Small Business in the Economic System of the Country

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ABSTRACT

The role of small business and entrepreneurship in the conditions of market economy is quite crucial. As experience of the developed countries shows, small and medium business play a very important role in economy, their development influences economic growth, acceleration of the scientific-and-technological progress, saturation of market with goods of required quality, additional work creation, namely, these types of business solve many urgent economic, social and other problems. Business as one of the concrete forms of manifestation of public relations promotes not only to increasing material and spiritual capacity of society, not only creates favorable circumstances for practical realization of skills and talents of each individual, but also leads to nation unity, preservation of its national spirit and national pride. Over the last decade Russia experiences the restoration of business and entrepreneurship as an economic basis of society’s well-being. In the conditions of constructions in our country of market relations the center of economic activity moves to a key element of the whole economy and business being its real basis. Exactly by means of business activity goods necessary for the population are produced and services are conducted in society. Business is the future in Russia, the process of accumulation of a critical mass of economic potential will inevitably lead to “an enterprise bubble.”

Keywords: Small Business, Economy, State Support, Economic System

JEL Classifications: E32, M54, J21, J24

1. INTRODUCTION

In recent years in some regions of Russia aided by a number of the federal ministries and through the offices of the leading analysts some monitoring investigations of the state of small business were conducted. Small business is the leading sector influencing the rates of economic growth, the structure of the gross national product in economy of our country. In Russia there were the main elements of the system of state support of small business established in the countries with developed formally market economy, but the complicated conditions of economic management and current problems of the development of small business have revealed inefficiency of state support measures. Exactly for this reason the further development and improvement of the whole system of state support of small business is necessary for the successful development of small business in the Russian Federation. Small business is characterized by the high dependence on the environment. In the process of the implementation of its activity business is influenced by a number of factors hindering its development. These factors can be divided into three groups: General economic, territorial and private.

2. MATERIALS AND METHODS

Both Russian and foreign scientists made an invaluable contribution to the study of a range of problems concerning small enterprises, the definition of their role and place in economy, the extent of their interaction with the state. Fundamental aspects of business are revealed in works of Drucker (Drucker, 2008), Tougan-Baranovsky (Tougan-Baranovsky, 1997), Kirtsner (Kirtsner, 2013), Marshall (Marshall, 1920), Von Mises (Von Mises, 1953), Schumpeter (Schumpeter and Clemence, 1989), Chayanov (Chayanov et al., 1986) and other foreign and domestic scientists.

In recent years this problem is quite often covered by domestic scientists, many publications were written. The works of such
3. DISCUSSION

Now in the regions of Russia there were several monitoring investigations of the state of small business conducted. Having analyzed their results, it is possible to divide the following main problems of domestic small business in order of importance:

- High tax level.
- Availability of credit resources.
- Administrative barriers.

As to tax liability, in our opinion, today the level of chargeable taxes for small business in Russia is absolutely manageable. The problem resides in the fact that two concepts - taxes and any payments (official and informal) to parent-departments which over the last 10 years have developed the abuse of total administrative power over business activity are often confused. Of course, taxes and payment of some “permissions” sometimes reach astronomical for a businessman quantities that is the term “tax liability.” It is not so difficult to solve the problem, therefore, it is just necessary to forbid state and municipal bodies to collect (independently or through the structures) payment for discharge of duties which they anyway must perform being supported by the state. And penalties and other payments should go into the state budget.

Now the matter concerns administrative barriers developed in Russia by the permissive principle of getting started. That is, if a man has decided for getting started, he should collect a lot of necessary and unnecessary references and pay considerable sums to a large number of officials on and off the record with his need for work. Now there are a lot of discussions that the number of small enterprises does not grow in Russia, but reduces. The notifying principle which demands getting started with the registration in the appropriate government body is more important for solution of this problem than the permissive one. And this government body should send the notices to certifying, fire and other services (Frolova and Kabanova, 2014). In turn, all these departments if situation so requires should come, check, monitor new business free of charge.

