

## **THE ROLE OF THE TAX ADMINISTRATION SYSTEM IN REDUCING THE SECRET ECONOMY**

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### **Abstract:**

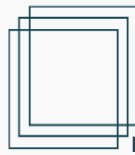
Studying the administration of value-added tax in our country is also related to the improvement of value-added tax. The article analyzes the specific features of calculating the value-added tax base, some complications and problems in its determination, and focuses on issues of improving the formation of the tax base. In addition, based on the results of the changes and additions made in determining and calculating the value-added tax base, appropriate conclusions were formed and recommendations were developed.

**Keywords:** value added, value added tax base, tax, budget policy, budget, tax administration, tax potential, regulatory analysis, tax burden, tax reporting, tax revenues, tax benefits.

### **Introduction:**

Incentive factors for filling the production market of our country with competitive products, systematically strengthening our national currency, wide implementation of reforms, reducing the tax burden on economic entities, increasing investment attractiveness and opening a wide path for investors, creating opportunities for business representatives and developing entrepreneurship development is identified as the main driver of our main strategic actions.

Taxation is the main component of the financial policy of any country and plays a decisive role in generating income and ensuring economic stability. As a growing economy, Uzbekistan has adopted unique measures and practices in the field of taxpayer services and VAT administration. It is important to create a favorable environment for business entities in ensuring compliance with tax legislation in the country by providing general information about the procedure for providing services to taxpayers and specific aspects of the VAT administration in Uzbekistan. In addition, Uzbekistan's approach to taxpayer services and VAT administration is evolving in line with global trends in digitization and international trade. This allows to comprehensively study the specific characteristics and consequences of enterprises operating in Uzbekistan.



### **Analysis of literature on the topic**

The definition of VAT in the Russian economic dictionary is defined as follows: "A tax is collected in the amount that increases the value of this enterprise, which is calculated as the difference between the income received from the sale of goods and services in the enterprise and the price of raw materials and semi-finished products received from other producers of the foreign market (Raizberg, 2008).

Polyak, Romanovsky (2008) are among the scientists who support the definitions established in the country's legislation with similar opinions: "Value added tax is the value of goods (works, services) created and sold at all stages of production and the material costs spent on production and working capital. is a form of taking part of the additional value determined as the cost of expenses into the budget".

Toshmatov (2012) defined that "value added tax is an indirect tax calculated in relation to the market price of goods, works and services sold by business entities".

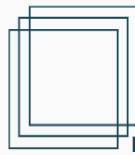
According to Pavlova and Dorojko (2014), "if we reduce the tax rates of VAT, then the budget revenues will decrease significantly, which will lead to an increase in the distribution of funds. On the other hand, if we look at the definitions, most organizations increase tax evasion, which is not allowed, because the state budget will have less financial resources.

Value added tax is also called "European" tax in economic literature. In the middle of the 20th century, the German economist V.Von Siemens is known to have proposed the introduction of a "clean turnover tax". However, this did not happen (Romanovskogo, Vrublevskoy, 2007).

The value-added tax is associated with the name of the French economist Maurice Laure (1958) and was tested as a new tax in the French colony of Côte d'Ivoire in 1954, and was introduced in France in 1958. Later, all European countries were ordered to introduce VAT for business entities in their territory by the end of 1972. Currently, VAT is introduced in 137 countries.

Mohammad Alizadeh, Masoume Motallabi (2016) researched the relationship between value-added tax and government spending, and suggested reducing government spending to ensure social welfare, and as a result, lowering the VAT rate. "Tax Administration Reform and Fiscal Control in Uzbekistan" by Sabine Fraser (2006): This researcher provides an overview of tax administration reform in Uzbekistan and highlights challenges and opportunities for improving tax collection mechanisms. The author suggests that improving the tax collection process can be achieved by improving taxpayer education and outreach, increasing transparency and accountability, and modernizing the tax administration system.

"The Impact of Tax Reforms on Tax Law in Transition Countries: Evidence from Uzbekistan" by Tigran Poghosyan and Evgeniya Kolomak (2013). According to the authors, tax reforms aimed at simplifying tax procedures and reducing tax rates can increase tax compliance and revenue collection.



