

TAX POLICY OF THE REPUBLIC OF UZBEKISTAN

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Abstract: *This article is devoted to the consideration of the essence and aims of the tax policy implemented in the budget system of the Republic of Uzbekistan. In reliance upon the analysis of the researches done by scholars-economists, the author has developed proposals and recommendations.*

Key words: *tax, investment, net profit, tax payments, budget.*

1. Introduction.

Currently the Republic of Uzbekistan is implementing comprehensive reforms in all areas, and this fact is admitted by the countries throughout the world. The reforms ongoing in the fiscal sphere in recent years have been implemented in compliance with contemporary market relations, as evidenced by the normative and legal acts adopted by our government. We can definitely see the results of the reforms in the coming years if we can implement them accurately.

If we analyze the reforms in the field of taxation in terms of the chronology by years, we can relate its initial period to the date of adopting the Tax Code in 2007. Further activation of the reforms can be related to the Decree of the President of the Republic of Uzbekistan №PD-4947 “On the strategy of further development of the Republic of Uzbekistan” dated February 7, 2017 because this Decree (2017) determined such vital objectives as reducing the tax burden and simplifying the tax system, improving tax administration, as well as other urgent issues in the field of taxation.

It should be noted, that the following decrees and resolutions justify the particular attention paid by our government to the taxation field: Decree of the President of the Republic of Uzbekistan №PD-5116 “On measures for radical improvement of tax administration, increase of collection of taxes and other compulsory payments” dated July 18, 2017, Resolution of the President of the Republic of Uzbekistan №R-5214 “On organizational measures to radically improve the tax legislation” dated February 13, 2018, Decree of the President of the Republic of Uzbekistan №PD-5468 “On the concept of improving the tax policy of the Republic of Uzbekistan” dated June 29, 2018, Resolution of the President of the Republic of Uzbekistan №PR-4389 “On additional measures to improve tax administration” dated July 10, 2019, as well as Decree of the President of the Republic of Uzbekistan №PD-5837 “On measures to further improve the tax policy of the Republic of Uzbekistan” dated September 26, 2019. Furthermore, in this regard such Laws and statutory acts should be noted, as the Law of the Republic of Uzbekistan №LRUZ - 589 “On the State Budget of the Republic of Uzbekistan for 2020” dated December 9, 2019, the Law of the Republic of Uzbekistan №LRUZ - 599 “On making amendments and additions to the Tax Code of the Republic of Uzbekistan” dated December 30, 2019, and

Resolution of the President of the Republic of Uzbekistan №PR-4555 “On executing the State budget of the Republic of Uzbekistan for 2020” dated December 30, 2019.

It should be noted that all the statutory acts worked out by the Government of the Republic of Uzbekistan are implemented in terms of solving current problems challenged by the industry and are aimed at developing sustainable tax legislation through their elimination.

2. Literature review.

When analyzing the main focus areas of the tax policy and tax reforms currently implemented in the Republic of Uzbekistan, it is essential to study the essence of concepts of “tax”, “tax policy” and taxation practice in reliance upon scientific and practical researches of scholars-economists.

“Taxes constitute basic elements of taxation. They represent compulsory payments collected by the government from legal entities and individuals to meet the needs of the state” (Bazylev et al., 1998).

“Tax is a compulsory financial payment or other type of collection by the public organization made by a taxpayer to finance various public expenditures”(Charles and McLure, 2015).

Taxes are the most essential source in almost all countries. According to the latest estimates of the International Center for Taxation and Development, in almost half of the countries throughout the world, total tax revenues account for over 80 percent of the government revenue and over 50 percent in almost every country*.

Smith (1776) was the first to substantiate the principles of taxation, highlighting significance of taxes and arguing that paying them to the government was a sign of freedom, not slavery.

In the opinion of Ricardo, “Taxes constitute a part of the land and labor of the country, which come at the disposal of the government and are ultimately paid at the expense of capital or the national income”.

The economic function of taxes contributes to the implementation of the tax, strengthens it, and efficient implementation of the distribution function creates a favorable socio-economic environment for the performance of other functions of taxes (Chernik et al., 2000).

According to the definition by Olimjonov (1992), “Taxes are payments that are compulsorily levied on individuals at the discretion of the government in the amount and within the period established by law in order to meet the needs of the government and society for funds”.

