

Theoretical issues of off-site tax inspection and field tax inspection

Nazarov Sunnatulla Amirilloevich

Researcher of the Research Center "Scientific bases and problems of the development of the economy of Uzbekistan" under the Tashkent State University of Economics

Abstract: This article is devoted to the research conducted on 2 types of tax inspections practiced in the Republic of Uzbekistan, that is, off-site tax inspection and field tax inspection. In addition, the article investigates the theoretical aspects of these tax inspections. Moreover, the article provides the views of foreign and domestic economists on the scientific and practical significance of existing regulatory and legal documents.

Keywords: off-site tax inspection, field tax inspection, tax audit, tax control, tax monitoring.

Introduction

Tax control is based on the widespread introduction and use of various digital information and communication technologies, which enable the analysis and comparison of information on the fulfillment of tax obligations by taxpayers, collection of additional payments to the budget in the form of additional taxes, fines and penalties, and thereby ensure the prevention or minimization of violations of tax legislation.

Currently Article 136 of the Tax Code of the Republic of Uzbekistan (2022) provides for the implementation of tax control in the form of tax inspections and tax monitoring. Furthermore, Article 137 of the Tax Code of the Republic of Uzbekistan (2022) specifies the following types of tax inspections:

- 1) off-site tax inspections;
- 2) field tax inspections;
- 3) tax audits.

The issue of studying foreign countries and implementing their positive aspects into practice is considered urgent.

Literature review.

In this section we consider the theoretical aspects of off-site tax inspection and field tax inspection, which are the types of tax inspections in the Republic of Uzbekistan, and try to understand the essence of these types of inspections in a more comprehensive manner.

Researches have been carried out by many economists and experts on the subject. First of all, the concept of "off-site" has different meanings in various sources. In particular, it is admitted that "off-site is a collection of knowledge collected in Germany at the end of XVIII century and the beginning of the XIX century on the control, management, and inspection of income from state property"¹.

Off-site inspection (from "off-site" – made in an office, laboratory) - checking compliance with the law, which is carried out by the public or city authorities in accordance with the documents they have, without going to the person being inspected. It

¹Wikipedia.org

can be implemented against legal entities and individuals. Also it is called “documentary verification”ⁱⁱ.

Off-site tax inspection is a verification of compliance with tax and levy laws based on tax returns and documents submitted by the taxpayer independently to the tax authority, as well as documents available in the tax authorityⁱⁱⁱ.

From the point of view of Mayburov (2021), the purpose of the off-site tax inspection is to collect and prepare the information required to control compliance by taxpayers with the legislation on taxes and fees, to identify and prevent tax violations, as well as to ensure the effective selection of taxpayers for the purpose of conducting tax inspections.

Artamonova (2010) studied the expansion of the efficient assessment system of tax authorities with additional criteria that provide a more effective settlements of the assessing the results of tax authorities’ control activities.

Efrimova (2017) put forward the implementation of off-site tax inspection through the “MAKOMATI” software in order to improve the software database of off-site inspection and classify entrepreneurship entities into large, medium and small groups, as well as tax types.

From the point of view of Trofimova (2011), it is essential to improve the quality and efficiency of automated information technologies in the tax system, depending on the mechanism of operation of technical and software products and the information received in the database.

The improvement and efficiency of off-site inspection should be based on the following objectives:

- that the tax service has established a complete and continuous exchange of relevant interdepartmental information;
- regular input of data into their information base by relevant ministries and agencies;
- timely sending of the necessary information on taxation to the tax service body, enhancing the responsibility of the employees and agencies in charge in case of delays beyond the specified deadlines (Trofimova, 2011).

Research methodology.

In the process of the data analysis such research methods as analysis and synthesis, induction and deduction have been widely applied and these results constituted the grounds for developing relevant proposals and recommendations.

Analysis and results.

The objective necessity of introducing the off-site tax inspection in the Republic of Uzbekistan includes, first of all, two different ultimate goals.

1. Preventing tax payers from violating the requirements of tax legislation and preventing financial, administrative and criminal sanctions that may be applied to them in the future;

2. It is to ensure timely and full payment of taxes and other compulsory payments by taxpayers to the state budget and extra-budgetary funds (Resolution, 2010).

According to Mayburov (2015), “the aim of the off-site tax inspection is to monitor compliance by taxpayers with the laws on taxes and fees, to identify and prevent tax violations, as well as to collect and prepare the information required to ensure their effectiveness”.

