Taxation of small business and private entrepreneurship: a theoretical and empirical approach

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Abstract. This article explores the theories of the evolutionary development of a single tax as an element of a simplified taxation system for small businesses and private entrepreneurship. The issues of taxpayer behavior as a factor in strengthening the financial discipline of the taxpayer of small business and private entrepreneurship are analyzed. Empirically investigated and analyzed regional aspects of the effectiveness of the single tax as a multifactorial phenomenon.

Keywords: investment potential, simplified taxation, behavioral model of taxpayers, taxation of small business and private entrepreneurship in the regions (TSBPE), tax income growth rate.

The concept of a single tax theory is based on the principle of fairness of taxation. The principle of fairness is reflected in the uniform distribution of the tax burden between taxpayers, the justification of benefits, and the creation of conditions for the same transaction costs for businesses based on different capital capacities. This view confirms that the introduction of a simplified taxation is a matter of convenience for small businesses, primarily based on the possibility of simplifying the tax mechanism.

The single tax theory is based on the taxation mechanism that is derived from the so-called excise tax theory. However, Physiocrats, have argued that the land tax should be the only objective of the single tax, based on their position on net income. This uniform tax is determined based on the cadaster and the fertility of the land. F. Quesnay has noted that the single tax rate is 2/7 (2).

Single tax theories have combine a special system of scientific knowledge about the nature and nature of taxes, their role and importance in the economic, social and political life of society. In other words, tax theory is a synthesis of existing models of the national tax system. Professor of the Columbia University E. Seligman have admits in his scientific views on the single tax system that in the foreseeable future the single profit tax mechanism will replace all taxes with an optimal tax system(3).

Consequently, the single tax theory as an objective economic category is based on scientific views in the paradigm of private tax theory development. The evolutionary historical development of the single tax theory confirms that this tax mechanism is the basis of the fundamental views of the representatives of different economic schools. In modern conditions, based on these considerations, the single taxation mechanism for income, capital and also the single tax mechanism for rent are developed.

One of the objective conditions for the development of “Finance” in the first quarter of the 21st century is the development of “Finances of Behavioral Finance”, which is adequate to the space based on the digital economy (4).

Under these circumstances, not only the optimization of tax administration elements in tax reform, but also the fact that the formation of a tax mechanism based on the behavior of taxpayers should form a constructive basis for the formation of a modern economic tax system and strengthening tax discipline.

In this regard, the words of our esteemed President, Shavkat Mirziyoyev, “Taxpayers should be interested in the timely payment of taxes, rather than avoiding tax evasion”, are the logic of our opinion (1).

Based on this idea, we have systematized the behavioral model of taxpayers in accordance with the following figure.
According to this picture, the behavior is classified in 2 main areas. It also presents the degradation of taxpayers’ behavior based on the 4 elements. The category of degraded taxpayers in the amount of 2.3.4 is regarded as acting in accordance with the norms of the Act, in the category of honest taxpayers.

Here tax optimization implies optimization of tax payments through the efficient use of existing economic tools (incentive system, preferences).

Also, tax planning will be organized through existing tools and methods by restructuring production factors based on the existing tax regime.

Consequently, the formation of tax mechanisms and tools to ensure taxpayers' compliance with the tax discipline as a result of reforming the existing tax administration is not just a tax evasion, but an economic basis for the taxpayer's interest in paying them.

In modern conditions, in most countries of the world a simplified taxation regime is introduced. Studies show that this taxation regime is mainly implemented for small businesses, whose main purpose is to improve tax administration and simplify the taxation system for entrepreneurs.

As a result of research and scientific abstractions of the simplified taxation system, its advantages, disadvantages, as well as the risks associated with maintaining macroeconomic stability are summarized in the following figure.

Simplified taxation also poses a number of risks as one of the key fiscal factors to ensure macroeconomic stability. These risks are summarized in Figure 2. For example, some Russian economists argue that a Russia's simplified tax system is one of the internal fiscal factors that stimulate capital outflow (5).

Also, in the first glimpse of the unified tax theory, the main purpose of this tax mechanism is to create fiscal stimulus to address the social problems associated with unemployment in the country by combating poverty and ensuring sustainable development of small businesses (7). On the basis of these goals, a number of reforms are being implemented in the country in the context of creating new jobs based on the criteria for identifying business entities using a simplified taxation regime.

As a result of reforms carried out in the country in recent years, the share of small business and private entrepreneurship in GDP is increasing year by year. At the same time, reduction of single tax payment rates by small business entities, which is the most important factor, has a positive impact.

As can be seen in Figure 2, the reduction of the single tax rate from 13% in 2006 to 5% as a result of large-scale reforms in the tax burden on small businesses and private entrepreneurship, promotion of tax incentives and entrepreneurship development in 2000-2018. The reduction of industrial enterprises by 5% and construction companies by 5% from 2017 provided great opportunities for the development of small business and private entrepreneurship.

Thus, in parallel with the reduction of tax rates, the existing tax incentives system has led to a consistent increase in the disposable income of small businesses and private entrepreneurship. The impact of fiscal opportunities created for profitable business also increased the share of business entities in GDP. The introduction of single tax benefits and tax rates for small businesses and private entrepreneurship has contributed to a decrease in the efficiency of budget revenues. As a result, due to the wide range and number of taxpayers, tax revenues remain low.
In order to apply a systematic approach to the study of the effectiveness of the taxation of small business and private entrepreneurship in the regions (TSBPE), it is necessary to determine the internal links between the system elements and their interrelationships. The regional aspect of the TSBPE in the regions depends primarily on the peculiarities of the development of small business and private entrepreneurship.

