

# TAXATION OF SMEs AS AN INSTRUMENT OF PUBLIC IMPACT ON THEIR ACTIVITY

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## ABSTRACT

*The paper describes the features of taxation of small and medium enterprises as important segments of the economy of any state. Modern definitions of macro, small and medium enterprises at the level of the European Union and in the legislation of Ukraine were considered. It was established that Ukrainian legislation does not take into account the aggregate annual value of macro-, small and medium enterprises as a criterion for their classification. It was found that the practice of application of a special regime for tax regulation of small and medium enterprises is widespread: establishment of a reduced tax rate, exemption from payment of individual taxes, etc. The emphasis is placed on the fact that despite the introduction of a simplified taxation system that exempts small and medium-sized businesses from paying income tax in all cases, today it is necessary to simplify the procedure for administering taxes and the payment by the indicated entities of a single tax, which leads to concealing the real incomes by the latter and, accordingly, the growth of the shadow economy in Ukraine.*

**Keywords:** SMEs, Tax Regulation, Income Tax, Single Tax.

## INTRODUCTION

The modern economy, being a constantly changing environment, requires that the state also carry out a dynamically changing economic policy, including in the area of small business support (Gulnazym & Marat, 2018). Because small and medium-sized enterprises (SMEs) are important elements of every single economy in the world. In most countries, they produce about 70% of jobs and make up 35% of GDP in developing countries and 55% in developed countries. In such states, SMEs play a key role in ensuring social stability, creating jobs, reducing poverty, and promoting economic growth (Xu et al., 2019).

Given the importance of SMEs for the socio-economic development of the state, it is clear that one of the most important tasks facing higher authorities is creation of favourable conditions for the development of this sector of the economy. One such mechanism is precisely the tax regulation, which involves setting tax rates for SMEs, introduction of a simple and quick

procedure for administration of taxes paid by such taxpayers, and monitoring the collection and timely payment of taxes by SMEs.

## LITERATURE REVIEW

Galimardanova et al. draw attention to the fact that tax regulation for small enterprises is one of the most important factors that significantly influences the development of this segment of the economy. Therefore, the government is taking active measures to promote the development of small enterprises at the national level (Galimardanova et al., 2015). Zhuravleva has similar opinion, she states that the necessity of small business development is due to the fact that they are one of the important categories of taxpayers, which plays an important role in the formation of the revenue part of the budget, as well as in solving social issues in society (Zhuravleva, 2018; Makedon et al., 2019).

Taking into account the role of SMEs in the state, Wysłocka & Verezubova. investigated the prospects for reduction of tax regulatory requirements for them (Wysłocka & Verezubova, 2016). Tarasov, analyzing the results of small businesses in Ukraine comes to the conclusion that they need to be exempted from paying taxes at all in order to enable them to accumulate a certain amount of capital (Tarasov, 2016). While Kotowska and Martyniuk, considered the issue of tax reporting of SMEs in the countries of Eastern Europe and concluded that a simplified procedure for tax reporting maintenance and filing is provided for SMEs (Kotowska & Martyniuk, 2016).

## METHODOLOGY

The analysis of theoretical and practical problems of taxation of SMEs was carried out using general scientific and special methods of cognition. These methods allowed revealing the definitions of SMEs, find out the features of taxation of their activities, and identify existing shortcomings and prospects for improvement of taxation of SMEs. One of the main methods that allowed disclosing the features of taxation of SMEs in Ukraine and foreign countries was the method of comparative analysis. In turn, the formal-logical method allowed formulating relevant conclusions regarding the improvement of taxation of SMEs in Ukraine.

## FINDINGS AND DISCUSSION

The European Union Recommendation 2003/361/EC fixed the criteria for identification of SMEs, and according to it, small enterprises include those employing not less than 50 people, whose annual turnover does not exceed 10 million euros, and the annual aggregate value of assets is 10 million euros, and such indicators for medium-sized enterprises-no more than 250 employees, annual turnover of no more than 50 million euros, and annual aggregate value of assets is no more than 43 million euros. In Ukraine, the first two criteria are also based on the division of enterprises into micro, small and medium ones, while the annual aggregate value is not taken into account, which according to scientists is a failure of Ukraine as the state that chose the eurointegration course.

