

ANALYSIS OF THE REFORMS IMPLEMENTED IN UZBEKISTAN TO IMPROVE THE PROFIT TAX AND THEIR IMPACT ON BUDGET REVENUES

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***Abstract:** This article is devoted to consideration of the reforms implemented in our country to improve the profit tax and their results, the changes in the profit tax rates, as well as the current state of calculation and collection of the profit tax. Based on the research results the author has developed relevant proposals and recommendations.*

***Key words:** tax, tax concept, reform, profit, profit tax, taxpayers, tax rate, advance payment.*

Introduction. The core condition for the national economy development is to enhance its competitiveness under conditions of globalization and modern market economy. Currently, when competition is intensifying in the international trade arena, it is possible to achieve stable economic growth and create suitable conditions for the well-being of the population by ensuring the competitiveness of the national economy.

The national tax system is one of the essential factors that shape the competitive economy, and it effectively influences the increase in competitiveness in reliance upon simplification of tax administration, rational and transparent management, reduction of bureaucratic obstacles and tax burden for business entities.

Currently the Republic of Uzbekistan is an important member of the world economy and directly participates in the world market. This requires the competitiveness of the national economy of our country. To create a robust competitive environment and support a competitive economy it is necessary to reduce the tax burden and improve the tax administration. In this regard, reducing the tax burden and reforming the tax system is considered one of the priorities of economic policy in our country.

Improving the administration of profit tax is of particular importance in reforming the tax system of the Republic of Uzbekistan. Because profit tax is the main tax that generates budget revenues and is an effective means of ensuring the competitiveness of the national economy. Profit tax makes a favourable effect on enhancing the competitiveness of the national economy based on the promotion of foreign direct investments, exports and certain sectors of the economy through a low tax rate.

Literature review. A number of scholars and practicing economists have researched the development of business entities and the issues of ensuring sustainable economic growth by improving the procedure for calculating and collecting profit tax, as well as tax rates. In particular, Professor N. Kuzieva has determined the relationship between foreign investments and profit tax rates [6]. Professor N. Khaydarov has developed a new, non-traditional mechanism for attracting foreign-invested enterprises to the profit tax in order to encourage the entry of strategic foreign investors [7]. According to professors A. Juraev and S. Shirinov, the profit tax is considered one of the primary levers that stabilizes the investment process and ensures capital growth in the national economy [8]. Professor A. Islamkulov in his research paper devoted to the issues of improving the tax system to ensure inter-budgetary balance proposed to attach the profit tax of legal entities to lower budgets in order to encourage the increase of financial independence of local budgets through the tax system [9]. In the opinion of Russian economist I. Mitrofanova, it is necessary to use differentiated tax rates for profit tax and introduce investment-innovation tax incentives in the modernization of the mechanism of taxation of enterprise profits [10]. From the point of view of the economist Kh. Zaripov, it is recommended to introduce differentiated rates of profit tax in order to support the investment activity of large taxpayers. In this case, it is considered appropriate that the tax rate set for enterprises is 80 percent when the share of long-term investments in the charter fund is in the range from 35 to 40 percent, when it is between 40 and 50 percent - 75 percent, and when it is above 50 percent - 70 percent [11].

Analysis and results discussion. In order to enhance the competitiveness of the economy and create a robust competitive environment, comprehensive tax reforms aimed at simplifying tax administration and eliminating disparities in the level of tax burden between business entities have been recently implemented.

