

Enhancing small business success through effective tax management and policy optimization

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ABSTRACT

The examination of fiscal practices and challenges faced by small businesses underscores the pivotal role of effective tax management in their success and growth. Tax deductions, which allow businesses to reduce taxable income by subtracting certain expenses, are essential tools that help alleviate financial pressures. Despite their potential benefits, many small business owners struggle due to insufficient tax planning and the need for meticulous financial record-keeping. The reviewed studies reveal a significant need to optimize tax policies to support small business development. For instance, proposals such as the Standard Business Deduction (SBD) aim to simplify the tax process by providing a fixed amount that can be claimed above the line, reducing the need for detailed expense tracking and potentially lowering compliance and enforcement costs. Additionally, recommendations for improving accounting practices highlight the importance of simplifying and standardizing accounting requirements to meet informational needs and enhance efficiency. Further research indicates that tailoring tax policies to specific sectors, such as agriculture, can address the unique challenges faced by small businesses in these areas. Effective tax planning and a well-organized accounting system are crucial for maximizing tax benefits and enabling productive investment in business growth. Overall, the intersection of business structure, tax systems, and accounting organization is critical for the effective operation of small enterprises. Future research should focus on refining these areas to provide solutions that support the sustainable development and prosperity of small businesses.

Keywords: Tax Management, Small Business Deduction, Tax Policy Optimization, Accounting Practices, Investment Strategies.

INTRODUCTION

Small businesses are fundamental to the economy, contributing significantly to economic growth, employment, and the overall structure of the gross national product. However, these enterprises frequently encounter financial difficulties due to high operational costs and constrained resources. One of the most effective tools for easing these financial burdens is tax deductions. This guide aims to provide a comprehensive overview of how small business owners and managers can utilize tax deductions to bolster their company's financial health and operational efficiency.

Tax deductions allow businesses to reduce their taxable income by subtracting specific expenses from their total revenue. This reduction in taxable income ultimately lowers the amount of tax owed. Key types of deductions available to small businesses

include operational expenses, technology investments, employee salaries and benefits, travel and entertainment expenses, and certain taxes and fees paid to the government. To ensure that all eligible deductions are utilized, maintaining accurate and detailed records of these expenses is crucial. Proper documentation allows businesses to identify and apply every possible deduction, thereby maximizing tax savings.

Operational expenses such as rent, utilities, maintenance, and supplies are deductible and can significantly lower the tax burden for small businesses. Investments in technology, including purchases of equipment and software, are also deductible and can assist in modernizing business operations. Employee-related expenses are another critical area where deductions can be applied. Salaries, benefits, bonuses, and contributions to retirement plans and health insurance are all deductible, potentially offering substantial savings for the business. Additionally, expenses incurred for business travel, meals, and entertainment, provided they are directly related to business activities, are deductible. Some taxes, such as property taxes and licensing fees, can also be subtracted from the total taxable income.

Figure 1: Business and finance tax deductions for small businesses. Source: Quickbooks.



To fully capitalize on these tax benefits, it is essential for business owners and managers to maintain organized and up-to-date records of all relevant expenses. Consulting with a tax professional can offer expert guidance to ensure that all potential deductions are correctly applied. Furthermore, staying informed about changes in tax legislation is vital to take advantage of new deduction opportunities and to remain compliant with evolving tax rules.

Polyakova and Nosov (2023) address the specific challenges faced by small agricultural businesses concerning investment activities. Their study examines how the reserves available after personal income tax and VAT payments impact entrepreneurs' ability to invest. By analyzing tax liabilities and reviewing opportunities for attracting grants from Entrepreneurship Promotion Funds, the study aims to identify effective strategies for leveraging tax policy to enhance investment in agriculture. They utilized various research methods, including monographic, abstract-logical, economic-statistical, and comparative analysis, drawing on domestic scientific literature, Russian Federation regulatory and legislative acts, and official publications. Their findings suggest that optimizing tax deductions, such as those related to personal income tax and VAT, and utilizing government and private grants can significantly boost investment in agricultural production.

