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The importance of tax compliance among SMEs in Aruba for business continuity. What does tax compliance mean for Aruba and how can this be improved?

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THE MAGIC OF COLLABORATION AND TIME MANAGEMENT

When I decided to embark on this journey, I had just started the second semester as a third year Accounting and Finance student at the University of Aruba. This meant I was still attending classes and had not yet started on the idea of a thesis subject. I was also running my own business, a sole proprietorship, full time and depended on this for my livelihood. In other words, my schedule was already booked five to six days a week with classes, homework, assignments, projects and running a business. Add to that joining the UA-UCU Student Research Collaboration Project and I was officially overbooked. I could not say what possessed me to overload myself, however I was determined. When announcing my decision to join this program to my peers, I was met with bewildered reactions: I must be crazy for doing this. Yet, I believe that it's when they start calling you crazy that you know you are on to something great.

The project looked extremely appealing to me. The very idea of a multidisciplinary group of students, from all walks of life and a variety of academic backgrounds coming together to help each

other with their research proposals seemed right up my alley. As an entrepreneur, I believe the future of the economy lies in collaboration. I have personally experienced collaboration with other entrepreneurs and discovered its true potential: a shared economy of collaborating entrepreneurs helping each other achieve their goals, develop their business and ultimately contribute to a healthy and thriving business environment.

The program started with a series of field trips and research discussions. When I first joined, my idea for a research proposal seemed like just that; an idea. However, as I hesitantly pitched my research proposal to the group of students and project coordinators, their support and input was immediately felt. The greatest benefit of doing this in teams was the amount of helpful hints received from different perspectives that push the gears to start turning and the ideas to start flowing. I could not have conducted my research quite like I had without the support I received from fellow students and the project coordinators.

As a young entrepreneur, I noticed a lack of understanding of Aruba's tax code and regulations among the small businesses I worked with. I had also heard, through the grapevine as it were, about other companies that went under when they could not meet their tax obligations. Taxes, as certain as death as Benjamin Franklin so eloquently phrased it once, are an integral part of participating in a civilized society and it seemed to me that too many small businesses were overwhelmed by its complexity. It was for this reason that I chose the topic of tax compliance among small and medium enterprises in Aruba and causes of non-compliance.

Managing time to actually conduct this research was a greater obstacle than I initially imagined. My schedule left very little room to breathe and I was afraid I might end up turning into a stress ball before I could manage to even write the first paragraph. Somehow, my determination seemed to outweigh the amount of stress experienced and I succeeded in completing a report just hours before the deadline.

The experience itself was eye-opening. I learned so much about my own island through the learnings of international students who were here as visitors and I came to the realization that I did not know my own nation well enough. This of course only drives me to learn more and share this knowledge with as many people as possible. I will personally be recommending this program and the research reports to any and all who show a hint of interest in learning.

THE IMPORTANCE OF TAX COMPLIANCE AMONG SMES IN ARUBA FOR BUSINESS CONTINUITY

What does tax compliance mean for Aruba and how can this be improved?

by Nayla Yazagaray

1. INTRODUCTION

Oliver Wendell Holmes Jr., who served as a U.S. Supreme Court justice from 1902 to 1931, immortalized the phrase: *“Taxes are what we pay for a civilized society”*. That phrase is inscribed above the entrance to the IRS headquarters in Washington, D.C. (Biography.com, 2016)

Much like the regular civilian, enterprises are also responsible for paying taxes to the society in which they operate. Additionally, much like income taxes, corporation and revenue taxes can be complicated and difficult to translate in laymen’s terms. The *Algemene Landsverordenening Belastingen* (General Tax Ordinance) and *Landsverordenening Winstbelasting* (National Ordinance on Profit Tax) regulate tax compliance for business on Aruba. However, small and medium enterprises (SMEs) in Aruba often struggle with tax compliance. SME owners in Aruba are sometimes insufficiently aware of their rights and obligations to the tax office. Owners of these enterprises sometimes find themselves facing unexpected financial burdens which can in turn lead to the failure of their businesses with consequences for the economy at large.

Every society aspires to have a civilized nation with a healthy economy and an attractive environment for doing business. This is especially true for the small nation island of Aruba, which is the third most tourism-dependent country in the world. Currently, the Aruban economy is still recovering from the double-dip recession of the 2008 global financial crisis and the end of oil refining activity (IMF, 2015).

