

IMPROVING THE SYSTEM OF USING THE DATA WHILE AUDITING INDIRECT TAXES

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Abstracts

This article is devoted to studying of indirect taxes which have a significant portion in formulating the state budget revenue as well as the mechanisms of compiling the data while developing tax reports and accounting reports. In addition, the article considers the invoice as the main statement illustrating amounts of the Value Added Tax (VAT) and excise tax and the author gives the proposal to make amendments to the invoice and invoice register lists with the account of transforming invoices into the register lists and tax reports with the aim of generalizing the data of the invoices and completing the invoice of any enterprise by the taxpayer. As far as we know, the invoice reflects the selling price of goods or services. At the same time, the amount and the rate of the VAT and excise tax are shown, and the last column represents the total value of all accounted indirect taxes. However, according to the tax legislation, sometimes the selling price of goods and services and the taxable base of the VAT can be different. This, in turn, does not give an opportunity to supervise over the amounts of the VAT and excise tax in both invoice and register lists. Thus, the proposal to introduce the normative amount of determining a taxable base has been made.

Key words: indirect taxes, the Value Added Tax (VAT), excise tax, a taxable base, accounting of taxes, invoice, financial statements, tax reports, register list of invoices.

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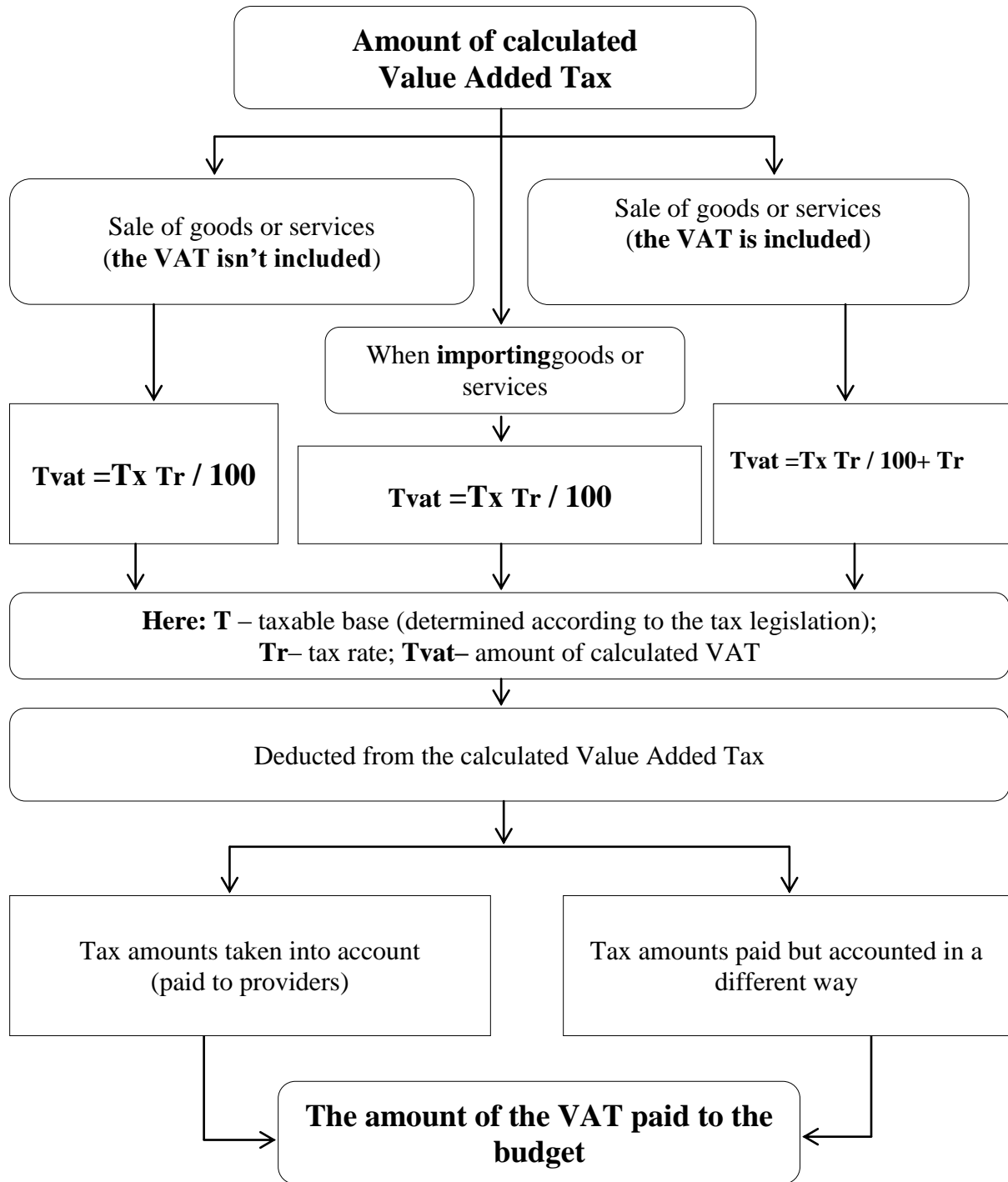
Introduction

