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Research Article

Income Tax and Salary Liability Incentives: Microenterprise Law Highly Availed Privileges

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ABSTRACT

This study evaluates the operational impact of two key incentives under the Barangay Micro Business Enterprises (BMBE) Law (Republic Act No. 9178): Exemption from Income Tax & Fees (mean rating: 3.71) and Exemption from the Coverage of Minimum Wage Law (mean rating: 4.12). Through a quantitative survey of 192 registered microenterprises, the study analyzed how these provisions influence business sustainability and policy outcomes. For the first incentive, Exemption from Income Tax & Fees, findings confirm its role in stimulating microenterprise growth without compromising national fiscal stability. Aligning with Zax's (2018) framework on targeted tax exemptions, the law achieves policy goals while minimizing economic distortions. However, enhanced monitoring mechanisms and adaptive tax schemes are recommended to balance relief with equitable economic participation. The second incentive, Exemption from the Coverage of Minimum Wage Law, reveals a dual effect: while employees face short-term income constraints, microenterprises prioritize sustained employment over strict wage compliance. Resource limitations among owners hinder adherence to wage standards, underscoring the need for interventions like microfinancing and targeted subsidies. Such measures could reconcile operational viability with improved employee welfare. These results emphasize the necessity of incentive frameworks that empower microenterprises while safeguarding employee interests. Structuring policies around adaptive monitoring, equitable resource access, and long-term employment stability can enhance the BMBE Law's effectiveness. By addressing these dual imperatives, policymakers can foster microenterprise resilience without undermining broader economic equity.

Keywords: *Income Tax, Salary & Wages, Incentives, Descriptive-quantitative design, Philippines, Asia*

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Introduction

Microenterprises are the backbone of developing economies, particularly in countries like the Philippines, where they account for a significant portion of business establishments and employment generation. According to the Department of Trade and Industry (DTI, 2023), micro, small, and medium enterprises (MSMEs) collectively comprise over 99% of registered businesses in the Philippines, with microenterprises representing the majority. These small-scale businesses are instrumental in fostering local economic development, alleviating poverty, and providing income opportunities for millions, particularly in rural areas. Despite their contributions, microenterprises often face financial constraints and regulatory hurdles that hinder their growth and sustainability. To address these challenges, the Philippine government enacted Republic Act No. 9178, or the Barangay Micro Business Enterprises (BMBE) Law, in 2002, offering various incentives to support microenterprise development.

The BMBE Law is a comprehensive policy framework designed to promote the growth and competitiveness of microenterprises by reducing financial and regulatory burdens. Its key incentives include exemptions from income tax and fees, exemption from compliance with the minimum wage law, access to credit facilities, and participation in training and technology transfer programs (DTI, 2023). According to Manipol (2023), the five (5) different adaption mechanisms or incentives that the registered BMBEs may be eligible for are part of the BMBE Law, the following will be crucial in achieving legal and legitimate maximum or optimum benefits, particularly in the early years of BMBE's operation: (1) exemption from taxes and fees; (2) exemption from the Minimum Wage Law's coverage; (3) credit delivery; (4) technology transfer; (5) trade and investment promotions; and (5) production and management training, marketing assistance, and exemption from taxes and fees. These procedures comply with the guidelines established by the "Barangay Micro Business Enterprises (BMBE) Law of 2002," Republic Act No. 9178.

Exemption from Income Tax and Fees

The exemption from income tax and fees is one of the most significant incentives under the BMBE Law. It aims to enhance the financial capacity of microenterprises by reducing their fiscal obligations, allowing them to reinvest savings into business expansion and operational improvements (Tan, 2021). Studies have demonstrated that tax relief measures for small businesses contribute to increased productivity, job creation, and competitiveness in local markets (Lao & Santos, 2020). In the context of the Philippines, this incentive has been particularly beneficial for microenterprises operating in low-income communities, where financial constraints often limit growth opportunities. Further, studies have demonstrated that tax relief measures for small businesses contribute to increased productivity, job creation, and competitiveness in local markets (Lao & Santos, 2020; Bruton et al., 2020)."

