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**FUNDAMENTALS OF ENTREPRENEURSHIP**

**The study guide**



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The study guide “Fundamentals of Entrepreneurship” is universal and enables to expand theoretical and empirical volumes of students’ economic knowledge of all forms and directions of training, offering them to make an informed choice: to be employed or do their own business.

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## PREFACE

Entrepreneurship is the driving force for the development of any country's economy. It enables to create new jobs, produce goods, works and services that meet the requirements of the society. The development level of the country's economy is higher if the state creates the necessary conditions for the formation and support of entrepreneurship.

The study guide is intended for all students studying the discipline "Fundamentals of Entrepreneurship" and wanting to acquire new or additional knowledge on the specifics of establishing and doing business. This study guide is structured by theoretical and practical aspects. The theoretical part reveals the essence of entrepreneurial activity, the place and role of the entrepreneur in the country's economy. Also, the theoretical part of the study guide provides the information on the specifics of state registration of business entity in Russia, as well as in some foreign countries, which is especially important in the context of globalizing of the world economy. An important aspect at the initial stage of doing business is creating the business plan, which allows to plan future scenarios and attract investors' funds, if necessary.

The practical part of the manual introduces the students to the peculiarities of setting up the entrepreneur's property, including the information on objects of intellectual property. In addition, data on measures of state support and innovative types of business are given. Important is the information that characterizes doing business in different market structures, which helps to adapt the entrepreneur's behavior in the market of perfect and imperfect competition (monopoly, oligopoly, monopolistic competition). Since the activity of an entrepreneur is in some cases impossible or difficult without direct state support, the study guide examines examples and features of public-private partnership.

## INTRODUCTION

In market economy, the course “Fundamentals of entrepreneurship” is one of the main subjects for full- and part-time students of non-economic specialties. This course is of great theoretical and practical significance, since it provides the knowledge that describes the rational behavior of independent economic agents and is widely used in the practice of all actors of the market economy.

The main objective of the course “Fundamentals of entrepreneurship” is to extend and specify knowledge about entrepreneurship, business activities, skills of creating one’s own business, business processes, drafting legal documents, business plan development, accounting statements of small enterprises, etc., mastering specific rules and methods of doing business, and to stimulate students’ interest in the study of economics as a science which is not only informative, but also has important practical significance.

In accordance with the aim, we identify the tasks to be fulfilled, including:

- shaping students’ skills to analyze research and theoretical material;
- developing the consistent idea of the laws on production, exchange and distribution of wealth in the marketplace;
- getting to know organizational and legal forms of business;
- studying the mechanisms of adaptation to current market conditions, analyzing strengths and weaknesses of the market mechanism;
- studying modern development trends in businesses;
- shaping modern economic thinking patterns.

The discipline “Fundamentals of entrepreneurship refers to the humanitarian, social and economic unit of disciplines of variable professional part (B1, B4). The study of this discipline should preferably be based on the knowledge gained when learning the disciplines such as economics, applied economics, law. Previously studied economic subjects in this course are seen as necessary for deeper understanding of the business activities.

Strong acquisition of basic knowledge in business, important economic and business terms will enable future professionals to choose the most rational and effective strategy and tactics of company’s behavior in

both short and long term. Understanding and acquiring basic economic laws and principles will help them to solve urgent problems in management of business entities.

As a result of learning the discipline the student should be able to:

- identify his/her abilities for entrepreneurship;
- use the knowledge of fundamentals of entrepreneurship to organize the business;
- analyze the specific situations of everyday business life;
- organize and process rapidly changing economic information that is necessary to make the right business decisions;
- know the rapidly changing market conditions and timely change the activities of the business;
- achieve effective business results, its profitability and progress, while being more aggressive in business and investment activity.

*As a result of learning the discipline the student should know:*

- commercial and business terminology that meets modern international standards of business;
- the initial information necessary for any modern entrepreneur, namely the basics of legislation (civil, labor, tax, etc.), the basics of business economics, the notion of equity, of its forms and movement, of financial and credit system, accounting and reporting systems etc.;
- the necessary information on the legal and economic aspects of creating one's own enterprise; possible problems and difficulties faced by an entrepreneur in the course of activities, especially at the initial stage, under certain specific circumstances.

*As a result of learning the discipline the student should possess:*

- principal methods, ways and means of receiving, storing and processing information;
- skills for independent creative work, be able to economically competently formulate and argue one's position.

*To demonstrate the ability and willingness of:* constructing economic models and their use in analytical work.

The training manual presents the necessary materials for learning the basics of business.

# 1. ORGANIZING A BUSINESS

## 1.1. The notion, place and role of the entrepreneur in the economy

Approaches to the definition of entrepreneurship are multifaceted. We will mention some of them. For example, V.S. Artamonov and others believe that “an entrepreneur is a subjective (personal) factor of reproduction that is capable to take risks, on initiative and innovation basis, without fear of total economic responsibility, and to connect other factors of production in a special, efficient way, so that there is an additional income in the long term”<sup>1</sup>.

According to V.A. Isayeva, A.V. Savinskiy, “entrepreneurial ability as a factor of production is a special kind of human resources, the ability to combine all the factors of production in any industry, the ability to take risks and introduce new ideas and technologies into production”<sup>2</sup>.

According to Article 2 of the Civil Code of the Russian Federation “entrepreneurship is an independent activity which is carried out at one’s own risk that is aimed at regular profit making from the use of property, sale of goods, work done or services rendered by persons registered as such in accordance with the law”.

In our opinion, entrepreneurial activity begins with the moment when the economic entity or group of entities decides to implement some project, an idea that can generate a profit. Anyway, an attempt to empirically realize existing idea is the starting point of any business. It does not matter whether you implement something new or already known. It is important that you take action, the efforts to translate this vision into reality. These aspects characterize entrepreneurial activity. However, very often business activity does not go beyond this starting point.

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<sup>1</sup>Artamonov V.S., Popov A.I., Ivanov S.A., Utkin N.I., Alexeev E.B., Makhlaev A.N. Microeconomics: Textbook. – St. Petersburg: Peter, 2009. – 320 p.: ill. p.101.

<sup>2</sup>Economics. Basic course. Textbook for students of non-economic specialties. Ed. Isaev V.A., Savinsky A.V. – Moscow: Publishing House of Peoples Friendship University, 2011. - 197 p. p.13.

The correlation between the following terms “entrepreneurship” and “business”, “entrepreneur” and “businessman” is debatable. Some scholars consider these combinations as synonyms, others believe that the word “business” is from English (derived from the word “busy”), and “entrepreneurship” is from French.

Another group of people supposes that the entrepreneur is a businessman, whose activities are related to the production of something new, innovative, different from other offerings in the market. While this innovation is not used massively by other economic actors, the initiator and implementer of innovation will continue to be an entrepreneur, but later would become an ordinary businessman.

To understand why the word “business” that is popular and widely represented in the daily use of many people is such a serious sign of every person’s life, it is necessary to refer to various theoretical interpretations and definitions of business. Conventionally, they can be grouped into three basic concepts: positive, critical, pragmatic<sup>3</sup>.

Critical business concept comes from the fact that business brings together a series of steps by various economic agents which are focused on the enrichment of some people at the expense of others’. This point of view is widely presented not only in theory but also in practice, especially in the rationale of ideological platforms of different political parties, including anti-globalists abroad and orthodox communists in Russia. There are many versions of the critical concepts of business, but common to all of them is the thesis about the inconsistency, and even incompatibility of the interests and goals of people, whose activities is connected with business.

Positive business concept is in stark contrast to the critical business concept. Its essence lies in the fact that the business is understood and valued as a socially useful activity of people conducted at the personal initiative, whose goal is the production of goods and services to other people.

Both considered concepts of business are the two extreme positions in business valuation as an objective phenomenon. These extremes meet

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<sup>3</sup>Arustamov E.A. Basics of Business: A Textbook. – 3rd ed. – M.: Publishing and Trading Corporation “Dashkov and Co”, 2013. – 232 p.

only in the third of the above concepts, that of a pragmatic concept of business. The essence of the pragmatic concept of business is that it is seen as a phenomenon that is inevitable in the development of society. This phenomenon is, on the one hand, necessary, and on the other it is profitable for people who are perceived by society as businessmen seeking to satisfy their own (selfish) interests, and for other members of society, which, thanks to the business, are able to continually satisfy their needs with the help of goods produced and services rendered.

Economy distinguishes two categories of entities: the economic entities with excess funds and economic actors with the deficit of financial means. Some people, who have decided to become entrepreneurs, feel the need for financial resources. Another part of the population may have available necessary financing resources that can be used to invest in any business area.

Since in the economy there is a link such as the market, when entering the market, entrepreneurs can act as a seller and a buyer.

A special category of economic agents are intermediaries. Agency is associated with the provision of services that contribute to achieving the objectives of other economic entities. In particular, real estate agency (realtors) as an intermediary helps the actors with the lack of financial resources to sell the property in order to obtain funds from the sale of the financial resources from the people who have them in abundance. Alternatively, commercial banks, acting as an intermediary, take cash deposits from persons who have them in abundance, and give the same money as a loan to persons who need them.

Thus, entrepreneurs play a significant role in the economy by participating in the formation, distribution and redistribution of funds.

Types of businesses<sup>4</sup>:

– production business: innovation, science and technology, the production of goods, services, industrial consumption of goods and services, information;

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<sup>4</sup> Vorozhbit O.Yu., Zubova N.V. Structure of the entrepreneurial environment // Bulletin of the Pacific University. 2010. – № 4. – P. 22–29. P. 23.

- commercial business: trade, trade and procurement, trading and brokering, commodity exchanges;
- financial business: banking, insurance, audit, leasing, stock exchanges;
- consulting: general management, administration, financial management, personnel management, marketing, production consulting, consulting for information technology, consulting for special services.