The situation with the personnel is that the market makes special demands to a human factor that is or interested to be a part of small business. Now, there is a deficiency in qualified bricklayers, painters, assemblers, dentists, representatives of many other professions (Timofeeva et al., 2016). Therefore, to occupy a seat in the market, the small enterprise should initially to produce goods or services of higher quality and lower price than competitors do. So, there is the need for corresponding workforce which market should be formed by the state. Solution of these problems creates normal conditions for the emergence of new small enterprises - non-onerousness of permissive procedures and the existence of a necessary human resource.

There is the third one - the availability of credit resources allowing to make necessary investments in acquisition of fixed assets, advertisement and so forth. Today within this framework manufacturing and innovative small enterprises which need in quite cheap and long-term (till 3-5 years) credits are especially poor. Here, most likely, there is the need for even small special state funds. Today, it is already obvious that the intellectual and innovative potential which Russia still has can be effectively transformed into the knowledge-intensive commercial product and is realized, first of all, by means of the development of small business. It is one of the steps which will allow the Russian economy to leave the category of raw material producing countries.

In Russia there are already the cases when in the knowledge-intensive small business the annual proceeds from sales of own goods per one worker are comparable with a similar indicator in an oil branch. It is already qualitatively new level and it sees the near future of relationship of science and small business when the last one not only uses the practices of the first one but also creates the structures embodying these practices. It is obvious that the centralized mechanism encouraging such tendencies and allowing the state to support science in advance its products to the market is necessary. Small business here is ready to come to help.

All above-mentioned problems can be solved upon the sole condition - the existence of the effective infrastructure of support of small business. It is confirmed by the world practice which is repeatedly proved by life. Considerable budgetary financing of the infrastructure of support of small business is practiced in such countries as the USA, Canada, Italy, Great Britain, and Japan. Through the infrastructure of support businessmen get any advice on getting started, business dealing and planning, legal issues, marketing strategy, protection of the legitimate interests. Exactly by means of the infrastructure of support special programs of preparation, retraining and selection of the personnel for small business are realized. All these countries for crediting of a sector of small business have special infrastructure elements - state or semi-state organizations crediting or providing state guarantees to small enterprises. In our country it can be executed by federal and regional funds of support of small business.

In Russia in many regions there is already the infrastructure of support of small business, thus, weak controllability and a lack of coherence of activity of all its elements do not allow to claim that it is real and purposeful help to small business.

For example, there is no system of carrying out the deep analysis of activity of small enterprises (Vesna and Guseva, 2013). There is no appropriate accounting of the results of their work and there is almost no reporting by those indicators which grant the right to small enterprises to use tax benefits.

Business logistics of small enterprises is carried out in the insufficient volume and untimely (Kobersy et al., 2014). There are no cars, equipment, devices used by small enterprises and considering their specifics. An access of small enterprises to high technologies as their purchase demands considerable disposable financial expenses is limited.

The complicated problem is also connected with social protection of business activity. It is known that the previous system of social
guarantees and social security in the conditions of the present period based on the distribution of public funds was almost undermined. It is required to build, in fact, this system anew in relation to the whole society and to businessmen.

Over the last years of crisis decreased income of the population has led to considerable deterioration of the structure of consumption. The income is generally directed for the acquisition of staple commodities, first of all, of food and payment for utility services (Frolova et al., 2016). The same also concerns small business. To make knowledge-intensive products with a long working cycle, certainly, became not just inefficient but even consumptive. Serious negative structural changes in small business began. If the current processes will proceed and not meet counteraction in the form of social guarantees to small business, its existence will be questionable.

Today, there is a set of problems concerning the development of small business, and they are not only financial. So, for example the RosStat (Federal Service of State Statistics) survey in 2012 has showed that, businessmen are much disturbed by taxes (Figure 1).

Thus, many businessmen consider pension contributions as taxes because they are obligatory. 26% of those asked businessmen have voted for taxes. 19% of businessmen have voted for corruption, 15% of businessmen consider that the most important problem is bureaucracy, checks and administrative barriers. 11% of respondents say that to they are confused by credit inaccessibility and this problem is important because banks either do not trust small businessmen or they do not accept caution money (Shkunova and Pleshanov, 2016). On the other hand, it is absolutely proved as in the modern conditions one in two enterprises are closed. 6% of businessmen say that there is no access to resources and monopolism. 5% consider that the problem is in bad laws. The knowledge of laws and rights of businessmen is badly estimated as well.

