



ISSUES OF TAX PLANNING IN THE ACTIVITIES OF ECONOMIC ENTITIES

Abdusattarova Dildora Bokhodirowna

Docent of Tashkent State University of economics

Email: d.abdusattarova@tsue.uz

ARTICLE INFORMATION

Volume: 1

Issue: 3

DOI: https://doi.org/10.55439/INSURE/vol1_iss3/a14

ABSTRACT

Tax planning is an important aspect of managing economic entities, as it can have a significant impact on their financial health. However, there are several challenges associated with tax planning, including changing tax laws and regulations, interpreting tax laws, balancing tax efficiency with business objectives, and managing tax risks. Economic entities need to stay updated with the latest changes in tax laws and regulations and seek the expertise of tax professionals to ensure effective tax planning. By managing these challenges, organizations can minimize tax liability and achieve their business objectives while remaining compliant with tax laws. This article explores the issues that economic entities face in their tax planning activities and highlights the importance of effective tax planning.

KEYWORDS

tax planning, economic entities, tax laws, tax regulations, tax efficiency, business objectives, tax risks, compliance, tax professionals.

Introduction

Tax planning is an essential aspect of managing economic entities, whether it be small businesses or large corporations. It involves analyzing an organization's financial situation to determine the most tax-efficient ways of conducting business. Tax planning aims to minimize tax liability while still adhering to legal requirements. Effective tax planning can help organizations to free up resources that can be redirected towards other areas of the business, such as research and development, marketing, or expansion. Additionally, tax planning can help economic entities comply with legal requirements, avoid penalties and fines, and maintain a good reputation in the market. In this article, we will explore the issues that economic entities face in their tax planning activities and highlight the importance of effective tax planning in achieving business objectives.

Tax planning is crucial for economic entities because it can have a significant impact on their financial health. By minimizing tax liability, organizations can free up resources that can be redirected toward other areas of the business, such as research and development, marketing, or expansion. Effective tax planning can also help organizations to comply with legal requirements, avoid penalties and fines, and maintain a good reputation in the market.

Literature review.

Tax planning has been a topic of interest for researchers and practitioners in the field of accounting and finance. Several studies have explored the challenges and issues associated with tax planning for economic entities.

Tax planning has been a topic of interest for researchers and practitioners in the field of accounting and finance. Several studies have explored the challenges and issues associated with tax planning for economic entities.

One common issue identified in the literature is the constantly changing tax laws and regulations. According to Lathrope and Richardson (2015), changes in tax laws can have significant implications for businesses, and failure to comply with them can result in penalties and fines. Therefore, economic entities need to stay updated with the latest changes in tax laws and regulations to ensure that their tax planning strategies are still effective[1].

Another challenge of tax planning is interpreting tax laws and regulations. The complexity of tax laws can make it difficult for economic entities to understand and apply them correctly. According to Chen and Tang (2019), organizations often require the expertise of tax professionals to interpret and comply with tax laws. This can be costly, especially for small businesses that do not have the resources to hire tax professionals[2].

Balancing tax efficiency with business objectives is another issue associated with tax planning. While minimizing tax liability is an essential aspect of tax planning, it should not be the only objective. According to Cowan and Wei (2019), economic entities need to ensure that their tax planning strategies align with their overall business goals. For example, a company that is expanding into new markets may need to prioritize investment in research and development over tax efficiency[3].

Finally, managing tax risks is a crucial aspect of tax planning. Economic entities need to ensure that their tax planning strategies are compliant with tax laws and regulations to avoid penalties and fines. According to Blomquist and Singh (2018), failure to manage tax risks can have severe consequences, including legal action, reputational damage, and financial losses[4,5].

In summary, the literature highlights the challenges and issues associated with tax planning, including changing tax laws and regulations, interpreting tax laws, balancing tax efficiency with business objectives, and managing tax risks. Economic entities need to stay updated with the latest changes in tax laws and regulations, seek the expertise of tax professionals, align tax planning strategies with business goals, and manage tax risks effectively to ensure effective tax planning.

Analysis

The literature review provides valuable insights into the issues and challenges associated with tax planning in economic entities. The review highlights four key issues that economic entities face when engaging in tax planning activities: changing tax laws and regulations, interpreting tax laws, balancing tax efficiency with business objectives, and managing tax risks.

The first issue, changing tax laws and regulations, is a significant challenge for economic entities. Tax laws and regulations are complex, and they are constantly changing, making it difficult for organizations to keep up with the latest developments. Failure to comply with tax laws and

regulations can result in penalties and fines, making it crucial for economic entities to stay updated with the latest changes in tax laws and regulations.

Table 1

Share of taxes of entities in Uzbekistan¹

Taxes	Income as of March 31, 2022	Income as of March 31, 2023	Share (in %)	Growth rate (in %)
Total Revenues of budget	34 495	37 877	100	110
Value added tax	7 591	8 399	22,2	111
Excise tax	3 361	3 355	8,9	100
Others	23 543	26 123	69	111

The second issue identified in the literature review is interpreting tax laws and regulations. Economic entities require the expertise of tax professionals to interpret and comply with tax laws accurately. However, hiring tax professionals can be costly, especially for small businesses that do not have the resources to do so (See Table 1).

