Criteria for classification of business entities in further improvement of tax policy and tax administration

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ABSTRACT

Business classification is an important aspect of tax policy and tax administration, as it allows governments to design targeted tax measures and implement effective tax collection processes. This abstract examines the criteria used in the classification of business entities and their importance in the further improvement of tax policy and management. Therefore, it is essential to address these issues and develop effective measures to improve the taxation practice for SMEs. This abstract serves as an introduction to the discussion of the key aspects related to taxation of SMEs and ways to enhance the compliance and efficiency of the tax system for these businesses..

Keywords: Local tax, market value of property, cadastral value, personal card, tax elements, budget potential, local budget, local budget expenses, local taxes, tax benefits, business entities, tax policy, tax administration, classification, criteria, efficiency.

Introduction: It is important to classify business entities based on appropriate criteria in the development of a gross and fair tax policy. Different types of businesses have different financial structures, operating characteristics and tax behavior. Therefore, applying a tailored approach to taxation through proper classification can improve the effectiveness of tax policy and administration. The classification of business entities based on specific criteria plays a crucial role in the continuous improvement of tax policy and tax administration. Governments worldwide recognize that different types of businesses have distinct characteristics, financial structures, and tax behaviors. As a result, designing targeted tax measures and implementing efficient tax collection processes becomes imperative to promote fairness, transparency, and economic growth. The classification of business entities involves categorizing them into different groups based on various factors, such as their legal structure, size, sector, geographical location, and financial performance. Each criterion provides valuable insights that enable governments to adopt a tailored approach to taxation, ensuring that tax policies align with the unique needs and challenges faced by different types of businesses.

By implementing well-defined criteria for classification, tax authorities can identify relevant tax incentives, exemptions, and reporting requirements for specific business categories. Such targeted measures not only encourage compliance but also promote investments, foster innovation, and support the growth of small and medium-sized enterprises (SMEs). This paper aims to explore the significance of using specific criteria for classifying business entities and how it can lead to the further improvement of tax policy and tax administration. By analyzing the role of classification in ensuring a fair, efficient, and effective tax system, policymakers and tax authorities can devise strategies that benefit both businesses and the overall economy. The high compliance costs and bureaucratic procedures associated with tax compliance can be a significant burden for SMEs, and can even discourage entrepreneurs from starting new businesses. This paper examines the issues and challenges facing SMEs in complying with tax regulations, and explores ways to improve the practice of taxation for SMEs. The paper also reviews various tax policies and incentives that can be implemented to reduce the tax burden on SMEs and improve their tax compliance.

Analysis of literature on the topic

The idea of using various criteria for categorizing business entities in tax administration has been proposed and discussed by numerous scholars and researchers in the field of economics, public finance, and taxation. Some of the prominent names in this area of study include:

James Poterba is an economist known for his work in public finance and taxation. He has written extensively on tax policy and its implications for economic behavior and outcomes.

Joel Slemrod is a prominent economist who has contributed significantly to the study of taxation and tax policy. His research often explores the behavior of businesses and individuals in response to tax changes.

Robin Boadway is an economist specializing in public finance and tax policy. He has published research on the design of tax systems and the role of taxes in promoting economic efficiency.

Richard Musgrave was an influential economist who made significant contributions to the field of public finance. He advocated for using tax policy to achieve both economic efficiency and social equity.

Michael Keen is an economist known for his work on tax policy and international taxation. He has written extensively on tax design and administration.

Lawrence Summers is an economist who has served in various high-level government positions, including the Secretary of the Treasury in the United States. He has been involved in shaping tax policy and has advocated for tax reforms.

Michael Graetz is a tax law professor and economist who has written extensively on U.S. tax policy and tax reform.

Raj Chetty is an economist known for his work on taxation and its effects on economic behavior. His research often explores the impact of taxes on inequality and social mobility.

