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IMPROVEMENT OF MECHANISM OF THE CALCULATION AND COLLECTION OF PROPERTY TAX IN UZBEKISTAN

Abstract: *The article explores approaches to the formation of objects of taxation of property tax in foreign countries and the establishment of tax rates. The analysis of tax revenues on property tax in the Republic of Uzbekistan, the general trends in property taxation of legal persons and individuals. The problems of taxation of real estate in the Republic of Uzbekistan are identified and methods for determining the tax base taking into account international experience.*

Key words: *tax, taxation, property tax, assessment of taxation objects, tax rates, local budget, tax rates for individuals.*

Language: *English*

Introduction

Property tax is considered as a basic aspect of the general taxation system throughout the world. Nowadays, there is information about actual property taxes in more than 130 countries of the world. In the practice of most states, property tax income is focused on local budgets. In each state, the proportion of such income in local budgets can be different. For example, the proportion of real property income in 2017 in France was 2.17%, in Denmark – 1.85%, in Netherlands and Italy – 1.8%, in Germany – 1.06%, in Sweden 0.89%. Along with this, in some developed countries this tax has a significant part not only in local budgets, but also in the state budget as a whole. Particularly, real property taxes in Great Britain consist about 10% out of total budget income. This figure in the USA is 9% and in Canada is 8%.

Property taxes in these countries have a significant impact on the increase of local budgets. In particular, the proportion of such taxes in local budgets of municipalities in Canada reaches 40%, in Great Britain – 30%, in France – 20% [1]. Given figures evidence that in world practice special attention is paid to the calculation and collection of property tax.

There are many scientific researches held all over the world focused on the improvement of the mechanism of the calculation and collection of property tax. Specific attention in the research is dedicated to this sphere, because property tax, especially in developed countries, is the main source of replenishment of the local budget. The issues of calculating the property tax of individuals are also widely studied as an object of research. However, conducted researches do not fully show the features of calculating the property tax and analysis of impact on the activities of enterprises, the issues of rational use of property tax with the increase of local budget income, and improving the mechanism for calculating the property tax, which indicated the need of conducting the study on these issues.

One of the key areas of the Tax Policy Improvement Concept is the fair distribution of tax burden among taxpayers. Another important reform carried out in this area is the introduction of resource taxes and simplified version of the property tax for enterprises, which are payers of uniform tax.

Particularly, there was indicated a need for "development of practical measures to expand the tax base in each city and region, without taking into account deposits of large enterprises of national importance" [2].

However, one of the main goals of current reforms are current problems, waiting for the solution on the collection of property tax, improvement of the mechanism of calculation and increase the proportion in the state budget revenues.

As a part of the reform of the Strategy for Actions, adopted in 2017, a number of measures were taken to protect and support the efficient use of property. Firstly, it seeks to protect the rights of homeowners; secondly, it allows them to effectively use their property, enhances entrepreneurship and, thirdly, provides investors with guarantees for their properties to increase the flow of investments in our republic, as well as increase their independence as an important source of local budget revenues. "It must be noted that measures taken to help business entities in the successful realization of their investment projects and to strengthen owners' responsibility for the rational and targeted use of their empty production spaces have shown their effectiveness in practice" [3].

In addition, in the future, the tax impact on business and rational use of empty state property will be recognized as a widely used method in countries with developed market economies. At the same time,

property tax levied on legal entities and individuals is very important.

Property, on the one hand, determines whether the property belongs to the certain individuals, and on the other hand, determines the relationships between people in terms of the property usage.

According to the actual legislation, local executive authorities compose anticipations of local budgets. Further, anticipations are agreed with appropriate higher authorities. Afterwards, budgets are approved by local authorities.

It is worth mentioning that the industrialization process of the economy particularly in our country is accelerating. If in the republic the proportion of industry in GDP in 2000 was 14.2%, today it has reached 26.3% [4].

Therefore, as the country industrializes the proportion of land tax decreases, but the proportion of property tax increases.

According to the data provided in the picture, the tendency of the whole world continues in our republic.

During the period from 1995 to 2018, the proportion of property tax in total budget income increased from 2.2% to 3.3%, and the proportion of the land tax decreased from 3.0% to 1.9 % [5].

