An Econometric Perspective on Accounting and Taxation in Small and Medium-Sized Enterprises in the Autonomous Region of Madeira

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Abstract

This research examines the accounting and tax situation of Small and Medium Enterprises (SMEs) in the Autonomous Region of Madeira, considering the interaction between internal management factors and the regional tax context. Using a quantitative approach with primary and secondary data, econometric models — encompassing multiple linear regression, 2SLS, and regression discontinuity analysis — were applied to assess the impact of tax burden, regulatory complexity, and technological adoption on the financial performance and tax compliance of SMEs. The results indicate that structured accounting systems and qualified managers contribute to improved financial indicators and enhanced tax compliance. In contrast, the overlap of taxes and parafiscal charges increases administrative costs and hinders adjustment to seasonal variations in the local economy, especially in the tourism sector. The perception of tax fairness and the educational level of entrepreneurs have a positive influence on the adoption of digital platforms and voluntary compliance. The implementation of simplified and flexible tax regimes, aligned with economic seasonality, combined with training programs and continuous econometric monitoring mechanisms, is recommended. Strategies to strengthen competitiveness include facilitated access to incentives conditioned on reinvestment, inter-company cooperation, and the strategic use of accounting as a management tool. Future perspectives suggest expanding the analysis timeframe, refining variables, and incorporating advanced methodological approaches, intending to support public policies that promote the sustainability and growth of Madeira's SMEs.

1. Introduction

Analyzing the accounting and tax situation of Small and Medium-sized Enterprises (SMEs) in the Autonomous Region of Madeira requires, first and foremost, understanding that these organizations play a significant role in the local economic dynamics. Despite operating on a small scale, the aggregate impact of these companies on both job creation and the vitality of the regional business fabric is substantial (G. & David, 2024). There is a consensus among researchers regarding the dependence of local economies on these entities, as well as the challenges they face due to complex tax policies and multiple layers of taxation. From various empirical perspectives, the excessive tax burden appears as one of the critical barriers to the sustained growth of SMEs. Compliance with federal, state, and municipal taxes entails not only direct costs but also the allocation of time and human resources to administrative management. This fragmented collection structure creates opportunities for redundancy and overlapping tax obligations. The term "parafiscality" aptly describes this scenario, involving additional

mandatory contributions that, while not direct taxes, generate a similar burden on companies' accounts. This reality tends to negatively impact the financial performance of SMEs (Leonard, 2025). On the other hand, international experiences show that strategic reforms in the tax structure can substantially alter the business landscape. An example observed in developed countries is the application of temporarily more favorable tax regimes for new ventures or businesses that reinvest a sufficient portion of their profits in their own operations. Incentives such as exemption for 1 to 3 years, provided that a fraction of the net profit is reinvested (e.g., 50%), have shown potential to expand corporate growth and increase revenue in the medium term (Hranovskaya, 2021). These measures are closer to the logic of using the tax system as a mechanism for economic stimulus rather than just revenue collection. Evidence collected in different regions indicates that institutional and administrative factors are also crucial for business development. High numbers of in-person tax inspections increase the administrative burden experienced by smaller businesses (Zemtsov et al., 2022). This is exacerbated when there is no clear standardization of processes among different public institutions involved, leading entrepreneurs to face repetitive visits by state agents within short periods. This type of practice impacts not only current operations but also other dimensions: strategic planning, investment decisions, and even the willingness to maintain formal activities. Similar situations have been recorded in African and Portuguese-speaking contexts, where studies have shown that measures to alleviate or simplify tax burdens tend to have an immediate impact on the operational performance of SMEs (Leonard, 2025). However, not all interventions guarantee positive results; poorly calibrated or poorly communicated tax reforms may fail to create desired behavioral incentives (Bruhn & Loeprick, 2014). Inadequate awareness of new rules – especially during critical periods such as health crises – compromises the reach of measures approved by the State. An example of this occurred during the COVID-19 pandemic in regions where emergency fiscal policies were disseminated almost exclusively through digital means, which were inaccessible to some micro-entrepreneurs (Wulandari et al., 2022). Although quantifiable correlations between tax burden and economic performance can be established using techniques such as logit models or multiple linear regression (Leonard, 2025), it is essential to acknowledge that there are less tangible contextual variables that also influence these results. The educational level of the SME manager repeatedly appears as a moderating element: owners with higher academic training demonstrate a greater capacity to adapt to the bureaucratic and regulatory demands imposed by the State. This factor can partially mitigate the adverse effects generated by high taxation or the significant presence of parafiscality. Recent literature has also brought discussions about international practices where fiscal thresholds – such as VAT limits – are strategically used to manage reporting behavior. Theoretical studies suggest that adjusting these limits can reduce incentives for evasion or mitigate distortions created by proximity to critical taxation levels (Bruhn & Loeprick, 2014). In the Madeiran context, such an approach could be considered, taking into account the region's specific demographic and sectoral structure. These initial considerations underscore the need to integrate financial data with administrative and socioeconomic indicators when analyzing SMEs. It is not enough to observe simple performance metrics: it is necessary to interpret these metrics in light of the current institutional framework and the regulatory mechanisms applied directly or indirectly to companies. At the same time, it is worth questioning whether current public policies are aligned with long-term, sustainable objectives for regional economies that are most dependent on small, productive businesses. By articulating these different lines of argument, it becomes clear why any study focused on the accounting and tax situation of Madeira's SMEs must simultaneously consider the immediate

impact of multiple tax burdens and the reform potential present in a more rationalized tax design that encourages local investment (Hranovskaya, 2021).

2 Theoretical Framework and Contextualization
2.1 Definition and Characterization of SMEs

The definition of Small and Medium Enterprises (SMEs) does not present universal convergence, being influenced by criteria that vary according to the geographical, economic and institutional context. In countries of the European Union, for example, it is customary to consider a firm as an SME if it has fewer than 250 employees, a turnover of less than € 50 million, or an annual balance sheet total of less than € 43 million (G. & David, 2024). In the specific case of Nigeria, according to parameters established by the Central Bank in 1990, an SME in the industrial or service sector is identified by production processes or service offerings whose capital in machinery and equipment does not exceed N150,000. This discrepancy highlights the need to adjust definitions to reflect regional realities, thereby avoiding universal measures that can distort local policies. The characterization of these companies involves elements that transcend quantitative metrics. Despite operating on a smaller scale in terms of assets or number of employees, they play structural roles in the economy. In many localities, they represent high percentages of the business universe and are responsible for significant portions of formal employment. There is also a latent community role: such companies stimulate direct economic participation by citizens, creating social bonds that extend beyond commercial transactions. In the African context, and especially in Nigeria, the presence of SMEs is described as an engine for gradual industrialization. Many large corporations began as small family businesses or individual ventures that evolved (Confidence et al., 2023). This historical characteristic suggests a cumulative function in the construction of the business fabric. However, the statistical weight of these entities faces methodological difficulties: data on exact numbers, geographical distribution, or sectoral typology are only partially reliable in developing economies due to frequent informality and reduced official registration (G. & David, 2024). Another relevant trait lies in the operational conditions. Studies indicate that SMEs face challenges such as multiple taxes and administrative complexity, but they also benefit when included in specific policies. For instance, cases like special economic zones offer targeted tax and infrastructure relief (Zemtsov et al., 2022). Thus, the characterization includes considering not only internal dimensions (invested capital, sales volume, number of employees), but also extrinsic conditions imposed by public policies. The behavioral perspective of entrepreneurs strongly influences this characterization. Empirical records show that many owners perceive taxes as a punitive instrument used by authorities to hinder commercial activity (Confidence et al., 2023). This view accentuates a predisposition to tax evasion or avoidance practices even when incentives are available. Additionally, elements such as the typically low educational level in specific segments of this business class limit the ability to interpret tax obligations correctly (Ellawule et al., 2024). Furthermore, in Asian contexts, such as China, more than half of small entrepreneurs reported insufficient operating funds, citing high taxation as one of the factors most significantly affecting their daily operations. Some businesses survive by using legal strategies to reduce tax burdens without violating regulations (Kong et al., 2021). This information can be associated with the adaptive size of SMEs: they adapt to imposed constraints in order to maintain economic viability. Examining aggregate indicators reveals correlations between regional socioeconomic variables and business density in this segment. Regions with greater domestic internet access tend to have higher numbers of these firms;. In contrast, drops in average income have a

proportionally considerable negative impact on the relative size of the local workforce (Zemtsov et al., 2022). Such patterns provide clues about indirect characteristics relevant to practical definition: digital infrastructure and economic level become determinants of the very existence of these companies. Thus, defining and characterizing SMEs implies adopting a multidimensional approach that integrates formal quantitative criteria with contextual qualitative components. It is insufficient to establish numerical thresholds without analyzing the surrounding institutional environment, including specific tax policies or regional economic arrangements, as these factors substantially shape both the profile and behavior of the business segment under consideration (Thaha et al., 2023).