In European countries, small and medium-sized enterprises are key factors for economic growth, innovation, employment and social integration. They account for more than 99% of the total number of enterprises in most countries. This share reaches up to 99.6% in Romania. At the same time, Ukraine can not yet speak of an attractive, stable, predictable and transparent business

environment for the development of SMEs. In particular, one of the biggest problems faced by entrepreneurs is over-taxation (Bălu, 2015). In Ukraine, a simplified taxation system has been introduced for the protection of small and medium-sized enterprises against excessive pressure of the general tax system, which provides for exemption from payment of income tax for all economic entities that apply it and according to Article 291 of the Tax Code of Ukraine are divided into four groups of single tax taxpayers. At the same time, in 2016, the Law of Ukraine "On the collection and registration of a single contribution to compulsory state social insurance" was amended, according to which the second and third group of taxpayers under the simplified taxation system were required to monthly pay a single social contribution. Such changes have led to the fact that more than 300 thousand entrepreneurs have ceased their activities in less than three months. However, Ukraine is not the only state where small and medium-sized enterprises are restrained by tax regulations. In particular, according to Romero-Jordán et al. Spain SMEs cannot improve their low productivity because of the high corporate tax rates (Romero-Jordán et al., 2019).

In turn, there are four special tax procedures in Russia—a simplified tax system, a patent tax system, a single agricultural tax and a single tax on import income. All of them provide tax incentives to small and medium-sized businesses, such as a reduced tax rate of 5% on business income (compared to 20% income tax) and a slight simplification of tax reporting. Despite this, small and medium-sized enterprises are obliged to pay many other taxes, as well as faced with the complicated tax reporting procedure and the need to regularly confirm the right to use a special tax regime (Gashenko et al., 2019). In turn, in Poland, from January 1, 2019, the income tax rate was reduced further from 15% to 9% for small taxpayers, i.e., those whose income in that year does not exceed the amount of EUR 1.2 million expressed in PLN.

In general, the decrease of tax rate for small and medium-sized enterprises, which takes place in Russia, France, Poland, etc., even by 1%, leads to an increase in their number by 0.1-0.2%. This effect becomes evident in the first year of the tax rate change and remains at the same level over the next two years. In addition, a 1% reduction in the tax rate leads to an increase in the turnover of small and medium enterprises by 0.1% (Tumanyants, 2018). That is why tax experts mostly support preferential tax treatment of small and medium-sized enterprises, but oppose a single social tax (Blažić et al., 2017). The said above, in turn, confirms the necessity of abolishing the unified social tax in Ukraine for entrepreneurs.

According to the rating "PayingTaxes 2018", we can see, nevertheless, positive trends Ukrainian tax system, which is confirmed by the fact that Ukraine has risen from 84 to 43 position in one year, having improved a significant part of key indicators, including in the area of the introduction of a simplified taxation system for small and medium-sized businesses, but other issues remain relevant, including tax administration. In particular, too long period of time is allocated for the preparation and submission of tax reporting and tax payment. If preparation and filing reporting, and tax payment requires up to 327.5 hours per year in Ukraine, then the same requires only 161 hours in the European Union (PayingTaxes, 2018). In addition, as noted by Dikan one can not but pay attention to the fact that with the introduction of a simplified system of taxation and a single social contribution many small businesses, because of high deductions to the wage bill, maintain double accounting today, and also conceal their revenues to reduce the amount of tax (Dikan, 2017). The aforementioned causes the growth of the shadow economy in Ukraine, despite the fact that, according to various estimates, shadow turnover in Ukraine equals 20-60% of GDP (Kulish et al., 2018).

## RECOMMENDATIONS

Considering the importance of small and medium enterprises for the stable socio-economic development of the state, it is expedient not only to adopt special tax regulation of their activities, in particular to introduce preferential tax treatment of their activities, but also resolve other issues. In this regard, it is obvious that the Parliament of Ukraine is recommended not only to simplify the administration of taxes paid by small and medium enterprises, but also to pay attention to the payment of single tax by them, which today creates all conditions for shadow business. In addition, it is advisable to review the criteria for assignment enterprises to macro, small and medium-sized enterprises, namely to introduce such a criterion as their annual aggregate value.

## CONCLUSION

So, small and medium enterprises are an important segment of the state's economy. Today, the legislation of Ukraine and the European Union provides the same definition of micro, small and medium enterprises, the exception is only such a criterion as their annual total cost, which is absent in Ukraine, but which it is worthwhile to pay attention to, taking into account the state's eurointegration course. The experience of most states, including Ukraine and the European Union, testifies to the expediency of the existence of a special regime for taxation of SMEs-reduced tax rates, exemptions, etc. In spite of the simplified system of taxation of SMEs introduced in Ukraine, the question of its efficiency is questionable. Despite the exemption of these enterprises from paying income tax, many of them have to pay other taxes, the amount of which makes them conceal the amount of income, which contributes to the growth of the shadow economy, the issue of tax administration remains problematic also.

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