

ISSUES OF IMPROVING TAX ACCOUNTING

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Abstract. *This article is devoted to the consideration of some issues related to accurate formulation of the prime-cost. In particular, the article indicates the problems in practice regarding the calculation of social tax and how it should be reflected as an expense and provides developed proposals for their elimination.*

Key words: *Tax Code, regulations on cost structure, social tax, period costs, direct labor costs, International Financial Reporting Standards.*

Introduction. In the formation of tax policy it is crucially important for the government to ensure the balance of taxpayers and the interests of the government, to encourage active business performance of organizations in order to raise tax revenues to the budget. Tax reforms, including reforms in the field of profit taxation, can create conditions for economic growth or become one of the factors of its slowdown.

The government is a simple mechanism with two levers, which conducts monetary policy with one lever and fiscal (tax) policy with the other lever. In this case, monetary policy is conducted by the Central Bank of the Republic of Uzbekistan, and fiscal policy is conducted by the Ministry of Finance of the Republic of Uzbekistan.

The reforms implemented in our country during the last 5 years have made fundamental changes in the tax policy. In particular, as part of the reforms set to be implemented by 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” dated June 29, 2018, from January 1, 2019, the rate of the income tax levied on the individuals will be decreased from 14 percent to 12 percent, property tax rate from 5 percent to 2 percent, single tax rate - from 5 percent to 4 percent and single social tax rate - from 15 percent to 12 percent. In addition, the 8 percent insurance contribution from the wages of individuals was canceled and instead of the 4-level income tax with a tax rate of up to 22.5 percent, a single percentage, i.e. 12 percent income tax rate was established.

Moreover, by 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” dated September 26, 2019, the tax rate of value added tax, which has not been reduced for 20 years, will be reduced to 15 percent from October 1, 2019 to percent.

The Tax Code in new wording was introduced in practice from January 1, 2020 by the Law of the Republic of Uzbekistan №599 “On Amendments and Additions to the Tax Code of the Republic of Uzbekistan” dated December 30, 2019.

The implementation of the norms of the new wording of the Tax Code caused some issues in the correct reflection of the expenses of economic entities in accounting.

For example, previously, the single social payment used to be calculated in relation to the

wage fund, and since the word “payment” is in its name, its calculation is made in terms of the prime-cost of products, administrative costs, etc.

Research methodology. Such research methods as scientific abstraction, analysis, synthesis, induction and deduction have been widely used in this research. Moreover, the research relies on the studies of foreign and domestic scholars and economists on the issues of the profit tax.

Literature review. In general, the amount of social tax (single social payment) is set at 25 percent for budgetary organizations and public enterprises, as well as legal entities with a state share of 50 percent or more in the charter capital, and 12 percent for other enterprises and organizations (Resolution, 2018).

In the opinion of A.Abdullaev, who carried out the research on improving tax rates for the government and non-government educational institutions, it is recommended to introduce the practice of applying regressive rates to the social tax calculated in relation to the wage fund in non-government educational institutions. That is, the more wages are calculated, the less social tax is paid, which increases the employer’s interest in full and formal payment of wages. This situation, by itself, results in the increase in payments to the state budget.

He proposes the differentiated rates of the single social payment for non-government educational institutions as follows (Abdullaev, 2020):

- in case of the wage amount constitutes from 1700.000 UZS up to 1.000.000 UZS, the single social payment rate accounts for 12 percent;
- 1100.000 UZS + from 1 UZS up to 1.500.000 UZS - 10 percent;
- 1.500.000 UZS + from 1 UZS up to 2.000.000 UZS - 8 percent;
- 2.000.000 UZS + from 1 UZS and above - 7 percent.

Herewith in the opinion of the author, taking into account the fact that the number of non-government educational institutions is increasing year by year, the practice of applying differentiated rates applied to social tax is considered effective.

Definitely, this proposal is about the implementation of a differentiated rate of social tax, but we can see that there is not enough research on its accounting.

As we know, according to the National Accounting Standard of the Republic of Uzbekistan (NAS №21) “The chart of accounts of financial and economic activities of economic entities and the instructions for its application” (registered under number 1181 on October 23, 2002), the economic entity itself can develop a relevant chart of accounts.

The provisions of the Regulation approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №54 dated February 5, 1999 determine whether tax costs on the taxes specified in the Tax Code of the Republic of Uzbekistan can be included in the prime-cost of the products (works, services), or cannot be included and this fact is closely linked with the Chart of accounts.

In Article 4 of the Law of the Republic of Uzbekistan “On Amendments and Additions to the Tax Code of the Republic of Uzbekistan” №599 dated December 30, 2019, it is assumed that a corresponding social tax will be introduced instead of a single social payment, and that the incentives and special calculation procedures previously established by legislation will be applied to their payers.

Our studies have shown that there are almost no research papers conducted within the framework of social tax accounting. However, in practice, the accounting of this tax causes an incorrect distribution of the enterprise's expenses.

Analysis and results. According to the Law of the Republic of Uzbekistan №599 dated December 30, 2019, a social tax was introduced instead of a single social payment. This change, in turn, is causing the problems related to the correct formation of the prime-cost of products (works, services) in the accounting of economic entities according to the Regulation "On the composition of the costs of production and sale of products (works, services) and the procedure for formulating financial results" approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №54 dated February 5, 1999.

