Kokand University

QO'QON UNIVERSITETI XABARNOMASI

ILMIY-ELEKTRON JURNALI
9-SON

KOKAND UNIVERSITY HERALD

2023
VOLUME №9

WWW.HERALD.KOKANDUNI.UZ
NSSS: 2161-1695

QO‘QON UNIVERSITETI XABARNOMASI

9-SON

KOKAND UNIVERSITY HERALD

VOLUME 9

ВЕСТНИК КОКАНДСКОГО УНИВЕРСИТЕТ

ВЫПУСК 9

9/2023

QO'QON UNIVERSITETI XABARNOMASI

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KOKAND UNIVERSITY HERALD SCIENTIFIC E-JOURNAL
ISSN: 2181-1695
QO‘QON UNIVERSITETI XABARNOMASI
KOKAND UNIVERSITY HERALD
ВЕСТНИК КОКАНДСКОГО УНИВЕРСИТЕТА
OAK: 01-08/1819/6

www.herald.kokanduni.uz

THE STUDY OF VALUE-ADDED TAX: KNOWLEDGE FROM THE EU VAT EXPERIENCE AND UZBEKISTAN'S VAT SYSTEM

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MAQOLA HAQIDA

Qabul qilindi: 24-dekabr 2023-yil
Tasdiqlandi: 26-dekabr 2023-yil
Jurnal soni: 9
Maqola raqami: 31
DOI: https://doi.org/10.54613/ku.v9i9.853

KALIT SO‘ZLAR/ Ключевые слова/ keywords

Value Added Tax (VAT),tax system ,VAT payers and exemptions, EU VAT experience, tax harmonization, cross-border services trade,fiscal borders, administrative controls, consumption tax and destination principle

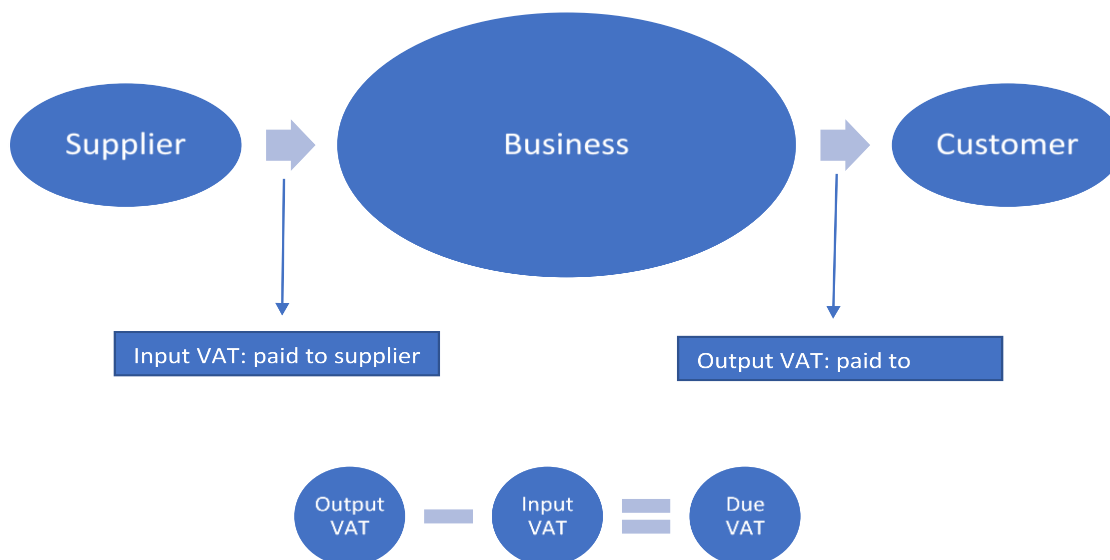
ANNOTATION

The complex structure of the Value Added Tax (VAT) system in the European Union is captured in the abstract. It describes important elements including taxable transactions, standard rates, and the credit-invoice method. The historical shift from fiscal borders to administrative restrictions is discussed, highlighting the need to strike a careful balance between a consumption tax based on destination and a single internal market. In business-to-business transactions, mechanisms like the reverse charge technique and standardized identifying numbers are implemented. The abstract makes mention of several new difficulties that may arise, such as the complexity of place-of-taxation laws and the possibility of false refund claims. All in all, it gives a clear synopsis of the complex EU VAT system, including information on its composition and changing dynamics.

