



Study on Causes of Taxation System's Inefficiency: Evidence from Uzbekistan

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Abstract: This paper is intended to find main reasons of taxation system's inefficiency leading to frequent changes in tax legislation. Uzbekistan's tax system has been chosen as a sample for the study and has been analyzed using qualitative analyzes, such as logical comparison, analyzes of legislation, detextualization. We found that the main reason of frequent changes in tax legislation in Uzbekistan is the structure of tax system, where the fundamental principle is not followed. Beside of it, allowance of the current system to have an unequal tax burden on taxpayers, existence number of inefficient tax forms and constraints associated with the need to operate with too differentiated types of taxes and tax regimes have shown that can be the cause of overall inefficiency of the tax system of the country.

Keywords: Taxation, Tax system, Uzbekistan, Principles of taxation, Tax code

1. Introduction

In its 26-year history of conducting an independent tax system, Uzbekistan is forced to renew the Tax Code for the third time. For the first time in 1998, the Tax Code has been adopted in the country, with over 500 amendments being made in ten years (Tax Code, 1997). The reason for the abolition of the first Tax Code was its disability further to regulate the tax relations in the country.

The main reason for such situation was a poor reflection of the mechanism of taxation. There were separate instructions for calculation and payment of each tax. Taxpayers had to approach not to the Tax Code but the subordinate normative documents, to fulfill their tax obligations. By the Decree of the President of the Republic of Uzbekistan dated January 7, 2005, the Tax Code of the Republic of Uzbekistan is being prepared (F-2108). Even after three years of preparing the new (current) Tax Code and permission to improve it during the followed two years (2008-2009) the process still has not been completed. On the contrary, instead of establishing the final version of Tax Code it has been constantly been revised (Tax Code, 2007).

By 2018, there were more than 800 changes and additions made to the current (second) Tax Code over the past 10 years. So, in the end, why there are so frequent changes in tax legislation in Uzbekistan? In general, theoretically why there can be the necessity to make any changes in the tax system? Based on the logic and empirical evidence in other countries, the factors causing changes in the tax system may be as follows:

- Due to current requirements of the development of the state socio-economic policy;
- A situation in the world economy and the changes in it;
- Deterioration of social situation in the country, natural calamities, and other unusual circumstances;
- Due to a wrong organization of the tax system, when the tax system is not constructed on the basis of taxation principles.

The development of the state's socio-economic policy or the changes in the global economy may require changes only in tax rates and tax incentives. According to practice in Uzbekistan tax rates are not indicated in the Tax Code, but in the annual fiscal act, which is called the budget parameters of the country. Regarding tax incentives, most of them are indicated in other than the Tax Code legislation, such as Decrees and Resolutions of the President.

The third factor that could be a reason for frequent changes in tax legislation cannot lead to instability in the tax system of Uzbekistan. Because the social situation in Uzbekistan is stable, and there are no natural disasters or other, unusual incidents that require a sharp increase in the state budget revenues. That is to say, that the tax legislation of the country is constantly changing because the system itself is not built on taxation principles, which are the basic theoretical fundamental of any tax system. This research paper intended deeply investigated the causes of frequent changes in the tax system.

2. Literature Review

2.1 Theoretical Background: Fundamental Requirements

In literature principles of taxation that can contribute to the improvement of taxation system is well studied. Most of them can be found in theoretical literature, and some of them can be found in the tax legislation of countries. In particular, the current Tax Code of the Republic of Uzbekistan mention the following main principles of tax: compulsion, accuracy, fairness, the unity of the tax system, transparency of the tax legislation, and the presumption of the rightness of the taxpayer (Tax Code, 2007). Beside of it, the provisions of the tax legislation cannot contradict the principles set out in the Tax Code. Thus, the analysis of literature show that in any modern state, in any taxation system the following fundamental requirements must be met:

Sufficiency of taxation. The tax system should be structured in such a way that the state should be able to fully fund all its social services (peace, national security, general social protection, free education, primary health care, necessary social infrastructure, science and human potential development, etc.) through sufficient budgetary revenues.

