

# Improvement of tax stimulation of small innovation enterprise

## Mejoramiento de la estimulación fiscal para la pequeña empresa de innovación

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### ABSTRACT:

In modern conditions activity of small innovative business, as the most flexible component of the innovation economy of the country is particularly important. However, due to the specifics of their activities small innovative business needs state support, including in the field of a tax policy. In this connection, consideration of tax incentives for small innovative business activity is relevant and timely. The purpose of this study is to identify the main directions of improvement of tax incentives for small innovative business in Kazakhstan through the use of foreign experience. The study used data analysis and comparisons to identify features of the tax incentives of small innovative business in Kazakhstan and abroad. In determining the main directions of improving, the study used the method of forecasting on the basis of the results of the analysis and comparison. The article described the basic instruments of tax incentives for activities of small innovation business in Russia. The article analyzed foreign experience of application of tax privileges and preferences. The article developed and substantiated recommendations on the improvement of the Kazakhstan system of tax incentives of activity of small innovative business. The authors make conclusion that the Kazakhstan system of tax incentives is ineffective and needs to be reformed by increasing the number of tax benefits, and the development of a special tax regime through the use of foreign experience.

**Keywords:** tax incentives, small innovative entrepreneurship, tax credit, foreign experience

### RESUMEN:

En las condiciones modernas la actividad de los pequeños negocios innovadores es el componente más flexible de la economía de la innovación del país es particularmente importante. Sin embargo, debido a las especificidades de sus actividades, la pequeña empresa innovadora necesita apoyo estatal, incluso en el ámbito de una política tributaria. A este respecto, la consideración de los incentivos fiscales para la pequeña actividad empresarial innovadora es pertinente y oportuna. El propósito de este estudio es identificar las direcciones principales de mejoramiento de los incentivos tributarios para pequeñas empresas innovadoras en Kazajstán a través del uso de la experiencia extranjera. El estudio utilizó análisis de datos y comparaciones para identificar las características de los incentivos fiscales de los pequeños negocios innovadores en Kazajstán y en el extranjero. En la determinación de las principales direcciones de mejora, el estudio utilizó el método de previsión sobre la base de los resultados del análisis y comparación. En el artículo se describen los instrumentos básicos de incentivos fiscales para las actividades de la pequeña empresa de innovación en Rusia. El artículo analizó la experiencia extranjera de la aplicación de privilegios y preferencias fiscales. El artículo elaboró y comprobado recomendaciones sobre la mejora del sistema de Kazajstán de incentivos fiscales de la actividad de pequeños negocios innovadores. Los autores concluyen que el sistema de incentivos tributarios de Kazajstán es ineficaz y necesita ser reformado aumentando el número de beneficios tributarios y el desarrollo de un régimen tributario especial a través del uso de la experiencia extranjera.

**Palabras clave:** incentivos tributarios, pequeño

At the present stage of the world economy development, innovation plays a special role in the development of any country. The transition to an innovative way of development, the growing influence of the innovation component on the efficiency and competitiveness of the economy poses the problems of accelerated development and introduction of innovations as a priority. Of particular importance is the activity of small innovative entrepreneurship as the most flexible component of the country's innovative economy. However, due to the nature of their activities, small innovative entrepreneurship needs state support, including in the field of state tax policy. Due to this, consideration of issues of tax incentives for the activities of small innovative entrepreneurship is timely and timely.

At present, the concept of "innovative entrepreneurship" is not fixed anywhere. On the one hand, innovative business is understood as the process of creation and commercial use of technical and technological innovations [13]. On the other hand, it is also possible to understand the use of innovative management structures at enterprises. According to the Oslo Manual (Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data), which is used to identify an innovative enterprise, it is understood as an enterprise that introduced an innovation during the observation period [11]. For the purposes of this study, Economic entrepreneurship is understood as an economic activity aimed at the creation, implementation and commercialization of innovations as a result of research and development work to meet social needs in innovative products (works, services) and on the basis of this profit.