The gradual implementation of economic reforms conducted in our republic has reflected in the reforms ongoing in all sectors of the economy, in particular, in the tax system. After gaining the independence the country tried to establish its own tax system and to make it comprehensively perfect and fair. As a result of activities undertaken in this sphere, the tax system, convenient for both individuals and legal entities, has been developed in our country. If initially introduced taxes had some lacks by their essence, basing on the advanced experience, the lacks in calculating these taxes and mechanisms of their levying, have been eliminated.

Calculation and paying of taxes, as well as an accurate establishing of their accounting and reflection in the reports are considered to be the main task of conducting accounting. Determination of taxes requires the availability of their certain elements. In particular, according to the Tax Code, elements of taxes and other compulsory payments include an object of taxation, a taxable base, an order of calculating a tax rate, a tax period, an order of submitting tax reports, an order of paying taxes (*Tax Code of the Republic of Uzbekistan, 2015*).

As far as we know, indirect taxes are considered to be the main source of the state budget revenue, and the share of indirect taxes accounts for more than a half in the total tax receipts for several years (*K.Khotamov, 2016*). Indirect taxes include the VAT, an excise tax, a tax on consumption of the fuel, oil and gas and the customs duty.

The VAT is the tax which has the biggest share in the structure of indirect taxes in the budget revenue. The VAT has been applied in the Republic of Uzbekistan since 1992 and the tax amount is determined according to 3 various formulas. (1-Figure).



2-Figure. Amount of the VAT calculated and paid to the budget

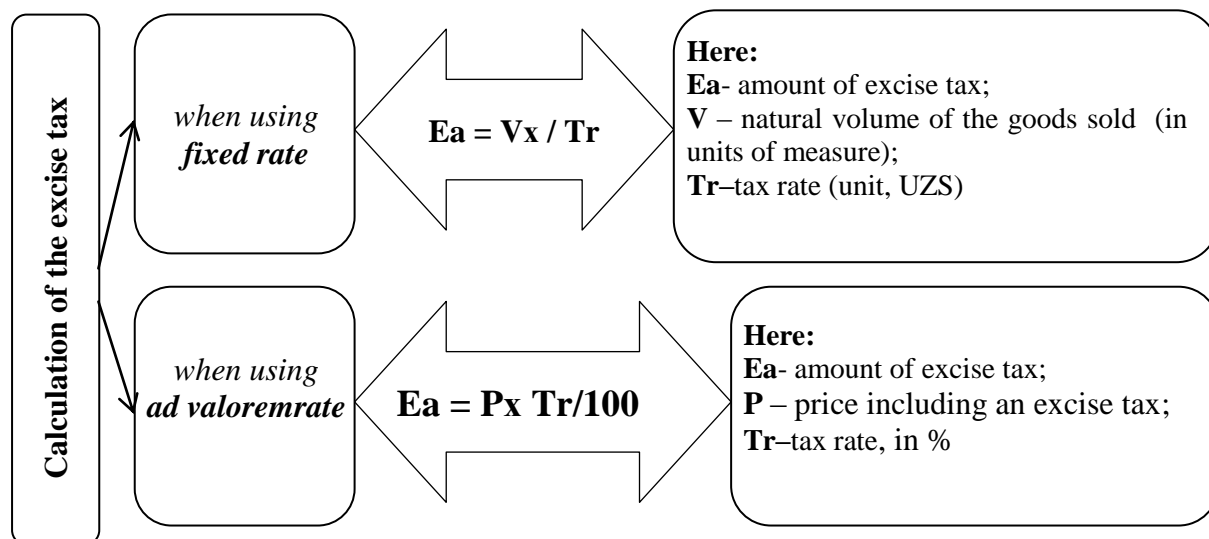
When calculating the amount of the tax paid to the budget, an efficient organization of calculating the VAT in accounting will facilitate a further increase of the efficiency of financial –

