

Taxation as a Tool of Improvement of Competitiveness of Small Enterprises in the Sphere of Tourism

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Abstract: The article deals with the current trends of tourism development in Russia. The author detects the specific features of taxation in the sphere of tourism in Russia, makes recommendations on the modernization of the system of taxation of small enterprises in the Russian sphere of tourism, taking into account international experience, as well as analyzes the prospects of modernization of the system of taxation of small enterprises in the Russian sphere of tourism and evaluates their performance taking into account the national experience and market conditions.

Key words: Taxation • Competitiveness of an enterprise • Small enterprise • Sphere of tourism

INTRODUCTION

In conditions of formation of open economy in Russia the study of the situation of enterprises tourism industry, taking into account current trends and prospects of development of global and domestic market of tourist services.

Tourism sector represents the country in the international arena, because it reflects its socio-economic, political and cultural development. Therefore, development of tourism is one of the priority issues of modern Russia and should be solved at the state level.

It is necessary to determine the directions of improving the sphere of tourism in Russia and, in particular, the role of taxation in enhancing the competitiveness of small enterprises in the sphere of tourism, taking into account national features and current trends of the sphere of tourism in Russia.

Modern Trends of Development of Sphere of Tourism in Russia: According to U.R. Tumanyan, "the tourism industry at this stage of development is characterized by significant development of the processes of globalization, internationalization and liberalization and at the same time weakening of the institutional barriers" [1].

International tourism is not only a source of revenue for the sellers or a source of the satisfaction of spiritual and physical needs of customers, but also an intermedium

between countries, international regions, businesses of different countries, source of dissemination of information about them on foreign markets. Enterprises of tourism sphere of almost all countries of the world one way or another are involved in the process of globalization. As for the level of integration of the sphere of tourism of Russia into the world economy, the share of international tourism in the structure of tourism services in the past five years did not exceed 35% [1].

In conditions of transition to a post-industrial economy in Russia, the role of the service sector in the economy and, in particular tourism increases. Tourism sector plays an important role in the economy of any country, including Russia, being:

- Way to increase employment;
- Mean of promoting structural changes in national production;
- Factor of enhancing investment and intensification of development of other sectors of national economy (construction, manufacturing, consumer goods, food industry, agriculture);
- Area of attraction of people to the effective use of so-called "economically indifferent resources" (solar radiation, sea beaches, historical monuments, etc.);
- Tool for influencing public opinion on the country, the formation of its "image".

Globalization exacerbates competition in the tourism industry in Russia not only for tourists but also for investment. The investment attractiveness of the Russian tourism industry is low because of instability of economic situation, bureaucracy, corruption, poor infrastructure and high taxes. The competitiveness of Russian tourist organizations, the majority of which are small businesses, is also low due to high prices caused by high taxes. Therefore the situation requires government protection of domestic tourism enterprises in conditions of increasing competition.

Specific Features of Taxation in the Sphere of Tourism

in Russia: The global economic crisis in 2008 exposed the problems of the sphere of tourism, that is direct consequence of the fact that, despite the rich potential, tourism development in Russia has not become a real priority of economic restructuring [2].

The tax system is one of the main elements of market economy. It is the main instrument of state influence on the development of the economy, definition of priorities of economic and social development. In this regard, it is necessary to adapt Russian tax system to the new social relations, for its compliance with international experience [3].

Increase role of taxes in promoting of small enterprises in the service sector is an important area of the effective use of them. Small business has a number of advantages: it forms the competitive sphere, creates more jobs, quickly implements cutting-edge, adapts production, depending for supply and demand, does not require high initial costs.

The increase of number of small enterprises in the service sector and improving their efficiency is a step towards the development of the market environment, ensuring the conditions for economic growth and, on this basis, the well-being of Russians.

Small business is the most flexible and easily-adaptable to market fluctuations of the market form of business and it needs for active government support. In this area, tax mechanism is very effective tool is to increase their profits by reducing tax rates and provision of various types of benefits and preferences to small businesses [4].

