



# Scientific analysis of the hidden economy in the Republic of Uzbekistan and its reduction in scientific research

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## ABSTRACT

This article describes the improvement of the administration based on bringing services to business entities to a new level, further increasing the tax administration literacy of the population, supporting entrepreneurship, creating an equal competitive environment and guaranteeing the rights of consumers, and encouraging the active participation of the general public in curbing the underground economy. In recent years, countries around the world have been paying special attention to the implementation of various mechanisms to prevent and reduce tax evasion by taxpayers when developing their short-term and long-term budget-tax policy strategies. At the same time, conducting scientific research aimed at reducing illegal financial flows, analyzing the factors that cause tax evasion by taxpayers, reducing the hidden economy, and focusing on the scientific and theoretical aspects of tax evasion processes remains one of the priorities. At the same time, the fields were studied, foreign experience, scientific-practical conclusions and proposals were formed on its application in our country.

## Keywords:

tax revenues, analysis, risks, efficiency, digital platform, methods and tools, advanced information and communication technologies, analysis, optimization, tax benefits, tax rate.

**Introduction.** In the uneven movement of financial flows in the world, there are frequent cases of taxpayers seeking various ways to avoid paying taxes and using them for their own interests. According to estimates by the United Nations Conference on Trade and Development, developing countries illegally transfer financial resources worth 100 billion US dollars per year to other regions in the form of "profit shifting"

practices, creating tax evasion within the national economy<sup>1</sup>. Tax revenues lost as a result of various forms of tax evasion, the use of tax minimization schemes in developed and developing countries, and the ineffective use and reinvestment of profits received by taxpayers, also amount to 250-300 billion US dollars per year.

## ***Analysis of the literature on the topic:***

<sup>1</sup> Организация Объединенных Наций. A/HRC/31/61. Окончательное исследование по вопросу о незаконных финансовых потоках, правах человека и Повестке дня в области устойчивого развития на период до 2030 года международных

финансовых обязательств государств для полного осуществления всех прав человека, в частности экономических, социальных и культурных прав.

Here is a brief review of the literature on the topic of tax evasion and ways to optimize taxes. According to S.M. Olennikov, tax evasion and tax optimization are planned actions of the taxpayer[1].

Scientists such as A. Makovesky and E.A. Zareskaya also define the concept of tax optimization, which is one of the most common legal methods of tax evasion, that is, according to them, "Tax optimization is usually understood as the purposeful legal actions of the taxpayer, including the full use of all benefits provided for by law, reducing the amount of tax obligations through tax incentives and other legal benefits. In other words, this is the organization of the activities of a business entity in which tax payments are reduced to a minimum on legal grounds, without violating the norms of tax and criminal law"[2].

E. Hoover indicated the main socio-political basis of tax evasion when he said that "in Germany, the desire to evade taxes is stronger than the desire to be born"[3].

Russian scientist L. Aleksandrova, as a result of her research on this issue, concluded that "the widespread evasion of taxes by taxpayers, the high level of delay in committing tax crimes pose a particularly acute problem of their detection, which necessitates the search and development of acceptable and effective ways and means of this activity. Analysis of the activities of law enforcement agencies shows that it is much more difficult to detect tax crimes than other types of crimes. In such conditions, it is especially important to develop measures to detect tax crimes, including forensic ones," the author emphasizes, noting that the legal assessment of tax evasion processes is much more complicated than for other crimes[4].

According to A.R. Abdullina, the difficulties in analyzing accounting documents in law enforcement agencies to identify tax crimes, the lack of sufficient skills in monitoring newly established and rapidly closing enterprises, the

difficulty of analyzing civil and economic legal documents on the basis of mutual integration, and the insufficient development of legislation affect the ineffectiveness of efforts to reduce tax evasion based on the legal basis [5].

According to Ukrainian scientists S.A. Makovesky and E.A. Zareskaya, "many researchers agree on the classification of numerous methods of tax evasion or reduction of the tax base and distinguish two groups. Some sources note the existence of gray schemes. In this case, the procedure for reducing taxes is carried out using shortcomings, loopholes or misinterpretations established in the laws" [6]. Vachugov also explains the process of tax evasion as a part of the hidden economy, the concept of "hidden economy in the tax sphere". In his opinion, "tax evasion is part of the hidden economy, and the activities of hidden structures for the provision of services for tax evasion allow us to introduce the term "hidden economy in the tax sphere", the definition of which can be expressed as follows: it includes both taxpayers themselves and shadow structures that provide services for activities related to the organization of tax evasion"[7].

