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Departamento de Ciencias Humanas
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Importance of tax regulation of SME innovations in the economic management

[1]Kanshaim Zhusupovna Sholpanbaeva
Candidate of Economic Sciences, Professor, East Kazakhstan State University named after Amanzholov, Ust-Kamenogorsk, 30 Gvardeiskoi divisii str., 34, 070002, Ust-Kamenogorsk, Kazakhstan
kanshaim.sholpanbaiva@mail.ru

[2]Asel Anuarbekovna Apysheva
Candidate of Economic Sciences, Assistant Professor, Department of Finance and Accounting, East Kazakhstan State University named after S. Amanzholov, Ust-Kamenogorsk, 30 Gvardeiskoi divisii str., 34, 070002, Ust-Kamenogorsk, Kazakhstan
asel_gen@mail.ru

[3]Nurgul Kunafyanovna Shaihanova
Candidate of Economic Sciences, Assistant Professor, Department of Finance and Accounting, East Kazakhstan State University named after S. Amanzholov, Ust-Kamenogorsk, 30 Gvardeiskoi divisii str., 34, 070002, Ust-Kamenogorsk, Kazakhstan
shaykhanava@mail.ru

[4]Usen Suleimenovich Alimbetov
Doctor of Economic Sciences, Professor, East Kazakhstan State University named after S. Amanzholov, Ust-Kamenogorsk, 30 Gvardeiskoi divisii str., 34, 070002, Ust-Kamenogorsk, Kazakhstan
U.alimbatov@mail.ru

[5]Gulnara Islyamovna Jempeissova
Candidate of Economic Sciences, Assistant Professor, School of Business and Entrepreneurship, D. Serikbayev East Kazakhstan state technical university, Ust-Kamenogorsk, Serikbayev str., 19, 070004, Ust-Kamenogorsk, Kazakhstan
Gulnara_Islyem@mail.ru

[6]Almira Abeshevna Saktayeva
Candidate of Economic Sciences, Assistant professor, Department of Economics and Management, East Kazakhstan State University named after S. Amanzholov, Ust-Kamenogorsk, 30 Gvardeiskoi divisii str., 34, 070002, Ust-Kamenogorsk, Kazakhstan
almera_sak@mail.ru

[7]Saule Kakimovna Dusembaeva
Candidate of Economic Sciences, Assistant Professor, Department of Finance and Accounting, East Kazakhstan State University named after S. Amanzholov, Ust-Kamenogorsk, 30 Gvardeiskoi divisii str., 34, 070002, Ust-Kamenogorsk, Kazakhstan
aiaudit@mail.ru

Abstract

The purpose of this study is to identify an important role of tax regulation in relation to innovation activity. The methodological basis of the research is the fundamental provisions of modern financial science, empirical

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and logical constructions, methods of comparative analysis and synthesis. As a result, the reduction of interest rates by itself will not lead to the improvement of the tax system. In conclusion, small and medium-sized enterprises form a competitive environment, contribute to the filling of the market with domestic goods and services, and is a breeding ground for medium and large businesses.

Keywords: Taxation, Innovation, Regulation, Economic, Management.

Importancia de la regulación fiscal de las innovaciones de las PYMES en la gestión económica

Resumen

El propósito de este estudio es identificar un papel importante de la regulación fiscal en relación con la actividad de innovación. La base metodológica de la investigación son las disposiciones fundamentales de la ciencia financiera moderna, construcciones empíricas y lógicas, métodos de análisis comparativo y síntesis. Como resultado, la reducción de las tasas de interés por sí sola no conducirá a la mejora del sistema tributario. En conclusión, las pequeñas y medianas empresas forman un entorno competitivo, contribuyen a llenar el mercado con bienes y servicios nacionales y son un caldo de cultivo para medianas y grandes empresas.

Palabras clave: Fiscalidad, Innovación, Regulación, Economía, Gestión.

1. INTRODUCTION

A tax is a compulsory financial or in-kind contribution to state revenue, unilaterally and in proper legal form established by government represented by duly authorized body, made by the subject of taxation within specific time limits and in certain amounts, which is non-refundable, non-equivalent and stable, the payment of which is provided

by coercive measures (Yutkina, 2007). In modern civilized society, the tax is the main form of state revenue. Government revenue is divided into two main groups (Kovaleva, 2008). One group consists of the income of a private law nature. State receives this income, firstly, on the same terms as individuals, through certain transactions, and secondly, this income is charged from the lands, forests, commercial, industrial, transport and other enterprises. The other group consists of the income of a public law nature raised by a government by virtue of its power and enforcement. This includes duties, taxes and compulsory fees. Taxes are levied regardless of the services provided by state and are intended for the general needs of the state, they are a key channel of the fiscal system. Taxes arose along with the commodity production, division of society into classes and the emergence of the state, which required funds for the maintenance of the army, courts, officials and other needs. As Marx rightly stressed: The taxes embody the economically expressed existence of the state .

