



## PERFORMING CORPORATE TAX AND TAXATION IN UZBEKISTAN IN ORDER TO SUPPORT ECONOMIC GROWTH

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### ABSTRACT

*At the present stage of development of the economic growth in Uzbekistan, one of the main factors is Corporate tax and taxation, even though this tax method is very popular in developed countries such as United States, Japan, South Korea and European Union countries, this method has not been used in the taxation system of Uzbekistan. Most enterprises in Uzbekistan, including Uzbek companies with foreign participation, are subjects to gather financial resources to government budget. Consequently, this reason shows that overloading tax and taxation burden belong to Joint Stock Companies of Uzbekistan.*

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### 1. Introduction

A corporate tax is a tax imposed on the net profit of a corporation that are taxed at the entity level in a particular jurisdiction. Net profit for corporate tax is generally the financial statement net profit with modifications, and may be defined in great detail within each country's tax system. Such taxes may include income or other taxes. The tax systems of most countries impose an income tax at the entity level on certain type(s) of entities (company or corporation). The rate of tax varies by jurisdiction. The tax may have an alternative base, such as assets, payroll, or income computed in an alternative manner.

Most countries exempt certain types of corporate events or transactions from income tax. For example, events related to formation or reorganization of the corporation, which are treated as capital costs. In addition, most systems provide specific rules for taxation of the entity and/or its members upon winding up or dissolution of the entity.

In systems where financing costs are allowed as reductions of the tax base (tax deductions), rules may apply that differentiate between classes of member-provided financing. In such systems, items characterized as interest may be deductible, perhaps subject to limitations, while items characterized as dividends are not. Some systems limit deductions based on simple formulas, such as a debt-to-equity ratio, while other systems have more complex rules.

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Some systems provide a mechanism whereby groups of related corporations may obtain benefit from losses, credits, or other items of all members within the group. Mechanisms include combined or consolidated returns as well as group relief (direct benefit from items of another member).

Many systems additionally tax shareholders of those entities on dividends or other distributions by the corporation. A few systems provide for partial integration of entity and member taxation. This may be accomplished by "imputation systems" or franking credits. In the past, mechanisms have existed for advance payment of member tax by corporations, with such payment offsetting entity level tax.

Many systems (particularly sub-country level systems) impose a tax on particular corporate attributes. Such non-income taxes may be based on capital stock issued or authorized (either by number of shares or value), total equity, net capital, or other measures unique to corporations.

Corporations, like other entities, may be subject to withholding tax obligations upon making certain varieties of payments to others. These obligations are generally not the tax of the corporation, but the system may impose penalties on the corporation or its officers or employees for failing to withhold and pay over such taxes. A company has been defined as a juristic person having an independent and separate existence from its shareholders. Income of the company is computed and assessed separately in the hands of the company. In certain cases, distributions from the company to its shareholders as dividends are taxed as income to the shareholders.

Most jurisdictions tax corporations on their income, like the United Kingdom or the United States. The United States taxes all types of corporate income for a given company at the same rate, but provide different rates of tax depending on income levels or size of the company.

## 2. Methodology

The Corporate Tax Statistics database contains four forward looking tax policy indicators reflecting tax rules as of 1 July 2017:

- the effective marginal tax rate (EMTR);
- the effective average tax rate (EATR);
- the cost of capital;

The net present value of capital allowances as a share of the initial investment. All four tax policy indicators are calculated by applying jurisdiction-specific tax rules to a prospective, hypothetical investment project. Calculations are undertaken separately for investments in different asset types and by sources of financing (i.e. debt and equity). Composite tax policy indicators are computed by weighting over assets and sources of finance. In addition, more disaggregated results are also reported in the Corporate Tax Statistics database. Of the 74 jurisdictions covered in 2017, 55 provide accelerated depreciation, meaning that investments in these jurisdictions are subject to EATRs below their statutory tax rates. Among those jurisdictions, the average reduction of the statutory tax rate was 1.8 percentage points; in 2017, the largest effects were observed in the United States (4.8 percentage points), India (3.8 percentage points), Papua New Guinea (3.8 percentage points) and Belgium (3.6 percentage points). In contrast, fiscal depreciation was decelerated in 11 jurisdictions, leading to EATRs above the statutory tax rate. Among those jurisdictions, the average

