

## **ISSUES OF IMPROVING TAX CONTROL**

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**Abstract:** This scientific article is devoted to the consideration of the issues of improving tax control within the framework of the adopted Action Strategy for the development of 2017-2021 and the Concept of improving the tax policy of the Republic of Uzbekistan. In addition, the article discusses such aspects as introduction of a new version of the Tax Code, implementation of wireless, online methods of control based on segmentation of taxpayers, further reduction of tax administration costs and further improvement of the tax authorities aimed at ensuring effective implementation of the rules of tax control, modern technique for the business analysis of the system in order to improve the quality of tax control, as well as its automation and introduction of Business Intelligence model, effective and efficient tax control aimed to reduce the number of tax offenses, as well as to raise the efficiency and effectiveness of tax control measures and ensure transparency in the organization of tax control. Moreover, the article provides developed scientific proposals and practical recommendations aimed at further improving tax control.

**Key words:** Action Strategy, concept, Tax Code, tax administration, control, supervisory bodies, tax control, tax inspection, in-house tax inspection, field tax inspection, tax audit, tax monitoring, segmentation of taxpayers, “honest”, “conscientious”, “obedient” and “law-abiding”, public control, tax risk assessment.

**1. Introduction.** “The tax system constitutes an integral part of the economy and is considered to be an essential mechanism for achieving the priorities of social and economic development of the country” (Resolution, 2019)<sup>1</sup>. It should be noted, that currently the situation on the world market is changing rapidly and competition is intensifying within the framework of globalization, so today we need to develop and

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<sup>1</sup> “Strategy for Improving Tax Administration” approved by the Resolution of the President of the Republic of Uzbekistan dated July 10, 2019 No. PP-4389 “On Additional Measures to Improve Tax Administration” (National Database of Legislation- Lex.uz).

implement a completely new approach and principles for the more stable and rapid development of our country. It is obvious, that the results of a critical study of the tax system have demonstrated that there are a number of systemic problems in the tax sector as well. In particular, the analysis of risks in the implementation of control activities that do not have adequate information exchange mechanisms between government agencies and companies, e-tax administration and forms and methods of tax control negatively affect the quality of control measures and reduce interference in the activities of honest businesses and the lack of a clear system of governance. In addition, according to the results of a critical study of the tax system it is possible to make a conclusion that this sphere definitely deserves a particular consideration (Decree, 2018).

In this regard, in our opinion, currently it is necessary to implement further development of the tax system, reduce of turnover of the shadow economy, efficiently implement in practice the rules established by the new version of the Tax Code on the organization of tax control stipulated in the Code; as well as with the aim of further improving the activities of tax authorities reduce the costs of tax administration. In addition, it is recommended to introduce modern models of business analysis (Business Intelligence) in order to automate it, to reduce the number of violations in the field of taxation, as well as to raise the efficiency and effectiveness of tax control measures and its quality, to carry out systematic study of processes that serve to ensure transparency in the organization of tax control, formation of a positive image of the tax authorities in connection with the sharp reduction of corruption. Meanwhile we believe that it is expedient to critically study the processes related to the further improvement of tax control, using the best and most advanced practices of foreign countries.

## **2. Literature review.**

Uzbekistan is consistently carrying out large-scale reforms aimed at ensuring the smooth operation of business, creating favorable conditions for doing business and enhancing investment attractiveness of the country.

At the initiative of the head of our state, ideas are being put forward and implemented in the country with the adoption of statutory acts aimed at preventing illegal interference in the activities of business entities, regulating control and inspections, ensuring openness and transparency, efficiency and effectiveness of the process. They include the following measures:

The Decree of the President of the Republic of Uzbekistan “On measures to further improve the system of protection of the rights and legitimate interests of business entities”

since September 1, 2018 abolished scheduled inspections and examinations of the activities of business entities, not related to financial and economic activities (Decree, 2018);

All types of alternative inspections and unscheduled inspections have been recently abolished (Decree, 2018);

In order to further improve fiscal policy through the introduction of modern methods of tax administration and taxation, efficient supervision mechanisms over the full collection and timely receipt of taxes, systematic measures have been undertaken to introduce advanced and approved forms and methods of tax control widely used abroad to raise the transparency of the budget process systematic review of tax administration mechanisms with the involvement of international experts and consultants (Resolution, 2018);

