, tax rate, taxes

## 1. Introduction

The desire to build a civilized country with a strong and sound economy is the desire of every country, including The Republic of Liberia. Tax is the demonstration of such desire, although some people see it as a means of exploitation by the government.

Tax is a voluntarily contribution imposed by the government on income earners, companies, investors, exporters, importers etc. The revenue realized from taxation is a major source of revenue to the government of Liberia, and so doing, it is an important tool used in the development of Liberia and her economy. A Country that enacts progressive tax laws and policies will definitely breed successful and finance healthy business organizations. Once business flourish, the economy flourishes as well In essence, small businesses and tax policies greatly depend on one another for survival. If one is greatly affected the other will definitely be affected.

The Liberian tax system has being through some significant changes in recent times. With the help of various

studies and research done by experts, and researchers, tax laws are being reviewed with the help of strengthen the tax system. Under current Liberian laws, taxation is enforced by two tiers of the government, i.e. The Liberia Revenue Authority (L.R.A), and the ministry of finance and development planning (MFDP). In 2012 the government created the Liberia Revenue Authority as an agency for assessing, and collecting the taxes on behalf of the government. The Ministry of Finance and Development Planning was also created in 2012 to formulate fiscal and tax policies to enhance revenue growth. Before its creation, the Ministry of Finance and development Planning was called the Ministry of Finance. It was responsible for formulating tax policy as well as revenue collection. Small business enterprises are generally recognized as important drivers of economic success. They are key ingredient in the ecology of businesses“ in healthy economy, as job creators, sales generators and source of tax/ fiscal revenue, since Liberia is trying to recover from 14 years civil crises. In the Republic of Liberia the importance of small Enterprises as a creator of jobs, particularly for those with low skills level, Should be widely recognized and place on every agenda.

Therefore the alignment of the tax system and the reduction of tax rate on the incentives to specifics small business Enterprises growth, needs to be considered an important agenda the policy makers.

Over the last few years the growth of Small business organization employment has exceeded the growth in their contribution to the GDP. Regulations and tax policies are reported to be one of the constraints to the expansion of small enterprises in Liberia and internationally. However, these enterprises like any other business in Liberia, are liable to different types of taxes and these include income tax, which is known as the 4% and 2% tax, withholding tax, which is known as the salary and wages tax. Incentives to grow, plays an important role in the development of every Country, as well as the growth of small Enterprises, in a low income country like Liberia, the role of small Enterprises, is pushing the social economic development agenda, of the country further.

## **2. Research Methodology**

### *2.1 Casual Mapping*

Casual mapping is an approach use to understand analyses data that are collected. It can be applied to qualitative data collected from individuals, groups, it can be applied to analysis large and small data. A Casual map displays knowledge in different fields through casually links. The opinions, ideas and/ or key issues of the problem being research are depicted as nodes that connected by arrows, to shows the direction of causality. Casual mapping can be analyse through individual’s interview, survey questionnaire and citation. Some procedures however require the direct involvement of participant in the construction of Casual map.

### **2.2 Casual Mapping in Different Fields**

Casual map are used to show accuracy, of understanding and gain clarity over the project evolution. Operational researchers use casual map in rendering decisions. Loops and links of various projects has also been studied As well as forensic post mortem analysis of projects, the operation research literature also reports use of the technique in proactive mode for the ongoing managements of projects. The technique of casual mapping has its roots in the field of operational research and scientific analysis. Casual maps are also related to problem structuring and solving methods and belong to the family of larger techniques which is cognitive mapping and structuring technique. It helps to understand the mental models and patterns in considered data. There are two category of casual mapping. They are idiographic and nomothetic maps.

The idiographic mapping is conducted on the raw data and resultant it provides a rich novel and details understanding of the observe problem. This approach has already proved its facts on the research of management. This research work paper focuses on this approach as it is the mean tool use to analyze and understand these problems.

## **3. Data analysis**

### *3.1 Data Collection Method*

We use data reports collected from the international monetary fund (IMF) on small enterprises in Liberia incentives to grow. Individuals interview, survey group discussion, between government officials, and small enterprises. Questionnaires were issue on the effects of tax rate on small enterprises incentives to grow and the solutions to these effects. These data was approximately 500. The IMF is an organization of 189 countries including the Republic of Liberia, working to foster international trade secure financial stability, promote high employment, and sustainable economic growth and reduce poverty around the world.



