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Existing Problems in the Organization of Tax Administration and Ways to Overcome Them

Berdieva Uguloy Abduraxmanovna

Professor, Department of Taxation and Taxation Systems

Tashkent State University of Economics

E-mail: uguloy555@gmail.com

INTRODUCTION

Tax administration is one of the most important components of an effective public finance system because it determines not only the volume of tax revenues collected by the state budget but also the quality of interaction between taxpayers and tax authorities. An efficient tax administration system creates the institutional conditions necessary for ensuring stable budget revenues, reducing the shadow economy, improving voluntary tax compliance, and strengthening taxpayers' confidence in public institutions. In contrast, weaknesses in tax administration may result in incomplete tax collection, accumulation of tax arrears, inefficient use of administrative resources, increased compliance costs, and a deterioration of relations between taxpayers and tax authorities. Therefore, improving the organizational and institutional mechanisms of tax administration remains an important priority for economic policy.[1]

The relevance of this issue has increased significantly under conditions of digital transformation and structural changes in the economy. Modern economic activity is increasingly characterized by electronic transactions, digital platforms, cashless payments, online commerce, cross-border operations, and rapidly changing business models. These processes create new opportunities for tax authorities to improve monitoring and analytical capabilities, but at the same time they generate new challenges associated with identifying taxable transactions, exchanging information, ensuring data quality, protecting taxpayer information, and adapting tax control mechanisms to emerging forms of economic activity. Consequently, traditional approaches to tax administration based primarily on inspections and documentary control are gradually being supplemented by risk-based, analytical, and digital methods.[2]

One of the major organizational problems in tax administration is the complexity of

administrative procedures. When taxpayers are required to complete numerous reporting procedures, provide repetitive information, or interact with several administrative structures, the cost of tax compliance increases. Such complexity can particularly affect small and medium-sized enterprises, individual entrepreneurs, and newly established businesses that may have limited financial and human resources. Simplification of tax procedures, therefore, should be considered not merely as an administrative convenience but as an important instrument for increasing voluntary compliance and reducing incentives to operate informally.[3]

Another significant problem concerns the effectiveness of tax control and the identification of tax risks. The traditional application of uniform control measures to all taxpayers may lead to inefficient allocation of administrative resources. Taxpayers with low levels of risk may be subjected to unnecessary administrative pressure, while more complex or potentially high-risk transactions may require deeper analytical examination. The introduction of risk-based tax administration allows tax authorities to differentiate taxpayers according to objective indicators and concentrate control resources on areas where the probability of tax violations is higher. Such an approach can simultaneously improve enforcement efficiency and reduce unnecessary interference in legitimate business activity.

The problem of tax arrears is also closely related to the organization of tax administration. Persistent tax debts may arise from temporary financial difficulties, weak financial management, deliberate non-compliance, or deficiencies in administrative procedures. Effective management of tax arrears requires a differentiated approach that distinguishes between taxpayers experiencing temporary liquidity problems and those intentionally avoiding their tax obligations. Preventive communication, early identification of financial difficulties, restructuring mechanisms where legally appropriate, and targeted enforcement measures can contribute to improving tax collection without creating excessive pressure on economically viable businesses.[4]

Digitalization represents another major direction for improving tax administration. Digital tax services can reduce transaction costs, accelerate reporting and payment procedures, increase transparency, and improve the accuracy of tax information. The integration of electronic invoices, online cash registers, digital taxpayer accounts, banking information, customs data, and other information systems creates opportunities for developing a more comprehensive picture of economic activity. At the same time, digital transformation requires reliable information infrastructure, interoperability between government databases, qualified personnel, cybersecurity mechanisms, and effective protection of personal and commercial data.[5]

METHODOLOGY

The human factor also remains important despite the increasing use of digital technologies. The effectiveness of tax administration depends on the professional competence of tax officials, the quality of communication with taxpayers, ethical standards, and the ability of administrative personnel to work with modern analytical and digital instruments. Therefore, technological modernization should be accompanied by institutional development and continuous professional training. Improving the quality of taxpayer services and communication can also contribute to strengthening tax culture and increasing voluntary compliance.

The purpose of this study is to examine the existing organizational problems in tax administration and identify practical directions for overcoming them. Particular attention is paid to administrative complexity, tax compliance, tax arrears, risk-based tax control, digitalization, information exchange, institutional capacity, and taxpayer communication. The study aims to demonstrate that effective tax administration should combine fiscal objectives with principles of transparency, simplicity, fairness, digital efficiency, and taxpayer orientation. The proposed approaches can contribute to increasing tax collection efficiency while simultaneously reducing administrative costs and improving the overall business environment.[6]

RESULT AND DISCUSSION

The analysis demonstrates that the effectiveness of tax administration depends on the interaction of several institutional, organizational, technological, and behavioral factors. Tax collection cannot be increased sustainably through enforcement measures alone. A modern tax administration system must create conditions in which taxpayers are able and willing to comply with their obligations voluntarily, while tax authorities possess sufficient analytical and technological capacity to identify and respond to high-risk behavior.[7]

One of the principal problems identified is the complexity of tax administration procedures. Excessive reporting requirements, complicated administrative processes, and the duplication of information requested from taxpayers can increase compliance costs. This problem is particularly significant for small businesses and individual entrepreneurs, for whom accounting and tax administration may represent a relatively large proportion of operating expenses. Simplifying reporting procedures, expanding automated data collection, and eliminating duplicated information requirements can reduce these costs and allow taxpayers to concentrate more resources on productive economic activity.

