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**The role and importance of state regulation in the development of small and medium-sized businesses**

World practice convincingly demonstrates that even in countries with a developed market economy, small business has a fairly large influence on the development of the entire economic system, helps society in solving particular social problems. Therefore, the state in modern society can not be limited only to the implementation of effective regulation of medium and large businesses, even if they are the largest taxpayers or strategically important enterprises that control the country's national wealth.

In developed countries, the small business sector creates about half of the gross national product, it is this sector that is leading and largely determines the pace of economic growth.

Small business is able to provide sufficient mobility in a market economy, create a deep specialization and effective cooperation. Many economists believe that it is these two factors that explain the rather high efficiency of this sector. The small business sector reacts swiftly to fluctuations in demand and supply, because, due to the small size of its enterprises, they have such flexibility of business processes that allow them to adapt to the dynamically changing market conditions in a timely fashion, quickly adopting technical innovations, restructuring the range and range of products . Specialization in a particular market segment for certain goods or services, the lack of a large administrative hierarchy and the availability of the opportunity to open a business with fairly small capital investments - these features of small business can be attributed to its advantages that increase the stability of its sector in the country's economy. Without small businesses it is already impossible to imagine individual spheres of the economy, many small businesses can not be replaced by one large. The state can only look for the most effective ways of influencing the small business sector. In the interests of the same small business, and indeed any business - to minimize costs, including the tax burden, and for this it is important to have a deep understanding of the existing tax system, monitor its changes and, if possible, optimize its activities so that when This tax burden has also been optimized. It is this factor that underlines the relevance of the chosen research topic.

Small business performs a number of important socio-economic functions:

- Function of forming the middle class. The development of small business gives a real opportunity to gradually create a broad stratum of small proprietors who independently ensure their existence and well-being, which is a guarantee of political and economic stability and the formation of a democratic society;

- Employer function. It is small businesses that are most active in creating new jobs. Small businesses are more willing than large and medium-sized to provide jobs for socially vulnerable groups of the population: adolescents, pensioners, and disabled people. All this leads to a reduction of social tension in society, thereby increasing the importance of small business;

- Function of increasing the creative potential of the nation. Lesson for small business is for man not only a source of income, but also one way to reveal the available personal potential. Thus, the more people will try to become entrepreneurs, the higher will be the spirit of enterprise of the whole nation, its potential and level of legal literacy;

- Function of catalyst for scientific and technological progress. Small business has a greater ability to innovate than large corporations. Having extremely limited financial resources, small businesses are interested in the rapid development of technical projects. It is estimated that small firms spend four times less time to solve problems of developing and bringing to the stage of an industrial sample of most innovations, than large enterprises;

- Function of the manufacturer of products and services. According to the UN, the volume of production in the sphere of small and medium-sized business in different countries ranged from 33 to 66% of the national product. Small businesses contribute to increasing the saturation of the market with goods and services, and, as a result, greater customer satisfaction;

The function of the agent for the formation of market relations. Small enterprises at the expense of their larger number contribute to the formation of a competitive environment, the presence of which leads to an improvement in the quality of goods and services offered to consumers.

The modern economy, being an ever-changing environment, requires the state to also pursue a dynamically changing economic policy, including in the field of supporting small businesses. The small business support system should adequately react to the current changes in other spheres of society, adapt to them, reflecting not only new technological tendencies, but also the needs for the development of small organizations, taking into account the peculiarities of the economy of a particular country and the existing economic instruments in the field state regulation.

The development of small business entities is greatly influenced by the taxation system. The state, determining the amount of taxes levied from small enterprises, has a strong impact on the amount of funds used by these enterprises, which affects the expanded or simple reproduction, leads to a change in the level of employment and the level of tax revenues to the budget.