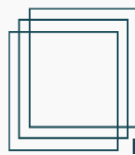
### **Analysis and discussion of results**

The history of economic doctrines and philosophical theoretical views do not deny that the development of human society is accompanied by positive changes in the processes of socio-economic development, as well as negative situations. In our opinion, the secret economy is one of the negative economic processes that took place in the process of socio-economic development. Identifying the problems of the development of the secret economy in the VAT administration and developing ways to eliminate it is an important social issue.

Economist Y. Anufriyeva tried to reveal such categories as tax evasion, tax minimization, tax planning and their interrelationships in her research on the processes of tax evasion by taxpayers. According to him, "tax evasion is a form of minimization of tax obligations on tax payments, which is the object of control and is carried out by taxpayers by committing tax offenses or tax crimes " and "tax optimization is the purposeful legal actions of the taxpayer, including the full use of all benefits provided for by law, tax credits and other legal methods and methods to reduce the amount of tax liabilities", in turn " tax planning is based, firstly, on the minimization of the taxpayer's tax obligations, and secondly, the concept of tax planning is based on tax optimization".

PD-101 of the President of the Republic of Uzbekistan dated April 8, 2022 "On further reforms to improve the business environment and create conditions for sustainable economic growth through the development of the private sector", dated December 30, 2022 No. PD-287 "On measures to classify the territories of the Republic and introduce a differentiated system of business support", No. PD-162 of June 28, 2022 "Reform of Tax Administration Decrees of the Republic of Uzbekistan "On measures to create favorable conditions for business during "On measures to ensure the implementation of the law", dated December 30, 2022 No. PD-471 "On the state budget of the Republic of Uzbekistan for 2023" of the Republic of Uzbekistan This thesis research serves to a certain extent in the implementation of the tasks defined in the decisions of "On measures to ensure the implementation of the law" and other regulatory legal documents related to this field. The results of the scientists' research in this direction show that the development of the secret economy in the country causes an increase in cases such as "corruption", "flow of capital abroad" and "use of offshore zones for illegal tax minimization".The shadow economy is a part of the economy that is not regulated or monitored by government authorities and often has a negative impact on the development of the economy.

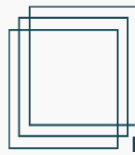
The problems of the hidden economy first came to the attention of researchers in the 30s of the 20th century. However, serious research in this field appeared only in the 70s. In the analysis of scientific literature, it can be observed that terms such as "secret economy", "hidden economy", "parallel economy", "informal economy" are used for the concept of secret economy.



**Table 1. Different opinions and definitions of scholars related to tax evasion.**

Author(s)	Description	Source
D. Tikhonov and L. Lipnik	Tax evasion is almost equivalent to illegal tax planning, and tax evasion corresponds to legal tax planning.	D., Lipnik L. Nalоговое planiro-vanie i minimizatsiya nalogovykh riskov. M.: Alpina Business Books, 2004. 253 p.
A.N. Tishenko, A.A. Yenina-Berezovskaya	"Tax evasion" can be understood as deliberate actions of a taxpayer aimed at reducing the amount of tax obligations to budgets and state trust funds using illegal methods and methods of tax minimization..	A.N. Tishchenko, A.A. Yenina-Berezovskaya. The main reasons for the withdrawal of taxes. Vestnik UrFU. Series economics and management. No. 4/2011. P. 119-124.
G. Agarkov	"the concept of "tax evasion" refers to financial and economic operations that do not have a business purpose and are aimed at obtaining unjustified tax benefits..	Agarkov G.A. Protivodeystvie nalogovoy sistema tenevoy ekonomicheskoy deyatel-nosti / pod. red. A.I. Tatarikina, A.A. Ku-klina. Yekaterinburg: Institut ekonomiki Uro ran, 2007. 278 s.
V. Vishnevskiy i A. Vetkin	Tax avoidance is the avoidance of the taxation process..	Vishnevskiy V.P., Vetkin A.S. Uxod ot uplaty nalogov: teoriya i praktika: monografiya. Donetsk: iep nan Ukrainy, 2003. 228 s.
L. Gindzburg	Tax evasion is a deliberate act aimed at reducing the tax liability for tax payments, which is punishable by law, methods of hiding income and property from the tax authorities, as well as intentional (deliberate) violations of accounting and tax reporting	Ginzburg L. Budgeting and administrative planning. // AKDI Ekonomika i zizn, 2002. No. 7.
Y.M.Anufriyeva	Tax evasion is a form of minimization of tax obligations for tax payments that are the object of control and are carried out by tax payers by committing tax offenses or tax crimes.	E.M. Anufrieva. Ponyatie uklozenia ot uplaty nalogov v sisteme nalogovykh otnosheniy. // Finance and credit. 44 (332) – 2008.
O.Mahkamov	Evasion from paying taxes or other mandatory payments is considered a high level of social danger among crimes in the economic sphere, and it is a deliberate failure of every citizen to fulfill his constitutional duty to pay taxes and other mandatory payments	Analysis of the legislation of Uzbekistan. 2014, No. 3-4.
A.Vaxobov, A.Jo'rayev.	One of the typical manifestations of tax violations is the conduct of financial and economic activities by economic entities without having the appropriate permit, without submitting tax accounts and balance sheets to tax inspectorates.	A.Vahobov, A.Jo'rayev. Taxes and taxation: Textbook. - T.: "Sharq" publishing house - 2009. 268 pages.
Legal glossary	Evasion of payment of taxes and other mandatory payments is the concealment and understatement of profit (income) or other taxable objects.	legal portal.uz.-legal portal