L12	L2	grow. LBR. Headed United States Agency For International Development & the LBR. Page 68 paragraph 40. Banks refusal to do work with Small Enterprises	Emphasis we made supporting L12 By L2 which was accepted by both parties.
L28	L26, L9.	LBR. Headed United States Agency For International Development & the IMF Page 75 paragraph 20-22 losses and lack of interest.	Enterprises mention L26, L9 which is directly in relations with L28.
L10	L25, L5.	LBR.. Headed United States Agency For International Development & the IMF Fund. Page 88 paragraph 10-12 Once there's no growth, there's no success.	A statement made by DR. Anthony Robert and deputy of the largest business industry which directly support L10 statement in page 88.
L11	L8,9,16	LBR. Headed United States Agency For International Development & the IMF Page 88 paragraph 10-11 government policy focus.	Majority of these small enterprises mention L11 But was from different prospective.
L21	L15, L11, L9, L26.	LBR. Headed United States Agency For International Development & the IMF Page 99 paragraph 2-9 Lack of branches.	Because it was in conjunction with L12 as a support for others.
L30	L15, L26.	IMF. Headed United States Agency For International Development & the International Monetary Fund. Page 105 paragraph 7-8 constant increase in Enterprises incentives.	It's a major problems that why many individuals ruted it out.
L27	L17, L15.	LBR. Headed United States Agency For International Development & the IMF. Page 108 paragraph 10-11 A look at monitory rate	It has being there for decades without any changes. Laying more emphasis on it may help. Anthony Robert business chairman.
L15	L21, L15, L18.	LBR. Headed United States Agency For International Development & the IMF. Page 110 paragraph 1 Employees outrage.	Entrepreneurs, enterprises, are not innovating. L21 through L18 argumentations is an interconnected relationship to support L15.

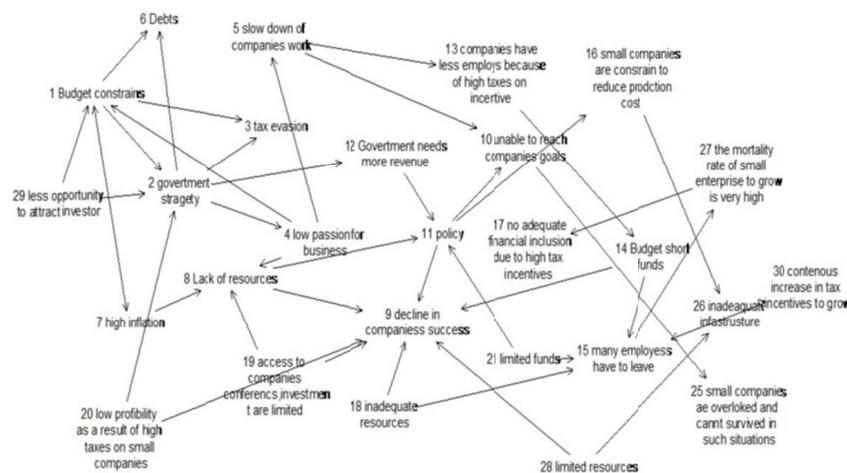


Figure 2. Casual map for Government sector report 2

Source: Group meeting, interviews held between the Liberia revenue authority, International Monetary Fund, Government officials & Small Enterprise.

**Map 2.** This section of a causal map is also adapted from F. Ackermann et al. et al. (2011) each arrow/link represents causality and thus reveals chains of argument starting from Loop 2. Explanations at the middle of the map through to consequences at the bottom and top.

Table 2.

