

*Article*

# Improving the Methodology of Profit Taxation

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**Abstract:** This research delves into the refinement of profit taxation methodology within the broader framework of Uzbekistan's ongoing economic transformation. As one of the principal instruments of fiscal policy, the profit tax serves not only as a stabilizing mechanism for macroeconomic balance but also as a vital stimulus for entrepreneurship and a consistent source of state revenue. Yet, despite its centrality, persistent methodological gaps remain in defining an optimal tax base and ensuring that taxation mechanisms correspond to the dynamic realities of modern enterprise. Employing analytical and comparative approaches, the study examines both domestic and international experiences in profit taxation, tracing their evolution and assessing current practices. The analysis indicates a steady and deliberate reduction of Uzbekistan's profit tax rate from 36 percent in 1997 to 15 percent by 2025 signaling a strategic policy orientation toward fostering investment, business expansion, and competitiveness. Global comparisons reveal similar trajectories in corporate taxation, suggesting that moderate rates can enhance fiscal efficiency without undermining state revenue. The findings highlight that an effective profit tax system must reconcile two imperatives: maintaining fiscal sustainability and supporting entrepreneurial vitality through transparency, simplicity, and equity in tax administration. Furthermore, the study advocates for adaptive reforms in response to economic modernization, including revised income thresholds for advance payments and reduced burdens for newly eligible taxpayers. Such refinements are projected to strengthen business capacity, improve compliance, and secure budgetary resilience. Ultimately, the research underscores the necessity of methodological precision in profit taxation as a cornerstone of sound economic governance and sustainable private sector growth.

**Keywords:** taxation, tax authorities, taxes, profit, profit tax, tax rate, net profit, expenses, revenues, analysis.



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## 1. Introduction

In Uzbekistan, the development of entrepreneurship and strengthening its legal protection are considered one of the main strategic directions of the ongoing economic reforms. The sustainable development of entrepreneurship is a cornerstone of national economic progress. In this regard, profit taxation holds a vital position as one of the essential fiscal tools. As an economic and financial category, profit tax serves as a key factor in ensuring economic growth and sustainable development in the country. This type of tax plays a critical role in identifying priority areas for socio-economic development, shaping the financing mechanisms for these areas, and creating favorable conditions for the effective implementation of economic strategies [1].

Furthermore, the financial relations formed through profit tax are of significant importance at the level of business entities. On one hand, these relations help ensure the stability of the state budget, while on the other hand, they serve to protect the legal and economic interests of business entities. In this context, profit tax is not only one of the primary sources of revenue for the state

budget but also plays an irreplaceable role in improving the investment climate, analyzing business costs, ensuring fair income distribution, and stimulating economic activity [2].

#### Literature Review

One of the main issues in the scientific study of profit taxation is the correct identification of its tax base. Calculating the amount of profit tax requires studying many indicators. These indicators and their interconnections influence the amount of profit tax, which is affected by several factors, including net revenue from the sale of goods, the cost of goods sold, income, expenses, financial activities' revenues and costs, extraordinary profits and losses, the tax rate for the reporting period, and other factors. Determining the essence of ensuring timely payment of profit taxes to the budget starts with identifying the cornerstone, which can be represented by the existence of profit taxes and the necessity of their collection [3].

In scientific and theoretical literature, it is emphasized that profit tax is the most equitable among the taxes collected from the activities of business entities. This is because this tax is applied to the real profit determined by deducting all business expenses from the total revenues of the business entity. In other words, the company pays tax only when it has a profit at the end of its business operations. Other taxes applied to business income, such as turnover taxes, do not have this characteristic. Therefore, the most effective mechanism for fair taxation of businesses is the profit tax .

Achieving scientifically justified and rational profit taxation allows all business entities to fully establish decentralized funds. The more effectively legal entities operate, the greater their financial stability, payment capacity, profits, and tax contributions. Such situations lead to the consideration of changes in financial results, calculations, distribution, and the ratio between real profit results and costs, the growth of manufactured goods, and their potential use in determining tax rates [4].

