



## Issues of improving the practice of taxation of small and medium business entities

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As the abstract suggests, this topic is focused on the issues related to taxation of small and medium-sized businesses and ways to improve this practice. Taxation is a crucial aspect of any business operation, and small and medium-sized enterprises (SMEs) are no exception. In most countries, SMEs form the backbone of the economy, and their contribution to the national GDP cannot be overstated. However, SMEs often face a variety of challenges in complying with tax regulations, including lack of awareness, inadequate resources, and complex tax rules. 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.

**Introduction:** Small and medium-sized enterprises (SMEs) are essential drivers of economic growth, employment generation, and poverty reduction in many countries. However, SMEs often face difficulties in complying with tax regulations due to limited resources, lack of knowledge, and complex tax systems. 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

There is a significant body of literature

on the topic of improving the practice of taxation of small and medium business entities. Several studies have focused on the challenges that small and medium businesses face in complying with tax regulations and have proposed various solutions to address these challenges.

One common issue that has been identified in the literature is the complexity of tax regulations, which can be particularly challenging for small and medium businesses with limited resources. For example, research has found that tax regulations in many countries are often too complex and difficult to understand, making it difficult for small and medium businesses to comply (Molero et al., 2017).

In addition, small and medium businesses may not have the necessary resources or expertise to manage their tax obligations effectively. This can lead to errors or

omissions in tax filings, which can result in penalties and fines. As such, there is a need for better education and training programs to help small and medium businesses understand their tax obligations and improve their compliance (Koretsky and Bui, 2019).

Other challenges identified in the literature include the lack of transparency and accountability in the tax system, as well as corruption and bribery. Some studies have proposed the use of technology, such as electronic tax filing and payment systems, to increase transparency and reduce the potential for corruption (Bahl and Wallace, 2017).

In particular, R. Cantilon assesses entrepreneurship as a risk-taker, who buys goods with an unlimited profit and a definite price, but the selling price is uncertain.

Schumpeter identified five important aspects of entrepreneurship: production of new goods unknown to consumers; application of new production and commercialization of existing goods; acquisition of new goods; use of new raw materials; shows how to improve the network. An entrepreneur is a person who implements new combinations - he says.(1999)

S. Gulomov said that small business and entrepreneurship in any conditions, even in economic depression, in the period of inflation, even when the percentage of loans is extremely high, even in cases where the future is unknown without the necessary infrastructure, the higher the risk. he lives in spite of it.

A. Olmasov stated that "small business is the material and financial resources (capital) of people (property) entities intended for economic turnover and earning income", while Yo. Abdullaev referred to entrepreneurship - He defined it as an entrepreneurial activity aimed at obtaining income (profit) by legal entities and individuals, taking risks through the production of products, under their own property responsibility, in accordance with legal documents.

Overall, the literature suggests that improving the practice of taxation of small and medium business entities requires a multifaceted approach, including simplifying tax regulations, providing better education and training, and increasing transparency and

accountability in the tax system.

### **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 government of Uzbekistan has implemented various measures to improve the practice of taxation for small and medium-sized businesses. One of the key initiatives is the introduction of a simplified tax system in 2019, which aims to reduce the tax burden for small businesses and encourage them to formalize their activities.

Under the simplified tax system, small businesses with an annual turnover of less than 1 billion Uzbek soums (approximately \$100,000) can choose to pay a fixed amount of tax based on their revenue, rather than calculating and paying multiple taxes. This system simplifies the tax reporting process and reduces the administrative burden for small businesses.

In addition, the government has implemented measures to improve tax administration, including the establishment of a single taxpayer registry and the introduction of electronic tax reporting and payment systems. These measures aim to improve transparency and efficiency in tax administration, reduce the risk of corruption and increase compliance among taxpayers.

To support small and medium-sized businesses in complying with tax obligations, the government has also launched various training and awareness-raising programs. These programs aim to increase awareness of tax obligations, promote good tax practices, and help small businesses better understand the tax system.

Overall, the government of Uzbekistan has demonstrated a commitment to improving the practice of taxation for small and medium-

sized businesses. However, there is still room for improvement, particularly in terms of reducing the tax burden for small businesses and addressing issues related to tax compliance and enforcement.

There are several problems that hinder the improvement of the practice of taxation of small and medium business entities in Uzbekistan. One of the main challenges is the lack of transparency and clarity in tax regulations and procedures, which can lead to confusion and non-compliance among taxpayers. Another problem is the limited access to information and guidance on tax compliance, which makes it difficult for small and medium-sized businesses to navigate the tax system. In addition, the high tax rates and complex tax structure also create difficulties for small and medium-sized businesses to comply with their tax obligations. Finally, there is a lack of trust between taxpayers and tax authorities, which can lead to an increased likelihood of tax evasion and non-compliance.

The main functions of improving the practice of taxation of small and medium business entities in Uzbekistan include:

**Increasing tax revenues:** Improving the practice of taxation can lead to an increase in tax revenues, which can help to fund government programs and services.

