



## ISSUES OF SUPPORTING ACTIVITIES OF BUSINESS ENTITIES THROUGH IMPROVING TAX ADMINISTRATION IN UZBEKISTAN

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### Abstract

This article presents a comprehensive analysis of theoretical and statistical data on improving tax administration aimed at creating a favorable investment climate and business environment in Uzbekistan, as well as relevant conclusions and recommendations developed in reliance upon the research.

**Keywords:** tax, tax administration, entrepreneurship, investment, tax burden, investor, business, attractiveness

**Аннотация:** В данной статье подробно представлен анализ теоретических и статистических данных по совершенствованию налогового администрирования для создания благоприятного инвестиционного климата и деловой среды в Узбекистане, а также соответствующие выводы и рекомендации.

**Ключевые слова:** налог, налоговое администрирование, предпринимательство, инвестиции, налоговая нагрузка, инвестор, бизнес, привлекательность

**Аннотация:** Ушбу мақолада Ўзбекистонда тадбиркорлик субъектларига қулай инвестицион иқлим ва ишбилармонлик муҳитини яратиш борасида солиқ маъмуриятчилигини такомиллаштириш бўйича илмий-назарий қарашлар, статистик маълумотлар таҳлили атрафлича ёритилган, шунингдек мазкур масалада тегишли хулоса ва таклифлар ишлаб чиқилган.

**Калит сўзлар:** солиқ, солиқ маъмуриятчилиги, тадбиркорлик, инвестиция, солиқ юки, инвестор, ишбилармонлик, жозибадолик,

### Introduction

Modernization of the tax system, further improvement of tax administration and legislation, development of a robust competitive environment to supply competitive and quality locally manufactured products to the domestic market, and, consequently, creation of new jobs, raising the incomes and improving the welfare of the population are top-priority objectives to ensure sustainable economic growth.



Currently Uzbekistan is undertaking a number of favored measures aimed at further development of private property and private entrepreneurship, elimination of obstacles and barriers to tax administration and their development in creating a favorable investment climate for businesses, sharp increase of the responsibility and accountability of agencies, exercising regulatory oversight, reduction of the tax burden, simplification of the taxation and tax administration improvement.

The third focus area “Further development and liberalization of the economy of the Action Strategy” of the Action Strategy for Five Priority Areas of the Development of the Republic of Uzbekistan for 2017-2021 approved by the initiative of the President of the Republic of Uzbekistan Sh.M.Mirziyoev, implies strengthening macroeconomic stability, protecting private property rights and its priorities, as well as measures such as strengthening and promoting development of small business and private entrepreneurship, continuing the policy of reducing the tax burden and simplifying taxation system, improving tax administration and expanding appropriate incentives.

In his Message to the Oliy Majlis of the Republic of Uzbekistan, the President of the Republic of Uzbekistan has noted that: «In order to enhance attractiveness of our country for investors wishing to implement large investment projects in Uzbekistan, we must do much work to improve the tax system. It is necessary to reduce and optimize the tax burden for all categories of business, and on this basis to expand production and a taxable base» [1].

It should be noted that currently ongoing reforms in Uzbekistan and their results are recognized by the world’s leading international rating agencies. For example, the global leading rating agencies Fitch Ratings and Standard&Poor’s for the first time have set an international sovereign credit rating for our country. These ratings have a “stable” prediction, which implies that this figure is unlikely to decrease over the next 12-18 months. Moreover, it should be noted that such ratings obtained by Uzbekistan are higher than in many developing countries [2].

In compliance with the Message of the President of the Republic of Uzbekistan Sh.M.Mirziyoev to the Oliy Majlis made on January 24, 2020, “In accordance with the recently adopted new Tax Code, many innovations are being implemented this year. In particular, the types of taxes have been reduced from 13 to 9. Moreover, simplified mechanisms have been introduced to extend or allow for the payment of taxes in installments. It is the first time, when a procedure for refunding part of the value added tax on products sold in the domestic market is being introduced to entrepreneurs. Up to the present, this procedure was applied only when the product was exported. As a result, entrepreneurs will have 3.4 trillion UZS at their disposal, which is 2.5 times more than last year. Now, if the excess tax paid by the entrepreneur is not refunded in due time, he will be paid interest from the budget at the basic rate of the Central Bank. The fact that the entrepreneurs sitting in this hall and listening to me through the “mirror world” understand the importance of these facts [3] shows that Uzbekistan is undergoing major reforms to improve tax administration.