Profit is not only the final financial result of the business entities operating on a commercial basis but also one of the primary financial sources of the national and local budgets. When prices are stable, an increase in profit dynamics indicates that the company is operating effectively . Growth in profit volume enhances the company's financial power, facilitates the creation of funds for the development of production and the social sector, and expands opportunities for material incentives for workers and employees. Nobel laureate, British economist J. Hicks, emphasizes that profit is an indicator that should be positive at the end of the period, which can be used during a specific time period .

According to S.F. Pokropivnyy, profit is considered a part of the revenue remaining after expenses incurred by the company for production and trade activities .

N.X. Haydarov defines profit as the final financial result of business entities operating on a commercial basis, which is also a key financial source of national and local budgets .

S.S. Aliev believes that profit is the payment for entrepreneurial services, the implementation of innovative product types, changing production processes, and an economic risk reward .

The increase in the quality of services provided by tax authorities to taxpayers has always been a key factor in assisting taxpayers to voluntarily fulfill their tax obligations . To increase the overall level of profit tax, the government must actively work to find new progressive forms and methods to develop high literacy and build friendly relations with taxpayers, helping them fulfill their constitutional obligations regarding tax payments [5].

S.Xudoyqulov states that taxes on profits reflect their stimulating function, making them a tax that quickly influences the financial activities of taxpayers. Effective cooperation between tax authorities and taxpayers concerning profit tax is essential to ensure the quality of tax services . Furthermore, the clarity and simplicity of profit tax payment directly relate to the transparency of government spending, the quality of services, and their economic effectiveness, as well as taxpayers' compliance with tax laws [6].

The methodology of profit taxation is one of the core issues in its scientific study, particularly

in determining the correct tax base. Calculating the amount of profit tax requires studying many indicators. These indicators and their interconnections influence the amount of profit tax. The factors affecting profit tax include net revenue from product sales, product cost, income, expenses, financial revenues and costs, extraordinary profits and losses, the profit tax rate for the reporting period, and other factors [7].

## 2. Materials and Methods

This study employs a comprehensive methodological framework combining analytical, comparative, and empirical approaches to explore and enhance the methodology of profit taxation within the context of Uzbekistan's economic reforms. The research is grounded in the recognition that profit tax serves as both a fiscal and regulatory mechanism influencing macroeconomic stability, entrepreneurship, and revenue generation. Analytical methods were used to examine the structural components of profit taxation, focusing on the relationship between tax base determination, tax rates, and fiscal outcomes [8].

Comparative analysis allowed for the evaluation of Uzbekistan's tax policy against global practices, drawing insights from both developed and developing countries to identify convergences and divergences in corporate taxation strategies. Empirical data were drawn from official reports, statistical bulletins, and financial indicators of major enterprises, particularly "Fergana Oil Refining Plant" LLC, to assess the practical implications of profit tax reforms on business performance and state revenue. The study also incorporated a historical analysis to trace the evolution of Uzbekistan's profit tax rate from 36 percent in 1997 to 15 percent in 2025 highlighting its role in shaping fiscal policy and investment attractiveness. Through a synthesis of theoretical concepts and practical evidence, the research identifies systemic gaps in the current taxation framework and proposes targeted measures to improve tax base calculation, enhance administrative transparency, and align profit taxation with economic modernization. This integrative methodology ensures that the findings are both theoretically robust and practically applicable, providing a foundation for sustainable fiscal and entrepreneurial development.

## 3. Results and Discussion

Profit is the revenue derived from the sale of goods and services, representing the monetary expression of the excess over the costs of producing and selling those goods. A portion of this profit is paid through taxes directly to the state budget or the state's targeted fund. Profit tax is understood as a tax calculated by deducting the expenses associated with obtaining income, such as verified and documented costs, as well as the losses incurred by the taxpayer in accordance with the provisions of the Tax Code.