Introduction. It provides a thorough overview of the Value Added Tax (VAT) system in the European Union. It discusses a number of topics related to the EU VAT, including rates, taxable transactions, credit-invoice procedures, place of supply, and difficulties arising from the destination principle. The introduction also explores the historical development of the EU VAT system, with a focus on the internal market. It emphasizes the difficult balancing act of removing tax-related obstacles while maintaining an effective system of destination-based consumption tax.

The basic VAT rates imposed by member states, the definition of taxable transactions within the EU VAT framework, and the credit-invoice technique—which permits the deduction of VAT paid on purchases—are among the important topics covered in the introduction. Along with the destination principle serving as the theoretical foundation for the EU VAT, emphasis is also placed on how difficult it is to determine the location of source for goods and services.

Figure 1:How does VAT work?



Additionally, the introduction discusses the difficulties the EU has had in balancing the requirements of an internal single market with the requirement for a consumption tax depending on destination. In addition to demonstrating the use of standardized identity numbers, electronic information interchange, and the reverse charge mechanism in simplifying business-to-business transactions, it describes the shift from fiscal barriers to administrative controls. The destination principle is used in business-to-consumer transactions with the introduction of the distance-selling regulation.

In order to highlight the relevance and significance of the EU VAT system in a global setting, the introduction ends by making a few vague allusions to future issues, such as the intricacy of place-of-taxation laws and the possibility of false refund claims. An in-depth examination of the EU VAT and its ramifications is made possible by the book.

Submitting a tax report - they must submit it to the tax authorities of the place where they are on the tax account no later than the twentieth day of the month following the previous tax period.

Paying taxes – each tax based on the location of the tax account according to the results of the period, the submission of the tax report is carried out without delay.

The federal income tax comes to mind when Americans consider income taxes because that is how they are naturally inclined to think about them. Upon considering a value added tax, taxpayers in the majority of other nations automatically consider their own, well-known national VATs. Yet since there isn't a national VAT in the US, when Americans consider a VAT, they have no real-world model to go to. When looking for information on what a value added tax (VAT) is, one may expect Americans to head north to the goods and services tax (GST) in Canada or south to the value added tax (VAT) in Mexico. Nonetheless, we believe that the EU VAT frequently comes to mind when Americans consider a value-added tax.

In the perspective of Americans and many other observers, the EU VAT is crucial for a number of reasons. The introduction of the EU VAT marked the beginning of the VAT as a globally significant instrument of national fiscal policy, even though the idea of a VAT has been around for a while and France's 1948 manufacturer's excise tax is sometimes cited as the model for the modern VAT1. Secondly, the paradigm for VATs in other nations was the EU VAT. The "credit-invoice VAT of the European Union is the most prevalent form of VAT in use today," according to one assessment. Third, there's no denying that the EU VAT has the widest economic application available today, especially in light of the EU's recent expansion from 15 to 27 member states.There's another reason why Americans would be interested in the EU VAT. The European Union bears certain similarities to the United States, namely that it is a collection of "states," each possessing "sovereign" taxation authority, but subject to certain limitations imposed by the union's very existence. Given the existence of subnational states with "sovereign" taxing authority that might adopt subnational VATs if a VAT were adopted at the national level, one might assume that Americans would be particularly interested in the EU's efforts to implement a common VAT.[1] Regardless of the rationale, the EU VAT merits particular consideration, which is why we have dedicated this section of our views on VAT to it. Three objectives guide our actions in this regard. The first is an explanation of the development and functioning of the EU VAT. Examining how the EU VAT has addressed one of the most difficult problems facing the VAT at the moment—namely, the growing significance of cross-border services trade—is the third objective.

An overview of the value-added tax in Europe To begin with, it should be stated that there is no EU Value Added Tax. It is true that every member state must enact a value added tax (VAT); moreover, the VATs that both the EU and its member states adopt must adhere to EU standards; and finally, a share of the VAT revenues raised by member states must be reinvested in the EU. Nevertheless, every EU member state has its own national VAT, with numerous regulations and so-called "derogations" from the EU standard; every EU member state has its own tax administration and registration thresholds; and, for the time being at least, every EU member state is free to keep the net VAT revenue it receives, with no requirement to split it with other EU member states.

