



**SAVONIA**

# **Tax and other incentives for start-ups in some European countries**

**Anastasiia Bagaeva**

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Author(s) Anastasiia Bagaeva			
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<p>Abstract</p> <p>Starting a new business is a very demanding effort. A company should analyze all the aspects of the operations such as marketing, finance, supply chain and human resource management as well as other departments depending on the line of business. Taxation is a subject that all the companies should consider because in almost all business the taxes collected are obligatory payments to a state. The countries in the European Union and Russia have similar tax systems; however, start-ups move from one country to another because of the cost difference. Tax rates and state incentives play a significant role for the new businesses.</p> <p>The main goal of the thesis was to identify the most convenient and least comfortable country to establish a start-up in Europe from the point of tax and other incentives. The aim of the research was to understand how companies use tax benefits and state support. The results are presented by analyzing the information that was found in statistical books and states' articles about tax and legal incentives as well as the interviews conducted with start-ups in different countries of Europe.</p> <p>The results of the thesis can be useful for students who want to start a new business. Furthermore, the findings of the research can help with choosing the right location for founding a new business. However, the information in the thesis cannot be generalized as a reference due to the low response rate yielded.</p>			
Keywords Taxation, start-up, benefits, incentives, difficulties, Europe, Russia, new business, legality			
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## 1 INTRODUCTION

### 1.1 Description of the background and significance of the thesis

This thesis includes the description of tax systems and benefits start-ups can have in different countries of Europe. The result will be an identification of the most and less convenient country to open a new business from the point of tax and other incentives.

The idea of the thesis appeared during writer's basic internship in the studio of tax consultancy in Italy. Main tasks contained the calculation of taxes for physical and juridical persons as well as societies with VAT. The author got interested in this field and decided to continue the specialization in taxation. The internship extent the knowledge of Italian tax system a lot. Taxation of other countries became attractive to the writer, so the topic of the thesis had been identified due to this interest.

A lot of new information about taxes and law has been studied by the author during the internship. Surprisingly to the writer taxation includes many details and nuances. Physical and juridical persons appeal for tax consultation because of acknowledgment of complex system of actions and need of accurate calculation. Taxation seems a difficult subject to examine due to taking time and understanding of special terminology.

New entrepreneurs should research a lot about many departments of their business including marketing, human resource management, logistics, accounting and etc. Taxation is one of the most important aspects that company need to examine. So, ignoring the studying of legal system makes the companies' life harder after a while.

There are a lot of various taxes that people should pay. Some of them exist everywhere and some of them are different due to the field of activity people do and location they live in. In the thesis, the author describes the general taxes that every company should pay.

For the better explanation of various tax systems, the writer divided Europe into four parts: South of Europe (Italy, Spain, and Greece), Western Europe (Germany, Austria and France), Scandinavia (Finland, Sweden, and Norway)

and Russia. Taxation system gives the opportunity to have some benefits for start-ups. These privileges can be contrasting for the companies in different countries. The author compares the benefits that companies can have and probable difficulties in the beginning of a firm's activity.

The aim of the thesis is to gather information about taxation in different countries of Europe and define the benefits each country gives to start-up companies. In the implementation part, the author analyzes the interviews with several European start-ups. As a result, the most and less convenient country for start up from the point of tax and other incentives is identified. From the writer's opinion this conclusion could be useful for people who want to open a new business; however, did not decide the location yet.

## 1.2 Taxation and types of taxes

The description of tax can be useful to understand the further information about taxation in organizations. A tax is an obligatory payment levied by a state with physical persons and organizations to support the state activities. Karl Theodor Eheberg said, "the relationship of the payer to the government makes a tax not as special tributes for the benefits of belonging to the state, but as a citizen's obligation, his sacrifice made by him for the maintenance and development of the whole".

Taxes are divided into groups. Taxes are classified as direct and indirect. Direct levied from the organizations' income because of the production factor. For example, an income of physical persons and profit tax belongs to direct taxes. Indirect taxes are taxes on goods and services which are included in the price of commodities. Value added tax and excise are the part of indirect taxes. (Internal revenue service, 2015).

Usually, taxes are distinguished between lump sum and income taxes. Both of these taxes imposed on the net profit of the person or business. The first tax is set by a state regardless of the taxpayer's income level. Under the latter, the particular percentage of income is formed by a tax. This dependence is determined by the marginal tax rate, which explains how the tax increases with income growth by one monetary unit or average tax rate which is the amount of tax charged to the income. In personal income taxation, a taxpayer pays as he/she earns. In the end of the year, the calculation is made about the paid taxes and if the taxpayer didn't pay enough he/she will have to pay the missing amount of money he/she didn't pay or the opposite - if the taxpayer overpaid he/she will get money back. (J. de V. Graaf, 2008).

Capital gains taxes charged for the sales earnings of capital assets. Corporate taxes are the amount of money taken from corporations on their income or worth net. Social security contributions mean that companies and physical persons make regular payments for wages and health care systems. Payroll tax includes the charge for unemployment. Property taxes involve the commission for the immovable real estate for physical persons or organizations. Expatriation tax signifies levy on people who renounce their citizenship. Transfer tax determines payment for the transaction of goods or real estate. Wealth tax implies to the percentage of the net worth of the company. VAT is a tax on goods and services that create value. Sales tax indicates part of the money given to the state when the good is sold to the customer. (European Commission, 2015).

There are also progressive, regressive and proportional taxes. In progressive taxes tax rate is increasing or decreasing when the income of the physical person is increasing and decreasing accordingly. In regressive taxes tax rate is increasing when income is increasing and the opposite. In proportional taxation tax rate doesn't depend on the amount of income. (Horton Melissa, 2015).

Taxes perform several functions in our world: fiscal, distributive, regulating and controlling. Fiscal function means that taxes are one of a main revenue part in the state budget. The distributive or social function is the relocation of public revenues from more rich to weaker classes of the population. Solving economic policy tasks are made by regulating function. Controlling part allows regulating timeliness and completeness of inflow in the state budget. (Francis Abey, 2015).

