



## IMPACT OF THE CORPORATE INCOME TAX ON ECONOMIC COMPETITIVENESS OF UZBEKISTAN

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**Abstract:** This article examines the current state of the corporate income tax mechanism and the problems associated with it. Also, provides insights about the effect of the corporate income tax on economic competitiveness of the economy.

**Key words:** *enterprise, competitiveness, profit, tax, tax system, profit tax, tax rates.*

**1. Introduction.** Profit is the main driving force of a market economy and is the result of the activities of entrepreneurs. Profit is also an important element of a market economy. In a market economy, no one engages in unprofitable work. The goal of entrepreneurship is to get rich, and for that you need to make a profit and maximize it as much as possible. Profit is essentially the income that goes to the entrepreneur. Profit as an economic category is a general indicator of the financial results of economic activity, defined as the difference between the income from economic activity and the expenditure on this activity.

Profit is one of the main objects of taxation and is the main source of revenue generation of the state budget. Today, in almost all countries of the world, corporate profits are taxed. Income tax is the final stage of taxation and is a fair tax. Because this tax is levied on the result of positive activities of an enterprises for tax purposes. Therefore, income tax is important in the modern tax system. The corporate income tax is the final stage in the long-term development of taxes apart from the ad rem basis.

Currently, income tax is levied in 218 countries around the world. Income tax rates are set at 0-10% in 44 countries, 10-20% in 50 countries, 20-30% in 111 countries, 30-40% in 26 countries and 45-55% in 2 countries. Income tax revenues account for 26.3% of world GDP and 33.0% of tax revenues (Asen, 2019). It can be seen that the income tax is one of the main types of taxes generated from budget revenues worldwide and is an important tool of state regulation of the economy through fiscal policy.

While the income tax was originally levied by states as a source of budget revenues, it is a key factor in the development of the economy and increasing its competitiveness in today's globalization process. Through income taxes, countries can effectively influence the support of entrepreneurship, encourage innovation and investment, and create a competitive environment. Currently, the income tax rate is being reduced by countries to ensure sustainable economic growth. In particular, the world income tax rate averaged 40.38 percent in 1980 and 46.67 percent in GDP, while in 2019 the income tax rate was reduced to 24.18 percent and its share in GDP to 26.30 percent (Asen, 2019). In our opinion, one of the most pressing issues today is to improve the income tax in order to ensure sustainable economic growth and increase economic activity.

**2. Literature review.** A number of domestic and foreign economists have conducted research on the economic significance of corporate income taxation and the role of income tax in the formation of budget revenues. In fact According to foreign economist Mintz (1999), governments are interested in taxing corporate profits for efficiency,

fairness, administrative or simple political reasons. Important reasons for taking into account corporate income tax are:

- Administrative - the withholding role of corporate income tax;
- Taxation of income paid to non-residents;
- Taxation related to income.

Nicodème (2009) scientifically substantiated 5 reasons for taxing corporate profits.

These are:

- The principle of profit;
- Tax exports;
- The impact of the Treasury;
- Reduction of personal income tax;
- Political restrictions.

According to Bogdanova (2017), income tax is an important tool for regulating the economy. Profit taxation allows the state to actively use tax methods and have a significant source of budget revenues, effectively influencing the process of investment flows and capital accumulation.

Pinto (2016) argues that tax factors play an important role in assessing international competitiveness, and that a country's tax system is a key indicator of its competitiveness. Income tax affects the costs and cash flows of businesses. The author also notes that income tax rates are one of the 5 tax factors affecting international competitiveness.

In the same vein Nagy (2017) points out that taxation indirectly affects the competitiveness of enterprises through its impact on investment and innovation processes. To create a tax system that supports investment, it is necessary to reduce the impact of income tax, which violates investment decisions.

Knoll (2010) found that high income tax rates reduce a country's international competitiveness. A profit tax reduces a country's competitiveness if it restricts domestic investment from foreign enterprises and prohibits foreign investment.

According to Sobirov (2008), the advantage of profit as an object of taxation is the ability of the state to quickly respond to changes. The choice of profit as a tax allows you to record the occurrence of extremely high profits in a particular enterprise, to identify the reasons for this and, if necessary, to use a regulatory mechanism of taxation.

**3. Analysis and discussion of results.** In Uzbekistan, as in other countries, the taxation of corporate profits is an important tool for the formation of budget revenues and economic development. Today, Uzbekistan is implementing a number of reforms to simplify the taxation of corporate profits and reduce the tax burden. In particular, the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 identifies the reduction of the tax burden and simplification of the tax system, improvement of tax administration as the main direction of tax policy. From 2018, the landscaping and social infrastructure development tax has been unified with the income tax. As a result, number of taxes on corporate income were reduced from 2 to 1 and the calculation of taxes by businesses was simplified. Profit tax rates have also been reduced. In practice, the tax levied on profits under tax law is a profit tax. At the same time, in 2018, the concept of improving the tax policy of the Republic of Uzbekistan was readopted and put into practice in 2019. According to the concept, from 2019 the basic rate of income tax will be reduced from 14% to 12%.

