



## Improving Off-Site Tax Inspection of Metallurgical Industry Enterprises

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### **Abstract**

This article is devoted to the consideration of the issues of improving off-site tax inspection of metallurgical industry enterprises. The author has developed relevant proposals and recommendations in reliance upon the research results.

**Keywords:** *Tax Control; Off-Site Tax Inspection; Profit Tax; Direct Tax; Taxation; Tax System; Tax Revenues; Metallurgy Sector*

### **Introduction**

Off-site tax inspection is considered the most efficient type of tax inspection in the practice of the world and our country. Off-site tax inspection is the procedure implemented by a tax authority towards a specific person and consists of a series of sequential actions. Currently the “Regulation on organizing and conducting off-site tax inspection” approved by Resolution №1 of the Cabinet of Ministers of the Republic of Uzbekistan defines the off-site tax inspection as follows: “Off-site tax inspection – is an inspection conducted by the tax authority based on study and analysis of tax reports submitted by taxpayers, tax agents and (or) other information on the activity of the taxpayer available in the tax authority in order to verify that taxes and fees are calculated correctly by taxpayers (tax agents), paid on time and in full to the budget system”. One of the forms and mechanisms of tax control is the off-site tax inspection of accounting books by types of taxes in economic entities. In this regulation, it is established that the off-site tax inspection is conducted when there is a risk of violation of the tax legislation determined on the basis of the tax risk management system, and when discrepancies or errors are detected in the tax report submitted by the taxpayer. One of the main issues in the methodology of off-site tax inspection is based on the technique of conducting an inspection on individual types of taxes.

### **Literature Review**

Although off-site tax inspection is not defined in Article 135 of the Tax Code of the Republic of Uzbekistan (2022), it is determined as follows: “Off-site tax inspection is a verification of compliance with tax and levy laws based on tax returns and documents submitted by the taxpayer independently to the tax authority, as well as documents available in the tax authority”. Currently Article 136 of the Tax Code of the Republic of Uzbekistan provides for the implementation of tax control in the form of tax inspections and tax monitoring. Furthermore, Article 137 of the Tax Code of the Republic of Uzbekistan (2022) specifies the following types of tax inspections:

- off-site tax inspections;

- field tax inspections;
- tax audits (Code, 2022).

From the point of view of Mayburov (2018), the purpose of the off-site tax inspection is to collect and prepare the information required to control compliance by taxpayers with the legislation on taxes and fees, to identify and prevent tax violations, as well as to ensure the effective selection of taxpayers for the purpose of conducting tax inspections.

In the opinion of Michasev (2017), off-site tax inspection is an audit of all reports submitted by the taxpayer. Based on the declarations and documents attached to the report, a tax inspection is conducted at the location of the tax authority.

Normatov gives the following definition to the off-site tax inspection (2020): “Off-site tax inspection is a set of preventive and control actions aimed at studying the correct calculation and payment of taxes and fees on the basis of tax reports submitted by the taxpayer and information about the taxpayer requested by the tax authority from other organizations in compliance with the law”.

In his works Normatov (2020) considered the aim of the off-site tax audit as well: “The aim of the off-site tax inspection is current control of compliance with the tax legislation by taxpayers, to fully cover taxpayers in terms of their obligations, to help them independently eliminate deficiencies, to warn them, to select them for mobile inspections, and to prevent violations”.

The legal basis for the implementation of the off-site tax inspection of employees of the Russian Federal Tax Service is the procedure established by Article 88 of the Tax Code of the Russian Federation (1998). This article determines how to perform off-site tax inspection and the directions of punishing the cases determined because of it, as well as precise duties and obligations of the employees in charge who conduct off-site tax inspection.

*As a result of tax inspections conducted in the Russian Federation in 2021, an additional tax of 138 billion rubles was calculated for the federal budget (Federal Tax Service, 2022).*

### **Research Methodology**

Such research methods as scientific abstraction, analysis and synthesis, empirical analysis of the data have been widely applied in this research article. In addition, the views of economists and scholars have been studied and in reliance upon the research results, the author has developed relevant conclusions and proposals.

