



## Excise Taxation: Features and Problems of Modern Development

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### ABSTRACT

The article considers the economic essence, features of the problem of modern development of excise taxation. The experience of establishing excise taxes in the Republic of Uzbekistan was studied, a comparison was made of excise taxation in the Republic of Uzbekistan and abroad. It is proposed to expand the list of excisable goods and improve the procedure for calculating and paying excise tax in the context of modernizing the tax system.

### Keywords:

taxes, indirect taxation, excises, rates, excisable goods, foreign experience of excise taxation.

### Introduction

Since 1992, when an excise tax was first introduced in the Republic of Uzbekistan, there have been constant disputes about the appropriateness of its collection, the rates, the procedure for calculating and collecting taxes on imports of goods, including with the CIS countries. In this regard, the study of the main directions for improving the excise tax in Uzbekistan and the development of solutions to controversial issues from the point of view of both the theoretical aspects of indirect taxation and tax administration, and the study and analysis of world experience, seems to be very appropriate.

In the "Development Strategy of New Uzbekistan for 2022-2026", approved by the Decree of the President of the Republic of Uzbekistan dated January 29, 2022 No. UP-60, special attention is paid to the development of a strategy for improving the efficiency of tax levers for regulating the activities of business

entities in the context of market environment transformation[1].

The formation of a systematic approach to the development of excise taxation, taking into account the peculiarities of the tax system of the Republic of Uzbekistan and summarizing the experience of best practices, predetermined the relevance of the topic of this scientific article.

### Main part.

Excise, being one of the types of indirect taxes, has a multifaceted economic nature. It is imposed on goods and services that have the ability to satisfy the specific needs of the individual.

For this reason, the list of excisable products is limited to those goods (services) that are unique and irreplaceable in their natural consumer properties. In the process of consuming an excisable good, there are consequences, as a rule, of a negative nature, harming the health of consumers, the

environment, generating an increase in transactions.

Excisable goods are usually alcohol, tobacco products, luxury goods and other non-essential goods and services. Therefore, as E.N. Golik, the concept of excise as a tax "on sins" appears in scientific circulation, the payment for which is the excise form of taxation, which accumulates part of the disposable income of households, thereby reducing the volume of demand for products whose consumption brings negative consequences in biological, environmental and social economic relations [2, p. 60-61].

The need for excisable goods really exists, and it is impossible to eliminate it completely. However, it is quite realistic to use economic methods to reduce it, in particular, by introducing excises as a specific type of tax on the consumption of socially negative goods. The excise tax is included in the price of the product (or tariffs for services), thereby increasing it, and is thus passed on to the final consumer. The main reason for the widespread use of excise taxation from ancient times to the present day is its tangible fiscal benefits and the high speed of their receipt. Back in 1666, the French economist F. Demaison noted that the excise "is capable of bringing the treasury as much and even more than all other taxes" [3, p. 90].

Back in the 19th century, scientists, progressive thinkers and statesmen, exploring the essence of the economic content of the excise, came to the conclusion that the higher the excise rate, the higher the price, and, consequently, the lower the volume of demand and the size of the tax revenue of the state. This philosophical approach has found its real embodiment in the reform of finance and taxation, which was carried out by S.Yu. Witte, based on the target orientation of financial transformations in the taxation of alcoholic products with excises. In particular, S.Yu. Witte wrote: "The reform should pursue, first of all, the sobering of the people, and then the interests of the fiscal" [4, p. 256]. These words belong to the Minister of Finance, for whom fiscal interests prevail over all others. However, he understood that the state's first priority

should be to reduce the consumption of excisable goods. The resulting tax losses are offset by the economic benefits of reduced social costs and increased disposable income of the consumer.

In the practice of taxation in the past, the social component of the excise also found its implementation. Thus, the monopoly on playing cards in Russia through excise taxation was carried out not only to limit the gambling business, but also to channel the income received to the maintenance of orphanages [5, p. 99].

In addition, unlike almost all other taxes, which are subject to mandatory payment, without any alternatives for taxpayers, the excise is paid by the consumer on the basis of their own voluntary choice. An outstanding tax specialist of the 20th century, Professor A.A. Sokolov noted: "The coercion of a tax is not always expressed in the fact that the payer has a direct obligation to pay this tax.

For example, taxes on goods are not compulsory in this sense, because it depends on the payer himself to buy or not to buy goods subject to excise duty..." [6, p.72]. Thus, excisable tax liabilities arise as a result of the consumer's choice in favor of purchasing an excisable product (service).

