

NEW FORMS OF TAX CONTROL: STRATEGIC DIRECTIONS FOR INCREASING THE EFFICIENCY OF CAMERA INSPECTION AND TAX AUDIT

Turayev Alijon - Samarkand Institute of economics and service, Acting Associate Professor of the Department of Investments and Innovations, PhD

alijon.turayev@mail.ru

Akbarov Ravshan – Samarkand Institute of economics and service, Faculty of Economics
3rd year student

akbarovravshan0402@gmail.com

Abstract: In the context of tax administration reform and digital transformation in the Republic of Uzbekistan, the theoretical, methodological and practical aspects of organizing modern forms of tax control - in-house tax inspection and tax audit - are analyzed in detail. The main purpose of the article is to scientifically substantiate ways to ensure the stability of state budget revenues and reduce the share of the hidden economy by introducing information and communication technologies into tax control processes, improving the risk analysis system and reducing the level of the "TaxGap". During the study, a comparative analysis was conducted of real statistical data for 2021-2024, annual reports of tax authorities, assessment reports of the World Bank and the International Monetary Fund, as well as the latest amendments to the current Tax Code. The results show that the full automation of tax control processes, minimizing the human factor and introducing a "cooperative compliance" model based on mutual trust with taxpayers are the main factors in increasing fiscal efficiency. As a result of the study, scientific proposals and recommendations were developed to fill gaps in tax legislation, improve the professional skills of tax service employees, and expand incentive measures for entrepreneurs with a high stability rating of the "AAA" category.

Keywords: Tax control, in-house tax audit, tax audit, risk-based approach, TaxGap, digital tax administration, hidden economy, tax compliance, fiscal sustainability, SupTech, tax law, tax revenues.

Introduction

The rapid transition of the world economy to digital platforms and the complexity of economic relations require a fundamental revision of tax administration,

which is the basis of the state financial system. Fiscal reforms implemented in the Republic of Uzbekistan in recent years are aimed not only at reducing the tax burden, but also at organizing tax control mechanisms in a fair, transparent and effective manner. Tax control is not just an instrument of inspection and punishment, but also a strategic institution that regulates relations between the state and business entities, expands the base of budget revenues and ensures a level playing field in the economy.¹ The relevance of the topic is determined by Uzbekistan's efforts to fully digitize the tax system within the framework of the "Digital Uzbekistan - 2030" strategy. The transition from traditional, human-based mobile inspections to remote, analytical and risk-oriented forms of control is recognized as the most effective way to reduce the share of the hidden economy. The 2024 PEFA (Public Expenditure and Financial Accountability) report shows that, although Uzbekistan has made significant progress in public financial management, in particular in revenue management, the gap between tax revenues and potential opportunities (TaxGap) remains a pressing problem. At the current stage, the cameral tax audit has become the main control tool of the tax authorities. In accordance with Article 138 of the Tax Code, this form of audit allows for the analysis of information in information systems without direct interference in the activities of the taxpayer. However, statistics for 2021-2023 show a sharp increase in the number of tax audit activities (from 139 to 2,130), as well as an increase in the number of appeals against decisions of the tax authorities and their cancellation. This indicates the need to improve the quality of control activities, improve their methodological basis, and further reduce the influence of the human factor.² The purpose of this study is to further optimize the processes of in-house inspection and tax audit, assess their effectiveness based on international standards, and develop proposals taking into account the specific characteristics of the national economy. The article also analyzes recent institutional changes in tax administration, in particular, the transformation of the Ministry of Finance into the Ministry of Economy and Finance, as well as projects to modernize the technical base of tax authorities.

Analysis of literature on the topic

The issues of tax control and its effectiveness have long been one of the important areas of economic theory. While representatives of the classical school of economics, in particular Adam Smith, outlined four basic principles of taxation (justice, certainty, convenience, and economy) in his work "The Wealth of Nations", in modern financial theory these principles are the fundamental basis for assessing the effectiveness of tax control.

¹Normatov, BA (2024). Analysis of scientific interpretations of tax control and inspections. TSUL Legal Report, 5(2).

