

## VALUE ADDED TAX IN UZBEKISTAN

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### ABSTRACT

To date, one of the main prerequisites for the development of the country's economy and ensuring its stability is the effective functioning of the tax system, since the mobilization of tax payments to the country's budget enables public authorities to implement domestic and foreign policies. This article reveals the value of value added tax in the field of the state taxation system.

**Ключевые слова:** значение НДС, плательщики налога, налоговая реформа, ставка налога на добавленную стоимость.

### ANNOTATION

To date, one of the main prerequisites for the development of the country's economy and ensuring its stability is the effective functioning of the tax system, since the mobilization of tax payments to the country's budget enables public authorities to implement domestic and foreign policies. This article reveals the value of value added tax in the field of the state taxation system.

**Keywords:** value of VAT, tax payers, tax reform, value added tax rate.

In connection with the active development of elements of a market economy in the country, changes are taking place in almost all spheres of society, which could not but be reflected in the legislation, and in particular in the field of taxation. In recent years, the tax system of the Republic of Uzbekistan is characterized by significant changes. This can be seen in particular in the example of VAT.

VAT in Uzbekistan was introduced on January 1, 1992. Initially it was 30%, in 1993-1994 it was 25%, and since 1998 it has been 20%. However, from October 1, 2019, the VAT rate will be reduced from 20% to 15%. By significantly reducing the VAT rate, the authorities are trying to reduce the share of the shadow economy. At the same time, zero rate VAT is applied (for example, export of goods, services related to international transport, etc.).

Recently, the Tax Reform has been carried out in Uzbekistan, during which the sphere of taxation has been liberalized. In particular, VAT (Value Added Tax) was introduced. However, the introduction of VAT caused difficulties for accountants, as well as mutual settlements and the return of part of the VAT in accordance with the current tax legislation.

How will tax reform help improve the economic climate, and how is VAT related to this reform? VAT is a kind of duty included in the price of each product. Buyers purchase goods with VAT already added; Currently VAT on all goods is 15%. The most important thing we all need to know is that this tax is imposed on any product and any service that is sold by a company at a price even slightly higher than its cost. In this case, VAT is calculated based on the difference

between the cost of the product and its selling price.

The consumer buys goods in retail trade and this tax, which is a certain percentage, is included in its price in the check. Here the following problems arise. Firstly, based on our conditions, we have small salaries, so the purchasing power is much lower than, for example, in European countries, which also have this tax. Naturally, if the purchasing power is not high, then not many goods will be bought, which means that not many taxes will go to the budget either. In addition, VAT increases the price of goods, which further reduces purchasing power. In this regard, the introduction of VAT is hardly justified. Low purchasing power, and the tax itself, which raises the price of goods, figuratively speaking, "hit the pocket" of the consumer. However, VAT is still beneficial for the budget, as it allows you to quickly fill the budget with taxes, because people still buy goods every day, which means that VAT enters the budget continuously. Thus, from the point of view of the consumer, as the final payer of this tax, VAT does not look attractive, but from the point of view of the state, VAT is an important and necessary tax that allows you to quickly replenish the state budget.

Prior to the introduction of VAT, its counterpart was the turnover tax. According to a number of experts and entrepreneurs, this tax was easier for everyone: for entrepreneurs, and for accountants, and for tax specialists. It should be noted that the company paid the turnover tax, not the consumer, such as VAT, which we pay on each purchase of a specific product.

Important point:

VAT was always paid, but we did not know about such subtleties, the final cost of the product was indicated on the price tag.

The right of the consumer is to know how much tax was included in the price of each product.

