

Profit Tax: Problems and Solutions

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Abstract: In this article, the nature, characteristics and current problems of the mechanism of taxable profit administration based on the current tax legislation were highlighted. At the same time, the article examines the features of the profit tax elements in the practice of taxation, the results of the implementation of fiscal and regulatory tasks of the activities of the taxable profit administration. The economic content of the concept of profit, its formation, economic concepts such as accounting profit and net profit are expressed based on the views of economists. The specific aspects that arise in the process of tax base formation during the process of collecting the profit tax are described. It noted that economic benefit in the form of money or in kind, which is taken into account to the extent that it is possible to assess the benefit, is recognized as income.

Keywords: profit, taxable profit, profit tax, elements of profit tax, deductible and non-deductible expenses, results of financial and economic activity, state budget, tax concept, mechanism of taxable profit administration.

INTRODUCTION

One of the most debated issues in the world economy is the relationship between taxation and economic growth. Nowadays, the taxation of the profits of enterprises is considered an important factor in creating a competitive environment in the economy and ensuring economic growth. In particular, "in 2019, the share of corporate profit tax in GDP was 4.2% in Japan, 3.8% in Canada, 2.5% in Great Britain, 2.2% in France, 2.0% in Germany, 1.9% in Italy, 1.9% in the USA, was 0 percent" [1]. Profit taxation is a tool that significantly affects the state budget and the financial and economic activity of the enterprise. Therefore, improving the mechanism of profit taxation is one of the most urgent issues.

Studying the impact of the profit tax on economic growth at the international level, regulating export-import relations, attracting foreign investments, and at the same time monitoring the cases of profit tax evasion in the competitive environment and introducing appropriate legal norms to eliminate them, thereby encouraging the payment of taxes on all incomes measures are being taken to try to do so. Accordingly, in the current conditions, scientific and practical researches are being carried out in the directions of consistently reducing the tax burden, creating favorable socio-economic conditions for conducting business, sharply reducing the "hidden" economy, conducting an effective tax policy, as well as improving the mechanism of profit taxation.

In the conditions of carrying out deep economic reforms in the tax sector in Uzbekistan, modernizing production at the expense of financial resources available to enterprises by sharply reducing the tax

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burden, increasing their efficiency by expanding investment activities, and creating new jobs are among the priorities. "Within the framework of tax policy improvement, consistent reduction of the tax burden, simplification of the taxation system and improvement of tax administration are the most important conditions for rapid economic development and improvement of the country's investment attractiveness"[2].

These tasks were set in the "Development Strategy of New Uzbekistan for 2022-2026" in a more strict and comprehensive manner: "...to continue the policy of reducing the tax burden and simplifying the taxation system, improving tax administration and expanding relevant incentive measures" [3] has been identified as an important direction.

Material and methods

Optimizing the impact of profit tax on the activities of economic entities is an urgent issue in improving the tax policy and ensuring competitiveness in the economy. Tasks in this direction require solving the problems of regulation of profit obtained by business entities on the basis of improving the mechanism of profit taxation.

M. Rasulov notes that the interest of the market participant is determined by the amount of profit and defines that - "profit is the excess of income over expenses"[4].

According to B. Abdukarimov, "Profit is one of the complex economic categories. It mainly represents the economic relations that arise in the process of creation and use of added value" [5].

The interpretation of "economic profit" and "accounting profit" can be found in scientific economic literature. Economic profit is a broad concept, characterized by an increase in the economic value of all material and financial assets of the enterprise during the reporting period. Accounting profit means the positive difference between the income and expenses of the enterprise.

In general, "profit as an economic category is the final financial result created in the material production sphere of society based on the integral relationship of production factors (labor, capital, natural resources)" [6].

The content of the corporate profit tax is reflected in the relations that arise when a certain part of the profit obtained as a result of financial and economic activity is transferred to the state budget. Therefore, the concept of "profit tax" was defined as follows: "Profit tax refers to monetary relations related to the transfer of profit to the state budget as part of the added value created in enterprises, organizations and associations as a mandatory payment within the limits set by law" [4].

So, the profit tax mechanism consists of a set of rules and instruments of tax relations, with the help of which the goal of the tax policy is achieved" [5].

