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The Importance of Taxation in the Economy of Uzbekistan and Recent Changes in This System

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Abstract*: This article discusses the taxation in general, its principles, objectives, and its effects; specifically, the article discusses the nature and purposes of taxation, and economic effects of taxation. Several researches and surveys have been conducted for further discussion of taxation's role in the national economy of Uzbekistan and main changes in this sector in the last years.*

Keywords: tax, tax burden, VAT, cost, expenditure revenue, income tax, enterprises, government budget

Introduction

It is clear that taxation has positive impacts on the development of national economy and it is one of the main revenue sources of the government budget. Clearly, taxation policy can stabilize the relation between government and individuals as well as legal corporations and entities. This article identifies of both strong and weak features of taxation policy of Uzbekistan and the aims of this article were:

Identification of the modern trend of the tax reforms for both individuals and legal entities of Uzbekistan; to learn the evolution of tax reforms in Uzbekistan, to investigate single tax versus multi tax payment system in Uzbekistan.

Material and methods

In modern economies taxes are the most important source of governmental revenue. Taxes differ from other sources of revenue in that they are compulsory levies and are unrequited—i.e., they are generally not paid in exchange for some specific thing, such as a particular public service, the sale of public property, or the issuance of public debt. While taxes are presumably collected for the welfare of taxpayers as a whole, the individual taxpayer's liability is independent of any specific benefit received. There are, however, important exceptions: payroll taxes[1], for example, are commonly levied on labor income in order to finance retirement benefits, medical payments, and other social security programs—all of which are likely to benefit the taxpayer. Because of the likely link between taxes paid and benefits received, payroll taxes are sometimes called "contributions". Nevertheless, the payments are commonly compulsory, and the link to benefits is sometimes quite weak. Another example of a tax that is linked to benefits received, if only loosely, is the use of taxes on motor fuels to finance the construction and maintenance of roads and highways, whose services can be enjoyed only by consuming taxed motor fuels.

According to American economist Richard A. Musgrave [2] during the 19th century the prevalent idea was that taxes should serve mainly to finance the government. In earlier times, and again today, governments have utilized taxation for other than merely fiscal purposes. One useful way to view the purpose of taxation is to distinguish between objectives of resource allocation, income redistribution, and economic stability. (Economic growth or development and international competitiveness are sometimes listed as separate goals, but they can generally be subsumed under the other three.) In the absence of a strong reason for interference, such as the need to reduce pollution, the first objective, resource allocation, is furthered if tax policy does not interfere with market-determined allocations. The second objective, income redistribution, is meant to lessen inequalities in the distribution of income and wealth. The objective of stabilization—implemented through tax policy, government expenditure policy, monetary policy, and debt management—is that of maintaining high employment and price stability.

Most of scientists of economics and finance [3] refer that taxes are classified in various ways according to who pays for them, who bears the ultimate burden of them, the extent to which the burden can be shifted, and various other criteria. According to Li, W. and Gordon R [4] taxes are most commonly classified as either direct or indirect, an example of the former type being the income tax and of the latter the sales tax. There is much disagreement among economists as to the criteria for distinguishing between direct and indirect taxes, and it is unclear into which category certain taxes, such as corporate income tax or property tax, should fall. It is usually said that a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be.

Exactly, direct taxes are primarily taxes on natural persons (e.g., individuals), and they are typically based on the taxpayer's ability to pay as measured by income, consumption, or net wealth. What follows is a description of the main types of direct taxes. Individual income taxes are commonly levied on total personal net income of the taxpayer (which may be an individual, a couple, or a family) in excess of some stipulated minimum. They are also commonly adjusted to take into account the circumstances influencing the ability to pay, such as family status, number and age of children, and financial burdens resulting from illness. The taxes are often levied at graduated rates, meaning that the rates rise as income rises. Personal exemptions for the taxpayer and family can create a range of income that is subject to a tax rate of zero.

