

# **The Effect of Value-Added Tax on Cash Flow in the UAE Small Business**

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By

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# DECLARATION

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# ABSTRACT

**Purpose:** The decision to implement Value-added tax (VAT) was issued as part of a set of necessary measures taken to protect the United Arab Emirates (UAE) economy and overcome the unprecedented financial and economic repercussions in the best possible way. However, the imposition of VAT for government revenues without any change in the nature of government spending was not sufficient to sustain the financial flows of UAE small companies. Based on that, this research aims to investigate the effect of VAT on the cash flow in the UAE small business.

**Design/Methodology/Approach:** The financial ratios that can be derived from the statement of cash flows can be classified in terms of purposes for revenue growth, operating margin, and capital efficiency. To achieve these objectives, a quantitative approach was adopted by distributing questionnaires to 1215 financial managers and accountants in small enterprises listed on the UAE economic department within five main sectors that are manufacturing, tourism, banking, real estate, and renewable energy. AS Statistical Package for Social Sciences (SPSS) was used to analyze the data extracted from the questionnaire, where means standard deviation, and t-test were conducted.

**Findings:** The results found that there is a significant impact of VAT on small companies in the UAE. As a result of the 5% VAT charge, there is a negative impact on the cash flow of the small businesses in the country. Moreover, the results of this study found both positive and negative impacts of the VAT on the business interests of smaller companies and the revenue collection of the UAE government. In addition, the results of the research showed that there is a statistically significant impact of VAT on revenue growth, there is a statistically significant impact of VAT on operating margin, as well as there is a statistically significant impact of VAT

on capital efficiency.

**Originality/value:** The present research helps in listing out the benefits of implementing an appropriate VAT system in the UAE small business. In addition, the findings of the present research convey the potential for driving suitable changes in behavioral taxation and its opportunities and challenges, which helps in enhancing and positively shaping prevailing small business behavior. The theoretical value is summarized by the impact on the theories used in this research namely the social contract theory, the theory of tax harmonization, and the, social solidarity theory.

**Contribution and Recommendations:** Research contribution can thus be found in its capacity to provide light on how VAT affects small businesses' net operating cash flows and profitability in the UAE. Preparing a statement of cash flows serves the main purpose of giving relevant information on cash flow during the financial period, which helps lenders, investors, and other stakeholders assess and analyze the company's liquidity. Based on that, the researcher recommends making appropriate amendments to the procedures for applying the VAT to help reduce the complexity surrounding it and bring it to a state of clarity and simplicity for small companies in the UAE. This in addition to paying more attention to the elements of the cash flow statement because of their informational content is useful in identifying the financial situation of small companies in the UAE.

**Keywords:** VAT, Cash Flow, UAE Small Business.

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# ABBREVIATIONS

VAT	Value Added Tax
UAE	United Arab Emirates
OECD	Organization for Economic Co-operation and Development
SPSS	Statistical Package for Social Sciences
CFA	Confirmatory Factor Analysis
KMO	Kaiser-Meyer Olkin
ANOVA	Analysis of Variance

# **CHAPTER 1**

## **INTRODUCTION**

## 1.1. Research Background

Taxes, in general, are one of the most important financial sources for most developing and developed countries, which directly affect their economies, as all countries resort to them to finance their public expenditures on the services they provide to members of society, as it is an effective financial tool in redistributing incomes to achieve both social justice and economic stability (Alkhodre et al., 2019). VAT is one of the types of tax that is characterized by relative modernity, as it was used in the middle of the twentieth century, which aims to impose a tax on the purchasers of the commodity as a result of passing through many stages until it reaches the final consumer (Kabwe & van Zyl, 2021). One of the reasons for the increase in the proceeds of VAT is its reliance on a tax base that is wider than the income tax depends on, as the abundance and diversity of consumer items, and the multiplicity of stages of circulation of these items leads to greater collections of VAT (Yang & Zhang, 2021). The importance of implementing VAT has accelerated due to its increasing proportion in the structure of public revenues since it is one of the state's most important financial policy tools in achieving its economic and social objectives (Zou, Shen & Gong, 2019).

The reason for applying VAT is due to facing the increasing needs of revenues that are not achieved through taxes of a multiplying nature on the turnover, which may have a negative impact on economic decisions (Suleymanova & Rahimli, 2019). The VAT is also considered one of the most important forms of taxes that make up the economies of countries, as it is a means of combating fraud and exploiting the opportunities of digital technology, which helps in achieving clarity and transparency in the tax system, relying on invoices and the method of deducting inputs from outputs as a means of collecting revenues (Shakkour et al., 2021).

Moreover, it is an effective tool used by the state to employ its financial policy in a way that encourages investment and attracts foreign capital, making it a safe, regular source of revenue that is collected at specific periods during the fiscal year, where the tax proceeds collected on it are considered as an aid to government agencies in making predictions and estimates that are highly accurate (Peng et al., 2022). According to economic theories, the classics saw that the main objective of VAT is to provide funds to cover public expenditures, as they considered that the economic effect of the tax is a secondary issue that follows in a voluntary manner (Gerged, Salem & Beddewela, 2023). As for the proponents of the monetary theory, they considered that VAT is the means and tool through which it can be used to influence the economic and social fields other than its financial role (Chen et al., 2023). Thus, this tax justifies the flexibility of the important tools for achieving the objectives of the tax policy and an effective tool for financing the state budget deficit (Waseem, 2023). From the administrative point of view, VAT guarantees the principle of self-control among registrants, which facilitates the work of tax administration and reduces the possibility of tax evasion (Sarwar et al., 2021).

On the other hand, the fear of disruption of economic and financial plans when any tax amendment or the imposition of a new tax requires consideration of the economic effects expected to occur from those amendments or the imposition of new taxes, in order to be prepared to treat them and to ensure the availability of a continuous source of public revenues for the state (Morrow, Smart & Swistak, 2022). The application of the VAT system without a direct increase in the level of wages contributed to the rise in prices, which pushed small and medium enterprises to sell outside the bill to help segments of society who want to obtain lower prices, which caused an increase in inflation rates (Wawire, 2017). Buying and selling are usually done quickly for several transactions and without official

supporting documents, which increases the possibility of tax evasion on this type of tax, especially with small companies where the volume of transactions is limited (Slemrod & Velayudhan, 2022).

The UAE has ratified the Unified VAT Agreement of the Cooperation Council for the Arab States of the Gulf. So VAT was implemented in the UAE on January 1, 2018, as an indirect tax of 5% levied on most goods and services that are supplied at each stage of the supply chain (Kasim, Mohd Hanafi & Mohd Suki, 2022). Therefore, this tax is not an income tax imposed on individual income or corporate profits, but it is a tax on the goods and services consumed by individuals and institutions. VAT is indeed the easiest and fastest way to collect money from citizens and residents for the benefit of state revenues, but in return, it has direct and repeated negative results on the volume of consumption of goods and services (Hadal & John, 2022). This would reduce the volume of public demand, which is the main driver of production, employment, and investment, as well as its impact on low- and middle-income earners is much stronger than its impact on high-income earners (Delipalla et al., 2021).

UAE attaches great importance to small businesses in terms of providing full support and providing it with funds and knowledge to ensure rapid steps in the development of the sector, in order to achieve the state's vision and directions in creating a balance in various vital sectors (Jawabri, 2020). Small enterprises are considered the main drivers of the country's economy, where they are classified as one of the most important strategic direction mechanisms to support the productive structure, especially since they represent more than 94% of the total number of companies operating in UAE (Ameen & Anand, 2020). The role played by the UAE government in supporting and encouraging citizens through



financing and providing advisory programs is one of the vital roles in diversifying the local economy into new and globally required investment areas such as technology, artificial intelligence, and renewable energy (Gilani et al., 2023). However, Chien et al. (2021) illustrated that the medium and small enterprise sector in the UAE needs government support in light of the challenges facing entrepreneurs in light of the Covid-19 pandemic, especially since the sector has recently been able to enter into vital areas, including projects related to the industry, food, technology, and future foresight, both on a local or global level.

To sum up, the adoption of VAT is the beginning of the process, not the end. In general, the implementation of VAT should be viewed as a continuous process to improve the design processes. This requires improving the structure and implementation of the tax, and facing the new challenges posed by international services, e-commerce, regional integration, and trade liberalization (Ezeani et al., 2023b). From this point of view, this research comes in order to clarify the procedures through which VAT can be imposed in UAE, and its effects on cash flows in order to modernize this system and increase its effectiveness. Moreover, this step bears an important character according to the current global economic developments.

## **1.2. Research Context: Small Business in the UAE**

There is no precise definition of small business, as small enterprises in developed countries are considered large by developing countries. Countries have adopted various standards to define it, such as the standard of workers, the standard of capital, the standard of sales and revenues, the standard of production, the standard of technology, the standard of energy consumption, and others (Azimovna, Shokhrukhovich & Sodirovich, 2022). Within these standards, the number of workers is the most common, however, there is also a difference

between the upper and lower limit of the number of workers, for example, the number does not exceed 49 workers in Germany, 200 workers in England, and 300 workers in Japan. In light of that, the United Nations Industrial Development Committee defines small enterprises in developing countries as every enterprise that employs fewer than 90 workers, while in developed countries, it is considered a small enterprise if it employs less than 500 workers. In addition, Calabrese (2023) defined small businesses as projects that need support and care, stemming from their technical or financial inability to provide this support from their own resources and capabilities. In the United States, small and medium enterprises employ more than half of the workers, especially in the primary industries sector. In Japan, the percentage of small and medium enterprise employment in 2022 reached approximately 81% of the total number of workers.

In this context, a number of studies call for reducing the tax rate imposed on small enterprises as a result of the positive impact on the activities of these enterprises (Azimovna, 2022). For example, some studies show that reducing the tax rate imposed on small enterprises by one percent in Russia, France, Poland, and some other countries leads to an increase in the number of these enterprises by between 1.0 and 2.0 percent. Nevertheless, the most important challenges facing the integration of small and medium enterprises into the VAT system are the high costs of tax compliance for these institutions, for a number of reasons, including the high cost of adherence to keeping books and regular financial accounts due to the low volume of sales and net income for small and medium enterprises compared to large enterprises. This is in addition to the lack of qualified personnel in small enterprises that can deal with the VAT system and the high time required to be allocated for tax compliance (Muthitacharoen, Wanichthaworn & Burong, 2021).

Small projects are characterized by many characteristics and great advantages that make them more suitable for the economic situation of the UAE, rather they are more suitable for the nature of economic activity with networking relations in certain sectors within the country itself. The characteristics can be summed up in the ease of incorporation, the independence and flexibility of management, the availability of job opportunities, the ability to adapt to new changes, and the short recovery period for the invested capital. However, there are many problems related to small business development in the UAE, including difficulty in obtaining financing, poor accounting, and lack of planning for the future. In this regard, Mansur & Djaelani (2023) mentioned that the difficulty of financing and attracting a shortage of financial services and the limitations of financing institutions are among the most important obstacles facing small projects in the UAE. This is in addition to the lack of institutions to provide technical assistance to small projects, especially in the areas of acquiring work skills and project management, as well as the lack of qualification for these projects to produce outputs that conform to international standards, especially after the accession of many countries to the World Trade Organization and the signing of some countries of international partnership agreements. In contrast, Chien et al. (2021) indicated the lack of a statistical database for small projects, effective measurement indicators, and statistical data tracking the growth of these projects and setting special policies for them in the UAE.

According to the report of the UAE Ministry of Economy in 2022, small and medium enterprises are classified as one of the most important mechanisms of strategic direction to support the productive structure, especially since they represent more than 94% of the total number of companies operating in the country distributed by 73% in the wholesale and retail trade sector, 16 % in the services sector, and 11% in the industrial sector. The number

of companies classified as small and medium enterprises in the UAE exceeded 350,000, providing job opportunities for more than 86% of the total workforce in the private sector, and contributing more than 60% of the UAE's GDP. In Dubai alone, for example, as confirmed by the official portal of the UAE, small and medium enterprises constitute nearly 95 percent of all companies, employ 42 percent of the workforce, and contribute about 40 percent of the GDP of the Emirate of Dubai. The reports of the Chambers of Commerce, including the Abu Dhabi Chamber of Commerce and Industry, also monitor the remarkable expansion in the number of small companies in the UAE, with an increase rate ranging between 5 and 7% annually, and small and medium enterprises account for more than 97% of the total new licenses annually. However, there is a measure of caution in increasing the number of small and medium enterprises in the UAE; for fear that its expansion attracts more foreign contract workers (Tabah, 2021).

### **1.3. Statement of Problem**

A micro business in the UAE is contesting the VAT burden imposed on it and how it affects business operations. As the micro business may be quite flexible, but those without a track record of profitability frequently find it difficult to get traditional lenders to provide them with the funds they need to pay VAT (Gopakumar et al., 2022). Micro business owners may also have difficulty keeping up with important business tasks due to their small budgets and time constraints, exacerbated by VAT. In this regard, Sidek & Abdulraqueeb (2022) demonstrated how some small business owners were ignorant of the workings of the VAT system, which led to issues with the authorities and had an impact on operating margin and revenue growth. Moreover, small business faces the risk of having to pay higher tax liabilities because they may not be able to optimize their VAT claim (Al-Hamadi, 2020). In

addition, weak cash flow causes one out of every four small companies to not continue in the first year of its start-up, and poor cash flow management is the reason behind the discontinuation of more than 82% of micro-businesses (Alotaibi, 2021).

The imposition of VAT for government revenues without any change in the nature of government spending was not sufficient to sustain the financial flows of UAE micro business (Al-Hamadi, 2020). Where Alsalloum & Grijalba (2021) explained that VAT reduced the ability of small companies to generate future cash flows, and their ability to fulfill their obligations, pay their debts, and pay dividends. This means that there is a shortage of timely cash; which helps in reducing the cash surplus as bank deposits or investments in negotiable securities for short periods (Akhmadaliev, 2022). The introduction of VAT can allow the introduction of improvement or modernization of the tax administration as a whole; however, the introduction of this tax sometimes disrupts the work of the existing administration as a result of insufficient preparations or incorrect implementation decisions (Alsalloum & Grijalba, 2021).

At the micro-business level, one of the main disadvantages of VAT is that it is complex in terms of application, which requires the existence of a fairly advanced accounting system. Many studies have discussed the potential effects of applying VAT on the performance of small companies and various business and investment sectors (Kowal & Przekota, 2021; Sidek & Abdulraqueeb, 2022). In this regard, Guo & Shi (2021) clarified that the application of VAT reduced the average sales, which affected the net profits and is likely to cause small companies to default on their financial obligations and fail. Achieving profits is one of the most important responsibilities of corporate management, as the continuity of any small company is not entirely linked to its ability to achieve profits, but also to its ability to provide liquidity and cash flows (Sarwar et al., 2021).

Despite the confidence of the business sector in government decisions and the rapid response shown by companies to meet the requirements of the VAT system in UAE, some small and medium businesses faced several difficulties, including a decline in cash liquidity due to the refund of the tax value on a deferred basis, and a decrease in the volume of sales and profits due to the trend of a group of consumers towards rationalizing expenses to meet the high cost of living (Gopakumar et al., 2022; Sidek & Abdulraqueeb, 2022). This is in addition to incurring some losses due to fines imposed for late submission of tax returns during the first period of implementation of VAT in UAE (Hadal & John, 2022). Moreover, Al-Hamadi (2020) mentioned that VAT tax in the UAE may create operational risks and put pressure on small companies' profits before interest, taxes, depreciation, and EBITDA, as well as affecting cash flows in some industries. Also, the collection and remittance of VAT to governments had significant compliance costs.

In the face of the "Covid-19" pandemic, small and medium enterprises found themselves in a very difficult situation. According to about 15 surveys in Organization for Economic Cooperation and Development (OECD) countries, more than half of SMEs are already facing severe revenue losses, with many having buffer balances that may help them survive just a few months. In Portugal, 37% of SMEs reported a decrease in production of more than 50%. Moreover, SME management teams do not have the resources that large companies do in core functional areas to manage business pressures. This shortcoming is evident in the inability of SMEs to rapidly adapt supply chains and production processes. A sudden and severe loss of demand may affect the ability of small and medium enterprises to conduct their business, and general lockdown measures may increase unemployment rates. For example, 50% of all SMEs and 78% of small businesses with revenues less than \$20 million in the US have recently laid off employees, resulting in record unemployment rates. Since

small enterprises in the UAE contribute a high percentage to the gross domestic product, any failure in its performance leads to severe damages at the level of the UAE economy. Accordingly, the problem of the study focused on studying the impact of VAT on the cash flow and its patterns in predicting the failure or success of these institutions. Thus, this study contributes to correcting them before they escalate, which avoids small enterprises falling into stumbling or future financial failure, and this limits the losses of investors and the economy in general. Thus, the research problem is determined in an attempt to resolve the controversy surrounding the application of VAT, highlighting the impact of VAT on cash flow compared to the costs of its application, as well as the burden on the tax administration, which helps in the existence of a sustainable source of financing that guarantees the improvement of the economic situation in UAE.

#### **1.4. Research Aim and Objectives**

This research aims to investigate the effect of VAT on the cash flow in the UAE small business. From this main aim, the following objectives can be formulated:

- To investigate the effect of VAT on revenue growth in the small UAE business.
- To investigate the effect of VAT on operating margins in the small UAE business.
- To investigate the effect of VAT on capital efficiency in the small UAE business.

#### **1.5. Research Questions**

In light of the above, the researcher raises the following main question: ***What is the effect of VAT on the cash flow in the UAE business?*** From this main question, the following questions can be formulated:

- What is the effect of VAT on revenue growth in the UAE business?
- What is the effect of VAT on operating margin in the UAE business?

- What is the effect of VAT on capital efficiency in the UAE business?

## **1.6. Rational of the Research**

Small enterprises play a fundamental role in the local and global economies in terms of production, operation, and innovation. It also contributes to supporting the gross domestic product as it is an effective tool in expanding the production base when applying strategies to support exports and import substitution, which contributes to the treatment of structural imbalances in the balance of payments, especially in developing countries. There is no doubt that the role of small enterprises is not limited only to the economy, but also contributes to various political and social aspects, as the development of the sector leads to the promotion of job opportunities and the provision of goods and services. Moreover, the spread of these institutions in the various productive sectors of the economy contributes to reducing the disparity between income levels, and thus improving the standard of living for the majority of the population. In this context, the emergence and development of small enterprises require concerted efforts through modernizing the tax system, especially VAT and creating a business environment to encourage these enterprises.

The new taxes confirm government concerns about the sustainability of the strategy that has marked the success of the GCC. The UAE pinned its hopes on moving away from dependence on oil, as it set specific goals and strategies to keep economies away from hydrocarbon revenues (Zafarullah, 2018). Moreover, the International Monetary Fund has long urged Gulf countries to understand the need for a VAT to transition effectively to a post-oil economy (Al-Hamadi, 2020). The consequences of the 2014 oil price crash made clear the urgency of this issue. Since then, the UAE and other GCC countries have faced fiscal deficits exacerbated by the coronavirus pandemic (Hadal & John, 2022). This study



came to enhance awareness and knowledge of VAT, its effects, and how to reduce its burdens. The results of this research can help the government to monitor the opinions of companies and then take effective and practical measures to reduce their burden and to explain their goals and objectives and the benefits of their application. Furthermore, based on the in-depth search conducted, there is a lack of previous research related to the current research subject in the context of UAE business (Gopakumar et al., 2022; Hadal & John, 2022). Thus, this research attempts to investigate the effect of VAT on cash flow in UAE businesses. In addition to that, this research also discovers ways to minimize the gap between the actual and desired VAT implementation.

Most of the previous studies, especially in the Gulf countries, discussed the effect of VAT on economic growth, ignoring its impact on cash flows, which provide information about the company's ability to distribute profits, issue new debts, and indicate the company's ability to fulfill its obligations and pay its debts, in order to assess the formulation of the financial policy for each of the shareholders, and all interested parties in the company and its activities, such as managers, lenders, investors and suppliers (Gopakumar et al., 2022). The list of financial flows shows the company's ability to collect; if there is a big difference between the net profits of the company and the liquidity that the company has due to the application of VAT (Kútna, Gyurián & Šeben, 2018). Therefore, this shows the extent of the company's weakness in collecting and therefore affects its sustainability as it pays for its commercial and operational activity without having funds to cover it, which in turn may cause a financial deficit for the company if it continues and no quick action is taken to solve the problem of collection (Hussein & Williams, 2016). Thus, this research attempts to highlight the potential future effects of applying VAT on the cash flow statement of UAE companies.

## **1.7. Significance of the Research**

The scientific importance of this research stems from the study's handling of VAT, which is of global interest, as it is still the subject of debate in the economic field, due to the wide controversy between the supporters and opponents of VAT, according to its advantages and disadvantages. The research also acquires practical importance in terms of the timing of its preparation, as the interest in VAT has increased at present after the global financial crisis, and with the increase in the state of competition in the business environment at the global level. This prompted the researcher to explore the opinions of accountants in the UAE about the effective role of that imposed tax in providing a sustainable source of financing that helps stimulate the wheel of the economy in small enterprises. One of the most important motives of the research is to contribute to the awareness of investors and other stakeholders of the vital role that VAT plays in improving economic conditions in the UAE.

The economies of the major countries depend on small enterprises, so it was urgent to find annual financial reports for those enterprises, as those reports must show and disclose the financial information of the companies, which is of interest to many parties (Tan et al., 2022). Among the most important of those reports that have become mandatory in our time is the list of cash flows. Thus, the importance of the study is traced in that it clarifies the impact of VAT on the net operating cash flows of small enterprises in the UAE and the profitability of those enterprises. The primary objective of preparing a statement of cash flows is to assist investors, lenders, and others in evaluating and analyzing the company's liquidity by providing appropriate information on cash flow during the financial period. Moreover, cash flow information helps users develop models to estimate and compare the present value of future cash flows for different projects in small businesses. Dealing with

this research in this way may help small enterprises in the UAE understand the VAT and its effects and the way to reduce its burden. On the other hand, the results of the research can help the government to monitor the opinions of small enterprises in UAE and then take effective and practical measures to reduce their burden and to explain their goals and objectives and the benefits of their application.

One of the most important advantages of moving to VAT is the enjoyment of full tax deduction, meaning that the full tax deduction rules apply to the inputs of goods and services, whether by themselves or as inputs to other goods or services. Therefore, it follows that the tax burden should be distributed over the various stages of production and distribution, and the problem of double taxation was eliminated in small businesses in the UAE. On the social level, it is hoped that VAT will help improve the well-being of the Emirati citizen, through good utilization of the tax revenues that the government reaps from VAT in establishing productive economic projects that bring returns to the UAE economy and then benefit the citizens. These tax revenues can also be used to improve various services for citizens, and thus improve the economic well-being of citizens. In addition, accounting information helps small enterprises to evaluate the company's future cash flows, in terms of their amounts, timing, and degree of uncertainty related to them. The importance of the study lies in determining whether the VAT system has additional information content to explain the net cash flows from operating activities. The determination of the relationship in this study was not purely statistical, but rather took into account the economic dimension, as this relationship does not look at the specification of the impact of VAT on market performance as much as it focuses on the explanatory variables of the change in cash flows.

The economic crisis caused by the Coronavirus Pandemic prompted the UAE to make difficult choices to confront the lack of cash flows, including raising the VAT, as this decision contributed to diversifying the sources of addressing the deficit by increasing non-oil revenues, debt instruments, and withdrawing from reserves. The government has succeeded in managing the crisis and getting out of it with minimal damage and has maintained the sovereign rating of the UAE. On the other hand, those economic crises caused several small enterprises to exit the market as a result of their inability to cover financial obligations. As for large commercial activities that have high financial capacity, they benefited from the closure of small activities and increased their sales, and weak competition made them control prices more. Therefore, the continuity of small commercial activities must be maintained, supported, and immunized from threats to continuity. Therefore, the importance of this research lies in identifying the weaknesses in the VAT system in the small enterprises sector in the UAE and identifying the problems that occurred or are likely to occur in the future.

Moreover, the importance of this study emerges from its adoption of the UAE Vision 2040, which seeks to ensure the sustainability of the UAE economy through economic diversification and the multiplicity of sources of income through the development of small enterprises. This study also reinforces the important role of the vision in bringing about a change in the methodology of work in government institutions in the UAE based on rational management to maximize the utilization of VAT. In addition, small enterprises in the UAE are in dire need of such research because the country adopts a free and open market policy, which means that it needs to compete with international companies to ensure stability, growth, and success. This research contributes to the literature on VAT, specifically the

relationship between VAT and cash flow in the small business sector. This research also presents various theories related to VAT practices, thus broadening the horizons of knowledge among academicians. Finally, by reviewing books, periodicals, academic journals, and previous Arab or foreign studies, the researcher found a lack of research that dealt with the effect of VAT on the cash flow in the UAE small business.

## **1.8. The Structure of Study**

This research consists of five chapters. The first chapter presents the introduction, research context regarding small business in UAE, problem statement, research questions, research aim and objectives, rationale for the research, significance of research, and summary. The second chapter focuses on describing the main variables in this research, including VAT and its definition, importance, practice, advantages and disadvantages, determinants, approaches and theories, cash flow and its definition, objective, importance, types, and methods, the impact of VAT practices on cash flow, the theoretical framework, research gap, summary of the research hypotheses, and summary of the chapter. The third chapter presents detailed information on the research methodology, comprising the introduction, research philosophy, research design, operationalization of variables, data collection, sampling and population, data measurement, data analysis procedures, reliability and validity, pilot study, ethical issues, and summary of the chapter. Chapter Four presents an analysis of the data collected through the distributed questionnaires. The data was analyzed using the Statistical Packages for Social Science (SPSS) and Partial Least Squares Structural Equation Modeling (PLS-SEM), following which an explanation and discussion of the results are presented. In this chapter, the validity and reliability of the model were measured whilst the mean and standard deviation were extracted. In addition, the hypotheses were tested

using the regression model and path analysis. At the end of the thesis, a set of recommendations and suggestions related to the results of the current study were presented. Based on that, chapter five consists of a summary of analysis results, recommendations, and suggestions for future research.

## **1.9. Summary**

The multiple and overlapping variables experienced by the UAE economy in general, and the tax system in particular, necessitate substantial amendments to the tax legislation in force in the UAE, in a way that makes the VAT system in line with the procedures for accommodating global and local variables, just like the different tax systems. There are several options for designing and implementing VAT, as the actual design of the provisions should be detailed in a way that suits small enterprises and the nature of their business activities in the UAE. Despite the clarity of its meaning and limits, VAT differs completely in practice between different countries of the world in terms of the extent of the inputs for which tax compensation can be obtained and the type of cash flows to which this tax can be applied. To adopt the accounting outputs represented by cash flows mainly in determining the income subject to VAT it is necessary to activate cooperation between accounting and its development in its theoretical approaches and applied practices on the one hand, and VAT in its advanced legislation and systems on the other hand. Based on that, this study mainly aims to investigate the effect of VAT on the cash flow in the UAE small business. Therefore, this chapter focuses on the background of the study, small business in UAE, the problem of the study and its objectives, followed by research questions, the rationale of the research, and the significance of the study including two parts namely theoretical contribution and practical contribution.

**CHAPTER 2**

**LITERATURE REVIEW**

## 2.1. Overview

With the turmoil of the economic situation in many countries, especially after the global financial crisis and the collapse of many companies that followed, taxes reflect a complementary source of financing in the economies of countries, as many economists rushed to search for sources of financing that avoid the state of turmoil surrounding the known sources of financing (Sok-Gee, Zulkufly & Mohd, 2021). Tax revenues, both direct and indirect, represent an important part of the revenues of developed and developing countries alike, as they contribute to financing development plans proposed by governments for all sectors (Akhmadaliev, 2022). The VAT is one of the most important taxes that has proven successful in increasing the revenues of most countries that have applied it for years (Peng et al., 2022). VAT is imposed on the net real value of goods and services produced by economic units after excluding goods, services, and works purchased from outside the unit during a specified period (Ananda & Putri, 2022). Therefore, the most appropriate way to achieve a strong economy is the application of this tax, as a means of drawing up the financial policies of the state through the participation of all segments of society to improve economic efficiency in a sustainable manner (Suleymanova & Rahimli, 2019).