The target effectiveness of the TSBPE is a set of results, including quantitative indicators of the optimal maintenance of fiscal, economic and social goals in the regions.

The target effectiveness of TSBPE consists of the following component:
- Tax income growth rate: \( G_t(T_i) \) (fiscal);
- Growth rate of the share of small business and private entrepreneurship in GRP \( G_r(GRP) \) (economic indicator);
- Population growth rate in small business \( G_y(E_{sbpe}) \) (social indicator);
- Growth rate of small business and private entrepreneurship in priority sectors and sectors of the region \( G_y(S_{sbpe}) \).

Consequently, the target function \( Y \) of TSBPE is a mathematical function that contains the following variables.

\[
Y = f(G_t(T_i), G_r(GRP), G_y(E_{sbpe}), G_y(S_{sbpe})) \tag{1}
\]

Each variable regions of small business and private entrepreneurship in the development of the activity of specific importance, which is in turn connected to the structure of the regions for the development of the industry functions.

Bukhara region's sort of simplified taxation of small business and private entrepreneurship paid for by tax revenues and the factors that affect the establishment of a multi-factor econometric model. The main reason for this is that the model determines what each individual taxpayer's share will be like if the economic situation changes in the future.

Factors involved in the multivariate econometric model are:
- Resulting factor - In Bukhara region simplified tax revenues, mln. soum (\( Y \));
- Impact Factors - Gross Regional Product (GRP) of Bukhara region, mln. sum (\( X_1 \)), number of microfirms and small enterprises (\( X_2 \)), trade and catering enterprises (\( X_3 \)) and farms (\( X_4 \)).

As can be seen from the correlation matrix, the correlation coefficients show sufficiently strong links between the factors. There is a strong link \( r_{YX1} = 0.9568 \) between the factor \( Y \) and \( X_1 \).

There is a strong link \( r_{YX2} = 0.9535 \) between the factor \( Y \) and \( X_2 \). It can be seen that there is a moderate link \( r_{YX3} = 0.5299 \) between the factor \( Y \) (\( X \)) and \( X_3 \). It can be seen that there is a slow inverse link \( r_{YX4} = -0.1798 \) between factor \( Y \) and \( X_4 \).

We calculate the parameters of the multivariate econometric model for the simplified tax revenue and the factors affecting it in the Bukhara region (used in calculations using the Eviews 9.0 program) (Table 1).
Multivariate econometric model parameter values

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>0.005619</td>
<td>0.00123</td>
<td>4.613008</td>
<td>0.03720</td>
</tr>
<tr>
<td>X2</td>
<td>83.18475</td>
<td>15.34235</td>
<td>-2.922920</td>
<td>0.01515</td>
</tr>
<tr>
<td>X3</td>
<td>-90.95122</td>
<td>67.4496</td>
<td>3.569788</td>
<td>0.03495</td>
</tr>
<tr>
<td>X4</td>
<td>2.676689</td>
<td>20.55766</td>
<td>-1.568228</td>
<td>0.07277</td>
</tr>
<tr>
<td>C</td>
<td>-103658.5</td>
<td>101420.4</td>
<td>-1.014671</td>
<td>0.42457</td>
</tr>
</tbody>
</table>

Many factors econometric model is the following:

\[
\hat{Y} = -103658.5 + 0.0056 \cdot X_1 + 83.18 \cdot X_2 - 90.95 \cdot X_3 + 2.68 \cdot X_4 \\
\times (-1.014) \quad (4.61) \quad (-2.92) \quad (3.57) \quad (1.56)
\] (2)

(The values in parentheses are the values of the t-Student's criterion, which determines the reliability of each factor.

The multivariate econometric analysis of the Bukhara region shows that the GRP \( (X_1) \) of the Bukhara region is one million. As a result, the simplified tax revenue will increase by an average of 0.0056 million soums. In the region, the number of microfirms and small businesses \( (X_2) \) increases by one unit, with a simplified tax revenue of $ 83.185 million soums. In the region, the number of trade and catering enterprises \( (X_3) \) decreased by 1 unit, with a simplified tax revenue of $ 90.95 million. This will lead to decrease in the However, an increase in the number of farms \( (X_4) \) by 1 unit would result in a simplified tax revenue in the province of $ 2.68 million soums.

The coefficient of determination is equal to

\[
R^2 = 0.994761\]

This means that simplified tax revenue and the factors influencing it are strong enough. In the region, simplified tax revenues depend on the variation of the 4 factors included in the model by 99.47 percent. The remaining 0.53 per cent is attributed to unaccountable factors.

Following conclusions can be formulated:

The efficiency of tax revenues for small businesses depends, first of all, on their share in the economy. This is a general economic factor that influences the quantitative and qualitative growth of tax revenues.

Taxes paid by small businesses and private entrepreneurship depend on the existing benefits and tax rates. Optimization of tax incentives will provide expansion of tax base and increase tax revenues.

The establishment of a single tax rate differentiated by categories of taxpayers may enhance the discriminatory mood of some taxpayers. It is advisable to carry out reforms aimed at identifying the tax burden through uniform tax rates.

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