From an economic point of view, taxation transfers property from households or businesses to the government. This has the effect that can reduce both economic growth and economic well-being. The legal definition and economic definition of taxes differ from each other and this difference is obvious in the research specified above.

* Taxation [by Esteban Ortiz-Ospina and Max Roser- https://ourworldindata.org/taxation](https://ourworldindata.org/taxation)

Analyzing definitions given by economists to the “tax policy” concept, Radchenko (2005) thinks that “Tax policy is a set of economic, financial and legal measures aimed at meeting financial needs of the government and formation of the tax system of the country”.

In the opinion of Panskov (2006), “tax policy is a set of economic, financial and legal measures of the government to meet the financial needs of certain social groups of the state and society, as well as to formulate a tax system for the development of the national economy through redistribution of financial resources”.

From the point of view of Serdyukov et al. (2005), “public tax policy is a comprehensive solution to the issues of taxation, taking into account interests and goals of a particular state at the appropriate stage of historical development, implemented in the activities of public administration and public authorities within the general economic strategy of the government”.

Karp (2001) supposes that “tax policy is an integral part of the overall financial policy of the government and includes such concepts as taxation, tax mechanism and management of the tax system”.

In the opinion of Barulin et al. (2004), “tax policy represents a set of strategic and tactical measures undertaken by the government in the field of tax process management within the framework of general economic policy, and at this stage to influence the maximum implementation of fiscal regulation and control to achieve economically and socially significant results”.

From the point of view of Yedronova and Mamykina (2005) “tax policy is a combination of legal, economic and organizational measures of tax policy governing tax relations”.

Valinurov believes (2010), that “public tax policy is a system of measures implemented by the government and local authorities, which is compulsory and transparent by nature and is a part of the overall economic strategy of the state and provides for a comprehensive solution to taxation issues in compliance with the historical interests and goals of a particular state”.

In the opinion of Ashurova (2012), “Tax policy is an integral part of economic policy, activity of the government in the field of taxation for a specific period, aimed at specific goals. It is a set of measures undertaken by the relevant competent authorities of the state aimed at introducing taxes, creating a mechanism for the practical operation of the introduced taxes and non-tax payments and raising efficiency”.

3. Research methodology.

The article analyzes the views of economists with the application of analysis and synthesis as well as induction and deduction methods. The author has made attempts to reveal the current tax policy of the Republic of Uzbekistan and its goal by using comparison method.

Analysis and Results discussion.

If we consider the tax policy of the Republic of Uzbekistan, its aims and objectives are reflected in the relevant articles of the Tax Code. In particular, policy is generally

perceived as a set of goals, ways to achieve them, as well as the tools used in the process of achieving these goals and statutory acts that constitute the basis of this process.

Tax policy implies in what amount the government charges taxes, as well as to whom, and from whom taxes should be levied. It is considered to have both micro and macroeconomic aspects. While microeconomic aspects are related to fairness and distribution efficiency, macroeconomic aspects depend on the total amount of taxes that can adversely affect the level of economic activity. This is an integral part of the fiscal policy.

Furthermore, many countries have a tax system that is paid for general or agreed national needs and government functions. Some charge a flat interest rate tax on personal annual income, but receive the highest taxes depending on the amount of annual income. In the majority of countries, the tax is levied on individual income and corporate income. Hereof it is obvious that each state has been able to create its own system of taxation. It should be noted, that the main goal of the comprehensive reforms in the budget tax system implemented by the government of our country is to create a fair tax system that meets the requirements of entrepreneurs, businessmen and investors engaged in production and non-manufacturing activities.

It should be noted that the decrees, resolutions and orders of the President of the Republic of Uzbekistan on taxation are based on the objective of overcoming the problems existing in the tax system.

In this regard, the Decree of the President of the Republic of Uzbekistan №PD-5468 “On the concept of improving the tax policy of the Republic of Uzbekistan” was adopted on June 29, 2018. According to this Decree, gradual reduction of the tax burden, simplification of the tax system and improvement of tax administration are considered essential conditions for the rapid development of the economy and improving the country’s investment attractiveness.

