



## ISSUES TO PREVENT THE EMERGENCE OF TAX ARREARS DURING THE CORONAVIRUS PANDEMIC

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**Abstract:** This article presents considerations on the spread of coronavirus infection worldwide and its impact on the economy, efficient measures undertaken to mitigate its negative impact, providing a taxpayer with the opportunity to defer payment of taxes (opportunity to pay in installments), postponing the tax payment deadline, change of tax payment deadline and its terms. In addition, the article analyzes the problems related to the bodies authorized to make decisions on changing the deadlines for payment of taxes, activities implemented during the pandemic period in Uzbekistan, the data on the applications for postponing payment of taxes, as well as the problems challenged by the population and business entities during the Covid-19 pandemic period. Moreover, the article presents theoretical conclusions developed in reliance upon the study.

**Key words:** Coronavirus infection, tax arrears, deferred payment of taxes (payment in installments), pandemic period, macroeconomic stability, bodies authorized to stimulate economic activity, social support, interest-free deferred payment, bodies authorized to make decisions.

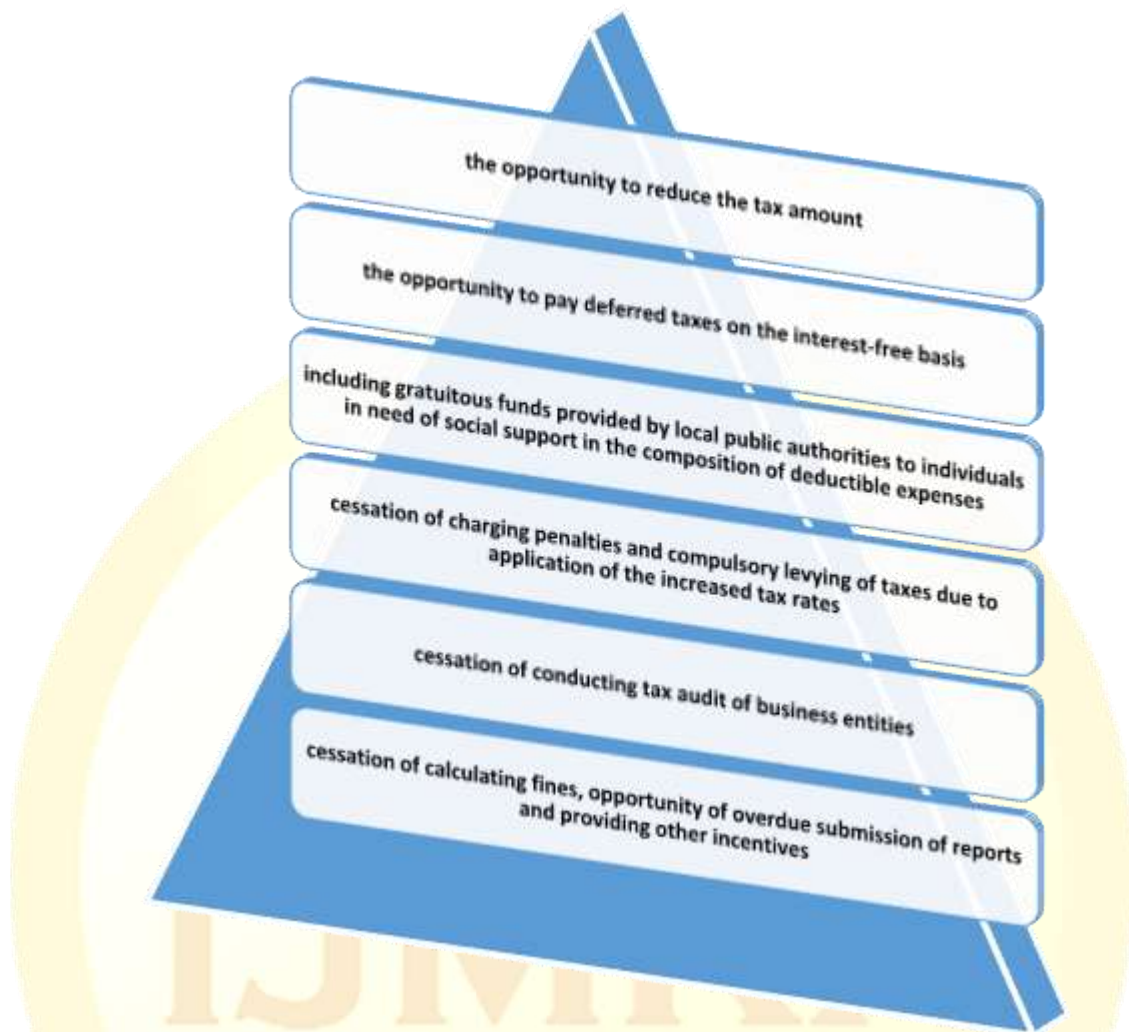
### 1. Introduction.

