

Choice of the form of taxation in small and medium-sized enterprises and their importance for the economic growth and the country's economy

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Abstract: When making a decision to start a business, an entrepreneur is forced to choose the form of taxation of income from business activity. The aim of the article is to present the importance of the sector of small and medium-sized enterprises for economic growth and the economy, as well as to present the forms of their taxation and their choice. The applied research methods are based on the study of literature in the studied area and survey research. In order to learn more about the main reasons that guide entrepreneurs when choosing the form of tax and accounting records, a questionnaire survey was conducted in Lower and Upper Silesia (Poland). 500 respondents were included in the survey. When analyzing the data from the Central Statistical Office, it should be stated that the importance of enterprises of the SME group for the country's economy and economic growth is an undeniable fact. The dominant form of settlements of SME enterprises is the Tax Book of Income and Expenditure. After analyzing the survey it should be stated that the main reason for choosing a specific form of tax and accounting records are financial benefits, and then the simplified method of keeping documentation. Thus, it should be stated that simplification system of tax settlements will have an impact on the development of these enterprises, which will contribute to increasing the economic growth of the country.

Keywords: tax system, economic growth, GDP, taxes, small and medium-sized enterprises, choice of taxation forms

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1. Introduction

The main task of most tax systems is to cover public expenditure in the country. Thus, tax is one of the oldest financial categories, and is also the oldest source of state budget revenues (Wolański, 2016). "In antiquity, taxes became the central device of public and state life [...] from the very beginning, taxes were used to pursue both fiscal, economic, social and political goals (Kosek-Wojnar, 2012, p. 109). The importance of many tax solutions of that time is so great that they are being used today" (Felis, Jamróży and Ślęzak, 2010,

pp. 15–16). Due to their importance, “the struggle for and with state power becomes a tax fight”, and “the memory of famous rulers is associated not so much with the battles or wars they won, but with ensuring the prosperity of the state and society through economic and tax reforms” (Kosikowski, 1992, p. 17).

From the point of view of state budget, a very important element is personal income tax, which ranks second in the structure of tax revenues of the Polish state budget. It constitutes a part of income taxes, i.e. taxes collected on the total revenues obtained by various entities as a result of their business activity. The subject of taxation is all revenues without deducting the costs—the so-called gross income. Income taxes include: sales and industrial taxes paid on services, production and trade activities, as well as agricultural land tax. This form can also be used by natural persons engaged in business activity who do resign from paying personal income tax in accordance with general principles and choose the lump-sum tax.

The second important group of taxes are taxes on expenses. Their characteristic feature is that their material burden is borne by final recipients (Gomułowicz and Małeckki, 2000, pp. 75–78), while the taxpayer is an entity engaged in business activity involving the sale of goods or provision of taxable services. In the Polish tax system, they include: value added tax, excise duty and tax on games.

The last category are income taxes, which are the most common. Their major assumption is the universality of taxation. The basis for calculating income tax is the known net income of the taxpayer, decreased by tax deductible costs.

There are two types of income tax in Poland:

- personal income tax—regulated by the Act on personal income tax of 26 July 1991 (consolidated text: Journal of Laws of 2020, item 1426, as amended; hereinafter referred to as: PODOFizU);
- corporate tax—regulated by the Act on corporate income tax of 15 February 1992 (consolidated text: Journal of Laws of 2020, item 1406, as amended; hereinafter referred to as: PDOPrU).

A very important role in shaping of budget revenues is played by enterprises, including medium-sized companies.

When deciding to start a business, every entrepreneur is obliged to take many important decisions. One of them is the choice of the form of taxation of income from business activity, which largely affects the amount of taxes paid to the budget.

The aim of the article is to present the importance of small and medium-sized enterprises for the economy, and thus for economic growth, and the factors influencing the choice of forms of taxation by small and medium-sized enterprises.

