

UDC 338

Development of Small and Medium Business in Russia 2011-2012

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Abstract. In today's system of global marketing the national economic development and increasing international competitiveness are determined by two key factors: natural, recourses and nations ability being engaged into business. While the first one is unpredictable, the second is based on people's attitude and desire to obtain knowledge and skills for further development of business relations. The core idea of this article is to present the situation of small business in Russian Federation. So the research is carry out to analyze the evolution of small business and the possibilities to use world method and experience of running and operating small business, to adopt them successfully to local political and economic situation. To compete internationally and produce qualified product is rather difficult process, so the necessity of creating the highest possible condition arise. People engaged into business activity should be ready to meet today's economic challenge and be able to resist any financial crisis.

Keywords: Enterprises; subsidies; loan; government; support program; general tax system; simplified tax system; patent-based simplified tax system.

Introduction. There are numerous reasons of considering small business as an important factor of development nation economy. Until the 1970s there was a widespread belief that business would become increasingly concentrated on large units. It was thought that mass production techniques would provide economic growth of any nation. So small companies were referred to as a peripheral business and could prosper only by large units. Considering all aspects we can easily state out that this attitude is wrong.

The existence of a strong, healthy small business community has been recognized as the best way to preserve competition, prevent monopolistic control of any industries, and thus to assure the population of the benefit of competition through elastic prices and qualified products and services.

Running small and medium business is important source of income generation and wealth creation. The present state of small and medium-sized enterprises (SME) in Russia does not meet modern economic requirements, so to overcome the difficulties and enter into a new path of development basic problems of operating SME should be defined, analyzed and solved. Strong market economy, in accordance with global standards, requires new challenges: to operate in the well structured business environment with multitude choice of small companies. To provide strong development of small and medium business is not easy without government support, including concession of subsidies for specific businesses, primarily in the form of tax advantages and long term loans, and the reduction of tax rates for specific activities.

The main idea, which stands behind the small and medium-sized companies, is their ability to react immediately to economic changes, while for large companies this process is rather hard during economic situation changes and rate of profits usually falls. That is the crucial point for SME to mirror the general state of economy. [1]

What is small and medium business in Russia?

Different nations have slightly different definition for the term of "small and medium enterprises". For example, in the United States a business that has less than 100 employees is

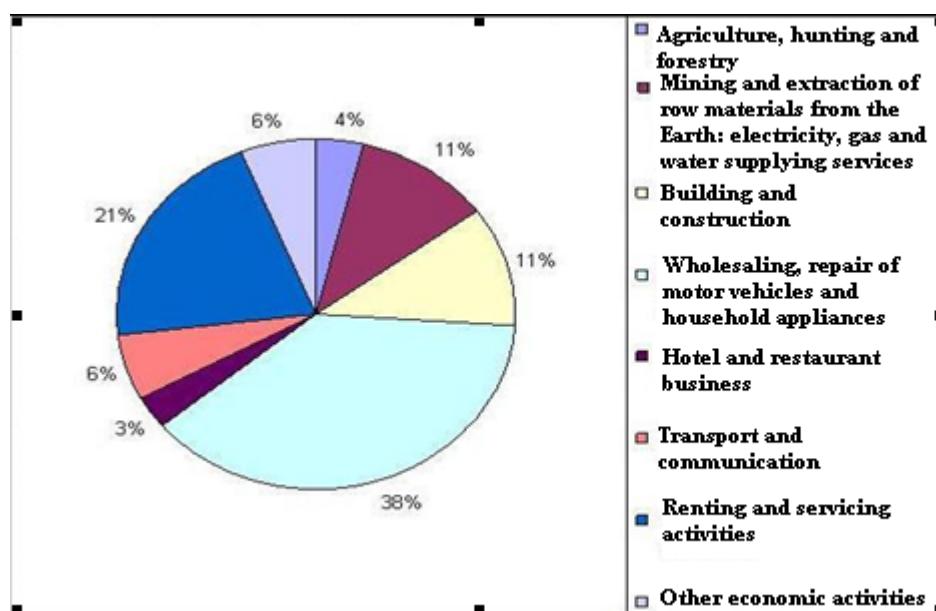
considered to be "small and medium business", whereas it is less than 50 employees to qualify as a "small and medium business" in the countries of European Union. [1]

The following criteria for classifying a business as small and medium are set out by The Federal Law "About Development of SME in Russia":

