



IMPROVING TAX REVENUE COLLECTION IN UZBEKISTAN

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Abstract

Tax revenue collection is an important in the formation of state budget revenue in developing countries. Because of the inefficiency of tax law, tax administration and informal business sector, there can be many obstacles in tax revenue collection. Many developing countries have implemented tax administration reforms so far to improve tax revenue collection. Especially recently two countries i.e. Georgia and Uganda have had this type of reforms. This paper studies the state of tax revenue collection in Uzbekistan, analyzes types of tax evasion in Uzbekistan. In addition, the paper compares Uganda and Georgia's cases and develops some conclusions and recommendations to improve tax revenue collection in Uzbekistan.

Keywords: Tax Collection, Tax Administration, Revenue, Tax Reforms, Uzbekistan

INTRODUCTION

In connection with Uzbekistan's transition to a market economy and integration into the international economic community, the need arose for a radical restructuring of tax relations through tax reform aimed at creating an effective tax system, developing the economy and increasing gross domestic product. At present, the main measures have been taken to improve the tax system, which consists in simplifying it, increasing the economic soundness of collecting taxes and fees, and reducing the tax burden on the economy. For the last few years the President of Uzbekistan approaches the issue in tax collection as the main problem that needs to be resolved in the area of tax reform, indicates insufficiently effective reform of tax

administration. It is for this reason that when carrying out reforms aimed at improving the efficiency of tax administration, tasks that are similar in content are set annually.

- An effective tax system (including both the basic elements of taxation and tax administration procedures) must comply with the following basic requirements. Considering that due to tax revenues, more than 90% of revenues of the budget system of Uzbekistan are formed, the tax system should ensure the sustainable formation of budget revenues necessary for the discharge of expenditure obligations of the Republic, its subjects and formations, as well as the implementation of the Tax Committee and its territorial bodies the functions of the chief administrator of revenues of the respective budgets;
- the level and structure of the tax burden should not worsen the conditions of economic growth, distort the conditions of competition, hinder the flow of investments;
- tax administration should proceed from minimizing the business costs associated with it by improving tax accounting and reporting, eliminating uncertainty, gaps and internal contradictions in tax legislation, increasing transparency and simplifying the procedures for taxpayers' interaction with tax authorities.

At the present stage of economic development, tax administration, depending on its goals and objectives, defined by state policy in the field of tax relations, is generally regarded as a potential reserve for reducing the tax burden, the basis for increasing tax collection, and the basis for the development of international economic processes. These indicators reflect the content of the concept of "tax administration".

The importance of the tax administration process is due to the fact that administration is an integral part of the management process.

If economic development is built on a competitive system while at the same time strengthening state control over property, then self-regulation mechanisms and feedback are weakened. In order to find out what is the impact of tax administration on the level of economic development, it is necessary to consider tax administration as the basis for the effectiveness of tax collection. In this regard, to obtain correct results, to determine the factors influencing the formation of tax administration, as the basis for tax collection, it will be necessary to investigate the essence of the phenomenon, characterized by the notion "collection taxes."

The level of tax collection is an indicator of the quality of functioning of the tax administration system. In turn, tax administration serves as the basis for increasing tax collection. At the present stage there are several basic scientific approaches to the definition of the concept of tax collection. The first approach is to understand "tax collection" as an indicator

of the effectiveness of the implementation of the fiscal function of the tax system. In this case, this concept should be considered as the degree of completeness of the fulfillment of tax obligations and calculated as the ratio of the volume of tax payments received in a certain period to the amount of tax obligations that must be fulfilled in the same period in accordance with current legislation.

Supporters of the alternative approach identify the essence of tax collection with the main rating assessment of the work of tax authorities. Calculate this indicator by referring the amount of actual tax payments to their maximum amount for the period in question. The tax collection rate calculated in this way is an indicator of the quality and effectiveness of the functioning of both the tax authorities and the entire tax administration system.

The amount of taxes collected is an indicator not only of the effectiveness of tax reforms carried out in the country, but also the state of the tax system, as well as the performance of the tax administration system for a given period of time. It is considered that the higher the tax collection, the better the tax system of the country performs its functions. In general, measures aimed at increasing tax collection contribute to strengthening the budget and tax systems. Therefore, it is legitimate, in the author's opinion, to identify tax collection with the security of the budget and tax systems. It turns out that the highest level of security of these systems is achieved only with one hundred percent tax collection.

This reasoning is incorrect, since a similar situation was not observed in any country of the world. Therefore, this goal does not ensure maximum security of the budget and tax systems. This is explained by:

1. Any increase in tax collection means a simultaneous increase in the tax burden. If there is incomplete collection, the state is forced to reduce the tax burden. Increasing tax collection to an extremely high level helps to increase fiscal security in the short term, while increasing the threat in the long term due to the oppression of taxpayers, on whom the subsequent growth of the taxable base. On the other hand, a moderate decrease in the collection of taxes on producers in the real sector of the economy, which does not lead to a significant imbalance of the budget in the short term, can have a positive effect on the growth of the taxable base and the amount of taxes collected in the medium and long term. Therefore, the decrease in revenues from collected taxes, envisaged by the actions of the government, which consists in reducing tax rates or types of taxes, introducing additional benefits, should not be considered as a threat to fiscal or tax security. At the same time, a reduction in tax collection as a result of a formal reduction in the tax base and tax rates does not entail a reduction in tax collection.