**Encouraging compliance:** By simplifying and streamlining the tax system, businesses may be more likely to comply with tax laws and regulations, which can reduce the incidence of tax evasion and improve the overall efficiency of the tax system.

**Stimulating economic growth:** By reducing the burden of taxation on small and medium-sized businesses, governments can create a more favorable environment for entrepreneurship and innovation, which can lead to increased economic growth and job creation.

**Enhancing transparency:** Improving the practice of taxation can help to increase transparency and accountability in the tax system, which can reduce opportunities for corruption and improve public trust in government institutions.

**Promoting fairness:** By ensuring that the

tax system is fair and equitable, governments can promote social justice and reduce inequality, which can lead to a more stable and harmonious society.

Models of taxation of small and medium business entities in Uzbekistan. There are several models of taxation of small and medium business entities. Some of the commonly used models include:

**Progressive tax model:** Under this model, small and medium businesses are taxed at different rates based on their level of income. The higher the income, the higher the tax rate.

**Flat tax model:** This model applies a single tax rate to all small and medium businesses, regardless of their level of income.

**Value-added tax (VAT) model:** This model imposes a tax on the value added at each stage of production and distribution. Small and medium businesses are required to pay this tax on their sales.

**Sales tax model:** Under this model, small and medium businesses are required to pay a tax on their sales. The tax rate may vary depending on the type of product or service being sold.

**Self-assessment model:** In this model, small and medium businesses are required to self-assess their tax liability and pay the appropriate amount. The tax authority may carry out audits to ensure compliance.

Each of these models has its own advantages and disadvantages, and the choice of model depends on various factors such as the size and nature of the business, the level of government revenue required, and the overall tax policy of the country.

There are various models of taxation of small and medium business entities in developed countries. Here are a few examples:

**The United States:** The US has a progressive tax system, which means that tax rates increase as income levels rise. Small and medium-sized businesses are taxed differently depending on their legal structure. For example, sole proprietorships and partnerships are taxed based on the owner's personal tax rate, while corporations are taxed at the corporate tax rate.

**Canada:** Canada has a federal corporate income tax rate, as well as provincial income tax

rates. Small businesses with a taxable income of up to CAD 500,000 benefit from a lower tax rate than larger corporations. Additionally, Canada has various tax incentives for small businesses, such as tax credits for research and development and investment in certain industries.

**United Kingdom:** The UK has a corporate tax rate that applies to all businesses, including small and medium-sized enterprises. However, there are various tax reliefs available for small businesses, such as the Annual Investment Allowance, which allows businesses to deduct the full value of certain capital expenditures from their taxable income.

**Germany:** In Germany, small businesses benefit from a lower corporate tax rate than larger corporations. Additionally, small businesses can choose to be taxed based on their actual income or based on a flat rate. Overall, the models of taxation for small and medium-sized businesses in developed countries vary depending on factors such as legal structure, income level, and tax incentives.

The planning of taxation for small and medium-sized businesses in developed countries involves several key considerations. These may include the following:

**Tax incentives:** Many developed countries offer tax incentives for small and medium-sized businesses to encourage their growth and development. These incentives may include tax credits, deductions, and exemptions for certain types of expenses, such as research and development costs or investments in new equipment or technology.

**Simplified tax systems:** In some cases, developed countries have simplified tax systems for small and medium-sized businesses to make it easier for them to comply with tax regulations. For example, some countries may have lower tax rates or simplified tax forms for small businesses.

**Compliance assistance:** Developed countries may offer compliance assistance programs to help small and medium-sized businesses understand and meet their tax obligations. This may include educational resources, training sessions, or dedicated support staff to answer questions and provide

guidance.

**Electronic filing and payment:** Many developed countries have electronic filing and payment systems for taxes, which can make the process faster and more convenient for small and medium-sized businesses.

**Auditing and enforcement:** While small and medium-sized businesses may receive some assistance in complying with tax regulations, they are still subject to auditing and enforcement by tax authorities. Developed countries may have specialized audit teams or enforcement units focused on small and medium-sized businesses to ensure compliance and deter fraud.

Germany has a well-developed system for taxation of small and medium-sized businesses. The German government offers various tax incentives and exemptions to support the growth of small and medium-sized enterprises (SMEs). One of the key elements of the German tax system is the "Mittelstand" concept, which recognizes the importance of SMEs for the economy and provides a specific tax regime for them.

The German tax system for SMEs is based on a combination of income and trade tax. The income tax for SMEs is based on the progressive tax rate system, with lower rates for lower income levels. The trade tax is a local tax that is calculated based on the profits of the business, and is used to fund local infrastructure and services.

To support SMEs, the German government also offers a range of tax incentives and exemptions, such as reduced tax rates for new businesses, investment allowances for equipment purchases, and tax credits for research and development expenses. Additionally, SMEs are eligible for various exemptions, such as a reduced value-added tax rate for certain goods and services. In summary, the German state has a well-developed system for taxation of small and medium-sized businesses, which includes a combination of income and trade taxes, tax incentives and exemptions, and a specific tax regime for SMEs.

