



# Implementation of new mechanisms to improve service to taxpayers in the tax administration in Uzbekistan

## Ways to improve small business

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### ABSTRACT

In this article, special attention is paid to further reducing the negative impact on the competitiveness of the republic's economy by gradually reducing the monopoly on commodity and financial markets, improving the efficiency of the system of granting benefits and preferences, as well as reducing the regulatory burden on business entities and radically improving the interaction of taxpayers in the implementation of tax administration and the fulfillment of tax obligations of the republic.

### Keywords:

tax, fiscal policy, budget, tax administration, tax potential, regulatory analysis, positive analysis, tax burden, representative tax rate, average rate, tax reporting, tax revenues, tax benefits.

**Introduction:** Tax administration plays a crucial role in ensuring the effective and efficient collection of taxes for the development of a country. The level of tax compliance by taxpayers is greatly influenced by the quality of service provided by the tax administration. In Uzbekistan, like in many other countries, the tax administration has taken various measures to improve its services to taxpayers. This paper aims to explore the ways in which service to taxpayers in the tax administration can be improved in Uzbekistan. The paper will begin by providing a brief background of the tax administration in Uzbekistan and the importance of improving service to taxpayers. It will then discuss the various ways in which service to taxpayers can be improved, including the use of technology, simplification of tax procedures, and capacity building of tax officials. The paper will conclude by highlighting the potential benefits of improving service to taxpayers in the tax administration.

### Analysis of literature on the topic

A study on "Improving the efficiency of the tax administration system in Uzbekistan through digitalization" recommended the implementation of a taxpayer service portal to provide online services, as well as the simplification of tax procedures to improve service to taxpayers. (A. Gafurov, S. Safarov, & D. Umarov, 2021) [1]

An article on "The role of tax authorities in ensuring the rights and interests of taxpayers" suggested that tax authorities in Uzbekistan should improve communication with taxpayers by providing a hotline and conducting surveys to receive feedback. (S. Karimov & M. Tojiyev, 2020) [2]

A study on "Improving the quality of services provided by tax authorities to taxpayers" recommended the establishment of a separate department to provide services to taxpayers, training programs for tax officials to improve their communication skills, and the implementation of a mobile application to provide access to tax-related information. (N. Rakhimova & B. Yuldashev, 2019) [3].

An article on “Improving the quality of taxpayer services in Uzbekistan” recommended the implementation of an electronic queue system, the creation of a taxpayer service center, and the provision of more online services to improve the quality of service to taxpayers. (D. Khaydarov, 2018) [4].

A study on “The importance of taxpayer services in tax administration” suggested that tax authorities in Uzbekistan should improve their taxpayer services by providing more information on tax regulations, simplifying tax procedures, and creating a more transparent and accessible system for taxpayers. (N. Avezova, 2017)

According to L. Erhard, the market economy can function only if freedom of consumption, choice of profession and workplace, ownership of private property together with means of production, and freedom to enter into contracts are a necessary condition. L. Erhard described free private initiative and competition in accordance with the active participation of the state in economic life as a tool for the economic recovery of the country [5].

In particular, according to the great classical economist Adam Smith, he associated competition with fair, honest, non-collusive competition between market entities for more favorable conditions for buying and selling goods. He knew price changes as the main method of competition. In this, he noted that the market, which is not controlled by the will of the community, does not have common goals, and follows strict rules of behavior. Therefore, competition is the “invisible hand” that coordinates the activities of market participants. [6].

Y. Schumpeter, within the framework of the theory of economic development, defined competition as a rivalry between the old and the new. Innovations are viewed with skepticism by the market, but if the innovator succeeds in implementing them, he argued that the competitive mechanism will drive companies using outdated technologies out of the market. [7].

According to Tokarev and Manina, export potential can be defined as the ability of an enterprise to create and produce competitive products for export, promote it to foreign markets, sell goods there and provide services at the required level. [8].

According to Goncharenko (2021), “tax optimization” is becoming very complicated nowadays. Tax authorities should be interested in optimizing tax expenses, so that businessmen forget the concept of “tax avoidance”. [9]. Overall, the literature suggests that the implementation of digitalization, simplification of tax procedures, and improvement of communication and access to information can improve service to taxpayers in tax administration in Uzbekistan.

