



**DEVELOPMENT OF THE ADMINISTRATION OF TAXATION OF MEDIUM-SIZED
BUSINESS SERVICES IN UZBEKISTAN
(EXPERIENCE OF FOREIGN COUNTRIES)**

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Abstract

Uzbekistan recognizes that the medium-sized business service sector plays an important role in economic growth and modernization. This sector, which includes a variety of enterprises, has the potential for innovation, employment and economic diversification. At the same time, the effective management of taxation in this sector has attracted the attention of politicians and business leaders. This article includes extensive research on the development of tax administration mechanisms tailored to the specific needs of Uzbekistan's medium-sized business service sector. It examines the challenges facing historical tax systems, the reforms initiated to address them, and their impact on sector growth and competitiveness. This analysis highlights the importance of a balanced taxation system that encourages entrepreneurship, ensures compliance and encourages investment. By examining the dynamic landscape of tax administration, this study contributes to the ongoing debate about economic changes in Uzbekistan and the changing role of taxation in its growing medium-sized business service sector.

Keywords: tax, fiscal policy, budget, tax administration, tax potential, regulatory analysis, positive analysis, tax burden, representative tax rate, average rate, tax reporting, tax revenues, tax benefits.

Аннотация:

в данной статье особое внимание уделяется сектор услуг для среднего бизнеса играет важную роль в экономическом росте и модернизации. Этот сектор, включающий в себя множество предприятий, обладает потенциалом для инноваций, занятости и диверсификации экономики. В то же время эффективное управление налогообложением в этом секторе привлекло внимание политиков и лидеров бизнеса. Данная статья включает в себя обширное исследование по разработке механизмов налогового администрирования, адаптированных к конкретным потребностям сектора услуг среднего бизнеса Узбекистана. В нем рассматриваются проблемы, с которыми столкнулись исторические налоговые системы, реформы, инициированные для их решения, и их влияние на рост и конкурентоспособность сектора. Этот анализ подчеркивает важность сбалансированной системы налогообложения, которая поощряет предпринимательство, обеспечивает соблюдение требований и поощряет инвестиции. Изучая динамичный ландшафт налогового администрирования, данное исследование вносит вклад в продолжающиеся дебаты об экономических изменениях в Узбекистане и меняющейся роли налогообложения в его растущем секторе услуг для среднего бизнеса.



Ключевые слова: налог, фискальная политика, бюджет, налоговое администрирование, налоговый потенциал, нормативный анализ, позитивный анализ, налоговая нагрузка, репрезентативная ставка налога, средняя ставка, налоговая отчетность, налоговые поступления, налоговые льготы.

Introduction:

The medium business service sector in Uzbekistan stands as a critical driver of economic growth and innovation. As the country undergoes significant economic reforms and opens up to global markets, the efficient and equitable taxation of this sector has become a focal point for policymakers and business stakeholders alike. This paper delves into the dynamic landscape of taxation administration within Uzbekistan's medium business service sector. It explores the challenges faced, the reforms initiated, and the prospects for ensuring a tax framework that fosters entrepreneurship, attracts investments, and contributes to sustainable economic development. Through a comprehensive analysis, we aim to shed light on the evolving role of taxation in supporting the burgeoning medium business service sector in Uzbekistan.

Analysis of literature on the topic

A study on “Improving the efficiency of the tax administration system in Uzbekistan through digitalization” recommended the implementation of a taxpayer service portal to provide online services, as well as the simplification of tax procedures to improve service to taxpayers. (A. Gafurov, S. Safarov, & D. Umarov, 2021) [1]

An article on “The role of tax authorities in ensuring the rights and interests of taxpayers” suggested that tax authorities in Uzbekistan should improve communication with taxpayers by providing a hotline and conducting surveys to receive feedback. (S. Karimov & M. Tojiyev, 2020) [2]

A study on “Improving the quality of services provided by tax authorities to taxpayers” recommended the establishment of a separate department to provide services to taxpayers, training programs for tax officials to improve their communication skills, and the implementation of a mobile application to provide access to tax-related information. (N. Rakhimova & B. Yuldashev, 2019) [3].

An article on “Improving the quality of taxpayer services in Uzbekistan” recommended the implementation of an electronic queue system, the creation of a taxpayer service center, and the provision of more online services to improve the quality of service to taxpayers. (D. Khaydarov, 2018) [4].