Having arisen historically as one of the first forms of taxation, the excise for a long time served exclusively fiscal purposes and, in essence, did not differ from the state duty. However, in the process of market transformation of the economy, new principles and approaches to taxation began to be developed. In every modern state with a market economy, the policy in the field of excise taxation is to some extent based on the theoretical base developed by scientists from different countries.

The list of goods subject to excise duty is differentiated by country, taking into account the peculiarities of the consumption structure. For example, in England and the USA the number of excisable goods does not exceed four, while in Japan there are more than 600 types of goods classified as luxury goods and gourmet products. In Uzbekistan, this figure is about 14 items: alcohol and tobacco products,

mobile communication services, gasoline, diesel fuel, gas for refueling cars, etc. [7, p. 210].

For comparison, consider excise taxation in other foreign countries.

There are three types of excise taxes in the United States: federal, state, and local.

The main excisable goods are: alcoholic and tobacco products, oil and oil products. Some services are also subject to excise tax, namely roads and air transport. At the federal and state levels, excise taxes are levied on a wide range of goods and activities, including gasoline and diesel used in transportation and air travel, certain sporting goods, firearms and ammunition, alcohol and tobacco. Federal excise taxes are set on alcoholic beverages, cigarettes, beer, gasoline, passenger air transportation, and telephone services. Local taxes, including excises, can vary significantly by state and territory [ 8].

In Germany, "coffee" and "electric" excises are levied. In addition, Germany levies a tax on alcohol, fuel and cigarettes[9].

The list of excisable goods in Sweden is much wider than that established by Russian tax legislation. In this country, excises are levied on alcohol, dividends, waste, energy, lotteries, advertising, gambling, tobacco products. There is also a special type of excise - excise on group life insurance. In Sweden,

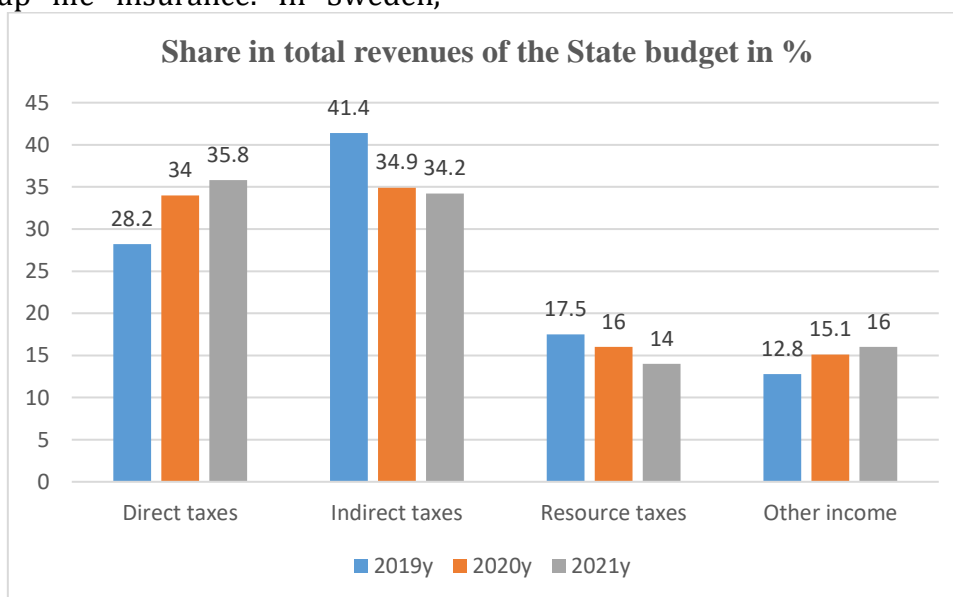
excise rates on alcoholic products, as well as in Russia, are set in a similar manner: depending on the strength of alcohol.

For France, excises are an important source of budget revenues.

The list of excisable goods in this country is quite wide: excises are levied on petroleum products, electricity, alcoholic beverages, beer, mineral water, tobacco products, sugar, matches and lighters, confectionery, precious metals, insurance operations, advertising, gambling business.

In order to apply effective measures of excise taxation of foreign countries, in our opinion, it is first of all necessary to take into account the following circumstances: the ratio of direct and indirect taxes in state budget revenues, the study of trends in the development of the values and participation of indirect taxes, including excise tax in the formation of state revenues. budget, analysis of changes in the practice of excise taxation in recent years.

If we consider the ratio of direct and indirect taxes in state budget revenues for 2019-2021, we can observe a trend towards an increase in direct taxes from 28.2% to 35.8% and a trend towards a decrease in the share of indirect taxes from 41.4% to 34.2% ( diagram-1).