The tourism-dependent economy of Aruba benefits from attracting prolific investors that help further develop the tourism sector and contribute to the construction of a desirable environment for doing business.

Revenue realized from business taxation is a major source of income for the Aruban Government and an important resource for the development of the Aruban economy. A healthy business environment ultimately fuels a healthy economy. Tax regulations and incentives are greatly related to the health of such an economy and can either hinder or promote economic development. The problem arises when businesses do not comply with their taxation obligations, either through fault or lack of understanding. Tax evasion is a problem which affects

small and medium-sized enterprises in a particular way, especially if they are not properly documenting their financials.

This research was conducted to further understand the reason behind tax non-compliance of SMEs in Aruba. Furthermore, this research endeavors to formulate possible recommendations could be to minimize this problem. The following report will outline the research questions and objectives, the driving forces behind this research, the methodology used for this research and the data collected. The review includes a summary of the relevant tax laws and the regulations these laws impose. This report will also present an analysis of the data collected using graphs and tables highlighting the main findings. This report will conclude with data analysis and recommendations that can be formulated from the data.

1.1 Current situation

Although the Aruban economy has shown itself to be fairly resilient to the double dip recession described above, the recovery is hindered by an intricate tax system with a laundry list of exemptions and deductions. Additionally, the tax burden on SMEs in Aruba is relatively high, adding to the complexity of doing business on the island. Thus, the current tax system makes doing business in Aruba a complicated and burdensome task. Obtaining credit also presents a challenge for SMEs. The timeline for doing so can range from 6 weeks to 6 months. (Aruba Chamber of Commerce and Industry, 2015)

These barriers create a lack of confidence in doing business in Aruba and can lead to stagnation of a healthy business environment development.

SMEs form the backbone of the Aruban economy and thus play an important role in the business environment. (Ministry of Economic Affairs, Social Affairs and Culture, 2013). Data provided by the Central Bureau of Statistics gives emphasis to this statement. As can be seen from *Table 1* below, in the year 2015 SMEs enclosed 95% of active companies, 45% of all employees and 41% contribution towards the GDP.

It is therefore important to ensure that SMEs are encouraged to participate in the economy and that entrepreneurs are stimulated to develop and grow their business. To achieve this, the government plays a role in providing the necessary infrastructure and tax incentives to streamline the process of starting a business. The tax office is also significant as the simplification of the taxation process could spur economic development. The Chamber of Commerce also plays an important role by providing information to support business owners.

1.2 Research objective

The objective of this research is to understand tax non-compliance amongst SMEs in Aruba and how this non-

Average Employees per year	Companies	Cumulative Companies	Cumulative Companies in percentage	Employees	Cumulative Employees	Cumulative employees in percentage	Wages*	Cumulative wages	Cumulative wages in percentage	Size of company derived from number of employees
0 - 1	210	210	7%	108	108	0%	3,021,102	3,021,102	0%	SME
1 - 2	716	926	29%	798	906	2%	32,461,413	35,482,515	2%	SME
2 - 4	809	1,735	55%	2,050	2,955	7%	78,258,270	113,740,785	7%	SME
4 - 10	698	2,433	77%	4,116	7,072	17%	154,300,977	268,041,762	16%	SME
10 - 20	311	2,744	87%	4,280	11,351	27%	154,319,949	422,361,711	26%	SME
20 - 50	234	2,978	95%	7,411	18,763	45%	259,034,748	681,396,459	41%	SME
50 - 150	129	3,107	99%	10,544	29,306	70%	392,075,592	1,073,472,051	65%	Large
≥ 150	39	3,146	100%	12,717	42,023	100%	571,996,101	1,645,468,152	100%	Large
Grand Total	3,146			42,023			1,645,468,152			

Source: SVB Aruba year 2015 (Excluded are 1. Public administration and defence; social securities, 2. part of education related to public administration is excluded and 3. companies with no employees on payroll registered at the SVB)
 *(the wages are based on information received about the monthly wages per quarter from SVB Aruba. It is a year estimation consisting of 4 quarters)

Table 1. SMEs influence on the Aruban economy.