However, the implementation of the tax exemption provision is not without challenges. A significant number of eligible microenterprises remain unregistered under the BMBE program due to a lack of awareness about the law and its benefits (Mercado & Cruz, 2020). Additionally, the complexity of the registration process and the perceived bureaucratic hurdles deter many small business owners from availing themselves of the incentive. Policymakers must address these barriers by simplifying the registration process, enhancing information dissemination, and providing technical support to microenterprise owners.

The broader economic implications of the tax exemption also warrant consideration. While the provision aims to stimulate microenterprise growth, concerns about its impact on government revenue have been raised. Zax (2018) argues that targeted tax incentives can achieve policy objectives with minimal distortions, but they require robust monitoring mechanisms to ensure their equitable application and prevent abuse. In this context, the Philippine government must strike a balance between providing fiscal relief to microenterprises and maintaining national economic stability.

Exemption from the Coverage of Minimum Wage Law

The exemption from the coverage of the minimum wage law is another pivotal incentive under the BMBE Law. This provision allows microenterprises to deviate from government-mandated wage standards, thereby reducing their financial obligations and enabling them to sustain employment levels even during economic downturns (Garcia & Reyes, 2021). The exemption has been particularly relevant in regions with high unemployment rates, where job stability often takes precedence over wage levels for employees.

While the wage law exemption provides short-term benefits for microenterprise owners, its long-term implications for employee welfare and labor standards remain a subject of debate. Critics argue that the provision may perpetuate low wages and limit the economic mobility of workers employed in microenterprises (Dela Cruz et al., 2022). Furthermore, evidence suggests that many microenterprise owners struggle to meet even reduced wage obligations due to limited financial resources and access to credit (Torres et al., 2021).

To address these challenges, the government must complement the wage law exemption with targeted interventions that support both employers and employees. For instance, providing microenterprise owners with access to affordable financing and financial literacy programs can enhance their capacity to meet wage obligations and invest in business growth. Additionally, offering skills development and training programs for employees can improve their productivity and earning potential, thereby mitigating the adverse effects of wage law exemptions (Santos & Delos Reyes, 2023).

Broader Implications of the BMBE Law

The BMBE Law underscores the importance of creating an enabling environment for microenterprises by addressing their unique challenges and needs. Its incentives are designed to empower microenterprises by reducing financial and regulatory barriers, thereby fostering their growth and competitiveness. However, the law's broader implications for economic equity, labor standards, and

fiscal sustainability necessitate a more nuanced understanding.

The exemption from income tax and fees, while beneficial for microenterprise growth, raises concerns about its impact on government revenue and economic inclusivity. Policy-makers must ensure that the provision is implemented equitably and effectively to maximize its benefits without compromising the government's fiscal position. Similarly, the exemption from the coverage of the minimum wage law highlights the trade-offs between short-term financial relief for microenterprises and long-term employee welfare. Addressing these trade-offs requires a holistic approach that considers the needs and priorities of both employers and employees.

Moreover, the implementation of the BMBE Law faces practical challenges that limit its effectiveness. A lack of awareness among microenterprise owners about the law's provisions and benefits is a significant barrier to its utilization. Additionally, the availability of complementary support mechanisms, such as access to credit and training programs, remains limited, particularly in rural areas (Pineda & Valdez, 2020). Strengthening these support mechanisms is crucial to ensure that microenterprises can fully leverage the benefits of the BMBE Law.

Research Gap

Despite the BMBE Law's long-standing implementation, there is limited empirical research on the long-term impacts of its incentives on microenterprise performance, employee welfare, and economic resilience. Existing studies primarily focus on the short-term benefits of tax and wage exemptions, with insufficient attention given to their broader implications for equity, inclusivity, and sustainability. Additionally, the effectiveness of complementary measures such as access to microfinancing, training programs, and technical support in enhancing the impact of the BMBE Law remains underexplored. This study seeks to address these gaps by providing a comprehensive analysis of the most availed and extended microenterprise law incentives among the various microenterprise "BMBE Law" privileges/incentives.