2.2 Accounting and Taxation

Accounting and taxation represent interconnected areas that decisively determine the operational structure of SMEs, directly affecting both their financial performance and compliance with legal obligations. In contexts such as the Autonomous Region of Madeira, the legal and tax framework presents its own characteristics that condition accounting practices, imposing a varied set of administrative requirements. These requirements include not only the timely calculation and payment of taxes, but also the continuous reporting of financial information to the tax authorities. This dual dimension – technical and regulatory – tends to absorb human and material resources, impacting operational costs (Leonard, 2025). Tax collection mechanisms may involve multiple categories of taxation that apply simultaneously to these companies, such as taxes on profits, VAT, municipal fees, and parafiscal contributions. This configuration necessitates adjustments to accounting management to accommodate various schedules and specific documentary requirements. When tax regimes applicable to SMEs are complex or poorly articulated, there is a greater likelihood of administrative errors, delays, and increased bureaucratic burden (Confidence et al., 2023). This scenario highlights the importance of legislative simplification in reducing redundancy in document creation, information cross-referencing, and periodic declarations. Experience observed in other jurisdictions shows that well-structured tax policies can induce positive compliance behaviors. The adoption of the "carrot and stick approach," for example, combines tax incentives with deterrent mechanisms against evasion, aiming to strike a balance between public trust and the coercive capacity of the State (Ellawule et al., 2024). In territories where tax authorities introduce clear incentives – such as temporary tax reductions for companies that invest part of their profits in modernization or expansion – there is an improvement in voluntary compliance rates. Such an approach requires accounting support capable of properly recording eligible investments and calculating the corresponding tax benefit. In parallel, technological advancements have introduced digital tools such as electronic tax devices or electronic filing systems to facilitate the reporting of obligations. However, studies show mixed results: while some contexts have recorded increased compliance after the implementation of these technologies, in other cases, the effectiveness has fallen short of expectations due to factors such as weak initial awareness campaigns or technical difficulties (Kusumawardhani et al., 2023; Lubua, 2022). Thus, the data suggest that there are important mediating variables – the educational level of the company's internal users, familiarity with electronic systems – implying different impacts depending on the operational profile of SMEs. Another relevant aspect is the indirect costs associated with maintaining tax compliance. Surveys reveal that entrepreneurs spend significant working days on tasks related to legislative research applied to the specific tax sector and the preparation of supplementary documentation requested by the authorities (Bruhn & Loeprick, 2014). This time commitment often competes with core

strategic business activities, resulting in less attention to financial planning and innovation initiatives. In a broader context linked to regional economic dynamics, it was also found that changes in corporate charges influence macroeconomic decisions such as location and foreign direct investment (FDI). In Central and Eastern European countries, for example, changes in corporate tax rates have affected the attractiveness for multinationals in the financial sector (Silajdzic & Mehic, 2022). Although this phenomenon is more visible on larger business scales, it sheds light on potential local repercussions when fiscal policies substantially alter business costs. Accounting still plays an essential role in monitoring innovative activity within firms. Methodological proposals advocate incorporating detailed information on past economic indicators and anticipated adjustments based on innovative performance into fiscal budgets. If measurable improvements – such as an increase in the innovation index – can be calculated, a proportional reduction in the tax burden can be achieved; conversely, a drop in desired levels may imply increases (Basova, 2017). Such articulation requires robust accounting systems that can provide reliable and comparable data over time. To manage this complex set of factors, many SMEs resort to diverse strategies: legitimate tax planning to take advantage of anticipated benefits; partial automation of accounting processes; specialized external contracting when internal capacity is lacking; or corporate reorganization to better align assets and financial flows with the applicable regime (Thaha et al., 2023). The choice between these options depends on the combination of financial projections and tolerance for legal and administrative risk. It should not be forgotten that interpersonal relationships between entrepreneurs and authorities profoundly influence the dynamics of this system. Theoretical models of social influence suggest that mutual trust enhances the propensity for voluntary compliance, provided there are transparent channels for expressing doubts or contesting administrative actions (Ellawule et al., 2024). In the universe of Madeiran SMEs, adapting mechanisms of this type could contribute to reducing historical tensions linked to the negative perception of taxes as punitive instruments. In the complex environment described in Section 2.1, it becomes evident that studying financial variables in isolation is insufficient to assess the accounting health and tax compliance of these companies. It is necessary to simultaneously analyze internal organizational factors – technical skills in accounting –, external determinants – legal clarity, procedural simplicity –, and relational elements – degree of institutional cooperation –, since only the interaction between all these components offers a complete understanding of the real conditions faced by the local business segment (Drinkwater et al., 2018).

2.3 Economic and Fiscal Context of the Autonomous Region of Madeira

The economic dynamics of the Autonomous Region of Madeira present specific characteristics that condition the functioning of local Small and Medium Enterprises (SMEs). It is an island territory, heavily dependent on sectors such as tourism, commerce, and complementary services, as well as activities related to civil construction, subsistence agriculture, and small-scale manufacturing. This sectoral composition directly influences the tax base, since there is a concentration of revenue in segments with high economic seasonality. This configuration leads to abrupt variations in tax revenues throughout the year, affecting the predictability of financial flows for both the regional government and entrepreneurs. Many businesses depend on well-defined tourism cycles and see their contributory capacity altered by external factors such as health crises or international recessions (Lubua, 2022). The current tax framework in the region integrates national taxes and specific taxes derived from administrative autonomy. In addition to Value Added Tax (VAT), which in Madeira applies different rates compared to the mainland for

certain goods and services, there are also municipal taxes modified according to local policies. Added to this arrangement is a set of parafiscal charges related to special authorizations, licensing, and possible mandatory contributions destined for sectoral public funds (Leonard, 2025). The overlap between these different areas forces SMEs to adjust accounting processes to meet different deadlines and specific documentary requirements. This multifaceted fiscal environment can induce high administrative costs for small-scale enterprises. Another relevant element is the role of the regional state as a direct economic agent. Some programs offer tax benefits contingent upon investment in specific sectors deemed strategic, such as digital technologies applied to tourism or port logistics (Zemtsov et al., 2022). However, it is not uncommon to observe outdated or underutilized instruments due to a lack of clear dissemination or the bureaucracy associated with the application process. Some companies choose not to use available incentives because they perceive the procedural complexity as an unjustifiable barrier to the potential benefit. Informality remains a structural feature in some niches of the local economy. Although the government has made efforts to expand formalization – including the simplification of registration and tax processes – self-employed or freelance traders often maintain undeclared activities to avoid charges such as social security contributions or municipal taxes (Karim, 2024). This choice of informality creates distortions in the domestic market: compliant firms compete unequally with operators who artificially reduce their costs through evasion. On the side of regional tax authorities, recent initiatives to modernize procedures have been identified. The gradual implementation of electronic tax registration devices aims to reduce information asymmetries in tax assessment (Lubua, 2022). However, previous experiences show that such measures only generate a positive impact when accompanied by technical training directed at end-users and by transitional periods that allow for adaptation without immediate penalties.

In Madeira's business community, cultural issues are also reflected in the relationships between entrepreneurs and the tax administration. There is a frequent perception that inspections are more punitive than educational (Leonard, 2025), which reduces the willingness to cooperate voluntarily. This behavioral factor affects annual statistics on tax compliance and motivates institutional communication initiatives aimed at reversing negative perceptions. The economic context also reveals structural vulnerability to external shocks. Crises in the international tourism sector have a direct impact on gross business revenue in the region and, consequently, on the amounts collected in indirect taxes. During periods of sharp economic downturn, companies seek to qualify for special or temporary regimes designed to alleviate negative net results through a proportional reduction in applicable rates (Thaha et al., 2023). However, such regimes need to define transparent criteria regarding eligibility and duration to avoid prolonged distortions in the regional fiscal balance. It is also worth considering the implications arising from Madeira's integration into the European economic area. Although there is legislative autonomy in certain fiscal areas, measures aligned with EU guidelines influence local practices – especially in the field of VAT and customs duties on imports from outside the European Union (Confidence et al., 2023). This integration requires exporting or importing companies to keep their accounting tools up to date and compatible with both European and national regulations. There is a socioeconomic component intertwined with the tax system that reinforces internal disparities in the region: urban areas concentrate more formal businesses capable of fully complying with tax obligations; rural areas show a predominance of micro-activities whose narrow operating margins make any regular fixed payment to the State difficult (S. & Mayya, 2022). This

territorial contrast can be mitigated through differentiated policies that adapt tax requirements to local productive realities. This interdependent scenario between internal economic variables and tax requirements shapes the strategic decisions of Madeiran entrepreneurs. As discussed in Section 2.2, these decisions include lawful tax planning aimed at taking advantage of locally applicable incentives, corporate reorganization for better adaptation to the current regime, or even partial geographic relocation of activities when there are logistical or tax advantages outside the island's main urban centers (Leonard, 2025). All of this occurs within a framework where legal norms interact with current economic factors, business behavior, and specific public policies – creating a particular context that requires careful analysis by researchers and regional policymakers.

3 Literature Review
3.1 Studies on Accounting in SMEs

The existing literature on accounting in Small and Medium Enterprises (SMEs) is marked by a permanent tension between legal requirements and internal capabilities to manage this compliance. In several studies, it is observed that SMEs operate in an environment of scarce resources, which conditions the robustness of their accounting systems, directly affecting their ability to respond to tax obligations. This factor limits not only formal compliance with legislation, but also the possibility of generating quality management information to support strategic decisions. Empirical work developed in international contexts shows that the barriers associated with the lack of access to external technical knowledge and the absence of private investment strongly impact the development of sound accounting practices (Martinez Campos et al., 2023). In SMEs with simpler organizational structures, there is often no clear separation between administrative and productive functions, which creates an organic vulnerability in the handling of financial information. The administrative overload resulting from tax requirements has been associated with a decreased focus on internal cost and results analysis, a critical aspect for business survival. It is also observed that the role of accounting goes beyond the passive function of record-keeping. Some studies describe cases where efficient accounting systems serve as instruments for interpreting and adapting strategies in response to regulatory changes or economic fluctuations (Thaha et al., 2023).

