

# Current Status Of Implementation Of Tax Obligations In The Republic Of Karakalpakstan And Issues Of Increasing Tax Collection

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**Abstract:** *The article provides a theoretical analysis of scientific approaches to tax compliance and tax collection. In particular, the current general state of tax revenues in the Republic of Karakalpakstan is assessed and a comparative analysis of the level of tax liability and tax collection by type of tax is made. In the territorial districts of the Republic of Karakalpakstan, the current state of fulfillment of tax obligations and the level of tax collection are compared in the dynamics of the example of income tax, single tax payment and resource taxes, which are important in the activities of enterprises. It has been suggested that it would be expedient to increase tax collection in the region by lowering tax rates.*

**Keywords:** fulfillment of tax obligations, amount of tax revenues, level of tax collection, tax arrears, tax administration.

**Introduction.** As the tax system is an integral part of the economy, it is an important mechanism in ensuring the priorities of socio-economic development of any country. In this regard, it is planned to exempt business entities in areas of low socio-economic development of the country from paying taxes and customs duties and provide them with tax benefits. In this regard, the concept of improving the tax policy of the Republic of Uzbekistan, adopted in 2018, allowed to continue to implement the tasks of reducing the tax burden and simplifying the tax system, improving tax administration, developing entrepreneurship and creating a favorable environment for foreign investment. However, in the context of ongoing economic reforms, ensuring the full implementation of tax obligations and increasing the level of tax collection is still one of the priorities of the tax authorities. In particular, "the principles of organization of tax administration are outdated, do not provide comprehensive services to taxpayers, as well as their voluntary fulfillment of tax obligations, and the level of administrative costs in the fulfillment of tax obligations remains high" (Resolution, 2019).

**Literature review.** It should be noted that the analysis of methods for calculating tax collection allows us to determine whether a number of scientific approaches are available. According to the generally accepted approach by most scholars, the degree of completeness of fulfillment of tax obligations is calculated as the ratio of the amount of tax payments received during the reporting period to the amount of tax liabilities to be paid in accordance with the law. This approach was developed by A.Anashkin (Anashkin, 2006), A.Dadashev, A.Lobanov (Dadashev and Lobanov, 2002), G.Kartasheva (Kartasheva, 1999), D.Krilov (Krilov, 2000), A.Shcherbinin ( Shcherbinin, 2002) and other scientific studies. The tax authorities of many countries follow this method to determine the level of tax collection, and the calculated indicator is used as the main criterion for assessing the effectiveness of tax administration.

However, according to the proponents of an alternative approach to the above, for example, T.Kuklina (Kuklina, 2009), M.Mishustin (Mishustin, 2010), A.Novikova (Novikova, 2011), V.Timoshenko (Timoshenko, 2011), Dj.Shakirova, V.Zasko (Shakirova and Zasko, 2014) and others express the essence of tax collection with the main rating of the tax authorities. This figure is calculated by taking the amount of actual tax revenues as their maximum amount for the period in question (Lermontov, 2004).

This figure includes the amount of actual receipts for the period and the total amount of tax arrears determined on the basis of statistics from the tax authorities. The level of tax collection calculated in this way is the most optimal indicator of the effectiveness of the tax administration system, because the indicator of tax collection is directly related to the overall indicator of indebtedness. In this case, as the level of tax collection increases, the overall level of indebtedness decreases. But in our opinion, this is not always the case in practice.

