



## Article

# Directions for Improving Taxation Mechanisms of Commercial Banks

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**Abstract:** The article evaluates tax procedures for commercial banks while specifically analyzing how profit tax influences their economic performance. The financial system depends heavily on commercial banks because profit taxes create substantial effects on their economic results and overall performance. Taxes directly impact how commercial banks make operational decisions and manage their investments while offering financial services. The banking sector reforms in Uzbekistan together with efforts to boost private sector participation have made tax policy an increasingly important issue in the country. The Researchers use two research strategies that incorporate international benchmarking practices alongside domestic financial data and worldwide banking information. Higher profit tax rates create negative effects by negatively impacting bank net profit levels and discouraging investments and providing fewer lending options as well as increasing banking service costs. The profitability along with liquidity of Uzbek commercial banks face additional difficulties because of suboptimal asset-liability management and underdeveloped capital markets. The study outlines three main measures which involve bringing taxation structures into modern standards together with international compliance requirements and fostering investments in liquid financial products for boosting banking operational effectiveness. The analysis underlines the necessity to improve expected return and liability stability principles in banking theory when managing assets. The paper finds that the economy requires an efficient and transparent tax system focused on growth because this will improve banking sector performance for economic development. The implemented improvements will create benefits that guarantee both financial stability of banking institutions and enhanced accessibility to financial services together with expanded economic development.

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## 1. Introduction

In this regard, the ambitious tasks set and consistently implemented to form a strong civil society are creating a solid foundation. In recent years, a number of important changes have occurred in the financial market of Uzbekistan, in particular, in accordance with the Development Strategy of New Uzbekistan for 2022-2026, it is planned to increase financial resources in the economy from \$200 million to \$7 billion by introducing stock market turnover, and to complete the transformation processes in state-owned commercial banks, bringing the share of the private sector in the banking system's assets to 60 percent by the end of 2026 [1].

This includes accelerating the transformation of commercial banks, abandoning subsidized lending, and actively transforming commercial banks with state shares into

modern institutions by increasing their role as financial intermediaries [2]. However, it is important to conduct scientific research aimed at improving the high state share in the share capital structure of large companies, improving investment attraction through the financial market, increasing the liquidity of financial instruments, facilitating the attraction of financial resources by ensuring their integration into the global capital market, and developing the secondary securities market [3].

The banking system of Uzbekistan has made a significant contribution to this [4]. The development of the banking sector is closely related to the changes in it, the financial market, which has been the biggest factor in its development. Based on this, the relevance of the topic of the master's thesis is determined [5].

Taxation of commercial banks takes many forms, including corporate income tax, special levies, and financial transaction taxes. These taxes reflect different economic structures, regulatory environments, and policy objectives [6]. For example, some countries impose special taxes on banks to address systemic risks, while others focus on using taxes to limit excessive risk-taking or to generate additional revenue after a financial crisis. This study aims to comprehensively analyze how different countries approach the taxation of these financial institutions by studying foreign experience in the taxation of commercial banks [7]. By examining a number of international case studies, this study aims to explore successful models, potential challenges, and lessons that can be applied in other processes [8].

### **Literature Review**

Taxation in the banking sector is a complex topic with many theoretical perspectives. These theories consider the impact of taxation on financial stability, bank behavior, economic efficiency, and regulatory compliance [9].

Taxation can be used as a tool to ensure financial stability. For example, a bank levy to fund deposit insurance and bank resolution mechanisms can contribute to stability, but can also lead to the risk of double taxation [10].

Various types of taxes, such as financial transaction taxes, have been shown to be economically inefficient and costly, and to fail to adequately protect taxpayers. Theoretical analyses suggest that banks respond to various forms of taxation and regulation by changing their behavior [11].

For example, bank liabilities or excess profits taxes can shift the incentives for banks and their managers to better align their actions with broader social costs and benefits [12]. Empirical evidence suggests that international double taxation can distort the performance of international banks, leading to higher interest margins abroad [13].

Taxing banks is argued to address distortions in the tax system that have historically encouraged risk-based banking [14]. Taxes on financial instruments and banking products can provide stability and improve efficiency. Different tax policies affect the size and efficiency of the financial sector [15].

## **2. Materials and Methods**

The researchers used both qualitative and quantitative research methods to examine how profit taxes affect commercial banks' economic operations. The methodology contains a systematic sequence that combines observational methods with comparative analysis and empirical data study to deliver an extensive comprehension of tax effects within banking operations. An observational method tracks both Uzbekistan-based commercial bank behavior as well as international financial institutions. The analysis includes studying both financial reports and tax behavior of selected banks through observation of profit margins and loan success along with investment decisions and tax remittance. The research documentates different national approaches that countries take when taxing commercial banks through comparative study methods. Experts assess worldwide bank-

based case studies for their tax structures before analyzing how tax regulations affect bank financial stability. The comparative approach enables the recognition of effective banking tax models which Uzbekistan can use as examples.

