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Business Restart for Small Enterprises

By Dr. Yekaterina V. Shestakova

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Business Restart for Small Enterprises

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I. Why a Long-term Strategy for Controlling Corona Virus is very Necessary?

Lawmakers at all levels of government should focus on deliberate and comprehensive strategies to clear a path of the most economically harmful taxes that will prevent businesses and individuals from investing, creating jobs, and lifting the economy out of its slumber.

To begin that process, below, we have identified an achieve able menu of tax reforms at each level of decision-making1.

Currently, our country and other countries have used a significant resources, governments at all levels are considering the possibility of easing restrictions and returning to everyday life, as well as reducing the negative economic effect of various kinds of restrictions.

A typical lawmakers answer is to “launch” or “stimulate” the economy. However, most measures are short-term.

Most leaders of various countries take short-term measures. Among them are:

— subsidies;
— tax benefits;
— tax vacation pay;
— and infrastructure projects, for example, lower rents.

Cash flow support has been provided through a mix of tax and non-tax measures. Regarding non-tax measures, the most common instrument among OECD and G20 countries has been loan guarantee schemes, where the government guarantees all or part of the value of bank loans granted to eligible businesses. Other measures have included small interest-free loans and cash grants. These schemes typically target small businesses or businesses in the most affected sectors. Other non-tax measures include the deferral of payments of non-wage business costs such as rent or interests (e.g. the Slovak Republic, Sweden, and the United States).

Author: The Russian Presidential Academy of National Economy and Public Administration Ranepa.
e-mail: shestakova.ekaterina@gmail.com

[1] https://taxfoundation.org/coronavirus-economic-recovery/#11

One of the most important new tax credits in the USA is the Employee Retention Tax Credit (ERTC), which has been designed to encourage businesses to keep on employees. Businesses are eligible for an employee retention tax credit if business operations were fully or partially suspended due to a COVID-19 shut-down order or if gross receipts declined by more than 50% compared to the same quarter in the prior year. Eligible businesses can get a refundable 50% tax credit on wages up to $10,000 per employee. The ERTC credits can be taken against the employer's share of Social Security tax but the excess is refundable. To speed things up, employers may choose to hold on to employment taxes that would have otherwise been deposited[2].

In Russia for example is introduces credit for wage but the sum of money of that credit is only 180$.

There are also a number of cases where property tax payments have been deferred. More than a quarter (28%) of OECD and G20 countries have also introduced measures to provide business taxpayers with additional time to file tax returns.

Changes to loss-offset provisions have been another important tax policy tool. Some countries have introduced or have announced measures allowing loss carry-back for the 2020 tax year, which will allow taxpayers to carry back their 2020 tax losses against profits earned in previous fiscal years (the Czech Republic, Norway, Poland, and the United States)[3].

But history is showed that short-term policy has only a temporary effect on stimulating the economy. Napoleon said: "Security and property can exist only in a country where the tax rate does not change every year." But our tax legislation is constantly changing, taxpayers do not have time to get used to one regulation, as it is being replaced by another.

At first the main problem of telecommuting comes for foreground.

Employers who are working in a remote format should be placed in the same tax regimes as entrepreneurs and self-employed. It should also be noted that the employer does not have to spend a lot of time reporting, because in relation to employees, even if they are remote, the employer spends considerable time on reporting.

[2] https://www.uschamber.com/co/start/strategy/coronavirus-legslation-and-small-business-taxes

[3] https://read.oecd-ilibrary.org/view/?ref=128_128575-o6raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis

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Secondly, workers have no interest in officially working on several jobs, the centralized single workplace is becoming increasingly foggy in modern conditions. Neither the employee nor the employer have any preferences when fixing part-time work.

The tax deferral does not mean that companies will cope with the situation by then, because in addition to the tax burden, companies also have other expenses, such as expenses on rents, salaries, etc. Therefore, we can expect an increase in the number of bankruptcies upon expiration of the deadlines for the transfer of tax payments, as well as the resumption of tax audits against entrepreneurs and the company.

