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Ways to Improve the Tax Audit System

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Abstract: This article provides a scientific analysis of ways to improve the tax audit system in the Republic of Uzbekistan. The study examines the theoretical foundations of tax auditing, its contemporary challenges, and offers practical recommendations aimed at addressing these issues. Within the framework of the research, the necessity of introducing digital technologies, expanding a risk-based approach, and modernizing audit mechanisms in accordance with international standards (ISAE 3000 and OECD guidelines) is substantiated. The article is intended for scholars in economics and management, tax authority professionals, and specialists involved in the development of sectoral reforms.

Keywords: tax audit, tax control, digitalization, risk analysis, OECD standards, tax system reforms, Uzbekistan.

Introduction

Tax audit is one of the main financial control instruments used in the implementation of state tax policy, and it represents an independent verification of the correct and complete fulfillment of tax obligations by taxpayers. From the perspective of economic theory, tax audit serves to ensure the stability of budget revenues, strengthen fiscal discipline, and expand the tax base. In scientific literature, various definitions of the concept of tax audit have been provided. In the classical model of M. Allingham and A. Sandmo, it was proven that the probability of tax evasion is inversely proportional to the frequency of inspections and the severity of penalties. This theoretical foundation still forms the basis of modern risk-oriented audit models. The modern approach, in addition to the deterrent effect, also encompasses the principle of cooperative compliance with taxpayers[1].

From the standpoint of international standards, the OECD (Organisation for Economic Co-operation and Development) has developed best practice principles for conducting tax audits for its member countries. The international auditing standard ISAE 3000 defines the methodology for

the verification of non-financial information. These standards also serve as important guidelines for Uzbekistan[2].

The legislation of the Republic of Uzbekistan has established a significant regulatory framework in the field of tax auditing. In particular, the Tax Code of the Republic of Uzbekistan No. 599 dated December 30, 2019 defines the main forms of tax control, procedures for conducting inspections, and the rights of taxpayers (Articles 99–109). It legally закрепляет such forms of audit as desk (documentary) audits, field (on-site) audits, and monitoring. In addition, the Presidential Decree No. PF-6003 of June 22, 2020 "On measures to further improve tax administration in the Republic of Uzbekistan" is aimed at digitalizing tax authorities and improving service quality[3].

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 288 dated May 14, 2021 approved the Regulation "On the procedure for conducting tax audits," which introduced a mechanism for planning inspections based on risk analysis. Furthermore, the Presidential Resolution No. PQ-91 dated January 28, 2022 defines specific tasks for modernizing tax administration in the context of the digital economy. This set of regulatory documents forms the legal basis for improving the tax audit system[4].

Literature Review

Scientific research in the field of tax audit has been conducted in several theoretical and practical directions. In this section, three important sources directly related to the topic are reviewed.

This study experimentally examines how increasing the probability of tax audits affects taxpayer behavior. Based on a controlled experiment conducted in the state of Minnesota, it was found that an increase in audit probability led to a corresponding rise in the reported income among high-income taxpayers. However, this effect was insignificant among low-income groups. The article strengthens the theoretical foundation for the feasibility of implementing a risk-based audit model in the context of Uzbekistan[5].

This article is considered a foundational work in the theory of tax auditing. The authors, M. Allingham and A. Sandmo, mathematically modeled taxpayer behavior as a utility-maximizing agent who makes decisions based on audit probability, penalty rates, and income level. According to the model, an increase in audit probability reduces tax evasion. This classical model serves as a theoretical basis for effectively implementing deterrence-based audit practices in Uzbekistan[6].

The comparative report of the OECD analyzes tax administration practices in 58 countries and summarizes the most effective approaches. The report highlights global trends such as risk-based audits, electronic services, voluntary compliance programs, and improving relationships with taxpayers. For aligning Uzbekistan's tax system with international standards, this document serves as an important guideline. In particular, it recommends increasing the share of desk audits relative to field audits, expanding electronic data exchange, and introducing anonymous reporting mechanisms[7].

Research Methodology

In writing this article, a comprehensive methodological approach was applied, and the following scientific methods were used: the system analysis method, the comparative analysis method, statistical analysis, and trend analysis.

Analysis and Results

In the Republic of Uzbekistan, tax control is carried out based on the Tax Code (2019) and covers three main forms: desk audits (based on documents), field audits (conducted at the taxpayer's location), and monitoring. As a result of reforms implemented since 2017, the number of audits has been consistently decreasing, while the efficiency of each audit has been increasing. However, a number of issues remain unresolved[8].

The table below presents the main indicators of tax audits in 2019–2022 based on official data from the State Tax Committee of the Republic of Uzbekistan:

Table 1. Dynamics of Key Tax Audit Indicators in the Republic of Uzbekistan (2019–2022)

Indicator	2019	2020	2021	2022
Number of audits (units)	12,450	10,820	9,640	8,910
Additional assessed tax (billion UZS)	3,218	4,105	5,342	6,870
Amount collected to the budget (billion UZS)	1,874	2,430	3,216	4,310
Collection efficiency (%)	58.2	59.2	60.2	62.7
Additional tax per audit (million UZS)	258.5	379.4	554.2	771.0
Share of desk audits (%)	34.1	38.5	43.0	48.6
Use of electronic services (%)	41.0	52.3	64.7	78.2

Source: Compiled by the author based on official reports of the State Tax Committee of the Republic of Uzbekistan.