Source: CBS

compliance can best be addressed. This leads to the following research question:

“What is the main reason behind tax non-compliance amongst SMEs in Aruba and how can the rate of tax non-compliance be decreased?”

To find an answer to this research question, the following sub-questions were also formulated:

1. What is tax compliance and what are the current tax compliance regulations in Aruba?
2. Why is tax compliance important to the Aruban economy and what are the consequences of non-compliance?
3. What are the main reasons behind tax non-compliance according to the Aruban enterprises?
4. How can procedures of tax compliance be improved?

These research questions will be answered using several forms. The main research method is quantitative in form and will ask questions to Aruban enterprises directly. Qualitative research will be done in the form of desk research and literature studies to present background on the Aruban economy, as well as technical and legal information.

2. METHODOLOGY

Before collecting data on the distribution of information regarding SME tax obligations and possible recommendations thereof, it is necessary to understand the background and relevance of the topic of tax compliance and the regulations applicable to SMEs in Aruba.

2.1 Literature study

A literature study formed the basis of this research and allowed the researcher to gain in-depth understanding of the research questions. For the purposes of this report, the literature study involved delving into the theoretical aspect of taxation in Aruba by studying the laws and ordinances which address this topic.

2.2. Desk research

Another qualitative research method used for this report was desk research. The purpose of this desk research was to gain background information on the importance of tax compliance to the Aruban economy.

Aruba is not the only country that addresses the topic of tax non-compliance. There are other countries that have faced this challenge in the past and it was therefore relevant to also conduct a desk research on how other countries addressed this issue. This desk research provided key background information on the topic of tax non-compliance and possible solutions that could be explored.

2.3 Survey

In order to collect the necessary data from SME owners in Aruba, a quantitative survey was developed which consists of 37 questions divided into six subcategories:

- About the business
- Personal & Ownership
- Tax Burden
- Growth & Innovation
- Finance
- Business Support

This method of data collection was chosen as it was the best means of gathering a large amount of data in aggregated form.

This survey was targeted at SME owners in Aruba with questions aimed first at determining the background of their enterprises in terms of size, revenues, life span and industry. The survey further addressed the background of the SME owners themselves with questions about their education, profile, employment background and involvement in their businesses. The survey followed with questions regarding the burden imposed by the Aruban tax code on the local enterprises and reasons behind late payment or non-payment of taxes. The survey made further inquiries into business support received by Aruban enterprises and room for improvement in this regards. Finally, the survey addressed the SMEs' access to financing and obstacles SME owners felt were relevant to the growth and success of their business. Lastly, questions concerned whether SME owners had suggestions or recommendations that could add value to existing protocols and processes currently being used by the tax office and the Chamber of Commerce.

The survey was initially created in English as this is a widely-spoken language in the professional environment in Aruba in addition to being the language of this report. The survey was translated into the three other main languages in Aruba: Dutch, Papiamentu and Spanish. The reason for this was to determine if there existed correlations between the language of choice and the results of the survey. All four surveys were then added to an online survey creation service with the intention of emailing the survey as a link to all SME owners in Aruba.

Contacting the SME owners in Aruba required the collaboration of the Chamber of Commerce, which provided the database of all businesses registered in Aruba. This database was imported into an online email marketing platform as a list and the survey link was e-mailed to all

businesses in Aruba that had an email address registered. The email campaign was also created in the four different languages previously mentioned, linking to the survey in the preferred language.

In order to collect as many respondents as possible, a separate survey link was created specifically for sharing on social media. This link was shared on Facebook requesting SME owners to take the survey. Additionally, another link was created for in-person cold visits to several businesses in downtown Oranjestad. It is easy to ignore an email but trickier to dismiss a surveyor at their door, potentially rendering a higher rate of response.

3. DATA COLLECTED

The following section of this report will present the findings of the data collected using the methodology proposed in chapter 2. This chapter is subdivided into a section for the literature study, desk research and the survey conducted.

3.1 Literature study

The literature study explored the laws and regulations concerning enterprises doing business in Aruba. This required a comprehensive study of the basics of civil codes, criminal law codes and ordinances on tax codes in Aruba.