Initially, taxes were levied in the form of various fees, tributes. With the development of commodity and money relations, the tax acquires a monetary form. In particular, one of the first monetary taxes was a per capita tax – tribute – on all citizens in Ancient Rome in the 2nd century a. d. (Utibayev et al., 2006, Robani & Salih, 2018). Taxes are compulsory payments levied by the authorities from individuals and legal entities to the state budget. That is, the withdrawal by the state in its favor of a certain part of the gross domestic product in the form of a mandatory contribution is the essence of taxes. Such contributions are made by the main participants in the production of GDP: workers creating tangible and intangible values and receiving a certain income; market participants, capital owners. At the same time, the payment of a certain amount of

money in the form of a tax is an external manifestation of economic ties between the participants of the reproductive process and a state. They are based on economic relations. Thus, the economic essence of taxes is that they represent a part of economic relations on withdrawal of a certain share of the national income and legal entities and citizens which is accumulated by the state for implementation of its functions and tasks (Chernika, 2005). It may be recalled, that the created value of GDP is subject to distribution, as a result of which each participant in social production receives its share, which is their income. Distribution processes in the form of value, as a result of which each participant in social production receives its share, is realized primarily with the help of financial means.

2. METHODOLOGY

The methodological basis of the research is the fundamental provisions of modern financial science, empirical and logical constructions, methods of comparative analysis and synthesis. The study used the principles of a systematic approach, methods of statistical and comparative economic analysis. The article focuses primarily on the position of taxation in the system of innovation stimulation. Basic principles of taxation and their implementation in stimulating innovations on which the tax structures of different countries could be based occurred almost along with taxes and immediately drew the attention of theorists of financial study. During this period, scholars' ideology was based on individualistic theories of a state and taxes, according to which the state had to burden the taxpayer as little as possible. As for the interests of the

state, as follows from these theories, taxes should meet the minimum needs of the treasury. At that time, the state levied taxes arbitrarily, guided by a single measure – the needs of the treasury. The transformation of taxes into the main source of state revenue created an opportunity and set the task of studying the nature of taxes, including the sources and principles of taxation. In this regard, in the history of financial study, it is necessary to mention the works of such scholars, as Smith and Wagner, as the principles of taxation that they developed are the basis of modern taxation systems.

3. RESULTS AND DISCUSSION

State, by virtue of its power, has the right to withdraw a part of the income of legal entities and individuals on the basis of certain rules. Such withdrawal is implemented through taxes. Thus, if finances participate in the distribution process as a whole, then taxes, which express a more limited sphere of distribution relations, are redistributive (Yutkina, 2007). Part of the national income, charged forcibly in the form of taxes, is directed to the state centralized fund of financial resources. The compulsory charge has a unilateral non-equivalent movement of value (from the taxpayer to the state), that is, there is no purchase and sale. Thus, among the economic categories taxes are characterized byd specific financial features: monetary, distributive nature, are a kind of financial resources, have a unilateral movement of value. Thus, taxes related to the system of financial relations, this determines their overall content. At the same time, taxes have a material basis, i.e. they are part of the monetary

income of legal entities and individuals, appropriated by the government (Baimuratov, 2005).

This determines the dual nature of taxes: on the one hand, taxes are a specific form of production relations, on the other hand, taxes are part of the value of national income in monetary form. Taxes in their essence and content appear in practice in the diverse forms with a variety of national characteristics, which together form the tax systems for different countries. According to the set of taxes, their structure, method of collection, rates, fiscal powers of different levels of government, tax base, scope, tax relief, these systems differ significantly from each other and are seemingly incomparable. However, a more thorough analysis can reveal two main common features:

1.A constant specific search for ways to increase tax revenues of the state;

2.Building tax systems on the basis of generally accepted principles of the economic theory of equality, justice and efficiency of taxation.

The first of these features are implemented in the form of large-scale tax reforms, the imposition of new taxes, changes in the taxation base, the ratio of different types of taxes, manipulations with progressive and proportional taxation, redistribution of the taxation burden. As for the second feature, the principles of developing tax systems are generally ambiguous and largely depend on the government's commitment to a particular economic theory. Nevertheless, these principles have common

nature, although they vary in different countries that come from different interpretations of some concepts and provisions. A tax assessment and determination should be easy to understand by an average taxpayer. A tax system should be easy for taxpayers to comply. This among other reasons includes the design of a tax system. This affects also the ability of the taxpayer to understand his/her obligations in the first place (Kabinga, 2015). Both the structure and construction of a tax system are important for all countries. Clear and transparent regulations contribute to the increase in foreign investments, making the economy of a given state attractive in this respect (Jarczokguzy, 2017).

Let us consider the functions of taxation. The concept of function is widely used in scientific and practical works. Latin word literally means performance or execution (Baimuratov, 2005). The main function of taxation is the fiscal one. It contributes to the formation of the state monetary funds, hence, to the economic terms of the of state's functioning. The fiscal function provides a real opportunity to redistribute part of the cost of national income in favor of the neediest social strata of the population. The fiscal function creates objective preconditions for state intervention in economic relations. Hence, the fiscal function determines the regulatory function. The regulatory function implies that taxes, as an active participant in redistributive processes, have an impact on production, stimulating or restraining its pace, increasing or weakening capital accumulation, expanding or reducing the effective demand of the population. This function is inseparable from the fiscal one and is closely related to it. The allocation function of taxes expresses itself in a complex interaction with prices, income, and interest. Taxation is a tool for the allocation and redistribution of the national income, income of legal

entities and individuals. The allocation function of taxes affects the distribution of not only income but also capital and investment resources (Baimuratov, 2005). Taxation in any civilized state should be based on certain principles - the fundamental ideas and provisions existing in the taxation. These principles have always been the subject of special public attention, as they largely depended on the socio-economic well-being of the population and the public peace. The set of taxation principles of the Kazakhstan tax system is reviewed in Table 1.