The cash flow statement is widely used by analysts, financial managers, and banking institutions, but regardless of who uses this list; its objectives all remain the same, which is to know the sources of cash and ways to use it (Kamaluddin, Ishak & Mohammed, 2019). The importance of the cash flow is that it shows the cash impact of all the activities carried out by the company during the financial period and the nature of this flow internally and externally (Kent & Bu, 2020). Cash flows are considered a reliable list for financial analysis



because of their special advantages concerning the company's real liquidity (ready cash), which may help measure the company's actual ability to meet its obligations from its own sources (Ding & Shahzad, 2021). Although the statement of cash flows is considered modern compared to other financial statements, it has witnessed a development in the decisions of the Accounting Standards Board since its inception in 1948. As the Financial Accounting Standards Board No. 5 FASB approved the statement of cash flows gives useful information about the various activities of the company, which helps in determining many factors such as liquidity, profitability, and risks surrounding the company.

The establishment of a small enterprise aims to promote the spirit of individual and collective initiative, using economic, commodity, or service activities that did not exist before, as well as reviving activities that were abandoned for whatever reason (Zahorskyi et al., 2019). Small enterprises contribute an effective role in providing job opportunities, as they are considered one of the most important economic sectors that create new job positions, as they exceed even large industrial enterprises in this field despite their small size and the modest capabilities that are available to it (Salem, Ezeani & Song, 2023). This role resonates widely in developed and developing countries, especially with the steady increase in unemployment rates (Ezeani et al., 2022). Therefore, small enterprises are the most capable of eliminating a large part of unemployment, as they represent about 90 percent of the total enterprises in most economies of the world, and they provide between 50 percent and 60 percent of the total job opportunities (Belitski et al., 2022). These projects also contribute about 46 percent of the global domestic product. Small and medium enterprises are estimated to represent about 65 percent of GDP in Europe, compared to a share of 45 percent of GDP in the United States. According to the OECD, small and medium enterprises contribute, for example, to half of the new jobs created in

Europe, as they employ 70 million people, which represents 2/3 of the total jobs. Moreover, small and medium enterprises help solve the main problem in most developing countries, which is the scarcity of capital, hence, it reduces the investment cost required - on average - to create job opportunities. Also, Hakimovna & Muhammedrisaevna (2022) explained that the average labor cost of investment in small enterprises is 3 times less than the average labor cost in large enterprises. In some regions of the United States and the European Union, small enterprises are practically the sole employer of the private sector, which confirms their social, as well as economic, importance.

From this point of view, chapter two discussed the definition and concept of VAT, its objectives, and its advantages and disadvantages. Next, this chapter explained cash flow, and its definition and importance, as well as the main ratios for cash flow analysis, including revenue growth, operating margin, and capital efficiency, were clarified. This is in addition to exploring the relationship between VAT and cash flow, and clarifying the most important theories related to taxation, followed by a detailed presentation of previous studies related to the research variables and hypothesis development.

## **2.2. Background on Value Added Tax (VAT)**

VAT is one of the modern taxes that interest is increasing at present, as it is considered a major source of income in many countries of the world. It represents a tax on consumption because the final consumer is the one who bears the burden even though the producer, importer, or distributor is the one who collects it. Therefore, VAT has become one of the topics worthy of attention, especially in the UAE, as it is one of the main sources of financing in the economies of many countries, whose clear role in covering the needs of many major projects cannot be ignored, as was evident in Germany, France, and Spain. The VAT differs

from one country to another, according to what the government imposes on each product or service, where it in its general form affects the consumer in the end. This effect appears in two forms, either the lack of purchasing power to all goods, clearly in low-income families, or the inability to save a sufficient amount of money to achieve stability and financial security for the future. This tax differs from the sales tax in that the sales tax is imposed on one stage of the life of the product when it is sold and delivered to the final consumer, while VAT is imposed on each stage of production that adds value to the product (Usman, Salem & Ezeani, 2022).

### **2.2.1. Definition of VAT**

VAT arose in the twenties of the last century in the writings of the German businessman Von Siemens as a result of the disadvantages that resulted from the application of the tax accumulated on the turnover in Germany, regardless of the added value of the products (Kopeć, 2020). Its concept was proposed in 1918, where the focus was initially applied to large establishments, and over time it included all business sectors, as it became the most important source of funding for the state contributing about 50% of its total sources. Then, VAT was transferred to France in 1948 at the suggestion of Laure Maurice by initially applying it only to production and wholesale stores (Abay, 2013). But by 1968 the scope of application of that tax had been extended to include installment sales of goods as well as services. Then it spread to various countries of the world, starting with Brazil, which introduced it to South America in 1977. In the same year, Denmark applied it and its spread began in Europe and Asia. South Korea was the first country to adopt the VAT with the knowledge of the International Fund, and its spread continued until the late seventies, then there was a slowdown in its spread for ten years (Lee, 2016). By the end of 2005, VAT was

adopted in almost all countries in economic transition and a large number of developing countries, especially in South Africa, but also in the Asia and Pacific region, until the number of countries that introduced this tax reached 136 countries (Hameed et al., 2022).

Based on that, VAT as an indirect tax system of French design, is imposed on goods and services at all stages, as it is calculated on the gross profit margin at each point in the production process and the tax is estimated and collected at each stage, compared to the sales tax paid by the consumer at the end of the supply chain (Hammour & Mckeown, 2022). In addition, VAT is defined as a governmental indirect tax imposed on the production stages of goods or services, as it is paid by companies that trade the commodity during its conversion from a raw material to a manufactured one, where the value of the tax is determined by the value added by the company to the cost of raw materials and services (Alizadeh & Motallabi, 2016). Additionally, Ananda & Putri (2022) defined it as the increase in the market value of the goods and services used by the establishment and the services that emerged as a final result of its activities, since the increase in value results from the contribution of the people working in the establishment, the capital, and the government that provides the economic and social environment in which the establishment operates.

VAT is the difference between the cost of the purchase of inputs for materials or services and the value of the outputs as a result of the operational processes carried out by the establishment of these inputs (Cao, Wang & Cao, 2022). However, VAT is a tax on the amount spent by the final consumer specifically, and it is collected when trading goods and services in the production, wholesale, and retail stages, respectively. VAT is a consumption tax on goods and services that is levied at each stage of the supply chain where value is added, from initial production to the placement of the product at the point of sale (Hoseini

& Briand, 2020). Moreover, VAT is a tax with a broad base imposed on sales or services until the end of the manufacturing stage, or service output at least, with regular budgets for the tax collected on production inputs with the tax due on production outputs, taking into consideration the exclusion of capital goods from that (Adhikari, 2020). Furthermore, Zhou, Li & Gong (2022) stated that VAT is the difference between the price of selling a commodity or the value of a service and the price of purchasing materials and services involved in its production and marketing.

From the point of view of this research, VAT is imposed on goods and services purchased by the end user, as it depends mainly on the price of goods and services subject to this tax, so VAT is in line with the traditional principles of financial policies that include impartiality, efficiency, certainty, clarity, and effectiveness.

### **2.2.2. Objectives of VAT**

The financial aspect is one of the main and important goals of any tax, as securing permanent revenues from internal sources for the state treasury is one of the objectives of the government authorities (Singh, 2019). That is, the tax base is wide, as it is inclusive of all natural and legal persons with the economy as much as possible in collection expenses so that the tax revenue is high (Zhang et al., 2021). This is observed in developed countries, where the ratio of tax revenues to the gross national product is high since the matter is related to reality, to the level of economic development (Schenk & Oldman, 2022). Therefore, the main objective of the decision to implement VAT lies in correcting and adjusting the economic distortions and achieving higher tax revenues compared to the sales tax system. As the application of VAT works to expand the base of subjection to the tax on goods and services and to prevent double taxation in addition to improving competitiveness

(Lisdiyanto & Wijaya, 2022). On the other hand, the social objectives of the tax are many and varied, especially after the emergence of the concept of social justice, the growth of modern trends for a fair distribution of income, and the limiting the exploitation of the working classes, in addition to the emergence of the concepts of the tax burden and its distribution in society, according to the level of income (Shakkour et al., 2021).

The ultimate goal of VAT is to provide a mechanism for balancing the tax paid on production inputs with the tax paid on production outputs (Salem, Usman & Ezeani, 2021). In general, the UAE aims behind the implementation of the VAT to achieve justice and equality, through that the tax system includes every member of society, each according to his/her ability, so that each individual contributes to bear the expenses (Hammour & Mckeown, 2022). The VAT also provides abundant funding sources that support and contribute to public sector expenditures, as it constitutes a large percentage of the funds generated and supported by the state in achieving its goals. Moreover, imposing a VAT helps the state to stop or reduce the consumption of some luxury goods, just as reducing the tax on some products helps export, and so on with the rest of the commodities and economic sectors (Akhmadaliev, 2022).

### **2.2.3. Advantages and Disadvantages of VAT**

The imposition of value-added tax is a matter of disagreement between supporters and opponents, due to the positive or negative effects that result from the imposition of this tax. Supporters of the application of VAT believe that it achieves tax justice as a basic principle, where it works to distribute the tax burden on the different stages of the production and consumption process in a fair distribution according to the values added by each stage to the total value of the product (Bala et al., 2023). The existence of this type of tax helps to

simplify tax legislation and increase the efficiency of tax revenue collection, and this also helps to reduce tax evasion by including many sales transactions that occur without a tangible presence, such as online sales and purchases (Adandohoin, 2021). As Alotaibi (2021) indicated the use of VAT instead of income tax leads to keeping money in the hands of citizens until the acquisition of goods or services, which reduces the tax burden on people and helps them to save money. While Hoseini & Briand (2020) stated that VAT is a means to combat fraud and exploit the opportunities of digital technology, which helps in achieving clarity and transparency in the tax system, which depends on invoices and the method of deducting inputs from outputs as means of collecting revenues. Moreover, Akhmadaliev (2022) mentioned that VAT is a tool used by the state to employ its financial policy in a way that encourages investment and attracts foreign capital, making it a safe and regular source of revenue that is collected at specific periods during the fiscal year. The tax proceeds collected on it are considered an aid to government agencies in making predictions and estimates that are highly accurate (Hameed et al., 2022). Furthermore, Kristjánsdóttir (2021) showed that VAT contributes to achieving a degree of balance between the supply and demand movements when demand exceeds the level of supply, which helps in creating waves of economic boom in the country. In addition, full enjoyment of tax deduction, which means that the rules apply to inputs of products and services, whether by themselves or as inputs in other goods or services, is one of the most significant benefits of the switch to VAT. Consequently, it entails distributing the tax burden on the various stages of production and distribution, eliminating the problem of double taxation, and achieving tax revenues for the state when goods are transferred.

On the other hand, opponents of the implementation of this tax believe that it may open the way for an increase in prices and the emergence of waves of inflation in the economy

(Saptono, Khozen & Ayudia, 2021). In this regard, Al-Shammari, Ahmed & Al-Anbagi (2021) illustrated that the problem lies when calculating the VAT at each stage of production or processing of the product before receiving it by the final consumer, this leads in some cases to an increase in the value of that product due to the taxes imposed on it, which increases the complexity when the product is not local. In this regard, Tavengwa et al. (2023) clarified that VAT favors imports because it imposes a single tax on them, while local industries are subject to taxes at every stage of production. In addition, the recovery of taxes on intermediate goods usually takes time and effort, which leads to inefficiency in production and possibly monopoly. It may cause an impact on the position of the local markets, as a result of the lack of foreign investments, and thus this affects the country's economy and thus affects production in general (Oliver et al., 2022). This problem is due to many reasons, including, for example, reducing the burdens resulting from paying VAT for many products that go through multiple stages during the production and supply journey, in addition to buying and selling operations that take place without official documents, especially for small companies with very limited transactions (Brondolo, 2021). Also, Veryzhenko, Jonath & Harb (2022) indicated that one of the most important drawbacks of VAT is that it can lead to a decrease in living standards, especially for low-income groups because indirect taxes are included in the price of the commodity, and this price increases after tax, which reduces the consumption of these groups. Zhang et al. (2021) stated that the implementation of VAT reduced the competitiveness of the Gulf countries to attract foreign investments, which is the general trend for these countries. One of the main disadvantages of this tax is that it is complex in practice, as it requires the presence of a somewhat advanced accounting system for companies and institutions, and that those who bear the brunt are well-organized



companies, while small and medium enterprises can easily evade these taxes (Schenk & Oldman, 2022).

To sum up, Schoeman, Evans & Du Preez (2022) clarified that the positive effects of the application of VAT outweigh its negative effects, due to the characteristics it carries that affect the national economy and the regional and international economy, provided that it is designed and implemented with great care to suit the conditions of the economy of each country. In addition to that negative effects and problems can be overcome or mitigated by several means, through reviewing at least every five years the executive regulations in order to keep pace with the various economic and social changes. The success of VAT is very important for the economy, as it is a real criterion indicating the existence of profitable productivity, but any error in the process of applying this tax means the closure of more companies and institutions, and the dismissal of many employees (Akhmadaliev, 2022).

#### **2.2.4. VAT in UAE**

Small and medium enterprises are classified as one of the most important strategic direction mechanisms to support the productive structure. In 2022, the UAE has taken strong measures to push micro, small, and medium enterprises to achieve a quantum leap, as the efforts of 9 ministries, governmental and non-governmental agencies, chambers of commerce and industry, and the Emirates Entrepreneurs Association accelerated the implementation of practical solutions to meet the challenges it faces, on top of which is the financing challenge, which witnessed a real breakthrough (Cheffi et al., 2023). The latest reports of the Central Bank confirmed that lending directed to micro and small enterprises witnessed a recovery during the first quarter of 2022, as it recorded a growth of 4.3% quarterly, to reach 93.3 billion dirhams. In this regard, Emirati women play a distinguished

and creative role in establishing and developing enterprises, especially small ones, as a World Bank study indicates that 25 percent of small businesses in the UAE are owned by women. In addition, women own a third of the small enterprises in the UAE, whose annual revenue exceeds \$100,000. Thus, it is expected that this role will increase in importance in the future, given the opportunities that women in this region enjoy in terms of education and business experience in a tolerant and open climate.

Recently, a major role has emerged for financial policy in supporting small enterprises, in light of the UAE's keenness to design financial policy options to achieve many objectives that support the activity of these institutions on the one hand and stimulate economic growth on the other hand (Djaelani, 2023). Therefore, VAT frameworks designed to take into account the privacy of these institutions can help broaden the tax base, increase levels of tax collection, and integrate a larger number of these institutions under the umbrella of the formal economy (Zafarullah, 2018). Therefore, the Small and Medium Enterprises Council of the Ministry of Economy in the UAE, which represents 15 federal and local entities and representatives of the private sector in the UAE, is following up on the application of the unified definition of micro, small, and medium enterprises under the decision issued by the Council of Ministers. This is based on two or more of the following basic criteria, including the size of the workforce, the size of the annual returns, and the size of the capital (Zarrouk et al., 2020).

The UAE government has implemented a large number of programs aimed at meeting the needs of small enterprises. The main objective of these programs was to provide company owners with the necessary funds and support soon. These measures are important, but to maximize their impact, policymakers need to consider four additional actions, namely,

facilitating access to government support for small enterprises, enabling a supportive business environment through the development of the SME management center, and directing focus on enhancing sustainability and resilience (Chien et al., 2021). The government has also sought to improve liquidity by postponing payments, transferring value to companies, such as subsidizing employee wages and reducing government fees, as well as supporting the balance sheet such as introducing loan guarantee programs (Tabah, 2021).

Despite the determination of most countries in the world to move from a system of specific taxes on production and consumption to a system of general taxes on spending, VAT is the best form (Bala, Kumar & Nadeem, 2019). However, this transition is still taking place gradually in the UAE, but reaching that stage does not mean that it is according to similar technical rules, affected by the extent of the development of its tax systems, the efficiency of its tax administrations, and its need for tax revenues that vary according to the economic and financial conditions in which it lives (Hammour & Mckeown, 2022). On the other hand, this depends on the extent of its conviction of the need to move to this system in this way, as it considers it the most appropriate to enter into mutual and equal economic relations that lead to integration into the global and regional economy while preserving the financial role of this type of taxation for it (Kasim et al., 2022).

According to preliminary indicators, the implementation of the VAT system in the UAE contributed to improving economic conditions, as the government was keen to include specific rules that required companies to clearly announce the amount of VAT paid by the consumer in each transaction. Moreover, the implementation of the VAT system has helped the UAE generate additional revenues to finance public expenditures and reduce its dependence on hydrocarbons, in line with the national diversification strategy. However,

some believe that imposing this tax led to a decrease in the growth rate of GDP due to its negative effects on consumption, as the tax reduced the total demand for goods and services, which reduced total investment. Although VAT is imposed at the federal level, businesses must report revenues for each emirate on their federal VAT returns. This imposes additional burdens on companies that need to ensure that their sales system is registered in this way.

## **2.3. Cash Flow**

The statement of cash flows is one of the relatively recent financial statements, as the preparation, presentation, and disclosure of this list has become one of the basic requirements that companies are required to perform in addition to the traditional financial statements, including income statement and statement of financial position (Ghazwani et al., 2023). The preparation of the statement of cash flows came as a result of the shortcomings and weaknesses of the income statement and the statement of financial position in providing all the necessary information to the users of these statements, such as evaluating the liquidity of the establishment and its ability to pay (Andersson, Eklund & Tsvetkova, 2023). The statement of cash flows provides this additional information, which users of the financial statements need, regardless of their needs and purposes. Cash flows are essential basic financial statements, as they disclose the sources from which cash comes and how it is spent, enabling investors and creditors to make decisions related to the institution by interpreting cash receipts and cash payments (Bond & Gresik, 2020).

### **2.3.1. Definition of Cash Flow**

It is defined as a dynamic picture of everything that happens in the institution during the fiscal year, as it is presented in different ways and allows for a good evaluation of the type

of management and liquidity of the institution since it takes place in three branches that are exploitation activity, investment activity and financing activity (Yan, Lianyong & Shanna, 2020). It is also defined as the list that presents the organization's cash flows from all operating, investment, and financing activities so that it provides information to its users by estimating the impact of those activities on the financial position of the organization and its cash balances (Peng & Wang, 2020). The statement of cash flows is considered an analytical tool in addition to being a financial statement, as it does not arise from accounting restrictions, but rather from information that is mainly available from other financial statements (Kútina et al., 2018).

Cash flow is a financial statement that provides aggregate data regarding all cash inflows that a company receives from its ongoing operations and external investment sources. It also includes all cash outflows paid for business activities and investments over a given period (Salia, 2016). It is possible to describe the statement of cash flows as a cycle that contributes to the use of cash in the business to acquire resources that achieve success in the activities and services produced to be presented to customers and then collect their received payments so that the resources are ready to be invested in new sources (Kent & Bu, 2020). Hence, it can be said that the main objective of the cash flow statement is to provide information about cash receipts and payments of economic units during the accounting period, that is, it helps investors, creditors, and other users of accounting information in evaluating the ability of the economic unit to provide sufficient cash in the short and long term (Obaidat, 2019).

From the point of view of this research, cash flows are considered financial statements that help the users of these lists to identify the financial conditions of the institution, as they

show the cash flows that the institution makes during a certain period. Cash flow means every process that expresses the payment and receipt of money, whether it is internal, such as collection operations, or external, such as paying workers' wages and repaying loans (Usman et al., 2022).

### **2.3.2. Importance of Cash Flow**

The primary objective of preparing a statement of cash flows is to assist investors, creditors, and others in analyzing cash by providing appropriate information on cash receipts and payments during the financial period (Gürkaynak, Karasoy-Can & Lee, 2022). The operating cash flow statement shows the cash effects of current operations, investment, and financing operations during the period, as well as the net increase or decrease in cash during the period and then how that cash is used during it (Jiang, Kanodia & Zhang, 2023). The importance of the cash flow statement stems from its role in providing information that does not appear in any of the income statements and the balance sheet (Al-Shaer et al., 2023). It is also more suitable for identifying the strengths and weaknesses of the company's activity with the information it contains and the effective quantitative indicators that can be derived from it to evaluate the efficiency of the policies adopted by the management in the field of financing and investment (Ozdemir, Erkmen & Binesh, 2022).

The process of building any investment or financing decision must be based on well-thought-out practical foundations, as this requires a study and analysis of the financial situation. The investor is interested in the ability of the institution to achieve cash flows due to its importance in determining stock prices, while the lender is interested in achieving cash flows in the short term (Ionescu & Neghina, 2021). Subsequently, the cash flow statement contributes to helping decision-makers, whether they are investors, financial managers, or

lenders, in the process of forecasting and assessing the state of risk and uncertainty, by providing appropriate information that is used in making various decisions (Dirman, 2020). The management of the institution is also working on determining the cash flows, to find out the need to efficiently plan and manage the cash resources available to it, as well as to identify the extent of the need for external financing (Jin et al., 2021).

Despite the importance of the financial position and income statements for analysis, the statement of cash flows is also considered one of the lists that can be relied upon for financial analysis because of its special advantages with the reality of the company's liquidity (ready cash), which may help measure the company's actual ability to fulfill its obligations from its own sources (Flodén et al., 2019). In this regard, Cheng & Feng (2023) explained that the statement of financial position and the income statement indicates the extent to which the company's activity affects each of the liabilities and assets on the one hand and revenues and expenses on the other hand, but the cash flow statement shows the financial changes that occurred in the company during the period, through its operational activity that it exercises. For example, a company may have achieved net losses without this being accompanied by the emergence of a surplus in cash flows, and this is due to the calculation of non-cash expenses such as depreciation, or due to the presence of a large volume of deferred sales that are subject to failure to receive part of them (Salem, 2018). It is easy for the company to manipulate the numbers, but it is very difficult to manipulate the cash received, so the company's cash must be closely monitored (Kent & Bu, 2020). When analyzing liquidity, the information provided by the statement of cash flows is more reliable than the information provided by the balance sheet and the income statement (Salem et al., 2021). The balance sheet provides static information that measures a specific financial period, while the income statement contains some non-monetary classifications such as

depreciation, expenses, and accrued revenues (Fleckenstein & Longstaff, 2020). On the contrary, the statement of cash flows is considered a record of the changes that occur in the other financial statements and sheds light on what matters to shareholders to know the available cash from operational and investment activities (Dirman, 2020).

Therefore, the financial analysis based on the statement of cash flows gives the organization enough time to study the available financing alternatives instead of resorting to high-cost financing sources when it is too late (Beladi, Deng & Hu, 2021). The continuity of business companies comes through the association of the profits achieved with the existence of positive cash flows from the company's operating activities, as without the existence of these cash flows, the company will not be able to fulfill its obligations of all kinds despite achieving profits (Papadaki & Pavlopoulou-Lelaki, 2022). On the other hand, the importance of the cash flow statement lies in providing financial analysts with information about cash receipts and payments during the financial period, and thus relying on it to predict the company's ability to obtain the necessary financing on time (Ionescu & Neghina, 2021). For investors, the cash flow list is an important tool in guiding them to invest in the company or not to invest. Lautier, Pozdnyakov & Yan (2023) also expect that the use of financial indicators based on the net operating cash flow lead to the discovery of financial fraud that the administration may undertake to maximize the net income of the enterprise because this financial fraud does not result in operating cash flows.

### **2.3.3. Ratios for Cash Flow Analysis**

The cash flow ratios are considered a good tool for evaluating the financial performance of enterprises in terms of revenue power and profitability because these ratios indicate the company's ability to generate cash flows, which in turn indicates the quality of profits (Peng



& Wang, 2020). Where most institutions that prepare credit ratings mainly use cash flow statement ratios in rating decisions and measuring investment risks (Huang & Tarkom, 2022). The cash flow ratios indicate the quality of the accounting profits prepared according to the accrual basis, as most financial specialists believe that the information reflected in the statement of these flows is more reliable than that reflected in the income statement (Salem et al., 2023). Therefore, the cash flow ratios give a clearer picture of the company's financial solvency, as it is a list showing the sources of funds and methods of using them (Fleckenstein & Longstaff, 2020). In addition, the presence of Benchmark financial reference ratios for cash flows for a particular industry can help the institution to compare its performance with similar institutions and thus know its competitive position (Usman et al., 2023). In general, the financial ratios that can be derived from the statement of cash flows can be classified in terms of purposes for revenue growth, operating margin, and capital efficiency.

### **2.3.3.1 Revenue Growth**

Revenue growth is the most important goal that determines the value of any company in the future, as it expresses the extent to which real estate, investment, and business growth and success over a specific period (Garcia, 2021). It is an indicator to measure the percentage of current sales compared to sales in the previous year, as the value of this indicator helps to detect the possibility of earnings manipulation (Kumar et al., 2022). Companies with high revenue growth are more likely to commit fraud or manipulation because their financial situation and capital needs put pressure on managers to achieve their financial goals and generate more profits. The importance of revenue growth stems from the importance of the profit figure itself for all users of the financial statements of all categories, where investors see that the revenues are the main determinant of the value of

the institution's reputation in the market, while the creditors consider the revenues the main source for the payment of the institution's obligations (Omodero, 2022). The management of the institution is also concerned with revenues because it is the basic justification for its existence and the criterion by which the management tool is judged, in addition to being considered the most important input in the decision-making process by the institution (Ayoub & Mukherjee, 2019).

According to Chua (2022), 90% of startups are doomed to failure, so the growth process is necessary in order to consolidate the establishment's position in the market and to achieve sufficient revenues that help cover costs and start making profits. Regardless of the competitive advantage, the quality of customer service, knowing their needs and opinions, listening to criticism, and dealing with it flexibly and positively by changing products and services to suit the target customer segment are the most important indicators that affect revenue growth (sales). According to Helmold & Helmold (2020), there are three methods that the organization can follow to achieve its strategic choice for revenue growth that are internal, external, and contractual. Internal revenue growth results from the enterprise's own resources, as it is defined by the increase in size and changes in the characteristics of the enterprise obtained by including and appending additional means of production established by the enterprise itself or purchased from abroad in the framework of commercial transactions. The enterprise can obtain equipment from abroad, manufacture it by itself, or develop its own financial, technical, and human resources. External revenue growth refers to a group of production factors that are linked to each other by internal organizational relationships and can produce or provide services and acquire a market share. As for contractual revenue growth, it represents a contract between two or more

independent establishments aimed at merging their resources to carry out joint production, commercial, and service activities.

### **2.3.3.2 Operating Margin**

Operating margin is a term that refers to the ratio of operating income to net sales. Usually shown as a percentage, it represents net profit from sales revenue. Operating margin is an indicator of profitability and is often used to compare the profits of companies and industries of different sizes (Hartutik, 2022). It measures the net profitability of projects after accounting for all costs. Operating margin reveals how well a company can control its total overhead expenses and can be useful in identifying areas where a company may be able to reduce costs and thus increase its profit margin (Gaffney & Michelson, 2023). The operational margin calculation model is a measure of a company's profit after deducting operating and non-operating expenses but before interest and taxes. Operating margin informs a company, creditors, and investors about how well a company can control its expenses and transform revenues into profits (Oranefo & Egbunike, 2023). In other words, the higher the number of net operating cash flow within the institution, the higher the quality of profits during that year, and vice versa (Zhu et al., 2022). The cash flows arising from operating activities are a basic indicator of the extent to which the operations of an enterprise have contributed to generating sufficient cash flows to pay off debts and maintain the operating capacity of the enterprise (Pornupatham et al., 2023).

Operating margin ratios are considered a good tool in evaluating the financial performance of enterprises in terms of revenue strength and profitability, because these ratios, especially those attributed to net profit after tax, are an indicator of the enterprise's ability to generate cash flows, which in turn affects the quality of profits (Mudjiyono & Wicaksono,

2022). These ratios also contribute to evaluating the adequacy of the corporation's cash flows to meet its needs, as these ratios enable an assessment of the corporation's ability to meet its needs of the cash needed to pay off debts owed by it, in addition to covering its needs for expansion purposes (Wahyuni & Peride, 2022). Moreover, the operating margin ratio shows the ability of the institution to generate cash for its holders and creditors or the potential for future investment, and whenever the net cash inflows from operating activities are positive, this indicates the quality of the institution's liquidity and profitability (Muniroh & Yuliati, 2021). The operating margin is the resource that provides management with funds to meet its various needs, such as reinvestment, debt repayment, share repurchase, dividend distributions to shareholders, etc., and therefore it is a renewable source of liquidity and contains recurring operations, unlike cash resulting from investment and financing activities, which may result from operations that may not be repeated frequently (Chang et al., 2023).

