



Entrepreneurship and Tax Policy Under Review: Insights from Portugal

Teresa Tavares de Abreu

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Rajsingh

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Abstract

Keywords: Entrepreneurship, Tax Policy, Corporate Tax, Dynamic Capabilities, Tax Planning, Economic Growth.

Title: Entrepreneurship and Tax Policy Under Review: Insights from Portugal

Author: Teresa Tavares de Abreu

In a country where 99.9% of businesses are small and medium-sized enterprises (SMEs) and 96% are micro-enterprises, Portugal's entrepreneurial ecosystem is a cornerstone of its economy. However, with a tax system ranked 35th out of 38 in the 2024 International Tax Competitiveness Index there seems to be significant barriers to entrepreneurial activity. This thesis investigates how tax policy influences entrepreneurship, focusing on the demographic characterization of Portugal's entrepreneurial ecosystem, the impact of tax policy on strategic business decisions, and the behavioural dynamics related to compliance, tax planning, and potential evasion.

Through a mixed-methods approach, including 12 expert interviews and a survey of 153 entrepreneurs, the findings reveal critical insights. An overwhelming 81% of respondents identified tax policy as a barrier to starting a business, while trust in tax authorities scored a low mean of 4.24 out of 10. The perceived complexity of the tax system (mean = 7.85) further emerged as a key obstacle, disproportionately affecting SMEs and startups. Regarding compliance, 65.4% of respondents admitted to engaging in unconventional methods to minimize tax liabilities. This study also framed tax planning as a dynamic capability.

This study ultimately aims to inform the development of a more competitive tax system in Portugal, addressing the Research Question: *How is tax policy a factor influencing entrepreneurial activity in Portugal?*

Resumo

Palavras-chave: Empreendedorismo, Política Fiscal, IRC (Imposto sobre o Rendimento das Pessoas Coletivas), Capacidades Dinâmicas, Planeamento Fiscal, Crescimento Económico.

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Autor: Teresa Tavares de Abreu

Num país onde 99,9% das empresas são pequenas e médias empresas (PMEs) e 96% são microempresas, o ecossistema empreendedor de Portugal é um pilar fundamental da sua economia. No entanto, com um sistema fiscal classificado em 35º lugar entre 38 países no Índice de Competitividade Fiscal Internacional de 2024, existem barreiras significativas à atividade empresarial. Esta tese investiga como a política fiscal influencia o empreendedorismo, focando-se na caracterização demográfica do ecossistema empreendedor português, no impacto da política fiscal nas decisões estratégicas de negócios e nas dinâmicas comportamentais relacionadas à conformidade, planeamento fiscal e eventual evasão fiscal.

Através de uma abordagem de métodos mistos, incluindo 12 entrevistas com especialistas e um inquérito a 153 empreendedores, os resultados revelam informações críticas. Uma esmagadora maioria de 81% dos inquiridos identificou a política fiscal como um obstáculo para iniciar um negócio, enquanto a confiança nas autoridades fiscais obteve uma média baixa de 4,24 em 10. A perceção da complexidade do sistema fiscal (média = 7,85) surgiu como outro obstáculo importante, afetando desproporcionalmente as PMEs e startups. Relativamente à conformidade, 65,4% dos inquiridos admitiram recorrer a métodos não convencionais para minimizar as obrigações fiscais. Esta investigação também enquadra o planeamento fiscal como uma capacidade dinâmica.

Esta tese visa, em última análise, informar o desenvolvimento de um sistema fiscal mais competitivo em Portugal, respondendo à pergunta de investigação: *Como é que a política fiscal é um fator que influencia a atividade empresarial em Portugal?*

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1. Introduction

A tax system is not just a collection of numbers - it is a narrative that reflects a nation's priorities, its vision for the future, and its relationship with people and businesses. Along with being a source of funding for a government's activities, tax policy also sets an agenda for wealth distribution and signals a government's macroeconomic stance to its demographic of taxpayers. For entrepreneurs, tax policy represents a critical point where ambition meets governance. In Portugal, a country where small and medium-sized enterprises (SMEs) represent 99.9% of all companies and 96% are micro-enterprises (Franco and Ferreira, 2021), this intersection takes on particular relevance. These companies are the backbone of the Portuguese economy, driving employment, innovation and resilience.

So, what does the tax system tell us about the country's priorities? Mainly, it reveals a nation **balancing the pressures of fiscal sustainability with the ambition to remain competitive in a global economy**. In the latter category Portugal seems to be falling short, as reflected in its ranking of 34th out of 38 countries in the International Tax Competitiveness Index Rankings in 2024 (see Figure 1). This Index highlights that the Portuguese tax system stands out for allowing property tax deductions, implementing an Allowance for Corporate Equity to reduce debt bias, and offering above-average capital cost write-offs for machinery investments. However, the tax system also has significant drawbacks, including a corporate tax rate that is the second highest in the OECD at 31.5%, including multiple distortive top-up taxes, a highly complex system of corporate tax incentives, and a top statutory personal income tax rate of 53% with no ceiling on social contributions, all of which undermine competitiveness. (Mengden, 2024).

| Country | Overall Rank | Overall Score | Corporate Tax Rank | Individual Taxes Rank | Consumption Taxes Rank | Property Taxes Rank | Cross-Border Tax Rules Rank |
|-----------------|--------------|---------------|--------------------|-----------------------|------------------------|---------------------|-----------------------------|
| Estonia | 1 | 100.0 | 2 | 2 | 18 | 1 | 9 |
| Latvia | 2 | 92.2 | 1 | 3 | 21 | 5 | 7 |
| New Zealand | 3 | 84.2 | 30 | 6 | 2 | 8 | 17 |
| Switzerland | 4 | 83.6 | 10 | 8 | 3 | 36 | 1 |
| Lithuania | 5 | 79.5 | 3 | 10 | 27 | 7 | 16 |
| Luxembourg | 6 | 78.8 | 22 | 23 | 6 | 14 | 5 |
| Hungary | 7 | 77.5 | 4 | 5 | 36 | 23 | 3 |
| Czech Republic | 8 | 77.3 | 8 | 4 | 32 | 6 | 11 |
| Slovak Republic | 9 | 76.5 | 15 | 1 | 28 | 2 | 26 |
| Israel | 10 | 76.4 | 11 | 29 | 10 | 10 | 10 |
| Turkey | 11 | 74.8 | 21 | 7 | 16 | 22 | 6 |
| Sweden | 12 | 73.2 | 6 | 18 | 23 | 9 | 12 |
| Australia | 13 | 72.5 | 32 | 15 | 9 | 4 | 33 |
| Netherlands | 14 | 68.3 | 23 | 30 | 17 | 21 | 4 |
| Austria | 15 | 67.9 | 19 | 25 | 14 | 16 | 15 |
| Germany | 16 | 66.8 | 31 | 35 | 13 | 12 | 8 |
| Canada | 17 | 66.7 | 26 | 31 | 8 | 25 | 19 |
| United States | 18 | 66.5 | 20 | 17 | 4 | 28 | 35 |
| Norway | 19 | 66.2 | 13 | 28 | 25 | 15 | 14 |
| Finland | 20 | 65.2 | 7 | 27 | 24 | 19 | 22 |
| Costa Rica | 21 | 65.2 | 35 | 32 | 7 | 11 | 28 |
| Slovenia | 22 | 64.9 | 9 | 12 | 30 | 24 | 20 |
| Mexico | 23 | 64.9 | 27 | 19 | 12 | 3 | 36 |
| Korea | 24 | 63.0 | 25 | 38 | 1 | 32 | 30 |
| Japan | 25 | 61.1 | 34 | 34 | 5 | 26 | 29 |
| Belgium | 26 | 61.0 | 18 | 13 | 26 | 29 | 24 |
| Greece | 27 | 60.9 | 17 | 9 | 34 | 27 | 21 |
| Denmark | 28 | 60.2 | 14 | 36 | 20 | 17 | 32 |
| Chile | 29 | 58.4 | 36 | 24 | 11 | 13 | 38 |
| United Kingdom | 30 | 58.1 | 28 | 21 | 33 | 34 | 2 |
| Poland | 31 | 57.5 | 12 | 11 | 37 | 30 | 23 |
| Ireland | 32 | 57.4 | 5 | 37 | 35 | 18 | 34 |
| Spain | 33 | 56.3 | 29 | 22 | 19 | 37 | 18 |
| Iceland | 34 | 55.9 | 16 | 20 | 29 | 33 | 27 |
| Portugal | 35 | 53.7 | 37 | 26 | 22 | 20 | 31 |
| France | 36 | 50.2 | 33 | 33 | 31 | 31 | 13 |
| Italy | 37 | 47.2 | 24 | 16 | 38 | 38 | 25 |
| Colombia | 38 | 45.7 | 38 | 14 | 15 | 35 | 37 |

Figure 1- 2024 International Tax Competitiveness Index Rankings

Corporate taxation, through the Corporate Income Tax (IRC), plays a central role in this story. There is no single corporate income tax rate in Portugal. Instead, there is a standard rate, which currently stands at 21% of companies' taxable profits, to which can be added up to 1.5% municipal surcharge and up to 9% state surcharge, which can push the effective tax burden significantly higher (Pinção Lucas, Almeida Jorge, and Ventura, 2024). Despite reduced rates for Small and Medium-Sized Enterprises (SMEs) and startups—such as a 17% rate on the first €50,000 of taxable income, or 12.5% for those operating in designated inland territories—these incentives are overshadowed by the cumulative complexity of the system. The additional state surtax, which is applied progressively at rates of 3%, 5%, and 9% depending on taxable profit, reflects a fiscal policy focused on maximizing revenues from larger businesses (PWC, 2024).

This layered approach to corporate taxation points to a national priority to generate public revenue while attempting to provide targeted support to smaller enterprises. However, the high reliance on surtaxes and the lack of streamlined policies suggests a tension between fostering economic growth and maintaining fiscal stability. For companies looking to expand or reinvest profits, the fragmented structure of the tax system often acts as a deterrent, prioritizing short-term fiscal gains over long-term competitiveness (PWC, 2024).

Personal income taxation tells a parallel story of priorities and trade-offs. With a maximum rate of 48% for residents, supplemented by a solidarity surcharge of up to 5% for incomes exceeding €250,000, Portugal’s Personal Income Tax (IRS) system reflects a strong emphasis on redistributive policies. For non-residents, a flat rate of 25% on employment and pension income demonstrates a system that prioritizes simplicity in external taxation while maintaining significant revenue streams (PWC, 2024). This dual approach to income taxation highlights a commitment to attracting new talent through simplified external taxation, while risking the creation of disincentives for retaining resident talent due to high tax burdens.

Indirect taxation through the Value Added Tax (VAT) system further emphasizes the country’s reliance on consumption-based revenues. EU’s law requires a standard VAT rate of at least 15% to apply to most goods and services, and members states may apply up to two reduced rates as low as 5%, one super-reduced rate lower than 5% and one zero rate to a limited set of goods and services taken from an agreed list. The standard VAT rate of 23% places Portugal among the higher-taxed EU countries.

| VAT Rates in Portugal | Mainland | Madeira | Azores |
|------------------------------|-----------------|----------------|---------------|
| Standard Rate | 23% | 22% | 16% |
| Intermediate Rate | 13% | 12% | 9% |
| Reduced Rate | 6% | 5% | 4% |

Figure 2- Table: VAT Rates in Portugal

Taken together, the corporate and income tax frameworks reveal a tax system designed to address the immediate fiscal demands of the state while grappling with the challenges of economic competitiveness. The PWC report alluded to above highlights these tensions, with targeted incentives often overshadowed by the broader complexity and burden of the system.

The pervasive complexity of the Portuguese tax system, ranked among the most complex in Europe, further suggests a disconnect between policy and the needs of businesses (Pinção Lucas, Almeida Jorge, and Ventura, 2024). The proliferation of over 100 tax benefits, intended to incentivize specific activities, has created a fragmented framework that distorts decision-making and advantages larger, resource-rich companies (Brinca et al., 2024). This complexity suggests an implicit prioritization of maintaining bureaucratic control over simplifying and streamlining processes that could empower smaller businesses.

Despite these challenges, the tax system does offer glimpses of alignment with broader national priorities, particularly through targeted incentives for innovation. For instance, the patent box regime and research and development (R&D) credits aim to position Portugal as a hub for technological advancement. However, these policies often benefit larger firms, reflecting prioritizing headline-grabbing achievements over the foundational support needed for the micro and small enterprises that dominate the economic landscape. (Brinca et al., 2024; PWC, 2024).

The reliance on layered corporate taxation, high personal income rates, and significant VAT contributions suggests a **fiscal narrative that prioritizes revenue collection over creating an ecosystem conducive to entrepreneurial innovation and growth.**

This dissertation seeks to uncover the untapped potential within Portugal's fiscal framework while exposing its critical flaws. Therefore, the Research Question driving development of this study was the following:

RQ: How is Tax Policy a factor influencing Entrepreneurial Activity in Portugal?

1.1 Disclaimers

1. Scope and Limitations of the Research

This thesis focuses specifically on the perceptions of Portuguese entrepreneurs regarding tax policy and compliance. It does not aim to provide an exhaustive analysis of all tax-related issues or policies, nor does it seek to prescribe definitive solutions. The findings and discussions are situated within the context of the Portuguese tax system and may not be entirely generalizable to other countries or tax environments.

2. Use of Artificial Intelligence

Artificial Intelligence (AI) tools were utilized during the development of this thesis for purposes such as summarizing content, re-writing original material to enhance clarity and conciseness, and improving the overall flow of the text. All such use of AI was strictly limited to processing the author's own content, and the intellectual integrity of the research has been upheld throughout the process.

3. Professional Relationship with Referenced Work

One of the studies referenced in the introduction, "Economia Acorrentada: O Sufoco Fiscal que Afeta as Nossas Empresas", originates from an organization with which the author has a professional relationship. Its inclusion is justified by its relevance to the research topic and its recency, as there is a limited body of literature on this matter in Portugal.

4. Acknowledgment of Subjectivity

The author recognizes the potential influence of personal interpretations and prior knowledge in shaping the research process. However, every effort has been made to maintain academic rigor, objectivity, and neutrality, ensuring that the findings and conclusions presented are based on sound methodological principles and supported by empirical evidence.

2. Literature Review

2.1 Tax Policy and Economy Activity

In a foundational paper, (Harberger, 1962) deployed the concepts of “excess burden” and “deadweight loss” to argue that taxes made individuals and businesses change their behavior to minimize tax burdens. He stated that while corporations are legally responsible for paying corporate taxes, the economic burden does not rest solely with businesses themselves. Instead, it primarily affects capital owners in the economy. In a closed economy with capital mobility, any tax on corporate profits reduces after-tax rate ROIs, so capital allocations adjust to find an equilibrium. Corporate taxes can drive investment *away* from the corporate sector into non-corporate or untaxed sectors, causing an inefficient distribution of resources. Thus, the burden of paying corporate taxes impacts the whole economy, not just corporations (Harberger, 1962).

Since Harberger, the literature has taken several directions. Some researchers argue that higher tax rates negatively impact entrepreneurial activity, innovation and firm formation, while still others point to no significant effect (Bruce, Gurley-Calvez, and Norwood, 2020).

Acosta-Ormaechea, Sola, and Yoo (2019) maintain that corporate income taxes negatively correlate with growth. Moreover, they argue that property taxes seem to have the least effect on economic growth, which means that replacing the tax burden of income and corporate taxes with other forms of taxes, such as consumption or property taxes, can promote economic activity (Arnold et al., 2011). Similarly, (Djankov et al., 2010) demonstrates that higher effective corporate tax rates significantly reduce aggregate investment, FDI¹, and the rate of new business registrations. Conversely, some propose that the relationship is not straightforward, (Gechert and Heimberger 2022) for instance, asserts that corporate tax cuts show no significant effect on economic performance.

Corporate taxation also influences entrepreneurial activity, (Gersbach, Schetter, and Schneider, 2019) stated that taxing private income rather than corporate profits encourages entrepreneurship. This was also discussed by (Gurley-Calvez and Bruce, 2013) who demonstrated that reducing marginal tax rates (MTRs) on entrepreneurial income increases the probability of entrepreneurial activity, while lowering MTRs on wage income decreases it,

¹ Foreign Direct Investment

because it makes working for someone else more attractive compared to taking the risk of starting a business. (Audretsch et al., 2022) examined opportunity vs. necessity-driven entrepreneurship and found that higher taxes reduce investment, by not only they decreasing ROIs but also discouraging entrepreneurial risk-taking.

Innovation, a key driver of economic growth also seems to be sensitive to tax policy. (Mukherjee, Singh, and Žaldokas, 2017) found that increases in corporate taxes lead to less innovation across all stages: patent filing, R&D investments, and new product development. However, the effects of tax cuts on innovation were less conclusive. In contrast, (Atanassov and Liu, 2020) argues that substantial corporate tax cuts can significantly boost innovation as measured by the rise of patents. (Mukherjee, Singh, and Žaldokas, 2017) further highlights that higher taxes reduce after-tax profits, discourage risky innovation projects, and constrain firms' ability to finance innovation, with more severe effects on firms facing higher marginal tax rates and limited tax avoidance options.

Not all literature supports the notion that lower corporate taxes drive growth or entrepreneurship. (Shoven 1976) challenges Harberger's claims, suggesting they overstate the inefficiencies of corporate taxes. Similarly, (Hope and Limberg 2022), in their analysis of tax cuts across 18 OECD countries from 1965 to 2015, conclude that while tax cuts may increase income inequality, they do not consistently stimulate economic growth or reduce unemployment. (Bruce, Gurley-Calvez, and Norwood 2020) note that both theoretical and empirical evidence on the effects of tax cuts for small businesses remain inconclusive, pointing to the need for more nuanced analyses.

Tax complexity also seems to have a negative impact on firm formation, because of administrative and compliance costs, which are exacerbated by frequent changes in the fiscal framework (Bruce, Gurley-Calvez, and Norwood, 2020). (Braunerhjelm and Eklund, 2014) corroborate this, finding that administrative burdens, measured by the number of payments per year and the time required for compliance, have a negative relationship with new firm formation. This seems to be most significant in the formative stage of new companies (from 3 to 42 months) because these costs create fixed barriers to entry (Braunerhjelm, Eklund, and Thulin, 2021).

2.2 Tax Compliance as a Behavioral Response To Tax Policy

The problem of tax compliance is as old as tax itself (Andreoni, Erard, and Feinstein, 1998). There has been significant research on the topic since the 70's. In *Crime and Punishment: An Economic Approach*, (Becker, 1968) introduced a game theoretical economic framework to analyse criminal behaviour, proposing that individuals committed crimes based on the rational calculation of benefits against the probability of being caught and the severity of punishment.

Using this premise, (Allingham and Sandmo, 1972) presented a model for understanding tax evasion by individuals. They concluded that taxpayers rationally decide to declare full or partial income based on assessing the risk and the severity of penalties resulting from underreporting. The Allingham-Sandmo model proposes that higher tax rates can push people to evade taxes (the substitution effect) but also makes them more cautious because they have less money left (the income effect). The researchers conceptualized the taxpayer as engaging in a decision-making process under conditions of risk, where the level of tax evasion selected is aimed at maximizing expected utility. (Yitzhaki, 1974) altered the model arguing that if the fine is based on the evaded tax, rather than undeclared income, this removes the incentive to evade. So, in Yitzhaki's model, higher tax rates make people report more. Building on (Allingham and Sandmo 1972) and (Yitzhaki 1974), (Hashimzade, Myles, and Tran-Nam, 2013) conclude that recent behavioural economic models, which incorporate non-expected utility and social interaction theories, provide a better fit for the observed levels of tax evasion and the effects of tax policies compared to traditional models.