Here we can see total revenues of budget increased 10 % in a year, Value added tax increased in 11%, excise tax did not change and other revenues of budget have a growth rate of 11 %. And How with share of taxes in the total budget we can see in Figure 1 below:

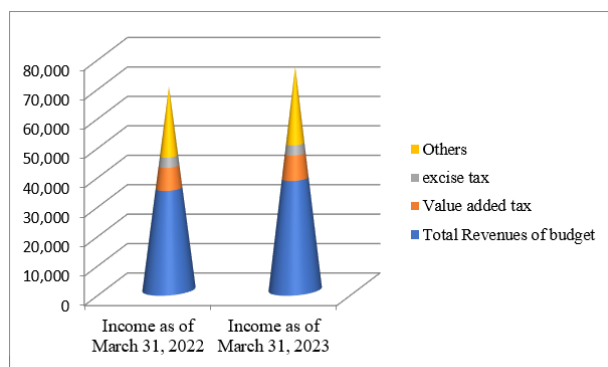


Figure 2. Share of taxes in the total budget.

The third issue is balancing tax efficiency with business objectives. While minimizing tax liability is an essential aspect of tax planning, it should not be the only objective. Economic entities need to ensure that their tax planning strategies align with their overall business goals. For example, if a company is expanding into new markets, it may need to prioritize investment in research and development over tax efficiency.

The fourth issue identified in the literature review is managing tax risks. Economic entities need to manage tax risks effectively to avoid penalties and fines. Failure to manage tax risks can have severe consequences, including legal action, reputational damage, and financial losses.

The literature review highlights the challenges and issues associated with tax planning in economic entities. Effective tax planning requires economic entities to stay updated with the latest changes in tax laws and regulations, seek the expertise of tax professionals, align tax planning strategies with business goals, and manage tax risks effectively. By addressing these issues, economic entities can minimize tax liability, achieve their business objectives, and remain compliant with tax laws.

In general, tax planning is the process of maximizing tax benefits in accordance with the relevant rules of the tax system. It reduces your tax liability through various means i.e. deductions, credits, deductions, and exemptions under the Income Tax Act or relevant tax laws.

For example, you can seek tax planning benefits by saving through retirement plans. You can also invest in fixed deposits, mutual funds, provident funds, or other similar accounts to reduce your tax liability (Look at figure 1).

A key feature of tax planning is its relation to the future, whether short-term or long-term. To bring the best possible outcome for tax planning, you should consider some essential factors:

Figure 3. Tax planning processes²

- Choice of business entity
- Timing of income
- Size of business
- Planning for expenditures and purchases
- The owner's residency status
- Capital structure

Among the three methods, tax planning is the most upright approach because it complies with the provisions of the tax laws. There are many strategies for good tax planning for your company, the key of which many startups and entrepreneurs have opted for incorporating an offshore company thanks to its great benefits of tax efficiency.

Results and discussion

The discussion focuses on the implications of the literature review findings for economic entities. One of the key implications is that economic entities need to adopt a proactive approach to tax planning. This involves keeping up with the latest developments in tax laws and regulations, seeking the expertise of tax professionals, and identifying tax planning opportunities that align with their business goals.

Another implication is that economic entities need to balance tax efficiency with other business objectives, such as investment in research and development, employee training, and infrastructure improvements. By prioritizing tax efficiency, economic entities may overlook opportunities to invest in areas that can drive growth and enhance long-term competitiveness.

The literature review also highlights the importance of managing tax risks effectively. This involves identifying potential tax risks, assessing their impact on the organization, and implementing controls to mitigate them. Economic entities need to ensure that their tax planning strategies are compliant with tax laws and regulations to avoid penalties and fines.

Furthermore, the literature review emphasizes the need for economic entities to embrace tax risk management as an integral part of their business strategy. Tax risk management involves identifying and assessing tax risks, developing risk mitigation strategies, and monitoring and reporting on tax risks. By integrating tax risk management into their business strategy, economic entities can enhance their decision-making, manage tax risks effectively, and achieve their business objectives.

Conclusion

In conclusion, tax planning is a critical aspect of business management that requires economic entities to stay updated with the latest changes in tax laws and regulations, seek the expertise of tax professionals, align tax planning strategies with business goals, and manage tax risks effectively. Failure to engage in effective tax planning can have severe consequences, including penalties, fines, legal action, reputational damage, and financial losses.

The literature review has highlighted several issues and challenges associated with tax planning in economic entities, including changing tax laws and regulations, interpreting tax laws, balancing tax efficiency with business objectives, and managing tax risks. Economic entities need to adopt a proactive approach to tax planning, embrace tax risk management as an integral part of their business strategy, and prioritize investments in areas that can drive growth and enhance long-term competitiveness.

Effective tax planning requires a deep understanding of tax laws and regulations, as well as the ability to navigate complex and evolving tax environments. By addressing the challenges and issues associated with tax planning, economic entities can minimize tax liability, achieve their business goals, and remain compliant with tax laws and regulations.

Reference:

1. Lathrope, B., & Richardson, G. (2015). The evolving role of tax in corporate decision-making. *Tax Notes International*, 80(12), 1223-1230. doi: 10.2139/ssrn.2698078
2. Chen, D. Q., & Tang, G. (2019). Corporate tax planning: A literature review. *Journal of Accounting Literature*, 43, 1-29. doi: 10.1016/j.acclit.2019.03.002
3. Cowan, A., & Wei, S. X. (2019). The effects of tax planning on financial statements and firm value: A review of the literature. *Journal of Accounting Literature*, 43, 57-72. doi: 10.1016/j.acclit.2019.07.001
4. Blomquist, T. M., & Singh, H. (2018). The role of tax risk management in business strategy. *Journal of International Accounting, Auditing and Taxation*, 31, 1-10. doi: 10.1016/j.intaccaudtax.2017.11.001
5. Khamdamov Sh. Analysis of International Indicators of Innovative Development and Inclusive Growth in the Republic of Uzbekistan/19th RSEP International Economics, Finance & Business Conference Proceedings Full papers. Pg.282-288. 2020 Prague, Czechia