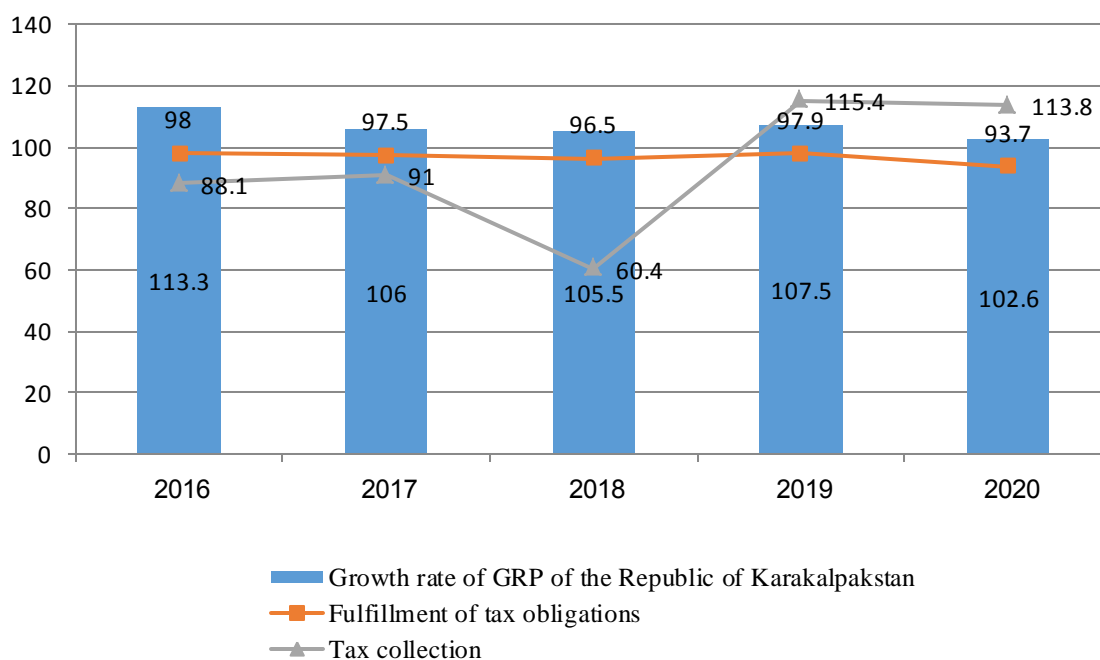
Although there are differences in understanding the essence of the concept of "tax collection", there is a general view that the tax collection indicator supports the study of the results of improving the tax administration system and can be used to calculate the "profitability ratio" of tax authorities (Goncharenko, 2005).

When studying the research on the assessment of the activities of the competent state tax authorities on the collection of taxes and levies, we realize that there are almost unexplored notions about the effectiveness and efficiency of these actions. However, the interpretation of the concept of tax collection efficiency and the list of its analytical indicators are given in tax publications and some scientific works, and the efficiency of tax authorities is not available in any dictionary or encyclopedia. It is worth noting that the efficiency of the tax administration system should be considered as an indicator of the ratio of taxes collected

to administrative costs or their collection costs, and the quality indicator of tax administration activities should be taken as an indicator of "planned tax collection".

**Research methodology.** On the basis of theoretical analysis and monographic observations, the generalization of views on the fulfillment of tax obligations and tax collection is aimed at highlighting the importance of fulfillment of tax obligations and increasing tax collection in improving the budgetary tax mechanism of the Republic of Karakalpakstan.

**Analysis and results.** The tax collection ratio is calculated based on the actual indicators of tax revenues in the base year. In the framework of our study, the fulfillment of tax obligations and total tax collection in the Republic of Karakalpakstan was calculated.



**Figure 1. General state of tax collection in the Republic of Karakalpakstan<sup>1</sup>, (in percent)**

In the period analyzed in Figure 1, the total tax collection in the Republic of Karakalpakstan in 2016 amounted to 88.1%, increasing and decreasing over the years. In 2020, it was 113.8 percent, which means that the harvest in 2020 increased by 25.7 percentage points compared to 2016. Accordingly, the Republic of Karakalpakstan has the largest growth rate of gross regional product. In particular, this figure was 113.3% in 2016 and 102.6% by 2020 in the analyzed period. As a result, the GRP growth rate in 2020 compared to 2016 decreased by 10.7 percentage points. In general, the coefficient of fulfillment of tax liabilities also decreased, in 2016 this figure was fulfilled by 98.0%, and by 2020 it was achieved by 93.7%. That is, this figure in 2020 decreased by 4.3 percentage points compared to 2016. Note that tax liabilities are not being met 100 percent, which is explained by the increase in tax arrears during this period. In other words, it can be concluded that despite the slowdown in GRP growth in the country's regions, the state tax authorities have ensured that they meet the forecast plan tasks set in the budget parameters only due to excessive fiscal performance.

It should be noted that the dynamics of the calculated tax collection shown in Figure 1 shows that in 5 years this figure has increased significantly (more than 25 percent), while there is a downward trend during the period under review. According to the figures, the level of tax collection corresponds to the phases of the economic cycle: for example, the decline in GRP growth rate in 2018 (by 7.8%) was accompanied by a high decline in the level of tax collection. In our view, this is confirmed by the high correlation between total tax collection and GRP growth rates.

In conclusion, "IMF experts point out that there is a correlation between the phase of the business cycle and the level of tax collection: according to their calculations, if the level of production in the economy is below the potential level, the level of accumulation falls, and vice versa. grows" (Sancak, 2010). This conclusion was confirmed by our analysis.

