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Profit Tax In Uzbekistan: Analysis Of The State Of Collection And Optimization Of Its Impact On Financial Relations

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Abstract – It is vivid that today, corporate profit taxes play vital role in the activities of enterprises. To be clearly, specially, profit tax, on the one hand, affects the financial condition of the enterprise, on the other hand, it serves as one of the pivotal types of taxes in the replenishment of state budget revenues. Author on this paper investigates the situation with the collection of profit tax on budget revenues in Uzbekistan, the impact of this type of tax on the activities of taxpayers, as well as the impact on financial relations. Finally, in the conclusion of the article there are proposals and recommendations for the collection of profit tax.

Keywords – Tax, Mechanism, Profit, Profit Tax, Budget Revenues, Uzbekistan.

I. Introduction

Profit tax as an economic category is used to ensure socio-economic development, including economic growth. It also finds its prospects in clearly defining the prospects of socio-economic development of the country and creating the conditions for its application in ensuring the effectiveness of the implementation of strategies developed in the framework of the tasks aimed at it. Therefore, profit tax, like other types of taxes, is of financial importance within economic entities. This is useful in protecting the interests of the state, on the one hand, and the interests of all enterprises, on the other hand, as well as serving the development of the economy.

President of the Republic of Uzbekistan Sh.M. Mirziyoev noted that the most important conditions for the rapid development of the economy and improving the country's investment attractiveness are the gradual reduction of the tax burden, simplification of the tax system and improvement of tax administration in the framework of improving tax policy[1]. In improving tax policy, it is important to optimize the impact of profit tax on the activities of economic entities.

Of course, as a result of reducing the tax burden, it is possible to modernize production at the disposal of enterprises, to expand investment activities in order to increase its efficiency. Therefore, on the basis of improving the taxation system, as well as the tax mechanism, it is necessary to address the problems of regulation by improving the mechanism of taxation of profits of business entities. In this regard, the optimization of the impact of profit tax on financial relations in the conduct of research in this area is an urgent issue.

[1] Decree of the President of the Republic of Uzbekistan dated June 29, 2018 No PF-5468 "On the concept of improving the tax policy of the Republic of Uzbekistan." https://lex.uz/docs/3802378

II. Literature Review

The study of the impact of the mechanism of taxation on the financial performance of enterprises operating in our country on the growth of budget revenues were discussed at all. Moreover, the identification of existing problems and the search for science-based solutions are pointed a very important issue.

Russian economist I.A. Mayburov's textbook "Taxes and Taxation" states: "The tax mechanism is a system of legal norms and organizational measures that determine the order of management of the tax system to ensure the existence of the country. The basis of the tax mechanism is the tax legislation of the country, which defines the subjects responsible for the regulation of taxes, the sum of taxes and other mandatory payments, the composition of the subjects of tax relations and the specific rules of implementation of this mechanism”[2].

In short, the profit tax mechanism is a set of rules and tools of tax relations, which are used to achieve the goals of tax policy[3]. The organization of profit tax reflects a set of all elements, methods and principles, ie the object of tax, subject, base, tax rate, tax payment period, and so on.

Like many, D. Mardiasmo links the corporate (profit) tax to profit. He argues that corporate tax is levied on taxpayers in compliance with the subjective conditions and objective requirements specified in the legislation[4].

The social factor, on the other hand, is to provide employment through the creation of new jobs, to increase the welfare of the population by increasing its income. T. Eicher notes that the introduction of low tax rates has strengthened the state policy on attracting foreign direct investment[5].

The essence of the corporate profit tax is reflected in the relationship that occurs when a part of the profit is centralized in the state budget as a mandatory payment. In this regard, we have defined the concept of "profit tax" with the following meaning: The monetary relationship between

Such a definition is prof. J.R. Zaynalov's definition differs, first of all, from the fact that the profit tax is transferred to budget revenues and, accordingly, is reflected in the monetary relationship between a particular taxpayer and the state budget. Because the calculation of profit tax and its transfer to budget revenues takes place in a multi-stage monetary relationship. Bypassing it could pave the way for the profit tax to act as a temporary economic reality. Therefore, it is no exaggeration to say that the definition given by us, in essence, covers the essence of the profit tax. Only if it is followed, it will be possible to eliminate barriers to the transfer of profit tax to budget revenues.