ⁱⁱ Encyclopedia “Secrets of a Firm” .<https://secretmag.ru/enciklopediya/chto-takoe-kameralnaya-proverka-obyasnyaem-prostymi-slovami.htm>

ⁱⁱⁱ Off-site tax inspections. https://www.nalog.gov.ru/rn77/taxation/reference_work/desk_audits/

In the opinion of Poponova (2014), “Off-site tax inspection is a check of compliance with tax and levy laws based on tax declaration and documents submitted by the taxpayer independently to the tax office, as well as documents available in the tax authority”.

A special feature of the off-site tax inspection is that this type of inspection covers all taxpayers without exception. Off-site tax inspection is also the main means of creating a database on the financial and economic activities of economic entities in the tax authority, and this aspect constitutes the basis for drawing up a plan for conducting tax inspections. As part of the off-site tax inspection, the analysis of the consistency of financial indicators and recurring indicators in tax calculations indicates the reliability of individual indicators, presence of suspicious points or inconsistencies, violations (Batashev, 2019).

From the point of view of Ovcharov (2016), the first stage of the off-site tax audit is carried out during the receipt of tax reports and consists of monitoring the completeness of the taxpayer’s submission of tax reports in compliance with tax legislation. This type of inspection is implemented by the Taxpayer Relations Officer who receives the tax reports.

Glukhov (2011) thinks that “in the second stage of the off-site tax inspection, a visual control of the submitted tax report is performed and it assumes the completeness and clarity of filling in the necessary information, presence of the necessary signatures. Thus, during this inspection period, the specialist of the department, who has prepared tax returns for the taxpayer, controls the presence of all the necessary details: the name of the taxpayer, taxpayer’s identification number, the tax period for which the document was submitted, etc.

In the opinion of Isaev (2021), “the basic stages of the off-site tax inspection are implemented as follows, and then the development of conclusions ensures the quality of analytical data. In particular, it implies verifying the accuracy of the calculation of the tax base. This stage implies performing analysis of taxes, which includes the following aspects:

- checking the logical connection between individual indicators required for calculating the tax base;
- comparing the report data with similar indicators of the previous period;
- correlation of accounting indicators and indicators in the tax reports, as well as individual indicators of reports on different types of taxes;
- evaluation of accounting information and tax reports in terms of compatibility with the information on the financial and economic activities of the economic entity available in the tax authorities;
- checking the accuracy of the arithmetic calculation of the data in the reports;
- verifying the validity of claimed tax credits verifying the validity of claimed tax incentives;
- checking the accuracy of the applied tax rates and incentives, their compliance with the current legislation;
- choosing the best and most appropriate among the traditional and mathematical methods of tax analysis when conducting tax inspections;
- support and apply regression and correlation analysis methods so that mistakes made during tax inspections are not repeated in the future (Isaev, 2021).

It should be noted that the main and most frequently implemented type of tax inspection that we will consider now is the field tax inspection. Let’s consider significance of this tax inspection based on research implemented on the global scale and statutory acts. In particular, the following forms of tax control are used in the Tax Code of the Russian Federation (2022): tax inspections; receiving explanations from taxpayers; verification of accounting and reporting information; inspection of buildings and areas used for income (profit) and other forms provided by the code. Article 87 of the Tax Code of the Russian

Federation (2022) provides for “two types of tax inspections: field tax inspections and off-site tax inspections”. Article 89 reflects field tax inspection. According to this article, it is recognized that field tax inspection is based on the decision of the head of the tax authority in the territory (building) of the taxpayer”.

What is the need for this type of tax inspection and tax control? According to Novoselov (2014), this is due to many violations in the tax field, the existence of arrears of tax payments to the budget. From the point of view of Fedotov (2020), “In our country the scale of the shadow economy and tax evasion reduces the level of budget forecast indicators”.

As Shmelov (2020) admits: “Corruption and bribery are related to the non-accounting of taxable income, which is reflected in the impact on the economic security of the country. Tax inspection, including field tax inspection, is an instrument that can fight against corruption and can be a solution to existing problems or at least minimize negative implications”.

In international practice, tax inspections, including field tax inspection instruments, are widely used in order to prevent the shadow economy, corruption and bribery, tax evasion and other negative situations. The application of these measures in global practice was also admitted at the international tax symposium held in Minsk in 2021 on the topic “Theory and Practice of Tax Reforms” (Economic newspaper, 2021).

