

USE OF PRESUMPTIVE TAXATION IN FACILITATING SMALL BUSINESS TAX COMPLIANCE

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The actuality of this article is determined by the necessity of implementing fiscal simplicity for increasing tax compliance through fiscal education of small business representatives. In many developing and transition countries, micro and small enterprises are the most rapidly growing business segment. Tax compliance attitude within this sector varies significantly because high conformation costs and difficult formalization procedures can determine many small enterprises to operate in the informal economy. Thus tax regulation of small enterprises is crucial in the process of small entrepreneurs fiscal education and tax simplification of SMEs in many countries becomes one of the most efficient instruments. The main research methods were systemic analysis and logic synthesis. The main results obtained in article, as a result of research, are identification, analysis and systematization of foreign countries' practices in implementing presumptive tax design and elaboration of some recommendations on fiscal simplicity.

Keywords: *Tax Card System, patent tax, the fixed-rate tax of low tax-bracket, small business tax, micro-entreprise tax, presumptive taxation, simplified tax regime, turnover, lump-sum patents.*

Actualitatea prezentului articol este determinată de necesitatea implementării simplificării fiscale, în scopul majorării conformării fiscale prin educarea reprezentanților micului business. În multe țări în curs de dezvoltare și tranziție întreprinderile mici și mijlocii constituie un sector cu un ritm cel mai rapid de creștere. Atitudinea fiscală de conformare a reprezentanților acestui segment al economiei variază enorm, deoarece costurile prea mari de conformare, precum și procedurile dificile de formalizare îi pot determina să activeze într-o economie neformală. Scopul acestui studiu este sistematizarea unor practici ale țărilor străine în implementarea regimurilor fiscale prezumtive (simplificate) și analiza abordărilor selectate de diferite autorități fiscale pentru reducerea poverii fiscale și costurilor de conformare pentru întreprinderile problematice. Metodele principale de cercetare au fost analiza sistemică și sinteza logică. Principalele rezultate obținute în articol, urmare a cercetării, sunt identificarea, analiza și sistematizarea practicilor țărilor străine în implementarea designului fiscal presumpțiv și elaborarea unor recomandări privind simplificarea fiscală.

Cuvinte cheie: *Sistemul "Card fiscal", taxa patentară, impozit KIVA, impozit pentru businessul mic, impozit pe veniturile microîntreprinderilor, impozitare prezumtivă, regim fiscal simplificat, sumă patentară fixă.*

Актуальность статьи определяется необходимостью осуществления налогового упрощения, в целях повышения соблюдения налогового законодательства путем информирования представителей малого бизнеса. Во многих развивающихся странах и странах с переходной экономикой, микро- и малые предприятия являются наиболее быстро растущим сегментом бизнеса. Налоговое отношение соответствия в этом секторе значительно варьируется, так как соблюдение требований налогового законодательства предполагают высокие затраты, а также сложные формальные процедуры могут спровоцировать миграцию многих малых предприятий в неформальный сектор экономики. Таким образом, налоговое регулирование малых предприятий имеет решающее значение в процессе фискального образования малых предпринимателей, а налоговое упрощение малого и среднего бизнеса во многих странах становится одним из наиболее эффективных инструментов. Основная цель статьи – исследование опыта некоторых стран во внедрении вмененного (упрощенного) налогового режима и анализ некоторых подходов, выбранные

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различными налоговыми органами для снижения налогового бремени и издержек соблюдения закона проблемными компаниями. Основные методы исследования, системный анализ и синтез логики. Основные результаты, полученные в статье – идентификация, анализ и систематизация практики зарубежных стран внедрения дизайна вмененной налоговой политики и разработка некоторых рекомендаций по налоговой симплификации.

Ключевые слова: Система «Налоговая карточка», патентный налог, налог KIVA, налог для малого бизнеса, налог для микро предприятий, вмененное налогообложение, упрощенный режим налогообложения, оборот, единовременные патентные выплаты.