As for the operating margin, it reflects the extent of the company's operational efficiency and pricing strategy, as institutions seek to control a low level of operating expenses, which are the expenses incurred from continuous costs to run their business, including equipment maintenance costs, sales costs, advertising costs, research and development costs, insurance premiums, government fees, IT support, etc. That is, it includes all the daily expenses that the company needs to pay to operate, which means that the lower the operating expenses of the company, the more profitable it will be (Mudjiyono & Wicaksono, 2022). A low operating margin for a company indicates that its profits are not ideal and may be subject to further deterioration if the situation is not remedied and appropriate solutions are not reached. Where the operating margin helps to know if this company is on the right track or if the products it produces suffer from some problems compared to others

(Pornupatham et al., 2023). The operating margin may refer to the mismanagement of the company by its managers resulting from the increase in expenses despite the increase in sales, and therefore the increase in sales did not lead to an increase in the profit margin (Zou et al., 2019).

### **2.3.3.3 Capital efficiency**

Capital efficiency is a tool for measuring the ability of institutions to pay their obligations and face any losses that may occur in the future. In other words, increasing the efficiency of capital is considered an indicator of protection for investors' money, as it helps in reducing the risks of crises that these institutions may be exposed to, especially the costs of bankruptcy. Accordingly, capital efficiency refers to a set of mental, intellectual, and mental skills and capabilities acquired and invested by organizations to achieve their goals and increase their competitiveness (Ullah et al., 2023). Moreover, it makes it possible to determine the potential return achieved by the investment in the future time, as it depends primarily on the expected costs and sales during the productive life of the capital good (Zheng et al., 2022). This indicator shows the relationship between the expected return (potential return) of the investment and the cost of replacing the capital good, as this cost is what was spent on the acquisition of the asset (Tran & Vo, 2020). Therefore, to obtain the marginal efficiency of capital, it is necessary to know the value of the capital good used in the process of producing a particular product (Shahzad et al., 2023). Similarly, the price at which the product is expected to be sold, or what is known as the asking price must be known. In addition, it is necessary to know its production costs or supply price (Polcyn, 2021).

Capital efficiency represents current and future cash flows, as operational activities reflect the company's ability to generate cash equivalents, in addition to knowing the company's ability to meet its current and future obligations. The direct operating cash flow components are used as a tool to assess and measure the company's ability to generate future cash flow (Pornupatham et al., 2023). Capital efficiency is an important tool in identifying and forecasting the risks associated with the financial and operational aspects, which may occur and negatively affect operational activities, and thus works to assist decision-makers in dealing with these risks by identifying the negative effects on the achieved operational profits. Moreover, the operating margin reflects the extent to which fixed costs are used, as it is an important point for determining the company's direction concerning increasing and raising the amount of production and sales (Zhu et al., 2022). Hence the importance of capital efficiency as one of the most important methods available to the company to improve its profits, as the main justification for the company is to maximize the market value of shareholders and project owners by increasing the value of shares in the market (Oranefo & Egbunike, 2023).

## **2.4. The Impact of VAT to Cash Flow**

Taxes are viewed as one of the major means of increasing public income for a nation to pay for its activities and expenditures, whereas VAT is a key tool for implementing fiscal and social policy at the level of the economy (Bala et al., 2023). By stimulating investment in some local or foreign industries, VAT helps to finance public expenditures, fulfills the social goal of income redistribution, and finds balance in fiscal policy (Adandohoin, 2021). VAT also achieves governmental goals by granting exemptions or offering incentive measures to economic sectors that influence consumption, production, and saving behaviors. Moreover,

Guo & Shi (2021) showed that when the government raises the VAT and compensates for this step by reducing its public debt, it stimulates capital accumulation, and increases the rate of revenue growth in the long run. In other words, raising the VAT helped reduce debt, so the government had more money to spend on development, which in turn increased employment and investment opportunities (Alotaibi, 2021).

During the previous periods, the tax structure witnessed a wave of economic fluctuations and financial crises, as these fluctuations and crises exacerbated the deficit in the state's general budget, which led to a decision to implement VAT to increase the state's resources and increase the ability to face these fluctuations and overcome crises and work to strengthen those Economies, where public spending and taxes are among the most important tools of fiscal policy, especially in developing countries (Wadesango & Chirebvu, 2020). VAT has an important role in economic development through its impact on both production and consumption rates, as it contributes to achieving tax revenues compared to the sales tax system. Al-Shammari, Ahmed & Al-Anbagi (2021) explained that the economic crisis caused by the Corona pandemic pushed the governments in the Gulf Cooperation Council countries to difficult options to confront the lack of cash flows, including raising VAT to 15%. This decision contributed to diversifying the sources of addressing the deficit by increasing non-oil revenues and debt instruments and withdrawing from reserves. VAT is an effective and transparent way for governments to increase their revenues, as the Gulf Cooperation Council countries were able to increase GDP by 1.5%, which helped these countries diversify their economies away from oil, and contributed to carrying out the requirements of the public service (Delipalla et al., 2021). VAT plays a major role in encouraging integration between projects through the direction of investors towards establishing integrated production projects, in the event of imposing VAT at a low rate;

investors direct their investments towards the sector that achieves the largest possible profit, which in turn stimulates investment in this sector (Markova, 2019).

VAT is one of the important tools that all countries resort to for stimulating the economic cycle in both cases of inflation and deflation (Obaidat, 2019). In the case of inflation resulting from high liquidity, countries may resort to raising the rate of VAT on goods and services, which in turn leads to absorbing part of the liquidity and thus lowering inflation. In the case of deflation represented in the case of economic stagnation and low demand for goods and services, countries may resort in this case to reducing the rate of VAT on goods and services, which leads to increased spending and an increase in exemptions, which in turn leads to revitalizing the economic cycle (Kabwe & van Zyl, 2021). In addition, the existence of VAT facilitates and simplifies all tax laws and legislations, in addition to working to raise the efficiency of tax collection of revenues. In this regard, Wang, Shen & Tang (2021) explained that VAT simplified complex federal tax law, increased the efficiency of the Internal Revenue Service, and made tax evasion difficult. Moreover, VAT is one of the most important elements of cost that is included in the structure of exports, as it stimulates and encourages exports by not bearing any indirect tax burdens, which leads to reducing the final cost of the commodity and giving it a price advantage in the face of similar commodities in the international market (Cao, Wang & Cao, 2022).

On the other hand, VAT in the Gulf Cooperation Council may create operational risks, put pressure on corporate earnings before interest, tax, depreciation, and amortization (EBITDA), as well as affect cash flows in some industries (Hartley, 2019). The collection and remittance of VAT to governments had significant costs in terms of the compliance process, where companies with goods exempt from VAT and globally competitive industries bear the



burden of additional costs for goods, rather than consumers (Peng & Wang, 2020). Moreover, Jerković (2018) illustrated that the most prominent problem that many companies currently have is that the time for supplying VAT is shorter than the traditional cycle of buying and selling goods and services, as there is no evidence that VAT is superior to the operating cash flow, but rather that the information provided by all measurement methods is considered equal. Also, Markova (2019) mentioned that one of the negative aspects of VAT is its significant impact on the local market as a result of fluctuations in cash, investment, and trade flows, which inevitably affect the state budget. Among the disadvantages that are taken on VAT, are that they create tax discrimination in favor of the merged companies that internally produce the largest part of the added value of their products (Ali, 2021).

VAT is based on two aspects that are economic and tax, where the economic aspect expresses the difference between the selling price of goods and services and the purchase price of raw materials and production factors involved in manufacturing goods and providing services (Liu et al., 2021). While the tax aspect focuses on the tax calculated on both the value of wages and the added profits of the commodity. Based on that, companies faced the impact of VAT in two ways, either through the additional investment required to comply with the tax law or through higher input costs, represented by the new tax rate (Omodero, 2022). However, firms may avoid charging consumers the full cost of VAT inputs, for fear of losing customers (Yang & Zhang, 2021).

These companies may have to conduct feasibility assessment studies to determine the amount of additional costs that can be charged to consumers. Companies operating in more than one country should assess the impact of VAT laws in different countries, particularly for

exempt or zero-rated products, on their cash flows and profits (Guo & Shi, 2021). In this regard, the cash flow statement is considered one of the most important financial data that helps the users of this list to know the financial position of the company subject to VAT. The importance of this list also stems from its ability to provide information on cash inflows and outflows to and from the company through its operational, investing, and financing activities during a specific period (Komal, Ye & Salem, 2022). In addition, dividing this information into cash flows according to activities has a common nature that helps reveal strengths and weaknesses in the company's ability to fulfill obligations, expand financing, and distribute profits, whether for the short or long term (Obaidat, 2019). The cash flow from these activities can be positive or negative, as the positive sign indicates the presence of a cash surplus in the company from operational, investment, and financing activities, while the negative sign indicates the existence of a cash deficit from these activities (Bond & Gresik, 2020). The signed form for each activity in the statement of cash flows has informational content to clarify the company's ability to fulfill its obligations and finance its investments, and thus judge the health of its financial position (Ionescu & Neghina, 2021).

## **2.5. Theoretical Basis of Taxation**

Many economic schools emerged during the seventeenth century until the twentieth century, and their opinions and orientations differed regarding fiscal policy in general and tax policy in particular and their effects on economic activity and state policy. Many theories have appeared that tried to find a convincing justification for imposing the tax, and the most important of these theories are the social contract theory, the theory of tax harmonization, and the social solidarity theory.

### **2.5.1. Social Contract Theory**

This theory appeared in the eighteenth century and was advocated by the French philosopher Jean-Jacques Rousseau (Nghia, 2022). According to this theory, there is a social contract between the public authority and individuals, under which people give up some of their freedoms in exchange for the protection of the remaining freedoms (Robinson, 2023). This social contract provides the foundation on which the authority relies when imposing taxes (Klaser, 2022). As Thrasher (2017) illustrated it is a contract for the sale of services, as the state sells its services to individuals and obtains a consideration that is the price of these services, and it is similar to taxes. The traditional jurisprudence tried to establish the state in imposing the tax based on the benefit accruing to individuals in return for paying the tax (Burnyeat & Sheild Johansson, 2022). It is the use of public utility services. Hence, had it not been for individuals benefiting from these services, there would be no legal basis for imposing the tax and individuals' commitment to it. Despite the agreement of the supporters of this theory on the idea of the social contract as a basis for imposing the tax, they differed in explaining the nature of this contract (Baird & Mayer, 2021).

The social contract theory is the main theory in political philosophy in the modern era, and without it, there is no theoretical foundation for the idea of power. As it supports the need for a guarantee of rights and duties between the ruler and the ruled, it must be noted that the idea of the social contract was influenced by the European Renaissance, and the results of natural sciences (Thrasher, 2017). However, this theory has been criticized, including that the individual is obligated to pay the tax even if he/she does not agree to it, which denies the existence of an implicit financial contract. Moreover, this theory contradicts the idea of justice in its modern concept, which is one of the most important principles of taxation

(Klaser, 2022). The idea of justice requires exempting those with low incomes from paying tax concerning the subsistence limit, that is, the minimum necessary for living, as well as the need to take into account family burdens in proportion to the standard of living in society. Justice also requires different tax rates depending on the type of income imposed on it and whether it is the result of work, capital, or both (Nghia, 2022).

### **2.5.2. The Theory of Tax Harmonization**

Many economists went on to say that the free movement of capital without coordinating the tax policy of the member states of the regional grouping could expose them to many obstacles (Krenek & Schratzenstaller, 2022). However, the harmonization process is not easy, as it simply means unifying tax systems, or even applying single tax rates in all member states of the economic bloc, for several reasons, the most important of which is the difficulty of identifying the system that actually needs coordination (Bogacki & Wołowiec, 2021). The need to develop tax systems is not required on an equal basis among all member states in supporting their economic development (Osterloh & Heinemann, 2013). In addition, the unification of tax systems, or the agreement on one tax rate applied in these countries, prevents them from using the tax policy to achieve their economic goals, or taking into account their priorities, which vary according to the circumstances of each country (Cheng, Kato & Obashi, 2020). While some countries pay attention to the tax as a financial resource to meet the increase in public expenditures, others prefer to use the tax as an economic objective to encourage investment and reduce unemployment, and then the circumstances of each country must be taken into account when conducting tax harmonization (Lukáčová et al., 2020).

The justification for using the theory of tax harmonization in this research is that coordination in the field of taxation is one of the most important requirements for economic integration in the Gulf Cooperation Council. Economic integration can't take place between a group of countries without some kind of coordination or cooperation in the field of taxation (Azuka, 2015). This study assumes that tax harmonization can be achieved in light of the different tax systems and the varying relative importance of the tax for each country, on the basis that good harmonization can choose the appropriate field, to provide additional opportunities for each member state, whether in the field of investment promotion or in the field of developing trade exchange (Krenek & Schratzenstaller, 2022). From the foregoing, it can be said that this theory calls for an amendment in the tax systems of the countries concerned with coordination gradually and partially in order to try to equalize the tax burden and achieve justice among the taxpayers in these countries while avoiding double taxation (Bogacki & Wołowiec, 2021). This is to remove barriers that limit competition between countries and to intensify trade exchange (Fuest & Sultan, 2019).

Within the framework of this coordination, the Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) signed the unified agreement for VAT in June 2016. This unified agreement established common VAT rules, according to which each country of the Gulf Cooperation Council agreed to apply VAT. According to that unified agreement, the Gulf Cooperation Council countries should apply VAT at a unified rate of 5% (Mogielnicki, 2019). VAT should be applied to most goods supplied and services rendered, including imports of goods and services. It is worth noting that the Kingdom of Saudi Arabia and the UAE began applying this to their local value tax systems since January 1, 2018. With the implementation of VAT in the UAE for more than five years now, the UAE has recently witnessed an increase in VAT audits conducted by the Tax Authority. At the same time, this

led to more disputes over the implementation of the VAT, where VAT assessments and related fines are challenged (Hammour & Mckeown, 2022).

### **2.5.3. Social Solidarity Theory**

The credit for establishing the theory of social solidarity and its application in the field of constitutional law goes to the French jurist Léon Duguit (Karageorgiou & Noll, 2022). This theory was borrowed to explain the basis for imposing the tax, especially since the imposition of the tax is only by a law issued by the legislative authority (Milej, 2023). This theory stems from the idea of the social contract, as it explains the basis on which the authority relies in imposing taxes by the existence of a social contract concluded between the public authority and individuals, according to which individuals give up part of their freedoms in exchange for protection of the remaining part as well as giving up part of their property in return for protecting the remaining part they have (Kohtamäki, 2022). This theory believes that the state is a historical and social necessity, as the duty of the state in modern societies is to fulfill the general needs of individuals and maintain security (Ewing, 2022). The state incurs exorbitant expenses in order to carry out the public burdens entrusted to it resulting from the state's intervention in various social and economic activities. Since these burdens achieve the general interest of individuals and accustom them to the general benefit, efforts must be combined to bear the expenses of these burdens based on social solidarity among individuals (Kolb, 2018). Therefore, the state imposes taxes on individuals with its sovereign rights, as they are obligated to pay taxes based on the principle of social solidarity (Arti, 2022).

However, this theory did not escape criticism, as Babie & Viven-Wilksch (2019) explained that there is no proportionality between the benefits that individuals receive and the taxes

that they pay. It is also wrong to represent the public authority with a production company because the public authority provides other services required by the public interest as a whole (Hall, 2017). In addition to its reliance on the voluntary payment of the tax as a contribution from individuals to bear the public burdens and costs of public services at a time when the compulsory nature is still a basic feature of the tax characteristics (Arti, 2022). Despite these criticisms of the social contract theory, we cannot ignore the necessity of this theory, which is that the state must use the proceeds of taxes to provide services that achieve public benefit for individuals, otherwise, it is not entitled to exercise sovereignty over individuals on its territory (Karageorgiou & Noll, 2022).

If the social solidarity theory was able to explain the right of the state to impose taxes on its citizens and residents on its territory when taxation was a right of the state, then it is no longer able to explain today the duty of the state to impose the tax imposed by the rules of international financial law (Babie & Viven-Wilksch, 2019). The rules of which began to be independent of each of the rules of public international law and financial law, which appeared in the obligations placed by international financial organizations on countries in the form of international standards, especially those related to the International Monetary Fund, The International Bank for Reconstruction and Development, and the World Trade Organization (Terrier, 2017). Adopting this theory also means dividing the benefit that accrues to individuals as a result of the public services that the public authority performs (Milej, 2023). This is not possible because the services that the public authority performs are of general benefit to all (Ewing, 2022).

After the research took its important dimensions and contained its contents for all its elements with other facts to give an integrated objective unit. It turns out that the theory

that gives the state the right to impose a tax and that can be relied upon as a legal basis for imposing the tax is the theory of social solidarity, not the theory of the social contract (Kolb, 2018). Because the social contract theory, if it is adopted as a basis for tax imposition, does not provide sufficient tax revenue for the state to spend on the public burdens it bears (Kohtamäki, 2022). Adopting this theory means dividing the benefits that accrue to individuals as a result of the public services that are carried out by the public authority. This is not possible because the services that are carried out by the public authority are of general benefit to all. As for social solidarity theory, it is the most acceptable in explaining the legal basis for imposing the tax, because when the state exercises sovereignty over people and provides them with defense, security, and job opportunities, it incurs a lot of expenses in order to carry out these burdens (Babie & Viven-Wilksch, 2019).

## **2.6. Prior Literature**

A comprehensive and adequate collection of recent studies was reviewed. Table 2.1 lists the various relevant research works of literature available concerning research variables, including VAT, cash flow, revenue growth, operating margin, and capital efficiency.



**Table 2-1 Prior Literature**

No	Research Paper Title	Author(s) & Year	Research Questions /Objectives /Hypotheses	Research Methodology	Variables studied in the article	Main findings of the research
1	Does value-added tax reform in services accelerate enterprise upgrading? Micro evidence from China.	Peng et al. (2022)	H1: The VAT reform positively contributes to enterprise upgrading, ceteris paribus.  H2: The dual-track taxpayers, multiple tax rates and capital-biased VAT have distortion effects and negatively contribute to enterprise upgrading, ceteris paribus.	Data from the WIND database, one of the most detailed databases for listed companies in China, covering 2009 to 2017.	VAT Quality Capital Efficiency	Empirical results found that the VAT reform significantly improves enterprise upgrading both in terms of quality and efficiency.
2	The Impacts of Value-Added Tax Audit on Tax Revenue Performance: The Mediating Role of Electronics Tax System, Evidence from the Amhara Region, Ethiopia	Mu, Fentaw & Zhang (2022)	(1) What are the main factors influencing tax revenue performance in Amhara Region, Ethiopia?  (2) How do these factors influence tax revenue performance?  (3) How does the electronic tax system mediate the correlation between VAT audit, tax education, tax resource, and tax rate with tax revenue performance?  (4) Is there a relationship between VAT audit, tax education, tax resource tax rate, electronic tax system, and CSR adoption?	The study used primary data sources from 377 VAT-registered taxpayers in the Amhara Region.	VAT Revenue Performance	The study assured that VAT audit and tax education significantly affect tax revenue performance. The scarcity of resources for the VAT audit function is a critical problem.
3	Analysis of value-added tax potential revenue using input-output table.	Lisdiyanto & Wijaya (2022)	The objective is to describe the conditions and circumstances of the research year, to reveal more about the VAT potential revenue by calculating using a formula adjusted to the statutory regulations regarding VAT in Indonesia.	The analysis used in this research is quantitative descriptive, based on data on household consumption and government expenditure utilizing the Input-Output Table sourced	VAT Operating Revenue	The results showed that the VAT potential revenue always increased every year during the research year, namely Rp745 trillion in 2016, then rose to Rp799 trillion in 2017 and amounted to

				from BPS publications.		Rp859 trillion in 2018.
4	VAT Listings within the EU Member States and Their Impact on Tax Evasion.  The Importance of Value Added Tax (VAT) in the Economic Growth.	Akhmadaliev (2022)	The objectives of this study are to research the importance of VAT as a source of revenue for balancing the government budgets, examine the extensive literature, and concentrate on the relationship between VAT revenue and the economic growth of China.	Special value-added tax (VAT) fapiao.	VAT  Economic Growth	VAT might be able to improve economic performance by facilitating a reduction in other taxes, such as personal and corporate income taxes.
5	The Effect Of Inflation And Economic Growth On Value Added Taxes At The Pratama Tax Service Office 2016-2019.	Ananda& Putri (2022)	H1: Inflation has a positive effect on Value Added Tax revenue.  H2: Economic growth has a positive effect on value-added tax revenue.	This type of research is quantitative research. Multiple The sample in this study is the Padang Tax Service Office (KPP).  Linear regression analysis was used in this study.	VAT  Economic Growth  Inflation Rate	The results showed that inflation participation had a negative and significant effect on value-added tax.  Economic growth does not affect value-added tax.
6	Tax on tourism in Europe: Does higher value-added tax (VAT) impact tourism demand in Europe?	Kristjánsdóttir (2021)	- Does higher value-added tax (VAT) impact tourism demand in Europe?  - Does higher value-added tax (VAT) impact Capital efficiency in Europe?	The research provides unique World Bank data estimation of the marginal and nominal effects on the number of tourists visiting Europe. The sample of data includes tourists listed by the World Bank from 1995 to 2016.	VAT  Capital  Efficiency	Findings indicate that tax increases in the form of VAT do not influence tourist inflow to Europe. Also, findings do not indicate the 'close to maturity' tourism in Europe to be more sensitive to tax than 'still on the growth path' countries, contrary to suggestions by some previous European research.

7	Production efficiency and self-enforcement in value-added tax: Evidence from state-level reform in India.	Hoseini & Briand (2020)	The objective is to provide a simple theoretical framework based largely on the model presented by defining FL and BL indices, and then, we discuss how the linkage indices are associated with the self-enforcing feature of VAT and the cascading effects of sales tax.	The main data sources are three rounds of two nationwide enterprise surveys in India, over the period 2000–2010.	VAT Production Efficiency	VAT increases production efficiency and tax compliance and the levels of impact in each dimension are closely related to input-output linkages of industries in the production network.
8	Impact of Value Added Tax (VAT) on Revenue Generation by Federal Inland Revenue Service in Nigeria (2001–2017).	Aminu, Dogara & Mohammed (2020)	HO: there is no significant impact of value-added tax collected by FIRS on revenue generation in Nigeria.	The data were obtained from the statistical bulletin of the Central Bank of Nigeria (CBN) and reports of the Federal Inland Revenue Service (FIRS) from 2001 to 2017.	VAT Revenue Generation	The result revealed that the VAT is shown to be positive and statistically significant in influencing government revenue.  From the coefficient of the variable, an increase in VAT collected had a proportional impact on government revenue.
9	Value-Added Tax and economic growth: An empirical study of China perspective.	Ayoub & Mukherj (2019)	How did VAT affect China's economics in general and China's economy?  How can the value-added tax impact the economic growth in China?	The data used for the study is a time series of the period from 1985 to 2016.	VAT Economic Growth	The test result indicated a positive relationship between value-added tax and economic growth in both the long and short run.
10	Is economic value added superior to earnings and cash flows in explaining market value added? An empirical study.	Obaidat (2019)	H1: Net Operating Profit after Tax is superior to Economic Value Added in explaining the change in Market Value Added.  H2: Net Cash Flow is superior to Economic Value Added in explaining the change in Market Value Added.	The study's initial sample consisted of (97) firms, representing all the non-financial firms listed on the Amman stock exchange for the year 2016.	VAT Cash Flow	The results indicated that net cash flow has the strongest power in explaining the change in economic value-added.

Therefore, this research came in an attempt to resolve the controversy surrounding the application of VAT, while highlighting the impact of VAT on cash flows as well as the burden on tax administration, which helps in the existence of a sustainable source of financing that guarantees the improvement of the economic situation in the countries that apply it, especially in the UAE. As VAT has an impact on many sectors of society, including business and investments, and the government sector. On the level of business and investment, it has an impact on the volume of profits, and therefore on the volume of investment, directing it towards a specific field, and how to benefit from incentives in the areas of tax exemptions. It also has a significant impact on the government sector through the volume of financial revenues to finance public expenditures, the extent to which justice is achieved, the distribution of income among members of society, and the direction of the economy and social and economic development.

## **2.7. Hypotheses Development**

The importance of the study comes from the role that VAT plays in enhancing government revenues, especially in light of the low oil prices. It is known that VAT affects the decisions of economic agents concerning the allocation of resources such as work, savings, and investment (Wadesango & Chirebvu, 2020). The most important objective of VAT is to increase the revenues required to cover expenditures. Apart from increasing revenues, VAT is a tool for control and regulation to influence the pattern of consumption, production, and distribution. Therefore, the impact of VAT on the economy is in different ways, although the effects of taxes may not necessarily be good (Markova, 2019). Therefore, VAT is one of the most powerful policies or factors affecting economic activity and growth. The relationship

between VAT policy and revenue growth in the long term has been one of the most important research topics in economics (Ali, 2021). Where Erero (2021) mentioned that VAT contributes to the diversification of the tax structure, which in turn leads to economic diversification, with the increase of revenue sources that are highly sensitive to economic variables as a result of the rapid emergence of its effects on the part of the volume of revenues. However, Sarwar et al. (2021) illustrated that the application of the VAT system without a direct increase in the level of wages contributed to an increase in prices, which may push merchants to sell outside the invoice to help segments of society who wish to obtain lower prices. This causes an increase in inflation rates, and thus the leakage of part of the revenues outside the public treasury, which reduces its economic viability. Oraka, Okegbe & Ezejiofor (2017) also mentioned that VAT represents an additional burden on small companies that are committed to applying it, which deprives them of achieving a competitive advantage with medium or large companies that have extraordinary experiences in circumventing laws, which harms the consumer at the same time.

There is no doubt that VAT affects economic growth, as some argue that it negatively affects economic growth because it discourages investments, while others believe that VAT is important and necessary to stimulate the economic and institutional environment in the country (Orisadare, & Fasoye, 2022). As VAT revenues finance infrastructure, education, and public services, entrepreneurs and innovators depend heavily on these services. Moreover, the VAT can boost growth if it is directed mainly to support the provision of public goods, as this raises the expected returns for entrepreneurial efforts (Odu, 2022). Moreover, Inyama & Ubesie (2016) confirmed that the application of VAT led to an increase in total government revenues, and this resulted in an increase in spending on basic public services that are provided to poor families. Alavuotunki, Haapanen & Pirttilä (2019) indicated that

the revenues resulting from the VAT were not positive in Finland, as there are negative effects of its application on society represented in the lack of fairness in the distribution of income. There are a large number of studies that have investigated the impact of taxes, whether direct or indirect, on macroeconomic variables, but the impact of VAT on revenue growth has not been given more attention.

Within the social contract theory, the tax system allows for the generation of revenues to ensure that states can provide high-quality public services and infrastructure as well as to redistribute income and alleviate inequality in society. In other words, companies, especially small ones, agree to pay VAT in exchange for good quality public services provided by the state. The method of imposing taxes and the services they finance may have adapted somewhat to developments in technology or the method of distributing income, but the essence of the social contract has remained the same and has not changed over time. A fair and modern VAT system helps strengthen the social contract, which helps reduce the tax burden on small businesses and increase revenue growth. Therefore, the theory of tax harmonization called for convincing small businesses that the taxes they pay will improve the quality of their activities by directing tax revenues directly toward programs and services that have a direct and positive impact on their revenue growth. Based on that, the following hypothesis was put forward:

***H1: There is no statistically significant impact of VAT on revenue growth.***

There are many cases of financial failure for some small companies in the UAE, which result from the failure of its management when making decisions, whether in the various operational, financing, or investment fields (Cheffi et al., 2023). This is due to its inability to achieve a balance between the amount of capital invested in the company and the working

capital on the one hand, and its long-term assets on the other hand (Zafarullah, 2018). This means not achieving an appropriate balance in building a structure of fixed and variable costs based on the distribution of its total expenditures, in other words, its failure to achieve the appropriate operating profit margin for its activities. The importance of operating margin is evident in the fact that it is one of the important financial indicators that give numerical indications about the levels of sales that the facility should reach in order to meet the various costs incurred by the activities carried out by the company (Al-Shaer et al., 2023). The impact of the VAT has already begun to appear in many small companies, as some of them have recently begun to dispense with part of their profit margins after seeing some slowdown in their sales.

