

A Presumptive Tax Regime to Shine Light on the Shadow Economy: A Scoping Study of Policy Design, Action, and Implications

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ABSTRACT

The study examines the utilisation of presumptive taxation, a popular policy to address the shadow economy. Theoretically, presumptive taxation benefits both small businesses and tax authorities because it reduces compliance and administration costs. Using a scoping review from journals published in 1975-2022, the study found 27 journals of global experiences of the presumptive tax regime and its implications. These journals are then synthesised and analysed to study the policy design and implementation of the presumptive tax in the observed countries. Three main insights are inferred from the scoping study. Firstly, while presumptive tax regime may or may not induce formalisation; it potentially entails unintended consequences because of introducing a separate tax system for small businesses. Secondly, designing the presumptive tax regime can be a difficult task to balance simplicity, equity, and efficiency, and also the presumptive tax regime likely becomes unstable and costly. Thirdly, the presumptive tax regime might even require more resources in its implementation. Therefore, the study suggests that those findings could inform policymakers about the costs and benefits of the presumptive tax regime in weighing policy options to address the problem of the shadow economy.

Keywords: *shadow economy, presumptive tax, tax policy, small business.*

1. INTRODUCTION

This project addresses the utilisation of the presumptive tax regime as one mechanism in tackling the informal economy. Specifically, its objective is to illustrate the issues of policy design, implementation and implication that arises when presumptive income taxation is exercised. Indeed, to achieve the objective of formalisation, establishing a separate regime for micro, small and medium enterprises (or MSMEs) requires careful attention in the policy design and implementations along with consideration and anticipation to potential consequences.

The focus and objectives of the project recognise that for many countries, the shadow economy continues to be a substantial part of the total economic activity. Even, the proportion of the informal economy in developing and transition nations is even higher than in developed nations (Breusch, 2016; Medina & Schneider, 2018). The shadow economy is also synonymous to the informal economy, so they will be used interchangeably. While, by nature, the informal economy is difficult to measure and define, OECD (2017) defines this informal economy as “economic activities, whether legal or illegal, which are required by law to be fully reported to tax administration but which are not reported and which therefore go untaxed unlike activities which are so reported” (p. 9). Agents in the informal economy can be various, ranging from non-registered businesses, businesses not reporting sources of income in cash sales, moonlighters (people registered for some employment, but not for all), ghosts (unknown to tax administration), to cross-border fraud and money laundering. In terms of business’ size, MSMEs also represent the majority agents in the informal economy (ILO, 2013; Memon, 2010, p. 60).

The large number, the persistent existence, and the complex nature of the informal economy have become a long-standing challenge for tax administration. Indeed, the informal economy signifies the tax gap in many countries because in the developing countries the informal economy contributes significantly to GDP, but it shares insignificantly to the total tax collection. For tax administration, the informal economy is also overlapped with the ‘hard-to-tax’ (HTT) sector (Alm et al., 2005). Still, efforts in taxing the informal economy should be pursued. Moreover, benefits of taxing the informal economy should be seen in broader perspectives, not just to increase tax revenue,

but also to widen tax compliance and promote good governance and legitimacy (Joshi et al., 2014). Therefore, the discourse of taxation policy has moved beyond from whether it is necessary to tax the informal economy to how to tax the informal economy effectively (Joshi et al., 2014).

In finding how to tax the informal economy more effectively, this paper attempts to explore the evidence around the world about the implications of the presumptive tax regime for tax administrations, small businesses, and other taxpayers. Moreover, the different implications and consequences from the presumptive tax regime underline the importance of policy design and implementations in fulfilling the principles of good tax policy. These relationships between policy design, implementation and implications lead to three research questions:

1. What are the implications of the utilization of the presumptive tax regime for MSMEs, tax authorities, and other general taxpayers, as discerned from the documented evidence?
2. How have policy design and implementation been applied from the observed presumptive tax regime in accordance with principles of a good tax policy?
3. What lessons and insights can be learned for policymakers in applying the presumptive regime to tax the informal economy?

In general, a presumptive tax applies a simplified and presumed tax base, instead of the actual profit of MSMEs. The presumed tax bases could be in the forms of lump-sum, the number of employees, the number of assets, and turnover or gross receipts. The purpose of this presumptive mechanism is mainly to formalise the businesses or increasing the registered micro, small and medium enterprises (or MSMEs) in the tax system (Bird & Wallace, 2005). To encourage MSMEs to be registered, the presumptive tax regime reduces compliance costs for MSMEs. For MSMEs, the presumptive taxation can provide shelters from the complexity of the standard regime because small businesses usually are poorly versed in the intricacies of tax accounting and reporting.

Likewise, for tax administration, proxies for ideal tax bases in presumptive taxation are less easily manipulated and more easily monitored than the otherwise ideal tax base, thereby reducing administration costs (Rajaraman, 1995; Slemrod & Yitzaki, 2002). Therefore, theoretically, the presumptive tax regime has been perceived as a 'win-win' solution between tax authorities and MSMEs (Joshi et al., 2014). However, although the ideal proposition is that the implementation of the presumptive taxation benefits both taxpayers and tax officials, this instrument, in reality, implies quite different problems for the taxpayers and the tax collectors, even it may affect other taxpayers outside the presumptive system.

Furthermore, in the policy design and policy implementation, presumptive taxes like any tax policies should adhere to the principles of good tax policy. In this study, these principles a good tax system consists of simplicity, equity and efficiency. Hypothetically, the presumptive tax regime sacrifices equity and efficiency to emphasise its simplicity (Bird & Wallace, 2005, p. 21). Indeed, in some cases, there is a 'tug of war' of principles in designing tax policies because the principles of a good tax system compete with each other.

This study utilises a scoping review to gather and synthesise evidence (Peters et al., 2015). After evidence from countries application of the presumptive tax is collected, empirical evidence is then categorised and assessed based on principles of the ideal tax system. Thus, it can be argued that the implications of the presumptive tax regime are partly attributable to the conformity policy designs and implementation to principles of good tax policies.

By exploring evidence through a scoping review, this study contributes to the literature for theoretical and practical purposes. Theoretically, the most available literature of presumptive taxation is mostly based on case studies, which mostly focus on the administrative rationale for such tax reform. The worldwide discussion in presumptive tax regimes still has not concluded the effects of the tax regime for taxpayers and tax administrations. As there is still no consensus on the effects of the simplified tax regime, this research intends to provide the range of implications of the regime.

Practically, as presumptive mechanism became widespread in developing economies, it is crucial for policy decision-makers to understand the policy implications and how the presumptive tax regime can be effectively implemented. Therefore, this study summarises and disseminates research findings so that designing presumptive taxation to tax the informal economy can be evidence-based policymaking process.

The remainder of this paper proceeds as follows. Section 2 explains the research design and methodology used in this research. Section 3 discusses the theory of presumptive taxation and the principles of a good tax system that will structure, inform and guide the analysis. Sections 4 presents the findings from the scoping study. Section 5 explores a narrative synthesis of the evidence,

analysing the policy design and implementation of the presumptive tax regime. Finally, Section 6 concludes, offering recommendation and the limitations of the study.

2. METHODS

To gather information regarding the outcomes and implications of the presumptive tax regime, this study utilises exploratory design. This exploratory design is useful to provide a well-rounded picture of presumptive taxes applied in countries. Specifically, this study conducts a scoping study, following the scoping study methodological structure from Arksey & O'Malley (2005).

The scoping review provides advantages in answering research questions. Firstly, scoping review is particularly useful to review a body of literature comprehensively, but as the literature exhibits a heterogeneous and complex nature, it may not be amenable to a more precise systematic review (Peters et al., 2015).

Secondly, scoping reviews collect literature in disciplines with emerging evidence. The growing literature of the presumptive tax regime are suited to addressing questions beyond those related to the effectiveness or experience of an intervention. This scoping review provides an updated version of the previous comparative case studies of the presumptive tax regime in the developing countries (Rajaraman, 1995), African countries (Taube & Tadesse, 1996) and transition economies (Engelschalk & Loeprick, 2016).

