

Issues of Optimization of the Accounting and Taxation Systems of Small Businesses in the Russian Federation

Tatyana Vasileva

*Department of accounting and
electronic business*

*I.N. Ulianov Chuvash State University
Cheboksary, Russia
tanya-7878@mail.ru*

Lyudmila Savinova

*Department of accounting and
electronic business*

*I.N. Ulianov Chuvash State University
Cheboksary, Russia
almila5@bk.ru*

Olga Matveeva

*Department of accounting and
electronic business*

*I.N. Ulianov Chuvash State University
Cheboksary, Russia
lelia.61@mail.ru*

Abstract—The method for stimulating small businesses (simplification of accounting and taxation systems) is described. The contribution of business entities of the Russian Federation, that applies special tax regimes to the formation of tax revenues of the state budget, is studied. It is revealed that this contribution is different and for different subjects of the Russian Federation it depends on the sectoral structure of the region's economy and natural resource base. The issue of VAT assessment and accounting in the context of the simplified taxation system applied by organizations and individual entrepreneurs is analyzed. Calculations are made and recommendations for improving the simplified tax system at legislative level are provided. Also, the proposals on optimization of accounting and accounting policy in small organizations are given.

Keywords—small business, taxation, accounting, tax payments, tax administration.

I. INTRODUCTION

The purpose is to consider the issues of optimizing accounting and taxation of small businesses at the federal and regional levels.

The efficiency of small businesses is an important component of the national stable socio-economic development. In 2017, according to the Russian Statistics Service, 21.9% of the gross domestic product is produced by small enterprises (including microenterprises), medium-sized enterprises and individual entrepreneurs [1].

The most urgent task is to adopt "such legislation that would create a proper business climate for small businesses" [2].

Russia has created a support system for small businesses, enshrined in the Federal Law "On the Development of Small and Medium-size Enterprises in the Russian Federation" of July 24, 2007 (as amended and supplemented) No. 209-FZ [3]. Tools of taxation and accounting policies are used to support small enterprises and entrepreneurs at the federal and regional levels. This is the possibility of choosing a special tax regime - a simplified taxation system (STS), a patent taxation system, a taxation system in the form of a unified tax on imputed income (UTII), a single agricultural tax. The use of a special taxation regime allows businesses not to pay an income tax (a personal income tax for entrepreneurs), a corporate property tax, a VAT [4].

At the regional level, the patent tax system can be introduced and "tax holidays" for individual entrepreneurs can be used. The regions may lower the tax rate based on the simplified tax system. The UTII is introduced at the local level.

As for accounting, significant concessions in the form of simplified accounting and documentation methods are provided for small businesses [5-8]. Individual entrepreneurs are completely exempted from the obligatory accounting and preparation of financial statements.

II. METHODS

The research methods are an analysis of scientific literature, statistical data of the Federal State Statistics Service of Russia and the Federal Tax Service of Russia, logical and comparative methods, graphic images.

All small businesses can apply special tax regimes, since one of the criteria for classifying businesses as small is the maximum annual business income of 800 million rubles, and this value exceeds the maximum revenue according to the simplified tax system, which is 150 million rubles. [3,4,9]. At the same time, "any business that applies a patent or a simplified taxation system automatically refers to small businesses (by revenues, a number and a structure of the authorized capital)" [10]. According to the UTII, this conclusion is not applicable, since there are no restrictions on revenue when applying the UTII. Special tax regimes can be applied only for a limited number of activities (retail, household, veterinary, motor transport services, catering, etc.) [11]. The article discusses features of tax optimization for the simplified tax system which can be used exclusively by small businesses.

III. RESULTS

According to the statistics of the Federal Tax Service of Russia, the share of taxes in the consolidated budget amounted to 2.43% of the total tax revenue accumulated by the Russian Federal Tax Service in Russia as a whole in 2018 due to the implementation of special tax regimes [12]. This share depends on the sectoral structure of the economy, natural resources, availability of oil and gas. In the Chuvash Republic which has no resources and raw materials, the share of taxes was 6.2% in 2018; in the Republic of Tatarstan, it was 1.46%, while the share of the mining tax was 48.3%.

Under the special tax regimes, the largest share was 82.3%; under the UTII regime, the share was 12.6%, and under the patent and SAT regimes, the share was 2.5 % (Figure 1).

At the same time, a large amount of taxes under the simplified taxation system falls on taxpayers who have chosen “income” as an object of taxation (2.25 times higher than the amount of taxes received under the STS with an object of taxation “income minus expenses”). This means that the simplified taxation system is used by those organizations and entrepreneurs whose expenses are low.