(Jackson and Milliron, 1986) performed the first literature review on this topic, finding 14 determinants of tax evasion, which (Richardson, 2006) separated in demographic determinants², economic determinants³ and behavioural determinants⁴. (James and Alley, 2002) proposed a dual framework to approach tax compliance: an economic approach considering the costs and benefits, and a behavioural approach which looks at social cooperation, fairness and voluntary compliance. This paper specifically examines self-assessment systems, where taxpayers are responsible for calculating, reporting and paying their tax liabilities and found

² Age, gender, education and occupational status

³ Income level, income source, marginal tax rates, sanctions and probability of detection

⁴ Complexity, fairness, revenue authority-initiated contact, compliant peers and ethics or tax morale

that if these systems were too dependent on strict enforcement and penalties, they also undermine voluntary compliance.

Additionally, (Torgler, 2003) looked at why people pay taxes voluntary, even when there is a low risk of being caught. His work found that an intrinsic motivation to pay taxes, influenced by trust in institutions and perceptions of fairness, significantly affected tax compliance. He concluded that tax compliance could not solely be explained by economic factors. (Richardson, 2006) went so far as to hold that non-economic factors were the most significant influencers of tax evasion, identifying the complexity of the system as the most critical factor. (Saad, 2014) did a qualitative study in New Zealand with in-depth telephone interviews and confirmed this idea, finding that inadequate tax knowledge and perceived complexity contributed significantly to non-compliance.

(Kirchler, 2007) proposed the slippery slope framework (SSF) which considers tax compliance to be dependent on a balance between trust in the authorities and the power of enforcement: when taxpayers perceive authorities as fair and trustworthy, voluntary compliance increases; conversely, high enforcement is necessary when trust is low. Several works have used this framework, testing whether there is country variance for example (Batrancea et al., 2022).⁵ Scholars have gone further and distinguish coercive vs. legitimate power and reason-based vs. implicit trust, discussed under an Extended Slippery Slope Framework (eSSF) (Gangl et al., 2012) (Gangl et al., 2020).

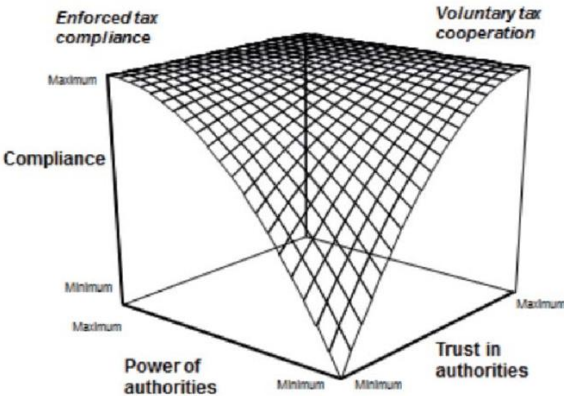


Figure 3- Slippery Slope Framework

⁵ Batrancea et al. (2022) found differences in post-communist countries v.s. non-post-communist countries.

Analysing small business owners, (Verboon and Goslinga, 2009) found that strong personal norms have a positive impact on tax compliance and that perceived tax fairness has a stronger effect in people with low personal norms. An interesting study in Germany examined tax compliance motivations using a field experiment testing with zero enforcement and found that around 20% of taxpayers comply due to intrinsic motivations like a sense of duty, although introducing audits increased compliance among previous evaders, showing the importance of extrinsic incentives (Dwenger et al., 2016). (Alm, 2019) later added that higher audit rates and penalties could increase tax compliance, but the effect diminished at very high levels of enforcement.

Considering more recent studies, a deductive research approach in Indonesia concluded that motivation, quality of tax services, and tax sanctions all positively impacted compliance, but they are moderated by the financial conditions of the taxpayers (Baeli, 2021). (Carrillo, Castro, and Scartascini, 2021) examined the impact of providing public goods as rewards for property tax compliance in Argentina. Taxpayers complying with regulations were entered into a lottery to have a new sidewalk constructed. The findings suggested that lottery winners were more likely to remain compliant in subsequent years. (Kasper and Alm, 2022) explored how the effectiveness of tax audits affected compliance. They found that effective audits do increase compliance, but also that ineffective audits had the opposite effect.

Odunayo Adewunmi Adelekan et al. (2024) discussed how AI and blockchain are transforming US tax administration and found that it improved efficiency and fraud detection. But that there were also operational challenges such as providing for data security and developing comprehensive regulatory frameworks.

2.3 Dynamic Capabilities

Dynamic Capabilities builds upon and addresses limitations in the Resource-Based View (RBV), offering a framework to explain factors that gives firms a competitive edge over their peers (Eisenhardt and Martin, 2000). Introduced by Teece et al. (1997), it describes the *firm's ability to integrate, build, and reconfigure internal and external resources to respond to rapidly changing environments*. In dynamic markets, firms' capabilities come from core processes: sensing and seizing opportunities and reconfiguring resources. (Eisenhardt and Martin, 2000) added that the value of dynamic capabilities lies in their ability to alter the resource base to

create, integrate, recombine, and release resources. In contrast, (Winter, 2003) argue that not all forms of change require dynamic capabilities, suggesting their importance depends on specific competitive contexts. (Barreto, 2010) identified methodological limitations to Teece's definition and called for reconceptualizing dynamic capabilities as a multidimensional construct encompassing firms' propensities to sense opportunities, make market-oriented decisions, and change their resource bases in a timely and opportunistic manner.

Recent research has extended the scope of dynamic capabilities into digital transformation and economic resilience. For instance, (Ellström et al., 2022) explored the role of dynamic capabilities in facilitating digital transformation within firms. They identified key routines necessary for sensing, seizing, and reconfiguring processes to enable effective implementation of digital initiatives. (Weaven et al., 2021) examined how dynamic capabilities impact SMEs during economic downturns, highlighting that unsuccessful SMEs often lack adequate sensing mechanisms and innovation efforts. Similarly, (Matarazzo et al., 2021) investigated SMEs in the context of digital transformation, finding that sensing and learning capabilities are crucial for identifying and adapting to digital opportunities. (Guerrero and Siegel 2024) proposed ecosystem-level metrics for assessing dynamic capabilities in entrepreneurial ecosystems and (Buarque et al., 2023) took a policy-focused perspective by examining how dynamic capabilities and entrepreneurial decision-making styles (causation and effectuation) influence startup engagement in regional public policies.

Efforts to create comprehensive frameworks for dynamic capabilities are ongoing. (Schilke, Hu, and Helfat, 2018) presented a meta-framework that unifies fragmented research findings by highlighting the antecedents, dimensions, mechanisms, and outcomes of dynamic capabilities. They emphasized exploring microfoundations and employing diverse methodologies in future research. (Teece, 2023) reinforced the framework by expanding on its integration into broader theories of the firm, its role in driving digital transformation and innovation, and its implications for policymaking in emerging economies.

However, the literature has yet to explore whether strategic tax planning could be considered a dynamic capability, as it involves identifying and responding to fiscal and regulatory changes, engaging in market-oriented decision-making by aligning tax strategies and relocations with broader business objectives, and reconfiguring resources to optimize outcomes, such as

profitability. These processes not only minimize tax costs but also demonstrate the ability to adapt and realign internal and external resources to achieve long-term competitive advantage.

2.4 Perception as a Phenomenon in Business and Economics

Perception is man's primary form of cognitive contact with the world around him (Efron, 1969), serving as the foundation for how individuals interpret information and make decisions. Herbert Simon introduced the notion of bounded rationality, challenging the idea that individuals are fully rational actors. He argued that decision-making is constrained by cognitive limitations, leading people to make satisficing, rather than optimal choices (Simon, 1955). In decision-making, the concept of heuristics, cognitive shortcuts used under uncertainty (Colombo and Steenbergen, 2020), has proven to be a valuable tool. Kahneman and Tversky fundamentally changed the understanding of human judgment by showing that people rely on heuristics, which often rely on systematic biases. They identified key heuristics such as availability, representativeness, and anchoring and adjustment (Tversky and Kahneman, 1974). With *Prospect Theory* they introduced the concept of *loss aversion* and showed that people value gains and losses differently, leading to risk-averse or risk-seeking behavior depending on the context (Kahneman and Tversky, 1979).

Albert Bandura expanded perception beyond individual decisions to include the influence of social context. He highlighted how individuals actively interpret and are influenced by social contexts, personal experiences, and environmental factors in forming perceptions, rather than being passive recipients of information (Bandura, 1986).

Payne, Bettman and Johnson (1992) further advanced the literature on perception by demonstrating that decision-making is a constructive process, with preferences and beliefs shaped in response to task-specific factors such as complexity, response mode, framing and time pressure, rather than being stable and pre-existing. This perspective highlights the flexibility and context-dependency of human perception with respect to judgment and choice (Payne et al., 1992).

Kahneman's work on the two systems, in *Thinking, Fast and Slow*, builds on and popularizes the dual-process framework initially explored by earlier researchers, including those in social psychology such as (Chen, Duckworth, and Chaiken, 1999). The dual-system framework of

human cognition distinguishes between intuitive (System 1) and deliberative (System 2) thinking. This provided a new lens through which to understand how people make decisions, particularly under conditions of uncertainty (Kahneman and Tversky, 2013).

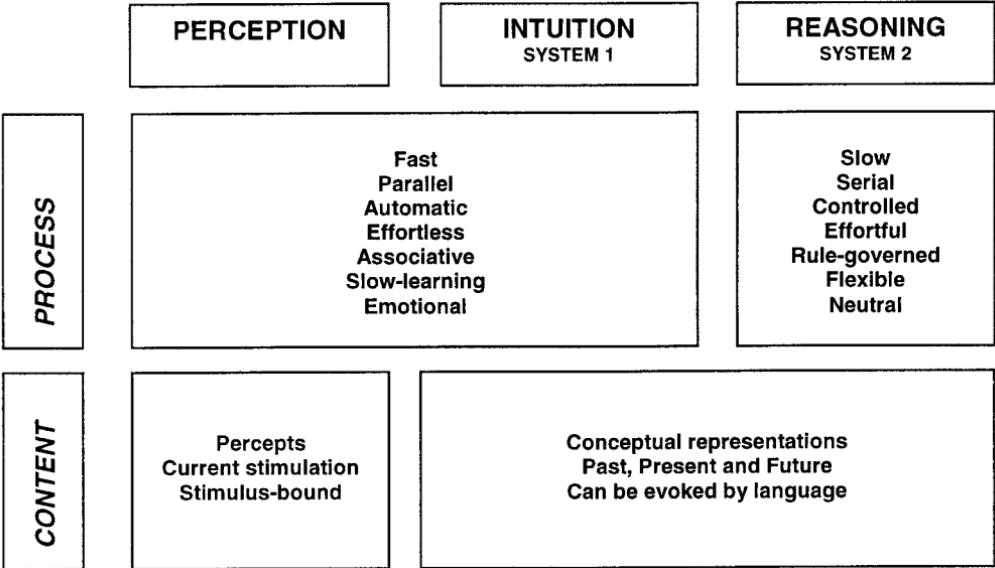


Figure 4- Process and Content in Two Cognitive Systems

Applying heuristics to organizational decision-making, including managerial tax planning, we see how biases influence managerial and strategic choices. Managers often use heuristics due to time pressures and information overload, which can result in biases like confirmation bias and overconfidence in business settings (Bazerman and Moore, 2012). (Artinger, Petersen, and Gigerenzer, 2015) redefining heuristics as adaptive strategies that can outperform complex models in uncertain environments, such as those involving fiscal policies or tax regulations.

This literature is essential for understanding how perception influences entrepreneurs' opinions on tax policy. Cognitive biases, such as overconfidence or confirmation bias, can distort the interpretation of tax policies, while heuristics can help make quick decisions in uncertain and complex regulatory contexts. Recognizing this duality makes it possible to analyze how entrepreneurs evaluate tax policies, manage compliance risks and identify tax efficiency opportunities, providing a clearer view of their decision-making in the tax sphere.

3. Methodology

3.1 Research Design

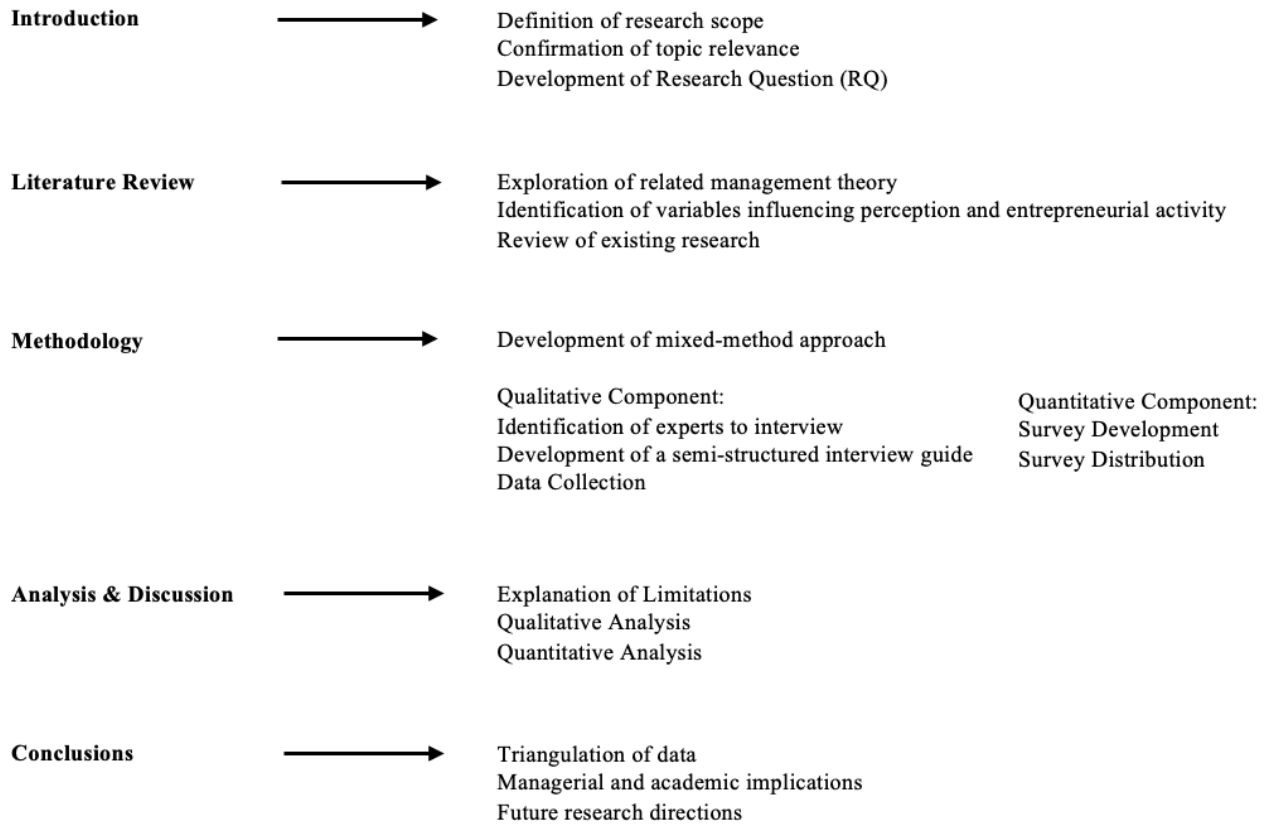


Figure 5- Research Design

The research design for this study is structured into five key stages: **Introduction, Literature Review, Methodology, Analysis & Discussion, and Conclusions**. Each stage was crafted to address the Research Question: *How is Tax Policy a factor influencing Entrepreneurial Activity in Portugal?*

The research design begins by defining the scope of the study, emphasising its relevance and framing the central research question to align with contemporary challenges. The literature review establishes the theoretical basis, identifying clear gaps in existing research, exploring

key management theories and highlighting potential variables that shape entrepreneurs' perceptions and decision-making in relation to tax policies.

A mixed-methods approach was selected to provide a comprehensive understanding of the complex relationship between tax policies and entrepreneurial activity. Relying on surveys alone would risk overemphasising subjective perceptions, which, as discussed in Chapter 2.4, are often influenced by biases and heuristics. To overcome this limitation, qualitative data from expert interviews was incorporated, offering deeper contextual insights, while quantitative survey data was used to validate or challenge these findings, as well as those from the literature.

This methodology was chosen since *mixed methods can be used to gain a better understanding of the connections or contradictions between qualitative and quantitative data (...) enriching researchers' perspectives as different methodologies illuminate the issues being studied.* (Shorten and Smith 2017). By integrating these methods, this study bridges the gap between individual perceptions and broader systemic dynamics, building a more robust foundation for understanding how tax policies influence entrepreneurial behaviour.

The study concluded with triangulation of results, implications, and suggestions for future research. This streamlined approach ensured clarity, coherence, and comprehensive insights into the research topic.

3.2 Data Collection

3.2.1 Primary Data Collection - Expert interviews

Semi-structured interviews are a common data collection method in qualitative research (Kallio et al., 2016) and can be utilized as a stand-alone research method or as a strategy within a mixed-method design (McIntosh and Morse, 2015). The interviews relied on a predetermined set of questions that guided the exchange between the researcher and the participant. The **Interview Guide** can be consulted in *Appendix A*. This framework ensures a structured approach and facilitates the collection of consistent and comparable qualitative data (Cohen and Crabtree, 2006). We conducted a total of 12 interviews, aligning sample size with recommendations indicating that data saturation typically occurs within twelve interviews (Guest, Bunce, and Johnson, 2006).

The interviews were conducted with a diverse and highly qualified group of experts, ensuring a wide range of perspectives on the tax landscape in Portugal. Participants included directors of renowned public policy institutes, entrepreneurs with extensive experience in various sectors, former members of government and former members of the Portuguese and European Parliaments. In addition, there were leaders of technology incubators, representatives of venture capital firms, journalists specializing in economics and academics specializing in taxation.

To preserve the anonymity of the interviewees, each participant was assigned a code, which is detailed in *Figure 1*, along with their respective roles and areas of expertise. This method makes it possible to protect the identity of the participants while providing a clear view of the diversity of backgrounds and skills represented. The combined knowledge of these experts and their direct links to the business ecosystem provided a comprehensive view of the challenges and opportunities of the Portuguese tax system, thus enriching the depth and validity of the conclusions.

| Code | Description |
|------|---|
| AA | Director of a prominent Portuguese institute specializing in public policy, and author of influential studies and books on economic and fiscal matters. |
| AB | Entrepreneur with a track record of leading large-scale projects across diverse sectors, including education and healthcare. |
| AC | Ex-Secretary of State for Fiscal Affairs for a Portuguese Government ⁶ |
| AD | Tax Law professor at a prestigious Portuguese university. |
| AE | President of a leading industry association with significant influence in Portugal. |

⁶ In this context, "Secretary of State" refers to the Portuguese term *Secretário de Estado*, which denotes a governmental role subordinate to a Minister. This differs from the American use of "Secretary of State," which translates to *Ministro* in Portuguese.

| | |
|----|--|
| AF | Leaders of tech incubators and innovation hubs. |
| AG | Representative of venture capital and investment firms operating actively in Portugal. |
| AI | Current member of the Portuguese Parliament with direct legislative experience. |
| AJ | Economic journalist specialized in business and taxation. |
| AK | CEO of a leading Portuguese communication firm specializing in public affairs. |
| AL | Senior official at AICEP, the Portuguese Agency for Investment and Foreign Trade. |
| AM | Former Portuguese representative in the European Parliament. |

Figure 6- Table: Participant Code Reference and Roles Overview

3.2.2 Primary Data Collection – Entrepreneurs’ insights survey

The research instrument was designed as a survey strategically developed to uncover the perceptions, motivations and behaviors of entrepreneurs in relation to the Portuguese tax system. Its architecture was based on three fundamental dimensions:

1. Demographic Characterization
2. Impact of Tax Policy on Business Decision-Making
3. Perceptions and Behavioral Dimensions

The **Survey Questions** can be consulted in *Appendix D*. Data collection was conducted in November 2024 through the Google Forms platform, using a multi-channel dissemination strategy that included LinkedIn, industry associations, innovation and entrepreneurship hubs, and entrepreneurs’ associations. This broad outreach strategy ensured diverse participation while remaining practical and resource efficient.

