

FACILITATION OF SME'S DEVELOPMENT IN UKRAINE BASED ON COMPETITIVE FISCAL ENVIRONMENT FORMATION

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Abstract. *The priorities of the simplified taxation system implementation in European countries aimed at the entrepreneurial incentives development, innovation introduction, and formation and strengthening of the SMEs competitiveness and economic growth have been studied. It has been found out that empirical findings show that high taxation rates potentially negatively affect entrepreneurial environment and high tax burden has sufficient adverse impact on SMEs business environment. Instruments of business support by the state both in the EU countries and in Ukraine have been determined. The main risks of the simplified taxation system for local budgets and entrepreneurial structures have been stated. The further fiscal system reforms aimed at SMEs motivation have been suggested.*

Definition of the problem. One of the most significant challenges today is to transform the simplified tax system and bring it into line with the pan-European approaches, which is particularly difficult, given a large share of the single tax in the structure of local budget revenues.

Analysis of recent investigations and published papers. It should be emphasized that the fiscal role of SMEs is not generally defined as a state policy objective [1]. In the EU, the fiscal efficiency of the sector is viewed as a concomitant element, which is a natural result of the growth of economic activity in general, increase in the value added and provision of effective demand for domestic supply of goods and services. Accordingly, we can determine the following priorities for the SME existence in the EU: development of entrepreneurial initiative; innovation; job creation and self-employment; strengthening of competitiveness and economic growth. In this case, the SME fiscal value is not considered as a state policy objective. Thus, we can conclude that in the EU, the SME fiscal efficiency is considered as a concomitant element, which is a natural result of the economic activity growth.

The state policy with regard to business environment is shaped under the impact of socio-economic characteristics of countries and on the basis of the theoretical concepts regarding the state's influence on economic processes. Researchers and representatives of the expert community are unanimous in the fact that tax levers often do not provide a consensus of fiscal interests of all parties to the taxation process. However, the results of the empirical studies [2, 3, 4] indicate a possible negative affect of the high level of taxation in a country on entrepreneurship. A high tax burden exercises significant influence on business activity as well [5].

The modern applied theory of taxation of entrepreneurship is formed under the impact of strengthening its role in the world's economy. In this context, as it was already noted, there emerged a new type of tax relationship – an alternative one based on the need to strengthen support for SMEs.

The results of the following scientists' researches [6, 7, 8, 9] enabled us to assert that the implementation of alternative taxation systems for small and medium-sized businesses in different countries is a confirmation of existence of qualitatively different economic systems at different stages of their evolution. The advantages and disadvantages of the approaches to shaping fiscal policies are stipulated by the objectives of their implementation, impact on competitive environment, degree of shadowing of economic processes and propensity of entrepreneurs to opportunistic behavior in terms of taxation.

The experience of the countries around the world in tax stimulation of small business development says about the use of various instruments in this area. Developed countries are characterized by the use of some tax benefits, among which there are the following: reduction of tax rates, special procedures for amortization charges, tax holidays, loans and discounts, deductions, simplified accounting and reporting. As a rule, the purpose of these tools application is to stimulate development, innovations and employment. Developing countries and the poorest states are

largely characterized by other instruments. They primarily apply special (alternative) taxation regimes, which are implemented through adoption of a single tax, patents and separate taxes on certain activities. Here, the main purpose is economic stabilization, employment and self-employment, creation of conditions for an adequate standard of living of individuals and households.

Special attention in developed economic systems is paid to state support for small business based on its social importance. It should be emphasized that state support for business can take many forms, from tax incentives and tax holidays to creation and funding of business parks, and is based on its close relationship with the welfare of citizens [10].

The analysis of tax levers in the EU countries enabled us to assert that the basis of stimulation consists of measures for investment and innovation activities, development of the material component of business entities based on technological advantages. The most used discount is that of introducing preferential rates for separate regions or sectors of the economy (there are 27 of them in 19 EU countries), as well as accelerated depreciation and research and development benefits. They are implemented within the framework of the state policy of business entities support and are aimed at reducing the SMEs non-productive costs of administration and tax payment, leveling inflation processes when compensating the assets value through depreciation.