In-depth analysis of our tax collection, based on an assessment of the actual amount of tax payments in relation to the amount of tax arrears (tax liability) and the amount of tax revenues calculated in the current period (tax collection rate),

<sup>1</sup> Compiled by the authors.

Karakalpakstan for the period from 2016 to 2020 We make a comparative analysis of the level of collection of certain types of tax payments in the territory of the Republic and the level of fulfillment of tax obligations by types of taxes (Figure 2).

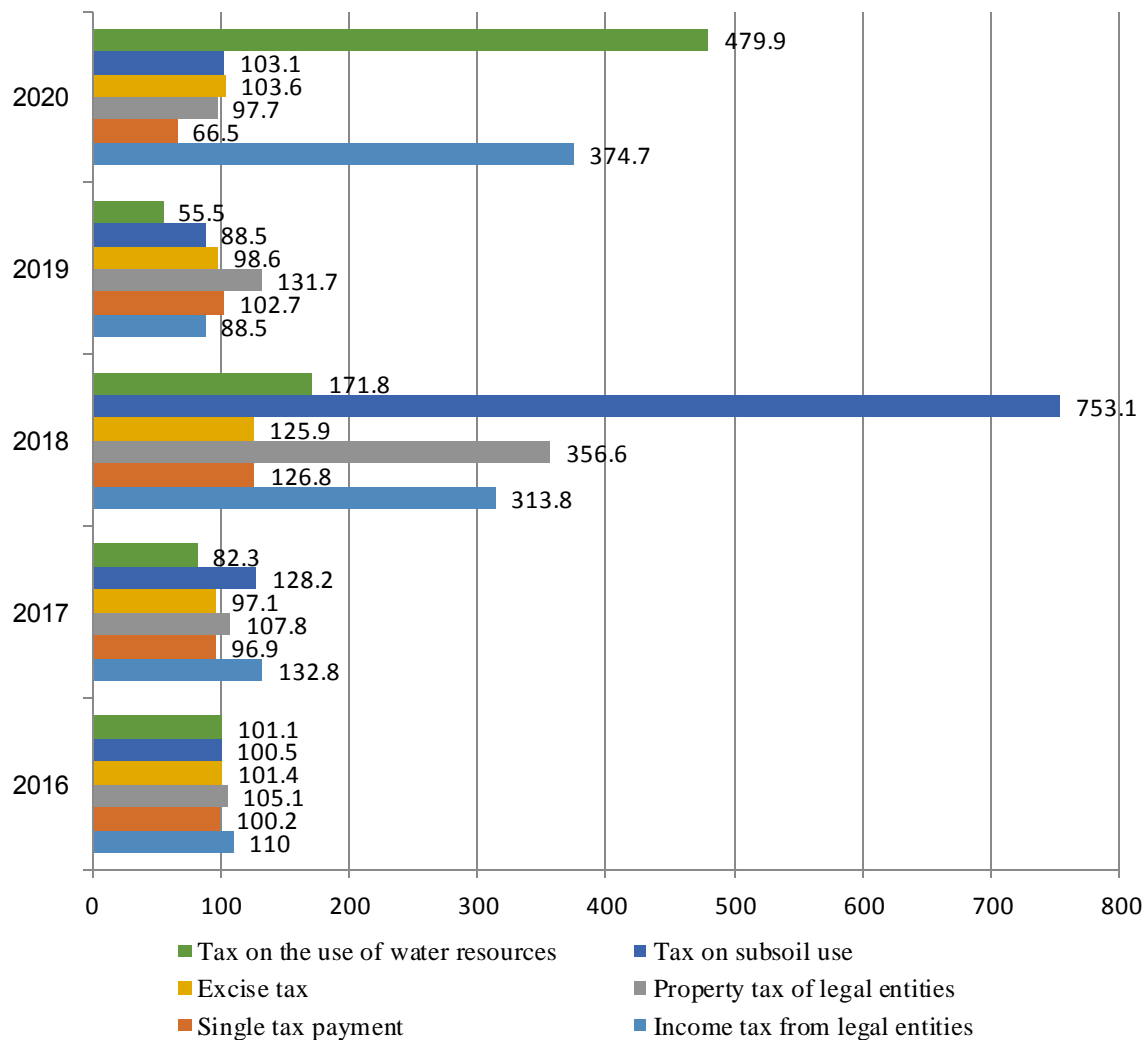
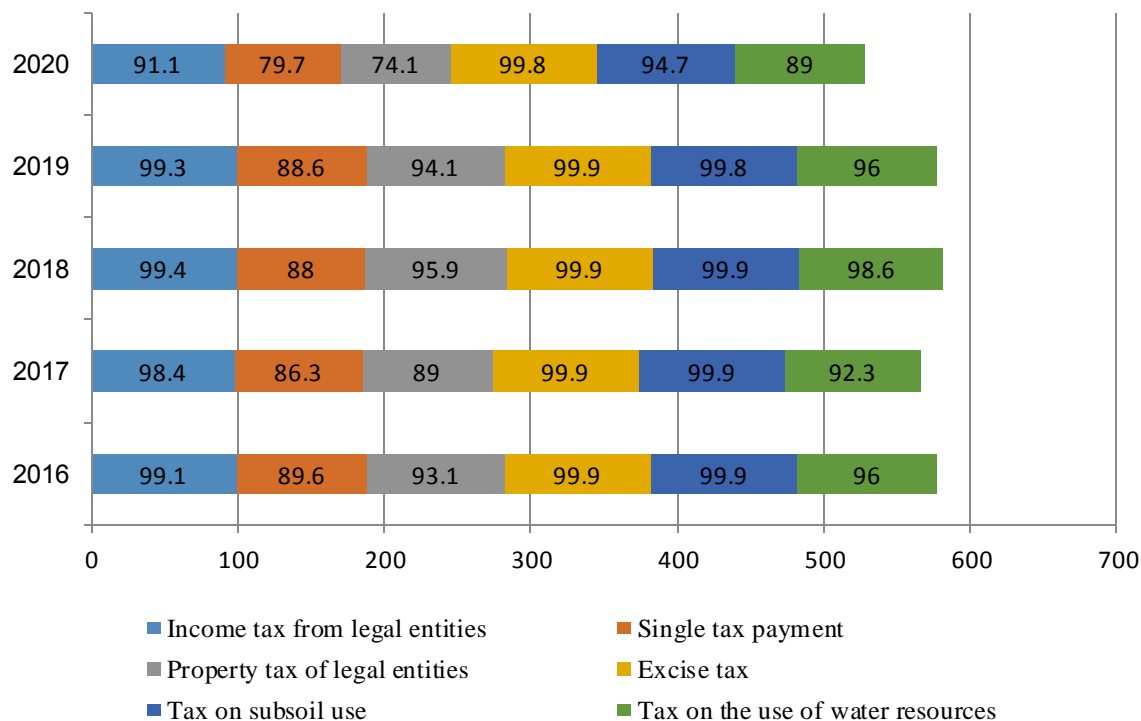