3.1.1 Legal Forms

All SMEs established in Aruba are required to register at the Aruba Chamber of Commerce in accordance with Article 1 of the *Handelsregisterverordening* (Trade Registry Ordinance). Non-compliance with this requirement or incomplete registry could cost the entrepreneur a maximum fine of AWG 2,000. (Art. 20 section 1 HRV). The entrepreneur could also expect a fine between AWG 500 to AWG 1,000 should he/she register his/her enterprise

incorrectly. This measure was put into place to prevent improper registration of an enterprise's legal form, given that the form affects the taxes which the enterprise must pay.

Aruba has various legal forms for doing business:

- Sole proprietorship
- Partnership (VOF/ CV)
- NV (corporation)
- VBA (Limited Liability Company)
- AVV (Aruba Exempt Corporation)
- Foundation
- Association

The sole proprietorship and general partnership are often the preferred choice for local entrepreneurs who initiate a small and/or low risk venture. For capital intensive or high risk ventures, the entrepreneur can opt for legal entities such as, the NV, VBA or AVV. (Establishing a business in Aruba, 2016)

3.1.2 Aruban Taxes

Sole proprietorships and general partnerships are subject to the progressive personal income tax. The personal income tax is under the provision of *Landsverordening Inkomstenbelasting (LvIB)*, or the Income Tax Ordinance, and is levied on taxable income minus deductions for obligations. As of an income of AWG 20,455, this personal income tax is due starting with a minimum of 7.40% up to a maximum of 58.95%. Sole proprietorships and general partnerships receive an additional deduction of AWG 2,400

on their profit, which means that the first AWG 2,400 of the enterprise profit is tax exempt. (Individual Income Tax, 2016)

Legal entities such as, the NV, VBA or AVV are subject to the corporate profit tax. The corporate profit tax is under the provision of the *Landsverordening Winstbelasting (LvWB)*, or the National Ordinance on Profit Tax, and is levied on corporate profit minus deductions for obligations. As of 2016, the corporate profit tax rate is 25%.

3.1.3 Tax Compliance

Aside from registering the enterprise at the Chamber of Commerce, business owners are required to set up and maintain a financial administration of all business transactions as per article 3:15a of the *Burgerlijke Wetboek van Aruba (BWA)*, or Civil Code of Aruba. Such a log exists for the purposes of compiling the annual fiscal report. All business administration data and files are required to be backed up for a duration of ten years. If an enterprise is unable to verify her administration or deliberately cooks the books, the entrepreneur can expect a prison sentence of between one to six years as per articles 353 and 354 of *Wetboek van Strafrecht*, or Criminal Law Code.

These laws are in place to ensure that enterprises engage in proper annual reporting. Annual reports are expected to include balance sheets, cash flow overviews, profit and loss statements and clarifications for these overviews. The object of this is that the enterprise correctly declares its assets, liabilities, income, expenses and all tax deductible expenses with the end result of declaring actual fiscal profits for the purpose of taxation.

Tax compliance entails the declaration of taxable profits or income and the subsequent payment of the taxed amount. Failure to declare income by income tax liable enterprises could result in fines starting from AWG 250 up to AWG

10,000 as per article 54 section 2 of the General Tax Ordinance. If the entrepreneur is proven to have evaded declaring the income tax, this fine can go up to 100% of the taxable amount. In the event of a transgression or offence, this fine can even go up to AWG 100,000 or twice the taxable amount and could potentially earn the entrepreneur a prison sentence of up to four years. (Accountancy Tax Legal & Advisory Services, 2013)

3.2 Desk research

The IMF report on Aruba published in 2015 suggested that over 70% of the revenue the government received flowed from direct taxes such as income and profit tax, with roughly 20% of revenue coming from indirect taxes such as the turnover tax (BBO). On average, the total revenue accounted for 24% of the island's GDP.

Although there has not been an official research conducted on this topic as of yet, the tax office suggested that less than two thirds of the businesses in Aruba comply with their taxes. This means that the economy's real (reported) GDP is negatively affected by tax non-compliance. The IMF report also indicated that revenue performance suffered greatly due to the reduction in business turnover tax (BBO) rate from 3% to 1.5% in 2010. It was estimated that each percentage point in the BBO rate could yield about AWG 60 million, about 1.3% of the GDP. As such, tax non-compliance results in a loss of government revenue which translates into less investment capital available to help sustain and develop the Aruban business economy.

