



# DEVELOPMENT OF THE SYSTEM OF COLLECTION OF PROPERTY TAX FROM INDIVIDUALS

**Shamsiyev Nodir Muratovich**

Tashkent State University of Economics  
Senior lecturer of "Tax and Insurance" department

Article history:	Abstract:
<p><b>Received:</b> August 3<sup>rd</sup> 2022 <b>Accepted:</b> September 3<sup>rd</sup> 2022 <b>Published:</b> October 6<sup>th</sup> 2022</p>	<p>This article covers the development of the property tax collection system from individuals. Also, the cases of taking the initiative of property valuation are widely covered. In addition, the ever-changing nature of the property tax market situation is based on the need for tax authorities to use more advanced methods of monitoring the correct calculation of the tax base. In addition, based on the study of the experience of developed foreign countries, two main groups of benefits are distinguished, and conclusions and suggestions on the application of these experiences to property tax are developed.</p>
<p><b>Keywords:</b> Individuals, property tax, property valuation, tax base, experience of foreign countries, collection of property tax.</p>	

## INTRODUCTION

The development of market relations in all areas of our country's economy is an important factor in continuous improvement of the state tax system. Constantly changing market conditions require tax authorities to use more sophisticated methods of monitoring the correct calculation of the tax base. This issue is an important issue in the tax policy of any country. Market value assessment for tax purposes is very common in foreign practice. Asset appreciation tax has the potential to raise budget revenue as it collects multi-year returns on assets sold.

In European countries where the Romano-Germanic and Anglo-Saxon legal systems are in force, a great deal of experience has been gained in involving experts in assessing the value of property in order to control the correct calculation of the tax base.

The document envisages the introduction of a number of innovations. First of all, local government bodies are given the right to set land tax rates (except for agricultural land).

In addition, the property tax and land tax calculation system for real estate objects is implemented in two stages:

- In 2021-2023, the real estate objects of the housing fund, that is, apartments, single-family

houses, country yards, as well as the land plots occupied by these objects;

- In 2022-2024, individual real estate objects not intended for living, as well as land plots occupied by these objects.

It is planned to increase the efficiency of the use of land and water resources, underground minerals through the following:

- introduction of a single procedure for taxation of agricultural land;

- maintaining tax rates for the use of water resources for enterprises providing communal services;

- establishment of a single tax rate of 40 soums per 1 cubic meter for irrigation of agricultural land and fish farming, including water volume of peasant farms.

A number of changes for 2022 are envisaged in the budget within the framework of tax policy improvement. This was reported in the conclusion of the Chamber of Accounts on the draft law on the state budget for 2022 and the budget.

It was reported that the tax rate imposed on the property of legal entities is being reduced from the current 2% to 1.5%. It is planned to increase the property tax rates for individuals by 10 percent.

Excise duty rates are expected to increase by an average of 10 percent from June 1, 2022.



The rate of excise tax on the import of tobacco products will be reduced to 10% from January 1, 2022, and to 10% on the import of alcohol products from June 1, 2022. Also, the current value added tax (VAT) tax rate of 15 percent will be maintained.

### **ANALYSIS OF THE RELEVANT LITERATURE**

In this case, the objective of conducting an examination based on the assessment of the market value of the property is set before the expert:

1) assessment of the market value of the property to determine the basis for calculating the property tax. This tax is levied on both individuals and legal entities. Appraisals are carried out by appraisers using the methods of total appraisal (for example, in Germany, Slovenia in relation to real estate), and by accountants - employees of legal entities in relation to fixed assets belonging to organizations;

2) determining the market value of newly constructed buildings. The tax is calculated on the difference between the land purchased, the cost of construction and the sale price of the facility, including improvements. This procedure is conducted to determine the tax base of developers, builders or realtors who sell new housing to consumers;

3) control the sale price of real estate objects. In all cases where new real estate objects are sold, the tax authorities check the transaction price to ensure that it corresponds to the market value. Such taxation differs from classical profit taxation, as the tax is paid regardless of the amount of financing involved, it reduces the taxable profit to the amount of interest payments. In this case, the object of taxation is not the profit of the developer, but the value of the real estate object created as a result of the improvement of the land plot;

4) control the correctness of the assessment of the share allocated from the main property. As a rule, the correct valuation of the share in the division of legal entities affects the measurement of taxable profit and the income of shareholders;

5) controlling the financing of the purchase of a business with the help of a bank loan (LBO). One of the steps in an LBO transaction is the valuation of the business being acquired. Inflating the value of a company being acquired with the help of a bank can be a way for a commercial bank to avoid taxation on its profits;

6) valuation of non-monetary employee incentives (in Australia, providing an employee with a free parking space is considered non-monetary and should be valued at market value);

7) evaluation of the free transfer of property;