### **Analysis and Discussion of Results**

According to the Decree of the President of the Republic of Uzbekistan dated September 7, 2021 “On measures to create more favorable conditions for business entities in the fulfillment of tax obligations”, starting from January 1, 2022, financial sanctions will not be applied for violations detected in the off-site tax inspection as it was decided cancel financial sanctions for business entities that did not submit tax reports within the specified period.

One of the ways to improve the methodological aspects of the off-site tax inspection with the help of the advanced information technologies is the automation and digitization of the inspection processes. In order to implement this, certain activities are being carried out by the State Tax Committee of the Republic of Uzbekistan. In particular, in order to ensure the implementation of the Tax Code of the Republic of Uzbekistan, as well as the Resolution of the Cabinet of Ministers Decision №1 dated January 7, 2021 “On managing tax risks, identifying taxpayers with tax risk and organizing and conducting tax inspections”, on December 20, 2021 the State Tax Committee issued Order №600 “On introducing the automatic off-site tax inspection software product into practice”.

The study demonstrates that many mistakes have been made on the part of taxpayers and the results are presented in Table 1.

As it is obvious from the data of Table 1, errors in the amount of 2 176 858.1 million UZS have been detected in 2021 in the course of pre-inspection analyzes in a total of 115 452 enterprises. This has enabled enterprises to correct their mistakes without the application of fines and served to prevent the application of various fines.

“Avtocameral” (automatic off-site tax inspection) software without the intervention of the human factor, automatically conducts pre-inspections based on the data available in the State Tax Committee (including electronic invoices, export-import transactions, online cash register checks, etc.). A notification is sent to the personal office of the taxpayer on the discrepancies identified as a result of the pre-audit analysis without the human factor. A taxpayer is obliged to submit a clarified tax report within ten days upon the date of receiving the notification or a justification for the identified differences, providing supporting documents.

Table 1<sup>1</sup>, The most common errors detected in 2021 during pre-inspection analysis

№	Type of the error detected	Number of enterprises	Amount of error (million UZS)
1	Failure to provide the figures related to salary income with an incremental ending	63 500	258, 2
2	The difference between the indicator of net revenues from the sale of goods (services) shown in the financial report and the VAT report	11 367	4 488,1
3	The difference between the amount of excise tax included in the taxable base in the VAT report and the amount of excise tax paid during this period	3 021	3 446,8
4	Failure to reflect the amount of VAT on the check printed in the online cash register for goods (services) sold by VAT payers	14 281	126,6
5	Incorrect indication of the rate for excise goods and services in the excise tax report	229	728,5
6	Incorrect indication of the amounts of losses from negative exchange differences when submitting a profit tax report	2 727	1 000 000,0
7	Incorrect indication of the amount of VAT expenses in the profit tax report under Article 314 of the Tax Code	5 238	102 100,0
8	Incorrect indication of the negative exchange rate gains in the income tax return	2 941	472 800,0
9	Incorrect indication of the income received from the providing insurance services in the insurance company's profit tax report	13	53 900,0
10	Inaccuracy of the sum of the positive exchange rate difference over the negative exchange rate difference in the statement of the turnover tax	463	338,5
11	Failure to present total income amounts in the statement of turnover tax with an incremental ending	194	665,5
12	Reflecting the value of minerals sold in the VAT returns of mineral miners not in the full amount	139	9 405,9
13	Incorrect indication of the amount of profit (loss) before paying profit tax when submitting a profit tax report	296	116 600,0
14	Incorrect indication of amount of labor costs and social tax costs in the income tax rep	5 039	14 200,0
15	Incorrect indication of the type of mineral (sand-gravel mixture) mined (separated) as a result of river bed cleaning and embankment strengthening works by mineral miners in their tax reports according to the type specified in Article 452 of the Tax Code	100	8 500,0
16	Incorrect indication of the distribution of annual calculated land tax in equal shares in the land tax report	2 643	333 600,0
17	Failure to fully reflect the amounts of dividends and interest paid by tax agents when submitting a tax report on income paid in the form of dividends and interest withheld at the source of payment	3 261	55 700,0
<b>Total</b>		<b>115 452</b>	<b>2 176 858,1</b>

<sup>1</sup> Table has been developed by the author

If the taxpayer submits a clarified tax report, the software product automatically calculates additional cases, corrects the report indicators, and the pre-audit analysis is considered complete.

