

## Table Of Content

<b>Journal Cover</b> .....	2
<b>Author[s] Statement</b> .....	3
<b>Editorial Team</b> .....	4
<b>Article information</b> .....	5
Check this article update (crossmark) .....	5
Check this article impact .....	5
Cite this article .....	5
<b>Title page</b> .....	6
Article Title .....	6
Author information .....	6
Abstract .....	6
<b>Article content</b> .....	8

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*By Universitas Muhammadiyah Sidoarjo*

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## **Theoretical Basis of Management of Detection and Regulation of Tax Violations in Business Entities**

### *Dasar Teori Manajemen Pendeteksian dan Pengaturan Pelanggaran Pajak pada Badan Usaha*

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#### **Abstract**

This document presents the primary findings of scientific study about the development and enhancement of the tax system in our nation, as well as studies focused on preventing and rectifying tax infractions within the context of the ongoing priority economic reforms. The underlying causes of taxpayer evasion and tax avoidance influenced by infractions are examined comprehensively. The necessity to implement efficient procedures to prevent scenarios that diminish the economic impact of infractions, particularly with tax system management, and to provide a systematic approach for the use of these mechanisms is evident.

#### **Highlights:**

Tax system reforms focus on preventing tax evasion and avoidance issues.  
Comprehensive study highlights causes, impacts, and solutions for tax infractions.  
Efficient procedures proposed to improve tax management and minimize economic losses.

**Keywords:** Tax management, tax offenses, tax evasion, tax base, management of tax relations, paperless goods, illegal currency, barter, regulations, tax administration

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## Introduction

In the world economy, special attention is paid to the management of tax violations of business entities and their regulation. In the ranking of the leading countries in terms of loss of tax revenues, the total annual losses as a result of tax violations and crimes are 177.3 billion in the United States, 7926.6 billion in Brazil, 4771.2 billion in Italy, 26046.2 billion in Germany and 33024.6 billion in France, 8319.5 billion in Japan, 11435.2 billion in China, 44684.2 billion in the United Kingdom and 1315.2 billion in the Russian Federation. Today's global geopolitical situation requires, along with ensuring the economic development and financial stability of each economic entity, to reduce the tax burden on them, improve management mechanisms aimed at preventing tax violations on the basis of further development of the digital economy, protect against negative impacts arising in tax relations, and optimize the types of taxes and payments in economic entities.

The taxation system represents a complex of relations that are ambiguous, contradictory, and functionally diverse. From the time of the appearance of the first written certificates on taxes to the present day, this social phenomenon is characterized as a sphere of sharp disagreements between representatives of the authorities - taxpayers and persons obliged to pay them.

The taxation system represents a complex of relations that are ambiguous, contradictory and functionally diverse. From the time of the appearance of the first written certificates on taxes to the present day, this social phenomenon is characterized as a field of sharp disagreements between representatives of the authorities - taxpayers and persons obliged to pay them.

Taxes, as a qualitative and quantitative flow of monetary resources, mainly move from the "business" sphere to the "budget" sphere, which is a set of redistributive relations between taxpayers and the state, affecting the mutually positive interests of the participating subjects of tax relations. The desire of each party to manage this cash flow, ensuring the realization of its interests, seems objective, which allows us to draw conclusions about the objective need for tax management both from the state and from the monetary point of view.

The country's budget is formed from various sources, and one of them is tax revenues, which are organized through the cooperation of tax authorities and organizations, the population. Referring to history, it can be noted that initially tax revenues formed only a fiscal function and were intended to replenish the treasury, but over time, the economy became a more complex mechanism and the need arose to introduce clear management mechanisms for its regulation. These processes led to a change in the role of taxes in the economic life of the state, they became more diverse and significant in the financial system.

The commission of tax offenses threatens the implementation of major tasks in the field of social support of the population, the health care and education system, the development of the country's scientific and technological potential, and the formation of a developed society. In this regard, conducting scientific research on the topics of tax fraud prevention and management, revealing the features of its management, will be of considerable benefit to our development, since the current global economic crises, sanctions and other political pressure measures impose a number of tasks on our national statehood. These tasks are directly related to the effective use of available resources and maintaining social justice through the correct administration of tax legislation. The structure of tax relations between business entities and the state is quite complex, and in this regard, special requirements are imposed on the process of managing tax fraud prevention.

