

# The Impact Of The Tax Burden On The Economic Activity Of Organizations

Berdieva Uguloy Abdurakhmanovna<sup>1</sup>, Ibragimov Boburshoh Boxodir o`g`li<sup>2</sup>

1. *PhD, Department of Taxes and Taxation, Tashkent Institute of finance, Tashkent, Uzbekistan. E-Mail: [ugiloy555@gmail.com](mailto:ugiloy555@gmail.com) ORCID: 0000000184693200*
2. *PhD, Department of Taxes and Taxation, Tashkent Institute of finance, Tashkent, Uzbekistan. E-Mail: [boburphd@gmail.com](mailto:boburphd@gmail.com) ORCID: 0000-0002-1107-0894*

**Abstract:** The article reveals the mechanism of calculating the tax burden, its significance and impact on the activities of organizations. A distinction is made between the concepts of tax burden and tax burden. The relevance of the topic is due to the fact that currently every organization, regardless of the type of activity and form of ownership, is obliged to pay tax payments, and with an illiterate approach and system errors can lead to unnecessary costs and problems with the law. In this regard, it is necessary to optimize the taxation of the organization, which will lead to an increase in income and reduce the tax burden, without contradicting the legislation.

**Keywords:** Tax loading, tax burden, indicators of tax loading, tax ratio, elasticity of profit on taxes, tax rate.

## Introduction

The prospects for the development of the state's economy are largely determined by the level of the tax burden and its maximum level, which is possible under the current economic policy and tax legislation. The growth of public spending (on administration, defense, social programs, etc.) requires an inevitable increase in state revenues and a corresponding increase in the tax burden. However, it is obvious that this trend cannot be infinite, and there is a limit beyond which further growth of the tax burden is impossible due to objective and subjective reasons. In this regard, the problem of optimal tax burden on organizations plays a special role in the construction and improvement of the tax system of any state.

At the macroeconomic level, the tax burden is a generalized indicator that characterizes the role of taxes in the life of society and is defined as the ratio of the total amount of tax collections to the total product. In other words, the tax burden reflects the part of the product produced by the company that is redistributed through budget mechanisms [8].

Each organization has the right to use legally permitted methods, methods and techniques to reduce its tax obligations to the State as much as possible. Optimization of the tax burden is one of the most important components of tax planning in organizations. Such planning is carried out in order to minimize tax payments and increase the volume of working capital of the organization. The result of the implementation of these goals is an increase in the real capabilities of the organization for further development and improving the efficiency of its activities. By reducing the tax burden by finding the most rational ways to reduce tax liabilities, the organization has additional opportunities to maximize the profitability of its financial and economic activities. Therefore, the indicator of the tax burden is quite an important element of the tax regulation of the activities of organizations.

The size of the tax burden has a direct impact on the organization's choice of:

- its location (moving activities and investing capital in regions with the lowest tax burden);

- organizational and legal form (for joint-stock companies, for activities without the formation of a legal entity, and for other forms of activity, there are differences in taxation);

- type of activity (trade, agricultural, services, etc.);

- tax systems (traditional (general regime) or special tax regimes);

- production and financial strategy (development of alternative options for conducting financial and economic activities from a tax point of view, as well as taking into account the likelihood of changes in tax legislation).

All this, ultimately, affects the effectiveness of the organization. The analysis of the tax burden that falls on specific organizations is necessary for managers and owners of organizations to make management decisions. It is carried out in order to determine the reasons for the growth (decrease) of the tax burden; identify factors that affect the growth of arrears on payments to budgets of different levels; determine the causes and develop measures to reduce the tax burden and additional payments – fines, penalties, etc.; find ways to optimize tax payments. With an equal rating, enterprises in the same region can bear a different tax burden, for example, skillfully using all sorts of schemes or tax incentives.

### Materials and methods

The indicator of the tax burden of organizations on average across the country and by industry and type of activity is also necessary for the state, which seeks to build a tax system that, on the one hand, will meet the needs of the state in its expenditures, and on the other –to increase incentives for taxpayers, encouraging them to actively engage in entrepreneurial activity and constantly search for ways to improve the efficiency of their financial and economic activities. Therefore, the tax burden indicator can be considered as an indicator of the quality of tax administration [4].

