



SSE Riga Student Research Papers
2014 : 8 (164)

MICRO ENTERPRISES TAX PAYERS IN LATVIA

Authors: Juris Stinka
Dainis Bonda

ISSN 1691-4643
ISBN 978-9984-842-84-4

November 2014
Riga

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Juris Stinka
and
Dainis Bonda

Supervisor: Tālis Putniņš

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Abstract

With an aim to create necessary preconditions for the unemployed people to start commercial activity, Latvian Government introduced micro-enterprise tax regime, which became available for the enterprises on September 1, 2010.

Data from state institutions does not provide clear picture of current MET payers' community composition and thus does not allow to understand whether the aim of the law has been achieved.

The study summarizes available statistical data from the state institutions, reviews academic literature on the subject as well as opinions from the key stakeholders. The authors also organized a quantitative survey of existing MET payers in Latvia.

According to the study the largest part of MET payers (66.2%) are those who registered as MET payers in order to reduce their tax and administrative burden. However, authors estimate that MET stimulated creation of around 5600 new enterprises (16.5% of MET payers). Moreover authors assume that around 30% of total number of MET payers did fully or partially legalize their activities.

Taking into account above, MET did stimulate economic activity, creation of jobs and reduction of shadow economy, therefore authors think that the aim of the MET law was fulfilled.

Keywords: Micro-enterprise; Tax

Acknowledgements

We would like to thank Tālis Putniņš for valuable advice during the thesis writing process. Additionally, we express gratitude to Ilmārs Šņucins, Egīls Zarakovskis and Astra Kaļāne from the Ministry of Finance, Ilze Beināre from the Ministry of Economics and Chairman of the Latvian Chamber of Commerce and Industry Jānis Endziņš, for extensive support and devoted time during the research and data gathering.

Finally, we are thankful to our colleagues and families who supported us during the completion of the thesis.

List of Abbreviations

AFFF – Agricultural Farm or Fisheries Farm
CATI – Computer Assisted Telephone Interviewing
CAWI – Computer Assisted Web Interviewing
CSB – Central Statistics Bureau
IE – Individual entrepreneur
LCCI – Latvian Chamber of Commerce and Industry
LLC – Limited Liability Company
MET – Micro enterprise tax
MoE – Ministry of Economy
MoF – Ministry of Finance
MoW – Ministry of Welfare
SE – Self-employed (physical person)
SRS – State Revenue Service

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Table 1 Quantity of enterprises per region and per legal form 18

1. Introduction

A special tax regime for micro-enterprises became available in Latvia on September 1, 2010 with an aim to stimulate economic activity of small entrepreneurs and to reduce shadow economy in the micro enterprises sector.

The law foresees 9% tax rate from yearly turnover, which substitutes personal income tax and corporate income tax for the owner as well as personal income tax and social security contributions for employees. In order to choose this new regime, the enterprise has to comply with some requirements, most important of which are:

- turnover cannot exceed 100 000 euro per year;
- number of employees may not be more than 5;
- income of each employee cannot exceed 720 euro per month.

The micro-enterprises tax regime provides also significant simplification of administrative procedures, because it requires only one tax payment every three months that covers several different taxes and contributions.

After the introduction of micro-enterprises tax, it gained popularity quite quickly – currently, according to the State Revenue Service data, there are more than 30 000 enterprises, that use this regime, employing almost 85 000 employees.

With this fast development concerns were raised by the state institutions about the negative implications of the micro-enterprises tax regime:

- relatively low social security contributions and accordingly low social benefits for employees;
- lack of motivation for micro-enterprises to grow and to attract highly qualified employees;
- use of micro-enterprises tax regime for tax avoiding.

These concerns resulted in adoption of amendments to the law by the Parliament in November 2013, which foresee gradual increase of micro enterprises tax rate starting from 2015.

Opponents of these amendments claim that it will reverse positive trends, which started due to the new tax regime:

- many small enterprises, which worked in the shadow economy, registered their business and started to pay taxes;
- many new enterprises were created, generating new working places and reducing unemployment.

The discussion on right solution for the micro-enterprises taxation continues also in year 2014. Several members of the Latvian Parliament have submitted proposal to revise the law, reinstating 9% micro-enterprise tax rate and introducing two new layers of micro-enterprise tax payers – (between 100 000 and 200 000 euro and between 200 000 and 300 000 euro). So far the discussion was based mainly on statistical data. There is data available from the registers of the State Revenue Service and the Ministry of Welfare about the number of micro-enterprise tax payers, their turnover, number of employees etc., but they do not permit to clearly distinguish different categories of micro-enterprise tax payers. How many of them started their business because of this tax regime? How many came out of shadow economy? How many just chose more beneficial tax regime? Without answering these questions, it is not possible to judge whether the aim of the micro-enterprise tax regime has been achieved. This diploma project aims at filling this gap.

Research questions:**Which type of enterprises prevails in the micro-enterprises tax payer community?**

- those who started their business because of micro-enterprises regime;
- those who came out of shadow economy;
- those who optimized their tax regime.

Does the actual structure of micro-enterprise tax payers correspond to the objectives for introduction of micro-enterprises tax regime?

The project paper summarizes the available literature on the subject, analyses the findings of the state institutions in the formal reports and interviews with representatives of those institutions. This is supplemented by views of business community.

However the main source of information for this study comes from the quantitative survey of actual micro-enterprises payers. The survey results are then compared to other available data. In section 2 of the paper there is a description of current MET regime and available data which characterizes its impact. It also describes opinions of main stakeholders about the functioning of MET. Section 3 contains summary of literature. In section 4 authors make hypothesis from the information described in the previous sections. Section 5 describes methodology, followed by section 6, 7 and 8, where accordingly main findings of the survey are described, analysed and conclusions are made.

2. Micro-enterprise tax regime in Latvia

2.1. *The aim of MET*

The MET law (Parliament, 2010) was adopted on 09.08.2010 and entered into force on 01.09.2010.

This Law was developed as a part of micro-enterprises support program, adopted by the Government on 15.09.2009.(Cabinet-of-Ministers, Konceptijas projekts par mikrouzņēmumu atbalsta pasākumiem, 2009). The aim of the program was to address the problem of growing unemployment due to the economic crises. The program foresaw measures, which would stimulate unemployed persons to start commercial activity and as a result would reduce unemployment and increase number of entrepreneurs.

According to the annotation of the Law (Parliament, Likumprojekta „Likums par mikrouzņēmumu nodokli” anotācija, 2010), the aim of the Law is to establish status of the micro-enterprise and regulations of micro-enterprise tax in order to create necessary preconditions for the unemployed people to start commercial activity. The annotation also foresees that as a result of the implementation of the Law, economic activity of inhabitants will increase, by starting commercial activity, which will stimulate employment, creation of new working places and incomes. The annotation of the Law estimated creation of 300 new micro-enterprises in 2010 due to introduction of micro-enterprise tax. It has to be noted that the micro-enterprise tax rate, proposed by the Government was 20%, which was basis for estimations in the annotation. However the Parliament reduced the rate to 9%.

Accordingly, the aim of introduction of MET was to stimulate unemployed persons to start economic activity thus increasing number of entrepreneurs and reducing unemployment.

2.2. *Substance of MET*

According to the Law on micro-enterprise tax (Parliament, 2010), there are the following main criteria for the enterprise to qualify for MET regime:

- enterprise is owned by private individuals;
- turnover cannot exceed 100 000 euro per year;
- number of employees may not be more than 5;
- income of each employee cannot exceed 720 euro per month.

MET base is yearly turnover of the micro-enterprise. Tax is payable every quarter of the taxable year.

The rate currently is 9% and covers:

- social security contributions;
- enterprise risk duty;
- personal income tax;
- corporate income tax (if applicable).

MET provides significant simplification of personal income tax, corporate income tax and social security contributions calculation and payment. There is only one payment every quarter, covering all three taxes and enterprise risk duty. It is calculated from turnover, instead of more complicated calculations for each type of tax. However for those MET payers, who are LLCs, accountancy requirements remain the same as for all tax payers and therefore simplification of administrative requirements is limited.

On 6th November 2013 Latvian Parliament adopted amendments to the Law (Parliament, Grozījumi Mikrouzņēmumu nodokļa likumā, 2013), changing the micro-enterprise tax rates as follows:

- for turnover up to 7000 euro, the rate stays 9%;
- for turnover between 7001 euro and 100 000 euro the rate is gradually increased:
 - from 01.01.2015. to 11%;
 - from 01.01.2016 to 13%;
 - from 01.01.2017 to 15%.

The enterprises or individual entrepreneurs can freely choose the micro-enterprise tax regime or normal tax regime.