economic activity of enterprises. Therefore, it is necessary to establish an accurate accounting of taxes at the enterprises.

Literature review

An excise tax is considered to be one of the indirect taxes and is added to the price of goods not related to this tax or income. The mechanism of calculating an excise tax and its application to the certain group of goods illustrate the peculiarities of this tax. The Russian scientist Alexandrov (*Alexandrov I.M., 2005*) gives the following definition: “Excise taxes are indirect taxes added to the goods or tariffs”. In the opinion of another Russian scientist, Milyakov, (*Milyakov N.V., 2006*) “Excise taxes are the type of indirect or additional taxes incurred to the goods”.

The difference between the rate of the excise tax and rates of other taxes is that the rate of the excise tax can be *ad valorem* or *fixed*. Ad valorem rate is determined in per cents in relation to the goods’ value. Fixed rate is in the absolute amount in relation to the value expressed in the natural form. (3 - figure).



3 – Figure. Calculation of excise tax

In accounting, taxes are calculated with the account of a taxable base and tax rates and paid according to the tax period. Then tax reports are developed and submitted to the tax authorities.

This process is implemented directly by the economic entities. Thus, determining a taxable base by the taxpayers, calculation of taxes, paying taxes as well as submitting the relevant data to the tax authorities are considered to be a compulsory requirement. Therefore there is a necessity to conduct tax reporting in tax authorities. Professor B. Isroilov mentioned necessity of conducting a tax reporting: “Taxes calculated by the legal entities and their transferring to the budget, their expenses, precise and accurate accounting of tax reporting can appear not as just an obligation of those legal entities, but can also lead to their beneficial interest. In addition, relations between economic entities and the government are analyzed on the basis of the accounting and it facilitates determining development prospects for future. Therefore, correct organization of accounting of tax reporting and its implementation can prevent huge fines paid by the enterprises and, in turn, provide receipts to the state budget” (*B. Isroilov, 2006*).

Professor Z. Kurbanov noted that “Tax reporting is collecting the information necessary for correct calculation of taxes and compulsory payments, their recording, processing and generalizing” (*Z. Kurbanov, 2006*). Later he offered even more simplified definition: “Tax reporting is the system of accounting preliminary data necessary to determine a taxable base of taxes and compulsory payments paid by all individuals and legal entities engaged in independent activity” (*Z. Kurbanov, 2010*).

Russian scientist Kojinov (*V. Kojinov, 2004*) “Tax reporting is considered to be one of the main database system of financial – economic activities of the enterprises. Tax reporting is compiled for transferring a part of therevenue to the state budget”.

Bretslavtseva (*N. Bretslavtseva, 2012*), referring to the Tax Code of Russian Federation, has stated that “Tax reporting is the system of generalizing a taxable base by taxes on the basis of the relevant data with the account of preliminary reporting information”.

Taking into consideration these definitions, it is possible to give the following definition to the accounting of indirect taxes: “Accounting of indirect taxes is determining a taxable base on indirect taxes, their calculation and payment, conducting of their accounting as well as preparing consolidated tax reports by a certain date”.

Conducting of tax reporting provides timely and correct levying of taxes to the budget. Because, it is possible to observe ongoing process and transactions by means of accounting, they are recorded in appropriate registries and a management and supervision over the economic activities are established. Taxes and other compulsory payments, revenues, expenses and profit are determined with the help of tax reporting, a taxable base is formulated, taxes are calculated and paid to the budget and tax reports are developed with the help of tax accounting.