The main focus areas of the concept for improving the tax policy of the Republic of Uzbekistan are the following:

- reducing the level of tax burden on the economy;
- optimizing the number of taxes by unifying them;
- ensuring stability of the macroeconomic situation, sustainability of the State budget of the Republic of Uzbekistan and formation of its revenues;
- simplifying the tax legislation;
- ensuring stability of tax legislation and direct application of the norms of the Tax Code of the Republic of Uzbekistan, including establishment of rates of taxes and other compulsory payments in the Code, with maximum restriction of reference norms, by-laws and statutory acts governing tax issues;
- maintaining a favorable regime for foreign investors and investments, providing them with comprehensive support and reliable legal protection;
- improving the forms and mechanisms of tax surveillance, including through widespread introduction of the cutting-edge information and communication technologies that provide more complete coverage and accounting of taxable objects and taxpayers, introduction of tax procedures for transactions related to the formation of transfer prices.

The Resolution of the President of the Republic of Uzbekistan №PR-4389 “On additional measures to improve tax administration” adopted on July 10, 2019 turned to be a logical continuation of the concept of improving the tax policy of the Republic of Uzbekistan, adopted in 2018 and is aimed at implementing the tasks to reduce the tax burden and simplify the tax system, improve tax administration, develop entrepreneurship and create a favorable environment for attracting foreign investments.

Herewith, the tax system has the following shortcomings and problems that prevent the growth of business and investment activity, formation of a robust competitive environment, as well as efficient implementation of tax reforms:

firstly, the outdated principles of arranging tax administration do not ensure provision of comprehensive services to taxpayers, their voluntary fulfillment of tax obligations;

secondly, high level of administrative expenses (time and funds spent) in the fulfillment of tax liabilities;

thirdly, there are no specific criteria and mechanisms for providing tax incentives;

fourthly, the mechanisms of public supervision, aimed at reducing the level of the “shadow economy”, as well as encouraging the processes of entrepreneurial activity legalization, are not perfect;

fifth, there is no single standard and software products that ensure exchange of information between a taxpayer and tax authorities;

sixth, interdepartmental information interaction is established at the inadequate level, which reduces the quality of tax accounting, hinders expansion of the tax base and provision of stable tax revenues;

seventh, there are systemic shortcomings in the field of educating highly qualified personnel and assessing the performance of employees of tax authorities.

It should be noted, that the Decree of the President of the Republic of Uzbekistan №PD-5837 “On measures to further improve the tax policy of the Republic of Uzbekistan” adopted on September 26, 2019 is considered continuation of the reforms implemented in the tax system.

The ultimate goal of the above-mentioned decrees and resolutions is to create a tax system and the system that is sustainable for the economy and to develop legislation that is currently in demand by entrepreneurs and businessmen, because our tax system has been focused on making more profit and limiting some social goals. This requires revision of the Tax Code in compliance with the modern market economy.

The fact, that the Tax Code has been reconsidered three times in recent years, is the measure to eliminate existing problems and ambiguities in the legislation. To ensure an efficient tax system based on the tax policy, a system of appropriate tax principles is required to analyze tax regulations and proposals for changes in tax systems. Creating a sustainable tax policy requires taking into account all the principles of any type of tax legislation, both major and insignificant.

In particular, in reliance upon the Resolution of the President of the Republic of Uzbekistan №PR-4555 “On measures to ensure execution of the Law of the republic of Uzbekistan “On the State budget of the Republic of Uzbekistan for 2020” adopted on December 30, 2019, with the aim of further strengthening the public finance system and

budget discipline, enhancing transparency of the fiscal system, strengthening the interest of local authorities in the implementation of budget revenue forecasts, as well as ensuring execution of the Law of the Republic of Uzbekistan “On the State budget of the Republic of Uzbekistan for 2020”, the following focus areas have been determined for improving the public finance management system:

in order to introduce a strategic approach to fiscal policy, developing medium-term budget foundations and introducing a new system for the annual budget formation – “result-oriented budget”;

enhancing institutional capacity and responsibility of participants in the budget process to ensure the reliability of macro-fiscal forecasts;

strengthening budgetary powers, accountability and responsibility of budget funds managers and local government authorities;

implementing the system for assessing fiscal risks, keeping records of financial assets and liabilities, as well as their efficient management;

strengthening financial discipline by unifying budget accounting standards, improving the system of internal control and audit;

ensuring openness, completeness and compliance of budget information with international standards;

strengthening parliamentary and public supervision over the budget process.