Figure 2 helps to see the dynamics of the development of small business in Russia over the period from 2010 to 2015.

Since 2010 to 2012 there was the growth of small business in the country. In 2014 there were changes into the law on contributions to the pension fund increasing the rate on insurance fees brought about. As a result, businessmen have started phasing down. As the Deputy Prime Minister Igor Shuvalov said, many businessmen decided that there is no reason to continue their activity if the insurance fee payment from each employee to the state is 35 thousand rubles (instead of 17 thousand rubles in 2012). In this regard, in 2014 the government has amended tax legislation reducing insurance fees for a SO from 35 thousand rubles to 19 thousand rubles.

It is obvious that the main reason of closing of enterprises in Russia is financial as small business is profitless because of too high tax burden. Businessmen still hope that the state will face to small business and create for them comfortable working conditions. But now tax burden pressure makes business linger behind the scene. There is even the corresponding terminology: “Under-the table pay” (envelope), “illegal salary” (a part is paid out officially). “Ease of tax burden would help the majority of businessmen to come to the fore and pay officials pays (Tupchienko, 2013; Vesna et al., 2014). It would positively affect the budget, employers, and their employees.”

In Russia small business has strategic tasks as the key direction of economy and society modernization that means in the long term to make not less than a half of workplaces, to become a sector of intellectual and creative activity, to be integrated into the global market, exporting goods and services.

However, institutional transformations in Russian society over the last 20 years which were conducted in line with neoliberal policy and with abandon to “an invisible hand of the market” have led to the fact that small business as one of the significant institutes of market economy did not make expectations.

Modern domestic small business takes quite ambiguous place in modern Russian society. With due formally positive relation of the population to small business, it has an insignificant social base for its development as the enterprise potential of Russians is the lowest (Chueva et al., 2016). Linked with the adverse institutional environment Russian small business is on the verge of stagnation that obviously will come in the course of realization of the Russian pension system strategy which will have especially bad influence on individual entrepreneurs being in a majority in small business of the country.
4. RESULTS

Small business is the leading sector influencing the rates of economic growth, the structure of the gross national product in the economy of our country. In Russia, there were the main elements of the system of state support of small business established in the countries with developed formally market economy, but the complicated conditions of economic management and current problems of the development of small business have revealed inefficiency of state support measures. Exactly for this reason the further development and improvement of the whole system of state support of small business is necessary for the successful development of small business in the Russian Federation.

State support of small enterprises is conducted in different forms: Stimulation of production of necessary types of goods, franchising tax applications, creation of information and scientific centers, adaptation of the insurance system for the needs of small business, organization of business logistics. The most important role is occupied by enactment and legislative execution and also the development of comprehensive programs.

There are some problems in the sphere of the development of small business: Deficiency of the initial capital, investments and current assets; limited sales of products in view of low solvent demand of the population.

The main problem which slows down the development of small business at the federal level is a lack of the complex legal system meeting the interests of small business. Therefore, it is necessary to improve tax legislation which supports a desire for small business.

The problem of high cost of a rent for non-residential facilities owing to that the rates of the development of small business decrease should be noted. These negative moments make to direct all the forces not to the production expansion, but to the battle for survival.

Quite burning issue is connected with the formation of a financial base for the development of small business.

In our country small business is developing. Now, there are some transformations in legal and organizational support for creating favorable conditions of its existence. Non-resourcing forces the state to support small business in the following main directions:

- Financial support (the development of state programs providing concessional small enterprise lending, subsidies, tax privileges, and so on);
- Material-and-technical support (various forms of promotion with technology and equipment for rent of small business, creation of science and technology parks, and so on);
- Advisory and information support (assurance of an access to technical libraries, databases, rendering advisory and legal assistance especially on the problems of creation, management, tax liability, and so on);
- Creation of the market infrastructure (local fairs, markets of equipment and technologies for small firms, sales markets, and so on).

To support small business there is the need to pay attention to the formation of institutes of the market infrastructure, commodity and services market, securities market, investment businesses, consulting and auditor activity, and also creation of complex state and public systems of support of small business which include training of the qualified specialists and attraction of able-bodied segments of the population to this activity (Kirillov et al., 2015; Rylov et al., 2016). It is necessary to master the mechanisms which provide stabilization of foreign economic activity and attract foreign investments into the business development.