Loop/link	Supportive Argumentation	Citation	supportive Argumentation
L2	L1, L6, L3, L29, L30, L31, L4, L12.	IMF Report NO.08/08 Mission in Liberia. Paragraph 1 page 1 the look of Government Strategy	GOL Strategy Being a major problems since 2008 LRA boss Alfred coted after statements had being made by officials.
L1	L7, L29, L2, L6, L31, L4.	IMF Report No. 08/08 Mission in Liberia. Paragraph 5 page 3 the look of lack of budgets for enterprises.	GOL Officials pointed out reasons that supported L1.
L8	L19, L7, L9, L11.	IMF Report No. 08/08 Mission in Liberia. Paragraph 15 page 8. The focus on more resources.	L19 Through L11 Directly Talks about resources that's the GOL needs which interims support L8.
L12	L11, L2.	IMF Report No. 08/08 Mission in Liberia. Paragraph 5 page 3 Revenue needs to be generated.	Officials of the LRA Confess that there are fire play in generating revenue.
L9	L28, L14, L20, L8, L11.	IMF Report No. 08/08 Mission in Liberia. Paragraph 15 page 22-29 enterprises success depends on the types of incentives they. Receive.	Incentives is a major support to small enterprises. LRA Secretary general coted supported by other officials.
L31	L1, L2.	IMF Report No. 08/08 Mission in Liberia. Paragraph 3 page 34, 35 high tax incentives leads to corruption.	Corruption is the main point of high tax incentives statements made by several government officials.
L16	L26, L11.	IMF Report No. 08/08 Mission in Liberia. Paragraph 3 page 85. High production due to constrains.	A major implications that treats enterprises survival.
L25	L10.	IMF Report No. 08/08 Mission in Liberia. Paragraph 1 page 92. Insecurity.	Living a life with such condition is unbearable.
L21	L11.	IMF Report No. 08/08 Mission in Liberia. Paragraph 1 page 105. No revenue, no means of funds.	It's the man source of government.
L11	L10, L12, L16, L8, L9, L2.	IMF Report No. 08/08 Mission in Liberia. Paragraph 12 page 186. A look at the Government policy for Small Enterprises.	May help the lives of many enterprises and other people living below 5 Liberian Dollars.
L20	L9, L2	IMF Report No. 08/08 Mission in Liberia. Paragraph 3 page 195 low profit.	The main purpose of operating an enterprise
L18	L9, L15	IMF Report No. 08/08 Mission in Liberia. Paragraph 1 page 202. Once incentives are high, there won't be any resources.	Without resources, there's no innovation, no growth and no success.
L5	L10, L13, L4.	IMF Report No. 08/08 Mission in Liberia. Paragraph 3, 4, 5-7 page 302.	Once there's a slowdown in enterprises growth, there won't be a good economy.
L10	L5, L25, L11.	IMF Report No. 08/08 Mission in Liberia. Paragraph 1 page 302. The goals is compromise.	There's no goals when incentives are high. Supportive argumentations from government official in the monstered county.
L17	L27	IMF Report No. 08/08 Mission in Liberia. Paragraph 9 page 402. Financial inclusion and related incentives.	Financial inclusion should be the objective of every Government including the GOL. A supportive statement made by the commissioner General.

#### 4. Results

In order to identify the risk statements from the prepared casual maps, of the two categories, small enterprises and Government officials, we use the Seismicity of casual maps and central score introduced by Ackermann.

Seismicity of casual map is the total ratio of the number of statements to the total number of link in a casual map. It shows how well a situation is understood and transparently graphed in a casual map. An acceptable range of Seismicity ratio, for a casual map is 1:1.3 to 1:1.4 for the two casual maps, the ratio lies in the stated range. The second measure which was implemented is to find out the most important statement's which is the central analysis. The central analysis is a measure which can identify the most central notes in a casual map. According to Ackermann, the central score does not only calculate the immediate link in and out of a statement but in addition incorporates statements linking into/out of the statements linking in and out but with a diminishing weighting. The central score of each map were calculated based on the central score risk statements-and were elicited. In addition, only those statements having a central score more than 9 were selected.

##### 4.1 Seismicity TY for the Map

The systematic for the Government statements were calculated as 1:1:34

whereas for the Business sector the value of systematic was calculated as 1:1.31 table 1 Shows the Seismicity of casual map. All these values lie in the range recommended By (Ackermann). Values of casual map, recommended by Ackermann.

Table 3.

category	Number of statements	Number of links	Map ratio
Data from small enterprises in Liberia	26	34	1:1.31
Data from Government Officials	30	25	1:1.34

#### 5. Results

##### 5.1 Central Score Analysis

From the Analysis of the two integrated casual maps, and with the measure of the central score, we obtain the most important statement made by each individual representing the small enterprises. issue of decline in companies success (C.S 14) several declines in companies revenue, (C.S 12), Government policy for small companies needs to be look at (C.S 11), Government strategy (C.S 11) Low profitability as a result of high tax rate on small companies growth (C.S 10), Limited branches (C.S 9). Many employees have to leave (C.S 9), unable to reach companies goals (C.S 9), high inflation (C.S 9), high taxes on business incentives to grow (C.S 9), low passion to continue running the companies (C.S 9) majority of Liberians don't have jobs, they survive by small companies the high tax rates on small business incentives is a major problem (C.S 8), small companies are constrained to reduce production cost (C.S 8), Small companies want to innovate, but there are no means of innovation. (C.S 8), Slowdown in companies work (C.S 8). The same for the Government, policy has a central score of (C.S 11) decline in companies success (C.S 14) Lack of resources (C.S 12), low passion for business (C.S 11), government strategy (C.S 11) government strategy (C.S 10), Budget short funds (C.S 10), government needs more revenue (C.S 10), limited funds (C.S 9) inadequate resources (C.S 9), budget constrains (C.S 9) limited resources (C.S 9), small companies are constrained to reduce production cost (C.S 8) inadequate infrastructure (C.S 8) The concerns statements were analyzed based on the content and statement of the two parties, firstly the government officials then the small enterprises. These statements were grouped together into different categories and were recognized as main risk statements.

##### 5.2 More Drivers/Factors That Leads to High Tax Rate on Small Enterprises Incentives to Grow

From the analysis of casual map we recognize that there are also several drivers/factors that cause high tax rate on the incentives to grow of small Enterprises.

