

ORGANIZATION OF TAX AUDIT IN THE REPUBLIC OF UZBEKISTAN

Kurbanov Ziyat Niyazovich

Doctor of Economics, Professor, Qualification upgrading centre under the State Tax
Committee of the Republic of Uzbekistan

Abstract: This article is devoted to the consideration of the theoretical issues of tax audit. In addition, it reveals the tax audit standard introduced in the Tax Code of the Republic of Uzbekistan in new wording. Moreover, the article studies foreign experience in organizing and conducting tax audit.

Key words: financial control, tax inspection, audit, tax audit, International Auditing Standards, certificate, conclusion, resolution.

Introduction. It should be noted that nowadays the Law of the Republic of Uzbekistan №589 “On the state budget of the Republic of Uzbekistan for 2020” as of December 9, 2019, the Law of the Republic of Uzbekistan №599 “On making amendments and additions to the Tax Code of the Republic of Uzbekistan” as of December 30, 2019, the Decree of the President of the Republic of Uzbekistan №4389 “On additional measures to improve tax administration” as of July 10, 2019 and the Decree of the President of the Republic of Uzbekistan “On measures to ensure execution of the Law “On the state budget of the Republic of Uzbekistan for 2020” as of December 30, 2019 constitute the statutory framework aimed at improving tax and budget policy in our republic.

Literature review. Currently, the concept of “tax audit” remains the most commonly used in domestic and in foreign literary sources. However, the concept of “tax audit” is differently interpreted in both statutory acts and economic literature.

Barsulaya (2019) defines the significance of the tax audit as follows: nowadays there is an increasing need for tax audits among other audit services. According to estimations of experts, 30% of revenues of Russian audit companies are generated from tax audit activities.

Arens and Lobbeck (1995) wrote in this regard the following: “The government hires auditors to check taxpayers’ compliance with federal tax laws, and completing tax declarations... Tax legislation is considered to be very complicated and requires a tax auditor to have comprehensive knowledge and good competence in his field”.

According to the opinion of economists Sheremet and Suyts (2005), “tax audits are an accurate and complete calculation and payment of taxes, an audit of compliance with tax policies”.

Usatova (2008) in her scientific papers provides the following definition to the tax audit: “Tax audit is an independent verification of the state of bookkeeping and tax reporting, as well as accounts on taxes and duties of agencies”.

The following concept is provided in the technique “Tax audit and other appropriate services on tax matters. Communication with tax authorities” approved by the Commission on Audit under the President of the Russian Federation (Minutes №1 as of July 11, 2000) which is aimed at considering some issues on the audit activity: “The concept of tax audit implies an examination of an agency’s or individual’s tax return to verify that financial information is being reported correctly. While the chances of being singled out for closer scrutiny are statistically low, there are factors that could increase your odds of receiving an audit notice. Summing up, tax audit is an examination of the tax return by the public state authorities to verify that the income and deductions of a taxpayer are accurate”.¹

We can make a conclusion, that this technique provides the most comprehensive definition to the concept of tax audit.

Dusmuratov (2007) in his textbook, monograph and other scientific papers, in addition to the revealing general aspects of the tax audit, stresses the necessity of conducting an audit by each type of taxes.

In the opinion of Khotamov (2016), “Tax audit is the process of verifying the compliance of accurate payments of taxes and other compulsory payments, reasonable application of all incentives with the statutory acts in the accounting field. Tax audits must be conducted by independent audit companies”.

The following definition of the tax audit is given in clause 140 of the Tax Code of the Republic of Uzbekistan (2019) in new wording: “A tax audit is a verification of the

¹ Technique of audit activity “Tax audit and other appropriate services in tax matters. Communication with tax authorities”[approved by the Audit Commission under the President of the Russian Federation as of 11.07.2000 Minutes №1]//“Consultant Plus”. 21.12.2019.

accuracy of the calculation and payment of taxes and duties for a certain period. A tax audit is conducted with respect to a taxpayer (tax agent) that is classified as a taxpayer (tax agent) with a high degree of risk”.

In our opinion, tax audits may be conducted not only by tax authorities but also by audit companies that have the right to conduct other audit activities alongside with tax audits.

Research methodology. The research analyzes the existing financial control system in the country in terms of scientific approach. In addition, it reveals the significance of the tax audits. There are scientific proposals for the organization and improvement of tax audit based on the study of advanced international experience. When doing the research, the research methods, such as induction, deduction, statistical observation, statistical table, as well as statistical and comparative analysis have been widely used.