The classification of business entities into small and medium-sized enterprises in accordance with the criteria established by the law “On developing small and medium scale entrepreneurship in the Russian Federation”<sup>5</sup>, is subject to the following conditions: 1) for legal entities: the aggregate stake of the Russian Federation, subjects of the Russian Federation, municipal formations, foreign legal entities, foreign citizens, public and religious organizations (associations), charitable and other funds in the charter (contributed) capital (trust) of the said legal entities shall not exceed twenty five per cent (except for the assets of joint-stock investment companies and closed-end unit investment trusts) the stake held by one or several legal entities not deemed small and medium businesses shall not exceed twenty five per cent. The latter limitation does not apply to business entities, economic partnerships, whose activity consists in practical application (implementation) of results of intellectual activity (software, databases, inventions, utility models, industrial designs, selection inventions, integrated circuit layout, production secrets (know-how), whose exclusive rights are owned by the founders (participants), respectively, of such business entities, economic partnerships – budget, independent research institutions or non-budgetary institutions, autonomous educational organizations of higher education, as well as legal entities, whose founders (participants) are legal entities included in the list of entities approved by the Russian Federation Government providing state support of innovation activity in the forms established by the Federal law of 23 August 1996, № 127-FZ “On Science and State Scientific and Technical Policy”. Legal entities included in the above list in the order

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<sup>5</sup> Federal Law No. 209-FZ of July 24, 2007 “On developing small and medium scale entrepreneurship in the Russian Federation”

established by the RF Government, subject to conformity with one of the following criteria: a) legal entities are public companies, with at least fifty percent of the shares owned by the Russian Federation or are business entities in which these public companies have the right to directly and (or) indirectly manage more than fifty percent of the votes due to the voting shares (stakes) in the authorized capital of business companies or have the opportunity to appoint a sole executive body and (or) more than half of the composition of the executive body, as well as the power to govern the election of more than half of the Board of Directors (Supervisory Board); b) legal entity is a public corporation established in accordance with the Federal Law of 12 January 1996, № 7-FZ “On Non-profit Organizations”; 2) the average number of employees during the preceding calendar year shall not exceed the following average limit of employees for each category of small and medium-sized enterprises: a) from one hundred to two hundred and fifty people inclusive for medium-sized enterprises; b) up to one hundred people for small enterprises; among small businesses stand out micro-enterprises with up to fifteen people inclusive. The average number of employees of micro, small or medium-sized enterprise in a calendar year is determined by taking into account all its employees, including employees working under civil contracts or part-time employees based on actual hours worked, employees of branch offices, branches and other separate subdivisions of these enterprises. 3) revenue limits from sale of goods (work, services), excluding value-added tax for each category of small and medium-sized enterprises do not exceed the thresholds established by the RF Government on February 9, 2013 № 101: micro enterprises – 60 million rub.; small businesses – 400 mln. rub.; medium-sized enterprises – 1000 million rubles.

Main economic indicators of enterprises’ activities by the end of 2014 are given in the table below<sup>6</sup>:

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<sup>6</sup>Small and medium business in Russia. 2015: Stat.sb./M 19 Rosstat. – M., 2015. – 96 p.

Table 1

## Main economic indicators of enterprises' activities

	Small-size enterprises						Medium-sized enterprises		
	Total			Including micro enterprises			2012	2013	2014
	2012	2013	2014	2012	2013	2014			
The number of enterprises (by the year end), thous.	2003,0	2063,1	2103,8	1760,0	1828,6	1868,2	13,8	13,7	13,7
Average number of employees (without external part-timers), thous.pers.	10755,7	10775,2	10789,5	4248,9	4322,9	4431,1	1719,5	1630,7	1585,8
Average monthly pay of employees, rub.	16711	17948	19201	13898	15039	15774	21537	23961	26065
Capital and reserves, bn.rub.	17501,4	18591,1	18891,2	15697,0	15639,6	15930,7	1267,4	1283,7	1222,0

According to Table 1, over 2012–2014, we see growth in the number of small businesses, a slight change in the number of medium-sized enterprises. Average number of employees in small enterprises is growing, and in medium-sized enterprises it is shrinking. Average monthly pay increases in small and medium-sized enterprises.

## **1.2. Features of official registration of entrepreneurial activity in Russia**

Entrepreneurship assumes its registration in the authorized state body – the tax office. When registering, the state has requirements to the minimum size of the authorized capital of a future entrepreneur, as well as a national duty is imposed for legal registration of a new entity of the economy.

The initial step in setting up a small business is to draft foundation documents (charter, foundation agreement). After that, the documents are submitted to the state agency for the state registration: an application, a copy of the foundation documents, the document proving payment of the state duty and information about the activities which the organization plans to be engaged in.

On the basis of the application in the prescribed form, the registering authority will make a record in Uniform State Register of Individual Entrepreneurs or Uniform State Register of Legal Entities. Official registration is carried out within a maximum of five working days from the date of documents submission of to the registering authority. The registering authority is the Federal Tax Service of the Russian Federation.

The main law governing the registration of business is the Federal Law “On Official Registration of Legal Entities and Individual Businessmen”.

Certain types of business activity require licensing<sup>7</sup>.

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<sup>7</sup> Federal Law of May 4, 2011 N 99-FZ “On licensing of certain types of activities” (with amendments and additions).

Entrepreneurial activity can be performed through incorporation or without it.

There are many organizational and legal forms of business: sole proprietorship, partnership (general and trust), limited liability company, joint-stock companies (public and nonpublic), production cooperative, peasant farm holding.

Table 2 presents the characteristics of different organizational and legal forms of business.

*Table 2*

**Characteristics of different types of businesses**

<b>Type of business</b>	<b>The requirements for minimum capital</b>	<b>Characteristics of the business</b>
Sole proprietorship	No	One founder – an individual
Limited liability company	10 000rubles	Founders can be both individual and legal entities
Public limited company/ private limited company	100 000 rub. / 10 000 rub.	Setting up the company is followed by issuing the shares
General partnership/ Trust partnership	No	At present this type is not popular
Production cooperative	No	Founderparticipatesinproduction
Peasant farm holding	No	The business is mainly connected with farming and livestock farming

Sole proprietorship, limited liability company as well as public companies are the most widely used in Russia.

If you plan to create a company whose activities will be broad and open and will require raising large amounts of investments, then, in our opinion, the best option in this case is to create a public company.

To optimize future costs before registration of business, it is advisable to choose the taxation system (Table 3).

Table 3

### Entrepreneurship taxation systems

Type of taxation	The list of taxes and / or mandatory payments	Other features of the chosen system of taxation
General taxation system	Income tax = 20% (13%) VAT Property tax and others.	Maximum of the taxes calculated
Simplified taxation system (STS)	STS = 6% (if the object of taxation is income) STS = 15% (if the object of taxation is income-expenses)	The most widely used system of taxation
Patent taxation system	The size of the payment for the patent is set by regional authorities for each activity applicable to the system	This is available only for sole traders
Unified tax on imputed income (UTII)	UTII = 15%	The tax base is different depending on the type of activity
Unified agricultural tax (UAT)	UAT = 6%	No tax on income (profit), on property
System of taxation for implementation of production sharing agreements	Value added tax; corporate income tax; severance tax; payments for the use of natural resources; charges for negative impact on the environment; water tax; the state duty; customs duties; land tax; excise tax with the exception of excise tax on excisable mineral raw materials	Activities connected with exploration and extraction of mineral raw materials. Almost all taxes and fees, except for income tax shall be compensated from the budget

Despite the maximum possible amount of taxes under the general taxation system (Table 3), there are actors that prefer this tax regime.

One reason may be the possibility of VAT compensation from the state budget based on reporting. In this case the norms of the Tax Code of the Russian Federation can reduce the tax base by the appropriate expense categories that will ultimately lead to a decrease in taxable income or its deliberate understatement.

In addition to the above characteristics of taxation systems there is an opportunity to do business in the territory of the special economic zone.

In paragraph 1 of Article 2 of the Federal law “On special economic zones in the Russian Federation” dated 22.07.2005 N 116-FZ “special economic zone is a part of the Russian Federation territory, which is determined by the Russian Government and where a special regime of entrepreneurial activities and the customs procedure of free customs zone are applied”.

According to Part 1 of Article 4 of the Federal law “On special economic zones in the Russian Federation” dated 22.07.2005 N 116-FZ “special economic zones of the following types can be created on the territory of the Russian Federation:

- 1) industrial production special economic zones;
- 2) technology and innovation special economic zones;
- 3) tourism and recreation special economic zones;
- 4) port special economic zones”.

Benefits for SEZ investors<sup>8</sup>:

- access to the rapidly growing Russian market of information technologies and R&D;
- highly qualified specialists;
- high potential for cooperation with scientific and research centers;
- business incubators for start-up projects.

Technology and innovation SEZ are located in major Russian scientific centers with high scientific and technical potential. Examples of technology-innovative SEZ are: Moscow, “Zelenograd”; Moscow Region, “Dubna”; Saint Petersburg; Tomsk region, “Tomsk”; Republic of Tatarstan, “Innopolis”.

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<sup>8</sup> <http://economy.gov.ru/minec/activity/sections/sez/main/zone01/>

Industrial production SEZs are located in the most economically developed regions of Russia. They are characterized by the predominance of industrial enterprises, as well as an extensive transport infrastructure, rich natural resources and skilled labor. Examples of industrial-production SEZ: Astrakhan; Vladivostok; Lipetsk region, “Lipetsk”; Republic of Tatarstan, “Alabuga”; Samara region, “Togliatti”; Sverdlovsk region, “Titanium Valley”; Pskov region, “Moglino”; Kaluga region, “Kaluga”.

Tourism and recreation zones are located in the most picturesque regions with the possibilities for the development of the beach, recreation, adventure travel, ecotourism, extreme sports. Examples of tourism and recreation zones are the Republic of Altai, “Altai Valley”; the Republic of Buryatia, “Baikal harbor”; Altai region, “Turquoise Katun”; Stavropol Territory, “Grand Spa Yutsa”; Irkutsk region, “Gate of Baikal”; Primorsky territory, “Russky Island”; Tourist cluster in North Caucasian Federal District, Krasnodar Territory and the Republic of Adygea.

Port special economic zones are located in close proximity to global maritime trade routes and air corridors: Ulyanovsk region, “Ulyanovsk-Vostochny”; Khabarovsk territory, “Sovetskaya Gavan”; Murmansk region.

### **1.3. Specifics of organizing a business abroad**

In foreign countries, entrepreneurship is the basis for economic development as well. To organize a business abroad, first, it is necessary to examine the legal system of the country where you are going to expand your operations. It is necessary to distinguish between the features of business organization for residents and non-residents of the country.

Business management strategy for non-residents should be based on these points:

- Government loyalty to foreign entrepreneurs;
- the share of the company’s authorized capital that a foreigner may own;
- tax exemptions for non-residents;
- state support.

Let us consider the characteristics of the types of businesses in different countries. Annexes 1–5 present the specifics of the various types of business in the countries such as the USA, Slovakia, Australia, Singapore, and the South Africa.

In addition to these foreign countries, there are areas with special conditions for doing business.

Offshore zone is a country or a part thereof, where under certain conditions it is possible to not pay the taxes<sup>9</sup>. Also, it is not obligatory to prepare quarterly accounts. The offshore area is usually characterized by a number of privileges, including the following: a varied tax regimes, financial development, economic stability, etc. Experienced entrepreneurs always pay special attention to its selection, taking into account all the above factors. To register a company, one should choose the most favorable conditions for cooperation.

Classification of offshore zones:

1) the classic offshore zone (zero taxation). In this case the company is obliged to pay an annual fee to the State, but it does not charge the tax and does not require financial statements. This type includes the following areas: the Cayman Islands, Nevis, Belize, the Seychelles, Panama.

2) the state with a territorial basis of taxation. In this case, the profits are taxed which are obtained in the course of transactions with sources located in that jurisdiction. Due to such system, it is possible to export goods, on the one hand, and there is an inflow of investments – on the other hand. The list of countries include Costa Rica, Malaysia, Brazil, Morocco, the United Arab Emirates, Algeria.