The development of small business in the Russian Federation demands the following prerequisites: An advantageous geographical position (land capability, climate, environment), the existence of a source of raw materials, the presence of qualified specialists and the prevalence of free capacities. All these conditions promote the development of different types of activity.

State policy in the sphere of small business, as a rule, proceeds from a basic position about the need for support and elimination of barriers. The state, realizing supporting policy, expects to receive the further direct financial benefit in the form of tax revenues for future periods or other positive effects: The employment of population (Mindlin et al., 2016), solution of the problem of national economy disproportionality, the development of innovative productions, and so on. Now, support of small business in Russia is conducted at the state and municipal levels. The infrastructure of support includes business incubators, venture funds, guarantee funds, Chambers of Commerce and Industry, public organizations and other subjects.

The Russian Federation has created the joint-stock company the Corporation for Development of Small and Medium Business which conducts its activity as an institute of the development in the sphere of small and medium business for coordination of assistance to subjects of small and medium business provided by the Federal law 29.06.2015 N 156-FZ (revised on 29.12.2015).

The key objectives of corporation of the development of small and medium business are:

1. Assistance to subjects of small and medium business and organizations forming the infrastructure of support of subjects of small and medium business;
2. Attraction of money of Russian, foreign and international organizations for support of subjects of small and medium business;
3. Organization of informational, marketing, financial and legal support of investment projects realized by subjects of small and medium business;
4. Organization of activities directed on an increased share of purchase of goods, works, and services by the customers determined by the Government of the Russian Federation at subjects of small and medium business in the annual volume of purchase of goods, works, and services, in the annual volume of purchase of innovative production, hi-tech production;
5. Ensure informational interaction of the corporation for development of small and medium business with public
The leading role in the development of small business is played by the system of tax liability. The tax legislation offers businessmen some systems of tax liability providing the various conditions and sums of tax collection at choice. Beginner businessmen are interested in the condition of special tax regimes (simplified, a fixed tax) focused on support of small business (Shkurkin et al., 2016). So, the general taxation system (GTS) is quite difficult for beginner businessmen with accounting schemes of charges and volume reporting. The transition to the GTS happens automatically if a firm did not declare the alternative system in registration. The simplified taxation system should be chosen as it will be possible to change the tax status of an enterprise only since the beginning of the next calendar year.

The GTS provides payment of all taxes and dues established by tax legislation. It is a tax on profits for the enterprises; a tax on individual person’s income; a value added tax (VAT); a corporate property tax - for legal subjects; insurance dues to social funds - the PF, Social Insurance Fund, Federal Compulsory Medical Insurance Fund.

The reporting format for small enterprises is less in comparison with the volumes of documentation of large enterprises. The simplified and the GTS differ in reporting forms. The first one exempts businessmen from the need for complicated calculations and regular reporting in the VAT. The simplified tax system (STS) does not provide the calculations and pay a tax on profits. It regulates certain requirements for small business. Special regimes in particular limit a number of hired workers; sizes of income; kinds of activity; sizes of floor spaces. The STS is convenient and simple from the point of view of record keeping. Besides, record keeping on this system is cheaper. But here it is important to know that if a small enterprise constantly cooperates with legal persons-payers of the VAT, they will demand the input VAT which the enterprise which is in the STS will not be able to make because it will not be a payer in the VAT.

The transition to the GTS can be initiated both by a businessman and tax control bodies. The first situation occurs when the successful development of business demands the wider framework of restrictions of special regimes. The second case is the result of detection of discrepancies by tax inspection between actual activity of a firm and criteria of being in the STS.

The STS is the most favorable to small enterprises - suppliers of goods and services to a final user. The GTS is a preferable form of tax liability for subjects of small business cooperating with payers of the VAT; showing considerable expenses in economic activity; assuming in the long term an excess of regulations of the STS restrictions. Anyway it is necessary to remember that a choice of the taxation system has to become a deliberate action on which viability of small business depends.

Slow and uneven growth rates of small and medium business negatively influence economy not only from a position of tax and fiscal relations but also operational efficiency of the economic system of the country. In this regard, the Government of the Russian Federation at the moment considers a number of possible measures of additional support of the SMSP (mainly financial) which can be realized over the period from 2014 to 2018. They will be further analyzed.