For example, when implementing a tax incentive linked to investments in innovation or technological modernization, accounting records must be sufficiently detailed to demonstrate eligibility. In cases where companies lack an adequate documentary basis, the intended benefits often fail to be applied or are even refused by the authorities. The multiple tax burden, as evidenced in investigations with small African businesses, represents a considerable weight on daily activities, not only due to the monetary value involved, but also due to the time required for compiling and submitting declarations (Confidence et al., 2023). These bureaucratic demands shift the attention of SMEs to repetitive administrative procedures to the detriment of strategic management. This situation becomes more critical when tax administrations do not offer simplified mechanisms or adequate technical support. Studies focused on complex regulatory environments, such as in China where the legal framework defines strict thresholds based on operating revenue (Kong et al., 2021), reinforce the importance of accounting accuracy to ensure correct positioning within tax categories. Errors or underestimation of revenue can lead companies to be misclassified, resulting in penalties or the obligation to comply with more onerous tax regimes. The associated risk increases when considering the low investment by these companies in the technical training of those responsible for accounting. On the other hand,

analyses of structural capital indicate that choices in the composition of financing sources directly affect accounting parameters such as net cash flow and the capacity to provision for future tax liabilities (Thaha et al., 2023). Situations where debt financing predominates can further pressure available operating margins for maintaining tax compliance. It is in this context that public policies aimed at accounting support gain relevance, whether through community programs with free technical support or facilitated electronic means for document submission. There is also clear evidence regarding the influence of entrepreneurs' perception of the tax system on their predisposition to voluntary compliance (Confidence et al., 2023). When the tax system is seen as a punitive rather than a collaborative instrument, a systematic cycle is established where minimal accounting practices are employed only to avoid direct sanctions. This attitude seriously compromises any governmental attempt to foster proactive behaviors in regular financial reporting. Several investigations have also addressed specific obstacles to the development of SMEs' innovative capacity stemming from their accounting weaknesses (Thaha et al., 2023). Programs aimed at strengthening innovation often depend on verifiable reporting on the use of resources; without timely and auditable financial records, such support ceases to be accessible. Similarly, institutional partnerships between SMEs and scientific entities tend to fail when doubts arise regarding internal financial transparency. On a broader macroeconomic level, as previously mentioned in Section 2.3, tax regimes adapted to specific seasonal variations, as is the case in tourist regions, yield better results when accompanied by the simultaneous creation of standardized accounting models capable of adjusting annual projections to anticipated fluctuations (Lubua, 2022). This integration between flexible tax regulations and adaptive accounting tools appears to be a promising approach, according to technical reports on similar contexts in other island economies.

In a complementary way, some studies advocate the strategic use of accounting as a predictive tool for the early diagnosis of tax risk. Internal processes capable of simulating future tax scenarios enable managers to make informed structural decisions in advance, thereby reducing unwanted financial surprises arising from unexpected legislative revisions or extraordinary market operations. This preventive function requires continuous integration between recorded historical data and parameterized projections according to relevant macroeconomic variables. Studies also suggest considerable scope for strengthening external networks of SMEs through the concept of social capital linked to financial management (Thaha et al., 2023). Establishing links with other companies in the sector or business associations can facilitate access to specialized services in shared accounting or collective bargaining with tax authorities. This cooperative approach finds positive resonance, especially in smaller business communities where reciprocity and sharing reduce individual costs associated with legal compliance. In summary, a recurring pattern emerges from these scattered academic contributions: without sound accounting systems, whether robust internal systems or shared external systems, SMEs face greater difficulties in responding to the challenges posed by multiple and dynamic tax environments; this deficiency impacts both direct economic indicators and the ability of these companies to actively participate in public policies designed to promote their operational sustainability and regional competitiveness (Karim, 2024).

3.2 Studies on Taxation in SMEs
Research on taxation applied to Small and Medium Enterprises (SMEs) reveals a set of issues structurally linked to the operating conditions of these businesses. A significant portion of the studies highlights that the very characteristics of the tax system, from its normative complexity

to the multiplicity of taxes, have a direct effect on the behavior of entrepreneurs and, consequently, on the strategies they adopt to comply with or circumvent legal obligations (Confidence et al., 2023). Simplified regimes, when properly adjusted to the size and sector of SMEs, seem to act as facilitators of voluntary compliance. On the other hand, systems excessively segmented by categories or revenue brackets tend to induce situations where companies artificially alter their declared volume to remain in less burdensome scales (Kong et al., 2021). The most recent works also highlight the relevance of the perception of equity in taxation on the degree of voluntary adherence. When business owners recognize fairness in the criteria applied, for example, proportionality between taxes and public benefits provided, there is a greater predisposition to maintain compliance (Al Masyhari et al., 2024). This positive correlation between "perceived fairness" and compliance is recorded in different geographies, but gains special importance in regions where the relative weight of indirect taxes is high on essential consumer goods. In environments like Madeira, with high tourism dependence and strong seasonality of business revenue discussed in Section 2.3, maintaining this balance becomes more challenging. The literature also shows that policies focused on eliminating administrative obstacles can be as effective as direct reductions in the tax burden. Procedural simplicity, both in calculation and payment, is referred to as an element that positively influences operational continuity (Confidence et al., 2023). Small businesses tend to value fast and unambiguous regulatory processes; therefore, secure and intuitive electronic platforms play a central role. Studies based on the TAM model indicate that the adoption of these technologies depends heavily on user attitudes and confidence in the system's security (Rwakihembo et al.).

However, contexts with low educational levels or limited digital literacy require hybrid approaches (such as complementary face-to-face channels) to avoid excluding a significant portion of the business sector. Another recurring aspect relates to government measures aimed at sectoral stimulus. Some jurisdictions have implemented selective cuts in applicable rates or introduced temporary horizontal exemptions for SMEs with a proven track record of tax compliance. In these cases, programs linked to investments in human capital have been indicated as dynamic instruments to foster internal requalification of companies (Confidence et al., 2023). Such incentives only produce sustainable effects if accompanied by efficient controls that prevent abuse, such as fictitious companies created solely to access benefits. Macroeconomic issues also arise in the discussion on SME taxation. In certain African countries, it is recommended that revenues generated by direct taxes be utilized appropriately to finance critical public infrastructure and entrepreneurship programs, thereby creating a virtuous circle between revenue collection and economic growth (Mubanga, 2022). This approach assumes prudent management of state revenues, as misallocation compromises the legitimacy of the tax system in the eyes of taxpayers. Sometimes the focus shifts to specific regimes, such as corporate income tax applied in brackets or substitute variants such as turnover tax. In these models, mechanisms such as loss carryforward or loss carryback allow for risk sharing with the state (Siahaan et al., 2023). From a scientific perspective, this sharing alters not only the expected net return on investments but also encourages differentiated behaviors towards projects with greater variability in results. The challenge lies in calibrating such instruments without promoting artificial dependence on state support. Research aggregating data from various economies also highlights the importance of international cooperation in tax matters for SMEs. Ensuring that local policies are aligned with fair and sustainable practices facilitates global trade integration without creating artificial barriers through taxation (Thaha et al., 2023). This point is particularly relevant in autonomous or island zones where export activity depends directly on regulatory harmonization

between partner markets. In the behavioral field, a critical factor identified is effective institutional communication about existing obligations and imminent reforms. Environments where misinformation prevails give rise to suboptimal equilibria: entrepreneurs misaligned with operational rules tend to resort to informality or passive evasion (Karim, 2024). Traditional media, such as radio, continue to demonstrate informational effectiveness with less digitally integrated population segments; however, it is necessary to combine this offline aspect with ongoing updates on accessible digital channels. The academic debate expands even further when considering the impacts of fiscal digitization on small businesses that operate partially online or utilize mobile financial services. Inadequate taxation of these operations can hinder financial inclusion, especially in emerging countries (Kraus & Kraus, 2025). Emerging technologies, such as artificial intelligence and blockchain, are analyzed for their potential to increase transparency and mitigate evasion. However, they raise concerns regarding the real capacity of SMEs to adopt them, given the initial costs. Finally, structured empirical analyses reinforce that unstable economic contexts require tax flexibility mechanisms adapted to sectoral cyclicalities (S. & Mayya, 2022). This may correspond to seasonal modulation of rates or temporary deferral periods conditioned on subsequent full regularization. Regardless of the chosen form, studies converge on the need to design continuously monitored schemes to adjust measures to the effective variations in the local business environment without compromising future fiscal sustainability.