3) the countries which provide exemptions for some activities. For example, when generating a profit from real estate in the territory outside the offshore zones (Denmark, Lithuania, Hungary, Bulgaria, Poland, Switzerland, Slovakia).

4) the territory where there is no need for certain group entities to pay taxes to the state. The low level of taxation. In this case, the government sets the tax rates which are quite low to develop the country from

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<sup>9</sup> <http://fb.ru/article/67984/chto-predstavlyaet-soboy-offshornaya-zona>

an economic point of view and to attract foreign investment (Estonia, Switzerland, Montenegro, Ireland, Portugal).

Comparison of small and medium-sized enterprises (SMEs) in Russia and in some European countries as of 2014 is shown in Table 4.

*Table 4*

**Key indicators of the SME sector in Russia and abroad, 2014<sup>10</sup>**

Countries of European Union								
	Russia	Germany	France	Italy	Great Britain	Poland	Netherlands	Estonia
Number of SMEs, mln.	3,2	1,9	2,6	3,8	1,7	1,6	0,6	0,05
Employment in SMEs, mln.people	19	13,6	8,8	12,3	9,8	5,9	3,6	0,3
Revenue, tln.euro								
Revenue of the SME sector	0,8	2,2	1,9	1,9	2,2	0,5	0,8	0,02

Table 4 shows that the revenue of SME sector in Russia is comparable to the revenue of SMEs in the Netherlands, the number of SMEs in the Netherlands being less than 5 times. In Russia the number of SMEs can be compared with Italy, but sector revenue of SMEs in Italy is twice higher than in Russia.

**1.4. Business planning in business**

Currently there are no specific techniques to develop a business plan; however, the overall structure of the business plan, according to UNIDO standards<sup>11</sup>, should adhere to the following basic parameters.

<sup>10</sup> <https://www.scienceforum.ru/2016/pdf/22505.pdf>

<sup>11</sup> <http://www.unido.org/>

A standard business plan includes sections:

### *Summary*

Summary is an independent advertising document as it contains all the basic provisions of the business-plan. This is the only part that the majority of potential investors will read. The investor wants, first of all, to know the following information: loan amount, loan purpose, the expected maturity, guarantees, other investors in the project, the volume of the own funds.

### *Description of enterprise and industry*

This section describes:

- general information on the enterprise;
- financial and economic performance of the enterprise;
- management and personnel structure;
- business area, products, achievements and prospects;
- sector of the economy and its prospects;
- partnerships and social activity.

### *Description of goods (services)*

In this section, you have to give the definition and description of the types of products or services that will be offered on the market. You should point out some aspects of the technology needed for the production of your products or services.

It is important that this part was written in clear, concise language understandable to the layman, without using jargon.

You have to describe the basic characteristics of your products, at the same time, emphasizing the benefits that your product has for potential buyers.

It is important that you emphasize the uniqueness of your product or service: a new technology, product quality, low cost, or some special advantage that satisfies customers' needs. It is also imperative that you stressed the possibility of improving these products (services).

Describe your existing patents or copyrights on inventions or give other reasons that could prevent the competitors' penetration in your market. These may be the exclusive distribution rights or trademarks.

### *Marketing and sales of products (services)*

The marketing plan is needed, so that potential customers have become real.

This plan must show why customers will buy your products or use your services. You need to think about and explain the basic elements of your marketing plan to potential partners or investors: pricing, distribution scheme of goods, advertising, sales promotion methods, organization of after-sales support, image. If you do not have special training, you should read books on marketing, consult a specialist.

### *Production plan*

This section should describe all production and other business processes that take place in your company. Here you have to consider all issues related to premises, their location, equipment, and personnel. The same attention should be paid to the planned involvement of subcontractors.

You should briefly explain how to organize production output (services) and how to control production processes.

You should also pay attention to the location of production facilities and equipment placement. Finally, this section should reflect the issues related to the timing of deliveries, the number of major suppliers and how quickly the output can be increased or reduced.

### *The organizational plan*

This section explains how managing group is organized and describes the primary role of each member. It shows the project management team and leading experts, legal support, the actual or potential support and benefits, organizational structure and schedule of the project.

This section should tell about your partners, their abilities and experience. You should highlight the support mechanism and motivation of top leaders, show how you are going to make them interested in the achievement of business plan objectives. Therefore, you have to define clearly how they will be paid for their work (e.g. salaries, bonuses, share in profits).

### *Financial plan*

The purpose of this section is to show the main points in the financial data. This section provides standards for financial and economic calculations, direct (variable) and fixed costs for production, the cost of production, the estimate for the project costs, the need and the sources of financing, and table of costs and revenues, the flow of real money (cash flow), the forecast balance is calculated.

The business plan provided by the working group must disclose items and content of subsidized expenditures (investment spending) for the organization of business.

*The appeal and effectiveness of the project*

The section indicates the appeal and significance of the project, the effectiveness indicators of project implementation, an analysis of sensitivity.

The effectiveness of the investment project is characterized by a system of indicators that reflect the balance of costs and outcomes.

The basic indicators of economic efficiency of investment projects include, firstly, the net profit.

Secondly, cash flow (CF), calculated as the sum of net profit (+) all non cash income of the project (-), all non-monetary costs of the project. A simplified version of CF calculation involves the addition of net income and depreciation.

Third, return on investment (simple rate of return):

$$ROI = \frac{P_r}{I} \times 100\% \quad (1)$$

where  $P_r$  is the net profit from the project for a year;

$I$  – the amount of the investment costs for the project;

Economically, a simple rate of return is to assess which part of the investment costs is reimbursed (returned) in the form of profit during a time fence.

Fourth, the payback period:

$$PP = \frac{I}{P} \quad (2)$$

where  $P$  – the average annual net cash flow from the investment project.

Fifth, the net present value of the project (NPV) is a value of net cash flow during the life of the project, reconciled in accordance with the time factor:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+i)^t} - I_0 \quad (3)$$

where CF – the amount of cash generated by the project in period t,  
i – the discount rate (as a rule – the weighted average cost of capital);  
n – the duration of the project operation, years;  
I<sub>0</sub> – the initial investment costs.

If the investment costs are undertaken in a number of years, NPV formula takes the following form:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+i)^t} - \sum_{t=0}^n \frac{I_t}{(1+j)^t} \quad (4)$$

where I<sub>t</sub> – investment costs in period t

If NPV > 0 – adoption of the project is appropriate; NPV < 0 – the project should be rejected. When considering several options of the project, it is better to choose the one with the higher NPV.

Sixth, the profitability index of investment (profitability index) (PI) is calculated by dividing the cash inflow for the entire period of the project by cash outflow from investing activities. The more profitability index is greater than 1, the more profitable the project is.

$$PI = \sum_{t=1}^n \frac{CF_t}{(1+i)^t} / \sum_{t=0}^n \frac{I_t}{(1+j)^t} \quad (5)$$

Seventh, Internal Rate of Return (IRR) corresponds to the discount rate of discounted cash flow, which is zero, is determined from the equation:

$$0 = \sum_{t=1}^n \frac{CF_t}{(1+IRR)^t} - \sum_{t=0}^n \frac{I_t}{(1+j)^t} \quad (6)$$

If the IRR is greater than the weighted average cost of capital for a particular project, then the project can be recommended to implement.

### *Risks and guarantees*

This section shows business risks and possible force majeure, providing the guarantee of a refund to investors and partners.

Investment business plan (business plan of the investment project) itself is not a 100% guarantee on getting the borrowing because the bank lends an investment project, not the document it describes. The investment

business plan (as preliminary information) discloses in detail only issues which are interesting for the bank (or investor): the financial plan, qualitative risk analysis, calculation of project profitability, its integrated indices. No bank that has self-respect to itself and its clients will not accept a project for consideration if the borrower's documents do not include business plan in compliance with the standards of the Russian credit organizations. The structure of investment business plans and their development techniques differ depending on the types of investments and many other factors, but not too dramatically.

Very often, the content and the importance of the business plan (as the main document of the investment project) are not understood quite right. There are two views dominating on this matter: technical (it is believed that a business plan is a document which explains in detail how to produce certain products), and financial (or accounting) view: business plan is a financial instrument in which the main thing is a detailed and accurate calculation of basic financial and economic indicators. In fact, the business plan, in the first place, is a marketing and administrative document, and in general it is a complex study and justification of a particular business project.

*Control questions and tasks for self-study:*

1. What is the essence and value of the authorized capital in business?
2. Give the significant differences in the organization of business in Russia and in foreign countries.
3. What is the responsibility for illegal business operations?
4. Franchising as a tool to set up the business.
5. What are the advantages of doing business in the special economic zone?
6. Types of entrepreneurial activity.
7. Match the organizational and legal forms of business activity with possible tax systems. For example, can a corporation choose UAT?

## 2. PRACTICAL ASPECTS OF BUSINESS

### 2.1. Asset management in business

Starting the business, as a rule, requires a certain amount of money that the future owner can spend to acquire necessary property, equipment and other assets required for a particular activity.

In accordance with Article 132 of the Civil Code, “enterprise as a subject of rights is recognized as assets used for business purposes. Generally, the enterprise as asset is recognized as real estate”.

Sources of formation of entrepreneur’s assets can be distinguished into own, raised and borrowed. Raised funds include the funds received from the placement of shares, donations and other uncompensated receipts. Borrowed funds represent funds received in the form of credits<sup>12</sup> (from banks) and loans (loans from other businesses or funds received from the placement of debt securities (bonds and bills)).

Company assets consist of:

- capital (non-current) stock;
- tangible and intangible assets.

The composition and structure of company’s assets may depend on the chosen legal form of organization, sphere of activity. For example, a travel agency that sells vacation packages does not require owning buildings, equipment, while a car manufacturer needs plants, equipment, etc.

The results of intellectual activity and equated to it means of identification of legal entities, goods, works, services and businesses that are provided with legal protection (intellectual property, intangible assets) are as follows<sup>13</sup>:

- 1) works of science, literature and art;
- 2) software;
- 3) database;
- 4) performances;

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<sup>12</sup> Ramazanov A.V. To the question of the essence of bank credit. // Scientific review. – 2013. – № 1. – p. 273–276.

<sup>13</sup> Article 1225 civil Code of RF (part 4).

- 5) phonograms;
- 6) communication of radio or television over the air or cable (broadcasting or cable organizations);
- 7) inventions;
- 8) utility models;
- 9) industrial designs;
- 10) selection achievements;
- 11) integrated circuit layout;
- 12) trade secrets (know-how);
- 13) brand names;
- 14) trademarks and service marks;
- 15) appellations of origin;
- 16) commercial designations.

Under the Constitution, the following forms of ownership are recognized in Russia:

- private;
- state;
- municipal;
- other forms.

Ownership entities for the company's property may be individuals, legal entities, government (federal or subjects of the Federation) and municipalities. Companies whose property is owned by individuals or legal entities are private enterprises.