Literature review. The single optimal currency region is a concept that allows for the free movement of capital, people (labor), and products under the terms of a single currency. Among its creators are Mundell, McKinnon, and Kennen. However, this notion pays minimal attention to taxes and how they change throughout the member nations. Due to historical, cultural, or social variables that influence the state's financial demands, the tax systems of the various Member States differ greatly from one another.

The importance of VAT in the EU is established by Dr. Sophia A. Researcher. It describes the theoretical foundation, places the historical introduction of VAT in context, and expresses the general goals of VAT in the context of the European economy.[2] The introduction lays the groundwork for a thorough analysis that is directed by the goals and research questions.

Using important works by economists like Musgrave (1959) and Auerbach (1985), Prof. Alexander E. Economist investigates the theoretical underpinnings of VAT. This section examines how the design and use of VAT in the EU have been influenced by theoretical ideas such as tax incidence, tax efficiency, and tax neutrality.[3]

Dr. Maria P. Legal Scholar examines the development of VAT laws in the EU by delving into legal viewpoints and citing eminent legal scholars such as Schön (1995) and Cottini (2010).[4] This section examines significant court rulings and how they affect the harmonization and application of VAT in member states.

All authors worked together to review harmonization initiatives in the EU, citing publications by Keen and Lockwood (2010) and Bird and Gendron (2007). This section evaluates the difficulties posed by disparate national policies as well as the advancements achieved toward the creation of a unified VAT framework.

Research methodologies. The research method was carried out to review the obtainable literature of this work. The study is exclusively based on secondary data. Secondary data has been collected from several sources including relevant books, journals and websites.

Analysis and results. A synopsis of EU VAT's past. Despite our recent declaration that there is no EU VAT, we are using the term "EU VAT" to refer to the standards set out by the European Community, which each and every EU member state must adhere to when implementing a VAT through national law. The Treaty of Rome, which established the first community in 1957, included a provision for the European Commission (commission)7 to "evaluate how the legislation of the various member states concerning turnover taxes... can be harmonised in the interest of the Common Market."[5]

In accordance with this mandate, which was later modified to state that the European Council "shall adopt provisions for the harmonisation of legislation concerning turnover taxes... to ensure the establishment and functioning of the internal market, acting unanimously on a proposal from the Commission and after consulting the European Parliament." The commission has published a number of "directives" in accordance with the modified mandate, which establish the fundamental legislative basis for the EU's single VAT system.[6] "Directives" are EU legislative acts that its institutions may pass. They are "binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave the choice of form and methods to national authorities."

By January 1, 1970, member states had to replace their turnover tax systems with a unified VAT system in accordance with the First and Second VAT Directives, which were published in 1967. The First VAT Directive outlined the basic ideas that underpin the EU VAT and supported the credit-invoice technique in explicit terms.The common system of value added tax operates on the principle of applying a general consumption tax to goods and services that is exactly proportionate to their price, regardless of the quantity of transactions that occur during the production and distribution stages prior to the taxation stage. Following the subtraction of the amount of Value Added Tax directly borne by the various cost components, Value Added Tax is assessed on each transaction. It is computed on the price of the products or services at the rate applicable to such goods or services.

The retail trade tax is subject to the common system of value added tax up to and including it. More specific regulations guiding the execution of the single VAT system were mandated by the Second VAT Directive.[7] According to the provisions, "the supply of goods or the provision of services within the territory of the country by a taxable person against payment" and "the importation of goods" are subject to

[1] Harley Duncan and Jon Sedon, ''How Different VATs Work,'' Tax Notes, Dec. 21, 2009, p. 13-67.

[2] Bonucchi, M.; Ferrari, M.; Tomasini, S.; Tsvetomira, T. Tax policy, investment decisions and economic growth. Rev. OFCE 2015, 141, 225–262.

3 European Commission. A Retrospective Evaluation of Elements of The EU VAT System; Publications Office of the European Union: Luxembourg, 2011.

4 European Commission. A Retrospective Evaluation of Elements of The EU VAT System; Publications Office of the European Union: Luxembourg, 2011.

[5] Alan Schenk and Oliver Oldman, Value Added Tax: A Comparative Approach, 59 (2007).