Presentation of key topics. In 2016, small and medium-sized enterprises in Ukraine accounted for 67% of the employed population and 59.8% of the gross value added created in the non-financial sector of the economy. At the same time, the share of microenterprises in the total number of enterprises in this sector reached 96.5%, the number of employed – 34.7%, gross value added – 13.2% respectively. Unfortunately, unlike the EU, a significant number of small businesses in the structure of the Ukrainian enterprises do not show a significant value added and high official employment rate in the sector [11]. In Ukraine, a simplified system of taxation of business entities is used, which is implemented through the adoption of a single tax, with the gradation of tax rates depending on the turnover volume. The Tax Code of Ukraine contains a separate subsection "Simplified system of taxation, accounting and reporting", which has the regulatory parameters according to Table 1.

Thus, in its current form, the simplified taxation system only provides for one type of compulsory payment – a single tax, which is the source of revenue for local budgets. Regardless of this, entrepreneurs pay a single social tax to the Pension Fund of Ukraine. The taxpayer may select the simplified taxation system in accordance with the established criteria.

Table 1. Parameters of activities of single tax payers in Ukraine

Entities of the taxation system		Number of employees	Annual income size	Single tax rate
group 1	An individual – business entity	Work without employees	Annual income per calendar year does not exceed UAH 300 000	Up to 10 % of the minimum wage per calendar month
group 2	An individual – business entity	The number of employees does not exceed 10 people	Annual income must not exceed UAH 1500 000	Up to 20 % of the minimum wage per calendar month
group 3	An individual – business entity	The number of employees is not limited	Annual income must not exceed UAH 5 000 000	3% of income for VAT payers
	Legal entity – a business entity of any legal form			5 % of income for VAT non-payers
group 4	Agricultural producers	If the share of agricultural production for the previous fiscal (accounting) year equals or exceeds 75 %		Per one hectare of agricultural land and/or land included in the Inventory of water resources; depends on the category (type) of lands, their location and accounts for (as a percentage of the tax base)

Source: compiled by the author based on the Tax Code of Ukraine

In general, under Article 11 of the Tax Code, special taxation regimes, except for exemption from payment of certain taxes and fees, provide for a system of measures for the special taxation procedures for certain categories of business entities as well as for the definition of certain elements of compulsory payments. The said regime provides for the special procedure for determining the elements of tax and levy, exemption from payment of certain taxes and levies, tax benefits and the procedure for their application.

Over the years of our country's independence, the goals of business development have changed many times, which has led to changes in the taxation of small businesses. Despite the application of the special taxation regime, SMEs in Ukraine are considered exclusively in terms of fiscality, which results in constant reductions of the existing preferences, attempts to regulate SMEs

activities and make them more fiscal, and, eventually, to eliminate the special taxation regimes for the economy segment, which is considered to be a "source of growth and innovation" by the leading economic powers. Today, it is important for our country to create conditions under which SMEs will be interested in expanding their activities and increasing their share in the value added. After all, their share in the total value added of the country is extremely low. Until 2015, the single tax was the key one in volume out of local taxes and fees, which should be taken into account when transforming this tax into the forms of state support applied in the EU. In 2016, the single tax amounted to 11, 69% of the tax revenues to local budgets of Ukraine. Out of UAH 9.9 billion revenues from the single tax, UAH 6.2 billion were paid by individual entrepreneurs of the first and second groups, despite the decrease in their number in recent years (Table 2).

Table 2. Local budget revenues from the single tax, million UAH [1].

	2016	2015	2014	2013	2012	2011
Total, including:						
	9 898,35	10 975,09	7 413,25	6 640,52	4 815,64	1987,91
Single tax from legal entities						874,70
	1 941,01	2 206,15	2 008,47	1 743,29	1 204,76	
Single tax from individuals	6 204,68	6 744,72	5 404,78	4 897,23	3 610,88	1113,21
Single tax from agricultural producers	1 752,65	2 024,23	0,00	0,00	0,00	0,00

Source: compiled based on the official website of the State Treasury Service of Ukraine. Reports on budget execution // [URL: http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=146477](http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=146477)

It should be noted that the decrease in the number of individual entrepreneurs from 2012 to 2016 by 213.3 thousand persons is associated both with the development of the crisis phenomena in the Ukrainian economy and with the placement of restrictions on the range of persons who can apply the simplified taxation system. The main users of the simplified taxation system are representatives of micro-businesses, mainly individuals that cannot be ignored when reforming the taxation scheme for this sector.