**Research methodology.** Theoretical methods such as scientific abstraction, induction-deduction, and observation, statistical analysis, vertical and horizontal analysis and methods are widely used in researching the stages and conceptual foundations of taxation reforms in the agrarian sector.

### **Analysis and results**

The implementation of new mechanisms to improve service to taxpayers in the tax administration in Uzbekistan, particularly for small businesses, has shown promising results. Several measures have been taken to enhance the overall tax administration system and provide better services to small businesses.

One of the key improvements has been the introduction of simplified tax procedures for small businesses. This includes simplified tax reporting, reduced paperwork, and streamlined processes to make tax compliance easier and less burdensome for small business owners. Uzbekistan has made significant progress in digitalizing tax administration processes. The implementation of online tax filing systems, electronic invoicing, and digital payment options has simplified tax compliance for small businesses and reduced the administrative burden. The tax administration has taken steps to provide accessible support to small

businesses. This includes establishing taxpayer assistance centers, hotlines, and online portals where small business owners can seek guidance, get their queries answered, and receive assistance in tax-related matters.

Efforts have been made to enhance the tax knowledge and capabilities of small business owners through training programs and workshops. These initiatives aim to improve tax literacy, promote better understanding of tax obligations, and increase compliance among small businesses. The tax administration has actively sought feedback from small businesses to identify areas for improvement. Regular consultations, surveys, and feedback mechanisms have been established to gather input from small business owners and address their concerns effectively.

The implementation of these mechanisms has yielded positive results for small businesses in Uzbekistan. It has led to improved tax compliance rates, reduced tax evasion, and increased transparency in the tax administration system. Small businesses have benefited from simplified processes, reduced compliance costs, and greater access to taxpayer support services.

However, there are still areas that require further improvement. These include strengthening taxpayer education and outreach programs, addressing administrative hurdles, and ensuring consistent and efficient service delivery across all regions.

In conclusion, the implementation of new mechanisms to improve service to taxpayers, particularly small businesses, in the tax administration in Uzbekistan has shown promising results. It has contributed to a more efficient and taxpayer-friendly environment, enhancing compliance and fostering a conducive business climate for small enterprises. Continuous efforts to refine and expand these mechanisms will further support the growth and development of small businesses in Uzbekistan.

The functions of ways to improve service to taxpayers in the tax administration are to:

When taxpayers receive quality services from the tax administration, they are more likely to comply with tax laws and regulations.

Improving the quality of service can enhance taxpayer satisfaction, which can have a positive impact on voluntary compliance.

By providing clear and concise information to taxpayers, the tax administration can promote transparency and accountability in the tax system.

Effective communication between taxpayers and tax administrators can improve taxpayer understanding of tax laws and regulations and help them to comply.

Improving service to taxpayers can lead to more efficient tax administration, which can help reduce costs associated with tax collection and compliance.

When taxpayers are more likely to comply with tax laws and regulations, and tax administration is more efficient, tax revenue can increase.

Some possible tasks to improve service to taxpayers in the tax administration could include:

Simplifying tax procedures and making them more user-friendly can help to reduce the burden on taxpayers and improve their experience.

Ensuring that taxpayers have access to clear and accurate information about their tax obligations can help to reduce confusion and errors.

Providing taxpayers with more information about how their tax dollars are being used can help to increase trust and confidence in the tax system.

Leveraging technology can help to automate processes, reduce paperwork, and improve the speed and efficiency of tax administration.

Ensuring that tax administration staff are well-trained and knowledgeable about tax laws and regulations can help to improve the quality of service provided to taxpayers.

Offering taxpayers a range of channels to contact the tax administration, including phone,

email, and chat, can help to improve the customer service experience.

Promptly addressing concerns and complaints from taxpayers can help to improve their satisfaction with the tax administration and increase their willingness to comply with tax laws.

Offering incentives, such as tax credits or reduced penalties, to taxpayers who comply with tax laws can help to encourage compliance and improve the overall tax system.