Property of the state unitary enterprises and municipal enterprises is owned either by the Russian Federation or the subjects of the Federation, or municipalities. The rights of owners comply with the relevant state and municipal governments (ministries, committees, territorial administration). *State unitary enterprise* is an enterprise that is not subject to privatization (the defense industry, nuclear energy, etc.). *The municipal enterprises* are public utilities, housing repairs, the local industry. State-owned and municipal enterprises are granted the right of economic management and the right of operational management, i.e. limited corporeal rights (Art. 113 of the Civil Code). The state-owned enterprise that is endowed

with only the right of operative management of property is called a *fiscal enterprise*. These are usually companies:

- producing goods that are allowed to produce only by state-owned enterprises;
- manufacturing products, over 50% of which the state acquires;
- cannot be privatized.

From the balance sheet, which is a component of tax reporting when using the general tax system, you can see the structure of the sources of formation of assets of an enterprise and its assets. The balance sheet consists of two parts: assets and liabilities. The essence of balance is that the results of the asset and liabilities of the balance are equal.

An exemplary diagram of the balance sheet is as follows:

*Table 5*

**An exemplary diagram of the balance sheet**

<b>assets</b>	<b>liabilities</b>
<p>I. Fixed assets</p> <ul style="list-style-type: none"> <li>- buildings and constructions;</li> <li>- movable property;</li> <li>- equipment;</li> <li>- non-current loan receivable;</li> <li>- financial fixed assets</li> </ul> <p>II. current assets</p> <ul style="list-style-type: none"> <li>- materials and supplies;</li> <li>- finished products and supplies;</li> <li>- cash in hand and on the accounts;</li> <li>- short-term receivables;</li> <li>- short-term investments</li> </ul>	<p>III. Capital and reserves</p> <ul style="list-style-type: none"> <li>- authorized capital;</li> <li>- reserve capital;</li> <li>- extra capital;</li> <li>- undistributed profits</li> </ul> <p>IV. Long-term borrowings</p> <p>V. Short-term borrowings</p>
Assets total	Liabilities total

Table 5 shows that liabilities in the balance sheet reflect the sources of the company’s assets and the assets – the composition and structure of the property. The third section of the liabilities in the balance sheet is made up of own formation funds of the company’s property.

The general tax system requires the income statement that demonstrates the profit or loss in the activity of the entrepreneur. Simplified income statement can be presented as follows:

*Table 6*

**A simplified version of income statement, thousand rubles**

Line item	The figure in the accounting period	The figure in the prior period
Revenue		
Cost price		
Gross profit (loss)		
Selling and marketing expenses		
Management expenses		
Profit (loss) on sales		
Other income		
Other expenses		
Pre-tax profit (loss)		
Current income tax		
Net income (loss)		

The effectiveness of the assets use in business can be calculated using profitability ratio:

$$R = \text{Net income (or other income from the income statement)} / \text{expenses (either component of the balance sheet)}, \quad (7)$$

where R is profitability

Types of profitability:

A) Return on equity = Net profit / Total of section III of the Balance sheet; (8)

B) the profitability of current assets = Net income / Total of Section II of the Balance sheet; (9)

C) total margin = Net profit / Total assets (or liabilities); (10)

D), etc.

Profitability can be shown numerically or as a percentage, for example, the numerical value of 0.20 for the return on equity would mean that

for every invested 1 ruble of its own funds, the company received 20 kopecks of net income (or by investing 100 rubles you get 120 rubles). If the value of the return is shown as a percentage, for example 20 %, we can see the efficiency of a company's own funds as a percentage.

## **2.2. State regulation and support of business**

By its content, state support of small business can be grouped as follows:

1) legislative – creating the legal and organizational conditions for business growth of small enterprises;

2) financial – development of credit and financial tools and introduction of financial technology which is aimed at the evolution of the small business sector;

3) administrative and organizational (approval of registration, licensing and certification procedures – expanding the range of small businesses and individuals seeking to do business);

4) information – information-analytical monitoring of the state of small business in Russia, and on this basis elaborating the governmental policies for business development;

5) property;

6) consulting – dissemination of the experience with organizational, financial and other technologies to ensure the development conditions for small businesses;

7) human resources (training and retraining) – training of highly qualified personnel for small business;

8) goods – promoting the products of small businesses to the regional and inter-regional market, access to the e-commerce market;

9) productive and technical – development of small businesses in the areas of innovation and production.

In the Russian Federation, various bodies have an impact on business. This include the activities of the Ministry of Economic Development, the Ministry of Industry and Trade of the Russian Federation, the Central Bank of the Russian Federation, and others. The immediate protection of business entities is exercised by the Business ombudsman under the

President of the Russian Federation to protect the rights of entrepreneurs, the need for this position is dictated by the fact that often the subjects of entrepreneurial activity are not able to independently resolve the situation related to the violation of their rights and legitimate interests, particularly in cases where there are administrative barriers, bureaucratic pressure, cases of corruption on the part of public authorities and their officials.

For the first time the position of the Business ombudsman was established by presidential decree of June 22, 2012 № 879 “On the Business ombudsman of the President of the Russian Federation to protect the rights of entrepreneurs”. In order to secure the legal status of the Business ombudsman and detailed regulation of his activities, the Russian Ministry of Economic Development developed the Federal Law of May 7, 2013 № 78-FZ “On Business ombudsmen to protect the rights of entrepreneurs in the Russian Federation”, it was subsequently passed by the State Duma and signed by the President of the Russian Federation. It entered into force on 8 May 2013.

The structure of the Institute of Business ombudsmen is presented in Annex 6.

Federal programs to support small and medium-sized businesses in Russia are presented in Annex 7<sup>14</sup>.

In EU, almost all small and medium-sized businesses are members of a trade association or union, whose existence is fully regulated by numerous legal norms, including those that govern the financial support of small and medium sectors of the economy<sup>15</sup>. Financial support is comprehensive and includes grants and concessional loans for the purchase of equipment, promotion of export and innovation industries. In the European Union to provide financial support, the broadest powers are vested with the Ministry of industry and governments in the region, venture capital funds are actively used, they provide financial sources for 5 to 10 years. On average, incentives (tax perks, loan guarantees, export credit insurance) obtained by small and medium-sized businesses in the European Union are

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<sup>14</sup> <http://smb.gov.ru/measuresupport/programs/celved/>

<sup>15</sup> Puryzhova L.V., Klochko S.N. Features of financing small and medium business // Issues of Economics and Management. – 2016. – № 2. – pp. 64–67.

sufficient to cover 50% of the investment required for enterprises in this sector, in the case of export credit insurance benefits cover more than 90% of their value. At the same time lending to small and medium-sized businesses is less declarative than in Russia; many banks set interest rates for businesses on an individual basis, with the possibility of individual repayment plan that takes into account the seasonality of production. In the US, support for small and medium-sized businesses means the tools of venture capital financing, direct subsidies from the budgets and comprehensive assistance in obtaining credit and the provision of loan guarantees which are provided by the US Small Business Administration SBA loans guarantee program implies a guarantee of repayment of 90% of the loan by the government. There is a separate program of financial assistance to small and medium-sized businesses in the event of an emergency. Enterprises that are not appropriate for some criteria to bank requirements to extend credit, SBA operates a separate program. SBA pays close attention to the modernization of existing small businesses, support for small high-tech enterprises. Despite the fact that the Federal Law “On developing small and medium scale entrepreneurship in the Russian Federation” assigns a special role in supporting to regional and municipal authorities, in Russia there is not an effective system to ensure funds for small and medium-sized businesses with financial resources. In the US SBA branches operate much more efficiently, with an extensive network of regional offices.

### **2.3. Problems in doing business**

Low security remains the main problem of doing business in Russia. According to 2015 survey, Russian legislation does not provide sufficient safeguards to protect the business against unwarranted prosecution, criminal manifestations or raiding (first of all, on the part of officials)<sup>16</sup>. The prosecution is rather often (about 64% of respondents) used as an instrument of redistribution of property. According to entrepreneurs, anti-corruption measures are ineffective. Corruption remains an important factor in increasing costs for the majority of SMEs (Figure 1).

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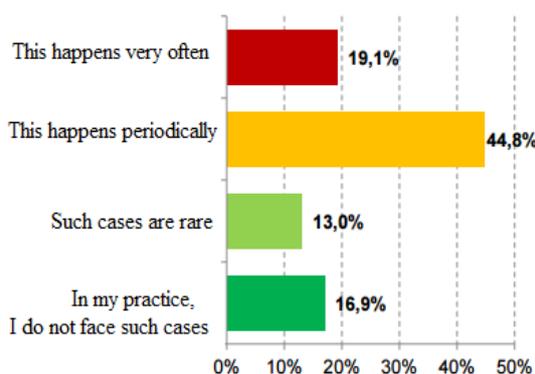
<sup>16</sup> [http://expert.ru/data/public/499741/499785/dir-polnaya-versiya-19\\_10\\_15.pdf](http://expert.ru/data/public/499741/499785/dir-polnaya-versiya-19_10_15.pdf)

Annex 8 identifies characteristics of strong pressure on business in Russia.

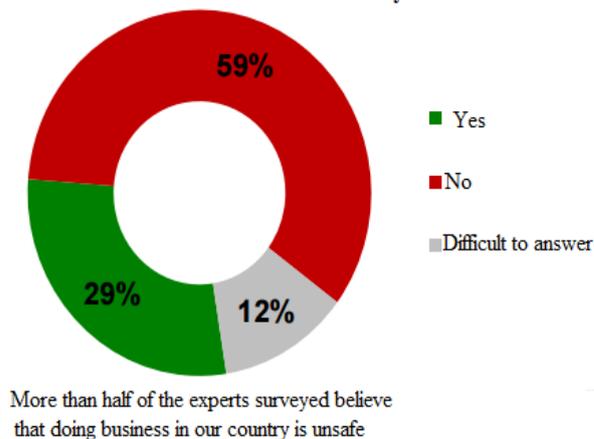
Other problems are an increase of the administrative burden on business, lowering the business climate in the country, high tax burden, and others.

The total tax rate in Russia at the end of 2013 was 48.9 % that is significantly higher than the average rate of tax payments in the world – 40.9 %. The value was obtained by adding three effective rates – for income tax (8.4 %), taxes on labor or on wages (35.4 %) and other taxes (5.1 %). In terms of tax burden Russia ranks 49th of 189: the tax burden is among the highest – taxes reduce profitability by more than 2 times. The main burden falls on direct taxes, including charges on the payroll. Income tax accounts for 17 % of the total tax rate, insurance premiums – 72 % (Annex 9).

How often is criminal prosecution used as an instrument for the redistribution of property in our country?



Is it safe to do business in our country?



**Fig. 1. Survey results of 600 experts from amongst lawyers, the prosecutor’s office of the Russian Federation, public associations and entrepreneurs who have been prosecuted, the data for 2015**

Existing problems one way or another lead to losses for individual entrepreneurs. The share of unprofitable enterprises in the Russian Federation did not change in 2015 compared to 2014 and totaled 28.1 %<sup>17</sup>.