Thirdly, a scoping review has a broader approach than a systematic review, aiming at mapping literature and addressing a more general research question (Peters et al., 2015). Therefore, to support the greater breadth of scoping reviews, a variety of study designs are usually included, both qualitative and quantitative study designs.

The scoping study methodological structure consists of five steps: identifying the research question, identifying relevant studies, study selection, charting the data and finally, collating, summarising and reporting the results.

2.1 Identifying the research question

Similar to the first research question, this study proposes a research question: What is known from the existing literature about the implications of exercising the presumptive tax regime to address the informal economy. This research question implies two things in the inclusion criteria. First, to be included, studies must explicitly discuss implications from the presumptive regime which is applied nationally as their main focus. Second, the studies must be primary studies dealing with the implementation of the presumptive scheme for micro or small business or informal business. Thus, any studies about the presumptive tax for other tax objects such as land and property are excluded.

2.2 Identifying relevant studies

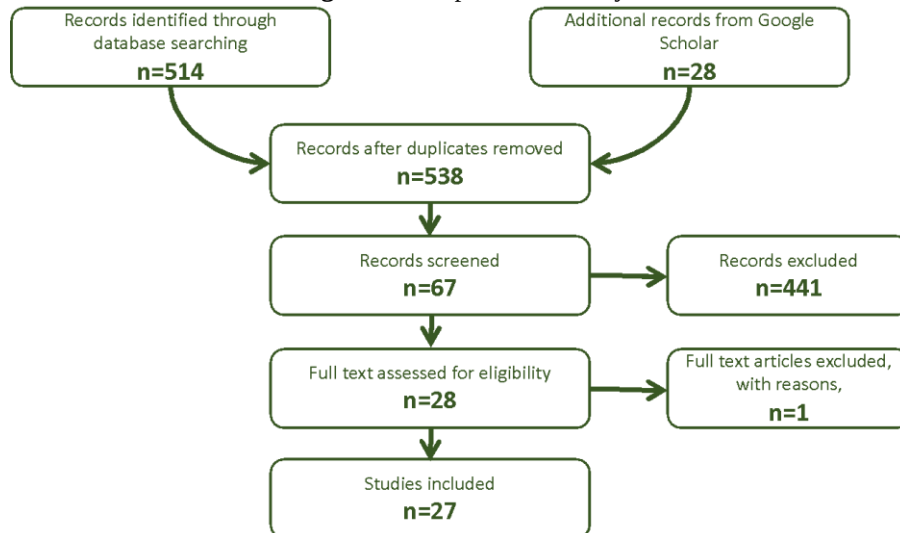
This study adopts a searching strategy for research evidence from electronic databases and Google-searching of key journals. Due to limited time and resources, this study only explored these four electronic journal databases: ScienceDirect; ProQuest Accounting, Tax & Banking Collection; SAGE Journals, and Taylor & Francis Online. The period under review is from the year of 1975, the year when Israel's tachshiv, one of earliest presumptive tax regimes, was suspended (Taube & Tadesse 1996) to 2022, applied. In those four journal databases, the study used search key-word combinations (and truncations): ("presumptive tax*" OR "simplified tax*" OR "lump-sum tax*" OR "turnover tax*") AND (MSME* OR SME* OR "small business*" OR "small firm*" OR "micro firm*" OR "micro business*" OR "informal econom*" OR "shadow econom*").

2.3 Study selection

The search from journal databases found 485 hits and studies added from Google Scholar-searching of key journals are 27 studies. After removing duplicates from these two search engines, the records were screened by applying inclusion criteria in the first step, to titles and abstracts only. However, if the relevance of a study was unclear from the abstract, then the full article was ordered. Also, the study applies exclusion criteria. Literature was excluded if the research was not published in English and was not peer-reviewed (articles and chapters in edited books were included; media reports, conference abstracts, conference reports, thesis/dissertation and unpublished grey literature were excluded). This procedure left 67 to be assessed whether the study discusses the implications of the special tax regime. Finally, 27 studies were included from the database search, after one study

is excluded because Kamar (2015) discusses the implications the small business taxation, but it was difficult to separate the effect of the presumptive taxation with other taxes (the VAT and Income Tax). The process of study selection is also shown in Figure 1.

Figure 1. The process of study selection



Source: Based on the flow of information of the PRISMA Statement (Moher et al. 2009)

2.4 Charting the findings

Charting means a technique for synthesizing and interpreting qualitative data by sifting, charting and sorting material according to key issues and themes (Arksey & O'Malley, 2005). In the scoping study method, studies also are not distinguished in terms of the soundness of their design, nor be attributed the relative weights of their data. This scoping study charts data into policy actors: MSMEs, tax authorities and other general taxpayers.

2.5 Summarizing and reporting the results

The content was extracted and synthesized using a descriptive-analytical method, by applying an analytical framework drawn from implications for actors and then are analysed based on principles of a good tax system. The findings and its discussion are discussed in the section Findings and its subsequent section, Discussion.

3. ANALYTICAL FRAMEWORK

3.1 Presumptive taxation

To induce formalisation of MSMEs that are mostly operate outside the formal economy, one policy commonly utilised is the presumptive taxation. Rajaraman (1995) maintains that the presumptive taxation establishes a link between tax liability and observable entity-specific indicators. Also, Thuronyi (1996) explains that the presumed tax base can be in forms of reconstruction of income, gross receipts, assets and other measures. Similarly, Ahmad and Stern in Pashev (2006) maintain that 'the term presumptive taxation covers a number of procedures under which the 'desired' base for taxation (direct or indirect) is not itself measured, but is inferred from some simple indicators which are easily measured than the base itself. These definitions infer that the presumptive tax regimes apply some proxies of a tax base to measure tax liability instead of the actual earnings.

Two earliest and most widely cited presumptive taxes are forfait in France and tachsiv in Israel (Taube & Tadesse, 1996; Pashev, 2006). Based on negotiable assessment between the government and taxpayers. France' forfait subjects are small enterprises, farmer and enterprises. The French's tax authority collected lumpsum taxes, differentiated based on turnover, type, location, and size of the farming (Taube & Tadesse, 1996). The Israel's tachsiv that has been used since the 1950's used the indicative factors to ascertain a firm's taxable income such as the number of employees, seating

capacity and location for restaurants and café, and also nature of equipment used for truck and taxi drivers (Taube & Tadesse).

The rationales of the presumptive tax regime can be seen from two different perspectives, from the informal agents and tax administration. For the informal agents, compliance costs are also regressive and put a disproportional burden on them (Evans et al., 2014). The presumptive tax is intended to reduce compliance costs by providing shelters for small businesses from the complexity of the standard regime because small businesses usually are poorly versed in the intricacies of tax accounting and reporting (Joshi et al., 2014). Even, complying with standard recordkeeping requirements not only is costly for MSMEs but often exceeds the capacity and skills of small business operators.

Calculating the reduction of compliance costs is crucial for MSMEs because the decision to stay in the informal economy or move to the formal economy is a rational decision. This decision considers the expected benefits, the compliance costs, the probability of being detected and the cost of penalties (Alm et al., 2005). Moreover, certainty in the simplified taxation can also reduce the opportunities of arbitrary decisions and corruption, which discourages MSMEs to comply.

From the tax administration perspective, it can be argued that the tax administrations, particularly in the developing countries, remain incapable of administering the large number of MSMEs, which are usually represent a significant proportion of businesses. Thus, presumptive tax turns away from the self-assessment approach and go back to imposing taxes that tax authorities, rather than the taxpayer, determine. This shift from the self-assessment approach means that tax authorities take advantage of data that are easier to collect to determine actual taxable income (Zolt & Bird, 2005). Similarly, Rajaraman (1995) suggests that indicators for the presumptive tax regime should reflect ease of observation, the difficulty of concealment, falsification or substitution.