JEL Classification: E62, H24, H25.

Introduction. Presumptive Taxation is a concept according to which the income tax is based on „average” income instead of actual income. Presumptive taxation involves the usage of indirect instruments to estimate tax liability, which is realized in a different manner in comparison with the usual rules that are based on the taxpayer's accounts. The term „presumptive” indicates that there is a legal presumption that the taxpayer's income will be not lower than the amount resulting from application of the indirect method.

Developing an environment that would lead to SME growth and guarantee at the same time tax compliance by business operators is a challenge for all tax authorities and in this way, fiscal simplification becomes an efficient instrument in the process of small entrepreneurs tax education for their migration from informal to formal sector in near future.

Presumptive systems of taxation: general concept and principles of implementation

There are used a variety of approaches in international practice in applying presumptive (simplified) taxation for SMEs, but *the general idea is that the desired tax base is not measured itself, but is calculated based on some indicators like turnover, assets, location, etc., and not on the base of declared net income, which is more easily measured than the base itself.*

Motivation of using simplified system of taxation by tax authorities falls in two groups:

1. Simplified processing of tax returns and simple procedure of bookkeeping;
2. Improved tax compliance, reduced tax avoidance and a more correct taxation within the SMEs

sector.

There is no exactly the same experience with the construction and implementation of presumptive systems, as there are no general approaches. Different types of presumptive methods can have several incentive effects, as well as revenue effects, levels of system's complexity and administrative implications. Nevertheless, there can be summarized some general principles in their functioning:

First principle states that the application of presumptive systems should be limited to small business sector, as business operators face difficulties in keeping own books and records. This way presumptive taxation becomes an efficient instrument for reducing the SMEs compliance burden with standard requirements of recordkeeping.

The second principle lays in the general scope followed by the Government, which should not consist in generation of additional budget revenues, but familiarization of small companies or individual merchants with legal accounting requirements and bringing informal business into tax net in near future. At the same time, there should be excluded the possibilities of abusing the system by larger enterprises. Combating tax avoidance or evasion will work only if the indicators on which the presumption is based are more difficult to hide than those forming the basis for accounting records.

The third principle states that presumptive systems should not act as a disincentive for business growth and should be coordinated with the standard tax regime. There could be chosen different approaches for segments of SME sector, nevertheless a detailed analysis to adequately estimate profit potential of business operators is required.

The fourth principle states that presumptive methods can lead to a more equitable distribution of tax burden, because normal accounting methods can be unreliable due to problems of taxpayer compliance and administrative corruption.

In a considerable way, these presumptive (simplified) regimes were recommended by international financial organizations, including the IMF and the World Bank in the process of policy recommendations within technical assistance programs in transition economies. The main motives lay in the fight against corruption and underground economy, as well as simplification of tax administration for the improvement

of business environment. Thus, USAID has supported an initiative proposed by the Federation of Business Circles of Kyrgyzstan to implement the patent system of taxation and expand it to a broader circle of business operators. Similarly, in Ukraine USAID considers presumptive taxation as an instrument to facilitate the transfers of revenues from the shadow economy [10]. In Republic of Moldova, according to the Letter of Intent of the Government of Moldova of November 30, 2000, in the context of the Government's request for financial support from the IMF, first premises of a simplified tax system are created, through the commitment to analyse the implementation of small business license fees (patents).

For transition countries aiming to adhere to European Union, the EU Commission recommends to improve and simplify the business environment for business start-ups through the elements of a presumptive system, for example, through introduction of some limits, reduced monitoring and reporting requirements in order to reduce the tax burden and compliance costs for SMEs.

On the other hand, several opinions pointed to the risks of presumptive systems. Thus, a fixed tax is considered too complicated, while for certain regions (for example, Ukraine) the design of a presumptive system of taxation is too generous, which is not justified for current economic situation.

The extent to which presumptive systems are used varies largely from country to country. Some countries do not use presumptive taxes (USA), while others use this type of taxation in an extensive way (France).

