

## IMPROVEMENT OF THE MECHANISM OF VALUE ADDED TAX IN THE SYSTEM OF INDIRECT TAXES

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### Abstract

The article is devoted to the consideration of the issues of improving the administration of value added tax as a result of tax reforms implemented in our country. In reliance upon the research results relevant proposals have been made to simplify the administration of value added tax.

**Keywords:** tax, value added tax, tax administration, tax rate.

### Introduction

Among the modern theories of taxation, the theory of the ratio of direct and indirect taxes is of particular importance. The essence of this theory is that taxes are divided into two groups: direct and indirect taxes. The share of value added tax in the system of indirect taxes remains high. By its nature, value-added tax is complex, multifactorial, multifaceted, and its problems makes an impact on all areas of current material life. In the speech of the President of the Republic of Uzbekistan Shavkat Mirziyoyev (2023) at the meeting held in the form of an open dialogue with the entrepreneurs of the Republic of Uzbekistan, we are not increasing the tax burden on entrepreneurs, but we are going the way of raising the revenues to the budget due to the expansion of the tax base by supporting them. According to the surveys conducted 62 percent of our entrepreneurs positively evaluated our tax reforms [1].

The amount of value added tax in our country is gradually increasing year by year. Budget revenues from value added tax on domestic products increased one and a half times over three years - from 20.5 trillion UZS (2.1 billion USD) in 2020 up to 32.8 trillion UZS (3.0 billion USD) in 2022. Value added tax on imports has almost doubled during this period - from 19.7 trillion UZS up to 38.7 trillion UZS. Last year VAT revenues provided one third of the state budget revenues. 71.5 trillion UZS of VAT collected in 2022 significantly exceeded the targeted amount of 53.3 trillion UZS. The revenues from the value added tax in the amount of 63.8 trillion UZS are expected in the budget of Uzbekistan in 2023. The number of VAT payers increased by 14.4 percent in 2022 alone and reached 171.9 thousand people in December [2].

As of May 1, 2023, the number of VAT payers has exceeded 180 000 people.

### 2. Literature Review

The analysis of research papers devoted to the problem of the research has demonstrated that this topic was investigated by foreign scholars and domestic economists.

A. Vahobov and A. Juraev (2009) explain the nature of value added tax as follows: in its economic essence, added value consists of the difference between the value of sold products, work performed and services rendered and the value of goods, raw materials and services consumed in the production process [3].

According to M. Yuldoshev and Y. Tursunov (2000), the reason why it is called value-added tax is that the tax is levied on the value-added part at each stage of participation in the production of goods, works or services, and it is a form of budgeting a portion of the net income [4].

Sh. A. Toshmatov gave a broader definition of VAT in his research paper. In his opinion, the term “added value” means the additional value added by economic entities to the purchase price of material resources, included in the selling price of goods and services in the market. This implies that the costs and usefulness of goods are recognized by the market and their monetary equivalent is determined. Determining the amount of value added to goods and services can only be done after the goods have been sold. It follows that added value is the end outcome of production [5].

According to A. T. Mukhanov (2023), the VAT is a consumption tax levied on most goods and services sold for use or consumption. It is charged from the “added value” of the product at each stage of production and distribution. “Added value” refers to the difference between the cost of investment in the product / service and the price at which it is sold to the consumer [6].

From the point of view of N. Z. Zotikov (2019), Value Added Tax (VAT) is a form of deducting from the state budget a part of the prime-cost of a product, work or service, which is created at all stages of the production process and paid to the budget after its sale. As a result of the VAT application, the final consumer of a good, work or service pays sales tax on the entire value of the goods purchased [7].

Another source (2023) provides the following considerations: value added tax (VAT) is a tax charged on the sale of goods or services within the EU member states. The tax, in all cases, must ultimately be paid by the final consumer of the goods or services. Each party in the supply chain (manufacturer, wholesaler and retailer) acts as a VAT collector [8].

Gail Cole (2021) defines the VAT in his scientific work as follows: the Value Added Tax (VAT-VAT) is a broad consumption tax calculated on the added value of goods and services as they move along the supply chain [9].

According to J. Ueda (2011), since the VAT is calculated as a consumption tax, its ideal base - i.e., total final consumption expenditures - is somewhat stable during business cycles, which implies the stability of the VAT base, however in practice, VAT revenues are sometimes more influential than GDP or final consumption. In the history of the development of the tax system aimed at the formation of state budget revenues, introduction of value added tax is one of the most essential discoveries in this area in the second half of the XX century [10].

F. Davletov (2023) stated that the reduction of the VAT rate from 15 percent up to 12 percent made a favourable impact on the growth of the business environment in the country [11].

### 3. Research Methodology

Such research methods as economic analysis, rationality and grouping have been used in the research of value added tax administration. In 2018-2022, the reforms implemented in our republic regarding creation of the value added tax chain, tax incentives, and taxation mechanism have been scientifically researched.

