

**WAYS OF IMPROVING THE TAX MECHANISM FOR SMALL
BUSINESSES AND ENTREPRENEURSHIP IN THE REPUBLIC OF
UZBEKISTAN**

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Abstract: The article considers such issues as the role and development of small business and private entrepreneurship in the Republic of Uzbekistan, the unification of the taxation system for microfirms and small enterprises, the specific weight of small business in Uzbekistan's GDP, small business in industry, engaged in small business, small business (business) in investments, the share of small business entities in the import and export of goods and the procedure for applying a simplified taxation system for microfirms and small enterprises. As well as proposals and practical recommendations for improving the tax mechanism for small businesses and entrepreneurship in the Republic of Uzbekistan.

Keywords: tax mechanism, small business entities, a simplified taxation system, tax rates, a single tax payment, tax incentives and preferences, and a tax burden.

Introduction. Small business in developed countries is considered one of the largest producers of goods (works, services), the largest employer, the catalyst of scientific and technological progress. Small business in Uzbekistan is gradually developing, gaining experience, winning its place in the structure of the economy and is an organic part of it.

Speaking about the role of small business, it should be emphasized that small enterprises are the basis for the development of the economy of Uzbekistan. And the role of it is steadily increasing in modern dynamic life. As the experience of developed countries shows, if in the past small enterprises were created as a result of the desire of many to open their own business, then at the present time the creation of small enterprises is often initiated by large companies that entrust them to conduct certain types of production or establish close ties with the market. Specifically, the role of small businesses is manifested in the fact that its

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development contributes to: the creation of new jobs; introduction of new goods and services; meeting the needs of large enterprises; provision of specialized goods and services.

As the President of the Republic of Uzbekistan Sh. Mirziyoyev noted, "The important task is to support and stimulate small business and private entrepreneurship, further enhance the role of this sector in the augmentation of the country's economic strength, the strengthening of peace and stability, and consensus in society. It is not for nothing that the entrepreneur works for the benefit of not only his own and his family, but of the whole people and the state. I will not tire of repeating a simple, but at the same time important idea - if the people are rich, then the state will be rich and strong. "[1]

The development of the economic potential of Uzbekistan is largely with the modernization of all sectors of the economy, among which an important role is played by small business entities. Small and medium-sized businesses play a huge role both in the development of the country's economy in general, and in solving social problems of society. The experience of the developed countries of the world shows that it is these enterprises that are the foundation of the national economy, that the rates of growth of the gross domestic product depend critically on them, and the level of the well-being of the population is determined. The program for the development of this sector in the republic is implemented on the basis of comprehensive state support and an initiative, creative market process involving broad sections of the country's population.

One of the key factors that influenced the dynamic development of small business and private entrepreneurship is the introduction of a simplified taxation system and a gradual simplification of the tax burden. So, for the last ten years the rate of a single tax payment paid by microfirms and small enterprises has been reduced from 13 to 5%. At the same time, the decrease did not have negative consequences on the collection of incomes.

A very important and positive aspect for small businesses is that they are given the right to choose a taxation system. The subjects of small business have the opportunity to calculate the impact of various tax regimes on their activities and choose the most appropriate.

It should be noted that in Uzbekistan since January 1, 1994, enterprises and organizations were exempted from paying the value added tax and income tax to the budget, switched to paying taxes with gross income on differential rates, depending on the level of profitability of trading enterprises.[2]

Since 1998 according to the Decree of the Cabinet of Ministers of the Republic of Uzbekistan "On the order of taxation of microfirms and small enterprises that switched to a simplified taxation system" dated April 15, 1998, № PKM-159, the procedure for applying a simplified taxation system for

microfirms and small businesses engaged in entrepreneurial activities was defined.[3]

In addition, from January 1, 1999, trade enterprises and public catering have been transferred to pay taxes on gross income and property tax.

The simplified taxation procedure is applied for certain categories of taxpayers and provides for the application of special rules for the calculation and payment of a single tax payment, a single land tax and a fixed tax on certain types of entrepreneurial activity.

