



**FOREIGN EXPERIENCE IN TAX RISK ASSESSMENT AND DIRECTIONS FOR ITS USE
IN THE NATIONAL TAX SYSTEM**

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Abstract

This article examines the methodological foundations of tax risk assessment and management in the tax system. The issues of improving tax administration in the digital economy and analyzing taxpayers' activities based on a risk-oriented approach are discussed. The article considers the criteria for identifying tax risks and models for their quantitative assessment, and puts forward proposals to improve the effectiveness of risk management in the tax system of Uzbekistan.

Keywords: Tax revenues, risk analysis, risks, efficiency, digital platform, methods and tools, advanced information and communication technologies, analysis, optimization, tax incentives, tax rate.

Introduction

Today, global changes in the world economy and the process of digitization of the state financial system are placing new demands on the tax administration. The stability of the tax system and the completeness of budget revenues directly depend on the correct assessment of tax risks and their timely elimination. One of the priority areas of the tax reforms being implemented in the Republic of Uzbekistan is the full introduction of a risk-oriented approach to the tax control process. The tax risk assessment methodology serves not only to reduce the state's financial losses, but also to create a favorable business environment for honest taxpayers. Because this system allows you to reduce inspections and focus on "undisciplined" entities with a high probability of tax evasion. However, today the issues of improving mathematical and statistical methods for identifying tax risks, using the capabilities of artificial intelligence, and adapting international experience to national legislation still remain relevant. This article aims to explore these methodological gaps and provide scientific and practical recommendations for developing the field.

Literature review

Analysis of the literature on the topic. Today, a number of scientists and experts put forward various scientific approaches to the causes of the emergence of the underground economy in the country and the growth of underground economy indicators. In particular, the Swedish economist K.F. Becker emphasized the uniqueness of the underground economy, the informal economy - an uncontrollable part of the market economy, which produces goods and provides services based on other forms of incentives [2]. Supporters of the Spanish scientist Hernando de Soto say that one of the reasons for the emergence of the underground economy is the "bad" laws in the country [3]. These laws artificially hinder active economic activity, turning law-abiding citizens into persons engaged in underground



economic activity. In order to eliminate this negative situation, they emphasize the need to reduce bureaucracy for economic activity in the country. They propose to implement this policy by gradually liberalizing the economy, simplifying the procedure for registering companies, reducing the tax burden, and reducing the number of inspection bodies. Russian economists A.K. Bekryashev and A.K. Belozero cite the following as the reasons for the emergence of the shadow economy: - incomplete information about the market; - the market's failure to function in the interests of society; - the market's inability to effectively withstand external negative factors; - the market's inability to withstand social inequality; - lack of objective information about the market when making decisions; - imperfect political processes; - limited control over the state apparatus; - anonymity [4]. Other Russian scientists also cite the following as the main reasons for the emergence of the shadow economy: - irrational policy pursued by the government; - rampant corruption in regulatory bodies; - increasing unemployment in the country, low efficiency of the regulatory mechanism to combat it; - mismanagement in management; - lack of legal economic infrastructure; - historical factors; - closed society, etc.

Analysis of literature on the topic

If we pay attention to the world practice of taxation development trends, we can see general processes aimed at strengthening fair taxation practices. An integral part of this process, along with strengthening a stable system of attracting tax revenues to the state budget, is the assessment of the risks of tax revenues not reaching the budget on time and in the amount specified, identifying their causes and improving work in this area. If we pay attention to world practice, risk assessment in the tax system has developed significantly in the seventies of the last century, and to this day this process is being significantly improved in the experience of countries around the world. Various special conferences have been held in this regard, at which specific recommendations on tax risk management have been developed and are being implemented by countries in practice.

For example, one of such important events was the development of a "practical note on risk management" by the Committee on Fiscal Issues in 1997 and presented it to the participating countries. It also outlines the application of risk management principles in the tax system, and develops a concept for income risk management, with special emphasis on the risk of income generated by taxpayers. At a meeting of the tax authorities of the member countries of the Organization for Economic Cooperation and Development in May 2002, the issue of compliance risk management was put on the agenda as a new area. In this regard, together with internal compliance issues affecting small and medium-sized businesses, a methodology for controlling tax risks arising in this category of taxpayers in four different areas was outlined: risks associated with registration in the system, risks associated with taxpayers' timely submission or submission of necessary tax information, and guidelines were developed on tax risks arising from reporting complete and accurate information (including proper recordkeeping).