In 2014, Aruba's public debt surpassed 80% of the GDP, a level beyond what is considered prudent for a small economy like Aruba. (IMF, 2015) This debt could be potentially decreased by cutting down costs and increasing tax compliance. Tax non-compliance can also have a negative effect on the compliant taxpayer, who ends up paying more due to non-compliance by others. To

bridge budget deficits, governments often raise taxes and implement budget cuts. In short, if all taxpayers complied, taxation could be decreased to impose less of a burden on all compliant taxpayers. (Grootens, 2016)

3.3 Survey

Out of the 16,328 businesses registered at the Chamber of Commerce up until March 2017, only around 4,000 had registered a business email address. This meant that less than one quarter of the business registered in Aruba would receive this survey by email. Additionally, this database was filtered out to remove the larger enterprises and retain only the SMEs in order to reach the target audience. This brought the list down to a total of 3,800 recipients.

The email campaign had a bounce rate of 20%, meaning that more than 750 of the emails sent were not received because the email addresses or domain names no longer existed or the recipient email server completely blocked delivery. Out of the remaining recipients, 25% opened their email and 3.5% clicked on the survey links contained in the emails. To collect more responses, the emailing campaign was resent a week later to the 2,400 recipients that did not previously open their emails. From the second campaign, 12% opened their emails and 1.5% clicked on the links. In the end, just over 140 business owners clicked on the survey links, however not all of them completed the survey.

A separate survey link was created with the purpose of sharing this on social media. The social media link was only created for the English survey and shared on Facebook. As this one was trickier to track one cannot say how many clicked on the link, only how many surveys were completed through the social media link.

Finally a collector link was created for each survey and delegated to a surveyor. The surveyor then conducted in-person cold visits at several businesses in the vicinity of

downtown Oranjestad. While it was easier to track, this method did not yield as much response as desired as the surveyor had limited time to perform this task and some businesses turned the surveyor away. The social media share and cold-visits did not generate nearly as much response as the email campaign, over 90% of the responses collected originating from the email campaign.

In the end, a total of 100 survey responses were collected. More than 50% of the respondents chose to take the survey in English while around 20% chose either Papiamentu or Dutch. Less than 5% chose to answer the survey in Spanish. This presents a clear preference for the English language as a language of doing business among the entrepreneurs in Aruba. The findings of all these surveys were translated back to English, consolidated into one database, and processed into aggregated data for this report.

4 DATA ANALYSIS

The following section of this report presents the survey questions and answers divided per section. The answers displayed were responses from a group of 100 business owners in Aruba. The answers collected are presented in aggregate form with simple graphs.

4.1 About your business

The first section of the survey addressed the nature of the business. The questions were aimed at determining the business size, industry, age and profitability.

Out of the 100 enterprises surveyed, 33% have no employees, meaning that one third of the entrepreneurs surveyed run their business on their own. Another 35% have between 1 and 4 employees, 11% have between 5 and 9 employees and 10% have between 10 and 49 employees. This boils down to a total of 88% of enterprises that are no bigger than 50 employees.

Out of the businesses surveyed, 35.6% of respondents described their business as a sole proprietorship and 45.5% run their business in the form of an NV.

The top five industries included were:

- Professional Services at 17.8%
- Food & Beverage at 10.9%
- Retail & Distribution at 8.9%
- Construction & Machinery at 6.9%
- Real Estate at 5.0%.

Most of the businesses surveyed have been in operation either between 1 and 4 years or 10 and 20 years, each at 26.7%

Only 12.9% of businesses reported revenues of over AWG 2,000,000 per year, while 18.8% reported revenues of less than AWG 250,000 per year. However, 48.5% reported generating a profit or surplus in the last financial year. This can be an indication as to the size of these businesses.

4.2 Personnel & Growth

This section of the survey addressed the owner of the business. The questions aimed at determining the SME owner's education, age and work experience.

Most of the business owners surveyed have completed a bachelor's degree. The results of this research show that 41.1 % have completed at most a bachelor's degree. Another 17.8% have completed a master's degree.