The study utilized a **non-probabilistic sampling method**, where participants were recruited through convenience channels. Non-probabilistic sampling refers to a data collection method in which not all individuals in the population have an equal chance of being selected (Stratton, 2023). This approach is commonly used for practical reasons, including time constraints or difficulty accessing a truly random sample.

While non-probabilistic sampling enables efficient data collection, it introduces potential biases, such as: overrepresentation of certain demographics, which can lead to disproportionately representation based on access or engagement with the dissemination channels or engagement bias, where participants may be more likely to engage if they have strong opinions or interest in the topic.

Initially, the survey received **163 responses**, providing a solid basis for exploring entrepreneurs' perceptions of tax policy and its influence on their activities. While the methodology introduces constraints, such as those inherent in non-probabilistic sampling, these do not diminish the relevance of the insights generated. Such data are nonetheless important and useful, providing that we can understand properly their limitations. (Schreuder, 2001).

Data validation was a key consideration in ensuring the reliability of the survey results. While survey responses ideally represent meaningful insights, research highlights the issue of careless or inattentive responses. For example, (Kung, Kwok, and Brown 2018) notes that a portion of respondents, at least 5% or more, tend to answer carelessly, which can compromise the validity of findings. To mitigate this risk, an attention-check question (Q23) was incorporated into the survey. The question instructed respondents to “Please select the number 7 to confirm you are paying attention,” using a Numeric Rating Scale from 1 (Not at All) to 10 (Very Much). This technique, empirically validated by (Kung, Kwok, and Brown 2018), ensures that only respondents paying adequate attention are included in the final analysis, thus maintaining the validity of the data while not compromising the measurement scale's integrity.

3.3 Data Processing and Analysis

3.3.1 Expert Interviews

To do a qualitative analysis of the data of the interviews, we conducted a thematic analysis, which researchers have suggested is a good first analytic method for beginner qualitative researchers to master (Lester, Cho, and Lochmiller, 2020). The most widely accepted framework for conducting thematic analyses involves a six-step process: familiarizing yourself with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report (Kiger and Varpio, 2020).

Using this methodology, we ended up with the following themes: Tax burden, trust in Portuguese tax authorities, influence of culture attitudes, challenges for tax planning and opportunities in the Portuguese tax system.

3.3.2 Entrepreneur survey

The **quantitative analysis** commenced with data cleaning, where responses were reviewed for quality answers using question Q23: “*Please select the number 7 to confirm you are paying attention.*” Outliers were identified using scatter plots and tested for their impact on results in accordance with best practices (Aguinis, Gottfredson, and Joo 2013).

The methodology included calculating descriptive statistics (means and standard deviations) for each variable to provide an overview of the data distribution. The Shapiro-Wilk test was used to test for normality, and depending on the results, appropriate statistical tests were applied. Commonly used statistical tests, such as ANOVA, could not be applied in this study because they require the assumption of normality- meaning that the data for each group must be drawn from a population with a normal distribution (Emerson 2022). Since most data was non-normally distributed, **non-parametric tests** such as the Kruskal-Wallis were used to explore relationships between variables.

Additionally, **Spearman’s rank correlation coefficient** was employed to assess monotonic relationships, such as the link between trust in tax authorities and perceived tax complexity.

These methods are well-suited for analyzing Likert-scale and Numeric Rating Scale (NRS) data, ensuring rigor and replicability in line with established best practices (Batterton and Hale 2017).

To gain deeper insights into the underlying patterns in the data, the analysis was complemented by data visualizations such as density plots, which provided additional information on the distribution of responses, ensuring rigorous and replicable results (South et al. 2022).

Qualitative analysis of open-ended survey responses followed a content analysis approach. Responses were coded inductively to identify recurring themes, which were then compared with the findings from the expert interviews to triangulate results. This ensured that insights from qualitative responses were integrated into the broader analysis.

This study acknowledges the concerns raised in the influential paper *Why Most Published Research Findings Are False* (Ioannidis 2018), which highlights the challenges of reproducibility and reliability in scientific research. To address these concerns and mitigate the scientific replication crisis, all data analysis was conducted using R, an open-source software that promotes transparency and replicability. Detailed documentation of statistical procedures and coding scripts ensures that the analysis can be fully reproduced and can be provided to anyone interested in this research, fostering transparency and encouraging further exploration of the findings.

4. Analysis and Discussion

In Chapter 4.1, the findings from expert interviews are explored, followed by an analysis of entrepreneur's survey results in Chapter 4.2. The integration of insights from primary data and secondary research (discussed in Chapter 2) allows for a comprehensive evaluation in Chapter 5.1, focusing on the impact of tax policy on entrepreneurship in Portugal.

4.1 Expert Interviews Findings

Perceptions of the Tax System

The experts consistently pointed out that the high tax burden is a significant barrier to investment and growth. Statements such as AA's ("The high tax burden (...) discourages investment in Portugal and motivates entrepreneurs to migrate to other countries"), suggest that the high tax burden might incentive relocation. AM's comparison with more fiscally competitive countries such as Ireland or Estonia underline the competitive disadvantage faced by Portuguese companies. Participants emphasized how the combination of high corporate tax rates and social contributions (AJ) creates a restrictive environment. These perspectives reflect concerns that the tax system in Portugal hinders, rather than promotes, economic dynamism and investment attractiveness.

Trust in Portuguese Tax Authorities

The dynamics of trust between entrepreneurs and tax authorities emerged as a critical issue. While some participants, such as AC and AL, recognized progress in building trust, the majority reported adversarial relations. AB's opinion ("*I don't think the conditions exist to trust that the rules won't change*") reflects a broader sense of unpredictability and fear of retroactive penalties. Entrepreneurs also described tax authorities as "*more police than partners*" (AG) describing the relationship as "*adversarial rather than collaborative*" (AI) and highlighting the lack of dialogue (AE) and the need for more collaborative and transparent practices to strengthen trust.

Cultural Attitudes

Participants indicated that cultural attitudes towards entrepreneurship and taxation in Portugal remain a challenge. AA's statement about the “*lack of entrepreneurial culture*” and AI's observation about the “*deep-rooted scepticism towards tax revenue management*” highlight underlying tensions. Cultural narratives of mistrust and perceptions of inequity were prevalent, with some participants pointing to a historical aversion to profit (AA) and fears of reprisals for seeking tax optimization (AE). AB argued that the resentment towards the tax system is justified describing his perception “*We feel like we're being punished for trying to create value and jobs*” However, some, like AC, recognized a “*growing sense of pride*” in business contributions to national development.

Challenges in Tax Planning

Tax planning is perceived as fraught with challenges due to the system's complexity and lack of stability. Statements like AA's (“*Since 1989, there have been 1,355 changes to the IRC Code*”) highlighted the sheer volume of regulatory adjustments that disrupt financial and strategic planning. Participants also pointed to the limited accessibility of high-quality advisory services for smaller businesses (AI), illustrating how resource disparities exacerbate these difficulties. AB and AD also referred the complexity of the tax system and AG referred also to the inflexibility of rules in “*The high tax burden and inflexible rules make investing and growing here seem like an unnecessary challenge.*”

Opportunities in the Tax System

While opportunities for leveraging tax benefits exist, their impact is constrained by underutilization and administrative hurdles. Some experts argued that “*factors most praised by entrepreneurs and Portugal's main comparative advantages have nothing to do with taxation*” (AA), and AE noted that benefits are “*insufficient and poorly used,*” while AI emphasized the “*lack of awareness*” as a key barrier and criticized the “*bureaucratic hurdles involved in accessing them*” Programs like SIFIDE and DLRR (AC) were recognized for their value, as well as programs supporting internationalization and export efforts, yet participants generally argued that broader reforms are needed to make these opportunities more accessible, especially

to smaller companies. It was also noted that there is interest in aligning tax strategies with sustainability objectives (AL) and that Portugal should “*create tax regimes that favor companies that invest in green technologies and decarbonized processes*” (AM).

Impact of Economic Conditions

The adverse economic conditions in Portugal were widely mentioned as factors that aggravate the fiscal difficulties faced by entrepreneurs. AA pointed out that, “*in Portugal, wages are low [...] material deprivation is high compared to other Western European countries and companies generate the lowest gross margins in the EU.*” This situation, according to AE, “*accentuates the perception that fiscal policy is an obstacle rather than a stimulus.*”

AG pointed out that “*Portugal has fragile economic conditions, and this makes the tax burden heavier for technology companies,*” while AG reinforced that “*weak economic conditions increase the perception that the tax system penalizes rather than encourages,*” AJ pointed out that “*in periods of crisis or stagnation, such as the years of the pandemic or the current rise in interest rates, taxation is seen almost as a burden that prevents recovery.*”

AM made a more comprehensive analysis by stating that “*the economic conditions in Portugal, marked by moderate growth and productivity levels still below the European average, mean that tax policy is seen as a critical factor for the survival and growth of companies.*” These statements reveal an intrinsic link between economic fragility and negative perceptions of the tax system, highlighting how the macroeconomic context influences entrepreneurs' opinions.

Perceptions of Fairness in Taxation

Fairness in the tax system emerged as a pivotal issue influencing compliance. Experts expressed frustration with perceived inequities, such as the differential treatment of multinationals versus small businesses (AJ), the double taxation of profits (AB), and describing progressive taxation of profits as the “*enemy of efficiency and productivity and penalizes those who want to grow*” (AA). While some, like AL, believed greater equity would enhance voluntary compliance, others, like AG, noted that compliance is often motivated by fear rather than a belief in the system's fairness.

Distinction of Tax Efficiency vs. Evasion

Participants demonstrated a clear understanding of the distinction between tax efficiency and evasion, describing the distinction as “*fundamental to maintaining the integrity and reputation of companies in the market*” (AC). Most, like AI, viewed tax efficiency as a “*legitimate way to optimize resources within the law.*” However, concerns were raised about the “thin line” (AK) between efficiency and ‘aggressive’ planning, with AM recognizing that in complex systems “*the distinction is not always clear.*” AG highlighted a tendency to avoid legal opportunities due to fear of penalties. These findings underscore the need for clearer guidance and support to promote lawful tax optimization.

Impact of Tax Instability

Frequent changes in tax regulations were universally criticized for creating uncertainty and undermining long-term planning. Participants like AG described the constant adjustments as leaving companies “in an impossible position,” while AI emphasized how such instability disproportionately impacts SMEs. The lack of predictability was described “*as one of the main criticisms levelled at successive governments,*” seen as a deterrent not only for domestic growth but also for attracting foreign investment (AK).

4.2 Entrepreneur Survey Results

4.2.1 Demographic Characterization

We started with a sample of $n = 163$, from which we excluded observations in which the qualifying question (Q23) for quality data was not met and ended up with $n = 153$. To clean the data, we conducted tests and plotted outliers.

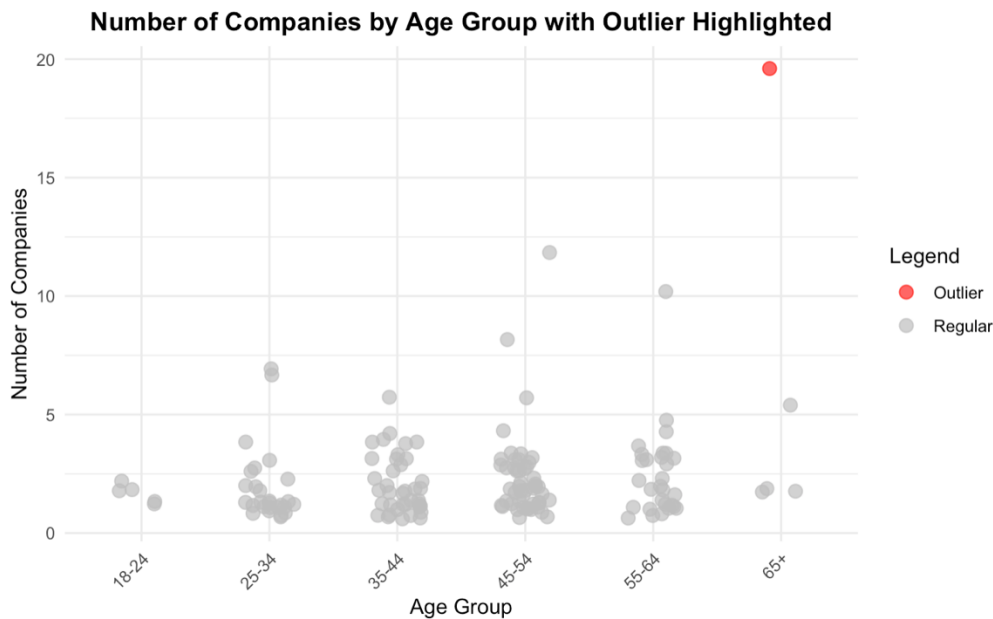


Figure 7- Scatter Plot: Outlier of Number of Companies

We identified an outlier in Q3 (Number of Companies Founded), where one of the respondents indicated having founded 20 companies. In accordance with the best practice recommendations of (Aguinis, Gottfredson, and Joo, 2013), the outlier was kept to preserve the integrity of the analysis and avoid *post hoc* decisions that could bias the results in favor of the hypotheses formulated. The authors warn that removing outliers can artificially increase the probability of confirming the expected results, thus compromising objectivity in hypothesis testing (Aguinis, Gottfredson, and Joo, 2013).

Age & Gender (Q1 and Q2)

The age distribution of Portuguese entrepreneurs in this sample reflected studies cited, with the majority (56.87%) concentrated between 35-54 years old, an age group associated with entrepreneurial success thanks to accumulated human, social and financial capital (Azoulay et al., 2020).

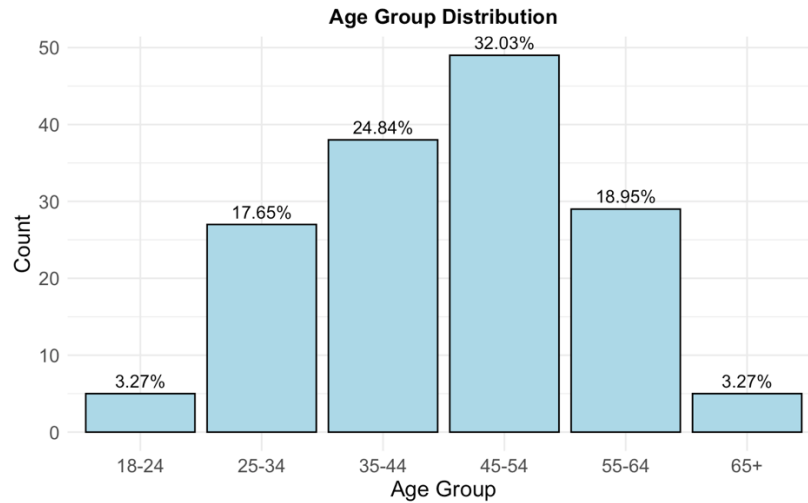


Figure 8- Bar Chart of Age Group Distribution

The gender distribution in the sample analyzed, with only 23.53% women, reflects the barriers described in the literature. (Brush et al., 2019) point out that factors such as unequal access to capital, networks and institutional support disadvantage women in entrepreneurial ecosystems. (Santos, Roomi, and Liñán, 2016) argue that the social legitimization of entrepreneurship reinforces male intentions more than female ones, which may explain part of the female underrepresentation. In addition, (Thébaud, 2010) shows that women tend to have more critical self-assessments of their entrepreneurial skills, reducing the likelihood that they will consider entrepreneurship as a viable option, even under comparable conditions to men.

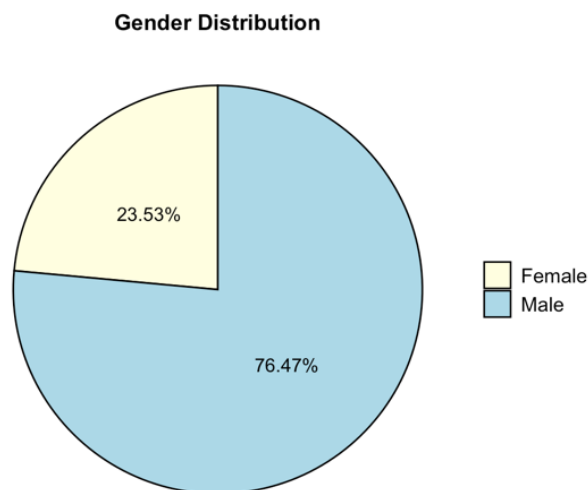


Figure 9- Pie Chart of Gender Distribution

Number of Companies Founded (Q3)

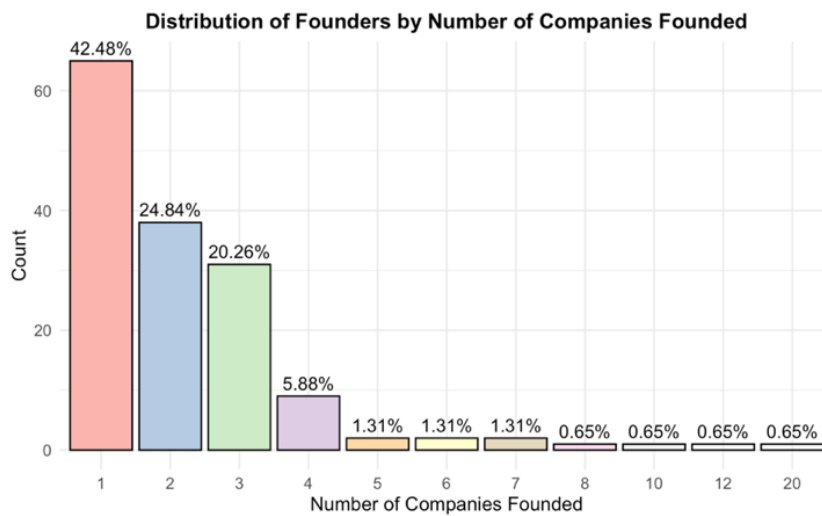


Figure 10- Bar Chart: Number of Companies Founded

Among the founders analysed, first-time founders were the most predominant group (42.48%). However, when comparing first-time founders with multiple founders, the latter represented a larger share (57.52%). This phenomenon can be explained by (Jiao, Ling, and Kellermanns, 2023), who identified that serial founders are more likely to succeed. In addition, (Vaillant and Lafuente, 2019) pointed out that previous entrepreneurial experience can improve practical skills, and (Vaillant and Lafuente, 2019) observed that previous experiences influence results with more innovation in subsequent venture

