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TAXATION OF SMALL BUSINESS ENTITIES ACCORDING TO THE SIMPLIFIED SYSTEM

Introduction. The simplified system of taxation of small business entities plays an important role in the security of national financial system. It ensures financial transparency of small businesses, reducing the risks of financial crimes and shadowing of economy. This system ensures stable revenue for the state budget, which is the foundation for the country's financial stability. Moreover, the simplified taxation system supports economic development by stimulating the creation of new businesses and jobs. Thus, the simplified taxation system is one of the key tools in strengthening national financial security and economic resilience.

Modern research in the field of taxation of small business entities under the simplified system is presented in the following areas: the development of the simplified taxation system and the peculiarities of its application (Z. Varnalii, A. Krysovatiy, V. Moroz, O. Pokataieva, O. Chabaniuk etc.); accounting and taxation of small business entities (S. Skrypyk, R. Lavrov, I. Shepel, V. Slobodanyk, Y. Kharkava, V. Tokarenko etc.).

The purpose of the article is to investigate modern approaches to taxation of small business entities according to the simplified system

in Ukraine and to highlight its shortcomings that will allow to develop directions for their improvement.

The research is based on the combination of general scientific methods, methods of comparison and empirical approach.

Results and Discussion. The simplified system of taxation, accounting, and reporting represents a special mechanism for collecting taxes and fees, which replaces the payment of certain taxes and fees, as established by paragraph 297.1 of Article 297 of the Tax Code of Ukraine, with the payment of a single tax in the manner and according to the conditions defined by Chapter 1 of Section XIV of the Tax Code of Ukraine, while simultaneously maintaining simplified accounting and reporting.

According to paragraph 291.3 of Article 291 of the Tax Code of Ukraine, a legal entity may independently choose a simplified taxation system if it meets the requirements that grant the right to be on the simplified taxation system and registers as a single tax payer in the manner specified in Chapter 1 of Section XIV of the Tax Code of Ukraine.

Legal entities that are single tax payers of the third group use simplified accounting data regarding income and expenses, taking into account the provisions of paragraph 44.2 of Article 44 of the Tax Code of Ukraine [1].

According to paragraph 44.2 of the Tax Code of Ukraine, legal entities that are single tax payers and meet the criteria defined in subparagraph 3 of paragraph 291.4 of Article 291 of the Tax Code of Ukraine, maintain simplified accounting of income and expenses for the purpose of calculating the tax base using the methodology approved by the central executive authority responsible for shaping and implementing state financial policy.

According to paragraph 2 of Section I of the National Provision (Standard) of Accounting 25 «Simplified Financial Reporting», its norms apply to micro-enterprises, small enterprises, non-entrepreneurial societies, representative offices of foreign business entities, and enterprises that maintain simplified accounting of income and expenses in accordance with tax legislation (excluding enterprises that prepare financial statements in accordance with International Financial Reporting Standards as required by the law), including:

- accounting for non-current assets only at their initial cost without considering impairment and revaluation to fair value;
 - not creating provisions for future expenses and payments (such as employee vacation pay, fulfillment of warranty obligations, etc.), but recognizing the corresponding expenses in the period they are actually incurred;
 - including current receivables in the balance sheet at their actual amount;
 - maintaining accounting records without double-entry bookkeeping;
 - maintaining simplified cost accounting (paragraphs 7, 8 of Section I, subparagraph 2.3 of paragraph 2 of Section III of the National Provision (Standard) of Accounting 25 «Simplified Financial Reporting») [2].
- Each group of single tax payers has its own specific features, which are summarized for payers of groups 1 and 2 in Table 1, for group 3 in Table 2, and for group 4 in Table 3 [3].

Table 1

**Criteria for belonging to the 1st and 2nd
groups of single tax payers**

Criteria	Groups 1 and 2 of the Single Tax (exclusively individuals)	
	1	2
Tax rate	Not exceeding 10% of the subsistence minimum for able-bodied persons, as of 01.01.2024 - 302.80 UAH per month	Not exceeding 20% of the minimum wage as of 01.01.2024 - 1420 UAH per month.
Maximum income limit for the group for the calendar year	in 2024 – 1 185 700 UAH (167 minimum wages)	in 2024 – 5 921 400 UAH (834 minimum wages)
Presence and number of hired employees	0	0-10
Permissible scope of activities	Only retail sales at markets and/or provision of household services to the population (list of household services - paragraph 291.7 of the Tax Code of Ukraine)	Provision of services, including household services, only to single tax payers and/or the population; production and/or sale of goods; activity in the restaurant industry sector
Registrar of settlement transactions	Not used	Used on a general basis
Maintaining accounting	Income ledger (since 2021 - in any form and without registration in the STS)	

