IMPROVING REAL ESTATE TAXATION
IN THE REPUBLIC OF UZBEKISTAN

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Abstract: This article is devoted to the study of the significance of improving taxation of real estate in the Republic of Uzbekistan, as well as analysis of the role of taxation in practice of foreign countries. In addition, the article presents conclusions developed within the framework of the research area.

Keywords: real estate, tax, tax object, legal entity, individual

1. Introduction.

Currently, the concept of real estate is interpreted in different ways in the legislation and statutory acts.

Real estate includes land plots, subsoil resources, buildings, structures, perennial trees and other property that are inextricably linked with the land, i.e. objects that can not be relocated without causing serious damage to the intended purpose.[*]

In addition, according to the Regulation "On the procedure for state registration of rights for the real estate objects", real estate objects include land plots, buildings and structures (including underground structures) and perennial plants.[†]

The Tax Code of the Republic of Uzbekistan does not clearly define real estate.

Nowadays in practice there are arguments and debates concerning which objects can be considered as the real estate object. For example, companies and enterprises with telecommunication antennas, underground processing pipes and facilities that are inextricably linked to the ground, do not admit these objects as real estate property objects. They assume that these structures can be moved from one place to another.

Therefore, it is a controversial issue to define real estate as "land, subsoil, buildings, structures, perennial trees and other property that is inextricably linked to the land, i.e. **despite the change of their location**, these objects do not make any harm in terms of their targeted use".

According to the Tax Code (2020), mainly the real estate is considered to be an object for imposing taxes on the real estate of legal entities.

The following facilities are considered real estate objects:

1) buildings and structures subject to registration with the authorities, which perform the state registration of rights for real estate;

2) facilities, which construction is in progress. The facilities include objects, which construction has not been completed within the normative period established by the design and estimate documentation for the construction of this facility, and if the normative construction period has not been established, within twenty four months starting from the month in which the permit has been btained from an authorized body for the construction of this facility;

3) railway tracks, main pipelines, communication and power lines, as well as structures that constitute an integral technological part of these facilities;

4) residential real estate objects, which are on the balance sheet of construction agencies or developers for subsequent sale, after six months after the commissioning of the real estate object.

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[*] Article 83 of the Civil Code of the Republic of Uzbekistan.
[†] Annex 1 of the Resolution №1060 of the Cabinet of Ministers of the Republic of Uzbekistan.

The residual value of real property is defined as the difference between the initial value of the property and the amount of depreciation calculated using the methods specified in the taxpayer's accounting policy.

In compliance with the Tax Code of the Republic of Uzbekistan (2020), the object of taxation of the tax on property of individuals is the following property located within the territory of the Republic of Uzbekistan:

1) residential buildings, apartments, summer cottages;

2) non-residential real estate objects intended for entrepreneurial activity and (or) generating income;

3) objects of construction in progress for non-residential purposes;

4) parking for vehicles, as well as other buildings, structures and construction facilities that are inextricably linked to apartment buildings.

The objects specified in clauses 1, 3 and 4 above, which belong to individuals, are considered real property objects as well.

The cadastral value of real estate owned by individuals is calculated in compliance with the Regulation №1043 "On approving the Regulation on the procedure for calculating cadastral value of real estate, residential housing owned by individuals for the purpose of taxation" (2017).

Improving taxation by unifying the concept of real estate in the legislation is currently one of the primary objectives, which justifies the urgency of the topic of this research article.

2. Literature review.

Various approaches to taxation and improvement of real estate objects have been developed in the scientific literary sources.

The tax imposed on the real estate has historically been an important source for the government revenue. This tax is primarily used for financing local services in cities and districts (Linette, 1992).

Some scholars have promoted their scientific views on real estate taxation, in particular:

In the opinion of Gusov (2004), the taxation of real estate is associated with economic and political difficulties.

Mikhina (2005) supposes, that that the modern property tax constitutes an integral part of the state tax system.