The real reasons why taxpayers hide taxes and evade taxes under the influence of violations have not been thoroughly studied. Given the urgency of the problems, the introduction of effective mechanisms aimed at preventing situations in order to reduce the impact of violations on the economy, in particular on the management of the tax system, and the creation of a systematic management of the use of such mechanisms were chosen as the subject of our research.

In recent years, Uzbekistan has been paying special attention to a radical reform of tax administration. As the President of our country, Sh.M. Mirziyoyev, noted: "It is necessary to reduce and simplify the tax burden for all categories of businesses, and on this basis expand production and the taxable base." Also, the objectives set out in the "Uzbekistan-2030" Strategy, adopted by the Decree of the President of the Republic of Uzbekistan No. PF-158 dated September 11, 2023, in the direction "Ensuring the well-being of the population through sustainable economic growth", such as paragraph 46-"Using the opportunity to further expand the tax base by reducing the "hidden economy"" and paragraph 56-"In order to ensure the stability of the tax system, ensure that value added and profit tax rates for business are not increased for three years, fully digitize and simplify the tax system and create equal opportunities for all entrepreneurs, and ensure all necessary conditions for the official sector to be preferable and beneficial to illegal activities" determine the content of the reforms to be implemented in this area.

The research work is carried out within the framework of the research plans of the Fergana regional tax department of the State Tax Committee.

Tax violations and tax relations in general are considered in the current economic literature as a constant occurrence, and members of society are treated as if this situation is normal. In the literature, general aspects of



tax violations are analyzed and highlighted, but in the implementation and redistribution of the country's budget revenues, difficulties are encountered in fulfilling urgent tasks in the development of society, providing services to the population and solving other issues, as well as obvious manifestations of disproportions.

## Literature review

The theoretical and legal foundations of taxes and problems related to taxation have been studied in the scientific works of classical economists A. Smith, D. Ricardo, W. Petty, A. Laffer, as well as modern foreign scientists I. Aleksandrov, A. Brizgalin, V. Knyazev, V. Panskov, A. Paskachev, I. Maybuurov, N. Milyakov, D. Chernik, Sungkyu Jang, Leslie E. Lynch, Dena S. Mitchell, L. Karen.

The research was conducted in the scientific works of local economists O. Abdurakhmonov, E. Gadoev, N. Koziyeva, Z. Qurbonov, I. Ismanov, D. Kutbiyev, I. Nosirov, E. Muminova, A. Tashpulatov, I. Niyazmetov, M. Alimardonov, F. Fayziyev, J. Makhmudostov, Sh. Nurmatov, A. Idirisov, M. Fayzullayev, N. Rozikov, S. Khalikchayeva, Kh. Ismatov, M. Elbayeva, F. Akhmedov, B. Ibragimov, J. Pardayev, R. Nasimov.

The main purpose of the research is to develop scientific proposals and practical recommendations aimed at identifying, preventing and improving regulatory management of tax violations in business entities in the Republic of Uzbekistan. Also, in order to achieve the stated goals of a comprehensive study of crimes against the tax system, the development of strategies for combating tax crime, as well as proposals and recommendations for improving criminal legislation in this area, the author set and solved the following tasks: The author's concept of crimes against the tax system was developed and their classification was proposed, the hidden economy is to assess its negative impact on the development of the economy based on the identification of tax offenses and develop specific proposals on the effectiveness of their application practice.

In this regard,

a) a general description of the situation, dynamics of tax crimes were considered, its structure was analyzed;

b) a complex of reasons that determine the commission of crimes against the tax system, as well as a model for combating tax offenses that develop the hidden economy.

To achieve the goal, the article sets the following tasks:

1. to study the essence, importance and manifestation of tax fraud detection management;
2. to assess the negative impact of the hidden economy on economic development based on the detection of tax fraud;
3. to study the development of the digital economy and its regulation through taxes based on the study of tax fraud prevention in foreign countries;
4. to analyze the dynamics of increasing or decreasing the number of tax frauds as a result of reducing tax audits
5. to analyze the impact of tax frauds on the formation of state budget revenues;
6. to develop scientific proposals and practical recommendations on regulating the processes of economic modernization through taxes and improving them.