**Diagram-1. Structure of state budget revenues\***

\*Data from the Ministry of Finance of the Republic of Uzbekistan

In 2021, the ratio of direct (35.8%) and indirect taxes (34.2%) in the structure of state budget revenues remained unchanged.

The structure of budget revenues over the past three years has been influenced by changes in tax policy measures, the abolition of previously granted tax incentives, the expansion of the tax base due to ongoing

reforms in economic sectors, as well as the dynamics of commodity prices.

The study of trends in the development of the values and participation of indirect taxes and excise tax in the formation of state budget revenues of the Republic of Uzbekistan is important (table-1).

**Table 1.**

**Trends in the development of the values and participation of indirect taxes, including excise tax in the formation of state budget revenues of the Republic of Uzbekistan for 2017-2021\***

<b>Indicators</b>	State budget revenues (without revenues from state trust funds) - total	Indirect taxes	VAT	Excise tax -	Customs duties
<b>2017</b> billion, sum in %	44469.6 100.0	24285.4 54.6	13422.1 30.2	<b>6870.8</b> <b>15.5</b>	1632.2 3.7
<b>2018</b> billion, sum in %	62229.5 100.0	33404.3 53.7	22019.4 35.4	<b>5003.8</b> <b>13.4</b>	1415.3 2.3
<b>2019</b> billion, sum in %	102,627.6 100.0	47029.8 45.8	35993.5 35.1	<b>9497.5</b> <b>8.8</b>	2018.8 2.0
<b>2020</b> billion, sum in %	132900.7 100.0	49173.3 37.0	40231.1 30.3	<b>11721.2</b> <b>8.8</b>	3602.3 2.7
<b>2021</b> billion, sum in %	152342.6 100.0	56312.1 34.2	52814.2 34.7	<b>13100.8</b> <b>8.6</b>	4809.1 3.1

As can be seen from the data in Table 1, the share of indirect taxes in state budget revenues changed from 54.6% in 2017 to 34.2% in 2021, that is, it had a downward trend, and the share of excise tax in this period decreased from 15.5% to 8.6%.

Thus, the tax system of the Republic of Uzbekistan, in terms of determining the list of excisable goods and setting excise rates, takes into account a number of advanced achievements of foreign countries. Nevertheless, it is advisable to expand the list of excisable goods, which will ensure the growth of revenues to the budget.

As the Ministry of Finance of the Republic of Uzbekistan notes, the excise tax is predicted taking into account the increase in rates for alcohol and tobacco products and the unification of rates for domestically produced and imported goods.

Excise tax rates, set in absolute amounts, are subject to annual indexation not lower than the inflation rate. In 2021, excise tax rates were indexed in two stages (as in 2020).

To unify excise tax rates on domestically produced and imported goods in 2021:

- an excise tax was introduced on manufactured products with heated tobacco, tobacco for smoking, chewing, snuff, sucking

(snus) and for hookah, nicotine non-tobacco snus, nicotine-containing liquid (already introduced for imported ones );

- for petroleum products, excise tax rates for imports and domestic production were brought into line;

- the excise tax on jewelry, carpets, silver cutlery, PVC monofilament, plastic films, adhesive tapes, plastic containers, electrical and other products, tractors and semi-trailers, food products was abolished;

- import rates set in absolute terms were translated into the national currency.

Thus, the excise tax on gasoline AI-80 is planned to be increased by 20%, on AI-90 and above - by 10%, ethyl alcohol - 25% (in two stages), vodka, cognac and other alcoholic products - by 27.6%, beer - by 18.8% and others.

In addition, an excise tax of 10% was introduced on cement (clinker), and the excise rate on the provision of mobile communications services was reduced from 20% to 15%.

In 2022, the procedure for calculating and paying excise tax remains. Excise tax rates, set in absolute amounts, are **indexed by an average of 10% from June 1, 2022.**

Thus, the tax rates for alcohol and tobacco products, established from October 2021, will remain until June 1, 2022.

Tax rates on petroleum products, including those sold to the end consumer, are indexed once from June 1, 2022 by 10%.

**The excise tax rate on polyethylene granules is being reduced from 20% to 10%** with the introduction of an excise tax on their import. The Accounts Chamber noted that this decision was not substantiated in any way in the budget.

