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# Improving the Practice of Calculating and Collecting Profit Tax in Commercial Banks

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***Abstract***

*This paper aims to examine the mechanisms and techniques involved in calculating and collecting profit tax in commercial banks, with a comparative analysis focusing on developed and developing countries. It further provides recommendations for the application of these methods in Uzbekistan to streamline its taxation practices, thereby enhancing its revenue-generating capacity.*

***Keywords**: taxation, profit tax, commercial banks, developed countries, developing countries, comparative analysis.*

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## Introduction

Profit tax in commercial banks, also known as corporate tax, plays a crucial role in shaping the economic structure and fiscal health of a nation. It is a major source of government revenue, funding various public services and contributing to national development. This is particularly true in countries where the banking sector plays a prominent role in the economy. However, the efficiency, accuracy, and transparency in the process of calculating and collecting this profit tax can significantly vary between different jurisdictions, and particularly between developed and developing countries.

These differences are attributed to a variety of factors, including the complexity and coherence of tax laws, the technological infrastructure available for tax administration, the efficiency of regulatory mechanisms, and the general level of economic development. In developed countries, we often find sophisticated tax systems, empowered by digital technology and stringent regulations, that enable accurate and efficient tax calculation and collection. Conversely, in many developing nations, these processes are frequently hampered by inadequate infrastructure, outdated tax systems, weak regulatory oversight, and high rates of tax evasion.

These contrasts highlight the significant room for improvement in the mechanisms of tax calculation and collection in developing countries. This study aims to provide an understanding of the varied practices in developed and developing countries. It further seeks to delineate strategies that can help countries, particularly those in the developing world, enhance their tax practices. Focusing on Uzbekistan, a country that has been working towards economic reform, this paper will provide recommendations to streamline its taxation practices, in hopes of improving its revenue-generating capacity, promoting economic stability, and fostering a climate conducive to growth and development.

Through a comparative lens, this paper will examine the methods and technologies that can be harnessed to improve the practice of calculating and collecting profit tax in commercial banks, thereby leading to a more effective, transparent, and robust taxation system.

## Literature Review

Several studies have scrutinized the differences in profit tax calculation and collection systems between developed and developing countries. The literature consistently underlines the stark contrast between the two, with the latter often facing severe challenges that limit their effectiveness and revenue generation potential.

A considerable body of research focuses on the efficiency of taxation systems. A study by Schneider et al. (2017) pointed out that developed countries, due to their sophisticated tax systems, robust technology infrastructure, and strict enforcement measures, are often able to maintain high compliance levels. This efficiency is largely attributable to the use of digital tools that enable precise tax calculations, timely collections, and rigorous monitoring of compliance.

In contrast, developing countries frequently grapple with ineffective taxation systems. Pessino & Fenochietto (2010) indicated that these countries often suffer from rampant tax evasion, inadequate tax laws, and limited technological resources. They highlighted that these deficiencies lead to significant revenue loss, which in turn stifles public investment and economic growth. In this context, they stressed the need for comprehensive tax reform and the enhancement of technological infrastructure.

Technology's role in improving tax practices has emerged as a significant theme in recent

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literature. Alm, J. (2019) conducted a study showing how the introduction of digital tax platforms could improve tax compliance and revenue collection. They argued that digital technology could facilitate real-time reporting, reduce calculation errors, and minimize tax evasion. Their findings suggest that adopting digital technology can significantly benefit developing countries, enhancing their revenue collection capacity and overall economic health.

Despite the apparent challenges, there's growing evidence that developing countries are making strides in reforming their taxation systems. Case studies from India and Nigeria presented by Prichard et al. (2014) demonstrate that these countries, despite their limited resources, have successfully adopted digital tax platforms, leading to increased tax revenue and improved transparency.

A parallel thread of research has also been focusing on regulatory reforms. Keen & Mansour (2009) noted that simplifying tax laws and improving regulatory oversight could greatly enhance tax compliance in developing countries. They stressed that reforming tax laws to make them more comprehensible and transparent could encourage voluntary compliance and foster a culture of tax responsibility.

The literature on tax calculation and collection in commercial banks suggests a clear path forward. It underscores the need for developing countries to leverage technology, embark on regulatory reform, and enhance capacity building to improve their taxation practices.

**Analysis and Results: Comparative Analysis in Developed and Developing Countries**

In the pursuit of understanding the distinct tax calculation and collection practices in developed and developing countries, it becomes critical to conduct a comparative analysis, focusing on their unique approaches, methodologies, and technological implementations.

**Developed Countries**

In developed nations, commercial banks typically operate under comprehensive tax systems characterized by efficiency and transparency. According to a report by the Organisation for Economic Co-operation and Development (OECD, 2020), these countries utilize advanced technology, digital platforms, and artificial intelligence for tax collection and calculation. A prime example is the HM Revenue & Customs (HMRC) in the UK, which leverages technology to ensure accurate tax reporting and promote compliance. The HMRC's Making Tax Digital (MTD) initiative requires businesses, including commercial banks, to maintain digital records and file taxes using compatible software, which minimizes errors and streamlines the process (HMRC, 2021).