Fairness of taxation. The taxation system should not have the only goal to fill the budget of the state but also should be based on the principles of social justice. Taxation mechanisms should be constructed in such way where the tax burden should be fairly distributed to taxpayers in proportion to their earnings, savings, resources, consumption, and on other criteria. Tax privileges should be given to anyone, only based on the principle of social justice.

Efficiency of the tax system. The state should have a tax system capable of effectively manage the different economic and social processes simultaneously. In particular, together with the fiscal targets, the state tax system should effectively manage economic, social and environmental issues, as well as issues of foreign economic relations. In addition, an effective taxation system is also determined to be a low-cost system. That is, the state taxation system should work with as low as possible expenses. Any tax system, which is not based on the above-mentioned fundamental requirements, is doomed to be destroyed from inside. Therefore, there will be constant need for continues changes.

2.2 Empirical Analyses: Consequences of Frequent Tax Changes

There were many attempts to study the tax changes from different perspectives, and most of them are related to its impact on economic performance of the country. Feldstein and Elmendorf (1989) found based on data of 1981 that tax cuts in the US had virtually no net impact on economic growth. Their findings claim indicate that the recovery in 1980s were due to strong monetary policy. The evidence that tax cuts in 1981 stimulated labor supply were not found. The Center on Budget and Policy Priorities pays attention on the relationship between the 1993 tax hikes and the 2001 tax cuts with respect to employment and GDP growth over the periods following the respective reforms (Huang 2012).

Gale and Potter (2002) claim that the 2001 tax cut in the US have had little or no net effect on GDP over the next 10 years. Even more, it could have reduced it. It could be explained with the outweigh of the negative effect of higher deficits and the decline in national saving over the positive effect of reduced marginal tax rates.

Analysis of Gale and Potter (2002) and Gale and Orszag (2005a), the 2001 tax cut in the US raised the cost of capital for investments in residential housing, sole proprietorships, and corporate structures. This could be explained with the fact that higher deficits raised interest rates. These findings show that when tax cuts are permanent and the deficit financing of those cuts is continued would have reduced the long-term level of investment. Which in the result makes a negative effect on national saving and growth (Gale and Orszag 2005b).

Gale and Potter (2002) do not claim that reductions in tax rates have no impact, or negative impact, on economic behavior. Instead, the improved incentives of reduced tax rates enhances the economic activity by raising labor supply, human

capital, and private saving. Romer and Romer (2010) use the narrative record from Presidential speeches, executive branch documents, and Congressional reports to identify the size, timing, and principal motivation for all major tax policy actions in the post-World War II United States. Making the focus on tax changes, which were oriented on long-run growth and on reduction of an inherited budget deficit, they find that tax changes have significant and stable impact. They did not take into account the tax changes made for other reasons. It has been found that 1 percent tax increase lowers the real GDP by roughly 2 to 3 percent.

There are many researches, which have studied the importance of the impact of tax reform on the changes in a sectoral allocation of resources. Harberger's (1962) classic analysis of the corporate tax, followed with studies of Fullerton and Henderson (1987), Gravelle and Kotlikoff (1989), and Diamond and Zodrow (2008) could be included in this list.

Lim Rogers (1997) finds that a revenue-neutral shift to a flat-rate income tax with no deductions, exclusions, or credits other than a personal exemption of \$10,000 per filer plus \$5,000 per dependent would raise the long-term size of the economy by between 1.8 and 3.8 percent, depending on assumptions about the relevant behavioral elasticities.

According to Auerbach et al. (1997) moving to the same flat-rate income tax would reduce the size of the economy by three percent in the long-run. Later Altig et al. (2001) in their similar model have evaluated the more extreme policy reform, a revenue-neutral switch to a flat income tax, but with no personal deductions or exemptions. The finding indicated that this would raise output immediately by 4.5 percent, and then by another one percent over the subsequent 15 years. However, with the note that it would hurt the poor in current and future generations. More recent work has highlighted the role of uncertainty in tax reform, noting that a progressive income tax system provides an insurance against fluctuating income by making the percentage variation of after-tax income less than the percentage variation in pre-tax income (Kneiser and Ziliak 2002; Nishiyama and Smetters 2005). This finding may change the terms of the trade-off between progressivity and growth effects.