Also, VAT affects the propensity to invest through its impact on operating margin, that is, through its impact on the profit rate. The greater the chances of profit, the greater the propensity to invest and it decreases with its decline (Hartley, 2019). When a certain sector is taxed at a low rate, investors direct their investments to it in order to obtain greater profits, and vice versa. While Mu, Fentaw & Zhang (2022) showed that VAT is an effective way to prevent the employment of funds in sectors subject to a high tax rate, as governments use it to direct investment toward one field rather than another according to the plans of economic countries. Therefore, Hammour & Mckeown (2022) called on companies, especially small ones, to reconsider the production and operational costs after applying VAT, as this step contributes to increasing the competitiveness of this company in the country's markets, at a time when the commodity reaches the consumer at a better price.

By understanding the social solidarity theory perspective, small businesses can make informed decisions that can contribute to their long-term growth and sustainability. Financially, an increased after-tax profit margin allows companies to retain a greater portion of their profits, enabling them to invest in growth opportunities, research and development, or even reward shareholders. By reducing tax liabilities, small businesses can allocate more resources toward strategic initiatives, which improve operating margins and drive innovation and competitiveness in the market, according to the theory of tax harmonization. Social contract theory explains that small companies can reduce their overall tax obligations and allocate profits effectively by structuring their operations strategically. In addition, the theory of tax harmonization emphasizes the importance of capital accumulation for economic growth. When small companies earn a portion of their profits, they contribute to the pool of savings available for investment. This investment then leads to the creation of new capital goods, which increases operating margin and drives economic expansion over time. Based on that, the following hypothesis was put forward:

***H2: There is no statistically significant impact of VAT on operating margin.***

Due to the great importance attached to the issue of capital efficiency in small enterprises, especially in recent years as a result of the high frequency of risks, in addition to what was demonstrated by the recent global financial crisis regarding the lack of capital efficiency (Adhikari, 2020). This is in addition to its disclosure of the lack of disclosure of information that would enable the market and investors to assess capital efficiency. Where Yuv & Qi (2022) explained that imposing VAT increases production costs, decreases the profits of producers, and weakens their motivation towards work and productivity. In terms of expansionary effects, Koirala (2010) indicated that VAT could lead to more production and



redouble efforts to compensate for the shortfall resulting from imposing this tax. It also leads to directing capital towards specific productive sectors, which the government deems necessary according to its strategies. Furthermore, VAT helps protect domestic production, whether through tax exemptions or by imposing higher taxes on goods imported from abroad. Therefore, VAT contributes to changing the wrong consumer culture, since its application is in the interest of the national economy, as it led to the growing use of the local product and raw materials. Where many small companies have reduced production and operational costs, at a time when these companies have begun to dispense with part of their profit margins to increase sales (Kaur, Rao & Singh, 2023).

While Liu et al. (2021) explained that the VAT affects capital efficiency, which is reflected in productivity, so it reduces consumption, and thus accumulates, which makes producers reduce their production. This leads to the transfer of production elements between the different branches of production in which the tax player is less. On the other hand, VAT has led to an increase in consumer awareness, which takes the price into account as one of the most important factors in buying the commodity, especially since the supply is large and varied which may cause some stagnation in the sales movement for some products (Bai, Li & Wu, 2023). Therefore, there is no agreement on assessing the relationship between VAT and capital efficiency, as it depends on the nature of the VAT system (Hoseini & Briand, 2020). In order to maintain the financial performance of small enterprises as one of the important investment tools that are used to raise economic efficiency and improve economic growth rates, it has become necessary to study the impact of VAT on capital efficiency in Emirati small enterprises to find out the challenges and difficulties to address them and develop appropriate solutions in this regard.

Social contract theory is consistent with the idea that sound financial management practices are necessary to improve after-tax profit margins. Where small businesses can ensure that they have enough funds to cover their expenses and invest in growth opportunities. Implementing effective accounting systems and regularly reviewing financial statements can provide insight into areas where costs can be reduced or revenues increased. Furthermore, small companies should explore options such as debt refinancing or equity financing to improve their capital efficiency and reduce interest expenses. However, finding the right balance between small business revenue growth and VAT minimization can be a complex task, as it requires a deep understanding of tax laws and regulations, as well as careful planning and implementation. Referring to the theory of tax harmonization, allows small businesses to allocate funds to different areas, such as marketing, operations, and research and development, based on their importance and expected returns. A budget also helps in enhancing capital efficiency, monitoring expenses, and identifying areas where costs can be reduced or improved. Based on that, the following hypothesis was put forward:

***H3: There is no statistically significant impact of VAT on capital efficiency.***

## **2.8. Summary**

The need for a tax arises in response to the requirements of countries to achieve projects that benefit all segments of society and maximize their economic status in light of the state of uncertainty prevailing in the business environment. VAT is one of the most important types of indirect taxes because of its effects on the various production and consumption sectors. It is a tax that resulted from the development of tax technologies over the past half-century, and it has been applied in many countries according to their economic requirements. The need for VAT has increased recently as a major axis in stabilizing the

economies of countries, for its role in reducing the budget deficit and improving the economic situation. There is no doubt that VAT has many positives and negatives, and it is directly reflected in all financial and commercial transactions and the citizens themselves. The existence of this type of tax helps to simplify tax legislation and increase the efficiency of tax revenue collection, and this also helps to reduce tax evasion by including many sales transactions that occur without a tangible presence, such as online sales and purchases. On the other hand, one of the negative aspects of VAT is the increase in costs in the production stages, which appears when calculating the VAT at each stage of production.

This chapter also highlighted the importance of cash flow from several different aspects. The statement of cash flows is an important tool for financial management to evaluate the financial policies of the company's cash, as the company needs sufficient cash to meet its various requirements and obligations, measure liquidity, profitability, and the success of the project, and provide transparency for incoming and outgoing cash flows, at least at the level of the near future. The importance of the statement of cash flows can be summarized in that it is related to the evaluation of investments in the capital market, as the ability of the economic unit to achieve adequate cash flows affects its ability to pay dividends and interest, and then the market value of the investments. It also provides appropriate and essential information for investors, creditors, and lenders that enables them to assess the ability of the enterprise to achieve positive cash flow in the future. In addition, cash flow ratios constitute an important method of analyzing cash flows and evaluating performance in various establishments. It is noted that the development of these ratios and their uses was slow compared to the traditional financial ratios associated with income statements and financial position, as this is due to the delay in considering the cash flow statement as a basic list. The importance of the cash flow is that it shows the monetary impact of all the

activities carried out by the company during the financial period and the nature of this flow, both internally and externally.

In conclusion, this research confirms that the VAT system greatly affects the statement of cash flow. By applying VAT to the cash flow statements, the evidence indicates that the detailed direct operating cash flow components enhance the overall predictive power in future cash flow projections. Thus, the application of VAT requires a great deal of efficiency and effectiveness to reduce the phenomenon of tax evasion, so that it is accurately determined and increases the amount of cash flows. In this regard, operating margin is considered one of the most important indicators of the statement of cash flows in general, due to its importance in clarifying the future vision of the financial information of companies in addition to its distinguished role in achieving ease, flexibility and appropriate timing in understanding and communicating accounting information to its users, based on which an investment decision is taken and supported. VAT is also linked to revenue growth, as it plays a major role in predicting future profits, as it clarifies the relationship between the values of the components of direct cash flows, stock returns, and future profits, given that these components support investment decision-making.

This chapter also reviewed many theories related to taxation, as these theories emphasized that the tax, whether direct or indirect, is a social necessity, and all members of society must contribute to it, whether nationals or foreigners, under the idea of national solidarity. The interaction of these theories with each other greatly contributed to the understanding of the various aspects related to the institution and the environment in which it operates, which allowed the concept of VAT to develop gradually, and thus the emergence of many internal and external mechanisms of cash flows. In this research, the most important

theories of taxation are limited to the social contract theory, the theory of tax harmonization, and the social solidarity theory.

# **CHAPTER 3**

## **RESEARCH METHODOLOGY**

### **3.1. Introduction**

Scientific research is the basis for understanding and interpreting the phenomena and problems facing researchers and finding solutions to them, and then it is considered a means of survival and adaptation to the environment with its factors, challenges, and others (Gupta & Gupta, 2022). Also, bringing about scientific and technological development and progress for human societies is closely linked to the soundness of scientific research in terms of accuracy, objectivity, and intensity (Skarbek, 2020). The process of analyzing, interpreting, and understanding phenomena goes through a set of steps, starting from a precise identification of the research problem, leading to conclusions that explain and clarify the studied phenomenon (Varpio et al., 2020). As a result, the focus of this chapter is on the numerous methodological techniques used to gather the data relevant to the study subject. The research methodology chapter essentially presents the details related to the research philosophy, research approach, research design, research methods, data collection tools, sampling and population, pilot study, statistical methods and tests, validity and reliability, and ethical issues.

### **3.2. Research Philosophy**

The research philosophy is a collection of mental processes by which scientists attempt to grasp the truth, with the possibility of stating it and ensuring its validity, since it serves as a metaphor for the route leading to the achievement of the truth (Feenstra, López-Cózar & Pallarés-Domínguez, 2021). As a result, achieving good outcomes in humanities and social sciences research is dependent on researchers' understanding of the research philosophy and adherence to it throughout the study process (Johnson, Russo & Schoonenboom, 2019). Additionally, research philosophy offers general frameworks for abstract thought, allowing

the researcher to perceive and develop self-awareness to learn about reality to plan, carry out, analyze, and improve the experiment as well as to interpret its findings (Bell, Bryman & Harley, 2018). The research philosophy does not depend on raising the process of doubt only but rather finds many appropriate and rational solutions to address the phenomenon or problem. Where a careful analysis of the research phenomenon is done and an explanation is extracted to be able to find a set of logical solutions. Moreover, this study is based on abstract thinking, which is one of the characteristics of the philosophical approach that includes a detailed study of all concepts related to scientific research (Vagle, 2018). Within the philosophical framework, taxes are no longer just collections that the state obtains from citizens in return for the services it provides to them, regardless of the degree of their quality, but rather it has become one of the means used by the state to revitalize the economy and give a competitive advantage to some sectors such as medium and small enterprises. This shift in tax philosophy must be accompanied by a legislative and procedural revolution in the laws regulating the VAT and the rehabilitation and development of employees. According to Maarouf (2019), ontology and epistemology are among the most important branches of research philosophy.

In its modern sense, ontology refers to the critical analysis of scientific knowledge, which focuses on the principles, subjects, hypotheses, findings, laws, and boundaries of science to reveal its inherent logic and cognitive structure (Hellman, 2021). To understand the issues that researchers are trying to answer and the methods they use to obtain these answers, ontology, a philosophical approach, has been used to investigate the procedures used to connect things together in a metaphysical way (Rohisfi & Karneli, 2021). The term ontology is more accurate because it is concerned with general principles and the development of sciences through the critical study of materialism, hypotheses, and results of various



sciences, as it aims to determine the validity of the logic used and its objective extent (Hight, 2021). Additionally, ontology offers tools for arranging data, whether unstructured, semi-structured, or structured data, facilitating quicker concept and text extraction as well as more seamless data integration (Zhong et al., 2019).

On the other hand, epistemology is the intellectual and cognitive foundations necessary to shape human behavior in a specific situation to evaluate a cognitive fact or value, which leads to a person's predisposition to expect a specific thing (Berryman, 2019). Thus, epistemology is a critical study that comes after the formation of theories, where it questions the validity of the sciences considering them as a reality that can be observed, described, and analyzed (Dougherty, Slevc & Grand, 2019). Therefore, when researchers want to search for the philosophy or methodology of a particular science, they use the word epistemology of that science (Ankersmit, 2021). The goal that epistemology seeks is a precise and specific study that is far from encompassing a theory, that is, it is concerned with predictions of various facts and their results, in reality, to try to form and reach a set of laws (Feenstra et al., 2021).

### **3.3. Research Approach**

The research approach is organized and sequential research, not by mere coincidence, as it is the result of mental activity that is carried out with precision, planning, and documentation of the results (Crotty, 2020). Furthermore, the research approach includes all of the facts and figures that the researcher gathers, examines, groups, and summarises to contribute to the implementation of the technique (Marais-Potgieter & Thatcher, 2021). In other words, it is a set of scientific and logical rules, with which the researcher can objectively disassemble, synthesize, and link information, as it allows the presentation of

ideas and perceptions embodied in behavior and action (Wardani & Kusuma, 2020). It is also defined as the method followed to reveal facts subject to a set of general rules and related to the collection and analysis of data, which contributes to reaching tangible results through a mixture of deduction and extrapolation (Armat et al., 2018). According to Young et al. (2020), a research approach is categorized as either inductive or deductive.

The deductive approach is the approach through which the researcher's mind moves from the general to the specific, i.e. it starts from general premises and goes downward to allocate general provisions and laws to specific cases in terms of time, place, and subject (Rott, 2021). This approach aims to collect complete and accurate scientific descriptions of the phenomenon under study and to investigate the existing relationships between the various phenomena (Kunene & Mthethwa, 2020). The deductive approach is idealistic as it studies the phenomenon as it should be and not as it is in the lived reality (Young et al., 2020). The deductive approach starts from a methodological standpoint that assumes that the human phenomenon is variable and relative, and this requires understanding it in the context in which it occurs and the reality associated with it (Wardani & Kusuma, 2020). Hence, it is necessary to start from the particles consisting of observation, participation, and coexistence with reality as it is, leading to patterns of interpretation and analysis to find relationships, followed by deduction of initial hypotheses, and finally reaching conclusions that can explain the studied phenomenon (Marais-Potgieter & Thatcher, 2021).

On the other hand, the inductive approach is the approach through which the researcher's mind moves from the specific to the general, that is, it proceeds from partial premises specific to certain cases to reach general provisions and laws (Naumovska & Zajac, 2021). The inductive approach is based on observation and experiments to carry out a true science

whose purpose is to benefit people in building certain and clear knowledge, as it is concerned with multiplying and diversifying experiments to combat mental stagnation to allow the researcher to see the picture he/she wants to reach (Varpio & MacLeod, 2020). The inductive approach consists of two parts, the negative and critical side that demolishes that old structure that has no value, and the positive side in which it builds the new approach on new foundations, as the purpose of this process is to purify the mind from errors and illusions (Varpio et al., 2020). The inductive approach is one of the methods that helps the researcher the certainty of knowledge in completing his/her research to reach clear results that cannot be based on correct epistemological facts (Benitez-Correa, Gonzalez-Torres & Vargas-Saritama, 2019).

The purpose of following the deductive approach in this research is to identify the best philosophical foundations that are suitable to be a theoretical basis that meets the acceptance of citizens and the needs of states at the same time. This approach also aims to try to reach a new ontological basis, which is suitable to be an acceptable general theoretical framework for the imposition of VAT in the UAE. In addition, the fact that anything that applies to one member of a group will immediately apply to other members of the group is one of the most important aspects of the deductive approach. Within the philosophy of the deductive approach, every tax requires an elaborate design to be effective and adequate for the purpose for which it was found, in terms of the economic, social, and political concept at the state level in general.

### **3.4. Research Design**

Research design is one of the first steps in the preparation of scientific research because it assists the scientist in creating the techniques and procedures to be used during the

gathering and analysis of data and variables in the research problem throughout all stages of scientific research (Cardano, 2020). The research design refers to the path leading to the disclosure of the truth utilizing a set of general rules that determine its operations until it reaches a known result (Creswell & Creswell, 2017). It is also defined as a method of visualizing and organizing a set of processes, procedures, and research tools to achieve a specific goal related to understanding and interpreting the studied phenomena and issues (Sileyew, 2019). However, despite what is confirmed by this concept of the unity of the approach, the association of scientific research with multiple temporal and spatial dimensions and its pursuit of achieving different goals undoubtedly requires an enumeration of its application tools (Rassel et al., 2020). The nature of the study depends on the extent of the development and depth of the information required in the scope of the research, as the decision to design the research becomes more powerful as researchers move up from the stage of exploratory research to the stage of descriptive research and then to the stage of testing hypotheses (Gupta & Gupta, 2022).

In this research, the descriptive analytical approach was adopted, as it is considered one of the most used approaches that are symmetrical to the subject of the study. For the present research, the descriptive analytical approach is completely fitting as its realistic and precise description is essential to clarify the examination of the research subject (Seixas, Smith & Mitton, 2018). Moreover, the descriptive analytical approach achieves insight into this obstacle and helps to find a new solution for the current problem, as well as to detect directions in thinking and views and segment the problem into smaller pieces (Kemp et al., 2018). In this research, the rationale for using this approach is to give more precision to the study, which can support the results generated with deeper and more detailed information (Atmowardoyo, 2018). Furthermore, the analytical descriptive approach was used according

to the large amount of data that research has, since it is related to qualitative research. The descriptive approach works on studying and analyzing the phenomenon and defining its components, characteristics, and circumstances of its origin, i.e. it describes the phenomenon in terms of how it was formed, built, and functioned (Remler & Van Ryzin, 2021). It also works to describe the nature of its constituent relationships or those that link it to other phenomena, as it studies the phenomenon while it is in a state of stillness without change and development, interprets its status quo, and analyzes its dimensions, relationships, and components (Thomas et al., 2022). In other words, the descriptive approach does not only mean describing the phenomenon, but rather goes beyond that to conducting a deep analysis of its components and characteristics, measuring and interpreting them, and reaching an accurate description of them (Papachristos, 2018). The descriptive approach allows the researcher to fully control the conditions and variables of the experiment, through tight arrangements and measures, which enables him/her to determine the nature of the relationships between the variables and measure them accurately (Marques et al., 2022).

### **3.5. Research Methods**

The research method is a conceptualization of the analysis plan and structure (investigation) necessary to answer the research questions (Leavy, 2022). This plan is a comprehensive outline of the research and includes broad lines about what the researcher does from the moment of writing the hypotheses until the final analysis of the data (Love & Corr, 2022). Additionally, the research method is an organized intellectual process to gather information on a specific problem or issue while adhering to a systematic scientific technique to come up with suitable or legitimate answers for problem generalization (Ahmad et al., 2019).

According to Taherdoost (2022), there are two basic research methods, which are, qualitative and quantitative. All research methods are acceptable and scientific when they are objective, coordinated, impartial, and independent of the will and desires of the researcher (Strijker, Bosworth & Bouter, 2020).

Quantitative methods are a set of procedures and tools aimed at measuring phenomena or the relationships between them (Lubbers, Verdery & Molina, 2020). The quantitative method is the research that deals with collecting data through the use of statistical measurement tools that have validity and reliability (Ryser, 2021). It is applied to a sample of individuals representing the original community, and then processing the data using statistical methods that ultimately lead to results that can be generalized to the original community (Matović & Ovesni, 2023). The quantitative method depends on conducting the research practically through the use of statistics and questionnaires to obtain the required result, as it is concerned with collecting data (Aspers & Corte, 2019). It also means processing the information digitally through the application of descriptive and inferential statistical methods (Espadoto et al., 2019). Where the measurement is based on several forms, such as the use of arrangement, arithmetic, indicators, ratios, averages, averages, statistical models, and mathematical relationships (Bauer et al., 2021). Furthermore, Strijker et al. (2020) stated that the quantitative method is the one that is proposed to be applied in fields and topics that enjoy observability, clear causality, and high objectivity.

The qualitative approaches are a set of procedures and tools that enable the description and understanding of phenomena, based on the study of their components and parts, how they appear and develop, and determine the nature of the relationships that link them, and depend on the analysis of knowledge and data that have been collected about the

phenomenon (Hennink, Hutter & Bailey, 2020). Accordingly, the qualitative approach comes with unique features and characteristics that take into account the characteristics of human phenomena that are characterized by continuous change, multiple reality, and circular causality to give new horizons to the social researcher that enables him/her to integrate with the human phenomenon and interact with it in order to understand the social reality associated with it (Ahmad et al., 2019). Despite the importance of these distinguishing characteristics of the qualitative method, opponents of this method see it as lacking in objectivity, as it does not meet the conditions and standards of honesty and consistency (Khosla, 2021).

### **3.6. Data Collection Tools**

The process of preparing the search for scientific knowledge and building judgments and perceptions about the interpretation of phenomena is based on the facts and data obtained and related to these phenomena, which represent data that the researcher can obtain either from the reality of the phenomenon directly, which is called the primary data or through other references that are called the secondary data. It is also necessary to work on providing the best formulation of the problem and research hypotheses, where a clear logical formulation helps in choosing the appropriate research plan and in making decisions related to the selection sample, data collection, and analysis. Secondary data are those sources previously collected by another researcher, where reliance on them is often less costly and time-consuming, such as related books and literature, scientific journals and published research, documents, doctoral dissertations and master's theses, and the information network and its electronic sources (Ruggiano & Perry, 2019). Primary data is collected for the first time by the researcher himself from a private community for the

research project and is preferred over secondary sources because it leads to more accurate and realistic information (Cerar, Nell & Reiche, 2021).

Research tools are those means and methods used by the researcher in collecting data and information about the phenomenon, which are necessary to study and analyze the research problem and achieve its goals (Mkandawire, 2019). The questionnaire is considered one of the most important data collection tools if it is prepared and designed in a precise manner according to clear indicators emanating from the variables of the study (Lu et al., 2021). The questionnaire is a list of questions prepared by the researcher, then distributed to a group of individuals that may represent the entire study population or a sample of it only (Hao et al., 2022). As researcher use this method when it is difficult to interview all the individuals included in the population of the case studied (Manstein, Shiah & Laikhter, 2023). In addition, the questions that must be included in the questionnaire are subject to certain conditions and are determined to serve the objectives of the research (Boparai, Singh & Kathuria, 2018).

### **3.6.1. Design of the Questionnaire**

The design of the questionnaire is a very important issue, as it depends on the collection of data, information, and facts, based on the research need and its hypotheses (González-Alzaga et al., 2022). The design of the questionnaire is subject to some conditions to be acceptable and to ensure the largest possible number of answers to the questions it contains by the respondent (Ares, Vidal & Jaeger, 2021). The formulation of the questionnaire questions is also the main axis of the success of the research, as it depends on the interaction of the respondents and their submission of useful responses to the research (López-Belmonte et al., 2022). This set of questions should be a representative sample of



the total attitudes and behavioral patterns that are supposed to be measured. As a result of the respondents' answers to these questions, researchers obtain a numerical quantitative measure (González-Cabrera et al., 2020).

Since the Likert scale is a sum of the replies gathered from the questionnaire paragraphs, it was employed in this study to evaluate the survey questions. The Likert Scale, which has a high degree of stability and reliability, is one of the techniques employed in the measuring of scientific trends and educational research in the psychology and social sciences (Aybek & Toraman, 2022). Various conditions should be taken into account while creating trend measures in the Likert Scale, which uses a 5 or 7-point scale, as part of these conditions, the scale's positive and negative texts must be balanced because they are dispersed randomly. Additionally, the scale's stems must be examined using the proper statistical techniques, particularly about validity and reliability (Aslan et al., 2021). The 5-point Likert scale was used in this study to provide easier-to-comprehend and more exact replies to the research issue. A standard 5-point Likert scale has the following options: strongly disagree, disagree, neither agree nor disagree, agree, and highly agree (Taherdoost, 2019).

### **3.6.2. The Main Sections of the Questionnaire**

This study has the independent and dependent variables, where independent variables are those variables that have played a direct role in the occurrence of dependent variables, as it is used to support interpretation and understanding of the changes that occurred in these variables as well as to predict the situation that follows. In this study, VAT acts as an independent variable. Dependent variables are those variables that try to explain how the reasons for their occurrence and the extent to which they can be predicted. In this study, revenue growth, operating margin, and capital efficiency act as dependent variables. Based

on that, the questionnaire consisted of five main sections, where the first part relates to demographic factors, including gender, age, education level, job level, and years of experience. The second part of the questionnaire is related to the VAT in UAE, as the imposition of VAT in the UAE played an important role in reforming the tax system, as it is the most important indirect tax imposed on consumption, where it is collected by suppliers of goods and services for the benefit of the state to be borne by the final consumer. However, the UAE strives to improve its design and implementation, as it still faces problems that are similar in many aspects across different countries, such as how to recover tax, fraud, and tax evasion, as well as the problems arising from electronic commerce. Based on that, the second section consists of a set of paragraphs, as shown in Table 3.1.

**Table 3-1 The Paragraphs of The Questionnaire On The Imposition Of VAT In The UAE.**

<ul style="list-style-type: none"> <li>• The implementation of VAT stimulates the UAE economy.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT leads to higher inflation rates.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT leads to a significant increase in prices.</li> </ul>
<ul style="list-style-type: none"> <li>• The positives of implementing the VAT law outweigh the negatives.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT is more effective than other types of taxes.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT is gradually increased in the UAE.</li> </ul>
<ul style="list-style-type: none"> <li>• The VAT was the first step in implementing other tax laws in the UAE.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT increases the efficiency of the Internal Revenue Service, and makes tax evasion difficult.</li> </ul>
<ul style="list-style-type: none"> <li>• The introduction of VAT limits negative consumer practices.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT is a means of combating fraud and exploiting the opportunities of digital technology.</li> </ul>

**Source:** Gopakumar et al. (2022); Sidek & Abdulraqueeb (2022); Kasim, Hanafi & Suki (2019).

The third section of the questionnaire is related to the effect of VAT on revenue growth in the UAE business. In comparison to the sales tax system, VAT has a greater impact on production and consumption rates and hence has a greater impact on economic

development. Increases in non-oil revenues, debt instruments, and withdrawals from reserves were made possible by VAT, which also helped to diversify the sources of funding for resolving the deficit. Furthermore, if VAT is primarily intended to support the supply of public goods, it might stimulate growth because it raises the expected returns from entrepreneurial endeavors. Based on that, the third section consists of a set of paragraphs, as shown in Table 3.2.

**Table 3-2 The Paragraphs of The Questionnaire on The Effect of VAT on Revenue Growth in The UAE Business**

<ul style="list-style-type: none"> <li>• The implementation of VAT affects the net profits of UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT affects the future expansion plans of UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT affects the average sales of UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT has a significant impact on the liquidity of small businesses in the UAE.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT affects the transfer of capital for some small companies outside the UAE.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT leads to a decrease in the demand for products or services.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT leads to the introduction of regulations for small companies to ensure the proper application of the tax.</li> </ul>
<ul style="list-style-type: none"> <li>• The implementation of VAT raises the efficiency of tax collection of revenues.</li> </ul>
<ul style="list-style-type: none"> <li>• Switching to VAT helps UAE small businesses fully enjoy the tax deduction.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT has a significant impact on UAE small businesses as a result of fluctuations in cash, investment, and business flows.</li> </ul>

**Source:** Orisadare & Fasoye (2022); Odu (2022).

However, the fourth section of the questionnaire is related to the effect of VAT on operating margin in the UAE business. VAT, which governments utilize to guide investment towards one region over another in accordance with their respective economic goals, is an efficient approach to restrict the employment of funds in sectors subject to a high tax rate. Small businesses must therefore reevaluate their costs of production and operation after applying

the VAT, as doing so helps them become more competitive in the national markets at a time when the product is available to consumers at a lower price. Based on that, the fourth section consists of a set of paragraphs, as shown in Table 3.3.