The applied research methods are based on the study of literature in the research area and the presentation of the analysis of the forms of selection and evaluation of methods of taxation of income from the conducted activity on the basis of the conducted survey research. In order to learn more about the main reasons that guide entrepreneurs when choosing the form of tax and accounting records, a questionnaire survey was conducted among the owners of SME enterprises, their employees from accounting departments and employees of accounting offices in Lower and Upper Silesia. 500 respondents were included in the survey.

2. Importance of small and medium-sized enterprises for the economy

The topic of economic growth is very important to fully understand the functioning of the market economy. Moreover, it is one of the main macroeconomic and public finance problems. Economic growth is a basic factor contributing to a higher standard of living of citizens, to an increase in investments, and, in consequence, to a better development of the budgetary sphere. When talking about economic growth, one should understand a situation in which the economic effect of the society improves every year by constantly increasing the ability of a given country to produce goods and services needed by people. Alternatively, it can be stated that economic growth is a quantitative increase of basic economic values from one period to another, and above all, of national income per capita. It can therefore be concluded that the level of economic growth is influenced by the production capacity of a given economy, i.e. the quantity and quality of its material natural resources, the type of fixed assets, the level of production technology and personal factors of production (e.g. the level of job qualifications, unemployment, etc.) (Gomółka, 1998). Long-term economic growth takes place in an economy where all factors of production are used. In addition to engaging the full production capacity, economic growth can be achieved by increasing the supply of labour and capital as well as increasing the efficiency of use of production factors (Begg et al., 2014).

The SME sector has a huge impact on economic growth and plays a significant role in economy. However, small and medium-sized enterprises frequently face barriers that hinder the growth of this sector.

One of the main barriers are non-wage labour costs, the amount of which negatively affects the profitability of small and medium-sized enterprises. Taxes are also a significant barrier as their amount does not help entrepreneurs to develop their business, and the ambiguity and volatility of legal regulations poses numerous difficulties (Borowiecki and Siuta-Tokarska, 2008, p. 56).

Small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99% of all businesses in the EU. They employ around 100 million people, account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy. SMEs bring innovative solutions to challenges like climate change, resource efficiency and social cohesion and help spread this innovation throughout Europe's regions. They are therefore central to the EU's twin transitions to a sustainable and digital economy. They are essential to Europe's competitiveness and prosperity, industrial ecosystems, economic and technological sovereignty, and resilience to external shocks.

According to the European Commission in 2019, SMEs account for 98% of the total share of all enterprises in the European Union and offer a significant number of jobs in the private sector (EC, 2019). Currently, the structure of enterprises in Poland by company size is as follows (Statistics Poland, 2020):

- microenterprises—98%;
- small enterprises—1.4%;
- medium-sized enterprises—0.5%;
- large enterprises—0.1%.

Due to their significant number, SMEs influence and shape the national economy and have an impact on its development, contributing to a significant increase in the national income. They generate every second PLN of GDP (49.9%), of which the largest share is generated by micro-enterprises (30.5%) (Skowrońska and Tarnawa, 2018, p. 17). The participation in generating GDP of large enterprises and the SME sector by the basic area of activity is presented in Figure 1.

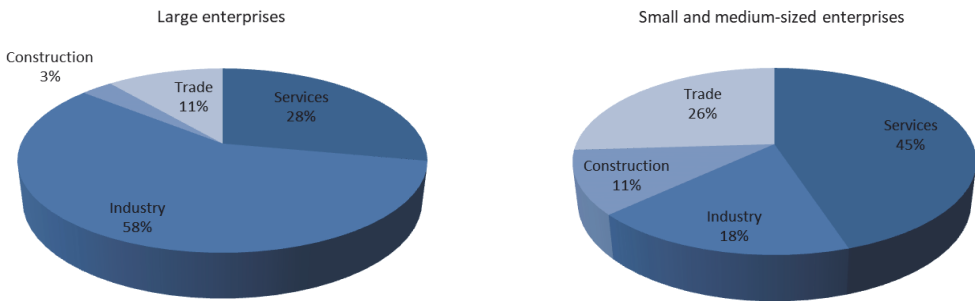


Figure 1. Share of large enterprises and the SME sector in GDP by basic area of activity in 2018 (in %)

Source: Author's own elaboration based on Statistics Poland, 2019.

