



## **THEORETICAL, METHODOLOGICAL AND METHODOLOGICAL FOUNDATIONS OF THE FORMATION OF A SUSTAINABILITY RATING BASED ON THE TAX MECHANISM**

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### **Abstract**

This article analyzes the theoretical, methodological and methodological foundations of the formation of a sustainability rating based on the tax mechanism. The important role of tax policy and tax administration tools in ensuring economic stability is shown, as well as the importance of the rating system in effectively assessing and regulating the activities of business entities. The work outlines conceptual and methodological approaches to increasing the efficiency of the tax system, strengthening the hidden economy and financial discipline of taxpayers. It also discusses the scientific basis for the use of indicators, assessment criteria and digital technologies in the formation of the rating.

**Keywords:** Revenue mechanism, sustainability rating, business entities, tax policy, indicators, taxation, business entity, tax policy, tax administration, digitalization, economic growth, tax revenues, risk analysis, risks, tax incentives, tax rate.

### **Introduction**

Ensuring the country's economic stability and the stability of budget revenues is one of the main tasks of tax policy. The tax mechanism not only forms state revenues, but also serves as a means of regulating the activities of business entities, strengthening financial discipline and stimulating economic growth. Currently, the issues of assessing and optimizing the effectiveness of the tax system are relevant, and for this there is a need to form a stability rating. The rating system allows assessing the activities of taxpayers based on indicators, identifying risky entities and effectively directing tax control. This work analyzes the theoretical and methodological foundations of forming a stability rating through the tax mechanism, and makes proposals for the effective functioning of the system of indicators and assessment criteria. At the same time, digital technologies and electronic monitoring tools are considered as the main tools in improving the rating system.

### **Literature Review**

The issue of improving the taxation system of business entities is one of the most urgent areas of economic policy, widely studied both globally and in the practice of Uzbekistan.

A. Smith, in his work "An Inquiry into the Nature and Causes of the Wealth of Nations", emphasizes that taxes are considered the main source of income of the state, and their fair and equal distribution affects economic activity. In his opinion, the tax system should not hinder economic freedom.



In the works of D. Ricardo and J. M. Keynes, tax policy is seen as a means of regulating economic growth. They emphasized the need to develop tax mechanisms aimed at increasing state budget revenues and stimulating production.

In the works of modern economists J. Stiglitz ("Public Sector Economics") and P. Krugman ("Economics"), it is noted that the efficiency of the tax system is of decisive importance in ensuring economic stability. In their opinion, the tax system should create a stable environment for business activity and stimulate investment activity.

Uzbek scientists S. Holmuhamedov, Sh. Yuldashev, A. Ikramov, B. Abdurakhmonov and M. Alimov have extensively covered the issues of improving the national tax system, the expediency of tax benefits and the digitalization of tax administration in their research. In their opinion, further simplifying the taxation system for business entities, the widespread introduction of "digital tax services" and creating a transparent environment for taxpayers are important conditions for economic growth.

Foreign researchers E. Tanzi and V. Trekki (IMF experts) have proven in their work that it is possible to expand the tax base and increase the efficiency of collection through the digitalization of tax administration. This direction is also of great importance within the framework of the "Tax Administration Digitalization Strategy" being implemented in Uzbekistan.

Scientists such as A. Makovesky and E. A. Zareskaya also define the concept of tax optimization, which is one of the most common legal methods of tax evasion. According to them, "Tax optimization is usually understood as the purposeful legal actions of the taxpayer, including the full use of all benefits provided for by law, reducing the amount of tax obligations through tax incentives and other legal benefits. In other words, this is the organization of the activities of an economic entity in which tax payments are reduced to a minimum on legal grounds, without violating the norms of tax and criminal law".

E. Hoover indicated the main socio-political basis of tax evasion when he said that "in Germany, the desire to evade taxes is stronger than the desire to be born"

## **Analysis and discussion of results.**

The need to reduce information problems, effectively allocate resources, and anticipate risks in modern economic management has increased the need for comprehensive methods for assessing the activities of business entities. One such approach is the rating approach, which allows for an integrated assessment of the financial stability of a business entity, tax discipline, management efficiency, and the level of compliance with the law.