Mendoza et al. (1997) and Garrison and Lee (1992) find no tax effects on growth in developed countries. Padovano and Galli (2001) find that a 10 percentage point reduction in marginal tax rates raises the growth rate by 0.11 percentage points in OECD countries. Engen and Skinner (1992) find significant effects of taxes on growth in a sample of 107 countries, but the tax effects are tiny and insignificant when estimated only on developed countries.

Kaur (1991) in her analyzes of Indian tax system stated that frequent changes make the tax structure complicated and that high marginal rates of tax can motivate citizens for tax evasion. Also, it has been pointed that the tax structure is not an effective instrument of income redistribution because it failed to bring fiscal equity. She found that a well-designed and well-structured taxation system could raise more resources for public sector as well as promote capital formation in private sector. Beside of it, the researcher suggested to simplify and rationalize the tax structure in India. Roy (1977) traced year-to-year developments in the growth of corporate tax law in India from 1860 to 1975. 57 changes occurred in Finance Acts has been summarized. The study highlighted that frequent changes in law made it so bulky that tax officers had to devote most of their time and energy to understand the changes rather than carrying their direct functions. Thus, less time for checking the income tax returns brought to poor taxpayer relationships and inefficient tax administration.

MacKie-Mason and Gordon (1991) empirically estimated the impact of changes in average tax rates faced by corporate and non-corporate income on the fraction of business income or business assets in corporate and non-corporate firms. They prove the existence of a significant but small effect of changes in tax incentives on income and assets. Anojan (2014) in case of Sri-Lanka analyzed 1990-2012 data found an evidence that the country's tax revenue significantly impact and associate by the tax policy changes.

3. Research Methodology

To analyze the cases, which are usually in terms of taxation can be very different from country to, country we have used analyzes based on secondary data, where as a case Uzbekistan's tax system has been chosen. To analyze the current tax system and to prove that it has inefficiency (particularly due to frequent changes) and only then, to find the reason for such inefficiencies we have used the data in forms of reports from the Ministry of Finance, Tax Committee, Central Bank, Chamber of Commerce and Industry of Uzbekistan. In addition, there was a need to review the Tax Code of Uzbekistan and other tax legislation to find out the mismatches and weaknesses of the current tax system.

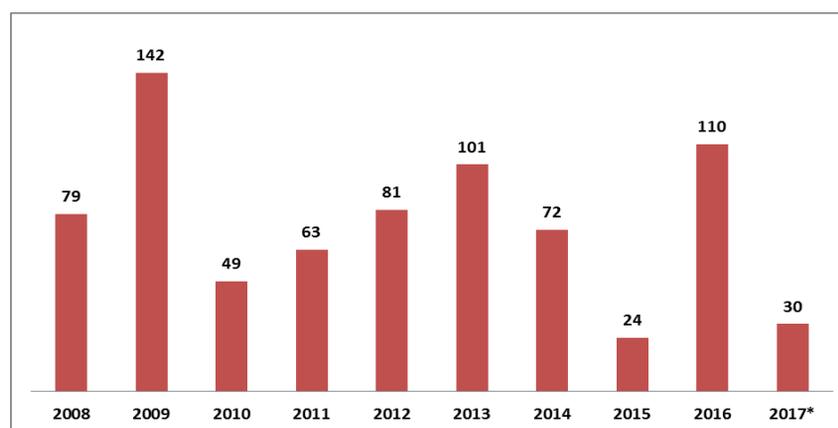


Figure 1: Number of changes made in Tax Code of Uzbekistan in 2008-2017(* changes to October 2017)

Then, the collected data has been logically explained by using detextualization methods of summarized data. Uzbekistan’s tax system has been chosen as a case due to one of the highest rates on the frequency of changes made to its tax legislation in a relatively short period, particularly to Tax Code (Figure 1)

4. Data Analyses and Discussion

If we consider that the tax system in Uzbekistan meets all the fundamental requirements of a perfect tax system, first of all, it is important to answer to the question whether there is a sufficient tax levy into the state budget of the country. Official statistics answers to this question positively. Because over the years, the state budget of Uzbekistan has been performing the surplus. However, there is a serious question arises when we make a comparison with other countries regarding the average income of civil servants, minimum levels of pensions and allowances, stipend payments of students, level of infrastructural development, etc. Here we can find that Uzbekistan for all the above-mentioned indicators have significantly lower positions, thus claiming that there is a budget surplus after qualitative analyzes become under question.