## Methods

Management in economics refers to the regulation and direction of the economic system of an entity, involving intentional and purposeful influence on individuals and economic units by various subjects and departments, aimed at guiding their activities to achieve specific outcomes. Management is executed in alignment with plans formulated for economic activity periods. Management encompasses economic, administrative, and socio-psychological methodologies. The economic management approach use economic instruments to attain desired objectives. The proper utilisation of these instruments (planning, technical and economic analysis, profit, profitability, pricing, credit, material incentives, taxes, etc.) is crucial, and their efficacy is guaranteed by uncovering the individual and collective interests of the production team members (providing additional wages, bonuses, lump-sum payments, and other incentive measures). The administrative management approach is executed based on directives and commands. The administration categorises departments, organisations, and employees inside its organisation, delineating their tasks, responsibilities, and rights. In this system, planning, resource allocation, profit distribution, product completion, and finance utilisation are conducted centrally. Management in the socio-spiritual approach is executed by impacting the social and spiritual context, considering individuals' character and mindset, and fulfilling their social requirements.

The economy is essentially an interconnected sequence of production-distribution-exchange-consumption.

In Uzbekistan, in the transition from an administrative command system to a digital economy based on market relations, a number of problematic situations have to be resolved. One of the main unresolved tasks at present is the fight against tax violations. As we know, economic entities are divided into two groups according to their compliance with the laws in managing the economy: one is economic entities operating on the basis of state laws; the other is economic entities operating in violation of the law, which deprives the state of the right to distribute.

## Result and Discussion

Tax violations are divided into two directions - informal (unconventional) and criminal (illegal) relations.

The following are included in the subjects of official activity:

1. registered organizations;
2. registered individual entrepreneurs;
3. individuals who additionally register and receive income outside their main place of work.

In most cases, tax violations include legal entities and individuals who operate without registering as subjects of activity and hiding their income, namely:

- a. conducting trade activities without reflecting them in secret production and accounting calculations;
- b. establishing "one-day" companies based on forged documents;
- c. using illegal cash or barter in settlements;
- d. buying or selling products without documents;
- e. trading without using cash registers;
- f. hiring mercenaries without a contract or agreement;
- g. "buying" individual law enforcement officers and civil servants;
- h. engaging in industrial espionage in order to obtain confidential information from competing firms;
- i. carrying out activities aimed at defaming economic and political competitors.
- j. importing and selling goods into the country through smuggling.

The most important thing is that if the economy is criminalized, there will be problems with foreign investors. That is, in the conditions of investment development, will there be a good environment for their investment? The question arises, will the invested capital not fall into the hands of criminals?

Corruption means using one's position for personal gain, only this benefit can be legal or illegal. There are special legal standards for assessing this, there are concepts such as "ethics" and "conscience". Based on these, it is determined whether a person in office committed a violation of the law or not, and a conclusion is drawn.

It should be noted that in many cases corruption and organized crime are closely related to each other and in many cases form a single whole. So, corrupt individuals "protect" criminal groups from state scrutiny. In addition, in order to look "good" in the eyes of defense attorneys, they can use their position and position to interfere with other defense attorneys or criminal groups, reveal complete information about clients, and so on.

The purpose of long-term agreements, secret relations with the government is to improve the interests of organized criminal groups and corrupt individuals and always manage the collective system (system).

In the current transitional period, such relations pose a great challenge. The President of our country, in the first days of his term, emphasized that the fight against corruption is the main task of our society.

The members of society themselves are witnessing that the introduction of the digital economy into the life of our country by the Head of State has yielded great results. The new market economy, the development of the financial market, banking, documents governing the work of cooperatives used to easily fall into the hands of criminals related to business. Now, it has been practically proven that the exclusion of the human factor from such processes, the inclusion of all processes electronically in public services, can save us from the scourge of corruption.

The result of observing these phenomena and changes leads to the following situations:

1. Flexibility of state authorities (changing laws based on the situation).
2. Studying the situation by deviating from the existing law and canceling or easing some taxes.
3. Bypassing some ineffective norms (rules).
4. Leaders tend to work with enthusiasm.
5. Reduction of some expenses (For example: a legal fine may be cheaper than a bribe).
6. Reforms are carried out based on the effectiveness of our laws in action, depending on the state of corruption and organized crime.

At this point, we should also mention the extremely negative aspects of criminalized situations:

1. Horizontal and vertical inequality (society is divided into rich and poor)
2. Conditions for new crimes are created.
3. The political and economic stability of the state is undermined.
4. The state spends a lot of money on the fight against corruption and crime.
5. Creating favorable conditions for officials to take bribes.
6. Violating the principles of the law.
7. Reducing tax revenues, causing inflation.
8. Finding ways to earn money illegally to pay bribes, leading to an increase in illegal business fees.
9. Increasing the costs of the enterprise, seeking its own profit, introducing innovations, etc.