III. Analysis And Results

Profit tax plays an important role in regulating the activities of business entities through taxes. There are several classifications of state regulation of taxes, which are also based on the ranking of countries depending on the level of state intervention in the collection of taxes from enterprises (Figure 1).

From the approaches shown in Figure 1, it can be said that the regulation of profit tax relations is a mechanism of measures, the introduction of an incentive mechanism aimed at increasing the structural activity of the enterprise. Given that each enterprise has its own characteristics aimed at the implementation of strategic plans of economic development, its main purpose is to provide qualitative and quantitative characteristics aimed at increasing the financial potential of the enterprise. At the same time, while ensuring the full reduction of profit tax payments to budget revenues, the financial potential of enterprises will be strengthened, the incomes of employees will increase, and new jobs will be created. Therefore, the use of an incentive mechanism in the regulation of profit tax relations will ensure great benefits for the enterprise and the state.

In addition to the broad impact of corporate profit tax on the management of investment flows, capital accumulation, the state budget has become a major and stable source of income for the state budget.

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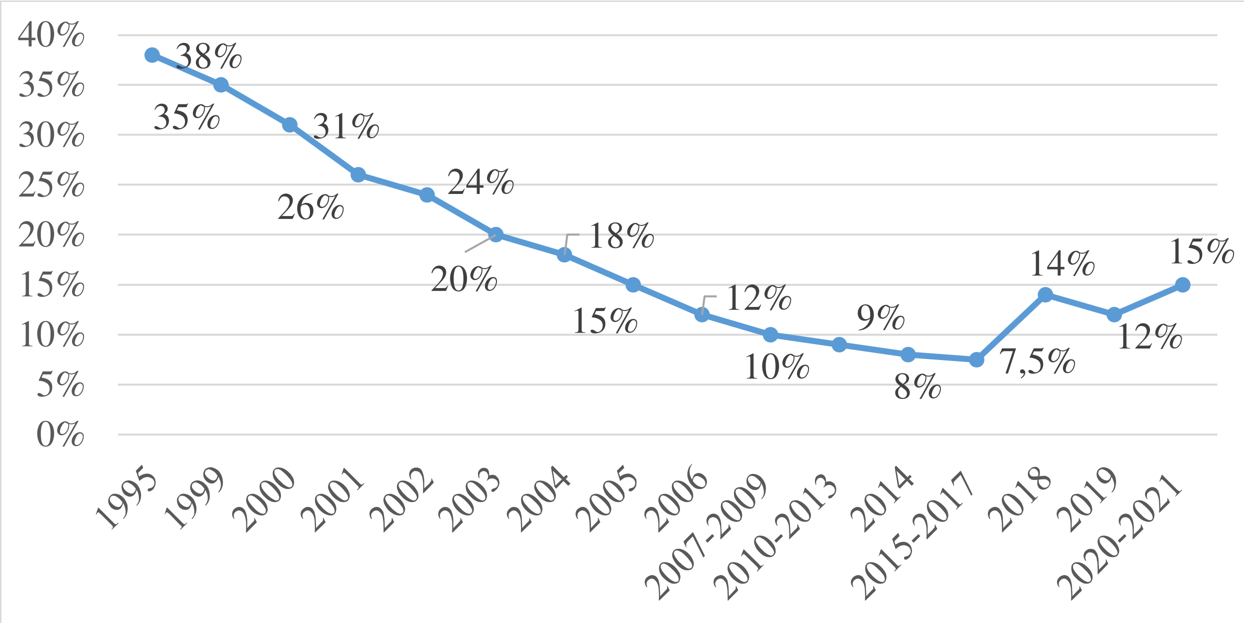

Figure 2. Dynamics of changes in the profit tax rate in the Republic of Uzbekistan [6]

While indirect taxes are currently used as the main source of budget revenues, direct taxes, in particular the profit tax, are widely used to stimulate economic activity of economic entities. However, in any case, the main focus is on changes in the profit tax rate (Figure 2), which provides ample opportunities for the development of investment activities of economic entities.