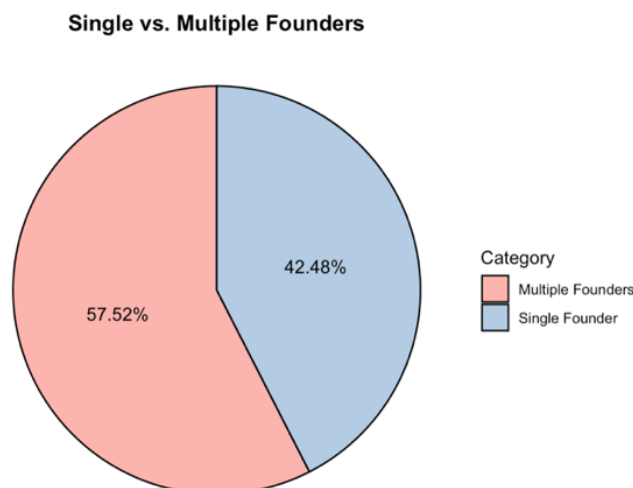


Figure 11- Pie Chart: Single v.s. Multiple Founder

Economic Views (Q4)

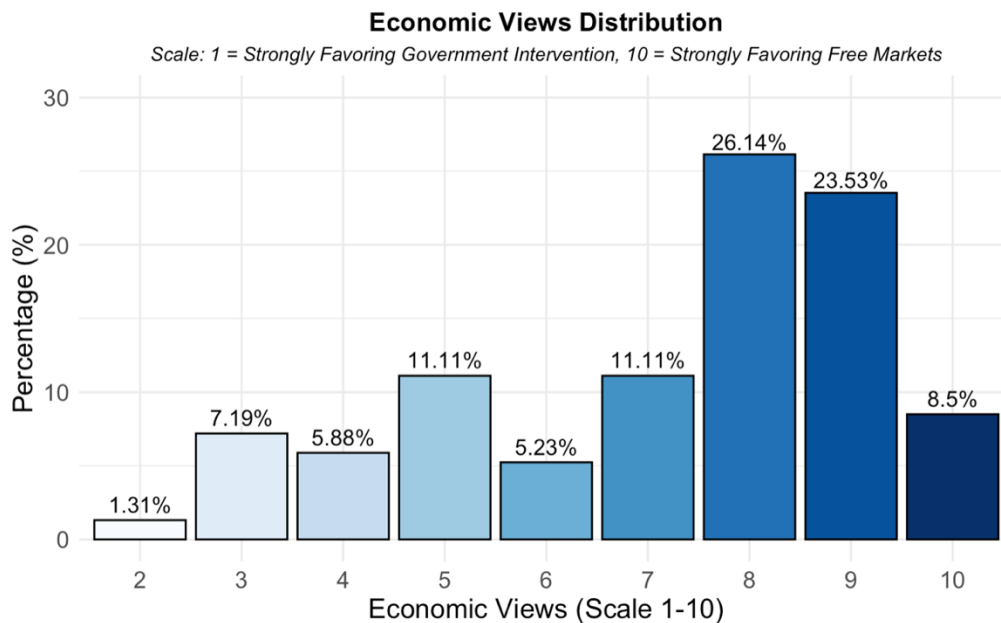


Figure 12- Bar Chart: Distribution of Economic Views

The distribution of economic perspectives showed a clear inclination towards favouring free markets, with 74.51% of respondents scoring 6 or more. This was consistent with (Heilbrunn and Iannone, 2019) who discuss how pro-market ideologies tend to favor entrepreneurs and shape more positive perceptions of entrepreneurial activity. In addition, (Sobel, Clark, and Lee, 2007) stress that entrepreneurship thrives in environments with secure property rights, minimal regulations, and limited government intervention.

Industry (Q5)

The breakdown by sector showed predominance of areas such as Education, Healthcare and Social Assistance (22.22%) and AI, Information Technology and Scientific Services (18.95%), which are aligned with current global innovation trends, which attract entrepreneurs looking for growth opportunities.

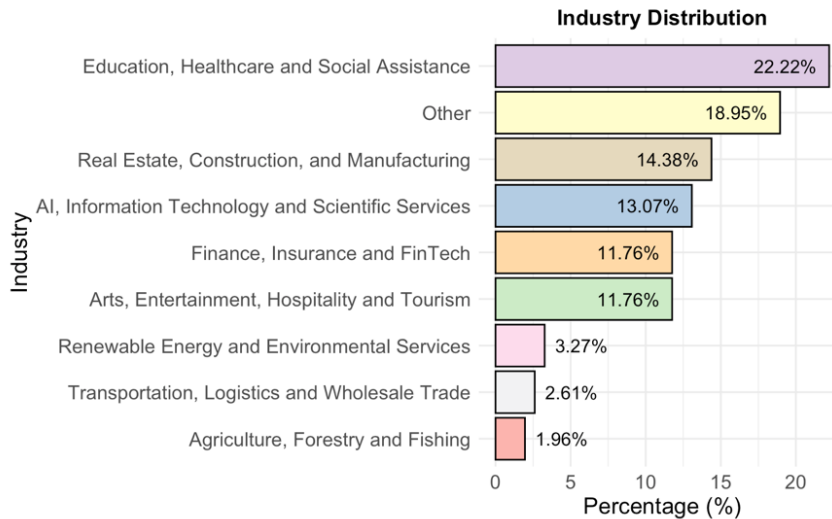


Figure 13- Bar Chart: Industry Distribution

| Industry | Count |
|--|-------|
| Education, Healthcare and Social Assistance | 34 |
| Other | 29 |
| Real Estate, Construction, and Manufacturing | 22 |
| AI, Information Technology and Scientific Services | 20 |
| Arts, Entertainment, Hospitality and Tourism | 18 |
| Finance, Insurance and FinTech | 18 |
| Renewable Energy and Environmental Services | 5 |
| Transportation, Logistics and Wholesale Trade | 4 |
| Agriculture, Forestry and Fishing | 3 |

Figure 14- Table: Industry Distribution

On the other hand, the lower representation in sectors such as Renewable Energy (3.27%), Transportation, Logistics and Wholesale Trade (2.61%) and Agriculture, Forestry and Fishing (1.96%) may reflect the high initial investment, infrastructure or regulatory challenges associated with these areas.

Company Stage (Q6)

The distribution of company stages indicated that most businesses were in the Scaling (41.83%) and Mature (40.52%) phases, reflecting a sample heavily made up of companies that were already established or focused on growth. In contrast, companies in the Early-Stage phase represented

16.99%, while the Idea phase was marginally represented, with only 0.65%. This suggests that the entrepreneurs surveyed were predominantly those with operational businesses.

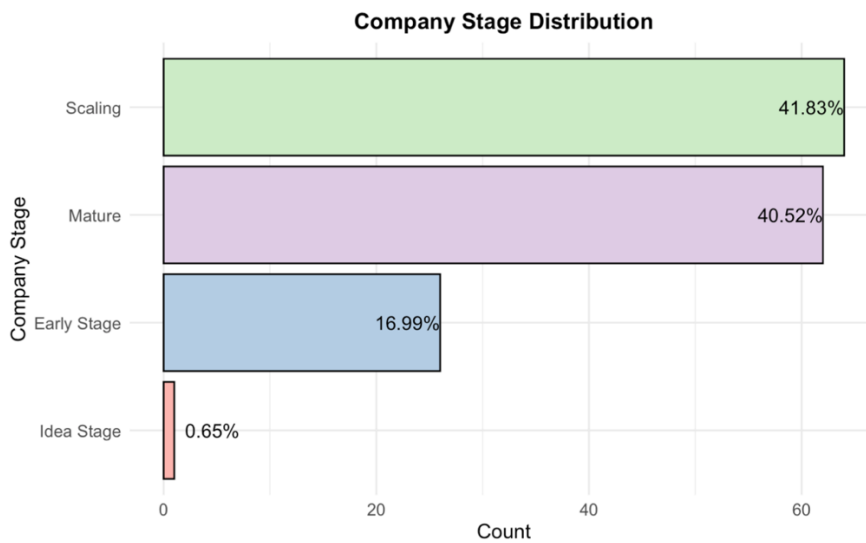


Figure 15- Bar Chart: Company Stage

Annual Revenue (Q7)

The distribution of annual revenues showed 32.03% of companies had revenues between €50,000 and €250,000, while 22.88% generated less than €50,000. Companies with revenues between €1,000,000 and €3,000,000 represented 18.95%, and 11.76% generated more than €3,000,000. The distribution covered a wide range of revenue levels, offering a comprehensive view of companies at different stages of development and market performance.

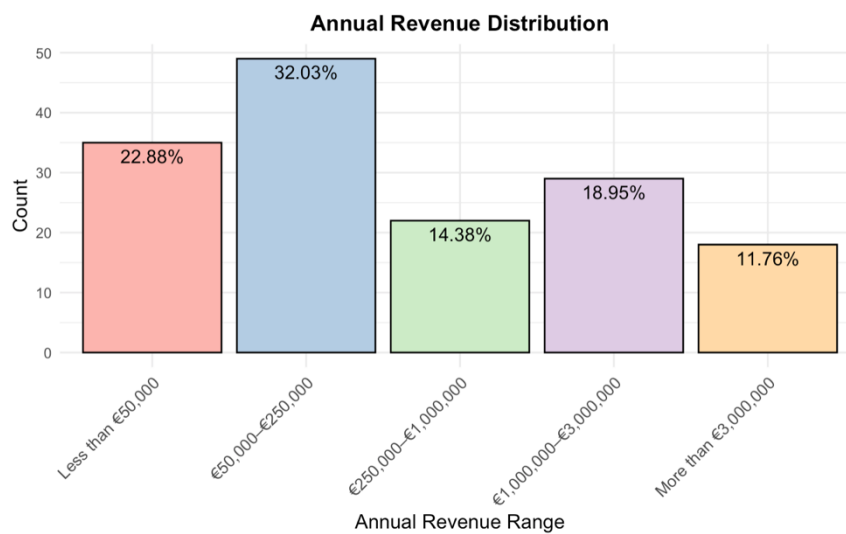


Figure 16- Bar Chart: Annual Revenue Distribution

Size of Company (Q8)

The distribution of the number of employees showed that 63.4% of companies had between 1 and 10 employees, while only 7.19% had between 101 and 500, and the larger categories (501-1000 and 1001-5000) represented a small fraction, with 0.65% and 1.96%, respectively. This predominance of small companies reflected the national picture, where 99% of companies are SMEs, with 96% being micro-enterprises with fewer than 10 employees and an annual turnover or annual balance sheet total of less than €2 million (Andrade 2020; Franco and Ferreira, 2021). These figures are in line with the Portuguese business fabric, characterized by the strong predominance of micro and small companies in the economic fabric.

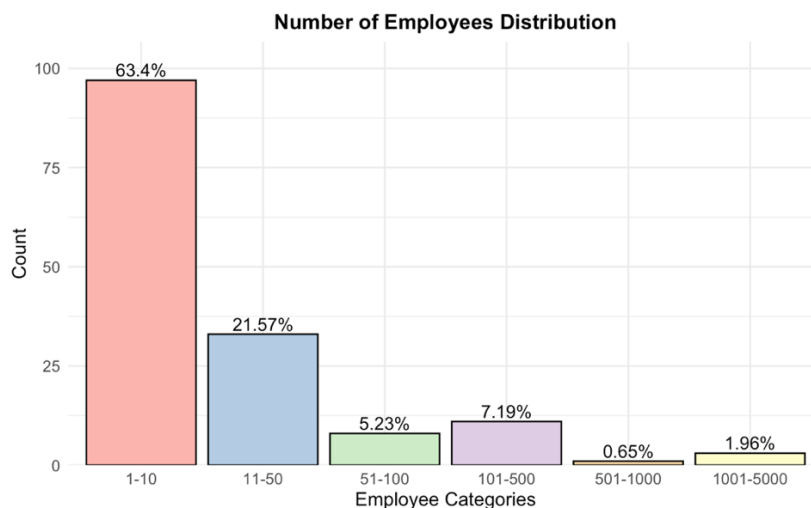


Figure 17- Bar Chart: Size of Company by Number of Employees Distribution

Tax Literacy (Q9)

The distribution of tax literacy showed a concentration of high scores, with the majority of participants ranking between 7 and 8, indicating a relatively high level of understanding of tax issues. However, it is important to consider potential biases, such as overestimation in self-assessments, which can inflate perceptions of tax literacy.

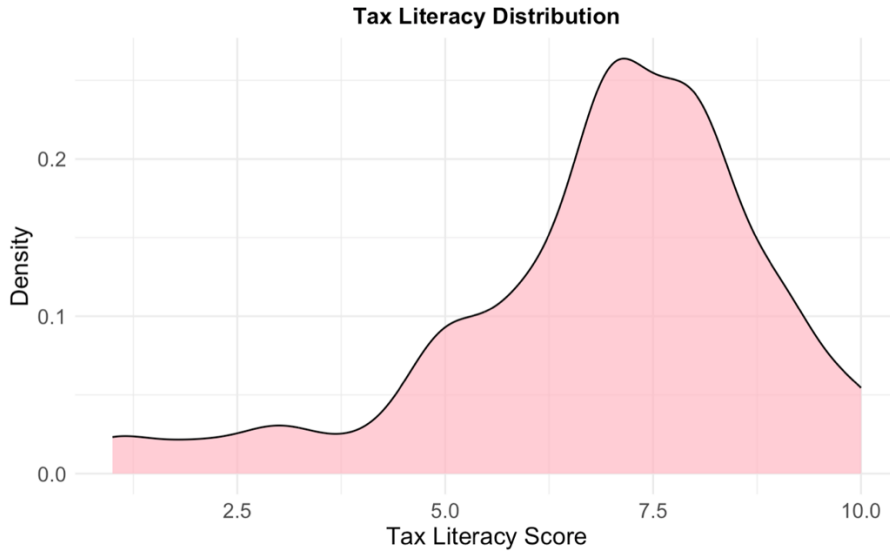


Figure 18- Density Plot: Tax Literacy Score

Tax Management (Q10)

The distribution of tax management approaches showed that 39.9% of companies opted for an external entity, while 34% used mixed resources (a combination of internal and external management). Only 26.1% managed tax affairs exclusively internally. This reflected significant preference for external or mixed support, possibly due to the complexity of tax issues and the need for specialized expertise, in alignment with the findings in Chapter 2.1.

Distribution of Tax Management Approaches

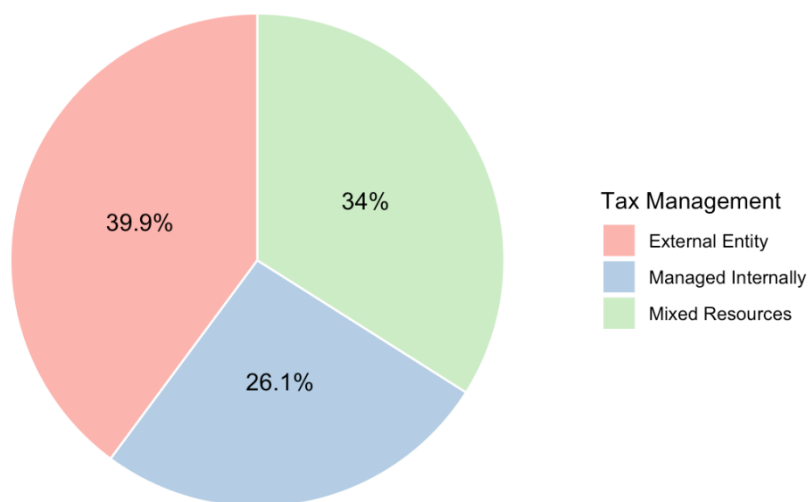


Figure 19- Pie Chart: Tax Management

4.2.2 Tax Policy and Business Decision-Making

Tax Policy as a Barrier to Starting a Business (Q11)

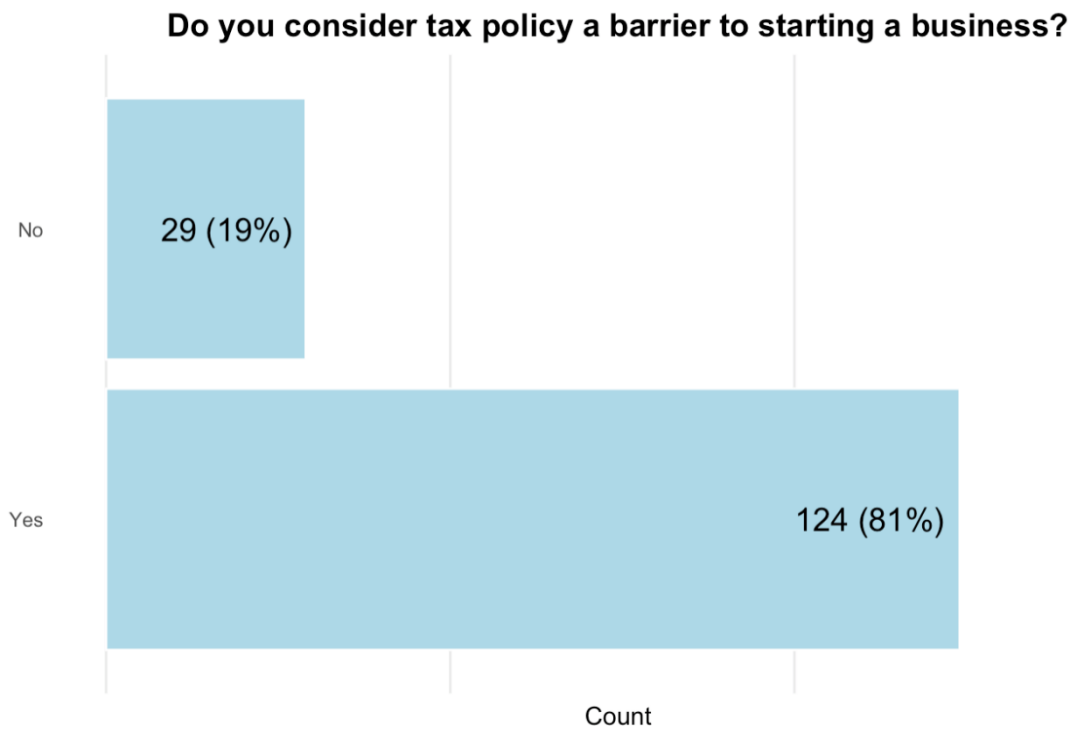


Figure 20- Bar Chart: Tax Policy as a Barrier to Starting a Business

The graph showed that the majority of respondents (81%) considered tax policy to be a significant barrier to starting a business in Portugal, reflecting a consensus on the negative impact of the current tax system on the decision to start a business.

This finding underscores the perceived weight of the current tax system on entrepreneurial ambitions, suggesting that tax-related challenges are not isolated but rather a widespread concern within the entrepreneurial ecosystem. The data not only reflects a significant barrier to entry but also raises critical questions about how tax reform could alleviate these challenges and stimulate firm formation in Portugal. The overwhelming agreement among respondents signals a need for policymakers to address these systemic barriers to create a more conducive environment for entrepreneurship.

