

PRIORITIES IN SHAPING THE STATE TAXATION POLICY OF SMALL AND MEDIUM-SIZED BUSINESSES IN UKRAINE**Oleinikova L.G.***SESI «Academy of Financial Management»
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The major problems of the special tax regime functioning in Ukraine were considered. It was determined that the introduction of alternative taxes was a product of institutional compromise between the state and business. The special taxation regime for SMEs in Ukraine is not harmonized with European approaches to stimulation of small and medium-sized business development. It requires further systematization of rules and regulations, adoption of transparent criteria for the tax burden to adjust to the results of the economic activity, implementation of the motivational factors of the legalization of monetary turnover, unshadowing of the economy. The terms of temporary preservation of the simplified taxation system for SMEs in Ukraine were suggested with change of the mechanism of its application by gradual introduction of detailed elaboration in accounting and reporting for various groups of taxpayers harmonizing the procedure of their taxation with the general system. This will ensure the transition from the special tax regime used in Ukraine to the simplified tax regime, which comply with the best practices of the EU countries. The suggested approaches will focus on the development of qualitative indices of small and medium-sized businesses, namely employment, impact on the added value, investment and innovation activity in the SMEs segment. The transformation of the taxation mechanism for small and medium-sized businesses provides the implementation of a complex of changes to shift the emphasis in the fiscal relations of the state and SMEs on the coordination of their fiscal interests. The taxation mechanism for SMEs in Ukraine in terms of European integration should be based on the approaches to identification of its entities which are similar to those used by the EU countries.

ПРІОРИТЕТИ ФОРМУВАННЯ ДЕРЖАВНОЇ ПОЛІТИКИ ОПОДАТКУВАННЯ МАЛИХ І СЕРЕДНІХ ПІДПРИЄМСТВ В УКРАЇНІ**Олейнікова Л.Г.***ДННУ «Академія фінансового управління»
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державна політика, механізм оподаткування, малий та середній бізнес, фіскальні інтереси, трансформація, спеціальний режим.

Розглянуто основні проблеми функціонування спеціального режиму оподаткування в Україні, і, відповідно, встановлено, що запровадження альтернативних податків є результатом інституційного компромісу між державою та бізнесом. Спеціальний режим оподаткування для МСП в Україні не гармонізований з європейськими підходами до стимулювання розвитку малого та середнього бізнесу та вимагає подальшої систематизації правил та нормативних актів, прийняття прозорих критеріїв пристосування податкового тягаря до результатів економічної діяльності, реалізації мотиваційних чинників легалізації обороту, відторгнення економіки. Запропоновано терміни тимчасового збереження спрощеної системи оподаткування для МСП в Україні зі зміною механізму її застосування шляхом поступового впровадження детальної розробки в бухгалтерському обліку та звітності для різних груп платників податків, гармонізуючи порядок їх оподаткування із загальною системою. Це забезпечить еволюційний перехід від режиму спеціального оподаткування, що застосовується в Україні, до спрощених правил оподаткування, які відповідають найкращим практикам країн ЄС. Запропоновані підходи будуть зосереджені на розробці якісних показників малого та середнього бізнесу, а саме зайнятості, впливу на додану вартість, інвестиційну та інноваційну діяльність у сегменті МСП. Трансформація механізму оподаткування для малого та середнього бізнесу передбачає здійснення комплексу змін, спрямованих на зміщення акцентів у фіскальних відносинах держави та МСП на координацію їхніх фіскальних інтересів. Механізм оподаткування для МСП в Україні з точки зору європейської інтеграції має ґрунтуватися на підходах до ідентифікації своїх суб'єктів, які схожі з тими, що існують у країнах ЄС.

Statement of the problem

The small-scale activities typical for small and medium-sized business are characterized by the corresponding indices of monetary turnover and employment. However, such business plays a huge role in the economy and social development of the society, namely it contributes to economic growth, development of market competition, provides employment for able-bodied population as well as forms an active and business social layer of the society which is able to accelerate the process of democratization of the economy and political system in the country.

In Ukraine, the formation of an economically active sector of small businesses is still under way. It is provided by the special tax regime of small businesses, which maintain the taxation system simplified through the single tax adoption. The strategy of reforming the State Finance Management system for 2017-2020, along with the Association Agreement between Ukraine and the EU, provides for implementation of the reforms based on European approaches in order to transform the simplified tax regime, which is currently dominating in the taxation of small and micro businesses in Ukraine. The revision of the terms of its application in respect of categories of persons, activities, size of income and tax rates requires the development of mechanisms that will correspond to the socio-economic significance of the transformation of small business taxation. State support for small business, including the use of tax instruments, should be based on the principles of synergy of the development of small, medium and large-sized businesses to ensure an economic growth and the provisions of the Law of Ukraine "On state support for business entities" No 1555-VII, dated 1 July 2014 (valid from 2 August 2017), and comply with the EU requirements for state support and European practice.