According to sources, "compliance risk management is a structured process for systematically identifying, assessing, ranking, and treating risks to tax compliance (e.g., failure to register, failure to properly report tax liabilities, etc.) and, like risk management, it is an intensive process consisting of



clearly defined steps to support improved decision-making."¹ In addition, this system is based on a continuous process that also serves to assess the factors that affect compliance with it, reducing the likelihood and consequences of adverse impacts on agreed objectives and increasing the opportunities for improvement through innovation, which in turn requires awareness and proactive action. In fact, the management of compliance risks in the tax sector is based on two approaches: strategic (top-down) or operational (tactical) level (bottom-up), in the first of which tax risks identified at the (strategic) level usually "require comprehensive and carefully managed interventions, while risks identified at the operational level can usually be considered as part of day-to-day business, while at the strategic level compliance risk management is aimed at identifying specific categories of non-compliant behavior that may be subject to significant tax consequences".² will be directed to. The study of experience in the risk management system in the tax system leads to the conclusion that in most European and Asian countries, the segmentation method in assessing tax risks is quite effective, and the process of segmenting taxpayers' activities, which has been used in the Uzbek tax system for the past four years, is based on international best practices, standardizing risk assessment based on segmentation of taxpayers' activities, and the practice of applying sequence-based methods separately for small, medium and large enterprises. We believe that it is also important to apply it in the Uzbek tax system. For example, this experience is widely and effectively used in Austria, which ensures the reliability of assessing taxpayer data based on the collection and storage of statistical data and standardized results of audit activities. In addition, one of the best practices of this country is that it takes a systematic approach to using indicators such as turnover or gross income, assets or number of employees in assessing tax risk, that is, it emphasizes the effectiveness of these indicators in assessing tax risk in each case, based on the scale of the enterprise, while evaluating the internal characteristics of each indicator and the factors affecting it in their interrelationships, and drawing conclusions based on this.

¹ Organisation for economic co-operation and development. Compliance Risk Management: Managing and Improving Tax Compliance. Forum on Tax Administration Committee on Fiscal Affairs Compliance Sub-group October 2004. <https://www.oecd.org/tax/administration/33818656.pdf>. p.8.

² O'sha manba.b.16.

