



## Tax policy aimed at mitigating the negative impact of the coronavirus pandemic on the economy through tax incentives: Evidence from Uzbekistan

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**Abstract:** *The article analyzes the measures undertaken to mitigate the negative impact of the pandemic on the economy of Uzbekistan and the ability to implement fiscal policy directed at supporting taxpayers through various incentives. In addition, the conclusion presents proposals to improve tax and public administration with the aim of creating favorable conditions and opportunities for businesses.*

**Keywords:** *taxes, pandemic, budget policy, crisis, budget, individual entrepreneurs, tax incentives, tax administration, business entities, tax reporting, tax revenues, tax remissions, tax preferences.*

### Introduction

Coronavirus disease (COVID-19) has spread to almost every country throughout the world. The counting reference of official statistics on the spread of coronavirus infection in Uzbekistan commences on March 15, 2020 with the recording of the first case of this infection in the country. Within the pandemic framework, implementation of the efficient mechanisms of tax incentives is essential to mitigate the negative impact of the pandemic on the national economy for ensuring the smooth operation of industries and sectors of the economy, promoting foreign economic activity, supporting small business and private entrepreneurship and preventing a sharp decline in household income.

### 2.Literature review.

Tax incentives are considered one of the powerful tools of providing state policy, especially in the period of coronavirus pandemic it has become obvious that without governmental support the nation and businesses will suffer even worst condition. There are various views of explanations and definitions of this economic category.

Aleksandrov (2007) thinks, that a tax incentive is a reduction in the size of a tax or the provision of advantages to one taxpayer (subject) over another taxpayer.

In the opinion of Aleksandrov (2009), a tax incentive is a reduction in the amount of taxation or provision of one taxable subject with advantages over another taxpayer.

From the point of view of Nezamaykin and Yurzinova (2004), a tax incentive is giving advantage to certain categories of taxpayers over other taxpayers in the legal frame, including the ability to avoid paying taxes or charges or to pay a smaller amount.

Mayburov (2011) supposes that tax incentives constitute benefits that enable changing the terms of tax payment according to the procedure established by the law, and they can be classified as follow: tax credit, investment tax allowance, tax holiday.

Yefimova and Pospelova (2014) describe the nature of tax incentives as follows:

- exclusion of certain tax objects from taxation; exemption of certain tax objects from taxation; determination of the amount of non-taxable income;
- tax incentives are benefits aimed at reducing the taxable base;
- tax rate reduction: tax delays; investment tax benefits.

In the opinion of Milyakova (2008), a tax incentive is provision of certain categories of taxpayers with advantages compared to other taxpayers, including possibility of not paying taxes or charges or paying them in smaller amounts.

From the point of view of Bogdanova (2015), who tries to reveal the essence of tax incentives in more detail: - tax incentives are determined taking into consideration the specifics of certain types of taxes and can be classified according to the purpose of their use:

- full or partial exemption from tax for certain categories of taxpayers or taxable entities;
- exemption of certain categories of taxpayers from paying taxes for a concrete period;
- non-taxable minimum;
- reduction of the taxable base;
- reduced or zero tax rate.

Malikov (2002) supposes, that tax incentives are determined as a full or partial reduction of the taxpayer's tax liabilities volume. Moreover, tax incentives can be described as deferral of payment. The stimulating function of taxes is implemented through a system of tax allowances. Tax incentives are reflected in changes in the object of taxation, reduction of the tax base, decline of the tax rates, and so on.

Rakhmatullaeva (2016) has described tax incentives as a category as follows: incentives are the complicated complex that includes taxpayers' rights and obligations as well as ways of full or partial reduction of taxpayers' obligations. Incentives are established in order to realize both social and regulation functions of the government.

Yuldashev (2011) provides more comprehensive definition of tax incentives: tax incentives are conveniences aimed at reducing tax obligations in order to diminish tax burden and encourage taxpayers to more efficient activity. Tax incentives are created established by creating more advantageous environment to the certain category of taxpayers, and should be legal, voluntariness in usage, indefinite in time and have non-individualistic and non-discriminatory character.