Presumptive methods can be rebuttable or irrebuttable in terms of legal characteristics. *Within rebuttable methods*, administrative approaches on taxpayer's income may not be included in the statute. If the taxpayer does not agree with the reached result, he can prove that his actual income that is calculated according to normal tax accounting rules is less than the one calculated within presumptive method. On the contrary, irrebuttable presumptive calculation should be specified in the company's statute and precisely specified.

The appropriate design of presumptive system will depend on the particular problems the Government desires to solve. That is why, it is necessary to estimate *what types of taxpayers form the source to problems under normal rules for determining the tax base and the nature of those problems*. In some cases, presumptive taxation may not be a good solution. For example, if a particular group of taxpayers is not able to comply with the actual tax system, it should be excluded from it. Generally, there are three groups of taxpayers who present the source of problems against which the presumptive methods are directed:

- Small business and professionals;
- Individuals who operate economic activity;
- Large companies.

Therefore, *before a certain presumptive method is recommended to be designed in a particular country, it is necessary to determine what types of taxpayers or business sector face problems or cannot comply with the existent legal standard tax policy*.

Presumptive systems can be divided into three large groups according to indicators used for calculation of tax burden:

1. Lump-sum taxes (patents);
2. Taxes based on indicators of income capacity (turnover or gross income indicators);
3. Taxes based on indicators.

Also, taxes can be based on agreement with the taxpayer, those that are rebuttable, and those that will allow the taxpayer to choose between the presumptive tax and the standard tax. At the same time, a presumptive tax can fix the minimum tax liability, or can provide a tax ceiling as a maximum tax. Different countries may opt for several schemes of taxation, by combining various elements of the above mentioned types of taxes. For example, lump-sum patents can be divided according to business sectors, products, or rendered services and can set multiple rates within the industry based on location of the activity, size of business or sales volume.

Further in this article, there will be examined the first two types of taxes used in practice of some selected countries.

I. Lump-sum taxes (patents) and micro-enterprise tax regimes

The lump-sum tax is the easiest form of presumptive taxation. It was widely implemented in transition countries like Hungary, Poland, the Czech Republic, Slovakia, Latvia, as well as former Soviet republics, including Republic of Moldova. Within this regime, groups are divided by economic activity or profession, and the tax liability is set according to the average income potential of the respective group.

Patent sums are determined by local governments, while national tax laws provide the basic structure for the regime and determine minimum and maximum patent rates.

The task of setting tax level by administration is not easy, as if not set at the proper level, it can discourage start-up entrepreneurs to go formal into standard taxation in future. Also, if designed incorrectly, there will be created the premises of over-taxing less profitable companies.

On the other hand, as potential advantages generated by patent systems, there can be mentioned [6]:

- Predictability and transparency of tax burden for business operator;
- Business growth stimulation;
- No estimation of potential business revenues is required.

The design of patent regimes varies considerably in international practice. In some countries, patent systems are simple, being limited just in fixing one single amount for all micro businesses, irrespective of business type and location. In other countries it is practiced the elaboration of a detailed list of micro business activities and the determination of individual patent fees for each activity. A typical example of such a regime is developed in Bulgaria, where there are specified 40 different categories of activity, with the specification of minimum and maximum sums for indicators [8]. Local governments determine the applicable amount for businesses in their territory, considering at the same time the precise location of the business, its economic importance, population density in the area in which the business has been established and the seasonal or permanent nature of the activity carried out [6].

The Bulgarian patent tax does not allow to choose between it and standard income taxation, being unconditionally listed the groups of taxpayers that are liable under legislation. The obligation refers to both legal persons and individuals who perform economic activity and whose activity is in the list of patent tax, and whose gross income is less than the specified threshold – 50000 BGN [6, 8]. Persons that are eligible of paying the patent tax are any individual, including sole traders¹, providing that they are not registered under the VAT Act and are not levied under the procedure of the new Personal Income Tax Act.