**The excise tax for liquefied gas producers,** which now stands at 30%, is cancelled.

It is important to note, what promotion social direction of excises is associated with a systemic and comprehensive reform of indirect taxation in in general, and mechanism excise taxation, in particular. This is due to the solution of such problems as: increasing the degree of state monopolization traditional

excisable goods (at this will reduce the shadow turnover and the costs of administering excises); transition to decentralized and target distribution excise income (will lead to reduce the negative consequences of the consumption of excisable goods); legislative change mechanism taxation through changes in excise tax rates, forms and methods of its administration, making changes in budgetary legislation in parts performance excise income as financial sources to provide comprehensive targeted programs that help reduce the negative consequences of the use of excisable goods.

In fact, in the world practice of excise taxation, payment of excises can be carried out in several ways:

- with the use of excise stamps (we do not use this practice);

- with the use of so-called tax bonds - securities issued by private banks and insurance companies that guarantee the payment of tax on goods located on the territory of a warehouse or production area, if the actual payer does not fulfill his tax obligations (this practice is not used by us) ;

- payment in cash.

The use of excise stamps for the payment of excises. The advantages of this method of paying excises include the relative ease of administration and control over payment. In fact, control over payment comes down to physical control over the presence of stamps on excisable goods and their quantity.

In our opinion, one of the main disadvantages of excise stamps is the possibility of their forgery, as well as the impossibility of their use in cases of indivisibility of excisable goods (for example, gasoline), as well as when taxing services. The use of excise stamps is mainly used when paying excise taxes on alcoholic products (in the case of their retail sale in small volumes), on tobacco products (in the case of their sale in packs or boxes) or perfume products.

Payment of excise taxes in cash. Without the use of excise stamps, payment is made when taxing all goods except those listed above. Among the positive aspects of paying excise taxes without the use of excise stamps is the impossibility of evading excise duty by

forging excise stamps. The negative aspects include the need for documentary checks in order to control the payment of excises.

The fundamental principles of reforming excise taxation are the establishment of such rules for their payment, which would limit to the maximum extent the possibility of tax evasion, both legal and illegal methods.

The key areas for reforming excise taxation may be the following:

*Definition of the payer of excises* . Excise taxes on such goods as: alcohol, alcoholic products - it is advisable to levy at the stage of production. Moreover, taking into account the specific nature of the excise rate for these goods, only production volumes should be subject to control.

For imported excisable goods imported into the customs territory of the country, except for cars, the excise tax must be collected from the person importing the excisable goods, along with customs duties and VAT. In the case of the import of excisable goods marked with excise stamps, previously purchased on account of an advance payment to offset the tax paid with their help.

*excise rates* . In the context of a low tax culture and the desire of taxpayers to underestimate tax liabilities, legally and illegally, the priority direction of reforming the tax system should be the establishment of the simplest principles of taxation, which will limit the possibilities of tax evasion to the maximum extent. In particular, this provides for a shift, where possible, from calculating the amount of tax as a percentage of the taxable base, that is, the ad valorem rate, to calculating the amount of tax depending on the volume of goods produced on the basis of a specific rate. The most indicative, in this case, are excises, where the establishment of clear rules for calculating the tax can significantly reduce budget losses from understating the tax base by taxpayers.

As for the establishment of automatic indexation of specific excise rates, such a norm should be contained in the tax legislation, and the indexation should be based on an officially published indicator based on statistics from the State Statistics Committee or another state body.

Each type of excisable goods for which it is acceptable to purchase excise stamps as payment for excises must have its own type of excise stamp indicating the name of the product or the category to which the product is assigned for tax purposes. In the future, the issue of differentiation of excise stamps by region may also be considered. In this case, the sale of excisable goods, excises on which are paid using excise stamps, will be limited to the region whose stamp is affixed to the product. This procedure will allow to control the movement of goods across the country, as well as ensure the receipt of excise taxes, in the part sent to the territorial budget, to the budget of the region in whose territory retail sales are carried out.

*Crediting (deductions) of the paid excise duty* . When using other excisable goods in the production of excisable goods, it is advisable to apply the system of offsetting the paid excise tax on incoming materials and raw materials, including give-and-take, for which the excise tax was paid by its owners, against excise duty obligations on the produced excisable goods. At the same time, in our opinion, it is appropriate to exclude the possibility of offsetting negative differences in tax liabilities on excises against debts on other taxes, in view of the fact that some enterprises may intentionally create such debts.

