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The Prospects of Small and Medium-Sized Enterprises Development in the Conditions of the Customs Unions

Abstract. Growth of small and medium-sized business is one of the most important factors of state competitiveness. For years of independence Kazakhstan reached a macroeconomic stability in local business development, its social sphere and market economy were provided by the regulatory framework needed for entrepreneurship development of all patterns of ownership. Small and medium-sized business carries out not only socially responsible role, but also provides considerable tax revenues for the budget. Small business in European Union countries covers at about 50% of all occupied population, in the USA it engages – 53%, in Japan – 72%, and 30% of Kazakhstani citizens are engaged in SMEs as well. The international experience convincingly proves that the small and average entrepreneurship easily adapts in crises, as well as inclines to self-organization and self-development, and due to state policy can provide a rapid social effect. Small and medium-sized enterprises are drivers of economic development in the European Union, they represent 99% of all businesses. The definition of SMEs is important for access to finance and EU support programs targeted specifically at these enterprises. The main factors, determining whether an enterprise is a SME, are staff headcount and either turnover or balance sheet total.

Key words: Custom union, Tax, Taxation, Small and Medium-sized Enterprises, Economy

Introduction

The European Commission's enterprise policies' aim is to create a favourable environment for small and medium-sized enterprises to thrive within the custom union. Many of the policies have been realized to reduce administrative burdens, to stimulate innovation, to encourage sustainable production, and to ensure the smooth functioning of the EU's internal market.

As well as in everything in Kazakhstan the state keeps development of small and medium business by means of special state programs implementation, which provides simplification of standard and ministerial procedures on maintaining business processes, and simplifies taxation system. The President of Kazakhstan N. A. Nazarbayev in his messages allocated to the people of Kazakhstan in 2013

declaimed development of small and medium-sized business as priority directions of the country.

Methods

In this article were used methods of theoretical and empirical research.

Main body

Small and medium-sized enterprises (SMEs) are drivers of economic development in the European union, they represent 99% of all businesses. The definition of an SME is important for access to finance and EU support programmes targeted specifically at these enterprises.

The main factors determining whether an enterprise is an SME are: staff headcount and either turnover or balance sheet total.

Table 1 – The main factors determining Small and medium-sized enterprises

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Source: European Commission, Internal Market, Industry, Entrepreneurship and SMEs.

http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en Accessed on 20 December 2016.

Considering the fact that this sector is the most vital and efficient part of the economy, small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU. Also, the participation in the value added is about 57% at EU level. Internationalisation opens up new markets for SMEs and has the potential to boost SME competitiveness. However, only 25% of European SMEs export to

another country. This means that many SMEs are missing opportunities offered by the single market [1]». Altogether, more than 40 % of European SMEs are involved in some form of international business relationship. The following seven target markets are increasingly important for European businesses: Brazil, Russia, India, China ('the BRIC countries'), Japan, South Korea and Ukraine. The share of internationalised EU SMEs with business activities in these growth markets is from 4.5% to 13% (Russia)» [2]

Table 2 – Enterprise size class analysis of employment at EU level, % of sectoral total

	Micro	Small	Medium-sized	Large
Mining & quarrying	6,4	13,1	13,4	67,1
Manufacturing	13,7	19,8	25,4	41,1
Electricity, gas, steam & air con. supply	4,6	5,3	12,4	77,8
Water supply, waste & remediation	8,7	19,9	27,4	44,0
Construction	46,3	27,7	13,6	12,3
Distributive trades	36,1	20,6	13,3	29,9
Transport & storage	19,1	17,2	16,1	47,6
Accommodation & food services	41,7	28,9	12,2	17,1
Information & communication	23,6	17,2	17,6	41,5
Real estate activities	58,6	16,9	12,2	12,2
Professional, scientific & technical activities	49,0	19,8	13,2	17,9
Administrative & support services	16,1	13,6	18,6	51,8
Repair: computer, personal & h'hold goods	66,5	13,8	8,9	10,7

Source: Eurostat. Statistics on small and medium-sized enterprises. http://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises Accessed on 20 December 2016.

