

## **ANALYSIS OF THE PROFIT TAX AND ITS IMPROVEMENT**

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**Abstract.** This scientific article is devoted to the issues of improving analysis of the profit tax. In addition, the article represents comparative analysis of the profit tax in different countries and the Republic of Uzbekistan. Moreover, the article provides analysis of the profit tax rates on the basis of application of various methods.

**Key words:** profit tax, tax analysis, macroeconomic indicators, financial results, cash flow, equity, types of tax reporting, information provision of analysis, factors.

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**Introduction.** One of the basic principles of the market economy is seeking profit. Thus economic entities get profit as a result of their performance. The government, in turn, takes a part of the profit to the budget as a tax. The Decree of the President of the Republic of Uzbekistan № 5116 “On measures for radical improvement of the tax administration and raising collection of taxes and other compulsory payments” dated from July 18, 201 and the Strategy for further development of the Republic of Uzbekistan for 2017-2021 set the following objectives for the tax system aimed at its further reformation and improvement: further continuous simplification of the taxation system, reduction of the tax burden through a taxable base, implementation of the modern methods of tax administration, raising the volume of collection of taxes and other compulsory payments, systematic analysis of the dynamics of the macroeconomic indicators and tax capacity of regions, expanding a taxable base and further improvement of the activity of the tax authorities of the Republic of Uzbekistan [2].

To achieve these objectives it is crucially important to carry out analysis by tax receipts and types of taxes to the state budget as well as tax analysis. One of the main issues of the tax analysis is carrying out analysis by types of taxes separately and developing scientific and practical proposals on the basis of the conducted analysis.

**Analysing and discussion.** Before analyzing the profit tax it is advisable to study the role of direct taxes in the state budget (Table 1).

**Table 1**

**Tax receipts in the Republic of Uzbekistan in 2013-2017, revenue from the profit tax and change of its share, billion UZS<sup>1</sup>**

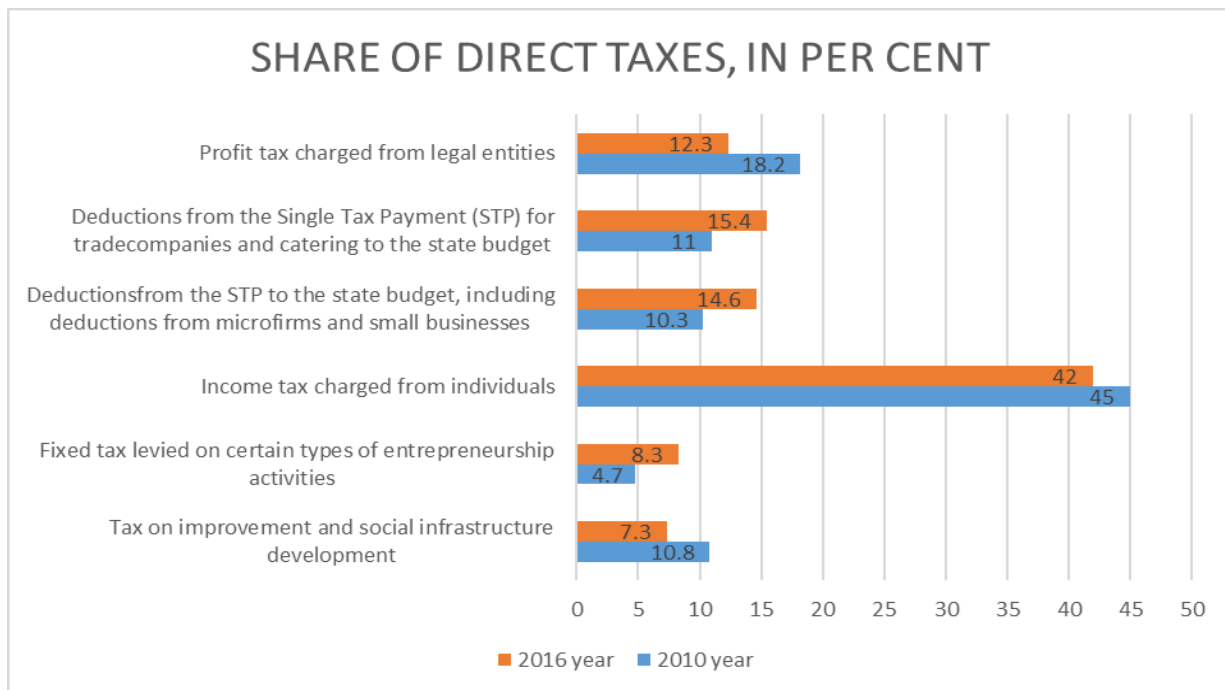
<b>№</b>	<b>Indicators</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Growth in 2017 in comparison with 2013</b>
1.	Tax revenues	26223,2	31070,5	36492,7	41030,7	44469,5	169,58
2.	Direct taxes	6353,7	7433	8798,4	9853,6	10674,2	168,00
3.	Revenues from the profit tax. They include:	1038,8	1120,2	1180,5	1215,1	1291,1	124,29
4.	Deductions from the Single Tax Payment (STP) for companies engaged in trade and catering to the state budget	832,6	954,4	1207,8	1516,1	1613,2	193,75
5.	Deductions from the STP to the state budget, including deductions from microfirms and small businesses	755	967,9	1191,7	1440,8	1622,8	214,94
6.	Income tax charged from individuals	2717,3	3261,7	3800,7	4137,4	4476,1	164,73
7.	Fixed tax levied on certain types of entrepreneurship activities	415,6	553,1	681,5	822,3	831,7	200,12
8.	Tax on improvement and social infrastructure development	594,4	575,7	736,2	721,9	839,3	141,20
9.	Share of the profit tax in overall revenues	3,96	3,61	3,23	2,96	2,90	73,23