The spread of coronavirus infection has caused a sharp decline in production and consumption volumes throughout the world, disruption of global production chains and trade ties, reduction in commodity prices in world financial markets and deteriorating conditions. The economy of each country is also under the influence of these factors, which, in turn, requires efficient preventive measures to mitigate the negative impact of this situation. During the period of combating the spread of coronavirus infection and other global threats, it is crucially important to ensure macroeconomic stability, smooth operation of industries and sectors of the economy, efficient social support for taxpayers in order to prevent a sharp decline in taxpayers' income in the country, emergence of the tax arrears or further deterioration of the ability to repay existing debts.

One of the most efficient measures to mitigate the negative impact of the spread of coronavirus infection on the world economy is the mechanism of making impact by means of taxes (Figure 1).

In addition, taxpayers should be provided with the following:

- ✚ the opportunity to reduce the tax amount;
- ✚ the opportunity to pay deferred taxes on the interest-free basis;
- ✚ including gratuitous funds provided by local public authorities to individuals in need of social support in the composition of deductible expenses;



**Figure 1. Incentives provided to taxpayers.**

- ✚ cessation of charging penalties;
- ✚ cessation of conducting tax audit of business entities;
- ✚ cessation of fines and enforcement measures against tax arrears incurred as a result of the application of increased tax rates;
- ✚ opportunity of overdue submission of reports;
- ✚ opportunity of other temporary tax incentives.

Application of all these measures aimed at supporting taxpayers is crucially important in the economy in terms of eliminating emergence of tax arrears even if partially.

It should be noted, that during the period of combating the spread of coronavirus and other global hazards, a number of measures have been undertaken to ensure macroeconomic stability, smooth operation of industries and sectors of the economy, promote foreign economic activity, provide efficient social support of the population, prevent a sharp decline in incomes of the population, as well as create opportunities for taxpayers and this easing process is still going on.

## 2. Literature review.

With the aim of preventing a rapid spread of coronavirus infection within the territory of the Republic of Uzbekistan, ensuring a favorable sanitary and epidemiological environment and protecting the health of the population, the President of the Republic of Uzbekistan adopted the Resolution “On appointing the republican special commission on preparation of the Program of measures to prevent introduction and spread of a new type of coronavirus in the Republic of Uzbekistan” (Resolution 2020). This Resolution implies the following urgent objectives:

- ❖ continuous analysis and monitoring of the global, regional and domestic epidemiological situation;
- ❖ forecasting the spread of coronavirus in the country and worsening of the epidemiological situation;
- ❖ in order to coordinate and amend efforts to prevent the spread of coronavirus, establishing necessary cooperation and exchange of information with government agencies of the People’s Republic of China and other countries concerned, as well as international institutions;
- ❖ coordinating research on coronavirus problems, developing and implementing advanced and efficient methods of prevention, diagnosis and treatment of this disease;
- ❖ formation of reserves and provision of relevant health facilities and population with diagnostic tools, antiviral drugs and personal protective equipment in the required amount in due time;
- ❖ arranging efficient measures for timely diagnosis and comprehensive prevention of coronavirus in the country in reliance upon the study of best international practices;
- ❖ providing necessary assistance to the citizens of the Republic of Uzbekistan who are temporarily residing in epidemiologically disadvantaged countries with a high risk of coronavirus infection;
- ❖ detecting the signs of possible deterioration of the epidemiological situation with coronavirus in due time and reducing the risk of disease;
- ❖ implementing comprehensive preventive and anti-epidemiological measures aimed at providing qualified medical care to patients;
- ❖ explaining the causes and conditions that allow the spread of coronavirus among the population by means of present-day media (television, radio, Internet, social networks, mobile operators, etc.);
- ❖ efficient organization of sanitary-educational activities on preventive methods;
- ❖ preventing entry and spread of coronavirus in the Republic of Uzbekistan in case of complication of the epidemiological situation with coronavirus.

