

The impact of tax incentives on the financing of Moroccan SMEs

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Abstract : The choices made by the company in the method of financing its needs are based on a certain number of variables among which taxation plays an essential role, both by the cost generated by certain financing decisions and by the impact that the financing choices can have on the taxable income of the company. In this context, several researchers have raised the question of the impact of tax incentives on the investment financing decision, given that the tax aspect has a catalytic effect which can encourage or discourage the use of a particular means of financing. Thus, allowing it to constitute a tax saving. Certainly, several theories have addressed the relationship between tax incentives and financial decisions, but the empirical approach remains essential to confirm or refute the effect of these two variables. In this article, we adopted a confirmatory factor analysis using structural equations on a sample made up of Moroccan SMEs.

Keywords: Tax incentives, financing decision, financing methods, SMEs.

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1. Introduction

Taxation has become a major concern for the company and an essential parameter in the management of any organization. She occupies a special place because of her involvement in almost all of the firm's financial decisions. Assuming that taxation represents a huge financial burden, businesses are required by force of law to collect taxes on their profits. Thus, the tax variable always remains at the center of the firm's financial strategy.

Conceptually, the incentive is a specific measure of non-obligatory economic problems seeking to obtain from the economic agents it targets, a determined behavior, not desired by them or which they have no idea of adopting at least initially, in exchange for one or more advantages (Quiers, 1978). It is therefore in this vein that tax incentive policy intends to guide, regulate, promote economic activity, encourage or dissuade behaviors or activities deemed desirable or not (Rassat, 1989). Thus, at any time and in any place, taxation offers a range of measures likely to provide the company requesting them with a temporary or permanent advantage (Penglaou, 1982).

Furthermore, this article aims to analyze the theoretical foundations of the impact of tax incentives on the firm's financing decision. The primary interest of this contribution arises from the great importance that firms give to taxation in general, and to taxes in particular, in the various financing decisions. Since tax constitutes an important variable in the financial policy of the organization, it represents an essential element in the decision-making of any company as the main objective always remains the maximization of profits and the improvement of the value of the firm. Furthermore, today the company is no longer content with respecting its tax obligations for the sake of security, but it is moving from passive management to proactive management of the tax burden by seeking to optimize its taxation instead of being subject to it.

Aware of the importance of tax incentives in the choice of financing, the Moroccan company has become very vigilant in its decision to finance its investments to the extent that it always seeks to adopt financing methods that present considerable tax advantages to it. Thus, making it possible to constitute a tax saving and consequently to increase the company's results.

So, the problem of our article tries to answer the following question: To what extent do tax incentives impact the company's financing decision?

The first part highlights the theoretical foundations dealing with tax incentives and company financing to discuss, in a second part, the empirical approach dealing with the effect of tax incentives on the financing decision.

2. Theoretical approach to tax incentives and financing

2.1 The effect of tax incentives on investment financing

The theory of Avouyi and Muet (1987) is based on the analysis of the impact of tax incentives on investment and consequently on the choice of the firm's financing method. Indeed, the theoretical model of the effect of tax incentives precisely targets the impact of depreciation and tax deductions and shows that the latter have a positive effect on the financing of investments due to the fact that it reduces the tax base of the business and therefore the tax due, which increases the company's profit. This benefit encourages companies to use investment financing to grow and increase their competitive advantage.

Furthermore, the use of incentive measures from the General Tax Code (CGI) generally leads to different objectives from one company to another. In the quest for their development and

competitiveness, firms use tax incentives in order to stimulate their investments, optimize their expenses and minimize the tax costs of their various financing choices.

Indeed, according to Mfopain (2004), firms constantly try to take advantage of the tax advantages of the CGI, and the possibilities of choice and options offered by the latter to save significant sums tax-free when renewing their productive equipment and the implementation of their investment strategies. These options are carried out directly by compliance with legal obligations, or through a cash flow funded by tax savings or tax reductions. Indeed, the use, for example, of taking a stake in the capital of young innovative companies in new technologies benefits the company from a reduction in corporate tax which is equal to the amount of tax corresponding to the amount of their participation (Article 6 of the CGI). The behavior expected here is then prescribed in advance by the tax law, because any participation is conditioned by the obligation to respect the overall amount of the tax reduction which must not exceed 30% of the amount of the tax reduction. tax due for the exercise of the investment according to article 7 of the CGI. All the same, the tax exemptions and reductions of the CGI constitute a means of alleviating an often strained cash flow and thus fueling the self-financing of the beneficiary firms. Using these techniques, they could justify their tax choices and options in favor of different regimes and incentive measures. Consequently, the option for different tax regimes encourages firms to better control their investment tax charges at reduced costs. In fact, these incentive measures come from schemes intended for SMEs and strategic companies, which provide for provisions tending, depending on the case, to reduce taxation on all establishment, marketing or production operations.

