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ACCOUNTING AND TAXATION, AND THEIR IMPACT ON THE DEVELOPMENT OF SMALL BUSINESS IN DEVELOPED COUNTRIES

Abstract. *The article investigates development of accounting and taxation in foreign countries, models of interconnection of accounting and taxation systems, their impact on the development of small business and the economy of countries. It proves the necessity of application of special benefits for certain taxes and use of special tax regimes for small business in order to expand the small business sector in Ukraine and to increase efficiency of its functioning.*

Keywords: *accounting; small business; special benefits for taxation; development of small business.*

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БУХГАЛТЕРСЬКИЙ ОБЛІК І ОПОДАТКУВАННЯ ТА ЇХ ВПЛИВ НА РОЗВИТОК ПІДПРИЄМСТВ МАЛОГО БІЗНЕСУ РОЗВИНЕНИХ КРАЇН СВІТУ

Анотація. *В статті досліджено розвиток бухгалтерського обліку і оподаткування в західних країнах, моделі взаємозв'язку систем бухгалтерського обліку і оподаткування та їх вплив на розвиток малого бізнесу та економіки країни. Обґрунтовано необхідність застосування спеціальних пільг по окремих податках та введення особливих режимів оподаткування малого бізнесу з метою розширення сектору малого бізнесу в Україні та підвищення ефективності його функціонування.*

Ключові слова: *бухгалтерський облік; малий бізнес; пільгові умови оподаткування; розвиток малого бізнесу.*

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БУХГАЛТЕРСКИЙ УЧЕТ И НАЛОГООБЛОЖЕНИЕ И ИХ ВЛИЯНИЕ НА РАЗВИТИЕ ПРЕДПРИЯТИЙ МАЛОГО БИЗНЕСА РАЗВИТЫХ СТРАН МИРА

Аннотация. *В статье исследовано развитие бухгалтерского учета и налогообложения в зарубежных странах, модели взаимосвязи систем бухгалтерского учета и налогообложения и их влияние на развитие малого бизнеса и экономики страны. Обосновано необходимость применения специальных льгот по отдельным налогам и использование особых режимов налогообложения малого бизнеса с целью расширения сектора малого бизнеса в Украине и повышения эффективности его функционирования.*

Ключевые слова: *бухгалтерский учет; малый бизнес; льготные условия налогообложения; развитие малого бизнеса.*

Problem articulation and relevance. Small business is a powerful economic basis for identifying the socio-economic level of development of the country. In the European Union, small and medium sized businesses constitute 99% of all enterprises, providing 65 million people with jobs. The largest number of small businesses involves trade, building and construction and food industry. According to OECD data small and medium businesses make in number up to 97% in the economy of OECD member countries, in fact for OECD non-member countries these figures are even higher [1].

In many western countries special attention is given to the interaction of accounting and taxation systems, the impact of tax systems on the development of accounting and reporting and, conversely, the possibility of their convergence and harmonization, which leads to the creation of favourable conditions for the functioning and expansion of small business, as well as broadening of its application.

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Review of recent investigations and papers. At the same time, many researchers and scientists consider it necessary to specify a complete delineation of accounting and tax accounting [A. S. Bakaiev, V. Ya. Kozhynov, I. R. Sukharev]. The most appropriate mechanism for determining the tax base and tax amounts is deemed to be an adjustment of accounting data according to the rules of tax legislation, and respectively, primary documents are still the basis for either accounting, or taxation purposes. In many countries, there are differences between the accounting income and tax income, which is recognized by national accounting systems, since tax rules reflect priorities of the state taxation policy, while accounting record-keeping is carried out for determining financial standing of enterprises.

Highlighting previously unsolved aspects of the general problem. Analysis of scientific developments by foreign and native authors shows that most scientific researches are held separately in part of accounting and taxation of small business. However, the analysis detecting a causal link of the taxation system, as well as the availability of favourable conditions for accounting and reporting within the development of small business in Ukraine have not been investigated yet, and this fact causes the relevance of the following research.

Purpose of the article is to investigate development of theoretical, as well as methodological and organizational regulations for accounting and taxation, their impact on the development of small business in foreign countries, interaction of accounting and taxation, the impact of tax systems on the development of accounting and reporting.