## 3. Research methodology.

This research paper provides a scientific analysis of the spread of coronavirus infection and its impact on the economy, efficient measures to mitigate its negative impact, prevention of taxpayers’ indebtedness to the budget, increase of existing tax arrears and providing them with relevant incentives during hard time. In reliance upon the aims of the research, statistics tables, data representation, induction and deduction methods have been widely used in the study.

#### 4. Analysis and Results discussion.

It should be noted, that a number of Decrees and Resolutions of the President of the Republic of Uzbekistan have been adopted within the framework of the above-mentioned objectives. The adopted statutory acts are devoted to such issues as ensuring macroeconomic stability, providing smooth operation of industries and sectors of the economy, promoting foreign economic activity, providing efficient social support of the population, preventing a sharp decline in incomes of the population, creating opportunities for taxpayers, preventing emergence of the tax arrears of the taxpayers to the budget and increase in the amount of these tax arrears, as well as providing taxpayers with possible incentives in hard time. The fact, that such incentives have been actually just-in-time and targeted, becomes obvious according to a survey conducted by the State Tax Committee “How has quarantine affected your activities?”

Among the respondents-taxpayers participated in survey “How has quarantine affected your activities?”, 35 percent of taxpayers were on unpaid leave of absence, 9 percent were on leave with pay. According to the results, 36 percent of the survey participants were continuing to work online, and 29 percent were working as usual.

According to the survey, 55 percent of legal entities have suspended their activities, while quarantine has not made a significant impact on the activities of 5 percent of legal entities. 6 percent of surveyed legal entities responded they were operating online\* (See Table 1).

**Table 1.**

**Studying the problems challenged by the population and business entities of Uzbekistan during “Covid-19” pandemic**

Changes in the activity of individuals	Changes in the activity of legal entities
No change in the work activity – 20%	Others – 10%
Were required to be on unpaid leave of absence – 35%	Had to terminate labour activities of their employees – 24%
Were on leave with pay – 9%	There was no significant change – 5%
Were continuing to work online – 36%	Were operating online (delivery service was introduced) – 6%
	Temporarily ceased my performance – 55%

Many countries throughout the world are trying to reduce the number of people affected by the coronavirus pandemic through implementing such measures as population support, financial assistance and tax cuts. For example:

\* [www.soliq.uz](http://www.soliq.uz) – developed by the author on the basis of the data of the official site of the State Tax Committee.



The President of the USA Joe Biden signed an economic incentives package worth 1.9 trillion USD after taking office in January. According to the International Monetary Fund, the United States has allocated 25.4 percent of its national income for this assistance. Within this incentive package, the amount of 1 trillion USD was distributed among families, providing all Americans with 1400 USD per capita. In addition to assistance on housing, food and medical care, **tax incentives** were offered to families with children as well.

Great Britain spent 16.3 percent of its national income on aid. In compliance with the revenue support plan in Great Britain, 80 percent of wages were paid by the state in terms of business hours to those, who were unable to work due to the pandemic. A maximum amount of 2500 pound sterling a month was provided as assistance to wages. Moreover, the government launched a campaign under the slogan “Eat Out, Give a Hand” to encourage the purchase of food from cafes and restaurants which activities were limited by delivery services. These business entities agreed to cover 50 percent discount they made to customers during August.