2.3. *Impact from MET implementation*

According to the data of Ministry of Finance, the number of micro-enterprise tax payers has increased rapidly since 2010, reaching 11% of all tax payers, who are registered in the SRS registers:

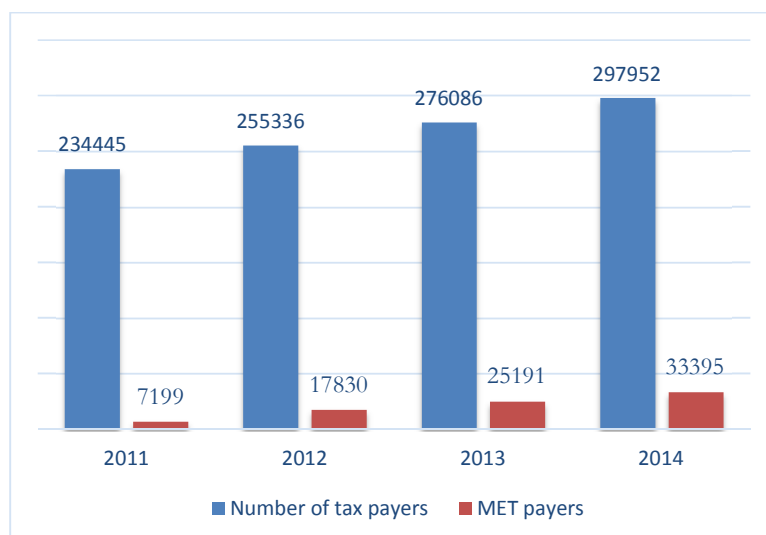


Figure 1: Increase of tax payers' number (Ministry-of-Finance, 2014)

If we compare the increase of total number of tax payers with increase of number of MET payers, we see that the number of MET payers increases much faster than the total number of tax payers:

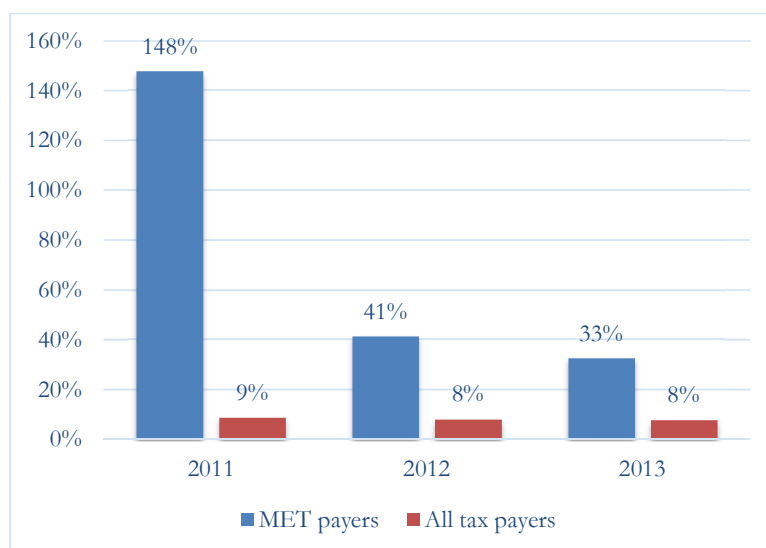


Figure 2: Increase of tax payers' number in % (Ministry-of-Finance, 2014)

This shows that MET stimulated creation of new enterprises, because the number of new micro-enterprises grew faster than total number of enterprises. This difference of course can be partly explained by the fact that a large number of MET payers are not new enterprises, but have simply changed their status. According to the MoF data (Ministry-of-Finance, 2014), as of January 1, 2011, when existing tax payers could become MET payers, 4536 of existing tax payers used this opportunity. However, majority of registered MET (76%) were new enterprises (Ministry-of-Finance, 2014).

Also the total number of employees, employed by MET payers has been growing:

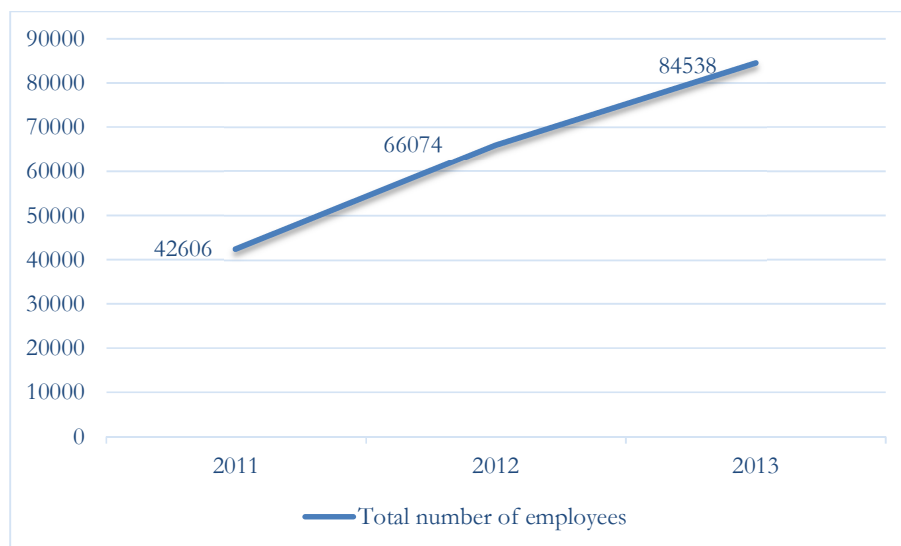


Figure 3: Number of employees in MET payers (Ministry-of-Finance, 2014)

According to the data from the MoF (Ministry-of-Finance, 2014), the average number of employees, who really work for MET payers (yearly income of an employee is above 0) is 2.

However, according to the data from MoW, only 5% of those employees were not previously covered by social security payments:

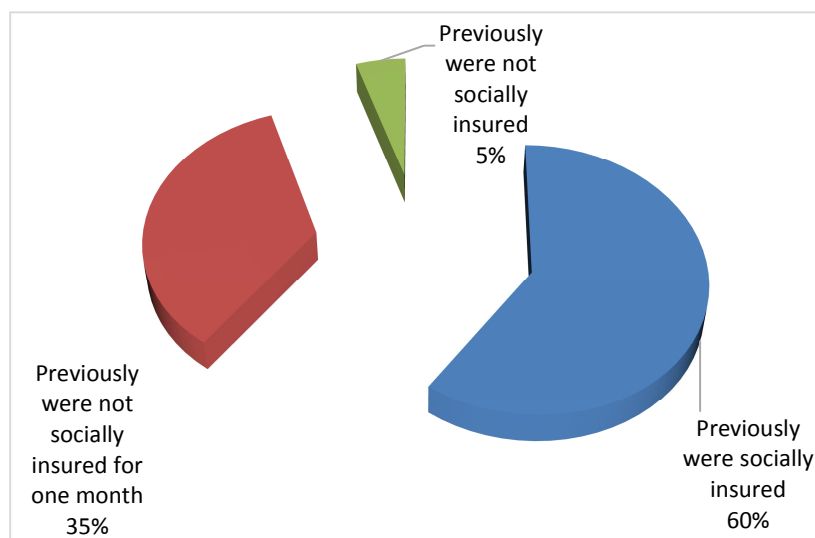


Figure 4: Previous social insurance of MET employees (Ministry-of-Finance, 2014)

It has to be noted that large number of employees work for more than one employer. According to the MoF data (Ministry-of-Finance, 2014) in 2013 8% of MET payers' employees were employed by another MET payer and 40% were employed by other employers, who are not MET payers. From the above we can make an assumption that many

of MET payers' employees continue to work for previous employers and in parallel started to work for a MET payer. This means that there were more working places created than just 5%. Budget income from MET has been increasing rapidly as well.

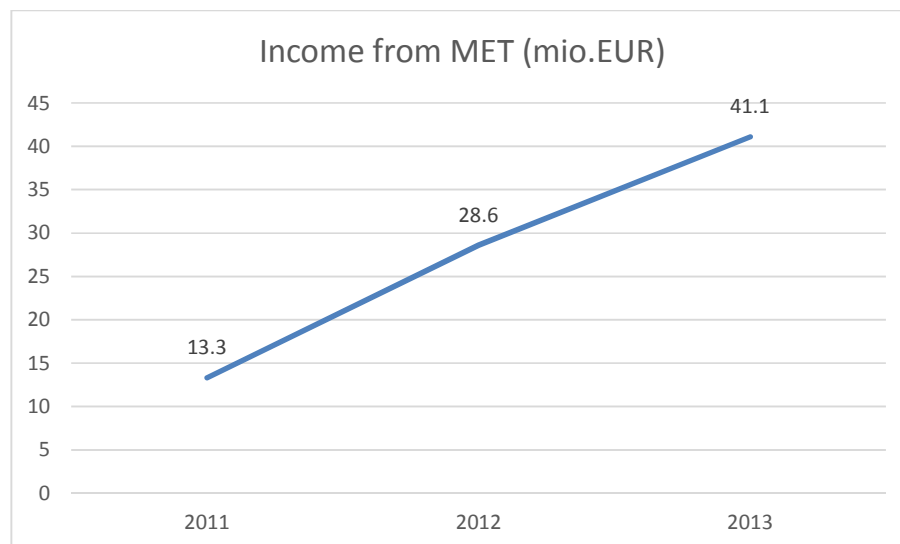


Figure 5: Income from MET (Ministry-of-Finance, 2014)

However it remains a relatively small proportion of total tax revenues (0.62% in 2013, according to the data of MoF (Ministry-of-Finance, 2014). MoF data shows as well that the total amount of taxes paid by enterprises after becoming MET payers does not decrease dramatically (on average it decreases by 3-8% (Ministry-of-Finance, 2014)). This indicates that the tax revenue potentially lost due to MET is relatively small. This is supported also by the data mentioned in the annotation of the law (Parliament, Likumprojekta „Likums par mikrouzņēmumu nodokli” anotācija, 2010), which includes data on the amount of taxes paid by small enterprises before the introduction of MET. According to the annotation 66.2% of enterprises, fulfilling the criteria of MET, paid less than 10% of taxes from their turnover already before MET introduction.

Although not directly mentioned as an aim for the Law on MET in its annotation, there is additional potentially positive outcome often mentioned in the relation to the MET– reduction of shadow economy.