From the point of view of Drojjina (2005), it is proposed to introduce a real estate tax, combining the property tax of legal entities, the property tax of individuals and the land tax.

Aliev (2008) thinks, that it is impossible to imagine formation and development of market relations without changing property relations, developing competition and creating an appropriate market infrastructure, and that certain results have been achieved in real estate management - the importance of land ownership as individual housing construction grows at a steady pace.

Byzova (2009) considers the urgency of efficient use of land and property resources in raising the revenues of local budgets.

In the opinion of Shestemirov (2009), the main directions of property and land tax reforms carried out in Russia are an integral part of the state tax system, and real estate taxation is associated with serious economic and political difficulties.

Selyukov (2011) and Mamedov (2020) have scientifically proved the problems with taxation of real estate objects in the Russian Federation and have proposed the ways of their solution.

The following definition is provided in the practical guideline on the real estate and property rights (2017): "Citizens or legal entities make more mistakes and shortcomings in this area due to the relatively complex process of privatization, sale, lease, gift, bequeathing, mortgaging, distribution of common property or separation of shares from real estate".

From the point of view of Khudoykulov (2020), there are problems in the taxation of real estate in our country, which solutions can be found on the basis of the following options. According to the first option, it is possible to get a single complex of land plot and real estate, the second option involves separate calculation of taxes on land and buildings, and the third - separation of private and commercial real estate.

Nazarov (2020) thinks, it is necessary to accurately determine the composition of real estate in accordance with the statutory acts. He has noted, that this will ensure the correct and accurate calculation of property taxes paid by legal entities in our country.

Niyazmetov (2008) and Fayziev (2020) have promoted the idea of gradual transition to the real estate tax in our country, **leaving only real estate as part of the object of property tax** and combining it with the land tax in the same manner for legal entities and individuals.

In our opinion, the idea about gradual transition to the real estate tax in our country, **leaving only real estate as part of the object of property tax** and combining it with the land tax in the same manner for legal entities and individuals suggested by Niyazmetov and Fayziev, first of all, should be ascertained by the relevant **legislation**. As a result, the land tax and the property tax **will be eliminated**, which will lead to the socio-economic development of the state and regions on the basis of the **introduction of the cadastral value** of a single real estate as an object of taxation, as well as further strengthening the rights of the population for real estate and simplification of tax calculation and payment.

3. Research methodology.

The methods of logical observation, critical study of the literature, analysis and synthesis, induction and deduction, comparison, classification on the basis of certain characteristics, economic analysis have been widely applied in the processing of data obtained during the research.