Tax payments constitute a significant share in the financial flow of the organization. Very often, a further development of the business depends on a competent and well thought-out decision taken in view of the tax consequences. Small businesses are constantly seeking various ways to minimize their costs, including through tax optimization, by lawful actions that include both full use of the entire range of concessionary opportunities and tax exemptions provided by the legislation, as well as other methods and methods that do not go beyond the law. This makes the topic of this study as relevant as possible.

The state has to play an important role in the market economy, because the latter, despite numerous positive characteristics, is not able to independently regulate economic and social processes in the interests of society as a whole. The market itself does not take into account the public interest, has limited opportunities to maintain economic equilibrium, does not provide assistance to preserve non-reproducible resources, protect the environment.

At the same time, the intention of the state in a market economy is not to introduce corrections into the market mechanism, but to create conditions for its unimpeded work, harmonize the interests of business entities, various social groups, equalize their financial situation, protect particularly vulnerable sectors of the economy and population layers, achieve priority economic development goals .

In the field of business regulation, the state performs the following functions [2]:

• Legislative support for the formation of business entities;

• Creation of unified "rules of the game";

• Maintaining a competitive environment;

• Formation of conditions for a stable growth in the supply of innovative services and goods;

• Stimulation and direct adjustment of demand for innovative products;

• Creation and improvement of the organizational and market infrastructures of entrepreneurship;

• Ensuring the social orientation of the process of forming a small business system.

Table 1. State measures to support small and medium-sized enterprises, implemented in different countries 3.

| **List of measures** | **Countries** |
| --- | --- |
| Guarantees for SME loans | Austria, Belgium, Canada, Chile, Finland, France, Greece, Hungary, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, Portugal, Russia, Serbia, the Slovak Republic, Slovenia, Spain, Switzerland, Thailand, Turkey, United Kingdom, United States |
| Special conditions for guarantees and loans for start-ups | Austria, Canada, Czech Republic, Denmark, Estonia, Mexico, Netherlands, New Zealand, Serbia, United Kingdom |
| Commodity loans, state export guarantees | Austria, Belgium, Canada, Colombia, Czech Republic, Denmark, Estonia, Finland, Hungary, Greece, Korea, Netherlands, New Zealand, Spain, Sweden |
| Direct lending to SMEs | Austria, Belgium, Canada, Chile, Czech Republic, Estonia, Israel, France, Greece, Hungary, Ireland, Japan, Korea, Norway, Portugal, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Turkey, United Kingdom, Finland. |
| Subsidizing the interest rate on loans from SMEs | Hungary, Portugal, Russia, Spain, Turkey, United Kingdom |
| Venture financing, participation in capital, financing with the participation of business angels \* | Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, Mexico, France, Greece, Hungary, Portugal, Ireland, Israel, Netherlands, New Zealand, Norway, Slovak Republic, Spain, Sweden, Turkey, United Kingdom, Estonia |
| Specialized banks to support SMEs | Czech Republic, France, Portugal, Russia, United Kingdom |
| Consulting services | Colombia, Czech Republic, Denmark, Finland, Netherlands, New Zealand, Sweden |
| Tax deferrals and benefits | Belgium, Finland, Italy, New Zealand, Norway, Spain, Sweden, Turkey |
| Mediation in Lending | Belgium, France, Ireland, New Zealand, Spain |
| Stimulating banks to lending to SMEs, negative bank rates on deposits in securities | Ireland, Denmark |

\* A private venture investor that provides financial and expert support to companies in the early stages of development.

The need for state support for small businesses is recognized by both economists and entrepreneurs. The subject of scientific disputes are questions about the principles, directions, priorities of state regulation of small business, features of the regional system for supporting the viability of small businesses. These issues require not only deep theoretical study, it is important that the results of scientific analysis are embodied in real programs of supporting entrepreneurship at the regional level.

State intervention in the market economy is divided into direct and indirect intervention. Therefore, supporting small business, being an integral part of the process of state regulation, can also be subdivided into direct and indirect.

