



ANALYSIS OF FOREIGN APPROACHES TO TAX SYSTEM REFORM AND MODERNIZATION

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Abstract: *The article examines the necessity of improving the national tax practice through the effective adoption of tax system modernization measures applied in the tax practices of foreign countries. In addition, based on the study of foreign experience related to effective tax system modernization measures, conclusions and recommendations for the modernization of the tax system have been developed.*

Keywords: *tax, modernization, system, tax policy, model, types of taxes, tax control, tax authorities, investment.*

Introduction. Systemic problems and priority directions of tax system modernization, the role of taxes in state regulation of the economy, issues related to tax obligations and tax arrears, as well as the improvement of international tax relations occupy a special place in the economic policy of any country and encourage the state to ensure the implementation of prompt, operational, and strategic measures related to these issues.

Studying foreign experience related to effective measures of tax system modernization, selecting their notable aspects through relevant analysis and generalization, and effectively using the rich positive experiences of particular countries are highly important for positively addressing the problems of development of a national tax system in any country.



However, it should be noted that there is no universally optimal model or decision in global tax practice that can be considered absolutely superior for all countries. The application of a particular instrument, new regulation, or methodology related to effective measures for tax system modernization depends on the economic, social, and even political conditions of a country. Nevertheless, it is possible to test certain effective instruments and measures characteristic of particular models of tax system development and widely used in practice, and to recommend the most appropriate ones for practical implementation.

Ensuring macroeconomic stability, consistently continuing structural changes through the attraction of foreign investments, further deepening tax and budget policy, and supporting large and small businesses as well as private entrepreneurship are among the key priorities. In implementing these tasks, it is of great importance to analyze the tax policies and the current state of tax systems in foreign countries, as conducted by leading economists, and to apply their advanced practices to the national tax system.

Research Methodology. During the course of our research, we widely used methods such as observation, collection and classification, comparison, analysis, and synthesis. We also conducted an analysis of studies and literature produced by foreign scholars. In addition, regulatory and legal documents related to the tax system were examined. Furthermore, in order to ensure the effectiveness of the research results, surveys were conducted among specialists working in this field.

Analysis and Results. Developed countries have relatively greater experience in taxation, as their modern tax systems were formed in the 1960s and 1970s. In Uzbekistan, however, the tax system was newly established after the country gained independence, and as a result of ongoing reforms, it has gradually developed into a more balanced system.

In foreign countries with developed market economies, the mechanism of direct taxation with progressive tax rates and a wide range of exemptions and



deductions plays a leading role. The main tax rates that form the state budget in foreign countries are considerably higher compared to those in Uzbekistan. In addition, certain taxes, such as inheritance tax and gift tax, are not present in the tax system of Uzbekistan.

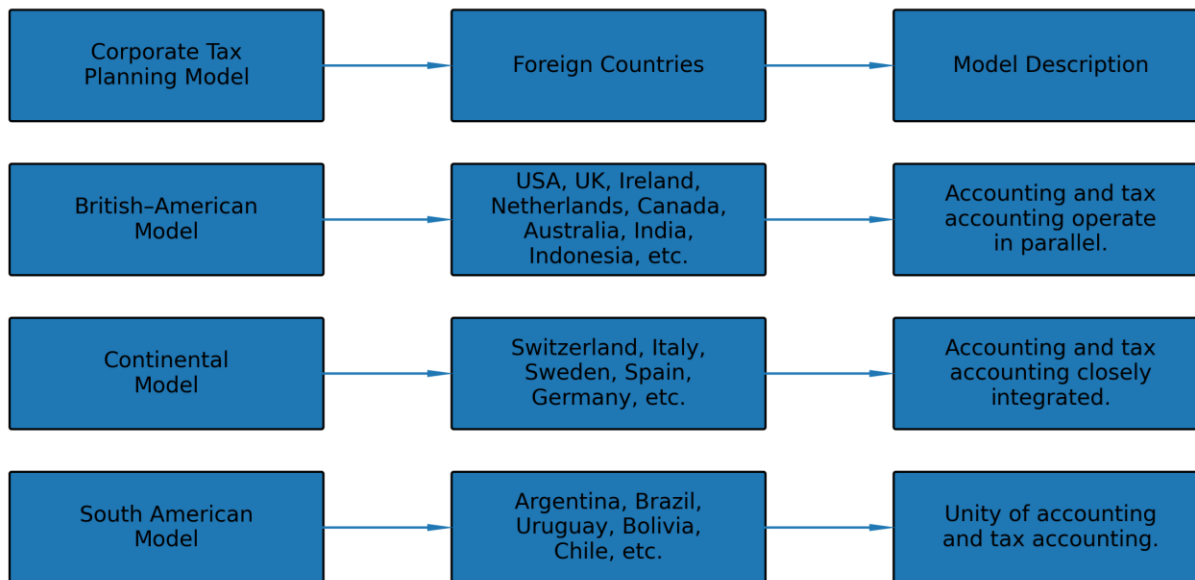


Figure 1. Characteristics of corporate tax planning models in the tax practices of foreign countries¹.

