

## **Patent System of Taxation for Small Enterprises: Analysis of Applications and Prospects**

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**Abstract:** The tax regulation for small enterprises is one of the most important factors that have a significant impact on the development of this segment of the economy. The government takes active measures to promote small enterprises at the national level. In Russian Federation, one of such measures was the introduction of the taxation patent system. However, despite certain advantages, the system has several drawbacks. The analysis of taxation patent system application practice in Russian Federation revealed a number of problems requiring timely resolution. This study is devoted to the analysis of possible prospects and ways of patent taxation system development.

**Key words:** Tax, taxation, the patent system of taxation, small enterprises, basic profitability, imputed income

### **INTRODUCTION**

The patent system of taxation for Russian Federation is not a new one and since its introduction, it was highly demanded by small business subjects. The purpose of this special tax regime introduction in 1996 was the desire of the state to facilitate the relationship of small business subjects with the budget. In particular, the following objectives were set before the patent system of taxation: the simplification of tax payments to the budget, the reduction of financial and tax reporting, the facilitation of tax control from the tax and other regulatory authorities, the creation of conditions for official presentation of small business incomes and the legalization of their activities. However in 2003, the system of taxation showed its inconsistency and was canceled. The prerequisites for the abolition of the patent taxation system were the strict requirements for its use by small business subjects as well as the fact that in accordance with the statutory proportions of the single tax distribution payable in connection with the application of this tax system, most of the revenues was centralized, reducing the revenues from this tax to regional budgets. The term "patent" again returned to the Russian tax legislation since 1/01/2006, when a simplified taxation system began to operate as the part of the corresponding system for individual entrepreneurs on the basis of a patent. Subsequently, on January 1, 2013 the patent taxation system was put in a separate chapter of the RF Tax Code. It should be noted that the current mechanism of patent taxation is based on the principle of imputed income taxation and therefore, it

differs fundamentally from the previous patent system of taxation which acted before 1 January 2003. It should be noted that the return to the patent system of taxation clearly indicates that this tax system is able to solve a lot of urgent problems in the field of small business subjects taxation. In world practice, the problems of small business subjects were analyzed in the researches of such researchers as Cowling *et al.* (2012), Milea *et al.* (2014), Evans *et al.* (2014) and Cho (2014). The issues of small business state regulation in Russia, including tax regulations were investigated in articles of such researchers as Sabitova and Khayrullina (2015) and Tufetulov *et al.* (2015) which were considered by us.

### **MATERIALS AND METHODS**

Despite 8 years of the taxation patent system existence, including a simplified system, based on a patent, the income tax payments in the budget are still negligible: as of August 1, 2014 the consolidated budgets of Russian Federation subjects received 2.204 million rubles, including 1.654 million rub. according to the patent system of taxation and 550 mln. rubles under the simplified system of taxation based on the patent. With the significant increase of income tax payments according to this taxation system for the entire reporting period, their share in the consolidated budget of the Russian Federation subjects remains an extremely low one (Table 1).

This significant increase in revenues from patent issue to carry out business activities at the application of

Table 1: Information on the number of Russian Federation subjects which adopted the law on the introduction of the simplified tax system based on the patent (until 2013) and the introduction of the patent taxation system (since 2013) and tax income according to special tax regimes in the RF budgets during the period of 2007-2014

Discriptions	2007	2008	2009	2010	2011	2012	2013	2014
Tax payments according to STS based on a patent (mln. rub.)	6.9	13.6	62.1	166	302	415	-	-
Tax payments according to PTS (mln. rub.)	-	-	-	-	-	-	1621	2204
The number of subjects that use the simplified tax system based on epy patent	58	61	52	53	56	59	-	-
The number of subjects that use PTS	-	-	-	-	-	-	70	83

the simplified taxation system until 2013 based on the patent and starting from 2013, the patent system of taxation was caused by the number of activities increase transferred to the patent form of taxation in the RF subjects, since 2009 and since 2013. Analyzing the activities for which the patents are granted in these subjects, it should be noted that the most popular are the following ones: repair and sewing of garments, manufacture and repair of furniture, repair and maintenance of household appliances, photographic activities, maintenance and repair of motor vehicles, transport services, repair and construction of housing, catering services, rental of houses. According to the activities during the reporting period, an increase of granted patents is observed.

It should be noted that the patent system of taxation is not popular among entrepreneurs. The reasons for the patent taxation system use limitation are the simultaneous application of the system with the system of taxation as a single tax on imputed income for certain types of activities. Secondly, the low legal literacy of individual entrepreneurs and thirdly, the imperfection of Russian Federation tax legislation. According to our opinion, the patent system of taxation has a number of benefits, compared with the tax system as a single tax on imputed income for certain types of activities. In this regard, it is necessary to improve and create the conditions for further development. Now a days, the tax systems of Foreign countries successfully apply impute income tax forms in order to reduce the tax burden for individual entrepreneurs and micro-enterprises.