The rating approach is a methodology for assessing the state of an enterprise in a systematic and standardized manner based on multi-factor analysis, combining various indicators and qualitative aspects. Its main advantage is that it represents complex statistical, financial, and legal information in a simple and understandable rating form, facilitating decision-making for stakeholders, namely investors, banks, government agencies, auditors, and others. In this regard, the rating approach also serves as a means of reducing the asymmetric distribution of economic information and increasing transparency.

Modern forms of the rating concept have their roots in credit ratings that emerged in the United States at the beginning of the 20th century and were initially used to assess financial reliability. However,



today, in addition to financial analysis, it has evolved into complex rating systems that include criteria such as the strategic stability of the enterprise, the level of compliance with legislation, human capital, and social responsibility. The rating model assesses the development prospects, risk level, efficiency, and loyalty of economic entities.

In the experience of the Republic of Uzbekistan, the “Sustainability Rating of Business Entities” system, officially introduced from February 1, 2024, is a national model of this approach. This system was developed in cooperation with the Tax Committee and the Chamber of Commerce and Industry and provides automated assessment based on more than 23 rating criteria. It provides an in-depth analysis of the activities of each enterprise and assigns it to rating categories from “AAA” to “D”.

From a theoretical and methodological point of view, the effectiveness of the rating approach is determined by the correct selection of the criteria system, the transparency of the assessment, the accuracy of the information base and the practical impact of the results. In particular, the tax mechanism plays a central role in this process and actively participates as a source of information, an analytical tool and a stimulating mechanism.

The rating approach is also widely used in international practice. For example, the World Bank's Doing Business rating, OECD indices, as well as the methodologies of rating agencies such as Moody's, Fitch, Standard & Poor's, are unique, but the main principle in all of them is the assessment and ranking of the entity based on criteria. The national rating system of Uzbekistan is also being formed in accordance with these international approaches.

This paragraph will provide an in-depth analysis of the evolution of the rating approach, its theoretical foundations, factors determining the stability of business entities, the role of the tax mechanism, as well as the methodological foundations of rating assessment methods based on the experience of Uzbekistan and abroad. This analysis serves as the theoretical foundation for developing the rating model, indicator system, and evaluation criteria proposed in the following chapters.

The stability rating is an integrated assessment system of financial stability and tax discipline indicators of business entities. This system is based on the concept of credit ratings in economic theory, for example, “AAA” is the highest, D is the lowest. In international practice, similar ratings are used to evaluate and encourage enterprises. In particular, in China, taxpayers are divided into categories A, B, C, D, with higher categories receiving various benefits, while lower categories are subject to increased control by tax authorities. The intended purpose of this approach is to encourage enterprises to operate in accordance with the law and reduce tax risks.

Theoretically, the rating system is based on a multi-criteria assessment method. This method combines the principles of system analysis and expert scoring. That is, the state of the enterprise is assessed according to various indicators in a scoring system, and ultimately a general integrated indicator, i.e. a rating index, is obtained. This index represents the level of stability of the enterprise and allows it to be compared with other entities. Such ratings are also studied in scientific schools of corporate governance and risk management, and the idea of ensuring stability is put forward by assessing the financial health,



solvency and tax behavior of enterprises<sup>1</sup>. Xususan, reyting natijalari korxonadagi korporativ boshqaruv madaniyati, soliq intizomi darajasini aks ettiradi va yuqori reytingga ega kompaniyalarda odatda ixtiyoriy ravishda yuqori tartib-intizom shakllangan bo'ladi.

In world experience, the expected result of using ratings is to increase compliance through incentives. That is, enterprises that strictly comply with legislative requirements are distinguished by rating and simplified procedures and benefits are introduced for them. For example, in the Chinese tax rating system, taxpayers at level A receive many additional opportunities, such as ease in using tax benefits and convenience in obtaining loans, while entities at level D are subject to inspections and restrictions. This approach shows that the rating system simultaneously performs the function of control and incentive. A high rating is rewarded, while a low rating automatically encourages the entity to correct its activities.