Moreover, Bretschger L. [5] refers that taxes on net worth are levied on the total net worth of a person—that is, the value of his assets minus his liabilities. As with the income tax, the personal circumstances of the taxpayer can be taken into consideration. Personal or direct taxes on consumption (also known as expenditure taxes or spending taxes) are essentially levied on all income that is not channeled into savings. In contrast to indirect taxes on spending, such as the sales tax, a direct consumption tax can be adjusted to an individual's ability to pay by allowing for marital status, age, number of dependents, and so on. Although long attractive to theorists, this form of tax has been used in only two countries, India and Sri Lanka; both instances were brief and unsuccessful. Near the end of the 20th century, the "flat tax"—which achieves economic effects similar to those of the direct consumption tax by exempting most income from capital—came to be viewed favorably by tax experts. No country has adopted a tax with the base of the flat tax, although many have income taxes with only one rate.

Additionally, indirect taxes are levied on the production or consumption of goods and services or on transactions, including imports and exports. Examples include general and selective sales taxes, value-added taxes (VAT), taxes on any aspect of manufacturing or production, taxes on legal transactions, and customs or import duties. In fact, general sales taxes are levies that are applied to a substantial portion of consumer expenditures. The same tax rate can be applied to all taxed items, or different items (such as food or clothing) can be subject to different rates. Single-stage taxes can be collected at the retail level, as the U.S. states do, or they can be collected at a pre-retail (i.e., manufacturing or wholesale) level, as occurs in some developing countries. Multistage taxes are applied at each stage in the production-distribution process. The VAT, which increased in popularity during the second half of the 20th century[6], is commonly collected by allowing the taxpayer to deduct a credit for tax paid on purchases from liability on sales. The VAT has largely replaced the turnover tax—a tax on each stage of the production and distribution chain, with no relief for tax paid at previous stages. The cumulative effect of the turnover tax, commonly known as tax cascading, distorts economic decisions.

Although they are generally applied to a wide range of products, sales taxes sometimes exempt necessities to reduce the tax burden of low-income households. By comparison, excises are levied only on particular commodities or services. While some countries impose excises and customs duties on almost everything—from necessities such as bread, meat, and salt, to nonessentials such as cigarettes, wine, liquor, coffee, and tea, to luxuries such as jewels and furs—taxes on a limited group of products—alcoholic beverages, tobacco products, and motor fuel—yield the bulk of excise revenues for most countries. In earlier centuries, taxes on consumer durables were applied to luxury commodities such as pianos, saddle horses, carriages, and billiard tables. Today a main luxury tax object is the automobile, largely because registration requirements facilitate administration of the tax. Some countries tax gambling and state-run lotteries have effects similar to excises, with the government's "take" being, in effect, a tax on gambling. Some countries impose taxes on raw materials, intermediate goods (e.g., mineral oil, alcohol), and machinery.

Clearly, some excises and customs duties are specific—i.e., they are levied on the basis of number, weight, length, volume, or other specific characteristics of the good or service being taxed. Other excises, like sales taxes, are ad valorem—levied on the value of the goods as measured by the price. Taxes on legal transactions are levied on the issue of shares, on the sale (or transfer) of houses and land, and on stock exchange transactions. For administrative reasons, they frequently take the form of stamp duties; that is, the legal or commercial document is stamped to denote payment of the tax. Many tax analysts regard stamp taxes as nuisance taxes; they are most often found in less-developed countries and frequently bog down the transactions to which they are applied.

A corporate tax [7], also called corporation tax or company tax, is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities. Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels. The taxes may also be referred to as income tax or capital tax. Partnerships are generally not taxed at the entity level. A country's corporate tax may apply to: corporations incorporated in the country, corporations doing business in the country on income from that country, foreign corporations who have a permanent establishment in the country, or corporations deemed to be resident for tax purposes in the country.

Company income subject to tax is often determined much like taxable income for individual taxpayers. Generally, the tax is imposed on net profits. In some jurisdictions, rules for taxing companies may differ significantly from rules for taxing individuals. Certain corporate acts, like reorganizations, may not be taxed. Some types of entities may be exempt from tax. Countries may tax corporations on its net profit and may also tax shareholders when the corporation pays a dividend. Where dividends are taxed, a corporation may be required to withhold tax before the dividend is distributed.

Daniel and Jefferey (2013), or Dwenger (2009) [8] mention that corporate taxation lowers the return of invested capital and also the structure of capital or age of a company. Negative relation between corporate taxation and foreign direct investment (FDI) was confirmed by e.g. Lucas R. [9], whereas Brebler (2012) [10] claims that lower taxation rate represents the factor stimulating the inflow of FDI.