Also the importance of small and medium-sized enterprises as entities creating new jobs should not be underestimated. The average number of people employed in this sector in 2019 was about 7 million, which accounted for about 69% of all people working in the enterprise sector. Data for particular years are presented in Table 1.

Table 1. The average number of employees in enterprises in particular size classes in 2013–2019

Year	Total SMEs	0–9	10–49	50–249	> 249
2013	69.5%	37.9%	13.7%	17.9%	30.5%
2015	69.2%	38.2%	13.4%	17.6%	30.8%
2017	69.1%	39.0%	12.7%	17.4%	30.9%
2019	68.7%	39.8%	12.2%	16.7%	31.3%

Source: Author's own elaboration based on Statistics Poland, 2019.

There is a greater guarantee of maintaining new jobs in the SME sector than in the case of large enterprises. Even in the period of recession, owing to their ability to quickly adapt to the conditions of environmental changes, SMEs can increase employment (Safin, 2012, p. 73). Small entrepreneurs also contribute to enhanced professional qualifications of employees, as opposed to large enterprises that rely on the staff of SMEs or take them over.

Small and medium-sized enterprises enable the growth of healthy competition, and thus, encourage entrepreneurs to create high-quality goods and services according to consumers' requirements (Tokarski, Tokarski and Voss, 2015, p. 11). They are able to flexibly adapt to changes in market

needs, especially to the demand, and fill the resulting market gaps which are unattractive for large enterprises by adjusting their production structure (Hajduk, 1998, pp. 156–157).

Foreign investments are also a positive phenomenon for SMEs. This sector is very attractive for foreign investors, while from the point of view of smaller entrepreneurs, it offers many new opportunities in terms of technological solutions, methods of operation, products and technologies (Strużycki, 2002, pp. 44–45).

SMEs play an important role in creating the conditions for economic life. By using local human resources and raw materials, as well as by feeding municipal budgets with taxes, they revive the local economy. Small entrepreneurs have greater opportunities to quickly establish contact with the environment, acquire regular customers, gain their trust and read their market preferences.

Despite favourable conditions for technological progress, the SME sector encounters many barriers in this regard. Table 2 presents weaknesses and strengths of SMEs.

Table 2. Weaknesses and strengths of SMEs in the field of innovation

Strengths	Weaknesses
Research effectiveness	Difficulty in getting capital
Quick response to internal needs	Level of inflation
No bureaucracy	Difficulties in applying for patent protection
Ability to quickly adapt to market requirements	Complicated laws and related transaction costs
Personally committed managers are open to new opportunities and are more prone to risk	Innovations are often characterized by disproportionately high financial risk

Source: Safin (ed.), 2012, p. 71.

The advantages of SMEs certainly include a lower impact on the natural environment compared to large enterprises. They follow a less aggressive and decentralized company policy. The research indicates that as the size of the enterprise increases, its negative impact on the environment also increases (Safin, 2012, p. 75–76). Günter Verheugen, Member of the European Commission, Commissioner for Enterprise and Industry, said that “micro, small and medium-sized enterprises are the engine of the European economy. They are the main source of employment, they inspire the spirit of entrepreneurship and innovation in the EU, and therefore are crucial for increasing competitiveness and employment.”

The role played by the SME sector in the economy makes it a basis for the proper functioning of market economy. Currently, microenterprises are developing the most dynamically, demonstrating the highest profitability in relation to other enterprises. Despite many capital barriers, the SME sector has huge development opportunities. Since the growth of potential and competitiveness improvement depends to a large extent on access to capital, many financial programmes and institutions supporting the SME sector have been established in Poland. This resulted mainly from the Polish government’s awareness of the importance of this sector for

innovation, economic growth, local development and employment improvement (Skowrońska and Tarnawa, 2018, p. 8).