In accordance with the Law of the Republic of Uzbekistan of May 25, 2000, № 69-II "On guarantees of freedom of entrepreneurial activity" and the Decree of the President of the Republic of Uzbekistan "On measures to further stimulate the development of private entrepreneurship, small business" of April 9, 1998, № UP-1987 were criteria for determining the category of business entities.

In accordance with the changes introduced on January 1, 2004, the criteria for determining the categories of small business entities were approved, the statuses, types of activity and the average annual number of employees of small business entities were established.

June 20, 2005, the President of the Republic of Uzbekistan adopted the Decree "On Additional Measures to Promote the Development of Micro-Firms and Small Enterprises" № UP-3620, to further stimulate the accelerated development of small business entities and a radical increase in its role and share in the country's economy. According to the Decree, from July 1, 2005, a single tax payment was introduced for microfirms and small enterprises in exchange for the tax on gross income, mandatory contributions to the extrabudgetary Pension Fund, the Republican Road Fund and the School Education Fund.

Since January 1, 2007, trade and public catering enterprises have been transferred to pay a single tax payment without the right to choose a taxation system, in accordance with the Decree of the President of the Republic of Uzbekistan "On the forecast of the main macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan for 2007" dated December 30, 2006 year № PP-532.

Since January 1, 2011, the minimum standards for the number of employees and the wage fund have been established for retail, catering and construction enterprises.

By the Decree of the President of the Republic of Uzbekistan "On Additional Measures for Further Improvement of the Investment Climate and Business Environment in the Republic of Uzbekistan" №4609 of April 7, 2014, the procedures for state registration of business entities, loans, business disputes, liquidation of business were substantially simplified. [4]

Decree of the President of the Republic of Uzbekistan "On additional measures to involve graduates of educational institutions on July 28, 2010, № UP-4232 established that in cases when the conclusion of employment contracts with microfirms and small enterprises of employment contracts with graduates of vocational colleges, academic lyceums and higher educational institutions of the republic, the maximum norm of the number of employed employees established by law is exceeded not more than 50%. At the same time, exceeding the number is allowed on condition that graduates of professional colleges, academic lyceums and higher educational institutions of the Republic of Uzbekistan have passed no more than 3 years from the date of graduation. [5]

For taxpayers in respect of which a simplified taxation procedure is provided, obligations remain on the withholding of taxes and other obligatory payments at the source of payment and the obligation to pay the following taxes and other mandatory payments to the budget and state trust funds: tax on the profit collected from the source of payment; value added tax for works (services) performed (rendered) by non-residents of the Republic of Uzbekistan; excise tax in the production of excisable products; taxes and special payments for subsoil users; tax for the use of water resources for producers of certain types of goods defined by law; customs payments; single social payment; state duties; collection for the right of retail trade of certain types of goods and the provision of certain types of services.

To date, the procedure for calculating and paying a single tax payment is defined in articles 350-361 of the Tax Code of the Republic of Uzbekistan.

Analysis. The role of a small enterprise in a market economic system can not be overemphasized, since it is entrepreneurship that is a constructive unit and a guarantee of the existence of a developed market economy.