The results of the analysis show that when it comes to the investment localization, taxation plays an important role in the investor's decision making, however, the investor must take into account other investment aspects, too, e.g. infrastructure, workforce availability, and legislation etc.

Potential investors ignore other advantages and characteristics of domestic economy (infra-structure, market availability, politic stability etc.) because the high corporate tax bur-den itself already discourages potential investor from the investment realization in the given state. The issue of corporate taxation rate importance in developing countries was dealt with for example

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by Vill and Barreix (2002), [11] who state that most of these countries widely use tax policy as a tool for attracting foreign investors. It is necessary to realize that corporate taxation harms the entrepreneurial environment and discourages economic activity.

Methodology of the Research

The methodology includes historical analyzes, systematic analyzes, and graphic methods. Statistics have been made by the help of official statistics of Uzbekistan and the world.

Results

Several surveys and studies have been conducted for identifying the role and significance of taxation as well as the types of taxes for both individuals and corporations in the economy of Uzbekistan.

Conducted researches showed that since January 1, 2019[12], legal entities that have previously used the simplified tax regime and reached the established limit of annual turnover threshold at the end of 2018 at the amount of UZS 1 bln. switched to payment of general taxes. Additionally, following figure illustrates major changes in personal income tax:

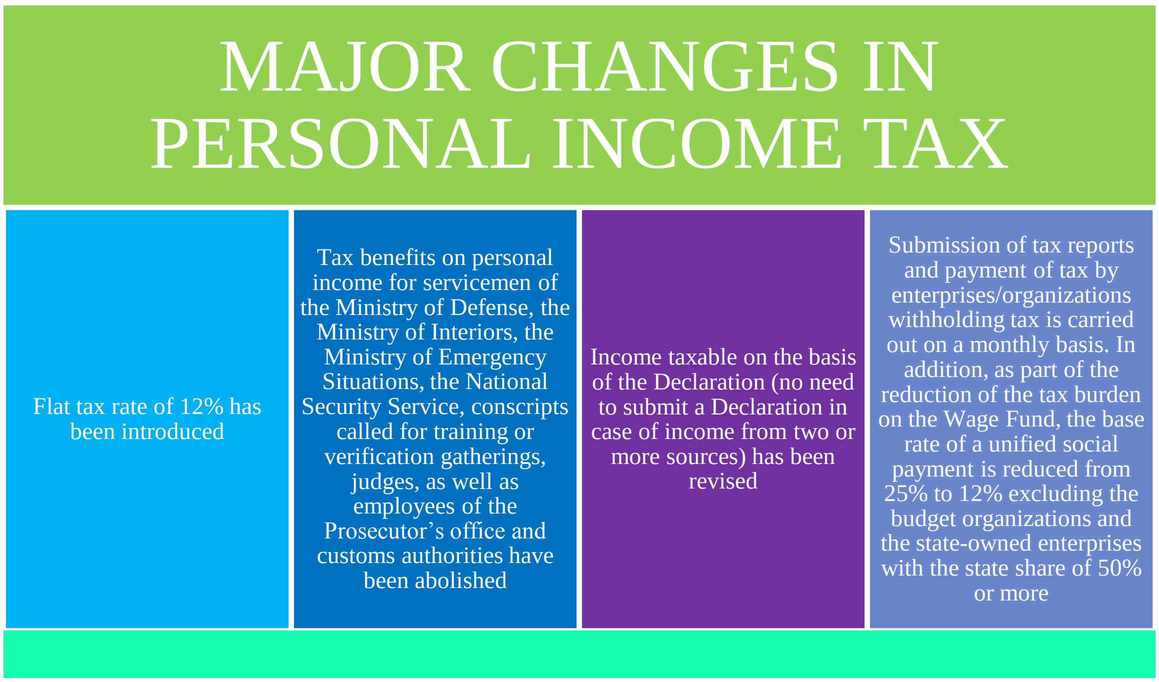

Figure 1. MAJOR CHANGES IN PERSONAL INCOME TAX [12]

A closed list of non-deductible expenses in determining taxable profit has been established.