One evidence on the fact that taxation in Uzbekistan does not meet the principle of the budget sufficiency is related to the minimum wage in Uzbekistan, as well as to the minimum amount of pensions and other social benefits, which are extremely low from the real living wage.

Today, the lowest wages, pensions and social allowances in Uzbekistan (PF-5245) are as follows:

Minimum salary – UZS 172 240;

Old-age pension – UZS 336 880;

Allowances for disabled people from childhood – UZS 336 880;

Allowance for elderly and other disabled people without sufficient labor experience - UZS 206 720.

Given the size of the minimum wage, pensions and benefits in Uzbekistan, the natural question arises. So, which primary needs were taken into account in calculating the minimum amounts for mentioned indicators?

To answer to the proposed questions, we will conduct a comparative analysis, where we will analyze the minimum wages in several developed and developing countries (Table 1)

Table 1: The monthly nominal minimum wage rates by countries, in USD (OECD, 2015)

T/p	Country	Minimum monthly wage (nominal)
1.	Luxembourg	2190
2.	Australia	2159
3.	Germany	1958
4.	Netherlands	1848
5.	Belgium	1776
6.	New Zealand	1750
7.	Ireland	1708
8.	France	1660
9.	Great Britain	1615
10.	Canada	1422
11.	United States	1256
12.	Israel	1204
13.	South Korea	1016
14.	Slovenia	901
15.	Spain	862
16.	Malta	820
17.	Greece	756
18.	Portugal	671
19.	Costa Rica	622
20.	Latvia	580
21.	Poland	469
22.	Turkey	451
23.	Estonia	444
24.	Slovakia	432
25.	Czech Republic	387
26.	Hungary	381
27.	Chile	346
28.	Lithuania	339
29.	Romania	257
30.	Colombia	247
31.	Brazil	221
32.	Russia	102
33.	Mexico	85
34.	Uzbekistan	21

From the table 1. we can see that Uzbekistan is far behind in terms of the minimum wage from the international average level. This indicates that there is a strong need for a radical revision of the minimum wage in Uzbekistan and during this process to be based on a real minimum living wage. Otherwise, the main goals of conducting reforms can not be achieved. All the negative effects of low minimum wage will require more expenses from the state budget. We can conclude that the current tax system is not meeting requirement of the principle on the sufficiency of tax revenues to the budget.

In order for the state to fulfill its social obligations next to the society the state budget should still be significantly expanded. However, it is well-known that raising the level of taxation can hinder the economic growth. Therefore, the most effective way to increase the tax revenues of the state budget is to expand the taxation basis. It is still possible to increase the tax base without increasing the tax burden on the economy by improving the taxation system and tax administration, thereby increasing the tax revenues to the budget. The second fundamental requirement for taxation is its fairness. As mentioned above, the tax system should be able to adequately fund the state budget. However, it should be achieved without undermining the social justice.

From the theoretical literature, justice has two axes regarding to taxation, namely horizontal justice and vertical justice. Horizontal justice requires equity and generality in taxation. That is, all members of the society must pay taxes, and the same income should be subject to the same taxation. Vertical justice implies that subjects with a higher wealth in society should have greater taxation and, on the contrary, poor subjects and subjects with limited opportunities should pay lower taxes.

Unfortunately, we can state that in case of Uzbekistan the principles of justice of taxation regarding both axes is disabled. Until 2015, there were no discounts in the taxation of personal income in Uzbekistan. That is, the tax was paid from each cent of the citizen's income. Since 2015, it has been applied the 0% rate of taxation for the amount of income equal or less than the minimum wage (PQ-2270). Simply it means that minimum wage was not taxed anymore. However, as we have already seen, the minimum wage in Uzbekistan is very low. If to compare the annual minimum income level, which is taxed at 0 %, with other countries, we find this indicator is one of the lowest in the world.