The use of those easily observable proxies in presumptive taxation can reduce administration costs and resources in taxing MSMEs. Consequently, tax authorities can prioritise their administration and resources on working with large and medium-size companies (Engelschalk, 2005). This reduction of administration costs means that the use of the presumptive taxes can be a tool to improve the efficiency of collection (Pashev, 2006).

Another essential role of the presumptive taxation is providing education by bringing start-up firms into the tax net (Bird & Wallace, 2005). This role is purposively to cultivate tax morale and tax culture for MSMEs (Terkper, 2013). Inducing tax morale is vital for MSMEs because operating in the informal economy is more about 'attitude' rather than 'behaviour' of MSMEs (Memon, 2010). Regarding tax compliance, tax behaviour drives tax planning and evasion, while tax attitude results in the decision to operate strategically in the formal or informal sector, potentially causing a complete disappearance in the informal economy.

This tax compliance attitude of MSMEs has also been studied by Braithwaite (2003), who categorises a majority of small businesses attitude as 'supporters' and 'triers.' These categories mean that MSMEs basically have commitments or are willing to comply with the tax system, but they face difficulty in complying. Thus, establishing the simplified tax can facilitate compliance of MSMEs.

3.2 Categories of presumptive taxes

By differentiating presumed tax bases, Engelschalk (2007) asserts that there are four main categories of presumptive taxes. Firstly, the presumptive tax regimes are based on lump-sum. Secondly, the presumptive tax regimes use a turnover-based system. Thirdly, the presumptive taxation is based on indicators such as the number of employees, value of inventory, the capacity of machinery, the floor space of business premises, and the number of years of operation of the business. Other indicators can also be electricity and water consumption, retrieved from third parties. Fourthly, agreements between tax authorities and taxpayers are used as a tax base. In a similar vein, Pashev (2006) also delineates three main categories of the presumptive tax regime: lump-sum tax, quantity indicators and value indicators.

Lumpsum taxes set a certain of amount of tax liability for MSMEs. Due to being the simplest system, these taxes are usually applied for taxing micro business (Engelschalk, 2007; Pashev, 2006). Lump-sum taxes can also be easily differentiated among groups of taxpayers. These taxes can also be efficient as behaviour changes are minimised when the tax burden cannot be avoided, and income from additional work effort is taxed at zero marginal rates. However, the nature of lump-sum taxes is very regressive. Because it violates vertical equity, it can be susceptible to fairness-driven adjustment.

The second type of the presumptive tax regime is the quantity indicator-based system. The quantity indicators can be the size of production facilities such as the size of a shop or arable land; quantity of equipment such as the number of seats or tables in the restaurant; or the number of employees. Similar to lump-sum taxes, the quantity indicators-based provide incentive effects because additional revenues above the presumed income are taxed at zero rates (Engelschalk, 2007). Moreover, these quantity indicators reflect factors that are internal for the entrepreneur, estimating individual supply capacity (Pashev, 2006). However, the system distorts economic decisions in hiring additional labours, and investment decisions expand the business (Engelschalk, 2007; Pashev, 2006). Furthermore, not only does the system require substantial external data for designing the system, it entails administrative costs of inspections to verify the actual number of quantity indicators (Pashev).

The third category of the presumptive tax system is value indicators-based presumptive taxes such as taxes on gross assets and gross receipts or turnover. Unlike lump-sum taxes and quantity indicators-based taxes, this system is a superior measure of individual ability to pay because this system reflects an indirect measure of actual business performance rather than the capacity to earn income (Pashev, 2006). One strength of this system is that it requires SMEs to keep at least some books or records without imposing burdensome (basic skills in accounting to keep basic records). Therefore, it can be said that a turnover-based system also facilitates migration into the standard tax system. Also, if it well-designed, turnover-based taxation provides incentives for improving recordkeeping standards. Moreover, the tax burden gets reduced for periods with a below-average volume of business transactions. In other words, the system is able to adjust to business fluctuation, especially for MSMEs.

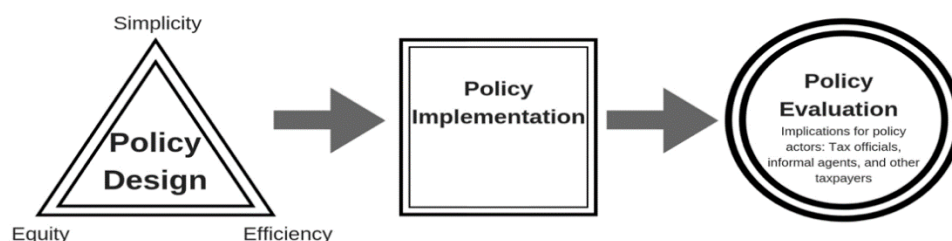
Nevertheless, a turnover-based presumptive tax will not reduce the probability of tax evasion. Instead, it could induce tax abuse in under-declaration of turnover (Engelschalk, 2007). The system also may only favour businesses with high-profit margins. In contrast, the system may provide disadvantage start-up businesses and business operating at a loss. As it does not consider consumption or expenses, the system usually levied at the moment of the business generating revenue. Similarly, the system provides no relief when MSMEs are at a loss.

3.3 Policy design and implementation based on principles of a good tax system

To analyse the presumptive tax regime applied in observed countries, this study uses part of the framework of policy cycle; which disaggregates a complex policy process into manageable steps (Stewart & Ayres, 2001; Althaus et al., 2018). This framework, shown in Figure 2, flows from policy design, followed by policy implementation. Then, the effectiveness of the policy design and policy implementation is evaluated in policy evaluation based on its implications.

Policy design and implementation in the presumptive tax regime are critical to reaching the objective of formalisation. Skilful drafting and tenacious execution are critical elements in taxing the informal economy. To evaluate the design of tax policies, it is common to assess the policies based on their conformity to principles of a good tax system. These principles hold pivotal roles in designing tax policy because when it is only when these principles are upheld that effective taxes are implemented in a manner which satisfies the stated purposes of a tax system (Alley & Bentley, 2005, p. 586). Thus, the principles of the tax system should be distinguished from 'objectives' of a tax system (Memon, 2010). Essentially, the principles of a tax system are not 'the end' of the policies, but provide means to achieve the end or the objectives of the policies.

Figure 2. Theoretical framework: Policy process in the presumptive tax regime



Source: Modified from Stewart & Ayres (2001) and Althaus et al. (2018)

Conventionally, the principles of an ideal tax system are based on the taxation canons of Adam Smith (1776). Adam Smith's principles consist of equity, certainty, convenience and economy. The analysis of the presumptive taxation in this study applies the core principles underlying the tax system: simplicity, equity and efficiency (or economy).

3.4 Simplicity

Memon (2013) asserts that simplicity can be examined from two perspectives: technical and operational simplicity. Technical simplicity refers to clarity, certainty, consistency, stability and flexibility in the language and content of a tax code. Operational simplicity reflects administrative and compliance costs. In other words, technical complexity displays the causes of the increased cumbersomeness in the tax code, while the operational complexity is the manifestation of technical complexity and the burden of documentary requirements. Cooper (in Memon 2010) underlines the importance of predictability and consistency in the principle of simplicity.

Meade (in Memon, 2010) explains that simplicity is essential to promote 'acceptability of the tax system' in the eyes of taxpayers. Alley and Bentley (2005) argue that certainty and simplicity are two of the most favoured, yet most elusive qualities of any tax system. They argue that even if simplicity is confined to making the rules simple to understand, it is a difficult task. Arguably, an approach in simplicity is to draft the rules clearly, using simple language, but the rules will only become certain over time as they can be interpreted and applied differently.