**Table 3-3 The Paragraphs of The Questionnaire on The Effect of VAT on Operating Margin in The UAE Business**

<ul style="list-style-type: none"> <li>• The imposition of VAT increases operational costs for UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• Because of VAT, UAE small business bears the brunt of the additional operational costs of goods, rather than consumers.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT may create operational risks and pressure on EBITDA in UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT creates tax discrimination in favor of UAE small businesses that produce the bulk of their operations internally.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT clarifies the relationship between the values of the components of direct cash flows, stock returns, and future profits.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT leads to expansionary effects on production through its impact on the volume of investment.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT increases the potential for tax evasion for UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT contributes to generating sufficient cash flows to pay off debts and maintain the operating capacity of UAE small businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT contributes to reducing the raw material used in the manufacture of the commodity in small companies in the UAE.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT can affect the size and production pattern of small businesses in the UAE.</li> </ul>

**Source:** Cheffi et al. (2023); Al-Shaer et al. (2023).

Finally, the fifth section of the questionnaire is related to the effect of VAT on capital efficiency in the UAE business. VAT is imposed, which raises production costs, decreases producer profits, and diminishes workers' productivity and work ethic. In terms of its expansionary impacts, VAT might encourage increased production and increased efforts to make up for the shortage brought on by its imposition. VAT also causes capital to be directed toward specific production areas that the government deems necessary following its goals. Additionally, it helps protect domestic industry by providing tax breaks or raising

import tariffs on items from other countries. Based on that, the fifth section consists of a set of paragraphs, as shown in Table 3.4.

**Table 3-4 The Paragraphs of The Questionnaire on The Effect of VAT on Capital Efficiency in The UAE Business**

<ul style="list-style-type: none"> <li>• The application of VAT increases costs during the various stages of production.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT contributes to reducing the wages of workers in small companies in the UAE.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT encourages UAE small businesses to export.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT leads to directing capital towards specific productive sectors.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT contributes to achieving a degree of balance between the supply and demand movements.</li> </ul>
<ul style="list-style-type: none"> <li>• Implementing VAT helps UAE small businesses learn and practice new accounting business.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT entails distributing the tax burden on the various stages of production and distribution.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT reduces the competitiveness of UAE small businesses to attract foreign investments.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT works to protect UAE small companies, which results in maintaining the level of national products.</li> </ul>
<ul style="list-style-type: none"> <li>• VAT reform significantly improves UAE small businesses in terms of quality and efficiency.</li> </ul>

**Source:** Yuv & Qi (2022); Liu et al. (2021).

### **3.7. Research Population and Sample**

The principle in scientific research is that the study tool is distributed to all members of the research population, but this is almost impossible, or at least very difficult, especially when the number of members of the research population is very large (Yadav, Singh & Gupta, 2019). Its application to all of them requires material costs and a long time, which forces the researcher to rely on a representative sample of the study community (Pandey & Pandey, 2021). In this regard, Wu & Thompson (2020) explained that it is required for the validity of

the generalization of the research results that the study sample be representative of the research community, meaning that there is a proportionality between the number of the research sample and the number of the research population. For the sample to become truly representative of the research population, there must be a homogeneity of traits and characteristics between the sample members and the research community (Islam & Aldaihani, 2022). This is in addition to equal opportunities for all members of the research community, as each member must be given an equal opportunity with others to be among the sample members (Yang, Kim & Song, 2020).

In this study, the study population included all financial managers and accountants in small enterprises listed in the UAE economic department within five main sectors that are manufacturing, tourism, banking, real estate, and renewable energy. Due to the large number of small enterprises in UAE, which number 557,000 at the end of 2022 according to The Official Portal of the UAE Government, the study sample was limited to 700 small enterprises, distributed among the five sectors as shown in Table 3.5. The purpose behind the use of small enterprises is due to the important developmental roles that they play in the process of economic and social development, in developed and developing countries alike, as they contribute to employing the labor force in a way that far exceeds the contribution of large enterprises, and they constitute the largest percentage of the total number of enterprises in most countries of the world. This is in addition to the distinguished role in the field of innovation, research, and development, as it is a permanent and continuous source of technological progress, especially in the UAE. Moreover, the organizational structure of small enterprises is considered less bureaucratic when compared to large enterprises. In small and medium enterprises, the main decision is taken and implemented by the owners who direct them. On this basis, there is speed in decision-

making, unlike large institutions, where a large group of participants are consulted before making a final decision and implementing it.

**Table 3-5 The Total Number of Small Companies and The Fraction of Sample Size for Each Sector**

<i>Sector</i>	<i>Population</i>	<i>Sample</i>	<i>Ratio (%)</i>
Manufacturing	4723	408	8.64
Tourism	1158	111	9.56
Banking	37	13	35.14
Real Estate	1526	135	8.85
Renewable Energy	298	33	11.07
<b>Total</b>	<b>7742</b>	<b>700</b>	<b>9.04</b>

Source: The Official Portal of the UAE Government

In this study, a simple random sample was used, which means that each member of the statistical community from whom it was taken has the same chance of being represented in this sample, meaning that the selection probabilities are equal among all the members of the statistical community (Bhardwaj, 2019). This type of sampling is characterized by the ability to generalize its results to the studied population (Bhushan et al., 2021). An additional justification for utilizing the simple random sample is that it divides the research population into groups based on traits they have in common. This sort of sampling, which is used to conduct early research aimed at eliciting a hypothesis about the issue examined, mostly depends on the researcher's or statistician's ability to access the sample. The total number of the sample was 1215 financial managers and accountants distributed among the sectors as shown in Table 3.6.

**Table 3-6 Total Population and Sample for Each Sector**

<i>Sector</i>	<i>Population</i>	<i>Sample</i>	<i>Ratio (%)</i>
Manufacturing	11808	427	3.62
Tourism	2952	188	6.36
Banking	1040	254	24.42
Real Estate	3615	179	4.95
Renewable Energy	544	167	30.70
<b>Total</b>	<b>19959</b>	<b>1215</b>	<b>6.09</b>

Source: The Official Portal of the UAE Government

The questionnaire was designed in Google Forms, where the link was sent to the study sample, either via email or WhatsApp. When designing the questionnaire, answering the questions was compulsory to prevent the presence of missing data to give greater credibility to the results. In addition, the researcher in this study was keen to keep the questions related to the subject of the research, and not deviate from its framework and scientific contents in any way. The researcher also made sure that the questions were short, focused, clear, and far from ambiguity, and confusion, as well as the questions were logically sequential, and connected systematically and rationally. In addition, the questions should be characterized by neutrality, objectivity, and distance from luring the researcher, even indirectly, to answer in a specific direction.

### **3.8. Pilot Study**

The pilot study is a small-scale mini-experiment applied to the same research population and carried out under similar circumstances to the main experiment, as it is the study in which the researcher detects missing or confusing links in the sequence of scientific thinking in general, which aids in linking, analyzing, and scientific interpretation that adds new pillars



to knowledge (Pearson et al., 2020). The significance of a pilot study lies in the crystallization and more compact formulation of the research topic for future, in-depth study, as well as in the identification of the fundamental concepts connected to the topic chosen by the researcher (Malmqvist et al., 2019). The pilot study was used in this research for a number of purposes, including to learn the general procedures for applying the research methodology and data collection tools so that the researcher can prevent errors before distributing the questionnaire to the main study sample (Lewis Presser et al., 2022). The researcher's capacity to alter the research questions and gain experience with the programs used in the current study so that she may utilize them more expertly in the main study groups is another reason for doing a pilot study (Bell, Whitehead & Julious, 2018).

Moreover, the pilot study helps in identifying potential challenges the researcher may have in the future and how to overcome them and discover answers, as well as providing an estimate of how long it might take to finish the field study (Al-Mekhlafi, Becker & Klawonn, 2022). This type of research is the most challenging for the researcher because it calls for highly skilled intrinsic abilities and inferential skills. It is characterized by flexibility and ease because it aims to explore a problem that is frequently ambiguous and thus does not require a lot of data, but the pilot study may not be highly accurate and sample sizes may be smaller, making it the most challenging (Teresi et al., 2022). The purpose of the pilot study in this research is to discover the flaws in the study methods so that the study can be changed from the start to get the greatest benefit feasible (Pokhrel et al., 2021). The results of the pilot study were also used to decide on the number of questions to ask the study sample and the best time frame for the questionnaire (Lewis Presser et al., 2022). Additionally, it helps to conduct the real study as methodically as possible by educating researchers about the potential difficulties they may face while conducting research.

Additionally, it is utilized to make important decisions regarding how the next study will be carried out (Malmqvist et al., 2019).

In this research, a pilot study was conducted with 225 financial managers and accountants in small enterprises listed in the UAE economic department to increase the researcher's knowledge and familiarity with the research problem to delve deeper into the study. Where PHD students expressed their opinions about questionnaire paragraphs and their ability to test hypotheses, as they changed and modified some of these paragraphs. After that, these students answered the questions of the questionnaire, where the results of the statistical analysis showed high validity and reliability of the items of the questionnaire and its ability to measure what was set to be measured. Moreover, the results of the pilot study showed that the arithmetic means of the study variables were acceptable and close to the results of previous studies. It was also found that the time required to complete the questionnaire was detected to be between 10 and 15 minutes.

### **3.9. Data Analysis**

After collecting and classifying the data, the researcher must work on analyzing and interpreting it, relying on the methods and tools of logical analysis and deduction (Lohr, 2021). The collection of data alone cannot give any understanding of the studied phenomenon if the researcher does not interpret and analyze the data (Müller, 2020). In this research, SPSS was used to analyze the data extracted from the questionnaire, where means standard deviation, and t-test were conducted. SPSS is a set of comprehensive computational data packages to perform the analysis of this data, as it is used in scientific research that contains numerical data (Denis, 2021). The rationale for using SPSS is to help the researcher provide results that are highly credible and reliable, and to understand large

and complex data sets more quickly; through advanced statistical procedures that help ensure high accuracy and quality decision-making (Okagbue et al., 2021).

Hence, since this research relies on a strong theoretical framework or strong previous studies that support certain hypotheses, the researcher used SPSS as best by indices modification of the model and finding new relationships between the factors that are theoretically acceptable. Furthermore, SPSS allows testing many hypotheses at the same time, in addition to the high flexibility and analysis of these hypotheses even in the case of the existence of what is called Multicollinearity, As it represents the second generation of linear modeling approaches, structural equations modeling deals with variables taking into account measurement errors and showing them, especially if the measurements are of low stability, which gives estimates of their features more accuracy, in contrast to the traditional primary and advanced statistical methods such as regression analysis, analysis of variance, and others, which deal with the measured variables, excluding the existence of measurement errors.

### **3.10. Validity and Reliability**

Validity and reliability are prerequisites for judging the effectiveness of the tools adopted in the measurement process (Aung, Razak & Nazry, 2021). If the data is not obtained with honest and reliable tools, researchers have little confidence in the results or the conclusions based on those results. Therefore, validity and reliability are among the most important conditions for the design of research tools. Therefore, attention must be given to the validity of the data collection tools, that is, whether it really measure what it is supposed to measure (Chong et al., 2023). Validity means the relevance and appropriateness of the research tool to measure what is intended to be measured, and thus a high level of

confidence in the researcher's results so that it can be moved to generalization. Additionally, Tebar et al. (2022) explained that validity means the truthfulness of the test questions in terms of their formulation, content, and method of application to the respondents to achieve the objective of the test. The validity of the research tool is usually determined by the relationship between the respondent's performance and the function of that tool. The validity of the arbitrators or the polling of the opinions of the experts is one of the most common and easy methods of validation and the most widely used by researchers. Where the validity of the arbitrators is obtained by presenting the test or the study tool to a group of arbitrators specialized in the field to ensure the integrity of the drafting of the items on the one hand and their suitability for the field to be measured on the other hand, in this research, the validity of the questionnaire was confirmed as it was presented in its initial form to a group of arbitrators that includes professors in UAE universities to express an opinion on the extent of its effectiveness in measuring the attitudes of financial managers and accountants, the extent of the effectiveness of the paragraphs and their linguistic formulation, and the suitability of their questions to the objectives of the subject. Their observations were taken, which were limited to reformulating and arranging some paragraphs without dropping any paragraphs.

In addition, the researcher carried out confirmatory factor analysis (CFA) to test the validity, which is the method that is concerned with using the data of a group of variables to test the validity of a particular configuration that depends on previous theoretical or research knowledge, meaning that it begins with a perception of a specific configuration that combines the variables used in the analysis and tries to verify the validity of the assumption, and clarifies the supposed link between the variables and their factorial composition (Jang et al., 2022). Then it tries to match the assumed model with the data used, where the match

is not complete between the assumed model and the data, but there is a part of the error indicating a deviation from the model. In other words, the pre-determination of CFA allows the variables to freely saturate on specific factors, then the model is evaluated statistically to determine the accuracy of its conformity with the data used (Hox, 2021). In addition, the Kaiser-Meyer Olkin (KMO) test was used, which indicates the efficiency of the sample for the factorial analysis, as the larger the KMO value, the better, where the KMO value greater than 0.50 is considered evidence of the adequacy of the sample (Shrestha, 2021). KMO depends on the size of the variance expressed by the factor. For a factor to be a taxonomic category, its underlying variance or root must be greater than or at least equal to the magnitude of the original variance of the variable. Furthermore, Bartlett's test was used to confirm that the variances are equal for all samples since the value of Bartlett's test should be statistically significant ( $P\text{-value} < 0.05$ ), which means that the factor analysis is valid (Shkeer & Awang, 2019).

On the other hand, reliability means stability, in the sense that if the measurements of one individual were repeated, his/her degree would show some degree of stability (Ramu et al., 2023). Also, reliability may mean objectivity, in the sense that the individual gets the same degree regardless of the difference between the researcher who applies the test and who corrects it. In other words, reliability is when the results shown by the research tool are stable, that is, the same results if reapplied to the same sample under the same conditions after an appropriate period. The reliability of the research tool is affected by a number of factors, some of which are related to the tool itself, and some have to do with the sample that is subject to the tool. In this research, the Cronbach alpha equation was applied to verify the reliability of the questionnaire, since it is a measure of the internal consistency of statistical tests such as questionnaires and similar measures, which means how well a set of

items relate to each other as a coherent set (Kennedy, 2022). In theory, Cronbach's alpha results should give a number from 0 to 1, but negative numbers can also be obtained, where a negative number shows that there is an error in the data (Sijtsma & Pfadt, 2021). Table 3.7 shows the interpretation of Cronbach alpha coefficients, where the general rule is that a Cronbach's alpha coefficient of 70 and above is good, 80 and above is better, and 90 and above is best.

**Table 3-7 Interpretation of Cronbach Alpha Coefficients**

<i>Reliability Coefficients</i>	<i>Interpretation</i>
0.90 and Above	Excellent (Not Redundant)
0.80-0.89	High
0.70-0.79	Moderate
0.6-0.70	Low and Reliable
Below 0.6	Not Reliable

Source: Dikko (2016)

### **3.11. Ethical Considerations**

In order to ensure that scientific research is planned per correct scientific principles and completed appropriately, scientific research ethics is a set of behaviors that govern relationships among scientific research personnel (Arnold, 2021). Furthermore, research ethics are extremely important when conducting, writing, and designing research, which means applying ethical principles in all stages of a dissertation such as collecting data, analyzing data, and showing findings (Boetto et al., 2021). Research ethics is a set of rules that guide researchers and help them decide which of the objectives is more important, and settle the problematic values (Brown, Spiro, & Quinton, 2020). Respect for other people's

rights, opinions, and dignity is a requirement of scientific research ethics, regardless of whether those people are researchers or research participants.

To ensure the integrity and honesty of the scientific research, the researcher adhered to a set of rules followed by the University of Central Lancashire – UCLan while conducting this study. By citing the sources utilized in this research following methodological foundations and noting the author's name without fabrication, falsification, or plagiarism, the researcher respects the intellectual property of others. Before collecting data, the researcher applied for ethical approval and was approved by the ethical committee at the University of Central Lancashire – UCLan, as the researcher adhered to guidelines and practices to protect the confidentiality of the data gathered via questionnaire. In addition, the researcher provided contact information on the questionnaire for participants who wanted a copy of the study's findings.

One of the most crucial factors that was considered in this research is objectivity, as the researcher adhered to complete impartiality, avoided the influence of whims and emotions, and was eager to write the real results without changing or falsifying them under his own vision or inclinations. Some researchers suffer from difficulty in formulating the rationale for their research accurately, and some tend sometimes to delve into research methods and topics that they do not have sufficient understanding or tools to address (Arnold, 2021). In this research, the researcher was keen to be able to understand the research issue well, to be able to focus his efforts on specific main headings and to avoid falling into the trap of ambiguity and dispersion. In addition, the researcher made sure to verify all the data collected by the accredited official authorities before entering the analysis process. The results of the analysis were also presented impartially and objectively without bias towards

a particular party. In this study, the study sample was spoken to in an approachable, upbeat manner with the full assurance that their answers would only be used for scientific research. Participants were encouraged to participate actively and offer an objective perspective. The results of the questionnaire were only seen to those who were responsible for conducting it, according to survey respondents, who also stated that their privacy and answers were safeguarded.

### **3.12. Summary**

Research methodology is one of the most important standards that researchers must understand its steps and include its elements in order to improve their abilities to know how to deal with phenomena and facts that are of interest and specialization. In order to answer the questions of the study, the researcher resorted to using ontology based on extracting, analyzing, and interpreting information from basic sources and specialized studies on the subject of the research. This research is considered one of the very few studies that deal with the philosophical foundations of taxation comprehensively. In this research, the quantitative method was used, as it is an organized and coordinated method for collecting and analyzing data that was brought from various sources, as it often relies on statistical methods in collecting and analyzing data to conclude. The reason behind using the quantitative method in this research is due to the possibility of generalizing the results, as it leads to general and comprehensive results for all accidents and other similar cases.

In this research, primary data was collected using a questionnaire, which was designed to test research hypotheses. Through the questionnaire, it is possible to maximize the value of the results obtained by ensuring that the sample represents the study population, as the high participation rate on the part of the respondents increases the possibility of



generalizing the results to the study community. The questionnaire included three main variables that are revenue growth, operating margin, and capital efficiency, where data was collected for these variables for five main sectors in the UAE, which are manufacturing, tourism, banking, real estate, and renewable energy. Where these sectors have achieved success in increasing the contribution of non-oil sectors to the national economy, as the UAE adopts economic strategies stimulating economic diversification. Finally, SPSS was chosen to analyze the survey data due to its many benefits, including its ability to handle various types of data, ease of use, and potential for future prediction. It is possible to generalize these results to the study population using SPSS, which offers accurate, honest, and highly reliable results. The researcher can analyze, classify, and compare the collected data using SPSS to produce clear information and results that are simple to understand.

To arrive at a sound conclusion based on data, logic, and the laws and standards of scientific inquiry, the researcher must follow a logical, ordered, and transparent scientific sequence. This reflects a collection of significant and accepted procedures. The pilot study, the selection of the sample and the study tool, the design of the questionnaire, and the statistical analysis are only a few of the operations of the scientific method that this research has supplied reasons for. In addition, the researcher investigated many ethical standards, which include scientific honesty in the use of references and sources, confidentiality in collecting information, obtaining approval for its collection from the competent official authorities, full awareness of the results of the research, and taking responsibility for it, and objectivity and honesty in deriving the results of the research.

# **CHAPTER 4**

## **FINDINGS OF THE RESEARCH**

## **4.1. Introduction**

This chapter presents the results derived from the statistical analysis, which aims to investigate the effect of VAT on the cash flow in UAE small businesses. The VAT was introduced over a vast majority of the goods and services traded in the country by the UAE authorities in 2018. As a result of the change in the taxation policy of the government, it increased the price of almost all of the goods sold, purchased, and traded in the country. Smaller businesses got hurt particularly since they had less financial protection against such headwinds. In this study, a statistical analysis of the impact of educational level, gender, age, and demographics of customers was completed, based on survey data collected by the researchers. This might impact the VAT policy of the Emirati government as well. Moreover, SPSS was used to test the research hypotheses. One positive aspect of using SPSS is that it has simplified statistical methods, in the sense that it has replaced the construction of very complex classical mathematical models with calculations using specific software, improving their applicability or accessibility to other fields or studies. Following this software, this mechanism is usually considered more open and accessible compared to classical models and assumptions, making it a useful tool for a large number of mathematical problems. Finally, the results are tabled and discussed in more detail and compared with the outcomes of previous studies before appropriate recommendations are drawn.

## **4.2. Respondents' Profile**

Given the frequency of the study respondents i.e. 1215, Table 4.1 below shows the summary of the socio-demographic characteristics of the respondents. Through Chart 1, the Gender Demographics could be observed in 2 different segments. In the Gender variance 1, 631 participants are observed and in the Gender variance 2, 584 participants are observed

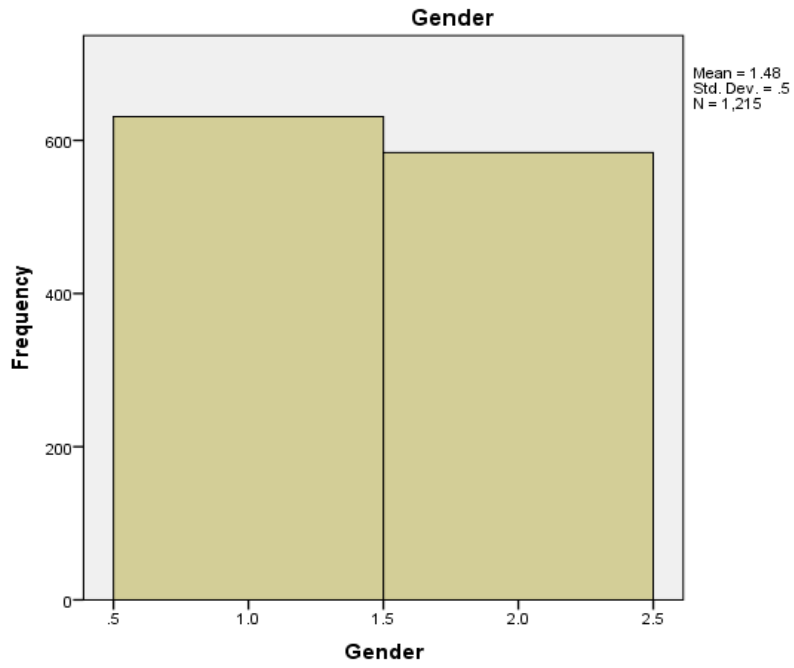
(Tariqali, 2022). Through Chart 2, the Age Demographics could be marked in 4 distinct segments. In the Age variance 1, 338 participants are observed and in the Age variance 2, 293 participants are observed (Bansal, 2020). Under Age variance 3, 439 participants are observed. Under Age variance 4, 145 participants are observed. Through Chart 3, the Demographics of Education Level could be segmented into 3 distinct segments. In the Education Level variance, 1, 682 participants are observed and in the Education Level variance 2, 340 participants are observed. Under Education Level 3, 193 participants are observed (Cassim, 2020). Through Chart 4, the Demographics of Job Level could be segmented into 3 distinct segments. In the Job Level variance, 1, 339 participants are observed and in the Job Level variance 2, 488 participants are observed. Under Job Level 3, 388 participants are observed (Atkočiūnienė, 2022). In Chart 5, the demographics of years of experience could be segmented into 4 distinguishable segments. In the years of experience variance, 1, 340 participants are observed and in the years of experience variance 2, 291 participants are marked. Under years of experience variable 3, 390 participants are observed. Under years of experience variable 4, 194 participants are observed (Cherian, 2020).

**Table 4-1 Summary of Socio-Demographic Characteristics of the Respondents.**

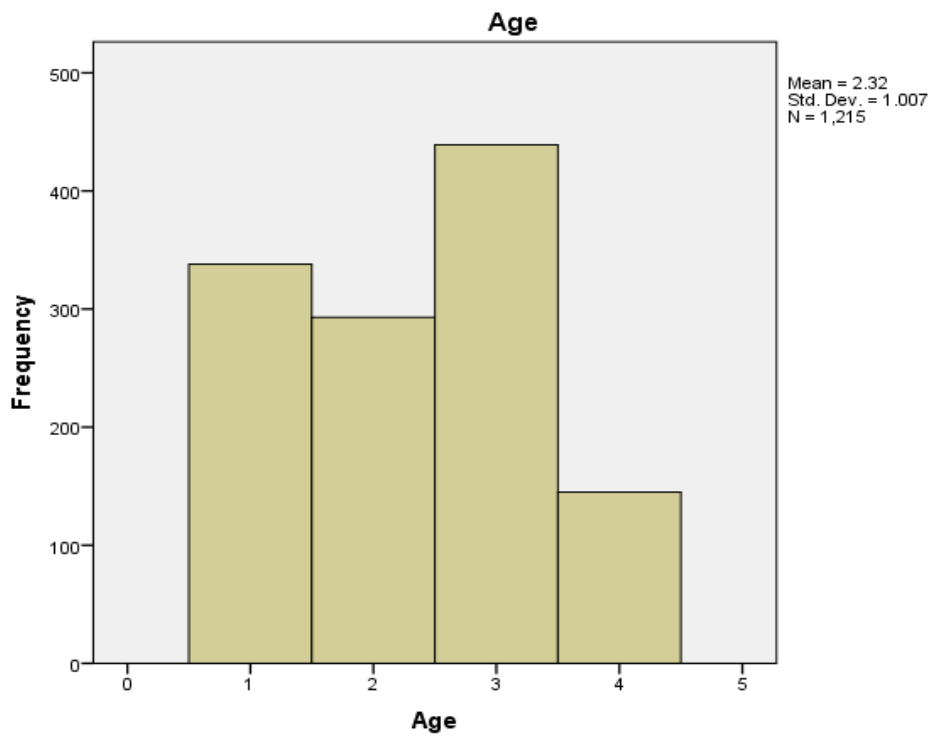
(N= 1215)

<b>Variable</b>	<b>N (%)</b>
<b>Gender</b>	
Male	631 (51.9%)
Female	584 (48.1%)
<b>Age</b>	
26-35	338 (27.8%)
36-45	293 (24.1%)
46-55	439 (36.1%)
Above 55	145 (11.9%)
<b>Education Level</b>	
Bachelor	682 (55.1%)
Master	340 (28.0%)
PhD	193 (15.9%)
<b>Job Level</b>	
Top	339 (27.9%)
Middle	488 (40.2%)
Low	388 (31.9%)
<b>Years of Experience</b>	
1-5	340 (28.0%)
6-10	291 (24.0%)
11-15	390 (32.1%)
Above 15	194 (16.0%)

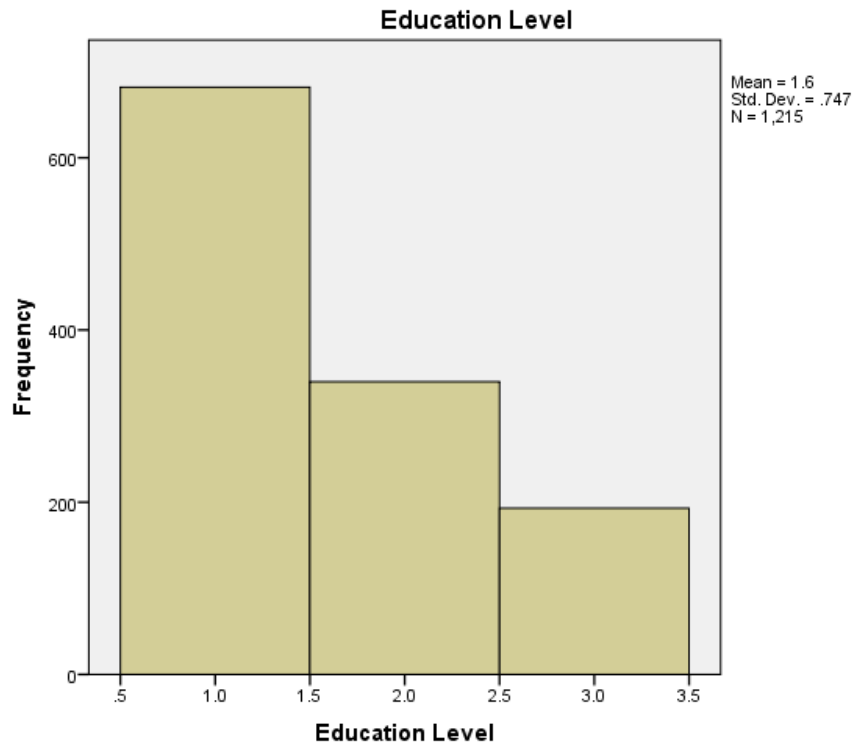
Figures 4.1 to 4.5 summarize the background information about the respondents, including gender, age, education level, job level, and years of experience.



