
**CURRENT STATE OF TAXATION OF COMMERCIAL BANKS IN OUR
COUNTRY**

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Annotation

In the article, the need for a new approach to assessing the efficiency of commercial banks and improving it based on the new requirements of interbank competition under the conditions of institutional changes in the banking system, and the main directions are researched. The advantages and specific features of the system of using the system of evaluating the efficiency of commercial banks, which is used by international rating agencies, according to the instructions of the Central Bank of the Republic of Uzbekistan, have been scientifically substantiated. Possibilities of its application in the activity of commercial banks of the Republic of Uzbekistan were studied and recommendations were developed.

Keywords: banking system, commercial banks, interbank competition, efficiency of commercial banks, assessment of the efficiency of commercial banks, taxation, profit tax.

1. Introduction

The issue of creating a stable and efficient banking system in the conditions of the market economy has been defined as one of the most important directions of the government’s economic policy since the first days of our country’s independence. As a result, great positive progress is being made in the banking sector as well. As a result of the practical measures implemented by our government and the Central Bank, a two-tier independent banking system in line with world standards has been fully formed.

As of October 1, 2022, the number of commercial banks operating in our republic is 31, of which 23 are joint-stock commercial banks, 3 are private banks, and 5 are banks with foreign capital. Also, 20 representative offices of foreign banks operate in our country, with which the commercial banks of our republic have established comprehensive and mutually beneficial relations. The networks of commercial banks have expanded further in all regions of our republic, and as of October 1, 2022, the number of bank branches has reached 710.

Further strengthening of the total capital and deposit base of banks serves to provide financial support for the rapid growth of the country’s economy by expanding the lending and investment opportunities of banks at the expense of internal sources. In particular, the total assets of commercial banks increased by 30.3% in 2022 compared to 2021 and reached 539,990 billion soums as of October 1, 2022. In 2022, the total

volume of credit deposits of commercial banks increased by 14.9% compared to 2021, and as of October 1, 2022, amounted to 362,933 billion soums [1].

Commercial banks are very important in the process of supporting all branches and sectors of the economy through lending and managing money circulation. The level of development of the economy depends to a large extent on the extent to which commercial banks are able to fulfill the tasks assigned to them. As the President of our country, Shavkat Mirziyoyev, emphasized, there are still many problems that need to be solved in this regard. In particular, “due to the influx of private and foreign capital into the banking system, we are gradually reducing the share of state banks. This will serve to improve the competitive environment in the industry, improve the activity of commercial banks, the quality and culture of lending in all aspects. Also, the development of financial markets, including the stock market, should be one of our main goals in the new economic environment. It is necessary to further expand the scope of banking services by introducing new financial instruments and issuing bonds, and develop the banking system based on advanced information technologies [2].

2. Literature Review

A number of foreign economists-scientists, including Allen N. Berger, Yener Altunbas, David Humphrey, Philip Molyneux, Joseph P. Hughes, Loretta J. Mester, Subal C. Kumbhakar, Albert Assaf, John O.S. Wilson, Yizhe Dong, Steven Fries, Anita Taci, John H. Leusner, John J. Mingo, Anatoly Peresetsky, and Veronika Belousova in research and scholarly work.

Methodological issues of the system of evaluating the efficiency of commercial banks in the conditions of interbank competition, foreign economists-scientists O. Lavrushin, L. Batrakova, O. Zhilan, M. Kovalev, A. Osmolovsky, P. Rose, E. Rode, O. Semibratova, L. Padalkina, expressed in the scientific researches of K. Campbell [3-6]. Effectiveness in the management of financial resources of commercial banks in the scientific works of Sh.Z.Abdullaeva, A.A.Omonov, T.M.Koraliev, U.D.Ortikov, B.B.Babaev, Sh.B.Rozmetov, J.A.Isakov among the economists-scientists from Uzbekistan issues are researched [7-13].

Later, the concept of asset and liability management of the bank emerged. Different authors have paid different attention to this issue. So, in the fourth edition of “Banking” under the editorship of the foreign scientist economist Kolesnikov V.I. there is the concept of asset and liability management, but only as part of the liquidity management process: “The bank’s liquidity management process includes a set of actions and methods for managing assets and liabilities [14]”.