Figure 2. Status of tax collection in the Republic of Karakalpakstan<sup>2</sup>, (in percent)

As can be seen from the analysis, there is an absolute growth trend of these coefficients on taxes for 2016-2020. At the same time, the decrease in the level of collection is due to an increase in corporate income tax, property tax and single tax arrears for 2018-2020.

In our opinion, the most important conditions of this situation are the problems with special mechanisms to ensure the payment of taxes, along with the weak state of payment discipline in relatively low-lying regional districts due to huge differences in the level of socio-economic development. Figure 3 shows the dynamics of the current state of fulfillment of obligations by types of tax payments in the Republic of Karakalpakstan.

<sup>2</sup> Compiled by the author on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.



**Figure 3. Dynamics of fulfillment of tax obligations in the Republic of Karakalpakstan, (in percent)<sup>3</sup>**

If we look at the data in Figure 3, the current state of fulfillment of tax payment obligations in the region cannot be considered sufficient. This is because in the analyzed period, in most cases, this figure does not reach 100% for other types of taxes other than the excise tax on subsoil use.

It should be noted that the level of tax collection is a complex indicator that characterizes the work of tax authorities in the main areas of activity, in order to increase this indicator in the fiscal year of the Republic of Uzbekistan, a number of tasks are discussed and government decisions are made. In this regard, the Decree of the President of the Republic of Uzbekistan dated July 18, 2017 PF-5116 "On measures to radically improve tax administration, increase the collection of taxes and other mandatory payments" (Decree, 2017) and July 10, 2019 "On improving tax administration" Resolution No. PQ-4389 "On Additional Measures" is of particular importance. According to the resolution, the introduction of methods for assessing the tax capacity of the regions in the country and forecasting budget revenues, as well as to increase the level of voluntary fulfillment of tax obligations of taxpayers to 90% (Resolution, 2019). So how can we evaluate the practical outcome and effectiveness of this percentage?