Limits on deductibility of expenses related to business activities were lifted. In particular, restrictions on representative and business travel expenses, as well as voluntary insurance 2018 representative expenses were deducted in the amount of not more than 1% of the turnover 2019 representative expenses will be deducted based on the actual spending [12].

Furthermore, certain depreciation caps for individual groups of fixed assets were reduced [13]:

Buildings, 2018 2019 Structures 5% to the original cost 3% to the original cost

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Rolling stock, 8% to the original cost 4% to the original cost air transport sea and river vessels

A research also has been conducted for identifying the core meaning and importance of value-added tax(VAT). Clearly, VAT known in some countries as a goods and services tax (GST), is a type of tax that is assessed incrementally. It is levied on the price of a product or service at each stage of production, distribution, or sale to the end consumer. If the ultimate consumer is a business that collects and pays to the government VAT on its products or services, it can reclaim the tax paid. It is similar to, and is often compared with, a sales tax.

Who is the VAT payer?

STANDARD VAT REGIME

- Payers of general taxes, regardless of the amount of annual turnover (revenue);
- Payers of the unified tax payment (UTP) on a voluntary basis.

SIMPLIFIED VAT REGIME (until January 1, 2021)

- Payers of general taxes with an annual turnover (revenue) not exceeding 3 billion UZS;
- Payers of the unified tax payment (UTP) on a voluntary basis.

In fact, in 2018 the number of VAT payers was 7 000 units, and in 2019 it increased fivefold and reached the number of 35 000 [14].

The expansion of the VAT payers (20%) has affected the prices of goods (works, services) but not in the same proportion. Prior to implementation of changes in the tax legislation, VAT has been already included in the price of most goods and services. This is due to the fact that if at least one of the participants in the production of goods, works or services is a VAT payer, the price will already include the VAT charged to them.

Exactly, following tax rates changes implemented:
- Unified tax rate for small firms to 4%;
- Property tax rate from 5% to 2%;
- Dividend tax from 10% to 5%;

2 trillion UZS of estimated gain of the entrepreneurs from tax reductions.

— VAT rate from 20% to 15%; (1,5 and 10 trillion UZS reduction in budget revenue for 2019 and 2020, respectively);
— Excise tax on alcohol and tobacco by 10% and 20%, respectively;
— Introduced a unified tax rate of 12% for personal income tax, corporate income tax, and payroll tax;
— Abolished a practice of suspension of the operations on taxpayer`s accounts in the commercial banks by the State Tax Service.

Results revealed that Uzbekistan has adopted a new tax Code which replaces the 2008 Tax Code. Most of the New Tax code’s provisions have been effective as of 1 January 2020[12]. The stated purposes of the New Tax Code include decreasing the overall tax burden, simplifying tax rules, and improving tax administration. Exactly, new Tax Code stipulates:

- 9 types of taxes, and for small companies (with turnover up to 1 billion soums) a special tax regime is maintained in the form of a turnover tax (in the current version 13 types of taxes and other obligatory payments, as well as 3 simplified tax regimes);
- the introduction of the right to return the “negative” VAT balance (currently only returned to exporters) after a detailed desk audit, as well as its simplified return for the largest taxpayers and those who have provided a bank guarantee;
- abandoning the cascading CIT taxation of dividends by introducing a set-off mechanism for previously taxed amounts of such income, while increasing the tax rate from 5 to 10 percent
- the introduction of calculation of land and property tax for legal entities (non-payers of a single land tax) with agricultural land plots based on the normative value of agricultural land.

Table 1

State revenues structure [14]

Taxes	Distribution of State Revenues by source (% of total), 3Q of 2019
Direct taxes	42,6
Indirect taxes	26,9
Resource payments	17,9
Excess profit tax	0,1

Other revenues	12,4

Conclusion

Summing up, it should be stated that taxation policy has significant role in the economy of Uzbekistan and many positive changes which are related to the policy of the taxation has been conducted. However, the system is not flawless yet and following recommendations have been made for further improvements in this area:

The effective functioning of the economy depends on how correctly the tax system is built. Thus, one of the ways improving tax system is digitalizing this system around the country.

Furthermore, as taxation is one of the major revenues of government budget, objectives of taxation should be controlled regularly.

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