The approach of the famous foreign scientist P.S. Rose is the most constructive and is based on the assumption that the essence of asset and liability management in banks is the formation of a strategy and the implementation of activities that bring the bank’s balance sheet structure in line with its strategic programs. In his opinion, “... the main goal of asset and liability management is to maximize or at least stabilize the bank’s

margin (the difference between interest income and interest costs) with an acceptable level of risk [15]”.

The above-mentioned economists-scientists studied the evaluation of the efficiency of commercial banks in general. However, the evaluation of the efficiency of commercial banks and its improvement in the conditions of interbank competition have not been separately studied and analyzed.

3. Research methodology.

The level of capitalization of commercial banks operating in the country was analyzed, and the author made suggestions and recommendations to increase the level of capitalization.

4. Analysis and Discussion of Results

Chapter 33 of the new revision of the TAX CODE of the REPUBLIC OF UZBEKISTAN dated January 1, 2020, regarding the issue of exemption from taxation, has created several facilities for commercial banks, which are as follows:

1) bank operations, excluding fixed-price services, in particular:

- ✓ attract funds of legal entities and individuals to deposits;
- ✓ placement of attracted funds of legal entities and individuals on behalf of banks and at their expense;
- ✓ maintaining bank accounts of legal entities and individuals, including bank accounts serving for bank card settlements, as well as transactions related to bank card servicing;
- ✓ making calculations on the bank accounts of legal entities and individuals, including representative banks;
- ✓ provision of cash services to legal entities and individuals through bank cash registers or special equipment (ATM, automatic deposit machines, etc.);
- ✓ cash and non-cash trade of foreign currency (including provision of brokerage services for foreign currency trade transactions);
- ✓ execution of bank guarantees (payment under bank guarantee);
- ✓ providing guarantees for third parties that provide for the fulfillment of obligations in the form of money;
- ✓ settlements and payments under letters of credit;
- ✓ making calculations (payments) using payment systems, programs and equipment.

2) operations carried out by organizations that ensure information and technological cooperation between settlement participants, including the collection, processing and provision of information on bank card transactions to settlement participants;

3) realization of shares in the authorized fund (authorized capital) of legal entities, shares in mutual funds of cooperatives and investment mutual funds, securities and derivative financial instruments, except for the realization of the basic asset of derivative financial instruments subject to taxation. For the purposes of this section, the realization of a derivative financial instrument is understood as the realization of

its underlying asset, as well as the payment of contract premiums, variation margin amounts, other periodic or one-time payments of the parties to the derivative financial instrument without the underlying asset payment in accordance with the terms of the derivative financial instruments;

4) relinquish rights (claims) in favor of another person (assign them to others) on obligations arising on the basis of derivative financial instruments, the realization of which is exempted from taxation in accordance with paragraph 3 of this part;

5) forfeiting and factoring operations;

6) each of the borrower's rights (requirements) in favor of another person in connection with obligations arising from contracts for the provision of bonds in the form of money and (or) credit agreements (giving or receiving them to others), as well as in connection with the original contract based on the contract of waiver in favor of another person operations related to the fulfillment of obligations to a new creditor;

7) the amount of money to be paid for the issuance of loans, bonds in the form of money and securities, including issuance with interest on them, as well as REPO operations, including the issuance of securities under REPO operations;

8) on the part of services related to financial leasing (leasing) of property related to receiving interest income on these services;

9) operations related to securities (shares, bonds and other securities). Transactions related to securities include operations on storage of securities, registration of rights to securities, transfer of securities and maintenance of their register, organization of securities trading, excluding services for their preparation;

10) financial services of payment systems related to the implementation of transactions with the distribution of brokerage fees among payment participants at the same time.

The Ministry of Finance of the Republic of Uzbekistan, together with the State Tax Committee of the Republic of Uzbekistan, in agreement with the Central Bank of the Republic of Uzbekistan and the authorized body for the development of the securities market in the part related to securities, has the right to provide explanations on the procedure for applying the provisions of this article, including clarifications on the detailed clarification of certain turnovers.

Also, according to Article 304 of this code, which is income not taken into account in taxation: the amount of the price of placement of shares (shares) in excess of their nominal value (initial amount) is not considered as income (until the end of 2023) [16].