1. Reduced rate of insurance fees into off-budget funds at the level of 20% (20% - the PF of the Russian Federation, 0% - the Social Insurance Fund, 0% - the FCMIF) can be kept through 2018. This norm mostly concerns subjects of small business which are applying the STS and carrying out activity in production and social spheres. Also it concerns socially oriented non-profit organizations, charitable organizations and chemists shops applying special tax regimes (p. 3.4. Art. 58 of the Federal law from 24 July 2009 No. 212-FZ “On insurance fees into the Pension Fund of the Russian Federation, Social Insurance Fund of the Russian Federation, Federal Compulsory Medical Insurance Fund”).

2. For small enterprises registered for the first time tax holidays can be introduced. The initiative of the introduction of 2-year tax holidays for beginner businessmen was sounded by the representatives of “Business Russia” and “Support of Russia” during a meeting of the Russian President V. Putin with Russian businessmen on 23 May 2014.

For this purpose it is necessary to fulfill the mechanisms of protection against unfair schemes which will be imposed, for example, by those who does not want to pay taxes. It is a correct measure for those who getting started from scratch.

From our point of view, the matter of the introduction of tax holidays can be referred to the level of territorial subjects of the Russian Federation and will, first of all, concern production and innovative companies.

3. It is necessary to plan the formation of the federal guarantee fund of support of small and medium enterprises. It should be noted that at the moment one of the measures of financial support of the SMSP is administration of state and municipal guarantees according to their obligations at the expense of means of budgets of territorial subjects of the Russian Federation and means of local budgets respectively (Art. 17 of the Federal law from 24 July 2007 No. 209-FZ “On the development of small and medium business in the Russian Federation”). Such measure of support is caused by the fact that the SMSP have no reliable mortgage base and are more unstable from the financial point of view than large business. Guarantees in turn allow to provide an equal access of small business to credit resources.

Guarantees are most often presented by the state not directly in the form of subventions to specialized guarantee organizations (guarantee funds) founded by territorial subjects of the Russian Federation which in turn act as guarantors on credit agreements of small business with banks. They are non-profit organizations, however, there are also economic societies, and unitary enterprises. According to the data of the Ministry of
Economic Development of the Russian Federation, regional guarantee funds have to be created almost in all territorial subjects of the Russian Federation. Over the last 6 years over 200 billion rubles of credits are under their guarantee.

For the development of this form of support the Government of Russia plans to form the federal guarantee fund - non-bank credit organization, and the Central bank of Russia will have to regulate and control its activity. The federal guarantee fund has to acquire the right to give counter guarantees to regional guarantee funds that they could expand their limits of guarantee, and also direct guarantees to businessmen. The Ministry of Economic Development of the Russian Federation supposes that, as a result, a share of credits for small business provided with guarantees can be increased from 2% to 5%. Capitalization of the federal guarantee fund has got 30 billion rubles over the period from 2014 to 2015.

Also in case of the formation of such fund, the Central Bank of the Russian Federation will have to consider a question of reference of its guarantees to ensure the I category of quality (absence of credit risk) that also has to facilitate receiving the credits to small businessmen. It should be noted that at the moment guarantees of guarantee funds of territorial subjects of the Russian Federation can be referred to the II category - moderate credit risk (according to subparagraph 6.3.4. provisions of Bank of Russia of March 26, 2004 No. 254-P “About an order of formation by the credit organizations of reserves on possible losses according to loans, on the loan and equated to it debt”).

4. The question of the introduction of a special tax regime for self-busy citizens is considered. On a plan of the Ministry of Economic Development of the Russian Federation citizens who do not want to be registered as individual entrepreneurs, will be able to get a special patent for self-busy citizens and to work at its basis. It is planned that it will be the simplest form of the implementation of business activity excluding the need of maintaining accounts department, the book of income and expenses, observance of the requirements to cash registers and rooms. It is urged to create the favorable conditions without excess tax administration to businessmen.

5. It is planned to expand participation of small business in purchases for the state and municipal needs, and also the needs of state companies. At the moment, the Ministry of Economic Development has prepared the draft of the Decree of the Government of the Russian Federation “On the features of participation of subjects of small and medium business in purchases of goods, works, services of certain types of legal subjects.”