If an individual or a business does not disburse taxes, a state usually makes an administrative punishment. How it was mentioned before, taxes make a state's budget. With a revenue of taxes, the state can make expenditures on public services like water, unemployment benefits, education systems as well as war costs or infrastructure. (Francis Abey, 2015).

### 1.3 European tax revenue

Tax revenue in the European Union is the sum of taxes in 28 countries. In figure 1 it is shown that in 2012 tax revenue reached 39,4% in the GDP-weighted average which is higher than in USA (24,7%) or Japan (30,30%). In Russia, this figure was 35.6% in 2011.



Figure 1. Tax revenue (including social contributions), EU aggregates and selected countries, 2012, %. (Eurostat Statistical books 2014. Taxation trends in the European Union, 16-17.)

Tax revenue depends on economic activity, tax legislation and GDP level of the country. That means the influence of unemployment level, sales of commodities, changing tax rate etc.

If to look at the European countries the highest tax revenue to GDP is in Denmark, Belgium and France as it is shown in figure 2. Lithuania, Bulgaria and Latvia showed the minimum percentage of tax revenue to GDP in 2012.

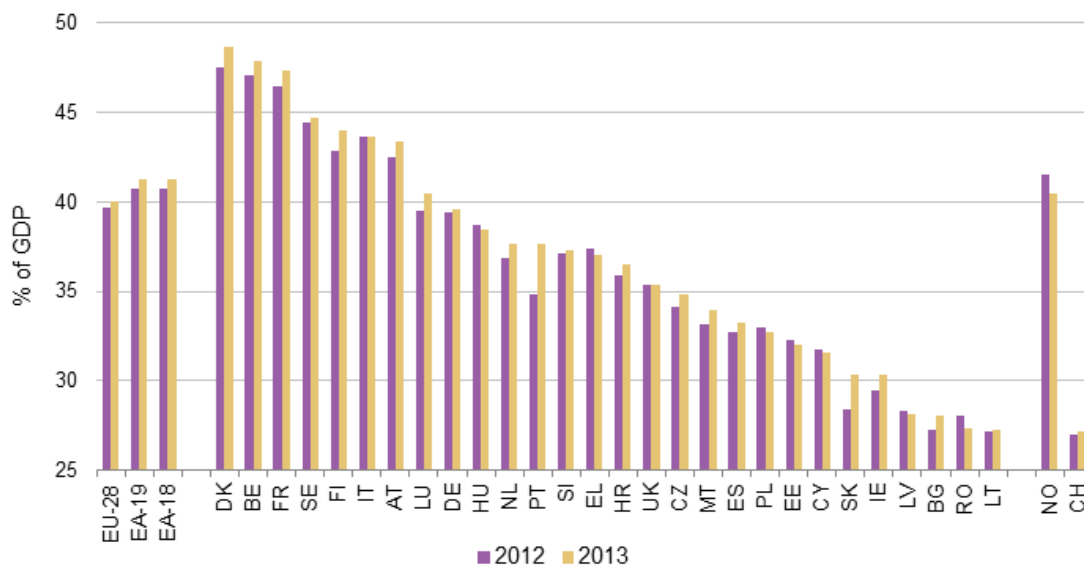


Figure 2. Total tax revenue by member states and EFTA countries, 2012 and 2013, %. (Eurostat Statistical books 2014. Taxation trends in the European Union, 18-19.)



As the writer mentioned before, there are direct and indirect taxes. The tax revenues by major type of taxes are shown in figure 3. It is clear that Bulgaria, Hungary and Romania have the highest share of indirect taxes. However, Denmark, Ireland and the UK carry the highest share of direct taxes in 2012.

