

## THE IMPACT OF THE TAX BURDEN ON THE FINANCIAL ACTIVITIES OF BUSINESS ENTITIES

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### ABSTRACT

The tax burden is included in the structure of macroeconomic indicators, being a clear indicator of how well taxation is established in the country, and the larger the country's GDP, the lower the level of tax burden. This, of course, will depend on the volume of the country's budget revenues. That is, the greater the budget revenues and the greater the share of taxes in its structure, the greater the level of tax burden. This article highlights the impact of the tax burden on the financial activities of economic entities.

**Keywords:** Tax burden, budget revenues, gross domestic product, economic entities, financial results, tax revenues

### INTRODUCTION

In the course of the large-scale economic reforms being carried out today, going along the path of building a democratic state, the most important issues, first of all, are further improvement of tax policy, simplification of types of taxes and the mechanism of their application. Of particular importance is the gradual reduction of the tax burden borne by business entities, and, as a result, ensuring a more efficient functioning of the tax system.

At the initiative of our President Sh. Mirziyoyev, an action strategy has been developed for five priority areas of development of the Republic of Uzbekistan for 2017-2021, and it is no coincidence that one of the main tasks is to deepen and ensure the sustainability of the reform of the tax system. [1]

As you know, when tax rates are reduced or some taxes are abolished, budget revenues are necessarily reduced. This can be overcome with the help of effective tax administration and ensuring budget stability.

Tax administration should be such that even with the widespread introduction of value added tax, this circumstance does not lead to an increase in prices for consumer goods, provided and necessary. By reducing the tax burden, it is necessary to introduce a uniform and fair tax regime for all, and gradually abolish tax benefits. After all,

entrepreneurs themselves admit that this benefit negatively affects the competitive environment.

Indeed, the state and taxpayers are equally interested in reducing the level of the tax burden of enterprises, establishing an optimal level of tax burden for them and maintaining this amount for a long time. An optimal assessment of the level of the tax burden, on the one hand, stimulates the financial and economic activities of enterprises, and on the other hand, ensures a steady flow of income to the state budget.

## LITERATURE REVIEW

In the conditions of economic liberalization, the issue of determining the optimal level of the tax burden that falls on economic entities in the taxation system has always been one of the urgent problems.

Because it is through taxes that directly affect the financial and economic activities of enterprises that the state can restrict or purposefully stimulate their activities. Based on this, it is important to determine the possibilities of optimizing its level, approaching from an economic point of view to a comprehensive disclosure of the essence of the concept of tax burden.

The concept of the tax burden is one of the complex economic concepts, and most of our classical and modern scientists have expressed their opinion on this.

According to T.S.Malikov, the tax burden (encumbrance, "oppression") is "the most generalized indicator characterizing the role of taxes in the life of the state and society, a measure arising from the market economy model being implemented, showing the weight of tax deductions in total production and income." Also, ".....it has been proven in science that as long as the weight of the tax burden does not reach 30-33%, this level will not have a negative impact on the growth rate of production" [2].

Professor from Uzbekistan A.S.Juraev gives his opinion on the tax burden, who believes that more than 40% of taxpayers' income should not be withdrawn through taxes to the budget. The scientist believes that if this figure exceeds 40%, the cash flow of the enterprise will weaken significantly and it will be more difficult for him to fulfill his obligations to the budget. [3].

Professor from Germany L.Erhard believes that "the desire of all citizens and business entities to reduce the tax burden should be recognized as fair, calculate and imagine how taxes could be reduced if the required cost sustainability was achieved and productivity development was carried out at a given pace." Only then will we be able to really and realistically solve the problem of the tax burden that weighs on all of us in the economy." [4].

The political economist Adam Smith, back in 1776, in his work “the wealth of nations” formulated the following four simple principles according to which taxation can lead to economic prosperity: [5]

- equality of taxation-taxpayers must pay taxes depending on their capabilities, that is, on their income received under the protection of the state. In other words, he should pay taxes whenever possible. The ability of the payer to pay the tax is the first criterion;

- optimal taxation -the terms, types and amounts of payments should be clear to everyone, that is, both taxpayers and taxpayers;
- convenience of taxation – it should be collected on time and in the form most convenient for taxpayers;
- low taxation means that the costs of tax collection should be minimal.