If we analyze the process of the last five years to reduce various manifestations of the hidden economy in the national economy and the factors that cause them as important measures to prevent tax evasion, it is appropriate to mention the following separately:

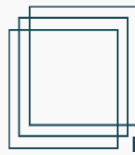


First, Decree No. PD-6098 dated October 30, 2020 of the President of the Republic of Uzbekistan "On organizational measures to reduce the underground economy and increase the efficiency of tax authorities" was adopted, according to which, confidentially measures aimed at curbing the economy and legalizing hidden jobs were determined. As a result, in order to expand the tax base at the expense of curbing the hidden economy, as a result of the introduction of new instruments of modern tax administration - electronic invoices, the use of online control cash registers, marking of goods, electronic contract systems, in 2016 the share of the hidden economy in GDP was 59 percent. if there was, by 2022 it was reduced by 7 percentage points or reduced to 53.2 percent.

When it comes to the size of the underground economy, "in 2005-2022, the size of the underground economy increased from 31% to 53%. In 2017, within the framework of large-scale reforms in our country, as a result of the liberalization of monetary and foreign exchange policy, problems related to cash and currency transactions were eliminated. This, in turn, affected the increase in the amount of cash in the economy, which led to an increase in the scale of the underground economy to about 59 percent compared to the official economy. However, in the following years, as a result of the significant increase in the number of bank plastic cards, terminals, ATMs and infokiosks, the development of cashless payments, as well as the implementation of tax reforms, the volume of the hidden economy decreased from 55% in 2018 to 42% in 2021. " – it is noted.

In order to prevent certain types of business entities from operating secretly, certain incentive mechanisms have been introduced. In particular, for small business entities in the field of public catering, it was determined that payments from bank cards and contactless payments will not be included in the total income in order to make the mandatory transition to the payment of general taxes, for persons engaged in real estate activities, turnover tax the rate was reduced from 25 percent to 13 percent, temporary hiring of workers without a contract was allowed for business entities that fulfilled certain requirements in construction enterprises, and other mechanisms were launched.

The Decree of the President of the Republic of Uzbekistan on May 7, 2021 "On Measures to Further Simplify the Regulation of Passenger Transportation" in order to legalize passenger transportation, one of the areas with the highest share of clandestine activity. accepted. With this decision, from September 1, 2021, individual carriers will carry out their activities only using the services of aggregators and the conditions for using the services of aggregators have been determined. In addition, strengthening of tax control in the construction sector, development of cashless payments and prevention of money laundering, strengthening of tax control in the field of e-commerce, temporary suspension of the VAT payer's certificate for "suspicious" enterprises, as well as for gross tax offenses projects on strengthening of punishment measures were developed. As a result of the implementation of measures



in this direction, the level of voluntary payment of taxes was increased from 83% to 96%, which can certainly be considered a positive situation.

Secondly, the decision of the President of the Republic of Uzbekistan dated October 4, 2021 No. PD-5252 "On additional measures to improve the use of cash register equipment in the field of retail trade and services" on the basis of January 1, 2022, in order to reduce secret circulation in the economy, as well as to implement effective public control in this area, digital instruments of public control (1% cashback on purchase checks and appeals through the "Tax Partner" system regarding violations) 20 percent incentive) was introduced.