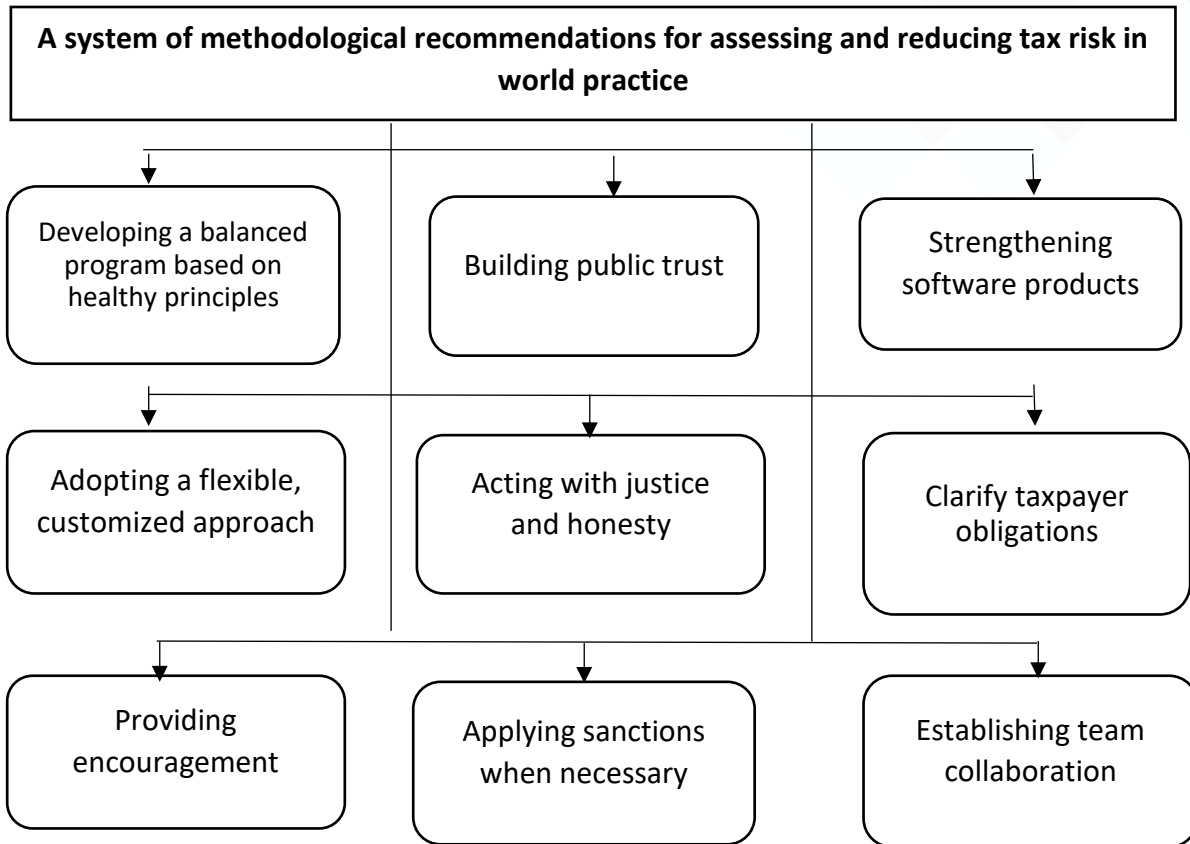


Figure 1. System of methodological recommendations for assessing and reducing tax risk in world practice ³

In turn, this experience "While in the Kingdom business segmentation is based on gross turnover (<£15,000, £15-250,000, £250,000+), in Denmark businesses are divided into segments based on gross turnover, complexity of operations and whether they are incorporated or unincorporated companies. and individual taxpayers filing returns are divided into categories based on the complexity of their operations, their public profile and risk profile"⁴.

Another foreign experience used in tax risk assessment is the experience of using identification systems. The advantage of this system is that it provides the effectiveness of obtaining (owning) the necessary indicators used in assessing tax risks for taxpayers. For example, in Canada, to determine the effectiveness of risk identification, national risk identification systems are constantly measured, the results of tax audits for different groups of calculated risks are compared. Depending on the differences, tax risks are clarified.

³ Ilmiy adabiyotlar asosida muallif tomonidan tuzilgan.

⁴ O'sha manba.b.18.



In some countries, such indicators are more based on information from the courts and the media. For example, in Switzerland, such a method is widely used. In this country, civil courts are a useful source of information, for example, when determining the tax risk of citizens on their income, where the spouse of a divorced spouse often testifies to a higher income than declared in the tax system, this is taken as a real indicator, the experience of this country shows that victims of financial fraud often turn out to be fiscal fraudsters, which is why the Swiss Federal Tax Administration has created special teams to conduct inspections in this area.

In Denmark, "the business registration number is used not only for the calculation of taxes, VAT, customs and excise duties, but also as a single registration number for the business in all cases, the business data of a third party is linked to the business registration number of the informant, the business registration number and the access code are used for reports on payroll data, customs and VAT declarations"⁵. In Australia, a codification called a "unique number" is used, which is usually publicly announced to verify the authority to transact through the business register, allows for the generalization of internal and external sources of information about the taxpayer and determines the level of tax risk using appropriate criteria, in fact, this number is assigned separately for each type of tax. This experience has also been partially applied in Denmark, where the business number is required to be on invoices and receipts in accordance with the VAT code. In some countries, however, a much larger number of criteria are used, for example, this system is more widely used in Canada.

As another experience of great practical importance in our research on the selection of best practices in tax risk assessment as a result of the analysis of foreign experiences, we can cite the experience of applying the "behavioral principle" in identifying tax offenses among taxpayers and assessing the tax risk associated with them. In this method (principle), the main focus is on the social aspects of the taxpayer, namely, his history of tax evasion, behavior in mutual receivables and payables with other enterprises (compliance with discipline), whether the enterprise has been held financially (administratively, criminally) liable by various organizations or has been recognized in a positive sense, the activity of repaying loans received, and similar social and institutional criteria are used to determine tax risk. In our opinion, the implementation of mechanisms for identifying, assessing and segmenting taxpayers' tax risks based on these criteria in the tax system of Uzbekistan will also be effective.