In accordance with the Decree of the President of the Republic of Uzbekistan PD-6208 [4] as of April 20, 2021, in order to attract young people to entrepreneurship, to provide them with permanent employment, to create favorable conditions for additional income, it has been ascertained that the amount of social tax paid by employers from May 1, 2021 to January 1, 2023 (except for legal entities



with a state share of 50 percent or more in the charter fund (capital) of budgetary organizations, state-owned enterprises) for employees under 25 years of age is subject to full refund from the State budget, wherein, the amount of social tax is set to be refunded from the seventh month, provided that the young employees continue to work permanently for six months.

In addition, the document implies development and implementation of standards that provide for the exemption from personal income tax of the amount of salary and other income of the taxpayer, whose children under the age of twenty-six or a husband (wife) are directed to study in vocational (profession education) schools. In our opinion, development of such standards will bring favorable yield in future. Furthermore, the Resolution of the President of the Republic of Uzbekistan PR-5087 as of April 21, 2021 [5] was adopted with the aim of implementing consistent reforms to further improve and develop the business environment, expand mechanisms to support entrepreneurs, provide them with required financial and infrastructural resources. In reliance upon this statutory act, starting from June 1, 2021, business entities that have been operating for over three years and have paid taxes in due time, but are unable to pay tax arrears due to their financial condition, have an opportunity to pay taxes in installments, without collateral. In this regard it is crucially important that the amount of taxes or fees paid should not exceed 50 percent of the amount of taxes or customs duties paid by the business entity for the last three years.

The following aspects can be considered as the main focus areas of tax administration. (See Figure 1).



Figure 1. Main focus areas of the tax administration (the author's approach).

Considering the concept of tax administration, in our opinion, we should give a precise definition to this concept. The tax administration is a set of measures undertaken by the relevant authorities to



introduce taxes, create a legal framework for taxation, develop the mechanism for improving the efficiency and effectiveness of the introduced taxes.

Comprehensive use of information and communication technologies is required for the development and improvement of almost all areas of tax administration specified above.

In addition, it is crucially important to ensure full integration of online exchange of information between entities and agencies that provide information to the state tax service in the event of tax administration. As a result, in our opinion, the introduction of a system of automatic generation of initial reports on taxes and other compulsory payments on the basis of information generated by the State Tax Service and sending them to taxpayers before the reporting period will make a positive effect. For example, in the practice of the Republic of Korea, the tax authority sends preliminary reports (PREFILLING) to each taxpayer in reliance upon available information before the deadline for submission of reports.

In this case, it is enough for the taxpayer to review the accuracy of the indicators in these reports and just click the confirm button if it is accurate.

It should be noted, that the adoption of the Decree of the President of the Republic of Uzbekistan PD-5468 as of June 29, 2018 “On the Concept of improving the tax policy of the Republic of Uzbekistan” has become an important legal basis for comprehensive tax policy reforms. In addition, the Resolution of the President of the Republic of Uzbekistan PR-4389 as of July 10, 2019 was adopted, and according to this Resolution the “Strategy for improving tax administration” was approved. Moreover, in reliance upon this Resolution, the prior objectives and focus areas of the “Strategy for improving tax administration” have been identified (Figure 2).