In 2015, according to the Statistical Office data, the net financial result (profit minus loss) of organizations amounted to 8.4 trillion rubles in

<sup>17</sup> Small and medium business in Russia. 2015: Stat.sb./M 19 Rosstat. – M., 2015. – 96 p.

current prices. The cumulative profit of 11.25 trillion rubles was received by 39.6 thousand organizations, 2.8 trillion rubles losses were incurred by 15.4 thousand organizations. These calculations do not account for a small business, banks, insurance companies and public institutions.

According to the results of 2015, the share of unprofitable mining enterprises decreased to 35.2 % from 36.9 % in per year terms, fossil fuels enterprises – reduced to 34.6 % from 38.5 %. Among manufacturing industries losses were incurred by 26.6 % organizations against 28.2 % a year earlier. The share of unprofitable organizations in the field of power generation, gas and water generation and distribution increased by 0.2 percentage points – to 49.2 %.

In the retail trade, repair of motor vehicles, motorcycles, household goods and personal items 19.6 % of the companies suffered losses against 19.9 % a year earlier. Among the organizations involved in real estate, renting and business services, a loss was 28.4 % against 26.2 % a year earlier.

In agriculture, hunting and forestry by the end of 2015 the share of unprofitable enterprises decreased to 18.7 % from 21.2 % a year earlier. In the construction, unprofitable companies made 25.6 % against 22.9 % for the same period last year.

## **2.4. Innovation in business activities**

Innovation means the use of innovations in the form of new technologies, types of products and services, new forms of organization of production and labor, maintenance and management. The concepts of “novelty”, “novation”, “innovation” are often equal, although there are differences between them.

Novelty is understood as a new order, a new method, an invention, a new phenomenon. The phrase “novation” literally means the process of using novelty. From the moment of acceptance to its diffusion, novelty acquires a new quality and becomes an innovation. The time between the appearance of novelty and its becoming innovation is called the innovation lag.

In accordance with international standards, innovation is defined as the end result of innovation, translated into a new or improved product in-

troduced on the market, a new or improved technological process used in practice, or a new approach to social services.

According to Article 16.1 of Federal Law No. 127-FZ of August 23, 1996 “On Science and State Science and Technology Policy”, “ the state support of innovation activity is a set of measures taken by government bodies of the Russian Federation and state authorities of the subjects of the Russian Federation in accordance with the legislation of the Russian Federation and the legislation of the constituent entities of the Russian Federation in order to create the necessary legal, economic and organizational conditions, as well as incentives for legal entities and individuals carrying out innovative activities.

The state support of innovation activity is based on the following principles:

- program approach and measurability of goals in the planning and implementation of government support measures;

- availability of state support at all stages of innovation, including for small and medium-sized businesses;

- priority development of innovative infrastructure;

- disclosure of state support for innovation through informing about measures of the state support for innovation in the information and telecommunications network “Internet”;

- priority of further development of innovation results;

- protection of private interests and the encouragement of private initiative;

- priority use of market-based instruments and public-private partnership tools to stimulate innovation;

- ensuring the effectiveness of state support for innovation activities for the purposes of socio-economic development of the Russian Federation and the subjects of the Russian Federation;

- proper use of budgetary funds for state support of innovation activities”.

The expanded classification of the development stages of an innovative company (that is especially typical for venture projects in the field

of information systems and information technology, software and IT services)<sup>18</sup>:

1. *Pre STARTUP* stage

1) *pre-seed stage* – there is a business idea that the market and consumers need, but there is no clear idea of how it should be implemented technically, and how it should be developed to make it profitable, no business plan as well. The zero stage of venture financing is connected with the origin of the idea and with the costs for its initial development. Typically, these costs are small and are covered by the inventor or entrepreneur, who came up with this idea.

The initial costs are related more to the time spent for thinking about the idea, on its analysis, on calculations, on drawing up sketches. One of the most important resources in the innovative business is the entrepreneur's personal time. After analyzing creative idea or discussing it with assistants, the entrepreneur makes a decision about its implementation. To prove the possibility of realizing the idea and determining the main characteristics of an innovative object, they move to the first stage of innovation development;

2) *seed stage* – the stage of pre-start financing. At this stage, research work is carried out, usually by small teams of scientists and engineers. The main goal of the work is to justify the practical and commercial significance of the innovation idea, the creation of a laboratory sample of the product, technology or service. Here the main management personnel of the enterprise is formed and initial marketing research is conducted. The main investors at this stage of financing are, as a rule, business angels. The degree of risk is high.

At this stage, it is necessary to identify and critically evaluate, based on alternative solutions, all commercial, technical, financial, economic, environmental prerequisites. The criterion for such estimates is the benefit;

3) *prototype* – creating a technical design specification and designing functionality;

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<sup>18</sup> Borisova L.M. Innovative entrepreneurship: a tutorial / L.M. Borisova, E.A. Taran, E.A. Titenko; Tomsk Polytechnic University. – Tomsk: Publishing house of Tomsk Polytechnic University, 2013. – 235 p. – pp. 69–73.

4) *working prototype* – creating a project or product with the most common functionality;

5) alpha version of the project or product (*alpha*) – the project or product is created, but not yet tested;

6) closed beta version of the project or product (*private beta*) – the project or product is already in a form close to how the founders of the startup see it, the first few users of the project appear;

7) public beta version of the project or product (*public beta*) – attracting new users begins, full contracts with the first customers are signed.

2. *STARTUP* stage (*start-up financing stage*) – launching the project or product. The company has recently been formed, has test patterns, tries to organize the production and entry into the market, the team is being created, competition is being analyzed, the first customers are being sought and attracted in the market, the transition from the prototype to the functioning product is being carried out.

At this stage investments are used to develop production on a commercial scale and organize sales of products. Investors are business angels and some venture companies. The level of risk is still very high. At this stage, most investors are afraid to invest in venture projects.

1) *launch or early startup stage*;

2) *startup stage*;

3) *late startup stage* – work with the first clients.

3. *Post STARTUP* stage

1) *early stage, early growth* – the company produces and sells finished products, although it does not yet have a steady profit, there is an increase in the number of clients, funds are being sought for the development of the company, personnel is being staffed. This is the stage of initial expansion (early expansion), which requires significant funds needed to acquire assets. At this stage, part of the innovative equipment is put into operation, and it comes on line. Advertising is developing, marketing networks are being created. At the initial expansion stage, the sales profit does not yet cover current investment costs, the risks are high enough, and therefore, the work is still financed by venture investors. This stage is “break-even point” (BEP).

2) *expansion stage* – the company occupies certain positions in the market, it becomes profitable, it needs to expand production and marketing, to conduct additional marketing research, to increase capital assets and capital. At the expansion stage, the product is reoriented to the mass user and sales grow exponentially. The work to expand the business, started at the previous stage, continues. Business starts to bring profit, the degree of risk decreases. Capital is spent to expand the company (buildings, facilities, equipment, machinery, etc.), which increases the volume of sales and, accordingly, the profit.

3) “intermediate” stage (mezzanine). Sometimes, before the “exit”, an intermediate “mezzanine” stage is identified, when additional investments are attracted to improve the company’s short-term performance, which entails a general increase in its capitalization. At the mezzanine stage investors invest in the company, expecting a quick return on investment.

4) *exit stage* – the development stage of an innovative company, when a public company is established, the investor’s share is sold to another strategic investor (M & A), initial placement in the stock market (IPO) or management buy-out (MBO – The investor’s share is acquired by the managers of the invested company at an investor-friendly price) happens. As a rule, the “exit” stage is the point of exit of venture investors.

Sale at the “exit” stage occurs at prices much higher than the initial investment, which allows investors to record significant amounts of profit.

5) *pre-IPO stage* (when exiting through IPO) – the stage of investing in the share capital prior to the implementation of the initial public offer of shares.

6) *IPO (Initial Public Offering on the exchange)*.

At the *early growth* and *expansion* stages, there is more and more information about the end product, the risk of investment is significantly reduced, the potential profitability of the business project becomes more evident, the number of those who want to invest in the project is increasing, among them there are strategic investors aimed at gaining control over the enterprise, profitability of investments reduces, but it is still high.

At the *mezzanine* and *exit* stages, the technology has already been developed and tested on the market – the venture company is mass produc-

ing new goods. There is a great chance of a merger, acquisition or buy-out of a venture company by one of the strategic investors. But even if this does not happen, the venture company still ceases to be as such, it reorganizes into an open joint-stock company, the status of the enterprise changes from a high-risk one to a stable functioning and growing one.

The total duration of the cycle of an innovative company from “sowing” to “exit” takes 5-10 years.

According to statistics, in 91% of cases, venture projects die in the “death valley” due to the low level of business training of the team and weak management, and only in 9% of cases – due to errors in R&D.

A venture company is created to solve a specific task, and after the completion of this work, it is either disbanded and ceases its activity, or it is absorbed by a large firm (often one of the founders), or independently on favorable commercial conditions and the apparent competitiveness of the created product enters the market and by selling commercial invention strengthens its financial position, creates its own production and organizes commercial operations on the basis of improved innovations. In this case, the former venture company organizes the production of small lots of products, sells them profitably, fulfills its obligations to investors and through the sale of licenses earns the necessary funds to deploy its own production.

Overseas, support for innovation activities is usually carried out in accordance with national medium- and long-term strategies for the development of science, technology and innovation, which establish priority directions, volumes and mechanisms for public financing of this sphere. In particular, the USA, Japan, Germany, Great Britain, China, Brazil and India have the developed strategies, that is, countries that either are recognized leaders in the field of innovation, or actively claim this role (Annex 10)<sup>19</sup>.

The main emphasis in the programs of the leading countries is currently being done in the following areas:

– further increase of public investment in research and development in priority sectors;

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<sup>19</sup> Eroshkin A.M. Mechanisms of state financial support of innovations abroad // Finance and credit. – 2011. – No. 24 (456). – p. 63

- increasing the economic returns from the budgetary funds invested, including by stimulating domestic demand for high-tech products;
- adoption of comprehensive measures to stimulate the innovative activity of private business, especially of small and medium-sized enterprises.

In addition, all countries pay special attention to training qualified scientific and engineering personnel – the main productive force in the innovation economy, providing for a significant increase in budget allocations for these purposes in the coming years.

In the world practice, the following main forms of tax support for companies implementing R&D (Annex 11) are used:

- tax credits representing a deferral for payment of certain types of taxes for a certain period which can last several years;
- accelerated depreciation of equipment, computers and other fixed assets purchased for the implementation of innovative projects;
- surcharge coefficients (on average – 1.5) to current R&D expenditures, which allow to reduce the base for calculating the corporate profit tax;
- tax exemption, which enables companies not to pay or pay a smaller amount of individual taxes, mostly social ones.

