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IMPROVEMENT OF ACCOUNTING FOR TAXES AND MANDATORY PAYMENTS IN THE STRUCTURE OF PERIOD EXPENSES

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ABSTRACT:

This article examines the policy of income tax and its role in economic stability. It analyzes how taxes shape state revenue, their role in income distribution, and their function in regulating the economy. The study explores the impact of income tax policy on individuals and businesses. The results indicate that a well-structured tax policy ensures economic growth and social equality. Additionally, the article addresses tax compliance and issues within the policy. At the end of the study, recommendations are provided to further improve and make the income tax system more equitable.

INTRODUCTION. As is known, one of the important normative documents ensuring that accounting is maintained in accordance with established procedures is the Regulation. According to the purpose of the Regulation, it defines the procedure for determining the financial results of business entities, ensuring the correct calculation of the tax base, and legally forming tax liabilities. In this regard, it is recognized that all expense elements involved in the implementation of accounting must be closely interrelated and reflected in accounting reports.

In particular, all elements of period expenses play a significant role in determining the main operating profit and directly impact whether the enterprise incurs profit or loss. Certain expense items are recalculated in accounting and included in the taxable base of the enterprise. Such expenses are considered tax expenses.

N-12 "Income Tax" IFRS "Explanation" section states:

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"… the total amount included in net profit or loss for the period in relation to current and deferred tax."

Tax expenses related to ordinary activities' profits and losses must always be reflected in profit and loss statements or normative documents.

This is because such expense items provide necessary information for users regarding the taxable base of the enterprise, offering a clearer picture. Therefore, tax expense elements must always be disclosed transparently.

Elements of Tax Expenses Include:

Current tax expenses (tax accruals)

Deferred tax expenses related to past-period current expenses

Deferred tax expenses related to tax rate changes or new tax implementations

Amounts of previously unrecognized tax losses, tax credits, or temporary differences from past periods used to reduce current tax expenses. Amounts of previously unrecognized tax losses, tax credits, or temporary differences from past periods used to reduce deferred tax expenses

At this point, we believe it is necessary to address the issue of current and deferred taxes related to tax expenses.

According to IFRS No. 12 "Income Tax," under the "Explanation" section, "current tax refers to the amount of income tax relative to taxable profit for the period." This tax only applies to the income tax (profit tax) amount of the current period.

Deferred taxes, on the other hand, "represent the amounts of tax related to economic transactions of the current period that will be paid in future periods." Accordingly, deferred taxes include:

Deferred tax liabilities

Deferred tax assets

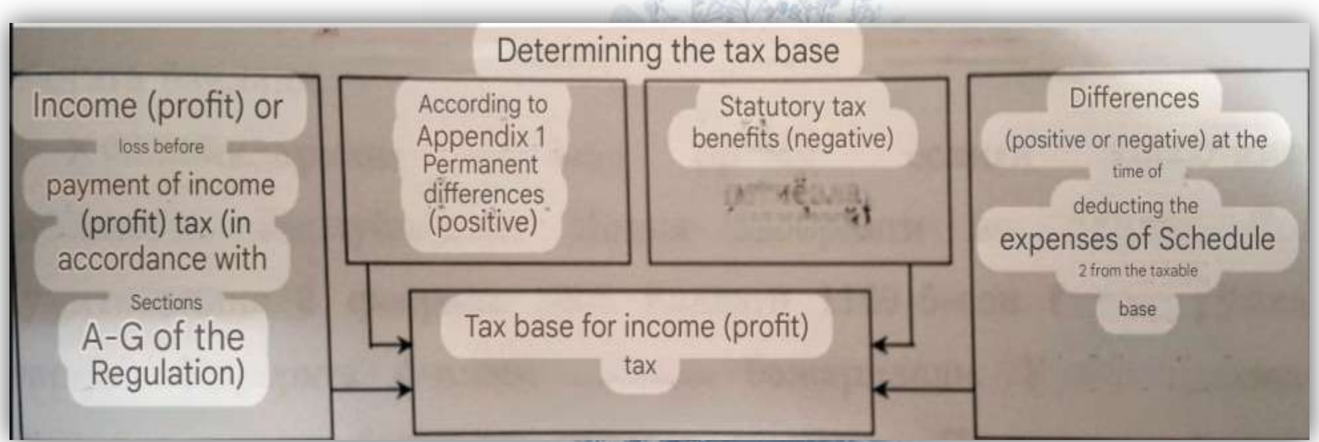
Deferred tax liabilities reflect taxes that will be paid in future periods on taxable revenue and profit, while deferred tax assets include eliminable temporary differences, tax losses carried forward, and unused tax credits expected to be utilized in future periods.