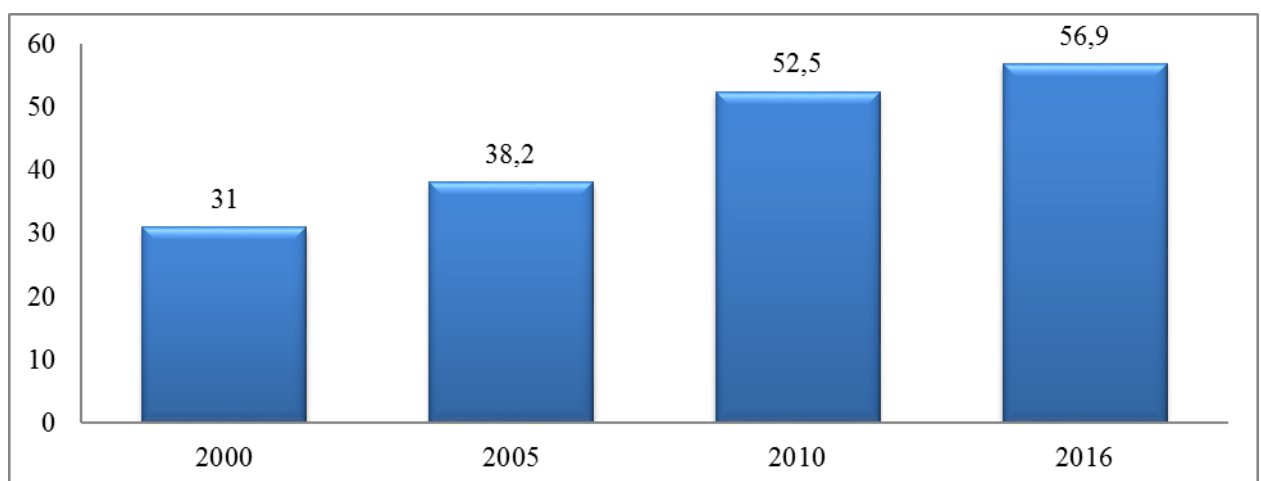


Figure 1. The share of small businesses in Uzbekistan's GDP, (%) [6]

According to Fig. 1, it can be said that as a result of successfully implemented reforms, small business and private entrepreneurship play a key role today in modernizing the country's national economy. The share of small business in Uzbekistan's GDP is more than 56.9% which is 25.9% more than in 2000.

According to the State Statistics Committee of the Republic of Uzbekistan, for the first quarter of 2017, 44.9 percent of GDP was produced at the expense of small business and private entrepreneurship, compared to 43.1 percent of the same period last year.

The overall employment rate in various sectors of the economy increased from 75.1% to 77.9% compared to 2012 (Fig. 2).

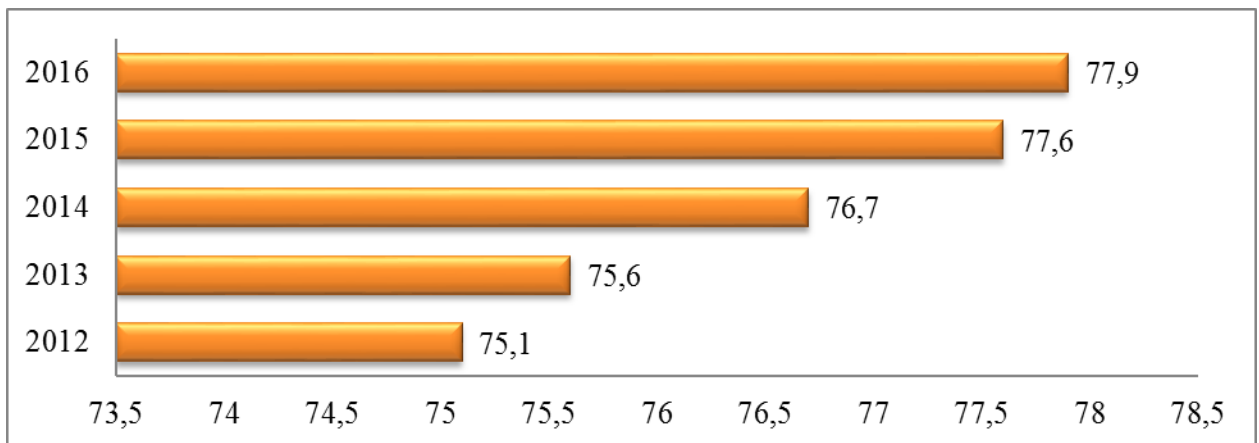


Figure 2. The proportion of employees in the small business, (%) [6]

In 2016, about 32,000 new small business entities were created or 18% more than in 2015. In 2016, there are 21.2 small businesses and private entrepreneurs per 1000 people. This indicator in Moldova is 12.3; in Russia - 11.3; in Ukraine - 7,5; in Belarus - 7,3 and in Azerbaijan - 1,6. As can be seen, the Republic of Uzbekistan occupies a leading position in this indicator.