A significant contribution to the development of the theory of economic supply in the USA in the 1980s was made by scientists M. Bernson, G. Stein and A.Lafer.

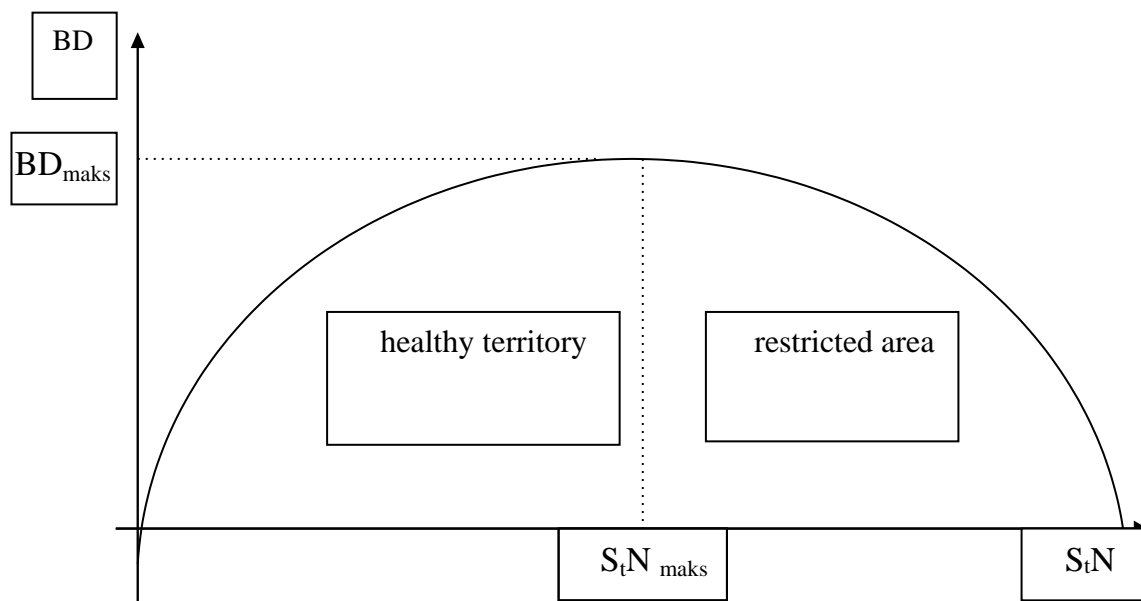
A.Laffer believes that "the aggravation of the tax burden can only lead to an increase in government revenues until they reach a certain limit. This border begins with the reduction of the taxable part of national production"[6].

According to Laffer's theory, the development of the economy is directly proportional to the increase in the tax burden, with an increase in taxes, the secretive economy will increase, as a result of which most of the income received will not be reflected in the declaration. On the contrary, tax cuts provide an incentive for economic development. And this increases state revenues not by increasing the tax rate and burden, but by increasing the tax base[7].

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According to A. Laffer, he proved the growth of the economy and the growth of state revenues as a result of tax cuts. In history, this is called the Laffer curve. Reaching a certain level of the tax rate increases tax revenues, further increasing it, on the contrary, reduces tax revenues.

We can consider this state based on the following curve, scientifically substantiated by Laffer.



**Figure 1. Laffer curve[8]**

BD – budget revenues;

$BD_{maks}$  – maximum level of budget revenue;

$S_tN$  – tax rate (from 0 to 100 percent);

$S_{tnmaks}$  – the tax rate that ensures the maximum level of budget revenues.

The Laffer curve once again confirms that the growth of state revenues objectively depends on the reduction of tax rates. The fundamental idea behind this curve is that the higher the tax rate threshold, the more people evade taxes. An entrepreneur ceases to function normally in the market if he is not sure about the future of receiving income from his production activities, i.e. his income is deducted by taxes with a high progressive rate. If most of the profit is withdrawn through taxes, the entrepreneur loses interest in expanding production, updating and investing in new production.