Phases and Areas of Business Affected by Tax Policy (Q12 and Q13)

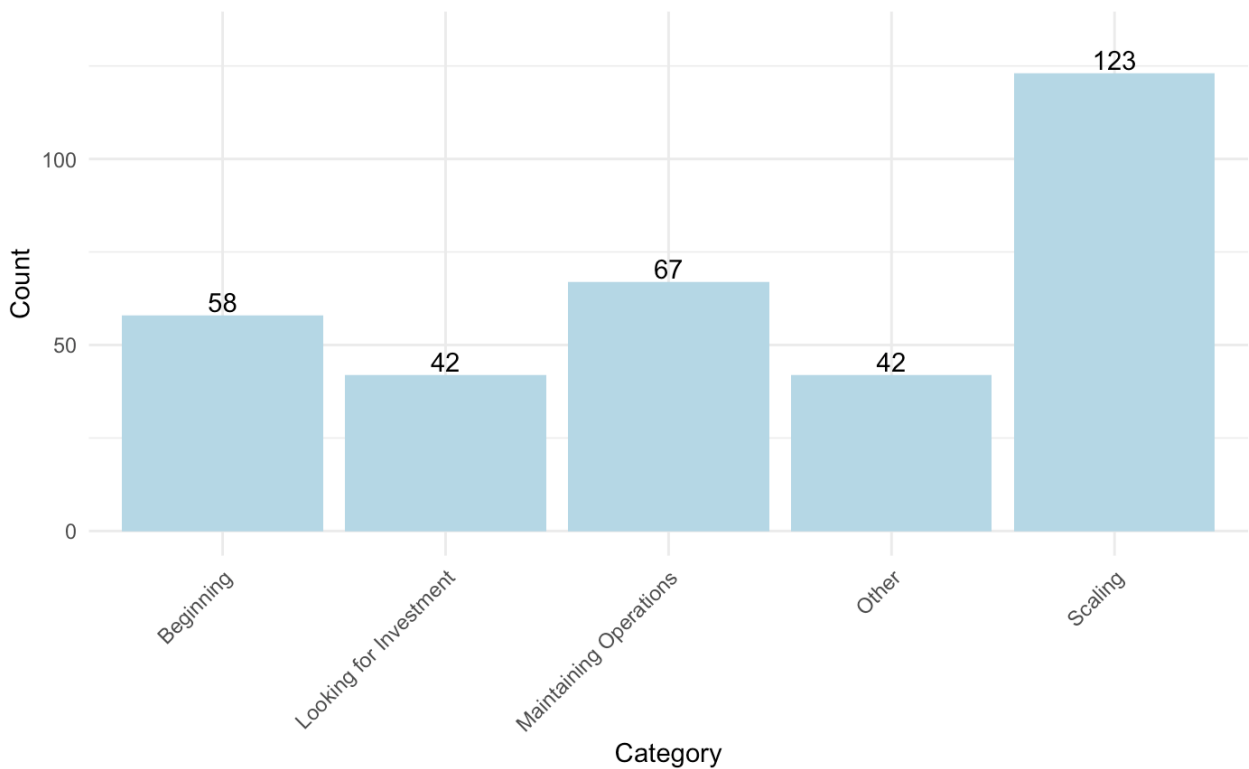


Figure 21- Bar Chart: Phase of Business Affected by Tax Policy

In this question respondents could select more than one option. This bar graph identifies *Scaling* as the phase most affected (123 selections), highlighting concerns about the impact of tax policy on business growth, which reinforced the findings of Chapter 4.1. *Maintaining Operations* (67 selections) and the *Beginning* (58 selections) also appeared to be impacted areas. *Looking for investment*, on the other hand, received fewer selections (42), suggesting a less significant tax impact in this area compared to the operation and growth phases.

| Category | Percentage |
|--|------------|
| Attracting external investment or financing. | 5.23 |
| Cost of complying with tax regulations and administrative burdens. | 18.30 |
| Employing and retaining talent (e.g., social security contributions, employee benefits). | 45.10 |
| Managing operational costs (e.g., VAT, corporate taxes). | 22.88 |
| Re-investing company profits into growth opportunities. | 8.50 |

Figure 22- Table: Areas of Business Affected by Tax Policy

The table provides a clear evidence of business areas perceived to be affected by tax policy, highlighting the distribution of impacts between various categories. The greatest impact seen was in the category “Employing and retaining talent,” which accounted for 45.10% of responses, emphasizing the significant weight of social security contributions and employee benefits in companies. Next, “Managing operating costs” accounted for 22.88%, underlining challenges associated with VAT and corporate taxes. “Cost of complying with tax regulations and administrative burdens” impacted 18.30%, indicating the considerable complexity in regulatory compliance. Smaller impacts were recorded in “Reinvesting company profits” (8.50%) and “Attracting foreign investment” (5.23%), suggesting that these areas were relatively less constrained by tax policies.

Promoters of Entrepreneurship (Q14)

| Category | Percentage |
|---|------------|
| Exemptions or reductions in VAT for specific activities or industries. | 7.19 |
| Other | 8.50 |
| Reduced corporate tax rates for startups or SMEs (Small and Medium Enterprises) | 35.29 |
| Simplified tax regimes for small businesses (e.g., Regime Simplificado). | 25.49 |
| Tax credits for reinvestment of profits (e.g., Dedução por Lucros Retidos e Reinvestidos - DLRR). | 9.80 |
| Tax incentives for R&D and innovation (e.g., SIFIDE - Sistema de Incentivos Fiscais à I&D Empresarial). | 13.73 |

Figure 23- Table: Promoters of Entrepreneurship

The table showed the results for “Q14: *What specific aspects of tax policy do you believe can promote entrepreneurship.*” Reduced tax rates for startups and SMEs (35.29%) and simplified tax regimes (25.49%) were the main factors held to promote entrepreneurship. Incentives for R&D (13.73%) and tax credits for reinvesting profits (9.80%) were also relevant, while VAT exemptions (7.19%) had less impact. The analysis highlights the importance of simplifying and easing the tax burden to foster entrepreneurship in Portugal.

Impact on Business Strategy and Relocation (Q15 and Q16)

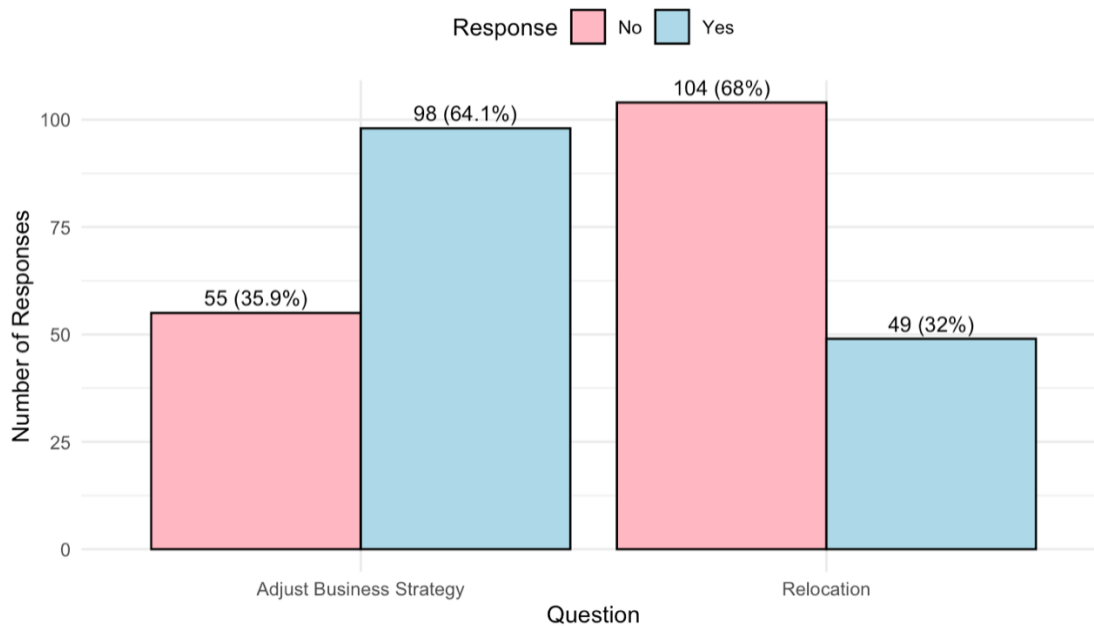


Figure 24- Bar Chart: Impact on Business Strategy and Relocation

This graph illustrates the answers to the questions: “Q15: *Have you ever adjusted your business strategy based on tax incentives or policies?*” and “Q16: *Have you ever considered relocating your business or operations due to tax policy?*” The majority respondents (64.1%) answered “Yes” to Q16, demonstrating that tax policies have a significant influence on business strategies. On the other hand, 68% of respondents answered “No” to Q17, indicating that tax policies generally were not a decisive factor in business relocation decisions.

These results point to the fundamental role of tax incentives and policies in defining business strategies. However, they also revealed that while these measures can drive strategic adjustments, they have limited influence on decisions to relocate operations.

For respondents who answered “Yes” to Q16 on relocation, there was a follow-up question asking “If you answered yes to the last question, to **where**?” The locations most mentioned were: USA (8), Ireland (8), Estonia (8), Emirates/Dubai/UAE (6), Malta (5) and Madeira (5).

4.2.3 Behavior and Perception

The Likert scale questions were designed to assess respondents' perceptions in five dimensions: the overall impact of tax policy on business activity (Q18), the complexity of the Portuguese tax system

(Q19), trust in the Portuguese tax authorities (Q20), the authorities' efficiency in ensuring tax compliance (or *power of enforcement*) (Q21) and their view on tax planning as a dynamic capability (Q22). Using a scale from 1 to 10, the answers were analysed as interval data, based on evidence that aggregate data from Likert scales approximate interval-level measurements, allowing for parametric statistical analysis (Norman, 2010; Carifio and Perla, 2008).

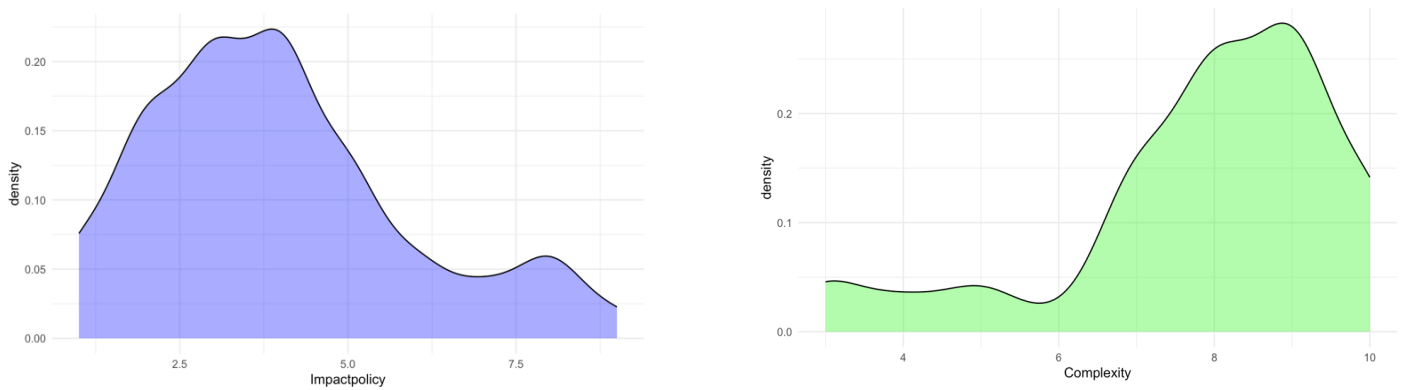


Figure 26- Density Plot: General Impact of Tax Policy and Complexity of the Tax System

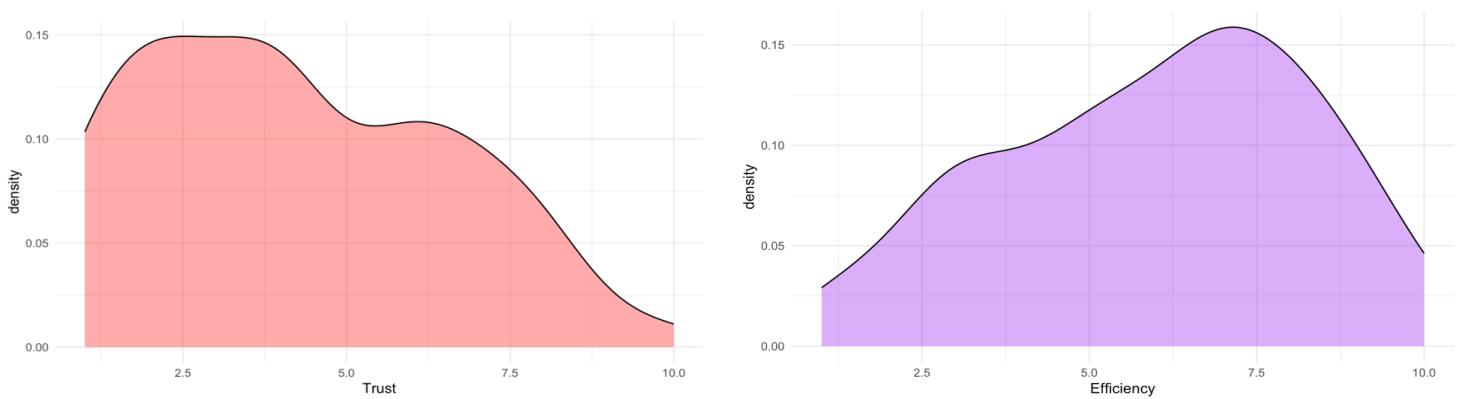


Figure 25- Density Plot: Trust in Tax Authorities and Efficiency in Ensuring Tax Compliance

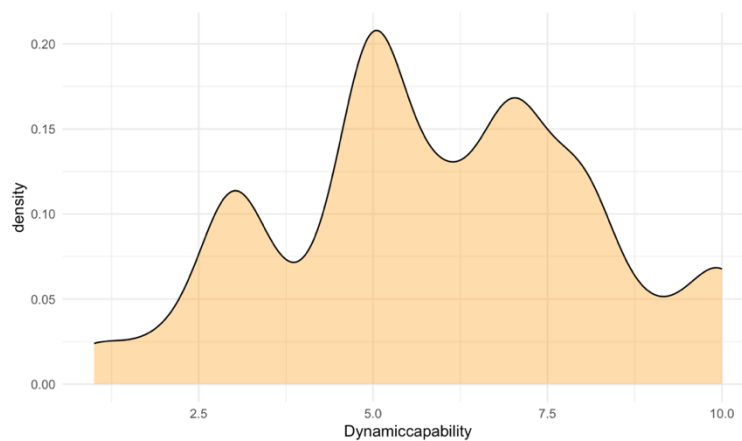


Figure 27- Density Plot: Tax Planning as a Dynamic Capability

| Overall Impact of Public Policy (Q18) | | Complexity of Tax System (Q19) | | Trust in Tax Authorities (Q20) | | Efficiency of Tax Authorities (Q21) | | Dynamic Capability (Q22) | |
|---------------------------------------|------|--------------------------------|------|--------------------------------|------|-------------------------------------|------|--------------------------|------|
| Mean | Sd. | Mean | Sd. | Mean | Sd. | Mean | Sd. | Mean | Sd |
| 3.95 | 1.95 | 7.85 | 1.82 | 4.24 | 2.32 | 5.97 | 2.32 | 5.92 | 2.24 |

Figure 28- Table: Mean and Standard Deviation of Variables of Behaviour and Perception

Respondents' perceptions of the tax system and its impact on entrepreneurial activities revealed both positive and negative insights. The general impact of public policies on entrepreneurship was seen as negative (mean = 3.95, SD = 1.95), reflecting unclear benefits for businesses, while the complexity of the tax system (mean = 7.85, SD = 1.82) emerged as a significant barrier. Trust in the tax authorities was moderately low (mean = 4.24, SD = 2.32), revealing fragmented perceptions that can compromise voluntary compliance. On the other hand, the efficiency of the authorities was moderately positive (mean = 5.97, SD = 2.32). The perception of tax planning as a dynamic capability (mean = 5.92, SD = 2.23) showed significant variations, which could point out to the differences in resources referred in Chapter 4.1.

Shapiro-Wilk Normality Test

The assumption of normality is fundamental for the validity of many parametric tests, such as the t-test and ANOVA. Violations of this assumption can lead to incorrect conclusions, as the test statistics may no longer follow their expected distributions (Hubbard, 1978). However, when the normality assumption is significantly violated, non-parametric alternatives, such as the Kruskal-Wallis test, are recommended as these do not rely on the assumption of normality.

| Shapiro-Wilk Normality Test Results | | |
|--|--------------------|----------------|
| Variable | W-Statistic | P-Value |
| General Impact of Policy | 0.92507 | 3.657e-07 |
| Complexity of Tax System | 0.84591 | 2.214e-11 |
| Trust in Tax Authorities | 0.93956 | 3.999e-06 |
| Efficiency of Tax Authorities | 0.95618 | 9.366e-05 |
| Dynamic Capability | 0.96117 | 0.0002691 |

The Shapiro-Wilk normality tests for all variables indicated significant deviations from normality, with p-values far below the threshold of 0.05. This implied that the data for all variables did not follow a normal distribution. Among these, "Complexity" exhibited the most pronounced non-normality, with the lowest W-statistic (0.84591) and p-value (2.214e-11), suggesting substantial variability or extreme responses. On the other hand, "Dynamic Capability" and "Efficiency" were closer to normality but still deviated significantly, hinting at some underlying patterns or biases in the data. Given the non-normality, standard parametric statistical methods may not be appropriate for analysing these variables.

Kruskal-Wallis Test

The Kruskal-Wallis test was chosen for this analysis due to its suitability for evaluating whether there were statistically significant differences in the dependent variable **General Impact of Tax Policy** (*Impactpolicy_numeric*) across multiple independent categorical variables. This non-parametric test is particularly appropriate given the nature of the data, as it does not assume normality of the dependent variable, making it robust for ordinal or non-normally distributed variables, such as Likert-scale responses transformed into numeric or grouped categories.

In this context, the Kruskal-Wallis test allowed us to systematically evaluate whether different groups within each independent variable (e.g., levels of **Trust**, **Efficiency**, or demographic categories like **Age** and **Gender**) were associated with significant variations in the dependent variable. Grouping

continuous variables into categories (e.g., "Low," "Medium," and "High") further ensured consistency with the assumptions of the test, as it required the independent variables to be categorical.

This methodology was chosen to explore potential patterns in the data without imposing strict parametric assumptions, providing insights into the relationships between independent variables and the dependent outcome. The test results guided the identification of factors that meaningfully influence perceptions of impact policy, setting the stage for more refined analyses in subsequent stages of the research.

| Dependent <fctr> | Independent <fctr> | P_Value <dbl> |
|----------------------|-----------------------|------------------|
| Impactpolicy_numeric | Age | 0.0729749859 |
| Impactpolicy_numeric | Gender | 0.2471431847 |
| Impactpolicy_numeric | Ncompanies | 0.5407650975 |
| Impactpolicy_numeric | Econviews | 0.0482027926 |
| Impactpolicy_numeric | Industry | 0.2002558630 |
| Impactpolicy_numeric | Companystage | 0.9049833434 |
| Impactpolicy_numeric | Annualrevenue | 0.6852314934 |
| Impactpolicy_numeric | Managertax | 0.6573106396 |
| Impactpolicy_numeric | Barrierstart | 0.0072092530 |
| Impactpolicy_numeric | Areaimpact | 0.6720727988 |

| Dependent <fctr> | Independent <fctr> | P_Value <dbl> |
|----------------------|---------------------------|------------------|
| Impactpolicy_numeric | Adjustbusiness | 0.7413378651 |
| Impactpolicy_numeric | Relocation | 0.6071342357 |
| Impactpolicy_numeric | Efficiency_grouped | 0.0228311038 |
| Impactpolicy_numeric | Complexity_grouped | 0.0597942178 |
| Impactpolicy_numeric | Dynamiccapability_grouped | 0.9321820504 |
| Impactpolicy_numeric | Trust_grouped | 0.0002504924 |
| Impactpolicy_numeric | Taxliteracy_grouped | 0.0418478625 |

Figure 29: Kruskal-Wallis Test: Tax Policy Impact Perception

The Kruskal-Wallis tests conducted for the dependent variable **General Impact of Tax Policy** against a range of independent variables revealed several key insights. Among the grouped Likert-scale variables, **Efficiency** ($p = 0.02283$), **Trust** ($p = 0.00025$), and **Tax Literacy** ($p = 0.04185$) showed statistically significant differences, indicating that these factors have a meaningful influence on the perceptions of impact policy. Notably, **Trust** exhibited a highly significant result, suggesting a particularly strong relationship.