Profit tax is recognized as a direct tax, it ensures the stability of investment processes in the field of product production (providing services, performance of works), as well as guarantees the legal increase of capital [7].

Analysis and results

The main condition of profit taxation is expressed by the need to generate profit and increase the financial activity of economic entities in this regard.

Profit taxation is one of the main factors in the development of financial relations of enterprises, and this process requires a radical reform of its distribution and redistribution along with the effective use of profits by legal entities.

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Profit has an important place in the formation of the process of distribution and redistribution of part of the social product. It is formed as an economic category by acting independently to ensure continuous reproduction and its expansion. In the process of creation, distribution and use of a part of the social product, the profit forms special and general economic funds and takes an active part in providing the state budget with funds.

Therefore, one of the important problems of taxation of economic entities is the problem of ensuring an integral relationship between profit and the tax rate. This problem has attracted the attention of many scientists in theoretical approaches. It should also be noted that this problem, both in theory and in the practice of economic entities, makes not only the need for profit formation and distribution, but also its taxation an urgent issue.

Taxes are an effective means of regulating the production activities of economic entities, they increase the tendency of the management of the enterprise to ensure the growth of profits by reducing costs and increasing production efficiency.

Thus, in order to understand the socio-economic content of the profit tax, it is noteworthy to mention the following features of the movement of financial resources related to it:

1. As a characteristic of all taxes, the payer of the profit tax does not receive any material benefit instead of paying the tax to the state budget. It may transfer the calculated profit tax in the amount and period established by law. This is different from service fee, permit (license) and other similar fees.
2. It is ensured that the optimal rate of profit tax is determined and falls on a certain fund. This is explained by the fact that the state budget is replenished in the required amount and collected in accordance with the interests of taxpayers.

The content of the corporate profit tax is reflected in the relations that arise when a certain part of the profit obtained as a result of financial and economic activity is transferred to the state budget. Therefore, the concept of "profit tax" was defined as follows: "Profit tax is understood as monetary relations related to the transfer of profit to the state budget as a part of the added value created in enterprises, organizations and associations as a mandatory payment within the limits set by law."

The legal and normative basis for the practice of profit tax is Section XII, Chapters 42-51 and Articles 294-358 of the Tax Code of the Republic of Uzbekistan [8].

The mechanism of profit taxation is the implementation of profit tax elements into systematic practice, which represents their effective use. Therefore, the mechanism of profit taxation should be used in such a way that the profit tax falls on different levels of budget revenues in a timely manner, they can simultaneously stimulate the production of innovative products and the production of import substitutes to ensure high profits.

Net profit is the difference between the total income and the expenses related to the ongoing activities of the institution. In this case, the net profit for the current tax period is reduced by the total sum of the loss (losses) received in the previous tax periods within the same permanent establishment, provided that such loss (losses) were not taken into account in determining the net profit [8].

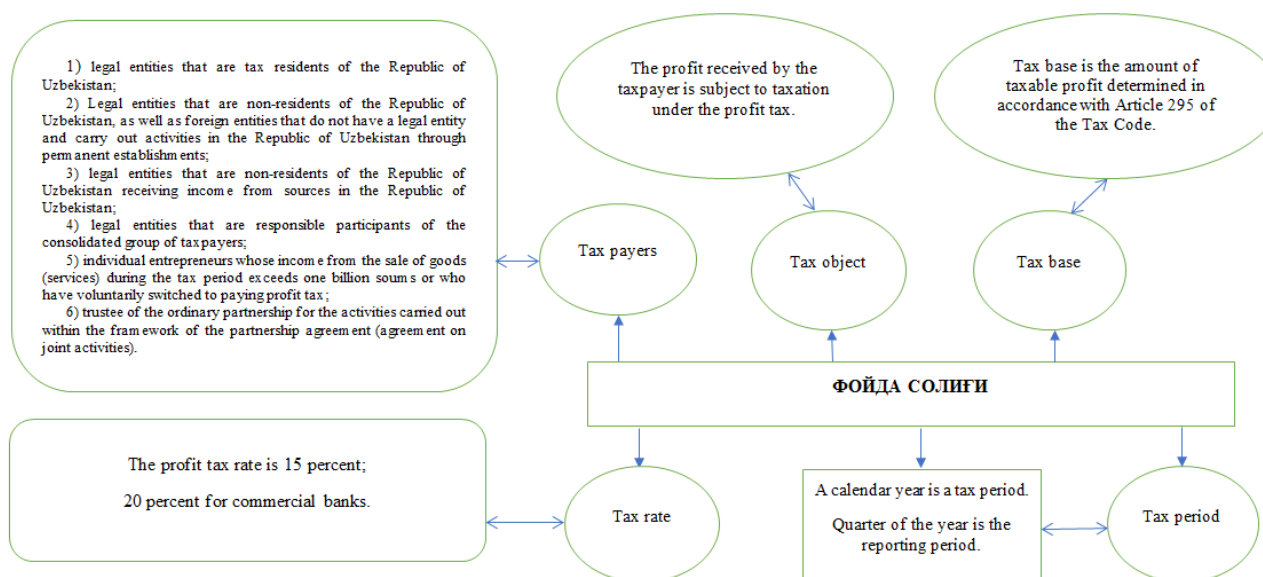
Any business entity seeks to obtain maximum profit at the expense of minimum costs. The economic nature of taxes on profit is such that its amount is directly related to the amount of profit received by the enterprise.