According to the available research data on shadow economy in Latvia, its level has been reducing:

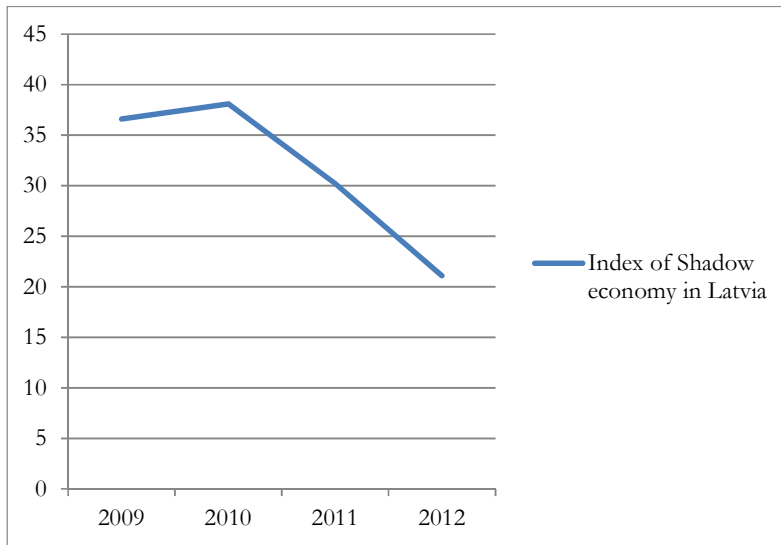


Figure 6: Index of Shadow economy in Latvia (Sauka, A.& Putniņš, T, 2012)

This however cannot be attributed exclusively to the introduction of MET, because there are lots of other factors at play (better tax administration, economic recovery etc.).

2.4. Stakeholder views

As mentioned above, different views exist about the MET and its effect. During our project we conducted interviews with representatives of MoF, MoE as well as LCCI. This was supplemented by publically available reports from MoW. These ministries were chosen, because they play the most important role in defining MET regulation from the Government side. LCCI on the other hand has been the most active business organization, participating in the debate on MET.

Ministry of Welfare

The MoW, according to its statutes (Cabinet-of-Ministers, 2004) is the main institution, responsible for employment and social protection. It has an important role in the development of MET, because MET includes also social security payments. The MoW has presented to the Government three reports, analysing the functioning of micro-enterprises regime:

- on 02.09.2011. (Ministry-of-Welfare, Par Mikrouzņēmuma nodokļa likuma praktiskās īstenošanas gaitu un rezultātiem no 2010.gada 1.septembra līdz 2011.gada 30.jūnijam, 2011)
- on 12.09.2012. (Ministry-of-Welfare, Par Mikrouzņēmumu nodokļa likuma praktiskās īstenošanas gaitu un rezultātiem no 2010.gada 1.septembra līdz 2012.gada 30.jūnijam , 2012)

- on 13.09.2013.(Ministry-of-Welfare, Par Mikrouzņēmumu nodokļa likuma praktiskās īstenošanas gaitu un rezultātiem, kā arī mazās saimnieciskās darbības veicēju sociālo nodrošinājumu, 2013)

The main focus of those reports was the social contributions for employees of micro-enterprises and the impact on availability of social services and benefits. MoW gives an overview of available data about micro-enterprise tax payers from the state data bases and illustrates with practical examples the differences between micro-enterprise employee situation and employee situation under other tax regimes. Main conclusions from the reports are that the amounts of social security contributions for employees under micro-enterprise tax regime are relatively lower than under other tax regimes. This affects the level of social benefits, available to the micro-enterprises. The concerns are raised about cases of tax avoidance. Ministry of Welfare believes that in general the aim of Micro-enterprise tax to stimulate economic activity has been achieved.

Ministry of Finance

According to its statutes (Cabinet-of-Ministers, 2005), MoF is the main responsible institution for financial policy, including tax policy and tax administration. The State Revenue Service reports to the MoF. The Law on MET was developed under the lead of MoF. MoF also proposed the majority of the amendments adopted to this Law.

The most comprehensive document, prepared by the MoF on the subject of tax regimes for small enterprises is a concept paper, presented to the Government on 18.07.2012 (Cabinet-of-Ministers, Konceptija par mazo uzņēmumu nodokļa maksāšanas režīmu konsolidāciju un vienkāršošanu, 2012). It contains the analysis of available theoretical literature, provides examples from other countries as well as analyses existing tax regimes available for small enterprises in Latvia. When analysing micro-enterprise tax regime, MoF concludes that the main attractiveness of this tax regime comes from relatively lower level of social contributions for the employees and less administrative burden. The ministry also points out main disadvantages of micro-enterprise tax regime:

- lower level of social benefits for employees due to smaller social security contributions;
- lack of incentives to grow and attract more qualified employees due to limitations of maximum turnover and maximum income for employees;
- tax avoidance risks.

Ministry of Finance according to the concept paper believes that the reduction of administrative burden as a result of micro-enterprise regime for limited liability companies (*sabiedrības ar ierobežotu atbildību*) is very insignificant, because they still have obligation to organize their accounting system. Therefore the application of micro-enterprise regime for this type of enterprises can be justified only if there is a substantial growth of employment and other economic indicators.

During our project on March 6, 2014 we met with Deputy State Secretary of the MoF Ilmārs Šņucins, Director of Direct Tax Department Astra Kaļāne, as well as Egīls Zarakovskis and Ieva Kodoliņa Miglāne from Tax Analysis Department and had a discussion about MET. The description below is based on personal communication with the MoF representatives during the meeting.

The MoF is rather sceptical about the MET. The representatives of the MoF point out that the MET regime has created additional options for tax avoidance. The MoF data shows that 91% of MET payer owners are participants also in other enterprises (this excludes SE). The MoF has been trying to close loopholes for tax optimisation with numerous amendments to MET law. The MoF also points out the significant problem of social insurance of MET payers' employees.

Since the MET payers pay lower labour taxes, it creates unfair competition for other tax payers.

Majority of the MET payer employees before this status have been employed by other tax payers or were without employment for a very short period of time, therefore MET payers do not contribute substantially to the creation of new employment.

The restrictions for MET payers do not motivate growth.

Due to the above mentioned concerns the MoF considers that the aim of MET law has not been fulfilled.

The MoF however admits that after registration as a MET payer the number of employees increased in 80% of MET payers and also the total amount of social security payments increased. This could be an indication of legalization of activity, which was previously in shadow economy.

Ministry of Economy

The MoE, according to its statutes (Parliament, 2010) is the main institution, responsible for economic policy. The MoE developed micro-enterprises support program (Cabinet-of-Ministers, Konceptijas projekts par mikrouzņēmumu atbalsta pasākumiem, 2009), which was

a basis for the MET initiative. The MoE was involved in the drafting of MET law and is regularly following its implementation and effectiveness. During our project on March 4, 2014 we met with the Director of Department of Business Competitiveness of the MoE Ilze Beināre and had a discussion about MET. The description below is based on personal communication from Ilze Beināre during the meeting.

In general the MoE considers that MET is a success, because the amount of taxes paid by MET payers increase comparing to tax payers under other tax regime. According to the calculations of the MoE, the tax paid by tax payers under normal tax regime in the category with turnover up to 100 000 EUR and up to 5 employees is 8.1% from turnover, compared to 9% paid by MET payers.

Moreover the majority of registered MET payers are new enterprises and according to the MoE calculations 65% of MET employees work in newly established enterprises.

The latest amendments to the MET law will help to counter tax avoidance.

Latvian Chamber of Commerce and Industry

LCCI is the biggest business NGO in Latvia, which unites 1002 individual enterprises and 60 sectorial associations (Latvian-Chamber-of-Commerce-and-Industry, 2014). LCCI was the initiator of MET from business side and the most visible supporter of it throughout the discussions with the Government and Parliament. During our project on February 17, 2014 we met with the Chairman of the Board of LCCI Jānis Endziņš and had a discussion about MET. The description below is based on personal communication from Jānis Endziņš during the meeting.

LCCI strongly believes that MET introduction was successful, because:

- Number of MET payers increased rapidly;
- MET payers' turnover increases;
- Number of employees in MET payers increases;
- Total amount of taxes paid by MET payers increases;
- Unemployment decreases;
- Shadow economy decreases;
- Total number of tax incomes increases;
- Total number of registered enterprises increases.

LCCI concludes that MET has helped to stimulate economic activity, reduce unemployment and shadow economy. Although there is a risk for tax optimization, the alternative, without

MET is even worth – it would mean more shadow economy and less employment. The potential reduction of social security budget income is outweighed by rapid increase of number of enterprises and paid taxes.

3. Literature Review

Specialized tax regimes for small enterprises

Experts of International Monetary Fund (IMF&OECD&World Bank, 2007) consider that there are strong arguments for introduction of specialized tax regimes for small enterprises, as they may help to include them into the tax net. This may be helpful also in reducing administrative burden both for tax administration and small enterprises themselves. They do consider however that size related tax measures are not the best approach for addressing market failures.

In general there are two main objectives for small enterprise taxation identified (Weichenreider, 2007):

- Reduction of compliance cost. Small enterprises are more heavily affected by these costs.
- Reduction of tax evasion.

Downsides of specific small enterprise tax systems are losses in tax revenues and tax discrimination between different tax payers (Weichenreider, 2007). It also may create incentives to stay below the established threshold in order not to lose competitive advantage, like it is in the case of VAT exemption threshold (Weichenreider, 2007).