Additionally, among the other categorical variables, **Economic Views** (*Econviews*) ($p = 0.0482$) and **Business as a Barrier to Start a Business** (*Barrierstart*) ($p = 0.0072$) were statistically significant. This indicated that economic perspectives and perceived barriers to starting a business also played a role in shaping perceptions of impact policy. In contrast, variables such as **Age**, **Complexity**, and **PhaseImpact** showed marginal significance (p -values slightly above 0.05), suggesting weak or inconclusive evidence of an effect. Other variables, including **Gender**, **Ncompanies**, **Industry**, and **Relocation**, exhibited no significant differences, implying limited or no influence on **General Impact of Tax Policy** (*Impactpolicy_numeric*).

These findings highlight the importance of factors such as **trust**, **efficiency**, **tax literacy**, **economic views**, and **perceived barriers** in shaping views on impact policy, while **demographic and organizational variables** appear to have a lesser role.

Spearman’s Rank Correlation Coefficient Test

After identifying significant relationships between **General Impact of Tax Policy** and various independent variables using the Kruskal-Wallis test, we conducted the Spearman’s rank correlation coefficient test as a follow-up. The rationale for this follow-up is that the Kruskal-Wallis test only determines whether there are significant differences in the dependent variable across groups of the independent variables. It does not provide insights into the direction (positive or negative) or the strength of the relationship. Spearman’s correlation, being a non-parametric test, is suitable for measuring the strength and direction of monotonic relationships between ordinal variables, such as Likert scales, and the dependent variable.

| Variable | Spearman’s rank correlation coefficient test |
|----------------|--|
| Efficiency | 0.1050394 |
| Trust | 0.3907319 |
| Tax Literacy | -0.0752559 |
| Economic Views | -0.1827588 |

Figure 30: Spearman's Rank Correlation Coefficients

The results of Spearman's rank correlation coefficient analysis provide deeper insights into the relationships between the independent variables and the **General Impact of Tax Policy** variable.

Among the variables analysed, **Trust** showed the strongest positive correlation ($c = 0.390$), indicating that higher levels of trust in the fiscal authorities are moderately associated with more positive perceptions of the impact of fiscal policies. **Efficiency** showed a very weak positive correlation ($c = 0.105$), suggesting a minimal association between perceptions of the efficiency of policies and their perceived impact. In contrast, **Tax Literacy** ($c = -0.075$) and **Economic Views** ($c = -0.183$) showed weak negative correlations, indicating that higher levels of fiscal literacy and stronger preferences for free market ideologies are associated with slightly lower perceptions of the impact of fiscal policies. These results suggested that trust is the most relevant factor in influencing perceptions of the impact of fiscal policies, while the effects of efficiency, fiscal literacy and economic views were less pronounced.

Tax Evasion and Tax Avoidance (Q24 and Q25)

The design of Questions 24 and 25 aimed to indirectly probe respondents' engagement with and perceptions of tax-related practices without eliciting overt admissions or defensive responses. Question 24, which inquired about the frequency of actions to minimize tax liabilities involving unconventional interpretations of regulations, was supposed to capture the frequency of ethically ambiguous practices. The phrasing was carefully chosen to avoid direct implications of wrongdoing while encouraging honest reflection on corporate behaviors. Similarly, Question 25 explored industry-wide perceptions of tax avoidance strategies, leveraging the social norm effect to understand how respondents contextualize their own practices within broader industry standards. This dual focus allowed for an exploration of both individual behaviors and collective industry culture, providing a more holistic understanding of tax efficiency dynamics while minimizing response bias.

The responses to Q24, as visualized in *Figure 29*, revealed a noteworthy distribution. While a plurality (42.5%) admitted to “occasionally” engaging in tax-minimizing practices involving unconventional regulatory interpretations, smaller but significant proportions reported “frequently” (18.3%) or “always” (4.6%) doing so. This means that a combined total of **65.4% of respondents have, in some way, engaged in practices aimed at avoiding taxes**, highlighting the prevalence of such behavior among the surveyed entrepreneurs. Conversely, 34.7% claimed they engage in such practices either “rarely” or “never.” This dispersion suggests a divided landscape where tax minimization strategies are neither universally embraced nor entirely avoided. The high proportion of “occasional” responses

may indicate either a strategic use of such practices as a situational tool or a reluctance to provide definitive answers due to the sensitivity of the subject.

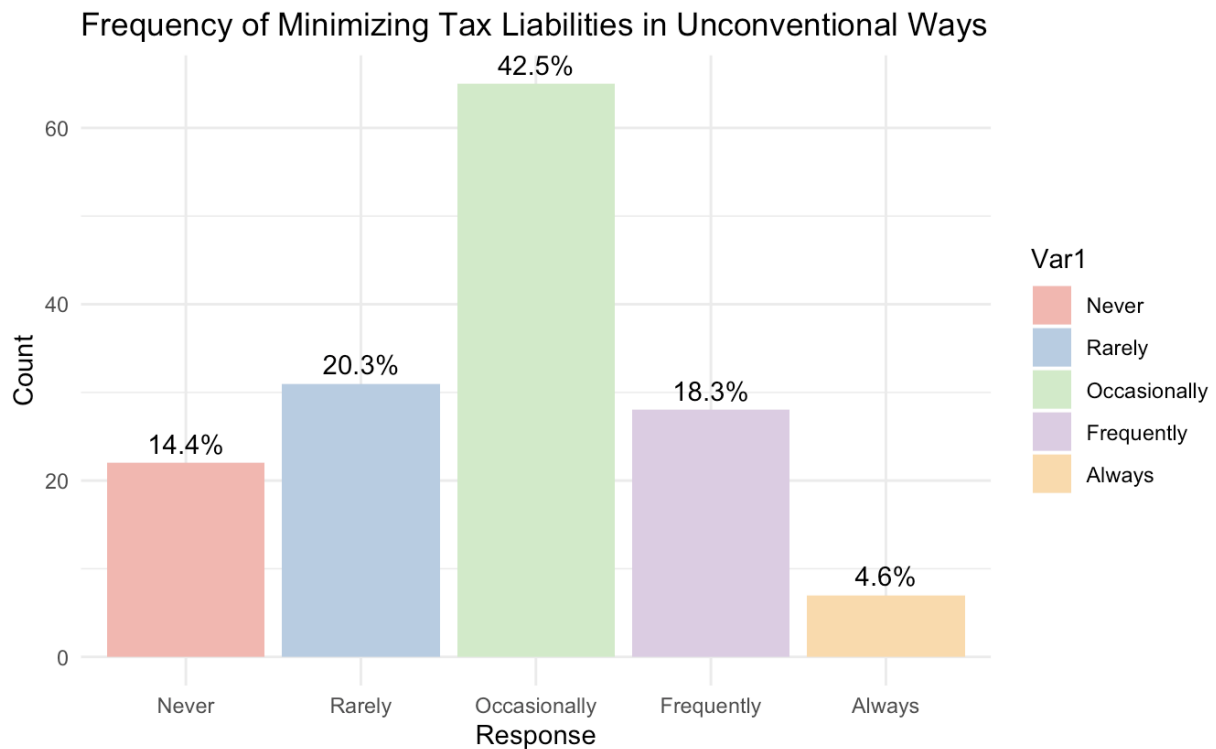


Figure 31- Bar Chart: Tax Evasion Proxy Question

In Figure 30, responses to Q25 underscored a perception of tax avoidance strategies as prevalent within industries, with over two-thirds of respondents identifying them as “common” (36.6%) or “very common” (32.7%), which combined account for 69.3% of respondents. This pervasive perception may reflect a normalization of such practices, potentially pressuring firms to conform to industry norms to remain competitive. Interestingly, the 15.7% who viewed such strategies as “rare” and the 7.8% who deemed them “very rare” suggested the presence of sectors or respondents with a stricter adherence to regulatory frameworks or differing cultural attitudes toward tax avoidance.

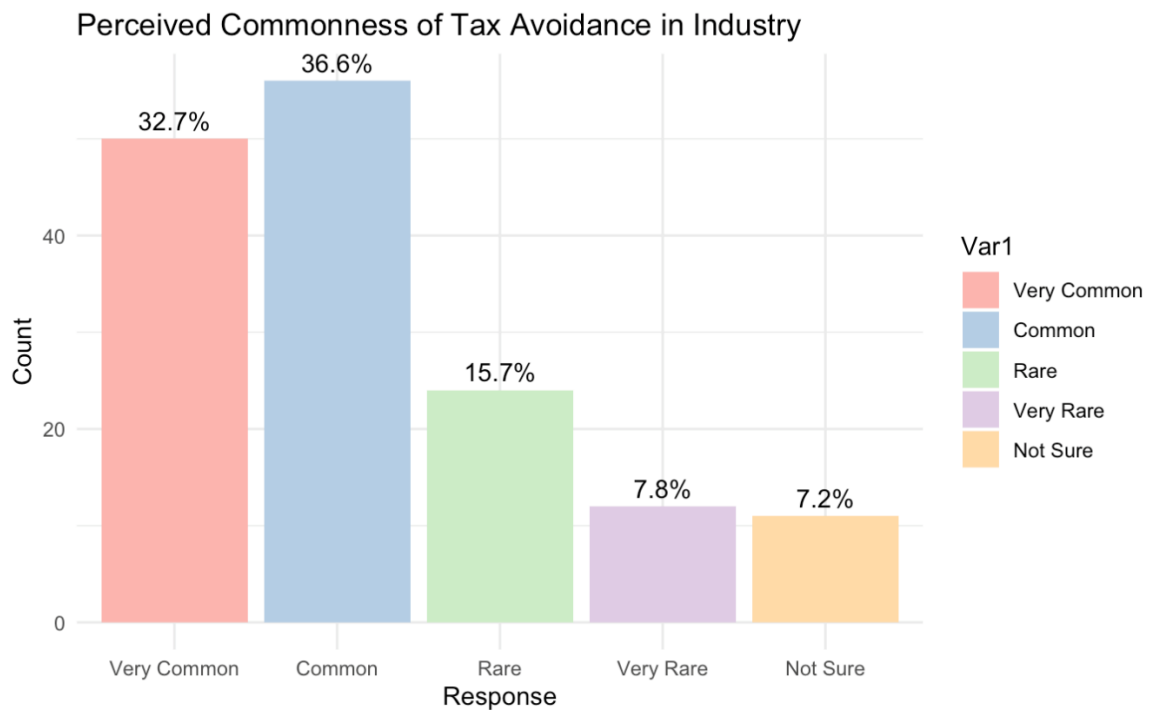


Figure 32- Bar Chart: Perceived Commonness of Tax Avoidance

Despite utilizing various logistic regression models in R to analyse the data, the results were largely inconsistent and often lacked statistical significance across different iterations. A plausible explanation for this outcome lies in the characteristics of the sample size and data distribution. Firstly, the limited sample size inherently restricts the statistical power of the models, making it more challenging to detect meaningful relationships between variables (Peduzzi et al. 1996). When the sample is small, even genuine effects may go undetected due to insufficient data points to robustly estimate coefficients.

Additionally, inconsistency in the results may arise from multicollinearity among predictor variables or an uneven distribution of responses across the categories of the dependent variable. Such issues could lead to unstable parameter estimates, particularly when the model attempts to generalize relationships from insufficient or unbalanced data (Senaviratna and A. Cooray 2019).

Furthermore, the ordinal nature of the dependent variable adds complexity to the modelling process, as it necessitates assumptions about the proportional odds across categories. Deviations from this assumption or variability in how respondents interpret ordinal scales could contribute to variability in the results. Lastly, the heterogeneity in industry-specific practices and the exploratory nature of the

analysis may further complicate identifying consistent patterns, as nuanced behaviors might not align uniformly across sectors or sample subsets.

These factors collectively remind us of the limitations of small sample studies in providing reliable, generalizable insights, emphasizing the need for caution in interpreting results and recommending replication with larger, more balanced datasets to validate findings.

Portugal’s Competitiveness in the EU (Q26)

The results for Q26, “Compared to other EU countries, how competitive do you find Portugal’s tax policy for entrepreneurs?” reveal a polarized perception. A combined 43% of respondents perceived Portugal’s tax policy as “less competitive” or “much less competitive,” while 38.5% remained neutral, viewing it as “about the same.” Only 17% and 21.5% of respondents viewed it as “slightly more competitive” or “much more competitive,” respectively. These figures suggested that while some entrepreneurs acknowledged efforts to improve competitiveness, a significant portion continued to view the tax environment as a constraint compared to other EU nations.

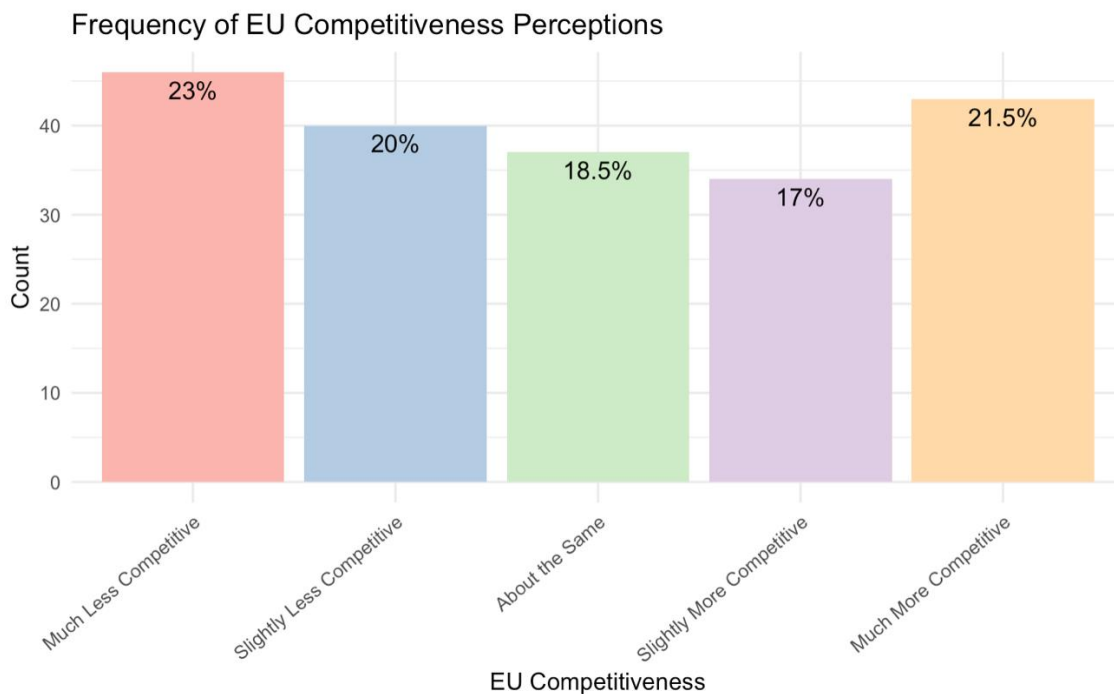


Figure 33- Bar Chart: Frequency of EU Competitiveness Perceptions

EU Competitiveness

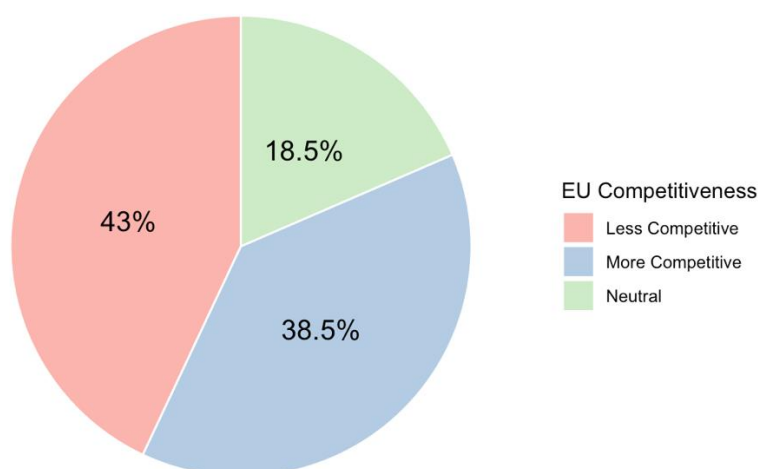


Figure 34- Pie Chart: EU Competitiveness Perceptions

The economic forecasts from the European Commission for Portugal and the EU, as shown in the tables (Table 33; Table 34), offer valuable context for understanding the polarized perceptions of Portugal’s tax competitiveness in Q27. Portugal’s projected GDP growth rates—1.7% in 2024, 1.9% in 2025, and 2.1% in 2026—slightly outperform the EU averages of 0.9%, 1.5%, and 1.8%, respectively, highlighting moderate resilience in the Portuguese economy. However, Portugal’s gross public debt remains significantly higher (95.7% of GDP in 2024, declining to 90.5% in 2026) compared to the EU average of approximately 83%, reflecting a fiscal burden that may weigh heavily on entrepreneurs’ perceptions of competitiveness. The inflation trajectory is slightly more favourable, with Portugal expected to see lower inflation than the EU average by 2026, offering some optimism for economic stability.

These mixed signals align with the polarized views among respondents. While Portugal’s growth rates and inflation outlook suggest a relatively stable economic environment, the high public debt and slower improvements in structural competitiveness may fuel scepticism, as noted by respondents who viewed the tax system as “less competitive” or “much less competitive.” This is further supported by unemployment rates that remain higher, at 6.4% in 2024, compared to the EU’s 6.1%, adding to the perception of systemic challenges that impact competitiveness. Overall, the data reflects an economic scenario where Portugal performs on par with or slightly better than EU averages in growth and inflation but continues to struggle with fiscal and structural inefficiencies.

| Indicators | 2024 | 2025 | 2026 |
|---------------------------------------|------|------|------|
| GDP growth (% , yoy) | 1,7 | 1,9 | 2,1 |
| Inflation (% , yoy) | 2,6 | 2,1 | 1,9 |
| Unemployment (%) | 6,4 | 6,3 | 6,2 |
| General government balance (% of GDP) | 0,6 | 0,4 | 0,3 |
| Gross public debt (% of GDP) | 95,7 | 92,9 | 90,5 |
| Current account balance (% of GDP) | 0,9 | 0,6 | 0,4 |

Figure 35- Table: European Commission's economic forecast of Portugal

| Indicators | 2024 | 2025 | 2026 |
|---------------------------------------|------|------|------|
| GDP growth (% , yoy) | 0,9 | 1,5 | 1,8 |
| Inflation (% , yoy) | 2,6 | 2,4 | 2,0 |
| Unemployment (%) | 6,1 | 5,9 | 5,9 |
| General government balance (% of GDP) | -3,1 | -3,0 | -2,9 |
| Gross public debt (% of GDP) | 82,4 | 83,0 | 83,4 |
| Current account balance (% of GDP) | 3,6 | 3,4 | 3,3 |

Figure 36- Table: European Commission's economic forecast of EU

Entrepreneurs' Perspectives on Tax Policy Reforms in Portugal (Q27)

These insights were gathered from responses to an open-ended question (Q27): *What do you believe is the single biggest change in tax policy that could positively impact entrepreneurs in Portugal?* The feedback from entrepreneurs, which can be consulted in detail in *Appendix E: Entrepreneurs' Perspectives on Tax Policy Reforms in Portugal*, provided insights into the pressing issues and potential solutions for improving Portugal's tax framework to foster entrepreneurial activity. The predominant themes emerging from their responses underline the significance of lower tax burdens, simplification of the tax system, and targeted support for SMEs and startups.