6 Richard Doernberg et al., Electronic Commerce and Mulitjurisdictional Taxation, 101-109 (2001); Easson, supra note 1, at 84-142

[7] Third VAT Directive of December 9, 1969 (69/463/EEC); Fourth VAT Directive of December 20, 1971 (71/401/EC); Fifth VAT Directive of July 4, 1972 (72/250/EEC).

the VAT. Key words including "supply of goods," "provision of services," "importation of goods," and "taxable person" were defined, and the fundamental credit invoicing system for tax collection was devised.The directive accepted the destination principle for products, exempting or zero-rating exports and imposing taxes on them at the same rate as domestic suppliers. The understanding that the EU VAT was a destination-based tax was not significantly undermined by the use of the supplier's location as the place of taxation, despite the fact that services were taxed at origin (the supplier's location) in the pre-Internet era of 1967.

The VAT directives acknowledged from the beginning that member states were free to enact national VAT legislation for matters such as rates, exemptions, antifraud measures, administrative simplification, and special provisions for small businesses and the agricultural sector, despite the common legal framework governing the EU VAT.In fact, member-state-specific announcements on regulations unique to the management of the states' national VATs serve as a daily reminder of this point (at least for those who read online journals like Tax Analysts' Worldwide Tax Daily). Belgium, France, Germany, Italy, Luxembourg, and the Netherlands were among the six original EU members that embraced the common VAT during the ten years that followed the issuance of the First and Second VAT Directives. However, Belgium and Italy were given an extension to comply (through the Third, Fourth, and Fifth VAT Directives). Furthermore, nine member nations were using the common system at the time of Denmark, Ireland, and the United Kingdom's 1973 admission to the community. Ten years after the first VAT directives were published, in 1977, the European Council issued the sixth VAT Directive, which superseded the Second VAT Directive and certain provisions of the First VAT Directive. This created the legal basis for the common EU VAT for the following thirty years, despite numerous amendments.

With the implementation of additional amendments and significant modifications throughout time, the Sixth VAT Directive was "recast," with effect from January 1, 2007, for "reasons of clarity and rationalization." The Recast Sixth VAT Directive, which has undergone many amendments since 2007, remains the foundation for the EU common VAT despite not having "in principle" brought about significant changes to the current legislation.[8] Furthermore, in contrast to directives, the council has recently adopted a number of regulations that are "binding in [their] entirety and directly applicable in all member states," obliging member states to harmonize their national VAT laws in a number of areas, such as administrative cooperation and information exchange.

Discussion. The current EU VAT. We quickly outline the salient characteristics of the EU VAT as it now stands before moving on to a more thorough analysis of a few issues developing under the EU VAT that we believe will be of special interest to American readers. In principle, all products and services supplied for consumption inside the community are subject to the EU VAT, just as they have been since its founding. While one or more lower rates of not less than five percent may be applied to a restricted list of products and services, member states are required to impose a standard VAT rate of at least fifteen percent. Denmark, Sweden, Hungary, and Luxembourg have standard VAT rates of 25%, 15%, and 5%, respectively, for their member states.

The "intra-Community acquisition" of goods by a taxable or "nontaxable person" within the nation's borders, the "importation of goods," and the "supply" of goods and services within the borders of a member state are all considered taxable transactions under the EU VAT. A "taxable person" is defined as "any person who independently conducts any type of economic activity, anywhere." "Transfer of the right to dispose of tangible property as owner" is what is meant by "supply of goods." "Any transaction which does not constitute a supply of goods" is referred to as "supply of services," and this specifically includes the provision of intangible property. The term "importation" refers to "the entry of goods into the Community."

The credit-invoice technique allows taxable individuals to deduct the VAT they have paid on their purchases before remitting the remaining amount to the taxing authority. Normally, taxable individuals are required to collect tax on their sales. Every EU member state has registration requirements, which vary from state to state. A trader whose sales volume is below the requirements is exempt from registering and paying sales tax. One cannot receive a credit for any VAT paid on input purchases made by this type of merchant. A nontaxable individual pays the whole amount of VAT owed on the transaction without being entitled to a credit or discount, such as a private customer purchasing for her personal use. It is difficult to describe the place of supply of goods and services under the EU VAT; we address this in greater depth below.[9] The VAT is a destination tax that, in theory, only applies to items that are imported. Products that are exported are zero-rated or exempt, and the exporter is able to subtract the input VAT it paid on those exports from the output VAT it got from sales. A reimbursement is due to the trader in the event that the input taxes paid on exported products above the VAT collected. There is a unique system for "intraCommunity" cross-border supply of products because there haven't been any physical border restrictions within the EU since 1993.In the case of services, the supplier's place of business is usually the site of provision.