Resolution of the President of the Republic of Uzbekistan<sup>2</sup> The "Sustainability Rating of Business Entities" system was introduced for the first time in the country. In accordance with this resolution, a rating practice aimed at identifying and encouraging entrepreneurs operating in compliance with the legislation was launched from February 1, 2024. The legal basis for this initiative is the measures approved by Resolution No. PQ-39, as well as the "Regulations on the Procedure for Determining the Stability Rating", approved by Resolution of the Cabinet of Ministers No. VMQ-55 dated January 30, 2024. Subsequently, in order to further improve these procedures and criteria, documents such as Resolution VMQ No. 428 dated July 16, 2024 and Resolution VMQ No. 467 dated July 31, 2024 were adopted, and additions and changes were made to the rating methodology.

The national approach is to integrate this rating system into digital tax administration processes and implement it on the basis of interagency cooperation. That is, the rating covers not only the data of the tax authority, but also the data of a number of organizations, such as the Ministry of Justice, the Cadastre Agency, the Courts, the Ministry of Employment. Thus, the rating becomes a multi-faceted integrated assessment. The theoretical basis of such an approach is the ideas of institutional economics, that is, the concept of achieving efficiency through inter-organizational information exchange. In addition, local scientists rely on modern research to scientifically substantiate the rating criteria and scores. In particular, some scientific works are analyzing the areas of improving the rating criteria and increasing its economic efficiency. The sustainability rating system serves as a tool for assessing business entities, based on principles such as legality, fairness, transparency, and incentives, determining their financial and institutional stability. Therefore, the process of forming this rating is determined by the following basic principles:

<sup>1</sup> <https://www.china-briefing.com/news/chinas-taxpayer-credit-rating-system-an-explainer/#:~:text=A%20good%20tax%20credit%20rating,related%20matters>

<sup>2</sup> [https://www.researchgate.net/publication/390949098\\_RAQAMLI\\_FISKAL\\_BOSHQARUV\\_DOIRASIDA\\_BARQARORLIK\\_REYTINGININGJQTISODIY\\_SAMARADORUGI\\_VA\\_METODOLOGIK\\_TAKOMILLASHTIRISH\\_YO'NAUSHLARIECONOMIC\\_EFFECTIVENESS\\_AND\\_METHODOLOGICAL\\_IMPROVEMENT\\_OF\\_STABIUTY\\_RAT#:~:text=%E2%80%99CAAA%E2%80%9D%2C%20%E2%80%9CAA%E2%80%9D%20va%20%E2%80%9CA%E2%80%9D%20toifalariga,9%20631%20ta%20yoki%202](https://www.researchgate.net/publication/390949098_RAQAMLI_FISKAL_BOSHQARUV_DOIRASIDA_BARQARORLIK_REYTINGININGJQTISODIY_SAMARADORUGI_VA_METODOLOGIK_TAKOMILLASHTIRISH_YO'NAUSHLARIECONOMIC_EFFECTIVENESS_AND_METHODOLOGICAL_IMPROVEMENT_OF_STABIUTY_RAT#:~:text=%E2%80%99CAAA%E2%80%9D%2C%20%E2%80%9CAA%E2%80%9D%20va%20%E2%80%9CA%E2%80%9D%20toifalariga,9%20631%20ta%20yoki%202)