Income tax is levied on taxable profits of legal entities that are residents of the Republic of Uzbekistan, non-resident legal entities that operate in Uzbekistan through a permanent establishment and receive income from sources in Uzbekistan. Taxable profit is defined as the difference between total income and deductible expenses. Deductible

expenses are related to income tax and must be economically justified. Taxpayer expenses are divided into deductible and non-deductible expenses. Deductible expenses include material, labor, depreciation and other expenses.

Depreciable assets are divided into groups for tax purposes and the costs of their acquisition (creation) are included in the cost of depreciation through depreciation allowances. Depreciation allowances for each subgroup for tax purposes are calculated not more than the norm established by the Tax Code.

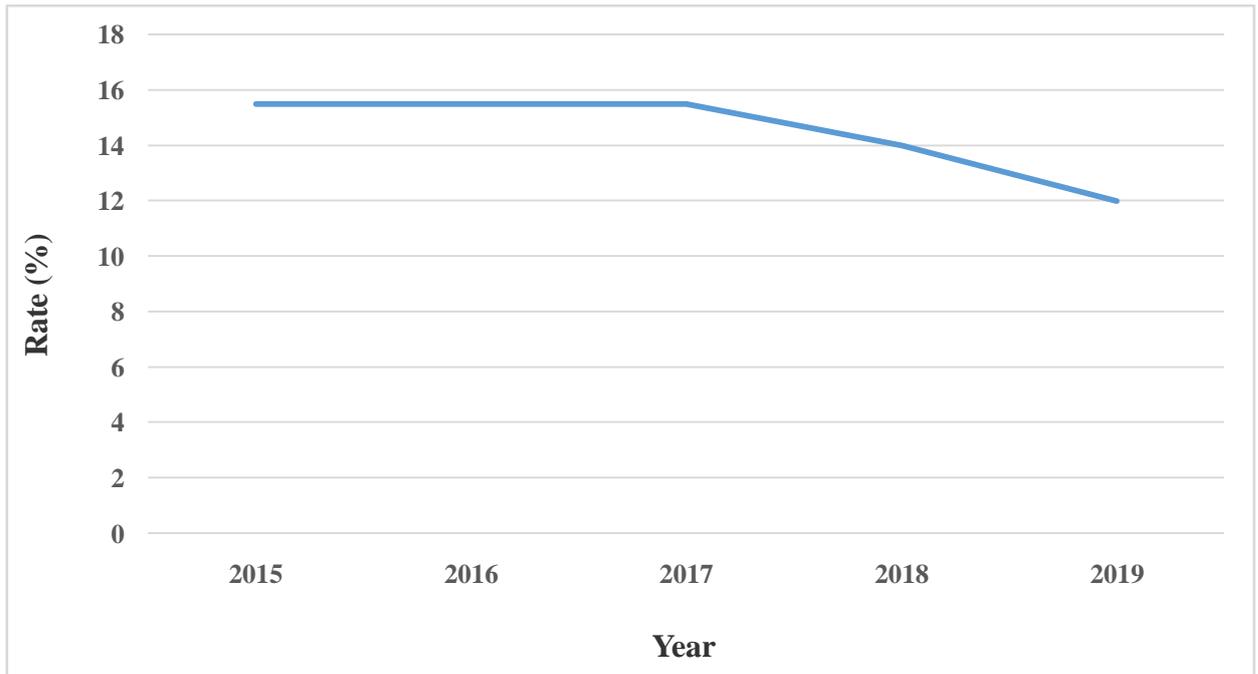
For tax purposes assets can be depreciated up to the maximum rates indicated in the following table:

**Table 1. Depreciation schedule**

№	Type of fixed asset	Maximum depreciation rate
1.	Buildings and constructions	3%
2.	Constructions (e.g. bridges, oil-wells, landing strips, dams, greenhouses)	5%
3.	Transmission devices, power machines and equipment	8%
4.	Cars, tractors, special equipment, computers and related hardware	20%
5.	Lorries, buses, special cars and trucks, industrial machinery and equipment, agricultural machinery and equipment, oil extraction and mining equipment, office furniture	15%
6.	Railway, river and air transport vehicles, thermo-technical equipment, turbines, electric and diesel drives, power supply and communication lines, pipelines	4%
7.	All other assets	15%

**Source:** retrieved from <https://taxsummaries.pwc.com>.

You can see the change in the basic income tax rate in Uzbekistan over 2015-2019 in Figure 1.