increase of the statutory tax rate was 2.4 percentage points; the largest increases were observed in Costa Rica (8 percentage points), Chile (6.8 percentage points) and Botswana (5.3 percentage points). Among all 74 jurisdictions, only 5 jurisdictions had an allowance for corporate equity (ACE): Belgium, Brazil, Italy, Liechtenstein and Turkey. Including this provision in their tax code has led to an additional reduction in their EATRs of 1.3-4.4 percentage points. The average EATR across jurisdictions (20.5%) is 1.1 percentage points lower than the average statutory tax rate (21.6%). EATRs are also less dispersed across jurisdictions compared to the statutory tax rate. While the median is about the same as for the statutory tax rate, the highest EATR is only 44.1%, compared to the highest statutory tax rate at 47.9%; half of the jurisdictions covered have EATRs between 14.5% and 27.4%. Effective marginal tax rates (EMTRs) are the lowest in jurisdictions with the most accelerated fiscal depreciation rules, including two large economies with comparatively high statutory tax rates: India and the United States. In addition, jurisdictions with an ACE also have considerably lower EMTRs. Disaggregating the results to the asset level reveals that fiscal acceleration is strongest for investments in buildings and machinery. For these two asset categories, the average EATR across jurisdictions is 19.3% and 19.6%, considerably lower than the average composite EATR (20.5%). Investments in intangibles are subject to very different ETRs due to significant variation in tax treatment across jurisdictions. In particular, intangibles are non-depreciable in Botswana, Chile and Costa Rica, leading to strongly decelerated fiscal depreciation. Argentina, Australia, Brazil, South Africa and Spain provide moderately decelerated depreciation of intangibles. On the other hand, a significant number of jurisdictions accelerates depreciation of intangibles, including Denmark, Kenya, Papua New Guinea and the United States. Comparison of statutory tax rates and the degree of acceleration measured in percentage points suggests that jurisdictions with higher statutory tax rates tend to provide stronger fiscal acceleration, especially among OECD jurisdictions.

ETRs fall into two categories: forward-looking and backward-looking ETRs. Forward-looking ETRs capture information on corporate tax rates and bases as well as other relevant provisions within a comparable framework. They provide an appropriate basis for cross jurisdiction comparisons of the combined impact of corporate tax systems on the investment decisions of firms. Although these forward-looking ETRs do not reflect actual tax payments by specific taxpayers in the past, they are accurate indicators of the investment incentives delivered by corporate tax systems and therefore provide comparable information on the competitiveness of tax systems. Two complementary forward-looking ETRs are typically used for tax policy analysis, capturing incentives at different margins of investment decision making:

EMTRs measure the extent to which taxation increases the pre-tax rate of return required by investors to break even. This indicator is used to analyze how taxes affect the incentive to expand existing investments given a fixed location (along the intensive margin). EATRs reflect the average tax contribution a firm

makes on an investment project earning above-zero economic profits. This indicator is used to analyze discrete investment decisions between two or more alternative projects (along the extensive margin). In contrast, backward-looking ETRs are calculated by dividing actual tax payments by profits earned over a

given period. They are calculated on the basis of historical jurisdiction-level or firm-level data and reflect the combined effects of many different factors, such as the definition of the tax base, the types of projects that firms have been engaged in, as well as the effects of possible tax-planning strategies. Although backward-looking ETRs may not reflect how corporate tax systems affect incentives to invest at present, they provide information on how tax payments and profits of specific taxpayers or groups of taxpayers compare to each other in the past. Therefore, backward-looking ETRs are often referred to in public debates about multinational

tax avoidance and BEPS. The second edition of Corporate Tax Statistics will include aggregated and anonymized data from Country-by-Country Reports allowing for the calculation of some backward-looking ETRs for certain groups of multinational enterprises.

Forward-looking effective tax rates (ETRs) are calculated on the basis of a prospective, hypothetical investment project. The OECD methodology has been described in detail in the OECD Taxation Working Paper No. 38 (Hanappi, 2018), building on the theoretical model developed by Devereux and Griffith (1999, 2003). The methodology builds on the following key concepts:

**Economic profits** are defined as the difference between total revenue and total economic costs, including explicit costs involved in the production of goods and services as well as opportunity costs such as, for example, revenue foregone by using company-owned buildings or self-employment resources. It is calculated as the net present value (NPV) over all cash flows associated with the investment project. **The cost of capital** is defined as the pre-tax rate of return on capital required to generate zero post-tax economic profits. In contrast, the real interest rate is the return on capital earned in the alternative case, for example, if the investment would not be undertaken and the funds would remain in a bank account.