3. Forms of taxation of small and medium-sized enterprises

One of the main obligations of every entrepreneur running a business is to settle the income tax regardless of the amount of income earned in a given year. The Accounting Act defines the types of enterprises from the SME sector (see: article 3), dividing them into micro, medium and small, and imposes obligations in the field of accounting and forms of settlements. Types of records for particular forms of taxation are presented in Table 3. In accordance with the tax law in force in Poland, entrepreneurs have the option of choosing the form they will use when settling the income obtained. These forms include (Tokarski, Tokarski and Voss, 2015, p. 8):

- tax card;
- lump-sum tax on registered revenues;
- general rules according to progressive rates or a flat rate.

The decision on the form of settlement is influenced by many factors, such as the size of the business, the amount of expected revenues and costs, and the type of business.

The lump-sum is associated with simplified accounting and flat tax rates. In case taxation in line with general terms has been chosen, one should choose the option of keeping accounting in full (accounting books) or in a simplified form (revenue and expense ledger) (Tokarski, Tokarski and Voss, 2015, p. 24). The forms of taxation of SMEs are presented in Figure 2 and Table 3.

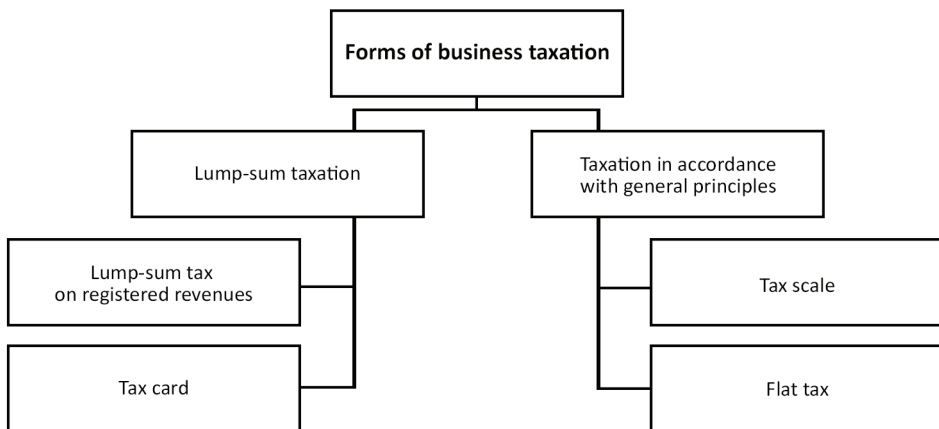


Figure 2. Forms of business taxation

Source: Author's own elaboration.

Table 3. Types of records for particular forms of taxation

Form of taxation				
Tax card	Lump-sum tax on registered revenues	General rules (progressive or flat rate tax)		
		Revenue and expense ledger	Accounting books	
Employment records	Income records	Revenue records	Revenue records	
Employee payroll	Employee payroll	Purchase records	Purchase records	
Sales value record	List of fixed assets and intangible assets	Expense records	Expense records	
Storage of issued sales bills	Equipment inventory	Employee payroll	Cash records	
	Records for VAT purposes	Records of quantitative and qualitative record and consumption of fixed assets and intangible assets	Records of settlements with recipients and suppliers	
	Collecting proofs of purchase of goods, materials and finished products	Additional records of: a) equipment b) vehicle mileage c) sales d) loans and pawned property e) records of purchase and sale of foreign exchange values	Records of quantitative and qualitative record and consumption of fixed assets and intangible assets	
			Employee payroll	
			Additional records of a) vehicle mileage	
			Records for VAT purposes	

Source: Martyniuk, 2006, p. 23.

4. Analysis of selected forms of taxation of small enterprises and their choices

Given the fact that SMEs play a very important role in the economy and provide a substantial part of budget revenues, an analysis of the forms of their tax settlement has been conducted.