For the taxation of tobacco products, fixed specific payments should be established per unit weight or per certain quantity. With regard to the method of tax payment, the use of excise stamps in the taxation of tobacco products, while remaining a means of advance tax payment, should be important in terms of guaranteeing the completeness of excise payment for each specific unit of goods, and in the future, possibly also a tool with which the distribution of collected excises by regions of implementation is carried out. Guarantees of accredited banks or insurance companies can serve as another type of security for the payment of excise duty. In the latter case, enterprises producing tobacco products marked with excise stamps will be given the opportunity to defer payment of the full tax liability, that is, the cost of the excise stamp per

unit of production, as is currently the case with imported goods.

The ad valorem excise rate for natural gas, given the fact that it relates to goods for which prices are regulated by the state, is in fact a specific rate that can be established at the legislative level. The ad valorem rate in relation to jewelry can be replaced by a specific one, differentiated depending on the preciousness of the metals and stones used in their manufacture.

In summary, excises are an important source of tax revenue during the transition period. The share of revenues derived from excises is highest in the very first phase of the transition period, due to the relative ease of collection and the clear definition of the tax base. Budget revenues are not elastic with respect to personal income, and therefore budget revenues are stable even in the initial economic cycles that may occur during the transition period. It should also be noted that the relative inelasticity of excises with respect to revenues will cause the relative importance of excise revenues to fall as economic growth begins.

### Conclusions and Offers

1. The peculiarities of excise taxation include, firstly, that it limits the demand for goods and services that satisfy specific (and not priority) needs; secondly, it performs a fiscal function, ensuring the flow of revenues to the budget; thirdly, it can perform a social function if budget revenues from excises are directed to social purposes; fourthly, the consumer becomes an excise payer voluntarily as a result of choosing excisable goods and services.

2. Since the payment of excises is financed by consumers of excisable goods, the transfer of the tax burden on them seems fair and rational.

In order to reform excise taxation, we propose the following proposals:

1. *Determination of the payer of excises* . Excise taxes on such goods as: alcohol, alcoholic products - it is advisable to levy at the stage of production. Moreover, taking into account the specific nature of the excise rate for these goods, only production volumes

should be subject to control. For imported excisable goods imported into the customs territory of the country, except for cars, the excise tax should be collected from the person importing the excisable goods, along with customs duties and VAT.

2. *Excise rates* . In the context of a low tax culture and the desire of taxpayers to underestimate tax liabilities, legal and illegal ways, the priority direction of reforming the tax system should be the transition from calculating the amount of tax as a percentage of the taxable base, that is, the ad valorem rate, to calculating the amount of tax depending on the volume of goods produced based on a specific rate. The most indicative, in this case, are excises, where the establishment of clear rules for calculating the tax can significantly reduce budget losses from understating the tax base by taxpayers. As for the establishment of automatic indexation of specific excise rates, such a norm should be contained in the tax legislation, and the indexation should be based on an officially published indicator based on statistics.

3. *Excise stamp* . Each type of excisable goods for which it is acceptable to purchase excise stamps as payment for excises must have its own type of excise stamp indicating the name of the product or the category to which the product is assigned for tax purposes. In the future, the issue of differentiation of excise stamps by region may also be considered. In this case, the sale of excisable goods, excises on which are paid using excise stamps, will be limited to the region whose stamp is affixed to the product. This procedure will allow to control the movement of goods across the country, as well as ensure the receipt of excises.

4. *Crediting (deductions) of the paid excise duty* . When using other excisable goods in the production of excisable goods, it is advisable to apply the system of offsetting the paid excise tax on incoming materials and raw materials, including give-and-take, for which the excise tax was paid by its owners, against excise duty obligations on the produced excisable goods. At the same time, in our opinion, it is appropriate to exclude the possibility of offsetting negative

differences in tax liabilities on excises against debts on other taxes, in view of the fact that some enterprises may intentionally create such debts.

5. *Payment of excise tax*. With regard to the method of tax payment, the use of excise stamps in the taxation of tobacco products, while remaining a means of advance tax payment, should be important in terms of guaranteeing the completeness of excise payment for each specific unit of goods, and in the future, possibly also a tool with which to the distribution of collected excises by regions of implementation is carried out. Guarantees of accredited banks or insurance companies can serve as *another type of security for the payment of excise duty*. In the latter case, enterprises producing tobacco products marked with excise stamps will be given the opportunity to defer payment of the full tax liability, that is, the cost of the excise stamp per unit of production, as is currently the case with imported goods.

6. *Excise rates*. The ad valorem excise rate for natural gas, given the fact that it relates to goods for which prices are regulated by the state, is in fact a specific rate that can be established at the legislative level. The ad valorem rate in relation to jewelry can be replaced by a specific one, differentiated depending on the preciousness of the metals and stones used in their manufacture.

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