Table 2: Individuals' annual minimum income level taxed at 0% rate

Country	Total annual average non-taxable earnings		
	USD	UZS (approx.)	The difference with Uzbekistan, times
Luxembourg	13518	109 833 750	53,1
Austria	13200	107 250 000	51,9
Germany	10382	84 357 000	40,8
Italy	9600	78 000 000	37,7
Spain	9540	77 512 500	37,5
Japan	9381	75 260 000	36,4
Belgium	8904	72 345 000	35,0
Switzerland	6834	55 878 000	27,0
Great Britain	6750	54 950 000	26,6
USA	6300	51 030 000	24,7
Australia	4740	38 394 000	18,6
Latvia	3456	28 080 000	13,6
Turkey	3156	26 040 000	12,6
Estonia	2448	19 890 000	9,6
Uzbekistan	252	2 066 880	-

Source: OECD Tax Database

If we look at the total amount of non-taxable earnings in the countries listed in Table 2, we see that leadership is dominated by western European countries. In the economically developed countries, the minimum non-taxable income of individuals is equal to at least \$ 5,000. Even in countries with more or less similar conditions with Uzbekistan, such as Turkey, Latvia and Estonia the smallest non-taxable earnings amount is around USD 3000.

In comparison to other countries, such extremely low levels of non-taxable income amount are due to the absence of such categories in Uzbekistan as the "consumer basket" and "living wage". The development of the real volumes of consumer basket would ensure not only fair taxation but also would create the opportunities to overcome the problem of over complexity of tax system of Uzbekistan.

Although the Tax Code of the Republic of Uzbekistan stipulates that, the overall taxation and tax exemptions should be consistent with the principles of social justice (Tax Code, 2007) in practice, we cannot find the enough evidence that this principle is followed. There are such tax privileges in the county's tax legislation (Table 3) which cannot be justified by any criteria.

Table 3: Individuals with income tax privileges in Uzbekistan

Individuals completely free of taxation	Individuals partially released from taxation in the amount of equal to 4 minimum wages monthly
Officers from the Ministries of Defense, Internal Affairs, Emergency Situations, National Security Service	Individuals awarded with the state title "Hero of Uzbekistan", "Hero of the Soviet Union", "Hero of Labor" and awarded with the "Order of Glory"
Personnel and senior officials of the internal affairs agencies and customs authorities	War participants and disabled people because of war, as well as individuals equated to them
Individuals who are earning compensations due to conducting the compulsory military services	Persons with disabilities from childhood, as well as disabled people of categories I and II
Judges of the Constitutional Court of the Republic of Uzbekistan, courts of general jurisdiction and economic courts	Parents and widowers (widows) of the servicemen who died as a result of illness during the defense of the constitutional system of the state or in the performance of other military service duties
Top positions of the Prosecutor's Office	One of the parents who care a child with a need of regular-care and is disabled from childhood
Individuals with a license to engage in concert performances - by income received from such activities	Widows who are not receiving allowances for the loss of breadwinners and single mothers who have two or more children under the age of 16

In the situation when the single mothers with two or more children under the age of 16, or citizens who actually need some social protection, are entitled with a tax deduction equal to the amount of only 4 minimum wages, which is UZS 599 100 (appr. USD 73.5) per month, government agencies, judicial system and prosecutors have been fully exempt from income tax. In addition, people engaged in concert performances were fully exempted from their income tax earnings. Now, let's be frank and answer to the question and tell are these benefits are consistent with the principles of social justice. In our opinion, the imposition of tax exemptions in such a way will undermine both principles of horizontal and vertical justice simultaneously.

This kind of privileges have a discriminatory nature. Obvious questions arise such as why do judges have tax exemptions, while governors do pay taxes. Why do tax authorities don't have tax privileges, while prosecutors do have? Why do show-business representatives have tax privileges, while doctors and teachers don't? There is another issue related to following the principles of fairness in taxation in Uzbekistan. The taxation system of Uzbekistan is based on generalized and special taxation regimes. Let's first analyze the system of taxation of individuals income (Table 4).