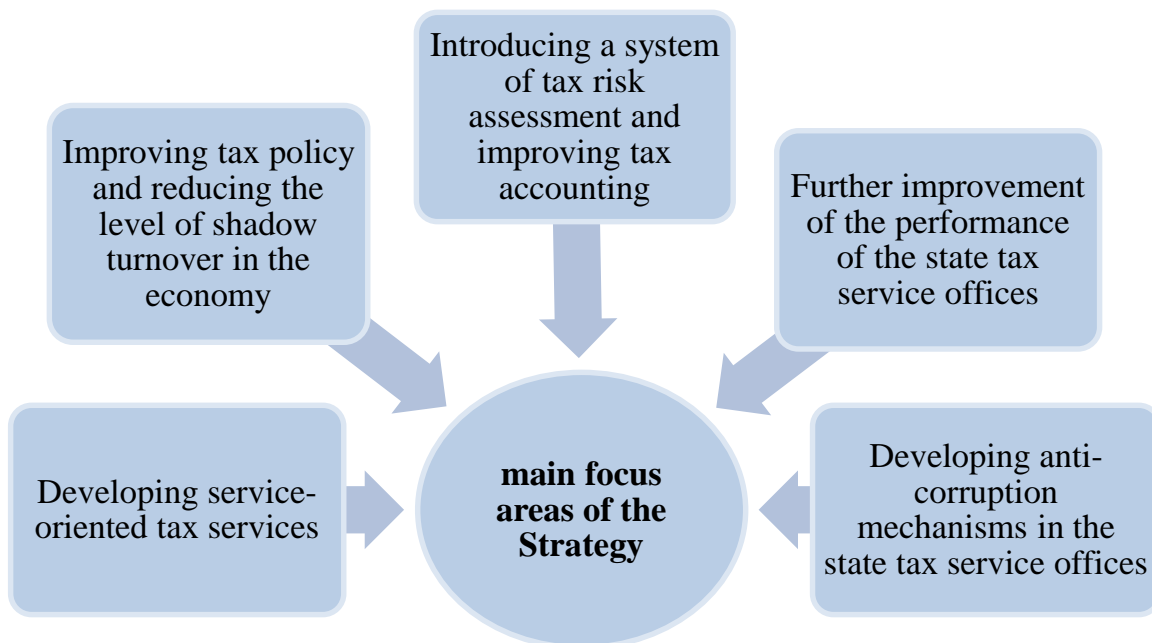


Figure 2. Main focus areas of improving tax administration [6].



Reforming the economy, deepening structural change and diversification, small business development, first of all, requires a large amount of funds. One of the mechanisms for implementating these objectives is the provision of tax incentives to businesses by the government.

In the process of gradual implementation of economic reforms, it is crucially important to precisely determine tax incentivess, their rational and efficient use.

In turn, many positive results can be achieved in improving tax administration by providing tax incentives (Figure 3):

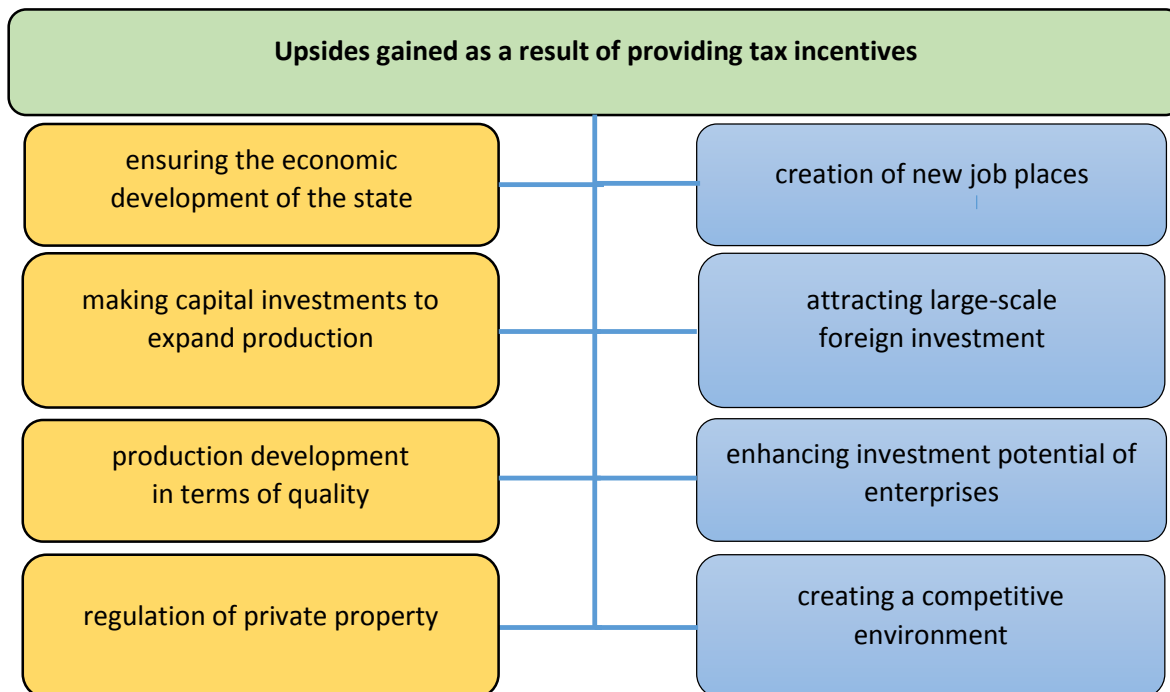


Figure 3. Upsides gained as a result of providing tax incentives (the author's development).

