



Optimizing the tax risk of profit tax through tax control

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Abstract: This article is devoted to the analysis of the issues of optimizing tax risk for profit tax through tax control.

Key words: tax risk, tax control, tax risks, tax inspection, tax offenses.

Introduction

In international practice the ultimate goal of tax inspections in the countries is the accurate calculation and payment of taxes, prevention of violations of tax legislation, as well as compensation of losses caused to the government as a result of taxpayers' failure to fulfill their obligations. "Tax inspections make an impact on revenue collection because it helps taxpayers to voluntarily comply with their obligations, which increases revenue" [1].

In global practice tax inspections including tax audits are based on the level of tax risk.

In international practice tax risk and tax control are dealt with software products such as the Tax Governance Framework (TGF) (it processes tax management foundations), the Tax Risk Management and Control Framework for Corporate Income Tax (CTRM) and the GST Assisted Compliance Assurance Programme (ACAP) (TGF) (they address foundations of tax risk management and control for corporate profit tax).

Research is also being conducted on tax risks and risk reduction in corporate profit tax. In particular, such research is conducted by the Tax Risk Management & Control Framework for Corporate Income Tax (CTRM). The results of the research are as follows: CTRM - Tax Risk Management & Control Framework for Corporate Income Tax (CTRM) is a voluntary compliance initiative that a company can participate in to demonstrate good tax governance and tax risk management. Implementing CTRM enables companies to comprehensively review their control and tax risk management regarding corporate income tax (CIT) issues. It seeks to provide guidance to companies, particularly large companies, on identifying, mitigating and monitoring key corporate profit tax



risks and establishing robust internal control and systemic risk management processes to drive tax compliance processes [2].

In reliance upon the considerations specified above, we can conclude that tax risk includes implementation of a strong tax control system to continuously identify, reduce and monitor key tax risks.

Literature review

Scholars and economists in their research papers have tried to define such concepts as “risk”, “tax risk”, “tax risk level” and expressed their opinions.

D.N. Tikhonov and L.G. Lipnik recognized the following tax risks: tax control, increase in the tax burden, criminal liability of a tax nature.

The risk of an increase in the tax burden includes changes in the methodology for calculating it, as well as an increase in the tax base due to the expansion of the volume of economic activity.

The risk of criminal prosecution is associated with the possibility of undertaking legal proceedings and criminal liability for the leaders of organizations that violate tax legislation [3].

M.R. Pinskaya conceptually identifies two types of tax risks:

- indirect risk - loss of profit that gives the right to reduce tax payments in the future;
- instant risk - possible increase in tax payments [4].

O.S. Semenova identifies tax risk carriers and zones: by tax risk carriers: risks of the government, risks of taxpayers. “According to the tax risk zones of the government; risks associated with deviations from the principle of multiplicity and proportionality of taxes; risks associated with deviations from the principle of fairness and even distribution of the tax burden; risks associated with deviations from the principle of convenience in fulfilling tax obligations; risks associated with deviations from the principle of transparency; risks associated with deviations from the principle of stability of the tax system; risks associated with deviations from the principle of clarity of tax legislation; risks associated with deviations from the principle of equality and fairness in terms of the rights, obligations and responsibilities of participants in tax legal relations; risks associated with deviations from the principle of efficiency of tax administration” [5].

According to A.A. Pugachev, the government tax risk is manifested in the reduction of tax revenues to the budget. The following factors can influence this aspect: reduction of the tax base, evasion of taxes and fees by taxpayers,



ineffective tax incentives, ineffective tax inspections and control errors, ineffective tax administration [6].

In the opinion of F.I. Isaev, the results of assessment of tax risk levels are in descending order, and when the assessment results are equal, it is proposed to classify them based on the probability of unpaid tax amount as follows:

from 81 percent up to 100 percent–high risk;

from 30 percent up to 80 percent – average risk;

from 1 percent up to 29 percent – low risk [7].

B.A. Normatov analyzed world models of tax inspections. In particular, he investigated the Anglo-Saxon model (Great Britain, Australia, New Zealand), the Romano-Germanic model (Germany, France, Japan), the Mixed model (USA, Canada) and the model of the CIS countries. Furthermore, he noted that the concept of “tax inspection” is expressed in foreign countries by the concept of “tax audit”. In addition, the scholar came to conclusion, that according to the world experience, tax inspections are typically divided into two types: desk audit and field audit. Risk management systems are called differently in foreign countries, in particular, they are called “Risk management system”, “Tax compliance management system”, “Compliance Strategy”. Moreover, he concluded that the purpose of developing a risk management system is to eliminate the possibility of a decrease in tax revenues or non-payment as a result of deliberate or careless actions (inaction) of tax authorities and taxpayers during the tax collection process, and that this system can be used not only in the tax sphere, but also in the financial, banking, customs and administrative spheres [8].

