

IMPACT OF THE TAX SYSTEM ON THE FINANCIAL ACTIVITY OF BUSINESS ENTITIES

Furkat Odilovich Bazarov

Associate Professor, Tashkent Institute of Finance, Uzbekistan

Abstract: The article is devoted to the study of the impact of the tax system on the financial activities of business entities, the degree of impact of current tax types on the activities of enterprises, the important role of the tax system in the development of business entities and the need for a comprehensive tax system.

Key words: tax system, business entities, financial activities, tax incentives.

Introduction.

In the context of the globalization of the economy, ensuring financial stability and access to world markets, preparing the economy for a global recovery and increasing its stability and confronting external challenges will have to solve the following interrelated tasks: first, to significantly improve the business climate; secondly, to ensure the stable functioning of the tax system; thirdly, to continue the formation of a reliable legal environment in the field of taxation.

Entrepreneurship development support should be the core of entrepreneurial diversification. It is entrepreneurs who are the driving force behind the modernization of the economy. Therefore, the issues of improving the taxation of entrepreneurship should become a state development priority.

Main part

The use of the funds of this program should be carried out in the following areas:

- subsidizing the interest rate on loans;
- partial guarantee of loans to small and private businesses;
- financial support for doing business.

Obviously, public resources alone will not be enough to implement diversification plans. Its main source should be foreign direct investment.

The influx of foreign direct investment, taking into account the priorities of the development strategy, requires new approaches to the application of the tax system, especially in relation to business entities.

All these activities will contribute to building and strengthening the economy of Uzbekistan as a steadily developing state.

Therefore, the immediate goal of the concept of improving the tax policy of the Republic is to produce products that are competitive both in the domestic and world markets. In this regard, the Government of the Republic of Uzbekistan is taking measures to improve the situation of domestic producers. The main direction in the field of improving tax policy is the formation of a tax system that ensures the development of production by reducing the tax burden on producers.

The tax system should ensure the concentration of public financial resources needed to solve the production and social infrastructure, to equalize the levels of development of individual territories. The Republic of Uzbekistan has created a tax system that meets the socio-economic conditions of the period [1]. If from January 1, 1998 the Tax Code of the Republic of Uzbekistan was introduced, then on January 1, 2008 the Tax Code was introduced in a new edition, which was based on the improvement of tax policy. Well-considered decisions, which, on the one hand, led to a reduction in the tax burden, which was really felt by taxpayers, and on the other hand, ensured the preservation of a stable base for generating revenues for both the republican and local budgets.

The tax reform of that period (1998-2016) was mainly stimulating and was aimed at reducing the tax burden on the economy through lowering tax rates.

For 2000-2011, certain types of rates and mandatory contributions were reduced. For the period 2000-2011, the income tax rate was reduced by 3.44 times, or from 31 to 9%, property tax - from 4 to 3.5%, unified social payment - 1.6 times - from 40 to 25 %. The rates of other taxes and mandatory contributions paid by legal entities did not change significantly. For small businesses, the single tax payment rate was reduced by 2 times, i.e. from 12% in 2005 to 6% in 2011 [2].

During these periods, tax benefits and preferences were provided, which was necessary to strengthen the investment attractiveness of the Republic, attract and introduce new technologies, and develop export-oriented industries in the sphere of entrepreneurial entities.

The adoption of a new edition of the Tax Code in 2019 and its improvement allows us to talk about the systematic approach of the authorities to reforming the new system. The new version of the Code contained measures to settle debts, improve the procedure for registering business entities with the tax authorities, make more extensive use of electronic documents in tax legal relations, etc.

Consequently, Uzbekistan was marked by a change in tax relations based on international principles of taxation: fairness, simplicity, economic efficiency and budgetary sufficiency.

The reform of the tax system of the Republic of Uzbekistan also included a change in the structure of taxes, a change in their number, level of rates, changes in the methodology for calculating taxes and reporting, as well as reforming the institution of tax administration, based on new relationships between the tax service and taxpayers [3].

The tax system has become more or less transparent and clear in understanding for the taxpayer. To achieve this goal, the government of the Republic of Uzbekistan established a single rate for the most important types of taxes, simplified the procedure for determining the tax base, abolished the previously existing system for calculating personal income tax, and minimized the number of benefits [4].

Of course, now in the context of increasing competition, taxation affects the efficiency of the financial and economic activities of business entities. Therefore, to promote the growth of investment, it is recommended to use special incentives in the form of accelerated depreciation rates while applying the declining balance method, deducting the entire cost of innovative equipment from income. At the same time, one should also not forget about the possibility of covering losses from the introduction of innovative equipment. For not all innovative equipment contributes to a quick profit. This requires time and the involvement of professionally trained personnel who can work with innovative equipment and technology. That is, here one should not get involved in an increase in the period for the transfer of losses. In all cases, the tax rates should be comparable with the rates of similar taxes in other countries, that is, they should be approximately equal. Establishing higher rates will hinder the attraction of investments in the domestic economy, and vice versa, the use of lower rates will adversely affect the budget of the Republic and the amount of tax arising from the difference in rates will go to the budgets of countries exporting capital.