3.5 Efficiency

Efficiency in the tax system can be examined from the deadweight loss or its substitution effect and its neutrality in tax impact (Memon, 2013). Pashev (2006) outlines two aspects of efficiency: administrative efficiency and allocative efficiency or the excess burden (p. 403). Administrative efficiency relates to the cost of collection costs by the taxpayers (voluntary compliance costs) and by the tax authorities (administration costs). Taxes can be inefficient if they distort economic decisions, creating an excess burden. Economic efficiency also reflects how taxes can induce behaviour changes of taxpayers.

3.6 Equity

Equity or fairness to the taxpayer refers to the principle of ability to pay in Adam Smith's canons, meaning that only the right amount of tax will be collected at the right time. It also means an equitable distribution of the burden of taxation. Generally, equity can be divided into two: horizontal and vertical equity. Horizontal equity postulates even-handed treatment of taxpayers under identical economic circumstances. In addition, vertical equity implies that taxpayers under better economic circumstances should contribute more than others. In other words, while horizontal equity is examined in how tax system treats equally, vertical equity is usually assessed in terms of the progressivity of the tax system.

The principle of equity can be put in the top order as 'the integrity of the tax system depends on the public perception of how equitable the system is.' If taxpayers perceive the tax system is not fair, they are more likely to avoid and evade tax.

Principles of efficiency and equity reflect the principle of neutrality. Neutrality means that business decisions should be motivated by economic rather than tax considerations (Alley & Bentley, 2005, p. 591). The focus of neutrality is on non-discrimination and the potential for unfair distortion of competition. The implication is to achieve neutrality; tax authorities should extend existing tax rules to small business rather than develop a separate system of tax rules. Separate rules are more likely to lead to unintended non-taxation.

3.7 Synthesis of Analytic Framework

The presumptive tax system is defined as the system that proxies or other indicators to ascertain taxable incomes. Based on its proxies, the presumptive tax regimes can be the lumpsum tax, quantity indicators-based tax, and value indicators-based tax. Theoretically, establishing the presumptive tax regime aims for the principle of simplicity in order to reduce compliance costs for MSMEs which usually entrenched with the absence of record-keeping. The system also improves horizontal equity as it reduces the disparity between compliant and non-compliant taxpayers such as wage-earners and self-employed.

However, setting the simplified taxation using other indicators outside net profits may also reduce horizontal equity when such as different systems apply to taxpayers with the same level of

net income. Arguably, if the presumptive tax regime does not set free-minimum income threshold, it put higher tax burden for MSMEs than their counterparts in the standard regime who are exempted from taxation at low incomes. For the principle of efficiency, the presumptive tax regime can distort economic decision of MSMEs because the system provides an attractive place to stay rather than to graduate to the standard regime. Therefore, in short, there are tensions between simplicity, efficiency, and equity in the presumptive tax regime.

4. RESULTS AND DISCUSSION

4.1 Results

The study identified 27 articles after screening for inclusion and exclusion criteria. This section summarises how the establishment of the presumptive tax regime affects MSMEs as its tax subject, tax authorities in administering the system and general taxpayers who might be unintentionally affected.

4.1.1 Implications for the MSMEs

The implications for MSMEs in the informal economy have been varied from positive effects to negative effects. Positively, there is evidence that the presumptive tax regimes were able to increase formalization rates or increase MSMEs registered in the tax system in Romania (Beca & Cozmei, 2014), Brazil (Rocha, 2018; Fajnzylber et al., 2011; Monteiro & Assunção, 2012), Chile (Agostini et al., 2018), Congo (Kamba-Kibatshi, 2016) and Georgia (Bruhn & Loeprick, 2016). Even further, evidence from the implementation in Brazil displays the positive effect on the MSMEs' business growth, which is shown from the increase in profits, fixed assets and employees (Fajnzylber et al., 2011; Conceição et al., 2018) and the lower probabilities of extinction or mortality of business (Conceição et al., 2018). In Egypt, the presumptive tax regimes minimise the tax burden on micro and small businesses (Abdellatif et al., 2021).

However, it is worth noting that in several countries, the effect of formalisation rate in Georgia is only in the first year of the tax reform, but not in the subsequent years (Bruhn & Loeprick, 2016), while in Brazil, the formalisation was only for retail sectors (Monteiro & Assunção, 2012). Also, the rise of formalisation rates does not correlate to the creation of new MSMEs (Rocha, 2018; Bruhn & Loeprick, 2016).

Negatively, evidence shows that the presumptive tax regimes in several countries have failed to encourage MSMEs to formalise their businesses. First, the tax regimes are perceived confusing due to the dual implementation with other tax regimes (Bird & Wallace, 2005). Second, the tax regimes are still seen having high compliance costs, as evidence in Zimbabwe (Nyamwanza et al., 2014; Zivanai et al., 2014), Ukraine (Serbinenko, 2016), Bulgaria (Pashev, 2006), Portugal (Damaso & Martins, 2015) and Pakistan (Memon, 2013). Third, the tax regimes are perceived as inequitable (Dube & Casale, 2016; 2017). Fourth, the implementation of the presumptive tax regime did not address corruptions of the government (Dube, 2018; Shonhiwa & Murangwa, 2018).

Furthermore, introducing a special tax regime for MSMEs induces strategic behaviours of MSMEs as taxpayers. In Romania, evidence exhibits MSMEs change their legal status, suspend or disintegrate their business, declare lower turnover, and reduce the number of their employees (Beca & Serban, 2012). In Ukraine and Russia, introducing dual systems for MSMEs means allowing MSMEs to choose the competitive system and incentivising them to unnecessarily do tax shopping between those systems (Bird & Wallace, 2005; Dolgih et al., 2015). These strategic behaviours also illustrate how the presumptive tax regimes are being 'abused' by MSMEs, which is not the desired consequence from the implementation of policy.

4.1.2 Implications for tax authorities

For tax authorities, the implications for presumptive regimes can be categorised into three main areas: tax revenue, tax collection cost, and tax system. Firstly, in many countries observed in evidence, establishing the presumptive tax regime led to low revenue collection from the MSMEs sector (Conceição et al., 2018; Bird & Wallace, 2005; Engelschalk, 2005; Araujo-Bonjean & Chambas, 2005; Dube & Casale, 2016; Memon, 2013; Abdellatif et al., 2021).

Secondly, despite its intention to reduce administration costs, the presumptive taxation actually increased collection costs. In Russia and Bulgaria, the presumptive system resulted in additional works and enforcement in verifying additional required registration and return (Bird and Wallace, 2005; Pashev, 2006). Tax collection costs increased are also reflected in Ghana, Tanzania, Zambia,

Zimbabwe, and Peru, where tax authorities still need to utilise associations to collect tax (Dube & Casale, 2016).

Thirdly, regarding the tax system, the presumptive tax regime can be unstable. In Georgia, Albania and Bulgaria, the presumptive tax regimes were susceptible to everlasting adjustments and revision, which led to significant legislative and policy-making cost (Engelschalk, 2005; Pashev, 2006). Moreover, the presumptive tax regime's instability could be caused by political pressure from the small business's community and even large businesses, like in Russia (Engelschalk, 2005). Also, the presumptive tax system could be complicated, resulting in continual discretionary decisions and disputes. This is evident in Benin and Burkina Faso (Araujo-Bonjean & Chambas, 2005). Moreover, the presumptive tax regime led to unintended consequences where the special tax regime for MSMEs can affect another tax system. In Russia, the presumptive tax regime created a major problem for the VAT system (Bird & Wallace, 2005).

4.1.3 Implications for other taxpayers

The presumptive tax regimes also alter behaviours of other taxpayers outside the system's target. In Ukraine, high-income employees and well-informed professionals such as engineers, lawyers and consultants are incentivised to become independent contractors or entrepreneurs in order to the system (Bird & Wallace, 2005). Similarly, large firms in Russia are encouraged to morph into small businesses by disintegrating their business (Bird & Wallace, 2005). In Chile, the presumptive regime incentivised high-income taxpayers to apply the regime and even, high-income taxpayers are more likely to hold a portfolio of businesses under the simplified regime (Agostini et al., 2018). Moreover, large business politically put pressure to expand the eligibility of the system (Engelschalk, 2005).