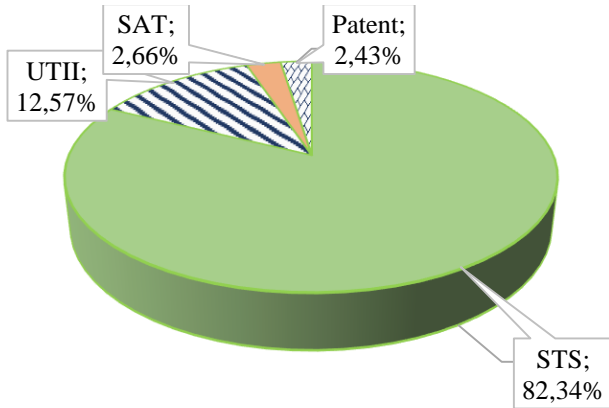


Fig 1 Structure of tax revenues for special tax regimes in the Russian Federation in 2018

The most popular special tax system is simplified. The patent system and the single tax imputed income system are applied according to a specific list of activities (catering, retail, motor transport services, etc.), i.e., activities related to the provision of services and sales of goods to the population as an end user.

Organizations and individual entrepreneurs using special taxation systems are exempt from certain taxes, including VAT. On the one hand, this is a “blessing” for them, since the tax burden is reduced. On the other hand, for companies and individual entrepreneurs applying the simplified tax regime, it is difficult to work with counterparties using the traditional tax system and interested in “input VAT” for receiving a VAT tax deduction. The former should not issue invoices with the allocation of VAT amounts, since they do not pay VAT. However, such invoices are often issued at the request of buyers who work under the traditional taxation regime and need an “input” VAT to reduce the VAT payable to the budget. If the former issue such invoices, they must pay the entire tax amount to the budget. At the same time, the same entries are made in accounting as in the case of ordinary sales subject to VAT (Debit 90, 91 Credit 68 / VAT). “In this case, there is an obligation to submit a tax return” [13].

The businesses applying the STS system often face an “input” VAT. If they purchase goods (works, services) from a supplier using a traditional TS, the input VAT is included in the cost and expenses as well as in the cost of purchased materials, goods, and services. The amount of the “input” VAT is taken into account in the purchase price. It is necessary to create one record: Debit 10 (08, 20, 25, 26, 41, 44 ...) Credit 60 (76) - the purchase price is reflected, including the “input” VAT.

Let us consider a practical example of calculating taxes paid for an organization that uses a simplified taxation system

with a taxable item “income minus expenses” (Table 1). It installs engineering equipment; the tax regime is the STS with an object “income minus expenses”. The organization applies only a special taxation system; therefore, it does not pay a VAT, a property tax, and an income tax. Until 2019, the company paid insurance premiums at reduced rates - only to the Pension Fund of the Russian Federation at a rate of 20%. Since 2019, manufacturing companies have been paying insurance premiums at a total rate of 30%.

TABLE I. TAXES UNDER VARIOUS TAXATION REGIMES RUB

Parameter	Amount under the STS with the object “income minus expenses”		Amount under the general taxation system	Amount under the proposed regime (VAT payment under the STS)
	standard, no invoices	VAT is paid on the basis of invoices		
A	1	2	3	4
1. Income	7824925	6520771	6520771	6520771
2. Expenses	5937386	5937386	5442160	5442160
3. Profit	1887539	583385	1078611	1078611
4. Total	996079	2104610	1737598	1683668
including:				
- insurance premiums	507381	507381	507381	507381
VAT	-	1304154	808928	808928
- Personal income tax	205567	205567	205567	205567
- profit tax	-	-	215722	-
- tax paid by the STS	283131	87508	-	161792

Column 1 shows the results of operations and the amount of taxes payable to the company when it operates in a standard mode without issuing VAT invoices, and the input VAT for purchased materials and services is included in their value.

The organization cannot work with medium and large businesses if it does not issue VAT invoices. Column 2 shows how the tax burden will increase if we assume that the company issues VAT invoices. The amounts of VAT transferred to the budget by organizations and entrepreneurs using the simplified tax system are not included in their income not taken into account when forming the tax base for the simplified tax system; the amount of income is reduced by the amount of accrued VAT in the amount of 1304154 rubles. (= 7824925/120% x 20%). The same amount is transferred to the budget. The rate of tax overpayment is 2.11.

If the same organization used the traditional taxation system (calculations are presented in Column 3), the overpayment would be 174% compared to the simplified tax system.

This company would not pay the property tax due to the absence of a taxable item. In reality, the amount of expenses under the general taxation regime will be higher, since under the simplified taxation system, the list of expenses is closed. Nevertheless, under the general regime, the tax burden is higher in comparison with the simplified taxation regime, but lower compared to the VAT payment on the basis of VAT invoices.

Thus, entrepreneurs applying the STS often have to issue VAT invoices. It is legitimate on the basis of paragraph 5 of Art. 173 of the Tax Code. At the same time, the tax burden for

a small business increases due to the fact that the organization and the entrepreneur using the simplified tax system are not entitled to a VAT tax deduction, cannot reduce the amount of VAT by the amount of “input” VAT.

In our opinion, in order to support small businesses, taxpayers using the simplified taxation system should be full-fledged VAT payers (similar to the general taxation regime), since the VAT is a stumbling block for small companies working with enterprises that need the “input” VAT. This will be beneficial both for the budget and small businesses that work with large and medium-sized businesses. It is confirmed by our calculations presented in Column 4 of Table 1.