Kurbanov and Akramov (2015) in order to reveal essence of tax incentives, have studied them theoretically dividing into three groups:

- full or partial tax exemption;
- tax deductions;
- tax credits (long-term deferred liabilities for taxes and compulsory payments).

Zavalishina (2005) explains tax incentive as granting of certain categories of taxpayers the advantages provided for in the tax legislation in comparison with other taxpayers, including non-payment of taxes (charges) or the possibility of paying less.

Juraev et al. (2009) consider that tax incentives are various advantages to taxpayers that can be provided in temporary and permanent, full or partial and other forms.

Baladina (2011) describes tax incentives as follows: tax incentive is a set of advantages to reduce the tax liability. It is determined by the state and compulsory to follow for taxpayers.

Slagoda (2010) says that tax preference - (from the Latin word "*praeferentis*" - "*preferences*") is a set of advantages like tax incentives that is granted to support taxpayers in certain sectors.

Tyutyuryukov (2009) argues that tax incentives are the benefits provided by the state to various types of taxpayers through various methods of reducing tax liability.

From the point of view of Ormanov (2018): "Tax incentive is the ability to reduce tax liability, cut the tax rate and tax base, nonpayment of taxes and other compulsory

payments or payment in smaller amounts, in compliance with the Tax Code and other legislation”. It is typically said that tax incentives and tax preferences are the same term, whereas, actually, they differ from each other.

### **3. Methodology.**

Such research methods, as comparative analysis, as well as induction and deduction, estimation methods have been applied in this article. It should be noted that analysis on tax incentives data has been conducted and scientific conclusions have been developed through the comparative method.

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

With the commencement of pandemic in Uzbekistan, the President of the Republic of Uzbekistan signed two decrees to provide tax incentives: Decree No. 5969 “On priority measures to mitigate the negative impact on economic sectors of the coronavirus pandemic and the global crisis” (March 19, 2020) and Decree No. 5978 “On additional measures to support the population, economic branches and business entities during the coronavirus pandemic” (April 3, 2020).

In these decrees determined the right of business entities to defer (pay in installments) the payment of taxes through writing application to local authorities and writing notification to the tax authorities.

These statutory acts state, that the feasibility of deferment payment (payment in installments) of property taxes, land tax and water use taxes (advance and current payments) of business entities in a simplified order can be provided by local public authorities until December 31, 2020 maximum to six months in compliance with the conclusions of the territorial departments of the Ministry of Finance and Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan.

The right to interest-free deferment payment (payment in installments) of taxes through notifying tax authority is given to business that owing to pandemic had to suspend their activity as well as when their revenue from the sale of goods (services) decreased by more than 50% in comparison with the average monthly amount in the first quarter of the current year.

In compliance with paragraph 15 of the Decree No. 5978 of April 3, 2020, starting from the second quarter of 2020, taxpayers of profit tax have the right to report the data of the amount of advance payments of profit tax calculated relying on the expected amounts instead of relying on the outcome of the previous quarter.

Submission of declarations of total annual income of individuals for 2019 was extended until August 1, 2020. Taxpayers had to submit a declaration of total annual income for 2019 on income specified in article 393 of the Tax Code to the tax authority of the place of permanent residence by August 1, 2020 and pay the income tax.

By December 31, 2020, taxpayers of value added tax, whose sales turnover of goods (services) does not exceed 1 billion UZS per month and who use electronic invoices, have the right to calculate and pay value added tax on a quarterly basis

Until December 31, 2020, when a loan (financial assistance) is provided without an obligation to pay interest income to the lender, income determined for tax purposes based on the refinancing rate (base rate) shall not be included in total income when calculating profit tax and sales tax, and accordingly not subject to taxation.

Thus, when calculating profit tax and sales tax for the above mentioned period, the total income does not include the income specified in the fourth part of article 299 of the Tax Code.