The best design for such enterprises is much less evident. Multiple solutions exist in different countries. Most common are simplified tax regimes, which only simplifies part of tax regime (for, example, simplified declarations or less regular payments) and presumptive tax systems (IMF&OECD&World Bank, 2007). Under presumptive tax regime the tax base is not itself measured but is calculated from some simple indicators (turnover, assets, farm size, shop size, etc.) (Weichenreider, 2007). Elements of presumptive tax system exist in different countries, including Austria, Belgium, the Czech Republic, Greece, Italy, Japan, Mexico, Poland, Lithuania and Spain. Reduction of administrative burden, improved tax compliance and more equitable taxation are named as main motivations for introduction of presumptive tax regime (Weichenreider, 2007).

Presumptive tax regime is justified in the cases where the tax base is difficult to measure and verify for tax authorities (Slemrod and Yitzhaki, 2002).

Some authors argue that turnover tax solution might be better at least for low income countries (IMF&OECD&World Bank, 2007). However the payroll tax and social contribution collection is one of the most difficult obstacles in designing of simplified tax regime for small

enterprises (IMF&OECD&World Bank, 2007). For example, Irish Government does not see it feasible (Department-of-Finance&Irish-Tax-and-Customs, 2012).

International Monetary Fund experts are sceptical also about specialized tax regime usage to create employment (IMF&OECD&World Bank, 2007). According to them better targeted instruments may be applied – like micro-credit schemes and on-job training.

Latvian MET is unique in a sense that it includes also labour taxes and social contributions, which are normally payable by the employee. We have not been able to find any other example of MET in other countries that would be similar to Latvian MET. Also the MoF writes (Cabinet-of-Ministers, Konceptija par mazo uzņēmumu nodokļa maksāšanas režīmu konsolidāciju un vienkāršošanu, 2012) that such a system as MET does not exist elsewhere in European Union. Mostly other countries chose to support small enterprises through lower corporate income tax or lower personal income tax, for example, in Lithuania, Portugal, Spain, France and Belgium.

Taxation and shadow economy

Majority of studies confirm that there is a relation between the level of shadow economy on one side and tax burden and state regulations from other side (Schneider F. & Klinglmaier R, 2004). High level of taxes and burdensome administrative regulations stimulate growth of shadow economy. However reduction of tax level alone does not lead to substantial decrease of shadow economy. Ineffective and discretionary application of tax regulations also has an impact on shadow economy. In order to reduce shadow economy governments should improve enforcement of laws, instead of increasing their number (Schneider F. & Klinglmaier R, 2004). There is also a link between the shadow economy level and quality of public services. If the shadow economy is high, the Government lacks resources to finance public services. As a result the quality of services decrease and it stimulates shadow economy activity in return (Johnson Simon; Kaufman Daniel & Pablo Zoido - Lobaton, 1998).

Tax avoidance, evasion and real substitution

The distinction between tax avoidance and tax evasion is in the legality. Evasion is illegal, for example, hiding income (Slemrod and Yitzhaki, 2002).

Tax avoidance on the other hand involves activities to benefit from better tax treatment without changing the nature of the business or consumption (Slemrod and Yitzhaki, 2002).

Real substitution is real change of behaviour by the tax payer (Slemrod and Yitzhaki, 2002).

4. Hypotheses

Taking into account the above information described in section 2 and section 3, we made the following hypotheses.

Hypothesis 1

All groups of enterprises are present in the micro-enterprise tax payer community; however most of them were economically active before, either as entrepreneurs or as paid employees. Relatively small number of micro-enterprise tax payers actually started their business because of introduction of micro-enterprise tax regime.

Hypothesis 2

The largest group of enterprises, who are MET payers, chose micro-enterprise tax regime in order to reduce their tax burden. They did not change their core activity. In many cases they adjusted their structure or operation in order to fit MET payers' criteria.

Hypothesis 3

Large number of micro-enterprise tax payers did fully or partially legalize their business because of introduction of micro-enterprise tax regime.

Hypothesis 4

The structure of micro-enterprise tax payers does correspond to the objectives of introduction of micro-enterprise tax regime; however there are large unintended side effects, like avoidance of taxes and lower social guaranties for employees.

5. Method

The main objective of our research project is to explore the composition of current micro-enterprise tax payers group in order to answer defined research questions.

For this purpose we organized a survey of current micro-enterprise tax payers in cooperation with public opinion research company TNS Latvia and Latvian Chamber of Commerce and Industry.

5.1. *Questionnaire*

For the purpose of the survey a questionnaire was developed (see Appendix 1). The questionnaire starts with question that allows to identify if particular respondent is a micro-enterprise tax payer or not.

Only if the answer was positive, the interview was continued with questions on legal status, sector of activity, regional location and number of employees of particular enterprise. These answers were important in filling the sample quotas, as well as in the analysis of results.

In Question 2 the respondent was asked about his status before becoming a micro-enterprise tax payer, which is crucial in answering the research questions.

Questions 4-7 were designed to clarify what proportion of micro-enterprise tax payers started their business because of micro-enterprise tax regime introduction, how many of them changed their structure and/or activity to comply with micro-enterprise tax regime criteria and how many of them came out of shadow economy. Taking into account that these questions are sensitive, some of them were formulated in the indirect manner in order to get more reliable results.

Further on opinion of the respondents were asked about restrictions of micro-enterprise tax regime as well as level of tax rate.

5.2. *Data sources for the survey*

The MoF kindly provided us with data on the total number of micro-enterprises, as well as their split according to legal form (LLC, AFFF, IE or SE), sector of activity (according to NACE) and regional location, which was used to form sample quotas.

From LURSOFT data base of the enterprises, registered in the State Registry of Enterprises, we were able to get the list of enterprises, which match the following criteria:

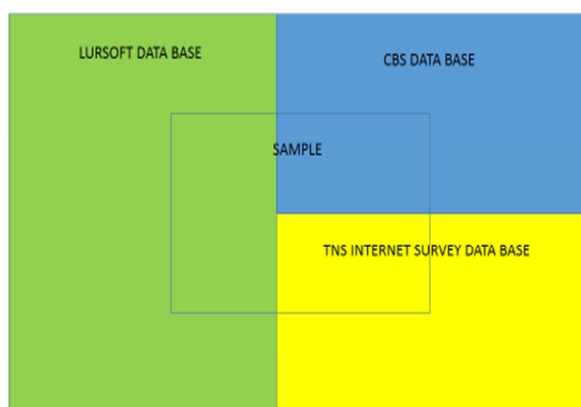
- Turnover below 100 000 EUR;
- Employees less than 5;

- At least 1 LVL turnover in 2012.

Additionally to LURSOFT data, TNS also used CSB register of economically active Latvian enterprises. This database has been used mostly to reach required sample quotas for SE and IE forms of micro-enterprises.

LLC sample quotas were reached using LURSOFT database of enterprise.

In order to reach SE (they are not registered in the State Registry of Enterprises), TNS employed TNS data base of private persons. TNS data base of private persons for internet researches has been generated from TNS conducted national research using national



representation principles.

Figure 7: Illustration of data sources for the survey

5.3. Sample selection

Sample selection for the survey has been done using stratified random sampling with the stratification being by geographic location and by industry. Sampling quotas within strata are deterministic, and sampling of enterprises/individuals within strata was done by random selection.

5.4. Quotas and sample distribution

Calculation of quotas was done to ensure wide spread of sample and opportunity to analyse results by following groups - by type of business, by type of activity and by location. That represents the distribution according to data, provided by the Ministry of Finance.

Sample distribution:

	Individual entrepreneur	Farmers and Fishermen	Limited liability company	Self-employed	Total
Rīga	25	10	90	45	170
Pierīga	15	10	45	40	110
Vidzeme	10	10	20	20	60
Kurzeme	10	8	20	15	53
Zemgale	10	10	20	15	55
Latgale	10	8	20	15	53
Total	80	55	215	150	500

Table 1: Quantity of enterprises per region and per legal form

The disproportional sample creation principle was used to provide possibility of data analysis in smaller groups as SE, IE and AFFF.

To ensure data representativeness dataset was weighted using calibration method.

	Individual entrepreneur	Farmers and Fishermen	Limited liability company	Self-employed	Total
Rīga	33,9%	16,9%	56,3%	32,3%	46,9%
Pierīga	17,4%	19,5%	21,2%	20,2%	20,7%
Vidzeme	8,0%	17,3%	5,1%	14,1%	8,4%
Kurzeme	12,5%	14,9%	6,3%	11,8%	8,5%
Zemgale	14,1%	17,6%	6,6%	11,4%	8,6%
Latgale	14,1%	13,8%	4,5%	10,2%	6,9%
Total	4,3%	0,7%	60,9%	34,1%	100%

Table 2: Weighted data using calibration method

The principles of multistage stratified random sampling method (Kalton, 1983) used to ensure representativeness of data towards the general population and equal probability of being selected to the sample.

Any micro-enterprises included in the appropriate group by type of business, by type of location or by type of activity, or irrespective to any other circumstances, should have an equal opportunity to participate in the survey.

The equal principle of sampling was used during both methods – internet and phone.

5.5. Survey methodology

Survey combined interviews by e-mail with telephone interviews done by TNS Latvia¹. 40% or selected target respondents were contacted by phone, 60% by e-mail. The combination of CATI and CAWI has been chosen, because it is not possible to get phone numbers for all the micro enterprises. Besides CAWI interviews are less resource consuming.

The combining of both methodologies ensure fulfilment of key issues for data representativeness - **Wide spread of Sample** and **Probability of Selection** (Lohr, 2009).

