

**The Double-Edged Sword:  
Unintended Consequences of Small and Medium-Sized Enterprise Promotion Policy**

*Athiphat Muthitacharoen (Chulalongkorn University)*

*Archawa Paweenawat (Puey Ungphakorn Institute for Economic Research)*

*Krislert Samphantharak (University of California San Diego)*

This paper investigates the unintended consequences of size-dependent regulations in small and medium-sized enterprise (SME) promotion policies. We use data from all registered Thai firms to analyze the effects of introducing a revenue cap in the SME tax incentive program qualification. Our study shows a marked bunching of firms just below the cap, illustrating tax salience. We provide evidence suggesting that the bunching is due to real operation responses. A difference-in-differences analysis indicates that eligible firms just under the threshold exhibit a significant decline in revenue growth compared to those just above it. This adverse effect is more pronounced among firms with lower pre-policy profitability. We also document substantial negative effects on investment and profitability but find no significant impact on firm survival—challenging the assertion that government support enhances SME survival. Our findings also indicate a marked reduction in the presence of large firms, suggesting broader implications on firm size distribution in the economy. We highlight the double-edged nature of size-based SME policies: while intended to help smaller businesses, the measures may inadvertently suppress growth for firms near the threshold and potentially create resource misallocation. This study underscores the need for a careful policy design that supports SMEs without impeding their potential for growth.