Profit tax is one of the main factors of ensuring the competitiveness of the national economy. Because the profit tax is the main instrument for stimulating local producers, increasing exports and attracting foreign

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investments. Therefore, improving the profit tax is of great importance in increasing the competitiveness of our national economy.

The study of the main elements of the profit tax is determined on the basis of the current tax legislation (Figure 1).



Discussion

Profitability creates a basis for the development of production activities and the realization of social goals, as well as an increase in budget revenues at various levels.

Profit tax is recognized as a direct tax, it ensures the stability of investment processes in the field of product production (providing services, performance of works), as well as guarantees the legal increase of capital»[9]. The fiscal function of the profit tax is especially important in the crisis conditions of the economy.

The base and amount of profit tax in enterprises are affected by the following factors: net income from product sales, cost of sold products, income, expenses, income and expenses of financial activities, extraordinary profit and loss, profit tax rate during the reporting period.

We consider it appropriate to divide the above factors into two groups and calculate their impact on profit tax. The factors of the first group have a positive effect on the amount of profit tax, while the factors of the second group have a negative effect on it.

An increase in the net income from the sale of the product compared to the previous year leads to an increase in the amount of profit tax, provided that other factors remain unchanged. The indicator of the cost of the sold product leads to a reduction of the amount of profit tax under the above condition.

Economic benefit in the form of money or in kind is recognized as income if it is possible to assess the benefit and to the extent that such benefit can be assessed [8].

In understanding the essence of profit taxation, it is necessary to distinguish between different forms of profit. For a clearer idea of the tax base for profit taxation, we present Table 1

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Table 1. Description of the algorithm for calculating the profit tax base ¹

Algorithm steps	Indicators	
Gross profit	Profit (loss) from the sale of a product (work, service)	Income received other than realization
Deductible	1. Production and sales costs: - material costs; - salary expenses; - social costs; - depreciation costs; - other expenses. 2. Expenses on the realization of fixed assets	Costs not included in the implementation: - interest on loans received for the main activity; - accrued interest on securities; - negative exchange rate difference; - advertising expenses; - other expenses
Taxable profit		
Deductible	Profit tax benefits defined in the tax legislation	
Profit tax base		

From Table 1 above, it can be seen that the financial manager of the enterprise tries to increase the amount of net profit by focusing on the cost of the product as well as tax deductions. In other words, the financial manager of the enterprise has the opportunity to apply costs and possible tax benefits to the cost of the product.

It should be noted that the enterprise manager pays special attention to the planning of profit tax when predicting the future analysis of the implementation of the corporate finance strategy.

By analyzing the impact of the profit tax on the activities of economic entities, it can be concluded as follows:

It is necessary to develop standard annual report forms that take into account financial results based on the characteristics of economic sectors and industries.