A gradual increase of the amount of taxes and other compulsory payments to the state budget can also cause the necessity of conducting tax reporting.

One more theoretical foundation of conducting a tax reporting is the Tax Code of the Republic of Uzbekistan. The Tax Code contains a separate chapter “Tax reporting” and includes articles 43-47. Article 43 of the Tax Code reveals the notion of the tax reporting which states that “Tax reporting is reports on all types of taxes and other compulsory payments or income paid as well as a tax return and other annexes related to the accounting and a tax return” (*Tax Code of the Republic of Uzbekistan, 2015*). Thus, compiling of a tax reporting is implemented on the basis of the tax reporting data. Tax reports and financial reports usually complete each other. In particular, total amounts of calculated and paid taxes by their types represented in financial statements, are reflected in tax reports as well.

As far as we know, financial statements and tax reports as well as accounting of enterprises are implemented by accountants on the relevant data. However, if financial statements are regulated by the Law of the Republic of Uzbekistan “On accounting”, tax reports are reflected in the Tax Code. In order to generalize our opinion we will consider the aim and objectives of the accounting. Article 2 of the Law states that “The aim of accounting is to provide users with timely and complete financial and other accounting information”. (Law of the Republic of Uzbekistan “On accounting”, 1996).

Objectives of the accounting are determined as the following:

to formulate complete and precise data about the condition of assets in accounting accounts and their movements as well as the condition on property rights and obligations;

to generalize accounting data with the aim of efficient management; to compile financial, tax and other types of reports.

Analysis of the results

With the aim of accounting if we consider provision of financial information and other data, we have revealed that the main objective is to compile the reports referred to finance and taxation. The Law of the Republic of Uzbekistan “The main document regulating financial and tax reports” is the main document regulating financial and tax reports.

We have considered compilation of financial and tax reports. However, while compiling tax reports, in particular, reports on the VAT and excise tax, the preliminary data is obtained from the invoice. Moreover, in economic entities all operations commence from arranging necessary documents. The data of preliminary reports is transferred to the accounts, accounting registries, financial and tax reports in the appropriate order. Therefore, if the preliminary data is complete, accurate and reliable, there won't be any difficulties in accurate calculation of taxes as well as completing financial and tax reports.

Taking into consideration the difference between indirect taxes and other types of taxes that indirect taxes are levied in the process of consumption not at any exact moment, but at the moment when a transaction happens, indirect taxes are reflected at any preliminary documents. In particular, the VAT and an excise tax are indicated in invoices, customs duties – in invoices or customs documents.

According to article 222 of the Tax Code of the Republic of Uzbekistan, there is an obligation for taxpayers to submit invoices of the determined type to the people whom they send the items liable to the VAT or render appropriate services.

Invoices have to be completed in the national currency not later than on the date of sending the goods, accomplishing the works or rendering services because the invoice is considered to be the main document confirming the VAT payment while calculating the amount of the VAT liable to be paid to the budget.

The invoice is prepared by the delivering company to the purchasing company at least in two copies. One copy has to be submitted to the purchasing company by the delivering company not later than on the date of sending the goods, accomplishing the works or rendering services. The second copy of the invoice remains at the delivering company.

Economic entities are to conduct a special enumerated and stitched book for recording incoming and outgoing invoices and numbers of their registration. By the imported goods or services, necessary customs documents include the luggage customs declaration registered at customs offices, which assumes the value of customs declaration and technique of its calculation. Certificates of accomplished works and rendered services and the documents confirming the VAT payments are considered to be invoices.

Luggage customs declaration on exported goods or services is also considered to be an invoice.

Taking into account the essence of the the invoice as the main document for calculating the VAT and its payment we should examine its some aspects from the critical point of view. The most convenient method for checking an amount of the VAT and its correct calculation at tax or audit examinations is on the basis of the invoice, therefore the data in the invoice must be complete, reliable and understandable. The invoice is considered to be a fixed type of the document and is presented in the form of the table below:

Table section of invoice

1- table

Name of goods or services	Unit of measure	Number	Price	Total cost	Excise tax		Value Added Tax		Provision cost with VAT
					Rate	Amount	Rate	Amount	
1	2	3	4	5	6	7	8	9	10

Example: “A” company developed an invoice in the process of producing 10 units for 10000 UZS each, so the total amount of money makes 100000 UZS. The VAT to be paid accounts for 20000 UZS (100000*20%).