In short, the implications of the presumptive tax regime for MSMEs, tax administrations and general taxpayers are varied, including the desired and unintended consequences. The varied implications for MSMEs and general taxpayers exhibit their strategic behaviours towards the presumptive tax regime. Arguably, as establishing presumptive tax regimes means introducing a separate regime for MSMEs, it entails more implications than not introducing a presumptive regime. In addition, the similar impact for tax administration in many countries is that the tax regime is actually 'expensive', symbolising a greater tax waive from the government and possible greater collection costs. Arguably, the role of the presumptive tax regime as an economic incentive to promote formalisation requires more resources for the government.

Furthermore, it is worth noting that the study did not find evidence on long-term impacts of the presumptive tax regime. The positive impacts on formalisation rates in the observed countries are not on the long time span. Even further, there are no long-term impacts on small business attitude towards taxation.

4.2 Discussion

The diverse impacts of the presumptive tax regime found through the scoping study, including the effectiveness in encouraging formalisation, is arguably attributable to how the policymakers formulate the design of the policy and put the policy into action. Different types of presumptive methods can have different incentive effects, distributional consequences, and level of complexity and administrative implications (Thuronyi, 2005). This section discusses the architecture and execution of the presumptive tax regimes applied in the observed countries of the scoping study.

4.2.1 Designing a simple tax system

To create an incentive for MSMEs to formalise their business, designing a simple system to reduce compliance costs should be a focus of the presumptive tax regime. To achieve a simple tax system, the designs of the presumptive tax regimes can be analysed in tax bases and tax rates utilised in the presumptive tax, and how the presumptive tax eliminates other tax liabilities.

As shown in Table 1, the observed countries utilise different methods in the presumptive tax regime, from lump-sum tax, value-based indicator, and combination between lump-sum and turnover tax. It is worth noting that no observed countries exercise quantity-based indicator as for their tax base of the presumptive tax regime.

Table 1. Tax bases of the presumptive tax regime

No	Tax Bases	Countries
1	Lump-sum Tax	Romania (2009-2010), Zimbabwe, Ghana
2	Value indicator-based tax	Net asset: Chile

		Turnover: Romania (after 2010), Brazil, Portugal, Congo, Tanzania, Pakistan, Seychelles, Peru
3	Combination of Lump-sum Tax and Turnover Tax	Ukraine, Russia, Georgia, Albania, Bulgaria, Zambia, Egypt

Source: The results of the scoping study

Furthermore, Table 1 shows that many countries exercise value indicators-based presumptive taxes, especially turnover-based tax. A turnover or gross income is the most popular tax base for the presumptive tax regime due to its ability to reflect business performance more than of other indicators. As a proxy for the actual income, the presumptive tax regime based on turnover can be in-line with the business fluctuation of MSMEs, which may be the nature of the informal economy.

In regards to tax rates, Table 2 presents whether the observed countries use a single rate or multiple rates in the design of the presumptive tax regime. Multiple rates represent how the presumptive tax regimes apply different taxes to different economic activities, sectors, or even locations.

Table 2. Tax rates of the presumptive tax regime

Countries	Single Tax Rate	Multiple Tax Rates
Romania	Single rate (3%)	
Brazil		Progressive rates according to annual gross revenue; multiple rates according to a list of types of economic activity
Ukraine		For sole proprietors, fixed rates set for different activities by local councils. For companies, a simplified system levies a single tax of 6% on sales (plus VAT) or 10% (and no VAT)
Russia	Single rate (6%)	
Georgia		Dual rates (3% and 5%)
Albania		Multiple rates in accordance with business activity
Portugal		Multiple rates/coefficient applies to different activity
Tanzania		Progressive taxes according to annual turnover
Zambia		Progressive taxes according to annual turnover
Pakistan		Multiple rates in accordance with business activity
Seychelles	Single rate (1.5%)	
Peru	Single rate	
Egypt		Progressive rates according to annual turnover

Source: The results of the scoping study

It is worth noting that the observed presumptive regimes apply relatively low tax rates. Exercising a low rate in the presumptive tax regime is crucial to reduce compliance costs for small business. Cebula (1997) suggests how tax rates promote the growth of the informal economy as he found that if the marginal personal income tax rate increases by one percentage point, the shadow economy rises by 1.4 percentage points.

Multiple tax rate in presumptive tax systems can also be progressive rates. A progressive tax has a major advantage in reducing the difference in tax burden between the upper band of the presumptive system and the lower band of the standard system, thus also facilitating migration into the standard system. However, while the progressivity in the income tax is intended to reduce tax evasion, Trandel and Snow (1999) found that progressivity can lead to the growth of the underground or informal economy.

Furthermore, to improve the simplicity for MSMEs, the issue about number and kind of taxes replaced by the presumptive tax should be considered in order to reduce the tax burden for MSMEs. Engelschalk (2007) points out that the presumptive tax regime can either replace personal or corporate income tax or substitute many direct and indirect taxes, so the only tax for MSMEs is the presumptive tax. However, Thuronyi (2005) argues that as the purpose of presumptive tax regime is to provide MSMEs who have limited capabilities in accounting and bookkeeping, the presumptive tax regime should replace only taxes based on books of account.

The design of presumptive taxation may also consider replacing some local taxes. In other words, the administration of the presumptive tax regime considers the level of administration of the simplified regime. Evidence from the scoping study exemplifies the experience of Brazil in which

the presumptive tax regime collects six taxes in one single document, including local taxes (Conceição et al., 2018; Piza, 2018; Rocha, 2018; Fajnzylber et al., 2011; Monteiro & Assunção, 2012). Related to local taxes, there is also an argument about the presumptive tax regimes should be levied by local governments, not by the central government. Thus, this small business taxation raises concerns about fiscal federalism and the relation between central and local government. Levying presumptive taxes at the local level can reduce the political pressures in the policy formulation (Pashev, 2006).

In Ukraine, the presumptive tax regime also exempts social security contribution (Bird & Wallace, 2005). However, this exemption can have the effect of incentivising the labours who are already in the payroll tax system to move into the presumptive regime at the expense of losing some social security benefits.

Moreover, it is common that the presumptive tax also replaces the VAT as tax authorities can set the high registration threshold of the VAT, excluding MSMEs. Reflecting the experience of Ukraine, Bird and Wallace (2005) argue that the exemption of the VAT in the presumptive tax regime is based on the fact that if MSMEs are capable of the VAT system, then MSMEs should be capable in the standard tax. Tax administration can also focus on their resources for larger firms in the VAT system, as MSMEs are usually non-filers in the VAT.

Designing simplicity in the tax system reflects its purpose to reduce compliance costs and administration costs. Thus, determining tax bases, tax rates, and elimination of other taxes' liability relies on how much is the effective tax rates and tax burden for MSMEs. Nevertheless, the observation from countries experience of the presumptive tax regime is that the presumptive tax regimes can fail to be a simple system. Despite the claim that the presumptive tax regime is affordable and required minimal documentation, the presumptive tax regimes in Zimbabwe and Zambia, are still perceived as too high (Nyamwanza et al., 2014; Zivanai et al., 2014; Dube & Casale, 2017). The high tax cumbersome for MSMEs in those countries is caused by the additional local tax burden. The perception of high tax burden in the presumptive tax regime violates the acceptability of the system, one essential element in the simplicity.

Moreover, the high compliance cost in Bulgaria also still remains as the presumptive tax regime does not reduce accounting costs as MSMEs still need to record net income, following the provisions of accounting law (Pashev, 2006). Similarly, in Ukraine, the presumptive tax regime also still necessitates additional required registrations and returns. This is related to technical complexity where the laws of presumptive tax regime should not only regulate a simple and clear tax base and tax rate in their tax code and languages but also accommodate the easiness of documentation such as required documents in registration and return, and periods MSMEs can submit tax returns.