During the survey of MET payers TNS interviewed 553 respondents - 188 and 365 using CATI and CAWI methodology correspondingly. There have been made 5423 trials to reach potential respondents – 2886 and 2537 for CATI and CAWI accordingly. Two main causes for failing contact were – the potential respondent did not fit to target group (MET payer) for CATI and non-response to e-mail for CAWI.

5.6. Analysis methodology

To verify the precision of the results of our survey 95% confidence intervals of answers will be used. Since we assume that our sample is normally distributed then the 95% confidence

interval for answer $p\%$ are $\left[p - 1,96 \sqrt{\frac{p(1-p)}{n}}; p + 1,96 \sqrt{\frac{p(1-p)}{n}} \right]$, where n – sample size. See

appendix 2 for easy-use table. Confidence intervals are an essential tool for statistical inference because they indicate our uncertainty about the true value of the population parameter.

¹Overview of TNS Latvia Telephone interview (CATI) performance

TNS Latvia CATI telephone central is one of the up-to-dated technological solutions for telephone interviews. The course of the interview and the sample proportions are controlled by the special software program NIPO. The script is written using special software NIPO ODIN Developer Version 5.16.000

CATI centre has 28 working places and its work is coordinated with one central server, that provides several additional options as random selection of telephone numbers, forming of data bases, quota check, record of interviews and its duration control, automatically fieldwork/interview status reporting possibilities etc.

6. Analysis of Data

In this section we have described results from the quantitative survey of MET payers.

Question 2. What was your status before you became a payer of the micro company tax?

The majority (49.2%) of micro-enterprises were previously employing themselves either as a company owners or self-employed. Next largest category (35.9%) were previously paid employees and 8.4% were unemployed. There is a number of micro-enterprises (6.5%), which do not fall in any of those categories. They are those who worked in a family company or agricultural farm without a pay, who were on maternity leave, pupils, students or retired as well as those who were responsible for housekeeping.

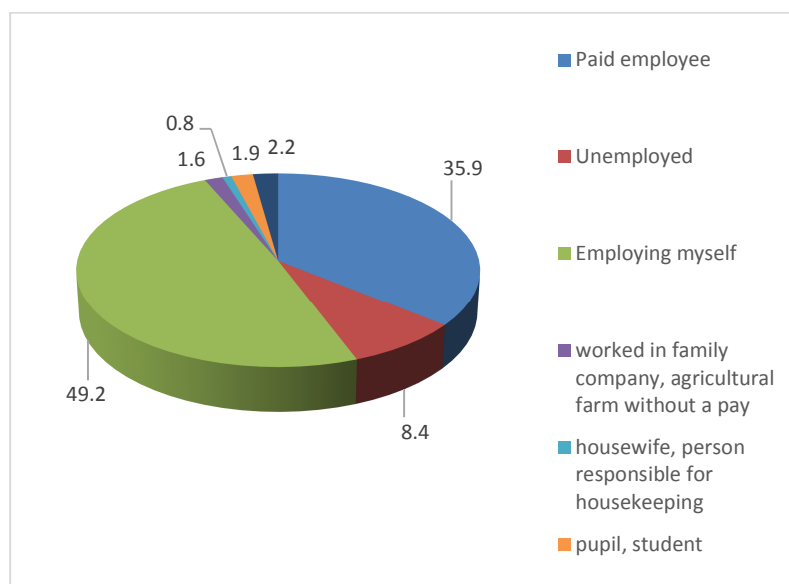


Figure 8: Status before MET payer

If we consider that the following categories did not have any registered economic activity or employment:

- Unemployed;
- worked in family company or agricultural farm without a pay;
- pupils, students;
- responsible for housekeeping;
- on child care leave;
- retired.

We can conclude that 14.9% of the micro-enterprises were created as new, generating new employment and economic activity.

On the other hand 85.1% just changed their status from paid employee or entrepreneur to micro-enterprise tax payer. It has to be noted that in the case of paid employees, they could have started their own enterprise, thus creating new economic activity. Also an entrepreneur could have expanded the business, creating a new enterprise. However, taking into account the aim of the MET law to stimulate unemployed to start enterprise, we put all previously employed into one category.

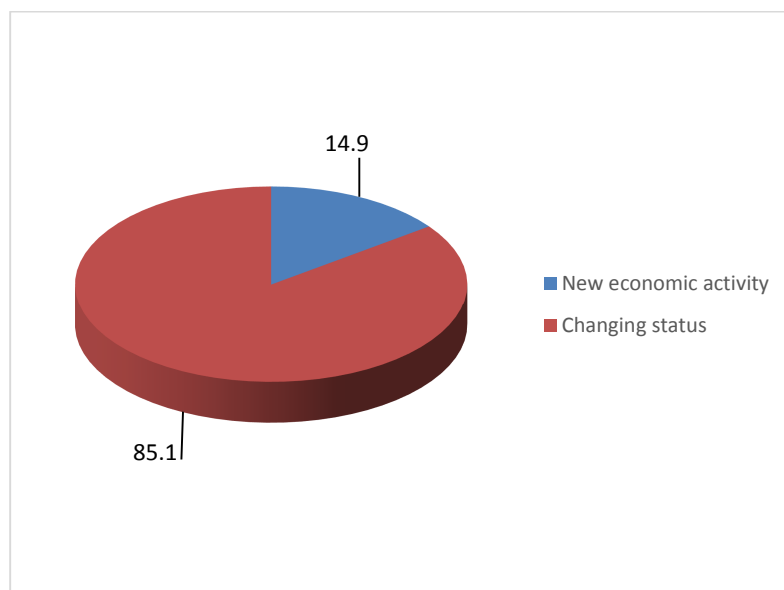


Figure 9: Status before MET payer

This result partly confirms our Hypothesis 1 - *All groups of enterprises are present in the micro-enterprise tax payer community; however most of them were economically active before, either as entrepreneurs or as paid employees. Relatively small number of micro-enterprise tax payers actually started their business because of introduction of micro-enterprise tax regime.*

Question 3. In your opinion, what proportion (percentage) of the entrepreneurs from your industry who are paying the micro company tax, would not have started their business or would not have changed their type of entrepreneurial activity, if the micro company tax had not been introduced?

The respondents think that around half of the micro-enterprise tax payers in their industry would not have started their business or would not have changed type of entrepreneurial activity, if micro-enterprise tax would not have been introduced. On average (weighted

average) they said it is 43.6% (standard deviation – 26,8) and the most often mentioned reply was 50%.

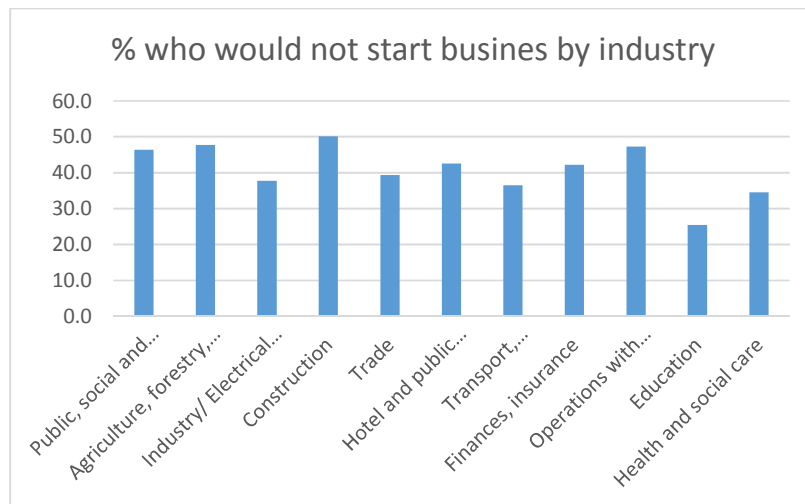


Figure 10: % who would not start business by industry

Figure 10 shows some differences in replies to question 3 by business sectors. MET introduction seems to have motivated to start business in construction, operations with immovable property and agriculture more than it did in education, transport and energy sectors.

Question 4. Would you have started business or changed the form of your company, if the micro company tax had not been introduced?

In order to get more reliable result, we asked the same question about themselves. Almost half (48.3%) of the micro-enterprise tax payers say they would not have started business or changed the form of their company, if the micro company tax had not been introduced. 30.1% say they would still have done it. This is quite close to the results from question 3.

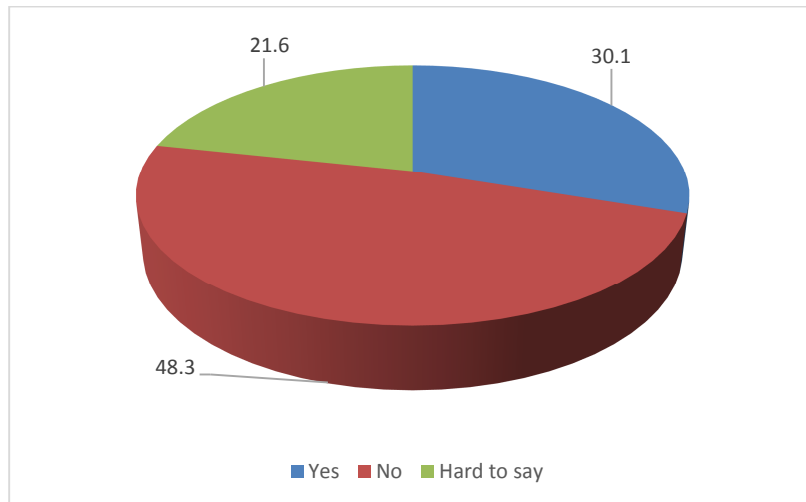


Figure 11: Would you have started business?