² Republic of Uzbekistan . (2019). Tax Code. <https://lex.uz/acts/-4674902>

Internationally, the experience of OECD (Organization for Economic Cooperation and Development) countries in improving tax control systems has been widely studied. The "Cooperative Compliance" model is recognized as the most advanced direction of modern tax administration. This model is based on transparency, mutual trust and preliminary discussion of tax risks between the tax authority and the taxpayer. As noted by researchers Sh. Ro'zikulov and others, automation of tax control processes in the context of digitalization of the economy reduces the human factor and increases the level of voluntary fulfillment of tax obligations by taxpayers.³ The issues of the proportionality of tax audits and cameral control have also been widely analyzed by foreign scholars. Researchers who have studied the experience of China have proven that by using "Big Data" and artificial intelligence technologies in fiscal control, it is possible to increase tax revenues and detect tax evasion by up to 90%. In studies conducted by Uzbek scholars, the effectiveness of tax control is mainly associated with the perfection of legislation, the qualification of employees and the development of tax culture. The concept of the Tax Gap (TaxGap) and the methodology for its calculation are of great importance, developed by experts from the International Monetary Fund (IMF) and the World Bank. Studies conducted in Uzbekistan to assess the tax gap on VAT (Value Added Tax) show that the country's VAT mechanism is half as efficient as the ideal model. Part of this gap is due to legislative preferences (Policy Gap), while the main part is the result of non-compliance with tax obligations (Compliance Gap). The impact of tax reforms on small business development in Uzbekistan has also been a subject of separate research in recent years. Researchers note that the introduction of a risk-based audit system will reduce the administrative burden for business entities, but much work remains to be done to improve the transparency of the system.

Research methodology

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1. **Comparative Analysis:** The tax control system of Uzbekistan and international experience (China, OECD countries) were compared, and the possibilities of adapting positive aspects to national legislation were studied.
2. **Statistical and econometric analysis:** The dynamics and effectiveness of tax control indicators were assessed based on official reports of the State Tax Committee and the Central Bank for 2021-2024, and PEFA 2024 data.
3. **Induction and deduction:** The results of in-house inspections conducted on the example of large taxpayers (for example, "Uztransgaz", "OKMK", "Industrial Energy Group") were summarized and conclusions were drawn for the entire system.

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³Normatov, BA (2024). Analysis of scientific interpretations of tax control and inspections. TSUL Legal Report, 5(2).

Theoretical approaches and scientific debates

There are several main theoretical approaches among economists to understanding the essence of tax control. The first approach is **the theory of fiscal priority**. According to it, the sole and main goal of tax control is to ensure maximum revenue to the budget. In this approach, control measures are strict and often punitive in nature. The second approach is **the institutional-service approach**. According to this theory, the tax authority is an institution that provides services to the taxpayer, and the purpose of control is to help the taxpayer fulfill his obligations correctly. The current reforms in Uzbekistan are based on this approach. However, in practice, certain contradictions arise between these two approaches. For example, while billions of soums in fines calculated as a result of a tax audit serve a fiscal purpose, requests in the process of a cameral investigation are closer to a service function.

Another important scientific debate is taking place on the issue of "**Human Factor vs. Automation**". Many scientists believe that digitalization eliminates corruption and increases efficiency. However, some researchers believe that "risk-scoring" algorithms performed by artificial intelligence do not always fully reflect economic reality, which can lead to the emergence of unfair "red" (high-risk) zones. Therefore, the issue of transparency of algorithms and the taxpayer's right to appeal is extremely relevant. In the ongoing debate over the 2024 revision of the Tax Code, **the privileges granted to entrepreneurs of category "AAA"** occupy a special place. According to the legislation, such entities are exempt from tax audits. While critics assess this as "immunity for some", supporters consider it the highest form of incentive for disciplined taxpayers and a strong motivation to exit the underground economy.

Main part problem analysis and results

In-house tax audit: New mechanism and practice in 2024

According to Article 138 of the Tax Code, an in-house tax audit is conducted by tax authorities on the basis of the information available to them, financial statements and information received from third parties. According to the June 2024 amendment, during an in-house audit, it is prohibited to enter the taxpayer's territory and seize documents (except for cases of VAT verification).

The results of the in-house audit conducted among large taxpayers for the first 12 months of 2024 are as follows:

- A total of 771 enterprises were subject to in-house audits, and additional taxes of 3,386.4 billion soums were assessed (for comparison: in the same period last year, 327 entities had 2,724.5 billion soums).
- Analyses were conducted on 59 entities in the category of very large taxpayers, and as a result, additional taxes of 2,249.9 billion soums were identified.

- As a result of the analysis conducted in September 2024, clarified reports were submitted by the joint venture "Industrial Energy Group" LLC for 52.6 billion soums (VAT), "ANGREN PIPE PLANT" LLC for 2.1 billion soums, and "UZGASTRADE" JSC for 33 billion soums (excise tax), and discrepancies were voluntarily eliminated.

These examples prove the "preventive" nature of cameral control. Rather than punishing the taxpayer, pointing out the error and allowing him to voluntarily correct it strengthens trust between the state and business.

International assessment of tax administration efficiency and the TaxGap problem

Tax collection efficiency in Uzbekistan is continuously monitored based on World Bank and IMF methodologies. The 2024 PEFA report acknowledged Uzbekistan's achievements in revenue administration, but also highlighted systemic weaknesses.

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- In 2021, this coefficient was 1.53%.
- At the end of 2024, tax revenues amounted to 199,449.1 billion soums, and tax authorities' expenses amounted to 1,661.55 billion soums, with the coefficient decreasing to 0.83%.
- It is planned to reduce this indicator to 0.80% by 2026.