Literature Review

Microenterprises play a pivotal role in the global economy, fostering entrepreneurship, employment, and local development. In recognition of their socio-economic contributions, governments worldwide have introduced policies and laws to support their sustainability. In the Philippines, the Barangay Micro Business Enterprises (BMBE) Law, also known as Republic Act No. 9178, serves as a cornerstone policy offering various incentives to microenterprises. Among its provisions, "Income Tax and Salary Liability Incentives" have emerged as the most highly availed privileges (Cruz & Santos, 2020). This literature review explores these incentives' significance, challenges, and potential improvements in the context of economic inclusivity, fiscal health, and labor stability.

Income Tax Exemption for Microenterprises

The exemption from income tax and fees under the BMBE Law has been instrumental in reducing financial burdens for microenterprises, enabling them to reinvest savings into business growth and operations. According to Lao and Santos (2020), 74% of microenterprise owners surveyed recognized tax exemption as a key factor in their business survival. Similar findings by Garcia and Reyes (2021) indicate that such fiscal incentives improve cash flow and encourage formal business registration.

Despite these benefits, scholars argue that tax exemptions can lead to unintended economic distortions if not carefully monitored (Zax, 2018). Tan (2021) emphasized the need for robust mechanisms to ensure compliance, recommending that government agencies adopt real-time monitoring systems to track microenterprise revenues and prevent potential misuse. International studies support this perspective, highlighting the importance of adaptive tax policies to promote fairness and inclusivity (Cruz & Santos, 2020; Santos & Delos Reyes, 2023).

Challenges and Limitations

While tax incentives contribute to economic inclusivity, they present administrative challenges, particularly in developing

economies. Torres et al. (2021) noted that local governments often lack sufficient resources to implement and oversee BMBE Law provisions effectively. As a result, discrepancies in tax compliance and reporting emerge, undermining the law's objectives. Furthermore, Dela Cruz et al. (2022) argue that the long-term viability of such exemptions depends on periodic policy evaluations and adjustments to address changing economic conditions.

Salary Liability Incentives and Minimum Wage Exemption

The exemption from the minimum wage law is another significant privilege under the BMBE Law. While this provision alleviates financial strain on microenterprise owners, it has sparked debates over its implications for employee welfare. According to Santos and Delos Reyes (2023), the wage law exemption allows microenterprises to sustain operations amidst resource constraints, prioritizing employment continuity over wage compliance.

However, critics contend that this exemption compromises employee rights and income stability (Garcia & Reyes, 2021). Studies highlight the need for targeted interventions, such as skills development programs and access to affordable financing, to offset wage disparities (Martinez, 2022). Lao and Santos (2020) further suggest that integrating employee welfare considerations into microenterprise policies can enhance business sustainability and social equity.

Comparative Insights and Global Perspectives

To encourage microenterprise formalization, Patel and Devi (2021) examine how nations such as Bangladesh and India have put in place targeted tax incentives and credit accessibility initiatives. According to their research, small enterprises' long-term survival and scalability are greatly increased when financial incentives and regulatory simplifications are combined. Nguyen and Ibrahim (2022) examine how Malaysia and Indonesia have used social protection programs and salary subsidies to keep microbusinesses profitable while preserving worker welfare. Their study highlights the significance of legislative frameworks that

strike a compromise between workers' financial security and company flexibility.

Research Methodology

Research Design

The study utilized a descriptive-quantitative research methodology grounded in Varun Sharma's Theory of Business Development. This theory highlights the significance of integrating elements such as resources, market dynamics, relationships, and entrepreneurial mindset in fostering the growth of start-ups, particularly microenterprises (Sharma, 2014). The research was conducted in Iloilo Province, located in the central region of the Philippines.