Setting different rates impose a serious task for tax administration, as they should reflect current situation of business sector and should be constantly updated. Usually, in transition economies tax decentralization is not implemented and the Ministry of Finance doesn't possess enough tax specialists to control on local level business operators and the correctitude of declared income.

Elaboration of detailed lists of activities that are covered by patent is also practiced in Poland through the Polish Tax Card system and Latvia. In the Kyrgyz Republic the patent list is too sophisticated, including more than 100 main categories of patent activity, with an extensive list of sub-categories [6].

The "Tax Card" scheme in Poland (karta podatkowa) is the simplest form of taxation available to taxable persons engaged in some forms of business activity, mainly small-scale craftsmen, or sole traders, or in the form of civil law partnerships. Another important limitation is that not all individuals are entitled to this tax solution. A taxable individual using this scheme receives from the head of a tax office a decision indicating a monthly amount of the tax, which depends primarily on the type of activity, the size of the locality in which the business is conducted, and the number of employees. The tax rates are expressed in the amount of money to be paid (not in %) and are increased every year. Also, taxable natural persons within the "tax card" scheme are exempt from the obligation of bookkeeping, filing tax returns and paying income tax advances.

This type of taxation is possible for taxpayers in conditions if they start economic activity and choose this method of settlement. If the taxpayers had already run such an activity in the previous year, the lump sum taxation will be still available for them with the condition that their revenue from that year does not exceed 150.000 EUR [6].

Thus, the given simplified method can be applied to six categories of business activity. Among them are:

- retail sale of food, drink, flowers and tobacco products – except for drinks with alcohol content of over 1,5%;
- retail sale of non-food products except for e.g. motor fuel;
- transportation services (with the use of one vehicle);

¹*Annex 4 of the Local Taxes and Fees Act of Bulgaria specifies the types of licensed activities (patent activities) and the annual amount of tax paid*

- catering services;
- entertainment;
- sole traders operating in to health or veterinary businesses.

The lump sum payment can also be chosen by taxpayers that perform a non-agricultural economic activity to a limited extent.

The lump sum tax rates on registered revenue can vary as following:

- 20% for revenue from freelance professions;
- 8.5% for revenue from services, including catering with the sale of beverages which has over 1.5% alcohol;
- 5.5% for revenue obtained from production and construction works;
- 3.0% for catering services, except for revenue obtained from the sale of beverages, which contains over 1.5% of alcohol.

The lump sum on registered income can't be applied for taxpayers that receive their whole or part of the revenues, for example in field of running pharmacies, trade of foreign currencies and trading of parts or additional accessories of motor vehicles.

Entrepreneurs that use the fixed amount tax method can opt for various accounting simplifications. They are exempted from bookkeeping, filing tax returns or making advance payments on personal income tax. They have the obligation to deduct their health insurance contributions. Also, they are obliged to issue invoices or bills, pay the tax according to established deadline and keep individual payroll sheets of their personnel.

The choice of the fixed amount tax should be made before starting the business activity. If the business activity is already operating it should be done until 20th of January of the given year – with the effect for the following years.

In Latvia, self-employed persons performing certain economic activities like beauty services, photography services, home care services have the option to pay a monthly patent fee, which varies from 43 to 100 EUR and comprises the personal income tax and the state mandatory social insurance payment [6].

The procedure of submitting for a physical person to register as a patent payer is simple, supposing the submission of application to the State Revenue Service, by indicating the group of professions, within which the economic activity would be performed and the period of time for which the physical person would like to make the patent payments. According to accounting rules, the payers of patent payment carry out only the bookkeeping of income, but cash register systems should be used when payment in cash is received. Also, the payers of patent have the responsibility to issue a registered receipt upon the request of partner.