Table 4: Tax regimes applicable to individuals on payment of income tax and insurance premium to pensions fund (social)

Income through involved activity					Income through non-involved activity			
Self-employed individuals					Hired individuals			
Special tax regimes					Common tax regime			
Farmers	Individual entrepreneurs (family businessmen)				Employees of the militarized state agencies, prosecutors and judges	Other physical entities	Individuals receiving income through renting property	Individuals receiving income through dividends
	Organizers of game vending machines for children	Individual entrepreneurs paying taxes according to the activity	Organizers of concert activities	Craftsmen				
No income tax liability	Pays fixed tax depending on a physic object	Pays fixed tax depending on activity	No income tax or fixed tax liability	Free of income tax	Free of income tax	Pays income tax through a progressive mechanism	Pays income tax in the lowest tax rate (7.5%)	Pays tax at 10% tax rate
Pays IPPF in a voluntarily way (annually >4.5 MWR)	Pays IPPF at a fixed rate (main IE 1 MWR monthly, complementary IE 0.5 MWR)			IPPF (monthly 0.5 MWR)	Pays 8% IPPF from the monthly salary		-	-

From the table 4, we can see that there way too many tax regimes for different categories of tax payers, just individual entrepreneurs are divided into 4 categories in terms of taxation. However, for Individual entrepreneurs fixed tax rates are defined in the form of MWR depending on types of activity and region of activity (Table 5).

Table 5: Fixed tax rates for individual entrepreneurs

№	Activity	Monthly rates of fixed tax (times of minimum wage)			
		Tashkent city	Regional centers	Other cities	Other settlements
1	Retail:				
1.1	Food and non-food products	7,0	5,0	3,0	2,5
1.2	Farmer markets and agricultural products	3,5	2,5	2,0	1,5
1.3	Newspapers, magazines and books	3,5	2,0	1,5	0,5
2	Personal services	2,5	1,5	1,0	0,5
3	Production and sale of own production	2,0	1,5	1,0	0,5
4	Other activities	2,0	1,5	1,0	0,5
5	Cargo transportation services:				
5.1	Up to 3 tonnes of cargo carriages	1,5	1,5	1,5	1,5
5.2	Up to 8 tonnes of cargo carriages	2,0	2,0	2,0	2,0
5.3	Up to 12 tonnes of cargo carriages	3,0	3,0	3,0	3,0
5.4	Over 12 tonnes of cargo carriages	3,5	3,5	3,5	3,5
6	Organization of children's game machines (for each vending machine)	3,0	2,0	1,5	1,0

We can see from the table that for Individual entrepreneurs there are 4 types of regimes depending on regional aspect, 11 types depending on activities and in total 44 different fixed tax regimes.

There is an obvious question arises, such as why tax rates are so differentiated? Are these rates economically justified? If other countries use such practice? As fixed tax rate is unable to measure the profitability, opportunities to create the added value or to make profits of entrepreneurs its rates calculated on approximate estimations based on the type of activity and location of the business. However, this kind of approach violates the principle of justice. Dehkan farms are also exempted from the general taxes imposed on entrepreneurial activity. Members of the household are also as an individual subject do not taxed for income tax.

Comparative analysis of the tax burden on income categories (individuals) with tax liabilities under the above regimes to be analyzed (Table 6). We will analyze income categories in 11 conditional levels. The initial one is "0" category, which is the official minimum fixed wage in Uzbekistan, and it is officially forbidden to settle wages in this amount. According to the labor legislation, the minimum monthly wage should not be less than UZS 344,480 (I category). Earnings ranging from I to X have been kept doubling compared to the previous category.