[6] Compiled on the basis of the main macroeconomic indicators and parameters of the state budget of the Republic of Uzbekistan for the relevant years and the data of the Law on the state budget

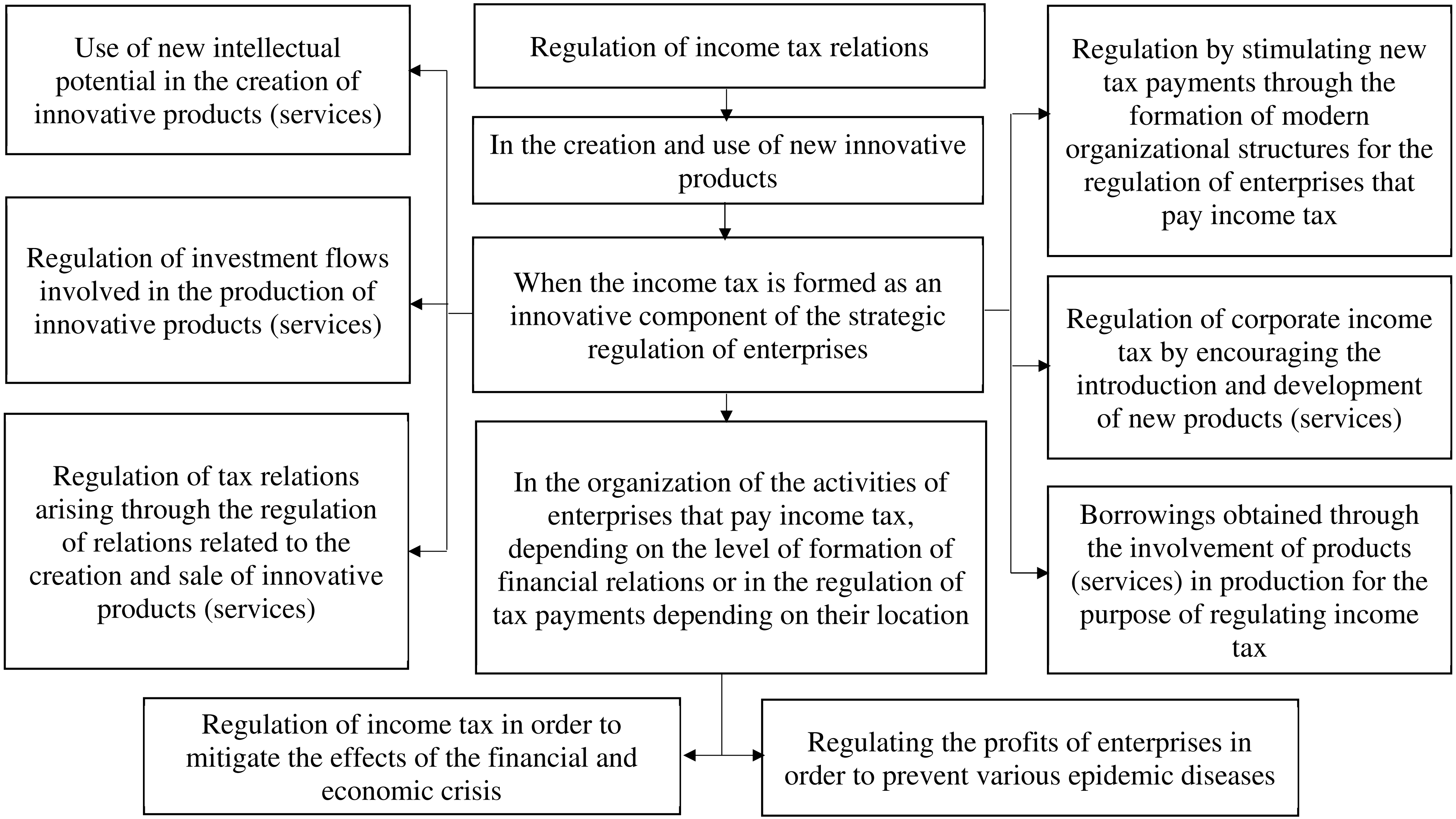

Figure 1. Regulation of profit tax relations in order to optimize the profits of profit taxpayers

At the same time, attention is paid to improving the structure of expenditures added to the profit tax base. One of the expected results of the comprehensive measures taken to develop the profit tax is the expansion of this tax base. Profit tax revenues increased 8.7 times during the reporting period and in 2020 amounted to about 28.7 trillion. soums or 4.9% of GDP (Figure 3).