The tax burden should not reduce the incentive motives of business entities.

The tax rate should not only provide the necessary level of incentives for enterprises through the profits received, but also ensure the growth of investment inflows and the income of the country's budget. At the same time, one should not violate that certain limit of withdrawal of income from entrepreneurial entities, beyond which taxpayers' interest in organizing entrepreneurial activity may be lost. The Laffer curve (Fig. 1) also shows that this level should not exceed 35–36% on average; exceeding it leads to production stagnation and then to its decline, disruption of the extended reproduction cycle, impossibility of implementing innovative activities that require significant capital costs due to the accumulation of economic entities.

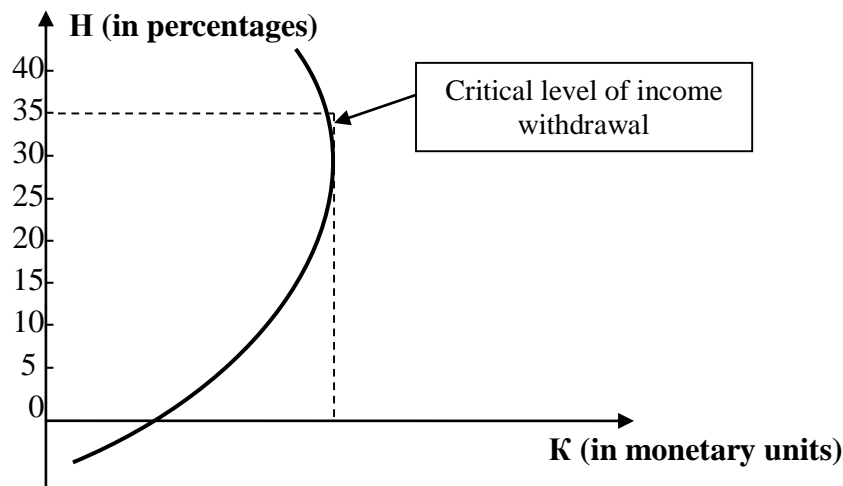


Fig. 1. Laffer curve of the relationship between tax rates (H) and production growth

Regarding Laffer's theory, S. Kotlyarova notes that "it is more expedient for Uzbekistan not to determine the optimal tax rate, but to expand the taxable base by legalizing budget revenues" [5]. At the same time, it should be noted that the expansion of the taxable base, in our opinion, does not lead to the legalization of the activities of the budget, especially the subjects of the service sector. In this regard, based on the conditions for the development of the Republic of Uzbekistan, it is necessary to establish a scientifically based economic limit on tax rates and tighten measures for liability for violation of the law in the framework of non-payment of taxes or concealment of tax payments, artificial reduction of the tax base, etc.

In this state, the growth of tax payments is achieved not by reducing the taxable base, but by establishing optimal tax relations, which are expressed in a sufficient level of tax burden established under the regulatory influence of the market. The formulation of any problem requires the avoidance of strong restrictions in setting tax rates and in determining the taxable base [6].

Let's consider what level of tax burden modern commodity producers of the Republic of Uzbekistan bear. As an object of study, we chose two conditional enterprises, the type of activity is the processing and sale of building materials - AO1 and the production of dairy products - AO2.

We will assume that the above enterprises are one of the main large taxpayers of the Samarkand region.

The author analyzed the tax payments of these enterprises (Table 1), and also gave a forecast of changes in the tax burden in 2019.

Table 1

Taxes and payments paid by AO1 and their share

Taxes	2017, thousand soums	Specific weight, %	2018, thousand soums	Specific weight, %
Taxes and payments, including:	434,4	100	276,9	100
Profit tax	48,9	19,78	57,7	20,8
value added tax	116,1	48,15	137,1	49,5
Unified land tax	49,9	21,2	62,4	22,6
Property tax of legal entities	11,5	6,8	9,2	3,3
Land tax	734,3	0,3	807,6	0,3
Contributions to the Republican Road Fund	343,5	0,1	432,6	0,1
Mandatory contribution to the off-budget Pension Fund	445,3	0,2	606,3	0,2

These tables indicate an increase in the tax payments of the enterprise as a whole for the period 2017-2018. Analyzing these indicators, we can conclude that the growth of tax payments is due to an increase in the volume of sales of manufactured products, works and services of JSC.

The largest share in the structure of tax payments of the enterprises under study for 2018 is occupied by such taxes as VAT - 49.5 percent, income tax - 20.8 percent.

To measure the severity of taxes, the th burden, we calculate the indicator of the relative tax burden, which compares the amount of tax payments with the source of their payment - the newly created value (ARC) according to the formula (1):

$$\Delta TB = \frac{T}{NCV}, \quad (1)$$

$$NCV = P + IT + T$$

here:

ΔTB - relative tax burden;

NCV - newly created value;

P - Payroll;

IT - income before tax.