Table 1- Principles of the Kazakhstan tax system

1) classic principles	- justice - equality - convenience - thrift
2) economic-functioning principles	- stability - endurance - one-time taxation - taxation discreteness (object, rates)
3) organizational and legal principles	- decentralization - unity of the tax system

One more principle should be mentioned to the list above, the principle of double taxation relief and the principle of stability of tax legislation. Based on the above, the national tax system built in accordance with the requirements of general scientific principles, the rules of construction of tax system, principles that reflect the specificity of development of the economy of Republic, will become an engine for development of market relations (Abishev, 2006). According to this, any state develops the so-called modern principles of taxation. In the Republic of Kazakhstan there can be defined the following principles:

1.The tax legislation of the Republic of Kazakhstan is based on the principles of mandatory payment of taxes and other compulsory payments to the budget, determination, and justice of taxation, unity of the tax system and transparency of tax legislation.

2.Provisions of the tax legislation of the Republic of Kazakhstan shall not contradict the principles of taxation established by the Code.

The principle of mandatory taxation. The taxpayer is obliged to fulfill tax obligations in accordance with the tax legislation in full and on time. The principle of determination of taxation. Taxes and other compulsory payments to the budget of the Republic of Kazakhstan should be fixed. Determination of taxation means the possibility of establishing in the tax legislation all the grounds and procedure for the emergence, execution and termination of tax obligations of a taxpayer (Sakhanova et al., 2003). The tax system is a set of stipulated taxes, principles, forms and methods of their establishment, adjustment or cancellation, application of measures to ensure their payment, implementation of tax control, as well as accountability measures for violation of tax legislation (Official website of the information portal; Official website of the Ministry of Industry and new technologies of the Republic of Kazakhstan; Official website of the Statistical Agency of the Republic of Kazakhstan). The Constitution of the Republic of Kazakhstan dated August 30, 1995, declared the obligation to pay legally established taxes, fees and other obligatory payments to the budget as a duty and obligation of everyone.

The tax system of the Republic of Kazakhstan includes certain types of taxes, fees and duties, legal norms regulating tax relations and tax authorities (the Ministry of State Revenue of the Republic of Kazakhstan and its local authorities) (Sheliubskaya, 2001). A tax obligation is an obligation of a taxpayer to the state established under the tax legislation. The tax legislation of the Republic of Kazakhstan consists of the Code of the Republic of Kazakhstan On Taxes and Other Mandatory Payments to the Budget by the Tax Code (hereinafter the Tax code), as well as other regulatory legal acts. No one may be obliged to pay taxes and other mandatory payments to the budget that are not provided for in the Tax code, all taxes and other mandatory payments to the budget are established, introduced, changed or canceled in the manner and on the terms established by the Tax code (Official website of the Ministry of National Economy of the Republic of Kazakhstan). Scottish scholar (economist and philosopher) Smith (2007) was the first who clearly defined the basic principles of taxation, which depth and accuracy were noted by finance scholars of the late XIX – early XX century. In his work Inquiry into the Nature and Causes of the Wealth of Nations published in 1776, he was first who stated four basic rules of taxation (Official website of the Ministry of National Economy of the Republic of Kazakhstan). In modern textbooks on taxation, while examining Smith's principles of taxation the principle of universality and proportionality is often identified with the principle of justice.

At the level of modern knowledge, the identification of the principle of justice with the principle of universality and proportionality of taxation is not entirely correct, since the concept of justice is much broader and is not limited to formal or even actual achieving of universality and

proportionality of taxation. At the same time, the principle of universality and proportionality cannot be merely an integral part of the principle of justice. These principles are of a different nature. The principle of universality and proportionality of taxation stems from the economic nature of taxes and the publicity of the obligation to pay them. The origin of the principle of justice lies in the moral and ethical ideas of society. For the sake of justice, society can and usually does derogate from the principle of universality and proportionality. In view of these contradictions, the principle of universality and proportionality of taxation should be considered as an independent principle, which implementation should be assessed in conjunction with other principles. The practical implementation of the principle of justice in the distribution of the tax burden is not a simple task and, as a rule, is impossible in absolute form. In the case of taxation, the principle of justice is transformed into the principle of relative equality of tax obligations or equitability of distribution of the tax burden. This does not mean equality of the amounts of taxes paid, but equality among all individuals in relation to some criteria for the distribution of the tax burden corresponding to the ideas of a certain society about social justice. Smith (2007) believed, that proportional taxation of income is the equitable one: "In order to maintain the government activity, citizens must make contributions, which are most precisely proportional to the economic opportunities of the taxpayers, i.e. proportional to the income they receive due to the state structure of the society" (Elubayeva, 2003: 22). In contrast, in William Petty's opinion, indirect taxes on consumption are the most equitable (Iliasov et al., 2014).