**The effective marginal tax rate (EMTR)** measures the extent to which taxation increases the cost of capital; it corresponds to the case of a marginal project that delivers just enough profit to breakeven but no economic profit over and above this threshold. The effective average tax rate (EATR) reflects the average tax contribution a firm makes on an investment project earning above-zero economic profits. It is defined as the difference in the NPV of pre-tax and post-tax economic profits relative to the NPV of pre-tax income net of real economic depreciation.

**Real economic depreciation** is a measure of the decrease in the productive value of an asset over time; depreciation patterns of a given asset type can be estimated using asset prices in resale markets. The OECD methodology uses economic depreciation estimates from the US Bureau of Economic Analysis (BEA, 2003).

Jurisdiction-specific tax codes typically provide capital allowances to reflect the decrease in asset value over time in the calculation of taxable profits. If capital allowances match the decay of the asset's value resulting from it being used in production, then fiscal depreciation equals economic depreciation. If capital allowances are more generous, fiscal depreciation is accelerated; where capital allowances are less generous, fiscal depreciation is referred to as decelerated. The NPV of capital allowances, measured as percentage of the initial investment, accounts for timing effects on the value of capital allowances, thus providing comparable information on the generosity of fiscal depreciation across assets and jurisdictions. The cost of capital, EMTR, EATR as well as the NPV of capital allowances are all

available for 74 jurisdictions in the Corporate Tax Statistics online database.

The calculations build on a comprehensive coverage of jurisdiction-specific tax rules pertaining to four quantitatively relevant asset categories:

1. **buildings:** e.g. office buildings or manufacturing plants;
2. **machinery:** e.g. machinery, cars, furniture or equipment;
3. **inventories:** e.g. goods or raw materials in stock;
4. **intangibles:** e.g. acquired patents or trademarks.

The following corporate tax provisions have been covered: combined central and sub-central statutory corporate income tax rates; asset-specific fiscal depreciation rules, including first year allowances, half-year or mid-month conventions; general tax incentives only if available for a broad group of investments undertaken by large domestic or multinational firms; inventory valuation methods including first-in-first-out, last-in-first-out and average cost methods;

## Conclusion

Today, in Uzbekistan there are too a lot of types of taxes. Each type of taxes is in small number. However, when we would gain in one sphere, these tax payments would increase. We can compare these numbers:

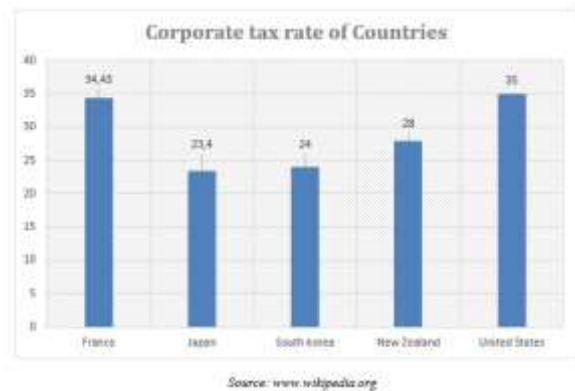
### UZBEKISTAN COUNTRY COMPARISON FOR CORPORATE TAXATION

|  | Uzbekistan | Eastern Europe & Central Asia | United States | Germany |
|--|------------|-------------------------------|---------------|---------|
| <b>Number of Payments of Taxes per Year</b>              | 46.0       | 17.6                          | 10.6          | 9.0     |
| <b>Time Taken For Administrative Formalities (Hours)</b> | 192.5      | 238.0                         | 175.0         | 218.0   |
| <b>Total Share of Taxes (% of Profit)</b>                | 38.1       | 33.8                          | 44.0          | 48.9    |

Source: *Doing Business, 2019*

In Uzbekistan, there are 5 times more number of payments of Taxes per year than Germany, that's why foreign investors have doubt to invest their money and power.

We analyzed a lot of developing countries and concluded that Uzbekistan's total share of taxes (38.1%) is higher than others (average about 31-32%). In developing countries it should be small number.



Finally, we are going to offer to perform corporate tax system because, Uzbekistan's tax system has not used Corporate Tax and Taxation in its history. We calculated optimal form of corporate tax using methodology which above was mentioned. This number accounts for 32-33 %. We hope this is optimum and it help Uzbekistan economy to attract investment.

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