In Table 2 we gave an overview of enterprise size class analysis of employment at EU level. Small and medium-sized enterprises account for around two-thirds of total employment, ranging from 53 % in the United Kingdom to 86 % in Greece. According to the latest official data, there are around 26 million active enterprises with some 143 million persons employed. The services sector was dominant in every country, as measured by the highest proportion of active enterprises. There were about 4 million jobs created from 2.6 million newly born enterprises, based on the final 2014 data, while the preliminary results show 3.5 job losses because of 2.3 million death businesses. The proportion of newly born enterprises in 2014 compared to 2013 increased by 1.8 %. Birth and death rates of enterprises tend to be around 9 % of the total number, however in 2013, there were more enterprise births than deaths, both at EU level and in the majority of Member States. The one-year survival rate for enterprises created in 2013 was about 80 %; the five-year survival rate of enterprises born in 2009 and still active in 2014 was nearly 44 % [3].

The European Commission considers SMEs and entrepreneurship as a key ensuring economic growth, innovation, job creation, and social integration in the EU. Therefore, in the custom union as business environment there is the need for creation competitive and export-oriented medium-sized enterprises. To improve the competitiveness and innovativeness of SMEs, as well as the recovery of economy from the global economic crisis consequences, the governments should achieve two main goals: 1) Creating a standardized model of services and improvement of infrastructure to business support in order to increase the number of new small and medium-sized enterprises, as well as support their survival and competitiveness; 2) Increasing of innovation and competitiveness through capacity building of government institutions and specialized organizations to support innovation in business.

This activity is aligned with the Strategy «Europe 2020», which refers to promoting the improvement of conditions for innovation in small enterprises [4].

The EU Customs Union means that no customs duties at internal borders between the EU Member States; common customs duties on imports from outside the EU; common rules of origin for products from outside the EU and a common definition of customs value. Agreement on these four principles between the six founder Member States (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) led to completion of the Customs Union on 1 July 1968, one and a half years earlier than planned in the 1957 Treaty of Rome. Community customs legislation was pushed forward to make sure that wherever goods are imported into the EU, the same rules are applied. A legal framework was established to: ensuring the common tariff is applied in the same way all along the EU's external borders; introducing a common approach on warehousing procedures; facilitating movements of goods in «customs transit» and replacing the wide variety of customs documents with a single administrative document. All the mentioned rules were finally brought together in the Community Customs Code, which was adopted in 1992 [5].

Stimulant character of the tax system with the lowest tax rate is desirable for small and medium-sized enterprises. In the Euro area, the Corporate Income tax rate is an average of the taxes collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. The Corporate Tax Rate In the Euro Area stands at 24.30 percent. Corporate Tax Rate in Euro area averaged 28.71 percent from 1995 until 2016, reaching an all time high of 36.80 percent in 1995 and a record low of 24.30 percent in 2012. Chart 1 provides the historical data on corporate tax rate in the period 2006-2016. in Euro Area and we can see a downward trend in the movement of this indicator.

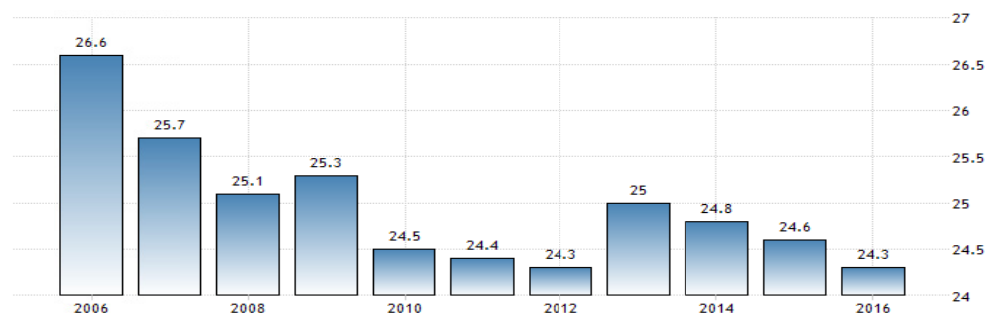


Chart 1. Euro Area Corporate Tax Rate

Source: European commission, www.tradingeconomics.com Accessed on 20 December 2016.

In the Euro Area, the Personal Income Tax Rate is an average of the taxes collected from individuals and is imposed on different sources of income like labour, pensions, interest and dividends. The Personal Income Tax Rate in the Euro Area stands at 42 percent. Personal Income Tax Rate in Euro area averaged 42.63 percent from 1995 until 2016,

reaching an all time high of 49.00 percent in 1995 and a record low of 38.80 percent in 2009. Chart 2 provides the historical data on personal income tax rate in the period 2006-2016 in Euro Area and it can be seen a growing trend from 2010 to 2014 in the movement of this indicator, while it is constant in the last two years.