When performing tax analysis, it is necessary to divide enterprises into sectors and analyze them according to tax risk. It is necessary to clarify and constantly expand the precise criteria for identifying risks, because through risk analysis and taxpayer segmentation it is possible to identify practices aimed at legalizing the shadow economy. On the basis of information from external and internal sources, it is necessary to perform tax inspections in the following order, that is, in the order of field inspections, in-house inspections and tax audits.

It should be noted that a number of works are being carried out in the Republic of Uzbekistan regarding tax audit, including profit tax audit.

D.D. Pashakhodjaeva expressed the following points about the significance of the profit tax audit: The incomparable role of profit tax in the system of indicators of financial and economic activity of enterprises, as well as in



replenishing the state budget with funds, strict adherence to the procedures established by tax legislation when calculating it, ensuring the unconditional fulfillment of these requirements, the need to reduce the level of constantly existing information risk and audit risk, and other aspects require a particular approach to profit tax audits. For example, the status, aim, objectives, objects, plan, program of the profit tax audit, the time allocated to the audit, the level of professional knowledge of the auditors who conduct it, the agreed level of audit risk between the client and the audit organization in the concluded contract, and the optimal amount that satisfies both parties, are considered crucially important conceptual issues [9].

From the point of view of V.V. Kireeva, it is essential not only to conduct tax audits for individual tax types, but also develop internal audit standards of companies for conducting tax audits for individual tax types [10].

The expert in taxation issues Z.N. Kurbanov, developing a tax audit methodology for individual types of taxes, noted the following: "We consider it appropriate to verify the following aspects during the audit process:

- types of taxes paid by the economic entity;
- accurate determination of the tax base by types of taxes;
- investigating correct application of tax incentives;
- verifying whether the tax base and tax amounts are correctly calculated;
- determining whether taxes and fees are paid to the budget on time;
- paying additional tax sums and fines based on the results of tax authorities' audits;
- the fact if taxes and levies are correctly reflected in financial and tax accounts;
- the validity and reliability of the information in the tax reporting" [11].

As it is obvious from the considerations specified above, Z.N. Kurbanov emphasized the tax audit by tax types.

Research methodology.

The methodology of our research paper is optimization of the tax risk of profit tax through tax control. Theoretical information on this issue has been summarized. Such research methods as comparison and grouping of practical materials have been widely applied in this research paper.

Analysis and results.



The Order of the Minister of Finance of the Russian Federation № 1592 dated November 29, 2019 “On the main directions of development of audit activities in the Russian Federation for the period until 2024” reflects the issues of organization and development of tax audit, including tax audit for certain types of taxes[12]. In the process of auditing the profit tax, the data on revenues, expenses, loss, profit, profit before tax payment, profit tax, net profit statement column are obtained from form 2 of “Report on financial results”. Therefore, the auditor must be well aware of the formation and calculation procedure of the indicators in this reporting format. For this purpose it is necessary to investigate compliance with the norms of the REGULATION “On the composition of costs of production and sale of products (works, services) and procedure for shaping financial results”, approved by the Resolution of the Supreme Court of the Republic of Uzbekistan № 54 dated February 5, 1999 [13].

In international practice international standards on auditing are widely used when performing tax audits. In particular, such international standards on auditing as IAS №200 “Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards of auditing”, IAS №800 “Special considerations – audits of financial statements prepared in accordance with special purpose frameworks”, IAS №805 “Special considerations – audits of single financial statements and specific elements, accounts or items of a financial statement”.

In the Republic of Uzbekistan profit tax audits are arranged and performed in accordance with Appendix 2 “REGULATIONS on the procedure for organizing and performing tax audits” to the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №1 dated January 7, 2021 “On tax risk management, identification of taxpayers (tax agents) at risk and organization and conduct of tax audits” [14].

Taxes with a high share in tax revenues are also subject to higher tax rates. Therefore, when performing a tax audit, particular attention should be paid to auditing of taxes with a high tax rate. The main aim of performing a tax audit of profit tax is to obtain the auditor’s conclusion on the accurate calculation and transfer of profit tax to the budget in compliance with the requirements of tax legislation.

Regarding tax inspections, including tax audits, the officers of the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan have



analyzed data on the types of tax controls conducted on the activities of business entities in 2021-2023 (Table 1).