From Smith's point of view, the principle of justice is that taxes should be proportional to the economic opportunities of taxpayers; one can

assume that this principle is implemented, in particular, through tax incentives for innovation. The implementation of this principle can be revealed from two sides: first, the objective impossibility – at the present stage of development of the market economy in Kazakhstan, reaching by the organizations the level of profitability without state support; secondly, the state interest in the development of national organizations-innovators. The economic nature of the principle of determination is that the tax paid should be established, and the time of its payment, the method and amount of tax should be clear and known to both the taxpayer and any other. Smith emphasized this principle as one of the most important: "The exact determination of what each person must pay, in terms of taxation is a matter of such great importance that a significant degree of unevenness is a much lesser evil than a small degree of indetermination" (Elubayeva, 2003: 19). This principle is particularly important when referring to tax regulation in general and innovation in particular. Since the core of state regulation regarding taxation is reduced to the formation of a set of methods, such as tax credit, tax holidays, various tax relief, as well as special tax regimes that differ to some extent from the usual terms of taxation, the legislator must clearly determine all the conditions for the application of certain methods, terms, etc., otherwise both taxpayers and state fail: taxpayers, without understanding all the tax savings methods permitted by the legislator, risk to commit an unlawful act; state in a situation of confusion and uncertainty of legislation on tax minimization risks to face dishonest taxpayers.

The principle of convenience (Declaration of interests of the taxpayer) means the establishment of such a mechanism of tax collection, which is convenient for the taxpayer. This means the need to eliminate

formalities and simplify the act of taxes paid. The significance of this principle is the same for both taxpayer and state. The simpler and more convenient the mechanism of taxes paid in the state, the less the State bears the costs of tax administration and the less the state losses from the actions of evading taxpayers. The principle of thrift assumes that each tax should be arranged in such a way that the taxpayer does not experience significant material expenses to maintain the system of tax administration (serving the interests of state and taxpayer in this area). This principle of taxation states the need to rationalize the system of tax administration and reduce the cost of its implementation. The implementation of this principle in the aspect of state tax relief is of particular relevance, as the differentiation of tax exemptions often increases the set of measures of tax administration, complicates both its structure and the process of its implementation. Russian scholar Turgenev in his work Experience of tax theory (1818) further develops the principles of taxation of Smith's. Expressing his own view on the principle of justice, he noted that each tax had its own disadvantages and, therefore, when imposing taxes, those that had the least number of shortages should be chosen. At the same time, the scholar pointed to the need to establish a moderate progression of taxes; in his work, he particularly emphasizes the need to comply with the principle of equal allocation of taxes among all citizens according to their income. Turgenev (1998) includes among the most important principles such as cost reduction, tax determination, as well as the convenience of tax collection. A significant impact on the development of the theory of taxation was made by scholar's statement about the expediency of levying a tax not on capital itself, but on net income in order to save sources of state income. As noted Panskov (2005), Yanzhul outlined the arguments of the opponents of the taxation of capital:

First part of property (capital) certainly should be spared. Productive activity is impossible without capital: people cannot increase the mass of values without it; capital is like a deposit that is given to the manufacturer and which is obtained in product back and at a profit. If the government sets capital taxes, then following the capital decrease there would be a delay in the creation of new values, and national wealth would progress slower and slower with increasing burden of taxation. This implies the following rule: taxes should leave the country's capital as unaffected as possible (except in extreme cases – wars, etc.) and involve only an income (Omarov, 2015: 18).

In contrast to Smith, German economist Wagner, based on the theory of collective needs, supplemented the principles of taxation set forth by Smith, which are based on the interests of the state. Proposed principles of taxation at the end of the XIX century were presented by A. Wagner in nine basic rules, combined into four groups (Khantayeva, 2006). Financial principles:

-The adequacy of taxation;

-Elasticity (mobility) of taxation.

Economic principles:

-Proper choice of source of taxation (income or capital);

-The reasonable development of the tax system (taking into account the consequences of tax implementation).

Ethical principles, or principles of justice:

-The universality of taxation;

-Equality of taxation.

Principles of tax administration:

-Determination of taxation;

-The convenience of tax payment;

-Maximum reduction of collection costs.

The main achievement of Wagner was that in addition to the further progress on Smith's principles of taxation, he developed a certain concept, which served as the basis for the development of tax systems around the world. Wagner, unlike Smith, when developing the principles, was guided by the theory of collective needs and therefore put the financial principles of adequacy and elasticity of taxation in the foreground, rather than the interests of the taxpayer. The principles of taxation transformed into the system that reflects the interests of both state and taxpayers, giving priority to the first. Thus, a financial study has raised the issue of balance of the financial interests of state and taxpayers. After analyzing the development of the theories of financial study and the principles of taxation, reflecting the experience in the subject of our study, the reasonable, from our viewpoint, is Wagner's opinion that the priority role in the social and

economic relations in the state is played by financial principles. By changing tax rates, introducing special taxes, applying a system of tax relief and sanctions, the state stimulates the development of priority industries and limits the development of other industries. But along with the ability of the socio-economic system to adapt to national needs and with the ability to combine the set of taxes in such systems, which would ensure flexibility, with the possible ethical management principles, in case of emergency in national expenditures, the observance of adequacy of receipt of funds in the budget to cover the costs is also necessary.