The analysis of the data provided by the Central Statistical Office indicates that for small and medium-sized enterprises the dominant form of settlement is the tax revenue and expense ledger and accounting books (Figure 3).

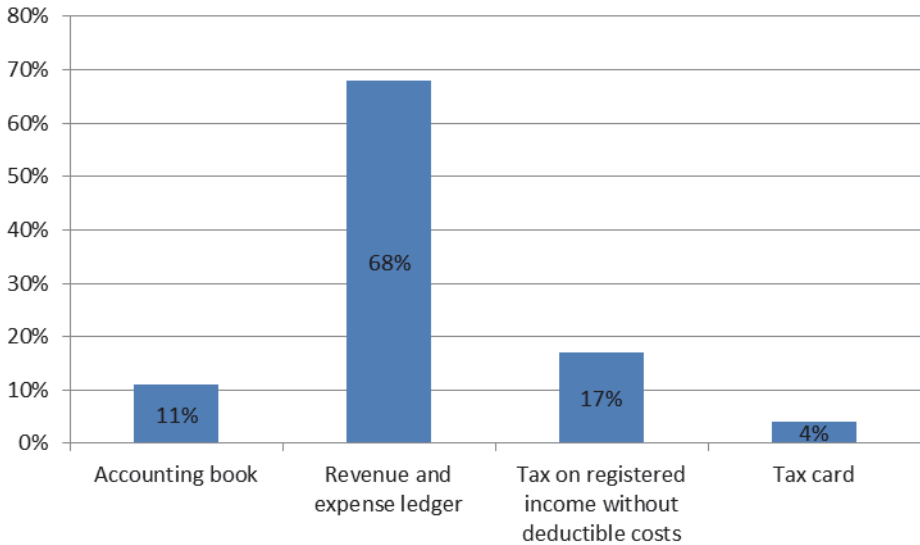


Figure 3. Forms of tax and accounting records in microenterprises 2018

Source: Author's own elaboration based on Statistics Poland, 2019.

The tax card has become the least popular form (4%), which has been losing its supporters in recent years.

In order to further explore the main reasons that guide entrepreneurs when choosing the form of tax and accounting records, a survey was carried out among the owners of SME enterprises, their employees from accounting departments and employees of accounting offices in Upper and Lower Silesia (Poland). 500 respondents were included in the survey. Among the respondents, 73% of the research population were micro-enterprises, 18% small enterprises and 9% medium-sized enterprises. Most of the enterprises operated in the service sector.

In the opinion of the respondents, the dominant reason for choosing a specific form of tax and accounting records was financial benefits, followed by a simplified method of keeping records. The results are shown in Figure 4.

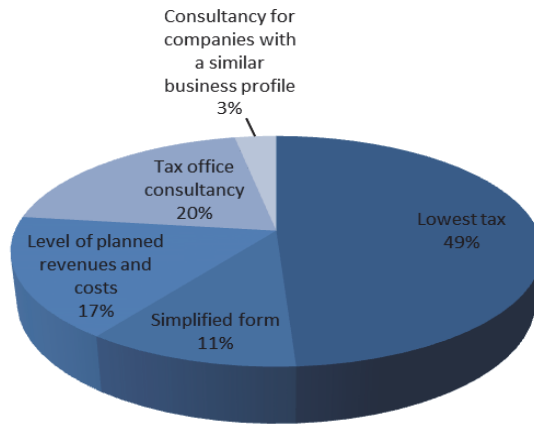


Figure 4. Criteria for selecting the form of tax and accounting records

Source: Author’s own elaboration based on a questionnaire survey.

Next, in the research process, the respondents were asked to evaluate the advantages of the selected form of tax and accounting records. They could choose more than one answer. The obtained results indicate that the largest number of respondents—as many as 98%, consider the lowest tax liability and the simplified form of settlement (93%) as the greatest benefit. The opinions of the respondents are presented in Figure 5.