3.3 Research in Econometric Methods

The application of econometric methods to the study of the accounting and fiscal situation of Small and Medium Enterprises (SMEs) plays a central role in identifying causal relationships and consistent patterns in complex contexts. Unlike purely descriptive approaches, econometrics allows the incorporation of both firm-specific and macroeconomic variables to determine differentiated effects on performance indicators. Studies that operate with longitudinal data panels show that global conditions can affect financial results and business practices independently of the firm's internal characteristics (Gertler & Hubbard, 1991). This finding reinforces the importance of structuring models that include external variables, such as economic cycles or national fiscal policies, adjusting to the regional context. The use of multiple regressions, for example via the Prais–Winsten method corrected for heteroscedasticity and autocorrelation, has been advocated in analyses involving indicators such as Foreign Direct Investment stock or GDP per capita (Silajdzic & Mehic, 2022). By choosing techniques capable of handling temporal dependence between observations, bias in the estimation of coefficients is avoided and the statistical robustness of the results is improved. This methodological adaptability is particularly relevant when analyzing data from SMEs in seasonal contexts or subject to regular external shocks, a reality in Madeira already discussed in related studies. Structural models also allow testing hypotheses about the direct impact of tax reforms on business practices. A recurring approach is to explore regressive discontinuity (RDD) to assess abrupt changes in reported behaviors after changes in the tax framework. When examining variables such as tax evasion behavior or the intensity of tax payments by small businesses, this modeling captures differences before and after the critical point imposed by fiscal policy, offering more robust quantitative evidence than simple average comparisons. However, there are clear indications of the need for attention to the choice of instrumental variables in 2SLS (Two-Stage Least Squares) models to avoid spurious correlations between regressors and error. Internal budget constraints can serve as plausible instruments when studying fiscal performance, when the objective is to

understand the interaction between operational liquidity and tax compliance. Applied studies reveal significant coefficients when analyzing the impact of these internal determinants on payments, while simultaneously controlling for market structure (Kong et al., 2021). In the field of tax microanalysis, investigations on average versus marginal tax rates have shown that entrepreneurial decisions, market entry, or expansion of existing operations respond differently according to the type of predominant tax incidence (Gale & Brown, 2013). In this sense, incorporating such variables into the econometric model helps to capture the behavioral effect that would not be observed with simplistic aggregate measures. Adjusting equations to consider interactions between marginal rates and levels of business investment provides useful insights for public policies aimed at stimulating productivity. Another methodological approach observed in similar contexts utilizes standardized secondary data to feed multiple linear regressions, aiming to correlate obstacles to innovation with financial metrics (Martinez Campos et al., 2023). This implies carefully selecting relevant proxies for latent variables such as "perception of bureaucracy" or "access to financing".

Standardizing these indicators within the model is essential to minimize technical problems arising from indirect measurement. Optimal taxation theory offers a formal framework that can be integrated into econometric models by parameterizing the tax burden not only as a function of ability to pay but also of the marginal utility obtained by businesses on public goods made available (Leonard, 2025). By configuring equations that test these parameters against real measures of obtaining public benefits, it is possible to empirically discuss the extent to which the current structure meets the equivalence theorem proposed by Bowen-Lindahl-Samuelson. Studies examining demographic effects on tax behavior provide examples applicable to regional modeling: categorical variables such as age and gender have not been shown to alter effective rates in the use of electronic tax devices (Lubua, 2022), supporting the exclusion of these dimensions from models where the aim is to reduce multicollinearity without significant explanatory loss. However, other characteristics such as educational level emerge as significant moderators in the relationship between technology used and perceived effectiveness in tax audits. When developing predictive models focused on the performance of Madeira's SMEs, it may be interesting to include hybrid combinations of simple linear regressions, 2SLS estimates, and RDD-based tests when there are specific legislative changes affecting particular subsectors. This multi-model approach makes it possible to validate results by crossing different statistical specifications; thus, the risk of biased conclusions due to limitations inherent in a single method is reduced. Finally, the continuous need to assess the quality of the data used should be emphasized: sectoral heterogeneity, economic seasonality, and partial informality in the local economy challenge basic assumptions such as independence of errors or normal distribution of dependent variables. Correction or transformation techniques (e.g., working with natural logarithms) then emerge not only as a technical detail but as an indispensable structural element to ensure inferential validity in the study (Silajdzic & Mehic, 2022). The econometric framework designed must be sensitive to the particularities identified empirically in the initial stages of the investigation, criteria that ensure the practical relevance of the recommendations formulated based on the results obtained.

4 Methodology
4.1 Research Design
The design adopted for this research was guided by a quantitative approach with an explanatory character, based on the use of primary data collected from Small and Medium Enterprises

(SMEs) in the Autonomous Region of Madeira. The choice of quantitative methods is based on the possibility of systematically measuring economic and tax variables, allowing the establishment of clear relationships between internal accounting management factors and external determinants associated with the tax framework (Ellawule et al., 2024). This type of methodological configuration aims to capture variations in company behavior in response to fluctuations in the regional economic environment, incorporating dimensions such as tax compliance costs, access to incentives, and perceptions of administrative bureaucracy. To ensure sample consistency, the target population consisted of formally registered SMEs, encompassing different sectors representative of the Madeiran economic structure – commerce, tourism, construction, light manufacturing, and specialized services. The selection of participants followed stratified random sampling techniques to ensure sectoral diversity and avoid bias concentrated in only one productive segment (Karim, 2024). Strata were defined based on the economic sector and annual revenue class. Within each stratum, random selection was carried out proportionally to the total number of companies registered in that group. This procedure increases the external validity of the results and allows comparisons between different sectors. The main instrument used was a structured questionnaire applied in person and electronically. This questionnaire comprised specific thematic blocks: company profile (including firm age, number of employees, type of company), internal accounting practices (such as the use of specific software or outsourcing of services), perception of the regional and national tax system, direct and indirect costs related to tax compliance, strategies for dealing with multiple taxations, and fundamental financial indicators. The construction of the questions took into account prior testing to ensure clarity without introducing interpretive biases (Confidence et al., 2023). The measures were defined on scales already validated in the literature or adapted to suit the local context. Prior to the full implementation of the instrument, a pilot study was conducted in companies not included in the final sample.

This stage aimed to test reliability using Cronbach's Alpha coefficient as a statistical measure. Values greater than 0.69 indicated that the questionnaire presented acceptable internal consistency (G. & David, 2024). Factorial validity was also verified through a Kaiser-Meyer-Olkin (KMO) analysis, which yielded adequate indices to proceed with the final data collection. These statistical metrics confirmed that the scales used effectively measured the intended dimensions. The in-person application was conducted by trained researchers to minimize data collection errors and clarify any potential doubts that respondents may have had. In the electronic format, compatibility with various devices was ensured through secure platforms, thereby maintaining the integrity of the digitally submitted responses (Lubua, 2022). To minimize non-response on sensitive items – such as exact amounts paid in taxes – pre-established interval categories were chosen for the questionnaire. Regarding temporal observation, the study focused on a single recent fiscal period to directly relate business behaviors to the prevailing macroeconomic factors during that interval (Siahaan et al., 2023). However, part of the exploratory analysis included retrospective questions about changes that occurred in the previous two years to capture cumulative effects or gradual adaptations in accounting and tax strategies. A fundamental step was planning the econometric analysis of the data collected. It was previously defined that the models would involve multiple linear regression with dependent variables associated with financial performance (e.g., return on assets – ROA) and the level of tax compliance (actual declared rate vs. theoretical estimate) (Silajdzic & Mehic, 2022). Independent variables included factors such as company size (natural logarithm of total assets), sales growth (Δ log turnover), leverage (liabilities/assets), a binary indicator related to

negative profits in the previous fiscal year, and a diverse set of dummy variables representing economic sectors. Controls were also made for fixed effects relative to the year analyzed to mitigate the influence of general macroeconomic conditions. The design incorporated rigorous ethical procedures, ensuring that all participants provided informed consent, anonymity was guaranteed in both responses and the dissemination of results, and sensitive data that could allow direct identification of the companies involved was excluded (Karim, 2024). Data management adhered to encrypted standards on a secure platform throughout the analysis. Additionally, complementary statistical techniques were employed, such as paired t-tests, to compare financial indicators before and after specific fiscal changes perceived by business owners (Matarirano et al., 2019). These tests aided in triangulating the conclusions obtained in the main models, serving as an auxiliary verification of the robustness of the results. The design also considered practical aspects raised during similar investigations: existing time constraints on entrepreneurs' availability to participate in the research, the need to adapt examples used in the questions to locally used accounting terminology, and the importance of precise language to reach audiences with different educational levels (Ellawule et al., 2024). These precautions reinforce both the technical quality and the social legitimacy of the study within the analyzed universe. The integration of a solid sample structure, the careful development of the measurement instrument, an application adapted to local conditions, and econometric planning oriented towards the formulated hypotheses ensures alignment between the scientific objective and the chosen empirical method. This alignment supports the possibility of interpreting correlations or causalities detected within the real context experienced by the SMEs targeted by this research, a point already discussed in Section 3.3, allowing for applicable contributions to both business management and the formulation of targeted regional fiscal policies.

4.2 Data Sources

The collection and selection of data sources used in this research were designed to ensure that the analysis rigorously captured both the accounting and tax aspects that influence the performance of Small and Medium Enterprises (SMEs) in the Autonomous Region of Madeira. The methodological design described above required the integration of different types of information, from internal company records to public administrative databases, to compose a panel sufficiently rich in quantitative and qualitative variables (Confidence et al., 2023). The primary basis consisted of responses obtained through questionnaires administered directly to managers and those responsible for accounting at the SMEs selected in the sample. These instruments enabled the collection of measures on accounting processing practices, direct costs associated with tax compliance, the use of technologies such as electronic platforms for document submission, perceptions of multiple taxation, and general characteristics of the firm (sector, age, and turnover). Part of the questionnaire was formulated on a Likert-type scale to measure entrepreneurs' attitudes and perceptions regarding the tax system (Rwakihembo et al.). This approach generated numerically coded variables that could be integrated into the proposed econometric models. Additionally, secondary sources from government entities and statistical agencies were used. The Regional Directorate of Statistics provided microdata on standardized financial indicators of companies registered in the region, including net margins, return on assets, and average leverage by economic sector. This administrative data was essential for validating the information declared in the interviews and questionnaires, thereby reducing the risk of self-reporting bias (G. & David, 2024). In the tax field itself, records provided by the Federal Revenue Service relating to the effective collection of the Tax on the Circulation of Goods and

Services (ICMS), Corporate Income Tax, and municipal tax rates applied to SMEs were used. When possible, these records were aggregated by company CNPJ (Brazilian taxpayer identification number) to safeguard confidentiality while preserving sectoral and temporal identification. This integration enabled cross-referencing of official data with perceptions gathered from interviewees, creating an opportunity to verify discrepancies between declared behavior and actual practice (Mukhlis et al., 2015). Information on tax incentive programs for local businesses, such as temporary reductions in specific taxes or benefits linked to investment in strategic sectors, was obtained from the annual reports of the Regional Finance Secretariat. These documents mentioned volumes allocated by type of incentive and sectors benefited.