In particular, the concept of tax policy improvement has been adopted and introduced into practice in Uzbekistan. Nowadays this concept is yielding its positive results [3]. In accordance with the reforms implemented within the framework of this concept, the following business entities have been shifted to pay profit tax:

- business entities with an annual turnover exceeding 1 billion UZS and at the same time reaching the specified threshold amount during the year;
- legal entities that sell gasoline, diesel fuel and gas to end consumers through gas stations;
- business entities importing the goods;
- agricultural commodity producers with irrigated agricultural land of twenty-five hectares or more;
- legal entities doing the business related to the organization of lotteries;

- legal entities engaged in the construction of objects at the expense of centralized financing sources;

- sales outlets for the retail sale of alcohol products, including beer;

- markets and shopping centres;

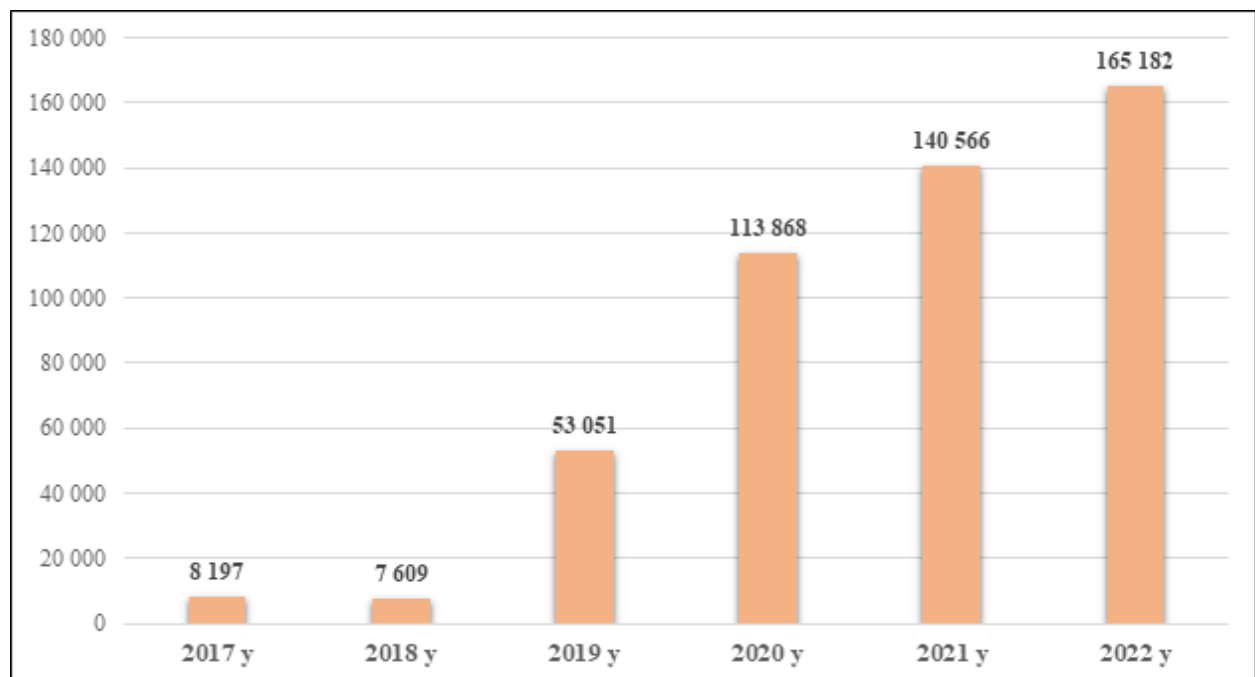
- entities of tax consultants;

- audit companies;

- non-profit organizations and budget organizations.

As a result of the transfer of the above tax payers to the payment of profit tax in our country, the number of payers of profit tax has increased significantly. The figure below demonstrates the trend of the number of profit tax payers in 2017-2022.

Figure 1. Dynamics of changes in the number of profit tax payers in Uzbekistan in 2017-



2022 [12]

As the data in the above figure demonstrate, the number of profit tax payers has increased sharply in 2017-2022. In particular, the number of enterprises paying profit tax constituted 8197 in 2017 and reached 165182 by 2022. During this period, the number of profit tax payers increased 20 times compared to 2017. The main factor of the sharp increase in the number of people paying the profit tax is the transfer of some business entities to pay the profit tax in order to equalize the tax burden for all taxpayers based on the concept of tax policy.