The inconsistency of the SME taxation system used in Russia leads to the reform or abolition of the simplified taxation system, which has remained one of the most pressing issues for a long time. To this end, it is necessary to develop a transitional transformation taxation model for micro and small businesses with a gradual restriction of the special taxation regime. As well, the control regulations should be improved, and local authorities should be motivated to inform the fiscal authorities of suspicion and identification of non-registered business activities in the administrative-territorial unit.

The main risks of the simplified taxation system functioning in Ukraine include as follows: creation of informal employment; a possibility of understating tax liabilities due to control fallibility; participation in the schemes of tax evasion for enterprises under the general taxation system; uncontrolled cash payments, which allow freely realizing goods illegally imported into the country; informal settlements with employees on wages and understating of employees' official incomes. The opportunism of domestic taxpayers and single tax payers, in particular, combined with control fallibility create insufficiency of budget revenues, distortion of competitive environment and inhibition of the European integration processes.

The totality of the above-mentioned problems makes any innovation development of the national economy almost impossible under the conditions when the legal guarantees provided by the state are, in fact, only declarations: the tax rates fixed in the tax laws are nominal, and the real tax burden can significantly exceed the level provided for by the law; state financial planning aims exclusively to solve short-term tasks of filling the state budget; the operating conditions of start-ups established by SME can be radically worsened at any time, which does not allow us to expect the implementation of innovation projects, especially those with the payback period over 1 or 2 years.

Under the current conditions, the introduction of investment and innovation incentives, such as: accelerated depreciation or amortization discounts, VAT exemptions for imported equipment, special taxation regimes for industrial parks and so on, will have a very limited effect, since there are no guarantees of stability of such incentives in the medium- and long term.

Further reform of the taxation system should be aimed, in particular, at stimulating the inflow of investments while strengthening the management of tax risks aimed at preventing tax evasion and combating the erosion of the tax base. The need to attract capital exported from Ukraine to the economy and expand the tax base requires enhancing the implementation of the regulatory and incentive functions as well as general conditions for doing business in the country and tax administration, limiting the possibilities of large businesses to abuse the simplified tax system by the following ways:

- introduction of objective hardware methods of accounting for retail trade operations (entry of information on transactions into a certain database using technical means – cash registers, smartphones, pads, etc.). The advantage of using multifunctional devices like smartphones with specialized software lies in reduction of administrative and financial pressure on entrepreneurs (there is no need to buy a specialized fiscal device – a cash register; the ability to control the formal compliance with the regulations on registration of settlement operations decrease), however, a larger number of such operations undergo primary accounting;
- strengthening the motivation of entrepreneurs of the small business segment to further growth by expanding investment and innovation opportunities, namely: reduction of the object of taxation for the amount of costs of the fixed assets acquisition for production and innovation. Not only will this allow stimulating active innovation activities of the entities, but it will also require establishing cost accounting on a voluntary basis, preparing the entity for further growth and transition to the general taxation system (if necessary);
- formation of a system of control over the participation of a business entity in tax evasion schemes on the basis of a risk-based control system and remote monitoring of risk indices.

The reform of the individuals' taxation in Ukraine should provide for the preservation of simple accounting operations for entrepreneurs. However, in our opinion, at the stage of development of new forms of state support and approaches to taxation and accounting of business transactions, it is advisable to temporarily maintain a simplified taxation system on the basis of a single tax for the category of individual entrepreneurs included in the first group of taxpayers, which does not contradict the Recommendation of the European Commission.

At the same time, it is necessary to abandon the practice of manipulating tax rates and restrictions, and focus on opportunities for the development of entrepreneurs based on the category of small business. A gradual, step-by-step detailing of the accounting elements will allow harmonizing the conditions with the general system of taxation and form the conditions for application of benefits for innovation and investment activities in the SME area.

