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## FEATURES OF TAXATION OF FOREIGN LEGAL ENTITIES PROVIDING SERVICES IN E-FORM

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### Abstract

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**Keywords:** e-commerce, e-commerce entities, e-commerce taxation, value added tax, “Google” tax, tax jurisdiction, tax jurisdictions, double taxation.

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The article discusses the meaning of the term tax for Google, which has entered the world tax practice in recent years, its application and its place in the world. The structure of e-commerce services provided by foreign companies to individuals in Uzbekistan and their taxation, legal framework and its specific features, the current role of this tax in the formation of state budget revenues, as well as existing problems in this area are studied. Suggestions and recommendations were made to improve the mechanism of taxation of this system.

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### Introduction.

According to the international agency We Are Social, the number of mobile users in the world is 5.22 billion. person, internet audience 4.66 billion per person, 4.2 billion registered users on social networks. By the end of 2020, the world will have 2.8 billion. people made purchases online, they spent a total of \$ 3.19 trillion U.S. dollars on retail purchases.

The rapid growth of e-commerce shows that the formation of an effective mechanism of taxation of these businesses, taking into account the specifics of e-business on the global Internet, is one of the important issues directly related to the growth of tax revenues to the state budget.

At present, the world community has not developed a common approach to the taxation of e-commerce. This issue is being addressed in different countries on the basis of different approaches, resulting in certain difficulties for taxpayers and taxpayers. Problems of taxation of foreign e-commerce entities arise in the administration of direct taxes related to the determination of a permanent establishment, as well as in the calculation of VAT and indirect taxes.



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### **Analysis of the relevant literature.**

The issues of e-commerce and its taxation are to some extent reflected in the research of local and foreign experts. Theoretical and practical aspects of the taxation of e-commerce services have been studied by a number of foreign experts, in particular, A. Krensel, K. Frieden, P. Dernberg. American economist A. Krensel suggests to take into account its features in the taxation of e-commerce services, Sh. made its recommendations on non-taxation[2]. On the contrary, the European economist-analyst A. Essen, highlighting the current state of taxation of digital services in European countries, stressed the need for a separate taxation of this sector[5]. The research conducted by P. Dernberg explores the theoretical and practical aspects of the international standards developed and adopted in the field of taxation of e-commerce[6].

In the scientific work of Russian economists A.V.Em, A.V.Koren, the tax reforms implemented on the example of Russia and a number of other countries to improve the taxation of e-commerce have been studied in detail[7], [8].

National economists Sh.A. Toshmatov[9] and Z.Abdullaev[10] in their research on improving the tax system have studied certain aspects of the issues related to the taxation of e-commerce.

Based on the above, it should be noted that the issues of VAT on e-commerce services in Uzbekistan have not been studied in detail.

### **Analysis and results.**

While the Internet has many advantages and advantages in terms of its features, it also poses a number of challenges and shortcomings, in particular, it is worth noting that e-commerce is now becoming one of the problems leading to tax losses in the state budget.

Therefore, states are required to take appropriate measures to adapt the national tax system to the requirements of the current information economy. In this regard, the tax legislation should be aimed at organizing the taxation process, taking into account the conditions and capabilities of the subject of e-commerce.

In recent years, the term tax for Google has entered global tax practice. In fact, officially a tax of the same name does not exist in any state tax system. The name is simply directly related to the name of Google, a leader in the digital economy. The content of this tax is understood as a tax payment established for foreign e-commerce entities. For Google, the tax is a turnover tax for foreign e-services companies.

The purpose of this tax is to tax transnational corporations that provide electronic services. It should be noted that the taxation is formed in two directions, the first is the value added tax on electronic services provided by foreign IT companies, and the second is the taxation of their income. In both cases, turnover is considered a tax object for Google. Today, the practice of VAT on e-services provided by foreign e-commerce entities is widespread and introduced in many countries. For example, in the EU member states, the value added tax is levied on electronic services provided by entities providing foreign electronic services. Rates of this tax range from 15 percent to 25 percent (varying across EU member states). The tax is 20 percent in Russia and Belarus and 18 percent in Azerbaijan. From 2022, it is planned to collect 12% in Kazakhstan and 20% in Ukraine.



The procedure for taxation of e-commerce in Uzbekistan until 2020 was based on the general principles of calculation and collection of tax payments, without taking into account the specifics of this activity. Such an approach to taxation, on the one hand, led to the exclusion of large financial resources from taxation, on the other hand, several reductions in key indicators of the tax base, as well as the lack of effective tax control methods to identify e-commerce entities that refuse to register with the tax authorities. In our country, it was not possible to impose value added tax on electronic services provided to citizens by foreign IT companies. The specificity of e-commerce required the adoption of special regulations governing this area.

The new version of the Tax Code of Uzbekistan, which came into force on January 1, 2020, has developed a special approach to the taxation of entities engaged in e-commerce, taking into account the specifics of the industry. In particular, the procedure for VAT on foreign legal entities engaged in the sale of electronic services in Uzbekistan has been established. It details important tax elements, such as in which case foreign legal entities are recognized as taxpayers or tax agents, the procedure for their registration and registration, the object and base of the tax, the deadlines for submission of reports and payments.

Currently, the newly adopted Tax Code introduces the terms of e-commerce, provides the structure of 14 types of e-services and specifies their application to foreign e-commerce entities[1].

According to the current tax legislation, electronic services are services provided through the automatic use of the World Wide Web using information technology (Figure 1).