If we analyze the practice of the Russian Federation, the number of field tax inspections is decreasing year by year. According to the analysis of Chujmarova et al. (2021), the number of field tax audits decreased by 80% in 2020 compared to 2015

Many problems arise before the tax authorities in the implementation of tax measures, in particular, in the conducting off-site tax inspections. In this regard it is crucially important to work out a clear list of control measures related to the “automated” selection of taxpayers.

According to Kojanchikov et al. (2020), “It is not advisable to completely abandon the method of random selection of taxpayers for tax inspections because its use is very effective in monitoring the condition of tax discipline among different categories of taxpayers”.

The development of a single comprehensive final procedure for control inspections, including all stages from the selection of inspection objects to the registration and implementation of their results, will enable to improve the organization of control activities of tax authorities.

A rational choice of tax audit objects should be made by tax authorities based on a thorough analysis of various information about taxpayers from internal and external sources, not only accounting and tax reports, but also information from law enforcement agencies.

In our opinion, based on the analysis of the internal sources of information available in the tax authorities, the following priority groups of entities for conducting field tax inspections can be distinguished:

- organizations that have made serious changes to financial and economic indicators that have a negative impact on the final financial result (according to the “Report on financial results” form);
- taxpayers who have suffered losses from financial activities for two or more years;
- taxpayers who have violated the tax law as a result of the previous inspection, for which financial sanctions and fines have been imposed and calculated;
- companies “zero”-valued in the balance;
- taxpayers evaded submitting tax returns and reporting;

- organizations that use tax incentives at different levels of the budget system in the Republic of Uzbekistan;
- organizations that have several settlement, current, currency and other account numbers;
- entities that raise doubts about the reliability of submitted accounting and tax reports, allow violations of legislation on the use of cash registers and the procedure for making cash transactions when making cash settlements with the population.

In our opinion, systematization, processing and analysis of this set of data enable to make the conclusion about the level of probability of detection of tax law violations by a taxpayer under consideration. In the process of selecting legal entities, it is necessary to use a wide range of methods of analyzing information about the taxpayer: studying the level and dynamics of the main indicators of financial and economic activity of enterprises, verifying logical connection between various reports and calculated indicators obtained from similar enterprises, preliminary assessment of financial statements and tax calculations in terms of reliability of individual reporting indicators, identification of suspicious circumstances or inconsistencies indicating a possible violation of tax discipline.

In order to detect violations of the tax legislation, it is suggested to use the “Tax Evasion Schemes” software-information complex, which has been developed in the same fundamental areas of the same methods of hiding the taxable base, classifying the following signs:

- the frequency (or rarity) of using a particular scheme;
- structure of participants of the scheme;
- the scope of activity in which this scheme is observed;
- a violated object of the tax accounting;
- the ways of incurring loss to the budget, as well as the consequences of using this scheme;
- what taxes can be reduced using this scheme;
- the level of complexity of the scheme;
- the methods of implementing the scheme (Osipova, 2020).

The tax burden and taxpayer’s profitability are considered essential measures of tax risk, which are compared to industry average indicators. At the same time, the average industry indicators of the tax burden and profitability are not serious evidence to justify the conclusion of the fact of violation of the tax legislation, because the average industry indicators directly depend on such factors as the number of employees, the amount of wages, the type of activity of the taxpayer. In addition, entities may cause a sharp increase in indicators for subjective reasons or, on the contrary, their low level and actual indicators corresponding to the average indicators in the network are not always a sign of the absence of reduced revenues or increased costs.

“In international practice, when planning field tax inspections, various methods of determining the average industry indicators reflecting the level of tax payments by legal entities and individual entrepreneurs are widely applied. The aim of this method is to identify potential objects, during their inspection it will be possible to detect violations, which will cause the largest amount of additional payments to the budget. Thus, after analyzing the methods of pre-inspection analysis and selection of taxpayers in the USA and European countries with a developed market economy, we can conclude that the efficiency of tax control directly depends on the use of automated selection of taxpayers for inspection. A unified database of taxpayers and various types of software are required for tax inspections” (Malis, 2019).

Conclusion.

On the basis of the investigations specified above, we have developed the author's definition of field tax inspection. In our opinion, the concept of the field tax inspection can be defined in the following way: *“Field tax inspection is an inspection implemented by tax authorities on the fulfillment of certain obligations of taxpayers in the field of calculation and payment of taxes, as well as other obligations specified in the tax legislation, in which accounting documents, movement of goods and cash flow, as well as tax analysis of other information related to the activity of the payer is performed”*.

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