On the practical side of the issue, let's look at the data on the level of collection of revenues and taxes to the local budget of the Republic of Karakalpakstan. In particular, the report on the results of the state tax service of the Republic of Karakalpakstan states that in the Republic of Karakalpakstan in 2019 the collection of total revenues of the local budget of the region will be 115.5%.

These figures seem to be the same in our view, but this figure does not apply to all types of taxes, meaning only the total absolute amount. At the same time, the severity of the problems associated with reducing the overall indebtedness of taxpayers has not lost its relevance. If we observe that the tax arrears on 31.12.2019 decreased by 14.7% compared to 01.01.2019, by the end of 2020 the debt was reduced by 2.8%.<sup>4</sup>

This situation can be explained by objective and subjective factors influencing, respectively. However, such practical analytical data, in our opinion, proves the urgency of increasing the collection of taxes in the region.

In our opinion, due to the local conditions of the Republic of Karakalpakstan, it is expedient to increase tax collection by reducing tax rates for economic entities in the field of industrial production in the socio-economically underdeveloped areas of the region. This, in turn, will create incentives and conditions for the recovery of the financial capacity of the difficult districts of the region and the stabilization of their tax potential.

<sup>3</sup> Compiled by the author on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.

<sup>4</sup> Obtained on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.

In order to determine the nature of the problems studied above, the situation with the collection of corporate income tax and resource tax with a single tax payment, subsoil use tax and water use tax collection in the territorial districts of the Republic of Karakalpakstan was analyzed. The results of the analysis are presented below.

This opinion was raised at the governmental level and used in the development of normative and legal acts on the budget and tax legislation of the region, which is reflected in the Resolution of the President of the Republic of Uzbekistan dated November 11, 2020 No PP-4889 (Act, 2021). In accordance with this decision, in Tahtakopir, Bozataw and Shomanay districts with low level of socio-economic development until January 1, 2024 will be implemented income tax and water use tax of newly established industrial enterprises in the amount of 50% of the current tax rates 2020-2023 The priorities of the complex socio-economic development of the Republic of Karakalpakstan have been identified in the following years (Resolution, 2020).