Ensuring that the employees of the tax administration are qualified and aware of tax legislation and regulatory legal documents serves to increase the quality of services provided to taxpayers. Offering taxpayers a range of channels to contact the tax authorities, including phone, email and chat, can help improve the customer service experience. Timely consideration of taxpayers' problems and complaints helps to increase their satisfaction with the tax administration and their willingness to comply with tax legislation. Providing benefits such as tax credits or reduced penalties to tax-compliant taxpayers can help encourage compliance and improve the overall tax system. Decree No. PF-5468 of the President of the Republic of Uzbekistan dated June 29, 2018 "On the concept of improving the tax policy of the Republic of Uzbekistan" established the main directions of tax policy, including:

reducing the level of the tax burden on the economy, as well as eliminating the disparity in the level of tax burden between business entities that pay taxes according to the simplified and universal system of taxation;

optimizing the number of taxes by unifying them, as well as combining taxes with a similar tax base, shortening and simplifying tax reports, minimizing operational costs;

ensuring the stability of the macroeconomic situation, the stability of the formation of the State budget of the Republic of Uzbekistan and its revenues;

simplification of tax legislation, elimination of contradictions and conflicts in normative legal documents in the field of tax

relations, strengthening protection of rights and legal interests of honest taxpayers;

ensuring the stability of the tax legislation and the direct application of the norms of the Tax Code of the Republic of Uzbekistan, including taxes and other determining the amounts of compulsory payment rates;

maintaining a favorable regime for foreign investors and investments, providing them with comprehensive support and reliable legal protection;

improvement of forms and mechanisms of tax control, including taxation of transactions related to the formation of transfer prices, due to the wide introduction of modern information and communication technologies that provide more complete coverage and accounting of taxation objects and taxpayers introduction of the procedure.

Changes in the tax field were implemented in close cooperation with international financial institutions (IMF, WB, IHIRT, etc.), tax services of 68 countries, as well as experts and professors of the world's leading scientific centers and universities.

The number of tax types has been reduced from 13 to 9. The property tax rate will be reduced from 5% to 1.5%, and the value added tax will be reduced from 20% to 15%. In 2023, we should reduce VAT to 12%. The tax burden on wages has almost halved. (JShODS and social tax rate was reduced to 12%), turnover tax rate was set at 1% in some regions with a special tax regime. The implementation of tax policy measures at this stage contributed to a 1.2-fold increase in GDP per capita from \$6,856 to \$8,585 according to the CPI, and had a positive effect on the growth of population welfare. In 2019-2022, the total amount of tax incentives granted by the state to support the business environment and population amounted to 146.5 trillion soms (equivalent to 13,150 million US dollars).

Taking into account the experience gained at this stage, tax authorities pay special attention to gradual improvement - fine-tuning of existing mechanisms. A number of important

changes were made in the field of tax administration:

- the organizational structure of tax authorities was revised, the principles of service-oriented and openness were introduced to the maximum extent;

- since 2019, an interregional inspection of large taxpayers has been established and has been operating in the state tax service bodies, which is equipped with the most advanced innovative technologies (a state of 166 people covers 957 large taxpayers) has become a mock-up of the standard inspection.

The adoption of the new version of the Tax Code allows to bring the tax system of Uzbekistan closer to international standards, to ensure a high level of protection of the rights of law-abiding taxpayers, and to make it easier and understandable for national and foreign investors. DUK "Saliq-servis" was established, which assists taxpayers in fulfilling their tax obligations;

- a step-by-step transition of VAT payers to centralized administration was carried out in regional tax offices (the number of VAT payers increased 24 times from 6.7 to 161.1 thousand in 5 years);

- a methodological manual for conducting tax audits was approved, which includes the principles of advanced international practice (the number of audits was reduced from 13 to 3);

- a risk analysis system was developed and introduced, which allows to identify tax payers based on the assessment of tax risks and the criteria of good faith, to further divide them into risk segments and choose a service policy;

Performance evaluation criteria (KPI) of tax authorities were developed and a new incentive system was introduced.

The Fiscal Institute for anti-corruption compliance control and training of new generation personnel was established.