The issue of evaluating the innovation performance requires an analysis of its current state as well as development trends in this area. The analysis also takes into account key indicators – the principles of Lisbon and Barcelona Strategy. The multicriterial evaluation concentrates its attention to the development of the conditions for the transition to the knowledge-based economy which is becoming the epicentre of the competitiveness. The evaluation of innovation performance is based on the analysis of 25 indicators which are divided into 5 groups (Pro Inno Europe, 2008)<sup>20</sup>.

The first three groups include innovation inputs and the last two groups of indicators include innovation outputs:

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<sup>20</sup> Hečková, J. Multicriterial evaluation of innovation performance of Slovak Republic and member states of European Union. In: Kotulič, R. (ed.): Zborník vedeckých prác katedry ekonómie a ekonomiky ANNO 2008, Prešov : Prešovská univerzita v Prešove, 2008. ISBN 978-80-8068-798-4. p. 144–155.

1. *innovation drivers* (5 indicators), which measure the structural conditions required for innovation potential,

2. *knowledge creation* (4 indicators), which measure the investments in research and development (R&D) activities which are considered to be key determinants for the development of knowledge-based economy

3. *innovations and entrepreneurship* (6 indicators), which measure the efforts focused on the innovations of companies, small and middle businesses, own and co-operational, expenses on R&D, risk capital/GDP,

4. *applications* (5 indicators), which measure innovation performance, expressed through business activities and the share of the employed people and their added value in innovative sectors,

5. *intellectual property* (5 indicators), which measure the results achieved in the form of successful know-how as patents (EU, USA), brands, new design.

The following table (Table 7) presents 5 main categories (groups) and within them 25 indicators with a respective data and information source for each indicator.

*Table 7*

**Indicators of innovation inputs  
and outputs of European innovation scoreboard**

<b>European innovation scoreboard</b>	
<b>I. Input – Innovation drivers</b>	Data source
1. The share of university graduates per 1000 population aged 20–29	Eurostat
2. The share of postgraduates per 100 population aged 25-64	Eurostat, OECD
3. Broadband penetration rate (number of broadband lines per 100 population)	Eurostat
4. Participation in life-long learning per 100 population aged 25-64	Eurostat
5. Youth education attainment level (% of population aged 20-24 having completed at least upper secondary education)	Eurostat

<b>II. Input – Knowledge creation</b>	
1. Public R&D expenditures (% of GDP)	Eurostat, OECD
2. Business R&D expenditures (% of GDP)	Eurostat, OECD
3. Share of medium-high-tech and high-tech R&D (% of manufacturing R&D expenditures)	Eurostat, OECD
4. Share of enterprises receiving public funding for innovation	Eurostat
<b>III. Input – Innovation and entrepreneurship</b>	
1. SMEs innovating in-house (% of all SMEs)	Eurostat
2. Innovative SMEs co-operating with others (% of all SMEs)	Eurostat
3. Innovation expenditures (% of total turnover)	Eurostat
4. Early-stage venture capital (% of GDP)	Eurostat
5. IT expenditures (% of GDP)	Eurostat
6. SMEs using organisational innovation (% of all SMEs)	Eurostat
<b>I. Output – Applications</b>	
1. Employment in high-tech services (% of total workforce)	Eurostat
2. Exports of high technology products as a share of total exports	Eurostat
3. Sales of new-to-market products (% of total turnover)	Eurostat
4. Sales of new-to-firm products (% of total turnover)	Eurostat
5. Employment in medium-high and high-tech manufacturing (% of total workforce)	Eurostat
<b>II. Output – Intellectual property</b>	
1. Number of patents (EU) per million population	Eurostat
2. Number of patents (USA) per million population	Eurostat, OECD
3. Patents per million population	Eurostat, OECD
4. New trademarks per million population	OHIM*
5. New community designs per million population	OHIM

Source: Pro Inno Europe: European Innovation Scoreboard, 2006

\* / OHIM – Office for Harmonization in the Internal Market (Trade Marks and Designs)

By multicriterial evaluation of the innovation performance of the EU countries, the European Commission evaluates and also compares the application of Barcelona and Lisbon strategy. A long-term sustainable competitive ability of an economy can only be achieved by a strategy based on innovation comparative advantages.<sup>21</sup> There are several authors who share a similar opinion which is shown in a number of interesting and valuable scientific studies (Adamišín<sup>22</sup>, 2008; Dubravská and Širá<sup>23</sup>, 2014; Rajnoha et al.<sup>24</sup>, 2016; Širá et al.<sup>25</sup>, 2016).

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<sup>21</sup>Hečková, J., Chapčáková, A. Competitiveness of the Branch Structure of Slovak Manufacturing Industry in 1998-2008. In: *Ekonomicky casopis*, vol. 59, no. 1, 2011, p. 59–78. ISSN 0013-3035.

<sup>22</sup>Adamišín, P. Macroeconomic Coherences of Regional Development in the Slovak Republic. In: Jedlička P (ed.): *Hradecké ekonomické dny 2008: Current Problems of Regional Development*, Gaudeamus, Hradec Kralove: Gaudeamus, 2008, p. 7–11. ISBN 978-80-7041-190-2.

<sup>23</sup>Dubravská, M., Širá, E. The analysis of the chosen indicators of the innovative environment development in the Slovak republic and in the Czech republic. In: Klimova, V., Zitek, V. (ed.): *17th International Colloquium on Regional Sciences (JUN 18–20, 2014)*. Brno : Masarykova univerzita, 2014, p. 194–200. ISBN 978-80-210-6840-7.

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## Characteristics of various organizational and legal forms of business in the USA

Type of business	Features of organizational and legal form
Sole proprietorship	<p>Sole proprietorship is a basic organizational and legal form of business in the United States. The founder owns the company solely and is fully responsible for the company's assets and liabilities. Costs are minimal, registration costs are limited to obtaining the necessary licenses or permits (the list depends on the industry and state). A sole trader pays income tax, a tax as a self-employed person, imputed tax, social security and Medicare taxes, unemployment benefit tax and excise tax (if required).</p>
Partnership	<p>In partnership, two or more people are expected to participate in the company's capital. Each partner contributes to all aspects of the business with money, property, labor or skills. In turn, each partner expects to receive a share of revenues or incur a share of losses from business activities. Most often, partnership brings together highly qualified specialists in law and financial services, medicine, etc.</p> <p>In the US, there are several different types of partnerships that depend on agreement and partnership responsibility:</p> <p>Partnership with unlimited liability (General Partnerships). Profits, liabilities and managerial responsibilities are divided equally among partners.</p> <p>Limited Partnerships. Partners are responsible for the obligations of the partnership only within the limits of their contribution. Such partnerships are the most attractive for investors of short-term projects.</p> <p>Joint Venture. Joint ventures act as partnerships, but only for a limited period of time or for a single project.</p> <p>Partnerships are required to file an annual income tax return, reporting on taxes held by the employer from the salaries of employees (social security taxes and Medicare, as well as withholding taxes from wages, taxes on unemployment benefits).</p>

<p>Corporation</p>	<p>Corporation is a more complex structure and, as a rule, suitable for larger, solid companies with a large staff of employees. The Corporation is an independent legal entity owned by shareholders. This means that the corporation itself, and not the shareholders, is legally responsible for the actions and debts of the enterprise.</p> <p>Corporations are obliged to pay federal, state, and, in some cases, local taxes. Most businesses must register with the IRS, state and local tax authorities, and obtain a tax identification number or permit. The income received by the corporation is taxed at the time of its generation, and then the dividends distributed between the shareholders are taxed at the time of their distribution.</p>
<p>Limited Liability Company, LLC</p>	<p>The limited liability company is the most effective in terms of doing business in the United States. The number of members is unlimited – they can be individuals, corporations, other limited companies and foreign organizations. Owners of LLC limit their personal responsibility for debts and actions. All limited liability companies must submit tax returns as corporations, partnerships or private entrepreneurs. With a company, co-owned by non-residents and which does not operate in the US, no taxes are levied.</p> <p>The list of taxes payable and the tax rate in the US depend on the state in which the company is registered. Taxes are mainly divided into federal, local (in a given state) and industry (for example, the game business is additionally taxed). On average, American companies pay 11 taxes and deductions. The profit tax is 27.9%, the payroll tax and payments are 9.9%.</p>

## Characteristics of various organizational and legal forms of business in Slovakia<sup>26</sup>

Sole trader (živnostník)	<p>A sole trader or individual entrepreneur is an individual with the permission to do business. This form of business is very common in Slovakia. It is most often used, for example, in construction, wellness industry, or in any other small business.</p>
Join-stock company (akciová spoločnosť)	<p>The Slovak Commercial Code divides joint-stock companies into open (verejné) and closed (súkromné), there is a single contraction a.s. – akciová spoločnosť.</p> <p>The minimum amount of the authorized capital is 25,000 euro, and it is divided into a certain number of shares – shares with an established nominal value. The market value of shares can often differ from the nominal value.</p> <p>All shares must be registered.</p> <p>Joint-stock companies are used, except when required by law, most often in cases where it is assumed that the number of owners will be over 50 or in industries demanding initial capital.</p>
Limited company (spoločnosť s ručením obmedzeným)	<p>Limited company, in Slovakia the abbreviation SRO is used, is the most common business company.</p> <p>The minimum amount of the authorized capital is 5,000 euro, and the minimum share of the company participant must be at least 750 euro. The authorized capital must be paid to the corporate bank account before registering the company in the commercial register. From January 1, 2016 the authorized capital of the newly opened company is 5,000 euro and it is only declared! The maximum number of participants is 50 people, in case if more quantity is needed, it is better to register a legal entity in the form of a joint-stock company.</p>

<sup>26</sup> <http://slovakiainvest.ru/Default.aspx?id=11>

### **Characteristics of various organizational and legal forms of business in Singapore<sup>27</sup>**

Private company	<p>A private company may have fewer than 50 shareholders. It can be registered by one director and one shareholder, and they can do without the appointment of professional qualified secretaries.</p> <p>A private company will be called an exempt private company if it has no more than 20 shareholders and none of these shares is owned by another company. An exempt private company whose annual income is no more than 5 million Singapore dollars is exempt from checking its accounts.</p>
Public company	<p>A public company is a company that has more than 50 shareholders.</p> <p>The company must be registered (or transformed from a private company) as a public company if it intends to attract capital by offering shares and debentures. A public company must register an offering memorandum with the Singapore Currency and Exchange Control Service before offering shares and debentures.</p>
Partnership	<p>A partnership is a commercial company, whose owners, at least, are 2 (limited to 20) partners (individual entrepreneurs or companies). This is not a legal entity and it cannot act as a plaintiff and cannot be sued in its own name, nor can it own and retain any property. The partners bear personal responsibility for debts and damages, including losses incurred through the fault of another partner.</p>
Representation in Singapore	<p>Foreign companies can organize representative offices for conducting limited entrepreneurial activities, such as marketing research and feasibility studies. Since a representative office is registered for a certain period, i.e. after passing a certain time, it is necessary to register again, this form is not suitable for foreign companies that want to carry out long-term operations in Singapore.</p>
Trusts	<p>A trust is an agreement where one party (trustee) retains ownership in favor of others (beneficiaries). The agreement to establish a trust can be used for public or for personal purposes.</p>