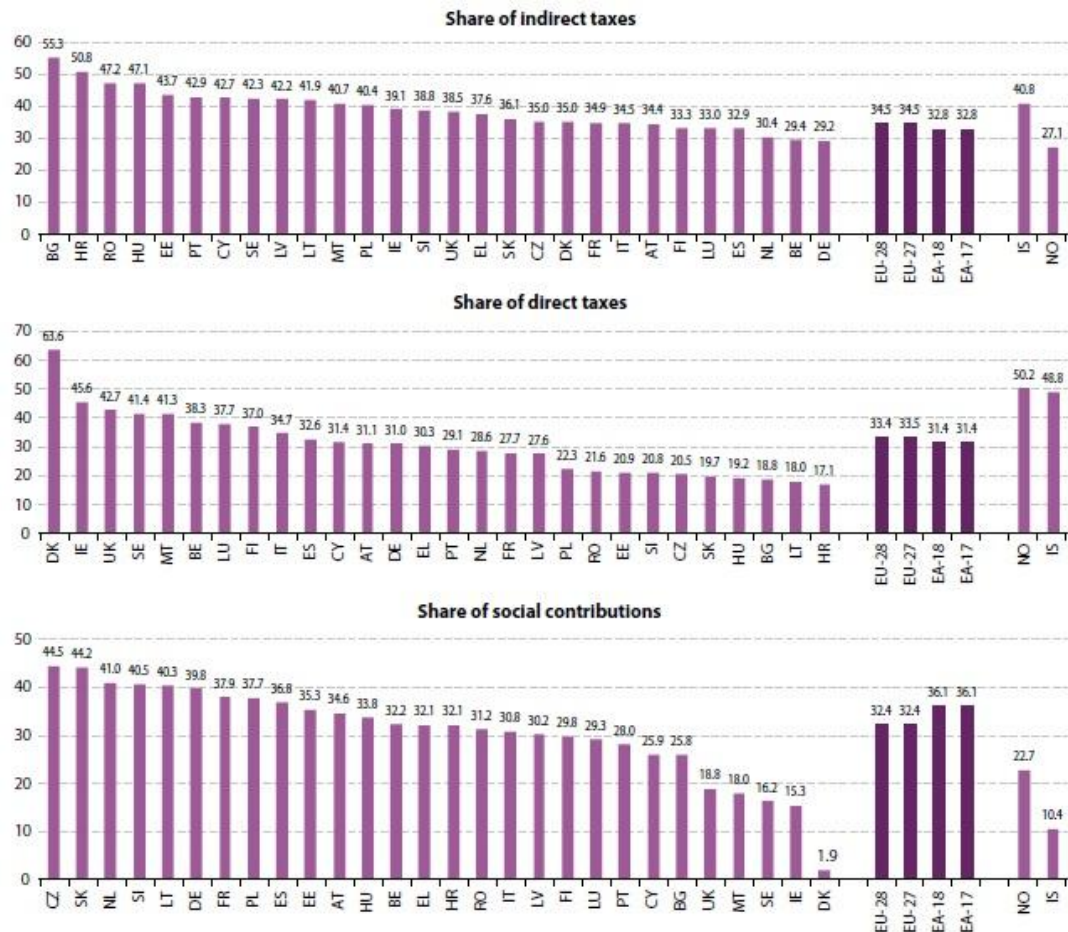


Figure 3. The structure of tax revenue by type of taxes, 2012. (Eurostat Statistical books 2014. Taxation trends in the European Union, 22-23.)

#### 1.4 Business and taxation

All businesses must pay taxes. What kind of taxes they should pay depends on the form of business. The way to pay taxes also differs from the type of the company. The common taxes for all businesses are income, estimated, self-employment, employment and excise taxes. (Internal revenue service, 2015).

All physical and business persons must pay income tax. Partnerships are the exception because they record an information return. Internal revenue service (2015) says that "Pay as you earn" system refer to income tax for most of the states. Income tax is imposed on an employee's salary automatically. Otherwise, a worker needs to pay

estimated tax. Estimated tax contains self-employment income, dividends, rent, prizes and so on.

Self-employment tax is paid by people who work on themselves. This money turns into the benefits in pension, medical insurance, disability etc. The entrepreneur must pay self-employment tax. (Internal revenue service, 2015).

Employment tax deal with employers who have employees. It contains payments for social security, federal income tax withholding and unemployment. If the company produces and advertise particular goods, perform a certain type of business, use different sort of equipment or collect payments for certain services it has to pay excise taxes. (Internal revenue service, 2015).

## 2 TAX AND OTHER INCENTIVES FOR START-UPS IN SOME COUNTRIES OF EUROPE

In this chapter, the author describes tax and other incentives in different areas of Europe. South and west of Europe, Scandinavia and Russia has the same taxation system from the first sight. However, there are differences a start-up should know when to open a business.

Every company should pay corporate tax as well as every worker pays income tax. In different countries, these rates vary. As it is shown in figure 4 the lowest corporate tax rate is 10% in Bosnia and Herzegovina, Bulgaria, Hungary. The highest corporate tax rate in Europe is in Malta (35%). (Pomerleau Kyle, 2015). It is not shown in figure 4 probably due to the size of the country. The lowest income tax is in Bosnia and Herzegovina. This rate equals 0%. However, the highest income tax is in Sweden (56%). Figure 4 shows the standard VAT as well. The lowest standard VAT is in Switzerland and Liechtenstein and equals 8%. The highest rate is in Hungary (27%).

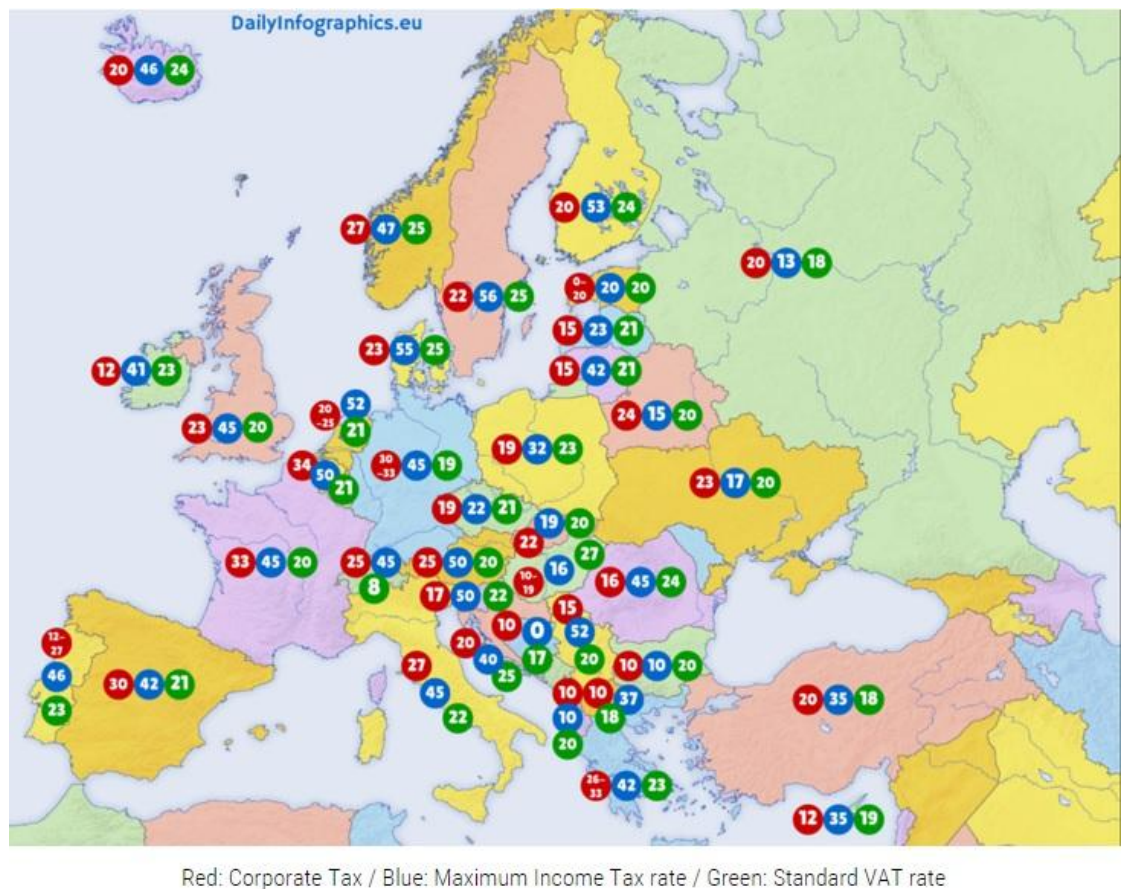


Figure 4. Corporate tax rates, income tax rates, standard VAT rates in European countries. (Tax rates map of Europe, 2015).