- **Legality and formality:** Rating indicators are formed only on the basis of legally approved data and documents. All criteria are established by regulatory documents and are publicly announced. This principle ensures the legal validity of the rating results.
- **Objectivity and transparency:** The rating is calculated using an automated information system, without the human factor. The rating points of a business entity are automatically calculated by the system based on direct digital data. The results are published on the website of the Chamber of Commerce and Industry and are accessible to all interested parties. Thus, the rating process is organized in a transparent and reliable manner.
- **Integration and interdepartmental cooperation:** When calculating the rating, data from several ministries and departments are combined on a single platform. For example, tax authorities, justice authorities, courts, cadastral services, employment and other departments transfer relevant information from their databases to the platform through interdepartmental information exchange. This principle allows for a comprehensive assessment of the rating score based on a comprehensive information base.
- **Periodicity and continuity:** Rating indicators are updated in different periods (daily, monthly, quarterly, annual). As new data is received for each criterion within a specified period, the system recalculates the enterprise's points and updates its rating. Therefore, the rating is a dynamic indicator that is updated in real time. At the end of each month, as new financial or tax data is received, the entity's points may increase or decrease accordingly, and if the shortcomings are eliminated, previously deducted points are restored.
- **Incentives and prevention:** The rating system is oriented towards incentives rather than punishment. Business entities with a high rating are provided with special privileges and benefits. This encourages other entities to comply with the law. At the same time, the rating is also a tool for managing tax risks. Entities with low ratings are the focus of attention of tax authorities, where measures are taken to prevent tax risks. This principle strengthens preventive control, and entities warned as a result of the rating strive to improve their situation.
- **Fairness and differentiation:** The system stratifies enterprises of different levels, distinguishing between "high" and "low" categories. The assessment criteria are applied uniformly and equally to all business entities. However, according to the final score, entities are divided into categories and differentiated according to their level of stability. As a result, all enterprises are assessed on the same rating scale, and their internal discipline and stability reserves are compared fairly.

The above principles serve to implement the rating system in practice on a theoretical basis. All of these principles are reflected in the Presidential Decrees and the corresponding Regulations, aimed at ensuring the effective and efficient functioning of the rating system.

According to the results of the stability rating, each business entity belongs to one of the established rating categories. In the experience of Uzbekistan, letter codes accepted in international practice have been adopted for the rating, and a total of 10 categories have been established. They are detailed as follows:





- “AAA”, “AA” and “A” - high stability rating. Entities in this category have the highest scores, their activities are stable and their financial performance and tax discipline are considered excellent;
- “BBB”, “BB” and “B” - medium stability rating. Entities in this category have an average score on stability, they may have some shortcomings in their activities, but in general they are working satisfactorily;
- “CCC”, “CC” and “C” - satisfactory stability rating. Enterprises in this category have a stability indicator at the minimum required level and have serious development needs. Significant risks or disciplinary shortcomings may have been identified in their activities;
- “D” - lower stability rating. The lowest category, indicating a very low level of stability. Such entities are assessed as having serious problems with financial or tax discipline.

The content of the above categories is clearly defined and is carried out using this letter rating scale. Thus, “AAA” represents the best situation, and “D” represents the worst. At the same time, the categories are divided into groups, which are divided into high, medium, satisfactory and low groups. Rating categories serve as a label indicating the reputation and reliability of the enterprise. This label serves as an important source of information for partners, investors and government agencies. In particular, it is natural that banks and investors are more willing to work with an enterprise with a high rating, since such a rating indicates its stability and reliability. Therefore, rating categories affect the relations of business entities not only with the state, but also with the business community.

The stability rating is calculated on a special electronic platform of the Tax Committee. An electronic platform “Sustainability Rating of Entrepreneurs” has been created, on which all necessary information is collected and processed online. This platform operates on the basis of interdepartmental information exchange, and the information systems of various government agencies operate in an integrated manner. For example, the Ministry of Justice's Register of Legal Entities, the Tax Committee's tax database, the Ministry of Finance and Economy's treasury data, the Cadastral Agency's registers, the Chamber of Commerce and Industry database, the Business Ombudsman's data, the Supreme Court's database, and other relevant systems are interconnected to this electronic platform.

The platform's operating algorithm is designed in such a way that the data is updated in real time. As soon as new information from each agency enters the platform, it automatically affects the subject's scores for the corresponding indicator.

Stage of determining the sustainability rating of business entities.