### **Analysis and discussion of results.**

In the new Uzbekistan, comprehensive reforms are being implemented to reduce the contribution of the shadow economy and to prevent it, as well as other instruments, to the effective use of taxes. According to the UN Technical Cooperation, "according to the tax risk management system in countries around the world, in 2022 in Uzbekistan, out of approximately 500 thousand taxpayers, approximately 478 thousand will have a low risk, 10 thousand will have an average risk, and only 648 will have a high risk, indicating the strong dependence of taxpayers with high tax risk on the shadow economy." Accordingly, in recent years, tax control has been further liberalized, tax rates, especially the value added tax rate and property tax rate, have been

significantly reduced, and measures are being taken to support honest taxpayers. Despite this, the share of the shadow economy in the national economy remains high. This, among other factors, requires the effective use of tax instruments and demonstrates the relevance of scientific research focused on these issues.

As with other economic processes, it is of great importance to understand the conditions for the emergence of the shadow economy, including the socio-economic factors that contribute to its growth, and its negative impact on the economy. Recently, there has been a growing need for scientific research aimed at reducing the size of the shadow economy, in particular with the help of state mechanisms. This need is especially true in countries with different economic systems. In such conditions, research aimed at the role of the state in combating the shadow economy and the effective use of tax instruments is of great importance.

Among such studies, L.I. Abalkin, A.A. Vozhenikov, S.Y. Glazev, A.E. Gorodesko, R.V. Ilyukhina, N P Kupreshchenko, V.A. Manilova, Ye. A. Oleynikov, A. A. Prokhojev, B. A. Raizberg, V. K. Sen Chagov, K. V. Somik, S. V. Stepashin, A. V. Shestakov can be cited, and Volkonsky V. I., Glinkin SP., de Soto E., Dolgopyatov T. G. Ye Chmakov SM., Zavelsky M.G., Kleiner G.B., Klyamkin I.M., Kordonsky ST., Kosals L.Ya., Kosolapoe N.A., Levin M.I., Makarov V.L., Naishul V.A., The research of Ovchinsky B.C., Polterovich V.M., Radaev V.V., Rivkin R.V., Salisky A.I., Sledzhevsky I.V., Somik K.V., Tatarkin A.I., Timofeev L.M., M.L. Syriks is of scientific importance.

Recently, the level of research on the basis of modeling of other countries in reducing the share of the underground economy in the economy is also expanding. These studies, on the one hand, analyzed the scope of influence of factors influencing the emergence of the underground economy, and, in turn, modeling

the impact of factors influencing the reduction of its share in the national economy, including its econometric studies, was also carried out. Among such studies, one can cite the studies carried out by M.Buck, G. Becker, T.Besley, M.Binstok, L.Wilde, R.Vishny, Y.Kas, M.Kina, A.Kryugsr, A.Lambert-Mogilyanski, D.Lee, F.Louis, G.McLaren, P.Moreau, S. Rose-Ackerman, G.Tallock, V.Tanzi, G.Hindrix, P.Chander, Agapova, S.Ayvazyan, A.Varshavsky, A.Vasin, etc.

In the last two decades, studies on the shadow economy have increased significantly. It is significant that the main emphasis in them is on reducing the share of the state in the shadow economy. We will try to scientifically analyze some of these cases and draw appropriate scientific conclusions.

In his scientific research, E. Anishenko tried to study the influence of the processes in the sphere of money circulation and circulation on the example of the Russian state in assessing the shadow economy. In particular, this study revealed the influence of the cash mass on the formation of the shadow sector of the Russian economy, developed a complex approach to reducing the scale of the shadow sector of the economy by increasing the level of economic surveillance, and explained the existing processes in the sphere of the shadow economy and the active development of non-cash money circulation from the peculiarities of cash circulation itself, Based on the fact that effective monitoring of economic processes does not create the necessary conditions, it clarified the essence of clandestine processes as the basis of hidden economic activity, justified the need for a systematic approach to reforming the existing monetary system in order to increase the share of non-cash settlements in the national economy, and also clarified the content of the process of combating the hidden sector of the economy based on the development of a federal system of non-cash monetary circulation from

the point of view of the economy and national economic management (economic security)"<sup>2</sup>.