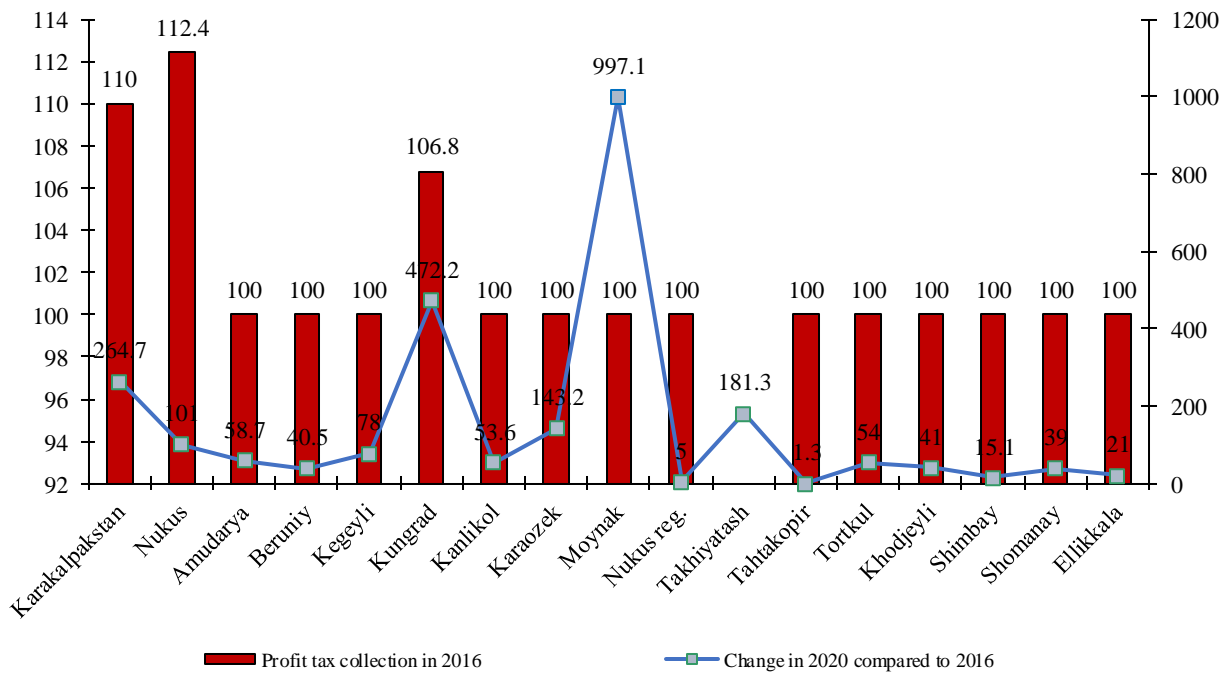


Figure 4. Status of collection of corporate income tax in the territorial districts of the Republic of Karakalpakstan<sup>5</sup>

Therefore, according to Figure 4, the forecast plan indicators set in the parameters of the district budget for corporate income tax in the territorial districts of the Republic of Karakalpakstan in 2016 are 100% fulfilled. However, the change in this indicator in 2020 compared to 2016 varies in most districts of the region, except for the city of Nukus and Kungrad, Karaozek, Moynak and Takhiyatash districts, and they do not reach 100%. The high rate of change in tax collection in Kungrad (472.2%) and Moynak (997.1%) districts is explained by the relatively small number of forecast plan tasks, but by a large amount of overfulfillment.

<sup>5</sup> Compiled by the author on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.

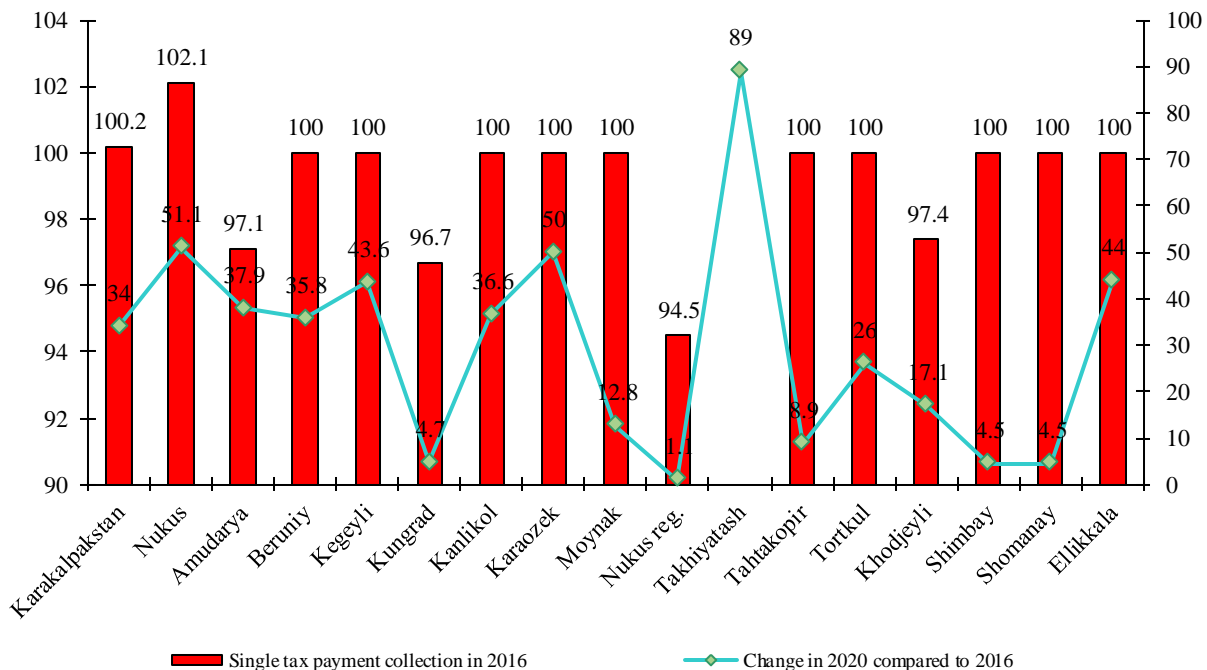


Figure 5. Collection of single tax payment in the territorial districts of the Republic of Karakalpakstan<sup>6</sup>

As for the single tax payment, we can see that the level of collection for this type of tax is lower than the income tax collection. In particular, the total collection of the single tax payment in the Republic of Karakalpakstan was 100.2% in Amudarya (97.1%), Kungrad (96.7%), Nukus district (94.5) and Khodjeyli districts (97.4%), which is less than 100 percent. Accordingly, there was a change in convergence during the analysis period.