An increase in the tax rate leads to an increase in budget revenues only until it reaches a certain level, then this growth slows down, and, again, as it increases, budget revenues decrease faster than its increase. Thus, as soon as the tax rate reaches a certain level, entrepreneurial investments die, the incentive to expand production decreases, taxable income decreases, as a result of which some taxpayers move from the “legal” sector of the economy to the “hidden” sector. On the contrary, tax cuts provide an incentive for economic development. And this increases state revenues not by increasing the tax rate and burden, but by increasing the tax base.

A.Laffer presents the progressive tax rate and budget revenues of the curve as a parabola, and he came to the following conclusion: a low tax rate has a positive impact on private sector investment activity. Many economists have written that taxpayers' income has a limit on budget receipts, and the tax burden cannot be increased. The state

influences the growth or decline of national production by changing tax rates and budget expenditures.

### **RESEARCH METHODOLOGY**

As a result of the analysis of internal and external factors, conclusions and proposals were formulated to determine the level of the tax burden and optimize its distribution in the financial activities of business entities in the Republic of Uzbekistan, to develop the Concept of tax Policy.

In the course of the research, general methodological methods were used-observation, comparison, generalization and grouping.

### **ANALYSIS AND RESULTS**

The high fiscal importance of indirect taxes, including value added tax, in the formation of revenues of the state budget of the republic. In particular, in the reforms carried out within the framework of the adoption of the Concept of Improving Tax Policy, indirect taxes are the most important source of compensation for losses in state budget revenues due to a sharp reduction in direct tax rates.

In accordance with the new tax concept introduced in 2019, many changes have taken place in the tax system of the republic, including for the first time in the practice of taxation, a separate chapter was introduced into the Tax Code (Chapter 401 "simplified procedure for calculating and paying value added tax"), according to which, from 2019, for legal entities, the aggregate whose income does not exceed three billion soums, a simplified procedure for calculating and paying value-added tax is being introduced.

For business entities that have paid only a single turnover tax up to this time, the payment of value added tax requires additional knowledge.

As we can see as a result of the study of the legal basis for the distribution of taxes between budgets and the formation of local budget revenues, this process looks somewhat complicated. Here we will analyze the dynamics of changes in tax revenues in the Navoi region and their distribution between local budgets, as well as the practice of generating local budget revenues.

Despite the tax policy carried out in the republic aimed at reducing the tax burden on economic entities, increasing the role and importance of taxes in economic management remains a requirement of the time.

An increase in tax revenues is impossible without the development of entrepreneurship in the territory and the expansion of the tax base.

**1- table**

### Analysis of the execution of planned tax revenues in the Navoi region[9]

Indicators	years					In 2021 Change compared to 2017
	2017 y	2018 y	2019 y	2020 y	2021 y	
Planned tax receipts, mlrd.sum	890,5	1 082,3	1 302,9	1517,1	1 653,3	+762,8
Actual tax revenues, mlrd, sum	891,3	1 084,1	1 306,7	1555,1	2 006,7	+1115,4
Performance indicator plan, as a percentage	100,1%	100,2%	100,3%	102,5%	121,4	+21,3

The analysis shows that in Navoi region the planned indicators of tax revenues in 2017-2021 are regularly exceeded. In particular, the planned tax revenues in 2017 were fulfilled by 100.1 percent, in 2018 - by 100.2 percent, in 2019 - by 100.3 percent, in 2020 - by 102.5 percent. Also in 2021, 1653.3 ld.so actual tax revenues during planning 2006.7 mlrd.so in general, the planned indicators were fulfilled by 121.4 percent.

Despite the fact that positive changes have been observed in the socio-economic development of the region in recent years, it cannot be called in demand. It seems that opportunities for further development of entrepreneurship and expansion of the tax base are not being used enough in the region.

An increase in tax revenues is impossible without the development of entrepreneurship in the territory and the expansion of the tax base.

Proceeding from this, it should be noted that the existence of a system of subventions and the establishment of deductions from national taxes for the formation of local budget revenues, justified by the inadmissibility of deficits in local budgets established in accordance with the budget legislation of the Republic, also increases the dependence of local authorities.