### 4. Analysis and Results Discussion.

Revenues received from property taxes and land taxes in the country do not comprise the biggest part of budget revenues, but play a significant role in the formation of local revenues.
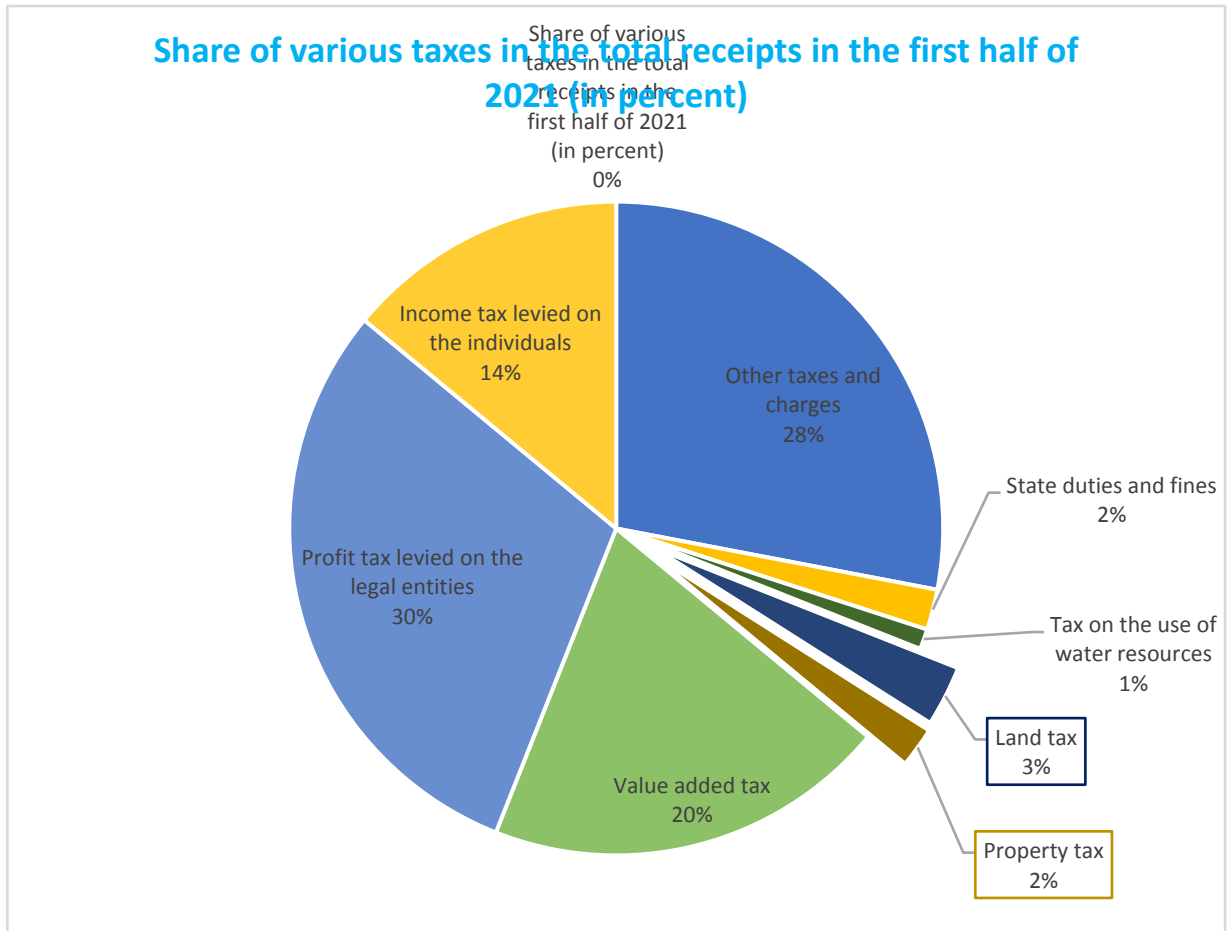
Figure 1. Share of the land and property taxes in the overall receipts in the first half of 2021 (in percent)‡

Compared to the same period last year, we can see a significant increase of the share of payments for resources and property taxes in budget revenues.

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‡ Developed by the author on the basis of the official website of the State Tax Committee soliq.uz
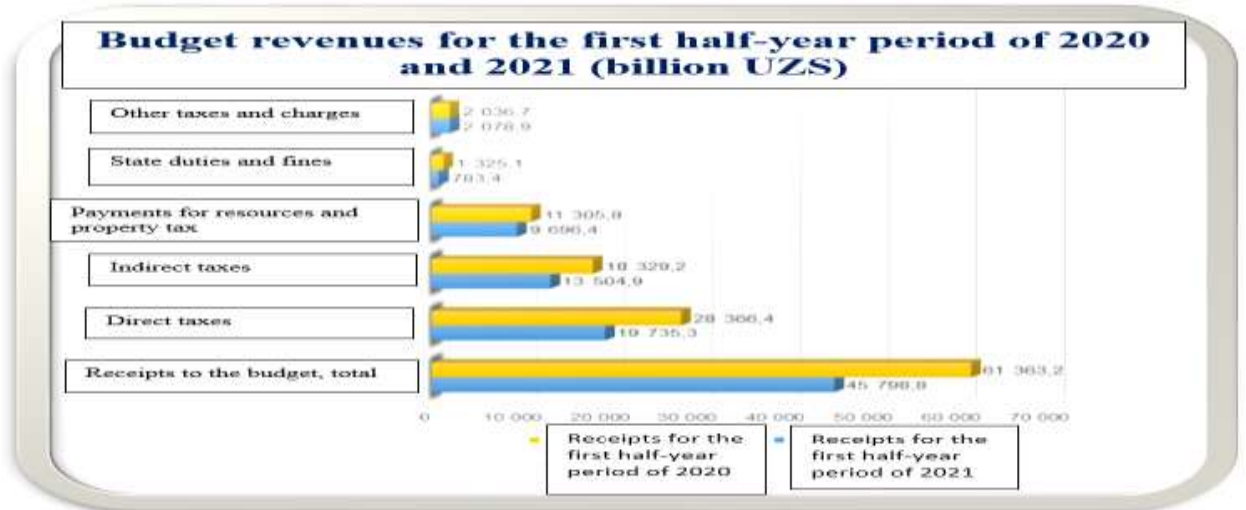
Figure 2. Comparative analysis of the budget receipts for the first half-year period of 2020 and 2021[§]