Start-up represents a new company which just appeared in the market and started its operation. Usually, the company calls itself as a start-up from 0 to 5 years from the registration. There are new firms that produce products or services that already exist and innovative start-ups who possess new ideas and develop them. Any state helps innovative start-ups more than usual new companies with funding, tax/legal incentives and other benefits. In this chapter, the writer explains tax benefits for both kinds of start-ups.

## 2.1 Tax and other incentives in Southern Europe

A new company in the south of Europe can use some benefits when starting up the business. In Italy, for example, a new innovative company can have a privilege not to pay fees for issuing documents. Debt policy is easier from the debt management of mature firm because of the certain financial tools used for start-up debt management. (Italian company formations, 2015). In Greece, any start-up has a possibility to deduct the costs if there are bad and doubtful debts. (Zourek H., Radermacher W., 2014). To identify bad and doubtful debts the company has to look at the accounts receivable and estimate what kind of debts it will get back. If a debtor cannot return the debt it is considered to be bad. Doubtful debt is a potential bad debt. (Bragg Steven, 2011).

Loss carry-forward period is a method which uses the loss of the current year to future years' profit to decrease tax liability. (Investopedia, 2015). For innovative start-up, this period is continued for 12 months in Italy. (Italian company formations, 2015). In Greece, this duration is 5 years. (Eurofast, 2015).

Any business has two ways of financing: debt and equity. In debt financing, the company makes a loan from the bank or other institution and pay back with interest. In equity financing, the company has investors (angel or venture capitalists are the most popular) and it has to pay dividends. Equity financing is less risky because if the company fails the investors lose money. (Parker Tim, 2012). Antonia Verna in her publication about the regulation on 'innovative' start-ups in Italy mentioned that Italian innovative start-up has a benefit delaying the recapitalization responsibilities to the next financial year.

If innovative Italian start-up becomes a bankrupt there is an easier procedure which includes over-indebtedness process - loans that cannot be paid back.

Start-ups have a possibility to enter into fix-time contracts with employees from 6 to 36 months. A company can extend the contract more than once. The prolong of the agreement can be only once for maximum 12 months after 36 months.

There are tax exemptions for direct and indirect investments in start-ups which is a huge benefit to Italian innovative start-ups. If the company hires highly-qualified employees the tax credit increases by 35% for it.

Fuelling start-ups gets strong tax support in investments (19-27%). (Italian company formations, 2015).

In Greece and Spain any company can apply to return employment costs like salaries and insurance. (Startupoverseas, 2015).

Greece enterprises have a privilege in "free of tax income" if the business receives this income and dividends from the EU registered firms. One more benefit in Greek taxation for start-ups is that companies can compensate the employees with stock option and work for equity. (Zourek H., Radermacher W., 2014). Stock option as remuneration means that a worker is given the amount of shares which he/she can sell, so the executive becomes equal to shareholders of the company. The company's advantage is to keep the cash for the projects or researches. (Forrest Conner, 2015).

Foreigners who are willing to open a new business in Italy may get a "Italia start-up visa". It takes only four weeks to get it. (Italian company formations, 2015). Spain and Greece provide it as well. Josephine Goube has a detailed explanation about Spanish "Entrepreneur visa" in her article "Entrepreneur visas in Spain: how to successfully apply". It allows a person to live and work in Spain.

A company in Italy can increase its capital through crowd funding in internet. Crowd funding means the group of people who are willing to invest their money into start-up business. Companies can cover up to 80% of the amount borrowed, because they have accelerated, reductive and free form admission to a Government Fund that maintain credit through warranty on bank loans. (Schroter Wil, 2014).

Spain, Italy and Greece have a moderate tax burden. However Italy is above, Spain is below and Greece is equal to the EU average tax burden rate how it is shown in the figure 5.

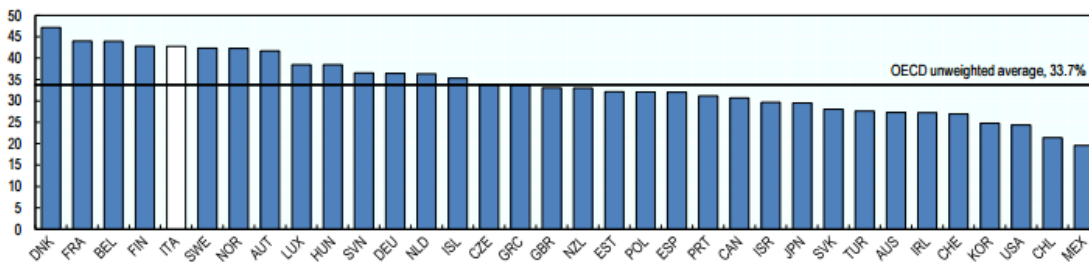


Figure 5. Tax burden compared to OECD (Organisation for Economic Co-operation and Development 2014. Revenue Statistics 2014 - Italy.)

Company tax standard rate is different in these countries. In Italy it equals 31,4%, 28,0% in Spain and 26,0% in Greece. In Spain there is corporate tax for small companies (25,0%), for micro companies (20,0%) and 15,0% for new enterprises. In Italy there is no this kind of differentiation. (Trading Economics, 2015).