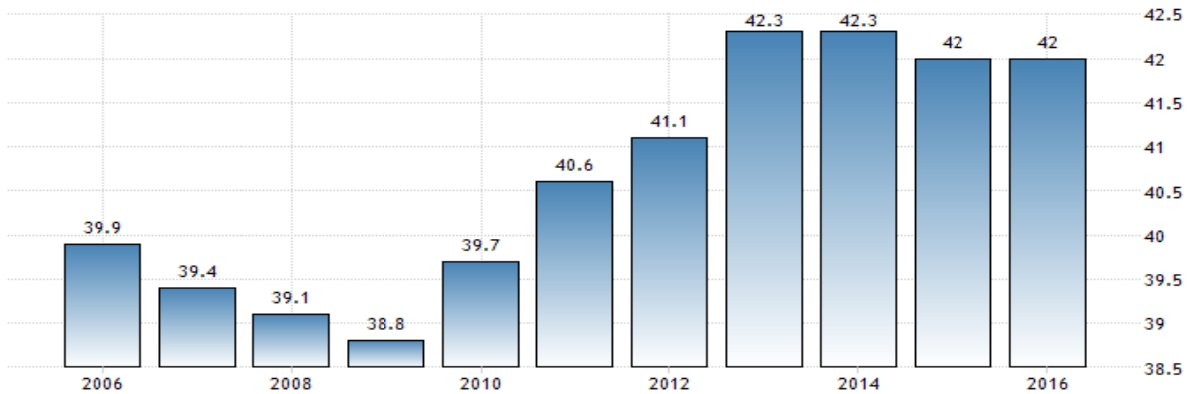


Chart 2. Euro Area Personal Income Tax Rate

Source: European commission, www.tradingeconomics.com Accessed on 20 December 2016

In the Euro Area, the sales tax rate is an average of the taxes charged to consumers based on the purchase price of certain goods and services. The Sales Tax Rate in the Euro Area stands at 20.80 percent. Sales Tax Rate in Euro Area averaged 17.75 percent from 1968

until 2016, reaching at all-time high of 20.80 percent in 2015 and a record low of 13.50 percent in 1970. Chart 3 provides the historical data on sales rate, VAT in the period 2006-2016 in EU. We can see growing trend in the movement of this indicator.



SOURCE: WWW.TRADINGECONOMICS.COM | EUROPEAN COMMISSION

Chart 3. EU sales tax rate, VAT

Source: European commission, www.tradingeconomics.com Accessed on 20 December 2016

Successful moves in the reform of the tax system contribute to increasing of the attractiveness of SMEs sector. Many developed countries have lower tax rates for SMEs and it could be the target for underdeveloped economies in the future. Some of reform measures are motivated by both efficiency and equity objectives. Reducing of tax rates on corporate income could be a positive signal and encouragement for the domestic and foreign investors or business starters. Efforts made in this field have resulted in increasing the transparency of the tax system in EU internal market.

According to world practice, small and medium business most successfully functions in the conditions of steadily developing economy with the corresponding state support.

One of instruments of regulation of activities of SMEs is control. Tax control possesses one of the main places in system of the state financial control. It is well-known that it is designed to provide observance of regulations of the tax legislation by taxpayers and forming of profitable base of the budget of all levels, necessary financial resources.

In the conditions of the global financial crisis, in our opinion its role considerably increases. From tough observance of regulations of the tax legislation, both payers, and employees of bodies of tax administrations the level of development of national economy and a welfare of each person in many respects depends.

Implementation of tax control – one of the most important functions of bodies of tax administration. In article 18 of item 1. The tax code of the Republic of Kazakhstan it is specified that the main objective of bodies of tax administration is, ensuring completeness and timeliness of receipt of taxes and other obligatory payments in the budget, completeness and timeliness of calculation and payment of compulsory pension contributions and social assignments, and also observance of the tax legislation RK. Tax control not only provides observance of regulations of the tax legislation, but also performs attraction of financial resources in profitable base of the government budget.

For the purpose of implementation of the tasks issued by the Head of the state in the Message to the people of Kazakhstan, along with other directions of tax control, the found reflections and changes were made in the Tax Code of the RK acting from 01.01.2009.