However, in this process, some electronic services are not included in the tax base in the process of VAT on their characteristics, including:

- sale of goods (services) if the delivery of goods (services) when ordering via the Internet is in fact carried out without the use of the Internet;
- implementation of programs for electronic computers (including computer games) and databases on physical objects (granting the right to use them);
- e-mail consulting services;
- provision of Internet access services.

The rate of value added tax for electronic services provided by foreign legal entities in Uzbekistan is currently set at 15%, as well as other services.

If a foreign company provides the above-mentioned electronic services to individuals in the territory of Uzbekistan (Figure 1) and makes settlements with individuals who receive services without intermediaries, no later than thirty calendar days from the date of commencement of electronic services to the tax authority should be placed. The registration of a foreign legal entity that is an intermediary recognized as a tax agent in such services with the tax authority shall be carried out in the same manner.



Figure 1.



The turnover on the sale of services in electronic form to individuals is the object of taxation. When foreign companies provide electronic services to individuals in Uzbekistan,



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the tax base is defined as the value of these services, taking into account the amount of tax calculated based on the actual cost of their sale.

The tax base is determined on a quarterly basis based on the time of receipt of payment for services rendered. When determining the tax base, the value of services provided in electronic form in foreign currency is recalculated in the national currency at the rate set by the Central Bank of the Republic of Uzbekistan on the last day of the month in which the payment for services is received.

If the obligation to calculate the tax is not imposed on the tax agent under the current tax legislation, foreign legal entities shall perform the tax calculation independently.

In accordance with the new version of the Tax Code, foreign legal entities providing services in electronic form shall submit a tax report to the tax authority through the personal account of the taxpayer, in electronic form in the prescribed form. Foreign legal entities must submit tax returns for their services no later than the twentieth day of the month following the last quarter, and make tax payments no later than the deadline for submission of this report[1].

In order to further simplify and facilitate tax administration for taxpayers operating in this sector in our country, it is possible to voluntarily register online as payers of value added tax to foreign legal entities that provide electronic services to individuals. For this purpose, a special service - the VAT office of Internet companies <http://tax.uz> was created. This platform allows foreign legal entities to apply for registration as a payer of value added tax in the Republic of Uzbekistan and use an online personal account, submit reports and pay taxes, as well as get answers to questions. To access a personal account, a foreign legal entity must apply for registration. You can do this online in the "Apply" section. To do this, fill in the form, which must include the name of the company, its address, e-mail, country of registration, information about the services provided. An extract from the register of foreign legal entities of origin or other document confirming the legal status of the foreign organization must be attached to the application.

If all the necessary information is provided, access to the personal account of the company will be activated within 15 days and a notification will be sent by e-mail specified during registration. These registration rules do not apply directly to foreign companies that provide services through permanent establishments in the Republic of Uzbekistan. Such companies must be registered in Uzbekistan as payers of value added tax in the prescribed manner for legal entities.

As noted above, the tax legislation of the country defines the procedure for payment of value added tax for foreign companies providing electronic services and the creation of a convenient tax administration (including registration) for taxpayers, possible, there are some positive results in the taxation of foreign legal entities providing electronic services in Uzbekistan.

According to the State Tax Committee, as of April 1, 2020, 26 foreign companies are registered in Uzbekistan as VAT payers. These include Facebook, Google, Apple and other foreign e-service companies. It is reported that in 2020, Facebook paid 5 billion 981 million soums in taxes. Google also paid 3 billion 453 million soums, Apple - 1 billion 934 million



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soums, Netflix - 190 million soums, Booking.com - 181 million soums and Yandex - 136 million soums[13].

In Uzbekistan, 28 foreign companies providing electronic services to individuals who do not have a permanent representative office in 2 years are registered as taxpayers. Booking.com B.V, Netflix International B.V, Apple, Facebook, Yandex, Huawei and others. As of September 2021, Facebook paid 7.6 billion soums, Google Commerce Limited - 4.6 billion soums, Apple - 2.2 billion soums, Netflix - 331 million soums and Yandex - 256 million soums[13].

## **Conclusion**

Noting the advantages of e-commerce, changes in traditional economic relations have made it difficult to control a number of problems in tax legislation, in particular, transactions, taxpayers who are subjects of the e-commerce market are not fulfilling or abusing their obligations using loopholes in the legislation. This problem also exists in the VAT on electronic services provided to citizens by IT companies.

One of the reasons for the problems of tax administration in the process of taxation of e-commerce is the lack of a system of mutual coordination between bilateral or multilateral interstate tax authorities. It is necessary to develop areas of international cooperation of tax services in improving tax administration in the field of e-commerce.

Based on the study of international experience, it should be noted that the current state of taxation of e-commerce in Uzbekistan is typical of countries that have passed the stage of formation of modern information technologies and their use in e-commerce. The new version of the Tax Code, which came into force on January 1, 2020, takes into account the specifics of taxation of electronic services provided by foreign legal entities. Today, about 30 transnational corporations operating in the country pay value added tax for e-services.

In order to further develop e-commerce in the country, reduce the size of the "hidden economy" in this sector, to ensure the proper registration and operation of e-commerce entities, the value added tax rate for foreign companies providing e-services will be increased. it is advisable to reduce the percentage from 10 per cent. We believe that this will encourage e-commerce companies - foreign companies to operate on a legal basis with state registration, and in the near future will contribute to the rapid development of this commercial sector and increase revenue in the formation of budget revenues.

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