Small business in Spain, whose annual earnings are less than 8 million euro have a privilege in faster depreciation of some fixed assets of the company as well as they get a 10% credit for investments and costs on internet, communications and technology. A particular procedure is created for women's business in Spain as well. (Startupoverseas, 2015).

So, a new company in the south of Europe may have significant benefits in the beginning especially if a start-up is innovative.

## 2.2 Tax and other incentives in Scandinavia

Scandinavia gave the world some big start-ups like Rovio (angry birds) and Spotify. As most rational countries of Europe, Scandinavia should be a good place to open a company. (Cook James, 2015)

Finland has a reputation of one of the best countries for launching the firm because of the state's funding and grants (GeekTime, 2015). The state program accept 60-70% start-ups for funding annually. The same situation takes place in Sweden and Norway; however, these countries provide funding mostly for innovative start-ups. There are tax deductions for investors too, so it is more probable to find funding by itself.

(Invest in Norway 2015). In Norway there is a special tax deduction card which allows the company to decrease levied taxation. (Startuoverseas, 2015).

Usually it takes long time before a company can achieve high income. Firms in Scandinavia can protect their income at the early stages of starting a business. In Finland, for example YEL or MYEL programmes can provide social security to an individual or company. This privilege secures income if the business is adjourned for some case. Social Insurance Institution of Finland (KELA) can support a company with numerous aids. (Enterprise Finland, 2015).

The periodic time of paying taxes in Scandinavia is the same like in other countries: monthly, quarterly and annual announcement to the tax administration of the state. (Enterprise Finland, 2015). In Sweden corporate tax is 22%, in Finland 20% and in Norway 27%. (Trade in economics 2015). VAT is 24% in Finland, however, if the company earns less than 8 500 euro in 12 months from the day of starting operations the company is not liable to VAT. (Vero Skatt 2015). Small enterprises can get a financial help and cheap loans to purchase necessary items for a business and to offset expenditures. (Enterprise Finland, 2015).

Finnish employee registration is obligatory if the company contains 2 or more permanent workers or 6 or more part-time employees. Travel expenses are tax-deductible if the employer travels for business. Sometimes it is possible to get a tax return for an accommodation: office or apartments for employees. Work related costs are deductible as well. (Startuoverseas 2015). A Finnish entrepreneur should register the company in Finnish tax administration and Finnish Patent and Registration Office (PRH). (Enterprise Finland, 2015).

Any entrepreneur who is willing to open a business should analyze what it takes to start a new company, deal with all the options of operations of the desired business and prepare a business plan. Finland helps the future entrepreneur to find out if this business is appropriate to a character of a person with a special entrepreneur test in "my enterprise Finland". (Enterprise Finland, 2015).

### 2.3 Tax and other incentives in Western Europe

Western Europe is considered to be a place where the jobs are. Many young people from all over Europe move to West to take a chance to be successful in finding a position they like and the possibility open a business. In this subchapter the author

writes about incentives start-ups have in Western countries: Austria, Germany and France.

Austria, Germany and France have different corporate tax rates. The smallest rate is in Austria and it equals 25.00%. In Germany corporate tax is 29.65% and in France this rate is higher and amounts to 33.30%. (Trade in economics 2015).

Berlin is a very attractive place for young people who move there, mostly because of cultural attractiveness and costs of the city. Youth always have new ideas and Berlin give them an opportunity to be as they are and do what they want to do. However a lot of start-ups fail due to high taxes and bureaucracy in their beginning. (German start-up association. 2015) Surprisingly, France provides more benefits and preferable business atmosphere for new companies. (Say oui to France - innovation, 2015). Austria is considered to be a good place for new business as well.

Business angel investors are a valuable part of innovative start-ups. They provide funding for new companies. German Start Up association (2015) mentions that In Germany angel investors play an important role because the state grants and funds are difficult to get. Financier takes a huge risk to invest to start-ups as well as he is not provided with tax incentives from the state. Germany considers imposing tax on gains for investors in 2016 that does not increase the motivation of the angel investors to fund the corporations. Furthermore, there are no privileges about carrying forward losses period or sales taxes in Germany.

France has a different situation. Some state organizations support start-ups companies by helping them to get free interest loans from the bank. Start-ups which are younger than three years old have a possibility to get a loan of 7 000 euro. Denis Marcheteau calls France a 'heaven' for start-ups in his article "accelerating information".

The author has mentioned crowd funding before when explained Italian tax system. In France this kind of funding is very welcome and even have advantages because the company can raise its capital up to one million euro and not to inform the financial market about it. (Dorard Louis, 2013).

CLEVERism (2014) says that French government gives a tax credit of 30% for the needed research for innovative start-up if the expenses are less than 100 million euro. If the company spends at least 15% of its expenditure to R&D it can get the



corporate and local tax deduction for up to 8 years from the beginning of business operations.

There is a grant for the tax credit of 6% of all paid salaries in a year in France. All the registered French companies who pay salaries to their employees can compete for this tax credit benefit. The companies can apply for the local tax exemption for the first year of their operations. This benefit can be prolonged if the start-up grows fast. Start-up have a possibility to apply for the premise and technical support. (CLEVERism Startup, 2014.)

Austria gives an opportunity to deduct a corporate tax which is already comparatively low with German and French rates. The deducted corporate tax rate is 22%. Tax on social security is 25%; however, a company can get a tax deduction for 2 years and pay only 19%. An innovative company can get a research expenditures return and employee trainings return up to 20%.

In Austria private investing is a major financing for start-ups; however, the amount of investing is comparably low international standard. From the interview made by Nina Wöss in 2013 93% of start-ups considers social security tax to be very high and 83% think that "angel investments should be tax deductible".

So, west of Europe seems to be a possible location to open a new business, especially if start-up is innovative; nevertheless, there is still a need to develop tax and legal incentives for new companies and angel investors.