The consumer should understand three things:

1. Value added tax (VAT) for a long time and we have always paid it. Just he not indicated on the checks .
2. Since 2019, the number of VAT payers has expanded: small businesses with a turnover of more than 1 billion soums in 2018 (which is about 10% of the number of small businesses) from January 1, 2019 are required to switch to the general taxation regime, and hence to VAT. Yes, before that they did not pay VAT, paying a single tax payment (UTP) instead. That is, for them, there was simply a replacement of one tax by another, and not just the addition of a new tax.
3. In the check, the line "VAT" does not indicate the markup on the price of the goods added by the store, but the entire amount of VAT paid along the entire value chain. That is, the store makes a credit for the previously paid VAT from the amount indicated on the check. Accordingly, if VAT payers were in the chain before, then the price is unlikely to increase during the transition to a new tax system.

And in some cases, the price may even decrease , because the transition to VAT means a refusal to pay a single tax payment.

If the number of enterprises participating in the chain of creation and sale of this product was large (an example of such a chain: a raw cotton producer (farmer) - a cotton fiber producer - a yarn producer - a fabric producer - a knitwear manufacturer - a wholesale company - a retail company), then each of the participants paid the EPP from the entire cost of the goods sold. Even if it seems to be a small tax (say, 5%), a very decent amount was accumulated by the end of the chain, since the UTP is taken not from value added, but from the entire revenue of the

enterprise. Count how many times the cotton created by the farmer was taxed in the specified chain. 7 times! Even if each participant in the chain paid only 5%, 35% of the cost of cotton is already running up.

The added value created by other participants in the chain was also repeatedly taxed. So, when switching to VAT of such a double, triple, etc. no taxation. No matter how long the chain is, the entire cost of the goods is ultimately taxed only at the VAT rate of 15%.

In this way, in terms of taxation, absolutely nothing has changed, except that now consumers are aware of the amount of tax. Now every consumer knows how much of his money from the budget goes to taxes.

The introduction of VAT, unfortunately, caused a lot of problems, and despite the fact that VAT was introduced relatively long ago, many of the problems have not been resolved.

An important problem was the workload of accountants. VAT requires the concentration of accountants, emergency work. It is not uncommon for accountants to spend time after work in order to enter invoices into the electronic system on time, and work on checking the reliability of their suppliers.

VAT, according to experts and entrepreneurs, due to the complexity of calculating this tax, is turning into a kind of instrument of pressure on entrepreneurs from the side of the Tax Service.

VAT allows you to quickly replenish the budget. However, in the form in which it exists, it creates a number of difficulties. VAT slows down production and is "indifferent" to trade and trading companies. It is required to adapt the VAT to our conditions and finalize it for local conditions. The accountants we work with also talk about the problems that come with VAT. The problems are related to offsets, VAT calculation, as well as software. Accountants spend a lot of time and effort on their work.

VAT has led to problems for entrepreneurs and accountants, and, unfortunately, to a different understanding of this tax among civil servants and entrepreneurs.

In September 2022, the Tax Committee of Uzbekistan published a message that talked about new rules for taxpayers and a reduction in the VAT rate to 12% from the previous 15%.

President Shavkat Mirziyoyev signed a decree to reduce VAT from 15% to 12%. This decree comes into force in 2023.

According to the Institute for Forecasting and Macroeconomic Research (IPMI), a 15% VAT rate provides the state budget with annual deductions in the amount of 38.4 trillion soums, which is almost 25% of budget funds. However, due to different incentives and legal arrangements, taxes are applied unevenly, as a result of which some industries are under much more pressure at the same VAT rate.

In this regard, according to the report of experts, a reduction in the VAT rate by 3% will reduce the inflation rate by 0.8%. And if the tax burden is reduced for enterprises with a high level of finished products, this will allow them to develop even more strongly.

Therefore, in our country, as in many other countries of the world, value added tax is one of the main sources of budget revenues, so the normal functioning of this tax is important for the country's economy. It should be noted that the most important advantage of VAT is its potentially high financial efficiency, since it has a broad base, including most groups of goods and services. Tax revenues to the budget. Taxes must be fully consistent with their nature - they must be fully taxed in favor of the state in order to fulfill its socio-economic, political and legal functions.