We can say that this situation was influenced by lots of factors, including the industrialization of the republic.
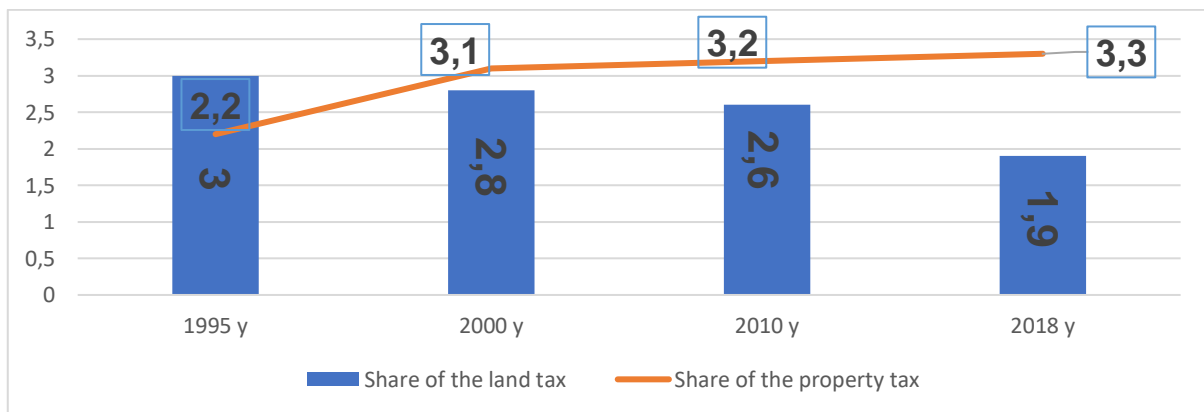
Pic.1. The change of the proportion of property and land taxes in total state budget revenues of Uzbekistan in 1995-2018, in %

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Firstly, as the private entrepreneurship and business develop in our country, their property tends

to increase and the area of land remains almost unchanged.

Secondly, the reason for that was the application of progressive rates for privileges' reduction, depending on the located residential areas on property tax rates for individuals, in order to encourage the expenditures of individuals for the construction of elite residential accommodations for the development of entrepreneurial activity.

The property tax of legal entities takes the leading position in the total volume of tax revenues

from property taxes in the republic, with more than 70% of property tax income [5].

Table 1. The change in the proportion of property tax of legal entities on state budget revenues and revenues on property tax, in %

№	Indicators	Years					
		2013	2014	2015	2016	2017	2018
1	Property tax of legal persons	100	100	100	100	100	100
2	Share in budget revenues, %	2,9	3,1	2,9	3,0	3,1	2,4
3	Total share in property tax, %	75,1	78,1	75,8	73,2	73,0	72,8

According to the data, stability is maintained in the proportion of property tax of legal entities in state budget revenues, only by 2018, there is a tendency to a sharp fall.

One of the main reasons for that is the law of the Republic of Uzbekistan № 454 from December 29, 2017 "On amendments and additions to some legislative acts of the Republic of Uzbekistan in connection with the adoption of main areas of tax and budget policy in 2018". According to the amendments to the point 1 of the first paragraph of article 266 of the Tax Code, only real estate properties are left as

objects of property tax for legal entities, and movable property is excluded from property tax.