In short, according to the scientific views of this study, if the shadow economy in the country is to be curbed as much as possible, we consider the idea that it is necessary to mitigate the negative consequences of its impact on the dynamics of cash circulation, control it, and improve the policy regarding its circulation to be quite appropriate. Among the studies related to the classification of the shadow economy, reducing its size, and reducing its negative impact, the scientific studies of N.Yakovleva also play a special role, in this regard, we considered it necessary to analyze this study more broadly. In his opinion, "the broad content of the process of combating the shadow economy is understood as the activities of state bodies with relevant powers to identify, prevent and implement them in accordance with the norms and procedures established by law and other legal acts."<sup>3</sup>. In addition, in his opinion, it is necessary to prevent, detect and expose the hidden economic turnover, identify the persons involved in it, apply methods of influencing them (up to criminal punishment), as well as to regulate the relations that arise between the bodies and individuals involved in this activity. In this, the author says, its goals should be defined and its principles should be based on: legality, responsibility, impartiality, and transparency.

This study also established the monetary circulation system in its research, determined the essence and goals of this system, showed the need to ensure the uninterrupted operation of the production and distribution processes of

goods, works and services, and to take into account mechanisms for combating the hidden economy. In addition, based on an assessment of the regulatory framework and monetary structure, the need to increase the level of monitoring of economic processes and use mechanisms to combat the hidden economy, determined the impact of encouraging cashless transactions on increasing the level of economic security based on generalizing foreign experience, and provided guidance on ensuring and controlling the effectiveness of the payment system in the national economy. - this is a general approach to curbing the shadow economy as a result of coordinating the work of the central bank and a supervisory body separate from the central bank and implementing it based on an agreement between the two bodies regulating the payment system"<sup>4</sup>.

Although this study, like the above-mentioned Ye. Anishenko, made scientific proposals on regulating money circulation in order to curb the shadow economy and reducing its negative impact on the shadow economy, in our opinion, controlling money circulation is a decisive factor in the fight against the shadow economy. However, this is not the only decisive factor. Other important factors include tax policy, the level of investment, inflation, employment levels, and consumption patterns, each of which plays a separate role in solving the problem.

In his scientific research, S. Elhnikov, like the above scientists, analyzed monetary instruments as financial instruments in the context of the emergence of a secret economy. According to his analysis, "the issues of

<sup>2</sup> Анищенко Евгений Владимирович. Денежное обращение и его влияние на теневую экономику в Российской Федерации. Специальности: 08.00.10 - Финансы, денежное обращение и кредит; 08.00.05 - Экономика и управление народным хозяйством (экономическая безопасность) автореферат диссертации на соискание ученой степени кандидата экономических наук. Москва 2008. стр.

31.

<sup>3</sup> Яковлева Наталья Александровна. Финансовые методы противодействия теневому сектору экономики. 08.00.10 - Финансы, денежное обращение и кредит. Автореферат диссертации на соискание ученой степени кандидата экономических наук Москва 2005. с. 14

<sup>4</sup> Ёша манба.

modeling in the context of the hidden economy were considered and the main requirements for it were formulated, the need for their characteristics to ensure adequate expression of economic processes both in real time and in the dynamics based on the scenario method was demonstrated and substantiated.

In addition, a model (tabular interpretation) was developed to describe the main properties and relationships of the elements of external economic activity, the manifestation of the laws of their activity and development processes, taking into account the multiplicity of tasks, and the impact on the hidden economy. The main method for constructing a single-objective function of a multi-criteria and multi-purpose model of hidden activity based on the scenario method of the factors of production was developed, forecasts of the impact of the hidden economy were developed, measures were developed to eliminate the negative consequences of such an impact, and therefore, proposals were made to study scenarios for minimizing the negative impact of the hidden economy on external economic activity indicators, ensuring the use of the models considered in the dissertation<sup>5</sup>.

Indeed, today, modeling of processes in the effective use of tax instruments in curbing the shadow economy is of great importance. In this regard, the results of S.Ekhmakov's scientific research are of scientific importance.

In the scientific research conducted by Ekaterina Izzheurova, the institutional foundations of the shadow economy were studied. In his opinion, "the economic nature of the underground economy is based on global

contradictions inherent in the modern process of reproduction and production, which is manifested, first of all, in the inefficiency and constant incompatibility of certain sectors and types of economic activity with existing institutional forms and methods."<sup>6</sup> In addition, this scientific research work substantiates that the basis for the emergence and operation of the hidden economy is the rental mechanism, and the non-market development and operation of hidden rental resources, as well as the emergence of the hidden economy in various sectors of the economy, are scientifically substantiated.