In modern conditions, the increase in production efficiency can be achieved mainly through the development of innovative processes that receive the final expression in new technologies, new types of competitive products. Search and use of innovations directly at the enterprises is a current problem. The development of new organizational and technological solutions, improvement of the basic principles of management in relation to the specifics of the domestic market create conditions for the renewal of reproduction processes in enterprises and provide an additional impetus for economic growth. Inherently, innovations include not only technical or technological developments but also any changes for the better in all areas of scientific and industrial activity. Constant updating of equipment and technologies makes the innovation process the main condition for the production of competitive products, gaining and maintaining the position of enterprises in the market and increase productivity and efficiency of the enterprise. Schumpeter (2001) introduced the distinction between economic growth and economic development. The difference between these two concepts is most easily explained by the words of the Schumpeter: If put in a row as many postal

carriages as you wish – you will not get the railway. Economic growth is the increase in the production and consumption of the same goods and services (in particular, postal carriages) over time. Economic development means, first of all, the emergence of something new, unknown before (for example, railways) or, in other words, innovation. Schumpeter for the first time considered the issues of new combinations of production factors and identified five changes in development, i.e. issues of innovation:

-Creating a new product that consumers are not yet familiar with, or a product of new quality;

-Creating a new method of production, not yet tested in this industry, which is not necessarily based on a new scientific discovery and may be reflected in a new form of commercial circulation of goods;

-The opening of a new market, that is, a market in which the industry in a certain country has not yet traded, regardless of whether this market existed before;

-The discovery of a new source of factors of production, again, regardless of whether this source previously existed or had to be recreated;

-Creating a new organization of the industry, for example, the achievement of a monopoly or the elimination of a monopoly position.

In 1930s Schumpeter interpreted the concept of innovation as any possible change that occurs as a result of the use of new or improved solutions of technical, technological, organizational nature in the processes of production, supply, marketing, etc. Peter Drucker defines innovation as a special tool for entrepreneurs, a means by which they use change as a new kind of business or service. Drucker's definition (2007), in our opinion, more fully reflects the matter of the classic definition of Schumpeter, at the same time emphasizing the need for the practical implementation of a new product and the importance of the entrepreneurial factor as a condition for the efficiency of product development. In accordance with international standards, innovation is defined as the final result of innovation activity, embodied in a new or improved product introduced in the market, a new or improved technological process used in practice. Traditionally, all innovations are divided into two main categories: technological and non-technological. Most researchers pay the greatest attention to technological innovation, which is a direct characteristic of the intensity of product development. These include all changes affecting the means, methods, production technologies that determine scientific and technological progress. Accordingly, innovations of organizational, management, legal, social, environmental nature are referred to as non-technological innovations.

The development of market relations in Kazakhstan has defined innovation as the only way of survival of Russian enterprises, regardless of the form of ownership and scope of their activities at all stages of the life cycles of organizations, technologies and products of labor. At the same time, the effectiveness of innovation activities directly depends on how accurately the assessment and examination of risks are made, as well as on

how adequately the methods of managing them are defined. The risks can be classified into the following groups. Management decision-making is always influenced by a number of factors, which cannot be changed or limited. Such factors include tax legislation, natural and geographical conditions, public morality, social customs etc. These factors give rise to pure risks. Unlike pure risks, speculative ones are fully determined by the management decision. Often speculative risks are uncertain and their analytical assessments change over time. Political risks are associated with the political situation in the country and the activities of the state. They arise in violation of the conditions of the production and trade process for reasons not directly dependent on the economic entity. Risks associated with natural hazards, such as an earthquake, floods, storms, fires, epidemics, etc., are natural risks. Credit risk is the risk when the borrower will not pay the principal debt and due interest. Credit risk also includes the risk when the Issuer of the debt securities is unable to pay interest on them or the principal debt.

Such uncertainty increases not only the risk, but also, as a rule, the beneficial effect. Speculative risks are most pronounced in areas that depend on market conditions. Therefore, speculative risks are often called dynamic risks. Also important is the risk of currency losses associated with changes in the exchange rate of foreign currency against the national currency during foreign trade, credit, currency transactions, operations on stock or currency exchanges, which is noted by scholars as currency risks. It occurs when there is an open foreign currency position. For exporters and importers, currency risk arises when the currency price is a foreign currency. The exporter suffers losses in relation to its national currency in the period between the conclusion of the contract and the payment thereof.

For the importer, losses occur when the exchange rate moves in the opposite direction. The most universal method of risk classification is based on the allocation of operating, financial and investment activities, because these activities determine the dynamics and results of production and innovation processes. It should be noted that the system of state regulation of the innovative activity of all the above risks, to a greater extent, include:

-Political risks, such factors as foreign economic relations of the State and various international agreements, the political situation in the country, etc;.

-Pure risks, in particular, regulation of tax legislation in respect of innovators;

-Credit risks if the state is an Issuer of securities;

-Currency risks that the state can regulate through monetary policy and, in particular, through the National Bank of the Republic of Kazakhstan.