Furthermore, the high compliance costs are also caused by from taxpayers' confusion when there are multiple systems. Arguably, internal compliance costs cover time and labour consumed in the completion of tax activities, including recording information and learning about tax laws (Colmar Brunton, 2005) and psychological costs (Evans et al., 2014). Confusion in the multiple regimes in the special regimes is evident in Russia, Georgia, Albania and Bulgaria (Bird & Wallace, 2005; Pashev, 2006; Engelschalk, 2005). These multiple regimes in the special tax regime for MSMEs occur when the regimes intend to consider an equitable, thus creating more bracket in the presumptive regimes. In Georgia, six taxpayer segments such as traders and restaurants are levied a lumpsum tax, while other MSMEs are levied a turnover tax. Similarly, in Albania, the presumptive tax regime is also divided into a fixed tax for micro-enterprises and a turnover tax for small business (Engelschalk, 2005).

4.2.2 Designing an equitable and efficient tax system

Besides simplicity, the presumptive tax regime still has to adhere to the principles of equity and efficiency due to some reasons. Firstly, the principles of equity and efficiency prohibit the abuse of the system from large taxpayers who use the system to do tax evasion. Secondly, the principle of equity might be more appealing and easier to grasp for the majority of voters than concerns about the tax burden (Pashev, 2006). Thus, sometimes the equity principles have more weight in the policymaking process.

In achieving a fair and efficient tax system, the presumptive tax regimes exercise some features and rules such as determining eligibility and exit strategies. Setting eligibility means defining MSMEs as tax subjects in the presumptive tax regime. Establishing the eligible taxpayers for the presumptive regimes has two objectives (Engelschalk, 2005). It wants to include a relatively high number of MSMEs who are in the informal sector. On the other hand, the threshold should also be

set to keep out taxpayers who do not belong either very low-income taxpayers or taxpayers in the regular system. Thus, it makes a more equitable system. In regards to efficiency, eligibility rules are essential because it can induce non-compliance behaviour or strategic response from MSMEs and other taxpayers (Kanbur & Keen, 2014). As MSMEs are usually owned by few people, firms' behaviour may be shaped by their owners' individual strategic decisions.

In determining eligibility, there are two main rules, namely setting eligibility threshold and setting differentiation or segmentation of tax subjects. The first rule of eligibility is setting threshold. Evidence from the scoping study shows that most countries apply thresholds that are defined by the level of gross turnover and the number of employees. Hypothetically, MSMEs in the informal economy have unreliable data on their turnover, so the addition of criteria such as the number of employees can be considered. Table 3 displays some countries apply only the amount of gross turnover for the eligibility of the system. Chile and Zimbabwe are examples of countries that do not apply a threshold, thus as for its implications, the systems create potential tax evasion from high-income taxpayers and are perceived as an unfair system (Agostini et al., 2018; Nyamwanza et al., 2014). In addition, the eligibility based on the number of employees can also encourage firms to reduce their employees in order to stay in the presumptive regime, as evident in Romania (Beca & Serban, 2012).

As the presumptive tax regime wants to include many SMEs, the tax-exempt threshold should be relatively high (Thuronyi, 2005). The reason is setting thresholds too low keeps many of the hard-to-tax out of the system, which steers away from its objective of formalisation. However, setting high eligibility entails two risks. First, high eligibility calls for multiple rates. Second, if there is a single rate, high eligibility provides tax shelters for large companies.

The second rule of setting eligibility is differentiation and/or segmentation of businesses. Differentiation and/or segmentation accommodates the heterogeneity of MSMEs so that the presumptive tax regimes can be industry-specific. Table 3 shows that the presumptive tax regimes in some countries applied in specific sectors or business activities.

Table 3. Eligibility of the presumptive tax regime

Country	Eligibility
Romania	Eligibility based on the number of employees and level of turnover; Exempt consultancy & management
Brazil	Eligibility based on turnover
Ukraine	Eligibility based on the number of employees and level of turnover
Russia	Eligibility for SME taxation is based on selected industries and the indexed threshold for gross receipts and number of employees.
Georgia	For lumpsum tax: Six taxpayer segments: traders, goods production and services, transportation, jewellery shops, watches repair, and restaurants
	For turnover taxes: Eligibility based on turnover and total employees
Albania	Categories of taxable activities
Burkina Faso	Eligibility based on turnover
Portugal	Eligibility based on annual revenues, total assets, and micro-entities accounting standards
Chile	Eligibility based on sectors: agriculture, mining and transport services
Congo	Eligibility based on turnover and total employees
Zimbabwe	Applies to specific sector: transport operators, hairdressing salon, informal traders, small-scale miners, cross-border traders, restaurants, cottage industry and commercial waterborne
Bulgaria	Eligibility based on turnover and specific groups
Ghana	Eligibility based on occupation and specific sector activities
Tanzania	Eligibility based on turnover
Zambia	Eligibility based on turnover and specific sector activities
Pakistan	Eligibility based on specific sector activities
Seychelles	Eligibility based on turnover
Peru	Eligibility based on turnover
Egypt	Eligibility based on turnover

Source: The results of the scoping study

More importantly, there is a strong argument to exclude professionals in setting eligibility. Arguably, professionals do not only have a comparatively high income and high profit margins, but also, they are usually well-educated and have bookkeeping skills. Moreover, these professionals have high tax evasion risk. As these tax evasion risks from professionals require tax administration resources in audit, professional can be excluded from the presumptive tax regime and transferred into the standard regime. The presumptive tax regimes in Romania excludes consultancy and management (Beca & Serban, 2012; Beca & Cozmei, 2014). Also, if the presumptive tax regime also applies to professionals, there is a potential tax evasion and strategic behaviours from professionals in Russia as they changed their legal status in order to enter the presumptive system (Bird & Wallace, 2005).

To improve efficiency and avoid the abuse of the system, the presumptive tax regimes also require an exit strategy to the standard regime. From the perspective of a sustainable tax system, an exit strategy is crucial because all taxpayers should be able to engage and comply with the regular tax system. The optional feature particularly benefits start-up businesses or MSMEs operating at loss. Table 4 analyses that the only exit strategy used in the observed countries is setting the presumptive tax regime as an optional. Thus, MSMEs can choose what the regime they stay as long as they enter the tax net.

However, the optionality can also be a problem as it increases opportunities or choices for taxpayers (including larger companies) to calculates the level of the presumptive tax and the cost of tax evasion (Pashev, 2006). For MSMEs, similar to duality of the presumptive tax regime, this optionality unnecessarily induces tax shopping, as MSMEs calculate costs and benefits between the presumptive system and the regular system.

Table 4. Optionality of the presumptive tax regime

Optional	Compulsory
Brazil, Ukraine, Russia, Portugal	Romania, Albania, Georgia, Chile, Zimbabwe, Bulgaria

Source: The results of the scoping study

Furthermore, the problem in designing the presumptive tax system is that the presumptive tax regime can fail to achieve a fair and efficient system because it violates the principle of neutrality of a good tax system. Arguably, if tax treatments applied for sources of income differ substantially, taxpayers respond in order to take advantage of the differentials. Moreover, even with rules of threshold, segmentation, and exit strategy, the presumptive tax system still fails to take specific circumstances of each taxpayer into account. Unlike the regular income tax that considers specific revenue and expenses each business, the presumptive tax regime has high risks of under-taxing medium firms and overtaxing micro firms.

Moreover, the principles of fairness and efficient are also a matter of perception. The inability of the presumptive tax regime in providing a fair and efficient system is also evident in Zimbabwe and Ukraine as the presumptive tax regime is perceived by MSMEs as an unfair system (Zivanai et al., 2014; Serbinenko, 2016). The inability to become a fair and efficient system is also reflected from experiences of Ukraine, Russia and Chile where high-income individuals enter the presumptive tax regime to evade tax. Similarly, Jaramillo (2005), using an economic model, also asserts that the introduction of the presumptive tax regime increases the level of tax evasion in the industry.