Table 1

Reflecting taxes in the accounting (National Accounting Standard №21, 2002)

№	Essence of the economic operation	Amount	Correspondence of accounts	
			Debit	Credit
1	Social tax has been calculated on the wage fund of workers engaged in the core business	1 000 000	9430	6410
2	Personal income tax has been calculated on the wages received by workers from the core business	1 000 000	6710	6410
3	Social tax has been calculated on the wage fund of administrative staff	500 000	9430	6410
4	Personal income tax has been calculated on the wages received by the administrative staff	500 000	6710	6410
5	Products have been purchased from suppliers. <i>(in the amount of 10 000 000 UZS including the VAT)</i>	8 695 650	1010	6010
		1 304 350	4410	
6	The products have been sold to customers. <i>(in the amount of 12 000 000 UZS including the VAT)</i>	10 434 800	4010	9010
		1 565 200		6410
7	The VAT has been paid to the budget	1 304 350	6410	4410
		260 850		5110
8	Liabilities on the profit tax have been calculated during the reporting period	700 000	9810	6410
9	Liabilities on the turnover tax have been calculated during the reporting period	1 000 000	9820	6410
10	The products have been sold to customers. <i>(in the amount of 12 000 000 UZS including the excise tax)</i>	10 909 000	4010	9010
		1 091 000		6410
11	Liabilities on resource taxes have emerged	1 000 000	9430	6410

Clause 1 of the current Regulation stipulates that compulsory social deductions calculated

in relation to expenses in the form of wages according to the norms established by law are considered as social insurance deductions related to production and are included in the expenses incorporated in the production prime-cost of products (works, services).

Furthermore, in the Regulation, expenses such as compulsory payments to the budget, taxes, charges, allocations to public targeted funds, as well as payment of membership fees to international organizations according to government decisions, which are carried out in compliance with the current legislation and included in the expenses of the economic entity, are recognized as period costs.

According to Article 17 of the Tax Code of the Republic of Uzbekistan, social tax is one of the 9 types of taxes in force in the territory of the republic.

Based on the above, there is a view that the amount of social tax calculated in relation to the expenses in the form of paying wages is recognized as the period costs.

Contradictions in these statutory acts are the reason for the incorrect formation of the prime-cost of products (works, services) in economic entities and formation of incorrect analytical data when making decisions by investors.

The contradictions in these statutory acts do not change any tax consequences for economic entities and the current procedures for tax accounting will be maintained (Table 2).

Table 2

Reflecting social tax expenses in the accounting

(current procedure)

№	If social tax expenses are directly included in the product prime-cost (till 01.01.2020)			№	If social tax expenses are included in the composition of period costs (after 01.01.2020)		
	correspondence of accounts		amount		correspondence of accounts		amount
1	2010	1010	10 000	1	2010	1010	10 000
2	2010	6710	2 000	2	2010	6710	2 000
3	6710	6410	240	3	6710	6410	240
4	2010	6520	240	4	9430	6410	240
5	2810	2010	12 240	5	2810	2010	12 000
6	9110	2810	12 240	6	9110	2810	12 000
7	4010	9010	1 300	7	4010	9010	1 300
8	9910	8710	760	8	9910	8710	760

The main problem in relation to the above considerations is the incorrect formation of accounting data for external and internal users in organizations where the prime-cost is used as the basis for management decisions and pricing by economic entities, as well as and causes incorrect formation of accounting data for external and internal users in economic entities that determine their financial indicators based on gross income.

Therefore, in our opinion, it is appropriate to improve calculation of the single social payment with the account that it maintains the status of a social tax (Table 3).

Table 3

Reflecting social tax expenses in the accounting
(proposed procedure)

№	If social tax expenses are included in period costs			№	If social tax expenses are directly included in the product prime-cost		
	correspondence of accounts		amount		correspondence of accounts		amount
1	2010	1010	10 000	1	2010	1010	10 000
2	2010	6710	2 000	2	2010	6710	2 000
3	6710	6410	240	3	6710	6410	240
4	9430	6410	240	4	2010	6410	240
5	2810	2010	12 000	5	2810	2010	12 240
6	9110	2810	12 000	6	9110	2810	12 240
7	4010	9010	1 300	7	4010	9010	1 300
8	9910	8710	760	8	9910	8710	760

According to the International Financial Reporting Standard (IAS 2) "Inventories", the costs of processing inventories include costs directly related to the manufacturing of products, including *direct labor costs*. Direct labor costs refer to the wages of workers employed in production, which change in proportion to the number of products manufactured. In reliance upon these considerations, the social tax, which is calculated on the basis of the wage payment fund of employees engaged in the production process, should be considered as a direct labor cost.

Conclusion and proposals. Our studies have shown that the accurate reflection of the social tax in the accounting results in the optimization of prime-costs or period costs in enterprises, as well as correct calculation of the period profit.

Therefore, we believe that it is appropriate to include the social tax costs paid by enterprises directly in the prime-cost of products (works, services) and not in the period costs.

At the same time, it is advisable to transfer the social tax calculation to the prime-cost accounts according to the procedure proposed by us.

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