On the one hand, the simplified system of taxation, accounting and reporting is the most effective form of state support for small businesses, which contributed to the positive dynamics of its development. However, on the other hand, it carries the risks of its use by large and medium-sized business for optimizing their own tax liabilities, hampers the growth of business and stimulates its fragmentation. All of these points to the need for the system transformation, which would not inhibit the development of small business.

Analysis of recent studies and publications

One of the most significant challenges today is to transform the simplified tax system and bring it into line with the pan-European approach. In view of the predominance of the share of the single tax in the structure of local budget revenues, it is particularly difficult.

It should be emphasized that the fiscal role of SMEs is not generally defined as a state policy objective (Small Business Act). 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 of the value added and provision of effective demand for domestic supply of goods and services. Accordingly, we can determine the following priorities for the SMEs' existence in the EU: development of entrepreneurial initiative; innovation; job creation and self-employment; strengthening of competitiveness and economic growth. In this case, the SMEs' fiscal value is not considered a state policy objective. Thus, we can conclude that in the EU, the SMEs' fiscal efficiency is considered 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 with the taxation process. However, the results of the empirical studies (Hansson 2012; Kim 2012; McGowan 2012) indicate a possible negative effect of the high-level of taxation in a country on entrepreneurship (SMEs). A high tax burden has a significant impact on business activity as well (Fölster 2002).

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 is required 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 (Casson 1982, Casson 2010, Valdez 2013, Knuth 2010) enable 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 behavioural 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) tax regimes, which are implemented through adoption of a single tax, patents and separate taxes on certain activities. In this case, the main purpose is economical 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. It is based on its close relationship with the welfare of citizens (Entrepreneurship 2020, Europe 2020).

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 in order to 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 in order to reduce SMEs' non-productive costs of administration and tax payment, level inflation processes when compensating the assets value through depreciation.

The main material of the research

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 micro-enterprises 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. 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.

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

Thus, in its current form, the simplified tax system provides only 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 tax system in accordance with the established criteria.

In general, under Article 11 of the Tax Code, special tax regimes, except for exemption from payment of certain taxes and fees, provide for a system of measures for the special tax 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 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. This is reflected in constant reductions of the existing preferences, attempts to regulate SMEs’ activities and make them more fiscal, and, eventually, to eliminate the special tax 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 (Table2). 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 tax system are representatives of micro-businesses, mainly individuals that cannot be ignored during the tax reform for this sector.

The inconsistency of the SMEs’ tax 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 stop it, it is necessary to develop a transitional transformation taxation model for micro and small businesses with a gradual restriction of the special tax 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.

Table 2 – Local budget revenues from the single tax, million UAH.

	2016	2015	2014	2013	2012	2011
Total, including:	9 898,35	10 975,09	7 413,25	6 640,52	4 815,64	1 987,91
Single tax from legal entities	1 941,01	2 206,15	2 008,47	1 743,29	1 204,76	874,70
Single tax from individuals	6 204,68	6 744,72	5 404,78	4 897,23	3 610,88	1 113,21
Single tax from agricultural producers ¹	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>

¹where the share of agricultural production for the previous fiscal (financial) year equals or exceeds 75%

The main risks of the simplified tax system functioning in Ukraine include the following: 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 SMEs 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 one or two 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. There are no guarantees of stability of such incentives in the medium- and long-term.

Further reform of the tax system should be aimed, in particular, at stimulating the inflow of investments while strengthening the management of tax risks in order to prevent 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, smart phones, pads, etc.). The advantage of using multifunctional devices like smart phones with specialized soft is reflected 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 the reduction of objects of taxation for the amount of costs of the fixed assets' acquisition for production and innovation. This will not only 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 tax 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 individual's 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 tax 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 tax system and form the conditions for application of benefits for innovation and investment activities in the SMEs area.

Thus, individual entrepreneurs (group 1 of the single taxpayers) within the special tax 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 assess temporarily (until the law of Ukraine "On state support for business entities" becomes valid) 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 the costs of doing business similar to deductions, which are widely used in European countries in the taxation of incomes of individuals engaged in business. For ensuring greater controllability (including ensuring the effectiveness of the introduction of objective methods of income control), we propose the taxation of the 2nd group of single tax payers based on revenues. At the same time, we also propose to introduce 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 taxpayers) 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 tax regime until the law of Ukraine "On state support for business entities" becomes valid and to get the mechanisms in order to the SMEs' development; to adopt 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: to increase the maximum amount of income within the framework of the general tax system, which enables not to apply adjustments of the pre-tax financial result to tax differences. In the taxation of incomes of enterprises which, under the terms of the general tax system, are obliged to calculate tax differences, it is offered to increase twice — up to UAH 40 million — the threshold value of the annual income from

any activity provided for by Article 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 UAH 20 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 fixing 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, depending on the category of business, it is offered 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 tax regime continues in the context of changing priorities and 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 the SMEs' stimulation in Ukraine with 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 applying the simplified tax regime by SMEs have increased. However, further stimulation of the SMEs' 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 European approaches.

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