The opinion of scientists on the criteria for categorizing business entities in the further improvement of tax administration is diverse and has evolved over time. The literature review reveals various research studies and scholarly works that discuss different criteria and their implications for tax administration. Some common themes and opinions from scientists include:

Many researchers propose classifying business entities based on their size, such as small, medium, and large enterprises. Different sizes of businesses often have varying tax needs, compliance levels, and economic contributions. Tailoring tax policies to cater to the specific needs of each size category can promote fairness and support the growth of smaller businesses. Scholars often emphasize considering the legal structure of business entities, such as sole proprietorships, partnerships, corporations, or limited liability companies, in tax classification. Different legal forms have distinct tax implications and may require different compliance measures. Some studies suggest using the sector or industry as a criterion for classification. Different industries may have unique characteristics, risks, and tax implications. Targeted tax policies based on industry-specific considerations can optimize revenue collection and encourage growth in strategic sectors. Revenue or turnover-based classification is another criterion proposed by researchers. Businesses with higher revenue or turnover may have different tax implications and compliance requirements. Tailoring tax policies based on revenue levels can enhance revenue collection and ensure that larger businesses contribute proportionally. The profitability of business entities is often considered as a criterion for tax classification. Differentiating tax treatment based on profitability can incentivize investment and support businesses during economic downturns. Some researchers advocate using employment and job creation as criteria for classification. Providing tax incentives to businesses that contribute significantly to job opportunities can promote economic growth and social welfare. Geographic location is occasionally suggested as a criterion for tax classification, particularly in federal systems or regions with different economic conditions. Applying regional criteria may support businesses in less developed areas and promote regional balance. Scholars also propose considering a business's past tax compliance record as a criterion. Those with a history of good compliance may be rewarded with tax benefits, while those with poor compliance may face increased scrutiny and enforcement measures. Overall, the literature highlights the complexity of tax classification and the need to carefully choose criteria that align with policy objectives, promote economic growth, and ensure fairness. The opinions of scientists in the literature review underscore the ongoing efforts to refine tax administration and improve the effectiveness of tax policies.

Research methodology.

This article consists of developing a scientific proposal and practical recommendations aimed at improving the mechanism of taxation of small business entities. The comparative method was used, data on business entities and their analysis were carried out and scientific conclusions were given.

Analysis and discussion of results.

The criteria for categorizing business entities can vary from country to country and are typically established by each country's tax authorities or relevant government agencies. Different countries may have different criteria based on their specific tax laws, economic conditions, and policy objectives.

For example, in the United States, the Internal Revenue Service (IRS) categorizes business entities based on factors such as their legal structure (e.g., sole proprietorship, partnership, corporation), size, annual revenue, and the number of employees.

In Uzbekistan, the tax authorities may use criteria such as the type of business, annual turnover, number of employees, and other relevant factors to categorize business entities for tax purposes. It is essential to consult the tax laws and regulations of each specific country to understand the criteria used for categorizing business entities in that particular jurisdiction.

Several countries have similar criteria for classifying business entities based on their size or annual revenue. These classifications are typically used for regulatory and tax purposes. While the specific thresholds and categories may vary from one country to another, the general concept of classifying businesses based on their size or revenue remains consistent. Some countries that have similar criteria for classifying business entities include:

United States: The United States classifies small businesses based on the number of employees and annual revenue. The Small Business Administration (SBA) defines small businesses based on their industry and typically considers businesses with fewer than 500 employees as small.

United Kingdom: The UK categorizes small businesses based on the number of employees and turnover. For instance, micro-companies have up to 10 employees, small companies have up to 50 employees, and medium-sized companies have up to 250 employees.

Australia: In Australia, small businesses are classified based on their annual revenue, with different thresholds for various industries. For example, businesses in the manufacturing sector are classified as small if their revenue is below AUD 10 million, while those in the wholesale trade sector are considered small if their revenue is below AUD 25 million.

Canada: In Canada, businesses are classified based on their annual revenue, with different thresholds for different industries. For example, businesses in the manufacturing sector are classified as small if their revenue is below CAD 30 million.

Germany: In Germany, the classification of business entities is based on the number of employees. Small businesses have fewer than 50 employees, medium-sized businesses have between 50 and 249 employees, and large businesses have 250 or more employees.

It's important to note that the classification criteria may be subject to changes over time in response to economic conditions and policy objectives. Additionally, each country's classification system may have specific nuances and variations to suit its unique economic and regulatory landscape.

Classification of business entities in the Republic of Uzbekistan based on the following criteria:

a) small business entities:

individual entrepreneurs;

micro-firms - business entities whose founders (participants) are natural persons and whose total income during the calendar year is up to 1 billion soums;

small enterprises - business entities whose total income is from 1 billion to 10 billion soums during the calendar year and the founders (participants) of the third paragraph of this subsection are legal entities;

b) medium-sized business entities - business entities whose total income is from 10 billion to 100 billion soums during the calendar year;

c) large business entities - business entities with a total income of 100 billion soums and more during the calendar year.