The tax system, as far as possible, must guide the rational use of all property and spaces to stimulation. Moreover, the introduction of the practice of applying differentiated rates, depending on the area of the property, tax calculation, based on the real market price of the property, will lead to a positive outcome. Last years, there were lots of measures taken in this sphere in our republic, let's have a look at the taken measures through taxes on properties, which were not initially valued and did not have inventory value.
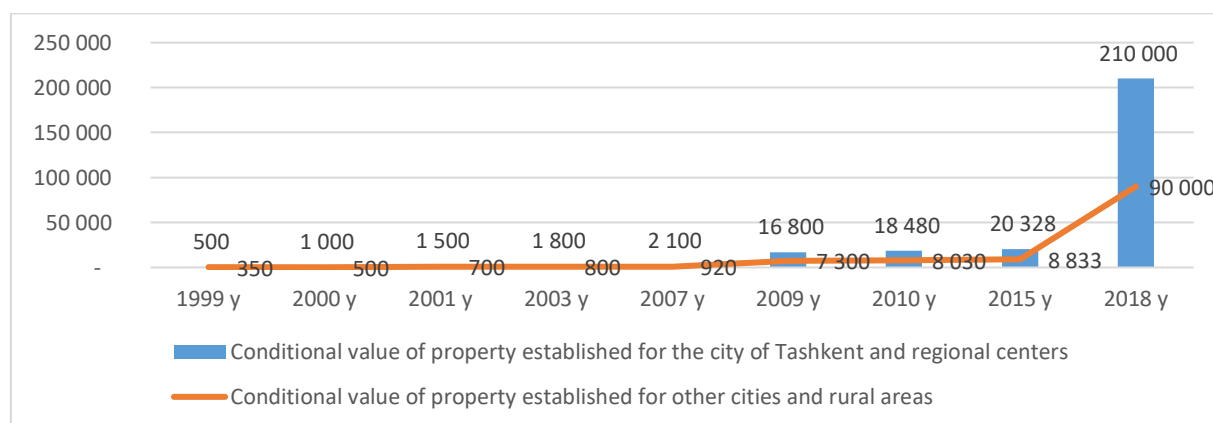
Pic.2. Dynamics of changes of notional values established for properties that do not have inventory (since 2018 cadastral) value (in thousands of sums)

The data show that during the period from 1999 to 2003, the notional value of property tax, mainly applied to individuals who did not have an inventory value, increased and remained unchanged during 2004-2006, while in 2007 this notional value slightly increased and did not change in 2008.

Nevertheless, we can observe a sharp increase of notional value by 2009, though in 2010 it has increased by 10% compared to the previous year, but in 2015 this notional value remained unchanged [6].

One of the main reasons for the notional values to increase year by year is the conformity of individuals' properties to the market prices.

However, despite this, since 2018 the amount of notional values has increased sharply by more than 10 times, and tax rates have been significantly decreased (Table 2).

Despite this, since 2011, significant changes in the tax rates for individuals happened, and differentiated rates, depending on the area of the property, were introduced.

Table 2. Differentiation of property tax rates for individuals in 2011-2019, %

Object of taxation	2011 year	2012 year	2013 year	2014 year	2015 year	2016 year	2017 year	2018-2019 years
Residential buildings, apartments (except for premises with an area of more than 200 sq.m), summer cottages and garden houses, garages and other buildings	0,75	0,9	1,04	1,2	1,3	1,5	1,7	0,2
In relation to the total area of residential buildings, apartments located in cities								
More than 200 sq.m to 500 sq.m	0,9	1,1	1,25	1,4	1,6	1,8	2,1	0,25
More than 500 sq.m	1,13	1,35	1,55	1,8	2,2	2,5	2,9	0,35
Residential houses and apartments located in other settlements, with a total area of more than 200 sq.m	-	-	-	-	-	1,8	2,1	0,25

Table 2 reveals that the property tax rates on individuals increased during 2011-2017 years, and one of the main reasons for that is the prevention of construction of elite houses in the urban areas, in order to forward excess funds of the population into investments for entrepreneurship.

Relatively quick rise of property taxes on individuals with the area more than 200 sq.m. to 500 sq.m and more than 500 sq.m. during 2016-2018, needs the adoption of additional measures to stimulate a wider use of property for individuals for commercial purposes.

The aforementioned data demonstrate that revenues from property tax on individuals, possessing property with an area from 200 sq.m. to 500 sq.m. have a tendency to a rapid increase, during the period, which is analyzed, it has increased 2.9 times [6]. One of the major reasons for that is the increase of given tax rates from 1.8% to 2.1% in 2017 compared to 2016, and the second reason is that since 2018 the tax base for calculation of property tax on individuals moves from inventory value to cadastral value.

The analysis of international tax practice has shown that property taxes are the most important among real estate taxes and of great importance in the local budget revenues. Uniform tax rate on the real estate is applied in Germany, Belgium, Iceland and Luxembourg. The progressive tax system functions in Sweden, Finland, Norway and other countries.