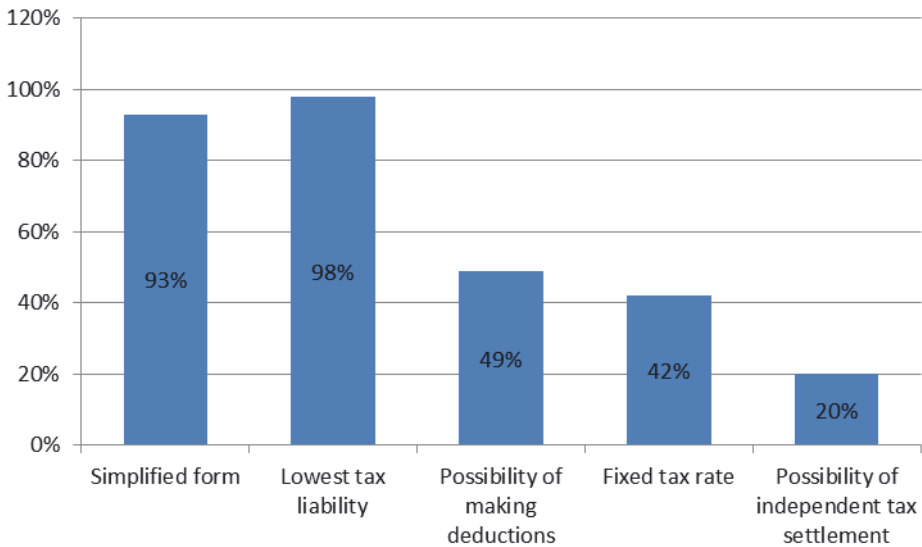


Figure 5. Advantages of the selected form of tax and accounting records

Source: Author’s own elaboration based on a questionnaire survey.

In the last part of the research, the respondents identified the greatest difficulties and barriers which in their opinion were related to keeping of particular forms of tax records. They pointed to a limited scope of activity and high tax rates in comparison with the generated income. This is shown in Figure 6.

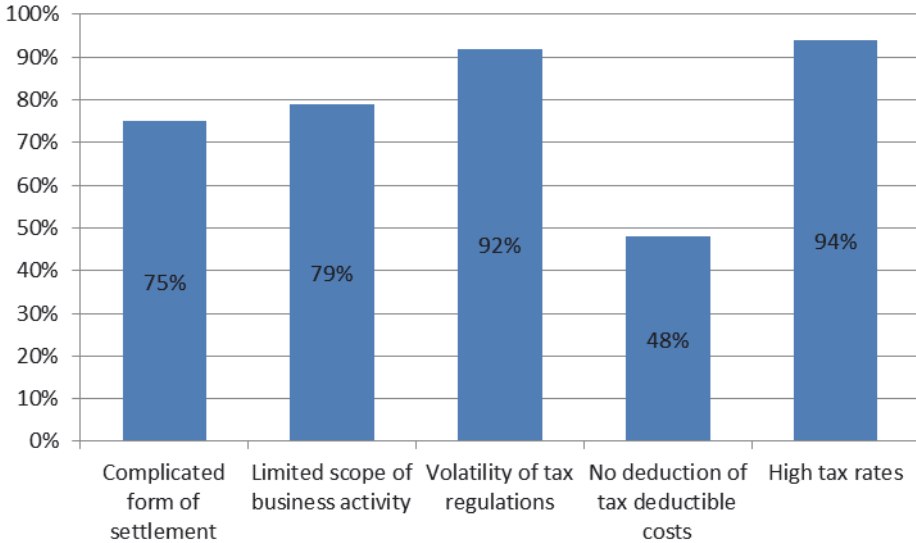


Figure 6. Barriers to keeping the selected form of tax and accounting records

Source: Author's own elaboration based on a questionnaire survey.

5. Conclusion

Considerations presented in the article do not solve the analyzed problem. It should be noted, however, that they are very important from the point of view of the interests of the economy and enterprises.