The organization of the state tax service in reliance upon outdated methods and principles of tax control does not enable to solve new tasks set by these bodies, including expanding a tax base and raising tax collection. Moreover, availability of significant unresolved problems aggravates the situation and the tax system. Improving the system of tax administration in our country with the account of the negative impact on the tax system efficiency have become the most important areas that deserve a particular attention (Resolution, 2018);

Adoption of the concept of improving the tax policy of the Republic of Uzbekistan, aimed at establishing reliable cooperation between regulatory authorities and honest business entities, required a radical review of the existing system of inspections and other types of state control (Decree, 2018);

In terms of improving the strategy of the tax administration in our country, expanding the list of wireless (online) ways of interaction of tax authorities with taxpayers, the system is designed to reduce the costs of tax administration and improve the quality of tax control, as well as its automation. In this regard, such measures as introducing modern business analysis models (Business Intelligence) and other similar measures shall be implemented (Resolution, 2019);

Under the new Tax Code, a completely new system of tax administration and tax control has been introduced (Code, 2019).

These measures are significant as they have a positive impact on the business environment development in our country and the international ranking of the Republic of Uzbekistan.

Herewith, there are some problems that need to be solved in the field of entrepreneurship, which solution will eliminate obstacles to business development, attract foreign investment in our country and ensure guaranteed protection of the rights and legitimate interests of entrepreneurs (Decree, 2018).

It should be noted, that ineffective and excessive control functions of government agencies, violating the rights and legitimate interests of business entities are being eliminated in order to eliminate bureaucratic barriers to business development, further strengthen legal mechanisms of protection of business entities, improve the investment and business environment in the country, and this, in turn, will enhance investment attractiveness of our country.

### **3. Research methodology.**

In the process of the research, the reports, messages, as well as resolutions, decrees and orders of the President of the Republic of Uzbekistan on the subject have been studied. In addition, the views expressed by international experts have been studied in detail during practical seminars arranged by the Ministry of Finance in cooperation with the World Bank and the International Monetary Fund on the application of international best practices in the field of tax control and audit.



Furthermore, relying on independent approaches in this area, there have been developed scientific proposals and practical recommendations aimed at elimination of bureaucratic barriers to business development, further strengthening of legal mechanisms for business entities protection, improving investment and business environment in the country and ensuring transparency in tax control and inspections as a result of the implementation of the new Tax Code, improving investment and business environment in the country and ensuring transparency in tax control and inspections as a result of the implementation of the new Tax Code, establishing effective and efficient organization of controls and inspections, more complete coverage of forms and mechanisms of tax control, including taxable entities and taxpayers and improving through the widespread introduction of modern information and communication technologies that ensure accountability, application of preventive measures to combat corruption within the framework of a completely new system of tax administration and control, strengthening measures for the introduction of modern, advanced information and communication technologies that provide full data collection and processing for pre-inspection analysis and remote monitoring, as well as further improving our national legislation.

#### 4. Analysis and discussion of results.

As far as we know, in order to further enhance efficiency of reforms in our country, to create conditions for the comprehensive and rapid development of the state and society, to implement the priorities of modernization and liberalization of all spheres of life, in reliance upon comprehensive, in-depth and critical study of current issues of the people and entrepreneurs of our country, the analysis of existing legislation, law enforcement practices and best international practices, the government of the Republic of Uzbekistan has developed the Action Strategy for further development of our country for 2017-2021, which has further been accepted by the general public. Herewith, we all know that within the framework of the Action Strategy, the State Programs for its efficient implementation are annually developed and efficient activities are carried out to ensure their implementation in practice. As a clear proof of our words, it can be said that the concept of improving the tax policy of the Republic of Uzbekistan has been developed and put into practice, and at the same time it is yielding positive results (Decree,2018).

Moreover, with the aim of making required changes and additions to the legislation on the application of international best practices in the field of tax control and audits, there have been adopted the Decree of the President of the Republic of Uzbekistan “On measures to further improve the system of protection of the rights and legitimate interests of business entities” (Decree, 2018) and the Resolution “On additional measures to improve the tax administration” (Resolution, 2019) serve as an important legal basis.