Stage 1 - At the data collection stage, the necessary data is received by the platform daily, monthly and quarterly through interdepartmental integration. For example, at the end of the month, information on tax reports and payments is automatically imported from the Tax Committee system, information on the number of employees and salaries from employment authorities, information on new court decisions or founders from the Supreme Court database;

Stage 2 - Evaluation and scoring. The evaluation rules established in the Regulations are applied to each new indicator received by the platform. For example, if an enterprise submitted all tax reports on time this month, it will be given full points for this criterion, or if it purchased new property, points will be added for the relevant criterion. On the contrary, if the registered address has changed or the manager



has changed, then the score will be reduced according to the criterion of the instability of the address manager. These calculations are carried out using fully automated algorithms;

Stage 3 - Summing up the points. The points determined by all criteria are summed up to form the overall rating score of the subject. In current practice, the maximum possible score is 100. The platform stores the sum of the points accumulated for the current day for each subject;

Stage 4 - Determining the rating category. The accumulated total score is divided into the appropriate category according to the rating scale. Depending on the ranges in the table above, the platform automatically determines the category of the subject. For example, the platform code assigns a category to a score of  $\geq 86$  to the "A" category, if the score is  $\leq 25$ , to the "D" category, and so on using conditional operators;

Stage 5 - Announcing the results. The final rating category and information about the points are displayed in real time in the taxpayer's personal account. A business entity can log in to its account on the my.soliq.uz portal and see how many points it received for which criterion and its overall rating. At the same time, the list of rating categories of all entities is regularly updated and published on the official website of the Chamber of Commerce and Industry. The rating results are made public;

Stage 6 - Feedback and corrections. If a business entity is dissatisfied with its rating or notices an error in the information, it can contact the tax authorities and have the information checked. According to the current procedure, the Tax Committee and the Chamber of Commerce and Industry jointly answer questions from entities about the rating. In this case, if the rating has actually decreased due to incorrect information, appropriate corrections are made. Thanks to this platform algorithm, the rating system achieves dynamic, independent and reliable operation. Each indicator is taken into account in a timely manner, and the status of the entity is constantly monitored. For example, if the entity previously had a reduced score due to tax debt for several months, then if it later pays the debt in full, the previously deducted 5 points will be restored. In this way, the rating reflects the current situation.

The platform algorithm also provides for some special restrictions. As mentioned above, the upper limit of the rating for entities paying taxes without turnover, that is, small businesses, is limited to "AA". This is done on the platform in such a way that even if the score of simplified tax payers exceeds 96, their rating will automatically be set to "AA" instead of "AAA".

In general, the transparent display of the rating through the my.soliq.uz personal account and the collective publication through chamber.uz increase trust in the system. Interdepartmental information integration guarantees the accuracy and completeness of data. Such an automated platform is part of the digital transformation in the tax sector, and not only improves the efficiency of tax administration, but also serves as a means of self-control for entrepreneurs. The rating criteria are a set of indicators that measure the stability of a business entity in various aspects.

In general, the rating evaluation methodology includes a system of points based on these criteria. The maximum score or the number of points deducted is set for each criterion. The general calculation formula for the rating is as follows:



Total score =  $\sum_{i=1}^n [\text{Ball}]_i^{(+)} - \sum_{j=1}^m [\text{Ball}]_j^{(-)} + \sum_{k=1}^p [\text{Ball}]_k^{(\text{extra})}$  (1.9)

where:

$[\text{Ball}]_i^{(+)}$  - score based on the general criterion;

$[\text{Ball}]_j^{(-)}$  - score based on the negative reducing criterion;

$[\text{Ball}]_k^{(\text{extra})}$  - score based on the additional encouraging criterion.

$n, m, p$  - the number of criteria, respectively.

For example, suppose an enterprise showed an ideal result for all 10 general criteria and received 80 points, but it had 2 negative factors, for example, a change of address and an amendment to the report, which subtracted -3 and -2 points, and received +2 points for one of the additional criteria (employment of the disabled). As a result, the total score =  $80 - (3+2) + 2 = 77$  points. This corresponds to the “BBB” category in the rating.

