

Factors Leading to Tax Evasion and its Impact on Budget Deficit Growth

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Abstract:

The issue of optimal management of budget deficit and public debt, which is the main component of the country's economy, is one of the main tasks of the financial system. Based on this, the article examines the most important tasks for the finances of all countries, such as the correct formation of public debt, ensuring that it does not exceed regulatory limits and servicing it. Also in the article, the relations associated with the formation of an effective strategy for financing public debt, its servicing and payment have a significant impact on the composition of public finances, money circulation, the currency system, the investment environment, consumption and savings.

Key words: budget deficit, public debt, gross domestic product, denomination, foreign currency, maximum amount, devaluation.

In the Republic of Uzbekistan, any of these estimates show that the "illegal economy" (i.e. activities not registered with the tax office) is growing in terms of its volume in relation to GDP. In many underdeveloped countries, its level reaches 70-80%.

The results of the analysis revealed that not only small enterprises, but also large enterprises in terms of the number of employees, are hiding from paying taxes. This is especially evident not only in the concealment of the taxable base, but also in relation to those enterprises that, having tax benefits, used them incorrectly. Incorrect use of tax benefits is also one of the types of concealment, manifested in their incorrect use (Table 1).

Table 1 Inefficient use of tax incentives for 2015-2021 by enterprises of the Republic of Uzbekistan¹ (billion soums)

Years	Number of enterprises that benefited from tax incentives		Additional taxes are calculated for incorrect use		Of these:			
					determined based on the results of the desk audit		determined based on the results of tax audits	
	quantity	worth	quantity	worth	quantity	worth	quantity	worth
2015	58377	12450,9	622	14,8	536	11,6	86	3,2
2016	28617	10924,4	769	21,9	677	6,1	92	15,8
2017	33631	15753,1	267	11,4	217	2,4	50	8,9
2018	61178	22707,5	579	54,6	380	7,9	199	46,7
2019	48765	29136,1	456	44,0	276	8,2	180	36,7
2020	59415	31065,6	786	98,3	451	24,5	-	-
2021	47482	42089,0	1024	324,5	966	219,8	58	104,8
2022	55163	51219,4	1317	723,6	1213	315,6	52	142,4
2023	62231	57983,7	1516	1034,7	1421	463,3	49	169,5

As evidenced by the data in Table 1, if in 2015, out of 58,377 enterprises, 622 enterprises used tax benefits incorrectly, and after the mitigation of the coronavirus pandemic, the number of enterprises that incorrectly used benefits reached 1,924 units, and the amount of additionally calculated taxes amounted to 324.6 billion soums, of which 966 units were identified as a result of desk audits in the amount of 219.8 billion soums, and 58 units in the amount of 104.8 billion soums as a result of tax audits. This situation was also present in 2022-2023. This means that the facts of incorrect use of tax benefits occur in the activities of most enterprises.

The question arises: for what purpose are tax incentives provided? For the misuse of tax incentives or the lack of experience of practitioners in the use of tax incentives?

Ultimately, it is necessary to simply remove tax benefits from these enterprises. The implementation of the latter often leads to the concealment of tax payments in budget revenues, and their amount may exceed the amounts of previously granted tax benefits.

It should be noted that the traditional view of the "illegal economy" as a field of activity for gangster groups (drug trafficking, prostitution, gambling, etc.) is long outdated. On the contrary, we believe that activities that are traditionally criminal in nature (i.e. excluding tax evasion, which is considered a criminal offense in itself) do not exceed 15% of the total volume of the "illegal economy."

Basically, this is quite a normal activity, for which there is no need to look for gangsters. When a doctor asks you to pay for a visit not with a check, but in cash; when you are offered to do home repairs without a receipt, which will cost significantly less than with a receipt; when you are invited to a friendly party, arranged at the expense of the company's entertainment expenses; when you buy vegetables and fruits from vendors standing on the side of the highway; when you are offered cigarettes on the street significantly cheaper than they cost in stores, and many other things - in all these cases we (willy-nilly) encounter the "illegal economy".

We believe that among the main categories of people most known for concealing their income from taxation are representatives of the liberal professions - lawyers, doctors, accountants, auditors, artists, actors, etc. Many of them in one way or another understate their income, make illegal deductions, provide services for cash, without the appropriate registration, etc., and thus conceal one or another part of their income from taxation.

¹ Calculated by the author based on materials from the Tax Committee of the Republic of Uzbekistan.

It should be noted that the entire tax system in all countries is built in such a way that workers – the lowest paid part of the population – pay these taxes in full and have no opportunity to evade them (since the tax amount is deducted automatically when they are paid), while entrepreneurs, company managers, etc. can, with the help of lawyers and various consulting firms, find and use various loopholes and benefits in the legislation in order to minimize their obligations to pay income taxes. Such a practice is considered completely legal in all developed and market developing countries, and budget losses associated with such actions are not taken into account in any way. Paradoxically, but it is a fact: a number of the largest companies do not pay a single sum of taxes to the treasury every year – and this is in full compliance with the laws.

In addition, also, in accordance with the law, the costs of obtaining tax advice are subject to deduction from the amount of income tax payable. Obviously, such benefits and advantages are practically unattainable for the majority of the population of both developed and developing countries.

Most cultural and educational workers write books, novels, fiction, monographs, scientific articles and cover printing costs themselves. And such expenses are not deductible from the taxable object. And the fee received by the authors is subject to taxation. At the same time, it is difficult to determine the culprits. But it would be necessary to bring order to this matter. If the poor, pensioners with low pensions (or a pension below the average salary) provide their services to the population, then their work should be encouraged. Upon presentation of supporting documents, they should receive additional income to their pension due to savings in socially significant funds, if necessary from the budget. Then we could more actively activate the poor, encouraging their work.

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