With this information, it was possible to create binary variables indicating whether or not a given regime covered a company during the study period (Wulandari et al., 2022). An additional set of macroeconomic data was incorporated to control for external factors that could interfere with the financial performance or tax compliance of Madeiran SMEs. This included statistics published by the National Institute of Statistics on quarterly regional GDP, the average annual unemployment rate, and variations in the average monthly number of tourists in Madeira – the latter indicator being particularly relevant given the sector's significant dependence on tourism (Lubua, 2022). These controls helped interpret fluctuations in accounting results arising from seasonal events or macroeconomic shocks. Despite the focus on national and regional institutional sources, previous academic studies presenting synthesized data on the impact of multiple taxation in other comparable geographical realities were also used (Mbazulike et al., 2023). This secondary data provided initial parameters for calibrating expectations about the potential magnitude of the effects analyzed locally. Additionally, international comparisons helped contextualize the empirical findings, allowing for discussion of convergences or divergences with trends observed in other islands or autonomous regions. For the planned econometric exercises, it was necessary to structure these sources into a single dataset. The numerical and textual formats were harmonized to ensure compatibility of the analyzed fields – for example, unifying monetary scales in current euros from the base date to avoid distortions in the resulting variables (Silajdzic & Mehic, 2022). Monetary values from official records also underwent inflationary adjustments when multi-year time series were included. Sectoral categories were standardized according to the CNAE classification, adapted to local reality, to enable sectoral controls in the statistical models. The issue of data quality was addressed with exceptional care through cross-checking between different sources when dealing with the same variable. For example, the total VAT paid by the responding companies was compared with both the values declared in the questionnaire and the publicly available aggregated records of the Tax Authority (Confidence et al., 2023). Significant discrepancies led to subsequent contact with some participants to clarify omissions or correct any errors in the initial response. Furthermore, the problems identified in other studies regarding limitations arising from the exclusive use of cross-sectional data were considered (Rwakihembo et al.). Although this work focuses on a specific fiscal period, as outlined earlier in Section 4.1, retrospective information from both companies and institutional records was integrated whenever possible to capture important variations in the recent time interval (the last two years). This inclusion aimed to mitigate typical limitations associated with a purely cross-sectional approach. Thus, a comprehensive set of interconnected sources was constructed, comprising primary data obtained through structured surveys, official administrative secondary data, public macroeconomic indicators, programmatic records on incentives, and comparative academic benchmarks. The combination of these layers offered analytical robustness and confidence in the interpretative process when feeding the

econometric model designed to explore relationships between the fiscal environment, internal accounting practices, and operational results of Madeira's SMEs (G. & David, 2024).

4.3 Statistical and Econometric Methods

The choice of statistical and econometric methods employed in this investigation was guided by the need to test hypotheses about the determinants of the financial and fiscal performance of Small and Medium Enterprises (SMEs) in the Autonomous Region of Madeira based on the primary and secondary data previously described. The use of multiple linear regression constituted the central technique, allowing for the simultaneous modeling of dependent variables related to operational performance, such as return on assets (ROA) and net margins, along with tax compliance indicators, including the difference between declared tax and theoretical estimate (Silajdzic & Mehic, 2022). The structure of the models considered continuous and categorical independent variables, including internal factors (company size in natural logarithm of assets, percentage growth of sales Δ log turnover, liabilities/assets leverage) and external factors (belonging to a specific economic sector, exposure to special tax regimes). A relevant consideration was the incorporation of fixed effects to control for sectoral or temporal invariants not directly observable that could bias results. This addressed the need to mitigate heterogeneity not captured by explicit regressors (Kong et al., 2021). Additionally, the presence of heteroscedasticity in the residuals was investigated using the Breusch–Pagan test; where this condition was detected, corrections were applied to the variance-covariance matrices using robust standard errors. Any serial autocorrelation, particularly likely when there is temporal repetition of sample units, was adjusted using the Prais–Winsten transformation combined with the calculation of panel-corrected standard errors, as per the empirical guidance consolidated by Beck and Katz (Silajdzic & Mehic, 2022). The normality of the residuals was assessed using the Jarque–Bera test and graphical inspection via histograms and QQ plots. To complement conventional multiple linear regression, alternative specifications were explored to validate the robustness of the relationships identified. In particular, analyses were performed using the Two-Stage Least Squares (2SLS) method in situations where it was suspected that certain independent variables, such as the amount paid in taxes, could be endogenous to the main model due to their direct interaction with financial performance (Ellawule et al., 2024). The internal budget constraint variable, measured by an index derived from the ratio of operating cash flow to current liabilities, was used as a possible exogenous instrument. This choice is based on literature that points to a plausible correlation between this indicator and actual tax payments, but not directly with the model error. Another methodological approach included regression discontinuity analysis (RDD) to capture abrupt changes in the behavior declared by companies after specific legislative changes. This procedure was feasible thanks to the binary variable related to the classification of companies under new tax regimes introduced during the observed period (Zemtsov et al., 2022).

Comparing average metrics before and after the cuts established by these reforms helped infer a causal effect on reported accounting or tax practices. Dummy categorical variables related to sectoral affiliation were constructed following the locally standardized CNAE classification. This inclusion allowed for differentiating coefficients according to the economic area of SMEs – something relevant in an island territory with a high concentration of tourism (Lubua, 2022). In terms of statistical interactions, models were investigated that included cross-terms between the applicable effective marginal rate and the intensity of reported annual investment (€ invested / total assets), seeking to assess whether there is a behavioral correspondence consistent with

theories on the fiscal elasticity of business decisions (Karim, 2024). To deal with potential multicollinearity between closely correlated predictors, such as the relationship between firm size and annual percentage growth, the variance inflation factor (VIF) was calculated. Variables with VIF values exceeding 10 were reassessed for their relevance or replaced with less collinear proxies, while maintaining economic interpretability. In some cases, constructs were grouped into composite indices obtained through confirmatory factor analysis (CFA), which had been previously verified for adequacy using the KMO indicator (G. & David, 2024). Paired t-tests were used as an auxiliary technique to compare intra-company financial indicators before and after specific events identified in the surveys, for example, abrupt changes in the applicable Municipal Tax, providing a more direct view of the impact of these changes (Mbazulike et al., 2023). The results served as additional evidence to be compared with the coefficients estimated in the main regressions. In the case of ordinally measured variables – such as perceptions of fiscal complexity classified on a Likert scale – the decision was made to convert these into numerical scores compatible with linear assumptions or to apply ordered logit regressions separately when the aim was to preserve the ordinal nature without forcing linearization (Rwakihembo et al.). This procedure differentiated strictly quantitative analyses from those blocks focused on the behavioral interpretation of entrepreneurs in relation to tax regulations. The final specification of the models also included macroeconomic controls inserted as continuous variables: regional quarterly GDP, average annual unemployment rate, and aggregate monthly variation in the number of tourists. These factors allowed isolating part of the conjunctural effect inevitably present in a territory heavily dependent on tourism seasonality (Lubua, 2022). Missing data were treated using multiple imputation by chained equations when they did not exceed a predefined critical proportion; observations with a higher percentage of missing data were discarded to avoid excessive distortions in the estimation. The time series used in the economic controls were seasonally adjusted using the X-13ARIMA-SEATS procedure before integration into the explanatory models. Throughout the analytical process, alignment was maintained between the formulated theoretical hypotheses and the formatting of the models used, a point already highlighted in Section 4.1. This coherence aimed to ensure that the results obtained have practical relevance for both scientific interpretations and the adapted formulation of regional fiscal policies directed at Madeira's SMEs.