We can see that the budget revenues by type of tax, including land and property taxes, have increased compared to the same period last year.
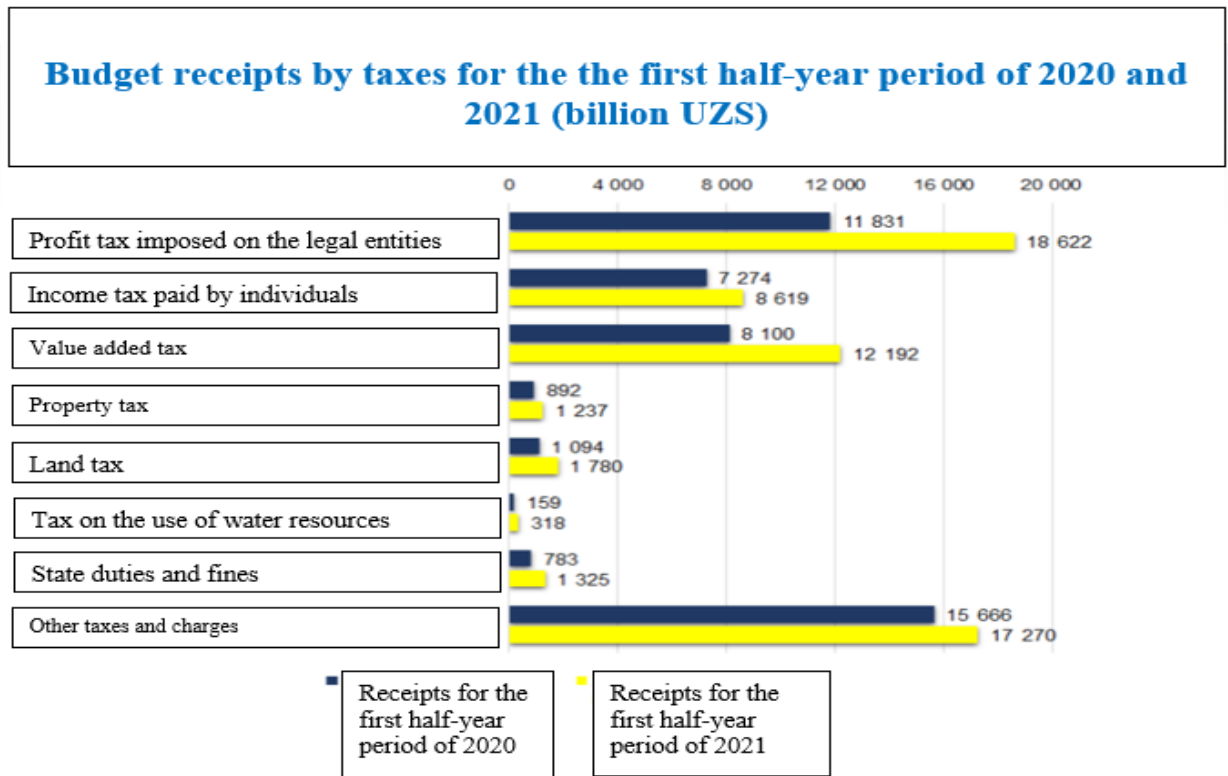
Figure 3. Comparative analysis of the budget receipts by taxes for the the first half-year period of 2020 and 2021[**]

Nowadays according to the Tax Code for legal entities, the tax base of legal entities is the average annual residual value and the average annual value.