When analyzing the profit tax rate over the years, it is observed that in the Republic of Uzbekistan, the rate was 36.0% in 1997, decreased to 31.0% in 2000, further dropped to 15.0% in 2005, 9.0% in 2010, and 7.5% in 2015 and subsequent years. Starting from January 1, 2019, the profit tax rate was reduced from 14% to 12%. During the period from 2020 to 2025, this rate was set at 15.0%.

Studying the advanced foreign experiences in managing the economy through taxes is of great importance. In developed countries, discussions on profit taxation mainly revolve around corporate tax. In these countries, corporate tax is recognized as the main form of taxation [9].

For example, the profit tax rate is set at 20% in the Russian Federation, 18% in Belarus, 20% in Kazakhstan, 20% in Azerbaijan, 20% in Latvia, 21% in the United States, and 31% in France.

Based on the characteristics of national budget formation, countries set their own tax rates. Some countries lower tax rates in an effort to increase and encourage entrepreneurship, while others attempt to raise taxes to fill the state budget. In 2022, compared to 2021, a number of countries modified their corporate tax rates (Table-1). Most countries have aimed to reduce their corporate tax

rates.

**Table 1**

**Changes in Corporate Tax Rates in Some Countries Worldwide in 2022–2023, Percentage**

| No.        | Country              | 2022 | 2023 | Change from 2022 to 2023 |
|------------|----------------------|------|------|--------------------------|
| <b>1.</b>  | <b>Africa</b>        |      |      |                          |
| <b>1.1</b> | Guinea               | 35   | 25   | -10,0                    |
| <b>1.2</b> | Morocco              | 31   | 32   | +1,0                     |
| <b>2</b>   | <b>Asia</b>          |      |      |                          |
| <b>2.1</b> | Bangladesh           | 30   | 27,5 | -2,5                     |
| <b>3</b>   | <b>Europe</b>        |      |      |                          |
| <b>3.1</b> | Austria              | 25   | 24   | -1,0                     |
| <b>3.2</b> | Belarus              | 18   | 20,0 | -2,0                     |
| <b>3.3</b> | United Kingdom       | 19   | 25   | +6                       |
| <b>4</b>   | <b>Oceania</b>       |      |      |                          |
| <b>4.1</b> | French Polynesia     | 27   | 25   | -2,0                     |
| <b>5</b>   | <b>South America</b> |      |      |                          |
| <b>5.1</b> | Aruba                | 25   | 22   | -3,0                     |
| <b>5.2</b> | Colombia             | 30   | 28   | -2,0                     |

As shown in Table 1, the corporate tax rate experienced the highest increase in the United Kingdom in 2023 (rising by 6%) and the largest decrease in Guinea (falling by 10.0%) and Aruba (falling by 3.0%) in 2023. Naturally, countries attempt to adjust their corporate tax rates based on their tax policies and the internal situation within their countries. These countries ensure that a significant portion of the profit earned by corporations is directed to the state budget [10].

Under tax policies, several countries strive to establish high tax rates, and it is even possible to observe a country where a 50% tax rate is in effect.

**Countries with the Highest Corporate Tax Rates in the World in 2023, Percentage**

It can be seen that in the Comoros Islands of Africa, the corporate tax rate is 50.0%, while in Puerto Rico, North America, the corporate tax rate is 37.5%, and in Portugal, Europe, the corporate tax rate is 31.5% (Table-2).