The core factor promoting the activities of business entities is the reduction of the tax burden. Recently the Republic of Uzbekistan has implemented consistent reforms aimed at reducing taxes on profits and reducing the rate of profit tax in order to reduce the tax burden on enterprises. In particular, in 2017 there was adopted a special Decree of the President of the Republic of Uzbekistan on the fundamental improvement of tax administration, increasing the collection of taxes and other compulsory payments [4]. In accordance with the amendments to the statutory acts within the framework of this Decree, the tax on the improvement of landscape and social infrastructure development in the amount of 8% levied on the net profit of a legal entity from 2018 has been canceled.

In addition, based on the concept of tax policy improvement, the profit tax rate was reduced from 14 percent up to 12 percent in 2019, from 22 percent up to 20 percent for commercial banks, and from 10% up to 5% for dividends and interest income.

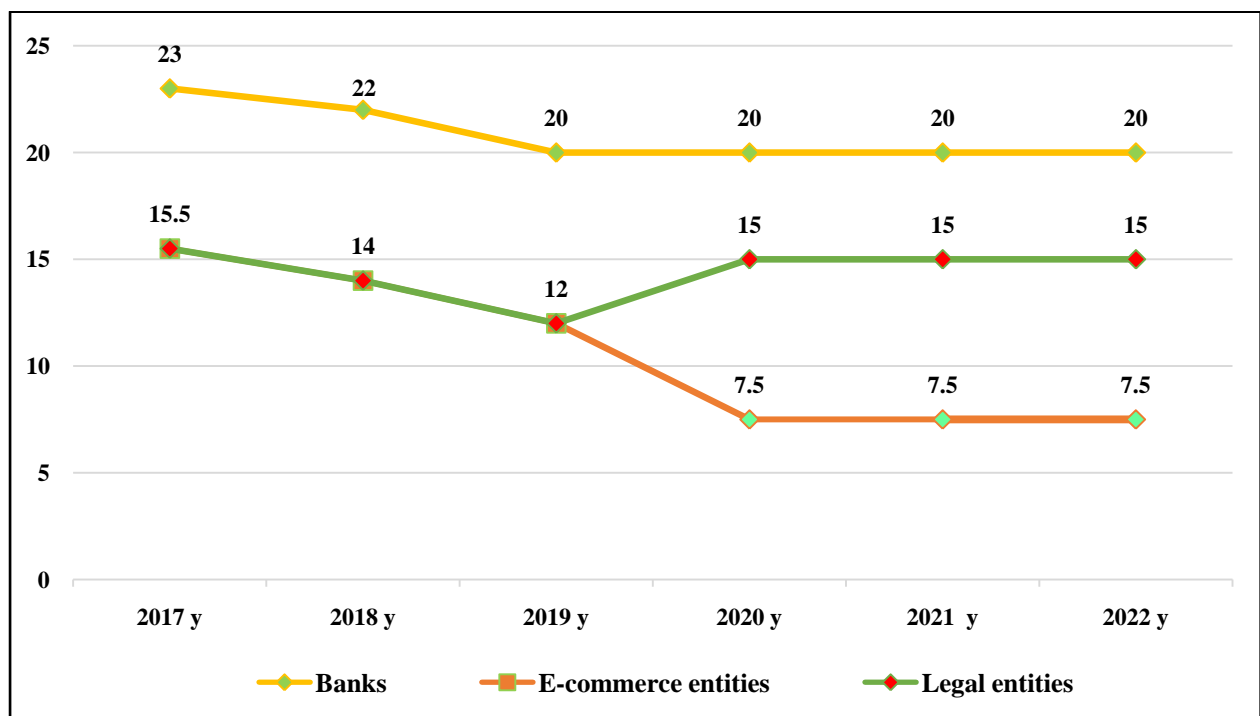


Figure 2. Dynamics of changes in profit tax rates in Uzbekistan in 2017*-2022

*Note: in 2017 calculated with the rate of tax on the improvement of landscape and social infrastructure development.