Main objective of reforming the tax administration touches combinations of the administration quality and interests of taxpayers. In this connection in the new Tax Code regulatory legal acts in

the field of the taxation are included, and tax procedures are simplified.

The Code introduced concepts and an order of conducting tax accounting for the first time, the number of annexes to tax accounts thereby are reduced, i.e. the procedure of creation and delivery of tax accounts is simplified. Except reducing forms of the reporting, the periods of tax accounts up to one quarter are changed. The right is offered to taxpayers, not to hand over tax reports during suspension of operations. In the new Tax CODE it is accurately stated a regulation of the operating methods of tax controlling. In particular, the purpose and an order of carrying out cameral control, which represents one of important types of preliminary control, are determined.

Absolutely a new moment is a transition to the risk management system (RMS) that will allow concentrating attention of tax administration bodies on the spheres of the increased risk, ensuring more effective usage of the available resources. Now results of the RMS use will give the grounds for tax audits. Also the RMS results will be used for the purpose of an automatic value added tax return.

In general certain instruments of tax incentives of the taxpayers promoting economic activity in the conditions of world economic and financial crisis are provided in the new Tax Code.

The tax Committee of the Ministry of Finance of the RK in recent years made considerable work on enhancement of tax control. With entering of the new Tax Code of the RK a role and value of cameral control is strengthened in all tax authorities working groups for rendering the consulting reporting in electronic form by means of the client application SHTA (system of handling of tax accounts) and Web – the application "An office of the taxpayer are created. In nine months 2009 countrywide 75% of forms of tax accounts are provided the taxpayer". It should be noted that the highest rate in an electronic form of submission of reports constitutes 87% across Almaty.

It should be noted that the RMS developed criterion allows to control the procedure of a VAT return most precisely already today. According to Tax Committee of MF of the RK for the first half of the 2009 as a result of entering of the RMS in general on the republic it is refused a VAT return according to 252 statements on the amount of 19,9 billion tenges, sent to the bodies of financial police in 113 requests.

Tax control as the main component of tax administration reflects extent of interaction of the state with the population business. From one hand,

shortcomings of tax control can bring to decrease in receipts of financial resources paid as the income to the government budget and to increase in tax offenses; from other hand, they can interrupt to taxpayers' work, i.e. violating of the basic principles of the taxation such as objectivity, simplicity and justice. As a result all this can lead to a negative impact on the national economy.

In our opinion the main objective of tax control is ensuring balance between the rights and obligations of the taxpayer. In the conditions of tough contention and financial crisis, objectively there is a possibility of implementation of joint activities issued by business units, in the form of merges and absorption. In turn these business activities' phenomenon need standardly legal documents where the order of calculation, tax payment and other obligatory payments to the budget will be accurately registered.

The problem of timely settlement by taxpayers of tax debt became one of the most important problems in the conditions of financial crisis in the country. Especially it is observed in the construction sector of the economy.

A certain alarm is caused by the presence of a bad tax debt, caused by existence of cash firms and pseudo-entities. Adoption of the bill of a pseudo-entrepreneurship, approved by the Mazhilis of the Parliament of the RK, in our opinion, will allow to reduce probability of a pseudo-entrepreneurship.

In modern conditions tax authorities rather closely interact with law enforcement agencies for the purpose of prevention of evasion from the taxation. In our opinion, in order to increase the efficiency of an examination of tax authorities, positive impact would be exerted by close interaction with audit companies. On the practician tax declarations are constituted from the help of auditors. We, recommended obligation of presence of auditors and in case of tax audits, with simultaneous increase in responsibility of auditors.

In our opinion, direction of tax control control of expenses of taxpayers should be the priority, but not behind their income. In this regard, increase in level of analytical work in tax authorities would be reasonable. Control actions should be based on analysis results. The choice of the entity which is subject to tax audit needs to be performed by several criteria, based on risk analysis. Sudden tax audits with departure on the entities should be carried out only in the presence of reliable information that the entities evade paying taxes. For example, the Federal Tax Service (FTS) of the USA uses about 40 various techniques of purposeful selection of taxpayers for check. Here it is possible

to carry various methods of the analysis of declarations of taxpayers, use of information of the third parties, use of materials of tax audit of other taxpayers, results of last tax audits, etc.

Experience of tax control in Sweden deserves attention. Control activities of tax authorities in this country are rather effective. It demonstrates that the collecting of taxes constitutes 99,5%. Such result, according to many experts, will be reached by the organization of level of field service of taxpayers. For employees of tax administration of this country for many years this work is the major, and they find 8-10% of the working hours for field service of the population.

