STRENGTHENING THE ROLE OF ELEMENTS OF FINANCIAL CONTROL OF ENTERPRISES WHILE IMPROVING TAX COLLECTION

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Abstract: The article outlines the difficulties of ensuring stability, the unpredictability of a cyclical downturn in the economy, methods of monetary control in conditions of both budget deficits and surpluses in conditions of manipulation of securities through the use of a reserve requirement for bank deposits. It is noted that mandatory reserve requirements should not be a permanent element of the state financial system. The proposal is made that reserve requirements in the order of 5% of credit accumulated in current accounts or savings deposits should be subject to monetary control rather than budgetary control.

Keywords: control, money issue, financial restrictions, state finances, tax base, VAT, mitigation, financing, bank lending, credit resources.

Introduction

Reforming public finances and preventing government over-issuance is not difficult from a conceptual point of view (although it remains difficult to implement for political reasons). It is much more difficult to find a technical solution to the problem of financial restrictions for enterprises that receive the right to make independent production and investment decisions. Even in these circumstances, where firms are "financially constrained" when bidding for scarce resources, the abandonment of price controls may be seen as desirable.

Using the concept of “soft budget constraints,” Janos Kornai showed why, under the conditions of an administrative-command system, enterprises often ignore changes in valuable ratios (even if control from central planning is removed) and focus on obtaining scarce resources at any cost. Kornai identifies three main reasons why state-owned enterprises, and even those that show the first signs of losses, can avoid financial shortages, allowing these enterprises not to change their behavior:

1) the state provides enterprises in difficult financial situations with deferrals on tax payments and subsidizes their activities; at the same time, no tax breaks are made for enterprises that are doing well;

2) bank loans, government loans and loans allocated for investments (capital investments) are received primarily by unprofitable enterprises;

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3) prices for resources and finished products, controlled by central authorities, are constantly revised in order to maintain a positive movement of liquidity for unprofitable enterprises.

Results and Discussion

In this case, exceptions are made and debt repayments are deferred in order to assist businesses experiencing financial difficulties. Businesses suffer from tax unpredictability. At any time the central government senses that businesses have “too much money,” tax levels can be arbitrarily raised, new taxes introduced, or businesses can be forced to save (eg, they are required to make deposits or reserves). This means that there is a redistribution of gross profits on a huge scale; funds are withdrawn in the form of taxes and then spent through numerous channels.

If the first path is followed, the introduction of a single VAT (as suggested above) could be a big step forward in strengthening budget constraints for enterprises of all forms of ownership. The existing tax with a loosely defined tax base typical for enterprises is inevitable in this case. However, the tax base of any enterprise, established under the VAT system, will be quite clearly defined: gross sales minus the cost of resources and services received from suppliers. Any tax can be manipulated and any tax can be “forgivable”, but VAT, provided its uniform level is established, is sufficiently protected from incorrect application. Attempts to “soften” the VAT obligations of any individual enterprise will immediately become apparent to everyone.

On the second path, a more complex problem arises, the solution of which determines the success or failure of the development of the enterprise’s economy. What should be the conditions for external financing of enterprises?

Those countries with economies in transition that were the first to embark on the path of reform (Yugoslavia, Hungary, China) did not avoid the loss of financial control over the domestic economy and, above all, due to the fact that there were ample opportunities to cover losses in production activities through loans. Such use of credit resources means their waste either with low efficiency or even at a loss (since unprofitable activities are financed). At the macroeconomic level, such a policy leads to the loss of the center’s ability to control the size of the money supply and the price level. In order to achieve real self-sufficiency, it is necessary to eliminate two of the reasons mentioned by Kornai for the comfortable functioning of unprofitable industries. Thus, in conditions of centrally set prices, an unprofitable enterprise may demand government support, explaining its financial difficulties either by the fact that the prices for its finished products are understated, or by the fact that the prices for the materials and equipment it uses are inflated.

Government bodies are unable to determine whether a particular production is really unprofitable or whether it is placed in unfair conditions.

Conclusion

Thus, all elements of financial control implemented through taxes, interest rates, loans, and prices are interconnected. The lack of financial control leads to a growing excess of money, which in
turn makes it impossible to control the distribution of credit resources and, ultimately, deprives the state of the ability to collect taxes in full.

How to get out of this situation? To do this, you can use two options:

The first is a gradual implementation of tax improvement, similar to that which the state generally adheres to. But with one exception - the proposed version clearly defines the sequence of transformations of the taxation system.

The second involves the immediate implementation of radical measures to eliminate excess money, introduce effective control over bank lending and eliminate administrative pricing. This path is more dangerous, but sometimes more effective. You can call it “the initial step towards a breakthrough, an explosion.”

Although neither one nor the other approach can be applied in its pure form, their fundamental separation is necessary to understand possible ways to improve the taxation system.

References