A study on “The importance of taxpayer services in tax administration” suggested that tax authorities in Uzbekistan should improve their taxpayer services by providing more information on tax regulations, simplifying tax procedures, and creating a more transparent and accessible system for taxpayers. (N. Avezova, 2017)

According to L. Erhard, the market economy can function only if freedom of consumption, choice of profession and workplace, ownership of private property together with means of production, and freedom to enter into contracts are a necessary condition. L. Erhard described free private initiative



and competition in accordance with the active participation of the state in economic life as a tool for the economic recovery of the country [5].

In particular, according to the great classical economist Adam Smith, he associated competition with fair, honest, non-collusive competition between market entities for more favorable conditions for buying and selling goods. He knew price changes as the main method of competition. In this, he noted that the market, which is not controlled by the will of the community, does not have common goals, and follows strict rules of behavior. Therefore, competition is the “invisible hand” that coordinates the activities of market participants. [6].

Y. Schumpeter, within the framework of the theory of economic development, defined competition as a rivalry between the old and the new. Innovations are viewed with skepticism by the market, but if the innovator succeeds in implementing them, he argued that the competitive mechanism will drive companies using outdated technologies out of the market. [7].

According to Tokarev and Manina, export potential can be defined as the ability of an enterprise to create and produce competitive products for export, promote it to foreign markets, sell goods there and provide services at the required level. [8].

According to Goncharenko (2021), “tax optimization” is becoming very complicated nowadays. Tax authorities should be interested in optimizing tax expenses, so that businessmen forget the concept of “tax avoidance”. [9]. Overall, the literature suggests that the implementation of digitalization, simplification of tax procedures, and improvement of communication and access to information can improve service to taxpayers in tax administration in Uzbekistan.

Research Methodology

Theoretical methods such as scientific abstraction, induction-deduction, and observation, statistical analysis, vertical and horizontal analysis and methods are widely used in researching the stages and conceptual foundations of taxation reforms in the agrarian sector.

Analysis and Results

The development of the administration of taxation for medium business services in Uzbekistan has been an ongoing process that has evolved over several periods. Here are some key phases in its development:

Post-Soviet Era (Early 1990s): The initial steps toward developing taxation administration for medium business services in Uzbekistan began in the early 1990s after the country gained independence from the Soviet Union. During this period, there was a transition from the Soviet-style planned economy to a market-oriented system, and new tax policies and administration practices started to take shape.

Early Market Reforms (Late 1990s - Early 2000s): In the late 1990s and early 2000s, Uzbekistan initiated market-oriented economic reforms, including tax reforms. The government introduced measures to simplify tax procedures, reduce tax rates, and encourage private enterprise, including medium-sized businesses.



Mid-2000s - Early 2010s: During this period, Uzbekistan continued to refine its tax administration for medium businesses. Various tax incentives and exemptions were introduced to promote investment in specific sectors. The government aimed to create a more favorable tax environment to stimulate the growth of medium-sized enterprises.

Modern Era (2010s - Present): In recent years, Uzbekistan has implemented significant economic and tax reforms, including efforts to improve the taxation of medium business services. The government has focused on reducing bureaucratic barriers, enhancing transparency, and simplifying tax procedures. These reforms aim to attract more investment and promote entrepreneurship in the medium business sector.

It's important to note that the development of taxation administration is an ongoing process influenced by changing economic conditions, government policies, and global trends. Uzbekistan continues to adapt its tax policies and administration mechanisms to foster the growth and development of the medium business service sector in the country.

The administration of taxation for medium-sized businesses in the United States is shaped by a combination of federal and state-level tax regulations, as well as local tax authorities. The U.S. tax system is complex, with various taxes that may apply to businesses, including federal income tax, state income tax, and local taxes. Here are some key aspects of how taxation administration for medium-sized businesses is shaped in the U.S.:

Medium-sized businesses in the U.S. are subject to federal income tax, which is administered by the Internal Revenue Service (IRS). The federal government sets tax rates, regulations, and guidelines that apply to businesses across the country. The IRS collects federal income taxes, and businesses are required to file annual tax returns with the IRS.

In addition to federal income tax, businesses may be subject to state income tax, which varies from state to state. Each state has its own tax authority responsible for administering state-level taxes. For example, in California, the California Department of Tax and Fee Administration (CDTFA) oversees state taxes. State income tax rates and regulations can significantly differ from one state to another.