If the taxpayer submits clarified tax and financial statements within ten days in response to the notification, the following actions are to be undertaken:

- if the specified tax reports are submitted in full amount in terms of the amount of the difference determined in the pre-inspection analysis, then information is automatically generated in the “Recalculation” window of the software product and is automatically removed from the list of enterprises where the difference was detected by the software. Herewith the data of tax reports specified in the “Tax inspections–2021” software product is automatically generated;
- if the specified tax reports are submitted in partial amounts to the amount of the difference determined in the pre-inspection analysis and supporting documents are submitted for the remaining part, then information is automatically generated in the “Recalculation” window of the software product. In this case, exclusion from the list of enterprises with identified differences from the software product is implemented in reliance upon the conclusion of the officer assigned to this applicant. At the same time, the data of tax reports specified in the “Tax inspections – 2021” software product is automatically generated;
- if the clarified tax reports are partially submitted for the amount of the difference determined in the pre-inspection analysis, and the supporting documents for the remaining part are not submitted, then information is automatically generated in the “Recalculation” window of the software product. In this case, it is automatically sent to the “Risk-analysis” software product for appointing an off-site tax inspection in this enterprise.

If the taxpayer submits supporting documents in response to the notification, this taxpayer will be shaped as an applicant in the “Off-site tax inspections – 2021” software product.

An employee of the “Off-site tax inspection” department (subsidiary) of the relevant state tax service authority will be attached to the enterprise determined as an applicant for the “Off-site tax inspections – 2021” software product. The assigned officer in charge shall thoroughly examine the validity of the documents submitted by the taxpayer and issue a conclusion on whether the documents are valid or not.

The formalized conclusion is signed by the officer in charge and approved by the head of the relevant state tax service authority (or his deputy). A copied (scanned) version of the approved summary is uploaded to the software product “Off-site tax inspections – 2021”.

In this case, if it is concluded that the submitted documents are reasonable, the pre-inspection analysis is considered completed. We will consider the advantages of the automated information system “Avtocameral” (“Automatic off-site tax inspection”) (Figure 1).

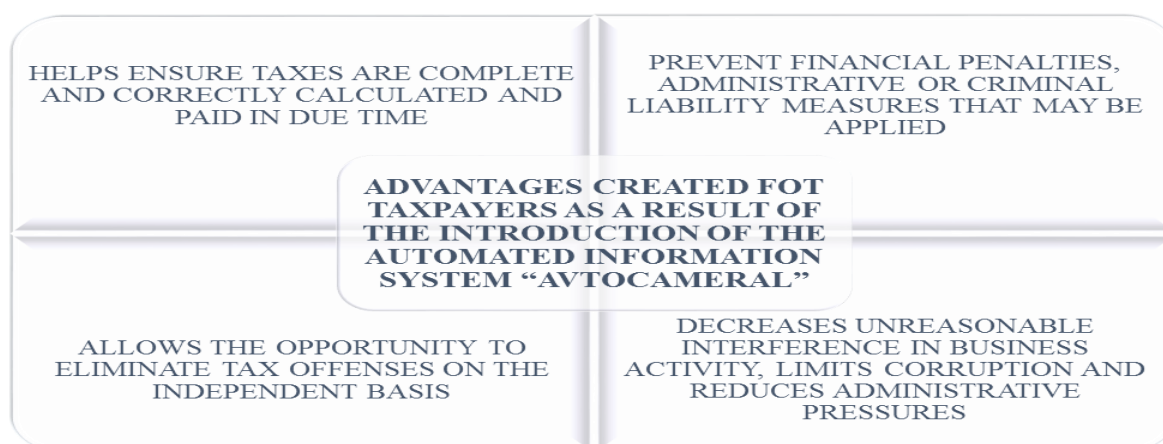


Figure 1. Advantages of the automated information system “Avtocameral”

It should be noted that financial situation of economic entities is analyzed before conducting an off-site tax inspection. With this aim the financial situation of “Uzbekistan Metallurgical Combine” JSC in 2017–2021 has been analyzed and its results are presented in Table 2.