Many economists have commented on the efficiency of the use of tax incentives provided for business entities, including:

In his research, D.G. Gozibekov uses the function of tax regulation to optimize the balance of the public and private interests in investing limited resources in the national economy itself. He has emphasized the need to strengthen and expand the investment activities of non-governmental organizations in the real sector of the economy [7].

From the point of view of the Professor Sh.A. Toshmatov, investment and entrepreneurial activities of economic entities slow down as a result of high tax rates applied to tax profits by the state. When taxing the profit of enterprises, it is recommended to stimulate not only by using ficcal technique, but also to encourage private entrepreneurship and investment activities. In the process of economic liberalization, he considers this tax important for the enterprise in terms of its impact on investment and entrepreneurial activity. In addition, Sh.A. Toshmatov in terms of science has substantiated that



the growth of profits of enterprises and entities is inversely related to changes in the tax burden and profit tax rates in our republic [8].

In the opinion of A.V. Vakhobov, financial and credit system is one of the significant factors shaping the investment climate in the country. Herewith, particular attention should be paid to promoting investment activity of enterprises and population, as well as attracting foreign capital to the economy of the republic [9].

Nowadays further improvement of tax policy, simplification of tax administration, reduction of the tax burden, strengthening the incentive function, development of small businesses, raising their role in the economy and reducing their tax burden remain one of the most essential issues.

Regarding the system of measures undertaken and scheduled to improve the tax administration in Uzbekistan:

1. The right of the tax authorities to deduct the taxpayer's tax debt from the amount receivable from his debtor has been eliminated.
2. The responsibility of the tax authorities for timely return of overpaid or overcharged taxes has been strengthened. There has been enacted the procedure for refunding the amounts of overcharged taxes and financial sanctions with the account of the interest accrued on the basis of the refinancing rate of the Central Bank in force during the period of collection (payment) of these amounts. According to this procedure, the mechanism of timely refund of overpaid taxes and accounting (refund) of overpaid taxes is being introduced. However, when refunding the tax amount, the tax authority shall pay interest to the taxpayer for each day of delay.
3. A new procedure for tax control, which provides tax authorities with the right to appoint in-house tax audits, mobile tax audits and tax audits on the basis of risk analysis is implied.

Tax inspections may be conducted by tax authorities only after adopting statutory acts provided for in the Tax Code and determining the procedure for their conduct. In particular, the Tax Code provides for the following types of tax inspections:

a) in-house tax audit (examination of the taxpayer's report in the tax authority and its comparison with the data of customs authorities, banks, energy companies, cadastre, etc.), as a result of which a taxpayer must make corrections to the tax report or indicate well-grounded reasons. To perform an in-house tax audit, the head (deputy head) of the tax authority is required to issue an order. Herewith, as part of the in-house tax audit, an official of the tax authority is given the right to request from the taxpayer the documents required to confirm the accuracy of calculating a particular tax.

Financial sanctions, based on the results of the in-house tax audit, do not apply, but can be considered a penalty.

b) mobile tax audit (on-site study of some indicators of the taxpayer), which aim is to record the facts. The mobile tax audit is performed to collect the information on the calculation and payment of taxes and fees, as well as execution of other obligations. According to the results of the mobile tax audit, taxes are not charged additionally.

c) tax audit is a comprehensive study of compliance with tax laws by a taxpayer with a high level of risk in large transactions. Tax audit is conducted on selected taxpayers in reliance upon the analysis of risk



factors for tax evasion. Based on the results of the tax audit, additional taxes can be calculated and financial sanctions can be applied. Herewith, the following procedure will be introduced, and according to it the State Tax Service will notify the Representative for the protection of the rights and legitimate interests of business entities under the President of the Republic of Uzbekistan on the appointment of a tax audit until January 1, 2022.