In the economic literature, various concepts are used to determine the level of tax

exemptions – "tax burden", " tax burden", " tax pressure", " tax burden", " tax oppression", etc.

The tax burden of organizations is usually understood as the quantitative amount of taxation (the amount of taxes or their share in the organization's income) [6, 9]. The tax burden is characterized by two indicators (Figure 1):

- absolute indicator – the amount of taxes and other mandatory payments, including fines and penalties for violation of tax legislation, accrued or paid during the tax period. At the same time, the outstanding tax payments for previous periods are not taken into account;

- relative indicator – the share of the absolute indicator in the organization's income for the tax period.

Unfortunately, the literature does not distinguish between the concepts of "tax burden" and "tax burden", and many authors identify these concepts [2, 10, 11]. We consider this incorrect. As a result of taxation, the population bears not only payments and expenses, but material losses may result from the impossibility of faster economic development due to the tax. The concept of the tax burden, in addition to the obvious tax costs of the organization, also includes the so-called lost opportunities (opportunity costs) [2]. At the present stage of development, it is also necessary to take into account the costs associated with the payment of taxes that the organization bears. In addition to direct expenses related to the payment of taxes, organizations are forced to pay for the bank's services for the transfer of tax payments, the salary of an accountant, the services of auditors, tax consultants in order to avoid errors in the payment of taxes, etc. Tax accounting in organizations, the autonomy of accounting and tax accounting, and the cumbersome document flow associated with the requirements of tax authorities lead to an increase in the complexity of accounting work and an increase in additional costs. Such expenses, of course, increase the overall tax burden of organizations and on the scale of the national economy, according to English researchers, can account for from 2.5 to 4.4 % of the collected tax amounts [10].

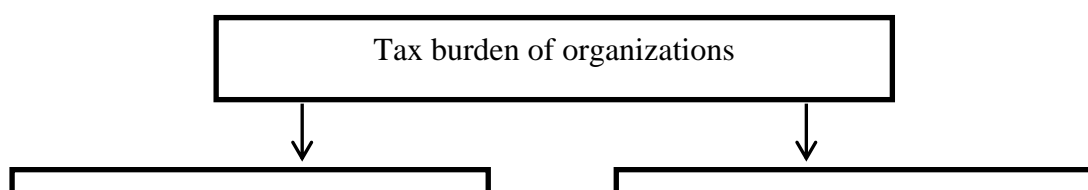


Figure 1. Indicators of the tax burden of organizations

Therefore, the tax burden (Ndb) is the tax burden in absolute terms (Nsum), taking into account the associated costs associated with the introduction of tax accounting (Nz), plus lost opportunities – lost net profit and additional income lost due to a decrease in own funds allocated for paying taxes, rather than for business development ( $\Delta PI$ ) (Figure 2). The

amount of lost profit ( $\Delta PI$ ) can be determined by the formula:

$$\Delta PI = N_s + N_{fr} + N_{pv}, (1)$$

Here,  $N_s$  – tax payments included in the cost of production;

$N_{fr}$  – tax payments attributed to financial results;

$N_{pv}$  – tax payments paid at the expense of net profit.

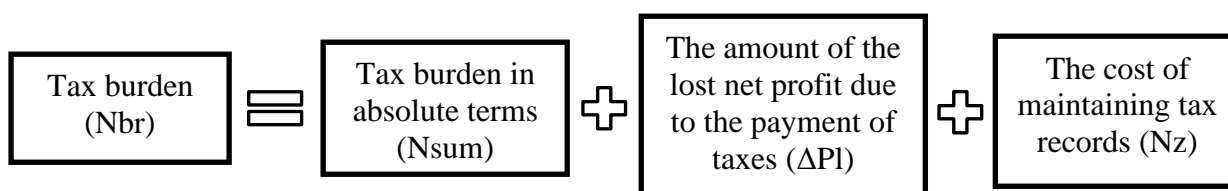


Figure 2. Indicator of the tax burden of organizations

The burden of taxation is understood as "the effect of the tax burden or the consequences of taxation (loss, damage) in the economic and social spheres" [3]. In addition to the tax burden, the severity of taxation is influenced by other factors, including the level of income of the population and the national income in general; the standard of living of the main masses of the population; the age composition of the population and the rate of its growth; the nature of the origin of the income of the population, in particular their security; the features of economic units that determine the different role of their income; the economic structure of the

country and the level of its development; the nature of government spending, the structure of the tax system.