The research performs a financial analysis that examines both direct and indirect profit tax impacts on commercial bank financial results. The analysis reviews financial statements in addition to tax filings and operational reports of banks. The research examines financial data concerning net interest income together with operating expenses and net profits to determine taxation effects on bank decisions and overall financial outcomes. The study performs statistical analysis on financial report data to gain profound knowledge about the effects taxes have on commercial bank economic operations. These evaluation instruments create a method to track the tax rate relationship with profitability as well as liquidity and risk management factors. These research methods create an extensive overview of commercial banking taxation systems to establish principles that can enhance tax system performance within Uzbekistani banks.

### 3. Results and Discussion

Given the role of commercial banks in the economy, broad-ranging changes are being implemented in this area. However, in the event of additional burdens on the banking system during the pandemic and its aftermath, insufficient measures are being taken to stimulate their activities through taxes. In particular, the establishment of a separate 20 percent rate for the profit tax on commercial banks, the increase in the share of overdue loans, the creation of banking infrastructure, the introduction of new software technologies, and the increase in their ability to purchase equipment are necessary to stimulate the investment activities of these financial institutions in these conditions and to cover a wide range of the population with banking services. It is known that the economic activity of a commercial bank, although it is associated with various levels of management of this credit institution, is ultimately aimed at meeting the needs of customers for banking services. Initially, the impact of taxes on the activities of banks is manifested in the different nature of these types of taxes. For this purpose, before making decisions related to the economic activities of banks, it is also necessary to pay attention to the analysis of the impact of tax consequences on these decisions.

The main goal of commercial banks, like other business entities, is to make a profit, which is achieved mainly by reducing costs and systematically finding sources of income. The timely payment of taxes by commercial banks, preventing the occurrence of penalties for them, is a sign of compliance with financial discipline.

As noted above, in order to make promising management decisions, banks, like business entities, need to analyze solutions and approaches to tax consequences. Because the profit tax paid by commercial banks also directly affects their economic activities. The impact of profit tax on the economic activities of commercial banks can be observed through the following phenomena:

- a. Increase in the cost of banking services;
- b. Decrease in the volume of banking services offered;
- c. Instability of the bank's economic indicators;
- d. Decrease in investment and lending opportunities;
- e. Decrease in employee motivation;
- f. Decrease in net profit;
- g. Search for various opportunities to increase profits in order to reduce costs;
- h. Focus on the quantity and quality of banking products in order to increase their sales;
- i. Ensuring the stability of the economic indicators of banks;
- j. Improvement of management efficiency;
- k. Increase in the efficiency of resource use in order to increase profits;
- l. Increase in the amount of net profit.

Therefore, in order to increase the efficiency of banks' economic activities, it is necessary to systematically analyze the impact of taxes.

The direct impact of taxes paid by commercial banks is related to the formation of financial results before the payment of profit tax, since taxes paid by banks are considered part of operating expenses.

Initially, they affect the formation of financial results (except for profit tax) before the payment of profit tax, then profit tax directly affects the formation of net profit (loss) for the reporting period. In this case, the significant role of profit tax in the formation of the final financial result is evident. However, taxes can be grouped as follows in terms of their impact on the formation of commercial banks' income:

- a. Taxes with a fixed impact
- b. Taxes with a variable impact.

The economic essence of taxes with a fixed and variable effect can be expressed as follows: an improvement in financial performance in commercial banks leads to an increase in the amount of variable taxes, but the amount of taxes with a fixed effect, which is independent of financial performance, does not change significantly.

#### 4. Conclusion

The management of financial flows in the economy through active and passive operations by commercial banks directly determines both their financial stability and profitability levels. The management of assets in Uzbekistan avoids operational methods used in international financial practices which predominantly utilize expected return calculations and liability stability principles. Banks possess too much cash on hand but allocate scarce resources to only limited liquid investments thus lowering their asset effectiveness. Interest income derived from loans in Uzbekistan fails to reach the international benchmark of 60% and the higher level of demand deposits threatens overall deposit safety. The main obstacles in Vietnamese banking stem from strict reserve regulations along with insufficient securities market development paired with minimal usage of modern tools like forfeiting and an unbalanced deposit structure. Bank operational excellence requires the adoption of worldwide standards in asset-liability management and additional investments in liquid assets along with diverse deposit channels.

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