In the framework of improving the activities of tax authorities, information technologies are widely introduced. In order to provide continuous service to taxpayers and to

create systems that meet the requirements of modern tax administration, the capacity of the data processing center has been increased 8 times over the past two years, and the memory capacity has been increased to 4 petabytes. Thus, more than 500 transactions are written and read in 1 second, and the daily volume of generated data exceeds 9.5 GB on average. This, in turn, allows taxpayers to (i) register, (ii) choose a tax regime, (iii) monitor their relationship with the budget online, (iv) form reports and (v) submit, (vi) made it possible to pay taxes, consult electronically from anywhere in the world (vii) and fulfill tax obligations (viii) through his personal office.

In less than 3 years, the level of coverage of the electronic invoicing system increased to 100%, which allowed to achieve full coverage of taxable turnover, which increased 6 times in 2022 compared to 2019.

The introduction of new means of public control ("Cashback" in the amount of 1% of the purchase and a reward in the amount of 20% of the amount of the fine applied to citizens' appeals) made it possible to increase the turnover at online cash registers by 1.6 times compared to 2021, which is led to a 1.5 times increase in income.

In particular, in January-August of this year, 465.5 million checks were registered through the "Saliq" mobile application, of which 5374.5 billion soums of tax was collected and 425.4 bln. Cashback was paid in the amount of soums.

The US has implemented several measures to improve service to taxpayers in the tax administration. One of the main ways is through the use of technology. The Internal Revenue Service (IRS) has implemented several online tools that allow taxpayers to file their taxes electronically, check the status of their refunds, and receive notifications regarding their taxes.

Another way the US has improved service to taxpayers is through education and outreach. The IRS has provided extensive resources on their website and through community outreach programs to educate

taxpayers on their rights and responsibilities. Additionally, the IRS has established the Taxpayer Advocate Service, an independent organization within the IRS that helps taxpayers resolve issues with the agency.

Furthermore, the US has implemented several measures to protect taxpayers from fraudulent activity. The IRS has established a special unit focused on detecting and investigating tax-related identity theft and other forms of fraud. They also provide resources to taxpayers to help them protect their personal and financial information.

Overall, the US has implemented a combination of technology, education, outreach, and fraud protection measures to improve service to taxpayers in the tax administration.

The Russian tax system has undergone significant reforms in recent years, with a focus on improving services to taxpayers. Some of the ways in which Russia has sought to improve services to taxpayers in the tax administration include:

The Russian government has taken steps to simplify tax legislation, making it easier for taxpayers to understand and comply with tax requirements.

The Russian tax administration has introduced a range of electronic services, including online tax filing and payment systems, to make it easier and more convenient for taxpayers to comply with tax requirements.

The Russian tax administration has worked to improve taxpayer education, providing information and guidance to help taxpayers understand their tax obligations and comply with tax laws.

The Russian tax administration has worked to increase transparency in the tax system, making it easier for taxpayers to understand how taxes are assessed and collected.

The Russian tax administration has increased its focus on providing high-quality service to taxpayers, including establishing dedicated taxpayer service centers and improving the responsiveness of tax officials to taxpayer inquiries and requests.

Overall, the Russian experience suggests that improving services to taxpayers in the tax administration requires a multi-faceted approach that includes simplifying tax legislation, introducing electronic services, improving taxpayer education, increasing transparency, and improving taxpayer service.

South Korea has been implementing various measures to improve its tax administration service to taxpayers. One of the key approaches that the country has adopted is the utilization of information technology. The country has implemented an online tax filing system that has significantly reduced the time and effort required for taxpayers to file their tax returns. Additionally, South Korea has established a call center to provide taxpayers with information and assistance related to tax filing and payment.

The country has also been working to enhance the transparency and fairness of its tax administration system. For example, South Korea has introduced a tax appeal system to provide taxpayers with a mechanism to challenge tax assessments they believe to be incorrect or unfair. The country has also implemented measures to prevent corruption and increase accountability in tax administration.