Direct support means that the state is not limited to establishing common "rules of the game", is not content with the role of "arbitrator", but becomes a "player", assumes the burden of specific economic decisions. This is a variant of broad state regulation of small business activities in combination with the protectionist policy of its support. Subsidies are allocated to small enterprises in need of assistance, special state financial institutions are set up to lend to small firms, upper limits are set for interest rates on loans granted to small businesses by commercial banks, and so on.

Indirect support means the creation of an institutional structure within which small businesses operate, the definition of "rules of the game" for a free market. The essence of support is not direct, irretrievable injections into the creation of small enterprises, but, for example, the formation of a legal framework for the effective operation of private banks specializing in lending to small businesses.

The first option, creating "greenhouse" conditions for small businesses, can have a dual effect. On the one hand, direct government support contributes to the formation and development of small enterprises, allows them to survive in competition with large enterprises. On the other hand, this option reduces incentives for productive work, initiative and independence, unlike indirect state support, which certainly multiplies and strengthens the economic freedom of small businesses. Therefore, the second option is a natural policy of the state in the conditions of a developed market.

At the same time, protectionism in relation to small business is characteristic, to a greater or lesser extent, for all countries of a developed market economy. This can be seen, in particular, according to the special law on small business adopted in the United States back in 1953: the government is ordered "to the extent possible, to support small business entrepreneurs, advise, help and protect their interests, to maintain free competitive entrepreneurship. "

When choosing companies in which, first and foremost, government support is needed, it is obvious that one should consider not so much their financial position, but the public importance of these enterprises, the economic interests that they express.

Owners of small businesses cease to be entrepreneurs if they stop organizing innovative processes in the sphere of production or exchange, and cease to engage in risky activities. Entrepreneurship excludes routine methods of management, non-competitive production. These circumstances are important to take into account when selecting entrepreneurial projects, which should be supported by the state.

Hence the need for a motivational orientation of state support for small businesses. We need a powerful stimulating mechanism for attracting investments, not just in the sphere of small business, but small entrepreneurship, which carries out innovative reproduction.

Table 2. Financial support of the small and medium business sector 3.

| **The most popular measures of state financial support for the small and medium business sector** | **Countries** |
| --- | --- |
|   Increase in the volume of support in the form of guarantees for loans to small and medium-sized businesses | Canada, Chile, Denmark, Finland, Hungary, Italy, Spain, Korea, Spain, Switzerland, United Kingdom, USA, Netherlands, Slovakia, |
| Providing special conditions for guarantees for start-ups | Canada, Denmark, Netherlands |
| Increase in state guarantees for export operations | Canada, Denmark, Finland, Netherlands, New Zealand, Sweden, Switzerland, Spain, United Kingdom |
| State co-financing (including through pension funds) | Switzerland, Denmark Ireland |
| Increase in the share of direct financing of small and medium businesses | Canada, Chile, Hungary, Korea, Serbia, Slovenia, Spain |
| Subsidy of interest rates | Hungary, Portugal, Russia, Spain, Turkey, United Kingdom |
| Tax breaks, deferred payments | France, Ireland, Italy, New Zealand, Spain, Great Britain, Russia (tax incentives for microenterprises) |
| Funding of the Central Bank of Credit Institutions | United Kingdom |

In most of the analyzed countries, support for small and medium-sized businesses is not primarily directed to direct subsidies or provision of financial resources, but to the creation of favorable economic conditions in which small and medium-sized businesses will be able to access borrowed resources on adequate terms. This is implemented primarily through the system of guarantee programs and similar solutions for co-financing.

In countries with the most developed segment of small and medium-sized businesses (for example, in Switzerland), regulatory practices are minimized. At the same time, the tax policy for small and medium-sized enterprises is very loyal. As special measures to support the small and medium-sized business sector, targeted loans (for example, to develop innovations) with preferential terms are used.

In my opinion, regulation of small business by the state should include justification of three major aspects of the activities of small businesses:

1. economic status;
2. the financial status of small enterprises;
3. the legal status.