<sup>1</sup>[www.mf.uz](http://www.mf.uz)-site of the Ministry of Finance of the Republic of Uzbekistan

From the data in Table 1 it is obvious that if tax revenues to the state budget accounted for 26223,2 billion UZS in 2013 and 31070,5 billion UZS in 2016, in 2017 this indicator is forecasted to amount to 44469,5 billion UZS. The share of the profit tax accounted for 1038,8 billion UZS in 2013, 1120,2 billion UZS in 2014, 1180,5 billion UZS in 2015 and 1215,1 billion UZS in 2016, this indicator in 2017 is expected to amount to 1291,1 billion UZS.

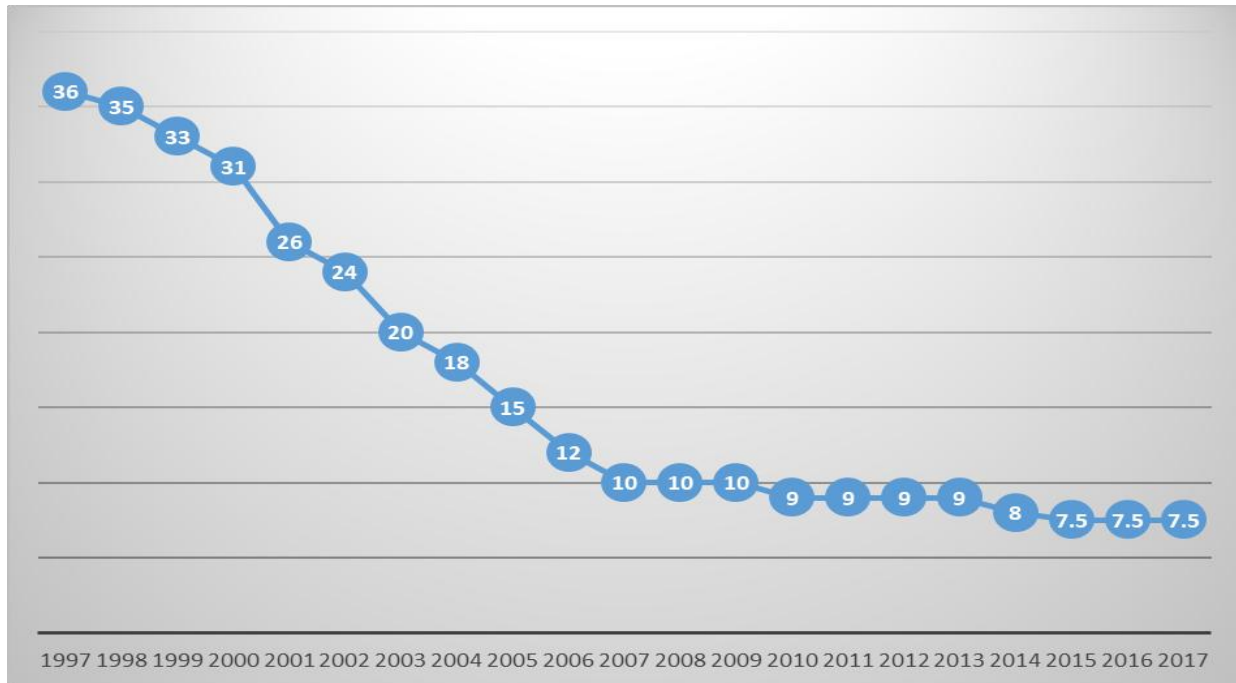
The share of this tax in the overall tax revenue is decreasing year by year equaling to 3,96; 3,61; 3,23; 2,96; 2,90 per cent correspondingly. The share of the profit tax in 2017 (2,90%) reduced by 1,06% in comparison with 2013 (3,96%). If in 2017 tax revenues in the state budget increased by 169,58% in comparison with 2013, we can observe the growth of direct taxes by 168,00% and profit tax – by 124,29%. During the analyzed period the share of the profit tax in the overall tax revenue reduced by 26,77%(100,0% – 73,23%).