In order to support the investment activity of large taxpayers, it is appropriate to introduce differentiated rates of profit tax:

Depending on the share of long-term investments in the charter fund for enterprises:

- when it is from 35 to 40 percent — the fixed rate is 80 percent;
- when it is from 40 to 50 percent — the fixed rate is 75 percent;

Above 50 percent, I believe it would be best practice to set the rate at 70 percent.

It is also important to set a profit tax rate of 15 percent for commercial banks.

We can see the dynamics of participation of profit tax revenues in the formation of the fiscal base in Table 2.

¹ Меъёрий-хукукий ҳужжатлар асосида муаллиф ишланмаси.

Table 2. The dynamics of the participation of income from profit tax in the formation of the state fiscal base in the Republic of Uzbekistan in 2015-2022²

Indicators	Years							
	2015	2016	2017	2018	2019	2020	2021	2022
1. Number of profit tax payers	12391	9171	8197	6723	7609	53051	112336	140566
2. Income from direct taxes:								
- billion soums	8798,5	9852,7	10672,7	11538,9	29125,5	40584,6	46845,2	63330,5
- in % of the total	23,6	23,0	24,0	20,6	28,4	31,6	31,8	31,7
3. Profit tax transferred to the budget:								
- billion soums	1180,5	1215,1	1475,5	3502,21	16360,6	22058,7	38363	38557
- in % of the total	3,2	3,0	2,9	4,0	14,6	21,6	23,3	19,8

Looking at budget revenues for 2015-2022, if the amount of profit tax had a tendency to increase, then its share in budget revenues changed differently (Table 2, Figure 2). In particular, the amount of profit tax in 2021 is 38363.0 billion. amounted to 37182.5 (38363.0-1180.5) billion soums compared to 2015, that is, it increased by 32.5 times. This can be explained by the expansion of the taxable base. The share of profit tax in the structure of budget revenues in 2021 was 23.3 percent, which increased by 20.1 percent compared to 2015.

From the data presented in Figure 2, it became clear that the largest indicator of profit tax in relation to budget revenues was recorded in 2021, i.e. 23.3% (or 38363.0 billion soums). The increase in the share of profit tax in the structure of state budget revenues can be attributed to the increase in the number of taxpayers for this type of tax.

The main factor behind the sharp increase in the number of profit tax payers is the annual turnover (income) of 1 billion within the framework of the concept of tax policy improvement. it was calculated that enterprises exceeding soums were transferred to pay general taxes. In addition, it was determined that individual entrepreneurs whose income from the sale of goods (services) exceeds one billion soums during the tax period or who have voluntarily switched to paying profit tax are also considered to be payers of profit tax.[9]

Taking into account the requirements of the current globalized economy and real life needs, the fundamental basis of a new approach to the research of the methodology of taxation of enterprises should be based on the fact that the country's tax system should take into account the future tasks of ensuring the effective operation of enterprises.

