

# Financial and Economic Literacy as a Tool to Promote Entrepreneurship in Russia

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**Abstract**—The article considers some relevant challenges for the state support of entrepreneurial promotion. It presents the findings of the comparative study of the Russian and US legislation and reporting. It shows the results of the analysis of registration and termination of business for self-employed entrepreneurs. Key challenges for the entrepreneurship development have been pointed out. A comprehensive competency-based approach for financial and economic literacy improvement has been suggested as a tool to promote entrepreneurship. It consists of the five interrelated levels of education – elementary (school), intermediate (vocational educational institution), higher (bachelor’s or master’s degree at university), auxiliary (vocational training and retraining programs), individual (consultations provided by tax authorities and financial organizations). In addition, the approach suggested includes simplification of legislation and reporting for small businesses.

**Keywords**—financial and economic literacy, training, taxes, banks, insurance, promotion of entrepreneurship

## I. INTRODUCTION

State support of small business is effected in a variety of ways and can be observed directly in the tax, banking, insurance and other systems, each of which operates under certain regulations established by statutory instruments. Being aware of them and their application in the entrepreneurial activity predefines the necessity to obtain special education services in the sphere of economics, finance, taxation, banking affairs, etc. or to study complex statutory documents on one’s own, which is difficult and takes a lot of effort for a person having no economic education. For example, on January 1, 2019, the Russian Tax Code had two parts, 34 sections, 432 articles, with the total volume of 1470 pages. In addition to the Tax Code of the Russian Federation, Russian tax legislation consists of Federal Laws, Regional Laws and statutory acts of local municipalities. One should also take into account standards of the international taxation law, i.e. the prevalence of international agreements and contracts with regard to Russia’s Tax Code. Banking and insurance legislation and statutory acts under related branches of law applied for entrepreneurial activity are not less complex or multifaceted. Therefore, the issue of raising the financial and economic literacy is relevant at present.

## II. COMPARATIVE STUDY OF THE LEGISLATION AND REPORTING COMPLEXITY IN RUSSIA AND USA

State support of small business is effected through tax, banking, insurance and other systems. The components of such support include legislation development, methodological support and control. Development of the taxation legislation can be regarded as one of the aspects of tax policy. Richard A. Musgrave and Peggy B. Musgrave highlighted the second aspect – “an extremely important issue of tax administration” [1, p. 52], which includes methodological support, setting of reporting templates and the order of their execution, as well as tax control, all of which are regulated by statutory acts.

Reporting templates serving as methodological support for tax administration are complicated and voluminous, the number of pages in tax declarations is constantly growing. For example, on 1 January 2019 a VAT declaration had 27 pages, while in 2012 it had only 12 pages, a personal income tax declaration had 13 pages versus 12 pages back in 2012, a corporate income tax declaration – 37 pages (in 2007 – 22), a declaration on unified tax on imputed income for particular types of activity – 5 pages (in 2008 – 4), a unified agricultural tax declaration – 4 (in 2005 – 4), a simplified tax system declaration – 8 (in 2006 – 3), a patent system tax declaration – 5 (in 2015 – 3).

Alan Siegel and Irene Etkorn spoke about a similar situation in the taxation sector in their work *Simple: Conquering the Crisis of Complexity*. “Companies and governments find it easier to just keep amending and adding on, sometimes to laws or policies that are irrelevant or of unknown derivation.” [2, p. 28]

“Nina E. Olson, the national tax advocate who acts as an ombudsman for the I.R.S., issued a sweeping criticism of federal tax policy in her annual report to Congress. Ms. Olson found that the volume of the tax code had nearly tripled in size during the last decade — to 3.8 million words in February 2010 from 1.4 million in 2001. She estimated that Americans spent 6.1 billion hours preparing their returns each year — the equivalent of 3 million employees working full time.” [3]

“And on top of that, complexity causes accidental underpayments and encourages cheating—more than a trillion dollars in write-offs, loopholes, and deductions.

Thanks to all the confusion, according to IRS Publication 4822, *Taxpayer Filing Attribute Report*, almost 60 percent of taxpayers hire someone to prepare their tax return, and 32 percent use tax preparation software [2, p. 30]. Even IRS commissioner Douglas Shulman admitted on C-SPAN's *Newsmakers* that he can't do his personal return anymore because "it's just too complicated." [4] A similar situation can be observed in Russia, where a lot of taxpayers, including self-employed entrepreneurs, have to address consulting companies and pay for their services of filling in tax declaration, which are too complicated and make it impossible to fill them in independently.

In the USA "the introduction of the short-form 1040EZ tax return in 1980 was a radical innovation: tiered forms, tailored to reflect the reality that some taxpayers have little more than salary to report, rescued many from the maze of forms and instructions and saved millions of hours of people's time. The IRS, to its credit, followed that up a decade and a half later by offering the option to file the 1040EZ by phone, which saved a few million more hours. (A similar option offered to business tax filers in 1998 provided an even bigger time-saving benefit.) In 1999, however, the trail of simplification grew cold. That year, the federal paperwork burden had one of the biggest one-year increases ever, and 90 percent of the increase was attributable to the IRS." [2, p. 52-53] The tax simplification issue is on the political agenda of Russia and the USA again these days.