Small innovative entrepreneurship is an important component of innovative business. It contributes to the development of an innovative economy, as well as to the country's competitiveness in foreign markets. Despite the role that small innovative entrepreneurship plays in the country's economy, there is no single approach to its definition. Some researchers under the small innovative entrepreneurship understand the structural part of small business with its peculiar features and functions [4]. Other scientists believe that small innovative entrepreneurship is created by individuals to develop and produce new products [2]. Since small innovative entrepreneurship is a part of both small and innovative entrepreneurship, it is advisable to understand small business entities that carry out economic activities aimed at profit making and include various stages of development, production and sale of innovative goods or services.

In foreign countries, much attention is paid to the development of small innovative entrepreneurship. Thus, the share of the latter in the volume of industrial enterprises in developed countries reaches 80% (in Germany - 66%, Ireland - 75%, the United States - 80%, France - 46%, Great Britain - 39%) [17]. In Kazakhstan, this indicator is much lower: according to the estimates of various experts, 5-6%.

Wide dissemination in foreign countries have received indirect methods of financial support for the activities of small innovative entrepreneurship. The basis of indirect financial support is tax incentives. Tax incentives for small innovative entrepreneurship include the application of certain tax incentives and the application of special tax regimes.

The main instruments of tax incentives in the form of using various types of tax incentives for small innovative entrepreneurship in foreign countries in 2013 are presented in Table 1.

**Table 1.** The main instruments of tax incentives in foreign countries in 2013

No.	Instruments of taxation Stimulating	Countries

1	Tax credit	Australia, Austria, Belgium, Canada, France, Japan, Co-Mexico, Norway, Portugal, Spain, Ireland, Italy, United Kingdom, United States, Denmark
2	Tax deductions	The Netherlands, Turkey, Slovenia, Hungary, Greece, Finland, Dia, Czech Republic, China, Brazil, Belgium, Austria, Australia
3	Accelerated depreciation	Belgium, Brazil, Chile, China, France, Great Britain, Poland, Mexico, Denmark, Canada, Turkey
4	Benefits for the Wage Tax	(For employees engaged in R & D) Belgium, France, Netherlands, Hungary, Turkey

Note. Compiled by the authors on: [16].

As can be seen from the table, the most popular tax benefit applied in most foreign countries is a tax credit. Despite the fact that most foreign countries use similar tax incentives and incentives, their size varies by country. The size of the tax breaks for small innovative entrepreneurship in foreign countries is presented in Table 2.

**Table 2.** The size of tax benefits in foreign countries in 2013

No.	A country	Tax credit	Tax deductions	Tax exemptions On wages
1	Australia	40% of R & D costs	25% of R & D expenditures, 50% of the increase in expenditures for R & D (2 years)	Not used
2	Austria	10% of R & D expenses	25% of R & D expenditures, 35% of the increase in expenditures for R & D (3 years)	Not used
3	Belgium	5.27% of R & D expenses	15.5% of R & D expenses	80%
				100% in 1 year, 80%

4	France	30% of R & D costs	Not used	in 5 years, 70% in 6 years, 60% In 7 years, 50% in 8 years
5	Japan	12% of R & D costs	Not used	Not used
6	Korea	25% of R & D costs, 50% of increase in expenses For R & D (3 years)	Not used	Not used
7	Mexico	30% of R & D costs	Not used	Not used
8	Norway	20% of R & D costs	Not used	Not used
9	Portugal	32.5% of R & D expenditures, 50% of increase in expenses For R & D (2 years)	Not used	Not used
10	Spain	25% of R & D costs, 42% of increase in expenses For R & D (3 years)	Not used	Not used
11	Great Britain	10% of R & D costs	150% of R & D expenses	Not used
12	USA	20% of R & D costs	Not used	Not used
13	Turkey	Not used	100% of R & D expenses	50 %
14	Slovenia	Not used	100% of R & D expenses	Not used
15	The Netherlands	Not used	54% of R & D expenditures	38%

16	Hungary	Not used	100% of R & D expenses	100 %
17	Finland	Not used	100% of R & D expenses	Not used
18	China	Not used	50% of R & D expenses	Not used
19	Brazil	Not used	60-80% of R & D expenses	Not used

*Note.* Compiled by the authors on: [19]

As can be seen from the table, the amount of tax deductions from the taxable base for income tax related to R & D is very variable, from 15.5% in Belgium to 150% in Great Britain. It should also be noted that in some countries (Australia, Austria), it is envisaged to provide tax deductions from both the amount of R & D expenditure and the increment of such expenses. The application of a tax credit is a reduction in the profit tax for a certain percentage: 5-40% of the expenditure on R & D (France, the United States, Great Britain) or 40-50% of the increase in such expenditures (Korea, Portugal, Spain). The application of tax incentives based on the incremental approach allows to stimulate a constant increase in expenditures on R & D, thereby stimulating the innovative development of enterprises.