One of the most emphasized areas was the **reduction of corporate income tax (IRC)**. Entrepreneurs consistently called for a substantial reduction in IRC rates, with suggestions to follow international

examples such as Ireland's 12.5% corporate tax rate. The introduction of progressive tax brackets based on company size, profit levels, or reinvestment strategies was also recommended as a way to incentivize growth and job creation.

Another recurring theme was the need for **tax exemptions or substantial reductions for startups during their formative years**. Entrepreneurs argued that reduced financial pressure in the early stages could provide the necessary breathing space for businesses to establish themselves and scale. Coupled with this was the demand for simplifying tax compliance processes, as the current system was seen as overly complex and time-consuming. The feedback indicated that administrative burdens often outweigh the actual tax burden, diverting valuable resources away from core business activities.

Further insights highlighted the impact of **VAT and social security contributions**. Entrepreneurs emphasized the need to lower VAT rates, particularly in critical sectors like energy, telecom, and construction. Reducing social security contributions, especially for startups and newly hired employees, was viewed as a critical step toward improving hiring potential and employee retention.

Finally, **stability and predictability** in tax policies were stressed as critical factors. Entrepreneurs noted that frequent changes in tax regulations create uncertainty, hindering long-term business planning. By addressing these concerns, Portugal could foster a more dynamic and equitable entrepreneurial ecosystem.

5. Conclusion

5.1 Main Findings – Triangulation of Results

One of the central themes emerging from this study is 'tax burden,' a topic frequently oversimplified in public discourse, but requiring a more nuanced analysis. Many entrepreneurs and some experts advocate for a significant generalized reduction in corporate taxes (IRC), and most literature demonstrates that high corporate taxes are associated with reduced innovation, foreign investment, entrepreneurship, and firm formation. Ireland's success in leveraging lower corporate taxes to attract businesses and drive economic growth was repeatedly cited during this research. Furthermore, 81% of respondents identified tax policy as a barrier to starting a business in Portugal, a statistic that highlights the severity of the issue.

However, the risks of a generalized reduction in IRC cannot be ignored. There is limited empirical evidence to conclusively prove that significant tax cuts consistently deliver long-term benefits. Perception studies suggest potential cognitive biases among entrepreneurs when assessing tax policy. While lowering IRC could theoretically attract more businesses and increase revenues in the long term, it also poses risks to fiscal stability in the short term. For example, corporate taxes accounted for 14% of Portugal's fiscal revenue in 2020, while personal income taxes contributed 30%, according to the Direção-Geral do Orçamento (DGO). These percentages underscore the delicate balance between fiscal sustainability and the need for tax reforms.

Cultural and economic contexts further amplify these challenges. Portugal's economic fragility exacerbates the burdens of its tax system, particularly during crises or periods of stagnation. Additionally, cultural skepticism toward taxation and entrepreneurship, coupled with perceived inequities in the system, complicates compliance and hinders reform efforts. To be effective, tax policies must not only be efficient but also perceived as fair, addressing these systemic challenges comprehensively. Survey results reflect these complexities, revealing a polarized perception of Portugal's competitiveness within the EU. While 43% of respondents view Portugal as less competitive, 38% believe it is more competitive. Interestingly, economic forecasts from the European Commission present a more optimistic outlook: Portugal's GDP growth rates have outperformed EU averages, and inflation projections indicate gradual improvement. These findings suggest some resilience in the Portuguese economy, despite its structural fiscal challenges.

This study also provided key insights into measures that could promote entrepreneurship in Portugal. Two major themes emerged: reducing tax rates for startups and SMEs (supported by 35.29% of respondents) and simplifying tax regimes (endorsed by 25.49%). Experts and entrepreneurs highlighted how tax policy disproportionately affects smaller companies with fewer resources. The complexity of the tax system—reflected in a mean score of 7.85 out of 10 in the survey—along with the associated compliance costs, were identified as significant barriers to entry. In contrast, larger companies, with greater resources, are better positioned to benefit from innovation subsidies, R&D tax credits, and other incentives. These opportunities often remain inaccessible to smaller, resource-constrained businesses, particularly during their formative years.

Policy Suggestions:

- 1. Targeted IRC Reductions:** Introduce reduced IRC rates specifically for the formative years of a business, up to a certain revenue threshold. This approach would alleviate the financial pressures on new businesses without undermining fiscal sustainability.
- 2. Simplify Access to Incentives:** Eliminate unnecessary bureaucratic barriers in applying for tax credits and subsidies. Tools such as AI and digital platforms could be used to make fiscal language more easy to understand, making these incentives more accessible to all businesses, regardless of size.

One of the most significant barriers to business growth identified in this study is the impact of tax policy on employing and retaining talent, with 45.10% of respondents marking this as the most affected area. High social contributions and personal income tax rates (IRS) burden businesses during their scaling phase, creating financial strain that inhibits their ability to compete for and retain top talent. This issue is further compounded by the lack of flexibility in Portugal's tax structures, which fails to adequately address the needs of dynamic and rapidly growing companies.

The state of tax compliance and trust in institutions also presents significant challenges. The mean trust score in tax authorities is a mere 4.24 out of 10, while the overall perception of the tax system fares even worse at 3.95%. Findings align with the Slippery Slope Framework, which posits that tax compliance is influenced by a balance between trust in authorities and enforcement power. In Portugal, enforcement efficiency scored moderately positive at 5.97, but we observe low trust and troubling behaviors: 65.4% of respondents admitted to engaging in unconventional methods to minimize tax liabilities, and 69.3% perceive tax evasion as common or very common in their industry. This reinforces the framework's premise that diminished trust results in lower compliance, necessitating greater enforcement.

Addressing these issues requires fostering transparency, predictability, and perceived fairness in the tax system to rebuild trust and shift the balance from enforcement-driven compliance to voluntary cooperation.

Framing Tax Planning as a Dynamic Capability

A novel contribution of this thesis is the proposition that tax planning can be conceptualized as a dynamic capability. Building on Barreto's (2010) framework, dynamic capabilities reflect a firm's ability to sense opportunities, make market-oriented decisions, and reconfigure resources in response to changes. Traditionally viewed as a compliance-oriented function, tax planning can instead be seen as a strategic tool for adapting to fiscal and regulatory shifts.

Key Characteristics of Tax Planning as a Dynamic Capability:

- **Sensing Opportunities:** Proactively identifying fiscal changes, new incentives, or international agreements that can be leveraged for strategic advantage.
- **Market-Oriented Decision-Making:** Aligning tax strategies with broader objectives such as market expansion, R&D investment, or sustainability transitions.
- **Resource Reconfiguration:** Optimizing financial arrangements, organizational structures, and operational processes to achieve favorable tax outcomes. Examples include setting up subsidiaries in tax-friendly jurisdictions or leveraging transfer pricing mechanisms.

For firms with robust tax planning capabilities, this approach goes beyond cost minimization to become a strategic tool for maintaining competitive advantage in increasingly transparent and dynamic fiscal environments. However, this capability is unevenly distributed, with larger firms far more adept at utilizing it than smaller businesses.

5.2 Limitations

This study is subject to several limitations. First, the use of non-probability sampling may restrict the generalizability of the findings, as the sample may not fully represent the broader population of entrepreneurs in Portugal. Additionally, reliance on self-reported data introduces the potential for response biases, where participants' perceptions and interpretations may deviate from objective realities, particularly regarding sensitive topics such as compliance and tax planning.

Second, while the study employed robust descriptive and inferential statistical methods, the absence of advanced analytical techniques, such as regression modeling or structural equation modeling, limited the ability to explore causal relationships. This constraint was particularly evident when examining the factors influencing compliance behaviors, which would benefit from a more nuanced and causal-focused analysis.

Finally, the study's scope did not permit an in-depth sectoral analysis. A more granular examination of specific industries could have provided richer insights into how tax policy affects various sectors differently. Consequently, while the findings offer valuable overarching insights, they may not fully reflect the unique dynamics and challenges faced by specific industries.

These limitations highlight opportunities for future research to build upon this work, employing probabilistic sampling, more advanced analytical techniques, and sector-specific approaches to deepen the understanding of tax policy's impact on entrepreneurial activity.

5.3 Future Research

This study opens several avenues for future research. First, there is a need for more in-depth studies on the impact of tax cuts within the European context, focusing on both their short- and long-term effects on entrepreneurship, innovation, and fiscal sustainability. Such research could help clarify whether generalized tax reductions deliver the desired economic outcomes or if targeted measures are more effective.

Future studies could also delve deeper into Ireland's and Estonia's tax reforms, examining their application to the Portuguese context and identifying potential limitations or obstacles. By analyzing these cases, researchers could explore whether their successes can be replicated in Portugal, considering the country's unique economic and cultural realities. A comparative analysis across EU countries would further enrich this understanding by identifying best practices and innovative approaches in tax policy design. For example, countries like Ireland and Scotland, frequently highlighted as models of effective tax policies, offer valuable lessons that could inform Portuguese reforms.

Additionally, advancing the conceptualization of strategic tax planning as a dynamic capability represents an exciting area for exploration. Future research could investigate how firms—particularly SMEs—develop, deploy, and refine tax planning capabilities to respond to fiscal and regulatory changes. This would involve examining the relationship between tax planning and broader business strategies, such as market expansion, sustainability transitions, and innovation investments.

Finally, sector-specific research could provide a more granular understanding of how tax policy impacts industries differently. Exploring the interplay between tax policy, compliance, and firm behavior at the sectoral level would yield insights into how reforms can be tailored to address industry-specific challenges and opportunities. These directions offer a roadmap for building on this study's findings and fostering a deeper understanding of tax policy's role in shaping entrepreneurial ecosystems.

6. Appendices

Appendix A: Interview Guide

RQ: How is Tax Policy a factor influencing Entrepreneurial Activity in Portugal?

Entrepreneurs' Perspectives on Tax Policy:

Q1: How do you believe Portuguese entrepreneurs perceive the current tax policy landscape? Are there specific areas they see as barriers or opportunities?

Q2: What role do you think trust in Portuguese tax authorities plays in shaping entrepreneurs' willingness to engage in proactive tax planning?

Impact of Tax Compliance on Entrepreneurial Decision-Making:

Q3: How do you think Portuguese entrepreneurs evaluate the risks and benefits of tax compliance when making strategic decisions?

Adapting to Regulatory Changes:

Q5: How do Portuguese entrepreneurs typically respond to changes in tax regulations?

Q6: In your view, do Portuguese entrepreneurs see tax efficiency and planning as long-term strategic investments, or are they more reactive to immediate policy changes?

Cultural and Economic Context:

Q7: How do cultural attitudes in Portugal influence entrepreneurs' approaches to tax planning and compliance?

Q8: What role do you think economic conditions in Portugal play in shaping the perception of tax policy and the importance of tax efficiency?

Perceived Fairness and Compliance Behaviour:

Q9: How do perceptions of fairness in tax policy affect the willingness of Portuguese entrepreneurs to comply with tax regulations?

Q10: Do you think Portuguese entrepreneurs differentiate between tax efficiency and tax evasion? If so, what factors influence this distinction?

Challenges and Opportunities:

Q11: Are there particular opportunities in the Portuguese tax system that entrepreneurs can leverage to enhance their competitive advantage?

Appendix B: Summary of Interviews

Interview 1: AA

AA defended that Portuguese entrepreneurs face a challenging tax system characterized by high taxes, complexity, and legislative instability. According to AA, these elements discourage investment, particularly in large companies, and create barriers for smaller businesses, which often lack the resources to respond effectively. AA criticized the progressivity in corporate taxation, arguing that it unfairly penalizes successful companies by taxing profits disproportionately, thereby undermining fair competition. Furthermore, AA emphasized that Portugal's cultural aversion to entrepreneurship and financial illiteracy hinders proactive tax planning.

AA argued that while some opportunities for tax optimization exist, they are overshadowed by the system's challenges, such as frequent changes in the IRC Code, which create uncertainty and hinder long-term planning. AA maintained that although entrepreneurs differentiate between tax efficiency and evasion, the limited incentives and lack of competitive advantages in the tax system remain significant frustrations.

Interview 2: AB

AB expressed frustration with the Portuguese tax system, describing it as overly complex and burdensome, with high rates that stifle growth. AB asserted that entrepreneurs face an adversarial relationship with tax authorities, which discourages trust and proactive planning. Startups, in particular, struggle due to resource constraints and the high costs of compliance, which detract from innovation and scaling efforts. AB further criticized the system for punishing entrepreneurs through what they perceive as double taxation on profits and withdrawals.

AB highlighted the cultural stigma around tax optimization, noting that even legitimate strategies are often viewed with suspicion. Compliance is seen as a necessary evil, and while larger companies may find ways to optimize, smaller businesses lack the tools and support to leverage opportunities. AB advocated for a more predictable tax environment to restore confidence and foster growth.

Interview 3: AC

AC presented a more optimistic view, emphasizing the progress made in creating a tax environment that supports innovation and entrepreneurship. AC highlighted initiatives such as the SIFIDE tax

credit and simplified compliance processes, which encourage entrepreneurs to adopt proactive and strategic tax planning. AC also credited digitalization efforts with improving trust in tax authorities, fostering a sense of collaboration between businesses and the state.

However, AC acknowledged that challenges remain, particularly for SMEs, which often lack the resources to fully benefit from incentives or engage in long-term planning. AC pointed to opportunities such as R&D incentives and export-oriented benefits but noted that bureaucratic barriers and limited awareness prevent their full utilization. AC expressed confidence in a new generation of entrepreneurs who view tax efficiency as a key driver of growth and competitiveness.

Interview 4: AD

AD criticized the Portuguese tax system as unbalanced, arguing that it prioritizes state revenue over economic efficiency. AD highlighted the high tax burden and systemic complexity as key factors discouraging productive activity. According to AD, mistrust between entrepreneurs and tax authorities stems from the latter's punitive approach, which discourages proactive tax planning and fosters an adversarial relationship. AD advocated for tax guidance programs to help businesses validate planning strategies without fear of penalties.

AD argued that economic conditions, particularly during periods of stagnation, amplify the burdens of the tax system, making compliance feel like a disproportionate weight. AD stressed that perceptions of fairness in tax policy significantly affect entrepreneurs' willingness to comply, with many viewing the system as arbitrary and unjust. AD maintained that tax ambiguity forces most businesses into a reactive stance, complicating strategic planning for all but the most resourceful companies.

Interview 5: AE

AE criticized the Portuguese tax system as an obstacle to growth, citing high corporate tax rates and the disproportionate tax burden as key barriers to competitiveness. AE advocated for reforms, such as reducing the IRC to 15%, to align Portugal with more competitive economies. AE also highlighted the lack of trust in tax authorities, stating that excessive supervision discourages legitimate tax planning and optimization efforts. Entrepreneurs often feel targeted, which diminishes their willingness to engage in proactive fiscal strategies.

AE argued that compliance costs are particularly high for smaller businesses, diverting resources away from growth and innovation. Cultural attitudes further hinder tax efficiency, as entrepreneurs

in Portugal often view tax optimization with fear of punishment rather than as a strategic practice. AE emphasized the need for cultural and systemic changes to create a business environment where tax planning is seen as a legitimate tool for competitiveness and sustainability.

Interview 6: AF

AF described the Portuguese tax system as a structural barrier to innovation, particularly for technology companies. While Portugal has attracted startups and foreign talent, AF argued that the lack of localized tax policies tailored to the innovation ecosystem prevents the country from achieving its full potential. Bureaucracy, high taxes, and slow regulatory processes frustrate entrepreneurs, who often look to relocate to more fiscally attractive countries. AF advocated for dynamic policies, such as innovation-free zones with tax benefits, to foster growth.

AF noted that trust in tax authorities is low, especially among startups and scaleups, which require speed and predictability. The lack of alignment between tax policies and the needs of innovative companies creates uncertainty, forcing entrepreneurs to adopt defensive strategies. AF argued that economic conditions in Portugal amplify the perception that the tax system penalizes growth, making tax efficiency not just a strategy but a necessity for survival in the technology sector.

Interview 7: AG

AG described Portuguese tax policy as a constant obstacle, citing high tax burdens and inflexible rules as major barriers to growth and investment. AG argued that the system's lack of competitiveness drives companies and talent to more agile economies. Trust in tax authorities is minimal, as entrepreneurs feel more policed than supported. AG highlighted the need for collaborative relationships between businesses and the state, akin to practices in more advanced economies.

AG emphasized that frequent and unpredictable tax changes create significant challenges, forcing companies into reactive and inefficient responses. The weak economic conditions in Portugal exacerbate the perception that taxes hinder rather than help recovery. AG argued that the lack of perceived fairness in the system undermines compliance, with many entrepreneurs feeling that their contributions are neither equitable nor adequately rewarded.

Interview 8: AI

AI highlighted the complexity and unpredictability of the Portuguese tax system, describing it as a significant barrier to growth and innovation. High taxation on income and corporate profits

discourages entrepreneurs, who often view compliance as a legal necessity rather than a civic duty. AI argued that frequent changes in tax regulations erode confidence and make long-term planning difficult, particularly for SMEs.

AI pointed out that cultural skepticism toward tax revenue management shapes a defensive approach to tax planning. Entrepreneurs differentiate between tax efficiency and evasion, but the lack of accessible advisory resources often limits their ability to optimize efficiently. AI stressed that while some tax incentives exist, bureaucratic hurdles and low awareness prevent businesses from leveraging these opportunities effectively.

Interview 9: AJ

AJ argued that Portuguese tax policy is one of the biggest barriers to growth, particularly due to high corporate taxes and social contributions. Entrepreneurs, especially SMEs, struggle to navigate the system due to limited resources and technical knowledge. AJ emphasized that frequent tax changes, often announced with little notice, force companies into a reactive stance, creating frustration and inefficiency.

AJ described cultural attitudes toward taxation as dual: entrepreneurs seek ways to mitigate the tax burden while fearing penalties from tax authorities. This ambiguous relationship shapes both compliance and optimization efforts. AJ noted that in times of economic stagnation, taxation becomes a survival issue for many businesses, further intensifying the perception of unfairness in the system. Entrepreneurs often feel that tax policy prioritizes state needs over fostering a competitive business environment.

Interview 10: AK

AK characterized the Portuguese tax system as overly burdensome, particularly in terms of corporate taxes and social security contributions. AK argued that trust in tax authorities is low, with entrepreneurs perceiving the system as more punitive than supportive. While larger companies may engage in structured tax planning, SMEs are more likely to adopt reactive strategies due to resource constraints and the system's unpredictability.

AK noted that cultural attitudes toward taxation are evolving, with larger businesses increasingly embracing compliance as part of their operational responsibilities. However, SMEs often remain skeptical, perceiving taxes as a significant barrier to competitiveness. AK highlighted the thin line

between tax efficiency and aggressive tax planning, stressing the importance of expert guidance to avoid crossing it. Opportunities for tax benefits exist, but their complexity often limits accessibility for smaller businesses.

Interview 11: AL

AL presented a positive perspective, emphasizing that entrepreneurs are beginning to view fiscal policies as levers for growth rather than barriers. AL highlighted efforts to simplify procedures and create targeted incentives for industries like green energy and digital transformation. These initiatives are fostering a culture where taxes are seen as investments in national development rather than costs. AL also noted that entrepreneurs increasingly recognize the importance of compliance in building credibility, especially in international markets.

