

Current reforms on Tax system of Uzbekistan

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Abstract

This paper is dedicated to the analysis of influence of tax reforms on small enterprises in Uzbekistan.. Particularly it analysis how single tax effects the development and functioning of the SMEs. The base hypothesis used in this research paper is Laffer' hypothesis, which states that decrease of tax rates will encourage the development of the enterprises and will raise more government revenues. This effect will be achieved through better business conditions, which ensures the financial sustainability of the business. The research results showed that implementation of lower tax rates and single tax policy, positively effect the development of the SME sector. Despite the policies and actions taken by government authorities, there is still space for improvements.

Keywords: influence, tax system, government system, payment, SME

INTRODUCTION

The purpose of the analysis was to examine the whether single tax payment encourages the development of small enterprises in Uzbekistan. For better research results I had to review all known methods. For example time comparison method, is suitable for research where data will be analyzed over the time. The specific period of time is taken and method shows changed happened during that time. This method might be used if we had for example objective examining tax changes since 1991 till 2008. The result will show effects taken within given period of time. The aims of the article were: Identification of the historical trend of tax reforms for small enterprises of Uzbekistan; to learn the evolution of tax reforms in foreign countries for small and medium sized enterprises; to investigate single tax versus multi tax payments systems in Uzbekistan; Identification of tax reforms' effect for small enterprise development in Uzbekistan. The research hypothesis was: Does single tax payment

encourage the development of small enterprises in Uzbekistan?

Main Part

In many respects success of the country's development depends on the rightness of the chosen strategy. One of the successful ways of achieving fast and prosperous development is supporting and encouraging the SME sector Tashkent State University of Economics, Uzbekistan which plays crucial role in the economy of any government. According to the world experience, the SME sector provides significant government revenues, employment opportunities and enhances the expansion of the state's economic power in most states of the world. Therefore, development of this sector is one of the most significant objectives for any government. Uzbekistan's government has been paying special attention to the development of SME sector since its independence. The government of Uzbekistan implements actions and measures for supporting and improvement of the business environment for enterprises. There are different issues which create barriers for the establishment and the performance of the SMEs. One of the most significant areas which have direct impact on any business is the taxation. Tax system is one of the key tools for sustainability and development of any government. The primary function of a tax system is to raise revenue for the government for its public expenditure. By means of manipulating tax rates and other fiscal instruments, a government stimulates or structure suppresses business activity, creates necessary conditions to increase competitiveness of national enterprises, sets protectionist policies or provides freedom to the commodity market. There is always debating question about tax system: what kind of tax system is better, should be there multiple type of taxes or single tax policy should be applied. Should the country have high or low tax rates? There have been many studies on the tax policies. One of the ways of evaluating tax efficiency is referring to seven 'Canons of Taxation' – which was developed by Adam Smith, and further devised by modern economists: 1. The cost of collection must be low relative to the yield 2. The timing and amount to be paid must be certain to the payer 3. The means and timing of payment must be convenient to the payer 4. Taxes should be levied according to ability to pay 5. A tax must not hinder efficiency or should involve the least loss of efficiency 6. A tax should be compatible with foreign tax systems (in Uzbekistan case with CIS states) 7. Tax should automatically adjust to changes in the rate of inflation (particularly important in high inflation economies) The next tax theory worth mentioning is the theory of progressive, flat or regressive taxes. The progressive taxation of income proposes that the more people earn, the greater the proportion of tax rate they are levied. At regressive taxation, the more people earn the less tax represents as a proportion of their income. The tax neutral to the levels of taxable income is called the flat tax, where everybody the poor and the rich are levied at the same rate, regardless of income amount. Depending on the taxation system chosen at the given development stage of the country, state tax revenue may alter.

Another method of evaluating of tax burden of taxes was proposed by classical economist Professor Art Laffer, who has become quite well known through his 'Laffer curve'. He suggested that, as taxes increased from fairly low levels, tax revenue received by the government would also increase. However, as tax rates rose, there would come a point where people would not regard it as worth working so hard. This lack of incentives would lead to a fall in income and therefore a fall in tax revenue. The logical end-point is with tax rates at 100% where no one would bother to work and so tax revenue would become zero. Laffer argues that the central objective of the government is to determine an optimal tax rate T that is beneficial for the efficiency of work and state tax collections. In other words, the Laffer hypothesis proposes that government can achieve high tax revenues with lower tax rates. According to this hypothesis, the decrease of tax rates will stimulate the business environment through minimization of tax burden for enterprises. In the environment of tough competition, especially in the developing countries, the decrease of tax rates provides stimulus and support for operations, investment and innovations. These factors could be achieved due to the following features: The decrease of tax rates encourages entrepreneurs not avoid taxes The business conditions creates favorable environment for establishment and improvement of new businesses Most enterprises leave the underground economy due to better business conditions This fact support the Laffer's hypothesis which states that government can receive same levels of taxes with smaller tax rates, and at the same time decrease the tax burden for enterprises and encouraging them to leave the underground economy. After the collapse of Soviet Union, newly established governments had to move from planned to market-oriented economy. This simultaneous movement challenged all economies, as its structure and mechanisms had to be totally changed and within short time. One of the first objectives which should be properly established was the taxation system, as it is the primary source of the government budget. The efficient system proposed establishment of favorite business conditions while tight policy would negatively affect the businesses. Since independence in 1991, Uzbekistan has pursued a gradual approach to the transition from a planned to a market economy. The special attention in major tax reforms that have taken place in Uzbekistan were given to the simplified method of taxation used for micro-firms and small businesses. The government aims at building a socially oriented market economy, and developing industrial and manufacturing capacity in a predominantly agricultural economy using substantial and direct central control (Gemayel, E. & Grigorian, D. (2005).