In Germany the coalition government announced three financial incentives packages in the amount of 156 billion Euros, 130 billion Euros and 60 billion Euros since the pandemic started. 11 percent of the country’s national income was allocated for rendering financial aid. As part of the incentive, the VAT rate on food products was temporarily reduced from 7 percent to 5 percent, and with the aim of raising consumption, the rate of the Value Added Tax was **reduced from 19 percent to 16 percent** on an interim basis. Furthermore, additional financial assistance is provided to families, unemployed, elderly and young people affected by the pandemic under the motto “Incentive package for all”. Small business owners and workers, who are working on individual basis, are benefiting from the aid in the amount of 50 billion Euro as well. In February, families were informed that they would receive a one-time allowance worth 150 Euro per child in addition to the previous allowance in the amount of 300 Euro.

Russia spent 2.9 percent of its national income on financial incentives. It should be noted, that there are various programs under the economic incentives package in Russia. In particular, they include adjusting unemployment allowances in compliance with the wages level during 5 months, granting sick leave and rendering financial assistance to the persons who had to be under quarantine, providing one-time payment to families with children, rendering public support to the industries with the greatest losses and **tax deferrals**. The amount of the unemployment allowances worth 8 thousand roubles (107 USD) was raised to the amount of 12 130 roubles (162 USD).

The Prime Minister of India Narendra Modi announced a first financial aid package worth 20 trillion INR (265 billion USD) to combat the economic impact of the pandemic in 2020. The level of financial assistance in the country constitutes 3.1 percent of the national income. The following measures have been implemented within the financial aid package: **reducing taxes** for new facilities, encouraging investors for foreign companies and

supporting lending for small businesses. In addition, in November the Indian government announced a financial incentive package in the amount of 35 billion USD. Special assistance was provided to the poor, such as migrants, farmers, and street vendors. With the aim of supporting the poor, the Government of India and the World Bank signed the aid project worth 400 million USD in December.

In Turkey, the government set up an incentive package worth 100 billion Turkish lira called “Economic Stability Shield” in March 2020. This financial package includes temporary income support for workers in the workplaces where operation was temporary suspended, a transfer of funds in the amount of 2 billion TRY to needy families, and a daily allowance of 39.24 TRY for workers who cannot do short-term work or receive unemployment allowances upon dismissal. A study by the Confederation of Revolutionary Trade Unions (DISK), based on data from the International Monetary Fund, stated that Turkey was one of the countries that spent the least money and provided financial assistance to combat the coronavirus pandemic. According to the report, Turkey allocated only 1.1 percent of its national income to fight Covid-19. In an April report by the International Monetary Fund, this indicator accounted for 1.9 percent<sup>†</sup>.

From the data, specified above, it is obvious that during the coronavirus pandemic, almost all countries throughout the world undertook relevant measures to support taxpayers to the best of their abilities.

It should be noted, that the legislation adopted in our country has undertaken the measures to support taxpayers, create opportunities for them and prevent them from falling into crisis. They include the following:

- reducing tax rates (for individual entrepreneurs the minimum monthly amount of social tax was reduced up to 50 percent of the basic unit of account, lowering tax rates for the use of water resources on the volume used for irrigation of agricultural lands by 50 percent from the rates set in 2020);
- prolonging the deadline for submitting the tax statement of consolidated annual income (the deadline for submitting the tax statement of consolidated annual income of individuals for 2019 was extended until August 1, 2020);
- extending tax payment deadlines (the deadline for individuals to pay property tax and land tax was extended until October 15, 2020);
- suspending of penalties accrual for debt amounts (suspending of penalties accrual on property tax, land tax and water use tax for business entities challenging temporary difficulties by tax authorities);
- suspending compulsory collection of tax arrears;
- providing an opportunity to do tax deferrals (paying taxes in installments) (local government bodies provide business entities with a 6-month deferral for the payment of property tax, land tax and tax for the use of water resources without charging interest. In

<sup>†</sup> <https://kun.uz/news> Article called “Which country provides economic assistance to its citizens in in what amount during the epidemic” dated 02.05.2021.

addition, granting the right to an interest-free deferral (payment by installment) of taxes for a period until October 1, 2020 with notification of tax authorities to microfirms, small enterprises and individual entrepreneurs that have suspended their activities and (or) which amount of proceeds from the sale of goods (services) is reduced by more than 50 percent compared to the monthly average for the first quarter of this year: without filing an application to local government authorities for turnover tax, property tax, land tax, tax for the use of water resources - with their subsequent payment in equal installments within 12 months, and for social tax - with its subsequent payment in equal installments within 6 months.