² www.mf.uz – Ўзбекистон Республикаси Молия вазирлиги сайти маълумотлари

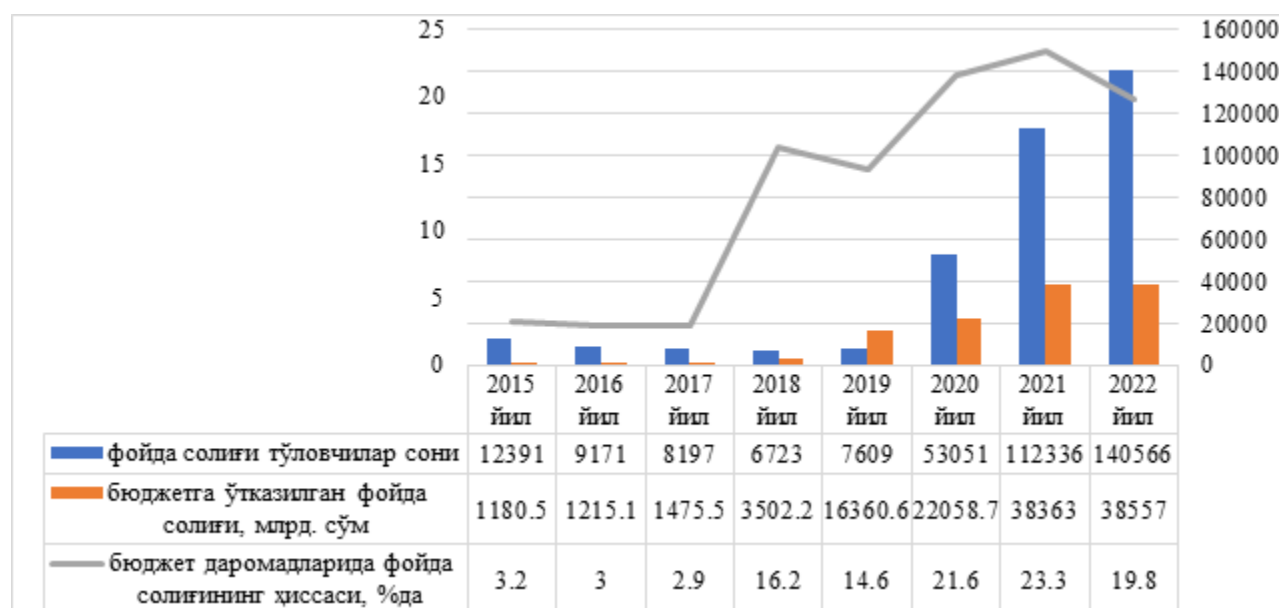


Figure 2. Dynamics of the amount of profit tax and its share in budget revenues³

According to Article 305 of the Tax Code of the Republic of Uzbekistan, any expenses are recognized as economically justified expenses, provided that they meet at least one of the following conditions:

- 1) if it is done for the purpose of performing activities aimed at obtaining income;
- 2) if it is necessary or serves to maintain or develop such business activity and the connection of expenses with business activity is clearly based;
- 3) if it follows from the provisions of the law.

In practice, sometimes there are situational problems in the process of calculating the profit tax base for these expenses. Including:

The commercial organization rents the office space belonging to it. Building maintenance costs regularly exceed rental income. As a result, a loss is formed both in accounting and tax accounting for this activity. It is covered by income from other activities. In this case, the tax inspectorate may sue the organization on the grounds that the costs of building maintenance are not economically justified, as they do not bring profit.

The exporting company uses the services of a third-party organization to search for foreign buyers. During the tax audit, the tax inspectorate has the right to demand proof of the economic justification of these expenses.

As such evidence, the exporting company can provide a report of negotiations of a third-party organization with a foreign partner, calculation of profit from the concluded transaction, etc.

In addition, if, according to the opinion of the tax inspectorate, some expenses are exaggerated, the inspectorate can make a claim. Such claims may also arise in the event of profit from the activity or transaction.

³ www.mf.uz – Ўзбекистон Республикаси Молия вазирлиги сайти маълумотлари

Conclusion

One of the important ways to positively influence the formation of the financial foundations of socio-economic development is to strengthen the positive impact and reduce the negative impact of taxes as an important task of regulating the activities of the enterprise through taxes. Any enterprise has the right to conduct business and use effective methods and ways of accounting for economic operations in order to reduce its tax obligations to the budget as much as possible.

Optimizing tax payments is one of the important bases for increasing the financial capabilities of the enterprise through business development and ensuring the future growth of the tax base. As a result of optimization of tax payments, there is an increase in real opportunities for the future development and efficiency of the enterprise. Therefore, continuous analysis of the impact of taxes on the indicators of enterprise activity is an important condition for effective regulation of enterprise activity through taxes.

Summarizing the experiences of the world tax practice, it was determined that the objective trend of transformation of the fiscal type of taxation into the regulatory type is being observed, and in this regard, the appropriateness of the transition to the regulatory type of taxation was emphasized in the prospects of the development of the new economy of Uzbekistan.

As a part of the tax regulatory function, the improvement of the tax administration system comes into play. In this direction, the following are offered:

- establishment of uniform standards for technological processes of work of tax bodies;
- to strengthen the mechanism of mandatory collection of tax payments due to the wide and rapid introduction of complex information systems in order to improve the monitoring of taxable transactions;
- developing practical manuals and software products for calculating the profit tax base for all business entities that have switched to paying profit tax within the framework of the tax concept;
- gradual transfer of all economic entities to payment of profit tax;
- 15 percent profit tax rate for commercial banks.

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