Today's banking sector in Russia offers various types of bank products that are difficult for entrepreneurs to understand. Meanwhile, a large amount of banks offer a diversity of different products. Due to legislation and bank's documentation complexity the banking sphere creates new challenges for small business that may vary in different countries. For instance, over 80 percent of US respondents said banks should simplify paperwork for credit cards and loans." [5] "The stranglehold of legalese", using the word "not" three times and "included" twice in one sentence creates a brain twister." [2, p. 30]

The process of financial service provision to small businesses by non-banking credit organizations regulated by Law No.395-1 of the Russian Federation on Banks and Banking Activity is much simpler. However, such services are more expensive. Insurance companies competing with other ones at the insurance market also offer a wide variety of insurance products at different costs. Russian insurance market for entrepreneurs is less developed, if compared to the one in the USA, the cost of insurance services is high, and insurance coverage is accompanied by the complexity of getting one.

Thus, Russian and US legislation in taxation, banking management and insurance, as well as reporting documents and their execution are complex.

### III. RESULTS OF THE ANALYSIS OF REGISTRATION AND TERMINATION OF BUSINESS FOR SELF-EMPLOYED ENTREPRENEURS IN RUSSIA

Small businesses find it impossible to assess their tax, banking and insurance risks, which are explained by insufficient competencies, they frequently lack funds to pay for consulting services with regard to financial issues. These and other factors have probably brought about the decision to cease entrepreneurial activity.

On 1 January 2019, the number of those self-employed entrepreneurs who ceased their business exceeded the number of newly registered ones 2.6 times. This is a trend observed in 85 regions of Russia.

The situation improved a bit last year. In 2018 only, 853,992 self-employed entrepreneurs and farms were registered, while 716,732 terminated their activity. However, the ratio is still high – 83.9%.

### IV. KEY CHALLENGES FOR THE ENTREPRENEURSHIP DEVELOPMENT IN RUSSIA

Key challenges for the entrepreneurship development in Russia may be grouped as following:

- low level of financial and economic literacy of small businesses;
- complexity of the tax, banking, insurance, labour, civil legislation, etc.;
- complicated and voluminous reporting templates;
- high tax, credit and insurance risks;
- low level of investment appeal;
- limited financial resources and high interest rates, etc.

It's possible to find a partial solution to the challenges encountered in obtaining information in the context of economy digitalization. However, it's in that context that a vast store of financial and economic information, statutory framework, big data, as well as anonymous counselling based on individual entrepreneurial experience, being not always positive, has appeared and become available for a wide range of users.