The tax legislation sets out a number of incentives for taxpayers that apply to individual taxpayers for a variety of reasons and under different circumstances. Tax incentives are recognized advantages provided to certain categories of taxpayers as provided by tax legislation in comparison with other taxpayers, including the possibility of not paying tax or paying them in a smaller amount<sup>‡</sup>.

Providing the above-mentioned taxpayer with the opportunity to defer payment of taxes (payment in installments) is not considered a tax incentive, but it is essential for the fact that debt of taxpayers does not increase.

Deferral of the tax payment deadline is admitted as a change in the tax payment deadline.

According to the tax legislation, the due date for the payment of tax may be changed in respect of all or part of the tax amount payable, with interest accrued on the amount owed<sup>§</sup>.

In our opinion, it is necessary to include in the legislation the possibility to make amendments in the tax payment deadline without accrual of interest on the debt amount.

Amendment of tax payment deadline is made in the form of deferral or installment payment.

A deferral or installment plan for the payment of a tax is a change in the due date for the payment of this tax, respectively, with a one-time or gradual payment of the amount owed for this tax.

A deferral or installment plan for the payment of tax may be provided in relation to the amount owed that arose before the decision was made to provide a deferral or installment plan, or in relation to the amount owed that will arise in the future.

A deferral or installment plan is granted for a period not exceeding one year.

A person claiming to change the deadline for payment of tax has the right to submit an application for a deferral or installment plan. Such an application can be made for one or more taxes.

In our opinion, it would be reasonable to include in the legislation the fact that in some cases taxpayers may be provided with an opportunity to defer or pay taxes in installments without filing an application.

Change in the tax payment deadline does not cancel already existing tax liability and does not create new liabilities.

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<sup>‡</sup> Tax Code of the Republic of Uzbekistan, article 75;

<sup>§</sup> Tax Code of the Republic of Uzbekistan, article 97.

The rules set forth in the relevant chapter of the Tax Code on changing the tax payment deadline are not applicable to tax agents.

From our point of view, it would be reasonable to apply the standards set out in the Tax Code to tax agents with the aim of changing the tax payment deadlines.

The Cabinet of Ministers of the Republic of Uzbekistan has the right to provide a taxpayer with the opportunity to defer a tax payment or pay in installments any tax for a period of up to three years. The Cabinet of Ministers of the Republic of Uzbekistan has the right to deviate from the restrictions established by the Tax Code in terms of providing the possibility of the tax payment deferral or payment in installments.

From the information on the appeals received on the official website of the State Tax Committee on the tax payment deferral it is obvious how important this exemption is for taxpayers.

During the period of the pandemic, when the activity is partially or completely ceased, and it is impossible to get the right to use tax payment deferral, it is natural that the obligation to pay taxes also creates difficulties for the taxpayer. Taking into consideration ongoing situation and in order to create conditions for taxpayers, in the current tax policy of the country the indebtedness of taxpayers has been written off, payment period has been prolonged and compulsory collection has been suspended\*\* (See Table 2).

**Table 2.**

**INFORMATION**  
**on extending tax debt period, writing-off tax debts and suspending their collection in reliance upon the Decree of the President of the Republic of Uzbekistan**

01.10.2020								Billion UZS	
№	Name of region	Tax indebtedness with extending payment deadline (Decrees of the President of the RUz №PD-5969 and № PD-5978)		Written-off tax indebtedness (Decree of the President of the RUz №PD-5969)		Tax indebtedness which collection has been suspended (Decree of the President of the RUz №PD-5969)		Number of work places preserved	Tax amount paid to the budget
		number	amount	number	amount	number	amount		
Total by the Republic		3 442	148.4	17 245	29,6	221 426	1 223.60	167 865	1 355.40

It is known that the tax legislation also provides for the possibility of deferring or partial payment of taxes. A deferral or an installment plan for the tax payment may be granted to a person concerned whose financial situation does not allow the payment of this tax in due time, but there are sufficient grounds to believe that the possibility of payment by the said person of such tax will arise during the period for which the deferral or installment plan is granted.