And also, the system of state regulation of innovative activity can include all the risks of organizations that are the result of the combined action of the above risks. At present, many enterprises are reorienting their strategies, that is, moving from the full use of the economic effect of large-scale production to a more targeted innovation strategy. Innovation is the most important means of ensuring the stability of economic functioning and competitiveness. There is a strict dependence between competitive

positions, the efficiency of the enterprise and its innovative potential. The efficiency of the enterprise can be achieved by improving the quality of products, the implementation of resource-saving policy, the production of new, competitive projects, and the development of profitable business projects. Scientific interest is drawn to the statement of the well-known theorist of innovation Twiss, which emphasizes that: "Problem is not only in the innovation itself, but rather in the effective, profit-oriented management of scientific and technical innovations" (Nurseitov, 2016: 20). Thus, in our opinion, speaking about the matter of innovation as an object of state regulation, it is necessary to consider this concept at the level of enterprise and reflect its focus in improving the efficiency of the enterprise as a whole and as a result, obtaining a positive financial result. In other words, it seems that state regulation of innovative activities should be qualitative, not quantitative, that is, the main goal of the state in creating a favorable environment for innovators is to help enterprises in the early stages of their formation, in increasing their investment attractiveness by providing tax exemption and compensation for the most significant risks .

Foreign experience in tax regulation of innovation activities of SMEs allows determining the decisive role in the purposeful development of scientific and innovative activities, where the main role is played by the state. State regulation of innovative activity is considered in developed countries as the most important tool for economic development, as a factor of ensuring long-term national competitiveness and sustainable improvement of the welfare of the population. The state regulates innovation activities by direct and indirect methods. The direct methods of state regulation include the financing of R&D (Research and development)

and innovative projects from the budget, legal regulation, the formation of innovative infrastructure. Indirect methods of regulation of innovation activities abroad are aimed, on the one hand, at stimulating innovation processes, and on the other, at creating favorable economic conditions and socio-political climate for scientific and technological development. They are based on the fact that the state does not directly limit the independence of enterprises in making economic decisions. The impact of these methods is successful if they contribute to the formation of social rather than individual economic conditions. Among the indirect methods of management are traditionally distinguished tax and depreciation regulation, credit and financial policy, price regulation, protectionism policy, liberalization of tax and depreciation legislation .

Great importance is attached to the tax relief used to encourage those corporation's activities that are favorable for the state, including relief designed to stimulate scientific and technological progress, exports and business activity of the innovative business. Tax regulation of innovation is used in almost all countries. It is implemented through:

-Tax relief, which is realized through preferential taxation of profits, reduction of the tax base, reduction of tax rates, deductions from tax payments. Preferential taxation of profits is carried out by assigning various kinds of innovative expenses to production costs. Thus, in the United States, R&D costs of the companies, which they conduct for their own expenses, are equal to the costs of production.

-Income tax relief, namely: reduction of taxable profit on the funds aimed at modernization, reconstruction, expansion and renovation of production.

-Reduction of taxable profit on the funds allocated by firms for R&D.

-Research and investment tax credit, i.e. tax deferral of costs for innovative purposes.

-Reduction of the tax on innovation costs increase.

-Exemption for several years from tax on profits derived from the implementation of investment projects.

-Tax relief for dividends of legal entities and individuals received on shares of innovative enterprises.

-The link between tax relief and priority of projects.

-Tax relief for profits derived from the use of patents, licenses, know-how and other intangible assets.

-Reduction of tax rates for income aimed at custom and jointly conducted R&D.

-Deduction from a taxable profit of contributions to funds whose activities are related to the financing of innovation.

-Reduction of taxable profit on the amount of the cost of devices and equipment transferred to educational institutions, research organizations .

Tax instruments that stimulate private businesses to invest in R&D are directly related to income tax and are divided into two categories:

-Tax relief. In this case, firms investing in research and development are allowed to deduct these costs from taxable income or profits spent on R&D;

-Tax credit - deferred taxation with subsequent phased payment of the credit amount and accrued interest.

There are two main differences between tax relief and tax credit: 1) the amount of tax relief depends on the revenue rate and income, while the tax credit is not directly dependent on them; 2) under normal circumstances, unused tax relief can be transferred to another period and offset by future taxes, while unused tax credit requires additional organizational efforts to control its intended use in each case. In recent years, the practice of tax incentives for R&D in OECD countries has undergone a marked shift from the use of tax incentives towards tax credits. There is a great diversity in the use of these two tax instruments. Some allow increasing research and development costs by reducing taxes. This approach, for example, is peculiar to France and the United States.