Source: based on [1]

Continuation of Table 1

1	2
Registration as a VAT payer	Are not VAT payers
Frequency of payment of the single tax	Once a month, in advance, no later than the 20th day (inclusive) of the current month. Payment must be made even if there is no income from the activity. Since August 01, 2023, individual entrepreneurs of the first and second groups, with a tax address in the territories of military operations or in temporarily occupied territories of Ukraine as of the date of the start of hostilities or temporary occupation, have the right not to pay the single tax for the period from the first day of the month in which hostilities began in the respective territory, the possibility of hostilities arose, or temporary occupation of such territory began, until the last day of the month in which such active hostilities were completed, the possibility of hostilities ceased, or temporary occupation was ended.
Submission of a single tax declaration	Once a year within 60 calendar days after the end of the year

Table 2

The criteria for being in the group 3 of single tax payers

Criteria	Group 3 of the Single Tax	
	individuals	legal entities
1	2	
Tax rate	3% of income - for VAT payers; 5% of income - for non-VAT payers	
Maximum income limit for the group for the calendar year	since 01.01.2024 – 8 285 700 UAH (1167 minimum wage as of January 01)	
Presence and number of hired employees	Without limitations	
Permissible scope of activities	All types of activities except those prohibited in paragraph 291.5 of the Tax Code of Ukraine	
Registrar of settlement transactions	Applied on general basis	
Maintaining accounting	Income ledger - if the rate is 5%; income and expense ledger - if the rate is 3%. These ledgers are maintained in any form without registration in STS	Simplified accounting based on application of the National Provision (Standard) of Accounting 25 «Simplified Financial Reporting»
Registration as a VAT payer	In case of choosing the rate: 3% – it is allowed to be a VAT payer; 5% – it is allowed to be a non-VAT payer even if the revenue exceeds the quantitative condition of 1 million UAH	

Continuation of Table 2

1	2	
Frequency of payment of the single tax	Once per quarter within 50 calendar days after the end of the quarter	
Submission of a single tax declaration	Once per quarter within 40 calendar days after the end of the quarter	
	Tax Declaration of the Single Tax Payer	Tax Declaration of the Single Tax Payer for the third group (legal entities)

Source: based on [1]

Table 3

Criteria for being in the group 4 of single tax payers

Criteria	Group 4 of the Single Tax		
1	2		
Tax rate (p. 293.9 of the Tax Code of Ukraine) depending on the type of land:	The annual tax amount is divided into 4 quarters (p. 295.9.2 of the Tax Code of Ukraine): I – 10%, II – 10%, III – 50%, IV – 30%		
	The rate size from the normative monetary valuation of land per 1 hectare, %		
	General	In mountainous areas and on Polissya territories	
• arable land, hayfields, and pastures	0,95	0,57	—
• perennial plantings	0,57	0,19	
• lands of the water fund	2,43		
• arable land, hayfields and pastures in closed soil conditions	6,33		
Peculiarities of usage of land plots	Land plots that are under conservation, contaminated with explosive objects, or unsuitable for use due to the potential threat of contamination with explosive objects are not subject to single tax for taxpayers of the group 4 during the conservation period or during the period when land plots were contaminated with explosive objects or during the period when land plots were recognized as potentially contaminated with explosive objects (p. 2921.1 of the Tax Code of Ukraine).		
Maximum income limit for the group for the calendar year	The amount of revenue is unlimited, but the share of agricultural production for the previous tax (reporting) year must be $\geq 75\%$ (subparagraph 298.8.4 of the Tax Code of Ukraine, subparagraph 4 of paragraph 291.4 of the Tax Code of Ukraine).		
Presence and number of hired employees	Legal entities – no restrictions. For sole proprietors within farming enterprises – hired employees are prohibited.		