Measure 1.6 of the "Roadmap" for the reform of the banking system of the Republic of Uzbekistan for 2020-2025 is called "Gradual liberation of banks from assets and functions that are not specific to their activity", according to which, functions performed by banks that are not specific to their activity (tax agent, assistance to private housing owners associations, debt accounting, etc.) is tasked with detailed analysis and phased release [17].

In recent years, it has served to increase the quality of ratings given by rating agencies in determining the rating of banks. The change in this situation can be assessed by the rapid development of the world globalization process and the rapid adaptation of the process of “reaction” of the investors in the market to the results of the rating agencies. In some studies, it is stated that the bank rating is a quantity that indicates the ability to fulfill its obligations to a specific company in a certain period of time.

The table below shows the financial indicators of commercial banks, which shows that the financial condition of banks is reaching high levels today. This indicates that the country’s economy is growing slowly (Table 1).

Table 1 Information on the main indicators of the banking system (billion soum) [18]

Indicator name	01.10.2021			01.10.2022			Nominal growth, in percent	“Real growth, (excluding devaluation) in percent”
	Total	therefore, in foreign currency	share, in percent	Total	therefore in foreign currency	share, in percent		
Total assets	408 477	198 362	48,6%	539 990	269 379	49,9%	32,2%	30,3%
Total loan deposits	311 591	154 708	49,7%	362 933	172 313	47,5%	16,5%	14,9%
Total deposits involved	134 406	53 249	39,6%	206 759	88 005	42,6%	53,8%	51,9%
Total capital	65 608	342	0,5%	76 854	352	0,5%	17,1%	17,1%

According to the profit and loss report of commercial banks approved by the Central Bank of the Republic of Uzbekistan, the income of commercial banks is divided into two large groups. In this report, the income of commercial banks is divided into interest income and non-interest income. If related legal entities in their commercial and financial relations use prices that differ from the prices that can be used between independent legal entities, the profit of the taxpayer shall be equal to the difference in prices for the purpose of taxation, in accordance with the procedure established by law can be changed.

Long-term as part of the loan portfolio of commercial banks According to the Regulation on the procedure for applying tax credits on profit tax depending on the share of investment financing, the rate of profit tax is classified according to the share of long-term investment financing in the credit portfolio as follows:

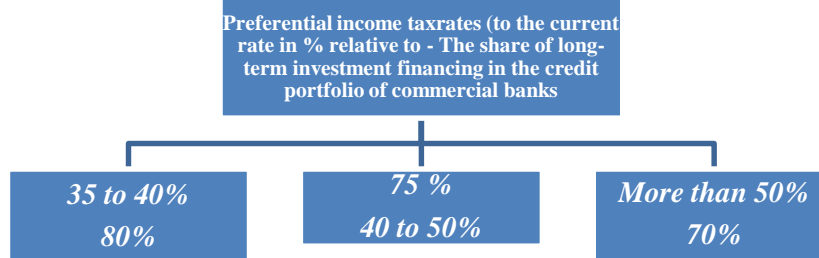


Figure 1. Preferential rates of profit tax [19]

Table 2 Information on assets, loan capital and problem loans of banks of the Republic of Uzbekistan (trillion soums) [18]

Indicators	2016	2017	2018	2019	2020	2021	January 1, 2022
Assets	84,1	166,6	214,4	272,7	276,9	366,1	444,9
Risk assets	57,4	106,5	155,0	223,0	316,8	376,8	292,2
Loans issued	52,6	110,6	167,4	211,6	276,9	276,9	326,3
Capital	9,0	20,7	26,7	51,0	53,3	51,1	70,9
Problem loans	0,39	1,3	2,1	3,1	2,3	2,1	5,2

The assets of the banking system in 2021 will reach 383.2 trillion soums and increased compared to previous years, an increase of 335.3% compared to 2016. Risky assets also saw credit growth increase accordingly. Although the bank's capital has also increased, it can be seen that its adequacy ratio has decreased. The amount of both non-performing loans, which represent the quality of assets, has increased. Deterioration in asset quality indicates that it is moving into a problem asset.