The main idea, however, is to support additional R&D efforts by companies rather than general costs. Others distinguish only specific types of R&D, which are subject to tax incentives. In the Netherlands, for example, only R&D labor costs are supported. This is an attempt to stop transnational companies seeking to transfer their research to countries with low labor costs. Finally, the third approach is to provide companies with a tax credit in cash, regardless of whether they make a profit (this experience is typical for Canada) (Nurseitov, 2016.(

One of the existing options for tax relief is to reduce the value of depreciable cost, used for research and development. Most OECD countries allow companies to use accelerated depreciation for scientific equipment. Accelerated depreciation allowances are more valuable to a taxpayer because they allow him to receive the cash flow from depreciation earlier in the investment's life. Because of the time value of money, an earlier deduction is worth more to the taxpayer than one or a series of deductions occurring later in time: it has a larger (discounted) present value (Mackie, 2005). SME tax systems need to be designed in such a way as to minimize compliance costs and maximize accessibility. The reforms of the SME tax system would then need to require compliance commensurate to capacity (Ponorica & Alsaedi, 2015). Another group of tax instruments is related to the support of start-up companies in the early stages of development. A wide variety of instruments are commonly used in this area, including direct and indirect support, as well as a wide range of tax reliefs. For example, in OECD countries (Organization for Economic Co-operation and Development: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland,

France, Germany, Greece, Hungary, Iceland) the following tax instruments are used to encourage the creation of small innovative companies:

-Special tax reliefs or credits for companies that are in the start-up phase or have been in operation for the first few years. They are provided with a full exemption from taxes (tax holidays).

-Accelerated depreciation of equipment purchase costs.

-Tax exemption for capital provided to small companies.

Tax reliefs for capital investments are most often provided in the form of an investment tax credit. Usually, this privilege is given to companies, investing in the implementation of new technology, equipment etc. This discount is deducted (credited) from the charged income tax of the company (in contrast to other reliefs, deductible from taxes). Investment tax relief is available only after the implementation of new equipment. Companies receive the right to tax relief automatically: it does not need to be proved and justified, because it is fixed by law. The amount of the relief is set as a percentage of the cost of the implemented equipment and is: 5.3% in Japan (for electronic equipment), 50% in the UK (for the 1st year of operation of new equipment, technology, materials, etc.), 10-15% in Canada (depending on the development of the territory of the company's location - developed or undeveloped areas of the country) and 100% in Ireland. In the US, the investment tax credit applies only to energy equipment. Abroad, R&D relief is more often presented in the form of allowances on companies' expenditures for these purposes. There are two types of tax allowances - volume and incremental. Volume allowances

provide with tax relief proportional to costs. For example, in the USA, UK, Canada, Belgium, Sweden, Italy 100% of R&D expenses are deducted from the taxable income of companies. In Australia (private companies) it is 150%. In countries, such as the Netherlands, Norway, Austria, Malaysia, energy industries completely exclude R&D costs from pre-tax profits.

Incremental allowances are determined on the basis of the increase in R&D costs achieved by the company compared to the level of the base year or the average for a certain period. This allowance is valid after the specified costs have been incurred. The maximum allowance is 50% in France. In Canada, USA, Japan and Taiwan it is 20%. However, there are certain restrictions. For example, in the United States, the R&D gains tax credit applies only to R&D costs aimed at creating new products or developing new technological processes (does not apply to costs related to cosmetic, seasonal and other modifications of a product). In addition, there is a relief limit - additional R&D costs (which are covered by the relief) should not exceed 50% of the basic costs for a certain period. In Canada, the relief is increased to 30% for hard-to-reach and economically underdeveloped areas. In Japan and Taiwan, an allowance of 20% is calculated on the amount of increase in R&D costs compared to the highest achieved level of R&D costs, there is a limitation - this relief should not exceed 10% of the company's total tax liabilities. Some countries use both volume and incremental allowances, but in relation to different types of expenses. For example, in the United States, the total incremental allowance is supplemented by a volume one of 20% for private sector spending on basic research funding. Some countries set the limit of the allowances for tax payment for R&D. In Japan and South

Korea, it should not exceed 10% of the corporate tax. And in Canada, Spain and Taiwan, the limit is significantly higher – 75%, 35% and 50%, respectively. Australia, France, Italy and the Netherlands have a set value limit on the tax allowance. Temporary exemption from income tax or partial reduction (tax holidays) is valid in France and applies to newly created small and medium-sized firms (including research ones) with a reduction of the income tax by 50% in the first 5 years.

In the UK, the income tax for start-up innovative companies has been reduced from 20% to 1%. The capital gains tax on long-term investments in start-up innovative companies has been reduced and the tax on reinvestment in such companies has been removed. For small and medium-sized enterprises tax relief allow to reduce taxable income by 20% in the case of exceeded previous maximum level of R&D costs, or to reduce tax payments on 6% of the R&D costs, but in this case, the reduction should not be more than 15% of the tax liabilities of the company. The costs that firms incur in payments to research institutions in connection with scientific and technological development can also be deducted from taxable profits. There is introduced tax relief related to the depreciation system. It is used to stimulate the advanced development of specific industries, to promote R&D, or to promote general investment recovery. In highly developed countries, accelerated depreciation of equipment is widely used as an incentive to upgrade production assets. Thus, in the United States, the depreciation period for R&D equipment and devices with a service life of more than 4 and less than 10 years is 5 years. In Japan, an

accelerated depreciation system has been introduced for companies using either energy-saving equipment or equipment that promotes efficient use of resources and does not harm the environment. Also, there is applied a variety of accelerated depreciation rates - from 10 to 50%. However, the most common rate is on average 15-18% .

