



BASIS OF TAXATION OF PROPERTY OF LEGAL ENTITIES

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Abstract: The theoretical and legal foundations of property taxation of legal entities, its mechanism and methodology are analyzed. The study shows the role of the average annual value and cadastral value methods in calculating the property tax base in current legislation. The advantages and disadvantages of each approach are identified, and scientific proposals are developed to improve the taxation system. Existing problems in assessing the economic and legal aspects of taxation and their solutions are considered.

Keywords: Property tax, cadastral value, average annual value, legal entities, tax base, depreciation, tax system, local budget, economic analysis.

Legal entities are formulated in the tax legislation of the Republic of Uzbekistan. The main approach is to determine the objects of taxation and their tax base by forming the residual value obtained based on the current accounting system. The Tax Code of the Republic of Uzbekistan provides for determining the value of an object subject to property tax by calculating its average annual level obtained from its accounting data. This approach is established for most objects of property tax.

The methodology for calculating the tax base involves the use of adding up the average residual value of each taxable object for the tax period. The average annual residual value of taxable objects (average annual value) is determined as one twelfth of the amount obtained by adding up the residual values (average annual values) of taxable objects as of the last day of each month in the tax period, with an increasing final value. If the tax legislation does not provide for the calculation of depreciation for certain objects, the business entity must independently calculate the amount of depreciation at the end of each tax (reporting) period, correlating it with the depreciation of such an object.

One of the important factors influencing the change in the average annual value of fixed assets is the calculation of depreciation, which determines the change in the value of objects taken into account when purchasing and selling objects.

The use of the assessed value of taxable objects to determine the tax base also has an impact. Taxable objects are subject to cadastral valuation, which is used to calculate the tax base for certain types of taxable objects. Here it is necessary to highlight several features:

first, a centralized approach to determining the value of taxation objects;
secondly, no change in the value of the taxable property during the tax period;
thirdly, the independence of the value of the object from its participation in the main activities of the business entity.



By comparing existing approaches to determining the value of a taxable object and forming the tax base for property tax, it is possible to highlight both their similarities and differences (Table 1).

1 -table

Legal persons Comparative description of methods for determining the value of a property tax object¹

Home	Average annual cost method	Cadastral value method
Initial value formation	According to the accounting system of the business entity, based on the cost method	Rated
Change in value during the tax period	Depreciation and revaluation of the object	Reassessment
Formation of recovery value	Rated	Rated
Impact of the economic entity on the value of the object	It can be done by choosing a revaluation and depreciation	Not available
Fairness of value	Not right for the market. Generally, the value is less than the fair value	Not worth the market price. Usually, the value is higher than the fair price
Value neutrality	Low	Low
Purpose of value formation	Reducing tax payments	Increase in tax payments
Taking into account the network and other features of the activity	Yes	No
Accounting of the property and financial condition of the economic entity	Yes	No

When evaluating the methods presented, it is necessary to highlight a number of shortcomings inherent in each approach:

1. Among the main negative features of determining the tax base by the average annual value of taxable property, it is necessary to highlight the absence of a fair value, the incomparability of the initial or replacement value with the current market price, taking into account depreciation, which is used in accounting by business entities for both accounting and taxation purposes. On the one hand, this drawback leads to a decrease in the tax base, which causes losses to the regional budget, and on the other hand, the organization on the balance sheet of the object, for the same reason, cannot fully replace worn-out equipment

¹ Compiled by the author



with new ones through accumulated depreciation deductions at the expense of the reduced value.

However, the existing experience in applying the cadastral value cannot be considered free from the noted shortcomings. This shortcoming is currently manifested in the form of an overestimation of the cadastral value, which does not take into account the specific characteristics of the economic entity, the taxable property. As a result, the legal entity owning such an object suffers initial losses, but as a result of the deterioration of its financial condition and a decrease in the level of profitability, the budget is ultimately deprived of full or partial payment of taxes from the specified taxpayer.