The results also indicate that the quality of tax administration is closely associated with the accessibility and reliability of electronic services. Digitalization can significantly transform the relationship between taxpayers and tax authorities by replacing many manual procedures with automated processes. Electronic submission of tax reports, online payments, electronic invoices, digital taxpayer accounts, and automated notifications can reduce the time required to fulfill tax obligations. At the same time, digital services should be designed according to the actual needs and technological capabilities of taxpayers. If digital systems are difficult to use or frequently experience technical problems, digitalization may create additional administrative burdens rather than reduce them.[8]

A particularly important finding concerns the role of risk-based tax administration. The application of the same control intensity to all taxpayers is inefficient because taxpayers differ substantially in terms of their economic activity, transaction structure, compliance history, and potential tax risks. A risk-oriented approach makes it possible to classify taxpayers according to measurable indicators and direct inspection and analytical resources toward areas with a higher probability of violations. This approach can reduce unnecessary inspections of compliant taxpayers while increasing the effectiveness of control over high-risk activities.

The development of data analytics is an essential prerequisite for effective risk-based administration. Tax authorities can analyze information from tax declarations, electronic invoices, cash-register systems, customs records, banking transactions, and other legally available information sources. Comparing information across databases can help identify inconsistencies between declared revenue, expenditures, purchases, payroll, and actual economic activity. Analytical models can also help detect unusual transaction patterns and potential underreporting. Consequently, the transition from reactive control to preventive risk identification can improve the efficiency of tax administration.

Another important issue is the management of tax arrears. The analysis suggests that tax debt should not always be interpreted as evidence of deliberate tax avoidance. Some taxpayers may experience temporary liquidity constraints caused by declining sales, seasonal fluctuations, delayed payments from customers, or broader economic conditions. Therefore, tax administration should distinguish between different categories of tax debt. Preventive notification, digital reminders, early communication, and legally established mechanisms for resolving temporary financial difficulties may improve collection outcomes. At the same time, deliberate and systematic tax evasion requires stronger enforcement and legal measures.[9]

The effectiveness of tax collection is also influenced by the level of taxpayer trust. When taxpayers perceive tax administration as transparent, predictable, fair, and service-oriented, their willingness to comply voluntarily tends to increase. Conversely, complicated procedures, inconsistent administrative practices, or insufficient communication can undermine confidence

and encourage informal economic behavior. Therefore, improving taxpayer services should be viewed as an integral part of fiscal policy rather than as a secondary administrative function.

The results further emphasize the importance of tax culture. Tax culture includes taxpayers' understanding of their legal obligations, awareness of the social and economic functions of taxation, and willingness to fulfill tax responsibilities. Improving tax culture requires systematic educational measures rather than communication only during periods of tax reporting or enforcement. Educational programs for entrepreneurs, simplified tax guides, online consultations, explanatory materials, and transparent communication regarding changes in tax legislation can help taxpayers better understand their obligations and reduce unintentional violations.

The analysis also reveals that the professional capacity of tax authorities must develop simultaneously with digital transformation. Modern tax administration requires specialists who can work with large datasets, interpret analytical indicators, identify tax risks, understand digital business models, and communicate effectively with taxpayers. Therefore, continuous professional development should include not only knowledge of tax legislation but also data analysis, information technologies, cybersecurity, risk management, and taxpayer service skills.

An important direction for improvement is the integration of tax administration with other public information systems. Fragmented databases can limit the ability of tax authorities to obtain a comprehensive understanding of economic activity. Interoperability between tax, customs, business registration, financial, and other relevant systems can reduce information gaps and improve the accuracy of risk assessment. However, such integration must be accompanied by strict rules concerning data protection, access rights, cybersecurity, and the lawful use of taxpayer information.

The findings indicate that digitalization should not be understood simply as the conversion of paper documents into electronic form. Its broader objective should be the transformation of administrative processes through automation, predictive analytics, information integration, and real-time interaction. For example, instead of requiring taxpayers to repeatedly provide information already available to the government, integrated systems can automatically populate relevant reporting fields. This can significantly reduce administrative costs and the probability of technical errors.

Another important result concerns the relationship between tax administration and the shadow economy. Inefficient administration, complicated procedures, and weak enforcement may create opportunities for informal economic activity. However, excessive enforcement alone cannot eliminate the shadow economy. A comprehensive strategy should combine simplified compliance procedures, digital monitoring, fair taxation, taxpayer education, improved access to formal financial services, and targeted enforcement. This combination can increase the relative attractiveness of operating within the formal economy.

The study also shows that the modernization of tax administration should be based on measurable performance indicators. Traditional indicators such as the volume of tax revenues collected remain important, but they should be complemented by indicators reflecting administrative efficiency. These may include the cost of tax collection, average time required for compliance, percentage of electronic services used, resolution time for taxpayer requests, effectiveness of risk-based audits, recovery rate of tax arrears, and taxpayer satisfaction. A broader performance framework would allow policymakers to assess whether administrative reforms are producing sustainable improvements.[10]

CONCLUSION

Based on the identified problems, several interconnected directions for improving tax administration can be proposed. First, administrative procedures should be continuously simplified and duplicated reporting requirements eliminated. Second, digital tax services should

be expanded and made more user-friendly. Third, risk-based control and data analytics should replace excessive reliance on universal inspections. Fourth, tax arrears should be managed through differentiated preventive and enforcement mechanisms. Fifth, professional training of tax officials should be strengthened. Sixth, taxpayer education and tax culture should be developed through systematic communication. Finally, information systems should be integrated while ensuring high standards of cybersecurity and data protection.

Overall, the results demonstrate that effective tax administration requires a shift from a predominantly control-oriented model toward a balanced model combining **service, digitalization, risk management, transparency, and enforcement**. Such a transformation can increase tax collection not only through stronger control but also through higher levels of voluntary compliance. In the long term, this approach can contribute to reducing the shadow economy, improving the predictability of the business environment, strengthening fiscal sustainability, and establishing a more constructive relationship between taxpayers and the state.

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