Individual entrepreneurs are recognized as the taxpayers during the taxation patent system application. The transition to the patent system of taxation is a voluntary one and is carried out at the request of an individual entrepreneur. The advantage of this system is a closed list of grounds for refusal by a tax authority to grant a patent in order to carry out the business activities of individual entrepreneurs. The subjects of Russian Federation received the authority to establish the size of potentially possible taxpayer's annual income according to business type, subject to patent tax system within the minimum and maximum values.

The disadvantages of the taxation patent system use may be the possibility of its application only by individual entrepreneurs. Consequently, the organizations, due to the complete abolition of the tax system as a single tax on imputed income for certain types of activities from 1 January 2018 will not be able to use any of the imputed taxation forms provided by the law. It is clear that it would be beneficial to use the patent system of taxation by type of business for individual entrepreneurs and organizations, under Chapter 26.5 of the RF Tax Code. The absence of organizations as taxpayers at the application of the taxation patent system does not meet the tax policy of the Russian Federation Government concerning the development of small and medium enterprises in Russian Federation. Such conflicts have a negative impact on the development of small and medium enterprises in Russian Federation that must be considered during the regional economy strategy and management development. The regional strategy development and management was considered by such researchers as Bagautdinova *et al.* (2012) and Panasyuk *et al.* (2013).

The absence of developed and approved rules, the methods of social insurance premiums calculation and the tax reduction on their sum makes a negative impact for a patent business activity. It is advisable to take the order of tax reduction as the basis under the simplified system of taxation and the taxation system as a single tax on imputed income for certain types of activities no >50%. Now a days, due to the absence of such a tax reduction possibility and taking into account the total rate of insurance premiums, the patent system of taxation is disadvantageous for individual entrepreneurs.

## RESULTS AND DISCUSSION

The main disadvantages of the existing patent taxation system include:

- The ability to carry out the activities on the basis of the patent system of taxation only on the territory of the entity that issued the patent
- Rather "severe" consequences at the loss of the taxation patent system right use for a taxpayer
- The need to pay the cost of a patent if a taxpayer activity is not profitable

- The possibility to use the patent system of taxation for a taxpayer only as an individual entrepreneur with a limited number of employees
- The inability to take into account the amount of accrued insurance premiums for tax purposes
- The absence of reasons for basic profitability setting and the ability of its differentiation at the discretion of Russian Federation

Meanwhile, the above-mentioned disadvantages do not meet the purpose of the patent taxation system introduction which is used to simplify the taxation of small and medium-sized businesses, reducing the volumes of tax reporting, facilitating the control of the tax authorities, the creation of conditions for the legalization of business entities.

However, the patent system of taxation during the history of its long existence still shows a fairly low efficiency along with its obvious advantages. The receipts in the budget system of tax payment paid due to the use of the patent taxation system is still negligible: as of August 1, 2014 the consolidated budgets of Russian Federation subjects received 2,204 mln. rub. With a significant increase of tax payments according to this tax system during the whole history of its existence, its share in the consolidated budget of the Russian Federation subjects remains an extremely low one.

### **CONCLUSION**

Thus for the entire period of its existence, the patent system of taxation identified a number of inherent shortcomings that generate certain problems related to its application in practice which in its turn, reduce the effectiveness of the special tax mode and make it unattractive and unclaimed by small entrepreneurship. This fact is evidenced by the reduction of patents number issued to individual entrepreneurs at the simultaneous reduction of tax revenues according to a special tax regime.

In our opinion, the basic problems of inefficiency and weak demand for the patent system of taxation on the part of small businesses are in a weak elaboration of its elements and insufficient consideration of all factors that influence the activity within the framework of a special tax regime. This fact demonstrates the need for a more complete study of all the elements concerning this special tax regime, the validity of their establishment which in its turn will help to improve the use of the patent taxation system in practice and will make it the main and the only effective form of presumptive taxation for small business subjects in Russian Federation.

In our view, the patent system of taxation should be aimed not only at the reduction of the administrative and tax burden for individual entrepreneurs but also at some other groups of individuals, creating adequate conditions for the development of small business subjects. At that the patent system of taxation should facilitate the increase of tax collection in those fields of activity where the probability of tax evasion is great and there are difficulties in the actual amount of revenue determination. Besides, the addressness of the taxation patent system should be noted, so that to grant the tax exemptions and privileges to small business subjects.

### **RECOMMENDATIONS**

In order to improve the use of the taxation patent system at the current stage, it is possible to offer the following recommendations:

- To simplify the requirements for individual entrepreneurs with the loss of the right to use the patent system of taxation
- To establish common approaches at the determination of the basic profitability by the regions of Russian Federation
- Allow the taxpayers the possibility to reduce the amount of tax assessed in connection with the use of the patent system of taxation at the amount of insurance premiums

In our opinion, these measures will improve the effectiveness of the taxation patent system and will make it more attractive and demanded from the part of small business subjects.

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