Analysis and discussion of the results. Our country is actively working on bringing financial control closer to international practice, bringing international financial reporting and auditing standards in compliance with the international standards. In this regard we should answer the question what is financial control and what are its types and forms?

Article 170 of the Budget Code of the Republic of Uzbekistan (2018) provides the following definition to the financial control: “Public financial control is carried out by the public financial control authorities in order to identify, eliminate and prevent violations by objects of financial control of budget legislation and also to prevent corruption in the budget sphere”. In addition, article 171 of this Code (2018) specifies that: “The authorities of the public financial control are the Accounts Chamber of the Republic of Uzbekistan, the Ministry of Finance of the Republic of Uzbekistan and its authorized subordinate bodies. The public financial control regarding the revenues of the State budget and the budgets of public targeted funds within the limits of the authority is exercised by the state tax service”. The system of the financial control of the Republic of Uzbekistan is provided in picture 1 (Picture 1).

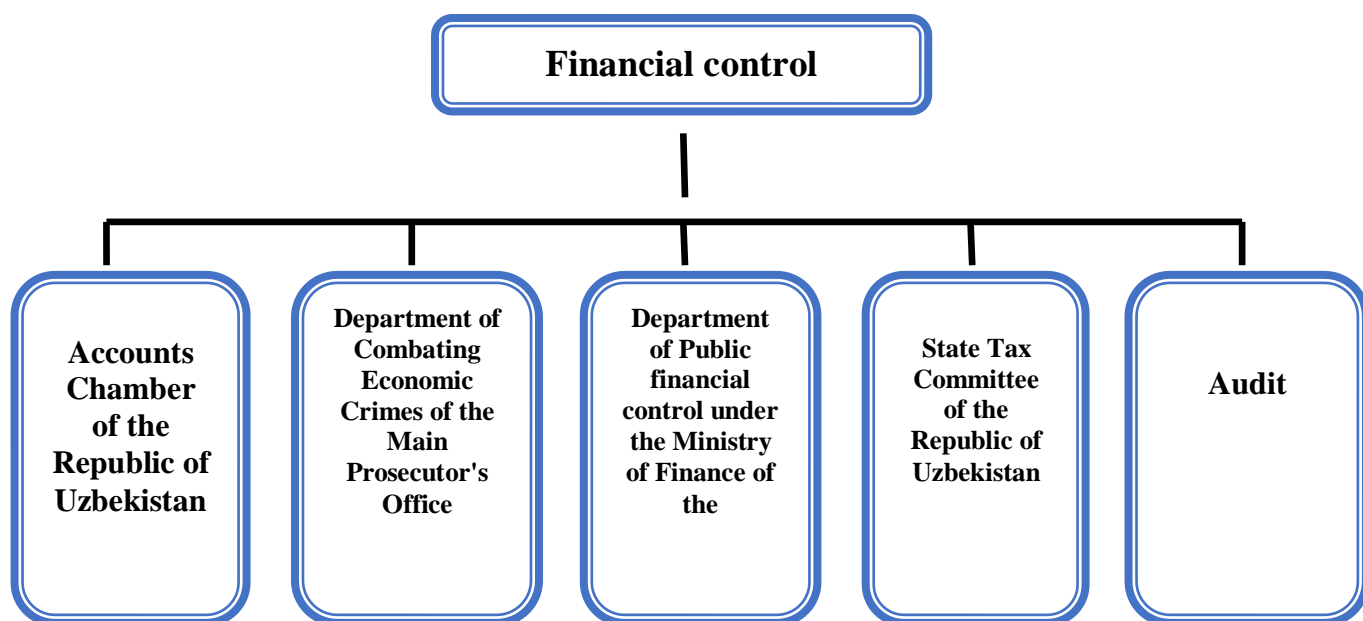


Figure 1. Financial control system of the Republic of Uzbekistan

Both in the international and domestic practice the tax inspection is considered to be one of the types of the financial control. It should be noted that though the Tax Code of the Republic of Uzbekistan (2019) in new wording in article 135 does not define the concept of “tax control”, however, it states that: “Tax control is the activity of authorized bodies for monitoring compliance by taxpayers and tax agents with tax legislation”. Article 136 of this Tax Code (2019) specifies that tax inspections may be carried out in the form of the tax monitoring measures. In addition, article 137 of the Tax Code (2019) specifies the following types of tax inspections:

- 1) cameral tax inspections;
- 2) trip tax inspections;
- 3) tax audits. (Figure 2).

Among other types of tax control and tax inspections, the concept of a tax audit is considered to be relatively new. In this regard we investigate the essence of the tax audit in details.