## 2.4 Tax and other incentives in Russia

In Russia it is hard to open a new business. There are several reasons for this: history and mentality. Just before 1990s, it was not possible to open a business at all and there are still a lot of corruption and bribery that the new company may face. However, it is possible to open a new successful business in Russia. Skolkovo Foundation was created for developing innovative and new business. The government gives the tax incentives for new innovative companies within Skolkovo. It gives an opportunity to pay less taxes for the companies that have a perspective to exist at least 5-7 years. (CLEVERism, 2014).

Russia is very popular in IT area and so, existed tax incentives intended mostly for IT start-up companies. The corporate tax in Russia is 20%. (Trade in economics, 2015.)

Even if it is extremely difficult to launch a new company in Russia there is a development of tax and legal incentives that the government is ready to provide.

### 3 DIFFERENCIES OF INCENTIVES IN EUROPEAN COUNTRIES

In this chapter, the author makes the conclusion of the theoretical part about taxation for start-ups in different countries of Europe. The writer mentioned about tax benefits and difficulties that new companies can face in the beginning but in this chapter, it is a comparison of all countries and regions that were noticed in the previous chapter. The author also writes about common mistakes of start-ups.

#### 3.1 Benefits start-up can have

Tax incentives help the company in the beginning to economize their expenditures and spend this money on new projects of development and grow, so it is very important to know what kind of benefits the company can have from the government. (Gobel Reyna, 2013).

South of Europe has enough examples of tax incentives that the new firm may get. In these countries, loss carry period is longer for the start-ups as well as the government helps the company with employment costs. Corporate tax is different however it is in the same range from 26% to 31.4%. Spain wins in the corporate tax cut because it is reduced to 15% for new enterprises.

Scandinavia seems to be the most attractive place for start-ups. Even if there are not so many tax incentives and the taxes are comparably high the government do everything to make the process of opening a company easy and simple. It is possible to find funding from the government in Finland or Sweden than in Italy or Spain, even if there are more tax benefits in The South of Europe. However, the corporate tax in Finland and Sweden is less than in Italy and Greece. In Finland, it is just 20.00% and in Sweden is 22.00%. Norway has a higher rate equal 27.00%.

Austria, Germany, and France are leader countries in Europe with a lot of businesses. Surprisingly, start-ups in Germany are not provided with a lot of tax incentives like in France. The main difference between these two countries is an investing strategy. In Germany, it is very hard to get a state grant so the companies should look for angel investors to get a fund. In Austria start-ups are funded by private investors as well. In France, a start-up may get more tax incentives and grants from the state. France has the highest corporate rate among analyzed countries - 33.30%. In Germany corporate tax is 29.65% which is also high if to compare it with Finnish or

Swedish corporate tax. Austrian corporate tax is 25.00% and it can be deductible to 22.00%.

In Russian Federation, it may be difficult to open a new business but possible. There are not so many tax incentives for new companies; nevertheless, there are projects to make the process of opening business easier and cheaper. Probably in the nearest future, it will be a bust of new business in Russia. The corporate tax is equal 20% which is the same like in Finland and comparably low.

### 3.2 Difficulties start-up can meet

The main problem that new company face is to find funding. As the writer mentioned before there is crowd funding system which gives a possibility to find investors online for a start-up.

Another challenge is to keep all the documents in order. A new company can have tax returns, but all the documents should be clear. Some companies choose not to pay taxes and fees, not to register property or employees. This is a wrong way to do a business because it is illegal and it leads to bigger fines and penalties in the future. (Silberman Gil, 2014).

The bureaucracy is the huge obstacle in every country. It decreases the number of new companies. South of Europe and Russia stand out with this problem. Scandinavia is the best place from the bureaucracy point of view. (Silberman Gil, 2014).

### 3.3 Tax mistakes start-ups make

The company may choose a different kind of entity like a corporation, partnership or proprietor. Each type includes various tax benefits. It is important to study the law carefully and select right legal system, otherwise the company can pay more than it should or the opposite. The company should know its' tax responsibility. Once a firm is registered its' duty is to pay taxes to the state and regions. If a company doesn't want to pay taxes it will get penalties from the state. (Ehrenberg David, 2012).

When the organization is in the beginning of its operations it is better to ask help to a tax expert. It would be worse if the company does not have the time or enough knowledge to think about taxation. Another mistake that start-ups usually do is mixing personal and business financing. All papers and money should be clear and checked

carefully, otherwise, there is a risk to pay more taxes than the company has to. (Ehrenberg David, 2012).

Deducting business expenses is an important move to save money. The company should know that it has many possibilities to economize on business travels or organizational spending. (Ehrenberg David, 2012).

## 4 IMPLEMENTATION OF THE RESEARCH

The theory part already shows what regions are more convenient for starting up the business from the point of tax and other incentives. However, practice and theory can differ sometimes. In this chapter, the writer explains the objectives and methods of the research and describes the start-ups which were interviewed, the research process itself and the summary of the found research results in the end.

### 4.1 Objectives of the research

The main goal of the research is to identify the best country to open a company from the view of tax and other incentives. Indeed, it depends on the type of the firm, its size, and occupation. In this research, the writer took general points of incentives, so every company can fit into the implementation.

The second objective is to compare the theory from the previous chapter and the practical results. It is possible that the conclusions based on information are different from the answers of respondents who are real start-ups in Europe.

Another aim is to understand the companies in their start. Probably some firms do not know about tax and other incentives they can get. In the research, the writer identifies this question.

### 4.2 Method of the research

The writer chose a qualitative method of the research because of its personal approach to the companies. The qualitative method gives the opportunity to discuss the question with a representative of the company. Usually, CEO of the start-up answered the questions because the person who opened the business knows all the features that the company had to face in the beginning.

An interview was chosen for the implementation to describe the firms' own experience in the calm process. The interview appears as a good chance to share knowledge between the company and the researcher. The writer searched the companies on the internet in the sites like angel.co (the site for start-ups, angel investors and job-seekers), ranking start-ups sites and via personal contacts.