Table 6: Comparative analysis of the tax burden on income categories of making income through involved activity

Income categories	Income amount	Hired individual	Tax burden, %	IE's trade activity (Tashkent)	Tax burden, %	IE's trade activity (Qibray, Tashkent region)	Tax burden, %	IE's other activity (Tashkent)	Tax burden, %	IE's other activity (Qibray, Tashkent region)	Tax burden, %
0	172240	0	0	1205680	700	430600	250	344480	200	86120	50,0
I	344480	12918	3,8	1205680	350	430600	125	344480	100	86120	25,0
II	688960	38754	5,6	1205680	175	430600	62,5	344480	50,0	86120	12,5
III	1377920	136931	9,9	1205680	87,5	430600	31,3	344480	25,0	86120	6,3
IV	2755840	426294	15,5	1205680	43,8	430600	15,6	344480	12,5	86120	3,1
V	5511680	1046358	19,0	1205680	21,9	430600	7,8	344480	6,3	86120	1,6
VI	11023360	2286486	20,7	1205680	10,9	430600	3,9	344480	3,1	86120	0,8
VII	22046720	4766742	21,6	1205680	5,5	430600	2,0	344480	1,6	86120	0,4
VIII	44093440	9727254	22,1	1205680	2,7	430600	1,0	344480	0,8	86120	0,2
IX	88186880	19648278	22,3	1205680	1,4	430600	0,5	344480	0,4	86120	0,1
X	176373760	39490326	22,4	1205680	0,7	430600	0,2	344480	0,2	86120	0,05

This table shows several types of inequality in taxation of citizens' income. First of all, 0% of the earnings, which is not taxable, apply only to those who are employed. There is no such social privilege for the individual entrepreneurs. Moreover, when they have low incomes, the fixed tax's burden exceeds 100% of the income. For example, in Tashkent, when the profit of IE's matches to categories 0, I and II the tax burden for them is higher than 100%.

Second, the progressiveness of taxation applied only to hired employees' income. That means, as more they earn more they have to pay taxes. Due to fixed taxation, the income of IEs taxed in a regressive way, which means more income they have lower is their tax burden.

Third, individuals with the same income have different tax burden because they are in different tax regimes. For example, in the VI revenue category, the tax burden is 20.7%, while the tax burden for subjects in commercial activity in Tashkent is 10.9%.

Fourth, even when citizens engaged in the same type of activity and have the same income, only due to the difference in territory where they have their activity the tax burden can be different. At present, the taxation system in Uzbekistan has been so much differentiated that it has become very complex and is becoming very different from international standards. The application of different taxation regimes and tax rates on legal entities and individuals has resulted in an unreliable and unfair distribution of tax burden.

We have already pointed out that the third essential requirement for taxation is the effectiveness of the tax system. There are two aspects of the effectiveness of the tax system:

First, the taxation or taxation process should be as cheap as possible for the state and taxpayers; Second, it has to be able to effectively regulate the economy and social processes through the state taxation mechanism. That is, through taxation, the government should effectively manage financial resources, production factors, labor and natural resources.

Regarding these two aspects, we give a brief overview of the effectiveness of the tax system in Uzbekistan. Data shows that some taxes in Uzbekistan cannot be called cheap for the state. These taxes such taxes as property tax, land tax, and water taxes. This is because the tax revenue to the state budget from these types of taxes is very small (Table 7) while the costs associated with the calculation and collection of these taxes are significantly high.

Table 7: The share of insignificant taxes in GDP and budget revenues (BR)

Indicators		2005	2007	2009	2011	2013	2015	2016
GDP	UZS bn	15 923,4	28 190,0	49 375,6	78 764,2	120 861,5	171369,0	199325,1
	UZS bn	3433,5	6145,0	10840,2	17061,3	26223,0	36 493,3	41030,7
Budget revenues	% to GDP	21,6	21,8	22,0	21,7	21,7	21,3	20,6
	Property tax, UZS bn	122,9	190,7	319,1	571,5	1011,6	1393,0	1659,3
Share	% to GDP	0,77	0,68	0,65	0,73	0,84	0,81	0,83
	% to BR	3,58	3,10	2,94	3,35	3,86	3,82	4,04
Including individuals' property tax, UZS bn		8,0	9,8	57,6	125,3	252,2	336,6	392,4
Share	% to GDP	0,05	0,03	0,12	0,16	0,21	0,20	0,20
	% to BR	0,23	0,16	0,53	0,73	0,96	0,92	0,96
Land tax, UZS bn		88,0	158,2	231,5	437,2	583,4	750,1	966,7
Share	% to GDP	0,6	0,56	0,47	0,56	0,48	0,44	0,48
	% to BR	2,6	2,6	2,1	2,6	2,2	2,1	2,4
Including individuals' land tax, UZS bn		17,1	39,2	67,1	120,2	241,4	343,2	402,8
Share	% to GDP	0,11	0,14	0,14	0,15	0,20	0,20	0,20
	% to BR	0,50	0,64	0,62	0,70	0,92	0,94	0,98
Water tax, UZS bn		14,4	26,8	42,6	62,4	102,4	158,4	162,5
Share	% to GDP	0,09	0,10	0,09	0,08	0,08	0,09	0,08
	% to BR	0,42	0,44	0,39	0,37	0,39	0,43	0,40