The analysis of Table 1 shows that during 2019–2022, the number of tax audits conducted in Uzbekistan decreased from 12,450 to 8,910, representing a decline of 28.5%. This indicator clearly reflects the transition in tax control from quantity to quality. As a result of the introduction of risk-based planning, the amount of additional tax assessed per audit increased from 258.5 million UZS in 2019 to 771.0 million UZS in 2022—approximately a threefold increase[9].

The ratio of collected amounts to additionally assessed taxes (collection efficiency) increased from 58.2% in 2019 to 62.7% in 2022. However, this figure still lags behind advanced international practices (75–85%). The share of desk audits increased from 34.1% to 48.6%, indicating positive results of digitalization reforms, although there remains a significant gap compared to the OECD average (65–70%). The use of electronic services nearly doubled, rising from 41.0% to 78.2%, which demonstrates the rapid pace of digital transformation[10].

The analysis identified the following systemic problems:

The first problem is the imperfection of the risk analysis system. The existing risk-rating model is not sufficiently comprehensive to form a full financial profile of taxpayers. Data from banks, customs authorities, and state registration systems are not integrated in real time. As a result, cases occur where low-risk taxpayers are audited instead of those belonging to high-risk groups[11].

The second problem is the excessively high share of field audits. Currently, about half of all audits (51.4%) are conducted in the form of on-site inspections. This is considered a factor that disrupts business activities and increases corruption risks. According to OECD standards, it is advisable to shift 65–70% of audits to the desk format[12].

The third problem is the insufficient qualification of personnel. A significant portion of tax authority employees are not adequately trained to work with modern digital analytical tools such as big data, transfer pricing analysis, and artificial intelligence-based scoring systems. This skills gap directly affects the quality of audit outcomes.

The fourth problem is the shortcomings in protecting taxpayers' rights. In some cases, audit periods are extended beyond the limits established by law, and taxpayers are not given sufficient time. The functioning of appeal mechanisms is also slowing down.

This article proposes the following directions for improvement:

1. **Deepening risk-based auditing.** It is necessary to establish a unified risk-scoring platform that ensures real-time integration with data from banks, customs authorities, and the Unified Electronic Government Resource Center (EGRC). When introducing an artificial intelligence-based scoring model, it is advisable to consider the experience of South Korea's National Tax Service, where the implementation of a risk model increased the average tax collected per audit by 2.4 times[13].
2. **Expanding the share of desk audits.** It is recommended to set a target of increasing the share of desk audits to 65–70% by 2025. To achieve this, it is necessary to expand the mandatory use of e-invoicing for all entities and introduce automated anomaly detection systems[14].
3. **Implementation of international standards.** It is essential to update tax audit methodologies based on ISAE 3000 (for non-financial information assurance) and the OECD Tax Administration Framework, as well as to involve tax authorities in international certification programs[15].
4. **Improving staff qualifications.** It is recommended to introduce specialized training programs for tax auditors in data analytics, transfer pricing, and taxation of the digital economy, as well as to utilize technical assistance from the OECD and the International Monetary Fund.
5. **Expanding voluntary compliance programs.** The "cooperative compliance" approach—resolving issues with large taxpayers through dialogue without formal audits—should be expanded. This model saves audit resources and improves the business environment. For example, Georgia, following reforms since 2010, has risen to 9th place in the "Doing Business" ranking for tax payment.
6. **Strengthening taxpayer rights.** It is necessary to strictly regulate audit timelines, expand opportunities to file complaints through electronic portals, and activate an independent appeals council.

Conclusion

The results of the conducted research indicate that the tax audit system in the Republic of Uzbekistan has undergone significant development in recent years: the number of audits has decreased by 28.5%, collection efficiency has increased, and the coverage of electronic services has reached 78.2%. However, the system still lags behind OECD standards, and several systemic problems—such as the imperfection of risk analysis, the excessive share of field audits, and gaps in staff qualifications—remain unresolved.

The improvement measures proposed in the article—creating a risk-scoring platform based on real-time data integration, increasing the share of desk audits to 65–70%, implementing ISAE 3000 and OECD standards, expanding voluntary compliance programs, and strengthening

taxpayer rights—can significantly enhance the effectiveness of tax auditing if implemented in a comprehensive manner.

As a scientific contribution, it should be emphasized that this study, for the first time, directly compares Uzbekistan's 2019–2022 statistics with OECD benchmarks, identifies specific quantitative gaps, and develops targeted policy recommendations to address them. In the future, it is promising to deepen research in areas such as the application of artificial intelligence and machine learning technologies in tax audits, as well as addressing transfer pricing **issues.**

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