Thomas (2018) proposes a Standard Business Deduction (SBD) designed to streamline the tax process for small businesses. The SBD functions similarly to the regular standard deduction but is claimed above the line, replacing the need to itemize actual business expenses. Taxpayers can report their gross business earnings, subtract the SBD, and determine their net business income without requiring a Schedule C. This optional deduction allows taxpayers to choose between claiming the SBD or their actual business expenses if the latter exceed the fixed amount. The introduction of the SBD aims to simplify tax filing, reducing the burden of meticulous expense tracking and the need for costly tax preparation services. Additionally, the SBD could lower compliance and enforcement costs for the IRS, presenting a cost-effective solution that could garner support from policymakers and benefit both the government and taxpayers.

Poutziouris, Chittenden, and Michaelas (1999) conducted a comprehensive postal survey in 1997-98 focusing on the tax practices of small firms in the UK, both incorporated and unincorporated. Their study highlights that tax planning among these small businesses is often unsophisticated, affecting their investment decisions and working capital management. Due to inadequate tax planning, many firms fail to fully utilize available tax reduction mechanisms and instead rely on strategies that can only be implemented after

the accounting year ends, such as pension contributions and salary adjustments. This approach often leads to profit extraction rather than reinvestment, limiting wealth creation and employment opportunities. The paper suggests that introducing targeted tax incentives could improve the financial development and prosperity of small firms, considering both financial and non-financial factors that influence business decisions.

In their 2011 study, Knittel and Nelson address the limitations of previous analyses on the impact of the tax code on small business owners, which were hampered by data constraints and unclear definitions. By employing a new data source, the authors provide a more nuanced definition of small business owners and present detailed tabulations of various tax characteristics for the tax year 2007. Their analysis evaluates how these owners might be affected by a proposed reform that implements a flat rate on all business income, regardless of organizational form. The study offers valuable insights into how such a reform could influence the financial outcomes for small business owners, potentially guiding future policy decisions.

Chistyakova and Orel (2020) explore the principles and systems of taxation applicable to small businesses, highlighting the importance of selecting appropriate tax regimes based on various economic indicators. In the contemporary economic landscape, small businesses play a vital role in shaping national growth, employment rates, and the gross national product. These businesses, often managed independently and not dominant in their market sector, must adhere to specific legal norms regarding size and income. The article outlines the criteria for classifying organizations as small businesses and discusses the impact of taxation on these entities. It proposes using tax express analysis for effective tax planning and risk management, advocating for optimizing the tax system to support the sustainable development of small businesses and contribute to a more robust economic framework.

Dolishnia (2021) investigates the complexities of taxation and accounting organization for small business entities. The study employs various research methods, including analysis, synthesis, comparison, systematization, and theoretical generalization, to explore how businesses are classified into micro, small, medium, and large categories. It emphasizes the flexibility small businesses have in choosing between simplified or general taxation systems based on their specific needs and advantages. The research reveals that while natural persons-entrepreneurs often manage accounting without a specialized form, legal entities adhere to stringent laws and standards. Dolishnia recommends revising accounting requirements to better align with informational needs and suggests exploring

simplification, unification, and standardization to enhance accounting practices. The study underscores the importance of understanding the interplay between organizational and legal forms, tax systems, and accounting organization for the successful operation of small businesses and identifies future research directions, focusing on optimizing tax systems and accounting software for small enterprises.

In conclusion, the analysis of the fiscal practices and challenges faced by small businesses highlights the crucial importance of effective tax management for their success and growth. Tax deductions are a valuable tool that can ease the financial burden on small businesses, allowing them to reduce their tax liabilities and improve their financial health. However, many entrepreneurs still face difficulties due to a lack of sophisticated tax planning and the need for meticulous financial record-keeping.

The reviewed studies underscore the need for optimizing tax policies to better support the development of small businesses. Simplified tax deduction proposals, such as the Standard Business Deduction, and recommendations for improving accounting practices offer promising avenues to reduce administrative burdens and promote more efficient management. Additionally, research on the impact of tax reforms and analysis of strategies for sectors like agriculture demonstrate the importance of policies tailored to the needs and realities of small businesses.

Recommendations to review accounting requirements and explore more effective tax planning methods are essential to ensure that small businesses can maximize their tax benefits and invest more productively in their growth. The intersection of legal form choice, tax systems, and accounting organization plays a critical role in the successful operation of small businesses. Therefore, it is vital that future research continues to explore and refine these areas, seeking solutions that support the sustainable development and prosperity of small businesses.

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