The dynamics of the state of collection of resource taxes in the territorial districts of the Republic of Karakalpakstan also confirms the above conclusion. In particular, the level of tax collection for subsoil use was 100% in most districts, 83% in Khodjeyli district and 81% in Ellikkala district.

<sup>6</sup> Compiled by the author on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.

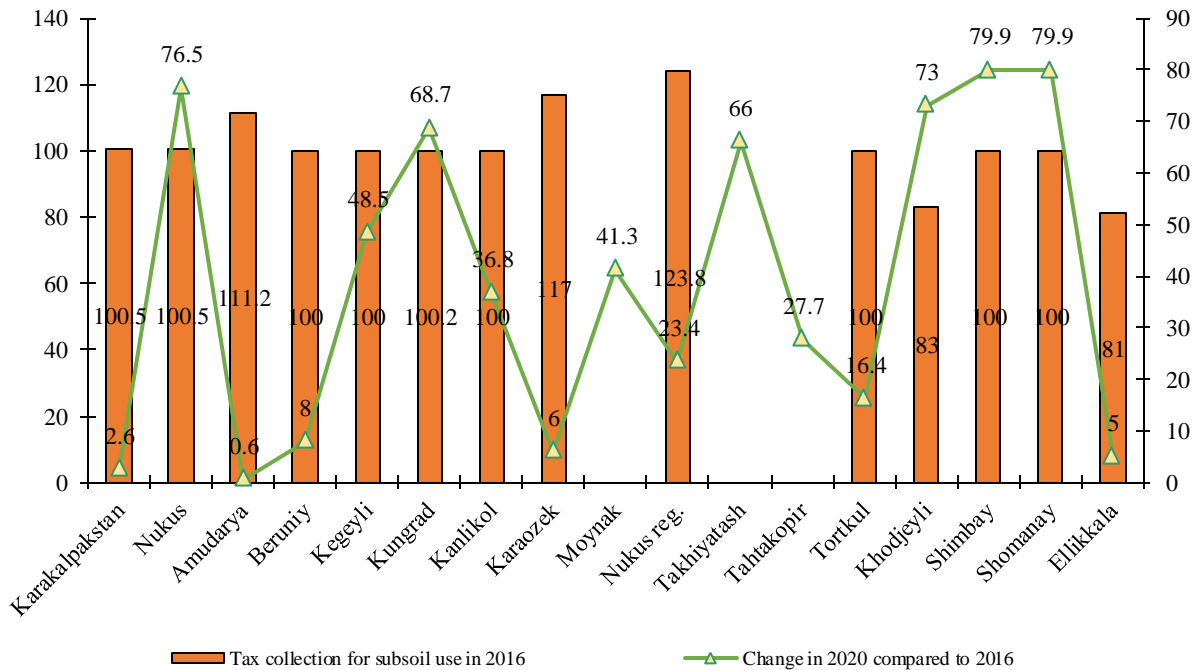


Figure 6. Dynamics of tax collection for subsoil use in the territorial districts of the Republic of Karakalpakstan<sup>7</sup>

At the level of tax collection for the use of water resources, all districts of the region, except Takhiyatash district, have achieved 100 percent compliance. It should be noted that in 2016, as Takhiyatash district was part of Khodjeyli district, the forecast plan for the tax on the use of water resources is not available for Takhiyatash district. As for the high growth rates of changes in tax collection, including in Amudaryya district (637.9%), Nukus district (477%), Takhiyatash (801.1%) and Khodjeyli districts (528.4%), the above-mentioned conclusion is also relevant. Accordingly, we can see the change in the level of tax collection in Figure 7.

<sup>7</sup> Compiled by the author on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.

