



Exploring the Experiences of Small Businesses with TRAIN Law

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ABSTRACT

The TRAIN Law in the Philippines has significantly altered the taxation system, aiming to streamline tax collection and improve government revenue. This has led to significant financial and operational challenges for small businesses, necessitating adaptation and compliance management. This study delves into the experiences of small business owners in relation to the TRAIN Law, specifically focusing on areas where the implementation of the law has been impacted by changes in rules. The study included small business owners who had successfully operated their businesses for the past eight (8) years as respondents. The qualitative study was conducted using the single case study approach, in which the case pertains to the experiences of a small business owner. The study was conducted during the academic year 2024-2025, when the researchers conducted interviews with five business owners to learn about their experiences with the changes to the business tax rules. The results indicated that some business owners perceive the business tax as complex and burdensome, while others see the implementation of the tax law as beneficial as it reduces their tax expenses due to changes in certain tax rules. They also experience various challenges, including the increase in purchase cost of commodities and tax expenses. To overcome these challenges, the participants opted to hire an expert or bookkeepers to handle tax matters, and raise their product prices. The study's findings provide valuable insights for students, program coordinators, accounting instructors, administrators, business individuals, and future researchers.

Keywords: small business, business tax, TRAIN Law

1. Introduction

Taxes play a crucial role in funding the services and infrastructure that support a country. However, tax policies, especially those affecting small businesses, can lead to both positive and negative outcomes. Small businesses are the ones who are most likely to drive the community for sustainable development, especially in developing economies (Alabi, David, & Aderinton, 2019). Thus, they're seen as an essential part of the economy since they support the local economy through creating job opportunities that foster the growth of the community (Varimani & Mahadevan, 2023). This study focuses on the Philippines' Tax Reform for Acceleration and Inclusion (TRAIN) Law, which was introduced in 2017. The law aimed to update the tax system, lowering income taxes for many while raising them for others. Despite its intentions, the impact on small businesses is not well understood. Most research has looked at the overall economic effects, leaving a gap in understanding how small business owners are experiencing these changes.

This study aims to fill that gap by exploring how small businesses are coping with the challenges brought by the TRAIN Law. It will look at how the law affects their financial performance and what the owners themselves think about these changes. The research will be guided by the TRAIN Law and economic theories that suggest reducing taxes can help businesses grow. Ultimately, this study seeks to understand how these tax changes have influenced the decisions and experiences of small business owners in the Philippines.

2. Review of Literature

Tax is defined as an obligatory payment that the state imposes on its citizens, businesses, or organizations not as a penalty but as income to enable the government to meet its expenditures (Tee et al., 2016, as cited in Malatji et al., 2021). It is how the government will generate the revenue to perform its fundamental responsibilities, ensuring the public is fed by the provision of goods and basic infrastructure for the people living in the said state (Oladejo and Monday, 2019). However, tax policies, specifically for small businesses, can also have unforeseen effects, and in that case, small businesses might not have the resources to adapt to changes in tax rules and regulations (Varimani and Mahadevan, 2023). The Philippines' tax system was outdated and unfair before President Duterte signed the Comprehensive Tax Reform Program (TRAIN) on December 19, 2017. The program includes tax amnesty, sin taxes, Corporate Recovery and Tax Incentives for Enterprises (CREATE), and mining taxes (Carcido-Damasig & Damasig, 2022). According to RA No. 10963, the aim of the amended law is to improve the tax system's progressivity by rationalizing the Philippine Inter-Interval Tax System (TIAS), promoting sustainable economic growth, providing equitable relief to taxpayers, and ensuring the government can meet its needs through improved infrastructure, health, education, jobs, and social protection.