In recent years, the Chinese government has made efforts to improve the tax system for small and medium-sized enterprises (SMEs) in

the country. One of the major steps taken was the implementation of the "VAT Reform," which aimed to simplify and reduce the tax burden for SMEs. The reform replaced the previous business tax with a value-added tax (VAT) system, which allowed SMEs to deduct input VAT from output VAT and lowered the tax rate for some industries.

In addition, the Chinese government has also introduced tax incentives for SMEs, such as tax reductions for high-tech and innovative enterprises, and tax exemptions for small-scale taxpayers. The government has also provided support for SMEs in terms of tax-related services, such as providing tax consultation services and simplifying tax procedures. However, there are still some challenges that SMEs face in terms of tax compliance in China. For example, the tax laws and regulations are complex and often change frequently, making it difficult for SMEs to keep up with the latest requirements. In addition, there is a lack of clarity and consistency in tax policies across different regions in China, which can create confusion and uncertainty for SMEs operating in multiple locations. Finally, some SMEs may still face difficulties in accessing tax-related services and support due to a lack of awareness or resources.

The Russian government has implemented various measures to improve the taxation of small and medium-sized businesses in recent years. One of the key initiatives is the introduction of a simplified tax system, which allows small businesses to pay a flat tax rate based on their revenue instead of the standard corporate tax rate. This simplifies the tax reporting process and reduces the burden on small businesses. In addition to the simplified tax system, the Russian government has also introduced various tax incentives for small businesses, such as reduced tax rates for certain types of businesses, tax breaks for investment in certain regions, and exemptions for certain types of income.

However, despite these efforts, there are still some challenges in the taxation of small and medium-sized businesses in Russia. One of the key issues is the high level of informality in the small business sector, which makes it difficult

for the government to collect taxes effectively. There are also concerns about corruption and the arbitrary application of tax laws, which can create additional barriers for small businesses.

In South Korea, small and medium-sized businesses (SMEs) are seen as the engine of economic growth and job creation, and the government has introduced several measures to support their development, including in the area of taxation. One such measure is the Special Taxation Support Act for SMEs, which provides tax incentives to small and medium-sized enterprises that meet certain criteria related to size, investment, and job creation. The tax incentives available to SMEs in South Korea include a reduction in corporate income tax rates for small and medium-sized companies, a tax credit for SMEs that invest in research and development, and a tax credit for SMEs that hire new employees. In addition, SMEs in certain industries, such as software development and biotechnology, may be eligible for additional tax incentives.

The government also provides support to SMEs in the area of tax compliance. The Small and Medium Business Administration (SMBA) offers tax consultation services to SMEs, and the National Tax Service (NTS) has established a special division to provide tax support to small and medium-sized companies. Despite these efforts, however, there have been criticisms that the tax system in South Korea is too complex and burdensome for SMEs, and that the tax incentives available are not sufficient to offset the costs of compliance. Some have also raised concerns about the high levels of tax evasion among small and medium-sized businesses, which can create unfair competition and undermine the overall tax system.

Based on the analysis of literature and foreign experiences, improving the practice of taxation of small and medium-sized business entities is essential for promoting economic growth and development. In Uzbekistan, there are still some challenges in this area, such as the high tax burden and complexity of the tax system, lack of transparency and corruption, and insufficient support and incentives for SMEs.

To address these challenges, Uzbekistan

can learn from the experiences of developed countries such as Germany, South Korea, and the United States, as well as China and Russia. One way is to implement a simplified tax system for small and medium-sized businesses, which would reduce the administrative burden and improve compliance. Another approach is to provide targeted support and incentives for SMEs, such as tax breaks, subsidies, and access to finance and training.

Overall, improving the taxation of small and medium-sized business entities is a complex issue that requires a comprehensive approach involving policymakers, tax authorities, and business communities. With the right policies and practices in place, Uzbekistan can create a more favorable business environment for SMEs and promote economic growth and development in the long run.

### Conclusions and suggestions.

Based on the literature analysis, some proposals for improving the practice of taxation of small and medium-sized business entities can be suggested:

Tax regulations can be simplified and made more transparent for small and medium-sized business entities. This will help business owners to better understand the tax requirements and comply with them. The government can introduce tax incentives for small and medium-sized business entities, such as tax exemptions or tax holidays, to encourage entrepreneurship and investment.

The use of technology can help to improve tax compliance among small and medium-sized business entities. This can include the use of electronic invoicing, online tax filing, and other digital tools to simplify tax compliance. The government can also work to strengthen tax education and awareness among small and medium-sized business entities, providing guidance on tax compliance and best practices.

Collaboration between tax authorities and small and medium-sized business entities can help to improve tax compliance and reduce the burden of taxation. This can include providing assistance to business owners to help them comply with tax regulations and avoid

penalties. These proposals can help to improve the practice of taxation of small and medium-sized business entities, making it easier for them to comply with tax regulations and promoting entrepreneurship and investment.

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