Based on the calculated data presented in Table 1, it is possible to measure the severity of the tax burden of enterprises for 2017-2018. The calculation results are presented in Table 2.

Table 2

Relative tax burden AO2

Indicator	unit	2017	2018	Forecast 2019
Taxes and payments (T)	thousand soums	234,49	276,91	259,03
Payroll (P)	thousand soums	332,62	417,12	417,12
income before tax (IT)	thousand soums	155,50	260,16	260,06
newly created value (BCC)	thousand soums	722,63	954,19	936,21
Relative tax burden (TB)	%	32,4	29,02	27,7

Thus, the relative tax burden of enterprises varies from 29 percent to 35 percent, with this ratio it is possible to expand production activities that ensure maximum mobilization of taxes to the budget.

Changes for 2019: reduced income tax rates from 13 percent to 12 percent and social tax from 13 percent to 11 percent (the upper level of the regressive taxation scale). An analysis of changes in tax legislation in 2019 will affect the reduction of the tax burden of the enterprises under study by an average of two to three percent.

Under these conditions, one of the ways to improve the efficiency of the functioning of enterprises is tax indicative planning - the timeliness of identifying and eliminating shortcomings in financial activities and finding reserves to improve the financial condition of the enterprise and its solvency through the regulation of tax deductions.

Entrepreneurs now face tax problems:

- the calculation procedure is difficult for taxpayers to understand. This may give rise to a search for ways to evade taxes;

- the rates of certain taxes (VAT - 15%) remain quite high, which affects the process of making financial decisions. Therefore, taxpayers tend to underestimate the taxable base as far as possible, and this leads to a decrease in income received;

- the problem of increasing penalties, of course, reduces the payment of tax payments.

In order to resolve these problems, it is necessary that each tax service specialist be imbued with the concerns of entrepreneurs and, first of all, seek a solution to the problem together with them, and not try to show only violations.

The problem of tax regulation of the income of business entities to stimulate the growth of investments remains more difficult. This can be ensured not only by a higher ratio between capital and assets of business entities, but also by an increase in the income of the population as a whole, as well as per capita income [7]. As savings are accumulated, they become a source of investment, which confirms the existence of a direct relationship, otherwise, as a result of the disinterest of enterprises in the development of production, there will be a reduction in the production of goods, a drop-in investment activity and the living standard of the population, and the economy itself at the macro and micro levels becomes costly.

Carrying out tax reform within the framework of the tax concept in Uzbekistan is a way to radically change the tax system that meets international standards. Its change, improvement is a completely normal phenomenon, dictated by life itself, caused by a revision of the methodological and conceptual foundations of tax policy.

Conclusion

Reflection in the Tax Code according to the tax concept of a number of provisions from regulatory legal acts will simplify its application by taxpayers.

The strategic direction in the field of improving tax legislation within the framework of the tax concept is to achieve the maximum balance of interests of the state and business entities. Along with providing them with the opportunity to develop their activities, the tax concept should provide the necessary volumes of revenues to the budget, since taxes are the main source of its revenue. The provisions arising from this concept, aimed at further improving the tax system, will create the basis for the formation and development of industries in all sectors of the economy and, above all, small businesses, and thereby significantly expand the economic boundaries of the tax base. Accordingly, tax revenues to the budget of all levels will be provided.

References:

1. Niyazmetov, I. M., Rakhmonov, A. S., & Otabekov, O. (2023). Economic Growth and Optimal Tax Burden: A Case of Uzbekistan's Economy. *Journal of Tax Reform*, 9(1), 47-63.
2. Тошматов, Ш. А. (2017). Иқтисодий ривожлантириш ва либераллаштиришда давлат бюджети даромадлари манбаларини кенгайтириш йўналишлари. Ўзбекистонда молия секторини ривожлантиришнинг устувор йўналишлари. Республика илмий-амалий анжумани материаллари тўплами, 10, 27-28.
3. Kiyosov S. U. Improving the Quality of Tax Administration Is a Key to Ensuring the Objectives of The Individual Income Tax Reform // *International Journal of Progressive Sciences and Technologies*. – 2022. – Т. 30. – №. 2. – С. 537-545.
4. Abdullayev, Z. (2020). Macroprudential regulation of the banking sector through taxes. *International Finance and Accounting*, 2020(4), 20.
5. Котлярова С. Эффект теории Лаффера в условиях Узбекистана // *Молия*. 2010. № 1. С. 41.
6. Kindsfaterienė, K., & Lukaševičius, K. (2008). The impact of the tax system on business environment. *Engineering economics*, 57(2).
7. Kiyosov S. The Importance of Social Assemblies of Personal Income Tax System in Reducing Poverty // *International Finance and Accounting*. – 2021. – Т. 2021. – №. 3. – С. 16.
8. Nechaev, A., & Antipina, O. (2016). Analysis of the Impact of Taxation of Business Entities on the Innovative Development of the Country.