In addition to these factors, the severity of taxation, in our opinion, is also affected by the possibility of shifting the tax burden on the consumer. For organizations that have this opportunity, the burden of taxation is undoubtedly less. Therefore, the severity of taxation is the tax burden of organizations, increased or decreased under the influence of various economic, social, political and other factors (Figure 3).

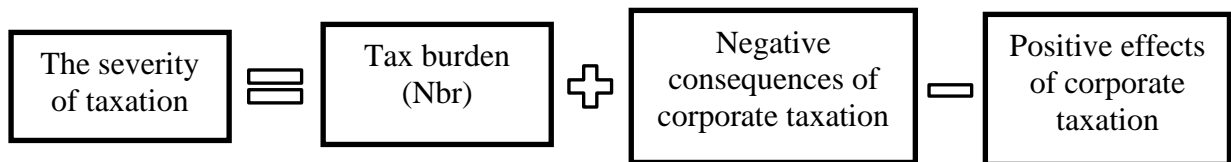


Figure 3. Indicator of the severity of taxation of organizations

Thus, it is established that the concepts of "tax burden", "tax burden", "tax burden" are not identical, are amenable to mathematical definition and differ in the factors that affect their assessment.

One of the ways of state regulation of the tax burden of taxpayers – legal entities in the literature is proposed to use the so-called "red line" rule [7]. According to this rule, the total amount of tax and similar exemptions from industrial enterprises should be limited to a certain percentage of their turnover. This rule should be applied within 3-5 years, and only rent payments and some fiscal excise taxes can go beyond it. This measure, introduced on a regulatory basis, will help bring prices in line with the real level of supply and demand [7].

It should be borne in mind that the concept of "tax burden of organizations" is a complex characteristic that includes [5]:

- the number of taxes and other payments paid by the organization;
- the structure of taxes;
- tax collection mechanism;
- indicator of the tax burden on the organization.

When assessing the number of tax payments paid by organizations, it should be noted that their number depends on the type of economic activity and the tax regime. As a rule, organizations that apply the general tax regime pay Value Added tax (VAT), corporate income tax, property tax, and social tax. Organizations can act as a tax agent for VAT, income tax and personal income tax. If the organization owns and owns the land, they pay the land tax. If an economic entity carries out activities for the extraction of minerals, then in addition to the listed taxes, it is a payer of the tax for the use of mineral resources. If an organization takes or uses water from water bodies, it pays an additional tax for the use of water resources. In addition to taxes, organizations are payers of payments to extra-budgetary funds. As you can

see, organizations are payers of 4 to 8 taxes and other mandatory payments.

To characterize the tax burden, it is important not only the amount, but also the structure of taxes paid. The most «difficult» are tax payments, calculated independently of the income received and only partially transferred to the final consumer. These are taxes paid on turnover (VAT and excise taxes) and property taxes. These taxes take the largest share in the total amount of tax payments of the organization.

The tax burden on an enterprise is largely determined by the tax collection mechanism itself. In the context of the payment crisis and a significant amount of accounts receivable in organizations, determining the amount of products sold after they are shipped to the buyer undoubtedly tightens the tax regime. Accepting only necessary, justified and documented expenses for tax deductions in calculating income tax often leads to disputes and disagreements between the tax authorities and taxpayers, takes time and money to prove their correctness, which also weighs down the tax burden of organizations.

Despite the total reduction, the legislation provides certain tax benefits for almost every tax. Reasonably applied tax incentives can reduce the tax burden of organizations and stimulate investment activity.