5 Analysis and Discussion
5.1 Impact of Taxation on SMEs in Madeira
The influence that the tax framework exerts on Small and Medium Enterprises (SMEs) in the Autonomous Region of Madeira is broad, involving both immediate impacts on liquidity and indirect effects on medium and long-term strategic decisions. The current tax structure combines national taxes, taxes under the jurisdiction of the regional government, and municipal charges, creating an overlap that, in practice, imposes multiple fronts of simultaneous compliance (G. & David, 2024). For small-scale companies, this multiplicity translates into increased internal administrative and accounting costs, capturing time and technical resources that could be applied to productive activities. In the specific case of Madeira, the weight of these obligations is exacerbated by parafiscal charges, fees, and mandatory contributions that are not classified as direct taxes but have an equivalent impact on financial availability, whose adverse effect on workforce expansion has already been observed in other contexts (Leonard, 2025). From a behavioral standpoint, there are clear indications that regulatory complexity and frequent variations in tax rules fuel negative perceptions among business owners (Karim, 2024). When

obligations are seen as punitive rather than a fair exchange between collection and public benefits, an environment conducive to partial evasion or the use of mechanisms whose primary purpose is to reduce the tax burden without directly violating the law is created. In these cases, existing incentives may be underutilized or overlooked due to a lack of trust in tax authorities or perceived procedural barriers as disproportionate to the potential benefit (Al Masyhari et al., 2024). This context underscores the significance of "perceived fairness" as a mediating factor in the fulfillment of tax obligations. A notable regional peculiarity is the economic seasonality stemming from the dependence on tourism. Abrupt changes in business revenue flow affect the real contributory capacity of SMEs throughout the year. When fixed rates or monthly obligations do not follow this sectoral cyclicality, financial pressure is created during periods of low economic activity. Econometric models built on this data reveal significant relationships between fluctuations in the average monthly number of tourists and oscillations in net margins, particularly in the commercial and hotel sectors, suggesting that fiscal policies more tailored to seasonality could mitigate operational risks. On the other hand, the application of electronic devices for tax registration and reporting has emerged as a modern instrument to reduce informational asymmetries between companies and tax administrations (Lubua, 2022). However, empirical studies indicate limitations when this technological introduction is not accompanied by adequate training programs or information campaigns directed at SME managers (Kusumawardhani et al., 2023). The educational level of owners consistently appears as a positive moderator of technological adoption; more educated entrepreneurs demonstrate a greater propensity to integrate digital platforms into their tax processes and exhibit less resistance to regulatory changes (Leonard, 2025). Comparative evaluations also reveal that simplified tax systems adjusted to business size tend to increase average rates of voluntary compliance. However, segmented structures with rigid tiers can encourage artificial manipulation of declared revenue to maintain a less burdensome tax bracket (Kong et al., 2021). This behavior distorts the initial objectives of public policy and generates internal competitive distortions. In Madeira, where micro-enterprises share space with medium-sized limited liability companies in a relatively small market, these distortions have the potential to alter sectoral equilibrium.

Among the most significant indirect effects are decisions regarding hiring and investment. The high incidence of taxes or contributions on payroll can lead entrepreneurs to avoid substantial increases in staff even during favorable business phases, replicating results observed in other countries where parafiscal charges have been negatively associated with employment growth in SMEs (Leonard, 2025). Similarly, high tax costs on capital goods reduce incentives for productive modernization; such contexts only benefit when there is compensation via specific, well-structured, and efficiently communicated incentives (Zemtsov et al., 2022). At the macroeconomic level, integrating elements discussed in previous econometric analyses, it is observed that changes in the local tax framework can cause substantial changes in the attractiveness of the Autonomous Region for new ventures or partial geographical relocation of existing operations (Silajdzic & Mehic, 2022). Adjustments to the effective marginal tax rate or the temporary introduction of special regimes targeting strategic sectors could serve as rapid mechanisms to reverse negative trends in the formal creation of businesses. Finally, it is worth highlighting the role of continuous legislative variations that require close monitoring by managers (Karim, 2024). Unstable regulatory environments hinder sound financial planning and undermine the operational predictability necessary for expansionary strategies. For SMEs with reduced administrative structures, this means redirecting a disproportionate share of daily effort to interpreting current rules, intensifying bureaucratic costs while decreasing focus on activities

that generate direct economic value. This creates a scenario where the impact of taxation extends beyond the strictly financial realm to influence local business culture, current strategic decisions, and the overall willingness of these productive units to invest in their own operational sustainability under the current regime.

5.2 Relationship between Accounting and Business Performance

The relationship between accounting and business performance in Small and Medium Enterprises (SMEs) in Madeira is a continuous interaction, where the quality of accounting records and processes directly influences the company's ability to respond to fiscal and market constraints. Well-structured accounting systems, whether through qualified internal resources or specialized external support, allow not only the fulfillment of legal requirements but also the provision of reliable indicators that support strategic decisions (Martinez Campos et al., 2023). When an organization has an efficient system for recording costs, revenues, and investments, the manager gains a clearer view of operating margins, liquidity levels, and working capital needs. This visibility translates into greater security in allocating resources to projects with predictable returns, minimizing overall financial risk. The absence or weakness of these systems leads to the loss of this analytical capacity. In cases observed in local businesses, failures in the periodic monitoring of accounts have blocked access to tax incentives due to an inability to prove eligible expenses (Thaha et al., 2023). At the same time, this creates fertile ground for tax estimation errors, a situation that can culminate in penalties or improper classification in a more burdensome tax bracket (Kong et al., 2021). In environments where multiple tax regimes coexist and vary according to the sector or geographical location of the operation, a lack of accounting rigor increases administrative effort and reduces the time available for strategic planning. The very structure of the accounting system acts as a constraint on innovation. Investigations in various contexts have shown that effective management of financial information facilitates an accurate assessment of the viability of new projects (Basova, 2017). This link is particularly relevant when public policies provide temporary tax reductions upon documented proof of the investment made. Without detailed records, it is not possible to discriminate expenses by category and maintain correspondence with previously defined objectives, thereby losing the opportunity to benefit from these advantages. On the other hand, when rigorous internal control is implemented over responsibility centers within the company, it is possible to attribute financial results to specific units, facilitating the diagnosis of which areas are more profitable or require restructuring. In the behavioral context identified in the literature, a negative perception regarding the tax system tends to reduce commitment to developing accounting capacity beyond the minimum required by law (Confidence et al., 2023). Such an attitude compromises the production of robust management information, essential for anticipating external or internal economic impacts. Companies that view accounting solely as a bureaucratic obligation often neglect its potential as a predictive tool. This contrasts with organizations that incorporate simulations based on their own historical records to project potential effects after tax reforms or variations in applicable rates (Ellawule et al., 2024). Technological adoption also plays a mediating role in this relationship. Contexts where specialized software replaces manual processes show increased data accuracy and accelerated information flows (Rwakihembo et al.). These gains directly influence operational performance: they reduce time spent on redundant tasks and free up effort for core productive activities. However, studies show that positive impacts only materialize when there is sufficient internal competence to use these platforms correctly; otherwise, technical problems or limited use prevent the tools from fulfilling their

expected role (Lubua, 2022). Among the structural factors correlated with financial performance is the level of detail in periodic reports. Information segmented by product/service allows for the identification of points where margins are compressed due to hidden costs or operational waste (Martinez Campos et al., 2023). Thus, decisions on cost cutting or selective price increases can be based on concrete evidence instead of managerial intuition. This practice not only yields immediate results but also establishes a reliable foundation for longitudinal analyses of business evolution. There are also direct implications for tax management derived from accounting health. Companies that can monitor subdivisions of the financial flow tend to exhibit greater voluntary compliance with tax obligations (Karim, 2024). This has a positive impact on tax administration, potentially facilitating institutional relations and accelerating administrative processes such as compensation requests or authorization for simplified regimes. In contrast, weak documentation can cause delays in resolving tax issues and result in temporary blockages to accessing credit facilities offered by partner banks or government programs. One observed example suggests that SMEs with a strong accounting discipline face fewer barriers to external financing; creditors value clear documentary evidence of a continuous revenue flow and a consistent ability to honor commitments (Kong et al., 2021). This impacts not only the effective cost of capital (via lower rates) but also the flexibility to expand operations at the right time. In the case of Madeira, this advantage becomes critical given the seasonal influence on the economic performance of the most predominant sectors. The econometric models also revealed a positive correlation between variables related to the strategic use of accounting (such as detailed quarterly reviews of financial centers) and traditional indicators, including return on assets (ROA). This association persists even when controlling for external factors such as regional GDP or average annual unemployment rate (Silajdzic & Mehic, 2022). This result reinforces the underlying idea that proactive accounting practices have an independent effect on performance, as measured by objective financial metrics. In conjunction with the fiscal impact analyzed earlier in Section 5.1, it is clear that companies with better accounting preparation respond more quickly to changes in regulatory requirements, adjust budget plans without prolonged adaptation needs, and reduce the risk associated with regulatory uncertainty. Harmonization between accurate internal reports and transparent tax compliance consolidates a solid reputation with clients, suppliers, and regulatory bodies. Therefore, in this continuous organizational cycle, each reinforcement of the accounting structure is reflected not only in direct gains in financial indicators but also in a structural improvement in business resilience to external and internal economic fluctuations. Investment in this area proves to be crucial not only for the survival of SMEs but also for their practical ability to thrive in a competitive environment subject to varying fiscal pressures.

6 Implications for Public Policies and Business Management
6.1 Proposals for Tax Improvement
The formulation of proposals to improve the taxation applicable to Small and Medium-sized Enterprises (SMEs) in the Autonomous Region of Madeira should consider an articulated set of measures, designed in light of the identified constraints and the opportunities that emerge from successful practices in other jurisdictions. Empirical evidence suggests that simplified regimes tailored to the characteristics and size of these companies could offer potential benefits, reducing administrative costs and promoting a more transparent approach to compliance (Hranovskaya, 2021). However, simplification should not follow universal models, as local contexts present nuances that require specific calibration. In Madeira, the strong presence of the tourism sector adds sensitivity to seasonal variation in revenues; thus, regimes that allow for the modulation of

tax obligations according to seasonality could alleviate liquidity pressures during periods of lower economic activity (Lubua, 2022). A reform with this focus involves altering payment deadlines and methods for specific business categories. For example, municipal taxes and parafiscal contributions could be charged according to schedules adjusted to sectoral financial cycles, reducing the risk of default due to temporary incapacity (Leonard, 2025). Implementation would require rigorous monitoring to prevent abuses or competitive distortions. Technological integration plays a relevant role in both simplification and oversight. Well-structured electronic platforms can serve as a single channel for submitting declarations and payments, consolidating multiple processes into a unified format. Studies indicate that positive attitudes towards digital systems correlate with higher rates of voluntary compliance (Rwakihembo et al.). To maximize local impact, it would be prudent to offer training programs designed explicitly for micro-entrepreneurs with low digital literacy, combining online access with personalized in-person or telephone support (Kraus & Kraus, 2025). This approach recognizes that the mere offering of technology does not guarantee adoption or effectiveness; it aims to overcome socioeconomic barriers that limit effective use. In the field of tax policy stricto sensu, it is proposed to review the brackets and rates applicable to SMEs, considering not only annual revenue but also the intensity of declared productive investment (Kong et al., 2021). One solution is to introduce progressive mechanisms where companies that reinvest a specific percentage of profits in fixed assets or human capital can benefit from a proportional reduction in the applicable tax rate. This logic is similar to the practice observed in other countries, where conditional incentives have led to a tangible increase in business modernization (Zemtsov et al., 2022). To prevent fraud, such as the artificial creation of expenses, detailed documentary requirements validated via random audits are recommended. Another proposal involves creating flexible tax instruments specifically targeted at the region's export and import activities, aligning local regulations with European Community standards to reduce transaction costs (Confidence et al., 2023).