The deferred income tax amount arising from temporary differences is recorded in account 6250 – "Deferred Income Tax Liabilities on Temporary Differences."

The relevant portion of deferred income tax liabilities related to temporary differences is transferred from account 7520 – "Long-Term Deferred Income Tax Liabilities" to account 6250 – "Deferred Income Tax Liabilities on Temporary Differences." If temporary differences are realized and future income tax liabilities decrease, account 6250 is linked to account 6410 – "Payables to the Budget (by types)."

In conclusion, tax expenses related to period expenses are systematically and continuously classified, and as the Regulation indicates, the document is included in the tax base following the established structure. (Table 1.1).

Table 1.1



Determination of the Tax Base

In accordance with the Tax Code and Regulations of the Republic of Uzbekistan, the Ministry of Finance of the Republic of Uzbekistan and the State Tax Committee approved resolutions No. 15 and No. 2002-12 dated January 14, 2002, which confirmed the "Procedure for calculating the income tax (profit tax) of legal entities and its payment to the budget." Based on the provision "On this," it is stated that taxable income is determined as net profit after taxation. The expenses specified in these Regulations are considered an element of taxable profit (income) for tax purposes.

One of the types of expenses that favorably reduce the taxable income (profit) base of business entities is the state expenses included in the tax base, as stipulated in Appendix 2 of these Regulations. Such expenses must first be deducted from the taxable base, and the remaining portion is subject to taxation.

These expense accounts 94 – State expenses are recorded in account 9440 – "Expenses deductible for future periods."

When recognizing such expenses, the tax base of the income (profit) tax must be considered in determining the final financial result at the end of the reporting period.

Expenses included in the state expenses category should be deducted from the taxable profit base. These expenses must be recorded under accounts payable and closed at the end of the reporting period.

The income (profit) tax accounting procedure follows the Regulations on the "Procedure for calculating and paying the income (profit) tax of legal entities to the budget." The structure of accounting accounts and their maintenance are carried out in the manner defined in these Regulations, with the necessary accounting entries recorded in the order specified in Appendix 1 and Appendix 2.

The taxation of profit is reflected in accounting records as follows:

1. Calculation of tax payments from profit to the budget:

Debit: 9800 – "Accounts recording the use of profit for tax and fee payments."

Credit: 6410 – "Liabilities to the budget for tax payments (by type)."

2. At the end of the reporting period, closure of accounts related to tax and fee liabilities:

Debit: 9910 – "Final financial result."

Credit: 9800 – "Accounts recording the use of profit for tax and fee payments."

3. Transferring income (profit) tax to the budget:

Debit: 6410 – "Liabilities to the budget for tax payments (by type)."

Credit: 5110 – "Settlement account."

In maintaining the accounting of state expenses, a particular issue arises. This is due to the process of adapting our national accounting system to international standards. Some emerging economic operational expenses do not align in content with accounting principles and, therefore, should not be included in expense accounts. That is, some elements of state expenses in our accounting system do not represent a cost nature but rather become an object of taxation. However, to ensure the functional necessity of these expenses, they should be reflected as part of financial management rather than just recorded as costs.