2. The second drawback of determining the tax base by the average annual value of taxable property is its dependence on the level of depreciation and, accordingly, depreciation deductions. For example, the linear method of calculating depreciation leads to an almost twofold decrease in the tax base in the long term, which reduces tax revenues and does not bring significant amounts to the budget. This may be beneficial to taxpayers to a certain extent, but another drawback arises in connection with its reform. At the same time, a partial transition to cadastral valuation using the average annual valuation creates the conditions for a significant increase in the value of objects recorded in the cadastral account in order to compensate for unpaid tax amounts. Legal entities are faced with the situation of calculating taxes at the same rate using different methods that are not comparable in terms of valuation methods and results.

3. A significant disadvantage of using the cadastral approach in assessing taxable property is the lack of the ability to make adjustments to the tax amount or tax base, and the incomparability of income from the use of a taxable object for economic entities of different types of economic activity, scale, territoriality, logistical convenience, social significance, etc. For example, a relatively universal object for comparison may be a warehouse, which brings more profit than a trade, production or service enterprise, but the tax for them will be uniform.

For more than ten years, among the main directions of tax policy, the issues of improving the methodology of property tax administration, developing information exchange between various government bodies and agencies for the correct calculation of property taxes, improving the quality of work of tax authorities with taxpayers, and preserving the tax base of property taxes have been of priority.

In world tax practice, the tax base of many property taxes is related to a number of economic indicators. For example, the value of various property objects depends on their physical obsolescence and estimated depreciation, revaluations carried out at different time intervals, and the use of market methods. The value characterization of property tax objects is mandatory, since property relations determine the possibility of using property objects for income generation, but most importantly, they are an indicator of the well-being of taxpayers (individuals and legal entities). In addition, objects of property relations



participate in the process of reproduction, provide the necessary conditions for the vital activity of economic entities, and serve as the main condition for the development of such a factor of production as human capital.

The nature of property relations created the need to separate various property taxes, classify them, form and assess the tax base.

It should be noted that in many countries of the world, property taxes are presented as follows:

- real estate tax (or property tax);
- land tax (or tax on land plots for which construction is not completed, as well as land intended for agricultural purposes);
- taxes on various types of property, including transport (transport tax), income (luxury tax);
- tax on collected property;
- inheritance and/or gift tax and others.

Taking into account the above, one can find different approaches to classifying property taxes in various literature. Most often, property taxes are classified according to the object of taxation, the subject of taxation, the tax rate, its stratification, and the impact on the tax burden. The main classification of property taxes given in table 2.


Table 2.

Classification of property taxes²

Classification marks	Name of property taxes
1. In relation to the object subject to property taxes:	
1.1 Taxation of property in whole or in part	<ul style="list-style-type: none"> - property tax; - inheritance (gift) tax; - capital increase tax; - land tax; - transport tax; - taxes imposed on certain property objects
1.2 Gross and net taxes on property	<ul style="list-style-type: none"> - general property tax; - net property tax
1.3 Property tax Taxes on property value growth and movement	<ul style="list-style-type: none"> - real estate tax; - land tax; - capital increase tax; - inheritance and gift tax; - fees for the purchase of property
2. In relation to a taxable entity:	

² Compiled by the author



Classification marks	Name of property taxes
2.1. Separate taxation, mixed taxation	<ul style="list-style-type: none"> - tax imposed on the property of legal entities; - property tax collected from natural persons; - inheritance and gift tax; - real estate tax; - land tax; - transport tax
2.2. Taxation of owners and users of property	<ul style="list-style-type: none"> - only when there is a property right; - taxes on long-term property
 3. Regarding the tax rate, its classification and its impact on the tax burden:	
3.1. Proportional and progressive rates	<ul style="list-style-type: none"> - land tax; - tax imposed on the property of legal entities; - inheritance and gift tax; - property received from natural persons.
3.2. Nominal and real taxes	<ul style="list-style-type: none"> - property tax paid from income; - Inheritance and gift tax paid from the income from the sale of part of the property

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