Also, this research work shows that "open and secret economic relations and interests are distinguished by their specific structure, subjects of relations and forms of activity, and it is scientifically substantiated that the institutional mechanism of the secret economy ensures the unified activity of institutional relations (official and unofficial) within the framework of the general economic system. In addition, the author concludes that state entities with a high level of corruption also have a high level of development of the secret economy as a single system, since corruption is a form of the subject's rent-seeking behavior, and the spread of rent in the form of institutional (status) bribes. It is possible to show"<sup>7</sup>.

The important scientific significance of this study is that it has shown that there are many scientific foundations of the hidden economy, and one of its main ones is the process of leasing property, so our opinion on the effective use of tax instruments as financial instruments to reduce its negative impact can be considered

<sup>5</sup> Ечмаков Сергей Михайлович. Генезис теневых экономических отношений: анализ и моделирование. Автореферат диссертации на соискание ученой степени доктора экономических наук. Тамбов. 2005 с. 64.

<sup>6</sup> Изжеурова Екатерина Александровна. Институциональные проблемы развития теневой экономики. Специальность 08 00 01 - Экономическая теория. Автореферат диссертации на соискание ученой

степени кандидата экономических наук. Самара 2007, с. 9.

<sup>7</sup> Изжеурова Екатерина Александровна. Институциональные проблемы развития теневой экономики. Специальность 08 00 01 - Экономическая теория. Автореферат диссертации на соискание ученой степени кандидата экономических наук. Самара 2007, с. 19.

very positive.

According to the Russian scientist Ovcharov Andrey Sergeevich, who conducted scientific research on the underground economy, "the underground sector of the economy exists with the help of the main triad of factors that form the moral sphere: "the possibility of committing a crime - a sense of irresponsibility - a motive of compulsion"<sup>8</sup>. In fact, the content of this definition, in addition to the above-mentioned factors, which are called the hidden economy, also indicates the existence of other factors. In fact, the fact that the possibility of committing a crime is given indicates the existence of the buds of the hidden economy. In addition, according to this scientist, the essence of the hidden economy is a system of economic relations that covers all stages of social reproduction and manifests itself as an opportunistic behavior towards those who carry out activities.

If we analyze the research of this scientist, the following can be cited. The study revealed that the hidden sector of the economy is a systemic phenomenon, such as the "corruption system" observed at the micro and macro levels, summarized the main approaches to identifying and characterizing the hidden sector of the economy, proposed its own extended matrix structure of the hidden economy by highlighting the types of existing relationships as the main criteria, proved that corruption is the cause of opportunistic behavior of the population, proposed a new "positive" approach to individual elements of illegal relationships in the hidden sector of the economy (corruption) and gave its scientific foundations<sup>9</sup>.

<sup>8</sup> Овчаров Андрей Сергеевич. Коррупция в системе теневых экономических отношений. Специальность 08.00.01 - экономическая теория. Автореферат диссертации на соискание ученой степени кандидата экономических наук. Волгоград 2003, с. 4.

<sup>9</sup> Ёша манба.

<sup>10</sup> Заводиленко Константин Анатольевич.

K. Zavodilenko, in his research, studied the interdependence of the "hidden economy and economic security." In his research, he showed that if the hidden economy in the national economy is reduced, the level of security of the national economy decreases in parallel, and in this regard, according to his scientific conclusions and proposals, the issues of effective use of financial instruments (securities, monetary aggregate, preferences, tax privileges, etc.) are raised<sup>10</sup>. Our opinion is that the more the national economy is reduced, the more effective its financial instruments are used, the less the national economic and financial security will be reduced, and in this respect, the views and ideas of K. Zavodilenko are considered scientifically effective.

Among the similar scientific studies, one can also cite the scientific works of Andrey Yuryevich Smeganin. He, like K. Zavodilenko, believes that ensuring the national economic security of the country can be achieved by reducing the hidden economy through financial instruments and other instruments. According to this scholar, "the shadow economy has many names - illegal, clandestine, secret - but the essence of this phenomenon does not change. The shadow economy is the concealment of income, tax evasion, smuggling, drug trafficking, and fraudulent financial transactions. The activity is truly huge, amounting to tens of billions of dollars, but the actions suppressed by law enforcement agencies are only the tip of the iceberg, and their size can only be estimated. The underground economy is a structure of economic relations that develops in society contrary to laws, legal norms and official rules

Ликвидация теневой экономики как направление обеспечения экономической безопасности России. Специальность 08.00.05 - экономика и управление народным хозяйством (экономическая безопасность). Автореферат диссертации на соискание ученой степени доктора экономических наук. Москва 2009. с 22.

of economic life, it exists under any structure of forms of ownership, and its scale is largely determined by the quality of regulation"<sup>11</sup>.