Table section of invoice

2-table

Name of goods or services	Unit of measure	Number	Price	Total cost	Excise tax		Value Added Tax		Provision cost with VAT
					Rate	Amount	Rate	Amount	
1	2	3	4	5	6	7	8	9	10
ABC	units	10	10000	100000	-	-	20	20000	120000
Total to be paid	One hundred twenty thousand UZS			100000					120000

Example: “B” company developed an invoice in the process of producing 10 units for 10000 UZS each. The goods produced are liable to excise tax, and the rate of the excise tax equals to 25 % so the amount of the excise tax is equal to 25000 UZS (100000*25%). The amount of the VAT makes 25000 UZS ((100000+25000)*20%).

In this process this invoice is developed according to the following table:

Table section of invoice

3-table

Name of goods or services	Unit of measure	Number	Price	Total cost	Excise tax		Value Added Tax		Provision cost with VAT
					Rate	Amount	Rate	Amount	
1	2	3	4	5	6	7	8	9	10
ABC	units	10	10000	100000	25	25000	20	25000	150000

Total to be paid	One hundred fifty thousand UZS	100000						150000
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The sale cost of fixed assets disposed by “B” company accounts for 3000000 UZS, depreciation by fixed assets amounts to 2000000 UZS, the desidual value of the fixed asset makes 2000000 UZS, so the aclulated amount of the VAT equals to 166667 UZS $((3000000-2000000)*20/120)$. This process is reflected in the invoice as it follows:

Table section of invoice

4-table

Name of goods or services	Unit of measure	Nu mb er	Price	Total cost	Excise tax		Value Added Tax		Provision cost with VAT
					Rate	Amou nt	Rate	Amou nt	
1	2	3	4	5	6	7	8	9	10
ABC	units	-	1000000	3000000	-	-	20	166667	3166667
Total to be paid	Threemilliononehundred sixty-six thousand sixty-seven UZS			3000000				166667	3166667

Conclusion

If we take into consideration the data in the invoice, we can see that there is no precise reflection of the VAT base. Moreover, ifthe VAT in relation to the amount of column 5is calculated, the amount of the VAT in column 9 isn’t given. This fact imposes some restrictions on checking the VAT paid, its analysis and for other purposes.

According to the existing order, the amount of the excise tax is added to the taxable base of the VAT. The excise tax of column 7 is added to the amount of column 5, so the process of calculating the VAT causes uncertainty and additional efforts. It can be explained by the fact, that nowadays small businesses, which share is relatively big, don’t have practicing accountants, but

the company manager has the right to conduct an independent accounting. In this connection, taking into consideration that conducting accounting is independent, or these companies compile invoices themselves, the cases of calculating the VAT from the amount of column 5 simultaneously with calculating the provision cost of the VAT. To solve this problem, the researcher K. Misirov gave a proposal to improve an invoice adding the words “provision cost of the VAT together with the excise tax in column 10” (Misirov, 2010). However, in our opinion, adding these words will not create opportunities to make the invoice data more precise because as we have mentioned above, introducing the base of the excise tax into the VAT base assumes taking the amount of the excise tax in the structure of the VAT.

In the result of the research, taking into account charging the VAT from all companies and above-mentioned cases of indicating the amount of the VAT in invoices, in our opinion it is advisable to introduce additional column “Value Added Tax base” after column 7.

According to these case-studies we have developed one unified invoice.

Table part of proposed invoice

5-table

Name of goods and services	Unit of measure	Number	Price	Total cost	Excise tax		VAT base	Value Added Tax		Provision cost with the VAT
					Rate	Amount		Rate	Amount	
1	2	3	4	5	6	7	8	9	10	11
A	units	10	10000	100000	-	-	100000	20	20000	120000
Total amount to be paid	One hundred twenty thousand UZS			100000			100000			120000

Table part of proposed invoice

6-table

Name of goods and services	Unit of measure	Number	Price	Total cost	Excise tax		Total value	Value Added Tax		Provision cost with the VAT
					Rate	Amount		Rate	Amount	
1	2	3	4	5	6	7	8	9	10	11
ABC	дона	10	10000	100000	25	25000	125000	20	25000	150000
Total amount to be paid	One hundred fifty thousand UZS			100000						150000

If the invoice is compiled according to this order, the excise tax matters will be more precise.