If we look at the answers by type of micro-enterprise tax payers, depending on what was their status before, then we can see that again around half of them say that they would not have started their business or changed its form, if micro-enterprise tax would have not been introduced. The only exception are former students and pupils, who mostly say they would have done it anyways. This seems to be quite logical. It has to be noted that 58.2% of unemployed stated that they would not have started their business without MET.

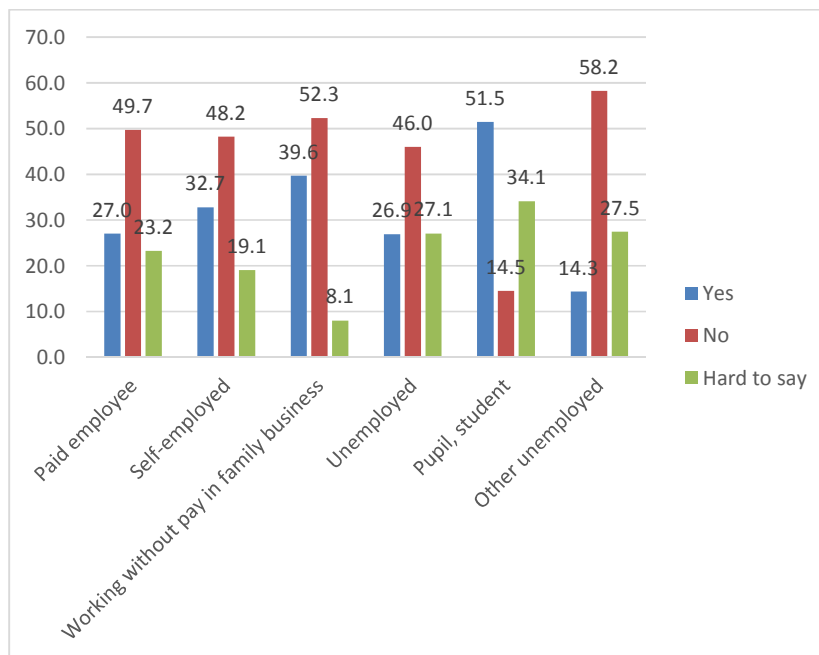


Figure 12: % who would not start business by previous activity, before registering as MET payer

48.3% on average of those who would not start their or change their business without MET is rather high, but we still think that our Hypothesis 1 is valid, because answers include also those who changed their structure or activity just to benefit from better tax regime.

Question 5. In your opinion, what proportion (percentage) of the companies and self-employed persons from your industry who have become micro company tax payers, have adjusted their structure and economic activity to meet the criteria of the micro company tax payer?

The respondents think that around half of the micro-enterprise tax payers in their industry have adjusted their structure and economic activity to meet the criteria of the micro company tax payer. On average (weighted average) they said it is 43.7% (standard deviation – 28,8) and the most often mentioned reply was 50%.

However the result is significantly higher for enterprises with 5 employees – 53.3% (standard deviation -29,7).

This is in line with Hypothesis 2 - The largest group of enterprises, who are MET payers, chose micro-enterprise tax regime in order to reduce their tax burden. They did not change their core activity. In many cases they adjusted their structure or operation in order to fit MET payers' criteria.

Question 6. Did you optimize your company's structure and economic activities to meet the criteria for the micro company tax payer?

Also in this case we decided to ask the question in a direct manner in order to compare results. Majority of respondents said they did not (54.2%). However 39.2% admit that they did optimize their company's structure and economic activities to meet the criteria for the micro company tax payer. This is little bit lower than the reply to the previous question, which can be explained by reluctance of the entrepreneurs to disclose their own activities.

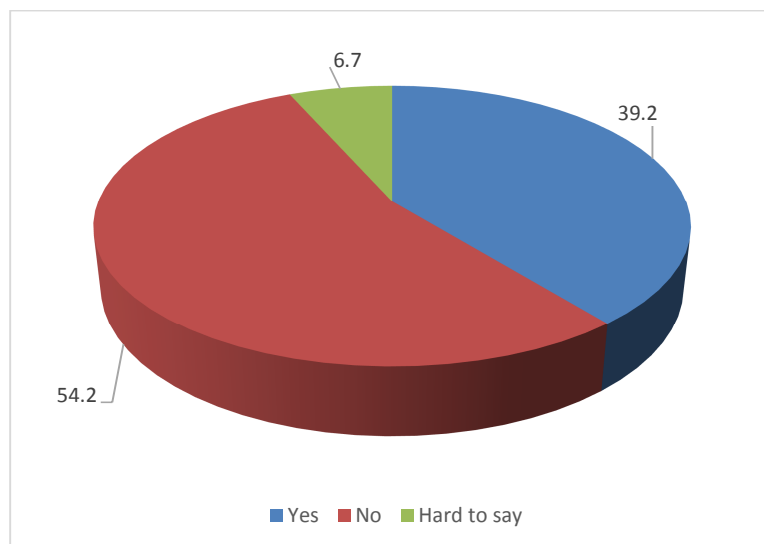


Figure 13: % who optimized company structure and activity

Similarly as in the previous answer, the enterprises with 5 employees admit optimization of structure and activity of their company more often (58.7%) and 56,1 percent from those that specially emphasize restriction of employee's quantity in the company as a restriction for the growth, admit adjustment of enterprise's structure or activities.

Similar to the previous question, also this result confirms our hypothesis 2.

Question 7. In your opinion, what proportion (percentage) of the micro company tax payers from (name of the sector from Q1.1.) were active in the shadow economy while after introducing this tax have ended or have reduced their activity in the shadow economy?

On average (weighted average) said that it is 40.5% (standard deviation -29,3) and the most often mentioned reply was 50%.

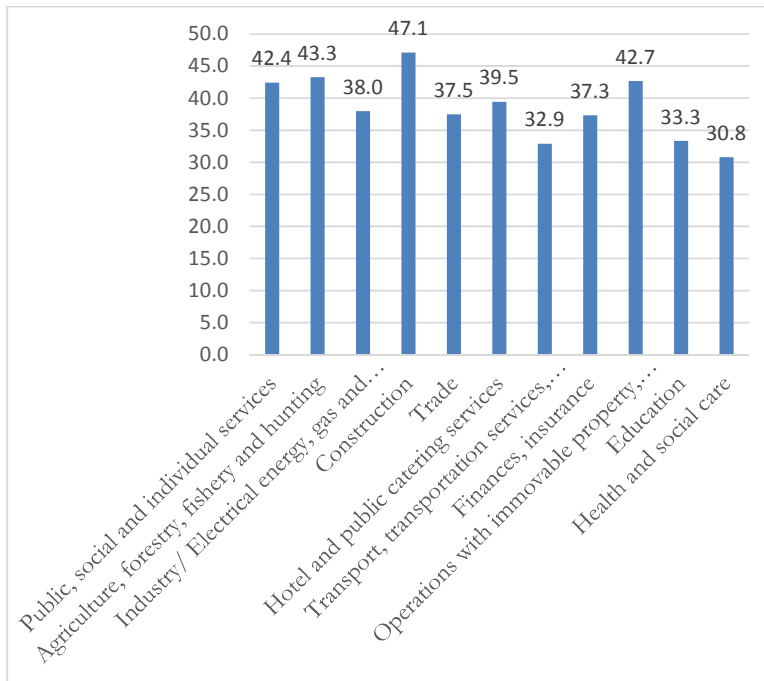


Figure 14: % who came out of shadow economy by industry

With regard to industries, the highest percentage mentioned by the respondents was in the construction, agriculture, forestry and fishery as well as in operations with immovable property. On the other hand, the lowest percentage was in health and social care, transport and education.

In our view this confirms our hypothesis 3 - *Large number of micro-enterprise tax payers did fully or partially legalize their business because of introduction of micro-enterprise tax regime.*

Question 8. In your opinion, do the current conditions applied to the payers of micro company tax - turnover (EUR 100 000 a year), number of employees (maximum number of employees - 5), maximum amount of pay (EUR 720 a month) restrict growth of your micro company?

The respondents that answered that nothing from mentioned options restricts the growth of the company are in majority – 41,7%, and little more than one third (35,3%) answered that the restricting factor is maximum pay of 720 euro.

Part of the respondents who answered that the restricting criterion is maximum number of employees, answered positively (34,1%) in Question 6 that they optimized the structure to become MET, what is significantly higher than in total sample, which to some extent is in line with our hypothesis 2. It seems that those MET payers, who have 5 employees, did optimize their structure more often than others.

7. Discussion of Results

Although the results of survey are not providing clear and homogeneous picture of reality among MET payers, it provides the set of data, which combined with other available information, allows us to make much more accurate conclusions.

In this section we discuss the results with an aim to provide answers to the research questions.

Which type of enterprises prevails in the micro-enterprises tax payer community?

- **those who started their business because of micro-enterprises regime;**
- **those who came out of shadow economy;**
- **those who optimized their tax regime.**

As it was described in the Section 2.3., the introduction of MET regime did activate large number of tax payers, who registered themselves as MET payers. Number of MET payers reached 33 395 in the beginning of 2014 and this number was growing much faster than the total number of tax payers registered in the SRS. Moreover 76% of them were new enterprises according to the MoF data (Ministry-of-Finance, 2014).

According to our survey 48.3% of MET payers say they would not have started or changed their business if MET had not been introduced. Only 30.1% say they would have done it anyway.