2. Considering the level of tax collection as a general criterion for the security of the budget and tax systems, it is wrong to proceed from what category of taxpayers achieved an increase in the level of collection. It is necessary to distinguish the increase in tax collection from taxpayers who completely avoid the obligation to pay taxes, harbor taxable income and property, on the one hand, and relatively bona fide taxpayers who do not pay taxes in full due to too high tax burden and lack of funds for 100% of tax payment.

ANALYSIS OF TAX COLLECTION IN UZBEKISTAN

There are new reforms in tax system of Uzbekistan, but still tax collection issues exist in the Republic. As mentioned above tax revenues account for the majority part of state budget revenues (Table 1).

Table 1. Components of state budget revenue of Uzbekistan

| Indicators | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------------------|-------|-------|-------|-------|-------|-------|
| State budget revenues | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 |
| Direct tax revenues | 25,4 | 24,2 | 23,4 | 24,1 | 24,0 | 24,4 |
| Indirect tax revenues | 49,0 | 51,1 | 53,1 | 52,6 | 51,5 | 50,2 |
| Resource payments and property tax | 15,6 | 14,8 | 13,6 | 13,2 | 12,9 | 13,4 |
| Other | 10,0 | 9,9 | 9,9 | 10,1 | 11,6 | 12,0 |

Source: Annual statistical report of Tax Committee of Uzbekistan

Table 1 shows the information that indirect tax revenues make up half of the state budget revenues. However its share keeps increasing year by year, it is not a good indicator for overall economy of the country as well as tax administration of the country, because we know that in most cases if indirect tax revenues are more than direct tax revenues, a country does not produce more than it consumes. Moreover it indicates there might be some issues related to the tax administration.