<sup>27</sup> <http://www.wipfli.com/Resources/Images/31986.pdf>

## Characteristics of various organizational and legal forms of business in Australia<sup>28</sup>

Sole Trader	<p>This type of business structure is the easiest to establish. The entrepreneur has unlimited liability for all debts and obligations of business<sup>29</sup>. He can conduct business using a company name or his own name. Entire income of the entrepreneur is included in his personal income.</p>
Branch of a foreign company	<p>Corporation Act 2001; Competition and Consumer Act 2010</p>
Funds (trusts)	<p>In Australia, two types of trade trusts are widespread: discretionary trust and trust share fund.</p> <p>Discretionary trust is mainly used for family business.</p> <p>Trust share funds are reminiscent of the company in its structure and are widely used for the purpose of making transactions with land; this form of business organization allows to optimize tax payments and hide the recipient of profit. However, for the purposes of state regulation, this information is disclosed to Foreign Investment Review Board.</p>
Companies	<p>Types of companies:</p> <ul style="list-style-type: none"> <li>– Proprietary Company and Public Limited Company,</li> <li>– Company Limited by Guarantees,</li> <li>– a company with unlimited liability,</li> <li>– Mining company “without liability” (no liability company).</li> </ul> <p>When establishing an OJSC, the minimum requirement is to have at least three directors on the board of directors and at least one legal representative of the company. Two directors and one legal representative of the company must be citizens of Australia. In this case, one person can be both a director and a legal representative of the company.</p>

<sup>28</sup> [http://www.ved.gov.ru/exportcountries/ru/ru\\_market/ru\\_pract\\_access/](http://www.ved.gov.ru/exportcountries/ru/ru_market/ru_pract_access/)

<sup>29</sup> <http://ubr.ua/business-practice/own-business/biznes-za-rubejom-kak-otkryt-kompaniu-v-avstralii-318694>

	<p>At the same time, the Law does not determine the minimum amount of authorized capital for the formation of a foreign subsidiary.</p> <p>In Australia, all income of resident companies is subject to a federal tax at a fixed rate of 30%<sup>30</sup>. As for taxes, the income of foreign companies is subject to the same 30% tax as resident companies. However, some types of income (interest return, dividends, royalties and managed funds) are subject to special tax deductions (withholding tax). Thus, the basic amount of such tax deductions for interest return is 10%, for dividends and royalties – 30%, and for managed funds – from 30% to 22.5%, depending on the country of origin of the foreign company.</p>
Joint venture	<p>Foreign companies are allowed to participate in joint ventures with Australian companies for commercial purposes. This business organization allows you to carry out commercial activities in Australia, avoiding the formation of a subsidiary company or registration as a “foreign company”.</p> <p>Joint ventures are often formed when there is a need to implement a specific project and there is no interest in long-term business. Typically, such companies are common for the mining sector.</p> <p>Joint ventures are subject to the regulations of Australia’s general and contractual law.</p>
Partnership	<p>Partnerships are more common in such areas as law, consulting and financial and audit services. Partnerships are the legal consolidation of relations between participants, and their activities are governed by the laws of the states of Australia, including the provisions of general, contractual, agency and other laws and norms.</p> <p>This type of business structure is the simplest to establish and can be created both in written and oral agreements. Another advantage of this type of business structure is that the participants in such a partnership are not required to disclose their accounts and each independently pays taxes from his revenues.</p>

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<sup>30</sup> <https://www.ato.gov.au/>

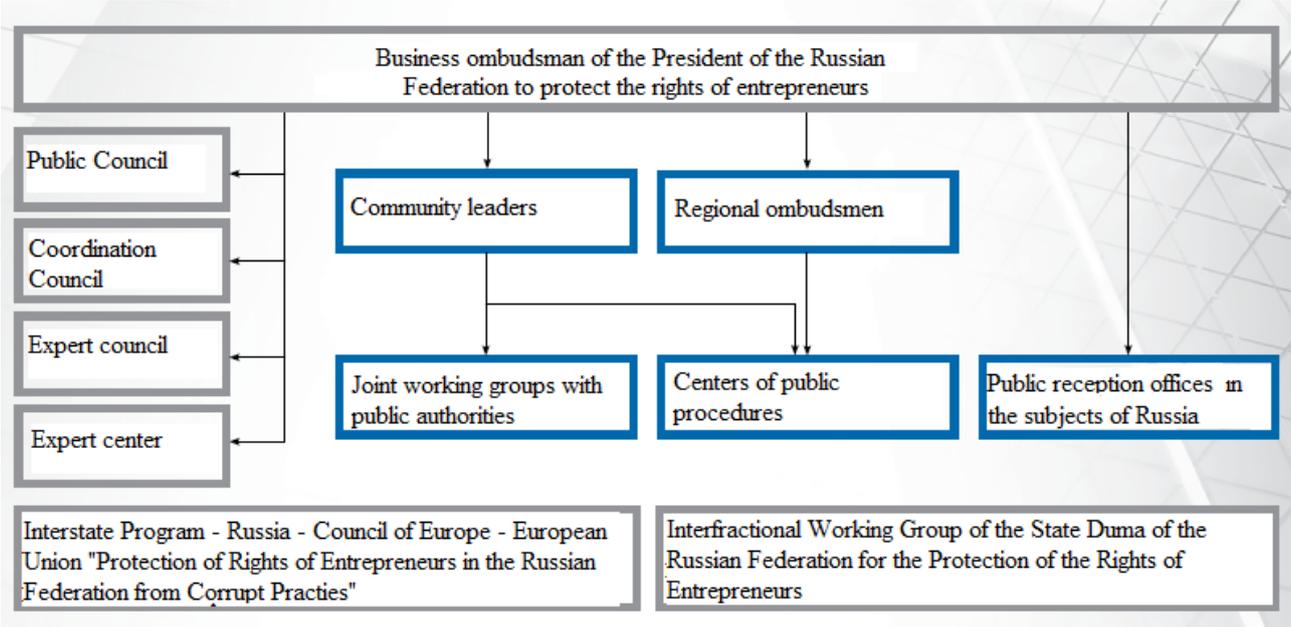
**Characteristics of various organizational  
and legal forms of business in Republic of South Africa<sup>31</sup>**

Joint-stock company	<p>The company is registered in the Central Register of Companies of South Africa and in the Chamber of Commerce of South Africa.</p>
Private company	<p>The time for consideration of documents is up to six months.</p> <p>There are extensive programs to support companies by the Government of South Africa: There are several such programs:</p> <p>Automotive Investment Scheme of South Africa (AIS); Critical Infrastructure Program (CIP); Small Medium Size Enterprise Development Programs (SMEDP); Program to support innovative industries (SPII); Tourism support program (TSP).</p>

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<sup>31</sup> <http://btimes.ru/business/biznes-v-yuar>

### The structure of the Ombudsmen Institution



## Federal programs to support small and medium-sized businesses

The state body	Features of the support provided
The Ministry for Economic Development of Russia	<p>Since 2005, the Ministry for Economic Development of Russia has been implementing a special program to provide subsidies from the federal budget to the budgets of the constituent entities of the Russian Federation in order to provide state support to small and medium-sized businesses at the regional level.</p> <p>Within the framework of the program, the funds are distributed among the regions on a competitive basis to implement activities envisaged by the regional programs for the development of small and medium-sized businesses, provided that the regions co-finance the program. In addition to federal budget funds, this approach allows to attract financial resources from the regions, as well as to stimulate regions to pursue more active policies in the field of business support.</p>
Joint-stock company “Corporation “SME”	<p>Solution of the following tasks:</p> <ul style="list-style-type: none"> <li>• financial, infrastructural, property, legal, methodological and other support to small and medium-sized businesses;</li> <li>• attracting funds from Russian, foreign and international organizations to support small and medium-sized businesses;</li> <li>• organizing information, marketing, financial and legal support for investment projects implemented by small and medium-sized businesses;</li> <li>• organizing measures aimed at increasing the share of purchases of goods, works, services of certain types of legal entities from small and medium-sized businesses;</li> <li>• ensuring interaction with government authorities of the Russian Federation, local governments, other bodies and organizations in order to support small and medium-sized businesses;</li> <li>• ensuring the improvement of measures of state support for small and medium-sized businesses.</li> </ul>
Joint-stock company “SME Bank”	<p>The main objectives of the Bank in the field of supporting small and medium-sized businesses are:</p> <ul style="list-style-type: none"> <li>• ensuring equal opportunities for small and medium-sized businesses to access affordable and long-term financial resources throughout the Russian Federation, including in regions with complex socioeconomic situations and single-industry cities;</li> </ul>

	<ul style="list-style-type: none"> <li>• providing the widest possible range of forms and methods of supporting small and medium-sized businesses through partner banks and various types of infrastructure organizations;</li> <li>• ensuring the availability of credit resources for priority segments that are particularly in need of support: the production sector, modernization, innovative and resource-saving, socially and regionally significant projects.</li> </ul>
<p>Fund for Assistance to Small Innovative Enterprises in Science and Technology</p>	<p>The main tasks of the Fund are:</p> <ul style="list-style-type: none"> <li>• to implement the state policy of development and support of small enterprises in scientific and technical sphere;</li> <li>• to provide direct financial, informational and other assistance to small innovative enterprises that implement projects to develop new types of science-intensive products and technologies based on intellectual property owned by these enterprises;</li> <li>• to create and develop an infrastructure for supporting small innovative entrepreneurship;</li> <li>• to assist creating new jobs for effective use of scientific and technical potential available in the Russian Federation;</li> <li>• to attract extra-budgetary investments in the sphere of small innovative entrepreneurship;</li> <li>• to train personnel (including the involvement of young people in innovation activities).</li> </ul>
<p>Ministry of Agriculture of Russia</p>	<p>Implemented support measures include the following:</p> <p><b>Support for first-time farmers</b></p> <p>Grants are provided to heads of peasant (farm) economies – citizens of the Russian Federation on a competitive basis. The head of a peasant (farm) economy whose activity on the date of filing the application from the date of registration of the farm does not exceed two years is recognized as the first-time farmer.</p> <p><b>Development of family livestock farms on the basis of peasant (farm) economies</b></p> <p>A grant for the development of a family livestock farm (subsidies to peasant (farmer) farms that operate more than 12 months) can be obtained on a competitive basis if: the head and members of the farm are citizens of the Russian Federation (at least two) who are related and co-operating based on their personal participation.</p> <p><b>State support of small business loans</b></p> <p>State support for small business loans is provided through the provision of subsidies from the federal budget to the budgets of the constituent entities of the Russian Federation to recover part of the costs of paying interest on bank loans, and</p>

loans received in agricultural consumer credit cooperatives by peasant (farm) economies, citizens who own personal subsidiary plots, agricultural consumer cooperatives (except credit cooperatives).