**2-Table**

**Countries with the highest corporate tax rates in the world in 2023, in percent**

| No.       | Country         | Continent     | Tax Rate (%) |
|-----------|-----------------|---------------|--------------|
| <b>1.</b> | Comoros Islands | Africa        | 50           |
| <b>2.</b> | Puerto Rico     | North America | 37,5         |
| <b>3.</b> | Suriname        | Africa        | 36           |
| <b>4</b>  | Argentina       | South America | 35           |

|     |                                                        |                  |      |
|-----|--------------------------------------------------------|------------------|------|
| 5.  | Chad, Colombia, Cuba, Equatorial Guinea, Malta, Sudan, | Africa           | 35   |
| 6.  | Sint Maarten                                           | South America    | 34,5 |
| 7.  | American Samoa                                         | Oceania          | 34   |
| 8.  | Brazil, Venezuela                                      | South America    | 34   |
| 9.  | Cameroon                                               | Afrika           | 33   |
| 10. | Saint Kitts and Nevis                                  | Shimoliy Amerika | 33   |
| 11. | Morocco, Mozambique, Namibia                           | Africa           | 32   |
| 12. | Portugal                                               | Europe           | 31,5 |

Some countries, in contrast to high tax rates, establish low corporate tax rates to attract investments. The establishment of low tax rates is of particular importance as part of the country's tax policy, based on the country's socio-economic conditions. Such countries are typically comprised of underdeveloped and developing nations (Table-3).

One of the key issues in improving profit tax administration is the precise and substantiated determination of the tax base. This is because calculating the profit tax amount is a complex, multi-faceted process, directly dependent on the accuracy of the profit, which is the object of taxation [11].

In calculating the amount of profit tax, several economic and financial indicators are analyzed in relation to each other. Each of these indicators directly affects both the overall profit of the enterprise and its tax obligations.

**Table 3:**

**Countries with the 20 Lowest Corporate Tax Rates in 2023, Percentage**

| No.                                                         | Country                                                      | Continent     | Tax Rate (%) |
|-------------------------------------------------------------|--------------------------------------------------------------|---------------|--------------|
| 1.                                                          | Barbados                                                     | North America | 5,5          |
| 2.                                                          | Turkmeniston                                                 | Asia          | 8            |
| 3.                                                          | Hungary,                                                     | Europe        | 9            |
| 4.                                                          | Andorra, Bosnia and Herzegovina, Bulgaria, Kosovo, Macedonia | Europe        | 10           |
| 5.                                                          | Kyrgyzstan, Qatar                                            | Asia          | 10           |
| 6.                                                          | Paraguay                                                     | South America | 10           |
| 8.                                                          | East Timor                                                   | Oceania       | 10           |
| 9.                                                          | China, Macau                                                 | Asia          | 12           |
| 10.                                                         | Moldova                                                      | Europe        | 12           |
| 11.                                                         | Cyprus, Gibraltar, Ireland, Liechtenstein, Albania           | Europe        | 12,5         |
| <b>* Excludes countries with a zero corporate tax rate.</b> |                                                              |               |              |

### Tax Administration Instability

The instability of tax administration is not only a key issue for the government but also for the regulatory authorities responsible for oversight. The stability of profit tax collection is a critical condition for successfully running a business and ensuring the competitiveness of enterprises. One of the factors influencing budget revenue is the impact of the level of tax payments on the competitiveness of enterprises.

Enterprises must continuously strive to ensure steady growth in profits under any circumstances. By analyzing the trajectory of profit movement, it is possible to understand its substance and essence. Most importantly, this creates a real foundation for maintaining profit as a taxable object. It should be noted that if profit (income) decreases as a taxable object, budget revenues may face losses from profit tax. However, this will create an opportunity for the growth of mandatory payments from other business activities. This, in turn, lays the foundation for maintaining profit as a taxable object.

The dynamic decrease in profit tax has not led to a reduction in budget revenues from other types of taxes. For example, in 2020, compared to 2019, the budget revenue decreased by 67,490.0 million UZS solely from profit tax, while income tax from individuals decreased by 5,152.7 million UZS. The value-added tax decreased by 400,305.3 million UZS, the excise tax increased by 52,683.7 million UZS, the tax for the use of water resources decreased by 482.6 million UZS, the property tax decreased by 7,415.8 million UZS, and the land tax decreased by 1,114.1 million UZS. This increased overall revenue (Table-4).