Currently, the problems of developing tax relations are being actively discussed in the world. Each state or tax authority faces an environment in which it must control and regulate the tax system. Jurisdictions differ in their fiscal policy, administrative practice, legislation, procedure, etc. It follows that it is not appropriate to establish a single standard approach to tax compliance management and tax rules that will be applicable to all tax authorities. However, the main goal of all tax authorities is to achieve maximum tax revenue from tax compliance within the framework of their laws. Therefore, it is very important for them to identify appropriate rules and measures, and, first of all, the most important measures. In particular, tax authorities need to find answers to the following questions:

1. What are the tax risks that need to be addressed first?

⁵ Organisation for economic co-operation and development. Compliance Risk Management: Managing and Improving Tax Compliance. Forum on Tax Administration Committee on Fiscal Affairs Compliance Sub-group October 2004. p.31.



2. Who are the taxpayers who are at tax risk?
3. How should these risk issues be addressed to achieve optimal results?

In practice, there are many factors that complicate the answers to the above questions. Furthermore, it is difficult to create universal guidelines due to the wide variety of differences between countries. For example, countries may differ in their tax compliance behavior due to their cultural factors, trust in the civil service, the complexity of tax laws, the overall tax burden, etc. Tax compliance varies not only between countries but also across industries. For these reasons, countries need to establish a systematic process to decide what is important in the context of tax risk and which country's practices are more or less suitable for them. Globalization has made it increasingly necessary for countries to cooperate with each other in managing their tax revenue systems. Countries and international organizations are seeking ways to ensure that taxes are paid in full and in the correct country. In today's world, several factors have significantly increased tax risk, as well as the complexity and volume of services provided by tax authorities, and the scope of audits and other compliance measures. These include the growth of international trade, with increasing e-commerce, changes in employment and the number of contractors, innovations in business structures and financial services, and the commoditization of tax schemes.

Rising levels of education, the increasing impact of travel and immigration, and the increasing sophistication of citizens' worldly knowledge are creating greater and more sophisticated demands on administrations and governments. As a result, tax authorities are seeing increasing demands on their resources, which require different approaches and interactions to process tax laws.

Historically, many tax authorities have addressed the risk of non-compliance only as part of their enforcement programs. Traditional reactive intervention strategies, such as comprehensive audits, are a necessary approach to addressing some aspects of tax risk, although costly. Today, tax experts are calling on tax authorities to pay more attention to understanding the factors that influence taxpayer compliance behavior, so that a more effective set of measures designed and implemented can be focused on eliminating the underlying risk, rather than dealing with negative consequences. L.I. Goncharenko⁶ in his research, he paid attention to the method of reducing tax risks of the Norwegian state. The main direction of risk management mechanisms is to remove the burden of tax officials from the tax administration, which causes regular and low-efficiency work. Accordingly, the activities of employees and human resources are redistributed to more intelligent areas of management. As a result of the established priorities, management improves and efficiency increases. In Norway, the principle of "green" and "red" lines is the essence of management strategy. This principle is based on the fundamental division of management functions into positive opportunities, i.e. prospects, and negative threats and the risks associated with them.

The Norwegians went further in their concepts, using excellent PR techniques. Positive opportunities in the management model are associated with the "green" line, and risks - with the "red". As a result, for consumers of tax services, a "green" customs lane is perceived as a signal similar to a "green" traffic

⁶Л.И. Гончаренко Финансы и кредит > 2(338) - 2009 январь Налоговые риски: теория и практика управления Б 2-11



light. Negative factors, risks and related entities are recorded and divided into risk groups. The philosophy of identifying risk groups is as follows:

- The identification of risk groups is based on the implementation of laws and the measurement of risks. Tax advisors are assumed to have provided assistance to the taxpayer (accountants, auditors, consultants);
- Part of the declarations is recorded according to the "red line". After the "red line", the taxpayer is transferred to a risk group;
- Risk groups of individuals and enterprises are not strategically separated.

In Norway, the triangle model is used to simplify the functions of identifying and managing risk groups. The strategy of the Norwegian tax authorities is based on the fact that most citizens are responsible taxpayers, they are located at the bottom of the triangle and do not require much attention to themselves, but they need full information for correct actions. Taxpayers who deliberately evade taxes are located at the top of the triangle. It takes significant resources to extract the necessary taxes from this group of taxpayers, using all legal means. Studies have shown that "exposure risk" is a decisive factor in tax compliance, but the strength of this factor is perceived differently. Tax authorities should be particularly transparent about exposing unscrupulous taxpayers.