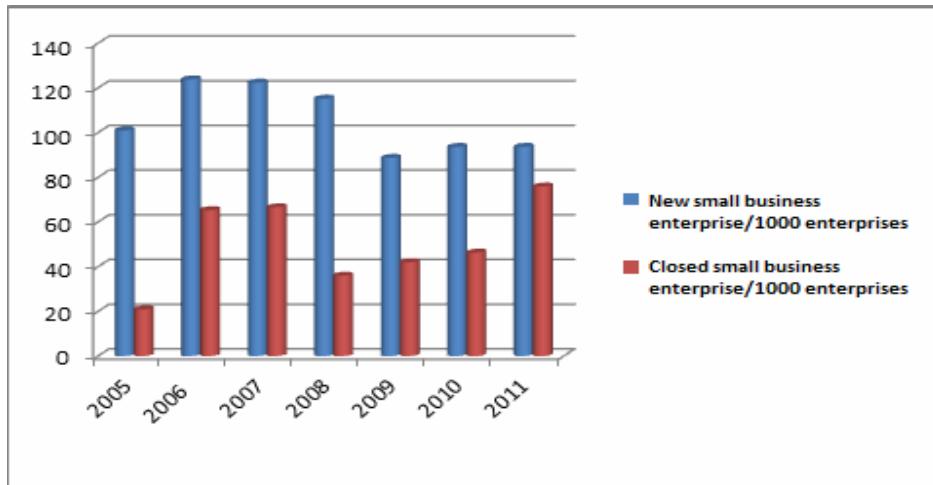
- micro enterprises - the number of the employees not more than 15 people, the amount of annual turnover is limited to 60 million rubles;
- small enterprises – the number of the employees from 16 to 100 people, with an annual turnover of 400 million rubles;
- medium-sized enterprises – the number of the employees from 101 to 250 people, the annual turnover of 1 billion rubles;

Considering the geography of SME in Russia we see that they are mostly concentrated in central region: in Moscow (20%) and St. Petersburg (12%), where the economic and human resources for small and medium business activity are the most attractive. It is explained by the fact, that financial situation is more lucrative in this area. According to the sphere of operation SME the structure is presented by this way. Let us look at how SME are differentiated accordingly to the branch of industry. Branch structure of SME has not completely changed in recent years. In 2011, the vast part of SME operates in wholesaling, repair of motor vehicles and household appliances – 38%, renting and servicing activities – 21% and building and construction – 11%. Dynamic growth was observed in mining and extraction of raw materials from the Earth: electricity, gas and water supplying services (11%) (Chart 1).

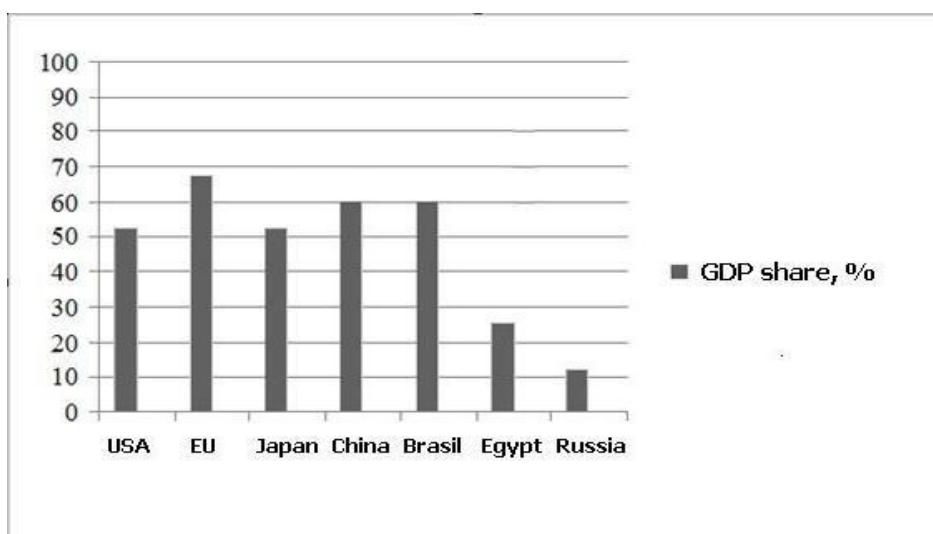
Chart 1. Branch structure of SME in Russia, 2011.