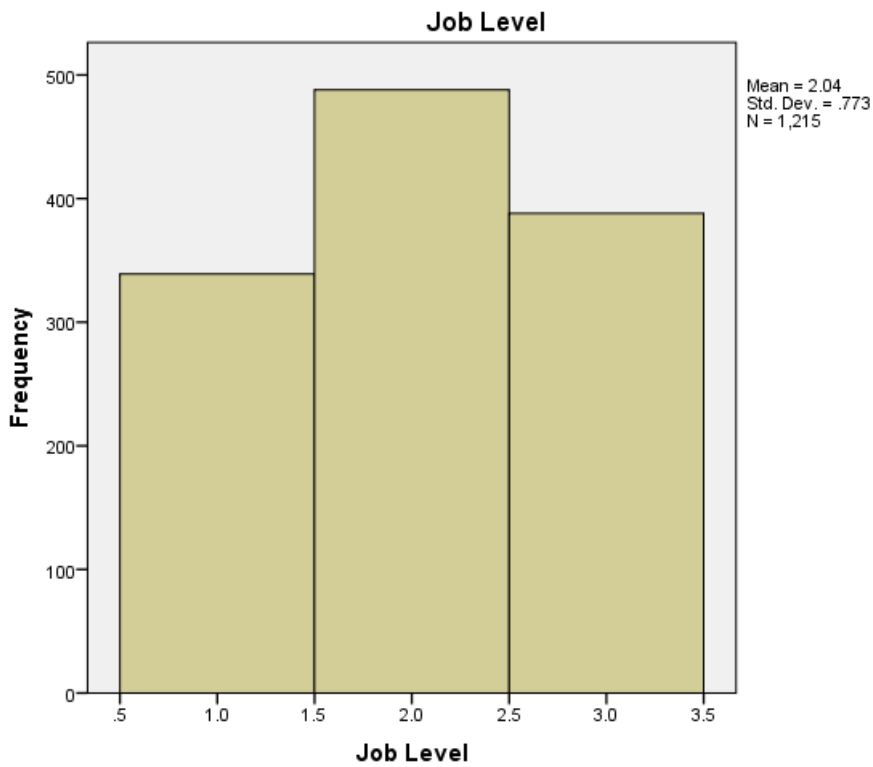
**Figure 4-1 Gender of Respondents**



**Figure 4-2 Age of Respondents**



**Figure 4-3 Education Level of Respondents**



**Figure 4-4 Job Level of Respondents**



**Figure 4-5 Years of Experience of Respondents**

### **4.3. Assessment of Model Quality in SPSS**

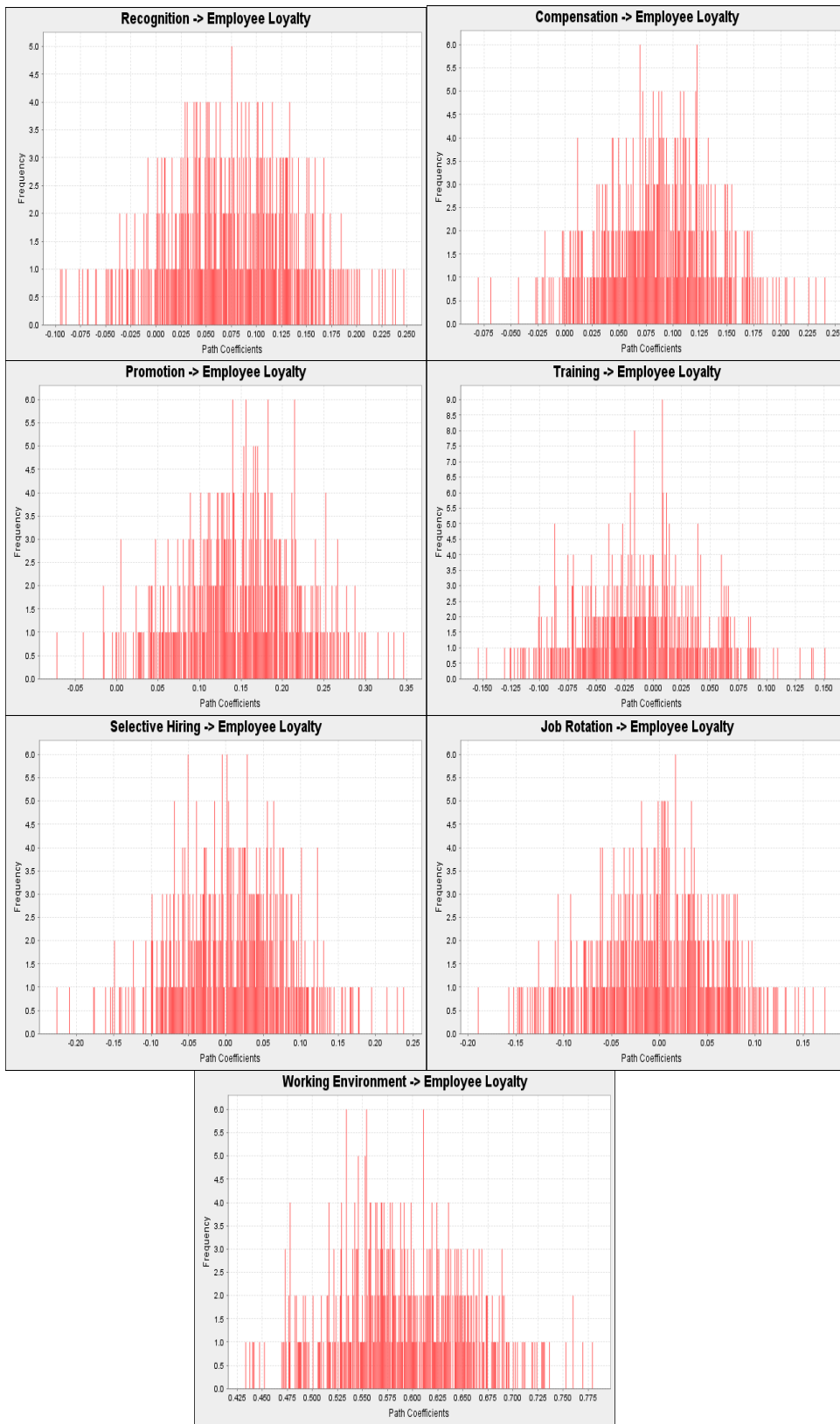
The model quality was measured using SPSS software, as the suitable metrics that were retrieved to test the model are used to determine its suitability, which enables the previously assumed link to be accepted (West, Welch & Galecki, 2022). The model is accurate when there is a strong acceptance based on these metrics; when there is a poor acceptance, the model can be disregarded (Okagbue et al., 2021). In this research, bootstrapping prediction intervals were employed to test the model and assure the stability of the outcomes. Bootstrapping is a typical mechanism of statistics and econometrics that focuses on resuming data within a random sample to find an approximation of the distribution of the variable being analyzed (Gonçalves, Perron & Djogbenou, 2017). The main benefit of using bootstrapping is to reduce bias within the analysis or, in other words, to approximate the variance of the random resampling of the initial sample. In this way,



building statistical models becomes easier by creating confidence intervals and hypothesis tests.

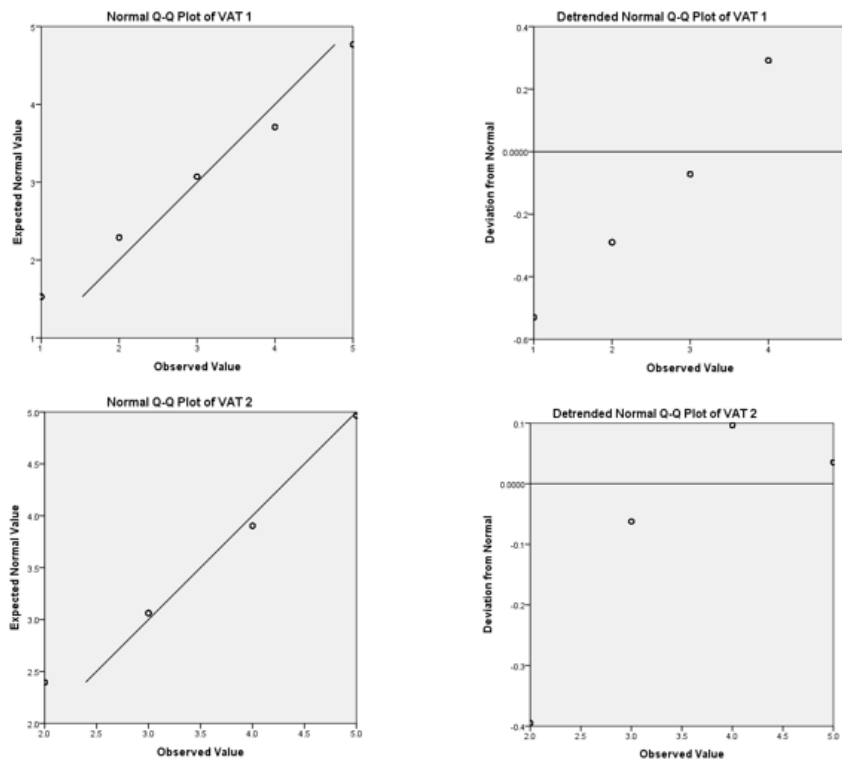
Figure 4.6 of correlation is being constructed on the Bias process with the coefficient variance of 95%, which has bootstrapped in the perspective of the 1215 participants in the variances, which also signifies the growth of the VAT variance in the Bootstrapped process of correlation.

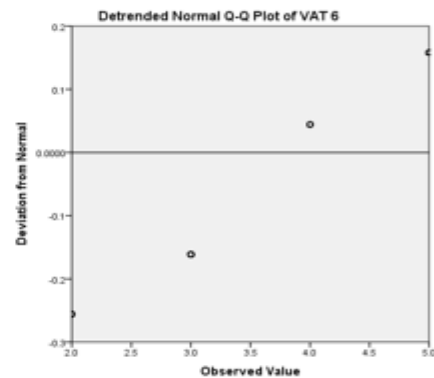
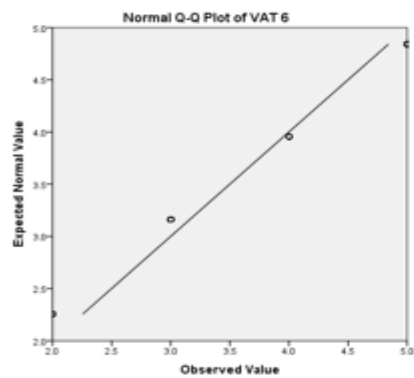
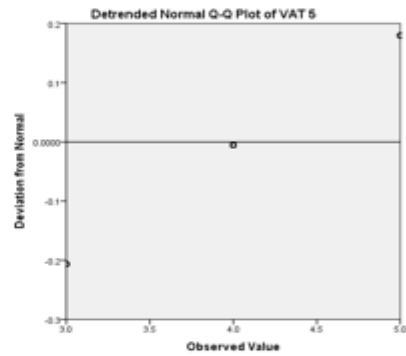
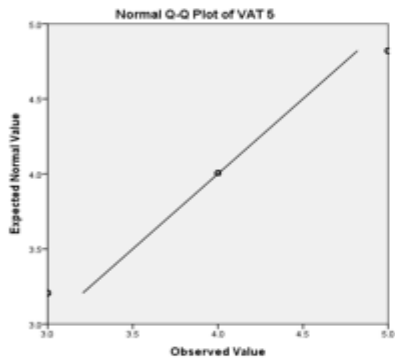
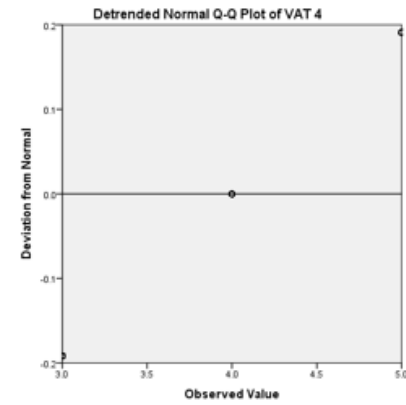
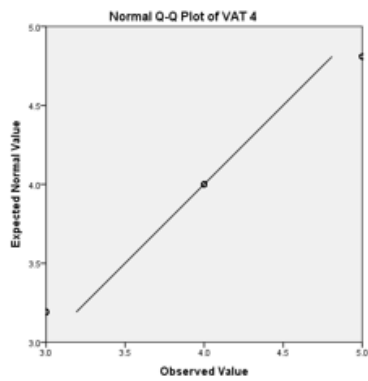
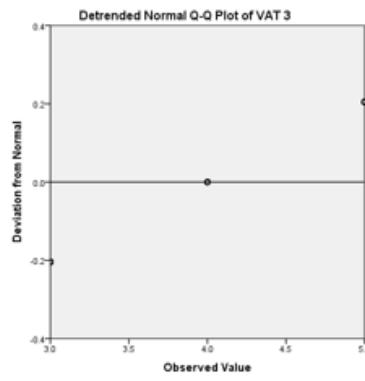
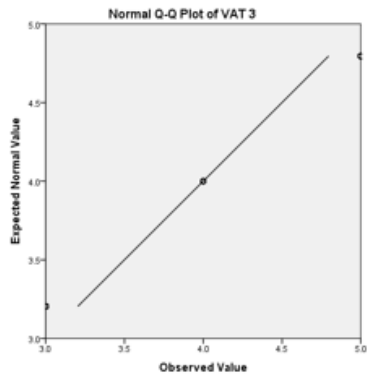
Figure 4.6 also shows the Bootstrapping of revenue growth, operating margin, and capital efficiency that uses the simple sampling method and uses 1000 samples to bootstrap the method by using the "Bias-corrected and accelerated" type.



**Figure 4-1 Bootstrapping for Model Parameters**

As shown in Figure 4.7, the Q-Q plot was used to test the normal distribution of the research variables. In the interpretation of the Q-Q plots of VAT variances, the X variances of the Detrended normal observed value, and the Y value are observed to normal valuation (Mans, 2019). In the interpretation of the charts, the growing undervaluation of the TAX payments could be observed as it could be a significant risk factor for the UAE economy. In the comparison with the independent variable with VAT, the dependable variable would be observed in the perspective of RV1 and 2, CE1 and 2, and OM1 and 2. The average mean variance of the fraction is observed at 3.80 (Sadiq, 2021). This is a standard estimation that would be according to the length of the sequences. This comparison is quite on the edge of the comparison with VAT.





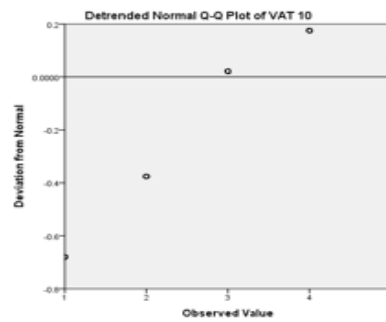
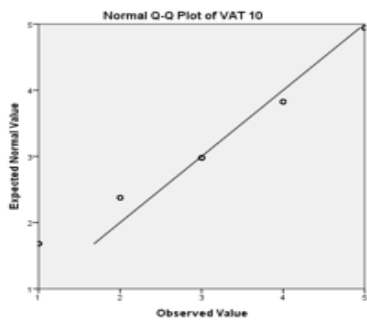
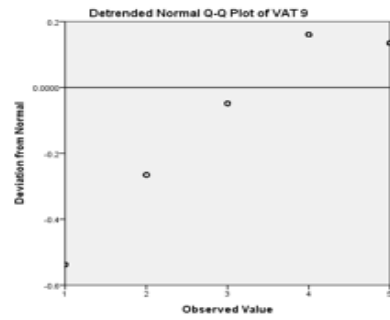
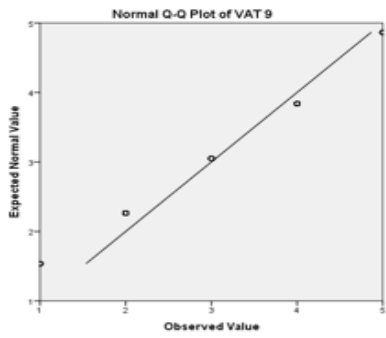
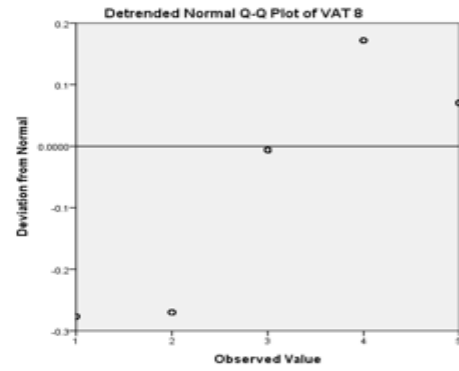
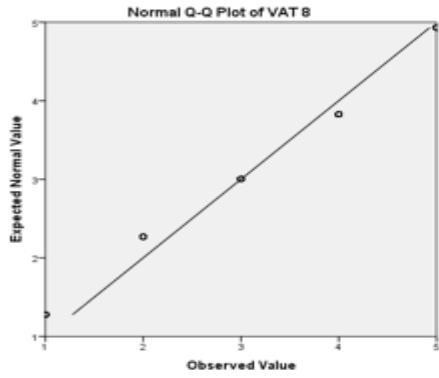
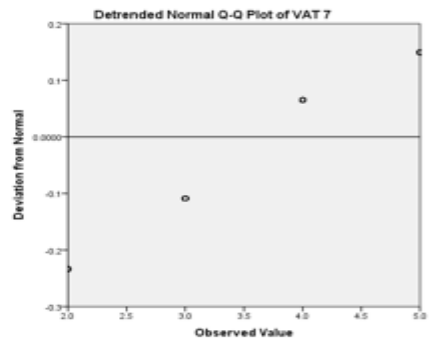
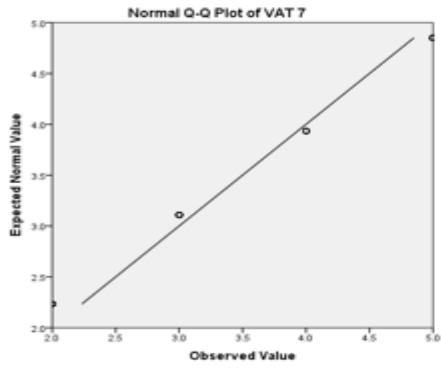


Figure 4-2 The Histogram Q-Q Plots

Through the detailed analysis of the Pearson correlation in the variable of VAT, the two-tailed analysis would show the increasing relation trends between the variables. As there are X variances and Y variances (Bala, Kumar & Nadeem, 2019). Through the interpretation of the growth trend of the dependable variables, the correlative relation could be signified in the tax structure of the UAE. In this section, the correlative comparison of the Pearson Correlation of the elements of revenue growth, operating margin, and capital efficiency, would be observed to be effectively contributing to the definitive growth in the UAE's economic development in comparison to the VAT variances, as shown in Table 4.2.

**Table 4-2 Pearson Correlation Coefficient between the Research Variables of the Tested Model.**

		VAT	RV	OM	CE
VAT	Pearson Correlation	1	.818**	.455**	-.121**
	Sig. (2-tailed)		.000	.000	.000
	N	1215	1215	1215	1215
RV	Pearson Correlation	.818**	1	.547**	.144**
	Sig. (2-tailed)	.000		.000	.000
	N	1215	1215	1215	1215
OM	Pearson Correlation	.455**	.547**	1	.267**
	Sig. (2-tailed)	.000	.000		.000
	N	1215	1215	1215	1215
CE	Pearson Correlation	.610**	.513**	.186**	1
	Sig. (2-tailed)	.000	.000	.000	.000
	N	1215	1215	1215	1215

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

#### 4.4. Assessment of Construct Reliability Using Cronbach's Alpha and Split Half

Table 4.3 shows the table of Cronbach's Alpha of VAT. The total number of cases of this calculation is 2430 which contains all over 100% of cases but the valid cases of this

Cronbach's Alpha of VAT become 1215 which contains 50% and the remaining excluded cases of this Cronbach's Alpha of VAT become also 1215 which also contains 50%. Also, through the reliability statistics of Cronbach's Alpha of VAT, here identifies that Cronbach's Alpha contains 0.862 types of model and also borrows 10 types of items.

Moreover, Table 4.3 shows the table of Cronbach's Alpha of revenue growth, operating margin, and capital efficiency. The total number of cases of this calculation is 2430 which contains all over 100% of cases but the valid cases become the same as Cronbach's Alpha of VAT i.e. 1215 which contains 50% and the excluded cases Cronbach's Alpha of revenue growth, operating margin, and capital efficiency. Also, through the reliability statistics of Cronbach's Alpha of VAT, here identifies that Cronbach's Alpha contains 0.957 types of model and also borrows 30 types of items which is different from VAT (Demirgunes, 2023). That means Cronbach's Alpha of revenue growth, operating margin, and capital efficiency contains a huge level of quantity and produces a similar number of cases.

Through Table 4.3; understand that the table of split-half reliability of VAT contains a total 2430 number of cases. Also, through the reliability statistics level here understand that Cronbach's Alpha part 1 and part 2 contain 0.667 and 0.881 values of items. But at this moment here also find that spearman-brown and coefficient value contains equal and unequal length. The negative impact on the cash flow of the smaller businesses was linked to the reduction of purchases by the customers.

Also, through Table 4.3 herewith; understand that the table of Cronbach's Alpha of revenue growth, operating margin, and capital efficiency contains a total 2430 number of cases. Also, through the reliability statistics level here understand that Cronbach's Alpha part 1 and part 2 contain 0.902 and 0.928 values of items. But at this moment here also find that spearman-brown and coefficient value contains equal and unequal length

**Table 4-3 Summary of Cronbach’s Alpha Value for Each Construct of the Questionnaire.**

Scale	Item number	Cronbach’s Alpha	Split-Half Reliability
VAT	10	0.862	0.902
Revenue Growth, Operating Margin, And Capital Efficiency	30	0.957	0.928
<b>Total Items</b>	<b>40</b>	<b>0.984</b>	<b>0.917</b>

#### **4.5. Assessment of the Construct Validity Using Kaiser-Meyer-Olkin (KMO) Test**

In this research, the KMO test was used, as the value should be larger than 0.50 in order to move further with the factor analysis, indicating that the sample is sufficient (Costales et al., 2022). Table 4.4 shows that the KMO values for all the constructs are greater than 0.50, which means that the model is acceptable. Through the interpretation of the KMO test of VAT, the highest variance is observed at (0.661) in the compound matrix. The KMO adequacy is observed at (0.653). The cumulative variance is also observed to be increasing in nature. The extraction method is observed in the principal component analysis. The KMO adequacy is observed at (0.753) as it is more efficient than the VAT variance (Support.stripe.com, 2020). Through the total variance explained for VAT in UAE, as shown in Table 4.5, the highest variance is observed at (0.648) in the compound matrix. The cumulative variance is also observed to be increasing in nature. The extraction method is observed in the principal component analysis.



**Table 4-4 The Kaiser-Meyer Olkin (KMO) and Bartlett's Test for VAT in UAE.**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.653
Bartlett's Test of Sphericity	Approx. Chi-Square	10065.155
	df	45
	Sig.	0.000

**Table 4-5 Total Variance Explained for VAT in UAE.**

Component						
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.777	47.774	47.774	4.777	47.774	47.774
2	1.820	18.197	65.972	1.820	18.197	65.972
3	1.107	11.073	77.044	1.107	11.073	77.044
4	.873	8.730	85.775			
5	.541	5.408	91.183			
6	.373	3.726	94.909			
7	.210	2.104	97.013			
8	.172	1.717	98.730			
9	.070	.704	99.434			
10	.057	.566	100.000			

In addition, Table 4.6 shows that Kaiser's Criteria's initial eigenvalue exceeded the Monte-Carlo Simulation Eigenvalue, indicating that all constructs are accepted. Concerning the total variance explained, all constructs are above 50%, which is satisfactory (Braeken & Van Assen, 2017). This means that the problem of explanatory variables was solved, as well as the problem of high correlations between independent variables that lead to the instability of the values of their standard regression coefficients was measured.

**Table 4-6 Multiple criteria for factors to be extracted.**

Variable	Component Number	Initial Eigenvalue (Kaiser's Criteria)	Monte-Carlo Simulation Eigenvalue	Cumulative % Variance Explained	Decision
Independent	1	0.854	4.895	62.854	Accept
Dependent	3	0.814	4.913	66.259	Accept

## **4.6. Descriptive Analysis**

The results of the descriptive statistical analysis of the questionnaire statements are presented by determining the mean and standard deviations. Therefore, the degree of response or non-response of the sample to the statements is determined by the VAT in UAE and its impacts on revenue growth, operating margin, and capital efficiency. The researcher used mean and percentages, and the estimation of the respondents' responses to each of the statements. The researcher used the following criterion based on the mean value (Liu & Chalmers, 2018).

- 1 to 2.33 - low agreement
- 2.34 to 3.66 - medium agreement
- 3.67 to 5 - high agreement

### **4.6.1. Descriptive Analysis for VAT in UAE**

This part relates to VAT, which refers to the participants' level of agreement with the below statements about VAT in UAE. Table 4.7 shows the participants' agreement regarding VAT statements.

**Table 4-7 Mean and Standard Deviations of VAT in UAE.**

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
1. The implementation of VAT stimulates the UAE economy.	3.83	1.320
2. The implementation of VAT leads to higher inflation rates.	3.68	.734
3. The implementation of VAT leads to a significant increase in prices.	4.00	.800
4. The positives of implementing the VAT law outweigh the negatives.	4.00	.748
5. VAT is more effective than other types of taxes.	4.08	.745
6. VAT is gradually increased in the UAE.	4.01	.857
7. The VAT was the first step in implementing other tax laws in the UAE.	3.80	.896
8. VAT increases the efficiency of the Internal Revenue Service, and makes tax evasion difficult.	3.60	1.133
9. The introduction of VAT limits negative consumer practices.	3.84	1.123
10. VAT is a means of combating fraud and exploiting the opportunities of digital technology.	3.88	1.073
<b>Total Mean and Standard Deviation</b>	<b>3.87</b>	<b>.954</b>

Table 4.7 shows the mean and standard deviations of VAT in the UAE, where the total mean is (3.87) with a standard deviation of (0.954), which means there is a negative impact of using VAT in small companies in the UAE. In general, statements tend to an excellent degree, as statement 5, which states “VAT is more effective than other types of taxes”, has obtained the highest mean (4.08), with a standard deviation of (0.745), while statement 8, which states “VAT increases the efficiency of the internal revenue service, and make tax evasion difficult” has obtained the lowest mean (3.60), with a standard deviation of (1.133). In the interpretation of the description of VAT, the VAT variances could be observed at 1-10, the mean-variance would be observed in the range between 3.60 to 4.08, where the minimum range is observed at 1 and the maximum variance is observed at 5 (Balharith, 2022). The standard deviation is observed to be ranged from .734 to 1.133. In the analysis of

the Skewness and Kurtosis are observed to be doubled in valuation. As an independent variable, it is quite beneficial in the economic taxation structure of the economy of UAE.

#### 4.6.2. Descriptive Analysis for Revenue Growth

This part relates to revenue growth, which refers to the participants' level of agreement with the below statements about the effect of VAT on revenue growth in the UAE business.

Table 4.8 shows the participants' agreement regarding the revenue growth statements.

**Table 4-8 Mean and Standard Deviations of Revenue Growth.**

Statement	Mean	Standard Deviation
1. The implementation of VAT affects the net profits of UAE small businesses.	3.80	1.132
2. The implementation of VAT affects the future expansion plans of UAE small businesses.	3.76	.815
3. The implementation of VAT affects the average sales of UAE small businesses.	4.16	.730
4. VAT has a significant impact on the liquidity of small businesses in the UAE.	4.32	.734
5. VAT affects the transfer of capital for some small companies outside the UAE.	4.12	.865
6. The implementation of VAT leads to a decrease in the demand for products or services.	3.56	.852
7. The implementation of VAT leads to the introduction of regulations for small companies to ensure the proper application of the tax.	3.84	.925
8. The implementation of VAT raises the efficiency of tax collection of revenues.	4.20	.799
9. Switching to VAT helps UAE small businesses fully enjoy the tax deduction.	4.00	.802
10. VAT has a significant impact on UAE small businesses as a result of fluctuations in cash, investment, and business flows.	3.88	1.108
<b>Total Mean and Standard Deviation</b>	<b>3.96</b>	<b>.936</b>

Table 4.8 shows the mean and standard deviations of revenue growth, where the total mean is (3.96) with a standard deviation of (0.936), which means there is an impact of VAT on revenue growth in small companies in UAE. In general, statements tend to an excellent

degree, as statement 4, which states “VAT has a significant impact on the liquidity of small businesses in the UAE”, has obtained the highest mean (4.32), with a standard deviation of (0.734), while statement 3, which states “The implementation of VAT leads to a decrease in the demand for products or services” has obtained the lowest mean (3.56), with a standard deviation of (0.852).