Local jurisdictions, such as cities and counties, may impose their own taxes on businesses. These can include sales taxes, property taxes, and other local assessments. The administration of local taxes varies by jurisdiction, with local tax authorities responsible for collection and enforcement.

Medium-sized businesses in the U.S. are required to maintain proper tax records, file tax returns, and pay taxes according to federal, state, and local regulations. Tax compliance is essential, and businesses often seek the assistance of tax professionals or use tax software to ensure accurate reporting.

The U.S. tax code provides various tax credits and deductions that can benefit medium-sized businesses. These incentives are designed to promote specific activities, such as research and development or investment in certain industries.

Medium-sized businesses often engage in tax planning to optimize their tax liability. This may involve structuring the business in a tax-efficient manner, taking advantage of available deductions, and making strategic financial decisions.



Academicia Globe: Inderscience Research

ISSN: 2776-1010 Volume 4, Issue 9, Sep. 2023

Examples of specific tax administrations and regulations can vary widely by state and locality. For instance, Texas does not impose a state income tax, while California has a progressive state income tax system with multiple tax brackets.

Overall, the administration of taxation for medium-sized businesses in the United States is shaped by a combination of federal, state, and local tax laws, with businesses navigating a complex regulatory environment to meet their tax obligations. Tax professionals and advisers often play a crucial role in helping businesses comply with tax regulations and optimize their tax positions.

The administration of taxation for medium-sized businesses in the United States, while generally effective, does face certain challenges and problems. The U.S. tax code is notoriously complex, with numerous provisions, deductions, and credits. This complexity can be challenging for medium-sized businesses to navigate. For example, understanding and correctly applying tax credits, such as the Research and Development Tax Credit, can be complex and time-consuming. Tax regulations vary significantly from state to state and even within local jurisdictions. This can create compliance challenges for businesses operating in multiple locations. For instance, a medium-sized retail chain operating in several states may need to comply with different state and local sales tax rules. Meeting tax compliance requirements can be expensive. Medium-sized businesses often need to invest in tax professionals or software to ensure accurate reporting. Compliance costs can be a burden, particularly for businesses with limited resources. Tax authorities, both at the federal and state levels, conduct audits to ensure compliance. Audits can be time-consuming and costly for businesses. For example, a medium-sized manufacturing company may undergo a lengthy audit of its financial records and tax returns. Tax laws can change frequently due to legislative actions. Keeping up with these changes and adapting to new tax policies can be challenging. Businesses may need to adjust their tax strategies in response to changes in tax rates or deductions. Tax uncertainty can be a problem, as businesses may not always know how new tax laws or regulations will affect them. For instance, changes in federal tax policy, such as modifications to the tax code under a new administration, can create uncertainty for businesses in terms of their future tax liability. While tax incentives can benefit businesses, they can also lead to disputes. States often offer tax incentives to attract or retain businesses, but disagreements can arise over the terms and conditions of these incentives. With the growth of e-commerce, there are challenges related to the collection of sales taxes for online sales. Determining which jurisdictions have taxing authority and how to collect and remit taxes can be complex for medium-sized e-commerce businesses. Determining whether workers should be classified as employees or independent contractors for tax purposes can be a contentious issue. Misclassification can result in tax penalties. Tax identity theft and refund fraud can affect both individual taxpayers and businesses. Criminals may use stolen information to file fraudulent tax returns, causing delays and complications for legitimate businesses.

It's important to note that while these challenges exist, many medium-sized businesses successfully navigate the U.S. tax system. They often seek assistance from tax professionals, accountants, or tax software solutions to address these issues and ensure compliance with tax laws. Additionally, advocacy



groups and industry associations may work to address specific tax-related concerns on behalf of businesses.

The tax administration for medium-sized business services in Malaysia primarily falls under the jurisdiction of the Inland Revenue Board of Malaysia (IRBM), also known as Lembaga Hasil Dalam Negeri Malaysia (LHDNM) in Malay. The IRBM is responsible for administering direct taxes, including income tax for businesses, under the Income Tax Act 1967. The establishment of the IRBM dates back to 1996 when it was officially formed as a government agency responsible for the collection, assessment, and enforcement of income tax and other direct taxes. Its creation aimed to streamline tax administration and improve efficiency.