According to Latvian legislation, the patent payment cannot be chosen, if the annual income from the physical person's economic activity exceeds 10000 LVL (nearly 14000 EUR) or the person has registered with the Register of VAT Payers [6, 9]. Also, the beneficiary of the patent must not employ other persons and perform any other economic activity at the same time.

According to accounting rules, the payers of patent payment carry out only the bookkeeping of income, but cash register systems should be used when payment in cash is received. Also, the payers of patent have the responsibility to issue a registered receipt upon the request of partner.

Tax payers who have registered as economic activities' performers and who do not employ staff, who are not engaged in provision of professional services may opt for paying fixed income tax at a 5% rate of of the total income, if their total income does not exceed 14 229 EUR [9].

A good alternative to patent tax for micro-enterprises, or individuals that perform economic activity *is the option for the status of micro-enterprise tax payer*.

Introduction of the micro-enterprise tax in Latvia was the government's response to the deep economic crisis which affected the whole economy of Latvia in 2009. It was designed to create the necessary preconditions to start business activities and develop business environment.

Micro-enterprise tax regime means a transparent tax regime characterized by simplified accounting requirements to encourage small private business activity, self-employment and reduction of grey economy.

According to *Latvia's Micro-enterprise Tax Law*, any legal entity or self-employed person that corresponds to the criteria stipulated in the law may choose to become a payer of the micro-enterprise tax, instead of the regular enterprise income tax and all other taxes. The micro-enterprise tax rate until the end of 2014 was 9% of the company's annual revenue [11].

According to the law, the beneficiary of the micro-enterprise tax should meet the following criteria:

- Maximal number of employees – up to 5;
- The annual turnover does not exceed 100 000 EUR;
- All shareholders are natural persons and monthly salary of any employee does not exceed 720 EUR per month [6, 11].

Latvia has recently amended its micro-enterprise tax regime. Having evaluated the impact of tax reforms during four years, *the Government decided to narrow the sectors that may use the preferential tax regime and to rise the tax rate for enterprises with larger revenues*. There were identified several shortcomings in the micro-business sector.

First of all, it was observed that *employees of the micro-enterprises are not sufficiently socially protected, because the sum allocated to the social security budget from the micro-enterprise tax paid by the company is not sufficient to guarantee social security for employees*.

Another important reason for regime changes was an observation on behalf of specialists that *micro-enterprise tax regime is largely used by larger companies in order to optimize their tax liabilities. It is possible at the same time, to replace regular employment with “outsourcing” of services to micro-enterprises*.

With the purpose of minimizing the negative effects of the micro-enterprise tax regime, Latvian Government recently adopted some amendments to the Micro-enterprise Tax Law, and, thus, *narrowed the application of the micro-enterprise tax to certain industries*, for example legal, accounting and construction services.

Another important change was introduction of different tax rates depending on the turnover. Tax rate of 9% continues to be applied for revenues gained up to 7000 EUR, while for annual revenues of 7001 EUR to 100000 EUR, beginning with 2015 a 12% tax rate is applied¹.

Another country with a well implemented simplified tax regime for micro-enterprises since 2013, is *Hungary, with two tax schemes fixed-rate tax of low tax-bracket enterprises (KATA) and the Small Company Tax (KIVA)*.

In case of KATA, the natural person engaged in full time pays a monthly amount of 50000 HUF (nearly 160 EUR) and if engaged in a non-full time – 25000 HUF (80 EUR). If the person desires to extend his amount of social insurance, there is an option to pay a higher monthly tax – 75000 HUF (241 EUR) [2].

Beneficiaries for this simplified tax scheme can be sole-traders, self-employed persons, limited or general partnerships with only individual members.

In case of KIVA, the tax rate is 16% applied on income of: sole traders, general/limited/limited liability partnerships, cooperatives, executive/law/notary/patent attorneys' office.

General condition for applying for these scheme is that during the previous year the total volume of revenue did not exceed 500 million HUF (1606 EUR), on the contrary the small company taxpayer status expires [2, 6].