The share of the profit tax has also changed in the share of the overall tax revenue (Figure 1).



**Figure 1. The share of the profit tax in the overall tax revenue in 2010 and 2016<sup>2</sup>**

<sup>2</sup> Compiled by the author



**Figure 2. Dynamics of change of the rate of the profit tax charged from legal entities in the Republic of Uzbekistan in 1997-2017<sup>3</sup>**

We can see that in 2010 the share of the profit tax was 18,2% and decreased by 5,9% accounting for 12,3% in 2016. The main reason for this reduction is a declining trend of the profit tax rate during the next years (Figure 2).

As the data in the figure demonstrate, the profit tax rate amounted to 36,0% in 1997, 31,0% in 2000, 15,0% in 2005, 9,0% in 2010 and since 2015 it has been maintaining the level of 7,5%. Is this indicator relatively high or low in comparison with other countries? To answer this question we compare the profit tax rates in some foreign countries within the analyzed period (Table 2).

<sup>3</sup> Compiled by the author on the basis of the data

**Table 2****Data on the profit tax rates in some foreign countries in 2006 -2015<sup>4</sup>**

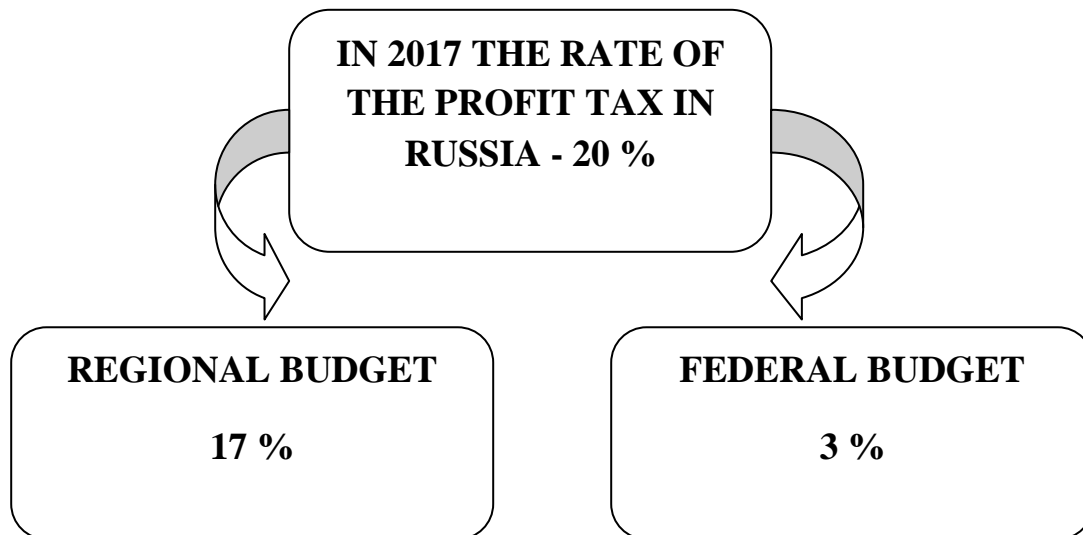
<b>Countries</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Australia	30	30	30	30	30	30	30	30	30	30
Austria	25	25	25	25	25	25	25	25	25	25
Argentina	35	35	35	35	35	35	35	35	35	35
Belorussia	24	24	24	24	24	24	18	18	18	18
Great Britain	30	30	30	28	28	26	24	23	21	20
Germany	38.34	38.36	29.51	29.44	29.41	29.37	29.48	29.55	29.58	29.65
India	33.66	33.99	33.99	33.99	33.99	32.44	32.45	33.99	33.99	34.61
Spain	35	32.5	30	30	30	30	30	30	30	28
Italy	37.25	37.25	31.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4
Kazakhstan	30	30	30	20	20	20	20	20	20	20
Qatar	35	35	35	35	10	10	10	10	10	10
China	33	33	25	25	25	25	25	25	25	25
Korea	27.5	27.5	27.5	24.2	24.2	22	24.2	24.2	24.2	24.2
UAE	55	55	55	55	55	55	55	55	55	55
Pakistan	35	35	35	35	35	35	35	35	34	33
Russia	24	24	24	20	20	20	20	20	20	20
Saudi Arabia	20	20	20	20	20	20	20	20	20	20
Singapore	20	20	18	18	17	17	17	17	17	17
USA	40	40	40	40	40	40	40	40	40	40
Turkey	20	20	20	20	20	20	20	20	20	20
Ukraine	25	25	25	25	25	25	21	19	18	18