Table 7 shows that taxes for property, land and water use in Uzbekistan do not play a significant role in the formation of GDP and state budget revenues. The share of property tax in the total budget revenues was around 3-4% between 2005 and 2016, whereas the ratio to GDP was 0.65-0.84%. We see that the share of land tax in budget revenues is at the level of 2.5% and the ratio to GDP is 0.5%. If we look at tax revenues for water resources, its share in GDP is not even 0.1%, and in budget revenues 0.5 per cent.

We can conclude that the most inefficient taxes in Uzbekistan are property and land taxes for individuals. Because the share of these taxes in the total budget revenues does not exceed even 1%. If we estimate the total mobilization of resources associated with calculating, notifying, collecting of these taxes it is easy to understand that these taxes are more expensive than other taxes. Therefore, it can be concluded that such taxes are not currently effective.

However, it would not be possible to give up the property and land taxes as well as water tax because of their fiscal insignificance. Because these taxes serve as a real direct taxes to ensure the vertical justice principle of taxation in the society. In addition, property and resource taxes are fiscal instruments that promote direct capital investments into the economy, promoting efficient usage of property and resources. Thus, it is necessary to improve their impact and fiscal significance by improving the property and resource tax collection mechanism in Uzbekistan.

One of the most important requirements for the sustainability of the tax system is the rigid mechanisms of taxation. This means that structural elements of the tax system should be flexible and adjustable to changes in economic development, market and social changes.

5. Conclusion

After qualitative analyzes of Uzbekistan's tax system, we can conclude that the general and separate taxation mechanisms should be developed in such a way that:

First, taxes should be applied beyond the borders of the primary economic and social needs of taxpayers, which means it should be outside of the "living minimum". If such areas are taxed than the taxpayer, especially the business entities, will try to their best to avoid the taxation by any means. As a result, the government will amend tax legislation to prevent tax evasion. However, the taxpayer, who is the owner of income or property, will continue seeking for other ways of tax evasion because he will have no other choice than to do it. This situation, as a result, will bring the necessity to make more amendments and additions to the current tax legislation.

Second, taxation should be multidimensional (multi-objective). Taxes should be placed at different spots of economic activity so that the taxpayers should not have any another option than to settle all the accounts with the state. That is the main reasons for the instability of the tax system in Uzbekistan. In particular, the so-called "single taxation" system for the majority of entrepreneurs has various holes for tax evasion. As a result to cover such holes, there were developed many different standards for calculating taxes.

Third, the mechanisms of taxation should not be rigid, but rather should be flexible. This is in our opinion is the main element which Uzbekistan's taxation system is lacking. The fact that some types of activities are not regulated, or the opposite overregulated had led to a situation when revenues of many individuals stayed beyond the tax system. If we look at the types of activities in society, or sources of income, we can see that most of them are informal.

For example, the majority of construction works (especially those carried out by individuals), repairing the household appliances, trading of houses, sewing, tutoring, non-official taxi services, short-term renting of property and such type of activates are all out of tax control. This is due to the complexity of the formal (legal) tax system and procedures or due to the seasonality of certain types of activities.

To provide the fair distribution of the tax burden, the simplification of taxation, the rational use of resources and the expansion of the tax base, separate taxation regimes must be abolished, and all taxpayers should be in a standardized taxation regime, which can help to reach the unification of the tax system.

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