Respondents of the Study

The study employed a purposive sampling method to target registered Barangay Micro Business Enterprises (BMBEs) in Iloilo Province, Philippines, ensuring representation across geographic and industrial contexts. A total of 192 microenterprises were selected based on registration records from the Department of Trade and Industry (DTI Philippines, 2022). The sample included 55 enterprises from the provincial zonal center and 137 from rural municipalities, capturing urban-rural disparities in policy adaptation. Participants were restricted to owners, managers, or designated attendants with direct operational decision-making authority, ensuring informed perspectives on incentive utilization. Industries

spanned merchandising (retail/wholesale), manufacturing, and services, reflecting the BMBE Law's sectoral coverage.

Data Collection and Instrument Validation

A structured survey questionnaire was developed to assess (1) enterprise profiles and (2) the extent of BMBE Law incentive utilization, measured through a 4-point Likert scale. The tool underwent content validation by three experts in microenterprise policy and economics, with revisions made to improve clarity and relevance. A pilot test with 20 non-participant BMBEs confirmed internal consistency (Cronbach's $\alpha = 0.82$).

Analytical Framework

Descriptive statistics (frequency, percentage distributions) summarized respondent profiles and incentive utilization patterns. The weighted mean quantified the perceived efficacy of each BMBE Law provision, with interpretations anchored to corresponding thresholds. Pearson's Correlation Coefficient (r) tested relationships between enterprise profiles and incentive utilization, with significance set at $p < 0.05$. Analyses were conducted using SPSS v.28.

Ethical Considerations

Participant anonymity was ensured, and informed consent was obtained before survey administration.

Results and Discussion

Table 1. *The Extent of BMBE Law Incentive: Exemption from Income Tax & Fees*

Exemption from Income Tax & Fees	Mean	Interpretation
1. Generated higher monthly income and profitability due to income tax exemption.	3.50	Highly Availed
2. Increased capacity to buy more goods/raw materials for re-selling or production.	3.50	Highly Availed
3. Increased capacity to pay business expenses like utilities, rent, insurance, etc.	3.80	Highly Availed
4. Less anxiety and fear of being late in the filing of micro-business Income Tax Return on or before the due date	3.65	Highly Availed
5. Availed non-payment of Income tax and other related fees	3.90	Highly Availed
6. Increased capitalization due to Exemption from Income Tax	3.80	Highly Availed
7. Increased capacity in human resources' payment and generation	3.75	Highly Availed

Exemption from Income Tax & Fees	Mean	Interpretation
8. Increased capacity to pay other regulated fees and government fees.	3.75	Highly Availed
Overall Mean	3.71	Highly Availed
Legend:	4.51-5.00: Very Highly Availed 3.51-4.50: Highly Availed 2.51-3.50: Moderately Availed 1.51-2.50: Lowly Availed 1.00-1.50: Very Lowly Availed	

Firstly, exceptions from Income taxes and fees garnered a mean of 3.71, which means a descriptive interpretation of "Highly Availed". With this result, there's clear evidence that there was a high number of BMBEs availing the privilege of non-payment of tax and any other related fees as extended by the Bureau of Internal Revenue (BIR). Consequently, this incentive of the law was very helpful to BMBEs as it warrants their non-payment of taxes that, in turn, reduce the possibility of business closure and instead, increase the level of net income. It further shows that the law's strategies and incentives as far as tax exemption for a minority like microenterprises do not jeopardize the overall economic health of the country, including the economy's revenue as a whole. As stated by Zax (2018), alternative income tax plans could implement particular policy objectives with fewer distortions. Even while some government authorities increase or decrease tax rates, they nonetheless make sure that any tax exemptions and benefits do not result in a decrease in tax revenue for the entire economy.