Economic entities can regulate their tax burden by implementing their own tax policy. The main factors influencing the size of the tax burden of an economic entity [2]:

- elements of contractual and accounting policies for tax and accounting purposes;
- benefits and exemptions, including from the obligations of the taxpayer;
- the main directions of the development of the budget and tax policy of the state, which directly affect the elements of taxes;
- application of special tax regimes;

- obtaining budget loans, investment tax credit;

- placement of businesses and management bodies of economic entities in offshore areas, including in free economic zones operating on the territory of the Republic of Uzbekistan.

Thus, the tax burden is the most important indicator that characterizes the level of tax exemptions from organizations. The tax burden of organizations is determined not only by the amount of tax revenues, but also by the costs of organizing tax collections: tax accounting, tax reporting, etc. The costs of economic entities for the organization of taxation have a clear upward trend. The volume of reporting is increasing, the forms of forms and declarations are constantly changing. The preparation and submission of interim reports before the end of the tax period is perceived as a common phenomenon. The workload of the organization's accounting department increases significantly. The cost of maintaining the accounting department on average reaches 2-6 % of the organization's revenue [13]. In general, tax services for organizations and the state are quite expensive. Therefore, it is necessary to solve the problem of simplifying the organization of taxation and tax accounting.

### **Analysis of the tax burden of economic entities**

The analysis of the taxation of economic entities allows you to monitor the timeliness of the calculation and payment of taxes to the budget, to determine the severity of taxation, the level of the tax burden and the feasibility of tax planning. Tax analysis also allows you to determine the impact of business transactions on the amount of taxes (tax burden). Tax analysis is part of the financial analysis of an organization's activities and is based on the analysis of income, expenses and profits. Since analysis as a philosophical category is based on the division of the object under study into its component parts and the study of each part separately in the relationship, tax analysis is also based on the division of tax liabilities into their component

parts and the study of their relationship and interdependence. The main factors that affect the amount of tax payments paid by organizations are [13]:

- 1) changes in the volume of production;
- 2) changes in the size of tax bases;
- 3) changes in tax legislation.

The first two factors are completely related to the production activities of the organization, these are usually internal factors, and the third is an external factor.

The dynamics of tax payments for the analyzed period (the growth rate of  $T_n$ ) should be compared with the growth rate of sales ( $T_v$  revenue).

If  $T_v > T_n$ , then there is a tendency to reduce the tax burden in the organization.

If  $T_v < T_n$  – there is a tendency to increase the tax burden.

If  $T_v = T_n$  – the tax burden has not changed.

The structure of an organization's tax payments refers to the composition of taxes paid by the organization and their share in total tax payments. The composition of tax payments in each organization is determined by the following factors [12]:

- industry affiliation of the organization, types of activities;
- organizational and legal form (commercial, non-commercial, budget, foreign organization);
- scope of activity (large, medium, small enterprise);
- types of products (excisable or non-excisable);
- the applicable tax system (general regime or special tax regimes).

The analysis of the structure of tax payments allows you to answer the following questions:

- which taxes account for the largest share in the total amount of taxes;
- how has the structure of taxes paid changed during the analyzed period;
- due to what these changes occurred (factor analysis).

Other indicators can also be used to analyze the tax burden. The most significant indicators of the level of taxation of organizations are:

- tax intensity of sales ( $N_i$ );
- the coefficient of elasticity of income taxes ( $K_e$ );

The tax intensity of sales ( $N_i$ ) is determined by the ratio of total tax costs ( $N_{sum}$ ) to sales (revenue) in the current period (BP).

$$N_i = \frac{N_{sum}}{BP}, \quad (2)$$

This coefficient characterizes the share of taxes in the ruble of products sold. In dynamics, the value of this indicator should decrease. The volume of sales (BP) in the current period is determined by accounting data, or by the profit and loss statement.

The tax intensity of sales can be used to determine the relative savings (overruns) of tax costs (Notn) using the formula:

$$Notn = (N_i^1 - N_i^0) \cdot BP, \quad (3)$$

Here,  $N_i^1$ ,  $N_i^0$  – the tax intensity of sales from the even (1) and the previous (0) period.