The amount of income when applying different taxation systems is different, since under the simplified tax regime, income is not subject to VAT. The amount of VAT paid under the general and proposed regime will amount to 1304154 rubles ($= 7824925/120\% \times 20\%$). The amount of income received is deducted.

The amount of expenses when applying different taxation systems varies due to the fact that under the general taxation regime, expenses are reduced by the amount of “input” VAT when purchasing materials, goods, works, services, which are included in the material costs under the special taxation regimes. The total amount of received materials, work, services amounted to 2,971,357 rubles, including VAT on the basis of issued invoices. Accordingly, the amount of “input VAT” will be equal to 495,226 rubles ($= 2\,971\,357/120\% \times 20\%$). In this situation, VAT is paid under the general and proposed regime calculated as accrued VAT minus refunded VAT and will be 808928 rubles. ($= 1304154 - 495226$).

If a company using the simplified taxation system can be a VAT payer (of your choice), this contributes to a closer development of relations between small and large and medium-sized businesses. The tax authorities will not refuse buyers to deduct the VAT presented by the businesses using the STS. The calculation showed that for the STS taxpayer whose buyers are representatives of large and medium-sized businesses, it would be beneficial to be a full-fledged VAT payer entitled to refund the “input” VAT from the budget for the purchases.

According to O.S. Sukharev, “the largest share of medium-sized enterprises (55-60%) deals with wholesale and retail trading, real estate operations, and the share of small and micro enterprises is 71 %. Up to 22% of medium-sized enterprises and only 8–9% of small enterprises (including microenterprises) operate in manufacturing industries” [14]. The ability of STS taxpayers to pay VAT in the manner prescribed for the general taxation system will allow small businesses in the manufacturing sector to apply the simplified taxation system; today, they are forced to apply the general taxation system

In Russia, for small businesses, simplified accounting and preparation of financial statements are provided. Since June 20, 2016, new standards for the accounting of inventories and fixed assets have been introduced for small organizations [10]. Customs duties, transportation costs, expenses of intermediaries may be attributed to other expenses which decreases profits, initial costs of fixed assets and the property tax.

The accounting simplifications implemented since 2016 are useful if the company uses special tax regimes. For small

organizations that use the general taxation system, the complexity of accounting procedures may increase due to tax differences between accounting and tax accounting. In addition, almost all exemptions decrease the accounting profit (as expenses for ordinary activities increase), which will negatively affect the indicators of reporting, financial stability and profitability. This can be important when a company attracts borrowed funds, as well as for founders and external users of financial statements. The above tax accounting simplifications will not have any effect on the income tax, since this tax is calculated according to the tax accounting data.

Under the general tax regime, if a small organization is going to acquire taxable fixed assets, and a significant share of other expenses related to the acquisition of fixed assets is appropriate, the initial cost should be determined without taking into account other accompanying costs. This will reduce the property tax calculated on the residual value of fixed assets. In any case, the small organization should reflect the applicable accounting and reporting methods in the accounting policy.

When taking measures to stimulates small businesses using taxation systems, these measures should not create the shadow turnover. Taxes are paid to the consolidated budget of the Russian region; therefore, it is important for the regions to maximize their control measures. One of the important problems is involvement of unregistered entrepreneurs and workers who do not work under labor contracts. Currently, self-employed persons can purchase a work patent. It is not widespread. It is necessary to tighten control over illegal activities, especially regular and highly profitable ones (hairdressing, massage services, repair of household appliances, private transportation, etc.). As a result, the budget loses revenue in the form of tax payments; unequal competition is created as costs of services provided by “illegal businesses” are lower. Measures aimed at blocking all tax evasion schemes should be implemented (fragmentation of businesses for the purpose of applying special tax regimes).

IV. CONCLUSION

The article examined the methods of stimulating activities of small businesses: simplification of accounting and taxation. At the regional and local levels, tax incentive measures can be taken within the tax powers granted to sub-federal authorities: the implementation of a single imputed income tax, the patent tax system, a zero-tax rate for entrepreneurs applying simplified and patent tax systems during the first two years (“tax holidays”).

The contribution of businesses applying special tax systems to the state budget was studied. It was revealed that for different businesses, this contribution depends on the sectoral structure of the regional economy and the natural resource base. Methods for optimizing the control over tax payments were studied: the control function of taxation, suppression of tax evasion schemes, and involvement of unregistered entrepreneurs in legal activities.

In order to support small businesses, taxpayers using the simplified taxation system can become full-fledged VAT payers (similar to the general taxation regime), since the VAT is a stumbling block for small enterprises working with enterprises that need the “input” VAT. When employers or organizations apply the simplified tax system, they should be able to choose an object of taxation and decide whether they

want to pay the VAT. On the example of an enterprise using the STS, it was showed that this system is beneficial for the budget and small businesses interacting with large and medium-sized businesses.

In addition to recommendations for improving the taxation of small businesses, suggestions on optimizing the accounting system in small organizations were made.

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