

The Possibilities of using Digital Technologies in the Financial, Banking and Tax System in Uzbekistan

Malika Uktamova

Student of Tashkent Financial Institute, Tashkent, Uzbekistan

ABSTRACT

This work provides a comprehensive overview of digital technology and its possible impact on the financial sector. Scientific papers and books have been used in the study of the topic to fully understand the topic provided. The paper also presents two drawings for the concept of the topic for the reader.

KEYWORDS: digital technologies, innovation, Fintech, technology, electronic banking, tax

Introduction

The largest stimulant of growth, innovation, and competitiveness all belong to the digital economy. Thanks to the rapid development of technology, it contributes to fundamental reforms in the economy and society. A special feature of the manifestation of technology is the ability to integrate and to take advantage of necessary services that were not previously available (Maftuna Kurbanova, 2019). At present, the technological progress that has been made in telecommunications is noted as a component of the structure in the transformation of finance (OECD, 2018). The impact of new technologies in financial services is called digital finance. It differs from traditional Bank services because it combines business models, applications, and various services. Investment in technological innovation is exploding every year. The way people use the services of banks today did not exist a few years ago. In the digital reality, it is possible to easily transfer, pay, and check balance through a computer or a phone (European Commission, n.d.).

This work comprises the key three chapters. In the first chapter author discussing the development of financial innovation. The second chapter introduces the concept of Internet banking its relevance today and financial technologies. The third chapter is talking about general tax reforms in Uzbekistan.

Chapter 1 Globalization and financial innovation

1. The technology and digital monetary revolution

Technology has made a significant contribution to shaping society, the environment, and the economy. Moreover, it has two sides at the same time as it creates constantly new challenges and the solution to many problems. Technology transformation is closely linked to the development of socio-economic areas as society and institutions have developed simultaneously. Technological change can be controversial, as it can be a means for social activism and collaboration, and it can also be a source of controversy (United Nations, 2016).

Thanks to technological innovations, organizations have unique transformation opportunities. The basic principles of economics and business have properties to change in all areas of industry. Technology transformation may be a

promising opportunity for any organization and may become a problem for society (Hency C.Lucas, 2008). The transformation of all kinds of forces, which leads to the simplest constructions and fundamental changes in human status, considers the measurement of the scientific and technological revolution. By nature, human has limited intellectual and physical capabilities, in case of the technical growth can exclude him from production proper. The technological revolution depending on the labor failure into classic elements, from the other side, a synthesis remains a natural technical process that a person achieved, and therefore able to manage. This symbiosis shows the victory of the automatic principle (Richita).

In the modern era, technology is taking on a more scientific form. Because it is unlimited to the formation and development based on science but also generates scientific knowledge. One of the key examples of technologies represents the development of artificial intelligence. A need for interaction between diverse industries shows the potential for future use. Approaches to solving problems that have been considered earlier are inferior to modern ones. Since current methods allow breaking down the barriers to achieve a holistic and multi-disciplinary view of technology (COLOMBO, 1988).

In advanced technology and globalization, goods that are not available in any region can be instantly placed in the right place. Thanks to the offered options of cash currency, this is available online. Indeed, many people disapprove of the money trading system, explaining the negative impact on society (Jean-François Serval, 2015). To assess the subsequent impact of the digital revolution, it needs a structured analysis based on the impact of technological trends on politics and economic growth. Information technology and networks impact the formation of the structure, day-credit policy, and the establishment of state control over the money supply. ICT has a huge impact on regulating the monetary economy, and this, in turn, concerns monetary policy. In particular, it will help to adapt to changes affecting interest rates and exchange rates (Papaconstantinou, 2004).