Methods of tax optimization lead to a reduction in certain taxes, and therefore to an increase in the profit of the organization. The quantitative dependence of the profit on the change in each of the taxes can be determined using the coefficient of elasticity (sensitivity) of the profit on taxes (tax leverage). This coefficient shows how much interest the profit will change when taxes change by 1%. The coefficient of elasticity of profit on taxes ( $K_e$ ) is determined by the following formula:

$$K_e = \frac{\text{Percentage change in profit}}{\text{Percentage of tax changes}}, \quad (4)$$

For each organization, it seems appropriate to calculate the amount of normal tax payments based on actual and forecast data. A comparison of the normal and actual amounts of tax payments will make it possible to assess how reasonable taxation is in an economic entity. The following scheme for calculating the amount of normal tax payments is proposed.

1) First, the actual (projected) annual values of the cost of production are determined, without taking into account all taxes currently in force.

2) Next, the normal profit of the organization is determined (also based on actual and forecast data) in the form of the product of the acceptable (calculated) profit rate for the organization by the cost price.

$$PR_n = CC \cdot R, \quad (5)$$

Here,  $PR_n$  is the normal profit of the organization;

$CC$  is the actual (projected) cost price excluding actual taxes;

$R$  is the estimated rate of profit, %.

Then the normal tax payments of the:

$$N_{norm} = NP - CC - PR_n, \quad (6)$$

Here,  $NP$  is revenue.

Comparing the normal (Norms) and actual (Amounts) amounts of tax payments in general makes it possible to assess the level of taxation and the effectiveness of tax planning in the organization. Thus, the assessment of the tax burden and regular analysis of the level of taxation of organizations will allow you to assess how well the organization conducts its tax policy. The proposed methodological approaches will help to assess the effectiveness of taxation, determine the impact of factors on the amount of tax payments of the organization.

It should be noted that when developing a tax policy, it is important to take into account the views of all parties to tax relations. On the one hand, this is the desire of economic entities to minimize taxes, and on the other-the interests of the state. For a well-thought-out tax policy, one of the most important points is to correctly determine the optimal size of the tax burden. To do this, it is necessary to conduct serious analytical work to achieve a compromise between the state and the taxpayer.

Based on all this, we can refer to the Laffer curve. It states that there is an optimal level of taxation at which tax revenues reach a maximum.

An increase in the tax rate initially leads to an increase in budget revenues from taxes and at a certain level of the tax rate, the state's revenue reaches its peak, but after a certain level it leads to a fall. Finding this point of "maximum" is the main goal of the financial and tax policy of the state and this in its own way ensures that the state will perform its functions at a higher level. And consequently, this leads to



Direct taxes, total	26,2	25,8	23,6	23,0	24,0	20,6	28,4	30,4
<b>Corporate income tax</b>	<b>4,9</b>	<b>5,0</b>	<b>3,6</b>	<b>3,1</b>	<b>2,9</b>	<b>4,0</b>	<b>15,6</b>	<b>20,3</b>

In the structure of direct taxes, the share of corporate income tax receipts increased from 13,3 % in the first half of 2019 to 20,3 % in the second half. At the same time, the volume of income from this tax increased from 6 759,7 to 11 831,7 billion. sum or 1,75 times. The growth of budget revenues under this tax was facilitated by the abolition of certain income tax benefits from January 1, 2020, an increase in the rate of this tax from 12 % to 15 %, as well as an increase in the number of taxpayers.

### Conclusion

The hypothesis of the scientific research is to substantiate the problem of determining the objective tax burden that characterizes the real economic situation of economic entities, taking into account the specifics of their activities and the features of the national tax system, offering the most optimal method for determining the tax burden.

The analysis of the taxation of economic entities allows you to:

- 1) to monitor the timely calculation and payment of taxes to the budget;
- 2) determine the severity of taxation;
- 3) the level of the tax burden;
- 4) the feasibility of tax planning.

The size of the tax burden affects the choice of the organization:

- 1) organizational and legal form;
- 2) types of activity;
- 3) tax systems.

The tax burden is characterized by absolute and relative indicators. The most significant indicators of the level of taxation of organizations are the tax intensity of sales, the tax burden, the coefficient of elasticity of profit for taxes. Comparing the actual and normal level of taxation of organizations allows

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