4. The procedure for pre-court settlement of tax disputes, as well as measures of responsibility based on the type of tax offense have been determined. In this case, it is possible to appeal against the decisions of the tax authority on the results of mobile tax inspections and tax audits only after an appeal to a higher tax authority.

5. The following aspects are applied to be introduced in the Tax Code in new wording: introduction of new means of ensuring tax payments, as well as the procedure for deferral or installment payment of taxes on a paid-for basis without participation of collegial bodies (commissions); cancellation of anti-tax evasion norms, including “re-qualification of transactions” and “fraudulent transactions”, determination of the procedure for non-provision of discounts on fraudulent transactions;

6. Determination of transfer prices, taxation of profits of controlled foreign companies, as well as taxation of consolidation groups of taxpayers will come into force on January 1, 2022, and information therethrough will be published on a regular basis.

Under the current conditions of globalization, particular attention is paid to reducing the tax burden, unifying tax types and reducing tax rates, using the latest cutting-edge information technologies in the development of electronic systems for payment and reporting of taxes, creating a favorable investment climate and business environment, as well as further improvement of the tax administration and focusing and monitoring its effectiveness provides beneficial effect. Accordingly, it is currently required to focus on the research devoted to the tax administration improvement through creating the most favorable tax environment for doing business, optimizing the tax burden, simplifying taxation and raising tax administration transparency, encouraging innovative activities, ensuring economic growth through effective fiscal policy, expanding the taxable base and enhancing tax potential of regions.

## **CONCLUSIONS AND PROPOSALS**

As a result of our research on improving tax administration in creating a favorable investment climate and business environment for business entities in Uzbekistan, the following conclusions have been developed:

-Enhancing investment activity to further deepen the process of modernization of the economy with the aim of improving the structure of reproduction, technological, sectoral, regional, sources of funding, forms of ownership of investments in the national economy, as well as in this regard widespread introduction of efficient tax incentives and preferences and strengthening public awareness campaign will provide beneficial effects;

- Calculations to determine basic factors that will ensure active attraction of foreign investment in the economy of Uzbekistan and raise efficiency of their use show that as evidence from our republic,



expanding production infrastructure, developing transport and communication networks, improving the quality of training in human resources, ensuring efficient employment, adjusting the quality of public institutions in compliance with a new level, ensuring openness and transparency in public administration, liberalizing foreign trade, curbing inflation, improving the tax system are considered the basic factors to promote attraction of foreign investments.

The following proposals and recommendations have been developed in our republic to create a favorable investment climate for business entities through taxes, as well as to eliminate current problems in this area through their solution:

1. Technoparks are one of the most essential forms of free economic zones successfully operating in the People's Republic of China and the Russian Federation. This form of free economic zones is also promising for Uzbekistan. There are several reasons for that:

first, technoparks are established within the territories of major research and educational centers in order to accelerate introduction of research developments into production. With this aim, they are provided not only with the latest cutting-edge laboratories, laboratory equipment, but also mini-plants for the manufacture of unique instruments, machines and equipment under industrial conditions.

At present, the problems of introducing the latest technologies in production under conditions of laboratories and mini-factories are being solved. In this regard, as an experiment it is advisable to choose a campus in Tashkent, which has a high research and technical potential.

As a result it will be possible to do research in the natural, exact, technical sciences, to implement the results, as well as to achieve biotechnology, electronics, waste recycling and other outcomes.

2. It is necessary to strengthen the requirements for free economic zones, tax incentives and preferences, as well as the peculiarities of taxation of the free economic zones' participants in Uzbekistan by adding a new additional chapter to the Tax Code of the Republic of Uzbekistan.

3. With the aim of increasing the interest of enterprises in the transition process from a "shadow economy" to an open economy, promoting the production growth from year to year and ensuring growth through taxes it is recommended to introduce incentives on the income tax for getting additional (marginal) income from increasing the volume of production.

4. In order to efficiently manage tax risks in enterprises, including timely execution of tax obligations, prevention of tax offenses and ensuring complete receipt of taxes and other compulsory payments to the budget in due time, it is recommended to determine compulsory appointment of the staffing position of the accountant to already operating and newly established legal entities. In this regard it is advisable to make changes to the current legislation.

Adequate implementation of the proposals specified above will create a favorable investment climate and business environment for business entities in the country, which, in turn, will ensure sustainability of the state budget and reduce the tax burden, economic and social development of the country.





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