Thus, individual entrepreneurs (group 1 of the single tax payers) within the special taxation regime are offered: to keep records of business transactions (income) on the basis of simple forms and annual reports, with the electronic reporting and administration expanded; to temporarily (until the law of Ukraine "On state support for business entities" becomes valid) assess taxes based on the single tax, effective as of 1 January 2018.; to preserve a possibility of transition to taxation under the general rules (personal income tax), with broadening the limits of accounting (costs of doing business similar to deductions, which are widely used in European countries in the taxation of incomes of individuals engaged in business. To ensure greater controllability (including ensuring the effectiveness of the introduction of objective methods of income control), we suggest taxation of the 2nd group of single tax payers based on revenues. At the same time, we also suggest introducing simple forms of accounting for business transactions for such persons, which will provide for the possibility of accounting fixed assets and their depreciation as well as costs of employees' wages, thus adopting the simplest compulsory cost accounting. Legal entities (group 3 of the single tax payers) and individual entrepreneurs (group 2) under temporary preservation of the single tax are offered: to be subject to the taxation based on revenues within the special taxation regime until the law of Ukraine "On state support for business entities" becomes valid and to get the mechanisms aimed at SMEs developed; to enjoy the introduction of instruments for tax regulation of depreciation when executing simplified accounting in order to determine the tax base; to have a possibility of reducing the object of taxation for the amount of costs of wages and depreciation.

In order to strengthen the motivation of entrepreneurs of the small business segment to further growth, we consider it necessary to change the current legislation on the regulation of taxation of small businesses, which use the general system by introducing the following: within the framework of the general system of taxation, to increase the maximum amount of income, which enables not to apply adjustments of the pretax financial result to tax differences. In the taxation of incomes of enterprises which, under the terms of the general taxation system, are obliged to calculate tax differences, it is offered to increase twice – up to UAH40 million – the threshold value of the annual income from any activity provided for by Art. 134 of the Tax Code (for deduction of indirect taxes) calculated by accounting rules for the last annual accounting (taxation) period in value terms. This will allow small and micro enterprises – legal entities with the turnover from UAH20 million to UAH 40 million, when purchasing equipment, technologies and implementing innovations, not to increase the administrative burden due to the complexity of accounting tax differences. In order to reduce the administrative burden on developing business entities caused by doing separate accounting of tax differences and stimulate the renewal of fixed assets and equipment, it is offered to introduce a simplified procedure for writing off the cost of newly acquired production fixed assets of the fourth group to the costs of production. This mechanism will stimulate innovation investment in small business projects.

Domestic small business needs effective instruments to reduce the tax burden for investment-active entities. Changing the rules of depreciation, in particular, by making alterations and amendments to the Tax Code, will stimulate the development of small businesses, especially in the field of assets renewal. The amendments to the Tax Code of Ukraine require the adjustment of all related regulations.

It should be noted that the modern approach to the taxation of small business (single tax), mainly focuses on changes

in tax rates depending on the category of small business. Instead of this, it is offered, depending on the category of business, to gradually detail the elements of accounting for the purpose of taxation and taxation of the objects for SMEs, harmonizing them with the general system, as the relevant entities are developing.

Conclusions. The further transformation of the special taxation regime continues in the context of changing the priorities and the purposes of its application, which are currently more fiscal than stimulating, as well as based on the European integration vector. One of the steps to harmonize the system of SME stimulation in Ukraine with the European approaches is the Law of Ukraine "On development and state support for small and medium-sized enterprises in Ukraine", which entered into force in 2017 and provides for non-financial as well as investment and innovation mechanisms of state stimulation.

Based on the analysis of the employment indices, value added and tax revenues, it was determined that the role of SMEs in the economy has increased significantly compared to the first and second stages of development, tax revenues from SMEs applying the simplified tax regime have increased. However, further stimulation of SME development and growth as well as formation of a competitive environment for doing business and taxation, which corresponds to the European principles, require the improvement of the appropriate taxation mechanism based on the European approaches.

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