Russian small and medium business is characterized by the tendency to "move into a shadow", which allows the companies to evade taxes, and, to lesser extent, to avoid the excessive regulatory difficulties. According to the data of the Federal State Statistics Service (Rosstat) the number of them declined in 2011 more, than 2008. The number of officially closed enterprises in 2011, proves that small and medium business in Russia choose to move into the shade (Chart 2). [5]

Chart 2. Statistic of Russian small and medium business.

The contribution of small business to the GDP of Russia was between 15-17% and this is particularly disappointing when compared with the leading developed countries (previous years it accounted only 12%). For example, the share of SME in the United Kingdom, the USA, Germany, Japan composed for 50-55% of GDP, and it was 65% in Italy and France (Chart 3). [4]

Chart 3. SME share in GDP of developed countries.

SME support programs.

Most countries implement their SME support programs through the National Development Banks (Germany, France), or through specialized agencies, funds, technology centres (the USA, Canada). The Small Business Administration (SBA) is the United States government agency that provides support to entrepreneurs and small and medium-sized businesses. The mission of the Small Business Administration is "to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters". Annual budget of SBA is approximately \$15 billion, and 72% of these assets are spent on loan guarantee. [2]

The European Union supports the European small and medium-sized enterprises, providing them available grants, loans and guarantees, which is allocated either directly or managed programs both the national or regional ones. For example, the European Union's Structural Funds, European Investment Fund support newly created and technology-oriented SME, providing them with guarantees to financial institutions that cover credits to SME. [3]

One of dominate obstacles in the way of small business is the lack of financial support.

According to the survey data, 15-20% of business expenditures were financed by using external sources. Established Government small and medium business support program identified the share of government in total invested sources amounted 40% and the rest of 60% was provided by entrepreneur himself.

According to Russian budget for 2013-2015, presented by Finance ministry, government is going to spend over 67.8 billion rubles, dedicated to providing support to SME throughout the country.

The financial support is provided in two ways: general tax system with tax benefits and simplified system of taxation.

The first one consists of specialized and basic incentives for SME:

1) tax benefit to small enterprises for using accelerated depreciation methods;

2) SME engaged in production of consumer goods, construction industry and several other fields, do not pay income tax in the first two years of operating;

The second way implies transition to the simplified system of taxation. Under this system certain companies are free to choose to pay single tax or federal, regional and local taxes (including VAT, property and sales taxes). Enterprises using this taxation system do not pay the uniform social tax, but they are obligated to pay pension insurance contributions, VAT on imported goods and state duties. Under these conditions taxpayers are entitled to choose whether they pay a uniform tax at a rate of 6 % on the basis of all revenues or at a rate of 15% on the basis of income. In 2011, revenue from these special tax regimes, designed for SME, rose up to 15% and accounted 173.3 billion rubles. [6]

Tax reform, carried out in 2011, established new Patent-Based Simplified Taxation System. The Patent-Based STS might be used only by the sole entrepreneurs and allows performing business activity under the conditions of minimal tax burden and simplified reporting; the tax declaration is not required to be submitted, all payments are fixed and do not depend on the financial results of the entrepreneurship subject activity. Despite the novelty of this tax system, experts note the significant rise of its popularity, revenue is announced to increase by two times. [7]

Conclusion. In conclusion, it is necessary to highlight a great economy importance of small and medium business for every country; it performs multiple economic and social functions.

In addition to tax deductions for budgets, SME develops economic sector by creating new workplaces and promoting market competition. In the Russian Federation small and medium business is on the stage of growth, and we are engaged into the process of reaching the developed countries success. In spite of all drawbacks, the main aim has already been achieved. In 2006 the Federal Law «About competition protection» was established, in 2008 the law on SME development joined into force and governmental commission on SME development was formed, on which decision a number of laws is accepted. Until now a range of different SME support projects are formed to join into force. And as experts say, due to these factors the share of SME will increase by 60% by 2020.

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Развитие малого и среднего бизнеса в России 2011–2012 гг.

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Аннотация. Всем известно, что малые и средние предприятия играют важную роль в экономике любой страны, так как выполняют ряд экономических и социальных функций. Однако, уровень развития малого и среднего бизнеса в России не соответствует сегодняшним потребностям страны, что побуждает правительство принимать ряд мер для поддержки и стимулирования роста числа малых и средних предприятий.

Ключевые слова: предприятия; субсидии; ссуды; правительство; программы поддержки; основная система налогообложения; упрощенная система налогообложения; упрощенная система налогообложения на основе патента.