In many foreign countries there is preferential tax treatment of small businesses. For example, in the U.S.A. corporate income tax is like a "layer cake". The maximum federal tax rate is 34%, but corporations which income is 50 thousands of dollars pay only 15%, over the next 25 thousands of dollars – 25%. In the UK tax rate is 33%, but small businesses pay income tax at a rate of 25% [5].

In France small businesses are exempt from value added tax. In Germany small businesses exempt from trade tax. In Brazil small businesses are exempt from value added tax, service tax, tax on financial transactions. In Chile there is special tax regime for small businesses (corporate income tax 15%, income tax on individuals - from 5 to 45%).

In many developed countries rate of income tax is differentiated according to type of activity and size of an enterprise. For example, in the United States at the federal level, along with the higher rate of corporation tax 34%, there are two lower rates - at 15 and 25% for smaller corporations (before the reform in 1986 there were four such rates). Corporations are taxed at reduced rates if their taxable income is less than 75 thousand dollars [6, p. 63].

Another aspect related to the promotion of the tourism industry is recovery of the value added tax on goods and services to tourists. Value added tax can be recovered on purchases made by foreigners in the reverse crossing border of country in which they were acquired. The sum of recover is from 7 to 25% of the purchase price, depending on the value of value added tax in the country.

For example, in Israel the tourists sum of purchases of which is over than 100 dollars in the stores participating in the programme of tax recover, are can recover value added tax (value added tax in Israel in January 2012 is 16%). Value added tax is payable on demand: by cash, check, credit card or bank transfer.

In Hainan (China) 1 January 2011 the government introduced a system of recover of value added tax refunds, the operating principle of which is similar to Tax Free in Europe, GST refund in Singapore, Tourist Refund Scheme (TRS) in Australia and other systems of the recover of value added tax during the export of goods bought by foreigners during their stay in the country. Value added tax recover rate is 11% of the purchase price specified in the special account [5, p. 36].

At a regional workshop held that took place in 2012 in Nigeria, dedicated to the issues of tourism development, it was noted that the development of the sphere of tourism requires a number of government measures, which include increasing availability of credit resources, simplifying bureaucratic procedures and providing tax incentives for businesses in the sphere of tourism. Assistance to women-entrepreneurs in the tourism and youth is recommended to pay special attention to small tourism enterprises is offered as a special social measure for the development of the sphere tourism in the long term.

Table 1: The tax burden tourism organizations [auth.]

System of taxation	Common system of taxation	Simplifiedm of taxation
Taxes	-Corporateincometax (20%); -Tax on the assets of an enterprise ($\leq 2,2\%$); -Valueaddedtax (18% or 10%); -Taxonpersonalincome (13%); -Insurancecontributions (30%).	-Unified tax (6% or 15%) -Taxonpersonalincome (13%); Insurancecontributions (30%).
Taxburden:	from 74,5% to 83,2%	from 49% to 58%

According to V.S. Senin, “national protectionism should focus on preferential value added tax in the sphere of tourism to develop it” [7]. According to V.A. Kashin, the optimal share of tax payments of tourism enterprises, favorable to the economy and secure for budget revenues, is 26-27% [8]. To date, the taxation of tourist organizations in the Russian Federation provides payment of taxes on the common system of taxation and the application of special tax regimes. In sohere of tourism in Russia, there are following types of taxes:

- Corporateincometax (20%);
- Tax on the assets of an enterprise ($\leq 2,2\%$);
- Valueaddedtax (18% or 10%);
- Taxonpersonalincome (13%);
- Insurancecontributions (30%);
- Simplified tax revenue 6% of income or 15% of profit.

Tourist organizations pay certain taxes, depending on the selected system of taxation.

As we can see from the Table 1, the tax burden of tourism organizations exceeds optimum 27%. Even if we assume that the tax payers of personal income are not the organizations by themselves but their employees, small tourism businesses, applying the simplified system of taxation, is required to pay insurance contributions in the amount of 30% of the wage bill, which is the basis of their tax burden. It is clear that it is necessary to reduce insurance contributions at least to 21% to achieve the optimal share of tax payments tourism enterprises.