On the other hand, the investment decision pushes companies to opt for particular choices to ensure the financing of the latter. Indeed, according to Mfopain and Djeumene (2004), the choices made by the company in the sources of financing its needs emanate from certain variables among which taxation plays a primordial role, at the same time by the product cost of certain decisions of financing, and by the impact that financing choices can have on the taxable income of the company.

In this sense, the choice of mechanisms by which the firm finances its investments necessary for its growth depends on the equity it holds and its debt structure, in other words, its capacity to borrow. To this end, when purchasing fixed assets, the firm has the choice between acquiring them as property or renting them. When it decides to acquire property, it will have to ensure financing through equity or debt (Weydert, 1968). Thus, the tax variable is shown as a parameter in the decision-making process.

Furthermore, Mfopain states that the decision to purchase a capital asset is suitable when the firm has balanced liabilities and a compatible debt structure. However, if the financial structure is critical, renting the asset will be preferable, as long as the rental fee will be financed by the profitability of the operation.

However, in the choice between acquiring ownership or renting, the respective tax treatment of the acquisition charge and the rental fee has a significant effect on the choice faced by the company (Parot, 1989). Consequently, in the event of a tax deficit, purchasing ownership constitutes a tax advantage over rental. For this purpose, and according to article 12 of the CGI the part of the deficit corresponding to depreciation allocations will not benefit from the advantage of carryover to subsequent financial years whereas in the case of rental, it constitutes a rental expense and will have the character of an ordinary deficit carryable over a period of 4 years.

Thus, the financing of the company's investments is often ensured by a combination of its own funds generally coming from self-financing and the contributions made to it by its partners, and debt resources when the former appear insufficient to ensure the entirety of the company's investments. investment cost (Bertrandon and Collette, 1989). Taxation then encourages debt financing in relation to the constitution of own resources. The financial interest expense on loans represents a deductible expense from the firm's taxable results. It is therefore advantageous for the firm to favor the recourse to the loan following the effect of debt leverage on the result. Such a situation appears more favorable

when the firm benefits from attractive debt conditions with a reasonable threshold that it has not been able to exceed.

Furthermore, reductions and exemptions generate tax savings which reduce the firm's cash flow temporarily or permanently. Given that the importance of the amounts of tax savings corresponding to the tax charges deductible from taxable results or the exemption of certain products, represent for firms a financial base of cash. Some of these firms can then request incentive measures out of simple opportunism when they are in a cash flow deficit, the objective here being to benefit from cash flow relief in order to have a minimum of self-financing necessary to finance their financing needs. exploitation. It is in this sense that Parot (1989) shows that the tax choices that firms make to optimize their tax burden must be done with discernment. This then amounts to saying that the existence of tax choices can also lead the company to consider that it could exercise an option without taking risks when the latter is temporarily advantageous to it.

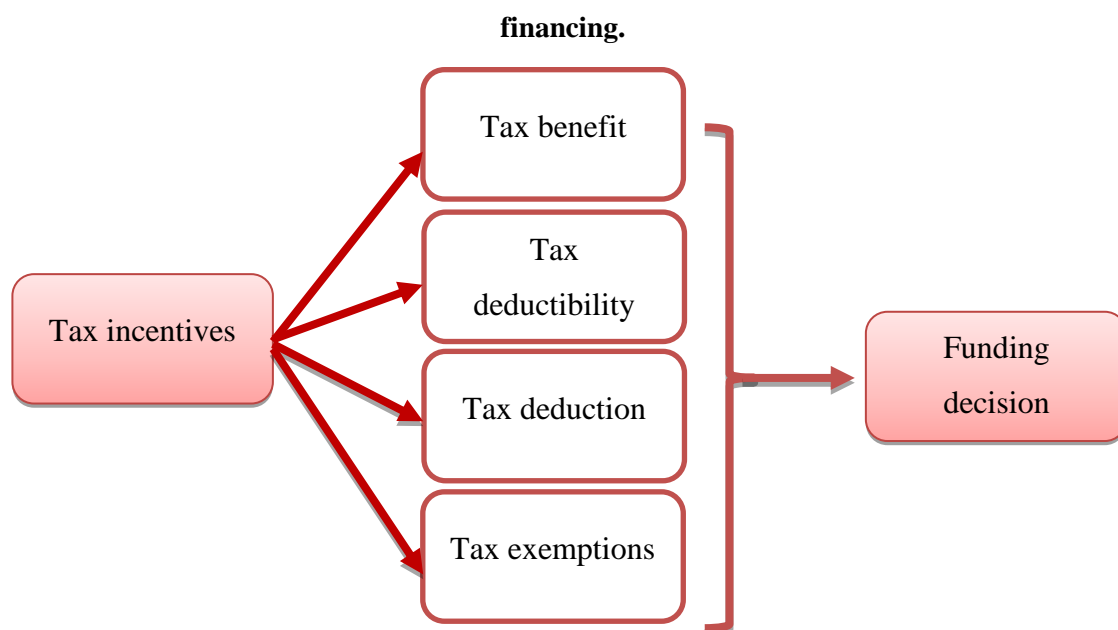
Ultimately, and according to Chadeaux (1992), the implementation of various incentive measures in the management of the company requires that the latter have a good knowledge of the tax provisions in force. However, an evaluation of the tax choices made by companies and their adequacy with their general policy also seems decisive.