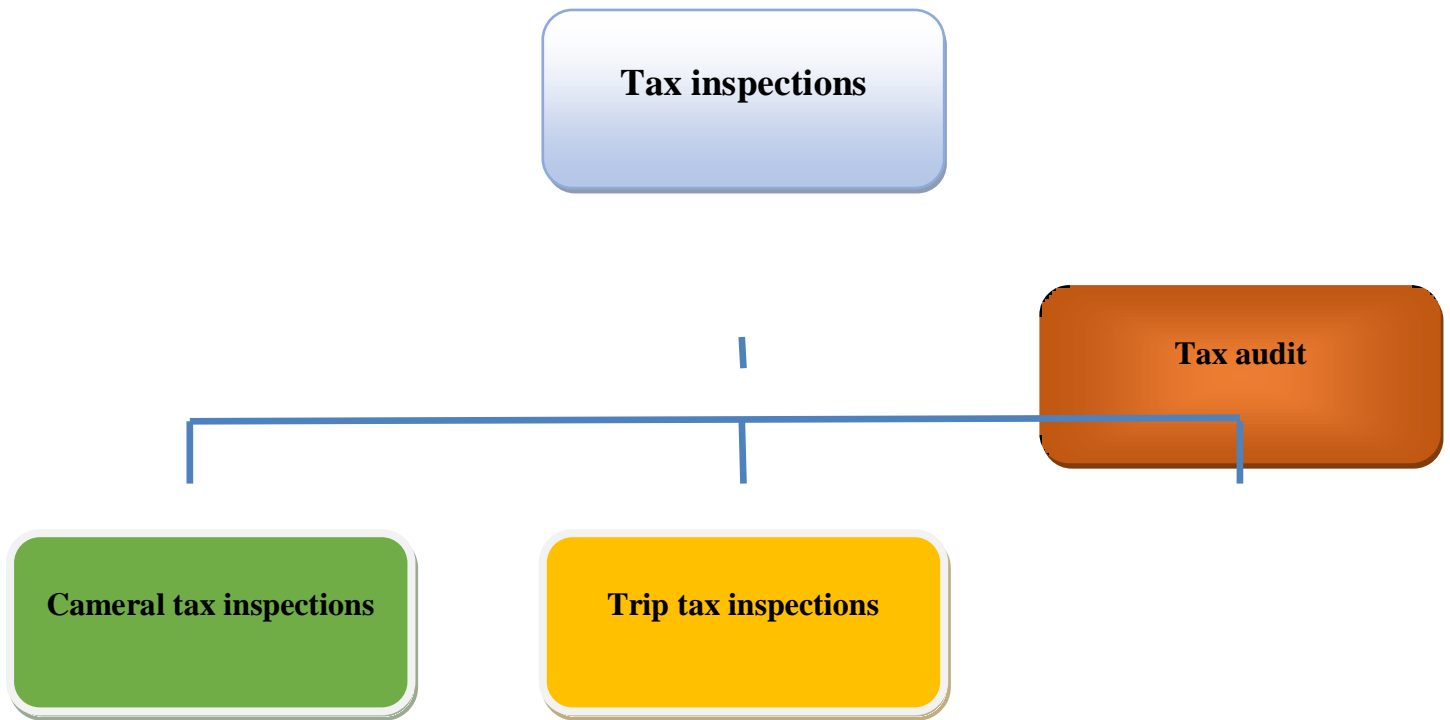


Figure 2. Types of tax inspections

The Tax Code of the Republic of Uzbekistan implies conducting of tax inspections on the basis of special software designated for analyzing the state of the taxpayers according to the new order (cameral inspection, trip inspections, tax audit). In the automated mode and on the basis of the risk level criterion the analysis software divides all business entities into three segments, i.e. green, yellow and red corridors, which depend on the risk level.

For low-risk (green corridor) business entities, tax audits are never conducted and these businesses are provided with high-quality tax services.

Business entities with a moderate level of risk (yellow corridor) are only subjected to cameral tax audits, and these entities are allowed to correct the errors made and financial penalties are not imposed thereto.

If it has been discovered that the business entities make false documents or conduct double book-keeping, or if the level of the errors detected is rather high, they are included in the category with high level of risk (red corridor). Such kind of entities is frequently subject to tax audits and they are always on the focus of the state tax authorities. These measures will ensure transparency of tax control and prevent possible corruption (Figure 3).