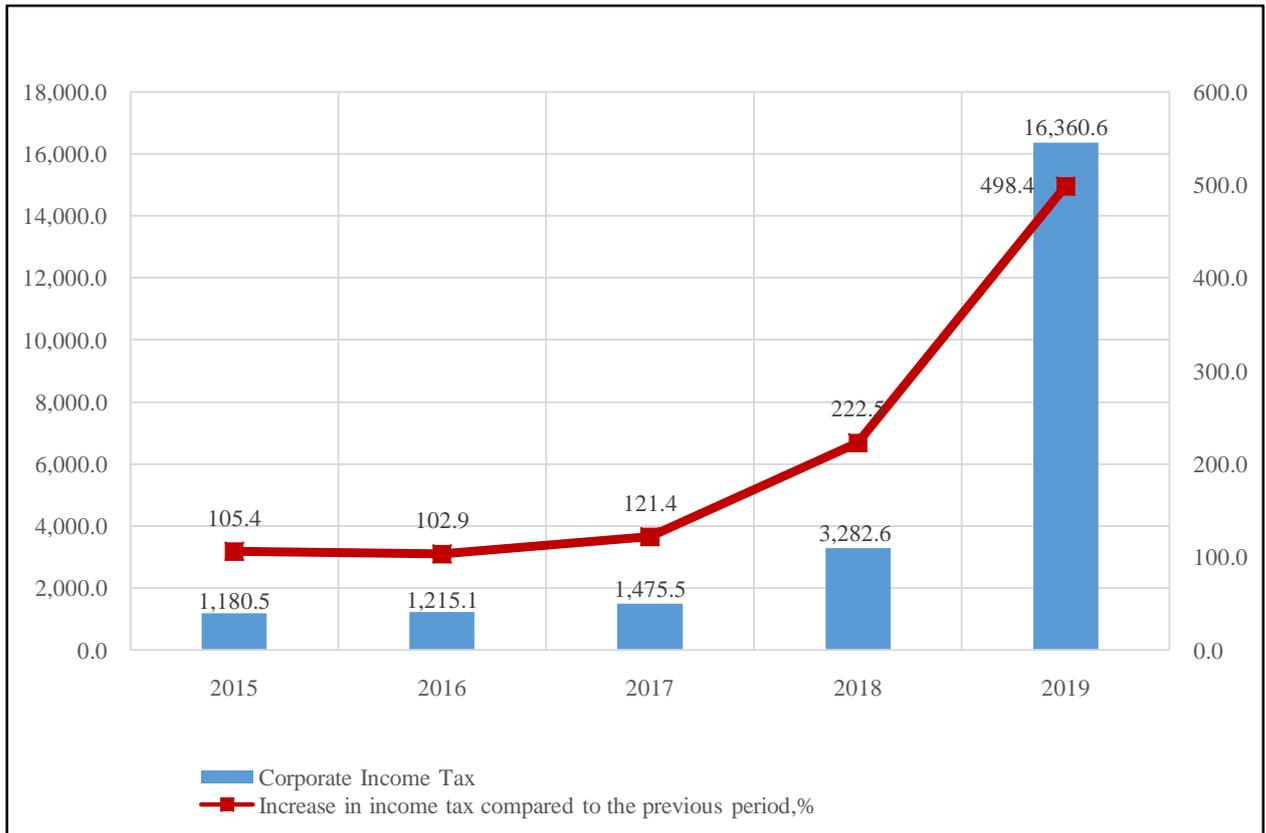


**Figure 1. Dynamics of income tax rates from 2015 to 2019.**

Source: Author's compilation.

As for Figure 1 the income tax rate did not change in 2015-2017. The income tax rate for this period was 15.5%. The basic income tax rate decreased in 2018-2019. In particular, the income tax rate decreased from 15.5% to 14% in 2018 and from 14% to 12% in 2019. In general, over the past 5 years, the government in Uzbekistan has reduced the income tax rate by 3.5%.

As a result of the reduction of income tax rates, reduction of number of income taxes, simplification of income taxation and improvement of taxation in a general and simplified manner, there was a sharp increase in income tax revenues in 2019.

