

# Self-Employment: Innovation in The Regulation of Entrepreneurial Activity



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**Abstract:** *The article examines the question of the implementation of the Federal Law No. 422 "On Conducting an Experiment to Establish a Special Tax Regime "Tax on Professional Income" in the City of Federal Significance Moscow, the Moscow and Kaluga Regions, and in the Republic of Tatarstan (Tatarstan)". The authors considered the main prerequisites for the adoption of the Federal Law No. 422, and also analyzed the positive trends in the development of the entrepreneurial activity of the self-employed. The paper reveals deficiencies in the legislative framework for the activities of the self-employed population and formulates suggestions for improving the preferential tax regime for the self-employed category of citizens.*

**Keywords :** *self-employed, preferential tax regime, individual entrepreneurship, taxation.*

## I. INTRODUCTION

Nowadays, more than 20% of the population of Russia are self-employed citizens, i.e. they work "for themselves", but at the same time they do not form a legal entity or do not act as an individual entrepreneur, which implies that the income of such a population is not taxable, and therefore the budget of the Russian Federation loses billions of rubles per year.

The problem of "hidden" incomes was raised in 2013 by Deputy Prime Minister Olga Golodets, who emphasized that "if they underpay, this burden falls on the whole society, that is, miners must pay pensions not only for their parents but also for those who do not pay". Olga Yuryevna also noted that "out of 86 million Russians of working age, 38 million are engaged in "incomprehensible" activities, so the revenues, hidden from the state, are not only a huge blow to the state's wallet but also an additional burden for taxpayers".

In November 2018, the President of the Russian Federation signed the Federal Law No. 422 "On Conducting an

Experiment to Establish a Special Tax Regime "Tax on Professional Income" in the City of Federal Significance Moscow, the Moscow and Kaluga Regions, and in the Republic of Tatarstan (Tatarstan)". It consolidated the concept of "a self-employed citizen", distributed the main areas of activity of a self-employed citizen, which contributed to establishing the rights and obligations of both a citizen receiving professional income and the state that established special tax regime.

According to unofficial data, the number of the self-employed in Russia exceeds one hundred thousand people, but even with the adoption of the law at the federal level, not all self-employed people legalize their status and register their income for various reasons: some people do not want to bind themselves to obligations to the state, others bypass the bureaucracy, fines, inspections – all this negatively affects the attitude of the population towards the registration of their activities.

The features of the special tax regime in the experimental conditions are considered in the works by Nogina [1], Smorodina [2], and Karsetskaya [3].

The problems of control in the budget and legal sphere were analyzed in the works by Kostyukov [4], Bartsits [5], and Krutikov [6].

To date, there are not many scientific works on the topic of the special tax regime, but the existing works are the main guidelines for assessing and analyzing the developed concept of regulating the activities of self-employed citizens.

## II. METHODS

### A. General description

In the course of the study, the authors were guided by general scientific and private-law methods of cognition: formal-legal, comparative-legal, etc. The main applied method was the systematic-structural one, which made it possible to establish the elements of taxation, such as an object, tax base, tax rate, tax period, and payment procedure and preferential tax regime, the so-called deduction.

The formal-legal method allowed analyzing the legal norms governing the legal basis of the special tax regime as the key elements of legislative consolidation of the tax obligation of the Russian self-employed population, as well as to substantiate proposals for improving tax legislation and creating a new preferential tax regime in the Russian Federation.

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## B. Plagiarism Check

The study of self-employment as an innovation in the regulation of entrepreneurial activity was based on a branching algorithm.

During the implementation of the stages of the study, the authors processed and analyzed the norms of mainly tax legislation, which allowed proposing changes to the tax regime for the self-employed population in order to optimize their entrepreneurial activity (Fig. 1).

The risk-bearing factors were identified, aimed at minimizing legal risks within the framework of undeniable jurisdiction.

As a result, the authors substantiated that it was necessary to establish an internal control system that would help to take into account all the factors leading to the occurrence of risks.

At the end, the concept of the category "risk" was formulated.

## C. Flow chart

To achieve the goal, set in the article, the authors used a specific research algorithm (Table 1).