<sup>4</sup>nonresidents.ru: Profit tax in the world in 2015 — consolidated data from the web- site **nonresidents.ru**

Switzerland	21.3	20.63	19.2	18.96	18.75	18.31	18.06	18.01	17.92	17.92
Sweden	28	28	28	26.3	26.3	26.3	26.3	22	22	22
South Africa	36.89	36.89	34.55	34.55	34.55	34.55	34.55	28	28	28
Japan	40.69	40.69	40.69	40.69	40.69	40.69	38.01	38.01	35.64	33.06
<b>Word average</b>	<b>27.5</b>	<b>26.95</b>	<b>26.1</b>	<b>25.38</b>	<b>24.69</b>	<b>24.5</b>	<b>24.4</b>	<b>23.71</b>	<b>23.64</b>	<b>23.68</b>
<b>Uzbekistan</b>	<b>12</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>7.5</b>

From the data illustrated in Table 2 we can see that in 2015 the profit tax rate in UAE accounted for 55%, USA - 40%, India - 34,61%, Japan - 33,06%, Italy - 31,4%, China - 25%, Russian Federation - 20%. These indicators are much higher than in our republic. Average rate of the profit tax throughout the world amounted to 23,68%.

In 2017 Russia has fixed the rate of the profit tax at 20% making amendments to Article 284 of the Tax Code of the Russian Federation by enacting the Law №401 dated from November 30, 2016. The 20% of this tax is divided into 17% to the regional budget and 3% to the federal budget (Figure 3)[3].



**Figure 3. Profit tax division in the Russian Federation**

Each type of the tax has its own peculiarities therefore during the process of analysis different types of information resources can be used. Thus, when analyzing profit tax it is advisable to have a particular study of the issue of information provision. In the process of analyzing this tax we recommend to use the following information sources:

“Accounting balance” 1-form;

“Report on financial results” 2-form;

“Report on cash flow” 4-form;

“Report on equity” 5-form [1].

With the aim of analysis the main indicators characterizing performance of the economic entity and obtained from the “Report on financial results” as well as the data about deductions to the budget in the form of taxes and other compulsory payments are studied.

The data required for analysis can be obtained from accounts, account registers and other sources. When analyzing profit tax, much information is obtained from “Types of tax reporting” and registers on tax accounting.

In particular, from the report “Profit tax charged from legal persons and tax on improvement and social infrastructure development” it is possible to obtain the information about a taxable base of the profit tax, tax rate, preferences given on this type of the tax, amount of the tax calculated within the reporting period and other information (Table 3). The information represented in Table 3 contains only figures connected with the profit tax (report is provided in the shortened form).