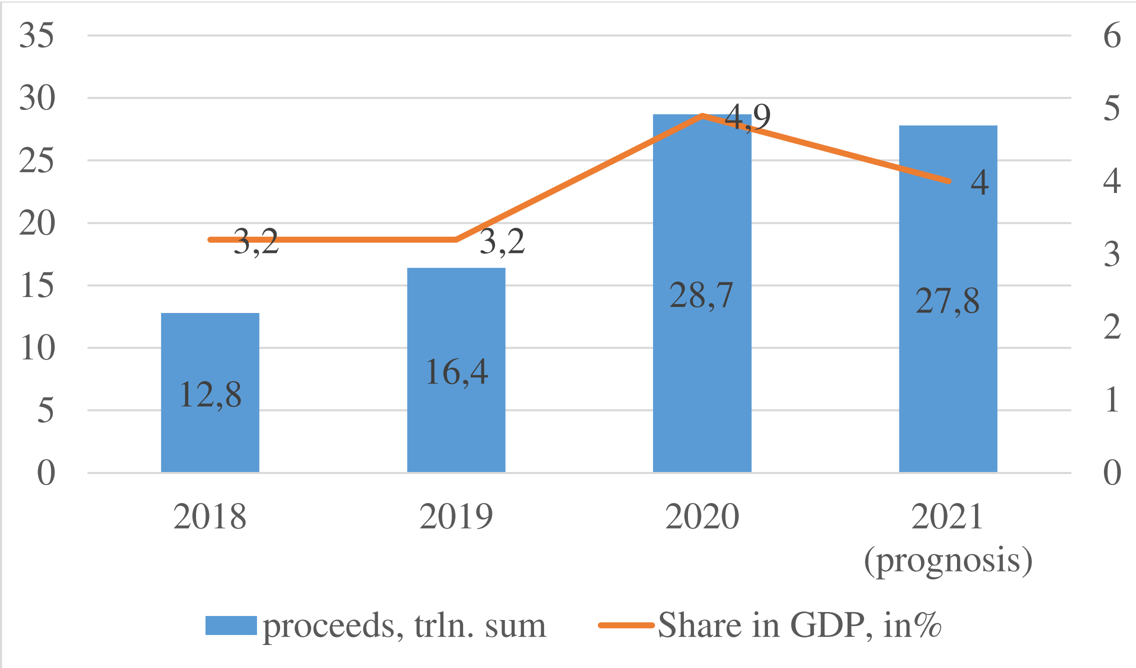

Figure 3. Dynamics of profit tax revenue in 2018-2021 [7]

The following key factors contributed to the increase in profit tax revenue:

- the transition of mining companies to a new system of taxation for this tax;

- Increase in the tax base for corporate profit tax from January 1, 2019 due to the abolition of mandatory contributions (3.2%) and reduction of social tax from 25% to 12%;

- increase in prices for precious metals, as well as liberalization of prices for some goods and services.