### 4. Analysis and Results

The low cost of the VAT calculation and administration means its efficiency. Involving new digital technologies in value added administration can simplify and reduce costs.

According to the opinion of Ye.V. Smirnova (2018), it is necessary to reform the technique of calculation and administration of value added tax for the convenience of not only the government, but also the taxpayer, which requires a careful study of all the positive and negative consequences of the proposed amendments to the tax legislation [12].

Continuous activities are being implemented to simplify the administration of value added tax in the Republic of Uzbekistan. A clear example of this is the Resolution of the President of the Republic of Uzbekistan dated September 4, 2023 №PR-292 “On measures to implement the objectives set in the open dialogue of the President of the Republic of Uzbekistan with entrepreneurs in 2023”<sup>1</sup>.

Section V of the “Roadmap” of this Resolution sets out the simplification of the administration of value added tax, which states: the practice of using the coefficient of tax break (tax gap) when compensating (refunding) the negative amount of value added tax is prohibited;

the procedure for suspending the validity of the certificate of special registration for value added tax is canceled (with the exception of cases in which the transactions (operations) carried out do not correspond to the nomenclature of the goods (services) being purchased and sold).

The value-added tax rate in our country is decreasing year by year, which justifies the support for entrepreneurs (Table 1).

**Table 1 Dynamics of change of value added tax in the Republic of Uzbekistan in 2018-2023<sup>2</sup>**

№	Indicators	Years					
		2018	2019	2020	2021	2022	2023
1	Value added tax rate, in percent	20	20/15 <sup>3</sup>	15	15	15	12

In compliance with the Decree of the President of the Republic of Uzbekistan dated September 26, 2019 “On measures to further improve the tax policy of the Republic of Uzbekistan”, the rate of value added tax was reduced from 20 percent up to 15 percent from

<sup>1</sup>Resolution of the President of the Republic of Uzbekistan dated September 4, 2023 №PR-292 “On measures to implement the objectives set in the open dialogue of the President of the Republic of Uzbekistan with entrepreneurs in 2023”.

<sup>2</sup> The table has been developed by the author.

October 1, 2019. According to the Law of the Republic of Uzbekistan dated December 30, 2022 №PD-812, from January 1, 2023, the VAT rate is set at 12 percent.

As a result of the economic reforms implemented in our country, the share of value-added tax is still significant, despite the fact that it is decreasing from year to year (Table 2).

**Table 2 Dynamics of growth of value added tax in the revenue source of the state budget of the Republic of Uzbekistan in 2020-2022, bln. UZS**

Indicators	2020	In relation to total, in %	2021	In relation to total, in %	2022	In relation to total, in %
State budget revenues	132938	100	164681	100	202 043	100
Indirect taxes, total	46 428	34,9	56 292	34,2	71 390	35,3
Value Added Tax (VAT)	31 177	23,5	38 439	23,3	52 189	25,8
Excise tax	11 697	8,8	13 088	7,9	13 455	6,7
Customs duty	3 554	2,7	4 765	2,9	5 746	2,8

In reliance upon the data provided in Table 2, as of 2022, the value added tax (VAT) revenues in 2022 will account for 52.2 trillion UZS, which demonstrates an increase by 13.8 trillion UZS or 35.8% compared to 2021. In 2022, by the VAT, tax authorities collected to the state budget the amount of 32.8 trillion UZS (28.3% more than in 2021) and the customs authorities collected to the state budget the amount of 38.7 trillion UZS (41.8% more than 2021).

Problems in the mechanism of calculation and collection of value added tax:

- complexity of the taxation system;
- inaccuracies in determining the tax base;
- problems with tax evasion;
- existence of high pressure and bureaucratic obstacles in the administration related to taxation;
- high level of tax risks and disputes;
- low competitiveness of entrepreneurs, etc.

Proposals and solutions for the problems specified above:

- simplification of the value added tax system;
- unification of value added tax calculation and explanations;
- strengthening control and digitization of VAT evasion;
- adaptation of personnel skills to the requirements of the time;
- supporting small and medium-sized businesses based on the simplification of the value-added tax calculation and collection system.

## 5. Conclusion:

Despite the economic reforms carried out in the tax administration, the system of calculation and collection of value added tax remains complicated.

It is required to ensure implementation of the objectives specified in Section V of the “Road Map” of the Resolution of the President of the Republic of Uzbekistan dated September 4, 2023 №PR-292 “On measures to implement the objectives set in the open dialogue of the President of the Republic of Uzbekistan with entrepreneurs in 2023” on simplifying the administration of value added tax increase.

Proposals for solving problems in the mechanism of calculation and collection of value added tax:

- simplification of the value added tax system;
- unification of value added tax calculation and explanations;
- strengthening control and digitization of VAT evasion;
- adaptation of personnel skills to the requirements of the time;
- supporting small and medium-sized businesses based on the simplification of the value added tax calculation and collection system.

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