When the property tax is levied in Sweden, the total number of family's property is taken into account. It is paid only by individuals, and tax rates are progressive.

Table 3. Non-taxable property value and property tax rates in Sweden

Property value, kroons	Tax rate, percent
Up to 400 000 kroons	0
400 000 to 600 000 kroons	1,5
Over 1 800 000 kroons	3

Data show that the property with the value up to 400 000 SEK is free of taxes and is considered a tax-free minimum. Property from 400 000 to 600 000 SEK is subject to taxation at a rate of 1.5%, more than 1.8 million SEK – at 3 % [7].

According to the Land Code of Sweden, Jordabalk, real estate is characterized as follows: real estate property is land, which, in turn, is divided into the objects of the real estate, the unit of real estate

property is defined either on a horizontal basis or on a vertical basis.

Jordabalk – term "land" in the Land Code, includes not only the land, but also the water territories of Sweden. Individuals, who permanently reside in Sweden and have stable work and income, can apply for a mortgage to purchase real estate. For the foreigners, who purchase real estate in Sweden, there are no restrictions. It will be necessary to verify the information about the borrower and confirm his stable income [8].

In the foreign practice, to ensure social justice in taxation, the principle of installment of property tax rates is based on the progressive mechanism, where the increase of market (cadastral) value of the property is taken into account, but not the increase in the area of existing residential premises. In addition, in developed countries, a 0 percent taxation on real estate is applied, which means that restrictions on non-taxable value are determined. Through this, vertical social justice in taxation is ensured. For example, in Brazil and some other countries of Latin America, the government provides privileges on property tax to families with low income, population with low income, older people and retirees, and widows.

Almost 40% of real estate owners in Sao Paolo in Brazil get tax privileges. Residential immovable property with a value lower than 43 000 USD is tax-free. Municipal legislation provides a tax restriction of an average of 22 700 USD for residential real estate worth more than 56 800 USD, but not more than 113 600 USD [9].

In Mexico, in order to timely fulfill tax obligations, the country provides benefits for "conscientious taxpayers". According to it, if the real estate tax is paid for a month in advance before the start of the reporting year, that is, in December at a rate of 25% of the tax amount, in the first month of the reporting year, that is, in January at the rate of 20% of the tax amount, then restrictions are set for taxpayers (individuals and corporations) [10].

In our republic, it is advisable to strengthen the measures against owners in case of unused or insufficient use of empty buildings, in order to encourage the successful realization of investment projects by the business entities and ensure the effective use of the property by their owners.

CONCLUSION

As a result of researches aimed at improvement of the mechanism of property tax calculation in our republic, following scientific conclusions were made:

- The social-economic importance of the property tax is based on the content of the tax. Firstly, by taxing the property, the wealth of the society is regulated through the mechanism of taxation, regardless of who it belongs to. Secondly, a certain part of wealth is redistributed to the state budget in the manner prescribed by the law of financing its expenditures. Government is interested in increasing the property of legal entities and individuals.

Legal entities and individuals are interested in the inviolability of their property in exchange for paying taxes to the government, in accordance with the established procedures and rates.

- On the basis of the history and theoretic research of property tax, several scientific conclusions were made – from the economic point of view, property tax is considered as a profit, which is earned or the profit, which will be earned in the future, to own a property due to an inheritance or a charity, as well as the mandatory separation of part of the property, for which the right to use and order is granted, or the charge from the state budget revenues of an equal monetary equivalent.

- According to the common order of property taxation, property is taxed in two groups: immovable and movable property. Immovable property includes land, buildings, constructions and other structures. Based on this approach, movable property can also be divided into wealth, which is associated and not associated with the land.

More possession of immovable property creates some conditions under the current circumstances, because the object of property tax is mainly focused on the immovable property.

Such differentiation of the object of property tax limits the possible applications of effective leverage of taxes for the improvement of the production, because in the most cases, objects of real estate property can act as a directly-used or unused property in production.

In this regard, in developed countries the tax is levied, dividing it into the main means, participating in commercial activities and not participating in commercial activities while the taxation of the property.

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