\*\* Developed by the author on the basis of the official web-site of the State Tax Committee [www.soliq.uz](http://www.soliq.uz).



A deferral or installment for the tax payment may be granted to the person concerned if there is at least one of the following reasons<sup>††</sup>:

1) damage caused to this person as a result of a natural disaster, technological catastrophe or other force majeure circumstances;

2) delays to this person of financing from the budget (public targeted fund) or payment of the state order fulfilled by this person, work performed and (or) services rendered for public needs or the needs of local authorities;

3) the threat of signs of insolvency (bankruptcy) of the person concerned in the event of a lump sum payment of tax by him;

4) the property status of an individual (excluding property, which, in compliance with the legislation, cannot be foreclosed) excludes the possibility of a one-time payment of tax;

5) production and (or) sale of goods or services by the person concerned is seasonal in nature;

6) there are grounds for granting a deferral or installment for taxes payable in connection with the movement of goods across the customs border of the Republic of Uzbekistan established by customs legislation.

In our opinion, the outcome of the taxpayer's performance may not meet the above parameters, but it would be reasonable to include the taxpayer's standstill for other excuses (introducing quarantine and restrictions due to the spread of various pandemics etc.).

## **5. Conclusion and proposals.**

In conclusion it should be noted that currently all countries have been undertaking relevant measures to combat the "Covid-19" pandemic. Herewith prevention of the economic crisis is definitely crucially important. As noted above, numerous measures are being implemented in our country in this regard.

If we focus on the preliminary results of the execution of the revenue part of the State Budget of the Republic of Uzbekistan in 2020, despite the fact that taxpayers have been provided with a number of tax incentives and exemptions during pandemic, in 2020 the revenues of the State budget constituted 132.9 trillion UZS (22.5% in relation to GDP). This indicator has increased by 68% compared to 2018 and by 18.5% compared to 2019. In 2018 the budget revenues accounted for 79.1 trillion UZS (19.4% in relation to GDP), and in 2019 this figure amounted to 112.2 trillion UZS (21.9% in relation to GDP)<sup>††</sup>.

We believe that the recommendations, specified above, will have a positive effect on overcoming obstacles to business development, ensuring protection of the rights and legitimate interests of entrepreneurs, preventing emergence or increase of tax arrears during the coronavirus pandemic and subsequent comprehensive reforms, which will be implemented in our country in future. This will improve our national legislation and contribute to the further development of our country.

<sup>††</sup> Prepared by the author on the basis of article 100 of the Tax Code of the Republic of Uzbekistan.

<sup>††</sup> Source: Data of the Ministry of Finance of the Republic of Uzbekistan.

## 6. Reference.

1. Code (2021), Tax Code of the Republic of Uzbekistan (national database of the statutory acts - Lex.uz);
2. Decree (2020), Decree of the President of the Republic of Uzbekistan №PD-5969 “On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on sectors of the economy” dated March 19, 2020 (national database of the statutory acts - Lex.uz);
3. Resolution (2020), Resolution of the President of the Republic of Uzbekistan №PR-4662 “On additional measures to meet the needs of the population in medicines, medical supplies, medical equipment and essential goods” dated March 27, 2020 (national database of the statutory acts - Lex.uz);
4. Decree (2020), Decree of the President of the Republic of Uzbekistan №PD-5978 “On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic” dated April 3, 2020 (national database of the statutory acts - Lex.uz);
5. Decree (2020), Decree of the President of the Republic of Uzbekistan №PD-5986 “On additional measures to support the population and businesses during the coronavirus pandemic” dated April 27, 2020 (national database of the statutory acts - Lex.uz);
6. Decree (2020), Decree of the President of the Republic of Uzbekistan №PD-5996 “On foremost measures to support the population and businesses during the coronavirus pandemic” dated May 18, 2020 (national database of the statutory acts - Lex.uz).
7. [www.soliq.uz](http://www.soliq.uz)
8. <https://kun.uz/news>