Table 3 Banking system profitability indicators as of 2021-2022 (billion soums) [18]

Income and expenses of the banking system	01.10.2021	01.10.2022
Interest income	34 307	46 635
Interest expenses	22 294	28 877
Interest margin	12 013	17 757
Interest-free income	13 372	25 053
Interest-free expenses	3 492	8 385
Operating expenses	7 546	9 995
Non-interest income (loss)	2 334	6 673
Assessment of possible losses on loans and leases	8 206	11 945
Assessing potential losses on other assets	299	3 187
Net profit (loss) before tax	5 842	9 298
Expenses for payment of profit tax	1 223	2 175
Net profit (loss)	4 618	7 123
Banking system profitability indicators	01.10.2021	01.10.2022
Ratio of net profit before tax to total assets (ROA)	2,0	2,6
The ratio of net profit to total equity (ROE)	10,0	12,9
Ratio of net interest income to total assets	4,0	4,9
The ratio of net interest income received on loans to total loan deposits	5,3	7,3
The ratio of net interest income to total liabilities	4,8	5,8
The ratio of net interest margin to total assets	4,2	5,5

It is important to study the problem loans of banks, including the constant monitoring of their share in the loan portfolio, assets, the development and implementation of specific measures to reduce it. Problem loans in the Republic of Uzbekistan are growing from year to year, if in 2016 the problem loans amounted to 0.7%, by the end of 2021 it was 2.7%. This can also be seen in the ratio of problem loans to assets and risky assets. It can be seen that the quality of assets in commercial banks is relatively declining.

The purpose of the new approach to the study of the issues of evaluating the efficiency of commercial banks and improving it in the conditions of interbank competition is to develop proposals and practical recommendations aimed at evaluating the efficiency of commercial banks and improving it in the conditions of interbank competition.

In general, the bank rating is an indicator that expresses the correctness of the information on the bank's balance sheet, illuminates the possibilities of the bank's activity, and determines its place in the market economy, providing information about it. Timely knowledge of this information allows banks to adapt to the market environment and serves to prevent large losses.

5. Conclusions and Suggestions

In the conditions of increasing healthy competition between banks, the system of evaluating the effectiveness of their activity becomes important in the sustainable development of commercial banks.

Commercial banks have a special place in the tax system of the state. Taxation of commercial banks, unlike other economic entities, has its own characteristics. The uniqueness of the tax system of commercial banks is manifested in two incompatible situations. First, commercial banks are mediators between taxpayers and the state in terms of tax collection and control. Secondly, commercial banks are considered as payers of a number of taxes. The contribution of commercial banks in the implementation of the revenue part of the parameters of the State budget of the Republic of Uzbekistan plays a significant role. It is known that every commercial bank tries to get high profit during its activities. The higher the profits of the banks, the higher the amount of taxes paid to the budget. This, in turn, serves to increase budget revenues.

A new approach to assessing the efficiency of commercial banks and researching issues of its improvement based on the new requirements of interbank competition allows:

- In the conditions of interbank competition, the theoretical views on the essence and importance of the efficiency of commercial banking activities are summarized, the efficiency of commercial banking activities is defined as “the competitive results of activities that represent the increase in the well-being of business owners, the creation and increase of bank value in the mode of compliance with banking legislation and prudential norms of regulation” and based on this, the scientific apparatus of this concept is filled and expanded;
- In the process of taking appropriate measures in time to prevent the bankruptcy of

a commercial bank, a comprehensive classification of commercial banks is proposed, taking into account the identification of the author's parameter "efficiency of activity", which is of practical importance in the regulatory activities of the Central Bank of the Republic of Uzbekistan and from the point of view of owners and investors;

- Based on the comprehensive analysis of the results of the commercial banks of the Republic of Uzbekistan in the conditions of interbank competition, the trends of commercial banks activity efficiency are determined;
- as a result of the analysis of the advantages and disadvantages of the current methods of assessing the economic status of a commercial bank, the main indicators for evaluating the effectiveness of the commercial bank's activity are selected and scientific and methodological recommendations for their use are developed;
- based on integrated indicators, a methodology for assessing the effectiveness of commercial banks will be developed, including the calculation of the efficiency of commercial banks.

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