The residual value of real property is determined as the difference between the initial (recoverable) value of the property and the amount of depreciation calculated using the methods specified in the taxpayer's accounting policy.

[§] Developed by the author on the basis of the official website of the State Tax Committee soliq.uz
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The average annual residual value (average annual value) of taxable objects is determined on an accrual basis as one twelfth of the amount obtained by adding the residual values (average annual values) of taxable objects as of the last day of each month of the tax period.

In our opinion, it is a complicated process for legal entities to independently calculate the average annual residual value and control how accurately this value is reflected in the tax authorities.

Therefore, the cadastral value of taxable objects is determined by the State Cadastre Chamber - the body of state registration of rights for real estate objects owned by the legal entities. According to the data of this authority, it is required to determine whether the area of land plots will serve as a tax base for the land tax.

Moreover, legal entities independently submit tax reports to the tax authorities based on the tax base and the relevant tax rates in the area where the object for land tax and property tax is located.

Legal entities must submit a certificate on property tax by January 10 of the current tax period, and a tax return by the deadline for submission of annual financial statements.

The report on the land tax paid by legal entities is calculated as of January 1 of each tax period and this tax report is submitted to the tax authority of the place where the land plot is located within the following periods:

on the land plots not intended for agricultural purposes - until January 10 of the current tax period ;

on the land plots designated for agricultural purposes - until May 1 of the current tax period.

If a legal entity possesses a land tax and property tax object, there is an obligation to submit these reports in due time. In addition, a taxpayer must have certain skills and knowledge, as well as practice of calculating taxes accurately in order to submit these reports to the tax authorities. If a taxpayer does not have the practice of filing tax returns or does not involve the chief accountant for the calculation, there may be observed further violations of tax legislation.

Therefore, in reliance upon foreign experience, it will be necessary to abolish tax reporting on land tax and property tax on the basis of external sources, limit the submission by the taxpayer and introduce automatic calculation as if in case with an individual.

In addition, it is necessary to introduce a real estate tax by combining a land tax and a property tax.

The introduction of this practice will ensure integrity and accuracy of accounting in the tax authorities, eliminating of unnecessary bureaucratic barriers, economizing time and simplification of accounting by taxpayers.

Taxpayers of the tax on property of individuals (hereinafter in this chapter - taxpayers) are individuals, including foreign citizens, unless otherwise provided by international treaties of the Republic of Uzbekistan, as well as farms with and without the establishment of a legal entity, owning property recognized as an object taxation in accordance with the Tax Code of the Republic of Uzbekistan.

If it is impossible to establish the location of the owner of the property, as well as in the event of the death of the owner of immovable property, the person who owns and (or) uses this property is recognized as a taxpayer.

The tax base is the cadastral value of taxable objects is determined by the State Cadastre Chamber, the authority, that implements the state registration of rights for real estate.

Taxes charged for the current year are calculated by the tax authorities on the basis of the information, specified above, and delivered to taxpayers by payment notice. In particular, the tax authorities shall, not later than March 1 of each year, sign or submit to individuals the payment notice indicating the amount of property and land tax and the deadlines for its payment, or otherwise confirming the receipt and date of receipt.

The analysis of the data illustrates that to date it is not possible to verify the information provided by the the State Cadastre Chamber on individuals. This, in turn, results in the detection of errors and omissions in the information on the tax object after the payment notice reaches the taxpayer, the cancellation of tax benefits previously provided to the owner of real estate and the reassignment of benefits to the newly acquired object.