If we analyze the dynamics of profit tax rates in 2017-2022 based on the data of the above picture, during this period the basic rate of profit tax has decreased from 15.5 percent up to 15 percent, for banks from 23 percent up to 20 percent, and for e-commerce entities from 15.5 percent to 7.5 percent.

As a result of the increase in the number of tax payers and the reduction of the tax rate in Uzbekistan, the tax revenue has risen significantly. The dynamics of profit tax revenue in our country in the following years is presented in Figure 3 below.

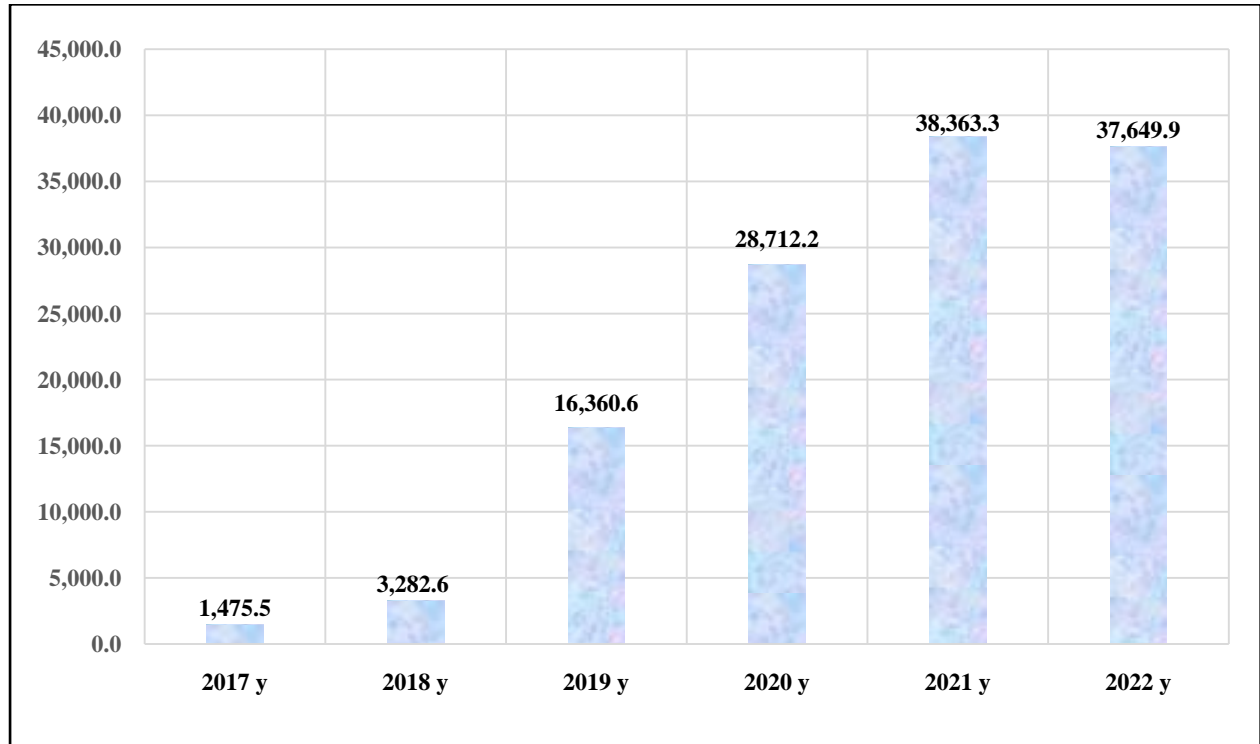


Figure 3. The dynamics of changes in profit tax revenue in Uzbekistan in 2017-2022 [13]

As the data in Figure 3 above show, in 2017-2022, profit tax revenue demonstrated an increasing trend. In particular, in 2017 profit tax accounted for 1 475.5 billion UZS, in 2018 - 3 282.6 billion UZS, in 2019 - 16 360.6 billion UZS, in 2020 - 28 712.7 billion UZS, in 2021 - 38 363.3 billion UZS, and in 2022 37 649.9 billion UZS. In general, during this period, profit tax revenue increased by 36174.4 billion UZS or 25.5 times.