In agreement with this study, in essence, the clandestine economy is carried out through financial operations and is a socio-economic activity based on individual interests, resulting in the acquisition of illegal income, disregard for the legal requirements of relevant state bodies, denial of laws, and non-compliance with economic and moral norms established by society.

Of course, scientific research on the hidden economy and its negative consequences, factors influencing its development, including its share in the national economy, aimed at reducing it, and the use of financial instruments in this regard, is being carried out by our local scientists, although not so much, to a certain extent. Among such research, one can cite some educational literature, monographs, dissertations, and scientific articles. Such works include the textbook "Hidden Economy" written in 2002 by Professors A. Ortiqov, A. A. Isakhodjaev, A. Shestavov, the textbook and scientific articles of the same title by Professor Kh. Abulkasimov, B. Turdiev's article "Ways to Reduce the "Hidden Economy" and Effectively Combat It", I. Abdurakhmanov's article "Causes of the emergence of the hidden economy and factors influencing it", M.M. Mirzakarimova's article "Informal employment and issues of its legalization", A. Ahilov's The article "Violation of customs legislation in connection with foreign economic activity, the reasons for committing violations, the conditions that allow it and ways to prevent them", the monograph "Shadow economy, corruption, taking action: a legal assessment" by G.A. Alimov, B.I. Isroliov, the scientific articles on the subject by B.I. Isroliov,

Ibragimov B.B., Z. Akhmedov, the article "The hidden economy" by Muminov Nozim Gaffarovich, Jorabaev Iqboljon Bakhodirjon oglu The article "Methods of Analysis" can also be cited, as well as the doctoral dissertations of the doctors of philosophy in economics: Abduganiyev Ukhkun Habibulla oglu and Ergashev Rustam Rajabovich, aimed at preventing the hidden economy and using financial (tax) instruments in it.

Based on the scientific analysis of our research, a number of conclusions can be drawn:

Firstly, it can be seen that in scientific studies on the causes of the emergence of the shadow economy and the state policy related to it, the main emphasis is on reducing the factors that create the shadow economy;

Secondly, in scientific studies on the use of tax instruments used to reduce the shadow economy, there are many studies related to money circulation, in which the state's monetary policy is studied as a factor in the emergence of the shadow economy and its reduction;

First, although there are not many scientific studies focused on the role of the tax system as a financial instrument in reducing the informal economy, they consider the effective use of the tax mechanism as a key factor in stimulating the development of entrepreneurship;

Fourth, the scientific work of our local scientists on the effective use of tax instruments in curbing the informal economy is mainly aimed at preventing and reducing the informal economy through the tax system, and they have developed scientific recommendations on reducing its share through customs and the tax regime;

Fifth, we believe that in order to reduce the shadow economy through financial

<sup>11</sup> Смеганин Андрей Юрьевич. Механизмы государственного противодействия теневой экономике экономическая безопасность России. Специальность

08.00.05 - Экономика и управление народным хозяйством (экономическая безопасность). Автореферат диссертации на соискание ученой степени кандидата экономических наук. Москва-2007. с 11.

instruments, it is necessary to study issues such as tax rates, tax incentives, a fair tax regime, currency relations, and fair principles in the exchange of goods and services, since we believe that the conclusion that financial instruments in curbing the shadow economy are not only customs or monetary policy is appropriate.

### Conclusions and recommendations.

The level of integration of existing databases in the Uzbek tax system is insufficient, which prevents full control of the financial activities of taxpayers. It is necessary to introduce a risk-based analysis system instead of traditional audit approaches to identify suspicious taxpayers. Expand the ability to automatically identify hidden income by introducing analytical models based on artificial intelligence into the activities of tax authorities. Develop a "tax reliability rating" system that assesses the activities of taxpayers, thereby establishing a practice of encouraging and classifying them into risky categories. Strengthen the mechanism for exchanging information with banking, customs and financial supervision authorities for the early detection of suspicious transactions. Train tax authorities on tax risk analysis, working with digital data and using artificial intelligence algorithms through ongoing training programs. The implementation of these proposals will serve to ensure transparency in the tax administration of Uzbekistan, reduce hidden activities, and strengthen tax discipline.

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