For example, the Decree of the President of the Republic of Uzbekistan dated May 21, 2004, No. PD-3431, "On the State Program for the Development of School Education for 2004-2009," stipulates that the main sources of financing this program for 2004-2009 include funds provided by legal entities as sponsorship contributions

According to the regulation "On the procedure for reducing the tax base for funds allocated to finance the 2004-2009 school education development program," approved by the Ministry of Finance and the State Tax Committee by Resolution No. 94, 2004-46 dated June 13, 2004, sponsorship donations made by business entities are considered tax benefits for income (profit) tax purposes.

Under this program, funds allocated for sponsorship donations may be deducted from the taxable income (profit) tax base. The amount of these funds is reflected in line 080 of the special accounting report.

Approved by the Ministry of Finance of the Republic of Uzbekistan and the State Tax Committee by Resolution No. 3, 2005-3 dated January 14, 2005, "On the Development of School Education", regardless of the organizational-legal form, legal entities engaged in entrepreneurial activities are considered payers of mandatory allocations for the development of school education. The objects subject to mandatory allocation are specified in the annex.

Ministry of Finance of the Republic of Uzbekistan (№DM/04-01-09/941), State Tax Committee of the Republic of Uzbekistan (№2004-75)

According to the decree dated December 31, 2004, from January 1, 2005, all legal entities and institutions, regardless of their legal form, including enterprises subject to a special taxation regime, are required to allocate 1% of their revenue from sales (excluding excise tax and VAT) as a mandatory contribution to the development of school education within the framework of the state program.

Based on the presidential decree, this mandatory contribution is included as an element of operating expenses in the accounting system according to clause 2.3.21 of the relevant regulations and is recorded under the accounting code 9430 – “Other operating expenses.” Additionally, the funds allocated for the development of school education are reflected in the analytical accounts of sponsorship funds.

According to clause 1.43 of Appendix 1 to the regulations, this expense, classified under section 2.3.21 of the state expenditure classification, is considered part of other operating expenses of business entities. However, when calculating taxable profit (income tax), this amount is added back to the taxable base.

The accounting treatment is as follows:
Debit: 9430 – “Other operating expenses”
Credit: 6520 – “Payments to targeted state funds”
When transferring funds to the targeted state fund:
Debit: 6520 – “Payments to targeted state funds”
Credit: 5110 – “Settlement accounts”

Our view is that since operating expenses are typically associated with the functional activities of an enterprise, recording this mandatory contribution under expenses does not align with accounting principles. The correct approach would require two possible interpretations.

First, since this contribution is calculated as a percentage of sales revenue, it behaves as a variable expense, similar to a turnover-based tax. This suggests that it should be classified as a tax rather than an operating expense.

Second, the inclusion of this contribution in operating expenses contradicts accounting principles, particularly the calculation of marginal (gross operating) profit. Moreover, accounting regulations do not provide for the inclusion of sales revenue deductions in this way.Furthermore, under clause 2 of the regulations, taxable income is based on net sales revenue. However, the inclusion of this mandatory contribution in operating expenses creates ambiguity, as it is not a direct business expense but a state-mandated allocation. This leads to discrepancies in the determination of net revenue.Net revenue should only reflect amounts directly associated with the production and sale of goods and services, incorporating material, financial, and extraordinary costs. Misclassifying this contribution as an expense can distort financial indicators.

Therefore, in our opinion, this amount should be classified in accounting records as a turnover tax. Additionally, since this contribution is mandatory, reintroducing it into the taxable base for income tax purposes is not justified. It already functions as a predetermined allocation, similar to a tax. If included again in the tax base, it leads to double taxation of the same amount.

Thus, we believe that these contributions should not be added back to the taxable base. Secondly, it is important to emphasize that public education institutions are financed by the state budget. Allocating and controlling these funds is the responsibility of state financial authorities. Part of the state budget funds comes from business entities' income (profit) taxes. The requirement to record these contributions separately complicates the accounting system for business entities and increases administrative burdens, potentially leading to misunderstandings. Furthermore, in the privatization process, such mandatory contributions are viewed by both government authorities and investors as an additional financial burden, essentially functioning as an indirect state levy.