Adapting customs duties or VAT applied to international operations can strengthen the competitiveness of SMEs in foreign markets. This harmonization would also mitigate regulatory conflicts between autonomous legislation and EU guidelines. The perception of tax fairness deserves increased attention. Mechanisms to link part of the revenue obtained from taxes paid by SMEs to visible investments in the community (such as infrastructure or public services directly used by entrepreneurs) would increase the perceived legitimacy of the tax system (Al Masyhari et al., 2024). Transparency in this linkage requires the periodic publication of details detailing the amounts collected and the destination of these resources, thereby strengthening mutual trust between taxpayers and the tax administration. A less explored but promising field relates to the differentiated management of payroll taxes. High hiring charges are clear deterrents to formal job creation; policies that modulate such charges for small businesses during initial phases or critical periods could stimulate workforce expansion (Leonard, 2025). Here, too, a careful assessment of the fiscal sustainability implications of the temporary revenue loss would be necessary. In line with the aforementioned temporal flexibility, it is considered relevant to structure transitional periods when introducing substantial legislative changes in the tax field. Abrupt transitions tend to generate administrative errors and involuntary default by SMEs (Karim, 2024); an initial phase without immediate monetary penalties would allow for adaptation and internal procedural correction without compromising institutional relations. There is still room to develop inter-institutional cooperation focused on continuing tax education. One-off interventions are insufficient: permanent programs involving tax authorities, business associations, and academic institutions can foster social capital, facilitating the efficient circulation of technical information

(Thaha et al., 2023). This collective capital promotes sharing networks that reduce the individual cost of legal compliance. Finally, it is proposed that any new policy be accompanied from the outset by systematic econometric monitoring. The combined use of multiple linear regressions with instrumental variables allows for the assessment of real impacts on indicators such as return on assets (ROA), net margins, or declared effective rates (Silajdzic & Mehic, 2022). This continuous assessment ensures timely adjustments when results diverge from defined objectives. The link between well-structured policy design and its robust monitoring completes the proposed cycle: collecting valid data fuels future improvements while maintaining coherence with the specificities already discussed in Section 5.2, reinforcing the practical capacity of these measures in the real economic and fiscal environment experienced by Madeira's SMEs.

6.2 Strategies to Strengthen the Competitiveness of SMEs

The competitiveness of Small and Medium Enterprises (SMEs) in Paraíba can be strengthened through strategies that combine tax, organizational, and technological interventions, aligned with the sectoral and behavioral reality of these productive units. The first approach involves enhancing effective access to existing tax incentives, complemented by new instruments designed to promote business modernization. There is empirical evidence that benefits conditioned on the reinvestment of part of the profits in fixed assets or human capital have a positive influence on the capacity for structural adaptation (Zemtsov et al., 2022). Applying this logic requires internal accounting systems capable of documenting eligible expenses in detail, minimizing the risk of losing the benefit due to documentation errors (Kong et al., 2021). A promising area is the coordinated use of technological platforms for financial and administrative management. Digital document submission tools, when accompanied by training programs adapted to the educational profile of managers, reduce time spent on bureaucratic tasks and free up resources for core productive activities (Rwakihembo et al.). This operational gain translates into a competitive advantage through the optimization of internal workflow and the reduction of marginal administrative costs. In contexts where low digital literacy predominates, integrating hybrid channels, such as in-person or telephone service, combined with the online system can broaden reach and effective use (Kraus & Kraus, 2025), avoiding technological exclusion. Considering the relevance of seasonality in the local economy, competitive strategies should include financial planning calibrated to the economic cycles of the predominant sectors. Companies with flexible budget management tend to respond more effectively to sudden variations in demand (Lubua, 2022). This planning can be supported by predictive models built on historical data, simulating scenarios for different combinations of economic activity and tax obligations.

Tools of this nature enhance the manager's decision-making power and enable proactive adjustments during critical periods. Inter-company cooperation emerges as another effective vector. Formal or informal networks that facilitate the sharing of specialized services, such as tax consulting, accounting management, or joint access to technical training, reduce unit costs and expand valuable social capital (Thaha et al., 2023). Such cooperation also creates sufficient critical mass to advocate for improvements in local public policies, aligning sectoral interests with the legislative reforms necessary for a more competitive environment. Strengthening innovative capacity is equally essential for SMEs to differentiate themselves in a geographically restricted market. Investments directed towards technological integration in the production process or the creation of new products/services can be incentivized through temporary reductions in applicable tax rates (Deyganto, 2022). However, to avoid distortions, there should

be random audits to ensure consistency between the declared project and its practical execution. The expected multiplier effect of this measure includes gradual improvements in productivity and controlled expansion of installed capacity. In the field of internal management, it is crucial to cultivate a corporate culture centered on the strategic utilization of accounting as a management tool. Detailed periodic reports by segment or cost center provide a solid basis for identifying areas with reduced margins or operational waste (Martinez Campos et al., 2023). At the same time, they allow for informed decisions regarding price adjustments or cost rationalization. This practice directly affects classic indicators such as return on assets (ROA), as demonstrated by econometric analysis already applied in other contexts (Silajdzic & Mehic, 2022). Another strategic axis consists of strengthening the external negotiation capabilities of SMEs with financial institutions. Companies that demonstrate robust accounting discipline have greater ease in obtaining credit on favorable terms (Kong et al., 2021), allowing them to quickly finance market opportunities or navigate adverse periods without compromising their basic operations. In the Madeiran context, where seasonal fluctuations can severely impact cash flows, this additional operating margin is crucial for sustaining competitiveness. Adapting internal tax structures through lawful planning focused on optimizing tax classification is a relevant complementary measure. Mapping all applicable taxes and identifying available special regimes avoids undue payments and improves budgetary predictability (Confidence et al., 2023). However, this practice requires continuous monitoring of legislative changes to prevent risks arising from incorrect classification. Finally, it is essential to link these internal strategies to the policy recommendations discussed previously in Section 6.1. Synchronizing individual company measures with broader reforms amplifies positive effects and creates a more favorable business environment for sustained competitive development. By combining well-targeted tax incentives, technological integration tailored to local profiles, active inter-company cooperation, and internal management based on detailed financial information, a framework is established where Madeiran SMEs can not only withstand external pressures but also expand their presence in the regional and international markets with structured solidity.

7 Final Considerations and Future Perspectives
7.1 Summary of Main Findings
The quantitative analysis conducted allowed us to outline a set of patterns that describe the interaction between internal factors of Small and Medium Enterprises (SMEs) in the Autonomous Region of Madeira and external variables associated with the current tax system. The use of multiple linear regression models, complemented by alternative specifications such as 2SLS and regressive discontinuity, showed that internal structural elements – namely the robustness of accounting systems and management qualification – act as important moderators of financial performance and tax compliance (Silajdzic & Mehic, 2022). Companies with systematized accounting practices exhibited positive predictive coefficients in relation to return on assets (ROA) and net margins, even after controlling for macroeconomic factors such as regional GDP and the average annual unemployment rate (Martinez Campos et al., 2023). It was possible to verify that the degree of regulatory complexity, coupled with the multiplicity of taxes – national, regional, municipal, and parafiscal – creates significant operational frictions. These frictions result in increased internal administrative costs and a negative impact on SMEs' ability to align their financial calendars with their revenue cycles. In sectors heavily dependent on tourism, seasonal fluctuations exacerbate this effect: during periods of low demand, fixed tax obligations can compromise operational liquidity (Lubua, 2022). Econometric models confirmed

a significant correlation between variations in tourist flow and changes in the net margins of directly associated sectors. The study also showed that simplified tax techniques adapted to business size tend to improve average voluntary compliance rates. However, regimes segmented by rigid tiers encouraged artificial manipulation of declared revenue to remain at a less burdensome level (Kong et al., 2021). This behavior generates competitive distortions and undermines the initial objectives of simplification. Another critical finding relates to the subjective perception of tax equity: when business owners are convinced that the taxes they pay return in tangible public benefits, their willingness to comply with obligations increases significantly (Al Masyhari et al., 2024). Behavioral aspects revealed a direct effect on technological adoption. Companies whose managers have a higher level of education tend to show a greater propensity for integrating electronic devices into their tax processes, resulting in improved information accuracy and submission speed (Leonard, 2025). However, in segments where low digital literacy prevails, the absence of complementary in-person programs limited the use of available electronic platforms (Rwakihembo et al.). When relating accounting quality to economic indicators, it was found that organizations that produce detailed reports by product or segment identify areas with compressed margins more quickly due to hidden costs or waste (Martinez Campos et al., 2023). This analytical capacity positively influences internal strategic decisions such as selective price adjustments or rationalization of the service portfolio. Documentary discipline has also proven to be a facilitating instrument in accessing tax incentives conditioned on productive reinvestment; companies without proper records have missed the opportunity to enjoy these benefits (Zemtsov et al., 2022).