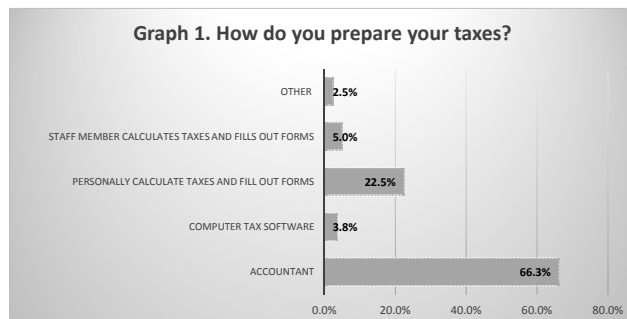
An overwhelming 58.9% of SME owners were previously employed at another business that they did not run. Only 17.8% were running another business prior to setting up their

current business. Most SME owners are between the ages 35 to 64. 31.1% are between the ages of 45 and 54. An interesting point revealed from this question was that nearly 15% of entrepreneurs under the age of 34 are participating in the economy.

Out of 100 business owners surveyed, 72.2% work full-time running their business while 27.8% work part-time. Thus, almost three quarters of the businesses surveyed require their owners' full attention. At least 64% of the businesses surveyed do not anticipate a closure or full transfer of the ownership of their business in the next 5 years. This suggests that most business owners intend to keep their business.

4.3 Tax Burden

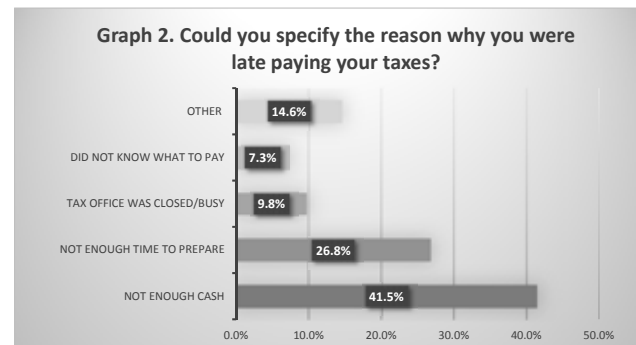
The third section of the survey addressed the tax burden experienced by business owners. The entrepreneurs were asked questions about how much effort they paid monthly in taxation and what were burdens presented by the Aruban tax code. When asked about the method of tax preparation, 66% of respondents reported having hired an accountant. This can be seen in *Graph 1*. This suggests that while business owners understand the importance of tax compliance well enough to hire a professional to do it for them, they do not have the confidence in their own knowledge on the subject to do this themselves.



Graph 1. *How do you prepare your taxes?*

34% of the businesses surveyed reported the financial cost to their business as the largest burden placed on them by the Aruban tax code. Other burdens included the backlog by the tax office and the time intensity of digging up information dated years back, the time spent on personally handing in papers to receive a stamp, and the lack of process automation at the tax office.

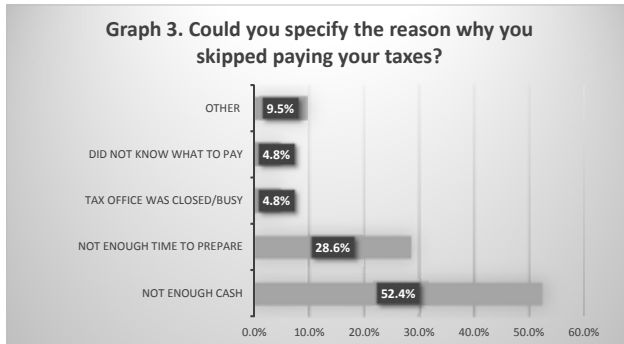
The majority of the respondents, 43%, reported that the impact of taxes on day-to-day operations were significant, while 24% said this impact was moderate. While 46.8% of businesses surveyed reported to never have been late in paying their taxes, 21.5% reported being late 1-2 times, 6.3% were late between 3-5 times and 16.5% were late more than 5 times. The most common reason reported for late tax payment was shortness on cash at 41%, as is shown in *Graph 2*. The next most common response was not enough time to prepare, at 27%.



Graph 2. *Could you specify the reason why you were late paying your taxes?*

When asked on how often they skipped paying their taxes, 72.2% reported to never skipped, 7.6% reported skipping 1-2 times, 6.3% skipped between 3-5 times and 6.3% skipped more than 5 times.

The most common reason reported for skipping tax payment was not having enough cash, at a staggering 52.4%. The next most common response was not enough time to prepare, at 28.6%. This can be seen in *Graph 3*.