From a legal perspective, the changes introduced by the Ministry of Finance (№DM/04-01-09/941) and the State Tax Committee (№2004-75) as of January 1, 2005, included reducing the income tax rate from 18% (in 2004) to 15%, while simultaneously introducing this 1% contribution on sales revenue.

Thus, starting from January 1, 2005, economic policy measures have:

1. Reduced the income tax rate
2. Introduced a 1% mandatory contribution from sales revenue, which is included in the tax base.

In our opinion, the introduction of such deductions will be sufficient to increase the profit (income) tax rates of economic entities, simplifying the accounting system and ensuring its uniformity through taxation.

It should be noted separately that non-included expenses in the structure of state expenses also include mandatory deductions spent on the Road Fund and the Pension Fund. According to research, the following amounts of deductions were made to these funds in 2004 and 2005 (Table 1.2).

The amount of deductions in the calculations was made up of various quota amounts that are not directly dependent on the volume of realization.

The Ministry of Finance of the Republic of Uzbekistan, based on the Decree of the President of the Republic of Uzbekistan on the improvement of the use of funds of the Republican Road Fund, dated August 27, 2003, No. PF-3292, issued a regulation on the sources of formation and the procedure for the use of the fund. Based on this decree, the Cabinet of Ministers of the Republic of Uzbekistan, by Resolution No. 361 of December 24, 2003, approved the Regulation on the Republican Road Fund under the Ministry of Finance of the Republic of Uzbekistan.

Table 1.2. The amount of mandatory allocations to specialnfunds in textile mills (percentage of total period expenses)

№	**Textile combiners**	**Obligation to extra-budgetary funds allocations**					
		Yule funds (1.5%)		**Pension fund (0.7%)**		**School funds (1%)**	
		2003	**2006**	**2003**	**2006**	**2003**	**2006**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1.	“Bukhoretx” JSC	29,45	20,1	13,74	9,4	-	13,47
2.	“Babur” JSC	17,8	3,1	8,31	1,45	-	2,07
3.	“Namangan Textile” AJ	16,22	0,21	7,57	0,1	-	0,14

4.	"Farg'ona Textile Plant" JSC	16,55	2,03	7,72	0,95	-	1,35

Source: Financial reports of research objects. (Calculations were made by researchers).

Based on the Resolution No. 610 of December 28, 2004, of the Cabinet of Ministers of the Republic of Uzbekistan, deductions for the Road Fund are calculated in proportion to the sale of products (works, services) excluding excise tax and added value tax set by certain enterprises and organizations regardless of ownership form.

Accordingly:1.5% in production,1% in trade,2.5% in transport are deducted.

In order to further improve the management of the extra-budgetary pension fund in the republic, the Cabinet of Ministers of the Republic of Uzbekistan, by Resolution No. 490 of October 21, 2004, decided to transfer the extra-budgetary Pension Fund of the Republic of Uzbekistan to the budget. At the same time, according to Resolution No. 155 of July 5, 2005, of the Cabinet of Ministers, one of the sources of formation of the Pension Fund was determined to be the obligation of legal entities to pay deductions in proportion to the turnover of goods and the volume of sold products (performed works, provided services) excluding excise tax and added value tax. The deduction rate is 0.7%.

In our opinion, the inclusion of the above-mentioned expenses in state expenses is neither theoretically nor practically appropriate because:

1. According to the "Marginal Revenue Concept," all self-regulating cost items that depend on product volume are covered. Therefore, deductions should not be accounted for in proportion to realization volume, as their self-regulating nature does not allow costs to be classified as expenses. 2. Functional economic activity-related constant expenses should be included in the structure of state expenses.

3. The inclusion of such expenses in state expenses means that the cost of expenses will be inflated by the same amount. This will increase the expenditure portion of the state budget while maintaining the same volume of investments, which will negatively impact economic development.

The expenses considered above, as well as deductions for the Road Fund and the Pension Fund, also include the fund for the development of material and technical education. Therefore, it is necessary to review these deductions. Since these are not direct budget expenditures, their necessity and reasonable amount should be determined separately.