In addition to these tax breaks, some countries also use reduced rates for individual taxes. Thus, in France, small businesses have the right to a temporary exemption from income tax or its reduction to 50% in the first five years of existence [5]. In the UK, all small businesses have the right to tax breaks, which annually send more than £ 10,000 to research activities, and the profit tax for such companies can be reduced to 1%. Reduced VAT rates for innovative goods are used in Germany, Sweden, the United Kingdom, Italy [3]. Additional benefits are usually provided to enterprises that conduct joint projects with universities. So in Norway, in joint research with universities, a double size of the ceiling for spending on R & D is established, in the UK the company can deduct from the taxable base for income taxes the amounts invested in joint development, or university fees for research [10].

In addition to the use of tax incentives in foreign countries, special tax regimes for innovative companies are applied. Such a tax regime is the "Patent Box" mode. This tax regime implies preferential taxation of income from the use of intellectual property rights. The "Patent Box" mode is applied in seven European countries (Belgium, France, Hungary, Luxembourg, Netherlands, Spain, Great Britain) [6]. The main conditions for applying this tax regime are as follows:

- 1) the company has the property of qualified intellectual property;
- 2) taxation is carried out at an effective tax rate that depends on the prevailing system of taxation of profits in the country, as well as the non-taxable part of the income from the use of intellectual property;
- 3) income from the use and sale of intellectual property items shall be included in the income taxed under this regime;
- 4) the costs of creating intellectual property are deducted from the taxable base.

Despite the existence of general principles and conditions for the application of the "Patent Office" regime, in European countries there are differences in determining the objects of intellectual property and income taxed under this regime.

It can be seen from the [15], as a rule, qualified patents for intellectual property include patents received as a result of R & D, protective Certificates for products. In some countries (Hungary, Luxembourg, Spain), the list of qualified intellectual property objects includes trademarks, logos and some other similar rights. In many

European countries, these rights must be obtained by resident companies or improved by them. An important condition is the need to introduce this right into the balance of the enterprise.

The application of this tax regime promotes the development of R & D within the country, stimulates the receipt of patents for inventions. Unfortunately, this regime was introduced in most European countries after 2007, which does not allow making unambiguous conclusions about its effectiveness. One of the first countries that began to apply the "Patent Box" mode is France, where it was introduced in 2001. A study conducted by the Reuters agency showed that, since the introduction of the preferential taxation regime, the number of patent applications in France has steadily increased [14].

The implementation of the proposed measures will promote the development of small innovative entrepreneurship in Kazakhstan and increase its role in the economy of the country, which in turn will lead to the formation of an innovative economy and increase the country's competitiveness.

As a result of researching the directions for improving tax incentives for small innovative entrepreneurship, the following conclusions can be drawn: 1. In foreign countries, a system of tax incentives for small Innovative taxation (tax deductions, tax credits, accelerated depreciation, etc.), as well as the use of the special tax regime "Patent Box" for innovative companies. This system contributes to the innovative development of countries.

In the Kazakhstan, existing tax incentives are ineffective. The practice of applying tax credits does not contribute to the development of small innovative entrepreneurship. Existing special tax regimes do not fully meet the needs of small innovative entrepreneurship. 3. The main areas for improving the tax incentives for small innovative business should be an increase in the number of tax breaks for individual taxes and a change in the mechanism for applying a tax credit and an investment tax credit based on the use of foreign experience, as well as adapting the "Patent Box" regime to Kazakhstan conditions.

These measures will expand the system of tax incentives, will increase its effectiveness, which in the long run will lead to an increase in the scale of small innovative entrepreneurship.

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