First of all, the analysis of the types of taxes currently used in the tax practices of developed countries confirms several distinctive features of modern tax systems. These include the presence of certain non-traditional types of taxes, the unusual or unique nature of some of their elements, the stability and goal-oriented nature of state tax policy, the targeted provision of tax incentives and preference-based state support, and the strict enforcement of their implementation through effective control mechanisms. In addition, the strict attitude of the state toward both compliant and non-compliant taxpayers, the increasing level of satisfaction with services provided by tax authorities to taxpayers, and the priority use of horizontal monitoring in evaluating the activities of participants in tax relations are also recognized as

¹ Author's development



important advantages. These features are widely confirmed by the experience of global tax practices.

In this regard, it is of particular importance to examine the non-traditional methods of tax control that are currently being successfully applied in the tax practices of various countries around the world (Table 1).

Table 1.

Non-Traditional types of taxes and tax control measures in the tax practices of foreign countries [9].

Non-traditional Taxation Objects in Foreign Countries		Non-traditional Measures in Tax Control Practices in Foreign Countries
Direct Taxes	Indirect Taxes	
1. Income tax	1. Service tax	1. Comprehensive control over violations of tax legislation (Netherlands)
2. Excess profit tax	2. Recreation tax	2. Information exchange between the Chamber of Commerce and fiscal authorities (Italy)
3. Pledge and transaction tax	3. Customs duties	3. Vertical and horizontal monitoring of taxpayers (Netherlands)
4. Corporate tax	4. VAT (Value Added Tax)	4. "Visit and seizure" procedure (Norway, Finland)
5. Gift tax	5. Sales tax	5. Use of an extended information database by the tax service (Finland)
		6. Introduction of individual taxpayer responsibility with the possibility of choosing the tax regime (Norway)



The study of traditional and non-traditional types of taxes existing in the tax systems of different countries, as well as the tax control measures applied to them, makes it possible to assess the state and effectiveness of a country's tax policy objectives.

In developed foreign countries, one of the most important and economically significant taxes regulating the activities of business entities is the corporate income tax. Creating favorable conditions for the taxation of investments is reflected in the legislation of highly developed countries. In these countries, investment tax credits and accelerated depreciation mechanisms are widely applied. This, in turn, ensures the growth of private capital investments. Since many companies are organized in the form of joint-stock companies, the problem of double taxation (at the level of the company and the shareholder) has emerged. Therefore, the need to reconsider the system of profit taxation has arisen. In Germany, Japan, Austria, Norway, and several other countries, different tax rates are applied to corporate profits: higher rates for undistributed profits and reduced rates for distributed profits. In Belgium, the United Kingdom, Denmark, Canada, France, and several other countries, tax credits are provided when applying income tax to shareholder dividends.

In the United States, one of the developed countries, tax policy is continuously improving and expanding. Taxes also serve as an instrument for economic development. The U.S. tax system consists of three levels: federal taxes, state taxes, and local taxes.

The corporate income tax rate in the United States reaches a maximum of **39 percent**. "Companies in the United Kingdom also pay a tax on capital gains. Non-resident companies are not subject to this tax" [1].

"Corporate income tax can have a positive impact on the future development of society. This study contributes to the existing literature in three ways: first, it expands the existing tax sources and provides evidence that taxes may influence fundamental personal values, such as people's attitudes toward the future" [2].



“In Germany, there are tax-exempt minimum thresholds in the taxation of corporate profits. The tax rate is **25 percent**. In corporate profit taxation, profits are divided into two categories: distributed and undistributed profits” [3].

“In Japan, the corporate income tax rate is **37 percent**. Reduced coefficients are also applied to this tax. The highest tax rate reaches **48.8 percent**” [4].

As confirmed by global practice, it is extremely important to continuously study and evaluate the possibilities of effectively using foreign experience in improving the institutional foundations of the state tax service that contribute to the modernization of the tax system.

At present, three types of organizational structures of tax authorities can be observed in the systems of public administration in different countries:

1. Service or agency within one or several ministries (*multiple directorates*)

Countries: Austria, Belgium, Czech Republic, Denmark, Estonia, France, Netherlands, Poland, Switzerland.