These allocations represent a direct tax on expenses, meaning they express the nature of the tax paid by enterprises. However, mandatory payments collected in proportion to turnover (relative to the volume of realization) should be considered an indirect tax. That is, let’s consider how it is advisable to reflect the collection of these payments from buyers for the purpose of product acquisition and their accounting records:

When products are realized to buyers, the mandatory payment amounts relative to the realization volume are recorded as follows:

Debit: 4010 – "Accounts receivable from buyers and customers";

Credit: 6520 – "Targeted state fund payments".

When cash payments are received from buyers:

Debit: Cash accounts;

Credit: 4010 – "Accounts receivable from buyers and customers".

When mandatory payment amounts are transferred to targeted funds:

Debit: 6520 – "Targeted state fund payments";

Credit: Cash accounts.

Additionally, for these fund allocations, since the expenses are calculated relative to the realization volume, they should be expressed separately in a specific row under "Financial results report" as the total amount, rather than being combined. That is, they should be reflected as a real indicator of gross profit from the sale of products (goods, services).

For this purpose, in the "Financial results report", the name of the existing row should be partially changed, and two new entries should be introduced. The 10th row will include the gross profit from the sale of products (goods, services) in general. The mandatory allocations relative to the realization volume are also separately specified in this section. Subsequently, the total amount of allocations is deducted. The necessary amendments related to the targeted funds mentioned above, as well as to the steps of determining profit, are justified in the regulation.

In our opinion, introducing the recommended changes to the reporting format in the "On Financial Results" report will not only allow for the separate representation of allocation amounts but also make it possible to reflect the true cost of the product separately. Additionally, it ensures the theoretical legitimacy of determining the profitability of enterprises' economic activities.

It is well known that one of the essential factors for carrying out the production process is the enterprise’s own property: basic assets and non-monetary assets. According to the tax legislation in effect in our Republic, all property owned by enterprises must also be subject to property tax. The procedure for calculating property tax is carried out based on the instructions approved by the Ministry of Justice of the Republic of Uzbekistan on July 18, 2002, under No. 1107 and registered, as well as the Decision of the Ministry of Finance of January 22, 2002, No. 25, and the Decision of the State Tax Committee of January 13, 2002, No. 13.

According to the guidelines, legal entities that own taxable property are considered taxpayers of this tax. The objects of property tax and the calculation procedure are provided in the annexes.

The amount of property tax is considered a tax within the expense elements of enterprises' economic activities and is recorded in the accounts related to settlements with the budget as follows:

Debit: 9430 – "Other operational expenses";

Credit: 6410 – "Payables to the budget for taxes".

Payment of property tax:

Debit: 6410 – "Payables to the budget for taxes";

Credit: Cash accounts.

According to NAS (National Accounting Standards), property tax is accounted for in relation to the places where the property is being used. Specifically, the tax amount calculated for property related to production and service-related property is recorded as production costs and included in the cost of goods manufactured.

Tax amounts derived from the value of property serving administrative-management and sales processes are recorded as operational expenses.

In our opinion, during the process of adapting the accounting system in our Republic to international requirements, the accounting of property tax should also be organized within the framework of international requirements. That is, the amount of tax calculated for property related to production processes should be included in the cost accounting of production expenses, while the tax amounts for non-production-related property should be accounted for as part of period expenses (Table 1.3).

Table 1.3. Proposed method for accounting property tax

<table>
<tr><th colspan="2">Debit</th><th>Credit</th><th>Debit</th><th>Credit</th></tr>
<tr><td colspan="2">(1).2010;2310;2510</td><td>(1).6410</td><td>(2).9430</td><td>(2).6410</td></tr>
<tr><td>№</td><td colspan="4">Content of economic transactions</td></tr>
<tr><td>1.</td><td colspan="4">Accounting for property tax related to production</td></tr>
</table>

2.	Consideration of property tax related to non-production.

Here, the system aligned with international standards is based on the use of the method of accounting for expenses related to the production process.

In lines 171 and 172, the amounts of property tax in production are separately stated. The amount of tax is distributed among these amounts in proportion to the expense elements (Table 1.4).