Table 2<sup>2</sup>, Analysis of the financial position of “Uzbekistan Metallurgical Combine” JSC for 2017–2021

№	Indicators	Years				
		2017	2018	2019	2020	2021
<b>1</b>	<b>Total income</b>	<b>1 981,7</b>	<b>4 821,2</b>	<b>5 388,8</b>	<b>5 613,0</b>	<b>8 590,3</b>
	Net revenues from the sale of products	1 799,6	4 678,6	5 260,7	5 299,3	8 352,8
	Other income from the core business	29,5	39,4	42,2	71,1	123,6
	Incomes from financial activities	152,6	103,2	85,9	242,6	113,9
<b>2</b>	<b>Total costs</b>	<b>1 900,2</b>	<b>4 414,8</b>	<b>4 965,3</b>	<b>5 321,8</b>	<b>6 827,9</b>
	Production costs	1 216,6	3 531,0	4 128,3	4 337,1	5 629,7
	Period costs	331,2	567,5	597,2	622,6	854,9
	Costs by financial activity	352,4	316,4	239,8	362,1	343,2
<b>3</b>	<b>Net profit (loss)</b>	<b>70,5</b>	<b>339,9</b>	<b>352,6</b>	<b>220,3</b>	<b>1 471,5</b>
<b>4</b>	<b>Profitability</b>	<b>3,6</b>	<b>7,1</b>	<b>6,5</b>	<b>3,9</b>	<b>17,1</b>
<b>5</b>	<b>Wage fund</b>	<b>215,5</b>	<b>0,1</b>	<b>377,5</b>	<b>516,3</b>	<b>717,0</b>
	Number of employees	9 653	144	12 582	12 797	12 437
<b>6</b>	<b>Total amount paid to the budget:</b>	<b>151,0</b>	<b>282,6</b>	<b>433,8</b>	<b>194,1</b>	<b>1 244,5</b>
	VAT	83,4	177,3	240,1	18,1	566,7
	Profit tax	12,2	58,8	108,2	30,1	357,4
	Tax for subsoil use	0,0	0,0	0,0	0,7	0,4
	Excise tax	0,0	0,0	0,8	0,0	-0,8
	Tax for use of water resources	2,2	4,4	9,4	10,5	8,6
	Property tax	6,3	3,2	10,6	13,6	7,2
	Land tax	5,1	4,5	7,0	9,0	10,6
	Personal income tax	30,4	33,3	56,0	55,9	122,6
	Other taxes	11,4	1,1	1,8	56,2	171,9
<b>7</b>	<b>Tax incentives applied</b>	<b>0,0</b>	<b>560,4</b>	<b>346,9</b>	<b>13,1</b>	<b>9,0</b>

Based on the data of Table 2, when we analyze the financial situation of “Uzbekistan Metallurgical Combine” JSC for 2017–2021, the entity’s total income in 2017 constituted 1 981.7 billion UZS, in 2018 it accounted for 4 821.2 billion UZS, and in 2019 it amounted to 5 388.8 billion UZS, in 2020 it increased again and equaled to 5 613.0 billion UZS and in 2021 it accounted for 8 590.3 billion UZS. Moreover, the total costs of the enterprise amounted to 1 900.2 billion UZS in 2017, 4 414.8 billion UZS in 2018, 4 965.3 billion UZS in 2019, 5 321.8 billion UZS in 2020, and 6 827,9 billion UZS in 2021. Analyzing net profit of the enterprise we can also witness a constant increase here: in 2017 the amount of the net profit amounted to 70,5 billion UZS, in 2018 – 339,9 billion UZS, in 2019 – 352,6 billion UZS, in 2020 – 220,3 billion UZS, in 2021–1 471,5 billion UZS. When analyzing the tax incentives applied for the enterprise, it has been revealed that in 2018 this entity used tax incentives in the amount of 560.4 billion UZS, in 2019 – in the amount of 346.9 billion UZS, in 2020 – in the amount of 13.1 billion UZS, in 2021 – in the amount of 9.0 billion UZS.