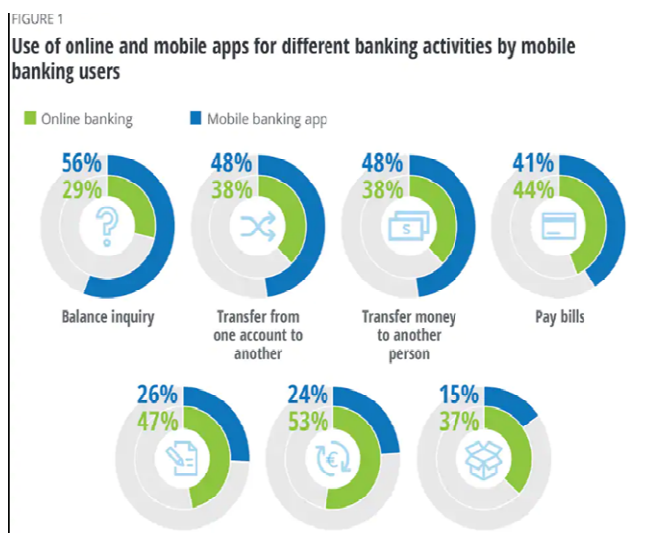
Chapter 2 Banking in the modern era

2. Concepts and applications in Electronic banking

Electronic banking includes several distribution channels as top-level design. The term “e-banking” has a broader meaning than just online banking. Internet banking is one of the most common forms of electronic banking. It provides this service through a computer and mobile phone to provide information and banking services. The modern era of technology as e-banking is perceived as a modern method of providing services and affects the development of the banking market. The alternative method of providing

services online, creates challenges for traditional banks, as it neutralizes possible advantages. But this does not mean that traditional banks may disappear, conversely, will take on a new level for further operation in the banking market. The key advantages of e-banking are increasing the reputation of the bank, efficiency, cost savings, and customer satisfaction (Long Pham, 2015).

Meanwhile, increased investment in banking technology has resulted in the growth of efficiency and innovation. The increasing complexity of e-services and the widening range have contributed to the growth of clients and their demand for continuous technologies. An important aspect of internet banking is the ability to expand operations and provide optimal services at minimal operation costs. It is necessary to consider also risks which can be connected with e-banking. Moreover, the use of e-banking has led to threats of cyber-crime. But every bank has its security system. The major risks of e-banking are the authenticity of the stakeholders, the security of transactions, viruses, and the availability of the Internet. However, customers continue to use the services of the bank in its service branches.



Picture 1 Use of online and mobile apps for different banking activities (Val Srinivas, 2018)

Security of transactions, viruses, and the availability of the Internet. However, customers continue to use the services of the bank in its service branches. Taking into account that, over the last few years Internet banking has become the principal instrument of communication between consumers and banks (IMOLA DRIGĂ, 2014). To identify a key business opportunity, it is necessary to collect customer data for depth research. It carries out with the help of web analytics, which has the capacity of careful customer tracking in relationship management. Since the internet is a unique way to serve, it is very important to develop the relationship between the client and the bank (Emanuela, 2015).

2.1. Customer adoption and Perception towards Fintech

The twenty-first century is considered an era of information technology that has come to simplify daily trade transactions. To meet the needs of clients, there are business models that are developed with the help of financial technologies. The term as *"the new technology in the financial services industry"* is called "Fintech" (Tun-Pin Chong, 2019). Fintech is to be described as a process that

introduces disruptive and transformational innovations in the financial sector. Organizations using Fintech differentiate themselves by providing new applications to partners, financial institutions, and direct clients. There is no doubt that Fintech has caused a spike in the sector of financial institutions and business operators. It is believed that Fintech belongs to the fourth generation of the industrial revolution as it destroys industrial structures and erases borders. Reducing the cost of remittances, preserving the expertise in innovation and non-banking services is Fintech's principal focus (Muhammad Anshari, 2020). Besides, Fintech helped to create a fresh look for the financial market and alternative ways of solving problems related to financial transactions. An example is Paypal, which has become one of the successful examples of financial technology. Paypal's chief objective is to execute transactions and manage money through online trading. Another achievement is the well-known eBay. The platform where there is a huge range of products that can be purchased through reliable online payments (Truong, 2016).

Chapter 3 Tax implications in banking

3. Consumption-oriented tax system

The State establishes a compulsory tax to perform economic growth and development. The provision of economic, social, and political development is directly related to the volume of revenues received in the country. Thanks to the organized system of taxation, the government obtains appropriate profits to meet the needs of infrastructure. The tax is one of the essential subjects in every society. Due to that, states receive the necessary financial resources to carry out their direct duties. The taxation structure represents an effective method for mobilizing resources and stimulating economic growth (Gylych Jelilov, 2016).

The introduced tax systems in the socialist's epoch command economies were incompatible with Western standards and also more limited. Salary, business and turnover rates were the principal source of tax revenue. Besides, the collection of taxes from individuals represents a minor part of all revenues. In most cases, tax mechanisms have always been complex because of several uncertain tariffs and are subject to regulation. Significantly, in countries with central planning, there was no tax collection with the application of the established norms and rules. In particular, it collected taxes through negotiations between entrepreneurs and the government. The need for a tax authority was low, given the small number of taxpayers (Luigi Bernardi, 2005).