Graph 3. *Could you specify the reason why skipped paying your taxes?*

4.4 Business Support

This section of the survey addressed the support SMEs felt their business received in terms of continuity. Businesses expect this support to come from the tax office and the chamber of commerce and this can influence the way they view their relationship with these organizations.

A total of 25.1% of the businesses surveyed believe their relationship with the tax office could be improved with online service. Improving accessibility was the next most popular suggestion at 17.6% and simplifying taxation was third most important at 16.6%. Other suggestions included flat rates for some sectors, having an account manager at the tax office who can help the business owner when needed and having the possibility of submitting declarations online. One respondent suggested having the website in languages other than Papiamentu, as many business owners in Aruba speak English and Dutch.

Respondents also suggested modifying open business hours as the tax office is closed after business hours which makes it difficult for business owners to make it to the tax office.

Seeking strategic advice is a possible option for SME owners who are concerned about their business continuity. When asked to describe their reasons for seeking strategic advice, nearly half of the businesses responded with wanting to better understand how to develop and grow their businesses or exploit a business opportunity. This shows that a large number of businesses are interested in not just continuity, but growth and development as well.

A total of 25.3% of respondents reported that they would approach the Chamber of Commerce if they wished to know what the Government was doing to support small businesses. Another 22.7% would rather approach their accountant and only 12% would visit Government websites to seek this information. The remaining respondents would approach their bank manager, advisor, business colleagues, mentor, and newspapers or search online. A staggering 77% of businesses surveyed do not feel that small businesses in Aruba receive sufficient support from the tax office and the Chamber of Commerce in their business continuity. This negative perception could breed a lack of confidence among SMEs in doing business in Aruba and discourage the rise of new and innovative enterprises.

When asked on how the tax office can help improve the support that small businesses receive, 33.3% of respondents felt that the tax office's website needed an update and clarification and 17.3% felt that workshops and courses were needed. Some of the other answers included speeding up the process at the tax office, improving customer service, and improving accessibility.

When asked how the Chamber of Commerce could help improve the support small businesses receive, 26.7% of

respondents felt that the Chamber of Commerce should organize more information campaigns and 26.7% felt that workshops and courses were needed.

4.5 Finance

This section of the survey addressed the financing options and accounts receivables of SMEs.

When asked if they have tried to obtain external finance in the past 12 months, only 31.5% of these businesses answered that they have with 65.8% not having sought any finance. Among the ones that did seek finance, 25.7% were attempting to acquire capital equipment in the form of vehicles and another 25.7% were looking to purchase land or buildings.

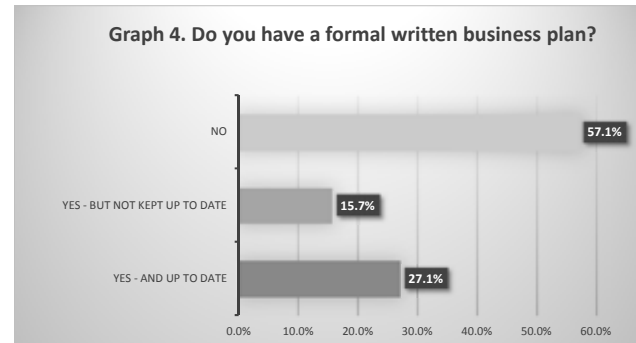
The existence of overdue customer balances appears to have become a common problem for SMEs doing business in Aruba. At least 61% of the businesses surveyed reported experiencing problems with late paying customers. This could be an indication the consumers' buying power is suffering or that other small businesses are experiencing cash flow challenges that need to be overcome in order to pay their dues.

4.6 Growth & Innovation

This final section of the survey was aimed at determining if the business owners surveyed have plans to grow their business and what do they feel are obstacles towards the success of their business.

70% of the businesses surveyed expressed the desire to grow their business in the next two to three years. If unhindered, this could lead to the further development of a healthy business environment. Some of these businesses, 63% of them in fact, have been trying to innovate their products and services in the last 12 months.