Another aspect of taxation problems is that companies currently do not have an incentive to hire employees who were previously fired. Currently, such employees receive benefits from the state, but of course, economic growth is possible when workers return to their jobs, and small, medium and large businesses return to the same level that was before the crisis. However, companies have no interest in hiring laid-off employees for several reasons. First of all, companies cannot guarantee that the situation with coronavirus will not happen again, in addition, it is necessary to restore work, but this can be done through civil law contracts.

The peculiarity of the current economic crisis is the drop in consumption, in fact for some time the final consumer could buy only food and some services. When the economy experiences a recession associated with the closure of shops, hotels, the manufacturing sector, consumption also drops sharply, and with it the state tax revenues in the form of VAT.

There are two very important issues that will make it possible to "launch" the mechanism of economic growth faster:

- Expansion and consolidation of broad investment incentives that will create new jobs;
- Development of small businesses that are most exposed to risks due to the negative economic consequences of coronavirus.

As the COVID-19 pandemic continues and economic uncertainty remains, companies may experience resource shortages. Nevertheless, tax compliance requirements still need to be met. Companies actively identifying resource gaps and all the needed tasks to meet regulatory obligations (e.g. financial tax reporting and compliance) will also need to establish a plan to fill those gaps. It is also important to ensure tax risk is continually managed throughout the crisis to maintain proper tax governance and manage current and future tax controversy and change in regulations. Companies should orients strategy on the main issues of modern tax policy.

II. Strong Strategy of Taxation

Now many states have expended significant resources. Therefore, subsequently we can expect the use of a strict tax policy.

We can see institute price controls; hike income, property and inheritance taxes; create new taxes like a value-added tax (VAT) or financial transaction tax; or heavily invest in debt-financed infrastructure projects.

These may be on ice for now but they are about to return as soon as we get some control over the Covid-19 spread.

For example we can see increasing control for transfer pricing.

Remember that:

- Transfer pricing is an accounting practice that represents the price that one division in a company charges another division for goods or services provided.
- A transfer price is based on market prices in charging another division, subsidiary, or holding company for services rendered.
- However, companies have used inter-company transfer pricing to reduce the tax burden of the parent company.
- Companies charge a higher price to divisions in high-tax countries (reducing profit) while charging a lower price (increasing profits) for divisions in low-tax countries[4].

Another tendency is development of eCommerce transactions, selling products and services using Internet. And we can expect the launch of VAT, especially for eCommerce transactions. And of course the control will be very strong because today a lot of states have problems with eCommerce control.

Service businesses will likely seek to continue using Zoom and, if possible, transaction in more tax-favored jurisdictions.

III. What's Business Impact of Covid-19?

Business leaders are laser-focused on navigating the immediate impact that COVID-19 has across liquidity, supply chains, revenue and profitability. There is no playbook for this situation. The C-suite is reconfiguring and readjusting its response in real time as events evolve rapidly.

Facing this challenge, executives are now changing their operating models. An unparalleled shutdown of activity in many parts of the world has precipitated new actions, with more than half (52%) of respondents actively taking steps now to change their current supply chain and more than a third (36%) accelerating investment in automation. And the vast

[4] https://www.investopedia.com/terms/t/joptransfer-prici ng .aspjk

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majority of those not immediately acting are currently re-evaluating their options 5

Naturally, the restoration of the company will depend on many factors:

- From the removal of the quarantine measures in a specific region;
- From the availability of financial opportunities;
- The possibility of remuneration.

Two concepts have been operating abroad for quite some time:

- Ensuring business continuity (business continuity planning);
- Disaster recovery.