Table 1

**Forecast of state budget revenues
of the Republic of Uzbekistan for 2020**

Billion UZS

№	Indicators	Amount
Total - revenues		128 460.0
1.	Direct taxes	40 584.6
1.1.	Profit tax	22 058.7
1.2.	Turnover tax	2 458.1
1.3.	Income tax levied on the individuals	16 067.8
2.	Indirect taxes	58 285.0
2.1.	Value Added Tax	44 199.4
2.2.	Excise tax	11 373.6
2.3.	Customs duty	2 712.0
3.	Resource payment and property tax	20 796.0
3.1.	Property tax	2 369.6
3.2.	Land tax	2 474.4
3.3.	Tax on subsoil use	15 606.4
3.4.	Tax on water resources use	345.6
4.	Other revenues and other non-tax receipts	8 794.4

It is of importance, that along with the revenue forecast for 2020 shown in the table, we can see that some of the changes in taxes and fees have also changed their name. To be

more precisely, a social tax was introduced instead of a single social payment, turnover tax - instead of a single tax payment, a fixed amount of income tax from individuals was introduced instead of a fixed tax.

Furthermore, the new revised Tax Code of the Republic of Uzbekistan, approved by the Law of the Republic of Uzbekistan №LRUZ-136 dated December 25, 2007 has been effective until April 1, 2020. According to the resolutions of the President of the Republic of Uzbekistan and the Cabinet of Ministers of the Republic of Uzbekistan, incentives are valid until the expiration of their term.

Within the affairs of tax administration, the following should be mentioned:

- The right of the tax authorities to apply for recovery of taxpayers' receivables from debtors has been abolished.

- The responsibility of the tax authorities for non-timely refund of overpaid or overcharged taxes has been strengthened. Excessively collected tax and financial sanctions (penalties) shall be refunded with the account of the interest accrued on the basis of the refinancing rate of the Central Bank effective during the period of collection (payment) of these amounts. Similarly, the mechanism for timely refund of overpaid taxes and accounting (refund) of overpaid taxes is being introduced. However, for each day of delay in tax refund, the tax authority provides for the payment of interest to the taxpayer.

- There is a new procedure for conducting tax surveillance, which gives the tax authorities the right to appoint in-house tax audits, mobile audits and audits on the basis of risk analysis.

- The procedure for pre-trial settlement of tax disputes has been established, as well as measures of liability depending 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 the appeal to the higher tax authority.

- In new Tax Code there have been introduced new means of ensuring payment of taxes, as well as the procedure for deferral or installment payment of taxes without the participation of collegial bodies (commissions) in exchange for certain payments. In addition, the Tax Code implies abolishing anti-tax evasion standards, including "non-qualification of transactions", "fraudulent transactions", as well as non-provision of discounts for fraudulent transactions.

- The new version of the Tax Code of the Republic of Uzbekistan stipulates that after January 1, 2020, only those tax incentives can be granted, which are specified in the Tax Code. Tax incentives for certain taxes, with the exception of value added tax, excise tax in the production and (or) sale of excisable products and tax for the use of subsoil, taking into account the provisions of part 6 of this article, may be provided by the resolutions of the President of the Republic of Uzbekistan only in the form of a reduction in the established tax rate, but not more than 50 percent and for a period not exceeding three years. Incentives for value added tax, including when importing the goods into the territory of the Republic of Uzbekistan, cannot be provided with the condition that the funds released from taxation are directed for certain purposes

- The rules of taxation of profits, which are determined by the transfer price, managed by foreign companies and consolidated groups of taxpayers will come into force on January 1, 2022, and explanatory materials therethrough will be published regularly.

4. Conclusion and proposals.

In our opinion, the Tax Code should be amended, but with the aim of achieving favourable effect it should be done after some time. The Law of the Republic of Uzbekistan №LRUZ-599 “On making amendments and additions to the Tax Code of the Republic of Uzbekistan” dated December 30, 2019 and new versions of the revised Tax Code in 2020 and 2021 are aimed at ensuring comprehensive monitoring and analysis of the efficiency and practical impact of the norms, if necessary, making proposals to further improve certain provisions of the Tax Code according to the established procedure, adjusting the government resolutions in compliance with the Tax Code, as well as revising and abolishing statutory acts of public administration bodies that contradict the Tax Code. All these enable reconsidering legislation, if necessary.

It is, due to the fact, that constant intensity of the market economy may cause changes in some of its legislation. This means that it should be revised minimum every 5 years, or at least every 10 years, rather than changing it every year.

The reason for its revision and re-amendment will depend on some factors affecting the national economy. Because both the changing policy or the policies pursued by the surrounding countries can even make a direct and indirect impact on the country's economy.

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