One way of the presumptive tax regime failing to achieve efficiency is the system provides no explicit plans for growing taxpayers out of the special system into the standard system. The special regime for MSMEs is considered as a success if it invites small firms for limited periods and facilitates graduation to the regular system. Conversely, the presumptive regime is a failure if it encourages firms that had previously participated in the regular regime to move to the presumptive regime. Although aligning the presumptive regime with the standard tax regime can be achieved with the progressive tax rate and the increasing level of recordkeeping in line with the level of MSMEs turnover, explicit plans of graduation are still required to avoiding the generation of MSMEs that rely on special regimes for their existence (Bird & Wallace, 2005, p. 148). While this feature is needed in order to support the growth of MSMEs, evidence from the scoping study shows that no countries laid out explicit plans to bridging MSMEs into the regular system.

Bird and Wallace (2005) propose the need for phasing out the eligibility of specific taxpayers by establishing a limited period of eligibility in the presumptive tax regime. However, this approach is

not only difficult and costly to enforce, but it also entails potential tax evasion risk where MSMEs close their business and re-register using a new name.

Another way of the presumptive tax regime failing to achieve efficiency is that the system creates major problem in the VAT system if its threshold is not harmonised with the threshold for the VAT. Based on experience in Ukraine, as there is no alignment in the presumptive tax system with the VAT, the presumptive tax breaks the VAT chain (Bird and Wallace, 2005). As many transactions become legally outside the VAT system, purchasers have become unable to credit invoices, so the input VAT becomes an actual cost for purchasers.

In sum, to achieve an efficient and equitable presumptive system, designing the presumptive tax regime should be aligned in the whole tax system. The presumptive tax regime for small business is an integral part of the overall tax/revenue system, so each influences the other. This notion provides explanations that implications of the presumptive tax regime are far more complex than just viewed in isolation. However, evidently, the system might not sufficiently ensure full compliance management of all taxpayers under the general system.

4.2.3 Balancing simplicity, equity and efficiency

Introducing a special treatment for small businesses like presumptive taxation plays a role as an economic incentive to induce formalisation as small business mostly operates in the informal economy. However, as it is shown from the evidence of the global experiences, presumptive taxation displays how policymakers could struggle to find its optimal configuration in the constellation between simplicity, equity and efficiency.

Firstly, focusing significantly to establish a fair and efficient system leads to a complex system. The simplicity of the presumptive tax regime with one tax rate and certain eligibility criteria can shift away into a more complex, many rates, progressive and many brackets. Even further, the tax structure can be riddled with rules and exemptions, creating a complex system outside the standard system. One presumptive tax regime that is quite complex is in Bulgaria, where it creates around 900 rates, divided into business activities and regions, for only seven years (Pashev, 2006).

The struggles to balance to simplicity, equity and efficiency are also evident in the implication of the unstable system, a result from frequent shifting and changing in the presumptive tax system. For example, in Romania, the lump-sum tax has only been applied for 18 months, before it was replaced by a turnover tax (Beca & Serban, 2012; Beca & Cozmei, 2014). In Bulgaria, the processes of extending rates until around 900 rates have only happened for seven years (Pashev, 2006). In Georgia, the lumpsum system was in the process of renewal on an annual basis (Engelschalk, 2005).

It is worth noting that the frequent changing of the presumptive tax regime is not only caused by the considerations for efficiency and equity principles, but also by the tax administration, economy and politics. Administratively, as tax authorities improve the clarity of tax policy and also their capacity in tax administration, the threshold should eventually be lowered, so that many MSMEs graduate into the regular system (Engelschalk, 2005, p. 289). Economically, the presumptive tax regimes also need to be revised systematically to adjust with economic conditions or to be indexed to inflation (Bird & Wallace, 2005, p. 143). Moreover, the frequent changes in the presumptive tax regime occur due to political pressures.

The politics of MSMEs should not be undermined in the presumptive tax regime. Arguably, MSMEs community represents the majority of voters, particularly in the developing countries. Thus, the community can have political power and bargaining in the policymaking process. This is evident in Russia, as the small business community did political lobbying to increase the gross receipt threshold, so that MSMEs, even some larger businesses, can join to the presumptive system (Bird & Wallace, 2005). In Bulgaria, there were protests of taxi drivers demanding reduction of tax rates in the presumptive tax regime (Engelschalk, 2005; Pashev, 2006). In Georgia, the lobbying came from a number of parliamentarians who wanted to extend the presumptive regime to some larger business. The political pressures should also depend on power relations between political actors in the contexts of each country.

Perhaps, one crucial thing that policymakers should do in balancing simplicity, equity and efficient in the design the presumptive tax regime is conducting the in-depth analysis of MSMEs, including analysis of profit margins and the relationships between business indicators such as the size of a business, activities or location and the profit potential. Reliable information on agents in the informal economy also includes extensive data on their motivation and dynamics of inclusion and exclusion. This in-depth analysis of the actual profit margin of the business does not only for

the equity purpose, but also to pursue the attractiveness of the simplified regime as a business incentive.

Understanding the nature and context of the informal economy is essential. The nature of MSMEs in the informal economy can also be intricately linked to the formal economy. Also, there might be divergent dynamics of inclusion and exclusion in the informal economy. These dynamics relates to the fact that the informal economy may not always about avoiding tax authorities. For example, some micro businesses may rely on the informal credit mechanism, and their underlying interests are operating in the informal economy as they perceive little-added value in formalisation. Thus, the attitude of MSMEs in the informal economy towards tax compliance should also be examined.

However, it may difficult to collect reliable information on the average profitability of the industries due to several factors. First, the profitability can be volatile in the emerging market. Second, the heterogenous nature of MSMEs implies that the taxpayers may not easily fit into a single category or economic activity.

In sum, for tax administration, reflecting this 'life-cycle' of the presumptive tax regime implies that the presumptive regime requires substantial design challenge. Evidence from the scoping study displays how tax authorities had difficulties to establish a simple, fair and efficient system. Moreover, the frequent changes in the presumptive tax regimes entail legislative costs and additional resources and skill of tax authorities to comprehend the changes. Instability of the presumptive tax regime might support the proposition from Bird and Wallace (2005) who argue that in the long run, there is no place for the presumptive tax regime in the well-administered tax system.

4.2.4 Implementing the presumptive tax regime

After policymakers formulate the presumptive tax regimes, their effective implementation also plays a crucial role to achieve the objective of formalisation. The scoping review illustrates that there are problems to be overcome before and after establishing the presumptive tax regime.

Generally, the presumptive tax regimes provide more certainty for small businesses in taxation. Thus, the system can avoid arbitrary decision of the governments in taxing MSMEs (Joshi et al., 2014). However, the evidence from the scoping review shows that the presumptive tax regime in Zimbabwe did not reduce the level of corruptions as taxpayers still perceive the government abused tax money (Dube, 2018; Shonhiwa & Murangwa, 2018).

Even, one evidence maintains that the presumptive tax regime creates more opportunities for corruption of tax officials. It can be said that the presumptive tax regime makes MSMEs more visible to state authority, so it increases the risk of the coercive and corrupt behaviour of tax officials. Moreover, this opportunity can occur when the presumptive tax regime is not clearly defined. For example, if the presumptive tax regime put 'other activities' in the eligibility criteria. These unclear rules can create different interpretation between tax officials and taxpayers and then it entails tax officials abusing their power to small businesses. Other opportunity arises when the tax authorities choose quantity-based indicators. As it raises additional efforts from tax authorities to monitor and inspect the number of quantity-based indicators such as the number of seats in restaurants or the number of employees, tax officials can also exercise their corrupt behaviours.