The writer interviewed the companies via e-mails and suggested to talk via phone (Skype or phone call). Some respondents answered in e-mail directly, some of them preferred to chat in Facebook and several of them had time to for a telephone conversation.

#### 4.3 Background information about respondents

The respondents are the start-ups from different countries of Europe. As a researcher divided Europe into several parts: South, North, West and Russia she chose one country from the region and interview one start-up. Italy was chosen as a representative country from the South and Finland from the North. It was possible to ask Austrian, Germany and French company from the West countries.

The questions were sent to 50 companies (12 to each country except Austria and France). Not all companies answered to e-mail and phone calls. It was difficult to reach CEO of the company or person who knows about the process of launching the company.

Western companies answered faster than all others. One of the company is called Crate (crate.io). It is a German software company which is "building a new kind of data store: a zero administration database that is massively scalable and dead simple to use". The firm was found in 2013 in Berlin, Germany. Now they are spread to Dornbirn, Austria, London, UK and San Francisco, USA.

The writer interviewed a CEO from Austrian company named "2Dream productions" (2dream-productions.at). It is a filmmaker start-up in Vienna. The company is small (3 employees), however, it hires a lot of freelancers from Austria. 2Dream productions were found in 2013. The company does animation, movies, and photos as well.

A CEO of a French company answered the questions as well (madie-france.fr). The firm is an online shop in France. It sells elegant swimwear that shows charm and performance. The company was found just in December 2015.

Russian company "Cherehapa" is online service for purchase travel insurance (cherehapa.ru). It was found in 2012. Cherehapa represents one of the successful start-ups in Russia. It is a useful company because the consumer doesn't have to spend time visiting the offices of insurance companies or to pay intermediaries at the

visa application centres anymore. The company shows the cheapest insurance company for the search parameters of the customer.

Italian company "Qurami" became one of the respondents in the questioning. (qurami.com). The firm is an app that checks the queue in the registered places. The person who installed this app can get a virtual ticket and check how many people are before him/her and how quickly is a queue going. The company is launched in 2012 and it became the most popular application in apple store in 2015 in Italy.

Among the respondents, there is a Finnish company that is called Vulpine Games. (vulpinegames.com). This firm develops mobile and tablet games that offer the possibility to play with friends. It thinks that online games that it produces are the way to make people social via playing together with other people. The company is founded in 2014 and it contains only 6 employees.

#### 4.4 Description of the research process

First, the researcher made the questions that she would ask the companies. There were three questions:

- 1) Did your company use tax/legal benefits when started the business? What kind? Did it help you to save money in the beginning?
- 2) In your opinion does the state help enough? Is it easy to get funding or tax incentives from the state to support your company?
- 3) Was it hard to open the company? (did you meet bureaucracy, fraud, corruption, mess)

From the answers to the first question, the researcher could understand if the company knew about tax and legal incentives it has. The motivation to ask the second and third questions is to identify how difficult is the process of starting up the business in the certain country.

After identifying the questions the writer searched the start-up companies via the internet. As she mentioned before, she used the sites like angel.co and start-ups ranking. As not many firms replied, the writer had to ask a help through personal contacts. After finding the names and links of the companies the writer checked them



and read general information about the firms, searched an e-mail and sent a letter to them.

The process of answering took time. Many companies didn't answer at all. However after receiving some response the writer analyzed them and compared with the information from the theory chapter.

The process of the research was not difficult, however, took a lot of time. The most important are the results that the researcher got during the practical part.

#### 4.5 Summary of the findings

The German company Crate says that there are no tax incentives when they started the business; however, there are legal benefits available like a discount on insurance. In the opinion of the company, Germany doesn't help a start-up with tax benefits. It is possible to get a significant funding from the state if the company is an innovative start-up. As the CEO of the company said, it was easy to open a company in Germany. He didn't meet any bureaucracy or fraud during launching his firm.

The Austrian company explained that when it has started a business the Austrian government a tax incentive on social security and insurance. The social security tax equals 25% in general, but start-ups can pay only 19% during two years from the registration of the firm. The state supports start-up before launching the company. There is a special entrepreneur funding program where a person who is without a job can receive the unemployment benefits without searching a job because he/she has a goal to open a new business. The state organizes free entrepreneur courses in the university that can give a sufficient knowledge about how to open a successful company. There is only one condition that the person should follow in this program - he/she cannot work during this time. The state pays for the person's living and education with an aim that the person will open a new business in approximately one year. So, 2Dream productions company claims that the state supports start-up business in the early stage; however, there is not funding for new companies if they are not innovative. In the CEO's opinion, it was hard to open a new business mostly because of the difficulty of building a customer base. The company didn't face any fraud or corruption.

The French online shop company described its situation to the writer. The company is just launched and it will have free tax year. It will save a lot of money for the develop-

ing of the company. The CEO said that it is really difficult to get tax or legal benefits because of bureaucracy and complexity of the system. The state doesn't fund the new companies if they are not innovative. It was and still is hard to open a business in France. The CEO says that it takes a lot of time and money. She meets fraud very often. There are fake companies that ask a paid registration for the services for start-ups. Her advice to hire a good lawyer and tax consultant to understand all the details of the business.

The Russian company said that the firm didn't use any tax or legal incentives because simply they don't exist. There are some grants from the state available. The company won a good grant from the state but there was such a huge mess and bureaucracy from the state that they gave the grant back. In Cherehapa's opinion, dealing with the system of grants and investments takes a lot of time from the company that it can spend on development and grow. The representative of the company said that it was easy to open a business. In Russia it is more or less fast and cost effective; however, the director should have patience dealing with corruption and mess.

Italian start-up used tax incentives like the tax credit for one year from the date of registration of the firm. Another benefit that it had was tax deductions on social security and insurance. In the opinion of the firm the state could better support start-ups in the beginning. The problem that the firm faced was bureaucracy. It became hard to deal with all documentation and taxation so the firm had to hire a specialist in a tax consultancy to control the taxes.