In Hungary, the following risk factors are assessed when selecting tax audits: the risks and aspects of the tax audit included in the scope of the annual tax audit; taxpayers' tax records organized according to centralized unified approaches; taxpayers' qualifications; previous tax audits and additional audit experience; information disclosed by third parties (other authorities and other taxpayers); disclosure of information; databases; information from international data exchange systems; taxpayers' tax history; public information; other information available in the tax authority's database and having a risk value.

In Hungary, taxpayer data is grouped as follows:

- information provided by taxpayers,
- information received from third parties
- Hungarian National Tax and Customs Administration (NTCA) own data.

For example, this data includes: basic data of taxpayers held by the tax authority; tax reporting and tax declaration data; data from real estate and vehicle registers; data received as a result of requests initiated by EU countries; data from various business databases; ekar notification data (electronic road transport trade control system); VIES control data; data from online trade registers or detailed VAT data. In Hungary, fraudulent issuers and recipients, taxpayers who may be involved in VAT fraud, and taxpayers who conceal their purchases and resales are filtered out through analysis and comparison. The Hungarian tax administration focuses on the automatic exchange of large amounts of data, for example: the VAT (VIES) data exchange system; information submitted under the Foreign Account Tax Compliance Act (FATCA); financial account information (DAC2/CRS); country-by-country reports (DAC4/CbC).



Hungary is most often requested for VAT information by Slovakia, Romania, the Czech Republic, Poland and Germany, and Slovakia, Germany and Austria account for the majority of requests for tax returns.

Therefore, after assessing the identified risk, the State Tax Service authorities take the following measures:

facilitate the fulfillment of tax obligations (notify the taxpayer, call the taxpayer to reconciliation, disclosure, filing, filling in and submitting their tax return, self-audit);

encourage the elimination of tax risks (deletion of the taxpayer's identification number, notification to the NTCA investigation body); or if it is impossible to apply these measures due to the nature of the identified risk, the tax authority has the right to select a taxpayer for tax audit.

Australia has one of the most developed and transparent tax monitoring systems in the world. Every year, the Australian Taxation Office implements a system for assessing the adequacy of tax administration in managing risk⁷.

The result of this work was the creation of a "tax compliance assessment program", which includes the main problems of tax control.

The Australian Taxation Office singles out the following main tax risks for large companies:

- organizational losses transferred to groups of companies in business combinations (consolidation);
- transfer of profits to foreign jurisdictions (inconsistency with the Real functions performed in Australian structures);
- hybrid financial instruments for raising funds (considered as long-term liabilities for tax purposes and as contributions to the authorized capital for accounting purposes);
- implementation of large infrastructure projects by investment companies;
- participation in transactions of offshore companies;
- complex financial transactions involving foreign companies (risk of double recognition of expenses and undeclared income in Australia and in the country of registration of the counterparty).

By publishing a list of tax risks and a list of prohibited tax schemes, the Australian Taxation Office, which seeks to reduce the likelihood of tax challenges by the state, sets the "rules of the game" for business.

The main source of tax risk in the countries in Table 3.1 is the use of schemes involving offshore companies by taxpayers. In addition, most countries consider the abuse of double taxation treaties, the artificial creation of losses and the use of loopholes in tax legislation as risks.

In conclusion, tax cooperation and coordination is a best practice in terms of multilateral government efforts. It strengthens rather than undermines national tax sovereignty. However, multilateral efforts are also important to combat cross-border tax evasion and avoidance, as well as to prevent risky tax practices through non-transparent tax administration decisions. By collecting, analyzing, and facilitating cooperation between countries, information sharing can lead to significant positive results in tax risk management.

⁷ Avstraliya soliq boshqarmasi materiallari - <http://www.ato.gov.au>



Conclusions and recommendations.

Based on the above, we would like to present our own author's approach to the concept of risk in this section of our research: Risk is a socio-economic and social situation that, based on the objective laws of nature and society, the content of the organization of social life, affects the harmonious course of people's lives, the compliance of economic relations with the interests of humanity, and prevents the achievement of the main goal. It is advisable to increase the effectiveness of tax control by widely introducing risk-based approaches to controlling taxpayer activities, developing digital tax control tools, and strengthening information exchange between tax authorities and taxpayers.

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