About 726,000 people were employed, including 438,500 graduates of educational institutions. Real incomes of the population, according to official figures, increased by 11%. The economy invested more than 16.6 billion US dollars, or 9.6% more than in 2015.

The volume of foreign investments and loans increased by 11.3% and exceeded 3.7 billion dollars. Completed 164 major investment projects with a total cost of 5,2 billion dollars.

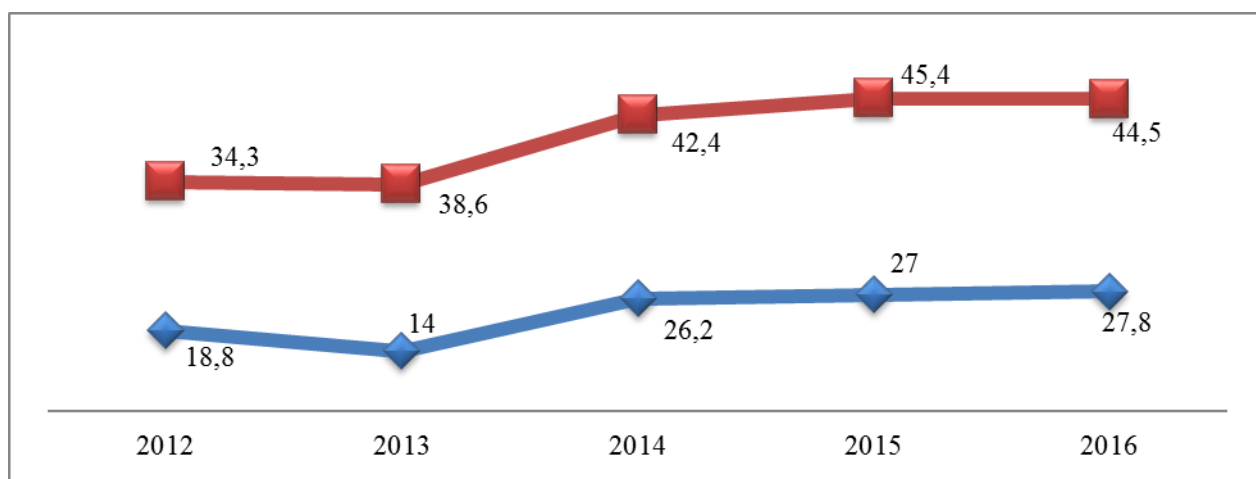


Figure 3. The share of small businesses (business) in the import and export of goods,[6]

In the period from 2012 to 2016, the share of small business and private entrepreneurship:

- in the export of goods increased from 34.3% to 44.5%;
- in the import of goods increased from 18.8% to 27.8%.

In recent years, the Republic of Uzbekistan has adopted a wide range of measures to dramatically improve the business and investment climate, the introduction of a generally accepted system of criteria for assessing the conditions of doing business in the world and, on the basis of this, to further increase the country's international rating.

In order to create the most favorable conditions for the further development of small business, as well as for the creation of new high-tech industries, the more active involvement of the regions of the republic in the development of modern competitive export-oriented finished industrial products and the accelerated development of production:

1. In accordance with the Decree of the President of the Republic of Uzbekistan "On measures to create additional favorable conditions for the introduction of entrepreneurial activities in the Republic of Karakalpakstan and the Khorezm region" dated March 17, 2017 № PP-2843, it is established:[7]

- legal entities registered and carrying out production activities in the Republic of Karakalpakstan and the Khorezm region are exempt from compulsory sale of foreign exchange earnings in the part of export of industrial products of own production, with the exception of commodities; for the period from April 1, 2017 until January 1, 2022, legal entities registered in the Republic of Karakalpakstan and the Khorezm region specializing in the production of pharmaceutical products and preparations, electrical products (except for cable conductors), and also finishing building materials are exempt from payment property tax, land tax, tax for improvement and development of social

infrastructure, as well as mandatory contributions to the Republican Road Fund under the Cabinet of Ministers of the Republic of Uzbekistan. At the same time, legal entities specializing in the production of products include legal entities with a share of net proceeds from the sale of these products in the total sales volume of at least 60 percent as of the end of the reporting year.