It is worth noting that the basic principle of the presumptive tax regime is the 'rough estimate' of tax liability. This 'rough estimate' of tax potentially entails corrupt power of tax administration and tax evasion of small businesses. Thus, the problem of corruption emphasises that this problem should be overcome before establishing the presumptive tax regime. Indeed, corruption increases compliance costs for MSMEs as the effect of compliance costs also depends upon the relevant institutions of a country (Ulrich, 2003). The institution problem of corruption should be addressed to strengthen the social contract between the government and those in the informal economy, thereby encouraging quasi-voluntary tax compliance. Therefore, as the presumptive taxation might not resolve corruption and extortion, these problems should be overcome before the implementation of the presumptive tax regime.

Furthermore, the implementation of the regime still needs to be followed by providing carrots and sticks. As for carrots, in addition to the presumptive tax regime as monetary incentives, tax authorities should provide major taxpayer assistance and sensitisation programs related to formalisation. The first effort is providing education for MSMEs, particular education of accounting and bookkeeping. While the establishment of a bookkeeping culture is important for calculating tax liability, especially in the turnover-based presumptive regime, education of accounting should be

seen as a crucial skill in business growth. Moreover, there other incentives for encouraging formalisation such as access to financing and access to business licensing.

For tax evasion small businesses, the presumptive tax regime also needs tax monitoring and tax audit. Tax monitoring should be done to monitor the eligibility and tax bases, especially periodic auditor MSMEs to monitor whether they have to graduate to the standard system over time. Moreover, tax authorities still have to audit in the turnover-based presumptive regime because there is a potential risk of under-declaration of turnover. Still, this audit may be difficult as it may be hard to detect under-declaration in the cash economy environment. In short, the presumptive tax regime still needs to be combined with strengthening administrative capacity to detect non-filers and stop-filers in the system, so the system can be an efficient tool to reduce the underground economy activity.

Another implementation strategy is gaining coordination with associations. The scoping study also found that the effective collection of the presumptive tax regime through associations of small businesses such as in Ghana, Tanzania, Zambia, Zimbabwe and Peru (Dube & Casale, 2016; Joshi & Ayee, 2008). Associational taxation implies that the presumptive tax regime creates potential tax leakage as the tax collection have to get through of associations. Secondly, there is a need for strong collective action and bargaining to the effective implementation.

In conclusion, strategies before and after policy implementation of the presumptive tax regime still require more human resources and administration costs. Although theoretically, the governments are easier to verify the presumed tax based, in reality, there might be additional administration costs.

5. CONCLUSION

5.1 Limitations and avenue for future research

The research found a significant number of peer-reviewed articles, providing substantial evidence of the implications of the presumptive tax regime. Therefore, the study can generate a generalisable conclusion and recommendations for policymakers. Still, the study also has some limitations.

Firstly, the study can only collect evidence from full access article and English-written. Thus, journals in domestic languages are ignored. Secondly, the search keywords also have limitations as there are other synonyms of 'presumptive tax' such as 'differentiated tax' or 'special tax'. Likewise, the 'informal economy' has different names in other literature or countries such as 'black economy', 'underground economy' or 'unrecorded economy'.

Moreover, most likely, this scoping study has not reached a saturation point, where no new ones were being identified. This study limitation is because the study only explored four databases and did not include reference lists of each study. Thus, study extending research databases of articles on countries experiences in the presumptive tax regime could provide more clarity and understanding of this tax policy.

5.2 Overall Observations

The scoping study found that the presumptive tax regimes increase registered MSMEs in Brazil, Romania, Georgia, Chile, and Congo, the presumptive tax regimes increase registered MSMEs. However, the presumptive tax regimes do not significantly encourage MSMEs to formalise in Russia, Zimbabwe, Ukraine, Pakistan and Seychelles.

For MSMEs and other general taxpayers, the presumptive tax regimes engender strategic behaviour such as changing legal status, suspending or disintegrating the business, reducing the number of employees, doing tax shopping, and morphing the businesses to be appear as small business. These strategic behaviours reflect the potential abuse of the presumptive tax regimes.

For policy design, the scoping study found that many countries utilise turnover-based taxes with multiple rates according to the different businesses. To improve its simplicity, the presumptive tax regimes also eliminate other tax liabilities such in Brazil where the presumptive tax unified the six local taxes into one system. To improve the equity of the system, many countries apply the progressive rates and the eligibility based on turnover threshold and the number of employees. Moreover, the system can also set the system as an optional system.

Furthermore, the presumptive tax regime entails implementation strategies that should be conducted before and after the implementation. Before the implementation, tax authorities should

address the problem of corruption. After the implementation, the governments also need to exercise more tax monitoring and audit along, collaboration with associations, along with offering more benefits to encourage formalisation. These strategies might require more costs and resources.

5.3 Conclusion and recommendations

The scoping study finding diverse implications displays that there is still no consensus on the effect of the presumptive tax regime, whether the system can be an effective mechanism to induce formalisation. Moreover, findings from the scoping study also illustrate the effects on MSMEs, tax authorities and also other general taxpayers so that this mechanism may entail more unintended consequences rather than intended outcome. More specifically, implications of strategic behaviours from MSMEs and general taxpayers affecting the overall tax compliance demonstrate that the presumptive tax regimes benefit firms already in the formal system rather than informal MSMEs. This notion potentially poses a risk of the inability of the presumptive in providing a competitive environment for overall business.

While the effect may not be formalisation, for the governments and tax authorities, introducing the presumptive tax regime might represent a greater tax sacrifice. The evidence of the scoping study shows that the revenue yield from the presumptive tax regime yield is relatively low, although it can be argued that this low revenue collection is only for a short time. Greater sacrifices from tax authorities are also evident in the design and execution of the presumptive tax regime. The balancing of principles in the presumptive tax regime while the initial focus is on simplicity, it is most likely on route to a complicated approach. Moreover, to accommodate the principles of fairness and efficiency, the regime will be overridden by continuous adjustment and fine-tuning. Thus, there are inherent risks of instability in the presumptive tax regime, resulting in increased administration costs in legislative and policymaking. On the one hand, the problem of stability and predictability should not be undermined, as they might be favoured strongly by MSMEs in the informal economy. On the other hand, frequent changing in tax laws of the presumptive tax regime also requires more education for both tax officials and taxpayers.

Therefore, this paper concludes that while the presumptive tax regime does not always lead to the ideal implications: reduction of compliance costs and administration costs. Policymakers and tax authorities should be aware that there is considerable risk that total administration costs of the presumptive tax regime are higher than total revenue collected, not to mention whether the mechanism may not be an effective measure to induce formalisation and tax compliance. However, while evidence from the scoping study shows that the presumptive taxes are not achieving either formalisation or much revenue collection, the presumptive tax regimes are still widely utilised by many countries. This raises further discussion about the attractiveness of the policy.

Taken more broadly, tax policies in formalisation MSMEs underline the importance of MSMEs existence in incubating the entrepreneurship and generating employment. Thus, the main spirit of tax reforms to tackle the informal economy should be to sustain tax morale, to support business growth, and to provide a method of engaging firms with states. Moreover, to shine a light on the shadow economy, there is a crucial role in 'whole-of-government' approach by establishing extensive coordinated policies across ministries and agency, in order to establish a conducive environment for MSMEs. To induce formalisation, the governments should pursue efforts to offer incentives and benefits of formalisation and eliminate obstacles for small business, not just in taxation policies. Other accompanying efforts include the easy procedure business registrations and financial access or credits.

Furthermore, to target the simplicity of the tax system without sacrificing efficiency and equity, tax authorities should take advantage of technology to strengthen administrative capacity. Technologies reducing difficulties in documentation in tax filings and tax payments for all business segments and taxpayers can encourage MSMEs to enter the tax system. In the similar context of technological advances, efforts to tax the informal economy should also consider the dynamic of the informal economy in the digital era.

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