A similar scenario can be observed in the USA, where the Internal Revenue Service (IRS) employs technology for tax administration. The IRS uses artificial intelligence and machine learning algorithms to analyze tax return data, detect potential fraud, and ensure compliance (IRS, 2022). These technological advancements have significantly reduced tax evasion and increased revenue collection in developed nations.

**Developing Countries**

In developing countries, on the other hand, the tax calculation and collection system often lacks the sophistication seen in their developed counterparts. As highlighted by the International Monetary Fund (IMF, 2019), many of these nations struggle with outdated tax systems, limited access to technology, weak regulations, and high instances of tax evasion. These challenges

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result in inaccurate tax calculations, delayed collections, and substantial revenue loss.

However, these countries are making efforts to reform their taxation systems. For instance, India has made notable strides by introducing the Goods and Services Tax (GST) system. As per a World Bank report (2021), the introduction of the GST system and the subsequent digital platform, the GST Network (GSTN), have improved tax compliance and increased revenue collection.

Nigeria is another example where tax reforms are gradually reshaping the landscape. The Federal Inland Revenue Service (FIRS) in Nigeria has been proactively digitizing its tax administration, and this effort has yielded improved compliance rates and a considerable increase in revenue collection (Mohammed, et.al, 2023).

In conclusion, while developed countries showcase exemplary practices in profit tax calculation and collection, developing countries, despite facing significant challenges, are also making gradual progress. Their commitment to reform and openness to adopting new technologies paints a promising picture for their future taxation systems.

**Recommendations: Application for Uzbekistan**

Drawing on the analysis of tax calculation and collection practices in developed and developing countries, several recommendations can be made to enhance these systems in Uzbekistan. This section provides an expanded list of such recommendations, including steps for technological integration, regulatory reform, capacity building, international cooperation, and the establishment of a conducive tax culture.

1. **Technological Integration**: Uzbekistan should prioritize the adoption of technology-enabled platforms for tax calculations and collections. Digital platforms can help automate tax computation, thereby reducing human errors, improving efficiency, and facilitating real-time tax payment and collection. For example, adopting a system similar to the UK's Making Tax Digital (MTD) initiative or the Indian GST Network (GSTN) could streamline tax collection, improve compliance, and significantly increase revenue.
2. **Regulatory Reform**: Uzbekistan should undertake comprehensive tax reforms to simplify tax laws and provide a more coherent regulatory framework. Clear and understandable tax laws encourage compliance and make it easier for both tax officials and taxpayers to meet their obligations. To this end, the country might consider studying and adopting certain aspects of tax laws from countries with robust tax systems, such as the USA or the UK.
3. **Capacity Building**: Implementing technological solutions and regulatory reforms will require a well-trained workforce. As such, Uzbekistan should invest in capacity-building programs to enhance the skills and knowledge of tax officials, bank personnel, and taxpayers. These programs should cover the intricacies of the tax laws, the use of digital platforms for tax calculation and filing, and the importance of tax compliance for national development.
4. **International Cooperation**: Uzbekistan should actively engage with international organizations like the IMF, the World Bank, and the OECD to learn from global best practices in tax management. These organizations can provide technical assistance, resources, and advice to help the country implement effective tax calculation and collection systems.
5. **Establishing a Conducive Tax Culture**: Finally, it is vital to cultivate a culture of tax responsibility and compliance in the country. This can be achieved through public awareness

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campaigns, education programs, and by setting penalties for non-compliance. Encouraging voluntary compliance through incentives and easy-to-use platforms can also contribute to fostering this culture.

Implementing these recommendations would require a dedicated, cross-sectoral approach involving different stakeholders, including policymakers, tax officials, commercial banks, and the general public. However, the potential benefits, including increased revenue, enhanced compliance, and improved economic stability, make this endeavor worthwhile.

## Conclusion

In conclusion, the practice of calculating and collecting profit tax in commercial banks significantly impacts a country's fiscal health, making it a critical aspect of economic policy. While developed countries typically showcase sophisticated, technology-enabled tax systems, many developing nations continue to grapple with inefficient systems, often hampered by a lack of technology and coherent regulation. However, the trend towards digitization and regulatory reform in some developing countries paints a hopeful picture.

For Uzbekistan, adopting a more digital, comprehensive, and transparent system can pave the way for enhanced tax compliance, increased revenues, and subsequently, improved economic health. To achieve this, it is essential to embrace technology, simplify tax regulations, build capacity, engage in international cooperation, and foster a conducive tax culture. This journey of reform is challenging but necessary, promising significant long-term benefits that can support the country's broader economic and development goals.

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