2. In accordance with the Decree of the President of the Republic of Uzbekistan "On additional measures to further improve the investment climate and business environment in the Republic of Uzbekistan" from April 7, 2014 № UP-4609 newly created small business entities (with the exception of retail organizations) pay a single tax payment and unified social payment without taking into account the established minimum amounts of these payments within 6 months from the date of their state registration.

3. The Decree of the President of the Republic of Uzbekistan "On measures to further strengthen the stimulation of domestic software developers" from September 20, 2013 No. PP-2042 established the procedure for reducing the taxable base for corporate income tax and a single tax payment provided for the acquisition of new technical equipment, for the amount of funds sent by enterprises and organizations of the Republic to purchase software of domestic production in the framework of investment projects to create information systems included in the annual investment program of the Republic of Uzbekistan.[8]

Conclusion. To date, in order to further improve the investment climate and business environment, as well as improve the tax mechanism for small businesses and businesses, it would be advisable to derive the following proposals:

- In order to further develop and strengthen the incentives for domestic developers to expand the production of quality, competitive software products, we propose to introduce an order to reduce the taxable base for corporate income tax and a single tax payment, provided for the acquisition of new technical equipment, for the amount of funds directed by enterprises and organizations of the country to purchase software of domestic production in the framework of investment projects to create information systems included in the annual investment program of the Republic of Uzbekistan in Article 356 of the Tax Code of the Republic of Uzbekistan. At the same time, the taxable base for a single tax payment is reduced by the amount of funds allocated for the acquisition of new technological equipment, the introduction of quality management systems, the certification of products for compliance with international standards, the acquisition of complexes for laboratory tests and tests, but not more than 25 percent of the taxable base. The reduction of the taxable base is made within five years starting from the tax period in which the above expenses were incurred, and for technological equipment - from the moment of its commissioning.

- In order to support manufacturers of science-intensive, innovative products, it is possible to set lower limits for them in terms of annual turnover. Restrictions on the book value of assets can be applied differentially to stimulate the activities of small enterprises to improve production efficiency. In particular, in

determining this criterion, it is possible to exclude high-tech equipment from the cost of fixed assets and intangible assets, the cost of various know-how, software products, and other similar costs.

- Individual entrepreneurs engaged in retail trade set a maximum monthly turnover.

Reference:

1. The speech of the President of the Republic of Uzbekistan "We will build a free, democratic and prosperous state of Uzbekistan together with our courageous and noble people" at the solemn ceremony of assuming the office of the President of the Republic of Uzbekistan at the joint session of the chambers of the Oliy Majlis, December 14, 2016.

2. Decree of the President of the Republic of Uzbekistan "On the improvement of the taxation system for trade and public catering enterprises" of December 3, 1998 № UP-2151.

3. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On the order of taxation of micro-firms and the MT, which switched to a simplified taxation system" of April 15, 1998 № PKM-159.

4. Decree of the President of the Republic of Uzbekistan "On additional measures to further improve the investment climate and business environment in the Republic of Uzbekistan" of April 7, 2014 № UP-4609.

5. Decree of the President of the Republic of Uzbekistan "On additional measures to involve graduates of educational institutions in entrepreneurial activity" of July 28, 2010 № UP-4232.

6. Drawing is made on the basis of site data www.stat.uz

7. Decree of the President of the Republic of Uzbekistan "On measures to create additional favorable conditions for the introduction of entrepreneurial activities in the Republic of Karakalpakstan and the Khorezm region" dated March 17, 2017 № PP-2843.

8. Resolution of the President of the Republic of Uzbekistan "On measures to further strengthen the stimulation of domestic software developers" from September 20, 2013 № PP-2042.