Besides some other features, the document is urged to fix an obligatory share of small business in purchases of subjects of natural monopolies, state companies, state corporations and other organizations specified in. P. 2 Art. 1 of the Federal law from 18 July 2011 No. 223-FZ.

Thus, it is planned that purchases in small business enterprises will be carried out as follows:

- Adjudications, different ways of the purchase provided by the provision on purchase where economic subjects of any organizational and legal form or individual including small enterprises are the participants of the purchase;
- Adjudications, different ways of the purchase provided by the provision on purchase where only small enterprises are the participants of the purchase;
- Adjudications, different ways of the purchase provided by the provision on purchase where the requirement about attraction to the observance of an agreement of subcontractors from among small business enterprises is established.

Mentioned activities have to be realized according to the plan of measures (“a work flow chart”) “Expansion of an access for subjects of small and medium business to purchases of infrastructure monopolies and companies with state participation.”

As to state and municipal customers, since 1 January 2014 they make subjects’ of small business purchases, socially oriented nonprofit organizations at the rate of not <15% of total purchases. Thus the initial (maximum) price of an agreement should not exceed 20 million rubles (Art. 30 of the Federal law from 5 April 2013 No. 44-FZ “On the contract system in the sphere of purchases of goods, works, services for meeting the state and municipal needs”). At the moment, a share of such purchases has to make not <10% and no more than 20% of total purchases. Thus, the initial (maximum) price of an agreement in that case should not exceed 15 million rubles.

6. Measures for the development of funding of credit organizations and loan securitization granted to small business are also provided. The government of Russia considers a possibility of the placement of assets of the National Wellbeing Fund equal to 100 billion rubles into deposits of the VneshEconomBank (The Bank for Foreign Economic Activity) for these purposes. Then, banks and other credit organizations will be provided with funding at the price of inflation plus 1% for the long-term crediting of subjects of small and medium business. It is supposed that in that case the loan price will not exceed 10%, and the loan duration will be till 10 years. It will promote, in particular, the increase approximately for 50% of the volume of investment projects of small and medium business. Thus, it is planned that such loans will be granted only to small and medium enterprises working in the production sphere.

In spite of the fact that over the last period some programs of support and development of small business were accepted, Russia concedes to the majority of the countries with the developed market economy on quantitative and quality indicators of its development. The reason of it is complexity of receiving of the bank loan and its high rate, high rent payment, complicated and long procedure of registration of small enterprises, backwardness of the structure of sale and excessive tax burden.
So, small business takes an important place in economy of any country. This sector is an objectively necessary element of any developed economic system without which the economy and society in general cannot normally exist and be developed. Firstly, it promotes the development of competition and, as a result, the improvement of the quality of goods and services; secondly, it allows to create additional workplaces and is an instrument of the growth of real income of the population; besides, the development of small business leads to saturation of the market with goods and services, to the best use of local raw material resources. A sector of small business is developed in branches unattractive for large business.

“The concept of the long-term social and economic development of the Russian Federation for the period till 2020” recognizes the importance of the development of small business for intensive economic growth and puts forward a number of tasks:
1. Creation of equal organizational opportunities for citizens;
2. Formation of motivation of innovative behavior;
3. Significant increase in economy efficiency, first of all, on the basis of labor productivity growth.

Thus, a choice of the mechanisms of state support of small business otherwise is in one case or another defined by the state and the structure of production, the existence of resources which are held by state agencies and local governments.

5. CONCLUSION

In recent years small enterprises use high technologies, prospective young managers and open newer spheres of business that promotes participation of leasing companies in new hi-tech projects.

As to disadvantageous, they are standard for many funding mechanisms: Difficult assessment of solvency of small business enterprises, the short term of the existence of such enterprises, the growth of enterprises’ accounts receivable, a lack of state support of small business enterprises, the managers’ desires to use equipment which was already in use that significantly reduces the project appeal because of increased property risks of a leasing company.

In general, between leasing companies and small business there is a mutual interest, in the future the market of leasing “will be sated” with highly liquid and “easy” projects and leasing companies will pay their closer attention to small business.

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