Except for Btsundvn from April 1, 2023:

a) Up to 50 percent of property insurance costs are reimbursed once a year to medium-sized business entities at the expense of the state fund for the support of business activities, but not more than 20 times of the base calculation amount;

b) a 20 percent quota is introduced in state procurement for business entities with a total income of not less than 10 billion soums, and 50 percent advance payment is provided for in contracts concluded with budget customers within the scope of these procurements.

In this case, tax authorities will form information on business entities with a total income of more than 10 billion soums and provide information exchange with a special information portal;

c) the amount of value added tax is not taken into account when selecting the best offers in public procurement and evaluating the offers of participants in tenders;

g) the procedure for reimbursement of the expenses related to the production of products and their sale to the foreign market up to 6% of the export value of enterprises exporting high-added-value copper products was canceled.

A fixed amount of 10 billion soums was set for JSC "Navoi Mining and Metallurgical Combine" and "Almalik Mining and Metallurgical Combine" JSC.

In China, the criteria for categorizing business entities are primarily based on their registered capital and the number of employees. The classification system may vary depending on the specific purpose or government regulations, but the main criteria are as follows:

In China, the registered capital is the initial amount of capital that a company must have when it is established. The registered capital requirements vary depending on the type of business entity and the industry in which it operates. Typically, companies with higher registered capital are considered larger or more substantial entities, while those with lower registered capital are categorized as smaller businesses.

The number of employees is another important criterion for categorizing business entities in China. The size of the workforce can be an indicator of the company's scale and operations. The classification of businesses based on the number of employees can vary across different regions and industries.

China recognizes different types of business entities, such as state-owned enterprises (SOEs), private enterprises, foreign-invested enterprises (FIEs), and small and medium-sized enterprises (SMEs). Each type of business entity may have its own set of criteria and regulations for classification.

China uses the National Economy Industry Classification System to categorize businesses based on their industry. This classification system allows for a standardized approach to group businesses based on their economic activities.

Annual Revenue or Turnover: In some cases, the annual revenue or turnover of a business may also be considered in its categorization. Businesses with higher annual revenues are generally considered larger or more significant in terms of economic impact. It's important to note that China has a complex and evolving business classification system due to its diverse economic landscape and rapidly changing market conditions. The criteria for categorizing business entities may be subject to updates and changes by the Chinese government to adapt to economic developments and policy goals. Businesses operating in China should consult with local authorities or legal experts to ensure they comply with the latest classification requirements and regulations.

In the United States, the classification of business entities is primarily based on two factors: the number of employees and the annual revenue or gross receipts of the business. The Small Business Administration (SBA) is responsible for defining and categorizing small businesses in the US. The criteria for categorizing business entities are as follows:

The size standards vary by industry, and they are based on either the number of employees or the annual revenue of the business, depending on the industry's characteristics. For most industries, the size standard is based on the average annual revenue of the business. The SBA determines the size standard by comparing the business's revenue to the average revenue of businesses in that industry. For certain industries, the size standard is based on the number of employees. The SBA sets different employee size standards for various industries.

The criteria for categorizing small businesses vary depending on the industry's NAICS (North American Industry Classification System) code. Each industry has its own size threshold, either based on revenue or the number of employees. For example, in the manufacturing sector, a business is considered small if it has fewer than 500 employees, while in the retail trade sector, the threshold may be based on average annual revenue.

The SBA further categorizes small businesses into subcategories based on their size and characteristics. For example, there are microbusinesses (fewer than 10 employees), small businesses (up to 50 employees), and mid-sized businesses (up to 500 employees). The size subcategories help tailor specific support and assistance programs for businesses based on their size and needs.

It's important to note that the criteria for categorizing business entities as small may change periodically due to economic conditions and policy decisions. Businesses are encouraged to check the current size standards on the SBA's website or consult with their local SBA office to determine their eligibility for various government programs and support.

In Canada, the criteria for categorizing business entities are primarily based on their legal structure, size, and industry. The classification system allows for a standardized approach to group businesses based on these criteria. Here are some of the main criteria for categorizing business entities in Canada:

Canada recognizes various legal structures for businesses, including sole proprietorships, partnerships, corporations, and cooperatives. Each legal structure has its own set of rules, regulations, and tax implications.

The size of a business can be determined by factors such as its annual revenue, number of employees, and total assets. Businesses are often categorized as small, medium-sized, or large based on these metrics.