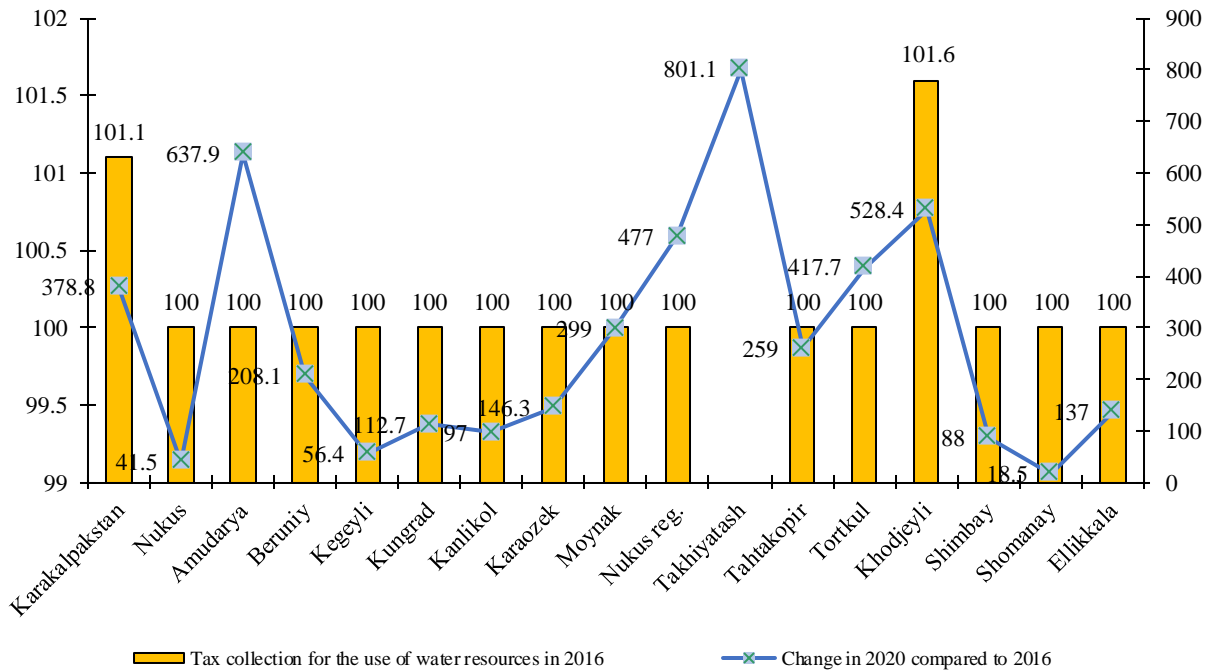


Figure 7. Collection of taxes for the use of water resources in the territorial districts of the Republic of Karakalpakstan<sup>8</sup>

**Conclusions and proposals.** Research shows that as a result of comparative analysis of tax collection, we recognize that the efficiency of debt collection has increased to some extent, but still in the positive dynamics of tax debt reduction, the level of tax revenue collection is absolutely insufficient. This is due to the fact that in the territorial districts of the Republic of Karakalpakstan, the volume of tax arrears is still high, and the procedures for collecting dependents do not give the expected results. It is also very unfortunate that the obligation of the regional state tax authorities to collect 100% of the tax debt in full is not fulfilled due to various circumstances in each fiscal year.

The reason for this, in our opinion, is that the level of socio-economic development of the districts of the region is not uniform. This is because tax collection is largely provided only by the over-fulfillment of forecast plans for certain taxes. Since the collection of tax arrears is a very complex and problematic process, only a certain degree of partial recovery is ensured. However, in the current practice of the country, in order to strengthen the responsibility and interest of local authorities, increase their powers and obligations on revenues, from January 1, 2019, "part of the increased revenue forecast will be spent on regional socio-economic development programs. for the transfer to the budgets of the relevant districts and cities"(Resolution, 2018).

The use of such revenues in the implementation of programs of socio-economic development of the regions means the urgency of the formation of potential tax revenues of the region. But in our opinion, this norm today is not without some shortcomings, including:

- **First**, we believe that part of the overfulfilled funds of the revenue forecast is not enough for the implementation of programs of socio-economic development of the regions. The reason is that regularly exceeding the revenue forecast may limit the region's potential tax revenues in the future.

- **Second**, the overestimation of the revenue forecast for this or that tax, in turn, does not encourage the collection of pre-existing tax arrears on other types of taxes.

In our opinion, the issue of increasing tax collection should be implemented on the basis of the author's approach mentioned in our study, by reducing tax rates in the socio-economically underdeveloped areas of the Republic of Karakalpakstan. This, in turn, serves to ensure the balance of development of the country's regions.

In conclusion, we consider it expedient to increase tax collection by reducing tax rates for economic entities in the field of industrial production in the socio-economically underdeveloped areas of the region, depending on the local conditions of the Republic of Karakalpakstan. This, in turn, will create incentives and conditions for the recovery of the financial capacity of difficult areas of the region and the stabilization of their tax potential. At the same time, it is important to increase the tax capacity of the local budget of the region.

<sup>8</sup> Compiled by the author on the basis of data from the State Tax Administration of the Republic of Karakalpakstan.



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