8) capital gains tax assessment (Propertygainstax). This type of tax is used in many countries of the Anglo-Saxon legal system: Great Britain, Cyprus, Australia and other countries. The tax is levied on the difference between the sale value of the real estate object with its share (owned by legal entities) and its historical purchase (creation) amount. Shares and shares of companies whose shares are not quoted on the stock market (closed companies) are also subject to compulsory valuation. In this case, the appraiser is engaged to determine the fair value of the business, to determine the tax base of capital gains or income tax;

9) determining the value of shares in the reorganization of legal entities. When companies merge, separate, split, repurchase and otherwise change the share capital, the tax authorities control their shares and shares. With the help of the appraiser, the tax authorities control the correct completion of the declarations of the company's shareholders, as well as the correct reflection of assets and liabilities (for subsequent taxation of profits, collection of property taxes, etc.);

10) valuation of goodwill for property tax and profit tax. For example, in the US, goodwill is taxed at double the property tax rate than tangible assets. In addition, the growth of goodwill affects the amount of the tax base, so it is necessary to control the correctness of its assessment.

11) Evaluation of intellectual property when granting exclusive rights and other rights. In most countries, the tax authorities have the right to



check whether such transactions correspond to the market value of the type of property in question.

## ANALYSIS AND RESULTS

Cases of initiation of property assessment:

For the above purposes, an assessment initiative may be raised in the following cases:

- checking the possibility of tax evasion;
- in order to control the correct calculation of the tax base when transactions are concluded with capital (shares of closed companies);

• in order to control the correct calculation of the tax base in order to regulate the activities of developers in the real estate market;

- in motivating employees without money;

Generally, valuation for tax purposes is carried out in foreign countries by the following entities:

- licensed (accredited) appraiser;
- a member of the association of appraisers;
- public evaluation authority, public institution (for example, in Germany).

1-Tablel

### Consolidated budget parameters of the Republic of Uzbekistan for 2020 and budget targets for 2021-2022 years (billion sum)

№	Indicators	forecast for 2020 year	Budget targets	
			2021 year	2022 year
I.	Consolidated budget revenues	158 960,1	191 781,6	226 318,5
1	State budget revenues	128 460,0*	152 100,0	177 600,0
2	Revenues of State target funds	25 385,1	30 686,6	33 570,5
3	Receipts to the fund for reconstruction and development of the Republic of Uzbekistan	5 115,0	8 995,0	15 148,0

\*Sum is a national currency of Uzbekistan, (1 US= 9528 sum), 1.000.000.000. (1 billion) = 104.948 US. As it can be seen from this indicator, the revenues of the state budget are growing from 2020 to 2022in billion sums, which in turn is carried out on the account of expansion of the taxable base.

2-Tablel

### State budget of the Republic of Uzbekistan for 2020 revenue forecast

№	Indicators	Sum
	<b>Total-revenues</b>	128 460.0*
1.	<b>Direct taxes</b>	40 584.6
1.1.	Profit Tax	22 058.7
1.2.	Tax from turnover	2 458.1
1.3	Income tax from individuals	16 067.8
2.	<b>Indirect taxes</b>	58 285.0
2.1.	Value Added Tax	44 199.4
2.2.	Excise tax	11 373.6
2.3	Customs fees	2 712.0
3.	<b>Resource fees and property tax</b>	20 796.0
3.1.	Property tax	2 369.6
3.2.	Land tax	2 474.4
3.3.	Tax for the use of subsoil	15 606.4
3.4	Tax for the use of water resources	345.6
4.	Other income and other non-tax receipts	8 794.4

\*As it can be seen from this table, taxes and fees are more than 2/3 part of the state budget.

System of tax authorities. According to the decree of the president of the Republic of Uzbekistan № 744 "on conversion of Main Directorate of state tax of the Republic of Uzbekistan into State Tax Committee of the Republic of Uzbekistan" dated 18 January, 1994, State Tax Committee of the Republic of Uzbekistan was established as well as State Customs Committee of the Republic of Uzbekistan was reformed into State Customs Directorate. In the law of the Republic of Uzbekistan "on the State tax service" dated 29 August, 1997, the system of bodies of the State tax service includes the followings: State tax committee of the Republic of Uzbekistan, State tax directorates of the Republic



of Karakalpakstan, regions and Tashkent city, as well as Tax inspections of districts, cities and districts of the city. By decree of the president of the Republic of Uzbekistan № 3802 of 2018, the limited number of management personnel of the bodies of the state tax service was defined as 11 666 people, including the limited number of management personnel of the Central branch of the state tax administration of the Republic of Uzbekistanas 369 people.

