

## The importance of indirect taxes in the formation of enterprises with an innovative focus

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**Abstract:** This article considers the socio-economic importance of indirect taxes. The neutrality of VAT in relation to other types of taxes is noted, a proposal is made to avoid double taxation on intermediate products, to eliminate dualism in the economy in order to facilitate the collection of taxes into the revenues of budgets of all levels.

**Key words:** indirect tax, VAT, profit, taxation, fees, budget revenue, income tax, shadow economy, dualism, pricing, competition.

### Introduction

Nowadays, even in the absence of comprehensive information on the relationship between the main directions of indirect taxes, the existing mixture of indirect taxes, including excise tax and turnover tax (4 percent), which traditional enterprises have to pay on goods entering the trade network, can be systematically transformed into a value added tax (VAT) collected at all levels of economic activity. A single basic level (say, 12 percent) could be set for all enterprises, regardless of whether they are in a sector with a traditional forecasting (planning) mechanism (i.e., with frozen prices) or in a liberalized sector (without direct price control by the competent authorities). This does not prevent the maintenance of higher prices (taxes) for innovative or scarce products.

Tax in the form of VAT is indispensable for all stages of economic development, especially for countries in transition.

First, the existing structure of indirect taxes on goods extended to traditional enterprises can be easily transformed to eliminate double taxation of intermediate products as they move within the country. VAT is neutral with respect to domestic and foreign trade. If imported products are assessed on a "destination" basis, they should be subject to a flat tax of the same rate as domestic products. Government revenue will automatically rise as foreign trade reforms and imports increase. Assuming a priori that the exchange rate is "correct" (this big question is discussed in more detail below), then businesses with access to imported inputs will not be unduly advantaged relative to businesses without such access.

Second, since a single level of VAT would apply to all sales of new and prospective enterprises operating under any form of ownership, it would automatically generate revenue as domestic trade develops. In this case, the emergence of thousands of new small enterprises

(including private enterprises), some of which will be able to compete with state-owned large enterprises, will not undermine government revenues.

In contrast, the rapid spread of new types of enterprises, most of which operate in free trade zones, has undermined the state's ability to generate revenue from taxation and weakened control over the allocation of credit resources. The resulting inflationary pressure led to the need to regulate tax rates and, in some cases, the taxable base, i.e. to introduce new taxation mechanisms and to restrict the rights of enterprises (which was done at the end of March 2020).

We have in mind the period of quarantine due to COVID-19, where most enterprises had benefits, in fact, really unjustified. It seems to us that we should not repeat such mistakes from now on. For new-type enterprises, tax rates should be fixed at the very beginning of the modernization process towards innovative development.

Thirdly, with a fairly simple VAT, each enterprise that is a potential candidate for becoming a new type of enterprise will know in advance what the size of its upcoming tax payments will be, based on this, production and innovation-investment decisions will be made. Thus, it will be possible to minimize or avoid at all changes in the rules of taxation in "exceptional cases", to avoid withdrawal of income from the most profitable enterprises. The legal status of enterprises (joint-stock company with property rights of many of its members, partnership, family enterprise, etc.) should not affect the amount of VAT. Both a small farm and a large state-owned industrial enterprise should pay a standard tax on gross sales of 20 percent with full repayment of VAT tax credits for intermediate products used.

In contrast to VAT, the individual types of business income taxes will vary depending on the legal status of the entrepreneur. The requirements for the calculation of taxes on entrepreneurial profit will be much stricter, the latter should be calculated taking into account the peculiarities of depreciation charges, formation of equity capital, conditions for obtaining credit, etc.

The main advantage of a VAT should be that it should be completely neutral with respect to any form of business activity that might emerge in the development of New Uzbekistan, since it avoids the conceptual and computational difficulties associated with taxes on business income. By extending VAT to all businesses, the government can raise revenue without binding itself to a set of legal sort of rules for private enterprises - rules that currently seem to be in the process of change.

For VAT retains its neutrality in any transactions between innovative type businesses and traditional businesses (provided, of course, that the same level of VAT is imposed on both types of businesses). The tax cannot be abolished when certain types of work are contracted out by a state-owned enterprise to a private enterprise, and vice versa. This will not create criminal motives to move to the private sector to avoid tax or taxation. There will be a basis for streamlining commercial relations between traditional and private enterprises, a process that should evolve with the development of pricing principles.

Initially, VAT-based taxation of goods will be the main source of budget revenues. However, additional revenue from profit taxes (paid by enterprises) and personal income tax will gradually accrue. The inflow of these funds will depend on how financing and ownership relations evolve at the enterprise level. The size of the equity capital of innovation-oriented enterprises will partly determine the size of the profit tax and income tax. The question inevitably arises, should corporate and individual taxable income be linked? However, even before this and other complex issues are resolved, the government may introduce VAT to raise the necessary revenue.

Difficulties with tax collection are also associated with the presence of the "shadow economy". And from this point of view VAT is indispensable, because it is easier to control the movement of goods, even produced in the "shadow economy", than to reveal the amount of income

received from such activities. An illegal enterprise can avoid paying VAT to some extent only if it does not buy raw materials, semi-finished products and equipment, i.e. only those that produce only services in pure form.

In general, the more successful the elimination of dualism in the economy, the easier it will be to collect taxes - both business and income taxes. Thus, pricing and monetary reforms will stimulate and facilitate fiscal reforms, and vice versa.

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