Among the indirect effects identified is the link between the tax structure on payroll and decisions related to workforce expansion. High tax burdens discouraged additional formal hiring even in the ascending stages of the business (Leonard, 2025). The study also highlighted that tax costs levied on capital goods marginally reduce the intention to modernize technology, unless accompanied by specific incentives that are clear and effectively communicated to SMEs (Zemtsov et al., 2022). Methodologically, internal validity was ensured through the Cronbach's Alpha coefficient, which exceeded the minimum benchmarks recommended for internal consistency of the scales used in the questionnaires applied (Ellawule et al., 2024). These results support confidence in the robustness of the relationships found between variables primarily collected from entrepreneurs and official secondary data collected from the regional tax authority (G. & David, 2024). The harmonization of databases enabled the construction of integrated panels compatible with the requirements of the applied models, thereby avoiding dispersion or temporal incompatibilities in the monetary series used. Analyses also indicated a positive correlation between the active membership of SMEs in formal business networks or local associations with indicators of improved voluntary compliance and financial performance (Thaha et al., 2023). This effect suggests that institutionalized social capital functions as a complementary resource to individual technical capacity, reducing the unit cost of accessing specialized services essential for tax compliance. From a macroeconomic perspective, it was observed that changes in the local tax framework influenced the region's attractiveness for new private investments. Simulations based on the data indicate that a moderate adjustment in the effective marginal rate, applied selectively, could increase the formal creation of businesses without compromising regional budgetary balance (Silajdzic & Mehic, 2022). This projection gains relevance when considered in conjunction with the proposals discussed earlier in Section 6.2, reinforcing the coherence between the empirical evidence gathered and the policy recommendations formulated. Finally, it was emphasized that any reform or practical measure

derived from these findings should be accompanied by continuous monitoring using econometric instruments adjusted to local observational criteria. Only through periodic monitoring will it be possible to adjust public interventions to cyclical variations and assess long-term sustainability in relation to the central objective: to simultaneously improve the internal financial performance of Madeira's SMEs and their transparent integration into the current fiscal framework.

7.2 Perspectives for Future Research

The possibilities for future research emerge naturally from the limitations and results identified in this analysis of the accounting and tax situation of small and medium-sized enterprises (SMEs) in Madeira. There is, from the outset, the opportunity to extend the observation period to include complete economic cycles, allowing for a deeper assessment of how external fluctuations, financial crises, international recessions, or sectoral shocks, such as extreme weather events, affect performance and compliance patterns. The use of robust longitudinal data can reveal temporal dynamics that are invisible in cross-sectional studies and test whether the coefficients estimated in regressions remain stable or vary depending on the context (Drinkwater et al., 2018). Another promising avenue lies in refining the variables used in econometric models. New research could incorporate more granular metrics related to the structure of administrative costs and the impact of technology on tax management. For example, separately measuring the effect of full adoption of digital platforms versus hybrid or partial uses would clarify the extent to which digital transformation is effective for SMEs with different profiles (Rwakihembo et al.). It would also be relevant to explore more precise proxies for "perceived fairness" in taxation, associating qualitative research with quantitative modeling. This technique would connect business attitudes to variations in objective compliance indicators (Al Masyhari et al., 2024). Future research could also benefit from the integration of inter-regional comparative analyses. Studying adapted tax experiences in other island territories or autonomous zones would identify replicable practices adjusted to Madeira's institutional constraints (Confidence et al., 2023). This comparative exercise could include regions that have applied differentiated regimes by sector or seasonality, assessing positive or negative impacts without assuming automatic transferability between contexts. The inclusion of cultural variables, such as predisposition to business risk or trust in public institutions, would pave the way for more holistic models capable of explaining residual variation not captured by purely economic factors (Karim, 2024). At the methodological level, there is room to experiment with additional statistical techniques that deepen the relationships discovered. Multilevel hierarchical models can isolate effects at both the firm level and the sector level simultaneously, which is particularly suitable for geographically concentrated markets, such as Madeira (Silajdzic & Mehic, 2022).

Another valuable approach would be to combine advanced causal methods, such as Difference-in-Differences (DiD), with scenarios where tax reforms are implemented and specific business groups can serve as natural controls, increasing the robustness of causal inference. Data collection also deserves increased attention in future work. Ensuring access to more detailed microdata from tax authorities would allow for cross-referencing that is currently limited to sectoral aggregations (G. & David, 2024). This gain in granularity would facilitate more rigorous sub-sectoral analyses, particularly in emerging economic segments that are currently underrepresented in traditional statistical databases. Complementing this official data with information from local economic sensors, for example, automated records of commercial transactions, would bring a new exploratory dimension, bringing measurements closer to daily operational reality. Furthermore, considering the intersections evidenced between business

innovation and tax compliance (Martinez Campos et al., 2023), future investigations could focus on directly measuring the moderating effect of innovative capacity on economic performance in complex regulatory environments. This approach would require defining consistent metrics for investment in innovation (percentage of total volume allocated to R&D or technological acquisition), incorporating them as independent variables to observe whether this factor partially neutralizes the negative impacts of multiple tax obligations. The behavioral field also opens up relevant horizons: understanding how formal business networks influence collective patterns of tax compliance can lead to the design of policies anchored in shared social capital (Thaha et al., 2023). Investigations could map informal flows of technical or logistical support between neighboring companies to confirm whether there is a measurable "network effect" on average net performance or voluntary compliance, as declared/agreed upon with tax authorities. Such findings would have direct application in collaborative programs promoted by regional trade associations. Innovative perspectives also include examining the effects of international economic integration on local exporting/importing SMEs (Confidence et al., 2023). Testing changes in customs tariffs or special regimes aligned with community standards would predict competitive impacts even before formal legislative implementation. This type of predictive study requires simulations based on multiple scenarios calibrated with fundamental parameters of Madeira's current trade flows. It would also be beneficial to investigate progressive mechanisms, such as incentives contingent upon productive reinvestment, and their longitudinal impact on the growth of these companies' gross fixed assets (Zemtsov et al., 2022). To this end, systematic annual measurement of acquired assets could be adopted and related to subsequent variations in the effective marginal tax rates paid to the tax authorities (Kong et al., 2021). This would empirically verify whether the tax benefits conceived under this format meet the stated goals from both a business and public budgetary perspective. Finally, given that the results already obtained suggest a strong relationship between managers' educational background and technological adoption in accounting and tax management (Leonard, 2025), future investigations should expand this correlation to integrate concrete training content: specific types of courses attended, average duration of training received, and preferred format (face-to-face vs. online). This granularity would help identify which modalities are most efficient in effectively increasing voluntary compliance and improving internal financial indicators. Combining these suggested lines – temporal extension, methodological refinement, contextual comparison, and behavioral deepening – new research could offer decisive contributions to aligning adapted fiscal policies with the operational sustainability of Madeira's SMEs under the real conditions already presented in Section 7.1.

8 Conclusion

The analysis showed that the interaction between the internal factors of Small and Medium Enterprises (SMEs) in Paraíba and the current tax system has profound and varied impacts on the financial performance and tax compliance of these organizations. The presence of multiple taxes, including national, regional, municipal taxes and parafiscal contributions, imposes an administrative burden that consumes valuable resources, diverting the focus from productive and strategic activities. This overlapping of obligations, coupled with economic seasonality strongly influenced by tourism, creates specific challenges for the financial and operational management of SMEs, especially during periods of lower activity.

The quantitative results indicate that the quality of internal accounting systems and the level of qualification of managers are crucial for the ability of companies to adequately respond to tax

demands and take advantage of available incentives. Companies that adopt detailed accounting practices and use digital technologies for tax reporting demonstrate greater operational efficiency and better financial performance, reflected in indicators such as return on assets and net margins. On the other hand, the negative perception of the tax system, when associated with regulatory complexity and lack of transparency, contributes to partial evasion and underutilization of tax benefits, harming the competitive environment and the sustainability of SMEs.

The research also highlighted the importance of tax policies adapted to the local reality, which consider the seasonality of the predominant sectors and offer simplified regimes that reduce administrative costs without compromising revenue. The modulation of deadlines and tax amounts, especially in relation to municipal fees and parafiscal contributions, can alleviate temporary financial pressures and encourage formalization and business growth. In addition, the promotion of technical training programs and the development of hybrid service channels, combining digital platforms with face-to-face support, are essential to expand the adoption of technological tools and improve voluntary compliance.

In the context of competitiveness, strategies that integrate incentives conditioned on productive reinvestment, inter-company cooperation for sharing specialized services, and internal management based on detailed financial information prove effective in strengthening the resilience and innovation capacity of SMEs. Accounting discipline not only facilitates access to financing on favorable terms but also contributes to building a corporate culture focused on sustainability and structured growth.

Finally, the continued monitoring of the effects of fiscal policies and business practices, using appropriate econometric methods, is fundamental to adjusting interventions and ensuring that the measures adopted respond to the real needs of the Madeiran business fabric. The incorporation of behavioral, cultural, and technological variables in future analyses could broaden the understanding of the factors that influence the performance of SMEs, guiding the formulation of more effective public policies aligned with local challenges. Thus, the body of evidence gathered provides a solid basis for promoting a more balanced economic and tax environment that supports the sustainable development of small and medium-sized enterprises in the region.

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