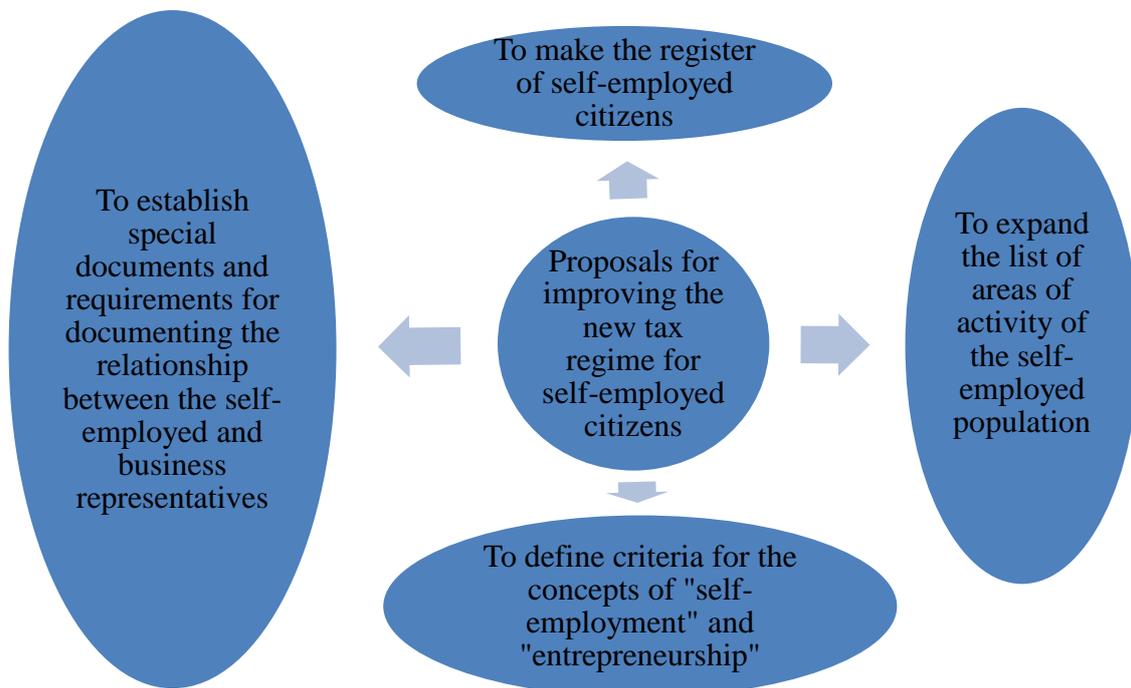
**Table 1:** Stages of the conducted research

The selection of a research topic. Justification of its relevance for entrepreneurship
Statement of a scientific problem and development of a scientific hypothesis
The choice of research methods
Description of the results and research processes
Formulation of research results, including those aimed at improving existing legislation
Formulation of the final conclusions of the study

## III. RESULTS

The special tax regime is implemented in an experimental form, thus assessing the positive and negative sides is currently impossible, but errors in the legislative framework certainly exist.

Having analyzed the regulatory framework for tax preferences for the self-employed category of the population, the authors developed the proposals for improving the new tax regime (Fig. 1).



**Fig. 1:** Changes in the tax regime for the self-employed population

## IV. DISCUSSION

In recent years, self-employed citizens have been considered to be such people who carry out certain types of entrepreneurial activity without registering themselves as individual entrepreneurs. The article examines how the work of the self-employed is regulated at the legislative level, whether steps are taken to legalize their situation and whether it is possible to register oneself as a self-employed right now.

The Minister of Justice of the Russian Federation Alexander Kononov gave the following definition: a self-employed person is "an individual, who independently conducts activities at his or her own risk based on personal labor participation in rendering services, performing work for individuals aimed at systematic receiving of profit" [7].

A feature of self-employed citizens in the current understanding is that they work for themselves and work personally, that is, without hiring employees.

The highest echelons of power repeatedly raised the question of withdrawing such persons from the shadow so that they would be officially registered by the state and would pay taxes.

Thus, it is beneficial for an individual entrepreneur to use, for example, a simplified taxation system and pay an average of 6% of income. However, the involvement of workers automatically increases the costs of the entrepreneur by 43%, of which personal income tax is 13% and insurance payments are 30%. The average salary in Russia in 2017-2018 is about 36,000 rubles. Therefore, it can be simply calculated that such citizens, left in the shadow with an average salary, entail lost insurance payments of 10,800 rubles per month, which amounts to 129,600 rubles per taxpayer per year, but if this amount is transferred to the number of self-employed citizens, it turns out to be 2,592,000,000,000 rubles. The amount is significant. That is, state losses can be estimated.

However, not everything is so simple in assessing potential income. The fact is that in many regions only official salaries slightly exceed the minimum level of salary. Thus, kindergarten teachers receive a salary of 9,000 to 12,000 rubles, and nurses receive 8,000 rubles [8, 9]. At the same time, there is no need to speak about the constant nature of the income of self-employed citizens. That is, the calculations that the introduction of taxes for self-employed citizens can bring significant revenue to the budget may simply not be justified.

Although, in the opinion of Bakaeva, the market of remote, distance work has expanded in recent years [10]. Freelancers are involved in various fields: accounting, design, advertising, consulting, cryptocurrency market, etc. In 2017, the share of freelancers in the Russian market almost doubled, and now every fifth Russian citizen considers oneself to be such a person, and for 11% of the population, this is the only source of income. These mainly include young people living in large cities, organizing their own workplace and looking for clients. Their unwillingness to leave the shadow sector is due to both moral considerations (maximum freedom, restriction of state interference in their lives) and material interests (earning income without taxation).