In compliance with articles 392 and 408 of the Tax Code, if an individual entrepreneur suspends his activities for a certain period, before the suspension of activities, he submits an application to the authority that carries out state registration of the business entity for a temporary suspension of activities. The body that carries out state registration of a business entity that has received an application for the temporary suspension of the activity of an individual entrepreneur, no later than the end of the next working day, provides information to the tax authority at the place of tax registration on the temporary suspension of the activity of an individual entrepreneur. The information received by the tax authorities on the temporary suspension of the activities of an individual entrepreneur constitutes the basis for the suspension of the calculation of income tax and social tax for the period in which the individual entrepreneur will not carry out his activities.

In case individual entrepreneurs restore their activities, in compliance with the fifth paragraph of Presidential Decree No. 5969 as of March 19, 2020, the minimum amount of social tax is reduced to 50 percent of the basic calculation value per month for the period from April 1 to October 1, 2020.

In this case, in compliance with paragraph 8 of article 304 of the Tax Code, there are no tax consequences for payers of profit tax and sales tax, and the rules of article 299 of the Tax Code do not apply.

In addition, starting from April 1, 2020, taxpayers are allowed to apply value-added tax incentives provided for by the resolutions of the President of the Republic of Uzbekistan and the Cabinet of Ministers, without the condition of directing funds exempted from taxation for specific purposes.

Besides, the value-added tax incentives provided for by the resolutions of the President of the Republic of Uzbekistan and the Cabinet of Ministers adopted before January 1, 2020, will be in force until the end of their established period, however, the requirement to direct funds exempted from taxation for certain purposes has been canceled from 1 April 2020.

Moreover, a number of tax incentives have been abolished by the Decree of the President of the Republic of Uzbekistan No. 6011 "On abolishing certain tax and customs benefits" dated June 19, 2020. So, from October 1, 2020, tax incentives granted under a number of statutory acts have been no longer valid. In the first half of this year, more than 300 business entities have benefited from tax incentives that have become invalid since October 1, 2020 in the amount of 112.0 billion UZS. In particular:

- According to paragraph 3 of the Decree of the President of the Republic of Uzbekistan No 4853 "On additional measures to activate and expand the activities of free economic zones" dated October 26, 2016 tax exemptions in total 56.7 billion UZS have been used ("Quality Device" LLC, registered in Tashkent region, used tax incentives for profit tax benefit in the amount of 8.2 billion UZS).

- In compliance with the Decree of the President of the Republic of Uzbekistan "On additional measures to stimulate attraction of direct private foreign investments" dated April 11, 2005 tax incentives in the amount of 8.0 billion UZS have been applied (Joint Venture "Nukuselectroapparat" registered in the Republic of Karakalpakstan gained 2.5 billion UZS from profit tax exemption).

- On the basis of paragraph 6 of the Resolution of the President of the Republic of Uzbekistan No. 800 "On establishing an enterprise with foreign investment" dated February 21, 2008 "General Motors Uzbekistan" enterprise used tax incentives in the

amount of 6.5 billion UZS (“Sergeli- Avtotexxizmat” LLC registered in Tashkent used VAT exemption in the amount of 2.3 billion UZS).

- In compliance with the Decree of the President of the Republic of Uzbekistan No 3262 “On measures to improve the landscaping system and architectural and landscape design of highways” dated September 11, 2017, there have been applied tax incentives in the amount of 19.3 billion UZS (registered in Kashkadarya region “Kashkadarya yo’l ko’kalam” Unitary Enterprise benefited from VAT exemption in the amount of 863.8 million UZS).

In the rest period of this year, it can be expected that additional tax revenue due to abolition of a number of tax incentives will constitute 50.0 billion UZS.

Furthermore, on July 20, 2020 the Decree of the President of the Republic of Uzbekistan No. 6029 “On additional measures to support the population, business entities, catering, trade and services to reduce the negative impact of the coronavirus pandemic” has been adopted. In the field of trade and catering, according to the Decree, from July 1 until December 31, 2020, over 11.1 thousand public catering enterprises are exempted from turnover tax, which amount constituted almost 22.7 billion UZs a quarter.

Moreover, enterprises specializing in the provision of premises for rent have been exempted from paying turnover tax.