2. Unified semi-autonomous body (*unified semi-autonomous body*)

Countries: Australia, Brazil, Chile, Finland, Greece, Hungary, Iceland, Ireland, Japan, Korea, Latvia, Norway, Romania, Russia, Slovakia, Slovenia, Spain, Sweden.

3. Unified semi-autonomous body reporting to a governing (supervisory) board (*unified semi-autonomous body with board oversight*)

Countries: Argentina, Bulgaria, Canada, Colombia, Kenya, Mexico, Peru, Singapore, South Africa, Sweden, United Kingdom, United States.

According to this classification, the institutional structure and status of the authority responsible for implementing tax system modernization measures may differ from one country to another. However, in general, the differences are most noticeable in terms of their organizational structure and principles of subordination.

Jahon mamlakatlari soliq organlarining tashkiliy tarkibi va bo'ysunuvi tamoyillari: Total of 180 countries studied



BY TAX FUNCTIONS (47%) (*Bangladesh, Bolivia, Venezuela, Ghana, Georgia, Spain, Cameroon, USA, Uganda, Finland, France, Japan*)

BY TAX TYPES (30%) (*Austria, South Africa, Pakistan, Poland, Thailand, Ukraine, Czech Republic, Switzerland, Iran*)

BY TAXPAYER CATEGORIES (7%) (*Australia, Cambodia, Rwanda, Romania, Fiji, New Zealand*)

MIXED MODEL (44%) (*Azerbaijan, Bulgaria, Bhutan, United Kingdom, Indonesia, China, Russian Federation, Uzbekistan, Philippines*)

The study of the differences in the organizational structures and principles of subordination of tax authorities across 180 countries worldwide shows that they can be classified into groups according to four criteria. It also indicates that the tax system of the Republic of Uzbekistan corresponds to a mixed model.

In many countries (the United States, France, Germany, and Switzerland), the practice of tax administration includes a provision in national tax legislation that establishes the obligation of taxpayers to provide appropriate explanations and justifications to inspectors during tax audits. Violation of this requirement constitutes legal grounds for liability.

Among the effective tools of tax system modernization in foreign practice is the measure first introduced in Canada, which requires that a specialist with expertise in the technological aspects of a taxpayer's activities be included in the team conducting thematic express audits of taxpayers.

Another important practice successfully applied in some advanced foreign countries (Switzerland, France, and the United States) is the transparency of information related to taxpayers' tax history and the establishment of mechanisms that allow authorized government bodies to systematically access and use such information without the need for special permission. This experience is also significant for the tax practice of our country.



The implementation of such positive and innovative measures in the national tax practice requires the establishment of special units responsible for forming comprehensive databases of necessary information and conducting continuous analytical work within the tax service.

Due to this necessity, in order to increase the effectiveness of tax system modernization, several foreign countries (the United States, Canada, Norway, Mexico, Australia, and France) have introduced measures such as revising the regulations governing positions within tax authorities and legally approving updated service charters that clearly define the responsibilities and powers of each department within the tax administration system.

Table 2.

Effective Measures of Tax System Modernization in the Tax Practices of Selected Foreign Countries².

Countries	Distinctive Features of the Measure
United States (USA)	The main focus is on direct taxes, particularly income tax. The tax is levied at progressive rates. The administration system is complex but well structured, and tax rates and incentives may differ across regions.
European Union Countries	The main emphasis is on indirect taxes, especially Value Added Tax (VAT). This tax ensures stable and significant budget revenues. A unified legal VAT framework operates within the EU, although tax rates and exemptions differ among member states.
Japan	A significant share of government revenue is formed through contributions to extra-budgetary funds, particularly social insurance funds. These payments have characteristics of both

² Author's development



	direct and indirect taxes: employees pay them through wages, while producers include them in the price of goods and services.
Ireland	A relatively low corporate income tax rate encourages foreign capital inflows and rapid domestic production growth. A developed tax advisory system exists, and special tax administration regimes are applied to compliant taxpayers.
United Kingdom, France	Incentive systems support certain regions and industries: subsidies for capital investments, government support for production facilities, and a wide range of tax incentives and preferences. Due to a high tax culture, voluntary tax compliance is widely practiced.
Germany	Large tax incentives are provided to companies investing in economically less developed regions. Strict control over tax discipline is applied, and criminal liability exists for tax evasion.

Thus, the effective adoption of successful tax system modernization measures from foreign tax practices is essential for the improvement of our national tax practice (Table 2).

In general, the extensive use of foreign experience related to effective measures of tax system modernization makes it possible to find solutions to the current challenges of the tax system and is also important for determining the future development prospects of the tax system in our country.

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