However, our survey shows that most of MET payers previously were company owners, self-employed (49.2%) or paid employees (35.9%) and only 14,9% of them could be characterized as those who did not perform economic activity before (unemployed, working without pay, pupils, students, on maternity leave or retired). This is supported by the data of the MoW described in the section 2.3., which shows that only 5% of MET payers' employees were not socially insured prior to employment in MET. Difference in numbers can be explained by the fact that our survey was done on company owners and the MoW data is about employees.

We can assume that at least 14.9% of total number of MET payers are new enterprises, because they are owned by persons, who were not economically active before. According to the survey 48.3% of them would not have created their enterprises without MET. This means around 2400 new enterprises or 7% from total MET payers were created because of MET introduction. Other around 2600 enterprises or 8% from total MET payers are new, but would probably start their enterprises anyway (answers yes (30.1%) and hard to say (21.6%) to the survey question Nr.4). This however contradicts the data of the MoF (Ministry-of-Finance, 2014), which shows that 76% of all MET payers, registered were new enterprises. This difference can be explained by the existence of following categories of MET payers:

- created by persons who were paid employees before establishing an enterprise. According to our survey this type of MET payers forms 35.9%. In this case there could be two types of motivation – start of a new economic activity or a way of tax avoidance by transforming the same activity from one tax regime to other. From answers to the survey question Nr.6 we see that 46.6% of those who were paid employees before registering as MET payers admit that they did *optimize company's structure and economic activities to meet the criteria for the micro company tax payer*. We believe that it is an evidence that most likely those 46.6% of MET payers did not start a new economic activity, but only adjusted it to benefit from MET regime. This is supported by the answers to survey question Nr.4, where 49.7% of this category of MET payers state that MET introduction was the reason for starting their business. 50.3% of them would probably start the business anyways (answers yes (27%) and hard to say (23.2%)). We can assume that out of 11989 enterprises (35.9% from total MET payers), 5587 (46.6%) were created in order to avoid higher taxation and 6402 (53.4%) were created as a result of new economic activity. In this case it is difficult to distinguish how many of those 53.4% MET payers, who started a new economic activity, did it because of introduction of MET. On one hand if we assume that 46.6% were created to avoid higher taxation, which means they were created because of MET, and apply the answers to survey question Nr.4, then we come to a result that most of the remaining 53.4% would have started their business even without MET introduction. The picture is more complex though. It is probable that there is a certain number of MET payers among those, which optimized their structure and economic activity, who would have started their business even without MET and it is also likely that there are number of MET payers, which started completely new business, who did it because of MET introduction. Therefore for simplicity reasons we apply the same ratio (49.7% no; 27% yes; 23.2% hard to say) also to 53% of MET payers, who started a new economic activity. This leads us to an estimated 3200 MET payers (10% from total MET payers), who started a new business because of introduction of MET and 3200 MET payers (10% from total MET payers), who would start their business in any case. As mentioned above, we assume that around 5600 MET payers of this category (17% from total number of tax payers) were created to avoid higher taxation.

It has to be noted though that number of those, who optimized their tax regime probably is higher in real life, because number of respondents to the survey might have been reluctant to admit it.

- created by persons who already owned at least one enterprise or were self-employed before creating a MET payer. As we see from survey results, 49.2% of MET payers

previously were self-employed or company owners, which is substantially higher number than the MoF data (Ministry-of-Finance, 2014), on MET payers, who were already registered in SRS, before becoming MET payer(26%).According to the Law on MET(Parliament, 2010) a person can register only one of his enterprises as MET payer, therefore this difference can be explained either as legalization of unregistered (shadow economy) activity or tax avoidance schemes, where MET payer is artificially created in order to avoid taxes. In fact, according to the MoF data (Ministry-of-Finance, 2014), 71% from total number MET payers were owners also in other enterprises. We cannot exclude of course that certain number of new enterprises - MET payers are registered for justified business reasons by persons owning other enterprises, but we consider this number rather small. Accordingly, we estimate that almost entirely this group of MET payers is composed of those, who use MET regime to benefit from better tax regime. This group forms 49.2% of all MET payers or around 16000 tax payers.

- created by persons, who operated in shadow economy, prior to registration as MET payers. This group of tax payers is the most difficult to estimate. Usually respondents are reluctant to talk about their unregistered activities, therefore we have designed our survey question Nr.7 in indirect way and asked them to comment about their industry: *“In your opinion, what proportion (percentage) of the micro company tax payers from (name of the sector from Q1.1.) were active in the shadow economy while after introducing this tax have ended or have reduced their activity in the shadow economy?”* Average answer was 40.5%. However it concerns both those, who previously were entirely in the shadow economy and those who were legalizing part of their activities. Therefore we looked at this question separately for each group of MET payers.

First group are those 14.9% of them who did not perform economic activity before. Since this group of respondents state that they did not have any remunerated employment or business before, we consider that these MET payers are new enterprises and did not operate in shadow economy before.

Second group of MET payers are those who were paid employees before establishing an enterprise. According the survey question 7, respondents from this group think that on average 42.2% of MET payers in their sector have fully or partially legalized their activities. We assume that part of those, who were previously employed, where working in the shadow economy and did legalize their activity at the time, when they became MET payers. We exclude however part of MET payers, who would have started their business even without MET (3220 MET payers (10% from total MET payers)), because for them the decision to

start new business was not influenced by the MET introduction. To the remaining MET payers from this category, we apply ratio from the survey question Nr.7 (42.2% fully or partly legalized their activities). This way we get 3700 MET payers or 11% of all MET payers, who fully or partially legalized their activities due to the introduction of MET.

Third group of MET payers are those who were self-employed or owned an enterprise before registering as MET payer. We consider that this group is composed almost entirely from tax payers, who used MET to benefit from better tax regime. According to answers of survey question Nr.7, this group of respondents estimate that on average 39.2% of MET payers in their industry have partially or fully legalized their activities. This means around 6400 MET payers or 19% from total number of MET payers. Summary of our estimations about MET payers' composition is shown in this table:

	No economic activity before MET payer registration	Paid-employee before MET registration	Self-employed or enterprise owner before MET registration
New enterprise because of MET	2403 or 7% of total number of MET payers	3182 or 9.5% of total number of MET payers	-
New enterprise (would be created even without MET)	2573 or 7.7% of total number of MET payers	3220 or 9.6% of total number of MET payers	-
Tax optimization	-	5587 or 17% of total number of MET payers	16430 or 49.2% of total number of MET payers
Came out of shadow economy because of MET	-	3700 or 11% of total number of MET payers	6441 or 19% of total number of MET payers

Table 3: Estimated composition of MET payers

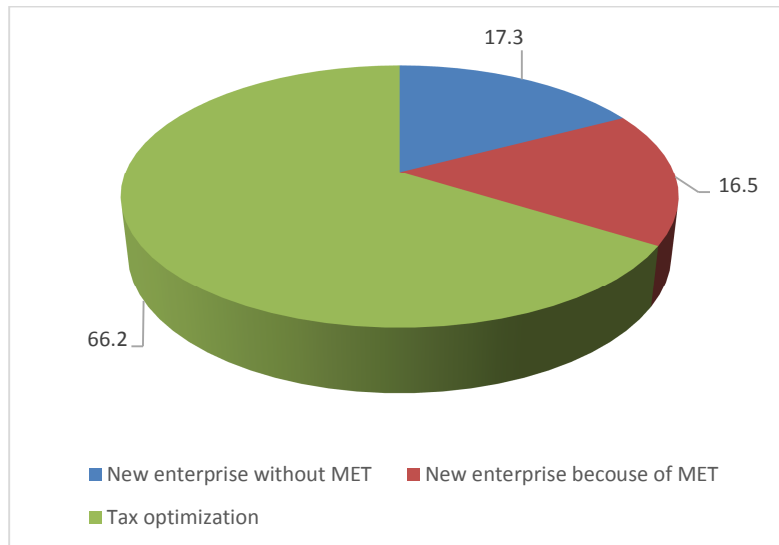


Figure 15: % estimated composition of MET payers

As shown in this figure, we estimate that around 66.2% from MET payers are those who use MET in order to benefit from more favourable tax regime, 17.3% are new enterprises, who would be created even without MET regime and 16.5% (around 5600 MET payers) are new enterprises, which were created due to introduction of MET. Taking into account that on average there are 2 employees in one MET payer, then we estimate that 11 200 new working places were created because of MET introduction.

According to our estimates 30% of all MET payers fully stopped or partially legalized their shadow economy activities due to introduction of MET. This corresponds to the data from the MoF (Ministry-of-Finance, 2014), which shows yearly increase of MET incomes, MET payers' turnover, as well as number of employees and average salaries. According to the MoF personal communication, after registration as MET payer, number of employees increased in 80% of enterprises.

Does the actual structure of micro-enterprise tax payers correspond to the objectives for the introduction of micro-enterprises tax regime?

The annotation of the MET law does not provide detailed prognosis for the impact of the law. It only states that in 2010 it is planned that 300 additional working places will be created. According to our estimates 16.5% (5600 MET payers) are new enterprises, which were created due to introduction of MET. This means around 11 200 new working places which largely exceeds initial prognosis of the annotation to the law, although only around 4800 of them were created by persons without previous employment or business (which was objective of the MET law). It has to be noted that probably more new registered working places were

created by other MET payers, who changed their status and fully or partially legalized their activities.

We believe that the aim of MET Law is fulfilled – it has activated creation of new enterprises and working places, which did contribute to the reduction of unemployment.