The aim of this study was to present the significance of the SMEs sector and the impact of factors determining whether the choice of a given type of income taxation (permitted by the legislator) is beneficial or even optimal for the enterprise, but also to show how important the SMEs sector is from the point of view of income inflow to the state budget. The considered analyses clearly illustrate the legitimacy of the choice of tax structures used by entrepreneurs.

When analyzing the data from the Central Statistical Office, it should be stated that the importance of enterprises of the SMEs group for the country's economy and economic growth is an undeniable fact. The dominant form of settlements of SMEs enterprises is the Tax Book of Income and Expenditure, while the least popular is the tax card. This is because most businesses cannot take advantage of it. The CSO research also shows that over 45% of GDP is made up of the SME service sector. After analyzing the surveys conducted as part of the project in Silesia, it should be stated that the main reason for choosing a specific form of tax and accounting records are financial benefits, and then the simplified method of keeping documentation. On the other hand, the main advantage of choosing a specific form of taxation, the respondents considered financial benefits, i.e. the smallest financial obligation and

a simplified form of settlements, and the biggest barrier was the volatility of regulations and complicated forms of settlements.

Thus, it should be stated that facilitating the operation and system of tax settlements will have an impact on the development of these enterprises, which will also contribute to increasing the economic growth of the country.

The choice of the form of business activity taxation is undoubtedly one of the most difficult decisions that every entrepreneur must take. Once a decision has been made, it is not necessarily the final choice, as the changing internal and external conditions of running a business may force the entrepreneur to change the way of settling tax liabilities. Then again, it is important information for the state, which is what entrepreneurs pay attention to. This subject seems to be very important in the changing economic conditions, especially in the era of globalization and free flow of capital.

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Wybór formy opodatkowania w małych i średnich przedsiębiorstwach i ich znaczenie dla wzrostu gospodarczego kraju

Abstrakt: Podejmując decyzję o rozpoczęciu działalności, każdy przedsiębiorca zmuszony jest do wyboru formy opodatkowania dochodów z działalności gospodarczej, co w dużej mierze wpływa na wysokość podatków wpłacanych do budżetu, a tym samym na wzrost gospodarczy. Celem artykułu jest przedstawienie znaczenia sektora małych i średnich przedsiębiorstw dla gospodarki, pokazanie form ich opodatkowania oraz dokonanie przez nie wyboru i jego wpływu na wysokość obciążeń podatkowych. Zastosowane metody badawcze opierają się na studiach literatury z badanego zakresu oraz na przeprowadzonych badaniach ankietowych. W celu poznania przyczyn, którymi kierują się przedsiębiorcy przy wyborze formy ewidencji podatkowo-księgowej, przeprowadzono badanie ankietowe wśród właścicieli przedsiębiorstw MSP, ich pracowni-

ków z działów księgowych oraz pracowników biur rachunkowych na Dolnym i Górnym Śląsku. Ankieta objęto 500 respondentów. Analizując dane GUS, należy stwierdzić, że dominującą formą rozliczeń przedsiębiorstw MSP jest PKPiR, natomiast najmniej popularna jest karta podatkowa. Wynika to z faktu, że większość przedsiębiorstw nie może z niej skorzystać. Analiza wyników ankiety wskazuje, że głównym powodem wyboru określonej formy ewidencji podatkowo-księgowej są korzyści finansowe, a następnie uproszczony sposób prowadzenia dokumentacji. Za największą barierę respondenci uznali zmienność przepisów oraz skomplikowane formy rozliczeń. Można zatem przyjąć, że uproszczenie systemu rozliczeń podatkowych wpłynie na rozwój przedsiębiorstw i w rezultacie przyczyni się do wzrostu gospodarczego.

Słowa kluczowe: system podatkowy, wzrost gospodarczy, PKB, podatki, małe i średnie przedsiębiorstwa, wybór form opodatkowania