Table 4

Dynamic of Taxes Paid by "Fergana Oil Refining Plant" LLC, in million UZS

| o | Indicator                             | Year 2019 (Million UZS) |             |              |              |              |
|---|---------------------------------------|-------------------------|-------------|--------------|--------------|--------------|
|   |                                       | 2019                    | 2020        | 2021         | 2022         | 2023         |
| . | Net Profit                            | 457<br>193,4            | 12<br>144,7 | 23<br>087,3  | 19<br>283,6  | 469<br>631,3 |
| . | Corporate Profit Tax                  | 84<br>386,0             | 16<br>896,0 | 6<br>374,5   | 34<br>760,9  | 68<br>429,5  |
| . | Personal Income Tax                   | 36<br>461,7             | 31<br>309,0 | 29<br>541,3  | 23<br>882,8  | 22<br>600,3  |
| . | Value-Added Tax (VAT)                 | 479<br>654,5            | 79<br>349,2 | 259<br>058,6 | 103<br>195,5 | 64<br>740,0  |
| . | Excise Tax                            | 46<br>504,3             | 99<br>188,0 | 179<br>717,1 | 158<br>414,8 | 138<br>941,8 |
| . | Tax on the Use of Water Resources     | 5<br>342,2              | 4<br>859,6  | 3<br>211,6   | 9<br>829,0   | 8<br>666,2   |
| . | Tax on the Property of Legal Entities | 12<br>473,7             | 5<br>057,9  | 4<br>071,8   | 9<br>541,7   | 4<br>113,9   |
| . | Land Tax on Legal Entities            | 10<br>681,9             | 11<br>796,6 | 18<br>428,8  | 26<br>675,4  | 20<br>797,3  |

In 2023, compared to 2022, the budget revenue from profit tax alone increased by 33,668.6



million UZS, while income tax from individuals decreased by 1,282.5 million UZS. Value-added tax decreased by 38,455.5 million UZS, excise tax increased by 19,473.0 million UZS, the tax on the use of water resources decreased by 1,162.8 million UZS, property tax decreased by 5,427.8 million UZS, and land tax decreased by 5,878.1 million UZS. These changes ensure that the total revenue has increased [12].

Significant work is being carried out in the country to align with a new national model for economic development. In particular, based on the concept of improving the tax policy, a new approach to profit tax is emerging, which is clearly visible in the country's socio-economic development. For instance, in recent years, improvements in the profit tax mechanism have increased the prestige and effectiveness of tax relations, enhanced budget revenues, and strengthened the role of profit tax in forming a profitable budget. This is also leading to the creation of more transparent tax relations in the global community.

#### 4. Conclusion

In conclusion, scientific research on improving the methodology of profit taxation has been conducted. Starting from September 1, 2022, for the first time, taxpayers who switched to paying profit tax from turnover tax have the right to reduce the profit tax rate by up to 50% if their total income during the tax period exceeds 10 billion UZS for the first time. This reduction is applied until their total income reaches 100 billion UZS during the current and subsequent tax periods. This proposal was implemented as part of the legal reforms by the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan. As a result, the Tax Code's Article 337 was amended in the Law No. O'RQ-812 dated December 30, 2022.

Our proposal aims to improve business conditions and supports the continuous implementation of reforms aimed at developing entrepreneurship. It will expand mechanisms to support businesses and ensure they have access to necessary financial and infrastructural resources.

Additionally, we have proposed an increase in the permissible income for business entities that are required to make monthly advance payments of profit tax from 5 billion UZS to 10 billion UZS. This proposal was adopted, and the change was implemented in Law No. O'RQ-891 dated December 29, 2023, which amended Article 340 of the Tax Code.

Through the implementation of our proposals, the amount of budget revenue from profit tax will increase, thus enhancing the overall financial stability and growth of businesses.

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