The Tax Code in new wording stipulates that the activities of the competent authorities to monitor compliance with tax legislation by taxpayers and tax agents reflect efficiency of the tax control. Tax authorities may exercise tax control in the following forms:




-  tax inspections;
-  tax monitoring.

In this regard, it is ascertained that the customs authorities may exercise tax control in compliance with the Tax Code and customs legislation within their competence with respect to taxes payable in connection with the flow of goods across the customs border of the Republic<sup>2</sup>.

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<sup>2</sup> The wording has been prepared on the basis of article 136 of the Tax Code of the Republic of Uzbekistan.

Tax authorities perform the following types of tax audit<sup>3</sup>:

-  in-house tax control;
-  field tax control;
-  tax audit.

Currently, a number of activities are undertaken to amend and supplement a number of legislation to apply best international practices in the field of tax audit. In particular, a completely new system of tax administration and tax control has been introduced under the new Tax Code. In order to efficiently select the objects of tax audit, the analysis of the risks of tax offenses, changes in the order of appointment of inspections, the audit process will be carried out without human factors only on the basis of the program “Tahlika-tahlil” (“Reflective analysis”) on the basis of the division into three segments. Thus, the procedures that provide for the State Tax Service to impose fines are implemented only after preventive measures.

International experts acknowledge that tax audits are not a means of intimidating law-abiding taxpayers, but rather that the primary function of audits is to encourage voluntary compliance with tax legislation. The traditional approach used in our country used to imply conducting tax audits of taxpayers who comply with the law, and this practice was admitted by international experience as an inefficient use of human resources. Therefore, taking into consideration, that the introduction of a risk-based approach is one of the most optimal ways to identify taxpayers’ non-compliance with the law, it was considered appropriate to make radical changes in the legislation on tax audits during the development of the Tax Code in new wording. As it has been noted above, tax authorities are currently developing programs that identify the objects of inspection based on the results of risk analysis, without human intervention, and which are admitted as the best, most effective practice. It envisages the use of statistical and non-statistical methods, including regression analysis and data comparison methods in the computerized evaluation system. According to experts, the main advantages of such a system are as follows:

-  large database management and efficient operation;
-  raising transparency and openness in conducting inspections.

According to the opinion foreign experts, such a new approach will strengthen the confidence of “honest”, “conscientious”, “obedient” and “law-abiding” taxpayers, as well as reduce administrative costs in identifying suspicious taxpayers subject to tax audits<sup>4</sup>.

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<sup>3</sup> The wording has been prepared on the basis of article 136 of the Tax Code of the Republic of Uzbekistan.

<sup>4</sup> Developed by the author on the basis of [www.mfi.uz](http://www.mfi.uz) site.

The Tax Code in new wording also provides a legal basis for tax monitoring. According to it, the following are the subject of tax monitoring:

- ✚ observance over the statutory acts in taxation,
- ✚ accuracy, full and timely payment (transfer) of calculation of taxes and fees by the legal entity which is subject for the tax monitoring.

In addition, the Tax Code sets out general provisions on tax monitoring, regulations on cooperation regarding information, decisions on tax monitoring, its pre-schedule termination, the procedure for conducting tax monitoring, a reasoned opinion of the tax authority and the procedure for mutual agreement<sup>5</sup>.

The analysis of the study shows that there are some problems in the field of entrepreneurship which solution will eliminate barriers to business development, attract foreign investment to Uzbekistan and ensure guaranteed protection of the rights and legitimate interests of entrepreneurs. As a result of the study of a number of legislative acts, as well as our own analysis, the following can be noted as the problems existing in this field:

- ✚ adoption of the new Tax Code, aimed at establishing reliable cooperation between regulatory authorities and honest business entities, requires a radical review of the existing system of inspections, other types of state control, as well as other types of statutory acts;

- ✚ the lack of a comprehensive system for regulating organizational aspects and procedures of tax control and inspections of business entities and monitoring their legality may not enable to ensure transparency of regulatory authorities and an objective assessment of the validity of inspections;