One of KIVA's disadvantage is difficulties in preplanning cash flows, thus this method requires deep accounting and financial management knowledge.

Another example of implementing a simplified tax scheme for micro-business sector is *Albania*, where small business tax payers with annual turnover ranging between 2 million ALL and 8 million ALL (nearly 14290 EUR to 57150 EUR) are subjected to the *simplified income tax at a rate of 7,5% on the total volume of income*². Beneficiaries should make advance payments on a quarterly basis and all this tax is administrated by the General State Directorate and no longer by the local government [5].

Another change within the new tax regime for small and medium businesses in Albania stipulates a flat tax in amount of 25000 ALL (180,51 EUR) for companies that gain profit up to 2 million ALL, payable within the first half of the fiscal year. Until 2016, small scale business activities were subject to a fixed tax obligation which varied according to the type of business activity and their location [5].

¹ Now, the Latvian government is discussing amendments to the social security legislation with the scope to increase the level of social security of employees engaged in micro-enterprises.

² Instead of 10% as personal income tax on profits

Premises for simplified taxation in Romania, were created through the new micro-enterprise income tax regime from February 1st 2013. Small companies can benefit from the micro-enterprise regime if the following conditions are satisfied at the end of the previous year:

- Their income is derived from activities other than banking, capital markets (except broker's activities in these areas), insurance and reinsurance, gambling, consultancy and management;
- Their annual turnover is lower than 100000 EUR;
- Their shares are not held by the State or local authorities;
- They are not undergoing liquidation, and are registered with the Trade Register or with the Court;
- Obtain more than 80% revenues from another sources, but not from management and consulting, in total volume of income [10].

The tax base for micro-enterprise tax is income obtained from any source, excepting certain income stipulated by the Romanian Fiscal Code. The applicable tax rate is [10]:

- 1% for micro-enterprises with more than 2 employees;
- 2% for micro-enterprises with one employee;
- 3% for micro-enterprises without employees.

Micro-enterprises cease to be subject to this regime from the fiscal year following the year in which they first fail to meet any of the conditions mentioned above, except where the turnover threshold is exceeded.

If during a fiscal year, a micro-enterprise exceeds 100000 EUR turnover threshold, it must pay profit tax under the ordinary rules on income and expenditure from the beginning of the fiscal year (in 2016 – 16% corporate tax).

It is important to mention that within the Romanian micro-enterprises bookkeeping is required and one accountant should be engaged in the company.

II. Turnover taxes

Turnover tax systems are very popular within presumptive tax systems making it easier for micro-business to comply with their tax obligations. Usually, this tax replaces all other existent taxes in form of Income Tax, VAT, Dividends Tax, etc. Some countries allow, however, to choose to remain in the VAT system for micro-company that is registered for turnover tax (for example, South Africa).

Another advantage that makes this system attractive is simple bookkeeping and record requirements, and the tax burden is easy to calculate.

Usually turnover tax is available to sole proprietors, partnerships, close corporations, companies and co-operatives. *The tax depends on the level of the micro-business turnover and some countries apply progressive rate on turnover.* Thus, in *South Africa* turnover tax is applied to the taxable turnover as following:

- For turnover up till 335000 ZAR, the rate tax is 0%;
- For turnover within 335001 ZAR – 500000 ZAR, 1% is applied to each amount that is above 335000 ZAR;
- For turnover within 500001 ZAR – 750000 ZAR, it will be paid 1650 ZAR plus 2% of the amount above 500000 ZAR;
- For turnover above 750001, 6650 plus 3% of the amount above 750000 ZAR will be paid.

The following records should be kept by South African micro-companies: records of all amounts received, records of dividends declared and a list of each asset with a cost price of more than 10000 ZAR on hand at the end of the year of assessment as well as of liabilities that exceed 10000 ZAR.

