



The Ways to Prevent Intentional Tax Evasion

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Abstract

Tax evasion poses a substantial challenge to governments worldwide, undermining public revenue and eroding trust in the tax system. This article explores a multifaceted approach to preventing intentional tax evasion. Drawing from a review of academic research, case studies, and policy initiatives, it delves into strategies encompassing behavioral economics, legal and regulatory reforms, technology and data analytics, international cooperation, and transparency measures. The article emphasizes the importance of fostering a culture of compliance, deterring evasion through legal means, leveraging technology for detection. It also underscores the significance of addressing corporate tax evasion, whistleblowing, and transparency.

Keywords: *Tax Evasion; Behavioral Economics; Legal Reforms; Corporate Tax Evasion; Fiscal Responsibility; Government*

Introduction

In the complex web of modern economies, taxation is the lifeblood that fuels essential public services and government functions. However, as the global economy grows increasingly interconnected, so too does the challenge of preventing intentional tax evasion. Individuals and corporations have devised intricate schemes to minimize their tax liabilities, often to the detriment of society as a whole.

This article embarks on a critical exploration of strategies aimed at curbing intentional tax evasion. From regulatory reforms and enhanced enforcement measures to innovative technologies and global cooperation, we delve into the multifaceted approaches that governments, tax authorities, and international organizations employ to safeguard their revenue streams and ensure a fair and equitable tax system.

As we journey through this examination, we will uncover the pressing need for robust anti-evasion measures and the potential benefits they can bring to economies worldwide. Join us in this exploration of the ways to prevent intentional tax evasion, shedding light on the path towards a more transparent and accountable fiscal future.

Literature Review

Numerous studies emphasize the magnitude of tax evasion and its consequences. A study by Schneider and Enste (2000) estimates that the global shadow economy, which includes tax evasion, accounts for a substantial portion of gross domestic product (GDP) in many countries [6].

Behavioral economics has played a crucial role in understanding taxpayer behavior and compliance. Researchers like Slemrod and Yitzhaki (2002) have explored the psychology of tax evasion, emphasizing the role of social norms, perceived fairness of the tax system, and taxpayer attitudes [7].

Legal and regulatory measures are central to preventing tax evasion. Pomeranz (2015) conducted a meta-analysis of tax enforcement interventions and found that increasing penalties, improving tax audits, and enhancing information reporting requirements can deter tax evasion [8]. The effectiveness of such measures depends on their design and implementation, as emphasized by studies like Kleven et al. (2011) [9].

The advent of technology and data analytics has transformed tax enforcement efforts. Research by Alm and Torgler (2011) discusses the use of electronic filing and automated reporting systems, which reduce opportunities for evasion [10].

The literature on corporate tax evasion explores strategies used by multinational corporations to minimize tax liabilities. Studies such as Dharmapala et al. (2011) delve into transfer pricing, profit shifting, and the use of tax havens [11]. The OECD's Base Erosion and Profit Shifting (BEPS) project has sought to address these issues by proposing international tax reforms.

Analysis and Results

Large-scale reforms aimed at creating favorable conditions for conducting business activities and improving the investment environment are being carried out in the republic in the areas of monetary and credit, currency, tax and foreign trade policies.

The tax policy, which is the main priority of the financial policy, is of urgent importance in our country's consistent continuation of comprehensive socio-economic reforms, raising the national economy to the level of a developed modern market economy, creating export-oriented production industries and rapidly entering the world economy.

In addition, in the following years, the concept of tax policy improvement of the President of the Republic of Uzbekistan includes additional measures to improve tax administration [3] and measures to further regulate the granting of tax and customs benefits [4] and organizational measures to reduce the hidden economy and increase the efficiency of tax authorities. The adopted decisions and decrees [5] on measures were also a practical approach to improving the tax system reforms.

The Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan is carrying out a number of activities related to tax evasion and the regulation of taxpayers who carry out secret economic activities.

In particular, the results of the conducted study and analysis showed that schemes of intentional tax evasion migration from one region to another are very common in today's practice.

Entities engaged in clandestine activities have found a new way to evade taxes by frequently changing their legal address in short periods of time in order to avoid the control of tax authorities. Subjects who changed their legal address up to 21 times during a year were identified in the analysis.

In this regard, the decision of the Cabinet of Ministers dated December 2, 2020. On the basis of decision No. 763, amendments were made to the regulation “On the procedure for state registration of business entities” approved in accordance with Annex 1 of the decision of the Cabinet of Ministers No. 66 dated February 9, 2017.

In accordance with it, it was determined that the re-registration of business entities with unfulfilled tax obligations related to the change of legal address will be carried out on the basis of the electronic conclusion of the tax authority.

In this case, the fulfillment of obligations of business entities by tax authorities is checked based on the following criteria: the existence of a tax debt of more than 50 times the base calculation amount (16.5 million soums); that the turnover volume is fully reflected in the tax reports; that the volume of sales on import of goods is fully reflected in tax reports; that tax reports are submitted within the specified time limits.

Business entities that have fully fulfilled these obligations will be re-registered on the basis of the conclusion of the tax authorities through the automated information system.