The definition of the economic status of a small enterprise implies:

1. substantiation of essential characteristics and classification of small enterprises according to different characteristics and priority levels;
2. development of a methodology for forecasting the development of small business entities and their interaction with other economic entities;
3. development of a system of performance indicators for small businesses.

The second most important component of state regulation of small business is to determine the financial status of small businesses.

This includes:

1. regulation of relations of small enterprises with budgets of different levels (tax regulation);
2. definition of strategy, sources and specific objects of financial support for small businesses through the budgetary sphere, small business support funds, insurance companies, etc .;
3. regulation of the mechanism of mutual relations of small enterprises with the banking system.

A significant role is assigned to tax policy, without which it is impossible to effectively stimulate economic growth and organize the distribution of income. Tax policy is supported by the policy of public spending, which helps to carry out structural changes in production, to smooth regional disproportions, and to alleviate the problem of forced unemployment.

Through the mechanism of taxation and public spending on social security, an increasing proportion of the national income is transferred from the relatively rich to the relatively poor. This trend has not undergone significant changes and is still being maintained.

Tax incentives are purposeful activities of state authorities and local self-government in establishing tax incentives and other tax measures in the legislation on taxes and fees that improve the property or economic status of certain categories of taxpayers or payers of fees [1].

When studying the world methods of tax incentives they can be identified in this way:

* Reduction or zeroing of tax rates (exemption)
* The lowered tax rates in comparison with the generally established ones are applied first of all to stimulate a particular branch of the economy, or directed to the economic development of a certain region (territory).
* Tax holidays
* This method of tax incentives is most often applied only to established enterprises and organizations. These holidays allow the taxpayer not to pay income tax, which certainly provides immense support to the taxpayer for the development and strengthening of his position in the economy.
* Transfer of losses for the future
* This measure in most cases is focused on that activity, with the formation of which, at the initial stage, losses are possible. For example, the purchase of high-tech equipment.
* Accelerated depreciation
* This method allows the taxpayer to write off the cost of a certain investment for a short time to the cost price, rather than if he used the generally established norms.
* Investment tax credit
* It is the most promising method of tax incentives in the country. The main positive effect for the organization is its relative "cheapness" in comparison with the usual bank loan.
* Exclusion from the taxation of individual objects (withdrawal)
* This type is aimed at reducing the tax burden for certain types of tax. In this case, there is a refusal to recognize the state objects of operations for the sale, income, value of property. This practice is widespread, as it is directed primarily at those areas and areas in which the state is interested.
* Special tax regimes, etc.

Most often, the state implements the presented methods in aggregate to achieve the greatest result. First of all, it is necessary to determine for which specific purposes the tax incentive occurs, and only after the task is solved, introduction and application of methods for stimulating the taxpayer takes place.

The state has a wide choice of application of various measures of tax incentives:

First, measures that are aimed at reducing the tax burden (or tax costs) of a taxpayer performing activities promoted by the state.

Secondly, it is possible to create certain incentives for expansion of the enterprise and production, renovation of fixed assets, modernization of production, additional investment (using the released funds). The most common methods in this group are the use of accelerated depreciation, the product of deductions from the tax base on expenses that are directly related to the development of production.

Thirdly, measures can be directed to long-term investments. An obvious example of the use of such a package of measures is the situation with special economic zones. The investor's income is usually taxed at reduced rates, however, despite these declines, a favorable effect on a certain region appears.

Fourth, it is necessary to single out such activities of the tax policy as stimulating added value. Certain benefits are provided to enterprises in direct dependence on the amount of added value, with the aim of increasing production growth, as well as limiting the export of raw materials.

And finally, it is necessary to note stimulating methods in the field of donation for general-purpose purposes (tax deductions).

The listed stimulus measures are the main ones, however their list is open and the state, using taxation policy, chooses methods of tax incentives suitable for the country's economic environment and, with the right choice of methods, achieves the set national goals.