As a result of the increase in profit tax revenue in Uzbekistan, the share of this tax in the budget revenues has also increased accordingly. We can see this in Figure 4 below.



Figure 4. Analysis of changes in the share of profit tax in budget revenues in Uzbekistan in 2017-2022 [13]

From the data of Figure 4 above it is obvious that the share of profit tax in budget revenues increased during 2017-2022. In particular, this indicator accounted for 3.0 percent in 2017, and increased to 18.6 percent in 2022. During this period, the share of profit tax in budget revenues increased by 15.4 percent. Thus, we can conclude that the profit tax is one of the main types of taxes that formulate the state budget

Profit tax in Uzbekistan is calculated and collected on the basis of the new wording of the Tax Code adopted on April 30, 2019 and is being effective since 2020 [1]. Taxpayers submit the profit tax report to the tax authority at the place of account every quarter, not later than the 20th of the month following the quarter, and at the end of the year no later than March 1 of the following year.

Profit tax is paid during the reporting periods. In this case, taxpayers whose total income exceeds 5 billion UZS must pay monthly advance payment of the profit tax. The specified amount of total income of business entities for advance payment of profit tax has been increased from 5 billion UZS up to 10 billion UZS from September 2023 [5].

Current payments are calculated separately for each quarter and based on the amount of tax calculated in the previous reporting period. The procedure for calculating current fees is illustrated in the table below.

Table 1

Mechanism for calculating current payments on profit tax

№	Reporting period	Mechanism for calculation	Calculation term
1	Quarter I	The amount of the monthly lump sum payment to be paid is equal to the sum of the monthly lump sum payment due in quarter IV of the previous tax period.	January 15
2	Quarter II	The amount of monthly installments to be paid is assumed to be equal to one third of the amount of profit tax calculated in the quarter I.	April 15
3	Quarter III	The amount of the monthly lump sum payable is assumed to be equal to one third of the difference between the amount of profit tax calculated in quarter II and the amount of profit tax calculated in quarter I.	July 15
4	Quarter IV	The amount of the monthly lump sum payable is assumed to be equal to one third of the difference between the amount of profit tax calculated in quarter III and the amount of profit tax calculated in quarter II.	October 15

The calculation of the monthly lump sum payment is implemented by the tax authorities. Enterprises have the right to submit information to the tax authorities on the amount of tax payments based on the amount of profit expected in the current quarter until the 15th of the first month of the following quarter. Calculated monthly lump sum payments are paid not later than the twenty-third day of each month of the reporting period. Taxpayers and newly established enterprises whose total income exceeds ten billion UZS during the current reporting period will pay monthly installments from the next quarter.

Conclusion and proposals.

To sum up, efficient reforms have been implemented to improve the administration of the profit tax as a result of measures undertaken to reform the tax system in the Republic of Uzbekistan in recent years. In particular, in order to unify the tax burden among enterprises, a number of business entities have been transferred to pay profit tax and these tax rates have been reduced. This has made a favourable effect on the increase in profit tax revenue.

Moreover, Strategy "Uzbekistan - 2030" adopted in our country on September 11, 2023 sets the objective of guaranteeing that the profit tax rates for business will not be increased for three years in order to ensure the stability of the tax system [2]. This fact enables entrepreneurs to create the most favourable conditions for free activity in our country.

In our opinion, the reduction of the profit tax burden will make a positive impact on the further development of the national economy of Uzbekistan and its competitiveness, on ensuring the stability of state budget revenues, and on further improving the business environment for doing business.

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