Data for Uzbekistan confirm the reality of these assumptions and show that SMEs accounted for about 66% of total employment in Uzbekistan at the end of 2005 (from 56% in 2003) and 85% of newly created working places. "Small businesses and individual entrepreneurship became the prime source in providing employment and improving living standards in our country" said Karimov in his January speech (Karimov, 2010). Moreover, unlike in many countries of the former Soviet Union,

SMEs in Uzbekistan play the same social role as they do in Europe and other OECD member-countries. The movement to single tax payment system influenced primarily wholesale/retail sale and catering enterprises, which were subject to tax on their gross profit, with monthly reporting obligations to tax agencies. Even under new tax system some enterprises are subject to additional payments to local budgets above the single tax payment. These payments are usually in the form of trade duties for selling alcohol, tobacco products, items made of precious metal and stones. Enterprises also have to pay excise tax, custom duties and VAT if they import materials or supplies. The biggest advantage from single tax payment system receives service enterprises that usually pay only single tax. The SME sector provides significant government revenues and employment in most states of the world. Therefore, development of this sector is one of the most significant for each government. For instance, the republic of Belarus tries to take necessary measures to stimulate small businesses and attract foreign investment. This is done through minimizing constraints for small businesses, allowing them to be easily able to obtain financial and technical resources (Belarus. 2005-2009) Many world known organisations such as the UNDP, OECD, IFC and other universities have undertaken research in many countries to see how small enterprises are developing and how do they effect the economy. The small businesses all over the world are increasing and developing at a faster rate. For example, in Hungary, the small firms increased by 175%, 109% and 30% from 1990-1993(Shleifer, 2000). The research undertaken in Canada, showed that self-employment is also rising significantly especially among the population below the age 30 and above 55 (Tai, B., 2006.) In Russia however, the number of self employed people has decreased from 8500 to 6200 from the year 1994-1999(Polishchuk, L.). The taxation policies towards small enterprises are very important, by using this tool, the governments of countries tries to develop and encourage the development of small businesses.

Conclusion

The main directions of tax reform were aimed at raising more revenue in the short term, ensuring the tax burden was distributed equally, broadening the tax base to reflect the changing structure of the economy, easing the tax burden on the general population, creating favorable conditions for the development of the private sector and furthering the ongoing adaptation of the tax structure to fit a market economy. Tax reforms have brought some success. Evidence of it can be seen in increased revenues during this time period, which contributed to the reduction of the budget deficit. This was possible because of substantial improvements in tax revenue collections. But we should note that with the increase of revenues, increases in tax arrears also took place, implying that there is still much room for improvement. This is reflected in the ratio of taxes to GDP, which still remains lower than in other formally planned countries. In 1997, revenue as a percentage of GDP

was 17% in Uzbekistan, whereas the average for the NIS group was 25% and for the CEE/NIS group was 32%. The percentage of revenues to GDP in Uzbekistan is half that it is in countries like Estonia, Latvia or Poland. This low ratio can be explained by a number of reasons: many exemptions, which narrow the tax base; the creation of special incentives, which complicate tax administration. One of the biggest set of reasons comes from problems in tax administration, ranging from such trivial ones as a lack of equipment to major ones such as the large size of the hidden economy, a high level of corruption, weak enforcement powers, a lack of professionals, weak audit functions and a lack of systematized computer systems. According to the international experience, the most effective method of selecting enterprises for inspection is based on the analysis of the potential risks involved in the business. Under this method, selection for inspection and frequency of inspection depends on the extent of potential danger the operation of a business may pose to public health, the environment, or the country's economy. The major disadvantage of existing tax inspection system is the absence of a link between the financial index of an enterprise and its inclusion to tax inspection plan, which minimizes efficiency of tax audits.

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