It is also worth noting that tax offenses, as a result of their development outside the control and control of the state, can also become a type of activity that is not reflected in official statistics.

The third point of view is that it is the sum of all activities aimed at satisfying the desires of a person.

Classification of tax offenses and their impact on the socio-economic situation:

Tax offenses are violations of the law by legal entities and individuals in fulfilling tax obligations, each of which can lead to economic, social and legal consequences. These offenses reduce the effectiveness of tax policy, harm the formation of the state budget and create economic imbalances. Therefore, it is necessary to systematically manage tax offenses and prevent their socio-economic consequences.

Classification of tax offenses

Tax offenses can be classified according to various criteria. They can be divided into the following forms:

1. Correction and calculation offenses: This type of offense is associated with incorrect calculation of taxes by taxpayers, tax evasion or incorrect filling out of tax returns. This type of offense often occurs due to the ignorance or mistakes of taxpayers.
2. Tax avoidance and concealment: Taxpayers try to reduce taxes by hiding their income or assets, drawing up false accounts or contracts. In this case, the state budget decreases, economic development slows down.
3. Incorrect payment of taxes: Taxpayers do not pay taxes on time or try to reduce their payment. This leads to special legal liability of the taxpayer.
4. Tax violations: Tax officials abuse their official duties and engage in unfair practices against taxpayers for their own benefit. These types of violations lead to corruption and negative social impact in the field of tax services.

The impact of violations in the field of tax and their impact on socio-economic conditions

Various forms of tax fraud can be intertwined and lead to wide-ranging economic and social negative consequences. In this case, the following socio-economic effects occur:

1. Damage to the state budget: Attempts by taxpayers to reduce taxes or delay tax payments lead to a decrease in

the state budget. This leads to a decrease in the funds allocated by the state for the development of social services and infrastructure.

2. Distortion of the economic market: Tax avoidance and evasion practices increase unfair competition. In this case, the incorrect allocation of labor and capital harms the market and leads to inefficient use of resources.

3. Social injustice: Individuals or companies that do not pay or reduce taxes receive an unfair advantage compared to those who pay taxes. This, in turn, exacerbates social injustice, as taxpayers pay their full share, but some do not.

4. Increased corruption and distrust: Tax violations, especially when committed by tax officials, create an environment of corruption and distrust. This, in turn, reduces trust between the state and citizens and jeopardizes the stability of the economic system.

## Systematic management proposals

To reduce tax offenses and prevent their negative socio-economic consequences, it is necessary to introduce the following systematic management measures:

1. Strengthening monitoring and control: It is important to create effective monitoring and control systems by tax authorities, monitor taxpayers' actions and identify them in a timely manner.

2. Risk assessment and analysis: To prevent tax evasion and offenses, it is necessary to conduct a risk analysis in various areas. Based on this analysis, it will be possible to further improve the tax system.

3. Improving the skills of tax officials: It is necessary to improve the skills of tax officials, train them to fight corruption and be strict in relation to offenses.

4. Improving the penal system: It is necessary to create an effective system of punishment for tax offenses, while ensuring the effectiveness of punishment and applied measures by increasing the legal knowledge of taxpayers

## Conclusion

Based on the research conducted on the identification and improvement of regulatory management of tax violations in business entities, the following conclusions were drawn:

-comprehensively encourage cashless settlements.

-further strengthen trust in the authorities, which means protecting the population from fraud due to financial fraud, protecting their deposits and protecting private property institutions.

-establish public control over the activities of business entities.

-wide application of the experience of conducting preventive tax audits and inclusion in the Tax Code of Article 140<sup>1</sup>. "Preventive tax audit" as an article. (No measures must be taken based on the results of such an audit) Introduction of preventive audit audits into tax legislation and a sharp increase in the number of such audits.

-introduce the use of credit cards for small payments and bank checks for larger ones;

-take measures to adhere to the principle of the honest taxpayer;

-gradually transfer tax management systems to the private sector.

Taking into account the proposals and recommendations developed based on the results of the research will help reduce the share of hidden activities in the national economy, systematically combat tax violations, and improve the quality and efficiency of tax administration.

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