Although it is considered an unpopular political step, reducing benefits for a wide range of citizens, especially pensioners and military personnel. However, not everyone in this category needs social protection. First of all, although the property tax as a local tax seems to be an unsuitable tool for subsidizing categories of citizens in need of social protection, it is necessary to differentiate the population at the local level according to their income and property. Second, other methods of financing local budgets have serious drawbacks (Youngman, Malme, 2004), so it is better to use the property tax base sparingly. Third, such benefits can be used by wealthy citizens to "legally" avoid paying taxes, and as a result, everyone sees such a tax as extremely unfair. Thus, on the one hand, the need to develop a system of property tax benefits that prevents the poor from being overburdened and generally satisfies the perceived fairness requirement, and on the other hand, does not become an ineffective benefit determines the relevance of the article. The experience of foreign countries can be a clear proof of the limited use of deductions and benefits for property tax. In this article, we will consider the most modern methods of providing benefits to the poor based on foreign experience, and then we will give suggestions and recommendations for their application in Uzbekistan. Based on the experience of developed foreign countries, two main groups of benefits can be distinguished. While the first group of benefits exempts taxpayers from tax by reducing the tax base, the second group offers advantages such as tax deferral and protection from a high tax burden by reducing the final payment. In the United States, restrictions on the increase in the cadastral value of housing in the revaluation were passed under the slogan "Save

our houses". As a result, the increase in revaluation was limited to 3 percent per year and the tax rate did not exceed 2 percent. In Uzbekistan, two types of benefits are provided for citizens, i.e. full exemption from tax and deduction of property value corresponding to 60 square meters of the residential object from the tax base. Another common type of benefit that is currently used to help poor citizens is a deduction from the tax base, which can be used in our country's property tax benefits. Let's look at the international experience of giving discounts on the example of Canada. Property tax reductions (reductions, cancellations or refunds) in Canada are usually associated with special circumstances (illness or poverty). This exemption lasts for one year and the taxpayer must prove his position to renew the exemption. Such benefits are implemented at the expense of the municipality. These benefits, like grants, are more suitable for smaller municipalities where it is easier to identify those in real need (Kitchen, 2013). Abatements from assessed value, a mechanism for reducing the property tax burden, are not as widely used in Canada as other benefits. The use of such an exemption for each property leads to a progressive system of property tax.

A particular disadvantage of the exemptions is that they depend on the assessed value of the property rather than the ability to pay, and cannot effectively reduce the tax burden on those in need of the exemption (Slatsk, 1989). If the benefit is based only on age, then the ability to pay should not be neglected. Also, if the benefit is related to income, then the value of the property should not be neglected. Property tax deferral benefits are generally introduced to help seniors who are struggling to pay their property taxes. These benefits ensure that the tax liability of retirees does not exceed their ability to pay, causing taxes to be covered by a small portion of their income. Looking at the state of Minnesota in the US, local tax deferral allows taxpayers over 65 years of age whose income does not exceed \$60,000 a year to defer a portion of their property tax liability (Havmen, Sexton, 2008). The deferral does not cancel tax obligations, but provides a preferential loan from the state budget. Also, the taxpayer will continue to pay property tax in the



amount of no more than 3% of the annual income. The remaining amount will be covered by the state budget, and the local budget will not suffer. Although this approach is considered economical from the point of view of spending budget funds, it is necessary to emphasize the following disadvantages. First, the income of the local budget begins to be formed mainly at the expense of the future obligations of the participants of the deferral benefit, whose property is pledged. However, these assets are clearly illiquid and difficult to use to finance development projects in the region. In addition, as in the USA, there may be a risk of getting rid of these debts in Uzbekistan in the long term under the slogan "Save our Homes". Secondly, the need to pay the debt during the inheritance may seem unfair not only to the new heirs, but also to the pensioners themselves, which raises doubts about the political prospects of such benefits, since pensioners make up the majority of the population of Uzbekistan. Therefore, it is necessary to look for a more acceptable mechanism for giving benefits.

Even in foreign countries, despite being the main source of income for local and regional governments, property tax is considered ineffective among other taxes due to the prevailing opinion that it is unfair. Unfair provision of property tax incentives can also lead to tax aversion by citizens (Doherty, 1999). But, on the contrary - well-designed incentives can avoid many problems related to the inefficiency of this tax. Since poor citizens are more likely to have problems with paying taxes, the types of benefits should be linked to the taxpayer's income. This type of property tax break is known in the US and Canada as a "circuit-breaker," which means "protector" or "fuse," as in a "protector" that protects a home's electrical system from dangerous overloads that can cause short circuits and fire hazards. Similarly, it also protects taxpayers from excessive tax burdens that are dangerous for their financial position.

## CONCLUSIONS

There are different variations of these benefits, which we call protectors, but they all work the same way. Let's focus on the protective privilege introduced in the US state of Wisconsin in

1973. Four criteria must be met to qualify (Bendick, 1974):

1. Beneficiary must be an adult resident of the country and have no dependents within the last three years, inclusive.

2. The amount of the beneficiary's income should not exceed 7000 dollars.

3. He should not receive other poor benefits at the same time.

4. He must live in or rent a property that pays property taxes (property taxes are about 25% of the cost of renting a house in the US, which the landlord passes on to the tenant). The property tax amount is set as 14.3% of taxpayers' income if they make between \$3,500 and \$7,000 per year, and 0% for taxpayers with less than \$3,500 per year.

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