Canada uses the North American Industry Classification System (NAICS) to categorize businesses based on their primary economic activities. This system provides a standardized approach to classifying businesses by industry.

The annual revenue or turnover of a business is often used as a key metric for categorization. Businesses with higher annual revenues are typically considered larger or more significant in terms of economic impact.

The number of employees is also a common criterion for categorizing businesses. It can provide an indication of the scale and operations of the business.

In some cases, the ownership structure of a business may be considered for categorization. For example, businesses that are wholly Canadian-owned may be distinguished from those with foreign ownership.

Depending on the purpose of classification, the location of the business may also be a relevant criterion. Businesses may be categorized based on their province or territory of operation. It's important to note that the specific criteria and thresholds for categorizing businesses may vary based on the context, such as for tax purposes, government programs, or statistical reporting. Additionally, the criteria and classification systems may be subject to updates and changes by the Canadian government to adapt to economic developments and policy goals.

Businesses operating in Canada should be aware of the relevant classification criteria and regulations that apply to their specific industry and legal structure. It is advisable to consult with legal and financial experts or government authorities to ensure compliance with the latest classification requirements and regulations.

In conclusion, the criteria for the classification of business entities play a crucial role in the further improvement of tax policy and tax administration in any country. By categorizing businesses based on various factors such as legal structure, size, industry, and revenue, tax authorities can develop targeted policies, tax rates, and incentives to support the growth of different types of businesses.

The classification of business entities enables tax authorities to better understand the dynamics of the economy, identify trends, and tailor tax regulations to meet the specific needs of different businesses. For instance, small and medium-sized enterprises (SMEs) may require different tax incentives and simplified compliance procedures compared to large corporations. By providing appropriate support to SMEs, governments can encourage entrepreneurship, job creation, and economic development.

Additionally, the use of standardized classification systems, such as the North American Industry Classification System (NAICS), allows for consistency and comparability of data across industries and regions. This facilitates data analysis, benchmarking, and the formulation of evidence-based tax policies.

Furthermore, the criteria for classification of business entities should be periodically reviewed and updated to reflect the changing economic landscape and evolving business practices. Continuous assessment of the effectiveness of tax policies and their impact on different categories of businesses is essential to ensure that the tax system remains fair, efficient, and conducive to economic growth.

In the context of tax policy and tax administration, clear and transparent criteria for the classification of business entities can lead to improved compliance and reduced tax evasion. Businesses are more likely to comply with tax regulations when they perceive the tax system as equitable and when they understand their obligations based on their specific category.

Overall, a well-designed classification system for business entities can foster a more inclusive and supportive tax environment that encourages entrepreneurship, investment, and sustainable economic growth. It can contribute to the creation of a level playing field for businesses of all sizes and industries, thereby enhancing the overall competitiveness and resilience of the economy. To achieve these objectives, close collaboration between tax authorities, policymakers, and businesses is essential in designing and implementing an effective and balanced classification system.

Conclusions and suggestions.

Proposal: Enhancing Criteria for Classification of Business Entities in Tax Policy and Tax Administration:

Conduct a comprehensive review of the current criteria used to classify business entities. Evaluate their effectiveness in capturing the diversity of businesses, aligning with economic realities, and promoting compliance.

Consider industry-specific factors in the classification process. Different industries have distinct tax challenges and requirements, and tailoring tax policies to these variations can optimize outcomes.

Introduce revenue thresholds to differentiate between small, medium, and large businesses. This will allow for more tailored tax incentives and compliance requirements based on revenue levels.

Include employment and investment metrics in the classification system. Businesses that create jobs and invest in research and development should be eligible for targeted tax incentives to promote growth.

Implement simplified compliance procedures for small businesses, reducing their administrative burden and encouraging compliance.

Utilize data analytics to assess the impact of the proposed changes and identify areas for further improvement. Data-driven decision making can lead to more evidence-based tax policies.

Engage with various stakeholders, including businesses, industry associations, tax professionals, and academics, to gather diverse perspectives and refine the criteria.

Develop training programs and awareness campaigns to educate taxpayers about the new classification system, its benefits, and their tax obligations based on their category.

Establish a framework for periodic evaluation and review of the updated classification system. Regular assessments will ensure that the system remains relevant and responsive to changing economic conditions.

Study and adopt international best practices in classifying business entities. Learning from successful tax policies in other countries can inform and improve the Uzbekistan tax system.

Support the proposal with appropriate legislative changes and policy reforms to enforce the new classification system effectively.

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