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## **Features of Tax Regulation of Banks' Activities and Impact on Financial Activities**

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### **Abstract**

This article is devoted to the foreign experience of taxation of commercial banks, and within the framework of the study, the research of foreign and domestic scientists was studied. Taxes paid by banks are always of particular importance in the economic activities of commercial banks. Also, a comparative analysis of the tax policies implemented by foreign countries and the lessons learned from them is presented, and a conclusion is drawn at the end.

**Keywords:** tax regulation, commercial bank, corporate tax, fiscal policy, financial result, reporting period, tax base

### **Introduction**

Any economic activity requires funds, money. Wherever production takes place, it still generates finance (Ashurov et al., 2020). The three main directions of macroeconomics, namely what to produce, how much to produce, and how to distribute the results obtained in production activities, can only be solved with the help of finance. If this issue is solved using political or administrative measures, we are talking about a command or planned economy (Zaynalov & Ahrorov, 2019). However, we are studying the financial market in a market economy based on a free economy that is managed using competitive price resources. (Pinskaya et al., 2023)

Commercial banks play an important role in the formation and development of the country's economy. Commercial banks, by their economic nature, perform the following economic operations:

- a. commercial banks attract financial resources in excess of the needs of the population and economic entities on an additional fee basis;
- b. provide credit resources to entrepreneurs who need temporary financial resources;
- c. through its operations, the bank contributes to ensuring social stability in the country by providing jobs to the able-bodied population.

The functions of commercial banks in the national economy can be compared to the activity of the blood vessels of a living organism.

The analysis of the materials of the State Statistics Committee and the annual reports of commercial banks shows that the financial condition of some commercial banks is not up to the mark. In our opinion, taxes play an important role in the emergence of such a negative situation. The situations mentioned above are commercial. (Ergashev, 2021)

Improving the taxation of commercial banks is of scientific, theoretical and practical importance in ensuring the development of society and the performance of state functions. At the stage of economic liberalization, the materials of the State Statistics Committee and the analysis of the annual reports of commercial banks show that the financial condition of some commercial banks is not up to the mark. (Ergashev, 2022)

In our opinion, taxes play a significant role in the emergence of such a negative situation. The situations mentioned above are urgent problems that require a comprehensive analysis of the taxation mechanism of commercial banks. (Sohib, 2023)

## **Literature Review**

The main content and results are: "The Economy of Uzbekistan: Problems at a New Stage of Development and Ways to Solve Them" (Moscow, 2006), "Ways to Further Improve Tax Policy in Achieving Economic Development" (Tashkent, 2006), "Principles and Main Directions of Reforming the Tax System of the Republic of Uzbekistan" (Almaty, 2007), "Further liberalization of tax policy is the most important priority" I.A. Mayburov and A.M. Sokolovskaya state that "Profit tax meets the requirements of economic efficiency. Because in the profit tax, not profit, that is, the initial size of the enterprise's capital, but capital income is taxed (Kusainova, 2022). If taxable profit is calculated correctly, such taxation will not hinder business development and will not undermine the foundations of social well-being" (Toshmatov Sh.A. The role of taxes in the development of enterprises. T: "Science and Technology" -2008, p. 46). According to Sh.A. Toshmatov, "...in addition to the conclusion that through taxes, enterprises can effectively manage their economic activity, it is necessary to evaluate taxes as the first factor that hinders and negatively affects the economic activity of an enterprise" (Toshmatov Sh.A. The role of taxes in the development of enterprises. T: "Science and Technology" -2008, p. 46).

According to L.G. Batrakova, "In general, the profit remaining at the bank's disposal depends on three "global" components: income, expenses, and taxes paid to the budget." B.O. Otajonov, G.B. Bababekova, I.S. Musakhonzoda note that "When analyzing the financial results of commercial banks, it is necessary to deeply study the composition and changes in these types of income (interest and non-interest income), which are the main source of profit" (<https://openinfo.uz/>). Based on the above scientific analysis, studies that reflect the role and impact of profit tax on the economic activities of commercial banks are of great scientific importance. (Giyasov, 2021)

### **Research Method**

The characteristics of the impact of profit tax on the economic activities of commercial banks are presented. This scientific research uses observation, comparison, analysis, summarization methods, and explanations based on figures and tables, and conclusions and suggestions are made on the results. Existing scientific research on increasing the efficiency of taxes, the study of statistical data and economic analysis, logical thinking, scientific abstraction, data grouping, induction, and deduction methods are widely used.

### **Result and Discussion**

Large-scale economic reforms are being implemented to liberalize and modernize the country's economy. Special attention is paid to forming a strong and stable banking system in this regard. One of the priority areas of the tax policy implemented in the country during the stage of economic liberalization is aimed at gradually reducing the tax burden on commercial banks. (Ahrorov et al., 2023)

At the stage of deepening economic reforms, the capitalization of commercial banks in the financial market is further increased, and their investment activity is increasing. The taxation of commercial banks, unlike other economic entities, has its own characteristics. The specificity of the tax system of commercial banks is manifested in two incompatible situations.