2.2 The conceptual model and research hypothesis

2.2.1 The conceptual model

Based on the different reflections found in the literature on the impact of tax incentives on business financing, a conceptual model was developed to try to bring together all the relationships between the research variables. From tax incentives as an explanatory variable, six main items arise which represent sub-variables, namely tax advantage, tax deductibility, tax reduction and tax exemptions. The latter were selected from the theoretical literature review, in particular the theory of tax incentives and the theory of tax choices. Thus, through an empirical study, these sub-variables will help us measure the impact of tax incentives on the financing decision which represents the variable to be explained, by determining the positive or negative effect of these sub-variables. on business financing.

Figure n°1: Conceptual model proposed forestudy the impact of tax incentives on business



Source: Developed by us

According to the outline of the proposed conceptual model, and recalling that the objective of our article is to examine the impact of tax incentives on business financing, the hypothesis of our article “H0” is formulated as follows: “Tax incentives would have a positive impact on the investment financing decision.”

2.2.2 Contextualizing and operationalizing variables

At this stage, we proceeded to dissect the variables that make up our research model, which aims to evaluate the company's tax incentives (Explanatory variable) and the financing decision (Variable to explain), the variables derived from these two variables, as well as the items of each derived variable. Indeed, the objective is to identify the items relating to each derived variable, which we consider as an indicator, while referring to the context of the study.

For the variable “tax incentives”, we adopted the following measures:

Table n°1: The measures taken from the dimension – Tax incentives

Codes	Items	Formulation
IF1	Tax benefit	Tax advantage is an indicator of tax incentives.
IF2	Tax deductibility	Tax deductibility is an indicator of tax incentives.
IF3	Tax deduction	The dividend tax allowance is an indicator of tax incentives.
IF4	CM tax exemption	The tax exemption of the minimum contribution during the first 3 years of creation is an indicator of the tax incentives granted.
IF5	Tax exemption from VAT on investment	The tax exemption from VAT on the purchase of capital goods is an indicator of the tax incentives granted.
IF6	Tax exemption from VAT on export	The tax exemption from VAT on the importation of capital and material goods is an indicator of the tax incentives allocated.

Source: Developed by us

Then, for the “Funding decision” variable, we retained the items below:

Table n°9: Measures retained for the variable - Financing decision

Codes	Items	Formulation
DF1	Self-financing	Self-financing is an internal financing decision-making method
DF2	The increase in capital	Capital increase is a type of internal financing
DF3	The advance in CCA	The associate's current account advance is a method of external financing
DF4	The bank loan	The bank loan is a source of external financing decisions
DF5	Leasing	Leasing is a form of external financing

Source: Developed by us

3. Research methodology

This article takes a positivist position and is based on literature reviews dealing with the subject of tax incentives and investment financing. This involves adopting a scientific approach that favors information from the field to understand the phenomenon in depth and in all its manifestations.

As for the mode of reasoning, it involves adopting a hypothetico-deductive approach which consists of explaining the phenomenon by testing several hypotheses to discover reality in order to deduce logical consequences, and moreover, make judgments on the relevance of the hypotheses initially formulated.

Therefore, it is a question of testing this relationship between tax incentives (variable 1) and the financing decision (variable 2). In this sense, we used a non-probabilistic method according to a convenience sample made up of SMEs whatever their legal form and their sector of activity operating in the different regions of Morocco.

To collect the data, we first identified the data collection tools. The questionnaire seems to be the best tool for quantitative analysis, the processing of which will make it possible to accurately account (internal validity) of the explanatory variables and the variable to be explained.