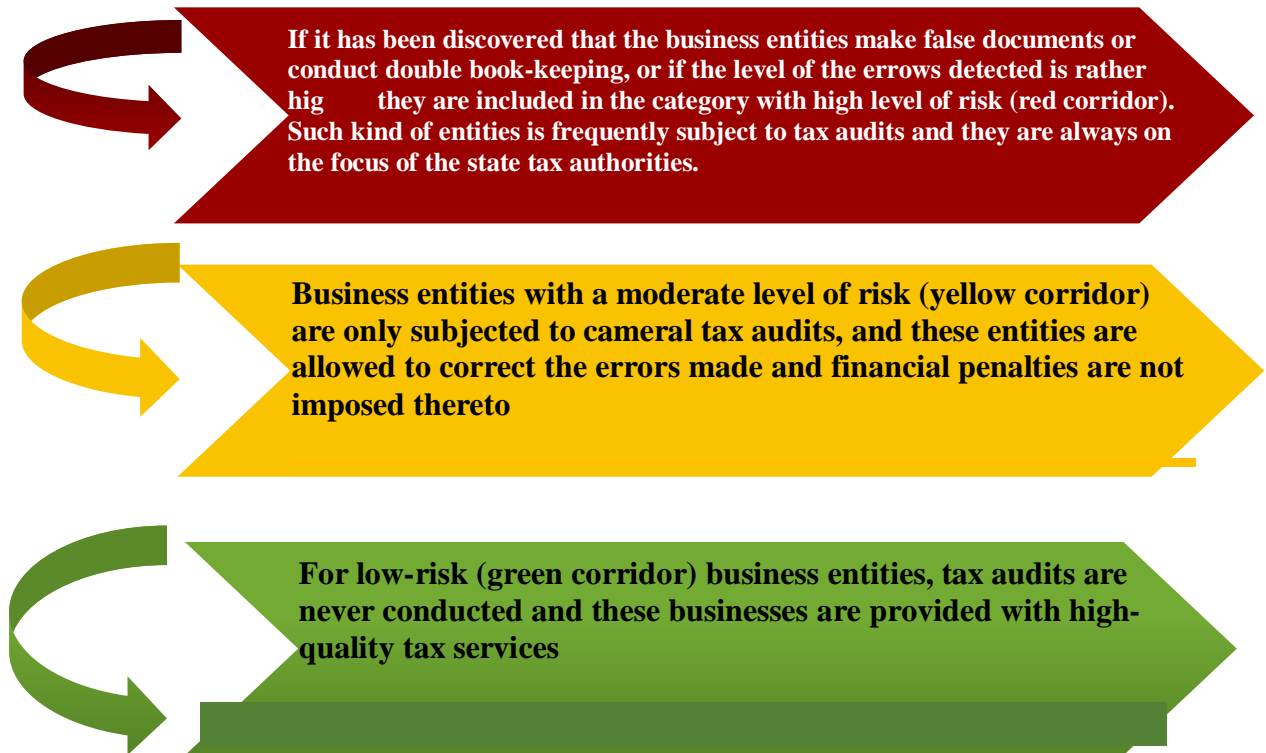


Figure 3. Three segments the risk level of tax payers

Proceeding from the statements specified above we can define the concept of tax audit: “A tax audit is an independent inspection of compliance of the accurate payment and calculation of taxes and other compulsory payments by economic entities, their timely and full payment to the budget, as well as the provision of tax services”. As it is obvious from the tax audit, a tax audit includes auditor’s inspections and tax matters as well.

The research shows that economists and experts interpret tax audit differently as a type of audit, internal audit, and service. For example, in the opinion of Mironova and Khanafeyev (2014), a tax audit is one type of the audit, not “relevant services”. These authors continue to ascertain that tax planning is implemented within tax audits, settlements with budget are supervised. Thus it can be concluded that an external audit carried out by audit companies can be considered to be an independent type as well.

Orlov (2019) in his research paper tried to reveal the essence of the tax audit as a certain type of separately rendered service.

In our opinion, tax audit is a separate type of audit. Proceeding from this statement we consider different aspects of tax audit in relation to audit of financial statements (See Table 1). When conducting a tax audit, an auditor examines the taxation system implemented by the economic entity (Table 1).

Table 1.