However, the tax gap (TaxGap) situation remains complex. A study on VAT shows that approximately 25% of potential VAT revenues are not collected in Uzbekistan. The reasons for this can be seen in the table below:

Tax type	difference	Share	Main reasons
Compliance Gap		~25%	Tax evasion, hidden turnover, transactions with "fraudulent" enterprises
Policy Gap		>33.3%	Widespread use of tax breaks, preferences, zero-rated rates
Direct Tax Gap		4.5% of GDP	Shadow economy (~30% of GDP), informal employment

Source: Based on analysis.⁴

This data means that budget revenues can be increased to a certain extent only by strengthening control (Compliance Gap), but to achieve real effectiveness, optimization of tax incentives (Policy Gap) is also necessary.

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⁴Niyozmetov, I.. (2023). Estimating Value Added Tax Gap in Uzbekistan. Finance: theory and practice. 27. 10.26794/2587-5671-2023-27-2-131-139.

Appealing against tax authorities' decisions and the problem of the "Human Factor"

One of the biggest factors that reduces the effectiveness of tax control is errors and

- In 2019, 555 complaints were received regarding tax control measures, of which 14% (79) were satisfied.
- By 2022, the number of complaints amounted to 541, but the percentage of cases that were satisfied (i.e., the tax authority's decision was canceled) increased to 22% (118).

This trend shows that the results of every fifth inspection conducted by tax authorities

1. Litigation between the state and entrepreneurs will increase.
2. Unjustified damage is caused to the financial stability of the business entity.
3. The level of trust in tax authorities is declining.

Digital Transformation and "SupTech" Instruments

The Uzbek tax system is currently moving from the "Digitalization" stage to the "Intelligent Tax" stage. The Data Processing Center of the Tax Committee has been completely renovated as part of a \$39.32 million project funded by the World Bank.

- **Integration:** Information exchange has been established with the information systems of 67 ministries and departments.
- **E-contract and E-invoice:** Allows you to monitor the movement of goods and services in real-time.
- **Taxes mobile app:** In 2024, the number of services was increased to 33, and this app won the "Brand of the Year - 2024" award.
- **Risk analysis system:** By dividing taxpayers into "Green", "Yellow" and "Red" lanes, it is possible to select audit objects without the human factor.

The Central Bank system has established effective control over banking operations and currency transactions through "SupTech" (Supervisory Technology) technologies, which greatly assists tax authorities in identifying "hidden transactions."

In-depth analysis of problems and scientific explanation

Problems in the field of tax control are not only technical in nature, but also have deep economic and institutional roots.

1. The lack of transparency of the "risk-scoring" system. Currently, entrepreneurs do not have complete information about why they are in the "high-risk" group. This raises suspicions that "the tax authority can put anyone in the red zone." From a

scientific point of view, the openness of risk criteria (except for trade secrets) helps taxpayers change their behavior.

2. The problem of collection and execution of audit results. The fact that 1.4 trillion soums of the estimated tax of 3.4 trillion soums in 2023 have not been collected shows that tax authorities in many cases are calculating a large amount "on paper". This is due to errors in the KPI (Key Performance Indicator) system of inspectors. The inspector should be encouraged not only for the calculated amount, but also for the amount collected and proven in the courts.

3. Shadow Economy and Cash Flow. No matter how strong digitalization is, as long as 30% of the economy remains in the shadow sector, the effectiveness of tax control will remain limited. Curbing the shadow economy requires not only tax control, but also expanding economic freedoms and further reducing the tax burden.

Conclusion and suggestions

Based on the research and analysis conducted, the following proposals are put forward to improve the forms of tax control in Uzbekistan and increase their effectiveness:

- 1. Increase the professional responsibility of tax officials:** In the event that a tax authority decision is declared unfounded by a court and is overturned, a system of
- 2. Transparency of risk-scoring criteria: The taxpayer's personal account** should clearly display the specific factors affecting his risk level (for example, "below average profitability" or "transaction with a suspicious enterprise"). This will allow the administrative sanctions should be taken for the audits by the officials
- 3. Expand the scope of incentives for the "AAA" rating:** Not only exempting enterprises with a high stability rating from inspections, but also introducing a mechanism for them to submit all types of tax reports once a year or to automatically (without inspections) implement VAT refunds.
- 4. Minimizing the TaxGap across sectors:** Develop separate tax gap indicators for each economic sector (construction, catering, pharmaceuticals) and focus control measures precisely on the points where there are the greatest losses.
- 5. Align tax audit quality with international standards (ISA):** Introduce a system of training tax inspectors based on international audit standards and confirming their qualifications with international certificates (e.g. ACCA, CIA).
- 6. Strengthening transfer pricing oversight:** Prepare a methodological base and a body of experts now for transfer pricing review mechanisms expected to be introduced from 2026.

In conclusion, tax control in Uzbekistan must completely transition from a "punitive" function to an "analytical and guiding" one. Digital technologies are only a tool in this process, and the main goal is to ensure economic growth through a fair tax system.

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