If we look at main objectives for specialized small enterprise tax systems, which are mentioned by researchers - reduction of compliance costs and reduction of tax evasion (Weichenreider, 2007), we consider that MET has partially achieved them. According to the MoF (Ministry-of-Finance, 2014) the majority of MET payers are LLC, for whom MET regime provides very limited administrative simplification. There is also quite disputable reduction of administrative burden for SRS, who is forced to deal with different kinds of tax avoidance schemes.

There seems to be however some positive development in reduction of shadow economy. Stimulation of economic activity and creation of new enterprises and employment through specialized small enterprise tax system is regarded with some skepticism by researchers (IMF&OECD&World Bank, 2007). We think that there is evidence that this objective has been achieved to some extent by MET, however it remains a question whether this was the best instrument for achieving it, taking into account large unintended side effects of MET. MET is based on turnover, which means that it is more beneficial for industries with high profit margin. Such industries as goods production and retail are less likely to choose MET. Highly qualified service sectors, like accountants and lawyers on the other had have a possibility to significantly reduce their tax burden. MET has also some thresholds, which can limit growth of small enterprises. Subsidized loans, grants and guarantees are often used as a more targeted alternative to specialized tax regime (IMF&OECD&World Bank, 2007).

8. Conclusions and Recommendations for Further Research

The MET regime in Latvia is rather unique due to its coverage, which includes also labor taxation, which is at the same time the most attractive and difficult feature of MET.

The number of MET payers largely exceeded expectations of policy makers, generating opposing views about the benefits and future development of MET.

We believe that our project provided some additional information, which allows understanding the composition of MET payers better. We do recognize however that our estimates are approximate and should not be used as exact figures.

According to our study the largest part of MET payers (66.2%) are those who registered as MET payers in order to reduce their tax and administrative burden. This means that they did not start a new economic activity, but just optimized their tax liability. It could be though that MET allowed them to survive or even grow, which in general contributes to economic development of the country.

We estimate that MET stimulated creation of around 5600 new enterprises (16.5% of MET payers) and around 5800 more were created and registered as MET payers, but probably they would have been created anyway. This way estimated 11 200 new working places could be attributed to MET introduction.

As a very positive indirect effect from the MET introduction, we would like to mention shadow economy reduction. We assume that around 30% of total number of MET payers did fully or partially legalize their activities.

Taking into account above, MET did stimulate economic activity, creation of jobs and reduction of shadow economy, therefore we think that the aim of the MET law was fulfilled.

Looking at MET in the context of experience of other countries and conclusions from different studies, we think that the main effect of MET has been the reduction of tax burden for small enterprises. It has been less successful in reducing administrative burden. Consequently, the result is to some extent controversial. As we see from our survey, majority of MET payers used it to simply reduce their tax burden, which could be also characterized as indirect state support for this category of business. Although we believe that during the crises this support was crucial for many of them, the question is whether this was the most efficient instrument for this purpose.

During our project we realized that there are several important areas of the MET impact, which were not covered by our project, although they are relevant for the decision makers.

- Impact on budget revenues. We see from the MoF data (Ministry-of-Finance, 2014) that revenues from MET are growing every year. However, taking into account large number of MET payers, who reduced their tax burden through MET, it would be useful to study also potentially lost revenues, in order to see net effect on budget.

- Impact on competitiveness of enterprises. Since MET allows substantial reduction of labour taxation, it is probable that MET regime allowed certain number of enterprises to survive during economic crises. We also heard about examples of enterprises, who managed to gain export markets partly due to MET. On the other hand, MET payers have unfair advantage to other tax payers, who do not comply with MET criteria.

- Impact on social security of MET employees. It has been pointed out by the responsible ministries that social security contributions, paid for MET employees are substantially lower than for other employees, which leads to lower social support in the future. It is highly probable however that lower tax burden on employment motivated partial legalization of hidden labour.

- Impact on administrative burden. Administrative burden creates costs both for the tax payers and state institutions. Reduction of administrative burden is one of main reasons for introducing specific tax regimes for small enterprises. It would be useful to see to what extent this has happened in the case of MET.

- Impact from limitations of MET. Due to design of MET, there are two main issues, which should be addressed. First, the turnover, number of employees and their salaries restrictions, limits the growth of MET payers as well as possibilities for them to attract highly qualified employees. Second, the turnover tax base does not allow for low profit margin sectors to benefit from MET.

Those are the areas, where further studies would be beneficial to understand full impact of MET introduction and to make well based policy recommendations.

9. Policy recommendations

The aim of the project was not to develop concrete policy recommendations. We also believe that further studies are needed to offer high quality solutions. Nevertheless we would like to express our views on potential further development of MET.

- MET has proved to be by far the most popular and widely used specialized tax regime in Latvia. It has motivated creation of new enterprises and new employment. There has been also a visible trend of legalization of shadow economy. These are strong arguments for keeping and further developing it.
- Further efforts should be made to reduce administrative burden for MET payers in order to make it more attractive from this perspective, thus reducing the emphasis on low tax rate.
- Policy makers could consider possibilities to make MET more accessible to different industry sectors or to provide them with comparable alternatives.
- The work should continue on closing tax avoidance loopholes.
- It would be beneficial to improve the situation of other tax payers (who are not registered as MET payers), leveling out the competitive situation between them and MET payers. One example is gradual reduction of personal income tax, the other – reduction of administrative burden.
- Special attention is needed with regards to social contributions for MET employees. The policy makers should consider correcting the situation by introducing minimum level of contributions as an example.

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Appendix 1. Survey questionnaire.

Good morning/good afternoon, my name is ... [name, surname]. I represent market research agency TNS Latvia. (in case of CATI)

TNS Latvia in cooperation with the Latvian Chamber of Commerce and Industry and students from Stockholm School of Economics is performing survey of entrepreneurs on the expected changes of the micro company tax. (in case of CATI and CAWI)

In order to understand future activities and development of micro companies, for us it is of utmost importance to gather opinions of each and every payer of a micro company tax. Therefore we invite you to express your opinion in this survey. We guarantee absolute confidentiality of your answers. The survey would take approximately 3 minutes of your time.

Q1. Is your company or you as a private person a payer of the micro company tax? *Only one answer possible.*

- 1) Yes, as a micro company (a company registered in the Enterprise Register) -> Q1.a
- 2) Yes, as a private person (private person who has registered his/her economic activities in the SRS)-> code automatically Q1.a 4) and ask Q1.1
- 3) No -> end the interview

Q1.a. What is the legal form of your micro company?

- 1) Limited liability company (SIA)
- 2) Sole trader (IK)
- 3) Individual company, including an agricultural farm or a fisheries farm
- 4) Performer of economic activities (SD)

Q1.1. What is the main sector of activity of your company? *Only one answer possible.*

- 1) Public, social and individual services
- 2) Agriculture, forestry, fishery and hunting
- 3) Industry
- 4) Electrical energy, gas and water supply
- 5) Construction
- 6) Trade
- 7) Hotel and public catering services
- 8) Transport, transportation services, communications, telecommunications
- 9) Finances, insurance
- 10) Operations with immovable property, rent, computer services, science and other commercial services
- 11) Education
- 12) Health and social care

Q1.2. What is the number of employees in your micro company? *Only one answer possible.*

Q1.2) in case of a private person code automatically 1) 1 employees

- 1) 1 employee
- 2) 2 employees
- 3) 3 employees
- 4) 4 employees
- 5) 5 employees

Q1.3. Tell me, please, in which city or region your micro company performs its activities? *Only one answer possible.*

1)... a list of cities and regions(type of inhabited area and region is coded automatically)

Q2. What was your status before you became a payer of the micro company tax?

Only one answer possible.

- 1) paid employee
- 2) unemployed
- 3) employing myself (company owner or self-employed)
- 4) worked in family company, agricultural farm without a pay
- 5) on a child care leave
- 6) retired
- 7) housewife, person responsible for housekeeping
- 8) pupil, student
- 9) other (Please, indicate!) _____

Q3. In your opinion, what proportion (percentage) of the entrepreneurs from _____ (name of the sector from Q1.1.) who are paying the micro company tax, would not have started their business or would not have changed their type of entrepreneurial activity, if the micro company tax had not been introduced?

Please indicate _____%

Q4. Would you have started business or changed the form of your company, if the micro company tax had not been introduced?

- 1) Yes
- 2) No
- 3) Hard to say

Q5. In your opinion, what proportion (percentage) of the companies and self-employed persons from _____ (name of the sector from Q1.1.) who have become micro company tax payers, have adjusted their structure and economic activity to meet the criteria of the micro company tax payer?

Please indicate _____%

Q6. Did you optimize your company's structure and economic activities to meet the criteria for the micro company tax payer?

- 1) Yes
- 2) No
- 3) Hard to say

Q7. In your opinion, what proportion (percentage) of the micro company tax payers from _____ (name of the sector from Q1.1.) were active in the shadow economy while after introducing this tax have ended or have reduced their activity in the shadow economy?

Please indicate _____%

Q8. In your opinion, do the current conditions applied to the payers of micro company tax - turnover (EUR 100 000 a year), number of employees (maximum number of employees - 5), maximum amount of pay (EUR 720 a month) restrict growth of your micro company? 1-3 several answers possible, 4-5 one answer

- 1) Yes, restriction on turnover
- 2) Yes, restriction on the number of employees
- 3) Yes, restriction on the maximum pay
- 4) Nothing of the above
- 5) Hard to say

Q9. In your opinion, at what rate of the micro company tax the activity of your company would become economically unprofitable?

Please indicate the tax rate _____%

Thank you for your replies!