Moreover, in the provision of tax administration of individuals who pay property and land taxes, the coverage of tax service personnel in this area is not developed at the adequate level.

In reliance upon the unanalyzed data, tax authorities must calculate the tax on the total object within 60 days (42-43 business days), issue a payment notice and deliver it to the taxpayer **upon a signature**.

In practice, court rooms only recognize payment notices delivered in this way. If the citizen insists that he has not received payment notices delivered by mail, the court room will not recognize the fact of the notification delivery.

Within the framework of this research we have studied foreign experience in the procedure for calculating property and land taxes of individuals, delivery of payment notices to taxpayers, payment deadlines, methods of payment, penalties and fines for non-payment or overdue payment, as well as compulsory collection measures.

In particular, in **Azerbaijan** taxes are calculated by local authorities based on the area of the real estate object, and the Code does not specify who provides the information. In **Belarus** taxes are calculated in reliance upon the real estate value determined according to the procedure set by the President, in **Kazakhstan** taxes are calculated on the basis of the value of taxation object determined by the state corporation "Government for citizens". In **Moldova** taxes are calculated in reliance upon the data submitted by the Land Relations and Cadastre Agency as of February 1 (amendments are made at the end of each quarter within 10-day period). In **Russia** taxes are calculated by the tax authorities based on the value of the object included in the Unified Register for Real Estate.

Furthermore, due to the fact that the tax period in **Russia** is the previous calendar year, the cadastral data obtained at the end of last year are analyzed by means of software, the cadastral authority corrects deficiencies, eliminates drawbacks revealed, re-submits and ensures accurate calculation of taxes and relevant payment notices are delivered to the taxpayers within 30 days before December 1.

In addition, in **Azerbaijan** a payment notice is delivered by local authorities until August 1, in **Belarus** a payment notice is delivered upon a personal signature, by mail and e-mail (with the consent of the citizen) until September 1, in **Kazakhstan** a payment notice is delivered by the Single Accounting Center or by the state corporation "Government for citizens" via SMS on July 10-11, in **Moldova -** by the local tax collection service within 60 days before August 15, and in **Russia** a payment notice is delivered at the request of the citizen in paper form, on the basis of an agreement made between the tax authority and the Center for Multi-profile Services, by registered mail or through a personal account.

At the same time, the deadline for payment notice in **Azerbaijan** is August 1, in **Belarus** - September 1, in **Kazakhstan** - July 10-11, in **Moldova** - 60 days before August 15, in **Russia** – before 30 business days before December 1.

4. Conclusion and proposals.

- In reliance upon the research results, it is recommended to develop and implement a single draft law regulating all real estate objects owned by legal entities and individuals. This law should reflect the definition of real estate, its formation, valuation models and all legal bases.

Currently with the aim of preventing ongoing arguments on the controversial issue to which objects should the real estate objects be refereed, it is recommended to define real estate as "land, subsoil, buildings, structures, perennial trees and other property that is inextricably linked to the land, i.e. **despite the change of their location**, these objects do not make any harm in terms of their targeted use";

- Having abolished the reporting on the land and property tax paid by legal entities, it is recommended to introduce automatic calculation of real estate tax in tax authorities on the basis of external sources, as well as **to introduce the cadastral value** of a single real estate as a tax object;

- Segmentation of paying the land tax and the property tax paid by individuals in due time as real estate taxes by their social activity and extension of payment notice forms;

- Dividing taxpayers into groups, wherein payment notice should be delivered:

a) to the citizens registered electronically with the tax authority - to the e-mail of real estate owners;

b) with a link via SMS to real estate owners who use mobile communication services;

c) delivery in person or by mail only to citizens requesting delivery in paper form;

d) creating a single window of a payment notice and the opportunity to receive a request on the site of interactive services.

- Based on foreign experience, it is proposed to distribute payment notices and change the terms of the first payment to June 1 (March 1) and August 15 (April 15).

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