In this process introduction of the excise tax or the VAT into the provision base, due to tax preferences or other reasons it is possible to illustrate both increase and reduction of the taxable base.

At the same time we consider to be advisable to introduce “Value Added Tax base” words into the data which must be reflected in the invoice according to article 222 of the Tax Code of the Republic of Uzbekistan.

Introduction of above-mentioned proposals into invoices with the use of the data presented in this document can facilitate calculating the amount of the VAT, obtaining the information about preferences on the VAT, conducting audit and other financial inspections, summarizing the data on the VAT paid, developing reports as well as automatical calculations of all settlements related to the invoice. Moreover, these proposals ensure prevention of confusions which can arise in the accounting operations.

Simultaneously with the VAT calculations, invoice-statements on the goods acquired during the tax period are to be submitted. The form of the invoice-statements is determined by the State Tax Committee of the Republic of Uzbekistan. Nowadays a table part of invoice statements is presented in the following way :(7-table).

Table part of invoice-statements

7-table

№	Name of buyer	Identification number of taxpayer (INT) of the buyer	Date and number of invoice	Delivery cost (without Value Added Tax)	Amount of Value Added Tax	Cost with Value Added Tax
1	2	3	4	5	6	7
	Total:					

Advantage of invoice statements is that this statement enables instant generalization of calculated amount of the VAT. In addition, the invoice data compiled during the reported period is presented in a single document.

However, as above-stated cases illustrate, the register lists of invoices lack certainty inherent to invoices. Moreover, there is no opportunity to calculate the Value Added Tax from column 5 of the register list because the amount of calculated tax does not comply with the amount of column 6. Even if economic entities submit register lists of invoices there is no opportunity to check the amount of calculated Value Added Tax.

In our opinion, with the aim of providing a complete data in the table part of the register list of invoice it is recommended to illustrate the base of the VAT. In addition, the sum of the VAT bases by all invoices proposed above could be illustrated in this statement. In this connection we propose to introduce the column “Value Added Tax base” after the “Delivery cost” column.(8-table).

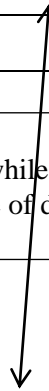
Proposed form of register of invoice-statements

8-table

№	Name of buyer	Identification number of taxpayer (INT) of the buyer	Date and number of invoice	Delivery cost (without Value Added Tax)	VAT base	Amount of Value Added Tax	Cost with Value Added Tax
1	2	3	4	5	6	7	8
	Total:						

Name of goods or services	Unit of measure	Number	Price	Total cost	Excise tax		VAT base	Value Added Tax		Provision cost with the VAT
					Rate	Amount		Rate	Amount	
1	2	3	4	5	6	7	8	9	10	11

Our proposals will facilitate reflection the data in documents while automatically using these documents as well a consolidated collection of information from one type of document to another type.



№	Name of buyer	Identification number of taxpayer (INT) of the buyer	Date and number of invoice	Delivery cost (without Value Added Tax)	VAT base	Amount of Value Added Tax	Cost with Value Added Tax
1	2	3	4	5	6	7	8
	Total:						

Moreover, automatic transfer of all invoices in the software, in particular, invoice's "delivery cost" (column5) to register's "deliver cost" (column5), "Value Added Tax base" (proposed, column6) to register's "Value Added Tax base" (proposed, column6), "amount of Value Added Tax" (proposed, column10) to register's "amount of Value Added Tax" (proposed, column7), "Cost received due to the VAT of delivery" (proposed, column 11) to register's column "cost with the Value Added Tax" (proposed, column8) automatically will not cause any difficulties.

Further improvement of invoices and register lists of invoices in the considered order will facilitate calculating of taxes, conducting audits, preventing confusions at calculations, saving time and providing reliability.

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