Significantly, the system of taxation affects the economic sphere, therefore it is necessary to pay attention to the careful development and volume of related costs. How much taxation affects producers, employees, and can change consumer behavior. As a result, it leads to a reduction in using physical, intellectual capital and directly reduces the volume and growth of it. Therefore, the extent to which the tax system impacts economic efficiency is likely to increase concurrently with taxation (Marco Buti, 2005). Professionals who deal with tax policy and administration should carry out reforms concerning direct taxes. Direct taxes include those levied in business and household. The tax system is building on the consumption of both direct and indirect taxes. For example, the value-added tax is one of the main indirect taxes on consumption, which is practicing in most EU countries. To implement the regime of consumption-oriented

taxes, it is necessary to reduce direct rates and an increase in value-added rates (Rose, 1990).

The importance of the consumption tax is explained by the fact that it is one of the key mechanisms in tax policy. The EU's €4 trillion, which is over 25 percent of the tax revenue comes from consumption taxes. The consumption and profit tax are therefore considered as alternative tax revenue. It is crucial to evaluate the impact of the tax on company decision-making, the interaction between consumption and profit taxes to provide a tax regulatory and policy analysis. However, the establishment of tax systems based on income and consumption taxes is under active discussion. According to economic theory, tax pressure can partly be placed on enterprises rather than on the final consumer (Marcel Olbert, 2018). It is crucial to understand the differences between income and consumption taxes before starting certain projects. Income tax is deducted from taxable income, while consumption tax is deducted from the net of savings. Different methods for saving and investing are the key differences between income tax and consumption tax. However, the key factor in the consumption tax is the reduction in the value of existing capital relative to the new capital (Garner).

3.1. The tax reforms in prosperity of small business in Uzbekistan

At the beginning of the reform of tax forms, several countries applied simultaneously to standard tax benefit schemes for small and large businesses. Because of the dynamic development of small businesses, the growth of taxpayers is increasing as called "hard to tax". Earlier, when there was a socialist tax system, the concept of "small business" was virtually absent. The expansion of taxpayers as a separate group where inexperienced specialists in tax management may have difficulties in solving problems, especially in countries with transition economies. However, registered small enterprises do not have management problems. The issues for tax administration are also the forced control of numerous taxpayers who had low income with potential volatility. According to statistics, only a few small businesses have achieved success and sustainability. One reason for the collapse of businesses may be that small businesses were often built on the base of influential and irrational companies that had a low viability ratio (Engelschalk).

Nowadays, one of the primary goals of Uzbekistan is to develop small and medium-sized businesses. Progress is being made in the conditions of macro-politics, preventing cardinal changes and focusing on social aspects (Hubner, 2000). The main types of enterprises are sole proprietorship, limited liability companies, partnerships, and foreign companies. Such types of business enterprise are most often found in the economic market of Uzbekistan:

- **Representation**
- **Permanent facilities**
- **Joint-stock company**
- **Limited liability Company** (Deloitte, 2017).

Gradually, in line with the ongoing changes, the tax system, and its administrative and institutional structures have evolved through consistent action. The reform resulted from a compromise related to income retention. Mistakes in tax reforms at the early stages concerned the functions of taxation and the underestimation of social and regulatory activities. This practice harmed the dynamics of private business, employment, and capital investment, which had contributed to the rapid growth of the unorganized economy. Over the years, tax authorities have focused on optimizing infrastructure and reducing the tax burden, including increasing regulatory and incentive measures of tax strategy (Dildora Tadjibaeva, 2009). Significant government revenues and employment are generated by the small and medium-sized business segment. Each country tries to develop this segment for further welfare of the state. Uzbekistan has adopted a decree: **"On accepting the previously paid one tax and compensation payments to government agencies, including reducing the tax burden on small businesses and micro-firms from 15.2% to 13%"**. A new Tax Code was adopted in the Government in 2008. This provision has contributed to tax exemptions, enhanced sustainability, reduced tax burden, and improved tax administration. According to the above data, the measures taken in the tax code significantly increased the state profit from corporate income by 42.6% and single tax by 36% in the first half of 2008 (DEKHANOV, 2011).