The sustainability and success of the development of small and medium-sized businesses is dependent on the complex of measures implemented by the state. The choice of optimal instruments and methods of regulation is a complex process and depends, firstly, on the set goals (achieving the same goals is possible through the use of different methods of influence), and secondly, from the scope of application (for example, the development of cultural, scientific and educational spheres are more dependent on budget financing (direct state regulation) than economic facilities), thirdly, on the needs of regulatory objects (for example, small and large enterprises possess specific advantages and disadvantages, which means they have different needs).

For example, we can consider the tax incentives that the UK uses in the figure below.

Figure 1. How the government of the UK is using the tax system to support businesses as they grow 4:



The government of the UK will continue to simplify and modernise the tax system to keep pace with a changing world, including implementing international best practice. Businesses that comply with tax rules fairly and consistently should find the tax system easy to understand and navigate. The government also believes in keeping pace with a changing economy, recognising the increasing role of micro-entrepreneurs and the self-employed [4].

Economic methods of state regulation do not limit the freedom of entrepreneurial choice. Economic methods of regulation are adequate to the nature of the market. They directly affect the market situation and through it - indirectly to producers and consumers of goods and services. So, the increase in transfer payments changes the conjuncture of the consumer goods market, increases demand, which, in turn, contributes to higher prices and forces commodity producers to increase the supply. Indirect methods of management thus act through the market, through market mechanisms.

State enterprises play an important role in the state's impact on economic processes. The essence of this method is that the state acts as a large entrepreneur. The sphere of state entrepreneurship is quite wide, but it is mainly developed in such industries, where the payback period and capital intensity are relatively high. These are energy, transport, communications, mining, that is, industries are low-profit and therefore less attractive for private entrepreneurship. Enterprises of these industries are inefficient, not because they are state-owned. They become public, because they are ineffective.

All the variety of economic methods of state regulation finds application:

* in the budgetary policy (regulation of public expenditure, issuance of state internal loans, public procurement, support of state entrepreneurship);
* in monetary policy (rationing of bank reserves, regulation of the discount rate of bank interest, conducting operations in the foreign exchange market, control over the money supply);
* in fiscal policy (regulation of the system of state and municipal taxation of income and property of physical and legal limes);
* in social policy (setting minimum wage rates, pensions, unemployment benefits, etc.).

All economic methods of state regulation considered above are directed mainly at the national economy. At the same time, there are other, equally effective instruments in foreign economic policy (legislative setting of rates of customs duties and exchange rates of currencies, use of foreign loans, investments and currency restrictions). The deeper the country is integrated into the system of world economic relations, the greater their importance in the world economy. Stimulating export by the state allows domestic entrepreneurs to invest more boldly production, to attract additional labor, thereby improving the situation in the labor market and in the market of goods and services. This leads to an expansion of aggregate demand for products of national production and, as a result, to economic growth. In addition, export orientation makes the economy more dynamic, gives its development a new quality. It is known that the world market is a testing ground for the consumer's consumer properties, structure and production efficiency [5].

Administrative methods of regulation are based on power-administrative relations and are reduced to administrative influence on the functioning and effectiveness of managing subjects. Among the methods of direct regulation can be identified licensing and quotas, subsidies, subventions, subsidies, concessional lending, investment from the state. The purpose of such methods is to achieve the priorities of economic development, protection of socially necessary sectors of the economy and individual groups of the population.

To the administrative methods of regulating the economy it is necessary to include direct state control over monopolistic markets. Where the state monopoly is recognized as natural, full-scale administration is justified. Here we mean the planning of production, costs and prices, direct control under the quality and consumer properties of goods and services, guaranteed material and technical supply (fundamental science, defense, energy, railways, etc.).

Administrative regulation is necessary in the development of strict standards that guarantee life to the population in conditions of environmental safety, with the establishment of a guaranteed minimum wage and unemployment benefits, in developing normative acts aimed at protecting national interests in the system of world economic relations. The application of direct methods here is considered economically justified and as a whole does not contradict the principles underlying the market relations.