In Croatia, the tax liability is also calculated on a progressive scale, depending on level of turnover:

- For turnover up till 85000 HRK – tax liability is 12750 HRK;
- For turnover within 85000 HRK – 115000 HRK – tax liability is 17250 HRK;
- In case of turnover within 115000 – 149000 HRK – the micro-enterprise will pay 22425 HRK.

The progressive turnover-based tax is advantageous in comparison to uniform turnover tax, as it reduces the difference in tax burden between the upper band of the presumptive system and the lower band of the standard system. Thus, *disincentives for business growth are reduced and transition from the presumptive system to standard one can be realized more easily* [4].

Another option within the design of turnover tax system is application of *a uniform tax rate on a*

standard percentage of turnover for all SMEs taxed under the presumptive regime. Within these option, different profit margins obtained in various business segments are not considered. Typical examples of such an approach is simplified tax system for MSEs in Ukraine and other Former Soviet Republics.

Turnover-based presumptive systems offer a number of important advantages. One reason to opt for these scheme is that the *tax burden becomes reduced for periods with low economic activity and poor economic performances*, thus representing a significant relief for business operators. In addition, *turnover is considered a good base for profit estimation*, in comparison to other indicators and rules for the calculation of tax burden are simple.

Another advantage is that *despite of the fact that there is an obligation of keeping some basic books and records, these requirements are not burdensome for entrepreneurs*.

Conclusions and recommendations

1) Not so many countries implement presumptive methods of taxation, arguing that such methods indirectly are unfair, because they involve other ways of determining the tax base, and not the standard accounting methods. But simplification in tax system is important for economies where the majority of the population is comprised of hard-to-tax taxpayers and where the administrative resources are very scarce. Such tax payers are hard to assess because they earn low incomes, sell their goods and offer services largely for cash, very often do not keep books of accounts and conceal their incomes. Thus, calculation of potential income is practically impossible and extension of informal economy becomes a serious problem for tax authorities. In this regard, *implementation of simplified tax regime for micro-sector, especially in developing countries, is justified*.

2) It is crucial that the administrative capacity of the tax authorities handles the particular presumptive method. *Attention must be paid to how a particular presumptive method will work in practice*. If taxpayers can still hide income under the new tax simplification, then the presumptive regime will not be efficient. Also, *abuse of the system on behalf of large companies should be avoided*.

3) Considering the fact that small business activities generally do not generate substantial levels of budgetary income, tax authorities devote their resources to large taxpayers. *The objective of simplifying tax system should not consist in increasing transfers from micro-business sector into state budget, but in influencing the company's decision to enter the formal sector*. Thus development goals of presumptive tax system should consist in:

- The creation of a “culture of taxation” among small entrepreneurs and individuals who operate business activity;
- Providing education and training for collaborators of ministry of finance on monitoring business activities;
- Increasing the size of the formal sector.

4) *The design of a presumptive tax system should be based on a solid data analysis*. Policy makers should consider the segmentation of business community and, thus, treat each sub-group with different proper policies. Basing tax system design on a reliable data analysis will increase the fairness of the system and promote the broad acceptance of the system among business community.

5) The design of simplified tax regime for micro-business is accompanied by a serious of implementation problems, as international experience shows. It is a major responsibility to set different rates and ensure that all of them are properly updated and reflect continuous changes in business environment. Usually, in transition countries, ministries of finance and tax administrations are not well equipped and don't possess the required personnel to perform this task adequately. In case of patent regimes, a serious problem appeared within the process of elaboration of patent lists that cover business activities, which in some countries was too voluminous and complicated, including an extensive list of sub-categories. On the one hand, such an approach better aligns the patent sum with the presumed income of the micro-business, but on the other hand, as, international experience shows, business community considers the process of rate setting non-transparent, while the patent amount that they have to pay as arbitrary and unfair. Also, the more detailed the activity list is, the higher the probability that the tax liability for micro-business is multiplied. Thus *it is recommended to simplify the patent list that covers micro-business activities and reduce its covering spectrum, as well as diminishing turnover threshold for some activities*.

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