Connection of a tax audit with an audit of financial statements and aspects of difference

Comparison criterion	Financial statements audit	Tax audit
According to the relevant statutory document	Law of the Republic of Uzbekistan “On audit activity”, National and International Auditing Standards, internal audit standards	Tax Code of the Republic of Uzbekistan, International Auditing Standards, Regulation on conducting tax audit, Guideline to conduct tax audit
According to the object	Accounting system, financial reporting forms	Taxation object, tax accounting, financial and tax reporting
According to the aim	Determining the validity and reliability of the information presented in the financial statements	Determination of the reliability of tax reporting, verification of the accuracy of tax amounts
Selection of audit inspections	On compulsory and initiative basis	Tax audit is carried out in relation to the taxpayer (tax agent) of the highest risk category
Periodicity	It is periodic and is conducted on an annual basis	A tax audit may cover only the period following the last tax audit, but not more than five calendar years immediately preceding the new tax audit
Processes under consideration	Accounting system, validity and reliability of the information reflected in financial statements	Accuracy of calculations on paying taxes and duties, validity and reliability of the information reflected in tax reporting, observance over the tax legislation
Reporting	Conclusion about the reliability of the financial	According to article 156 of the Tax Code, the audit results are formalized with an appropriate certificate
Procedure for registration	Registration in the regional state tax authorities	Resolution is made on: 1) calculating by adding taxes and penalties or denying them; 2) holding a taxpayer liable for tax offense or to deny it.

When conducting the process of a tax audit, we think it is advisable to do the following activities:

- types of taxes paid by the economic entities;
- accurate determination of a taxable base by types of taxes;
- study reasonable application of tax incentives;
- verification of the accurate calculation of the taxable base and tax amounts;
- determining timely payments of taxes and duties to the budget;
- payment of tax amounts and penalties additionally accrued as a result of inspections held by the tax authorities;
- accurate reflection of taxes and duties in the financial and tax reporting;
- verification of the validity and reliability of the information in the tax reporting.

Below we investigate the practice of foreign countries in terms of which authority conducts tax audit and its inherent peculiarities.

In the USA, tax audits are conducted by the Federal Tax Service, which is a government agency. In this country Internal Revenue Service (IRS) is responsible for supervising the accuracy and completeness of reflecting the information in the tax reporting². Thus the Internal Revenue Service is assigned with the responsibility how taxpayers execute their tax obligations. During the next 10 years annually about 1,36 percent of tax reports are subject to the statutory verification. It should be noted that annually approximately 154 million tax reports are compiled in the USA. In practice, tax payers with high income are selected for tax audits.

In Hong Kong tax inspections are carried out only by the IRD - Inland Revenue Department which is the supreme tax authority in this country. The IRD consists of two departments which is a tax inspection department and an audit group. The audit group's work is focused on the full study of taxpayers and the review of risk management techniques. If an audit group detects the cases of the law violation when verifying tax reporting for the last year, auditors shall review tax reporting for 6-year previous period once again (Daniel and Peter, 2019).

According to the research by Chinese researchers Chan et al (2017), tax audits in China are conducted exclusively by tax authorities. In reliance upon the statistical information of the State Tax Agency on taxes and duties (SAT), in 2016 in China tax inspections were held for 313000 taxpayers and the penalty for the total amount of 119 billion Yan was imposed.

² <http://www.tadviser.ru/index.php/> (Internal Revenue Service, IRS) 21. 12.2019.

In the Law of the Republic of Kazakhstan “On audit activity” (1998), a tax audit is treated as a certain type of service rendered within the audit framework. The results of inspections must be duly formalized by the conclusion.

International Auditing Standards are widely used in tax audits. In terms of conducting tax audits such International Auditing Standards as IAS 200 “General aims of independent auditors and conducting audit in compliance with International Auditing Standards”, IAS 800 - “Special issues – audit of financial reporting developed for special purposes”, IAS 805 “Special issues – audit of separate financial statements and specific elements of financial statements, accounts or items”.

Conclusion and proposals. Based on the considerations specified above we may make the following conclusions:

a tax audit is one type of the tax inspection;

if it has been discovered that the business entities make false documents or conduct double book-keeping, or if the level of the errors detected is rather high, they are included in the category with high level of risk (red corridor). Such kind of entities is frequently subject to tax audits and they are always on the focus of the state tax authorities;

it is possible to make a conclusion that “A tax audit is an independent inspection of compliance of the accurate payment and calculation of taxes and other compulsory payments by economic entities, their timely and full payment to the budget, as well as the provision of tax services”.

Our proposals are: to make relevant amendments and additions to the Law of the Republic of Uzbekistan “On audit activity” in reliance upon the modifications made in the tax audit standard of the Tax Code of the Republic of Uzbekistan;

in reliance upon the relevant articles of the Tax Code of the Republic of Uzbekistan to develop relevant statutory acts on the procedure for conducting audit and approve it according to the established procedure;

work out the procedure of using International Auditing Standards when conducting a tax audit;

ensure qualification upgrading and professional development of the state tax officers.

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