Firstly, commercial banks are intermediaries between taxpayers and the state in collecting and controlling taxes. Secondly, commercial banks are payers of a number of taxes. Particular attention is paid to the objective necessity of taxation of commercial banks. Firstly, the regulatory and incentive functions of taxes are manifested in the activities of commercial banks. Secondly, taxes are used by the state as a means of regulating commercial banks. The fact that profit tax rates are being gradually reduced during the liberalization of the economy should be considered one of the important steps in reducing the tax burden. There are some problems in determining the object of taxation of commercial banks' profits in the republic.

The process of collecting tax on the profits of commercial banks from the budget shows that there are certain shortcomings in tax practice. Analysis shows that the profit tax base paid by commercial banks includes some expenses that are re-added to the taxable base. Net profit is the main indicator that positively affects the stabilization of the financial position of commercial banks and ensures the level of capitalization. Most of the net profit that remains at the disposal of a commercial bank is formed by deducting taxes applied to them. Taking into account the role of commercial banks in the economy, broad-ranging changes are being implemented in this area.

However, in the event of additional burdens on the banking system during the pandemic and its aftermath, insufficient measures are being taken to stimulate their activities through taxes. In particular, the establishment of a separate 20 percent rate for the profit tax on commercial banks, the increase in the share of overdue loans, the creation of banking infrastructure, the introduction of new software technologies, and the increase in the ability to purchase equipment are necessary to stimulate the investment activities of these financial

institutions in these conditions and to cover a wide range of the population with banking services.

It is known that the economic activity of a commercial bank, although it is associated with various levels of management of this credit institution, is ultimately aimed at meeting the needs of customers for banking services. Initially, the impact of taxes on the activities of banks is manifested in the different nature of these types of taxes. For this purpose, before making decisions related to the economic activities of banks, it is also necessary to analyze the impact of tax consequences on these decisions. The main goal of commercial banks, like other business entities, is to make a profit, which is achieved mainly by reducing costs and systematically searching for sources of income. The timely payment of taxes by commercial banks, preventing the occurrence of penalties for them, is a sign of compliance with financial discipline. As noted above, in order to make promising management decisions, banks, like business entities, need to analyze solutions and approaches to tax consequences. Because the profit tax paid by commercial banks also directly affects their economic activities.

The impact of the profit tax on the economic activities of commercial banks can be observed through the following phenomena:

- 1) increase in the cost of banking services;
- 2) decrease in the volume of banking services offered;
- 3) emergence of instability of the economic indicators of the bank;
- 4) decrease in investment and lending opportunities;
- 5) decrease in employee motivation;
- 6) decrease in net profit;
- 7) search for various opportunities to increase profit in order to reduce costs;
- 8) focus on the quantity and quality of banking products in order to increase their sales;
- 9) ensuring the stability of the economic indicators of banks;
- 10) improvement of management efficiency;
- 11) increase in the efficiency of resource use in order to increase profit;
- 12) increase in the amount of net profit.

Therefore, it is necessary to systematically analyze the impact of taxes in order to increase the efficiency of banks' economic activities.

## **Conclusion**

Commercial banks are one of the main institutions that manage the flow of money in the economy. The efficiency of operations carried out by banks is important not only for the banks themselves, but also for bank customers and shareholders. Therefore, the effective

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conduct of active and passive operations, which are the main operations of banks, as well as their management and compliance, are among today's most pressing issues. In particular:

- a. It is necessary to develop measures to prevent the accumulation of large amounts of cash assets in commercial banks of our republic. In this regard, the management policy of commercial banks should include the issue of real-time monitoring of the status of cash assets using a centralized information base formed in all banks.
- b. In order to increase the profitability of credit operations and the share of loans in bank assets, commercial banks should improve their methodological base for comprehensive qualitative analysis of clients' financial aspects, improve the real-time monitoring system to improve the quality of commercial banks' assets, and establish cooperation with their clients based on the "bank for the client" principle.
- c. It is necessary to increase the volume of asset transactions of commercial banks related to securities, that is, investment transactions in corporate securities.
- d. A commercial bank should invest resources raised at floating interest rates in assets with floating interest rates as much as possible. Only in this way can the bank's spread and margin levels be protected from the negative impact of interest rate fluctuations.
- e. It is necessary to strengthen commercial banks' deposit base by increasing the interest rates paid on term deposits and term deposits of the population.
- f. Based on the research results, the Central Bank should set a maximum level of 40 percent for the share of banks' demand deposits in the total volume of bank deposits.

Foreign experience shows that the weakening of the relationship between monetary aggregates and the inflation rate has led to most central banks abandoning the practice of targeting monetary aggregates and introducing an inflation-targeting regime. In the inflation targeting regime, the main focus in the use of interest rate instruments of monetary policy is on managing commercial banks' liquidity. In this case, the effectiveness of the Central Bank's interest rate instruments is increased based on the tasks of activating the use of market instruments.

### **Suggestion**

The primary task is to eliminate the fundamental problems that negatively affect banks' activation of securities operations in Uzbekistan, and such an approach is one of the important conditions for the sustainable development of the national securities market and increased activity of banking policies in it.

The analysis of the profitability of investments in securities by commercial banks shows that the income received by most commercial banks from these investments is very low, and even in some commercial banks there are cases when dividends are not received at all from investments in ordinary shares of enterprises. This situation indicates that commercial banks in the conditions of a transition economy do not properly assess the financial and property status of issuers of securities and that there are serious problems in bank management in this area.

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