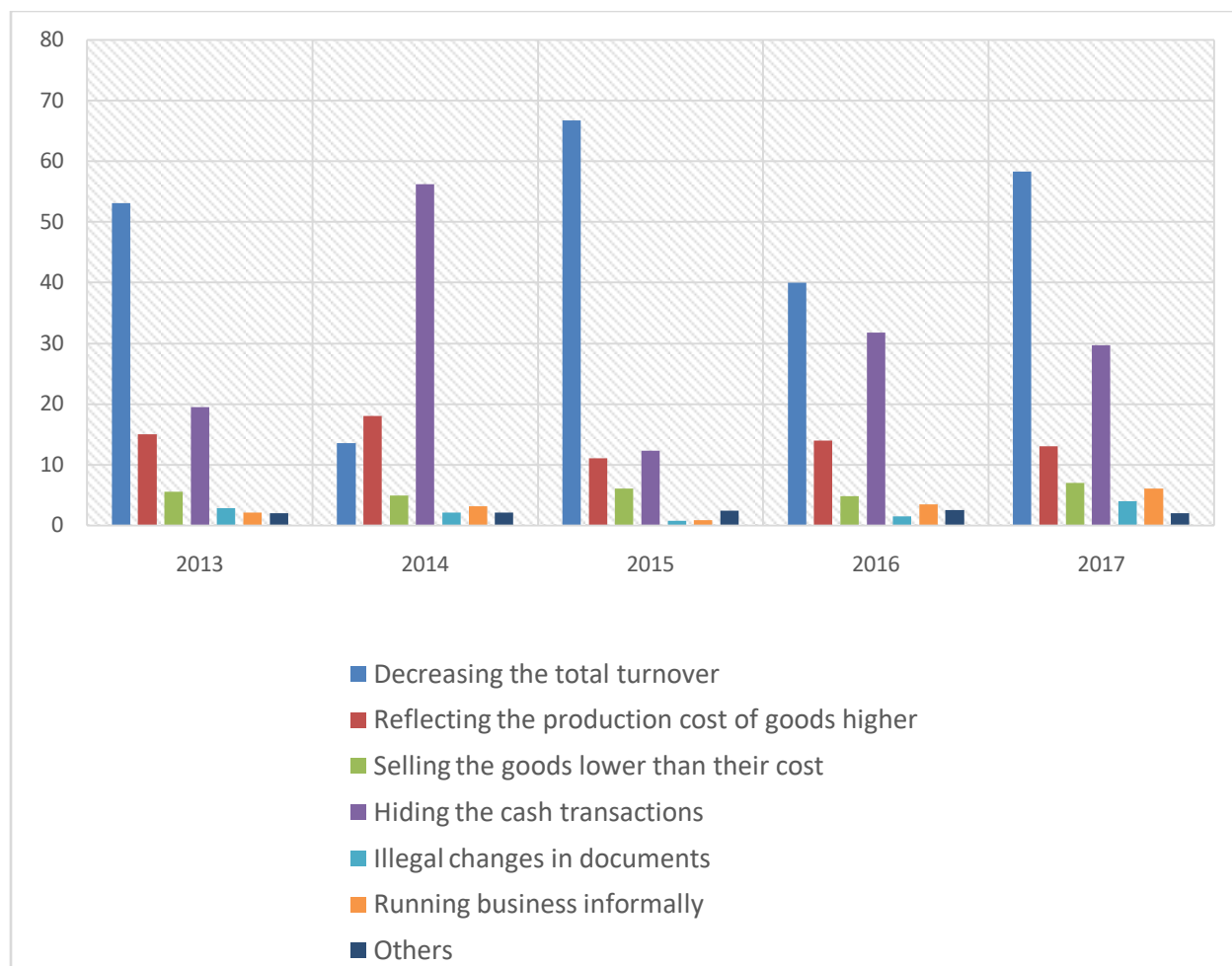


Figure 1. The share of tax evasion by types(in percent)

Source: Annual statistical report of Tax Committee of Uzbekistan

Figure 1 illustrates information about the major tax evasion methods by tax payers. Needless to say that existence of this type of behavior in economy indicates tax administration faces some challenges and taxation legislation does not work properly. We can see that decreasing the total turnover is the main method for tax evasion. After that hiding the cash transactions constitute major part of tax evasion cases. Methods such as reflecting the production cost of goods higher, selling the goods lower than their cost, illegal changes in documents, running business informally and others do not have high contribution in this list.

Developing Countries' Tax Administration Reforms

The management of tax revenues in Uganda carried out a series of reforms from 1991-2014, with the peak of these reforms being in 2004-2014. These reforms have significantly improved the quality of tax administration services, tax compliance and tax collection. However, unlike

some other countries that have implemented somewhat similar reforms, the achievements of Uganda's reforms are declining. Georgia is one such country.

A Contrast of Uganda and Georgia's Reforms and their Results

A comparison of the reforms of Uganda and Georgia shows that they were somewhat similar. However, the difference in results was striking. For example, both countries organized organizational restructuring, improved staff incentives, made policy changes, such as charging 18% fixed VAT, introduced electronic tax systems, improved their relations between taxpayers and administrators, simplified their tax processes disputes and implemented a risk-based audit supported by electronic tax processes. After these changes, the ratio of taxes and GDP of Georgia rose sharply after reforms, but the ratio of taxes and GDP of Uganda initially showed only a small increase, and then stagnated at a low average level of about 13% during the remainder of the reform period. Tax collection in Georgia grew and was able to fully finance the national budget just one year after the reform, but so far Uganda has never been able to fully finance its national budget. Georgia has soared in the world ranking of ease of doing business, but throughout most of the reform period, Uganda has constantly fallen in its ranks. As the World Bank acknowledged, corruption in Georgia has declined sharply, but in Uganda there was no sign of a significant reduction. These are, among other things, the differences that create this puzzle paper is carefully studied. The first key difference between Uganda's reforms and Georgia's reforms is that Georgia's reforms are driven by stronger political will and support than Ugandan's reforms. Unlike Uganda, reforms in Georgia involve joint actions by the government as a whole; for example, the police, the judiciary, parliament and other government structures play an important role in the reforms. They were led not only by the tax administration. In Uganda, there was no political will to reform, which clearly demonstrated a constraining political intervention in income management during the reform period. In Uganda, as a result of the dismissal of Uganda's tax administration, employees of the Uganda tax authority clearly received a "zero tolerance for corruption" signal, but taxpayers did not. This was because there were no radical actions against those who were corrupt. On the contrary, Georgia has made it clear that it is "not corrupt" to both the tax authorities and the public, having carried out an organizational cleansing and arresting major public figures. Considering that Uganda's taxpayers still show corrupt trends, it is only a matter of time will again succumb to corruption. In Georgia, mechanisms have been strengthened to detect corruption. Uganda's tax administration has increased staff salaries, but this was not accompanied by an increase in the likelihood of corruption. the deficit drowned out the expected effect of the measure. The government of Georgia, having collected more revenues as a result of the reforms, improved the quality of

public services for its citizens, and taxpayers were convinced of the need to pay taxes. However, Uganda has no evidence that successful improvement of revenue collection after early tax reforms. If taxpayers did not feel any improvement in public services, logically conclude that they saw no point in further reform / improvement of tax compliance.

CONCLUSION

According to the abovementioned analysis, we have developed the following conclusions:

First of all, in order for tax reforms to be successful, they must be carried out both by the management of the tax administration and by the top management of the government. Secondly, in order to curb corruption, it is necessary to transform the thinking of both tax administrators and taxpayers. In addition, the early success of tax reforms should be accompanied by a marked improvement in the public service delivery system in order to ensure the sustainability of the results achieved. Tax administrators should be authorized to perform their duties without political interference. In addition, tax laws and reforms should be applied uniformly to all taxpayers. Finally, in order to reduce corruption by raising wages for tax administrators, wage increases must be accompanied by an increased likelihood of detecting corruption and a guaranteed cessation of work if found guilty. Further studies include the estimation of the determinants of tax collection rate in Uzbekistan.

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