Prospects of Modernization of the System of Taxation of Small Russian Enterprises in the Sphere of Tourism:

In 2008 Chris Edwards and Daniel Mitchell published a kind of “Manifesto” of modern efficient taxation. Their article is intermediate theoreticalsumm up of long while, but still little-known, the Great competitive battle between states in the field of the integrated global economy.

This is a battle between governments in order to attract long-term investment and skilled labor by reviewing their tax codes for creating the most attractive

business climate. The authors believe that the primary goal of Government is active participation in tax competition in the international market [9].

Globalization makes national governments fight in the field of building more and more competitive tax environment. Because of this, investors now actually have wide choice between tax climate competing in the various countries. Trends in global taxation show that countries that ignore the revolution in this area, put their national economy increased risk, which can be avoided through tax reform to ease the fiscal burden.

One of the most dynamic and exciting aspects of the globalization of international tax competition – with an increase of cross-country mobility and the growth of capital large corporations and financial institutions are able to work and invest in countries with lower (and therefore more effective for capital) tax rates. These tax cuts have a back pressure on the governments of the countries where taxes on income, investments and wealth are unduly inflated, which is typical for Russia.

The increasingly wide the number of countries reduce individual and business taxes (this is particularly intense in Central and Eastern Europe). Against this background, Russia becomes an outsider in this direction and the Russian economy faces a strategic gap [10].

Demonopolization of tax environment in which domestic entrepreneur operates, in the context of globalization becomes a provision of economic growth, innovation and national economic security. Also, since Russia is a huge territorial economic composition, it should be noted that the coming years will be the time of a fierce competitive battle for the liberal taxation between Russian regions. And this battle will be exacerbated during the real regionalization of the Russian economy [10].

The Russian economy can be activated by embracing competition and major renovation of the federal tax code. The current system of taxation in Russia suppresses the growth of wages and business investment. Therefore, the Government of the Russian Federation should take major tax reforms to ensure growth of living standards.

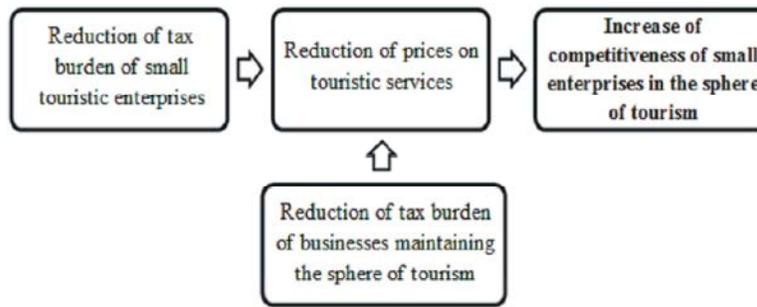


Fig. 1: Relationship of taxation and competitiveness of small businesses in the tourism sector [auth.]

An important aspect of the modernization of the tax system of the Russian Federation is the issue of the effectiveness of this measure, taking into account national peculiarities of the country. In Russia in accordance with item 164 of the Tax Code of the Russian Federation, 10% of value added tax is applied for some food products, products for children, periodicals and books related to education, science and culture, health products of domestic and foreign production.

It is assumed, that tax benefits can give an additional impetus to the tourism industry. But what will happen in reality? There is a risk that the saved money will not be invested but consumed for buying import goods. As a result, it will increase inflation and the level of tourism industry will remain the same.

The Key Question Is: Will the reduction of tax rates in the Russian Federation in the sphere of tourism lead to development of the industry, resulted in increase of number of enterprises and increase of demand for tourist services? Also, should we expect a decline in prices and the creation of new jobs?.