The distribution of points in the examples above is based on these official criteria. The rating methodology is constantly being improved. In particular, by Resolution No. 467 of July 31, 2024, changes were made to 6 criteria: EBITDA profitability, asset accounting, wages, etc., and a more fair assessment was established. These changes optimized the ratio of some points and increased the objectivity of the rating results.

In conclusion, it can be said that the tax-based sustainability rating system is a modern approach to the development of business entities. Theoretically, it is based on the concepts of multi-criteria assessment and incentives, and practically it is implemented through a digital platform. With the help of the rating system, new relations are being formed between the state and business. The success of this system depends on its continuous improvement, adherence to the principles of openness and fairness. The initial results obtained so far confirm the correctness of this approach. The sustainability rating encourages business entities to be more responsible, to conscientiously comply with financial discipline and tax obligations. In the future, this rating system will significantly contribute to improving the business environment in our country, reducing the share of the underground economy, and increasing investment attractiveness.

The theoretical and methodological foundations of the rating approach to assessing the activities of these business entities, the role of the tax mechanism in the rating system, and the formation of a national model harmonized with the practice of Uzbekistan were analyzed on a deep scientific basis.

Firstly, the rating approach was formed as an integrated assessment method through criteria such as the financial stability of the business entity, tax discipline, management quality, and compliance with the law, which plays an important role in reducing the asymmetry of economic information, optimizing resource allocation, and managing risks. Through the rating assessment methodology, a multi-parameter economic signal is presented in the form of a simplified score.

Secondly, the tax mechanism, as a central component of the rating system, serves not only as a source of information for assessment, but also as an incentive and regulatory tool based on the rating results.





In particular, the criteria formed on the basis of tax payment discipline, accuracy of reporting, property ownership, and other indicators allow quantitatively measuring the stability of the enterprise.

Thirdly, the national system of “Sustainability Rating of Business Entities”, introduced in the Republic of Uzbekistan from February 1, 2024, is adapted to international rating practices and is based on a scoring method based on 23 criteria. The rating criteria are divided into three categories: general, mitigating and stimulating indicators. The assessment is carried out automatically, online, without a human factor through information exchange between departments and platforms.

Fourthly, according to the rating results, business entities are divided into the following categories:

- High stability rating: “AAA”, “AA”, “A”;
- Medium stability rating: “BBB”, “BB”, “B”;
- Satisfactory stability rating: “CCC”, “CC”, “C”;
- Lower stability rating: “D”.

This gradation determines the reliability level of each business entity and determines the likelihood of its use of tax breaks or being monitored. For example, entities of the “AAA” category are not subject to tax audits, VAT refunds are processed within 1 day, and other benefits are provided.

Fifth, the electronic platform “Entrepreneurs' Stability Rating” under the Tax Committee automatically generates the rating. The platform operates on the basis of real-time information exchange with the Ministry of Justice, the Customs Committee, the Ministry of Employment, the Cadastre Agency, the Supreme Court and other bodies. This ensures the transparency, accuracy and continuous updating of the system.

Sixth, the rating approach is not only a monitoring tool, but also has strategic importance in differentiating the state's economic policy. Through it, an individual approach is being introduced to enterprises. Those with a high rating are encouraged, and preventive measures are offered to those with a low rating.

The sustainability rating approach and its formation through the tax mechanism are an innovative element of Uzbekistan's economic policy and an effective management instrument aimed at digitizing the economy, improving tax culture, and encouraging fair competition. For this approach to work effectively, it is necessary to constantly improve the criteria, make rating information widely available, and harmonize it with international rating systems.

## Conclusion and Suggestions

To form a sustainability rating based on the tax mechanism, the following are recommended:

Defining rating indicators clearly and quantifiably.

Assessing taxpayer activity through electronic monitoring and digital platforms.

Integrating rating results into the tax control and incentive system.

Making tax legislation stable and predictable.

These measures will serve to strengthen taxpayer financial discipline and increase economic stability.



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