Table 1

**Types of tax inspections on the activities of business entities
in the Republic of Uzbekistan in 2021-2023 (in billion UZS)¹**

No	Indicators	Unit of measure	2021	2022	2023
1	In-house tax inspection	number	291 078	341 372	397 295
		amount	9 331,7	12 744,5	14 322,5
2	Field (on-site) tax inspections	number	65 127	77 176	54 031
		amount	198,7	226,5	243,4
3	Tax audits	number	33 337	30 644	32 411
		amount	15 639,1	16 856,5	17 603,8
Total amount of tax calculated		amount	25 169,5	29 827,5	32 169,7

Table 1 demonstrates that 33337 tax audits were performed in 2021, in 2022 the number of tax audits constituted 30644 and in 2023 the number of tax audits performed accounted for 32411 in 2023. In the process of performing tax audit, additional taxes in the amount of 16603.8 billion UZS were calculated in 2023. As a result of tax audits in 2021 additional taxes in the amount of 25169.5 billion UZS were collected, in 2022 the amount of additionally collected taxes constituted 29827.5 billion UZS, and in 2023 this figure amounted to 32169.7 billion UZS.

The Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan analyzed data on the results of tax audits conducted on the activities of economic entities in 2019-2023 (Table 2).

Table 2

**Analysis of the results of tax audits performed on the activities of economic
entities in the Republic of Uzbekistan in 2019-2023²**

¹ Developed by the author in reliance upon the data of the State Tax Committee

² Developed by the author in reliance upon the data of the State Tax.



No	Indicators	Unit of measure	2019	2020	2021	2022	2023
1	Tax audits performed	number	20 174	14 928	33 337	30 644	32 411
2	Materials reconsidered in accordance with Articles 158-159 of the Tax Code	number	0	9 361	30 505	0	10740
3	Taxpayers who have been found to have committed tax violations	number	2 384	824	10 228	9 426	12749
	including:	x	X	X	x	X	x
4	Failure to pay taxes and fees (billion UZS)	number	6 718	4 352	9 922	9 198	9271
		amount	1 894,1	1 282,7	2 865,5	4 633,8	5 041,7
5	Failure to reflect the amount of proceeds from the sale of goods (services) in accounting registers	number	2 036	1 674	3 055	3 432	3 241
		amount	5 672,1	4 982,2	8 508,2	8 141,3	8 371,8
6	The goods indicated in the invoice as unsold are not available in the warehouse or	number	196	137	294	330	314
		amount	603,7	549,2	904,5	865,5	890,7



	at the place of sale						
7	Storage, use and sale of unauthorized (imported) goods	number	1 501	1 374	2 252	2 530	2 473
		amount	2 187,2	1056,7	3 280,5	3 139,0	3 215,2
8	Other facts of concealment or understatement	number	113	98	170	191	185
		amount	53,6	48,5	80,4	76,9	84,4
Additionally calculated taxes, total		amount	10 410,7	7 919,3	15 639,1	16 856,5	17 603,8

Table 2 illustrates that 20174 tax audits were performed in 2019, 14928 tax audits - in 2020, 33337 tax audits - in 2021, 30644 tax audits - in 2022, and 32411 tax audits - in 2023. It should be noted that the results of the tax audit were effective, the main reason for which is the accurate assessment of the level of tax risk. As a result of tax audit additional taxes in the amount of 10410.7 billion UZS were calculated in 2019, in the amount of 7919.3 billion UZS - in 2020 UZS, in the amount of 15639.1 billion UZS - in 2021, in the amount of 16,856.5 billion UZS- in 2022 and in the amount of 17603.8 billion UZS - in 2023. The following mistakes have been made by economic entities during the tax audit:

- failure to pay taxes and fees;
- failure to reflect the amount of proceeds from the sale of goods (services) in accounting registers;
- the absence of goods in the warehouse or at the place of sale, indicated in the invoice as unsold;
- storage, use and sale of goods that have not been registered (not entered);
- concealment or understatement and other facts.

Conclusion and proposals.



In reliance upon the considerations specified above, we can make a conclusion that tax risk includes implementation of a tight tax control system to continuously identify, reduce and monitor key tax risks. First, it is necessary to shape a list of enterprises for tax audits based on analytical sources. Enterprises with high tax risks should be subject to in-house tax inspections and tax audits, and medium-sized enterprises should be subject to field tax inspections.

If cases of tax evasion by enterprises are detected, then appropriate measures will be undertaken as a result of the practical tax analysis. According to the results of the analysis, it is necessary to implement necessary and most efficient measures and develop appropriate steps against entities with a high risk of tax evasion based on certain criteria.

Furthermore, it is required to introduce advanced methods of tax risk assessment and to carry out continuous analytical practice to reduce the scope of secret circulation and uncontrolled income in the field of economic activity. If, during a tax control, it is determined that a controlled transaction has been concluded, but the enterprise has not previously notified the tax authority, information about this transaction shall be provided to the State Tax Committee of the Republic of Uzbekistan. In reliance upon the submitted notification, the financial and economic terms of a controlled transaction concluded between related parties are compared with the terms of a transaction between independent parties.

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