Since 1992 small enterprises in the sphere of production have the opportunity not to pay income tax in the first 2 years of operation and pay only part of it at 3 and 4 years. In connection with the adoption of chapter 25 of the Tax Code of Russian Federation "Corporate income tax" from 01.01.2002, all the benefits of income tax were abolished, while establishing a unified tax rate of 24%. This reform was quite justified, since most of the benefits of income tax did not produce the desired effect neither from the perspective of the growth of the number of enterprises that have received them, nor from the perspective of increasing of volumes of their products [5].

Under ideal conditions, namely under conditions of perfect competition and perfectly elastic supply and inelastic demand, we can expect the reduction of the market price by the amount of tax rates, but in the real

conditions, it is possible that prices will remain stable and entrepreneurs will get all benefit from lower tax rates.

Of course, past experience should be taken into account, as well as current trends in tourism. Today there is much more organizations in the Russian tourist market, whereby the level of competition in the market is much higher than a few years ago. In conditions of accession of the Russian Federation to the WTO we expect strength of the influence of globalization on the Russian tourist market resulting in a greater intensification of competition.

Therefore, as a result of tax cuts and tax breaks tourism Russian organizations can reduce prices for tourist services. Given that the price is the most important factor in the competitiveness of tourism organizations, their competitiveness will increase as a result of the modernization of the tax system and the development of the tourism market in Russia will take place.

The causal relationship of reduction of the tax burden of small tourism enterprises and businesses maintaining the sphere of tourism and increase of the competitiveness of small businesses in the tourism sector is reflected in Fig. 1.

As can be seen from Fig. 1, taxation of not only small businesses in the sphere of tourism, but also the businesses maintaining the sphere of tourism has an impact on the competitiveness of small businesses in the sphere of tourism. This is due to relationships of complementary products and services in the tourism market. Thus, taxation is a tool for improving of competitiveness of small enterprises in the sphere of tourism.

CONCLUSIONS AND RECOMMENDATIONS

Key element of the mechanism of support and development of small enterprises in the service sector is the tax system. The experience of countries with developed market economies suggests that current

economic conditions require deliberate program of tax reform aimed at strengthening and supporting of small enterprises, including small enterprises in the sphere of tourism.

To improve the competitiveness of small enterprises in the sphere of tourism the authors recommend reduce insurance contributions for them to 21%. It should be noted that the tourism sector is not limited by tourist organizations - it includes a range of organizations. Therefore, the provision of tax incentives to these organizations will have an impact on tourism organizations. In particular, the authors recommend the following measures to modernize the taxation of small businesses in the tourism sector:

- Establishing of preferential value added tax 10% in tourism and tax refund, as it is practiced in other countries. In Russia in 2012 this measure was taken in order to attract foreign tourists. Now foreigners shopping in Russian stores will be able to refund their value added tax after crossing the Russian border. The value added tax rate for museums and hotels is still 18%. Tourism is one of the priority sectors of the Russian economy, because it is a component of the country's image in the international arena, so it is advisable to reduce the rate.
- Abolition of the tax on profit of museums and reduction of income tax of hotels up to 18%. This measure is designed to support the objects of tourist infrastructure in Russia and will lead to reduction of costs of tourist services and spending the savings on development and advertising.
- Decrease of the rate of income tax to the level of 15% for small businesses maintaining the tourism sector (food, cleaning, souvenirs). The share of income tax on profits derived from small enterprises in total tax revenues is very small and in 2012 did not exceed 2.3% [5], so this reduction will not cause significant loss to the state budget.

The historical experience of Russia and foreign countries shows that state should pay particular attention to small enterprises, its development and strengthening. This is the guarantee of successful transition to market economy, building the foundation of economic growth and raising of living standards.

Creation of optimal tax system is the main task of the state. According to the foreign practice, development of the tourism will be possible if the legislative and executive

authorities aware of the importance of the role of this sphere in social and economic development of the Russian Federation and implement protectionist policy.

Taxation is one of the most important tools of improving the competitiveness of small enterprises in the tourism sector and the provision of tax incentives for organizations operating in the field of tourism will increase their competitiveness and development of the tourism market in Russia.

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