Main research matter. It should be noted that the process of establishment of small business is closely associated with economic and industry-specific mechanisms existing in a particular country. Small business in developed countries is prevalent in building and construction, most industries, wholesale and retail trade, hotel and restaurant business, operations with real estate and tourism. They also play an important role in the sphere of financial intermediation and sectors of business strategic services including software development, data processing, maintenance of products, implementation of marketing research, creation of advertisement and its positioning, as well as business advisory.

For the USA, an equal distribution of small business entities by different sectors of the economy is rather typical. Among small US enterprises the following industries are prevalent: wholesale trade - 22%, construction - 16%, scientific and technical services - 11%, finance and insurance - 10%, health and social support - 9%, other - 32%. In the UK, the most interesting activities of small business are real estate - 22%, research and development - 19%. At the same time, the manufacturing sector in Russia is dominated by the enterprises engaged in wholesale and retail trade - 48% and real estate - 14.5%, as well as small businesses of working sector - 12.7% and building organizations – 10.6%. In the USA, Germany, France and the UK at least 50% of small industrial companies are acting in the market on their own, while the share of such independent manufacturers in the industry of Japan makes 30-35%. This share of small companies is engaged in looking for orders, determining the most likely range of consumers, as well as solving industrial and commercial matters through their own efforts [2, p. 28].

In previous publications of the author, global experience of small business, the possibility and ways of its adaptation in Ukraine have been analysed in detail [3, p. 67-72].

Small business as a separate economy sector occupying a special place in the economic environment and state regulation has differences in accounting, tax regulation and financial and tax reporting, which in most countries is manifested in the application of preferential terms for accounting, taxation and reporting.

In the majority of countries, favourable conditions in accounting and taxation for small business have been created in order to simplify accounting, as well as to reduce labour and financial expenses on the organization of accounting and determination of taxation object. In addition, tax legislation directly affects the organization of taxation system in the country and organization of accounting for small business, also affecting the number of business entities in a given sector of economy and their development. The more consistent and understandable taxation system is, the more efficient will be

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the functioning of small business, providing a positive influence on the economic development in the country.

In developed countries, even if taxation system has been developed upon the principles of "equality and neutrality", there are exceptions and preferential terms for small business through the application of special tax rates tied to the turnover volume, simplified procedures of accounting and reporting, tax incentives for specific sectors of business activity, support of newly created companies and others.

Existing international tax practice for small business involves the use of the following basic approaches:

- 1) introduction of special benefits (specific privileges) within certain taxes for small business in case of an integrated tax system for all enterprises;
- 2) introduction of special taxation regimes for small business.

During the long time of their existence, these two approaches have occasionally changed, especially during the period of tax reforms in 80-90s of XX century. By the mid-80s taxation of income in the most developed countries has been based on the combination of high tax rates and broad system of tax privileges for priority branches of economy. During the period of tax changes, there was a decrease of tax rates and progressivity degree of the tax scale together with the introduction of a more reasonable system of tax privileges, and special terms of taxation have been introduced for small business.

In many countries, scholars and scientists are investigating an issue of interaction between accounting system and taxation system, the impact of tax systems on the development of accounting and reporting and, conversely, their possible convergence and harmonization.

At the beginning of accounting development, accounts themselves had not been of great importance for the state, only in a few centuries the procedure of accounting and reporting preparation for enterprises was approved at the legislative level. Establishment and further enhancement of a fiscal component in accounting and financial reporting took place only in the middle of XX century, as dictated by development of share capital and changes in taxation. The analysis of accounting development indicates that the origin of accounting has not been connected with the development of taxation, though there is a close relationship between them together with the impact of the rules of accounting and reporting formation, and taxation rules.

E. S. Hendriksen and M. F. Van Breda believe that tax accounting is opposed to financial accounting and they both have different purposes: "... the ultimate purpose of tax accounting differs significantly from the purpose of financial reporting...", which has influenced accounting practice and is now a limiting factor in the development of accounting thought. Jean Richard, French economist, has identified the tax (fiscal) accounting as "a special type of accounting," which is needed for determination of tax base, though he does not eliminate the possibility of their coordinated existence within the unified accounting [4, p. 85].

The presence of different approaches to assessing the role of a fiscal nature and its impact on accounting concept makes it possible to conventionally distinguish different approaches to the development of national accounting and taxation systems. Traditionally two models of coexistence of accounting and taxation systems can be distinguished:

Continental (European) model;

Anglo-American model.

Comparative analysis of accounting methods and systems in different countries will help to determine typical models of its development, which has a great influence on the prediction of problems the country may encounter while choosing a solution based upon the experience of countries with similar models of accounting and taxation.