The problem however, as is illustrated in *Graph 4*, is that 57% of businesses surveyed do not have a formal business plan. A business plan is a valuable tool for a business owner both in the startup phase as well as the development phase. The lack of a business plan means that these businesses are unable to monitor their progress at present or plan their future business endeavors. (Robbins, 2004)



Graph 4. *Do you have a formal written business plan?*

When businesses were asked to specify the biggest obstacles to the success of their business, 16.5% reported this being the condition of economy, 11.2% expressed that taxation was an obstacle and 10.4% found that the market was unfavorable for doing business. Other answers included the lack of local raw materials available, high import costs, and lack of quality personnel on the job market.

Fluctuating income and expenditures was the highest cause of cash flow difficulty reported, with 23% of respondent affected. A combination of late payment from individual customers and other businesses affected 27.5% of respondents. This reflects the indication the consumers' buying power is suffering and that other small businesses are experiencing cash flow challenges as well.

When specifically asked on the hinder caused by taxation to the businesses, the biggest obstacles reported were the AOV/AWW/AZV premiums and the profit tax, both affecting 27.6% of respondents. The next largest obstacle reported was the income tax. Other businesses expressed that the premiums are disproportionately high and that the tax regulations generally make it difficult to run a successful business.

5. CONCLUSION

At the beginning of this research, the following research question was asked:

“What is the main reason behind tax non-compliance amongst SMEs in Aruba and how can the rate of tax non-compliance be decreased?”

Answering the sub-questions to backup this research question research required delving into a literature study of the civil and tax codes in Aruba, a desk research on the importance of tax compliance and a survey aimed at SME owners to determine possible causes of tax non-compliance.

1. What is tax compliance and what are the current tax compliance regulations in Aruba?

Tax compliance entails the declaration of taxable profits or income and the subsequent payment of the taxed amount. Current tax regulations include taxes levied on income and profit minus deductions for obligations to running a business. The profit tax has been fixed at 25% as of 2016, while the income tax is a progressive rate starting from 7.40% and ranging to 58.95%. This earns Aruba the position of one of the highest standards of living in the Caribbean. (IMF, 2015) Several businesses have also expressed that the premiums are disproportionately high and that the tax regulations generally make it difficult to run a successful business.

2. Why is tax compliance important to the Aruban economy and what are the consequences of non-compliance?

Tax non-compliance has shown to negatively impact national GDP and can increase the already heavy burden on taxpayers that are compliant. Tax non-compliance can result in heavy fines and even a prison sentence for proprietors that are caught. The fines can range anywhere from AWG 250 to a maximum of AWG 100,000. This could have a devastating impact on the survival of businesses, particularly SMEs that already have a cash flow problem. Therefore tax compliance is crucial for the continuity of SMEs and ultimately the Aruban economy, as this relies heavily on SMEs' survival.

3. What are the main reasons behind tax non-compliance according to the Aruban enterprises?

From the survey conducted, it was evident that cash flow remains the biggest obstacle for SMEs conducting business in Aruba. The most common reason stated for being late or skipping paying taxes was lack of cash flow, at 41% and 52.4% respectively. This indicates that while businesses are making a profit, as demonstrated by the 48.5% reporting a profit in the last financial year, they are facing challenges with their cash flow. This could be attributed to the alarming 57% of these businesses not having a formal business plan. Results also indicated that SMEs feel greatly burdened by the Aruban tax code. This burden could be lessened if more enterprises were tax compliant, as taxation could be decreased if more taxpayers complied thus further emphasizing the need for tax compliance.

4. How can procedures of tax compliance be improved?

Improving tax compliance requires cooperation from the tax office. A total of 25.1% of the businesses surveyed felt

that this relationship could be improved with online service and the simplification of taxation. It is no secret that Aruba has a complex tax system that is not easily understood by SME owners without a background in tax law. Providing an online service would decrease the time needed to physically visit the tax office for tax declarations, payments, and inquiries. Simplifying the information needed for taxation could also greatly increase the rate of tax compliance.

Another solution would be to assign experienced account managers at the tax office to personally handle communication with SMEs and address their inquiries. This could significantly improve tax compliance among SMEs as their understanding of the tax code, significantly improving compliance. Given the large number of business owners that chose to take the survey in English (>50%) and in Dutch (roughly 20%), it is recommended for the tax office to update their website to meet the needs of these business owners. Given the results of the survey, 33.3% may have difficulties understanding the Papiamentu language.

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