#### **4.6.3. Descriptive Analysis for Operating Margin**

This part relates to operating margin, which refers to the participants’ level of agreement with the below statements about the effect of VAT on operating margin in the UAE business.

Table 4.9 shows the participants' agreement regarding the operating margin statements.

**Table 4-9 Mean and Standard Deviations of Operating Margin.**

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
1. The imposition of VAT increases operational costs for UAE small businesses.	3.80	1.169
2. Because of VAT, UAE small business bears the brunt of the additional operational costs of goods, rather than consumers.	3.80	.849
3. VAT may create operational risks and pressure on EBITDA in UAE small businesses.	3.60	1.023
4. VAT creates tax discrimination in favor of UAE small businesses that produce the bulk of their operations internally.	3.84	.969
5. VAT clarifies the relationship between the values of the components of direct cash flows, stock returns, and future profits.	3.92	.797
6. VAT leads to expansionary effects on production through its impact on the volume of investment.	3.76	.863
7. VAT increases the potential for tax evasion for UAE small businesses.	4.08	.797
8. VAT contributes to generating sufficient cash flows to pay off debts and maintain the operating capacity of UAE small businesses.	3.80	.849
9. VAT contributes to reducing the raw material used in the manufacture of the commodity in small companies in the UAE.	3.84	.881
10. VAT can affect the size and production pattern of small businesses in the UAE.	3.68	.929
<b>Total Mean and Standard Deviation</b>	<b>3.81</b>	<b>.896</b>

Table 4.9 shows the mean and standard deviations of operating margin, where the total mean is (3.81) with a standard deviation of (0.896), which means there is an impact of VAT on operating margin in small companies in UAE. In general, statements tend to an excellent degree, as statement 7, which states “VAT increases the potential for tax evasion for UAE small business”, has obtained the highest mean (4.08), with a standard deviation of (0.797), while statement 3, which states “VAT may create operational risks and pressure on EBITDA in UAE small business” has obtained the lowest mean (3.60), with a standard deviation of (1.023).

#### 4.6.4. Descriptive Analysis for Capital Efficiency

This part relates to capital efficiency, which refers to the participants' level of agreement with the below statements about the effect of VAT on capital efficiency in the UAE business.

Table 4.10 shows the participants' agreement regarding the capital efficiency statements.

**Table 4-10 Mean and Standard Deviations of Capital Efficiency.**

Statement	Mean	Standard Deviation
1. The application of VAT increases costs during the various stages of production.	3.84	1.258
2. VAT contributes to reducing the wages of workers in small companies in the UAE.	3.68	.786
3. VAT encourages UAE small businesses to export.	3.96	.960
4. VAT leads to directing capital towards specific productive sectors.	4.08	.797
5. VAT contributes to achieving a degree of balance between the supply and demand movements.	4.12	.864
6. Implementing VAT helps UAE small businesses learn and practice new accounting businesses.	4.08	.744
7. VAT entails distributing the tax burden on the various stages of production and distribution.	3.96	.774
8. VAT reduces the competitiveness of UAE small businesses to attract foreign investments.	4.00	.940
9. VAT works to protect UAE small companies, which results in maintaining the level of national products.	4.00	.940
10. VAT reform significantly improves UAE small businesses in terms of quality and efficiency.	4.00	1.022
<b>Total Mean and Standard Deviation</b>	<b>3.97</b>	<b>.885</b>

Table 4.10 shows the mean and standard deviations of capital efficiency, where the total mean is (3.97) with a standard deviation of (0.885), which means there is an impact of VAT on capital efficiency in small companies in the UAE. In general, statements tend to an excellent degree, as statement 5, which states "VAT contributes to achieving a degree of balance between the supply and demand movements", has obtained the highest mean (4.12), with a standard deviation of (0.864), while statement 2, which states "VAT

contributes to reducing the wages of workers in small companies in the UAE” has obtained the lowest mean (3.68), with a standard deviation of (0.786).

In the comparison of the independent variable of the VAT with the other taxable variances like revenue growth, operating margin, and capital efficiency is observed to be less effective than the variance of the VAT in the perspective of the mean variances. In some cases, the standard deviation and the mean variances could be observed to be quite similar in valuation, through the effective comparison of the descriptive variables of the rest of the three taxing elements. In some cases, capital efficiency is compared to variables of the rest of the three taxing elements. In some cases, capital efficiency is compared to be slightly higher than the VAT variances. As a dependent variable, it is performing quite significantly as it is signifying an increase in the competitive collection of taxes in the UAE.

## **4.7. Hypotheses Testing**

This section discusses the hypotheses testing results for the relationships between the IVs and DV. In this research, Analysis of variance (ANOVA) was used to test research hypotheses, as it is considered a useful method for reducing complex relationships between a set of variables to a relatively simple linear form, and it also reveals unexpected relationships. The detailed discussions are provided in the following sub-sections.

### **4.7.1. Testing the First Main Hypothesis**

***H1: There is no statistically significant impact of VAT on revenue growth.***

In this research, ANOVA was used to test the first main hypothesis as shown in the Table 4.11.



**Table 4-11 Results of the ANOVA – The Impact of VAT on Revenue Growth.**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	VAT	512.515	4	128.129	1096.693	0.000
	Residual	141.367	1210	0.117		
	Total	653.881	1214			

$R^2 = 0.714$

$R^2$  (adj) = 0.708

Table 4.11 indicates that VAT (Sig-value = 0.000,  $R^2 = 0.714$ ,  $df = 1214$ ) is significantly correlated with revenue growth, which means that VAT has an impact on revenue growth at small companies in the UAE. In addition, the calculated F value was equal to 1096.639 at the significance level (0.05) and the degree of freedom (1214), since it is greater than the F statistic value. Therefore, H1 is rejected.

#### 4.7.2. Testing the Second Main Hypothesis

***H2: There is no statistically significant impact of VAT on operating margin.***

In this research, ANOVA was used to test the second main hypothesis as shown in the Table 4.12.

**Table 4-12 Results of the ANOVA – The Impact of VAT on Operating Margin.**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	VAT	452.265	4	113.066	386.384	0.000
	Residual	354.078	1210	0.293		
	Total	806.342	1214			

$R^2 = 0.694$

$R^2$  (adj) = 0.699

Table 4.12 indicates that VAT (Sig-value = 0.000,  $R^2 = 0.694$ ,  $df = 1214$ ) is significantly correlated with operating margin, which means that VAT has an impact on the operating margin of small companies in the UAE. In addition, the calculated F value was equal to

386.384 at the significance level (0.05) and the degree of freedom (1214), since it is greater than the F statistic value. Therefore, H2 is rejected.

### 4.7.3. Testing the Third Main Hypothesis

**H3: There is no statistically significant impact of VAT on capital efficiency.**

In this research, ANOVA was used to test the third main hypothesis as shown in the Table 4.13.

**Table 4-13 Results of the ANOVA – The Impact of VAT on Capital Efficiency.**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	VAT	328.967	4	82.242	220.634	0.000
	Residual	451.030	1210	0.373		
	Total	779.997	1214			

$R^2 = 0.732$

$R^2 (adj) = 0.729$

Table 4.13 indicates that VAT (Sig-value = 0.000,  $R^2 = 0.732$ ,  $df = 1214$ ) is significantly correlated with capital efficiency, which means that VAT has an impact on capital efficiency at small companies in the UAE. In addition, the calculated F value was equal to 220.634 at the significance level (0.05) and the degree of freedom (1214), since it is greater than the F statistic value. Therefore, H3 is rejected.

To simplify, Table 4.14 below shows the summary results of the hypothesis testing for the relationship analysis.

**Table 4-14 Summary Results of Hypothesis Testing for Direct Relationship Analysis.**

<b>Hypothesis</b>	<b>Hypothesis Statement</b>	<b>Path</b>	<b>Results</b>
H1	There is no statistically significant impact of VAT on revenue growth.	VAT -> RG	Rejected
H2	There is no statistically significant impact of VAT on operating margin.	VAT -> OM	Rejected
H3	There is no statistically significant impact of VAT on capital efficiency.	VAT -> CE	Rejected

## **4.8. Discussion of the Results**

This study found that there is a significant impact of VAT on small companies in the UAE. As a result of the 5% VAT charge, there is a negative impact on the cash flow of the small businesses in the country. Generally, small companies mainly operate domestically, with little international exposure. The customers of these outlets would have to pay the relevant VAT tax for their purchase of products and services. And, the foreign goods they sell in their outlets to the customers include third-party purchases from international traders (Verma, 2019). But then, there was also a VAT that had to be paid by the company for their purchasing of foreign goods from third-party traders. When the VAT system is implemented without corresponding increases in salaries, prices rise. This forces small businesses to sell outside of the law in order to assist groups in society looking for lower costs, which raises inflation rates (Wawire, 2017).

Moreover, the results of this study found both positive and negative impacts of the VAT on the business interests of smaller companies and the revenue collection of the UAE

government. So the VAT imposed by the UAE government and central bank in 2018 had a series of impacts on them. The VAT was imposed by the government of the UAE in 2018. A 5% VAT was added on selling, purchasing, importing, and exporting almost all the products and services in and out of the country (Murphy, 2019). In this regard, Schoeman et al. (2022) noted that the implementation of the VAT has more positive effects than negative ones so these positive effects can be offset or mitigated in a number of ways, such as by reviewing executive regulations at least every five years to ensure that they keep up with changing economic and social conditions. Also, Akhmadaliev (2022) explained that VAT is one of the tools of macroeconomic policies as it can be used to direct production, consumption, and saving by moving tax categories in favor of or against the economic activity in question as required by economic or social objectives. The introduction of VAT can enable the introduction of improvement or modernization of the tax administration as a whole. In addition, by embracing numerous commercial transactions that take place without a physical presence, including online sales and purchases, Adandohoin (2021) clarified that this sort of tax serves to simplify tax legislation, improve the effectiveness of tax revenue collection, and prevent tax evasion. However, the introduction of this tax occasionally disrupts the operations of the current administration due to inadequate planning or poor implementation decisions (Alsalloum & Grijalba, 2021). Also, the implementation of VAT lowers average sales, which affects net profits and may lead to business failure and cessation of operation (Guo & Shi, 2021). Without any adjustments to the type of government spending, applying VAT to government revenues was not sufficient to maintain the financial flows of small businesses in the UAE (Al-Hamadi, 2020).

From the point of view of this study, the application of the VAT may lead to a reduction in current and future consumption due to the rise in prices of these goods, which is followed

by a reduction in saving, leads to a reduction in investment and affects the movement of the national economy as a whole (Saptono et al., 2021). The issue arises when calculating VAT at each stage of the product's manufacture or processing before the ultimate consumer receives it; in some situations, this results in an increase in the product's worth due to the taxes placed on it, which makes the calculation more difficult when the product is imported (Al-Shammari et al., 2021). Therefore, the major corporations were forced to cut down their operations in the country, there was a negative impact on the employment opportunities in the country. As some of the smaller businesses closed down their shops. And, moved to other Gulf countries like Qatar, Bahrain, and Saudi Arabia where the rate of VAT is lower or no VAT is present (Tikasari, 2020). This further negatively impacted the demand for goods in the domestic market as a result of the negative impact on purchasing power. As the demand for goods and services was negatively impacted by the imposition of taxes, it resulted in a decrease in the transactions by numbers as well as by volumes. Additionally, one of the most significant disadvantages of VAT is that it may result in a drop in living standards, particularly for low-income groups. This is because indirect taxes are built into the price of the good, and when this price rises after tax, it has a negative impact on these groups' consumption (Veryzhenko et al., 2022).

The VAT plays a major role in the comparison when distributing income between consumption and saving, as this depends on many psychological and objective factors, the most important of which is average income, as well as VAT affects the purchasing power of the family due to the high prices of goods imposed on it, which ultimately, it leads to reduced consumption (Oliver et al., 2022). Therefore, it is the responsibility of the UAE government to guide towards rational consumption of the economic, financial, monetary, and commercial tools it has to correct the movement and course of economic activity in

light of national interests. In order to achieve more balanced consumption, work must be done to mitigate the devastating environmental impacts resulting from the consumption of both individuals, companies, and financing structures that produce consumer goods (Zhang et al., 2021).

It is obvious that the local trade market is where the VAT has the most significant negative consequences because of changes in cash, investment, and commercial movements, which unavoidably have an impact on the state budget (Markova, 2019). This issue arises for a variety of reasons, such as reducing the costs associated with paying VAT for numerous goods that pass through several stages during the production and supply journey, as well as buying and selling activities that take place without official documents, particularly for small businesses with very few transactions (Brondolo, 2021). In the case of the smaller trading companies, the imposition of the tax hurt them as a result of the increasing price of the imported goods due to tax. Also, the small manufacturing companies would have to pay relevant taxes on importing raw materials to manufacture products. At the end of the chain, the customers were also forced to pay taxes to buy the products. As a result of the increasing cost of goods and services to the local customers, the overall supply chain associated with the business was somewhat disrupted in comparison to previous years (Alkhodre, 2019). Thus, in an overall context, it led to a situation where the businesses might face some financial losses. Additionally, recovering taxes on intermediate items typically requires a lot of time and effort, which results in production inefficiencies and could even lead to a monopoly. Due to a lack of foreign investment, it could have an impact on how the local markets are positioned, which would then have an impact on overall production (Oliver et al., 2022).

This study clarified the relationship between VAT and cash flow in the UAE small businesses, where the VAT is the sum charged by any government on any goods sold in their country. These businesses' capacity to generate future cash flows, meet their obligations, settle debt, and distribute dividends was impacted by VAT (Alsalloum & Grijalba, 2021). In terms of the compliance process, collecting VAT and remitting it to governments entails significant expenses, as the weight of the high costs of goods falls on companies that produce VAT-exempt goods and globally competitive industries rather than on consumers (Peng & Wang, 2020). Furthermore, the UAE's VAT tax may increase operational risks for businesses, put pressure on their earnings before interest, taxes, depreciation, and amortization (EBITDA), and influence cash flows in particular sectors (Al-Hamadi, 2020). The VAT is different from the import or export tax, or corporate tax taken by the governments (Ezeani et al., 2023a). Till recently, the market of the UAE was mostly tax-free for all companies, foreign or domestic doing business in cities like Dubai and Abu Dhabi. The minimum rate of VAT is 5% (Gopakumar, 2022). As a result of the VAT, several positive and negative impacts on the businesses of small companies, as well as on the revenue collection of the government happened.

The results of the research showed that there is a statistically significant impact of VAT on revenue growth. This result is consistent with Erero (2021); Ali (2021); Wadesango & Chirebvu (2020); and Oraka et al. (2017), which revealed that VAT increases the revenues required to cover expenditures. Where Ali (2021) illustrated that one of the most significant research areas in economics has been the connection between VAT policy and long-term revenue growth. Due to the rapid development of its impacts on the part of the volume of revenues, VAT helps to diversify the tax structure, which in turn leads to economic diversification with the increase of income sources that are highly sensitive to economic

variables (Erero, 2021). In addition, VAT adds to the burden on small businesses that are committed to complying with the law, preventing them from competing favorably with medium- or large-sized businesses that have extensive experience breaking the law, which also hurts consumers (Oraka et al., 2017). Without an increase in salaries, the implementation of the VAT system raises prices, which could encourage businesses to sell outside of the invoice to cater to societal groups seeking lower rates (Sarwar et al., 2021). There is no denying that VAT has an impact on economic growth. Some contend that VAT has a negative impact on growth because it inhibits investment, while others hold that VAT is crucial and vital to bolster the country's institutional and economic environment (Orisadare, & Fasoye, 2022). Entrepreneurs and inventors heavily rely on these services as VAT revenues finance infrastructure, education, and public services. Additionally, if the VAT is primarily used to fund the provision of public goods, it might stimulate growth because it increases the expected returns for entrepreneurial endeavors (Odu, 2022). Additionally, the implementation of VAT increased total government revenues, which in turn increased spending on essential public services offered to low-income families (Inyiama & Ubesie, 2016). On the other hand, the VAT's revenues in Finland were not favorable because of the detrimental social impacts of its application, which can be seen in the unequal distribution of income (Alavuotunki et al., 2019).

Also, the results of the research showed that there is a statistically significant impact of VAT on operating margin. This result is consistent with Cheffi et al. (2023); Al-Shaer et al. (2023); Hartley (2019); and Zafarullah (2018), which explained that VAT influences the willingness to invest, through its effect on operating margin, or more specifically, through its impact on the profit rate, as operating margin is one of the crucial financial indicators that provides numerical signals about the levels of sales that the facility needs accomplish to cover the



various costs incurred by the activities carried out by the firm. Furthermore, as governments utilize VAT to guide investment towards one field over another by the aims of economic countries, it is a useful tool for preventing the employment of funds in sectors with high tax rates (Mu et al., 2022). In this regard, Hammour & Mckeown (2022) urged businesses, particularly small ones, to reevaluate their production and operational costs after applying VAT because doing so helps them become more competitive in their nation's markets at a time when the product is available to consumers at a lower price. This refers to failing to attain the proper operating profit margin for its operations, or failing to construct a structure of fixed and variable costs based on the distribution of its total expenditures (Al-Shaer et al., 2023).

The results showed that there is a statistically significant impact of VAT on capital efficiency. This result is consistent with Kaur et al. (2023); Yuv & Qi (2022); Liu et al. (2021); and Adhikari (2020), which explained that VAT impacts capital efficiency, which has an impact on productivity. As a result, consumption decreases, which leads to an accumulation of costs that force businesses to cut production (Liu et al., 2021). Contrarily, the introduction of VAT has increased consumer knowledge, which makes pricing one of the most important considerations when purchasing a good, especially given the wide range of supplies available, which may result in some sales movement stalling for some goods (Bai et al., 2023). Thus, there is no consensus on how to evaluate the connection between VAT and capital efficiency because it depends on the VAT system's structure (Hoseini & Briand, 2020). According to this study, it is now vital to investigate how VAT affects capital efficiency in Emirati small businesses to understand the problems that must be solved and the challenges that must be faced. This is done to maintain the financial health of small businesses because increasing economic efficiency and boosting economic growth rates are

two goals of one of the key investment instruments (Kaur et al., 2023). VAT may encourage increased production and increased efforts to make up for the shortage brought on by the implementation of this tax. Additionally, it results in the government directing capital toward particular productive sectors that it deems vital for its plans (Koirala, 2010).

The need to provide a source of funding for the Emirati government to help it support all development projects requires taking into account a set of considerations that ensure the proper application of VAT. These controls represent the availability of a group of human competencies characterized by scientific and practical experience, who can work with a more advanced accounting system for how to implement all VAT procedures. There must also be an acceptable degree of simplification and clarification in the procedures for applying VAT so that small companies in the UAE can understand the tax accounting mechanism while reducing conflicting interpretations surrounding its system. From the point of view of this study, it is necessary to reconsider the goods and services subject to VAT from the perspective of the low-income consumer and to provide an opportunity to modify the tax treatment of the goods and services under study, to show the social role of VAT as well as its economic role.

#### **4.9. Summary of Chapter**

In conclusion, it could be said that the adaptation of the VAT tax policy on consumer goods and services had a positive impact on the revenue and overall economy of the UAE. From the results of the descriptive analysis, it could be said that the VAT had a positive impact on customer choices, regardless of age, gender, or educational qualifications. Since, Cronbach's Alpha of revenue growth, operating margin and capital efficiency contains a huge level of quantity and produces a similar number of cases, it signifies a positive impact of VAT in

comparison to revenue growth, operating margin, and capital efficiency. After the KMO test, the results indicated that the samples analyzed were adequate. Model parameters are constructed using randomly chosen observations from the initial data in a process known as bootstrapping. Also, the results showed that there is a statistically significant impact of VAT on revenue growth, there is a statistically significant impact of VAT on operating margin, as well as there is a statistically significant impact of VAT on capital efficiency.

**CHAPTER 5**

**CONCLUSION**

## 5.1. Introduction

In the previous chapter, the findings and analysis of the research variables were presented, as well as the research results concerning the research hypotheses were discussed in detail. This chapter gives a summary of the analysis results, followed by an interpretation of the results based on the research objectives of the research. Next, the research implications for knowledge and practice are also explained. In addition, this chapter provides some recommendations that researchers and decision-makers can benefit from. Several feasible suggestions for future research are later provided. Finally, the summary of this chapter is presented.

## 5.2. Summary of Findings

Based on data analysis, below is the recap or summary of findings derived from this study.

- Cronbach's alpha was used to measure the reliability of research variables, since revenue growth, operating margin, and capital efficiency obtained the value of 0.957, while the VAT variable obtained the value of 0.862. The questionnaire as a whole obtained a value of 0.984.
- Split-half reliability was used to measure the reliability of research variables, since revenue growth, operating margin, and capital efficiency obtained a value of 0.928, while the VAT variable obtained a value of 0.902. The questionnaire as a whole obtained a value of 0.917.
- The KMO adequacy is observed at (0.653), where the cumulative variance is also observed to be increasing in nature, as the extraction method is observed in the principal component analysis.

- The first main hypothesis testing result reached that there is a significant impact of VAT on revenue growth in the UAE small business.
- The second main hypothesis testing result reached that there is a significant impact of VAT on operating margin in the UAE small business.
- The third main hypothesis testing result reached that there is a significant impact of VAT on capital efficiency in the UAE small businesses.

### **5.3. Conclusion**

The main objective of this research is to investigate the effect of VAT on the cash flow in the UAE small business, as well as the role of revenue growth, operating margin, and capital efficiency in the UAE small business. This study showed that VAT is the most important source of public revenue in most countries, including the UAE, as it is the most famous alternative to inflation of the budget deficit, but this inflation has its short-term harms and limits. Otherwise, it is not possible to continue and accumulate it in the long term. Therefore, the discussions and disagreements between scholars and specialists are not about the origin of imposing the VAT, as this is a given, but about the details. The discussion here focuses on the most important effects associated with imposing and increasing the VAT at the microeconomic level, not the macroeconomic and public finances. Moreover, VAT has led to an increase in the demand of small companies to use raw materials from the local market, and to reduce the use of imported ones as much as possible, pointing out that the application of the VAT on imported raw materials has raised their price, compared to their local counterpart. From the point of view of this research, small companies reconsidering production and operational costs are in the interest of these companies, as this step contributes to increasing the competitiveness in the country's markets, at a time

when the commodity reaches the consumer at a better price. This also allows companies to organize offers and discounts, all of which are in the interest of the final consumer.

This research reached results that VAT has a clear and significant impact on revenue growth, operating margin, and capital efficiency in the UAE small business. Where its application is in the interest of the national economy, as it has led to the growing use of local products and local raw materials in production. As many small companies in the UAE reduced production and operational costs, at a time when companies began to give up part of their profit margin, to increase sales. While many small companies have been working - since the implementation of the VAT - to reduce their operational and production costs, through several methods, to increase their competitiveness in markets that are witnessing intense competition, to attract more consumers. The rationale behind these findings can be found in the fact that VAT contributes to tax structure diversity, which in turn promotes economic diversification by increasing the number of income sources that are extremely sensitive to economic variables. However, before enacting new taxes or making any tax adjustments, it is necessary to consider the projected economic implications of those actions due to the concern of upsetting any nation's financial and economic goals.

On the consumption side, VAT reduces the volume of individual consumption given that it raises the final price of goods. This is because a price rise often reduces demand, especially if income does not rise in parallel with the rise in prices. It was found that increasing the VAT reduces consumption by a similar percentage in the short term and a higher percentage in the long term. On the other hand, VAT affects demand or the consumer's purchasing decision through many factors and mechanisms, since the most important of which is the elasticity of demand, i.e. the extent to which demand is affected by price changes. This flexibility depends on the income effect, the substitution effect, desires, and the extent of

interest in purchasing. Moreover, increasing the size of the tax led to an increase in the amount of tax evasion, especially in services whose value is paid in cash and not through the electronic exchange network, which makes monitoring them difficult. Therefore, consumption of necessary goods with low elasticity is expected not to decrease even with an increase in the tax rate on them, but the consumer is expected to reduce his/her purchases of luxury goods with high elasticity.

## **5.4 Implications of the Research**

The output of this research contributes to enriching the theoretical and practical aspects. From the theoretical perspective, most studies are largely focused on examining the link between VAT and cash flow. Unlike those studies, the present research is exclusively oriented on understanding the implications of VAT on revenue growth, operating margin, and capital efficiency. The present research is, therefore, an important contribution to the literature as it helps in listing out the benefits of implementing an appropriate VAT system in the UAE small business. In addition, the findings of the present research convey the potential for driving suitable changes in behavioral taxation and its opportunities and challenges, which helps in enhancing and positively shaping prevailing business behavior. The theoretical implication of this research is summarized by the impact on the theories used in this research namely the social contract theory, the theory of tax harmonization, and the social solidarity theory.

The current research was directed to address the specific challenges and issues that are associated with the UAE small business. Thus, this research is useful for the government of UAE to identify the challenges and issues related to implementing appropriate VAT practices and highlight how these challenges can be overcome comprehensively. In this regard, the



findings of the research could be used to enhance VAT in practice in this precious sector, which is of great advantage for the development of other sectors. Hence, the government of UAE and the regulatory authority of the small business must conduct workshops and seminars for the organizations to clear their doubts and to take a step forward towards implementing a good VAT system, thus improving cash flow analysis.

Moreover, the findings of the research support the government in developing and introducing specific legislation regarding VAT rules and policies. Hence, the government must continue to study the various policies, procedures, and codes issued by the international countries and their respective authorities and revise the existing laws in UAE to improve the prevailing VAT system and reduce the wrong behaviors that some organizations follow. Furthermore, the government should provide sessions and training for financial managers and accountants in small businesses to clarify their rights and duties, which is consistent with UAE law.

Moreover, the results of this study support the new UAE vision that seeks to bring about a structural change in the economic, social, and administrative system in a way that helps the UAE to transform from a developing country to a developed country. In this context, this study presents the strategic dimension and the political framework for institutional development and for drawing development plans that help small businesses bring about the desired transformation, where this study presents a set of methods that contribute to unifying the patterns of work within the administrative and governmental system and rationalizing the use of VAT in order to achieve the targeted social and economic development, in line with the nature of the times, the needs of society and the requirements of the young generations of high functional levels.

From the practical perspective, after venturing through various literature and viewing the results of this research, it can be clearly stated that small businesses in the UAE need a lot of reforms and work under the supervision of appropriate regulations. The findings of this research may help the managers of small businesses in the UAE to locate the weaknesses in the VAT policies and procedures and to identify the problems that have occurred or are likely to occur in the future. This research was characterized by several rules and methods that were designed to help managers deal with VAT. The outcomes of this research support the elimination of challenges and highlight ways of improving and boosting VAT practices among small businesses in the UAE. This could lead to numerous significant improvements, as managers become more aware of the factors that influence cash flow.

This research emphasizes the process of stimulating cash flow to achieve the optimum and most efficient use of their effort, exploit available investment opportunities, and address the risks to which the organization may be exposed. In this regard, this research works to educate financial managers and accountants of small businesses in the UAE about cash flow statements and the importance of their parameters within the organization to achieve growth and prosperity. Undoubtedly, the results of this study contribute to supporting the small businesses in UAE in achieving sustainable development goals, which is to give VAT specialists the ability to assist in putting the economic dimension into practice, especially in the areas of revenue growth, operating margin, and capital efficiency.