According to Gonzales et al. (2022), the substantial use of tax exemptions by BMBEs is consistent with research showing that financial incentives greatly increase microenterprise survival rates by enabling them to reinvest in business operations rather than set aside money for tax payments. This outcome is in line with other research showing that tax breaks incentivize unregistered enterprises to legally register, promoting financial reporting and economic inclusion (Mendoza & Ferrer, 2021). Additionally, it has been demonstrated that these exclusions encourage entrepreneurship, especially in underserved areas, which boosts job creation and regional economic growth (Delos Santos, 2023).

According to Kumar (2023), government-led schemes like tax breaks and subsidized loans have been essential in strengthening the resilience of micro and small businesses in South and Southeast Asia. The paper also makes the case that combining financial incentives with labor protection measures creates a more sustainable business climate while guaranteeing workers receive fair compensation.

On the other hand, Manipol (2023) highlights that the implementation of the BMBE Law has had a dual impact on income taxpayers in the Philippines. While the law provides financial relief to microenterprises through income tax exemptions, the study notes that it may contribute to a reduced tax base, potentially shifting the tax burden to larger businesses and individual taxpayers. Furthermore, Manipol argues that the lack of widespread awareness and participation in the BMBE program has resulted in an uneven distribution of benefits, with many eligible enterprises failing to register and avail themselves of exemptions.

Moreover, the results showed that BMBEs are knowledgeable about prevailing tax laws and regulations, including their implementation and varied strategies to lower tax burden and liabilities. Since microenterprises are still minute in terms of business operations, all of their resources are strategically maximized, including their sensitivity to any regulatory payments and liabilities, including tax burdens. As the tax exemption was included in the stipulations embedded in the BMBE Law, BMBEs do not find it hard to navigate the provisions, especially on the process and specifics of availing the incentives. Since tax exemptions are normally governed by the taxing authority of the government, BMBEs were not total

strangers to the process of availing tax exemptions and other covered fees. Taxpayers who do not understand tax law become an obstacle to

the implementation of the self-assessment system in the collection of income tax (Damajanti & Karim, 2017).

Table 2. The Extent of BMBE Law Incentive: Exemption from the Coverage of Minimum Wage Law

Exemption from the Coverage of Minimum Wage Law	Mean	Interpretation
1. Paid lower amount of wages and salaries to employees.	4.15	Highly Availed
2. Attracted highly qualified and quality employees.	4.15	Highly Availed
3. Saved extra money for emergency problems/cases due to human resource expense savings.	4.10	Highly Availed
4. Enjoyed the privilege of paying employees below the minimum wage l. aw	4.40	Highly Availed
5. Paid employees' compensation on a timely basis due to lax compensation requirements.	4.30	Highly Availed
6. Increased capacity of providing varied benefits to employees like SSS, Pag-Ibig, PhilHealth, etc.	3.90	Highly Availed
7. Increased capacity of hiring more interested workers.	3.85	Highly Availed
8. Paid employee salary on a timely basis due to lax compensation policy.	4.10	Highly Availed
Overall Mean	4.12	Highly Availed

Another BMBE Law incentive, exemption from the coverage of minimum wage law, reached a mean of 4.12, which means a descriptive interpretation of "Highly Availed". Arent this rating, this incentive of the BMBE Law became the most availed incentive/mechanism garnering the highest mean across all other 4 incentives. The results further mean a high number of BMBEs availing the privilege of exemption from the coverage of minimum wage law by the Department of Labor and Employment, thereby allowing BMBE owners and their management to provide salaries and wages way lower than the prescribed and prevailing minimum rate per region/locality. The findings further validated that, non-adherence to the existing minimum wage rate for employees certainly gave favorable remarks and financial advantage to BMBE owners as they are not forced to pay salary as demanded by the labor regulations, instead, to follow a salary scheme that's dependent to their capacity to earn positive net income out from unpredictable micro-business operations. Critics argue that the provision may perpetuate low wages and limit the economic mobility of workers employed in microenterprises (Dela Cruz et al., 2022; Draca, 2021).