The tax reform is being updated every year, with the VAT rate being reduced from 1 October 2019 to 15%. However, it is assumed that corporate income taxes will increase from 12 to 15%. From today, the following major tax rates are available:

Name of tax	Rate
Personal income tax	12%
Single Social Payment	12%
Corporate income tax	Standard rate - 12%
	For commercial banks and mobile communication companies - 20%
	* It is expected that the standard rate of Corporate income tax shall be increased to 15% as of January 1, 2020.
Property tax	2%
Value added tax	15%

Picture 2 Major taxes in Uzbekistan (Dentons, 2020)

Conclusions

Today, digital technology is an integral part of the economy, the environment, and society. The need for interoperability between diverse industries points to the need to develop

artificial intelligence. The digital age has influenced economic development in banking and insurance services. An example of this is e-banking, which is a method of providing services online. The digital era influences the

economic development of the banking and insurance industry. The financial technology focuses on price reduction in remittances and innovation activities. There is a term which has known as "Fintech" as transformational innovations in the financial sector.

When it comes to taxes, it is one of the sources of resources for the government. The basis of taxation is the collection of taxes at the lowest cost to the state. It is worth noting that digital technology, the Internet of Things, and Artificial Intelligence are transforming the tax administration. With Big Data, it will be possible to control all available operations in tax administration, giving preference to problem-solving artificial intelligence that will make decisions in tasks.

References

- [1] COLOMBO, U. (1988). The Technology Revolution and the Restructuring of the Global Economy. In *Globalization of Technology: International Perspectives* (pp. 23-26). Washington: The National Academies Press.
- [2] DEKHANOV, M. (2011, September). *TAXATION SYSTEM OF UZBEKISTAN: INFLUENCE OF TAX REFORMS ON SMALL ENTERPRISES*. Retrieved from https://www.researchgate.net/https://www.researchgate.net/publication/275569685_TAXATION_SYSTEM_OF_UZBEKISTAN_INFLUENCE_OF_TAX_REFORMS_ON_SMALL_ENTERPRISES
- [3] Deloitte. (2017). *Tax and Investment Guide Uzbekistan*. Retrieved from https://www2.deloitte.com/https://www2.deloitte.com/content/dam/Deloitte/kz/Documents/uzbekistan/UZ_Tax_and%20Investment_Guide_ENG.pdf
- [4] Dentons. (2020, February 3). *Doing business in Uzbekistan*. Retrieved from <https://www.dentons.com/https://www.dentons.com/en/pdf-pages/-/media/d85e8fd3a4bc4607ab597484342fe777.ashx>
- [5] Dildora Tadjibaeva, I. K. (2009, December). *THE INFLUENCE OF TAX REFORMS ON THE PROSPERITY OF MICRO-FIRMS AND SMALL BUSINESSES IN UZBEKISTAN*. Retrieved from https://www.unescap.org/https://www.unescap.org/sites/default/files/apdj-16-2-2-Tadjibaeva_Komilova.pdf
- [6] Emanuela, B. L. (2015). *Characteristics Of Online Banking Products And Services*. Retrieved from <https://ideas.repec.org/https://ideas.repec.org/a/blg/reveco/v67y2015i5p33-46.html>
- [7] Engelschalk, M. (n.d.). *Small Business Taxation in Transition Countries*. Retrieved from <https://www.worldbank.org/http://documents.worldbank.org/curated/en/151041468331754316/pdf/351090Business0taxation0SME0paper1ME2.pdf>
- [8] European Commission. (n.d.). *What is Digital finance*. Retrieved from https://ec.europa.eu/https://ec.europa.eu/info/business-economy-euro/banking-and-finance/digital-finance_en
- [9] Garner, C. A. (n.d.). *Consumption Taxes: Macroeconomic Effects and Policy issues*. Retrieved from <https://www.kansascityfed.org/https://www.kansascityfed.org/publicat/econrev/pdf/2q05garn.pdf>
- [10] Gylych Jelilov, S. A. (2016, May). *The Impact of Tax Reforms and Economic Growth of Nigeria*. Retrieved from https://www.researchgate.net/https://www.researchgate.net/publication/303047627_The_Impact_of_Tax_Reforms_and_Economic_Growth_of_Nigeria
- [11] Hency C.Lucas, J. (2008). Rules of the Revolution. In J. Hency C.Lucas, *Inside the Future: Surviving the Technology Revolution: Surviving the Technology Revolution* (pp. 3-4). Westport: Praeger.
- [12] Hubner, W. (2000). *SME Development in Countries of Central Asia(Kazakhstan, Kyrgyzstan and Uzbekistan): Constraints, Cultural Aspects and Role of International Assistance*. Retrieved from https://www.unido.org/https://www.unido.org/sites/default/files/2006-10/huebner_0.pdf
- [13] IMOLA DRIGĂ, C. I. (2014). *E-BANKING SERVICES – FEATURES, CHALLENGES AND BENEFITS*. Retrieved from <https://www.upet.ro/https://www.upet.ro/annals/economics/pdf/2014/part1/Driga-Isac.pdf>
- [14] Jean-François Serval, J.-P. T. (2015). The rise and fall of civilizations. In J.-P. T. Jean-François Serval, *The Monetary System: Analysis and New Approaches to Regulation* (pp. 6-7). United Kingdom: Wiley.
- [15] Long Pham, N. Y. (2015). Structural Models for E-banking adoption in Vietnam. In *Banking, Finance, and Accounting: Concepts, Methodologies, Tools, and Applications* (p. 486). USA: IGI Global.
- [16] Luigi Bernardi, M. W. (2005). 1.2 Tax systems and reforms during transition. In b. M. a. Luigi Bernardi, *Tax systems and Tax reforms in New EU Members* (pp. 3-4). Oxford: Routledge.
- [17] Maftuna Kurbanova, F. A. (2019, November). *Peculiarities of Digital Economy and Its Development Tendencies in the Banking System*. Retrieved from <https://www.ijitee.org/https://www.ijitee.org/wp-content/uploads/papers/v9i1/A3945119119.pdf>
- [18] Marcel Olbert, A.-C. W. (2018, October 29). *Consumption Taxes and Corporate Tax Planning - Evidence from European Service Firms*. Retrieved from https://ntanet.org/https://ntanet.org/wp-content/uploads/2019/03/Session1257_Paper1737_FullPaper_1.pdf
- [19] Marco Buti, P. V. (2005). What is the impact of tax and welfare reforms on fiscal stabilizers? A simple model and an application to EMU. In W. Semmler, *Monetary Policy and Unemployment* (pp. 252-253). Oxon: Routledge.
- [20] Muhammad Anshari, M. N. (2020). In M. N. Muhammad Anshari, *Financial Technology and Disruptive Innovation in ASEAN* (p. 3). IGI Global.