As a result of this, as a result of the introduction of the reward system, 121,100 applications were received through the "Tax-partner" system in January-October 2022. 59.9 thousand (98 percent) of the 61.1 thousand inspections conducted on the basis of the appeal were confirmed, and 29.5 billion soums of the fines were paid as a result of 45.9 thousand inspections. Through the introduction of "Cashback" and reward systems, a positive result was recorded in the form of an increase of 1.6 times (an additional 47.6 trillion soums) of turnover through the online control cash register technique from the beginning of the year compared to the corresponding period of the previous year. .

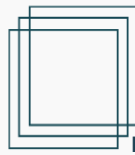
Thirdly, online cash registers and virtual cash registers were used. As a result, 221,900 online cash registers have been installed today. By fully equipping trade facilities with online NKM, tracking the movement of goods, comparing their customs and market values, studying the price situation in the market, remotely monitoring the turnover of goods, and automatically forming the volumes of sales in electronic invoices and tax reports. allows to ensure continuity.

Fourthly, in order to prevent the illegal importation, production and sale of certain types of goods to the republic, to ensure their effective accounting, as well as to increase the collection of taxes and other mandatory payments, the marking of certain goods is gradually being introduced. From April 15, 2022, the gradual introduction of the mandatory digital marking system for household appliances began. Starting from September 1, 2022+, the mandatory digital marking system for medicines and medical supplies has been gradually introduced. 2023 year

Starting from July 1, the gradual introduction of the mandatory digital marking system for water and soft drinks has been established.

As a result, digital marking system was gradually introduced in all processes of sale of alcohol, tobacco and beer products. Also, a total of 1,736 million pieces (945.2 million pieces - tobacco, 462.7 million pieces - alcohol and 328.1 million pieces of beer) branded products were produced and sold.

A total of 21,414 types of products (6,345 alcohol, 857 beer, 1,685 tobacco) are included in the "Product Catalog", which collects information on digitally marked products (name, size, production date, photos). information is included. As a result of the introduction of the system, it was observed that the sales indicators of 51 alcohol



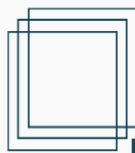
production enterprises increased by 7% compared to the corresponding period of last year, 8 imports increased by 47.6%, and 26 beer producers increased by 11%.

In accordance with the decisions of the Cabinet of Ministers No. 148 and 149 of April 2, 2022, the implementation of digital marking systems for household appliances (April 15, 2022) and medicines (September 1, 2022) is ongoing. A total of 2.8 million by 17 manufacturers and 25 importing enterprises. units - digitally marked household appliances are produced. A total of 10.1 mln. was received by 25 domestic drug manufacturers and representative offices of 25 foreign manufacturers. units - digitally marked drugs are produced.

Based on the analysis, in 2021-2022 tax authorities submitted applications to Economic Courts in 37,189 cases amounting to 8,152.2 billion soums. In 4,165 cases (11%), applications for 3,717.2 billion soums (45.6%) were rejected and resolved in favor of taxpayers. In 2022, 869 taxpayers are included in the group of taxpayers with a high tax risk due to the disproportion of the purchased goods to the nomenclature of the goods being sold and the tax debt of 1.12 trillion soums. operation is temporarily suspended.

All of these taxpayers are subject to a tax audit. In the process of camera tax inspection, 161 mobile tax inspections were organized, and additional taxes of 276.7 billion soums were assessed to the entities that allowed a shortage of goods. 51 companies suspended their activities without paying 138.4 billion soums of the calculated additional taxes. 38 of them were declared bankrupt and their debts were written off. 869 1.12 trillion soums of debts have not been paid due to the lack of property and funds, despite the fact that the mandatory collection measures have been taken. 136 of them were returned to the tax authority without execution due to the lack of assets of 136 of them due to the lack of property. As of January 1, 2024, there are 4,093 enterprises that have suspended their activity without paying taxes due to such clandestine activities, taking illegal profits, and their debt to the budget amounted to 7.8 trillion som. As of January 1, 2023, as a result of the opening and operation of 3,617 similar enterprises, the tax debt increased by 3.4 trillion som, and the debt of secretly operating enterprises amounted to 5,285 trillion som. . Due to the lack of funds, property and assets of these debtor taxpayers, the debt of 178 taxpayers amounting to 864.0 billion soums was written off by opening a bankruptcy case. 316 of them were brought to the court to open a bankruptcy case for debts of 1.0 trillion som. 2 to 10 legal entities engaged in secret activities were opened in the name of 107 citizens, and as a result of their activities, tax debts of 1.1 trillion soums were created, and the activities of companies were deliberately suspended. was investigated by the authorities and referred to the court verdict.