The large percentage of BMBEs that make use of minimum wage regulation exemptions is

consistent with research showing that labor cost flexibility is essential to microenterprises' ability to survive and compete, especially in developing nations (Santiago & Cruz, 2021). According to additional research, these exclusions give business owners financial relief, enabling them to continue operations and reduce financial risks during uncertain economic times (Gonzalez et al., 2022). Though advantageous to businesses, some academics contend that these exemptions could exacerbate income disparity and employment instability among unorganized sector employees (Delos Santos, 2023).

On the other hand, given the positive results of the BMBEs to the BMBE owners, employees' perspectives became balanced and fairly divided. The recordings further proved that short-term financial impact may be depriving to the employees as minimum wage rates have not been adhered but the long-term benefit of having a sustained and regular source of income for them as employees became their top priority than demanding higher salaries and wages from their employees, though evidence showed that BMBE owners manifested insufficiency to funds and resources in providing employees with salaries and wages at par with the government regulatory demands.

Contrarily, regardless of whether the minimum wage is higher, the level of income has a greater negative impact on employment and earnings for less-skilled minority men and women without children. Moving from individuals to families, a sustainable livelihood poses the top priority over having a higher minimum wage as it provides a maintainable financial impact on poor families, thus improving the economic lifestyle of very low-income families with children (Neumark & Wascher, 2011).

Generally, the 2 law incentives indicated that the law has been beneficial to its beneficiaries, with two out of five evaluated incentives being particularly effective. The research underscores the importance of such legislation in supporting microenterprise development and suggests that similar frameworks could be beneficial in other contexts (Manipol, 2023).

Conclusion

Tax Exemptions Strengthen Microenterprise Sustainability – The high availing rate of tax exemptions by BMBEs confirms that such incentives significantly reduce financial burdens, enabling businesses to allocate resources toward growth and operational stability. This fiscal relief minimizes the risk of business closures and enhances net income levels, proving that tax incentives for microenterprises contribute positively to their long-term viability without compromising national economic stability.

Wage Law Exemptions Provide Business Flexibility but Raise Labor Concerns – The exemption from minimum wage laws is the most availed incentive, reflecting its crucial role in sustaining BMBEs. While this provision offers microenterprises financial relief and operational flexibility, it also raises critical labor concerns, particularly regarding fair compensation and job security for employees in the sector. The findings highlight the need for balanced policies that support both business sustainability and workers' economic well-being.

Recommendations

The findings emphasize the urgency of aligning the BMBE Law's incentives with

broader economic goals. First, expanding fiscal policies like tax exemptions—as advocated by the World Bank (2023)—could catalyze entrepreneurship while addressing systemic inequities in resource access. However, such measures must be paired with simplified application processes (e.g., digital LGU portals) and targeted awareness campaigns to ensure marginalized microenterprises benefit equitably. Policymakers must ensure that the provision is implemented equitably and effectively to maximize its benefits without compromising the government's fiscal position (Kleven et al., 2021).

Second, while exemptions enhance business continuity, their long-term fiscal sustainability requires scrutiny. As the International Monetary Fund notes, unmonitored tax relief risks eroding local revenue bases. Policymakers should adopt adaptive exemption thresholds tied to enterprise revenue brackets, ensuring relief scales with business growth without destabilizing municipal budgets. Concurrently, wage subsidies or public-private micro-financing programs could offset wage law exemptions' short-term employee impacts, reconciling business viability with worker welfare.

Third, strong monitoring systems are critical to evaluate trade-offs. LGUs should track metrics like employment retention rates, enterprise survival thresholds, and income volatility among workers in exempted firms. This data would inform evidence-based adjustments to incentive frameworks, balancing economic inclusivity with fiscal responsibility.

Finally, labor stakeholders and policymakers must collaborate on alternative wage-setting mechanisms, such as regionally adjusted pay scales or profit-sharing models. These approaches could mitigate disparities in worker compensation while preserving microenterprise agility—a priority in volatile economic climates.

By embedding these strategies, the BMBE Law can evolve from a survival tool into a scaffold for equitable, resilient microenterprise ecosystems.

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