AL argued that the perception of fairness in tax policy is critical to fostering voluntary compliance. Simplification and transparency efforts are helping to build trust between businesses and tax authorities. AL emphasized the importance of aligning tax strategies with innovation and sustainability objectives, which not only enhance competitiveness but also position companies as leaders in emerging economic paradigms.

Interview 12: AM

AM highlighted the opportunities in Portugal's tax system, particularly through European programs like Horizon Europe and InvestEU. However, AM noted that the national fiscal framework must evolve to complement these funds, rewarding companies that invest in R&D, digital transition, and sustainability. AM emphasized that cultural tendencies toward short-termism, coupled with fiscal instability, hinder the adoption of long-term tax strategies.

AM argued that economic conditions in Portugal amplify the challenges posed by the tax system, with high tax burdens making it difficult for businesses to remain competitive. AM pointed to European initiatives like Fiscalis 2027, which promote transparency and harmonization, as examples of how Portugal could improve its system. By aligning tax policies with sustainability and innovation objectives, AM believes the country can strengthen its position in sectors like renewable energy and the circular economy.

Appendix C: Summary of relevant interview's quotes

| Tax Burden |
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| AA: <i>"The high tax burden (...) discourages investment in Portugal and motivates entrepreneurs to migrate to other countries."</i> |
| AB: <i>"The complexity of the system, combined with high tax rates, particularly on payroll and profits, makes it feel like the system is designed to work against you."</i> |
| AD: <i>"The high tax burden and its complexity do not encourage productive activity."</i> |
| AE: <i>"The tax burden on companies is disproportionate to the European average, with a very high IRC and a global tax burden that stifles investment."</i> |
| AG: <i>"The high tax burden and inflexible rules make investing and growing here seem like an unnecessary challenge."</i> |
| AJ: <i>"The tax burden, especially on corporate income tax and social contributions, is seen as a competitive constraint compared to other European countries."</i> |
| AM: <i>"The high tax burden on Portuguese companies becomes even more onerous when compared to countries like Ireland or Estonia, where attractive tax policies are used as leverage to attract investment."</i> |

| Trust in Portuguese Tax Authorities |
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| AB: <i>"I don't think there are conditions to trust that the rules won't change or that I won't be penalized later for taking advantage of incentives."</i> |
| AC: <i>"Trust is essential, and we've taken significant steps to improve this relationship."</i> |
| AE: <i>"Trust in tax authorities is limited. There is a perception that taxation in Portugal penalizes success and that there is a lack of dialogue between the State and the business community."</i> |
| AF: <i>"In Portugal, the relationship is tense because the system does not keep up with the dynamics of innovative companies."</i> |
| AG: <i>"Trust is almost non-existent. Tax authorities in Portugal still act more like police than partners."</i> |
| AI: <i>"(...) in Portugal, many entrepreneurs feel that the relationship is adversarial rather than collaborative."</i> |
| AK: <i>"I believe tax authorities don't trust taxpayers and are aware that tax planning exists."</i> |
| AL: <i>"Trust is fundamental. (...) we have worked hard to simplify procedures and licensing. This transparency helps to build a relationship of trust."</i> |

| Cultural Attitudes |
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| AA: <i>"There is a lack of entrepreneurial culture in Portugal. There is an aversion to profit and to entrepreneurs."</i> |
| AB: <i>"There's a resentment towards the tax system in Portugal, and frankly, it's justified. (...) We feel like we're being punished for trying to create value and jobs."</i> |
| AC: <i>"There's a growing sense of pride among Portuguese entrepreneurs when it comes to contributing to the country's development through their businesses."</i> |
| AD: <i>"Portuguese tax culture reflects a historically tense relationship with taxation, marked by mistrust and perceptions of inequity."</i> |
| AE: <i>"Culturally, there is still a fear of questioning and seeking tax efficiency, because there is a perception that tax optimization is frowned upon by authorities."</i> |
| AI: <i>"There's a deep-rooted skepticism towards how tax revenue is managed, which makes entrepreneurs less inclined to see compliance as a civic duty rather than a legal one."</i> |
| AJ: <i>"(...) the culture ends up shaping a somewhat ambiguous relationship: looking to save, but with a clear limit to avoid problems with the tax authorities."</i> |

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| Challenges in Tax Planning |
| AA: <i>"Tax stability in the medium to long term. Since 1989, there have been 1,355 changes to the IRC Code."</i> |
| AB: <i>"The complexity of the system, combined with high tax rates, particularly on payroll and profits, makes it feel like the system is designed to work against you."</i> |
| AD: <i>"The high tax burden and its complexity do not encourage productive activity."</i> |
| AI: <i>"(...) complexity of the tax system, the lack of predictability in tax policy, and limited access to high-quality tax advisory services for smaller businesses."</i> |
| AG: <i>"The high tax burden and inflexible rules make investing and growing here seem like an unnecessary challenge."</i> |
| AK: <i>"The challenge is not crossing that thin line and being able to justify the planning."</i> |
| AL: <i>"(...) achieve tax efficiency that doesn't compromise global competitiveness (...), navigate different international tax systems."</i> |
| AM: <i>"(...) small economies within the EU, including Portugal, face unique challenges in balancing fiscal discipline with growth incentives."</i> |

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| Opportunities in the Tax System |
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| AA: <i>"Nothing very relevant. (...) Studies show (especially Deloitte's Tax Competitiveness Observatory) that the factors most praised by entrepreneurs and Portugal's main comparative advantages have nothing to do with taxation."</i> |
| AC: <i>"Notable are the benefits of SIFIDE and DLRR (...) programs run by IAPMEI (...) in the context of internationalization and export, such as the Portugal 2030 incentives."</i> |
| AE: <i>"They exist, but they are insufficient and poorly used. We need a system that encourages, as I said before, the payment of performance bonuses."</i> |
| AI: <i>"Yes, there are some opportunities (...). However, these opportunities are often underutilized due to a lack of awareness, or the bureaucratic hurdles involved in accessing them."</i> |
| AK: <i>"There are dozens of tax benefits that entrepreneurs can take advantage of. These benefits are not always obvious, so it is essential to seek help from specialists."</i> |
| AL: <i>"For example, companies that manage to align tax strategies with sustainability objectives can gain significant competitive advantages."</i> |
| AM: <i>"(...) Portugal can create tax regimes that favor companies that invest in green technologies and decarbonized processes."</i> |

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| Impact of Economic Conditions |
| AA: <i>"In Portugal, wages are low [...] material deprivation is high compared to other Western European countries and companies generate the lowest gross margins in the EU."</i> |
| AE: <i>"The Portuguese economy, marked by low growth and weak productivity, accentuates the perception that fiscal policy is an obstacle rather than a stimulus."</i> |
| AF: <i>"Portugal has fragile economic conditions, and this makes the tax burden heavier for technology companies."</i> |
| AG: <i>"Weak economic conditions increase the perception that the tax system is penalizing rather than encouraging."</i> |
| AJ: <i>"In periods of crisis or stagnation, such as the years of the pandemic or the current rise in interest rates, taxation is seen almost as a burden that holds back recovery."</i> |
| AM: <i>"The economic conditions in Portugal, marked by moderate growth and productivity levels still below the European average, mean that fiscal policy is seen as a critical factor for the survival and growth of companies."</i> |

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| Perceptions of Fairness in Taxation |
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| AA: <i>"Progressive taxation is the enemy of efficiency and productivity and penalizes those who want to grow."</i> |
| AB: <i>"How is the system fair when founders who work 14 hours a day pay IRC on their profits and then pay extra taxes if they want to take the money out of the business? You are deducted twice."</i> |
| AD: <i>"The perception that taxes don't translate into a return, such as better infrastructure or efficient public services, discourages voluntary compliance."</i> |
| AG: <i>"Entrepreneurs comply because they are afraid, not because they believe the system is fair."</i> |
| AJ: <i>"The lack of perceived fairness in the tax system is one of the biggest obstacles. When entrepreneurs feel that the burden is unfair, for example when multinationals pay less tax than small businesses, frustration and resistance grow."</i> |
| AL: <i>"The more entrepreneurs feel that the system is fair and that everyone contributes proportionally, the greater their willingness to comply voluntarily."</i> |

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| Distinction of Tax Efficiency vs. Evasion |
| AA: <i>"I think most [entrepreneurs] do [differentiate between tax efficiency and evasion]."</i> |
| AB: <i>"We absolutely do, but the system doesn't make it easy for startups to focus on tax efficiency."</i> |
| AC: <i>"Of course, this distinction is fundamental to maintaining the integrity and reputation of companies in the market."</i> |
| AF: <i>"Yes, the difference is clear, but the problem lies in access to efficient mechanisms."</i> |
| AG: <i>"Out of fear of penalties for errors that might be interpreted as an attempt to tax evasion, companies will often forego legal opportunities for tax efficiency."</i> |
| AI: <i>"Yes, most entrepreneurs clearly differentiate between the two. Tax efficiency is seen as a legitimate way to optimize resources within the law, while tax evasion is viewed as risky and illegal."</i> |
| AJ: <i>"Entrepreneurs are aware of the difference between optimizing fiscally within the rules and practicing tax evasion, which is illegal."</i> |
| AK: <i>"The line between tax planning and 'aggressive' tax planning is very thin."</i> |
| AM: <i>"Yes, but we recognize that the distinction is not always clear, especially in complex tax systems."</i> |

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| Impact of Tax Instability |
| AA: <i>"Since 1989, there have been 1,355 changes to the IRC Code. Tax instability creates uncertainty for companies, making financial planning and strategic decision-making difficult."</i> |

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| AB: " <i>The system penalizes growth, and when you are starting, you don't have money to do what you call tax planning, especially for bootstrapped start-ups.</i> " |
| AF: " <i>Startups and scaleups, which operate in highly volatile ecosystems, have no room for tax uncertainty.</i> " |
| AG: " <i>The system changes constantly and almost always at the last minute, leaving companies in an impossible position: they either waste time adapting or risk making mistakes.</i> " |
| AI: "Frequent changes in tax regulations create uncertainty, making it harder to plan for the long term, especially for SMEs." |
| AJ: "Portugal has a history of frequent tax changes, sometimes announced late, which forces companies to play on a field where the rules are not always clear from the outset." |
| AK: "The lack of tax predictability is one of the main criticisms levelled at successive governments, both by Portuguese taxpayers and potential foreign investors." |

Appendix D: Survey Questions

| Q No. | Question | Question Type | Answer Options |
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| Section 1- Demographic Characterization | | | |
| Q1 | Please select your age range. | Multiple Choice Question | 18-24; 25-34; 35-44; 45-54; 55; 64; +65 |
| Q2 | Please select your gender | Multiple Choice Question | Female; Male; Other/Prefer not to say |
| Q3 | How many companies have you started as a founder or co-founder? <i>Please answer in number form.</i> | Short Answer Text | NA |
| Q4 | On a scale from 1 to 10, where would you place your economic views? | The Numeric Rating Scale (NRS) | From 1 (Strongly Favoring Government Intervention) to 10 (Strongly Favoring Free Markets) |

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| Q5 | What is the industry of your primary business? | Multiple Choice Question | Real Estate, Construction, and Manufacturing; Finance, Insurance and FinTech; AI, Information Technology and Scientific Services; Agriculture, Forestry and Fishing; Arts, Entertainment, Hospitality and Tourism; Renewable Energy and Environmental Services; Transportation, Logistics and Wholesale Trade; Education, Healthcare and Social Assistance; Other |
| Q6 | What is the current stage of your primary company? | Multiple Choice Question | Idea Stage; Early Stage (We've launched but are still small and figuring things out.); Scaling (We're expanding, hiring, or gaining more customers.); Mature (We're stable, with consistent customers and operations.) |
| Q7 | What is the annual revenue range of your primary company? | Multiple Choice Question | Less than €50,000; €50,000–€250,000; €250,000–€1,000,000; €1,000,000–€3,000,000; More than €3,000,000 |
| Q8 | How many employees does your primary company have? Please answer in number form. | Short Answer Text | NA |
| Q9 | How do you self-assess your tax literacy on a scale from 1 to 10? | The Numeric Rating Scale (NRS) | From 1 (Low) to 10 (High) |
| Q10 | Who is primarily responsible for managing your company's tax compliance and planning? | Multiple Choice Question | We handle it internally (within the company).; We hire an external entity (e.g., an accountant, tax advisor, or consultancy).; A mix of internal and external resources. |
| Section 2- Tax Policy and Business Decision-Making | | | |
| Q11 | Do you consider tax policy a barrier to | Dichotomous question | Yes/No |

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| | starting a business in Portugal? | | |
| Q12 | In which phases of your business does tax policy have the biggest impact? | Multiple Choice Question (multiple selections possible) | Beginning (e.g. launching the business); Scaling (e.g. hiring more employees, expanding operations); Looking for Investment; Maintaining Operations; Other. |
| Q13 | In which area of your business do you believe tax policy has the biggest impact? | Multiple Choice Question displayed in a random (i.e., different) order each time. | Employing and retaining talent (e.g., social security contributions, employee benefits); Re-investing company profits into growth opportunities; Attracting external investment or financing; Managing operational costs (e.g., VAT, corporate taxes); Cost of complying with tax regulations and administrative burdens. |
| Q14 | What specific aspects of tax policy do you believe can promote entrepreneurship? | Multiple Choice Question displayed in a random (i.e., different) order each time. | Tax incentives for R&D and innovation (e.g., SIFIDE - Sistema de Incentivos Fiscais à I&D Empresarial).; Simplified tax regimes for small businesses (e.g., Regime Simplificado).; Tax credits for reinvestment of profits (e.g., Dedução por Lucros Retidos e Reinvestidos - DLRR).; Reduced corporate tax rates for startups or SMEs (Small and Medium Enterprises); Exemptions or reductions in VAT for specific activities or industries.; Other. |
| Q15 | Have you ever adjusted your business strategy based on tax incentives or policies? | Dichotomous question | Yes/No |
| Q16 | Have you ever considered relocating | Dichotomous question | Yes/No |

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| | your business or operations due to tax policy? | | |
| Q17 | If you answered yes to the last question, to where? Please answer in English. | Short Answer Text | NA |
| Section 3- Behaviour and Perception | | | |
| Q18 | On a scale from 1 to 10, how do you perceive the overall impact of tax policy on entrepreneurial activity? | The Numeric Rating Scale (NRS) | From 1 (Very Negative) to 10 (Very Positive) |
| Q19 | On a scale from 1 to 10, how would you rate the complexity of the Portuguese tax system? | The Numeric Rating Scale (NRS) | From 1 (Very Simple) to 10 (Very Complex) |
| Q20 | On a scale from 1 to 10, how much trust do you have in the Portuguese tax authorities to manage the tax system effectively? | The Numeric Rating Scale (NRS) | From 1 (No Trust at All) to 10 (Complete Trust) |
| Q21 | On a scale from 1 to 10, how would you rate the ability of Portuguese tax authorities to enforce tax compliance among businesses and individuals? | The Numeric Rating Scale (NRS) | From 1 (Very Weak) to 10 (Very Strong) |
| Q22 | On a scale from 1 to 10, how much does your company view tax | The Numeric Rating Scale (NRS) | From 1 (Not at All) to 10 (Very Much) |

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| | planning as a way to influence or navigate external challenges, such as regulatory shifts or competitive pressures? | | |
| Q23 | Please select the number 7 to confirm you are paying attention. | The Numeric Rating Scale (NRS) | From 1 (Not at All) to 10 (Very Much) |
| Q24 | How often does your business take actions to minimize tax liabilities that might involve interpreting tax regulations in unconventional ways? | Likert Scale (5 options) | Never; Rarely; Occasionally; Frequently; Always |
| Q25 | In your opinion, how common is the use of tax avoidance strategies among businesses in your industry? | Likert Scale (5 options) | Very Common, Common, Rare, Very Rare, Not Sure |
| Q26 | Compared to other EU countries, how competitive do you find Portugal's tax policy for entrepreneurs? | Likert Scale (5 options) | Much Less Competitive; Slightly Less Competitive; About the Same; Slightly More Competitive; Much More Competitive |
| Q27 | What do you believe is the single biggest change in tax policy that could positively impact entrepreneurs in Portugal? Please answer in English. | Long Answer Text | NA |

Appendix E: Entrepreneurs' Perspectives on Tax Policy Reforms in Portugal

| Entrepreneurs' Perspectives on Tax Policy Reforms in Portugal | | |
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| <p align="center">Corporate Income Tax (IRC)</p> | <ul style="list-style-type: none"> • Reduce IRC rates • References to Ireland's model (12.5%) and Estonia's model (undistributed corporate profits are tax exempt) • Introduce progressive tax brackets | <p>"Reduce IRC for god sake!" "Reduce drastically IRC" "Apply a substantial reduction to IRC rates, perhaps 15%." "We should follow the good example of Ireland." "Don't charge IRC on the profits, only when the money is taken out of the company (like Estonia does)" "Flat tax" "I believe the single biggest change in tax policy that could positively impact entrepreneurs in Portugal would be restructuring the Corporate Income Tax (IRC) system to include a tiered framework rather than a binary percentage." "Introducing tax brackets based on criteria such as the number of employees, nominal profit, reinvestment in salary increases, and spending on research and development could be a game-changer (Although partially done already)"</p> |
| <p align="center">Startup-Friendly Policies</p> | <ul style="list-style-type: none"> • Tax exemptions/reductions for startups during initial years • Lower initial tax burdens. | <p>"One of the most impactful changes... could be the reduction or elimination of IRC for startups during their initial years." "Not having to pay Social Security for the owner/manager for the first year." "Diminish tax load to a minimum specially in the first 3-5 years of the business"</p> |
| <p align="center">Simplification</p> | <ul style="list-style-type: none"> • Streamline tax compliance processes • Automate systems | <p>"Simplification of the tax system." "Simplification and automation... complying with</p> |

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| | <ul style="list-style-type: none"> • Create clearer and leaner tax frameworks | <p>the tax policies is worse for development than the tax burden itself." "A simplified and clear tax system"</p> <p>"Simplify the overall tax framework for better efficiency." "Simplify VAT cost recovery" "streamlining tax codes and compliance procedures, would lower administrative burdens"</p> <p>"Less bureaucracy"</p> |
| VAT and Social Security | <ul style="list-style-type: none"> • Reduce VAT rates in key sectors (e.g., energy, telecom); • Lower social security contributions for hiring. | <p>"Reducing the VAT tax percentage on food/beverage circuit."</p> <p>"Lower social security contributions."</p> <p>"Lower VAT on essential sectors."</p> <p>"VAT value in energy and telecom"</p> <p>"lower social security from corporates (...) allowing for salary increases to go directly to the employee"</p> |
| Innovation Incentives | <ul style="list-style-type: none"> • Tax credits for R&D and science-intensive investments • Incentivize reinvestment of profits. | <p>"Tax reduction incentives to science & technology-intensive investments."</p> <p>"Reinvest the profits and use the losses to reduce corporate income tax."</p> |
| Support for SMEs/Micro-Firms | <ul style="list-style-type: none"> • Special tax policies for small businesses with low turnover • Reduce fixed contributions for micro-firms. | <p>"The single biggest change... would be implementing a more equitable tax framework for very small businesses (micro and sole proprietors)."</p> <p>"Special tax policy for small and medium businesses up to an annual turnover of 150,000€."</p> |
| Stability and Predictability | <ul style="list-style-type: none"> • Ensure long-term stability in tax policies to enable better planning and confidence among businesses. | <p>"Long period stability of corporate taxes."</p> <p>"Predictability."</p> <p>"Frequent changes in tax regulations create uncertainty."</p> |

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