Loans and loans attracted by peasant farms are subsidized under loan agreements for up to 8 years, up to 5 years, and for up to 2 years.

Subsidies are provided to recipients in the amount of 2/3 of the refinancing rate of the Central Bank of the Russian Federation at the expense of the federal budget and at least 1/3 is provided from the budget of the subject of the Russian Federation. Thus, the state compensates not less than 100% of the refinancing rate of loans for small businesses.

**Registration of land plots in the ownership of peasant (farm) economy**

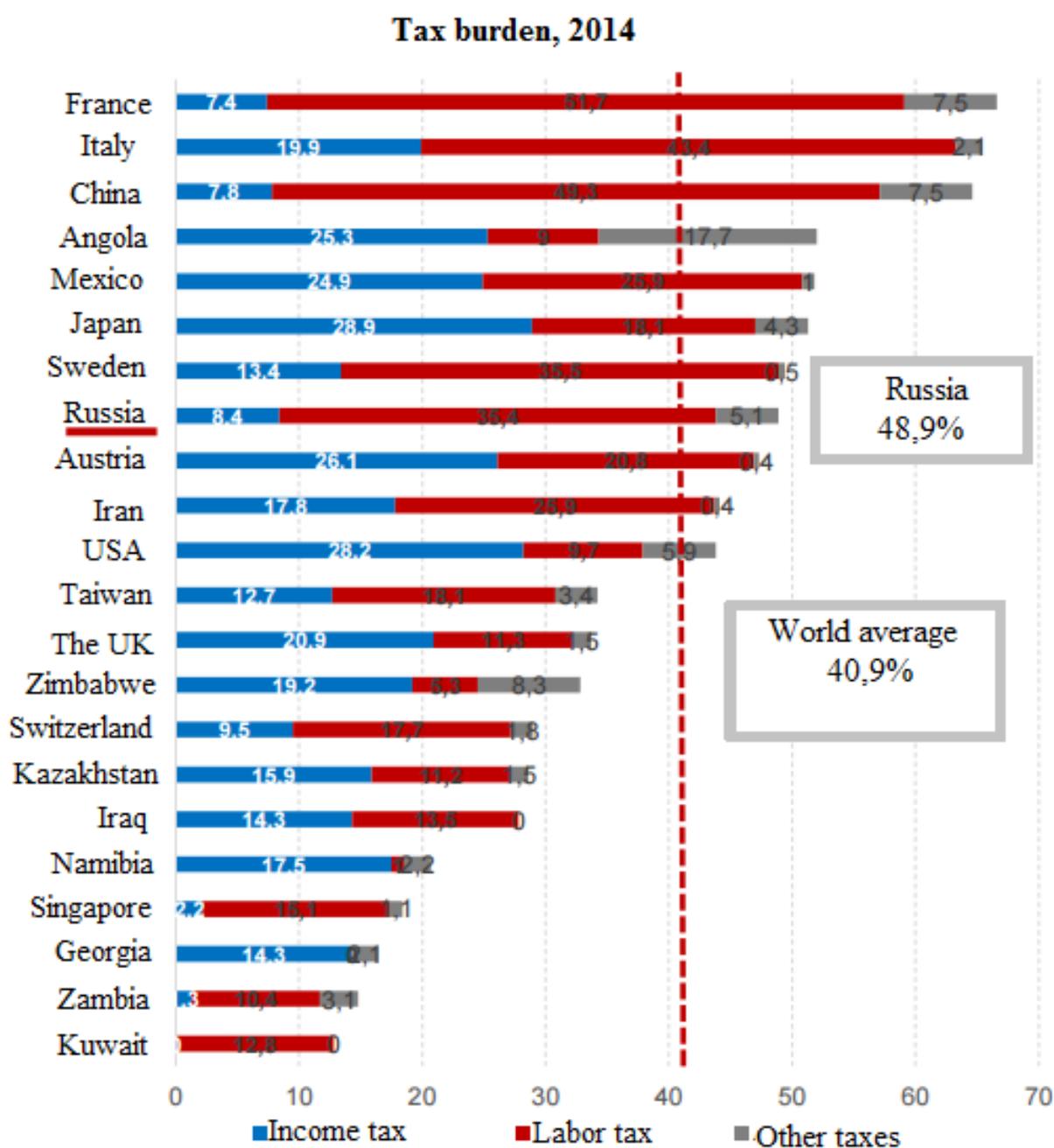
The program provides for measures to compensate for the costs of peasant (farm) economies in the case of the registration of land plots from agricultural land, presented to the farmer on the right of permanent (unlimited duration) use and lifetime inheritable possession, as well as land allocated as land shares.

### The number of crimes registered for certain economic items

Article of the Criminal Code of the Russian Federation	The number of crimes registered by law enforcement agencies	Number of criminal cases taken to court	The share of criminal cases that did not come to trial
Total for economic crime components	212 312 (including suits commenced – 192 334)	46 578	78%
separately for Article 159-159.6 of the Criminal Code	160 214 (including suits commenced – 140 776)	31 538	80%
of which under Article 159.4 Fraud in the field of business	3 454	585	83%
Articles 198-199 Evasion of taxes and (or) fees payment on an individual and on an organization	2 397 (including suits commenced – 1 775)	636	73%
<p>&gt; Mass commencement of criminal cases within special components of “fraud” – Article 159.1 – 159.6 of the Criminal Code. Under article 159.4 in 2014, 3454 crimes were registered, which is 17% (496 crimes) more than in 2013.</p>			
<p>&gt; The number of criminal cases under articles 180 “Illegal use of means of individualization of goods (works, services)” continues to increase (the number of convicted persons increased 1.5 times from 91 to 152 in 2012), 194 “Evasion from payment of customs duties levied on organization or individual (the number of convicts has increased from 12 to 85 in 2012).</p>			
<p>&gt; Almost every second criminal case on non-payment of taxes is closed</p>			
<p>&gt; Only less than a quarter of the criminal cases under Article 159 “Fraud” is taken to court.</p>			

Source: Power pressure on business in Russia<sup>32</sup>

<sup>32</sup> [http://expert.ru/data/public/499741/499785/dir-polnaya-versiya-19\\_10\\_15.pdf](http://expert.ru/data/public/499741/499785/dir-polnaya-versiya-19_10_15.pdf)



Paying taxes 2014: The global picture, PricewaterhouseCoopers

<sup>33</sup> [http://expert.ru/data/public/499741/499785/dir-polnaya-versiya-19\\_10\\_15.pdf](http://expert.ru/data/public/499741/499785/dir-polnaya-versiya-19_10_15.pdf)

**National programs for the development of science  
and technology of leading foreign countries**

<b>Country</b>	<b>Program</b>	<b>Period of duration</b>	<b>Main goals</b>
The USA	American Competitiveness Initiative	from 2006	Expanding public expenditure on research and development (R&D) and training of scientific and engineering personnel, stimulation of business investment in innovations, including by expanding the practice of granting tax credits
Germany	High-tech Strategy	2006–2009	In 2006-2009 allocating up to 12 billion euros of budgetary funds to finance R&D in 17 priority sectors, development of public-private partnership mechanisms in the innovation sector, support of young researchers
Great Britain	Science and Innovation Investment Framework	2004–2014	Increasing the effectiveness of public investments in R&D, stimulating business investment in innovation, increasing expenses on training scientific and engineering personnel
Japan	A Long-Term Strategic Guideline: Innovation 25	2007–2025	Increased investments in R&D and training of personnel, widespread introduction of innovations in the social sphere
Finland	Science, Technology, Innovation	2007–2011	Increase in national expenditure on R&D to 4% of GDP, increase of benefits from research, including through their commercialization, increased investment in human capital

China	Medium – and Long-term National Plan for Science and Technology Development	2006–2020	Changing the growth model of China’s economy from investment to innovation, including by increasing spending on R&D and turning the country into a leading innovation power
Brasil	Action Plan for Science, Technology and Innovation for National Development	2007–2010	Stimulation of business investments in R&D, overcoming the fragmentation of the national innovation system by defining priority objectives and programs for the development of innovations

**Tax support mechanisms for R&D used by leading foreign countries<sup>34</sup>**

Country	Types of tax support mechanisms
The USA	Annual tax credit in the amount of 20% of the increment of certain types of expenditure on R&D, provided that they exceed the level of the base period by at least 1.5 times
Japan	Annual tax credit of 10% of current and capital expenditure on R&D. An additional tax credit in the amount of 5% of the increase in expenditure on R&D as compared to their average volume in the preceding three years
Great Britain	Increasing factor for writing off current expenses for R&D to reduce the tax base for corporation tax in the amount of 1.75 for small and medium enterprises and 1.3 for large companies. Allocating the costs of equipment acquisition to expenses used for R&D in the same year as they were incurred. Cash compensation in the amount of 24% of R&D expenditures for small and medium-sized companies, which received a negative financial result for the year
France	An annual tax credit of 30% of R&D cost from the first 100 million euros of invested funds, 5% – from the rest of the amount. For companies applying for a tax credit for the first time, its value in the first year will be 50% of R&D cost from the first 100 million euros, in the second – 40%. Cash payment instead of a tax credit for small and medium-sized companies that failed to use it due to weak financial results. Exemption from social taxes for employees of small and medium-sized businesses, which spent more than half of the time on R&D
Italy	A tax credit of 40% of R&D expenditure, but no more than 50 million euro for the company
Spain	A tax credit of 25% of current expenditure on R&D and 8 % of capital expenditure. Reduction of corporate tax of up to 40% on the amount of social tax paid for workers employed in R&D

<sup>34</sup> Eroshkin A.M. Mechanisms of state financial support of innovations abroad // Finance and credit. – 2011. – No. 24 (456). – p.65

China	<p>Increasing coefficient 1.5 for writing off current expenses for R&amp;D to reduce the taxable base for income tax.</p> <p>One-off write-off for costs of equipment acquisition of certain types used for R&amp;D, if its value is less than 300 thousand Yuan.</p> <p>Accelerated depreciation of equipment purchased for R&amp;D if its value exceeds 300 thousand yuan.</p> <p>The cancellation of import duties on certain types of equipment purchased by universities and research centers for R&amp;D</p>
India	<p>Increasing coefficient 1.5 for writing off current expenses for R&amp;D to reduce the taxable base for income tax</p>
Brazil	<p>Increasing factor 1.6 for writing off current expenses for R&amp;D to reduce the tax base for corporation tax. The coefficient can be increased to 1.8 with a significant number of workers engaged in R&amp;D</p>
Mexico	<p>A tax credit or monetary compensation in the event of a negative financial result of 30% of the expenditure on R&amp;D.</p> <p>Including the costs for the acquisition and protection of intellectual property rights in R&amp;D costs</p>

*Educational publication*

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**The study guide**

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