Today business is focused on key areas

Table: Key areas of business focus

Areas	Description
Crisis management and reponse	Existing business continuity plans may not be capable of handling the fast-moving and unknown variables of an outbreak like COVID-19. What you can do now: Develop incident management and scenario plans that are specific to this crisis Focus on factually and effectively communicating to stakeholders Plan on how to meet government priorities in individual countries and minimize the risk of business disruptions
Workforce	Beyond human welfare, there are other people challenges to tackle, including how to support remote working at scale. What you can do now: Attend to immediate global mobility concerns, such as reviewing travel rules, HR polices, first-aid plans Assess remote working strategy, including asking employees to temporarily stop work or work remotely or relocate Address strains on a firm's existing information technology and communications infrastructure in order to support remote working during the crisis
Operations and supply chain	The ripple effects of the Covid-19 pandemic are difficult to model and assess, but global businesses can begin to mitigate supply chain distributions. What can you do now: Identify alternative supply chain scenarios – especially as new cases of the virus emerge in different territories Activate pre-approved parts or raw-material substitutions Adapt allocations to customers and pricing strategies
Finance and liquidity	Financial markets often watch how companies plan for and respond to events like the COVID-19 pandemic. What you can do now: • Consider disclosures related to direct effects on the results of operations, as well as second- and third-order effects • Think about disclosures related to risks and uncertainties about the impact of COVID-19 on future periods • Assess disclosures on the current and future impact on liquidity and capital resources

[5] https://www.ey.com/en_ru/ccb/how-do-you-find-clarity-in-the-midst-of-covid-19-crisis

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Tax, trade and regulatory	Navigating complexity and risk in today's global uncertainty takes more than an understanding of tax and regulatory systems. It is critical that tax functions consider the broader economic, political and societal context you operate in, in order to make informed and compliant decisions that drive your operations forward. What you can do now: • Effectively manage cash taxes, obtain available refunds and consider local government and tax authority measures in response to COVID-19 • Consider actions to stabilise supply chains while bracing for an unpredictable revenue and profitability mix in key markets • Assess the resources your company needs to meet your ongoing indirect and direct tax compliance requirements • Explore opportunities focused on becoming more flexible in responding to arising uncertainties
Strategy and brand	As companies move from reacting to mitigating the impact of the outbreak, strategies to emerge stronger may come in focus. What you can do now: • Consider accelerating digital transformations as the shift to remote working reveals gaps in IT infrastructure, workforce planning and digital upskilling • Protect growth and profitability through actions such as scenario planning, more frequent financial modeling exercises to improve resiliency, and new models that incorporate economic impacts of past pandemics • Take the pulse of your customers, thinking through longer-term considerations around shifts in core markets or business models as a result of the pandemic

In Russia, despite the presence of various kinds of crises, it does not exist. of course, medium and large businesses must create strategic plans, as well as use the money that can be used for strategic plans, payroll, rent and other purposes. And the thing is that in statistics a lot of companies are closing.

Table: Strategic and tactical business directions

Action	*Direction*
1. Cost reduction	1. Conducting online negotiations instead of business trips 2. Conducting online conferences 3. Reducing rents, negotiating with the lessor to reduce rents by 30% 4. "Freezing" bonus employees
2. Security	1. Debt restructuring in relation to a bank loan 2. Clear control of receivables and payables
3. Customers	1. Personal communication with each client after the end of the self-isolation regime 2. Offer additional discounts for the volume of products, for 100% prepayment 3. Analysis of the advertising campaign and revision of advertising costs
4. Alliances and Value	1. If you offer the cinema something that interests him, in exchange for these tickets with zero costs, and then add these tickets as a free supplement to your product, the product will have a new value. Yes, this value will not be interesting to all buyers, but the essence of the example is clear. 2. It is important to consider the possibility of alliances with other companies and structures.

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5. Products and services	1. When purchasing power decreases, think about how to make the product more affordable. By the way, this does not always mean that it should be cheaper, although the price in times of crisis, of course, is important. 2. Try switching to lower-quality raw materials, if possible. But here you have to be very careful. If you reduce quality, notify the customer and reduce the price. 3. If you provide services, try to break them down into components, elements, stages so that the total cost is divided into several amounts, each of which is small. In the descriptions of services, in commercial offers do not summarize the total cost, large totals do not work well for customers.
6. Sales	1. In general, market demand may fall at least ten times. Your task is to prevent sales from falling ten times not on the market in general, but specifically on your company in particular.