- ✚ lack of an independent system of public control over the activities of regulatory authorities, ensuring openness, transparency and fairness of inspections;

- ✚ current statutory acts, in particular, the Tax Code do not reflect the possibility of comprehensive support for the activities of business entities and the elimination of unwarranted interference in their activities, as well as measures to ensure their sustainable operation, to assist them during the global financial and economic crisis and (or) in various emergencies, and to ensure macroeconomic stability, smooth operation of sectors and industries in times of pandemics and other global threats, cessation of inspections of business entities (moratorium) in order to prevent a sharp decline in incomes, reduce and mitigate the negative impact of the situation on the economy and prevent the slowdown in

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<sup>5</sup> The wording has been prepared on the basis of Chapter 19, articles 169-175 of the Tax Code of the Republic of Uzbekistan.

business activity, or suspension of tax audits of business entities (except for inspections carried out in the framework of a criminal case and in connection with the liquidation of a legal entity) as compulsory standards to be followed;

✚ In connection with the adoption of the Tax Code in new wording, there is a need to reconsider or adopt a new version of the Law of the Republic of Uzbekistan “On the State Tax Service”.

In our opinion, in reliance upon the results of the analysis of some statutory documents, resolving some of the current problems in the field of entrepreneurship, making required changes and additions to the legislation will enable to eliminate obstacles to business development, attract foreign investment to our country and guarantee the rights and legitimate interests of entrepreneurs. From our point of view, due to the introduction of a completely new system of tax administration and tax control with the new version of the Tax Code, in order to ensure full and efficient implementation of tax inspections in practice, in the development of statutory acts regulating these processes on the implementation of in-house tax inspection, field tax inspection and tax audit, it is recommended to work out new tax regulations in terms that tax inspections are not only a means of intimidating law-abiding taxpayers, but are also aimed at encouraging voluntary compliance with the tax legislation.

In our opinion, the elimination of some of the existing problems listed above may enable to achieve the following positive results:

✚ transformation of the State Tax Service into a service-oriented agency by creating a new image of taxpayers as a business partner and advisor, unconditional fulfillment of the target task of “Tax Service - a reliable partner of honest taxpayers” by each employee;

✚ creation of a completely new system of tax administration and control, as well as the application of preventive measures to combat corruption;

✚ further strengthening of measures for the introduction of modern, advanced information and communication technologies that provide complete data collection and processing for pre-inspection analysis and remote monitoring and analysis;

✚ preparation of proposals for the improvement of tax legislation and law enforcement practice, introduction of modern methods of tax control, analysis of the causes and conditions of violations in the field of taxation, measures to eliminate them;

✚ modernization of the tax system through comprehensive study of international experience;



✚ improvement of forms and mechanisms of tax control, including through the widespread introduction of modern information and communication technologies that provide more complete coverage and accounting of taxable entities and taxpayers is among the main areas of the concept of improving the tax policy of the Republic of Uzbekistan;

✚ ensuring macroeconomic stability, smooth operation of industries and sectors of the economy, promoting foreign economic activity and preventing the slowdown in business activity;

✚ further strengthening the legal framework for the suspension of business entities inspections (moratorium);

✚ further strengthening our national legislation through the reflection in the Tax Code such priority measures, as ensuring macroeconomic stability, smooth operation of sectors and industries of the economy within the period of global risks, to undertake measures to prevent the slowdown of business activity, as well as to take implement legal actions against illegal entrepreneurs even during the moratorium on inspections;

✚ Improving the forms of tax control by expanding the list of wireless (online) ways of interaction of tax authorities with taxpayers to implement the strategy of improving tax administration, as well as reducing the costs of tax administration and improving the quality of tax control, as well as implementation of measures such as introduction of modern business analysis models (Business Intelligence);

✚ establishing efficient use of the best practices of foreign countries.

This, in turn, will eliminate barriers to business development in the country, attract foreign investment and ensure guaranteed protection of the rights and legitimate interests of entrepreneurs, as well as transparent and efficient organization of tax control and inspections.