Companies in the UK are allowed to deduct the full cost of technical equipment in the 1st year of its operation. In Germany during the 1st year, there can be deducted 40% of the equipment and devices cost for R&D. The system of depreciation in Sweden allowed to deduct the cost of the equipment with a lifespan of up to 3 years and with minor value in the year of purchase, and in general machines and equipment can be deducted within 4-5 years. In France, it is possible to use accelerated depreciation to the most important types of equipment: energy-saving, environmental, information one. For example, a computer can be depreciated for 1 year. The depreciation coefficient for the lifespan of equipment up to 4 years is 1.5; for 5-6 years it is 2; for more than 6 years it is 2-2.5. In 1986, the law of the United States on tax reform made the tax policy more focused, though it narrowed down the scope of application of the previously allowed tax reliefs. Thus, the amortization period was increased, but it mainly referred only to the passive part of fixed assets – to buildings and structures: up to 31.5 years (previously it was 10-15 years) for non-residential and 27.5 for residential buildings. But for the active part, the depreciation was even more accelerated – with a deduction period of 5 years, it was allowed to deduct up to 64% of the cost of equipment in the first 2

years. The tax allowance on investments was preserved only for power equipment.

In order to increase innovation activity abroad, states often stimulate staff training as well. Thus, in France, 25% of training costs increase are exempt from taxes (in case if unemployment is high, these costs are not taxed). Innovation policy is part of the socio-economic policy of the state and determines the goals and priorities in the field of science and technology. The main task of the state innovation policy is to give a systemic character to the development of the innovation sphere. The most important condition for improving the efficiency of the state innovation policy is its focus on the priorities of scientific and technical activities. The choice of such priorities indicates the interest of the state in production a competitive innovative product based on the implementation of those areas of science and technology that are capable of using intensive factors of production to create added value in the industrial sector of the economy at a qualitatively new level. Thus, tax regulation is a measure of indirect impact on the economy, economic and social processes by changing the type of taxes, tax rates, and implementation of tax relief. The main objective of creating a tax regulation mechanism is to achieve a balance of goals, interests and capabilities of the state and the taxpayer, which allows ensuring the effectiveness of economic policy.

Tax regulation is based on the principle of feedback provided by taxpayers, adjusting its economic behavior in response to changes in taxation. In the Message of the President of the Republic of

Kazakhstan Nursultan A. Nazarbayev to the people of Kazakhstan dated 1997 Kazakhstan – 2030. Prosperity, Security and Ever Growing Welfare of All the Kazakhstanis, the Head of the State set a number of important strategic objectives for the Government of the Republic of Kazakhstan aimed at improving the quality of life of Kazakhstanis and building a competitive state. In accordance with the instructions of the President of the Republic of Kazakhstan, the Government takes measures to minimize the consequences of the global economic crisis, to develop preventive measures to protect the domestic economy from potential external risks. In order to solve the tasks, the Ministry of Finance of the Republic of Kazakhstan, which is one of the main economic departments of the country and the authorized body for budget performance, provides, first of all, the implementation of the state policy in the field of taxation, budget performance. Today, Kazakhstan tax service is at a qualitatively new stage of its development, there was a number of reforms aimed at creating the basis for further successful operation. In recent years, considerable process and significant improvements have been made in the area of tax policy and administration. With the most active participation of the private sector, the regulatory framework was improved, and a new Tax code was adopted in 2008. Currently, various information systems are actively used.

At the same time, in order to increase tax revenues, it is necessary to focus on the reserves hidden in the shadow economy and to focus on their identification. It is necessary to improve the efficiency

of inspections of large enterprises, especially those of monitoring of transfer prices, to intensify the fight against pseudo-entrepreneurship, to strengthen the administration of unprofitable enterprises, to pay attention to non-residents, to significantly increase tax revenues from excise (alcohol one especially) industry. The increase in the revenue part of the budget should be conducted by improving tax administration with a parallel reduction in the tax burden. Shortcomings or gaps in tax administration can lead to a decrease in tax revenues, increase the likelihood of tax offenses, and ultimately create social tension in society. The achievement of this task is provided in the framework of the strategic goal of the Ministry of Finance of the Republic of Kazakhstan to ensure the completeness of tax revenues by improving tax administration by increasing the coverage of taxpayers with tax control. At the same time, measures to reduce the tax burden have been taken to stimulate business activity. However, the reduction of interest rates by itself will not lead to the improvement of the tax system. While reducing tax rates and expanding the tax base, the possibilities of revenue increase will become increasingly dependent on improvements in the field of administration, the purpose of which is to support greater tax compliance.

4. CONCLUSION

Along with the breakthrough in improving the activities of the tax authorities, based on the use of international best practices focused

on information systems, there are some problems that need to be addressed. The close attention of the state to SME is explained by the desire to achieve positive economic, political and social results for society. The economic result is that small and medium-sized enterprises form a competitive environment, contribute to the filling of the market with domestic goods and services, and is a breeding ground for medium and large businesses. The political result is that small business is the source of the formation of the middle class as the basis for the stability of society. The social result is that small business contributes to solving the problem of employment and improving the standard of living. And here Kazakhstan does not reinvent the wheel, but follows the path of countries with developed market economies, where major structural changes have occurred in favor of small enterprises, due to their efficiency in competition, rapid response to demand and acceleration of scientific and technological development, rational use of human resources, with a minimum of investment.

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