All the activities that you plan to carry out to restore the economy of the company should be calculated.

During the crisis a lot of countries are working on measures to reduce costs, but such measures should not be catastrophic for business.

IV. Cost Reduction Measures

According to Bloomberg, 8 out of 10 small businesses fail within the first 18 months. While most entrepreneurs focus on increasing sales, lowering expenses is equally important when trying to achieve or maintain profitability.

Variables that affect net profit margin can be controlled–or at least influenced–by business owners. Expenses are arguably the easiest of the three: While you can't force your customers to spend more of their hard-earned money, you *can* trim unnecessary costs[6].

It is possible to start with the audit and diversification of suppliers, so if one supplier can bring the goods, then you do not need to connect another, since the logistics costs when ordering from different suppliers may be higher. In addition, of course, after exiting self-isolation, it is necessary to take an inventory, especially for those goods that have reduced storage periods. For many companies, it will be necessary to recycle or sell at reduced prices. At the same time, the sale of goods at reduced prices is much more profitable than disposal with loss.

In terms of reducing labor costs, it is advisable to consider the use of outsourcing. Outsourcing allows you to save on taxes.

Heating and air conditioning aren't negotiable expenses.

At the same time, not only direct salary costs are reduced, but also the costs of organizing a workplace, rent, utilities and many other costs. In the case of a repeat of the situation with self-isolation, it is enough to simply refuse such services than from the services of a full-time specialist.

[6] https://www.moneycrashers.com/cost-cutting-ideas-small-business-expenses/

Quite a lot of companies currently spend large amounts of money on advertising and marketing. Literally every six months, some advertising channels lose effectiveness, while others gain. Regularly audit your marketing strategy and change it depending on the current situation. Pay attention to the following points:

- Check the effectiveness of discounts and promotions. Not always they pay for themselves.
- Check the effectiveness of individual advertising channels. Invest in high conversion tools.
- Follow social networks. Some of them become less popular with your target audience, others become more popular.
- Explore the channels successful competitors work with. It is possible that you will find interesting ideas.

Unfortunately, a common mistake is the lack of an assessment of the effectiveness of a particular advertisement and product, and the costs are often very high. And in the concept of cost reduction, it is important enough to revise these costs as well.

Today it's clear that some companies spend significant amounts of money on training, coaching, business trips. And budgets for various departments and divisions are often overpriced. Self-isolation mode showed that today the future is in automation and effective remote control of work processes. There are online services that help automate some processes. For instance:

- One Two Trip (organization of business trips);
- special bots (appointment of interviews, meetings, meetings);
- CRM (setting tasks within the team and when working with freelancers).

In general, it is possible to solve a number of issues in a remote format that companies were previously afraid to use. Of course, the question of data protection arises, but this question is easily solved.

Overseas, they have been introducing lean manufacturing systems for quite some time, but here business owners often considered the untimely, high

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cost of such solutions and, in the end, refused such offers. Lean Manufacturing is the American name for the Toyota Production System. The creator of lean manufacturing, Taiichi Ono, began the first experiments to optimize production back in the 1950s. In those post-war times, Japan was in ruins and the country needed new cars. But the problem was that the demand was not so great as to justify the purchase of a powerful production line, in the manner of Ford. Many different types of cars were needed (cars, light and medium trucks, etc.), but the demand for a particular type of car was small. The Japanese had to learn to work efficiently, creating many different models in conditions of low demand for each model. Nobody had solved this problem before them, since efficiency was understood exclusively in terms of mass production.

Lean manufacturing involves involving each employee in the business optimization process and maximizing customer focus.

The starting point of lean manufacturing is customer value. From the point of view of the end user, a product (service) acquires real value only at the time when direct processing, manufacture of these elements takes place. The heart of lean manufacturing is the process of eliminating losses. And today, after the end of the self-isolation regime, it is very important to evaluate these losses and reduce them.

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