- [21] OECD. (2018). *Financial Markets, Insurance and Pensions DIGITALISATION AND FINANCE*. Retrieved from <http://www.oecd.org: http://www.oecd.org/finance/Financial-markets-insurance-pensions-digitalisation-and-finance.pdf>
- [22] Papaconstantinou, G. (2004). E-policy: The Impact and political Economy of the Digital revolution. In N. M. Georgios I. Doukidis, *Social and Economic Transformation in the Digital Era* (pp. 20-27). USA: Idea Group Publishing.
- [23] Richta, R. (n.d.). The Substance of the Scientific and Technological Revolution. In R. Richta, *Civilization at the Crossroads : Social and Human Implications of the Scientific and Technological revolution*. Routledge Revivals.
- [24] Rose, M. (1990). The Superiority of a Consumption-based tax system. In M. Rose, *Heidelberg Congress on Taxing Consumption* (pp. 4-5). Heidelberg: Springer.
- [25] Truong, O. (2016, November). *HOW FINTECH INDUSTRY IS CHANGING THE WORLD*. Retrieved from <https://core.ac.uk: https://core.ac.uk/download/pdf/80995188.pdf>
- [26] Tun-Pin Chong, K.-S. W.-S.-Y.-L. (2019, February 5). *AN ADOPTION OF FINTECH SERVICE IN MALAYSIA*. Retrieved from https://seajbel.com: https://seajbel.com/wp-content/uploads/2019/05/seajbel5-VOL18_241.pdf
- [27] United Nations. (2016). *GLOBAL SUSTAINABLE DEVELOPMENT REPORT*. New York.
- [28] Val Srinivas, R. W. (2018, December 13). *The value of online banking channels in a mobile-centric world*. Retrieved from <https://www2.deloitte.com: https://www2.deloitte.com/us/en/insights/industry/financial-services/online-banking-usage-in-mobile-centric-world.html>