<sup>2</sup> Table has been developed by the author in reliance upon the data of the State Tax Committee of the Republic of Uzbekistan.

Table 3, Form №2 of the “Statement on financial position” of “Uzbekistan Metallurgical Combine” JSC for 2021<sup>3</sup>, thousand UZS

Indicator	Code of line	This period of year		In the reporting period	
		Income(profit)	Costs (loss)	Income(profit)	Costs (loss)
1	2	3	4	5	6
Net revenue from the sales of the products (goods, services, works)	010	5299314748,00	x	8352753273,00	x
Prime-cost of the products (goods, services, works) sold	020	x	4337068250,00	x	5629728461,00
Gross profit (loss) from the sale of products (goods, services, works) (line 010-020)	030	962 246 498,00	0,00	2723024812,00	0,00
Period costs, total (line 050+060+070+080), including:	040	x	622 590 284,00	x	854 933 353,00
Sales expenses	050	x	48 786 063,00	x	40 445 319,00
Operating expenses	060	x	203 270 303,00	x	270 574 788,00
Other operating expenses	070	x	370 533 918,00	x	543 913 246,00
Expenses of the reporting period deducted from the expected profit in future	080	x		x	
Other income from the core business	090	71 065 067,00	x	123 629 677,00	x
Profit (loss) from the core business (line 030-040+090)	100	410 721 281,00	0,00	1991721136,00	0,00
Income from the financial activity, total (line 120+130+140+150+160), including:	110	242 591 747,00	x	113 868 278,00	x
Income in the form of dividends	120	3 560 775,00	x	5 169 453,00	x
Income in the form of dividends	130	971 370,00	x	529 342,00	x
Income from financial rent	140	0,00	x	0,00	x
Income from the difference in exchange rates	150	237 857 175,00	x	108 169 483,00	x
Other income from financial activity	160	202 427,00	x	0,00	x
Expenses by financial activity (line 180+190+200+210), including:	170	x	362 127 765,00	x	343 203 209,00
Expenses in the form of interest	180		93 739 376,00		112 448 259,00
Expenses in the form of interest financial rent	190	x	0,00	x	0,00
Losses from the currency exchange rates	200	x	268 388 389,00	x	229 135 401,00
Other expenses by financial activity	210	x	0,00	x	1 619 549,00
Profit (loss) of common economic activity (line100+110-170)	220	291185 263,00	0,00	1762386205,00	0,00
Contingent profits and losses	230	0,00	0,00	0,00	0,00
Profit (loss) before paying profit tax (line 220+/-230)	240	291 185 263,00	0,00	1762386205,00	0,00
<b>Profit tax</b>	<b>250</b>	x	70 910 515,00	x	290 917 723,00
Taxes other than a profit tax and other compulsory payments	260	x	0,00	x	0,00
Net profit (loss) of the reporting period (line 240-250-260)	270	220 274 748,00	0,00	1471468482,00	0,00

<sup>3</sup> Data of Form №2 of the “Statement on Financial position” of “Uzbekistan Metallurgical Combine” JSC for 2021.

Table 3 illustrates the information of Form №2 of the “Statement on Financial position” of “Uzbekistan Metallurgical Combine” JSC for 2021. In 2020, the revenue from the sale of products (goods, work and services) constituted 5 299 314.7 million UZS, in 2021 this figure accounted for 8 352 753.2 million UZS, so the difference was +3 053 438.5 million UZS. In 2020, the profit of core business was equal to 410 721.2 million UZS, while in 2021 it was 1 991 721.1 million UZS, the difference is +1 580 999.9 million UZS. Moreover, the profit before paying the profit tax accounted for 291 185.2 million UZS in 2020, while in 2021 it was 1 762 386.2 million UZS, a difference amounted to +1 471 201 million UZS. If the amount of paid profit tax was 70 910.5 million UZS in 2020, it was 290 917.7 million UZS in 2021, and it can be seen that the difference increased by +220 007.2 million UZS.