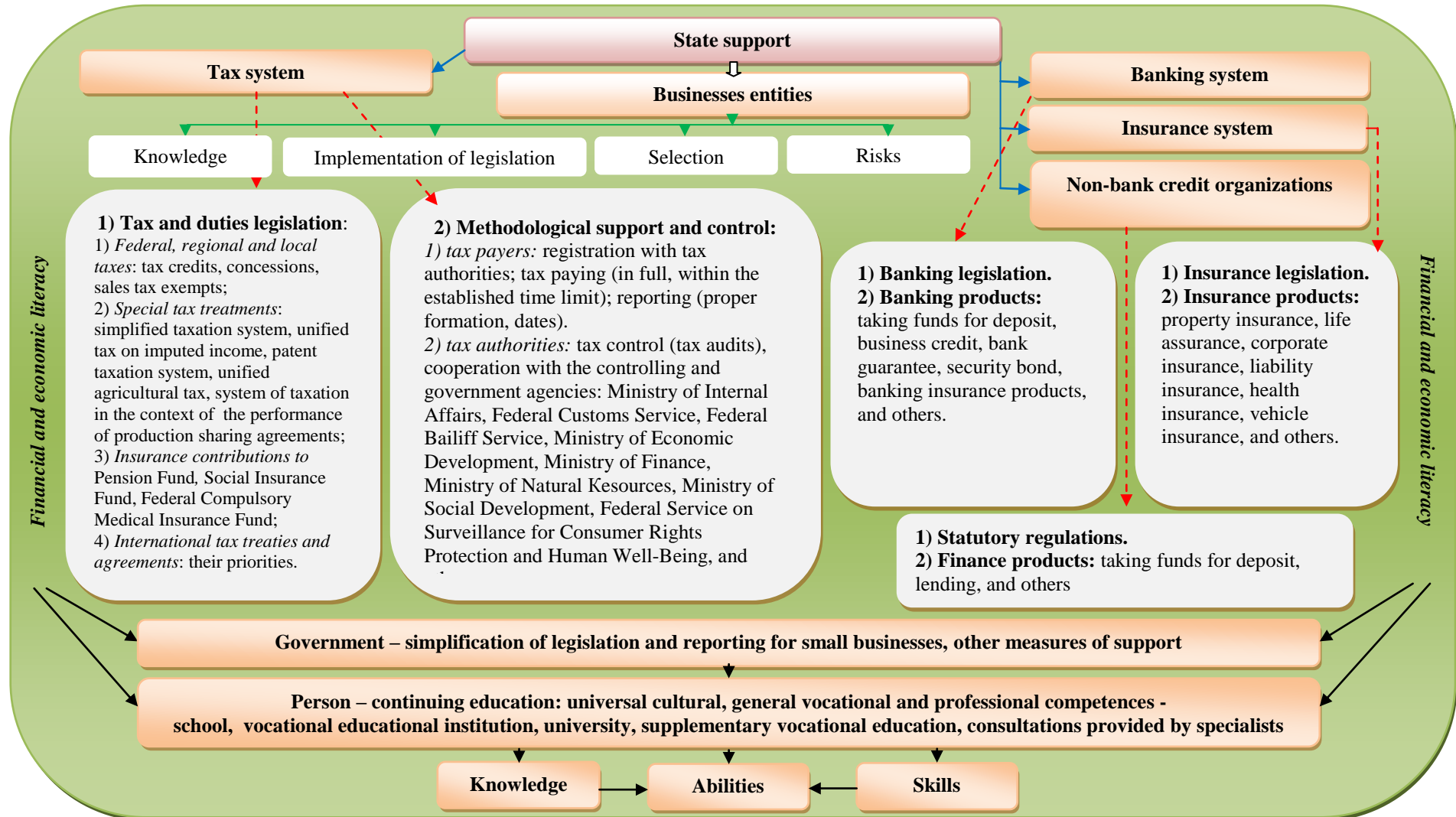


Fig. 1. Comprehensive Competency-Based Approach for Financial and Economic Literacy Improvement as a Tool to Promote Entrepreneurship in Russia

Source: drafted by the authors

## V. COMPREHENSIVE COMPETENCY-BASED APPROACH FOR FINANCIAL AND ECONOMIC LITERACY IMPROVEMENT AS A TOOL TO PROMOTE ENTREPRENEURSHIP

To address the issues identified it is necessary to develop and implement a new approach for financial and economic literacy improvement as a tool to promote entrepreneurship. In our opinion, it has to be a comprehensive competency-based approach (Fig. 1).

It comprises two elements – personal (education) and governmental (legislative and methodological support and control). Education implies the five interrelated levels – elementary (school), intermediate (vocational educational institution, higher (bachelor's or master's degree at university), auxiliary (vocational training and retraining programs), individual (consultations provided by tax authorities and financial organizations. In addition, the approach suggested includes simplification of legislation and reporting for small businesses.

*Firstly*, education for financial literacy in Russian schools is at an early stage. Not every school provides courses of financial and economic principles, even within the mandatory school curriculum. For example, it would be useful to include economic indicators in math's problems, when studying social studies it is necessary to pay attention to tax application, tax system, banking sector and insurance. Unfortunately, it must be admitted that schoolchildren cannot grasp the needs mentioned and teachers who are not specialized in economics cannot provide this knowledge. Nevertheless, school leavers who have no business knowledge are entitled to register with tax authorities and carry out activities as self-employed entrepreneurs. Unfortunately, their level of performance turns out to be too low which results in termination of business and reluctance to manage any business. It causes the loss of tax receipts for the government and lower number of taxpayers represented by employed population in the economy.

*Secondly*, such subjects as Principles of Taxation, Money, Loans, Banks, Principles of Insurance are not included in the curriculum of non-economic training programs in educational institutions of secondary and higher vocational level. Certain educational institutions offer only programs on elementary economics and economic trends which give a general idea of economics far too insufficient to run a successful business. Thus, although there is some demand from students for

financial and economic knowledge, there is no supply provided by educational institutions.

*Thirdly*, supplementary vocational education programs are mostly offered on a commercial basis at high price which makes education unaffordable for some categories of potential small businesses. Website study of the country's leading universities shows a limited offer of supplementary training programs on finance and economics to small businesses. Universities are ready to train entrepreneurs but the demand for the programs mentioned is restrained due to their costs.

*Fourthly*, there are consultations provided by tax authorities and financial organizations. These consultations are annually held by tax, banking and insurance authorities free of charge as part of the All-Russian Financial Literacy Week held in September and Saving Week in November. These are main students who participate in such events and come to improve their knowledge obtained at universities. Small businesses hardly ever take part in them.

## VI. CONCLUSION

State support for small businesses based on the comprehensive competency-based approach for financial and economic literacy improvement as a tool to promote entrepreneurship allows continuous obtaining of new knowledge and skills related to economics and finance. Simplified tax, banking and insurance legislation, as well as shorter reporting templates and their execution with user-friendly software will make it possible for entrepreneurs to feel confident about their competencies. In addition, it is necessary to lower bank loan interests and insurance premiums in line with a simpler insurance coverage procedure in case of an insurable event. The new approach will promote entrepreneurship, increase small business incomes, which may serve as a fair basis for budget tax receipts required for the public benefit.

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