The structural analysis of budget revenues in 2017-2021 shows that the structure of state budget revenues is about 14.6-21.6% of profit tax revenues. It is no exaggeration to say that this amount has been growing in recent years (Table 1). It can also be said that the share of this tax in budget revenues in 2018 and 2012 (forecast) is second only to VAT as a result of reforms to improve this type of tax. However, until 2017, the share of profit tax in budget revenues was the last in the structure of all types of taxes, with a share of 2.9%.

What is the reason for such a drastic change? First of all, the new Uzbekistan has no choice but to reform this tax rate in order to take a leading position among the influential countries, to ensure economic growth, to create a broad basis for innovative production. This necessitated the adoption of the Concept for the Improvement of Tax Policy, as well as the generalization to the tax environment that the regulation of the Tax Code could be effective for some inefficient taxes.

[7] Data of the Ministry of Finance of the Republic of Uzbekistan for 2018-2021

Table 1. 2017-2021 structure of state budget revenues in years[8], bln. sum

T/p	indexes	2017 year		2018 year		2019 year		2020 year		2021 year(prognosis)	
		In total	Share in total, %	In total	Share in total,, %	In total	Share in total,, %	In total	Share in total,, %	In total	Share in total,, %
	State budget revenues	**49681**	**100**	**79099**	**100**	**112165,4**	**100**	**132938**	**100**	**147002**	**100**
	including:										
1.	***Direct taxes***	***11539,4***	***23,2***	***24986***	***31,6***	***31676,8***	***28,2***	***45207***	***34,0***	***46845***	***31,9***
1.1.	Profit tax	1475,5	2,9	12832	16,2	16360,6	14,6	28712	21,6	27779,4	18,9
1.2.	Turnover tax	3459,2	7,0	4706	6,0	1988,7	1,8	1354	1,0	2160	1,5
1.3.	Income tax from individuals	4876,4	9,8	7448	9,4	13327,4	11,9	15141	11,4	16906	11,5
1.4.	Fixed tax	1042,8	2,1	-	-	-	-	-	-	-	-
1.5.	Landscaping and social infrastructure development tax	685,5	1,4	-	-	-	-	-	-	-	-
2.	***Indirect taxes***	***26133,2***	***52,6***	***31399***	***39,7***	***46428,6***	***41,4***	***46428***	***34,9***	***62585***	***42,6***
2.1.	**Value added tax**	14685,8	29,6	22511	28,5	33809,8	30,1	31177	23,5	46955	31,9
2.2.	**Excise tax**	7449,2	15,0	7062	8,9	10316,0	9,2	11697	8,8	12331	8,4
2.3.	**Customs tariffs**	1707,4	3,4	1826	2,3	2302,7	2,1	3554	2,7	3298	2,3
2.4	Tax on consumption of gasoline, diesel fuel and liquefied gas for vehicles	1784,5	3,6	-	-	-	-	-	-	-	-
2.5	Payment for the use of subscriber numbers	506,4	1,0	-	-	-	-	-	-	-	-
3.	**Resource payments and property taxes**	***6867,4***	***13,8***	***12663***	***16,0***	***19680,7***	***17,5***	***21257***	***16,0***	***19169***	***13,0***

[8] Data of the Ministry of Finance of the Republic of Uzbekistan for 2017-2021

3.1.	Property tax	2129,7	4,3	2606	3,3	2360,2	2,1	1974	1,5	2510	1.7
3.2.	Land tax	1091,8	2,2	1504	1,9	2313,2	2,1	2387	1,8	2941	2,0
3.3.	Subsoil use tax	3474,1	7,0	8425	10,7	14692,8	13,1	16417	12,3	13330	9,0
3.4.	Tax on the use of water resources	171,8	0,3	128	0,2	314,5	0,3	479	0,4	387	0,3
4.	***Other revenues***	***5141***	***10,3***	***10050***	***12,7***	***14379,3***	***12,8***	***20046***	***15,1***	***18404***	***12,5***

This can be explained by positive indicators in the formation of financial results as a result of expanding business opportunities for businesses, increasing the number of profit taxpayers, expanding the tax base on profit tax, reducing tax benefits, increasing tax rates.