The state has a direct impact on the size, structure and direction of the development of the national market through government procurement. Through investments, the state ensures the development of industries that determine scientific and technological progress, as well as the training of qualified personnel and the conduct of scientific research. In the defense industry, investment is carried out through the construction of state enterprises or the nationalization of enterprises of other forms of ownership through the purchase of shares.

In the group of administrative methods of regulation, legal methods take a special place. The state assumes the responsibility of the guarantor, providing legal norms of behavior of the individual, firm, state institutions in the system of market relations. It establishes the rules of the "economic game" for firms - producers and consumers, creates the necessary legal basis for the effective functioning of the economy.

The distinction between economic and administrative methods of state regulation is to some extent conditional. In order to involve any economic method, a preliminary administrative decision of the relevant state bodies is necessary. Nevertheless, the differentiation of state methods of influence on economic and administrative fundamentally important from the point of view of the nature of the market.

The state's application of various methods of influencing the economy has its limits. So, any actions of the state that break ties within the market mechanism are unacceptable. For example, total directive planning, the natural distribution of material and technical means and commodities, administrative control over prices negate the work of the market mechanism. This does not mean that the state avoids the uncontrolled inflationary growth of prices, from all types of planning. On the contrary, using various methods of regulation, the state closely follows prices, develops national programs, and exercises administrative control over production. But it does it cautiously, without weakening or replacing market incentives, without destroying the self-regulatory mechanism of the market.

Thus, when speaking about state intervention in the economy, one should keep in mind its permissible limits, which is very important. If the state, even if guided solely by good intentions, transcends this limit, then the market mechanism is deformed.

The third component of the small business regulation strategy is to determine the legal status of small businesses. This implies the development, adoption and implementation of special legislation regulating the complex issues of the functioning of small businesses, including its rights, duties and responsibilities to society, as well as legal guarantees of the state of small business development.

 In accordance with the constitutional provision: "Everyone has the right to freedom of entrepreneurial activity, the free use of his property for any legitimate business activity." Therefore, the state guarantees freedom of business and ensures its protection and support. State support of small business is carried out on the basis of state, sectoral and regional programs and is a set of measures aimed at developing and supporting small business.

At the same time, the legislative regulation of entrepreneurial activity is still far from perfect, regulatory documents on privatization, taxation, bankruptcy of enterprises and the development of small businesses often contradict each other. In this, in my opinion, one of the strategic miscalculations of reforms is manifested, since in order to create a new model of the economy, it is necessary first of all to create conditions for the appearance of real owners possessing all factors of production: land, capital, skilled labor and entrepreneurial talent [6].

The main thing is not the quantity, but the owners, who are called to increase efficiency and give the economy a social direction. That is why it is not so much necessary to eliminate state property, as its monopoly position, including facilitating the development of small business.

Summing up, small and medium-sized businesses play a special role in countries with a market economy. It is such sector of the economy that supports free competition in the commodity market, facilitates the rapid elimination of the deficit, reacts promptly to changes in the market situation. In addition, small business contributes to the creation of a middle class, which is the backbone of any state and a guarantee of political and economic stability in the country. Being the basis of a stable civil society, the welfare of people depends on its development. SMEs not only fulfill a huge social role, supporting the economic activity of most of the population, but also provides significant tax revenues to the budget. In the current difficult situation, it is the SME that can act as a stabilizer, and therefore has the right to rely on the relevant attention of society and the state. The modern economy, being an ever-changing environment, requires the state to also pursue a dynamically changing economic policy, including in the field of supporting small businesses. The small business support system should adequately react to the current changes in other spheres of society, adapt to them, reflecting not only new technological tendencies, but also the needs for the development of small organizations, taking into account the peculiarities of the economy of a particular country and the existing economic instruments in the field state regulation.

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