The table below shows an analysis of the financial results and indicators of the tax burden of the Navoi Shams enterprise operating in the city of Navoi:

2-Table

**Financial results and indicators of the tax burden of the Navoi Shams enterprise [10]**

Indicators	2017 y	2018 y	2019 y	2020 y	2021 y
Revenue from sales, mln. sum	14137.8	15864.2	20563.5	38205.4	48697.0
Material costs, mln.sum	3167.8	4770.2	7011.6	11604.1	14704.2
Revenue from sales, mln. sum	735.8	647.0	1024.8	881.4	2261.3
Expenses not related to the implementation, mln. sum	2697.3	2028.6	1381.9	2898.5	5161.4
Added value, mln. sum (1-2+3-4)	9008.6	9712.4	13194.9	24584.1	31092.8
Share of value added in revenue, mln. sum(5/1)*100	63.7	61.2	64.2	64.3	63.8
all taxes, mln. sum	4157.2	4178.5	5911.3	9759.9	11877.4
Total tax burden, as a percentage(7/5)*100	46.1	43.0	44.8	39.7	38.2

If you pay attention to the data in the table above, then the tax burden of this enterprise has a steady downward trend. This is due to the fact that the financial results of the company "Navoi Shams" and, in particular, the share of the joint venture in revenue for the analyzed years were stable. In this case, tax factors (changes in the amount, base or tax rate) have a greater impact on the change in the level of the tax burden than the CC factor.

The table shows that the total tax burden has decreased over the years. In particular, if in 2017 its level was 46.1 percent, then by 2021 it amounted to 38.2 percent, that is, the tax burden of the enterprise for the same period decreased by 7.9 points. This, of course, is explained by the fact that the rate of IIT, income tax, is regularly reduced.

The issue of optimizing the tax burden on business entities, in most cases, is reflected in the minimization of taxes. It should be said that a reduction in one type of tax or rate may lead to an increase in other types of taxes or fees.

In particular, with a decrease in the amount of income tax, the base of income tax has increased, and, as a result, the amount of tax itself increases. In addition, an increase in one type of tax within a state or a certain territory may lead to a decrease in other taxes or to a general reduction in budget revenues. From this it can be seen that it is very important for the state to have an optimally functioning tax system.

## CONCLUSIONS AND SUGGESTIONS

It is necessary to reduce income and property tax rates based on the level of profitability of tax entities engaged in production activities, achieving high financial results and profitability of property. This circumstance, combined with the further strengthening of the interest of these entities in economic activity, will lead to the achievement of high profitability and effective use of the property at their disposal.

Supporting initiatives to increase the investment attractiveness and business climate of the country and expanding cooperation with government agencies on optimizing the tax burden, applying incentive measures for taxpayers who fulfill tax obligations and voluntarily legalize entrepreneurship, increasing the neutrality and transparency of the tax system, in particular, together with the Ministry of Finance and other ministries, the necessary measures should be developed to eliminate problems, hindering the attraction of investments and the development of entrepreneurship.

Based on the criteria for assessing the tax burden on business entities and further reducing this indicator, the following proposals have been developed:

- in order to ensure an optimal, fair distribution of the tax burden between sectors of the economy, attention should be paid to determining the importance of the industry in achieving economic progress, the degree of profitability, the structure of cost formation, money turnover, the possibility of hiding taxable income and other indicators;

- the development and compliance with the optimal tax burden for each country, including Uzbekistan, will create the basis for sustainable economic development and improving the standard of living of the population. The fact that the role and importance of tax benefits in the intensification of economic relations and the improvement of entrepreneurial activity are invaluable is the result of practical experience. But the presence of too many tax benefits has the opposite effect on the effectiveness of the tax mechanism, as mentioned above. In addition, granting benefits to one subject of taxation entails an increase in the weight of the tax burden for another subject. This circumstance, in turn, causes the uneven distribution of taxes between economic entities;

- when developing a methodology for determining the optimal tax burden for taxpayers, the gross domestic product calculated per capita, natural population growth, the weight of young people in the general population structure and the weight of active layers and the workforce, the weight of pensioners in the population structure, the highest employment rate, the level of natural necessary unemployment and other criteria. research.



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