Indeed, the development of the questionnaire was carried out via Google Form according to the following four modules: identification of the company; corporate taxation; business financing; and the impact of incentives on financing methods.

We then carried out a field survey allowing data to be collected from a representative sample of Moroccan SMEs, (objective reached of 100 responding SMEs), and this, through a questionnaire established on Google Form which we sent electronically or directly to responsible managers of Moroccan SMEs. Thus, the descriptive analysis of this quantitative data was processed by SPSS software before using it according to a confirmatory factor analysis by structural equations, namely the PLS approach, using the Stata 17 software. The PLS analysis was thus conducted in two phases: the first consists of the evaluation of the measurement model and the second in the evaluation of the structural model.

4. Results and discussion

In this article, we use two criteria validation of the measurement model in this case: convergent validity and discriminant validity.

Table n°2: Results of the convergent validity of the constructs

Variables	Items	Outer loadings	Alpha Cronbach	AVE
Tax incentives	IF1	0.640	0.910	0.949
	IF2	0.412		
	IF3	0.977		
	IF4	0.977		
	IF5	0.977		
	IF6	0.977		
Funding decision	DF1	0.520	0.892	0.698
	DF2	0.616		
	DF3	0.774		
	DF4	0.616		
	DF5	0.563		
	DF6	0.530		

Source: Developed by us using Stata 17 software.

Analyzing the results presented in Table 1, it appears that the degree of convergence of the elements included in our questionnaire is indeed valid. This validity is established by the fact that the “Outer loadings” of each item exceed the threshold of 0.5, thus demonstrating satisfactory convergence of items measuring similar concepts. Additionally, the values of average variance extracted (AVE) and Cronbach's alpha are also above the acceptable thresholds of 0.5 and 0.7 respectively.

On the other hand, the table below shows the validity results discriminating constructs:

Table 3: Results of discriminant validity of constructs

	Tax incentives	Funding decision
Tax incentives	1,000	0.244
Funding decision	0.244	1,000

Source: Author's calculation using Stata 17 software.

Table 2 presents the correlation coefficients between different variables measured in the study, reflecting the discriminant validity of the constructs studied. The diagonal values in the table (1.000) represent the perfect correlation between a variable and itself, which is expected. In contrast, values outside the diagonal represent correlations between different pairs of variables.

Examining the results, we observe that the correlation coefficients between the variables linked to tax incentives and the financing decision are relatively low. This suggests good discriminant validity, indicating that these variables measure distinct aspects of the financial context.

After evaluating the measurement model, all items were validated and they adequately reflect their variables. Therefore, we proceeded to evaluate the structural model, using path coefficients. Below are the results of the hypothesis test:

Table 4: Hypothesis testing (Path coefficient)

Hypotheses	Relationships	Original sample	P-value	Decision	R squared
H0	Tax incentives->Funding decision	0.295	0.054	Accepted	0.334

Source: Author's calculation using Stata 17 software.

The analysis of the results from the structural equation model on the Stata 17 software confirms the validity of the crucial hypothesis linked to financial interactions within the company. The model reports an R square of 0.334, indicating that the model explains approximately 33.4% of the variance in the financing decision.

Indeed, the hypothesis (H0) which presents a positive relationship between tax incentives and the financing decision is validated, with a significant coefficient less than 10%. The path coefficient of 0.295 indicates a positive influence of tax incentives on the financing decision of companies, which suggests that benefits and exemptions Taxes can play a significant role in corporate financial decision-making.

In conclusion, these results confirm the relevance of the hypothesis formulated in the structural model, thus offering important lessons for understanding financial dynamics within Moroccan companies.

5. Conclusion

Thus, the choice of tax incentives does not appear to be a spontaneous and less risky decision. Firms are bound by various reasons which generally depend on the consistency of the advantages granted by different preferential regimes and options. The reasons for choosing these incentives then vary according to the objectives expected by the tax authorities on the one hand and also according to those previously established by the companies themselves. Ultimately, we can say that the search for competitiveness and growth as well as knowledge and mastery of tax information constitute a determinant of choice of tax incentives by companies, the latter resorting to tax incentives in the sole purpose of benefiting from the advantages of the various preferential regimes.

This conclusion retraces the main steps taken to address the issues raised in our article. The aim of our research was to highlight the importance of taxation in the financial decision-making of Moroccan companies. We therefore looked at the influence of tax incentives on the financing of small and medium-sized enterprises. Its relevance lies in the fact that it provides some answers to the mixed results in the literature. It also provides an insight into how Moroccan business leaders perceive the problem of the link between taxation and the business financing decision.

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