## **5.5 Research Contribution**

The study's handling of VAT, which is of global relevance and is still up for dispute in the economic community due to the intense disagreement between proponents and opponents over the benefits and drawbacks of VAT, is what gives it its scientific contribution. In terms

of when it should be prepared, the research also becomes more useful because of the current interest in VAT following the global financial crisis and the rise in global business environment rivalry. This prompted the researcher to investigate the views of accountants in the UAE regarding the efficacious role of the tax that was implemented in offering a stable stream of funding that aids in revving small businesses' engines. Furthermore, raising awareness among investors and other stakeholders of the critical role VAT plays in enhancing economic conditions in the UAE is one of the research's main contributions.

Small businesses are the backbone of the economies of the big nations, thus it was critical to locate annual financial reports for them. These reports have to display and divulge the financial data of the businesses, which is relevant to a wide range of stakeholders. The list of cash flows is one of the most significant reports that are now required by law. Research contribution can thus be found in its capacity to provide light on how VAT affects small businesses' net operating cash flows and profitability in the UAE. Preparing a statement of cash flows serves the main purpose of giving relevant information on cash flow during the financial period, which helps lenders, investors, and other stakeholders assess and analyze the company's liquidity. Additionally, users can create models to compare and predict the present value of future cash flows for various small company initiatives with the aid of cash flow information. Handling this study in this manner could assist small businesses in the UAE in comprehending the consequences of VAT and how to lessen its cost. However, the study's findings can assist the government in keeping an eye on small businesses' perceptions in the UAE and subsequently implementing feasible policies to lighten their load and clarify their aims and objectives as well as the advantages of implementing them.

Enjoying full tax deduction, which means that the complete tax deduction rules apply to the inputs of products and services, whether alone or as inputs to other goods or services, is one of the most contribution benefits of switching to VAT. Consequently, it follows that the tax burden ought to be split among the several production and distribution phases, and the issue of double taxation was resolved for UAE small businesses. In terms of society, it is envisaged that VAT enhances the standard of living for Emirati inhabitants by allowing the government to effectively use the tax money it receives from VAT to build profitable initiatives that boost the UAE economy and subsequently benefit the populace. The money raised from taxes can also be utilized to enhance the quality of services provided to the public, thereby enhancing their financial security. Accounting data also aids small businesses in assessing the future cash flows of the company, including their amounts, timing, and level of uncertainty. Determining if the VAT system provides additional information content to explain the net cash flows from operating activities is the study's primary contribution. Since this relationship focuses more on the explanatory variables of the change in cash flows than it does on the specification of the impact of VAT on market performance, the relationship's determination in this study was not solely statistical but also considered the economic dimension.

VAT is one of the means of passing part of the cost of goods, works, or services to the state budget. This tax is considered an important source of revenue in the state budget. Some countries, such as the United States, do not impose this tax, as they use sales tax instead, but the majority of countries do, and it represents a large tax burden on commercial activities. The government, depending on the health of its budget as well as factors related to macroeconomics, can intervene by changing the rate of this tax, either by raising or

decreasing it, and these changes may have an immediate impact on the economy. In China, VAT rates vary depending on goods and services. The standard VAT rate is 13%, which applies to most goods and services. However, some items may be subject to different rates. For example, basic food items, books, newspapers, and agricultural products are subject to a reduced VAT rate of 9%. Meanwhile, some items such as exports, international transport, and some financial services are zero-rated, meaning no VAT applies. In 2023, China exempted small businesses with monthly sales of 100,000 yuan (about 14,790 US dollars) or less from VAT, according to finance and tax authorities, which helped small companies to do business, improving company reputation, which is always good for business. Moreover, the VAT exemption for small taxpayers helped extend the scope of reducing the individual income tax rate by half to include more self-employed families, proving that these policies are targeted and effective. Thus, small companies in China need to understand the specific VAT rates applicable to their goods or services. Proper invoicing and accounting practices must be followed to ensure that VAT is accurately calculated and remitted based on the appropriate rates. "VAT refund" or "export tax refund" is an important trade policy tool used by small businesses in China. It entails the recovery of VAT already paid on exported goods during their production, circulation, and sales in China. The VAT recovery system for export goods represents an integral part of a country's tax revenue. However, to collect the rebates, exporters in China have to prove that they paid VAT on the parts they purchased and that they exported their finished products.

Due to the economic crisis brought on by the Corona pandemic, the UAE had to make tough decisions to deal with the lack of cash flows. One such decision was to raise the VAT, which helped to diversify the sources of funding for the deficit by bringing in more money from

non-oil sources, debt instruments, and reserve withdrawals. The government has been able to contain the crisis, emerge from it with little harm, and keep the UAE's sovereign status. However, such financial crises also led to a lot of small businesses going out of business because they were unable to meet their obligations. Thus, it is necessary to preserve, promote, and protect small business continuity from risks. Large, financially capable businesses gained from the collapse of smaller businesses and saw a rise in revenues; also, low competition forced them to exercise better pricing control. Consequently, the contribution of this study resides in pinpointing the shortcomings of the UAE's VAT system for small businesses as well as the issues that have already arisen or are probably going to arise in the future.

The UAE Vision 2040, which aims to guarantee the sustainability of the UAE economy through economic diversification and the plurality of income sources through the development of small firms, is another factor that highlights the contribution of this study. This study also highlights how crucial the vision is in changing the way government institutions in the UAE operate to maximize the use of VAT through logical management. Additionally, because the UAE adopts a free and open market policy, which means that it must compete with international corporations to ensure stability, growth, and success, small businesses in the country are in severe need of this kind of study. This study adds to the body of knowledge on VAT, particularly as it relates to cash flow in small businesses. Furthermore, this study offers a variety of hypotheses about VAT practices, expanding academics' knowledge bases. Ultimately, the researcher discovered a dearth of studies that addressed the impact of VAT on the cash flow in UAE small businesses by looking through books, periodicals, academic journals, and earlier Arab or foreign studies.

## 5.6 Limitations of the Research

Limitation is defined as the factor that helps the research to start powerfully by understanding the different situations effectively. In the present research, various limitations and difficulties were raised. The first limitation is that the sample size for this research is only 1215 to generate data for the research. The use of a significantly small sample size is influenced by the fact that quantitative studies usually employ a small sample size. While the sample size is adequate to generate quantitative data, it is limited and affects the generalizability of the research's findings. In essence, the results obtained from the use of this small sample size cannot be generalized to the entire target population. If the sample size is small, it is difficult to find important relationships between the data provided by the sample because statistical tests usually require a larger sample size to ensure the representative distribution of the research population, so that the generalization of the results is correct and logical. However, the researcher seeks to utilize a small sample size because of its numerous advantages including time- and cost-effectiveness. Despite these advantages, a sample size of 1215 participants is considerably small to produce results that would reflect the experiences of the entire small business in UAE. For the research's findings to be generalizable to the entire population, a relatively large sample would be required. A larger sample size is essential to ensure the representative distribution of the target population or representative groups to whom the research's findings can be transferred or generalized. Also, this research is limited to financial managers and accountants at small companies in the UAE, therefore, the generalization is confined to these companies.

This research employed the quantitative approach only to answer the research questions and to test the research hypotheses. Among the shortcomings of quantitative research are

the errors of inspection and measurement, which the researcher may fall into, as well as the researcher's bias for anything in the research which may affect the results. Hence, the researcher must adhere to impartiality completely. Also, the limitations were presented by the questionnaire's distribution, particularly following the formation that the target sample was made up of financial managers and accountants in small companies in the UAE. The process of reaching financial managers and accountants and asking for their help was not easy and required substantial effort from the researcher.

During the process of reviewing the literature for the research, it was found that there was a dearth of theoretical frameworks that dealt with VAT, especially pertaining to the small companies in the UAE. This research has therefore outlined its importance and effectiveness in the field of small business, which has not been done by prior research. The final limitation is limited time and resources for conducting this research on the collision of business supremacy on the small companies in UAE. In this case, the researcher had very limited time to collect data and investigate the research problem. Time limitations emerged from the fact that the researcher was required to complete the research within a specified timeframe. Additionally, the researcher did not have adequate financial and material resources to conduct extensive research more than an extensive age of occasion. In addition to the weaknesses of the data collection methods, the time and resource limitations also hindered the researcher's ability to conduct a thorough analysis of the results.

## **5.7 Recommendations**

This research is considered to highlight a set of recommendations to be mentioned to provide benefit to those interested in the subject of research. Given the results and conclusion of this research, the researcher recommends the following:



- Making appropriate amendments to the procedures for applying the VAT to help reduce the complexity surrounding it and bring it to a state of clarity and simplicity for small companies in the UAE.
- Conducting further studies that seek to analyze the executive regulations for VAT and test them on a sample of tax examiners and auditors in the small companies in the UAE, as well as conducting experimental studies to test the impact of a single rate and different rates of VAT on tax revenues and the complexity of tax administration work.
- Working to improve the level of small companies in the UAE, through good exploitation of the tax revenues that the government earns from the VAT in establishing productive economic projects that benefit the Emirati economy and thus benefit the citizens. These tax revenues can also be used to improve various services for citizens and thus improve the economic well-being of citizens.
- Paying more attention to the elements of the cash flow statement because of their informational content that is useful in identifying the financial situation of small companies in the UAE.
- Training financial managers and accountants of small companies in the UAE on the role of cash flows in determining the profitability of these companies through specialized training programs.

## **5.8 Future Research**

Regarding the proposed research areas, this research believes that there are topics in practice in the Emirati environment that researchers can address in the future as a continuation of the current line of research. This research could be a base for future

research to cover other important sectors such as the medium and large sectors. It is also imperative to pay attention to the size of the sample in future research related to the VAT system and its impact on cash flow because clarifying the impact needs multiple views from different administrative levels due to its effect on the accuracy, cost, and duration of the survey. Therefore, it should be taken into consideration given the available survey budget and accuracy requirements. Although there are mathematical formulas for calculating the size of the sample, it is necessary to rely on a sample as large as possible when making the final decision. Moreover, the results of the study and its significance clarified several points that could shed light on future studies, including discussing mediating factors that influence the relationship between VAT and cash flow such as employee management, working capital acquisition, receivables management, market environment, investing and financing, and payment management, in addition to analyzing the moderating role of demographic variables on the relationship between VAT and cash flow in other Gulf region such as Qatar, Saudi Arabia and Bahrain and compare results.

Further work can be conducted by using other research methods such as qualitative analysis through conducting interviews with managers in small companies in UAE, as well as expanding research on such issues, especially in the Middle East, which suffers from a severe shortage. This led to the introduction of new ideas by financial managers and accountants of the small companies in UAE, which were not asked in the survey questions. Along with that, comparative research can be conducted that identifies the role of VAT and its impact on cash flow in the two different sectors in the UAE. Also, when resorting to quantitative research, the researcher must make sure that the standards used in the research are reliable and valid by performing several traditional tests that prove its validity and reliability. Lastly, case research of a particular organization in the small companies in

UAE can be conducted to improve cash flow after improving and modifying the VAT system in UAE.

The researcher recommends that future research investigate the obstacles and difficulties facing the small companies in UAE in applying the VAT system, as well as conduct frequent surveys or opinion polls in the small companies in UAE companies to get an idea from the financial managers and accountants about the current VAT policy. Comparative studies can also be conducted on application procedures and controls and the extent of their impact on the nature of tax administration work in the Gulf Cooperation Council countries and other countries to arrive at simplified procedures that can be accepted at the international level to a large degree. In addition, reliance on previous studies forms a basis for understanding the research problem and emphasizing the importance of the research topic. However, sometimes there are not many previous studies available on a topic, so the researcher must spend some time checking the availability of previous studies on the topic he/she has chosen. This restriction is considered a very important opportunity to determine the deficiency in the scientific field of research, and accordingly, on its basis, the researcher can recommend conducting more research to enrich that field with new knowledge. In addition, there is a need to formulate the topic of the research within clear objective, temporal, and spatial limits, and avoid confusion and labyrinth in matters not related to the subject of the research because delving into generalities with no specific features and objectives distracts the researcher from researching the topic comprehensively. Generally, a good researcher works on programming these hours and distributing them in different stages and steps of the research in a way that ensures the correct completion of the research.

## 5.9 Summary

This chapter presented the conclusions of the investigation into how VAT affects cash flow, as small businesses in the UAE need to be aware of the different types of behavior and their relative strengths and weaknesses. This research firstly introduces companies to the concept of VAT and its impacts, as well as clarifies the importance of cash flow at the level of the individual and the organization. In light of the above, the findings of this research show that VAT, as one of the mechanisms for achieving economic development, has received a great deal of attention because of its role in providing a sustainable source of financing. The need for value-added tax has also increased recently as a stable source of financing with the fluctuation of oil prices and the increasing state of competition at the international level. However, it is necessary to reconsider the single rate of VAT, because of its ineffective impact on tax revenues, and to work to impose this tax at different rates that are appropriate to the nature of the products and take into account the social conditions of all segments of society. In this regard, raising the tax level from only 5 percent to 15 percent, as planned, will have a clear impact on consumption, savings, and investment. Therefore, studying the impact of the tax on these variables, and reducing the tax - if necessary - will be a good thing for the economy, its level of growth, and market activity and movement. Finally, the results of the research that were reached prompt the researchers to recommend conducting awareness programs on the importance and role of VAT in improving the economic situation of the UAE, and keeping pace with the competitive situation at the global level, with periodic monitoring by the responsible authorities to verify the proper application of all VAT procedures.

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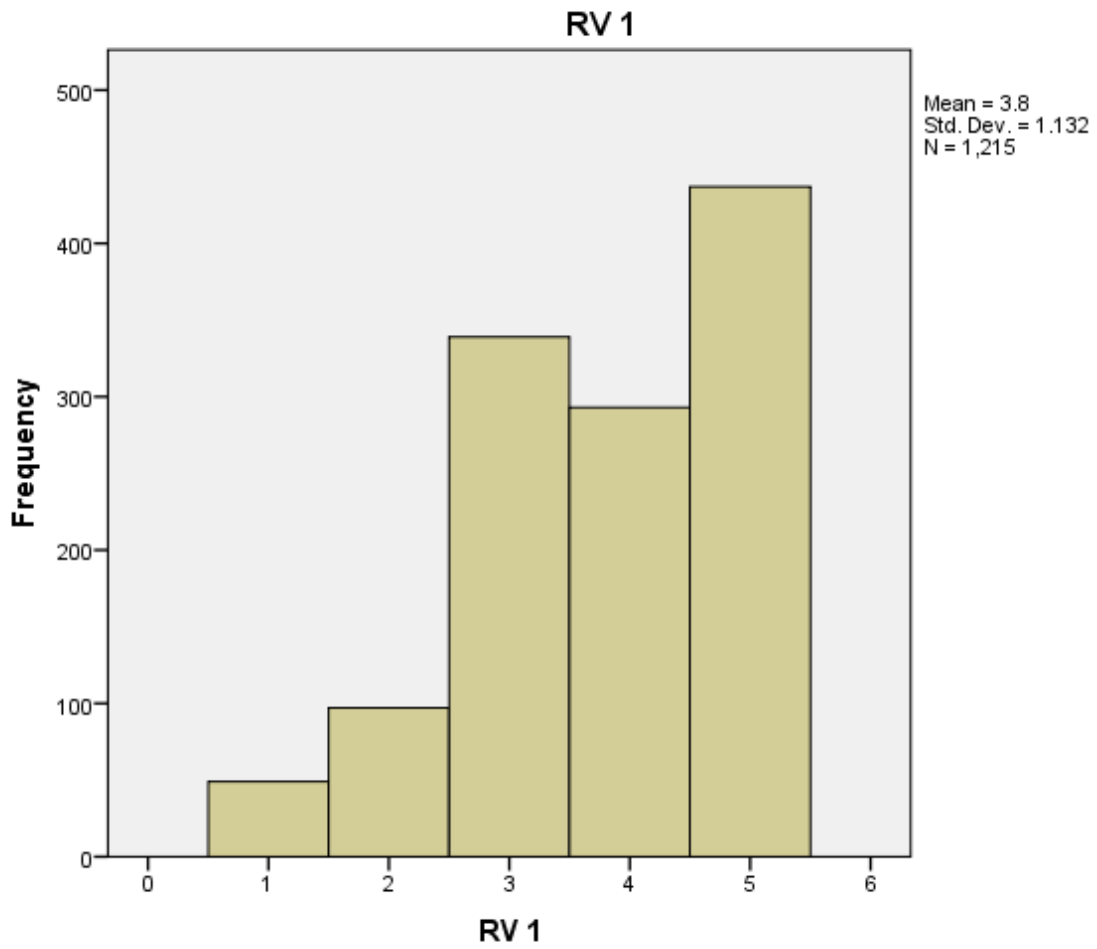
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# APPENDICS

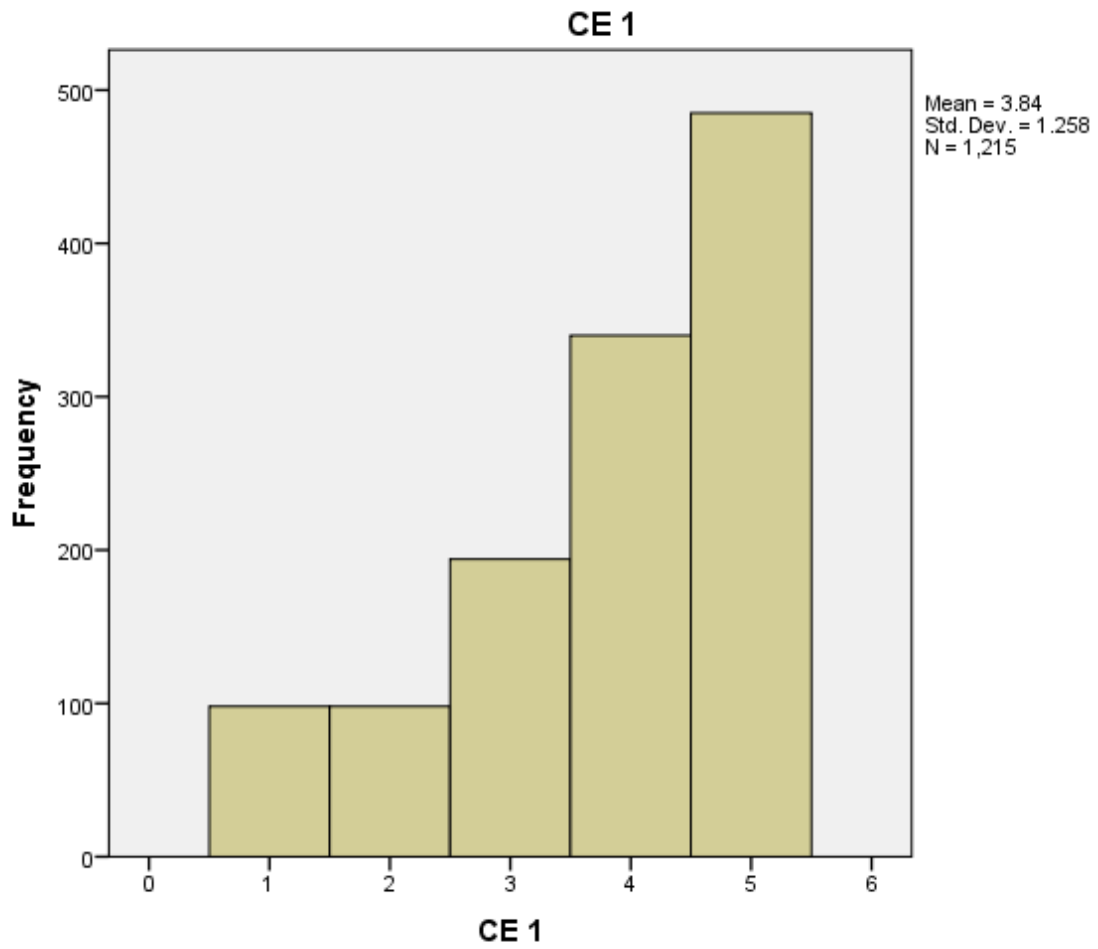
## Appendix 1 Chart of Histogram RV 1



(Source: Self-Generated in SPSS)

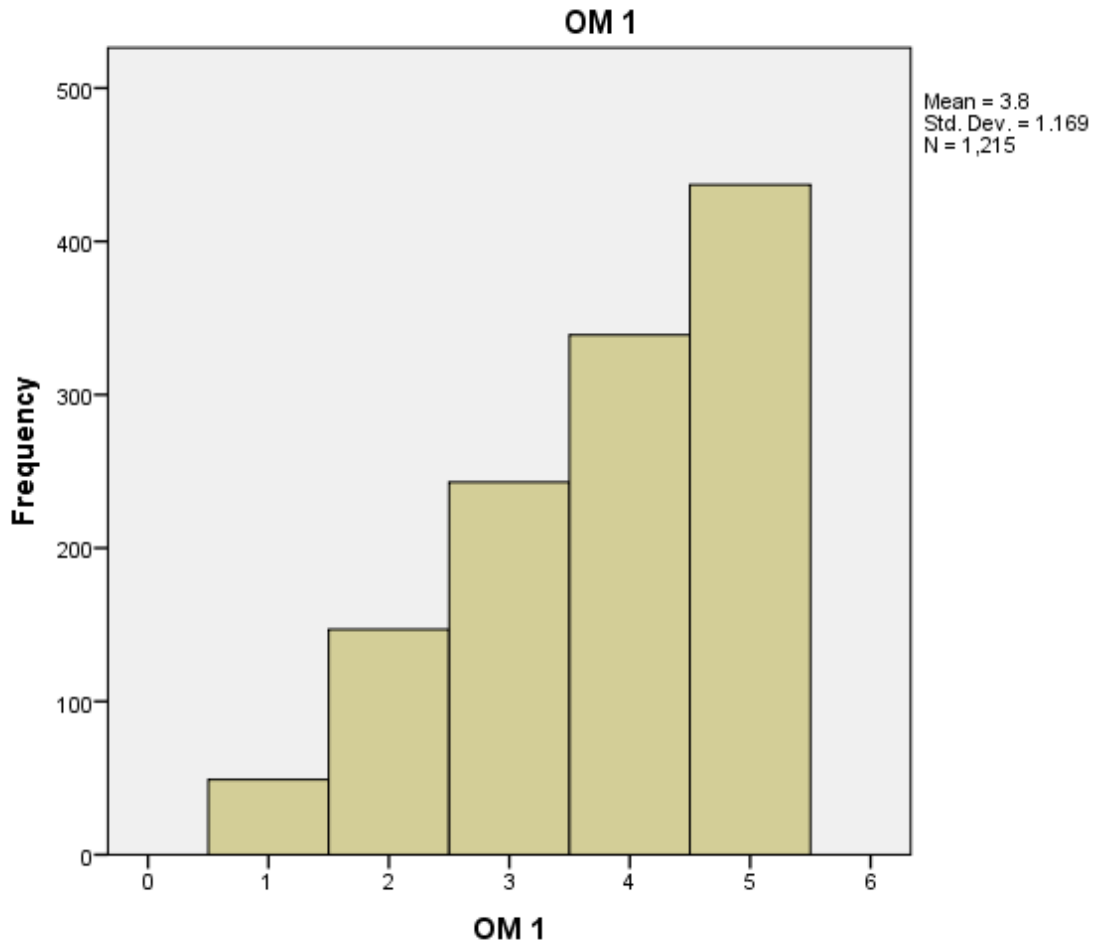


## Appendix 2 Chart of History CE 1



(Source: Self-Generated in SPSS)

### Appendix 3 Chart of History OM 1



(Source: Self-Generated in SPSS)

## **Appendix 4 Questionnaire**

### **The Effect of Value-Added Tax on Cash Flow in the UAE Small Business**

Dear Participant,

This questionnaire aims at explaining the effect of VAT on the cash flow in the UAE small business. Financial managers and accountants in UAE small businesses participated in this questionnaire. As with all of my research, I would like to thank you for your time and your cooperation in making this research credible. I would like also to invite you to contact the researcher if you would like to discuss these findings or have additional research needs.

This is an anonymous questionnaire. Please ensure that you do not write your name or any other comments that make you identifiable, on the attached questionnaire. By completing the questionnaire, you consent to take part in this research. If you have any concerns about the conduct of this research project, please contact me immediately.

**Thank you.**

Contact Information

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## Section I: General Information

1- Gender:

Male

Female

2- Age:

26-35

36-45

46-55

Above 55

3- Education Level:

Bachelor

Master

PhD

4- Job Level:

Top

Middle

Low

5- Years of Experience:

1-5

6-10

11-15

Above 15

## Section 2: VAT in UAE

How strongly do you AGREE or DISAGREE with each of the following statements?

NO.	Statement	Strongly Agree	Agree	Nor agree or disagree	Disagree	Disagree
1.	The implementation of VAT stimulates the UAE economy.					
2.	The implementation of VAT leads to higher inflation rates.					
3.	The implementation of VAT leads to a significant increase in prices.					
4.	The positives of implementing the VAT law outweigh the negatives.					
5.	VAT is more effective than other types of taxes.					
6.	VAT is gradually increased in the UAE.					
7.	The VAT was the first step in implementing other tax laws in the UAE.					
8.	VAT increases the efficiency of the Internal Revenue Service, and makes tax evasion difficult.					
9.	The introduction of VAT limits negative consumer practices.					
10.	VAT is a means of combating fraud and exploiting the opportunities of digital technology.					

### Section 3: The effect of VAT on revenue growth in the UAE business.

How strongly do you AGREE or DISAGREE with each of the following statements?

NO.	Statement	Strongly Agree	Agree	Nor agree neither disagree	Disagree	Totally disagree
1.	The implementation of VAT affects the net profits of UAE small businesses.					
2.	The implementation of VAT affects the future expansion plans of UAE small businesses.					
3.	The implementation of VAT affects the average sales of UAE small businesses.					
4.	VAT has a significant impact on the liquidity of small businesses in the UAE.					
5.	VAT affects the transfer of capital for some small companies outside the UAE.					
6.	The implementation of VAT leads to a decrease in the demand for products or services.					
7.	The implementation of VAT leads to the introduction of regulations for small companies to ensure the proper application of the tax.					
8.	The implementation of VAT raises the efficiency of tax collection of revenues.					
9.	Switching to VAT helps UAE small businesses fully enjoy the tax deduction.					
10.	VAT has a significant impact on UAE small businesses as a result of fluctuations in cash, investment, and business flows.					

#### Section 4: The effect of VAT on operating margin in the UAE business.

How strongly do you AGREE or DISAGREE with each of the following statements?

NO.	Statement	Strongly Agree	Agree	Nor agree neither disagree	Disagree	Totally disagree
1.	The imposition of VAT increases operational costs for UAE small businesses.					
2.	Because of VAT, UAE small business bears the brunt of the additional operational costs of goods, rather than consumers.					
3.	VAT may create operational risks and pressure on EBITDA in UAE small businesses.					
4.	VAT creates tax discrimination in favor of UAE small businesses that produce the bulk of their operations internally.					
5.	VAT clarifies the relationship between the values of the components of direct cash flows, stock returns, and future profits.					
6.	VAT leads to expansionary effects on production through its impact on the volume of investment.					
7.	VAT increases the potential for tax evasion for UAE small businesses.					
8.	VAT contributes to generating sufficient cash flows to pay off debts and maintain the operating capacity of UAE small businesses.					
9.	VAT contributes to reducing the raw material used in the manufacture of the commodity in small companies in the UAE.					
10.	VAT can affect the size and production pattern of small businesses in the UAE.					

## Section 5: The effect of VAT on capital efficiency in the UAE business.

How strongly do you AGREE or DISAGREE with each of the following statements?

NO.	Statement	Strongly Agree	Agree	Nor agree neither disagree	Disagree	Totally disagree
1.	The application of VAT increases costs during the various stages of production.					
2.	VAT contributes to reducing the wages of workers in small companies in the UAE.					
3.	VAT encourages UAE small businesses to export.					
4.	VAT leads to directing capital towards specific productive sectors.					
5.	VAT contributes to achieving a degree of balance between the supply and demand movements.					
6.	Implementing VAT helps UAE small businesses learn and practice new accounting business.					
7.	VAT entails distributing the tax burden on the various stages of production and distribution.					
8.	VAT reduces the competitiveness of UAE small businesses to attract foreign investments.					
9.	VAT works to protect UAE small companies, which results in maintaining the level of national products.					
10.	VAT reform significantly improves UAE small businesses in terms of quality and efficiency.					

*Thank you*