Table 4. Identify more drivers that leads to high tax rate on the incentive's to grow of small enterprises

Parties involve	issues	Central Score
	Decline in Enterprises success.	14
	Several Declines in Enterprises Revenue	14
	Declines in enterprises revenue and grow	14
	Lack of Resources	12
	Government Strategy.	11
	Government policy	11
<b>Government Officials</b>	Low Passion For business	11
	Inadequate Infrastructure.	10
	Government Needs more Revenue	10
	Low Passion for Business.	10
	Budget Constrains	9
	Inadequate Resources	9
<b>Small Enterprises.</b>	Government policy for small Enterprises needs to be look at.	11
	Government Strategy.	11
	Low Profitability as a result of High tax rate on Enterprises.	10
	High Inflation	10
	Limited Branches.	9
	Many Employees have to leave.	9
	Unable to Reach Enterprises Goals.	9
	High Tax on Small Enterprises Incentives to Grow.	9
	Low passion to continue Running the Enterprises.	9
	Majority of Liberian don't have job, they live by SME.	8
	Small Enterprises Incentives to grow is a major Problem.	8
	Small Enterprises are constraint to Reduce Production cost.	8
	Small Enterprises want to Innovate, but there's no means of innovation.	8

From the above concern statements, statements with higher central score were identify and consider as risk statements and they are as follows:

- Government policy
- Decline in companies success
- Lack of resources
- several declines in companies revenue
- Government strategy
- Low profitability as a result of high tax rate on small companies' growth.
- high inflation
- inadequate infrastructure
- Government policy for small companies needs to be look at
- Budget short funds

Table 5.

Central Analysis	
Issues	Score
Decline in Enterprises success.	14
Several Declines In enterprises Revenue	14
Lak of Resources	12
Government Strategy.	11
Government policy for small Enterprises needs to be look at.	11
Government policy.	11
Low Passion for Business	11
Government policy for small Enterprises needs to be look at.	11
High Inflation	11
Government Needs more Revenue	10
Low Profitability as a results of High tax rate on Enterprises.	10
Inadequate Infrastructure.	10

### 5.3 Discussion

The purpose of this study was to establish the effect of tax rate on the incentives to grow of small Enterprises in Montserrado County, Republic of Liberia. Incentives to grow are a major problem for small enterprises which most residents live by small enterprises because of the job constrain, poor economy, and corruption. Despite the Facts that the government is trying to minimize the high tax rate on small enterprises incentives to grow, it won't be implemented until some tax laws concerning small enterprises are change. Once this is done, small enterprises can once more be able to grow and have a smooth business life. Earlier research suggest that high tax rate on Small enterprises to grow has the potential of slowing the growth of small enterprises and preventing them from innovating which is true. On the other hand, other Researchers also clearly warn of the danger high taxes (incentives) can pose on Small Enterprises like, struggling to survive, corruption, no means of survival, poor innovation and so on. Our Research results revealed that there are significant effects of tax rate on the incentives to grow of small enterprises in Montserrado County Republic of Liberia. The results are actually in line with other researchers who had supported the notion.

### 6. Conclusion/Recommendations

This research highlighted statements affecting tax rate on the incentives to grow of small enterprises in Liberia. The study attempted to examined the effect of tax rate on the incentives to grow of small Enterprises in Liberia specifically Montserrado county. The findings of the research revealed that there was a significant effect of tax rate on the incentives to grow ofsmall enterprises in Montserrado County Republic of Liberia.

### 7. Recommendation

Among the poorest countries in the world, China was once included, but with high work and perseverance, china income has grown, and is still growing each year. I am currently in china and I can see this every day. It is indeed a great sign of success and excellent growth. With regards to Liberia, the level of enterprises growth is declining because of the high tax rate on incentives to grow of small enterprises if Liberia can adopt some of china policy and business strategy , it will be of a great help to Liberia. China introduced a series of tax reduction measurement in the government to immediate benefit the tax payers, (Low tax rate, Low CIT), more incentives for small enterprises and so on. If Liberia can adopt some of these methods, previously mention, I guarantee that Liberia will move forward in terms of income and growth. With the above measures introduce by the Chinese government, it is to the expectation of small Enterprises and tax payers in china, and these results had positive impacts and it leads to encouraging entrepreneurship, innovations, simulated market vitality, freedom, and long lasting revenue for small enterprises. Some other countries have also recently adopted china growth strategy and they are growing faster, these countries are Kenya and Rwanda. China has served as a role model for many other middle income countries, it will be a great honor to have Liberia adopting china business strategy so as to improve the growth and income of small enterprises in the Republic of Liberia.

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