For improvement of the quality and effectiveness of tax audits preparatory work, certainly, is not enough for our employees of tax administration.

In addition, integration processes for Kazakhstan give the chance to build up the close economic relationship with other states. In this case, the accession to the Customs Union is strategic an important step for Kazakhstan. This important event will promote regional stability, strengthening of influence of three economies and consolidation of intentions of the states to improvement of life of the population, improvement of the entrepreneurial environment, and cooperation increase among the customs countries.

The customs union opens great opportunities for our producers, opening the market for 170 million consumers. On the other hand, domestic producers should compete with producers from Russia and Belarus. On it, the Customs union gives to domestic manufacturer commodity export opportunities without customs obstacles, and still an opportunity to compete and improve the production rate, thus to enter the international markets.

The customs union provided a basis for creation of the Common economic space that began to function since January 1, 2012 where single mechanisms of regulation of economy was issued, where perception of law were harmonized for the participants to operate on the territories of the member-countries, the unified tax, monetary, monetarist and customs policies were established. Thereby, free movement of goods and services, a financial and human capital will be provided.

Kazakhstan improved the indicators on 7 points in the annual rating of the World Bank of "Doing Business" which is determined among 183 countries on business conditions based on ten indicators, and took the 47th place in 2012 that is recognition by the international organizations of efficiency of the reforms undertaken in the country [6].

Table 3 – The rating of the countries of participants of the Customs union for 2012

Indicators	Kazakhstan	Belarus	Russia
Final rating, including	47	69	120
Registration of the entities	57	9	111
Crediting	78	98	98
Protection of investor	10	79	111
Taxation	13	156	105
International trade	176	152	160

According to fund of development of an entrepreneurship "Damu", <http://www.fund-damu.kz>

If to compare data of rating among the countries of the Customs Union, registration process of the entity in Russia (the 111th line item) is worse, than in Kazakhstan (57), and in this line item Belarus (9) has a benefit. On a crediting Kazakhstan has the highest line item among the CU countries, borrowing 78, against the 98th line item of Belarus and Russia. In Kazakhstan in comparison with Russia and Belarus, the investment climate is better, he takes the 10th position in rating, and Russia and Belarus take the 111 and 79 places respectively.

The same positive dynamics on a line item of the taxation of entrepreneurs where Kazakhstan is awarded the 13th places, Russia and Belarus were on 105 and 156 places, respectively.

Conclusion

According to the data of Committee on Statistics of the RK, in Kazakhstan the number of the registered subjects of SMEs over the last ten years grew up 2,5 times and constituted 837 083 units in 2011 against 323 731 units in 2002. As for output, this indicator grew up 4,9 times and constituted 2 706, 8 billion tenge in 2011 in comparison with 548,7 billion tenge in 2002, so it shows increase at 1,5 times [7].

During years of independence, about 10 billion dollars from the National fund of Kazakhstan have been allocated for the support of small and medium business in general. A stabilization effort and its real sector rendered positive effect in social and economic development of Kazakhstan [6].

Kazakhstan experiences an industry imbalance. According to Committee on Statistics of the RK: 45,6% of the functioning subjects of SMEs are engaged in the sphere of trade, 2,4% – in the sphere of a construction, and only 2,5% – in the sphere of the industry. Once again, this fact confirms that such tendency of development of SMEs does not promote diversification of the economy in general.

SMEs has significant effect on employment. In 2011 this sector provided 2427 thousand workplaces. This dynamics of small and average entrepreneurship development in Kazakhstan couldn't but be reflected in a contribution of units of SMEs to gross domestic product which varies at the level of 17,8 – 17,5% for 2005-2011. 2009 and 2010 SMEs sector steadily improved indicators of its activity. The number of the registered subjects of small and medium business increased [7].

Well carried out preparatory work, considerably reduces finance and time expenditure, and also will increase quality of results of tax audits. Preparatory work is a prechecking analysis of article of receipt and an expense of material values, studying of structure of property of the taxpayer, etc. Such work in our opinion, gives the chance checking to determine the main questions for examination during tax audit, thereby, prior to check the specific concept of check is developed. Tax control shall be exercised for the purpose of establishment and assessment of the facts of the case having essential value for the taxation for the benefit of the state and the taxpayer, but not for research of the additional taxes.

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