Here are some key developments and examples related to the establishment and functioning of tax administration for medium-sized businesses in Malaysia:

The IRBM was incorporated on 1st March 1996 as a statutory body under the Inland Revenue Board of Malaysia Act 1995. This move was part of Malaysia's efforts to modernize its tax administration.

The IRBM introduced the Taxpayer Identification Number (TIN) system to uniquely identify taxpayers. Businesses, including medium-sized ones, are assigned a TIN for tax filing and compliance purposes.

To enhance taxpayer convenience and compliance, the IRBM introduced e-Filing systems and various online services. This allows businesses, including medium-sized ones, to file their tax returns electronically.

The IRBM conducts outreach programs, seminars, and workshops to educate businesses, including medium-sized enterprises, on tax regulations, incentives, and compliance requirements.

The IRBM has established taxpayer services centers throughout Malaysia, including in major cities and towns. These centers provide assistance to taxpayers, including medium-sized businesses, on tax matters and compliance.

While medium-sized businesses are not specifically categorized under tax laws, the tax regulations applicable to small and medium-sized enterprises (SMEs) often apply. The IRBM has specific guidelines and incentives for SMEs to encourage compliance and support their growth.

Malaysia offers various tax incentives to attract investment and support business growth. Medium-sized enterprises can benefit from these incentives, such as the Investment Tax Allowance (ITA) and the Promotion of Investments Act (PIA).

The IRBM periodically updates tax laws and regulations to align with changing economic conditions and international standards. These updates impact how medium-sized businesses are taxed and what incentives are available.

The IRBM engages with businesses and industry associations to gather feedback and insights on tax policies and administration. This dialogue helps shape tax regulations and services for businesses. It's important to note that Malaysia's tax system and administration continue to evolve, and medium-sized businesses are expected to stay informed about tax changes and comply with their tax obligations. The IRBM plays a central role in providing guidance, resources, and assistance to businesses in Malaysia, including those in the medium-sized category, to ensure compliance with tax laws and regulations.



Taxation administration for medium-sized businesses in Malaysia faces its own set of challenges and problems. Some of the common issues include:

Malaysia's tax system is known for its complexity. The tax code includes various tax types, deductions, and incentives that can be challenging for medium-sized businesses to navigate. For example, understanding the eligibility criteria for the Investment Tax Allowance (ITA) or Pioneer Status tax incentives can be complex. Malaysia implemented the GST in 2015, but it was later replaced by the Sales and Service Tax (SST) in 2018. The transition between these tax systems created confusion and compliance challenges for businesses. Meeting tax compliance requirements can be costly. Medium-sized businesses often need to invest in tax professionals or accounting services to ensure accurate reporting and compliance. These costs can be a burden for smaller businesses. The Inland Revenue Board of Malaysia (IRBM) conducts tax audits to verify compliance. Audits can be time-consuming and disruptive for businesses. For example, a medium-sized manufacturing company may undergo a thorough audit of its financial records and tax returns. Malaysia has strict transfer pricing rules that require related-party transactions to be at arm's length. Ensuring compliance with these rules can be complex, especially for businesses with international operations. Businesses may struggle with withholding tax compliance, particularly when making payments to non-resident individuals or entities. This includes understanding the withholding tax rates and obligations under double tax treaties. While tax incentives can benefit businesses, disputes can arise over their application. For instance, disagreements with tax authorities over eligibility for tax incentives or compliance with their requirements can lead to disputes.

GST Refunds: For businesses that were registered for GST, obtaining refunds for input tax credits could be a challenge. Delays in processing refunds can affect cash flow. The administration must contend with value-added tax (VAT) fraud, which can include activities like false invoicing and evasion. This affects the revenue collection efforts and requires vigilance from tax authorities.

As the digital economy grows, issues related to the taxation of e-commerce and digital services emerge. Determining how to tax cross-border digital transactions and enforce compliance can be a challenge. For businesses involved in international trade, customs duties and trade regulations can be complex. Ensuring that medium-sized businesses are aware of their tax obligations and benefits is an ongoing challenge. Some businesses may struggle with understanding changes in tax laws and regulations.

It's important to note that the Malaysian government periodically reviews and updates tax laws and regulations to address some of these challenges. Additionally, businesses often seek assistance from tax professionals, accountants, or tax consultants to navigate the complexities of the tax system and ensure compliance. The government also provides resources and guidance to help businesses understand and meet their tax obligations.