## **5. Conclusions and proposals.**

We all know that a new version of the Tax Code has been developed and introduced this year to ensure the implementation of the tasks set out in the concept of improving the tax policy of the Republic of Uzbekistan. Many innovations are being implemented this year in compliance with the recently adopted new Tax Code<sup>6</sup>. Indeed, a tax system is being developed in our country, and this system which will ensure comprehensive development of entrepreneurial activity and efficient use of rich foreign experience. Meanwhile, it is no

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<sup>6</sup> Message of the President of the Republic of Uzbekistan to Oliy Majlis (Halq suzi newspaper №19 (7521), January 25, 2020).

exaggeration to say that the existence of certain problems in the field of tax administration, including establishment of effective and efficient tax control measures, as well as improving legal culture of taxpayers makes a negative impact on sustainable sources of funding. The imperfection of the tax control mechanisms, including identification of tax audit objects without necessary analysis, reduces the efficiency of detection and pre-schedule prevention of tax offenses, which requires a lot of work in this regard. Therefore, the newly adopted regulations in the field of taxation provide comprehensive assistance to taxpayers in the implementation of tax obligations, the development of efficient mechanisms for preventing tax offenses and improving legal culture of taxpayers, tax control as important areas of reforming the system of state tax service.

In our opinion, in order to eliminate bureaucratic barriers to business development in our country, further strengthen the legal mechanisms for protecting business entities, improve the investment and business environment, within the framework of the new Tax Code we have developed scientific proposals and practical recommendations aimed at developing effective and efficient tax control, and in this regard we recommend to put them into practice:

1) Amending relevant articles of the new Tax Code stipulating approval of the procedures for tax audits, in-house and field inspections, as well as tax monitoring according to the procedure established by the State Tax Committee. In our opinion, to ensure implementation of important tasks such as introduction of modern methods of tax administration in our country, as well as efficient implementation of the new Tax Code and effective application of national legislation in the study of tax control and inspections and the experience of foreign countries. In addition, it is advisable to carry out these activities in a systematic, consistent manner;

2) Putting into practice widespread introduction of new and precise criteria for identifying persistent tax evaders, as well as the factors that lead to violations, and arranging tax control and inspections using modern information technology, as far as possible without the human factor for the organization of targeted inspections;

3) Thorough elaboration of the legislation on tax risk assessment and introduction of a system of taxpayers' segmentation on the basis of fairness criteria, which stipulates basic tasks of tax risk management, tax risk management, segmentation of business entities according to the level of tax risk;

4) Creation of Case Management System and Case Assessment System, which automatically record and monitor each step of the tax audit in order to create a single platform of a set of information systems used to automate tax administration processes;

5) Establish an efficient use of public control in the pre-schedule prevention of violations, as well as the establishment of an independent system of public control over the activities of regulatory authorities to ensure openness, transparency, impartiality and fairness of tax control measures and inspections;

6) Determining the compulsory standards in the statutory acts, in particular, the Tax Code of the Republic of Uzbekistan aimed at rendering comprehensive support by the President of the Republic of Uzbekistan for the activities of business entities and preventing excessive interference in their activities, as well as as well as ensuring macroeconomic stability in the event of global financial and economic crises and (or) various emergencies, as well as pandemics and other global threats, undertaking measures to ensure the sustainable operation of business entities, suspending inspections (declaration of moratorium) on the activities of business entities in order to reduce and mitigate negative impact of the situation on the economy and preventing the slowdown in business activity, or terminating tax audit of business entities (in the framework of a criminal case and in connection with the winding up of a legal entity);

7). Creating software packages in the system of the State Tax Service, including introduction of proposals for tax legislation with the account of the responsibilities that arise in the process of practical work between educational institutions under the State Tax Committee, and their efficient use in practice;

8) Making regular proposals and recommendations for amendments and additions to the Tax Code and other regulations aimed at ensuring effective and efficient tax control and audits, if necessary.

We believe that these proposals and recommendations, along with the prevention of corruption in the process of tax control and inspections in the current period of large-scale reforms in our country, ensure the efficiency and transparency of the tax system, eliminate barriers to business development, attract foreign investment and protect legal and entrepreneurial rights. In our opinion, providing guaranteed protection of the interests of the people will serve to improve the image of our country in doing business. This will not only further improve the national legislation of our country, but also make a positive impact on the country's development.

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