Also, the costs of the period fully reflect the mandatory and voluntary insurance-related expenses of the property. That is, if property insurance is considered:

Table 1.4. Distribution of property tax of the textile combine (thousand sums)

№	**Demonstrators**	**Amounts of propertyntax**		
		Property value (sum)	**Assets in relation to (%)**	**Property tax (3.5%)**
1	2	3	4	5
1.	In manufactring (form 3, line 171)	27050762	70	225309,7
2.	In non-manufactring (form 3,line 172)	11592926	30	96561,3
3.	Total	38643088	100	321871

Source: Compiled based on the annual report data of "Buxoroteks" JS

Accounting records:

Debit: 9430 – «Other operating expenses»;

Credit: 6520 – «Insurance payments».

If insurance payments are made:

Debit: 6520 – «Insurance payments»;

Credit: Accounts receiving cash funds.

Such accounting records are reflected.

In our opinion, in compliance with IFRS requirements, property insurance costs related to production should be included in production cost accounts.

In production processes, insurance costs for property are accounted for:

Debit: 2010 – «Main production»;

Debit: 2310 – «Auxiliary production»;

Debit: 2510 – «Service-providing production expenses»;

Credit: 6520 – «Insurance payments».

It is necessary to reflect property insurance expenses in period expenses.

The insurance expenses for the property produced have been accounted for as follows:

Debit: 9430 – "Other operational expenses";

Credit: 6520 – "Payments for insurance".

The implementation of this procedure, firstly, ensures approximation to international practice and, secondly, increases the efficiency of reflecting property tax and insurance amounts in accounting. Additionally, the reduction in the amount of expenses covered by insurance serves to improve financial results and is also evaluated in the cost price of the product.

Within the structure of period expenses, sponsorship expenses spent in accordance with legal documents are included in the taxable base entirely, considering the differences arising based on Annex 1 of the Regulation.

In the current period, where the primary goal is achieving high profitability under market economic conditions, our firm believes that encouraging the activities of enterprises providing sponsorship to objects in need of sponsorship funds should be fostered, and therefore, sponsorship expenses should not be included in the taxable base.

Especially considering the increasing significance of sponsorship issues at the state policy level, the need for strengthening economic reforms in this area arises. Under these conditions, enhancing tax incentives for enterprises providing sponsorship is considered one of the important issues.

The expenses of a cotton processing plant related to sponsorship can be included as follows: (Table 1.5).

"Removing such expense items from the taxable base, in our opinion, will increase the share of activity in this field and encourage it, as well as ensure the effectiveness of our economic policy.

Table 1.5. Sponsorship expenses incurred in the joint-stock companies «Bobur» and «Namangantekstil» (in thousand sums)

№	**Expense items**	**“Bobur”JSC**	**“Namangantextile”JSC**
1	**2**	**3**	**4**
1.	Home for the disabled	1438	-
2.	17-school repair	493	-

3.	To “Shoxi zinda”	1000	1500
4.	“Andijon” f/k	31686	-
5.	“Saxovat uyi”	140	-
6.	“Oltin meros”	-	8
7.	Namangan sport club	-	1000
8.	“Do’stlik” tennis club	-	364
9.	The culture and sports development fund	-	219
10.	“Qizil yarim oy jamiyati”	-	250
11.	“Namangan chernobil jamiyati”	-	75

Source: Internal accounting data. 9430 – Expense items included in the taxable base of the "Other operational expenses" account.

Conclusion

As a conclusion, it should be noted that a new method was developed for reflecting in accounting the funds allocated to off-budget targeted funds and funds equated to them. Based on this, changes were also proposed to the principle of the "income-expense-result" interconnection order. Additionally, within the framework of the "Financial Results Report," a model for separately reflecting the amounts of allocations was developed and substantiated.

A new method for reflecting property tax, which has a significant share in current expenses, in accounting based on international financial reporting standards was developed and recommended. A proposal was developed to exclude expense items of a charitable nature from the tax base.

References:

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