Continuation of Table 3

1	2
Permissible scope of activities	All types of activities except those prohibited in paragraph 291.5 of the Tax Code of Ukraine.
Registrar of settlement transactions	Applied on a general basis.
Maintaining accounting	Simplified accounting based on the application of National Provision (Standard) of Accounting 25 »Simplified Financial Reporting».
Registration as a VAT payer	On a general basis.
Frequency of payment of the single tax	Once per quarter within 30 calendar days after the end of the quarter, in the following amounts: in the 1st quarter - 10%; in the 2nd quarter - 10%; in the 3rd quarter - 50%; in the 4th quarter - 30% (of the total annual amount, p. 295.9.2 of the Tax Code of Ukraine).
Submission of a single tax declaration	Once a year not later than February 20th (paragraph 295.9.1 of the Tax Code of Ukraine). Tax declaration of the single tax payer of the fourth group. In addition to the general tax declaration for the entire land plot area, tax authorities require confirmation of the status by submitting: <ul style="list-style-type: none"> • Reporting tax declarations for the current year separately for each land plot; • Calculation of the share of agricultural production; • Information (certificate) about the presence of land plots as an appendix to the tax declaration, which is an integral part of it (see paragraph 298.8.1 of the Tax Code of Ukraine)

Source: based on [1]

The procedure for determining income for single tax payers is specified in Article 292 of the Tax Code of Ukraine [1].

Namely, for the 1st to 3rd groups (individual entrepreneurs), according to subparagraph 1 of paragraph 292.1 of the Tax Code of Ukraine, income received during the tax (reporting) period in monetary form (cash and/or non-cash), tangible, or intangible form.

The income of a single tax payer includes:

- the value of goods (works, services) received free of charge;
- the amount of creditor debt for which the statute of limitations has expired (for the 3rd group of VAT payers);
- fees for commission agreements, commissions, transport forwarding, agency agreements (excluding transit amounts).

According to paragraph 292.1 of the Tax Code of Ukraine, the following are not considered income for a single tax payer:

- passive income in the form of interest, dividends, royalties;

- insurance payments and reimbursements;
- income in the form of government grants;
- income from the sale of movable and immovable property owned by an individual and used in their business activities.

According to paragraph 292.9 of the Tax Code of Ukraine, income received as a result of business activities and taxed is not included in the total annual taxable income of an individual, as defined in Section IV of the Tax Code of Ukraine.

According to paragraph 292.11 of the Tax Code of Ukraine, the following amounts are not included in the income of a single tax payer:

- VAT;
- funds received from internal settlements between structural subdivisions of the single tax payer;
- financial assistance provided on a refundable basis, received and returned within 12 calendar months from the date of receipt, and loan amounts;
- targeted funds received from the Pension Fund of Ukraine and other compulsory state social insurance funds, from budgets, or state target funds, including within the framework of state or local programs;
- funds (advance payments, prepayments) returned to the buyer of goods (works, services) who is a single tax payer and/or returned by the single tax payer to the buyer of goods (works, services), if such return occurs due to the return of goods, termination of the contract, or upon a written request for the return of funds;
- funds received as payment for goods (works, services) sold during the period when other taxes and fees established by the Tax Code of Ukraine were paid, the value of which was included in the income of the legal entity when calculating the profit tax or the total taxable income of the individual entrepreneur;
- VAT included in the value of goods (completed works, provided services) that were shipped (delivered) during the period when other taxes and fees established by the Tax Code of Ukraine were paid;
- funds and the value of property contributed by the founders or participants of the single tax payer to the authorized capital of such a payer;

– funds representing overpaid taxes and fees established by the Tax Code of Ukraine, and the amounts of unified social contribution (USC) returned to the single tax payer from budgets or state target funds;

– pharmaceuticals, medical devices, and auxiliary means provided free of charge (transferred) by a person authorized to procure in the healthcare sector to business entities licensed to conduct business activities in medical practice for the execution of programs and implementation of centralized healthcare measures, provided that:

1) on the date of the procurement contract, such goods were included in the List of pharmaceuticals, medical devices, and auxiliary means procured with state budget funds for the execution of programs and implementation of centralized healthcare measures, as approved by the Cabinet of Ministers of Ukraine;

2) the goods were purchased by a person authorized to procure in the healthcare sector, using funds from the state budget allocated for the implementation of health programs and centralized healthcare measures, or using grants (subgrants) for the implementation of programs of the Global Fund to Fight AIDS, Tuberculosis, and Malaria in Ukraine, in accordance with the law. In case of misuse of medicinal products, medical devices, and auxiliary products, the taxpayer is obliged to increase tax liabilities for the consequences of the tax period in which such violation occurred by the amount of the single tax at the rate provided by paragraph 293.5 of Article 293 of the Tax Code of Ukraine.

According to paragraph 292.10 of the Tax Code of Ukraine, the amounts of taxes and fees withheld (accrued) by the single tax payer while performing functions of a tax agent, as well as the amounts of the unified social contribution (USC) accrued by the single tax payer according to the law, are not considered as income. This exclusion also applies to the third group (legal entities).