Although the role of profit tax in the formation of state budget revenues is not significant in the data presented in Table 1, its importance in the structure of profit tax revenues directed to the state budget is clear. Information on the share of profit tax in the structure of profit tax revenues directed to the state budget can be seen in Figure 4.

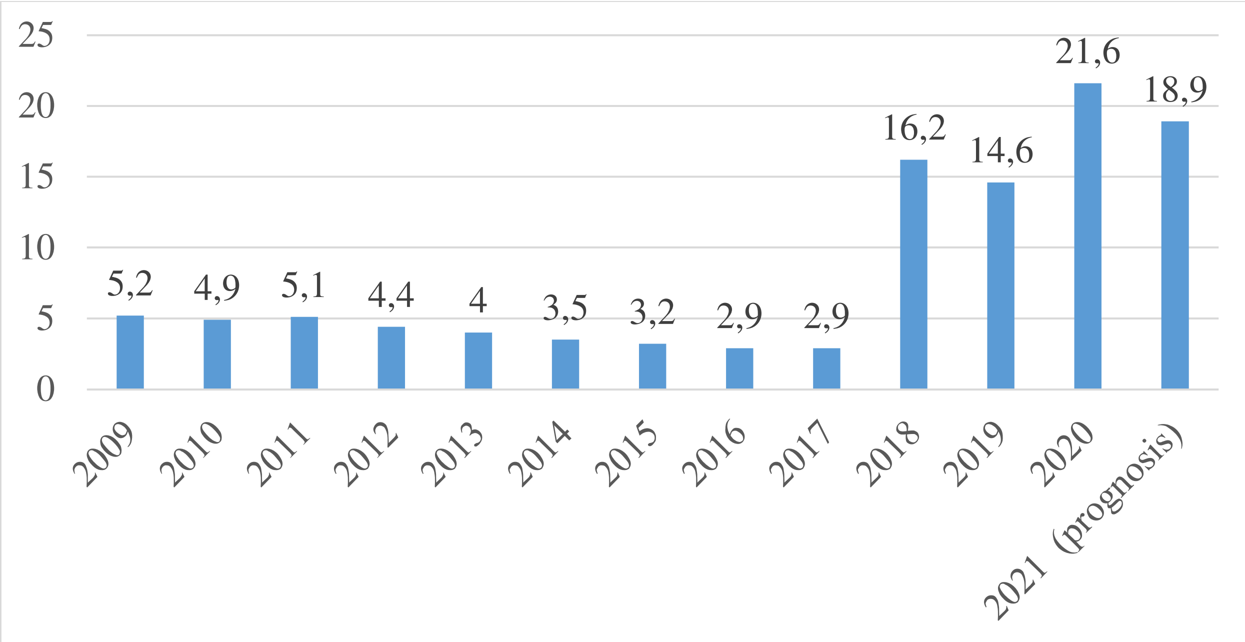

Figure 4. The share of profit tax in the structure of state budget revenues [9], in percentage %

The increase in the share of profit tax in the structure of state budget revenues can be attributed to the increase in the number of taxpayers for this type of tax (see Figure 5-6).

Payers of profit tax are legal entities that are tax residents of the country, as well as non-residents who carry out activities through a permanent establishment or receive income from sources in the country. Figure 6 shows that the number of profit tax payers had a downward trend in 2015-2018. In particular, in 2018 it was 6,723, which is 5,668 less than in 2015. The number of profit tax payers increased sharply in 2019, ie as of January 1, 2020, it amounted to 53,051, an increase of 7.9 times compared to 2018 and 4.28 times compared to 2015. On January 1, 2021, the number of taxpayers of relative profit tax increased by 2.15 times compared to the same period in 2020. The main factor in the sharp increase in the number of profit taxpayers is the transfer of enterprises with annual turnover (revenue) of more than 1 billion soums to the payment of general taxes under the concept of improving tax policy.