Based on the considerations specified above, we believe that it is appropriate to conduct an off-site tax inspection on profit tax. In reliance upon this fact, we consider the procedure for conducting an off-site tax inspection on profit tax.

When conducting an off-site tax inspection, the auditor should investigate financial statements, accounting registers, relevant accounts in the general ledger, financial and tax reports, previous tax audits and an off-site tax inspection documents, audit materials conducted by other regulatory authorities, and other materials.

When conducting an off-site tax inspection on profit tax, the data on income, expenses, profit, profit before tax, profit tax is obtained from Form 2 of the “Statement on financial results”. For this, it is appropriate to investigate compliance with the norms of the REGULATION “On the approval of the regulation on the composition of costs for the production and sales of products (work, services) and on the procedure for formulating financial results” approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №54 of February 5, 1999. In an off-site tax inspection, the profit (loss) before tax is accepted as the basis of the amount indicated in line 240 of the “Statement on financial results” entitled “Profit (loss) before tax”. Comparison of this amount with the amount presented in the report shows the amount of deviation in the profit (loss) before paying tax indicator in the company’s report.

We consider the results of the off-site tax inspection conducted at “Uzbekistan Metallurgical Combine” JSC:

1. The following has been determined during the inspection on the profit tax: 1 171 312 516.74 UZS of material aid payments by the company to employees by the end of September 2021 were not fully reflected in the non-deductible expenses of the company, and as a result by the end of the third quarter of 2021, it has been determined that 175 696 877.51 UZS of profit tax at the rate of 15 percent have not been calculated. On March 17, 2022, the company re-submitted the report on profit tax for the third quarter of 2021, and the amount of the identified difference was eliminated.
2. By the end of the third quarter of 2021, the company overstated depreciation expenses by 27 100 517 479.23 UZS and 4 065 077 621.88 UZS of profit tax was additionally calculated. It has been revealed that on March 29, 2022 depreciation expenses were correctly calculated by the company when studying the flows of accounts “0200” and “0500” in January–September 2021 from the “1–C” accounting program maintained by the company.
3. Based on the information of the external source (customs authorities), it has been determined that 46 011 378.44 UZS of profit tax were not calculated as a result of the goods imported as gifts worth 306 742 522.95 UZS in the period of January–September 2021 not being included in the income as free property. On March 17, 2022, the company re-submitted a report on profit tax for the third quarter of 2021, and the amount of the identified difference was eliminated.
4. It has been revealed that in January–September 2021 the amount worth 24 485 680.64 UZS of profit tax were not calculated as a result of the fact that goods received on the basis of “non-paid” invoices with a total value of 163 237 870.91 UZS to the company were not included in the income as free property. On March 17, 2022, the company re-submitted a report on profit tax for the third quarter of 2021, and the amount of the identified difference was eliminated.

5. In line 0105 of the report on the profit tax submitted by the company at the end of the third quarter of 2021, in line 0105 of Appendix 2 is determined between the amount of expenses related to the payment of labor and the indicators of the personal income tax and social tax calculation that it submitted at the end of September 2021 as a result of the discrepancy, the amount worth 4 217 457 151.95 UZS of social tax was not calculated. On March 17, 2022, the company re-submitted a report on profit tax for the third quarter of 2021, and the amount of the identified difference was eliminated.

## **Conclusion**

As it is obvious from the data specified above, as a result of the off-site tax audit, errors were made in determining the tax base of profit tax in “Uzbekistan Metallurgical Combine” JSC. In particular, in the “1-C” Accounting program, some expenses were incorrectly entered into expenses in 2021 and as a result a discrepancy was identified.

If, as a result of an off-site tax audit, non-compliance with the tax legislation, large discrepancies in the reports are revealed, this situation becomes the basis for conducting a tax audit.

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