In compliance with article 220 of the Tax Code, failure to submit tax reporting by the deadline specified in tax legislation shall result in imposing the fine of one percent for each day of delay in the amount of tax not paid within the specified time period, subject to payment (surcharge) on the basis of this tax reporting, but not more ten percent of the specified amount. Yet, now, in 2020, taxpayers will not be fined for delaying the submission of tax returns by the period not exceeding five days.

It should be noted that tax benefits and preferences determined by the Decree of the President of the Republic of Uzbekistan No. 5996 “On regular measures to support the population and business entities during the coronavirus pandemic” dated May 18, 2020 have been extended until December 31, 2020.

In order to eliminate the consequences of the coronavirus pandemic in the socio-economic development of Uzbekistan, restore the investment and foreign economic activity of entrepreneurs, deepen economic reforms, reduce poverty and provide employment for the population, on August 29, 2020, the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On measures to restore economic growth in 2020-2021 and the continuation of systemic structural reforms in industries and sectors of the economy” has been adopted.

In order to create conditions for wholesale and retail trade by small businesses, in particular, to encourage creation of new retail outlets and department stores in rural areas, as well as to support entrepreneurial activity, canceled 70 types of licenses and 35 types of permits have been cancelled.

The decree also puts an emphasis, on the implementation of macroeconomic policies aimed at supporting the development of the main sectors of the economy, maintaining constant economic growth at the level of 5.0-5.5 percent from 2021, continuation of reforms of market institutions and the creation of favorable conditions for business.

Furthermore, to create additional convenience for the business, the return period for export earnings was extended from 120 to 180 days. Previously, businesses (except for certain categories of export operations) were given 120 days to receive foreign exchange earnings on all export operations. The process of delivering and selling goods to distant countries usually takes a long time, for this reason many business entities did not want to export to distant countries. This is owing to the fact that in the absence of foreign exchange earnings from abroad within 120 days, these businesses would be subject to paying fines.

This, in turn, made a negative impact on the expansion of the country's export geography and increase volume of exports. Now an additional 60 days have been given for these operations.

### **Conclusions and Proposals.**

1. Article 415 of the Tax Code of Uzbekistan states that the property tax rate is set at 2 percent, unless otherwise provided by this article. It is suggested to set forth the third part of this article in a following way "The tax rate is applied for void objects, abandoned production areas, non-residential buildings, as well as unfinished construction projects, which are classified as vacant facilities and unused production areas according to the procedure established by law in the following way: up to three months- twice of the tax rate, after three months – five times of the tax rate, after six months – ten times of the tax rate, after twelve months in each of the next twelve months in the amount of twice the last excess amount that, and the tax incentives specified in article 414 of this Code shall not apply to them".

2. Areas irrigated by drip and sprinkler technologies are proposed to be exempted from water tax for a five-year period.

3. There are no efficient mechanisms of public support for local enterprises for the production of components and equipment for water-saving irrigation technologies. Therefore, it is proposed to provide a state subsidy to cover part of the investment expenditures in the production of competitive components of water-saving technologies in compliance with international standards. Moreover, we are suggesting exempting from all kinds of taxes and charges (except for single social paymnet) producers of drip and sprinkler irrigation technologies' equipment. In addition, international systems of standardization and certification should be introduced in such enterprises.

4. Cancellation of tax incentives for medical services for other areas of medical services other than emergency care, ophthalmology, cardiology, gynaecology.

5. Introduction of an addition to section 19 of the Tax Code of the Republic of Uzbekistan about tourist charge, in which it will be required to specify the elements of this charge: payers, objects, base, procedure for payment and existing incentives.

6. Creation of a new concept of land and property taxation, which is not linked to the amendments in the economics of market (characteristics of buildings, purpose of use, etc.). Owing to the calculation of real assets using annual average depreciated cost, in the course of several years the cost of real estate equals to zero and taxable base of property tax vanishes. Nowadays estimation of 65 thousands of taxpayers' property constitutes 67 trillion UZS (7 billion USD). It is time to reconsider the incentives without causing inconvenience to population ( $40 \text{ m}^2 / 20 \text{ m}^2 = 50\%$ .  $200 \text{ m}^2 / 20 \text{ m}^2 = 10\%$ ).

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