[9] Data of the Ministry of Finance of the Republic of Uzbekistan for 2009-2021

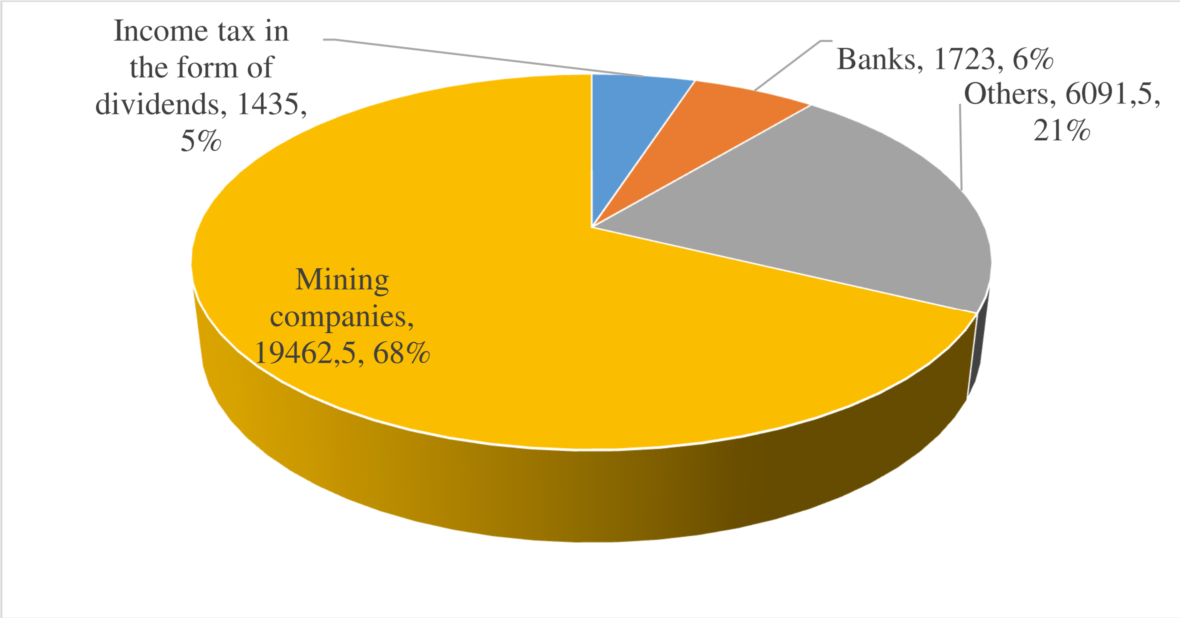

Figure 5. The component of profit tax in 2020[10], bln. sum

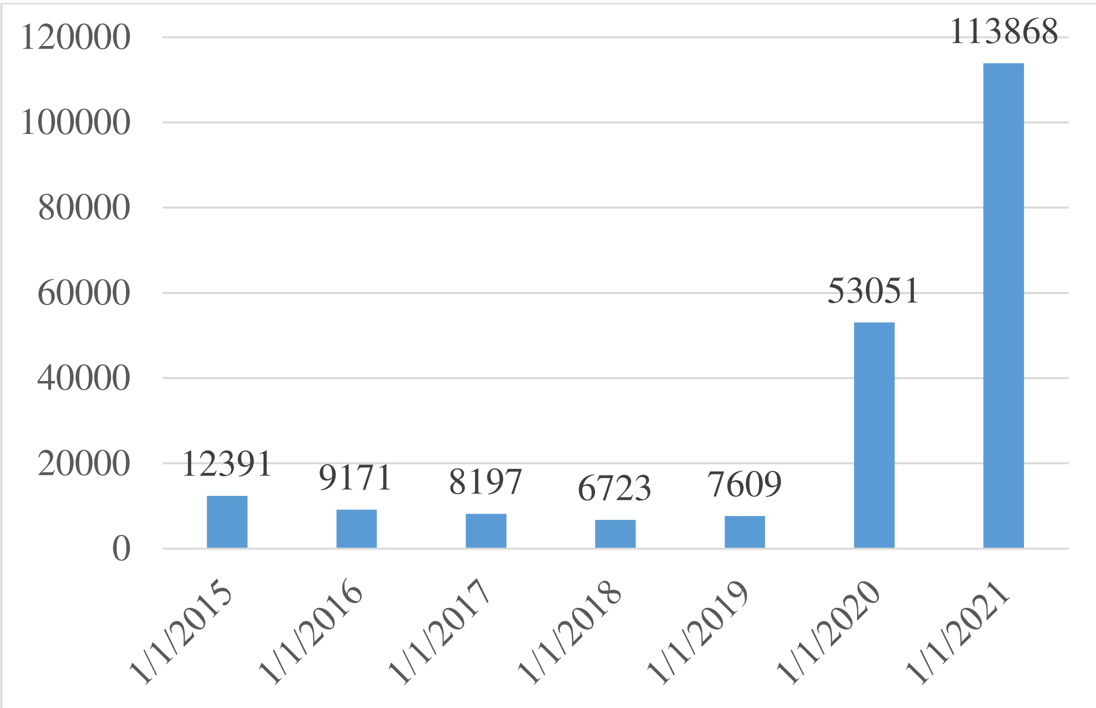

Figure 6. Dynamics of the number of profit tax payers in 2015-2019 [11]

The effect of taxes on the process of reproduction is realized in the process of regulation through taxes. Tax regulation includes a system of special measures in the field of taxation aimed at state intervention in the financial and economic activities of

[10] Data of the Ministry of Finance of the Republic of Uzbekistan for 2020
[11] Data of the Ministry of Finance of the Republic of Uzbekistan for 2015-2021

enterprises and the economy as a whole. Such government intervention should serve to ensure economic growth and the well-being of the population.

IV. Conclusion

An in-depth analysis of the socio-economic advantages of profit-paying enterprises and the importance of this sector of the economy for the country's economy provides a basis for identifying the following priorities for their development.

First, it is necessary to make changes and additions to the legislation governing the activities of enterprises that pay profit tax.

Second, it is necessary to improve the business environment to develop their activities, expand access to credit, raw materials, as well as access to public procurement.

Third, to further improve the mechanism of financial support for enterprises, the introduction of conditions that require the expansion of the activities of enterprises in the provision of tax benefits. In accordance with their business activities, it is desirable to implement a more sophisticated system of calculation of profit tax by applying the methods of grouping by level of employment, quality and efficiency of products (goods, services).

Fourth, the introduction of a reduction in the profit tax rate when the enterprise significantly increases the income of employees, as well as when creating new jobs.

Fifth, increase the transparency of the profit tax rate and the financial mechanism for regulating the tax base in the implementation of exports, the use of new innovative technologies in production, the establishment of joint ventures to reduce the share of imports of certain products (goods, services).

Sixth, to exclude all risky losses in determining the tax base so that the high level of risk in the activities of legal entities does not adversely affect the regulation of profit tax. This will allow to increase the profit tax by 6-7% for each enterprise, while developing the initial draft of the concept of tax policy development in the Republic of Uzbekistan, due to the high level of risk of profit-paying enterprises, serving the full implementation of budget payments.

Seventh, to regulate the elements of profit tax mechanisms. As a result, the introduction of this scheme will ensure a 15-16% increase in the total benefit for each taxpayer compared to previous years, or 32 mln. sum will be added to the budget revenues.

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