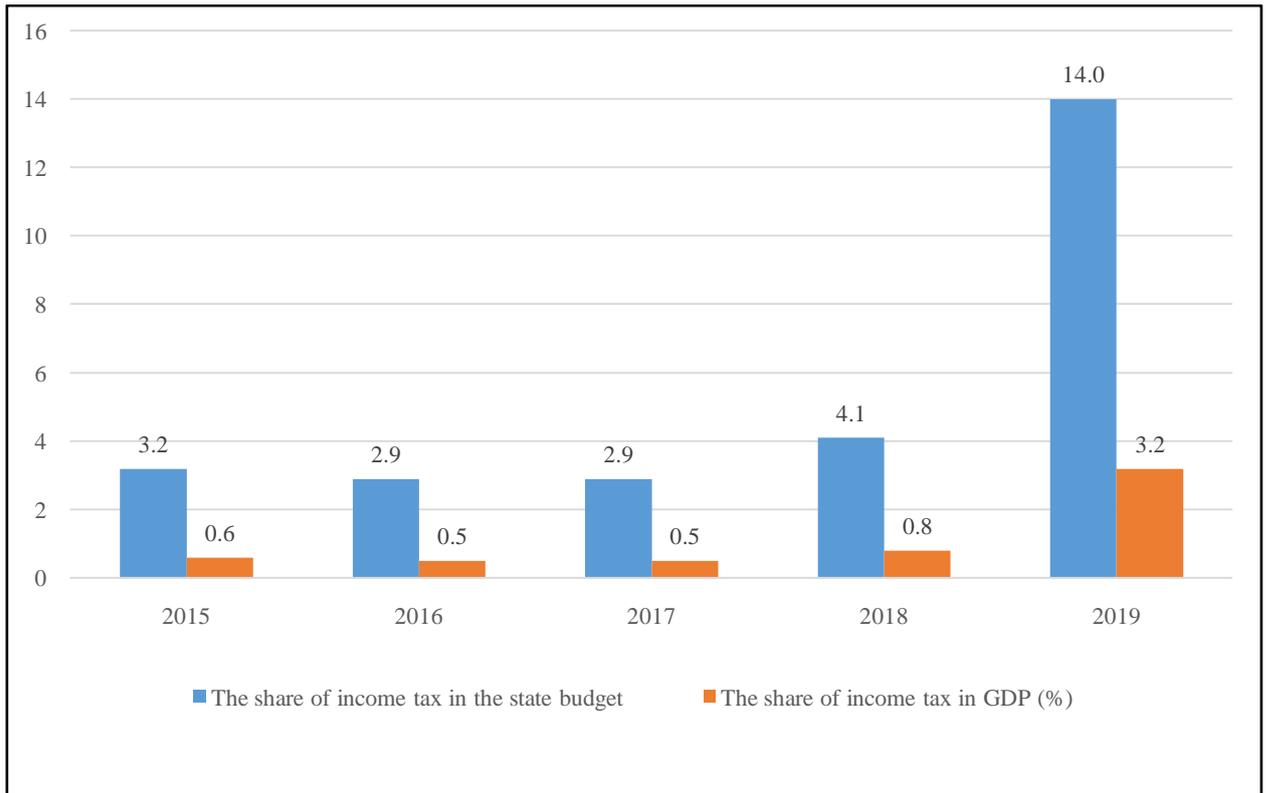


**Figure 2. Dynamics of income tax revenue over 2015-2019.**

**Source:** Prepared based on data of the Ministry of Finance of the Republic of Uzbekistan.

As can be seen from the data in Figure 2, over 2015-2019, income tax revenues had an upward trend. In particular, in 2019 it amounted to 16,360.6 billion soums, which is 5.0 times more than in 2018 and 14.0 times more than in 2015. In turn, during this period, profit growth increased by 105.4% in 2015, 102.9% in 2016, 121.4% in 2017, 222.5% in 2018 and 498.4% in 2019 compared to the previous period.

As a result of the increase in income tax revenues in the share of GDP, the share of the state budget and direct taxes has also increased. In particular, the share of income tax in GDP in 2019 amounted to 3.2%, an increase of 2.6%. Its share in the state budget increased from 3.2% in 2015 to 14% in 2019 (see Figure 3). It can be seen that the income tax has become one of the main types of taxes that form budget revenues as a result of reforms implemented in recent years.



**Figure 3. Dynamics of the share of income tax in GDP (in %) and in the state budget in 2015-2019.**

**Source:** Prepared on the basis of data of the Ministry of Finance of the Republic of Uzbekistan.

**5. Conclusions.** In summary, the income tax rate has increased in recent years due to the abolition of other types of income taxes. However, the tax burden on profits has decreased. The number of income tax payers increased by four times, and the income tax revenue increased by 13.8 times. Furthermore, the share of income tax in GDP increased by 2.6%. It can be seen that positive results have been achieved in terms of income tax. In order to achieve positive results, it is necessary to emphasize the optimization of income tax rates in the next two years, the reduction of corporate income taxes, reforms aimed at the same taxation for all taxpayers. Changes in the income tax have been a key factor in the further development of the economy and its competitiveness. In addition, the increase in income tax revenues has ensured the stability of state budget revenues.

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