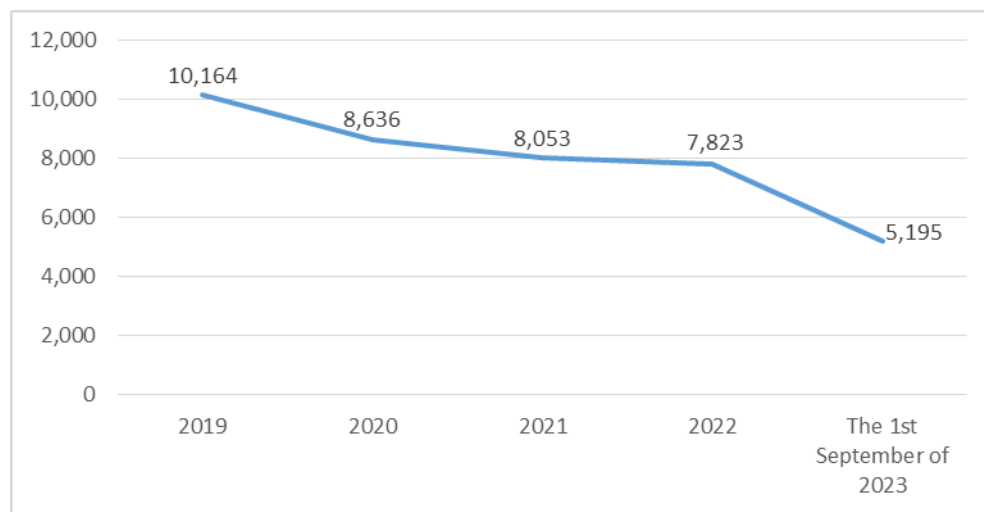


Figure 1. From one territory to another by legal entities migration statistics

As a result of the implementation of this decision, taxpayers will move from one region to another region compared to 2019.

In 2022, we can see a decrease of 24%. If we compare the situation of September 1, 2023 compared to 2019, the cases of taxpayers moving from one region to another have almost halved.

In general, the consistent implementation of the liberalization of the tax system in Uzbekistan in the end, in-depth study of advanced foreign experience in providing the budgets of the budget system with appropriate financial resources, correctly evaluating their achievements and shortcomings, in accordance with the principles of the “development strategy of new Uzbekistan”, is the priority direction of the development of the tax system in the future.

In this case, it is necessary to pay special attention to the fact that in developed countries, the economy is mainly based on production, that is, the economy is somewhat industrialized, this aspect should not be neglected when implementing reforms in this regard in our republic, and the phrase “conscientious” tax payers is popular in developed countries.

From this point of view, it would be appropriate to start work on popularizing this concept among taxpayers in the legislation of our republic. Of course, in this case, it is important to take into account factors such as the features of our national economy, the level of socio-economic development, the work culture of the population, the level and conditions of wages.

In order to create a favorable business environment for entrepreneurship and reduce the scale of the shadow economy, the following is proposed:

1. Introduction of the reliability index of taxpayers in the Republic of Uzbekistan;
2. To introduce the practice of allowing a legal entity to merge with another legal entity in the form of merger or acquisition based on the conclusion of the tax audit;
3. Limiting the migration of business entities from one region to another during the tax audit;
4. Introduction of realization of new housing by legal entities to individuals only on the basis of cashless settlement and electronic invoices.

In this case, in order to ensure the active participation of individuals in the full implementation of this practice and arouse their interest in it, it is appropriate to return up to 50 percent of the amount of value added tax paid for the purchase of new housing to individuals.

Conclusion

In the relentless pursuit of fair and equitable taxation, the prevention of intentional tax evasion emerges as a complex yet critical challenge. As we conclude our exploration of the various ways to prevent intentional tax evasion, it becomes evident that no single strategy or approach holds the panacea. Instead, a holistic and multifaceted approach is necessary to confront this pervasive issue effectively.

Throughout this article, we have uncovered a wealth of insights from academic research, real-world case studies, and policy initiatives. These findings collectively underscore the urgency of addressing tax evasion and the substantial consequences it bears for both governments and societies. From the psychology of taxpayer behavior to the power of data analytics, from legal reforms to international cooperation, our analysis has revealed a rich tapestry of strategies that, when woven together, can form a formidable defense against intentional tax evasion.

Behavioral economics has illuminated the importance of taxpayer attitudes and perceptions, highlighting the need for outreach and education campaigns that foster a culture of compliance. Legal and regulatory measures, such as enhanced penalties and improved audit processes, serve as essential deterrents. Technology, including big data and artificial intelligence, empowers tax authorities to detect evasion patterns with unprecedented precision.

Moreover, the global nature of tax evasion necessitates international cooperation and the sharing of financial information. Initiatives like the Common Reporting Standard (CRS) represent a pivotal step towards greater transparency and accountability on the global stage.

Corporate tax evasion, with its intricate strategies and profit shifting, continues to be a challenge that requires ongoing attention and international reforms. Whistleblowers and transparency initiatives play an invaluable role in uncovering evasion schemes, emphasizing the importance of protecting and incentivizing those who come forward.

In this era of heightened awareness and interconnectedness, our collective pursuit of ways to prevent intentional tax evasion is more crucial than ever. Governments, tax authorities, international organizations, and citizens must unite in their commitment to a fair and just tax system. While the battle

against tax evasion may never be fully won, it is a battle worth fighting, as its consequences resonate far beyond the balance sheets—it affects the very foundations of our societies and economies.

As we look ahead, the challenges may evolve, but so must our strategies. The journey to prevent intentional tax evasion is an ongoing one, marked by adaptation and innovation. This article, drawing from the wealth of knowledge and experience, serves as a testament to our commitment to this cause, a call to action for policymakers, and a reminder that the pursuit of a just and equitable tax system remains a cornerstone of our collective progress.

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