Moreover, South Korea has been working to improve the communication and cooperation between the tax administration and taxpayers. The country has established taxpayer associations that provide a platform for taxpayers to raise their concerns and suggestions regarding tax administration. Additionally, South Korea has been organizing tax education and outreach programs to enhance taxpayers' understanding of the tax system and their rights and obligations as taxpayers.

Overall, the South Korean experience highlights the importance of utilizing technology, enhancing transparency and fairness, preventing corruption, and improving communication and cooperation with taxpayers in improving tax administration service.

European countries have different approaches and experiences when it comes to improving services to taxpayers in tax administration. Here are a few examples:

**Sweden:** Sweden is known for having one of the most effective tax systems in the world. To improve services to taxpayers, the Swedish Tax Agency has introduced several initiatives, such as simplifying tax forms, providing online tax filing, and offering personalized tax assistance through a telephone hotline.

**Germany:** The German tax administration has implemented measures to improve transparency and reduce bureaucracy. This includes a one-stop-shop for tax-related inquiries, an online portal for tax filings, and the use of electronic signatures to streamline the filing process.

**United Kingdom:** The UK's tax administration, HM Revenue and Customs (HMRC), has also focused on improving services to taxpayers through digitalization. This includes an online portal for tax filings and inquiries, as well as a mobile app that allows taxpayers to check their tax information and manage their accounts.

**Netherlands:** The Dutch tax administration has implemented several initiatives to improve services to taxpayers, including a simplified tax return process, online filing options, and personalized assistance through a dedicated support line.

Overall, these countries have emphasized the importance of digitalization, simplification, and personalized assistance in improving services to taxpayers in tax administration.

### **Conclusions and suggestions.**

The tax administration plays a crucial role in providing services to taxpayers and ensuring compliance with tax regulations. In Uzbekistan, efforts have been made to introduce new mechanisms to improve service to taxpayers, particularly small businesses. These mechanisms aim to simplify tax procedures, enhance accessibility, and promote compliance among small business owners. This proposal

outlines several key ways to further improve the support provided to small businesses by the tax administration in Uzbekistan.

Implementing further simplification measures in tax reporting procedures can significantly benefit small businesses. This includes reducing the number of required forms and documents, streamlining reporting processes, and providing clear guidelines on tax obligations. The tax administration should focus on developing user-friendly, easy-to-understand tax reporting formats specifically tailored to the needs of small businesses.

Small business owners often lack sufficient knowledge and understanding of tax regulations. The tax administration should prioritize taxpayer education and outreach programs aimed at providing comprehensive information on tax obligations, rights, and benefits. This can be achieved through workshops, seminars, online resources, and partnerships with business associations to ensure widespread dissemination of tax-related information.

Enhancing taxpayer support services is crucial for small businesses to navigate the complexities of tax compliance. The tax administration should establish dedicated helplines, online chat services, and assistance centers to promptly address taxpayer queries and provide guidance on tax matters. Additionally, investing in qualified staff with expertise in small business taxation can greatly enhance the quality of support provided.

Expanding digitalization and automation initiatives can significantly improve the efficiency and convenience of tax administration for small businesses. This includes implementing online tax filing systems, electronic payment options, and digital platforms for document submission. The tax administration should prioritize the development of user-friendly digital tools that are accessible to small businesses, ensuring a seamless and efficient tax compliance process.

Building strong partnerships with business associations can facilitate better communication and understanding between the

tax administration and small businesses. The tax administration should engage in regular dialogue with business associations to gain insights into the specific needs and challenges faced by small businesses. This collaboration can help identify areas for improvement, address concerns, and foster a cooperative environment for effective tax administration.

To ensure the effectiveness of the implemented mechanisms, regular monitoring and evaluation should be conducted. The tax administration should establish performance indicators to assess the impact of the introduced measures on small business compliance, taxpayer satisfaction, and overall efficiency. Based on the findings, necessary adjustments can be made to further improve the service provided to small businesses.

By implementing these proposed measures, the tax administration in Uzbekistan can significantly improve the service provided to small businesses. This will not only enhance compliance rates but also foster a supportive environment for small business growth and development. It is essential to prioritize the needs of small businesses and continually refine the mechanisms to meet their evolving requirements.

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