The administration of taxation for medium-sized businesses in Russia is primarily managed by the Federal Tax Service (FTS) of the Russian Federation. The FTS is responsible for administering federal taxes, including corporate income tax and value-added tax (VAT), which apply to businesses of various sizes, including medium-sized enterprises. Here are some key developments and examples related to the establishment and functioning of tax administration for medium-sized businesses in Russia:



The Federal Tax Service of Russia was established on August 22, 2004, by a decree of the President of Russia. This move aimed to improve tax collection, administration, and enforcement.

The FTS manages the Unified State Register of Legal Entities (USRLE), which includes information about all registered legal entities, including medium-sized businesses. The USRLE serves as a primary source for tax identification and registration. Russia introduced a Simplified Taxation System (STS) to facilitate tax compliance for small and medium-sized businesses. Depending on the type of economic activity and revenue, medium-sized enterprises can choose to be part of the STS, which simplifies tax reporting and reduces the tax burden. The FTS provides online services for taxpayers, including medium-sized businesses, to submit tax reports, make payments, and access tax-related information. The "My Tax" portal is a central platform for these services. The FTS conducts outreach programs, seminars, and workshops to educate taxpayers, including medium-sized enterprises, on tax regulations, reporting requirements, and compliance. Russia offers various tax incentives and deductions that can benefit medium-sized businesses. For example, certain regions offer reduced corporate income tax rates to attract investment. Russia has introduced electronic invoicing and reporting requirements, which impact medium-sized businesses engaged in trade and services. This helps improve transparency and reduce tax evasion. Russia periodically conducts tax reforms to align tax laws with changing economic conditions. These reforms often affect how businesses, including medium-sized ones, are taxed. Transfer pricing regulations have been introduced to prevent profit shifting and ensure that transactions between related entities are conducted at arm's length. This impacts medium-sized businesses with international operations. The FTS conducts tax audits to ensure compliance with tax laws. Medium-sized businesses may undergo tax audits to verify their tax reporting accuracy. The FTS has established mechanisms for taxpayers to protect their rights and resolve disputes with tax authorities. This includes appeals and dispute resolution procedures. The FTS encourages businesses to use specialized accounting software that integrates with tax reporting systems, making it easier for medium-sized enterprises to fulfill their tax obligations. It's important to note that Russia's tax laws and regulations are subject to change, and medium-sized businesses are expected to stay informed about these changes to ensure compliance with tax obligations. The FTS plays a central role in providing guidance, resources, and assistance to businesses, including medium-sized enterprises, to ensure compliance with tax laws and regulations.

In conclusion, the development of tax administration for medium business services in Uzbekistan has great potential to stimulate economic growth and support a thriving business sector. Based on the experience of foreign countries, Uzbekistan can formulate a tax administration strategy in order to further support medium-sized businesses. Uzbekistan should adopt an approach tailored to its unique economic, social and regulatory context. While international experiences provide valuable insights, solutions must be tailored to Uzbekistan's specific needs. Implementing simplified taxation systems, such as the Simplified Taxation System (STS), can reduce the administrative burden for medium-sized businesses, encourage compliance and facilitate growth. The use of digitization in tax administration, including online services and platforms, can increase convenience and efficiency for medium-sized businesses. Consideration should be given to offering tax incentives and rebates to encourage



investment and expansion in the medium-sized business sector. Adaptation to international taxation standards ensures transparency and competitiveness in the world market. While studying international experiences, Uzbekistan should adapt the policy to local needs and conditions.

Incorporating these considerations into Uzbekistan's tax policy and management will help develop a dynamic and stable medium-sized business sector. This, in turn, can serve to create new jobs, diversify the economy, and increase the overall well-being of the country. The experience of foreign countries serves as a valuable resource for Uzbekistan's journey to more effective management of taxation for medium-sized businesses.

Conclusions and Suggestions

It is necessary to allocate sufficient financial resources for the development and support of medium-sized businesses, and to provide sufficient funding for their successful implementation. By adopting or implementing these recommendations, Uzbekistan will strengthen its service tax administration for medium-sized businesses, ultimately stimulating economic growth and supporting the prosperity of medium-sized businesses in the country.

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