Finnish company didn't use any tax and legal benefits; however, they said that there is some legal advice available. Finland gave a fund to the firm that became a real help to deal with development and grow. The state supports business as the CEO of the company claimed in the interview. The firm faced little bureaucracy with hiring international workers that are not Finnish citizens. It was easy to launch a business for this company. The process seemed to be clear and simple.

## 5 CONCLUSION AND DISCUSSION

The main goal of the thesis was to identify the most convenient and less comfortable country to open a start-up in Europe from the point of tax and other incentives. The aim of the research was to understand how companies use tax benefits and state support. The results are archived by analyzing the information that was found in statistical books and states' articles about tax and legal incentives as well as an interview with start-ups in different countries of Europe.

First, the writer explained the tax system in general. It is important to know what kind of taxes exists in Europe for physical and juridical persons. The result was that the tax system is very complicated; however, taxes that companies should pay are the same in every country (corporate tax, social security tax, VAT, income tax etc.). The rates are different as well as tax and legal incentives that the state provides to start-ups. Every country has its own system of benefits for new businesses. Innovative start-ups are preferable for incentives and state grants/fund.

Next, the writer divided Europe into 4 parts: South and West Europe, Scandinavia and Russia. She found information about tax/legal benefits as well as other incentives start-ups can have in their countries. Comparison of these benefits was the next part of the thesis. As a result, it was understandable from the theory that Scandinavia has an easier process to open a business and friendly atmosphere in financing market.

Practical part appeared to be hard but interesting. The author used the qualitative method of the research. She interviewed about 50 companies that started their business less than 4-5 years ago. The companies vary in size, occupation, and country of origin. Not many companies answered to e-mails. The results of the research are based on the data from the theory part and the response that several start-ups answered.

South of Europe seems to be a good place for innovative start-ups. Italy and Spain give tax incentives as well as other benefits for research organizations and innovative start-ups. However, in the opinion of the author, the corporate tax is high. Bureaucracy, misunderstanding and fraud exist in these countries, so some companies are stuck in the beginning of launching the company and then give up.

Western Europe is very interesting place to open a new business. In France and Austria there are financing projects as well as tax incentives for new businesses. Ger-

many attracts young people because of its' atmosphere, nevertheless, there are no tax benefits. German start-ups can use some legal benefits that also hard to get. The respondent from Germany claimed that it is possible to get significant amounts in public funding from government grants. Start-ups say it is hard to open a business because of bureaucracy and fraud. So, the writer believes West is an absolutely interesting location to start the business even if the corporate taxes are quite high.

Scandinavia does not have some many tax and legal incentives, but it provides so good state funding for new companies. The support of new companies in Finland, Sweden and Norway is very useful for the companies and countries itself. New firms pay back the amount they borrowed when they become cost-effective. This kind of system is successful in the opinion of the writer. The corporate taxes are lower than in Western and Southern of Europe.

Russia is still not a convenient place to open a new business. At the moment tax and legal incentives as well as other benefits for start-ups are not developed. There are state funding that a company can get; however, it takes time and money (that start-up usually don't have) on bureaucracy and fraud. Corporate tax is very low if to compare with other countries of Europe.

So, in the writer's opinion, the most convenient region to open a new business is Scandinavia. Even if there are no tax and legal incentives the companies are supported by the state. Finland seems to be the most attractive country to open a start-up. In the opposite side, there is Russia which is not ready for new business yet, in the writer's opinion. The state already has a plan of development of tax incentives and it will be executed in the nearest future. Probably the rank will be changed.

As a conclusion, the most and the less attractive country was identified by the author. In the writer's opinion, Finland is the most convenient country to open a new business nowadays. Even if it doesn't have so many tax and legal incentives for new companies, the state really supports the company with financing it. The less attractive country is Russia because the new company doesn't have any incentives. It has grants for new companies, but the system is so complicated that the companies do not want to spend time for mess and bureaucracy.

In the researcher's opinion, the thesis met the goals that the writer set up in the beginning. However, there were many difficulties during writing the thesis. First of all, the writer decided to combine a professional internship and thesis writing. It turns out

to be too workload and heavy. The writer became fully concentrated on thesis only when the internship has finished. The progress immediately appeared when the writer could focus only on the thesis.

Another problem that the researcher faced was the broad topic of the thesis. From the beginning, it seemed to be narrow and clear. However, when the writer started the thesis she experienced difficulty to choose right information for the introduction and theory part.

Looking for the information became the challenge for the writer as well. Taxation is a concrete topic connected with law. It turns out extremely hard to find information about different countries law in English. Usually, the writer used the statistical books of European Union to find the numbers about taxation, but it was not enough to write the theory part. So the writer had to read a lot of articles, state sites using online translations, and web pages to fulfil the theory part with useful information about tax benefits.

The most difficult but the most interesting part was the implementation where the writer interviewed the companies. The complication was to get answers from the start-ups. Finding the companies on the internet and read the information about them seemed to be very interesting and exciting. Nevertheless, after writing to many start-ups just a few of them answered. The only person who created the company or who knew the process from the beginning could answer to the questions of the interview. Usually, CEO of the firm doesn't have time to help the students in their thesis. The writer used own connections to talk to companies personally.

The most important that writer got from the thesis is knowledge. She read a lot about taxation, law, and entrepreneurship for the thesis. Some topics that she learned were totally new to the writer; however, some of them she learned in the university but it was forgotten. The researcher hopes she will use the information she has learned during the thesis writing. It would be easier to open the own business with gained knowledge. The writer liked the topic and she still has a wish to continue the studies in finance and especially taxation.

Even if in the university the writer took some courses of thesis writing and business research, writing the real thesis shows how far the researcher is from the perfect writing. However during the writing process, the author noticed English language improvement.

Going through all the challenges and contributing something useful makes the writer satisfied from her work. Probably if there would be more time and concentration from the beginning the thesis could be better and more structured.

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