The TRAIN Law aims to correct the longstanding inequity in the taxation system by reducing personal income taxes for almost 99% of taxpayers. It adjusts the 20-year outstanding brackets and tax rates of most taxes from where the government sources its funds. The law also aims to simplify the tax system for ordinary Filipinos and improve tax efficiency. The law saw a decrease in personal income taxes for those earning below P20, 000 and increased taxes for those over P500, 000. However, the government removed VAT exemptions and broadened VAT inclusions. Excise taxes, such as gasoline, diesel, oils, lubricants, sweetened beverages, and cigarettes, saw drastic increases in their tax rates (Carcido-Damasig & Damasig, 2022). Tax incidence is a concept used by economists to analyze the impact of a specific tax on the distribution of economic welfare, focusing on how the burden of a tax is distributed between firms and consumers (Dizon, 2021). The impact of tax policy on business has caught the attention of researchers and policymakers (Bruce et al., 2020). Tax compliance is the government's most important way of allocating resources and supplying goods to the public (Jayawardane 2016, as cited in Sadress et al., 2019). However, in addition to allowing small businesses to grow, the government should also support and contribute to a competitive market economy by implementing competitive policies and encouraging commercial activity through economic processes such as taxes (Juraev & Xolmirzayev, 2020).

Tax policies are one of the challenges that can point out the complicated and unfriendly economy of the country (Eftekhari, 2009, as cited in Aribaba et al., 2019). Tax incentives often distract taxpayers and the state from the main problem that must be solved by the legislation (Tuxsanov, 2022). The global business landscape is intricately intertwined with government rules and tax laws, affecting the functioning and growth of businesses. This relationship is not just theoretical but a reality for entrepreneurs and businesses (Jaman et al., 2023). While government policy reforms aim to address small businesses' needs, challenges in design, coordination, monitoring, impact evaluation, and policy stability limit their effectiveness and sustainability (Onwuka, 2024). The early implementation of the TRAIN program has led to a perception of improvement in public service delivery and infrastructures, despite the premature assessment of its full economic impact (Cuellar, 2021).

3. Methodology

The study were develop to investigate how the changes of the country's 20-year-old tax regime brought by the imposition of TRAIN Law gives impacts to the perceptions, challenges, and decision-making of small business owners. The study's participants were limited to the business owners who run their business for at least 8 years or more in the business industry. The researcher manage to gather 8 business owner who delve themselves on focusing their business including the business taxation.

The main instrument in this study is the researcher themselves, guided by an interview guide in which validated by the advisers and panelist aiming to know the business owner's experience to the implementation of TRAIN law. Research questions used as guides in conducting the interview were: How do small business owners describe their business taxation under the pre-TRAIN Law? How do small business owners describe their business taxation under the TRAIN Law? What challenges have they faced in the implementation of the TRAIN Law? How do they cope with these encountered challenges? What changes in TRAIN Law influence the decision-making of these small business owners? With the given consent from the participants the researcher recorded the response of the business owner during the discussion to their experiences and perspectives regarding the changes in business tax policy and how they affect their business. The researchers used Merriam's (2016) approach, providing an in-depth interview, interpretation, and case analysis. The researchers gathered as much data as possible from the participants' responses and analyzed it afterward.

4. Findings and Conclusion

The research findings from the owners' perceptions reveal how they describe business taxation under TRAIN Law, the challenges they faced with the implementation of TRAIN Law, their coping mechanisms, and how the changes brought by TRAIN Law influenced their decision-making for the business.

In describing business taxation under the TRAIN Law, small business owners stated that it simplifies the tax payment process, business owners mentioned that it decreases tax expenses, and business owners noted that it increases the cost of purchasing supplies. In facing challenges in the implementation of the TRAIN Law, small business owners encountered higher excise taxes, business owners experienced decreased demand for their products, business owners found it time-consuming, business owners had limited knowledge of business taxation, and business owners considered it a burden on taxpayers. In coping with these challenges, small business owners outsourced experts for assistance, business owners sought better offers to minimize costs, business owners adjusted prices strategically and offered sales discounts, business owners engaged in strategic financial planning, and business owners focused on providing the best customer service. In considering the changes in the TRAIN Law that influence decision-making, small business owners made adjustments in pricing strategies, business owners focused on proper budget allocation and inventory management, business owners strengthened customer relationships, business owners ensured tax adaptability, business owners prioritized employee retention, and business owners focused on compliance with government policies.

The TRAIN Law has some benefits, it also created new struggles for small business owners. It emphasizes the critical role of taxation policies in shaping the experiences of small business owners and shows how important it is to balance tax policies to support SMEs. By improving the system, the government can help these businesses grow by providing additional tax education resources or offering incentives for SMEs, contributing to economic growth and sustainability in the country.

Acknowledgements

The researchers would like to express their gratitude to thank everyone who help and guide them during the journey of making this research study.

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