**Table 3**  
**Calculation of the profit tax charged from legal persons in 2014-2016<sup>5</sup>**  
 Thousand UZS

Indicators	Line code	years		
		2016	2015	2014
Before paying profit tax charged from legal persons (loss) (“Report on financial results” – Line 240 of form №2)	010	2360937	733074	212642
Unlimited expenses (expenses included in the taxable base) (line 010 of appendix 2 of accounting book)	050	902871	375480	281995
Expenses included in the taxable base of the reporting (tax) period (line 050 + line 060—line 070)	080	902871	375480	281995
Profit subject to tax	110	3263809	1108329	494637
Profit exempted from taxation (line 030 of column 3 of appendix 5 of accounting book)	120			
Taxable profit (line 110 - line 120)	130	3263809	1108329	494637
Reduction of taxable profit (020 line of appendix 6 of accounting book)	140	65276	21310	-
Taxable base - total (line 130- line 140)	150	3198533	1087019	494637
Fixed rates of the profit tax charged from legal entities	160	7,5	7,5	8.0
Amended rate of the profit tax charged from legal entities:	170	X	X	X
Total amount of the profit tax charged from legal entities (line 181 + line 182)	180	239890	81526	39571
Amount of the profit tax charged from legal entities calculated for the reporting period (line 180 – line 190 – line 200 + line 210)	220	239890	81526	39571
Amount of the profit tax charged from legal entities which hasn’t been calculated for the previous reporting period (line 220 of previous accounting book)	230	112490	-	-
Net profit	240	2121047	651548	173071

<sup>5</sup> Developed on the basis of the data of the enterprises

From the data presented in Table 3 it is possible to make a conclusion that with the aim of analyzing profit tax charged from the legal entities calculation of the profit tax and the tax on the improvement and social infrastructure development imposed in 2014-2016 have been taken in the reduced form.

As the analysis shows, in 2014 the amount before paying profit tax accounted for 212642 thousand UZS, in 2015 this indicator amounted to 733074 thousand UZS and in 2016 - 2360937 UZS. Basing on these indicators the amount of profit subject to taxation accounted for 494637 thousand UZS, 1108329 thousand UZS and 3263809 thousand UZS correspondingly.

According to the data, the amount of the profit tax (180-row) in 2014 amounted to 39571 thousand UZS, in 2015 - 81526 thousand UZS and in 2016 - 239890 thousand UZS so the sum of this indicator was increasing year by year. The impact of factors on the change of the profit tax amount is illustrated in the following table on the basis of the data analysis.

On the basis of the data represented in Table 4 it is possible to calculate the impact of factors on the change of the profit tax using the technique proposed by M.Q. Pardayev and B.I. [4].

The following calculations have been made to determine the impact of the taxable base on the profit tax.

$$1. \frac{-1747837 \times 8.0}{100} = -139826 \text{ минг сўм}$$

**Table 4****Comparative analysis of the profit tax in 2014 and 2016<sup>6</sup>**

(thousand UZS)

№	Indicators	2014	2016	Difference	Difference	
					Taxable base	Change in the rate of the profit tax
1.	Taxable base	4946370	3198533	-1747837	-139826	X
2.	Profit tax rate	8,0	7,5	-0,5	X	-15993
3.	Amount of the profit tax	395709	239890	-155819	-139826	-15993

The impact of the tax rate is determined as it follows:

$$2. \frac{3198533(8.0 - 7.5)}{100} = -15993 \text{ минг сўм}$$

From the calculations it can be seen that the amount of the profit tax in 2016 has reduced in relation to 2014 by 155819 thousand UZS.

The main reason for it is that at the end of 2016 a taxable base of the profit tax decreased by – (3198533-4946370)=-1747837 thousand UZS and the rate of the profit tax reduced by (8.0-7.5)=-0.5 %.

**Conclusion.** According to the above-stated technique on the basis of the profit tax analysis it has been determined which factor makes an impact on this tax and in what extent. Moreover, application of this technique has enabled to identify reserves to reduce expenses on the profit tax at the legal entities. As a result, management decisions aimed at improving financial position have been made at the economic entities. At the macro level the results of the analysis can be used to develop forecast indicators of the profit tax and formulate the revenue part of the budget.

<sup>6</sup> Developed by the author

## References

1. The Law of the Republic of Uzbekistan “On accounting” dated from April 13, 2016.
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3. Federal Law № 401 “On making amendments into the first and the second part of the Tax Code of the Russian Federation and certain legislative acts of the Russian Federation” dated from November 30, 2016.
4. Pardayev M.Q., Isroilov B.I. Tax analysis. T.: 2007. 64-65 pp.