As for the countries using a Continental model (among them Germany, Sweden, Belgium, Spain, Italy, Switzerland, Japan) they believe that the amount of accounting income should match the income for taxation purposes. To achieve this purpose accounting and tax accounting should actually coincide and accounting system should focus on meeting fiscal needs of the state, while regulation of accounting methods should be implemented at the national level.

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The greatest influence of the tax legislation on accounting and financial reporting can be seen in Germany. German Tax Code (Abgabenordnung Deutschland) has established the rules and standards for accounting, accounting requirements, regulations of the inflow and outgo of inventory items, procedures of document storage (§140-148 of the Tax Code) [5]. Besides, there are accounting standards acting simultaneously, which establish accounting principles, determine formation of financial result of the reporting period, recognition and measurement of assets and liabilities of the enterprise, the structure of balance, and the following standards are established by German Commercial Code (§242-256 of Commercial Code). The majority of companies constitute an overall balance (Einheitbilanz) for financial and tax reporting without specific corrective actions, although in practice there are two types of accounts – commercial and tax accounts, and, therefore, enterprises have an option to use either commercial or tax accounts, which actually affects the existence of differences between commercial and tax balance or their complete identity. In Germany, there is a principle of obligation in the accounting system (Massgeblichkeitsprinzip), under which accounts themselves are the entire basis for tax charges [6]. As a result of direct influence of tax rules on accounting, there is a certain distrust to the financial reporting of German companies from the side of external users.

Countries using the Anglo-American model (the USA, England, Austria, Canada, the Netherlands) believe that the amount of accounting income differs fundamentally from the income for taxation purposes. In these countries, simultaneous financial and tax accounting is carried out, and financial reporting is focused on a wide range of users, while accounting principles, regulations and standards are developed by professional accountancy bodies. In England and the USA financial information is primarily directed at the informational needs of investors, creditors and shareholders, so the high priority criteria of the reporting information quality is its usefulness in decision-making, as well as accuracy and impartiality. In accordance with American standards: "Financial Accounting is a process that ends with a written financial reporting of the enterprise as a whole, which then is used by internal and external users. Reporting ensures consistent and continuous history of economic resources and liabilities of the enterprise and economic activity that measures these resources and liabilities in monetary terms" [7].

In England and the USA rules for taxation, accounting and reporting are completely separated and established by different bodies. Tax reporting is regarded as an independent source of information, so it does not depend on the indicators of financial reporting, forcing the company to carry out two simultaneous types of accounting.

So, in our opinion, in the countries using Continental accounting model the impact of tax accounting on financial accounting is prevalent, which is manifested in current accounting, completion of accounting books and financial reporting in the tax base, and the primary purpose of accounting is to reflect interests of the state (satisfaction of needs) and provide the budget revenues through tax payment. Accounting in such countries is carried out on the basis of a regulatory act - a law or a code.

During the survey of accounting and taxation systems in different countries it is concluded that the tax system can be considered efficient and workable if it takes into account social needs of the country and solvency of business entities, when it remains stable for a long time, is flexible and capable to respond to changes in the economic environment, is available, understandable and simple either for taxpayers, or controlling authorities and the state apparatus, when it takes into account the influence contradictions of various taxes and fees (and also at the international level), which creates favourable conditions for business development in the country.

In recent years, with the introduction of IFRS in many countries, there have been changes concerning the convergence of Continental and Anglo-American accounting models towards the complete separation of tax accounting from the accounting itself. International standards require reporting in absolutely different form, not related to the tax regulations.

Conclusions and recommendations for further research. Investigation of the influence of taxation system on the organization of accounting and reporting has shown that in developed countries different mechanisms for coordination of accounting and taxation are used, which are affected by accounting models (Anglo-American and Continental models), organization of taxation system in the country, organizational and legal forms of small business, availability of favourable economic condi-

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tions and the goals determined by the state in relation with the development of small business. The highest taxation burden, as well as significant financial expenses on accounting and preparation of financial and tax reporting is carried by small business, thus requiring state governments to create optimal conditions for the development of small businesses by reducing their financial expenses. As long as taxation system in the country becomes simple and business entities spent less time on preparation of documents and reporting, small business will be more attractive, having a rapid growth in the country and leading to improved macroeconomic indicators of the national economy development.

The prospect for further research in this sphere is a study of relation of accounting and taxation in some developed countries, in interconnection with the development of national economy in general and small business in particular.

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