According to subparagraph 2 of paragraph 292.1 of the Tax Code of Ukraine, for the third group (legal entities) the income of the single tax payer includes income of representations, branches, departments, received during the tax (reporting) period in:

- cash form (cash and/or non-cash);
- tangible and intangible form.

The income amount includes:

- the value of goods (works, services) received free of charge is included in the income amount;
- the amount of accounts payable for which the statute of limitations has expired (for the third group of VAT payers) is included;
- the cost of goods (works, services) sold during the reporting period for which advance payment was received during the period of payment of other taxes and fees, as determined by the Tax Code of Ukraine;
- remuneration for agency contracts, commissions, transportation forwarding, and agency agreements (excluding transit amounts).

When selling fixed assets, income is determined as the amount of money received from their sale. If fixed assets are sold after their use within 12 calendar months from the date of commissioning, income is determined as the difference between the amount of money received from the sale of such fixed assets and their residual book value as of the day of sale. Plant revenue (except as specified above) does not include dividends received by a unified taxpayer - a legal entity from other taxpayers, taxed in accordance with the procedure determined by the Tax Code of Ukraine.

The income of small business entities operating under the simplified taxation system is determined based on the accounting data maintained in accordance with Article 296 of the Tax Code of Ukraine. The determination of income is carried out for the purposes of taxation by a single tax and for granting the right to the business entity to register as a value-added tax payer and/or to operate under the simplified taxation system. In particular, for income:

- expressed in foreign currency (paragraph 292.5 of the Tax Code of Ukraine), it is converted into hryvnias at the official exchange rate of the hryvnia to the foreign currency established by the National Bank of Ukraine on the date of receipt of such income;
- received in cash (and/or non-cash) form (paragraph 292.6 of the Tax Code of Ukraine) – the date of receipt of funds into the settlement account (cash desk);
- in form of the value of goods (works, services) received free of charge (paragraph 292.6 of the Tax Code of Ukraine) – the date of signing by the single tax payer of the acceptance-transfer act for the goods (works, services) received free of charge;

– in the form of accounts payable for which the statute of limitations has expired (for the 3rd group of VAT payers) (paragraph 292.6 of the Tax Code of Ukraine) – the date of writing off the accounts payable for which the statute of limitations has expired;

– in the form of the value of goods (works, services) sold during the reporting period for which advance payment was received during the period of payment of other taxes and fees, as determined by the Tax Code of Ukraine (paragraph 292.6 of the Tax Code of Ukraine) – the date of shipment of goods (performance of works, provision of services) for which advance payment was received during the period of payment of other taxes and fees, as determined by the Tax Code of Ukraine;

– in the form of trading goods or services using vending machines or similar equipment that does not require the presence of a fiscal cash register and/or a fiscal data registrar (paragraph 292.7 of the Tax Code of Ukraine) – the date of withdrawal of cash proceeds from such vending machines and/or similar equipment;

– in the form of trading goods (works, services) through vending machines using tokens, cards, and/or other substitutes for currency expressed in hryvnias (paragraph 292.8 of the Tax Code of Ukraine) – the date of sale of tokens, cards, and/or other substitutes for currency expressed in hryvnias.

For accurate compilation and submission of tax reports under the single tax, the declaration of a third group single tax payer (legal entities) should include the following information:

– the amount of income subject to taxation at the respective rate of the single tax established for such payers according to paragraph 293.3 of the Tax Code of Ukraine;

– the amount of income subject to taxation at the double rate of the single tax established for such payers according to paragraph 293.3 of the Tax Code of Ukraine (in case the income threshold is exceeded).

Conclusions. Thus, according to the results of the conducted research it has been established that the current system of taxation of small business entities in Ukraine and accounting, as its informational basis, ensure the functioning of the state's tax mechanisms. Further improvement of the taxation system for small business entities will require a review of methodological approaches to the use of accounting

information in accordance with new taxation mechanisms. At the same time, a number of accounting problems faced by taxpayers under the simplified taxation system can be identified. In particular, taxpayers as legal entities are obliged to keep accounting records according to the principles of National Provisions (Standards) of Accounting (paragraph 296.1 of the Tax Code). Moreover, accounting registers and financial statements serve as supporting documents for tax accounting and data in the Declaration of the taxpayer under the simplified taxation system (paragraph 44.1 of the Tax Code). However, accounting is based on the accrual rule (Article 4 of the Law of Ukraine «On Accounting and Financial Reporting in Ukraine»), while the taxation object under the simplified taxation system is based on the cash method (subparagraph 2 of paragraph 292.1 of the Tax Code of Ukraine). Therefore, accounting data cannot be the sole basis for the formation of the declaration.

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