In some studies carried out in Uzbekistan, it was concluded that the reasons for the activity of the secret economic sector are related to the characteristics of the economic system. It is noted that it originates from the specific conditions of the economic



situation of individual countries, sectors, markets and enterprises, and as the most important reasons:

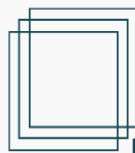
Firstly, imbalances in the development of the financial and credit system (excessive taxation, currency black market, etc.), secondly, the lack of well-developed economic infrastructure (slowness of transport logistics), thirdly, structural imbalances in the economy (low processing sector), fourthly, monopoly in the economy. increase (violation of the principles of competition), fifthly, the strong social stratification of the population (increased real unemployment rate), sixthly, the deterioration of the financial situation of enterprises (increasing the assigned rent, etc.), seventhly, the problems of state regulation (various licenses , the presence of unforeseen costs in obtaining certificates and permits, difficulties in drawing up relevant documents) are acknowledged.

From the analysis of the distributed information on the share of the secret economy, it can be seen that its share is still high and is typical for all countries. The secret economy is an activity that is carried out outside the control and supervision of the state. This phenomenon is complex and understudied, but it is widespread and covers all areas of society, and the shadow economy affects the reproductive sector, where tax revenue can be avoided.

It should be said that the main priority for reducing the size of the secret economy is the reform of the tax administration system. Thus, on June 29, 2018, the decree of the President of the Republic of Uzbekistan "On the concept of improving the tax policy of the Republic of Uzbekistan" was adopted. The main directions of this Concept are as follows (reducing the level of the tax burden on the economy of the Republic of Uzbekistan, as well as eliminating the disparity in the level of tax burden between business entities paying taxes under the simplified and universal taxation system; by unifying the number of taxes optimization, as well as unification of taxes with the same tax base, reduction and simplification of tax reporting, ensuring the stability of the macroeconomic situation, the stability of the formation of the State budget of the Republic of Uzbekistan, and the wide introduction of modern information and communication technologies , introduction of the procedure for taxation of transactions related to transfer pricing). Also, on October 30, 2020, the decision of the President of the Republic of Uzbekistan "On organizational measures to reduce the hidden economy and increase the efficiency of tax authorities" was adopted. On the initiative of the head of our state, the rate of value added tax was reduced to 15% from October 1, 2019, and this rate will be reduced to 15% in 2023.

From January 1, it was set at 12 percent. An electronic invoicing system was introduced, which made it possible to identify up to 20% of enterprises that previously evaded paying VAT. As a result, the number of enterprises paying VAT increased significantly. As of January 1, 2019, some types of taxes in circulation have been canceled (allocations to state special funds). Despite the cancellation and significant





reduction of rates for many types of taxes and mandatory payments, tax reforms have a positive effect on the country's economy.

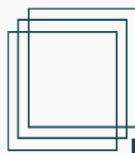
Given that corruption crimes and the underground economy are closely related, the fight against corruption is seen as an effective measure to reduce the underground economy. The adoption of the Law of the Republic of Uzbekistan "On Combating Corruption" dated January 3, 2017 is one of the first steps in this regard. This law was adopted in order to regulate relations in the field of fight against corruption and provided direct action norms, as well as defines the main directions of the state policy on fight against corruption. 2017 of the President of the Republic of Uzbekistan in order to ensure the effective implementation of the provisions of the Law of the Republic of Uzbekistan "On Combating Corruption", timely and high-quality implementation of measures to prevent corruption in all spheres of society and state life. The decision "On measures to implement the provisions of the Law of the Republic of Uzbekistan on Combating Corruption" dated February 2 was adopted. With this decision, the state program for combating corruption was approved, and the Republican Interdepartmental Commission for Combating Corruption was established and its main tasks were defined.

### **Conclusions and suggestions**

Implementation of the automated system of determining the market price of goods (services) without a human factor in order to create equal conditions for business activities aimed at reducing the hidden economy, serves to ensure the principle of fairness of taxes and prevent unjustified tax evasion.

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