According to Kryukova and Ruzanova, "in terms of industry, a self-employed citizen is a category of tax legislation, and it is the norms of this industry that should contain the characteristics of these citizens", while "in other industries, this construction should be used in the meaning established in the tax legislation" [11].

After analyzing the norms of tax legislation, taking into account the provision of tax holidays for the self-employed, it can be concluded that the state is trying to remove such people from the shadows and motivate them to be registered at tax offices. However, the official statistics of the tax authorities showed that there were few people who wanted to legalize their status: there were only 1,652 of them as of February 05, 2019.

The object of taxation for this category of citizens is professional income. Professional income is the income of individuals, obtained from activities, for which they do not have an employer and do not attract employees under labor

contracts, as well as income from the use of property.

A self-employed person can carry out entrepreneurial or other professional activities only in cases where there is no restriction. The legislator does not give the opportunity to apply this status to those who:

- Receive income of more than 2.4 million rubles per year (200 thousand rubles per month);
- Sell excisable and marked goods;
- Are engaged in the resale of goods;
- Conduct intermediary activities;
- Extract or sell mineral resources;
- Deliver goods with accepting payments in favor of others;
- Apply other taxation regimes;
- Conduct entrepreneurial activities subject to personal income tax [12].

It is not clear by what criteria such types of activities as small-scale sale and resale of goods, delivery of goods and others were eliminated. This activity can be carried out without employees (a condition that excludes the possibility of doing business without registration), and income from it not always exceeds 2.4 million per year. In turn, an individual entrepreneur can perform any activity permitted by law: therefore, in this case, the status of an individual entrepreneur gives greater freedom of action [13]. By the way, the possibility of hiring workers is another advantage of individual entrepreneurship in comparison with self-employment, in which the implementation of professional activities is possible only in person.

Self-employed citizens under this special tax regime are exempt from personal income tax and contributions. Payers of professional income tax using the special mobile application "My Tax" pay 4 or 6% of income depending on their source (4% – in relation to income received from the sale of goods (work, services, property rights) to individuals; 6% – in relation to income received from the sale of goods (works, services, property rights) for individual entrepreneurs while conducting entrepreneurial activities and legal entities).

The tax amount is calculated by the tax authority.

During the 10 years of the experiment, the rates of professional income tax cannot be increased. In addition, individuals can become payers of professional income tax from any day during the experimental period, as well as terminate their registration. It is not required to fill out income declarations and submit them to the tax authority.

It is an important fact that it is impossible to combine tax payment for the self-employed with other special regimes. That is, an individual entrepreneur needs to abandon any special regimes: simplified tax system, unified agricultural tax, unified tax on imputed income, patent system of taxation when moving from one category to another.

During the period of application of the tax on professional income, physical entities and individual entrepreneurs are exempted from making fixed insurance payments to the compulsory pension insurance and compulsory medical insurance.

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To obtain a more complete understanding of the situation with self-employed citizens, it is more convenient to summarize the available information in a common table (Table 2):

**Table 2: Conducting entrepreneurial activity by the self-employed**

Category of the self-employed	Registration	Accounting	Taxation	Insurance payments
1st category – private practitioners (individual entrepreneurs, court-appointed managers, attorneys, appraisers, etc.)	Registration with the tax authorities in accordance with the legislation	In accordance with the chosen taxation system	In accordance with the chosen taxation system	They pay (compulsory pension insurance and compulsory medical insurance) themselves in a fixed amount
2nd category – citizens providing services to physical entities for personal, home, and other similar needs	For registration, they submit a notice in the prescribed form	Do not submit	Exempted from personal income tax on the income, received in 2017-2019	Exempted from all payments until 2020
3rd category – professional income tax payers	For registration, they use the mobile application "My tax"	Do not submit	4% – if income is received from physical entities; 6% – if income is received from individual entrepreneurs and legal entities	Exempted from all payments until 2020

### V. CONCLUSION

The world experience in the field of providing tax freedoms to citizens has long been justified and promotes a productive relationship between the population and the state. Thus, Germany has the concept of "people, who are similar to workers" (arbeitnehmerähnliche Personen). This category of workers is independent and has separate working conditions, and moreover, taxation, which is enshrined in the labor legislation of the Republic. In the UK, the self-employed include not only people who work for themselves but also workers, hired on a contractual basis [14, 15].

Summing up, it can be concluded that the initial stage of "running in" the bill is always complicated and requires careful attention on the part of the state, because precisely at the initial stage the main problematic nuances are manifested and revealed.

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