The whole intricacy of the EU place-of-supply regulations, which rely on a wide range of variables including the type of products or services, the provider's background, whether the supplier is based in a member state, and many more, is not even partially captured by this statement. An understanding of its intricacy may be gained from the chart found in this article's appendix. It is important for readers to remember that the figure does not even try to depict the differences in EU VAT across member states that were mentioned previously. Lastly, we will briefly touch on a few more aspects of the EU VAT. A few will be covered in upcoming Views on VAT pieces. Like many other VATs, the EU VAT generally "exempts" financial and insurance services from taxation, relieving those organizations of the need to collect taxes on their services. However, because they are unable to offset the input VAT against their exempt output, the EU VAT subjects these institutions to input VAT charges made by other suppliers as actual costs. The EU VAT's drafters have grappled with how to approach governmental agencies, nonprofits, and other tax-exempt groups, just like they have with many other VATs. Furthermore, unique schemes for the taxation of small businesses, farmers, travel agencies, secondhand products, and gold are authorized under the EU VAT.

Internal market and the EU Value Added Tax One of the most illuminating aspects of the EU VAT experience for an American observer is the struggle to meet the dual demands of removing tax-related barriers to an internal common market while preserving a system that offers an efficient mechanism for enacting a destination-based consumption tax, all within the framework of a group of states bound by a common legal framework but with independent taxing authority.[10] Border controls, or the physical establishments at a nation's borders where people, goods, and vehicles can be stopped to verify correct documents, tax payments, and adherence to other regulations supporting tax enforcement, perfectly capture the essence of the fundamental issue. Border controls are widely acknowledged as an efficient way to guarantee the collection of consumption taxes on cross-border supply of products at the point of destination. In fact, border controls are the main means by which the application of VAT to products imported into an EU member state from outside the EU is managed. If one is old enough to recall the lengthy queues of trucks at European borders, they will also recall how the destination principle was applied for cross-border shipments of products inside the EU before to 1993: items were taxed at the border of the importing member state.

Fiscal borders are detrimental to the effective operation of a real single market, notwithstanding their potential usefulness in implementing a VAT on a destination basis. To understand this, just consider the economic losses to the United States if trucks were required to pull over at every state border in order to comply with the state's tax reporting and collection obligations. The commission did not overlook this. Fiscal barriers inside a community are incompatible with the idea of a single market, according to the commission's 1985 white paper, "Completion of the Internal Market." At first, it was suggested that products should be taxed in their country of origin rather than under the destination-based taxing system that was in existence at the time. The transfer of ownership from one member state to another would no longer be subject to taxation. This would have been in line with the commission's long-term goal of "abolishing the imposition of tax on importation and remission of tax on exportation in trade between Member States," as is stated in both the First and Sixth Directives. But in addition to requiring a clearinghouse mechanism to reallocate revenues among member states in order to reflect the pattern of final

[8] Laying down implementing measures for Directive 77/388/EC on the common system of value added tax (O.J. L 272, Mar. 10, 2006, p.15).

[9] Boburjon Turanboyev Qodirjon oʻgʻli, & Musabekov Sherali Nazarali oʻgʻli. (2023). Fiscal policy as the primary tool to affect the strength of the capital markets. Qoʻqon universiteti xabarnomasi, 8(8), 32–35.

[10] Musabekov, S. (2023). Oʻzbekiston hududida faoiliyat olib borayotgan xoʻjalik yurituvchi subyektlar duch keladigan asosiy muammolar. Бюллетень студентов нового Узбекистана, 1(7), 17-20

consumption within the member states, this system would also have required significant equalization of tax rates, additional harmonization of the tax base, and deductibility of VAT regardless of the member state in which it had been charged. It was necessary to have these ancillary conditions in order to propose imposing the VAT at origin. In order to ensure that goods taxed at origin would also be taxed at destination, a more harmonized tax base was required. If this weren't the case, it would be undermined that the EU VAT remained a destination-based tax (even though the tax was imposed at origin), and it would encourage the supply of goods and services to member states that did not tax them. For the same reason, substantial rate parity was required; otherwise, there would be a risk that the tax at origin would not match the tax at destination, and economic activity would be more likely to be conducted in member states with lower tax rates due to competition. The clearinghouse mechanism was also required to make sure that the consumption tax ended up in the state's coffers where consumption occurred or was deemed to occur, namely at estination, which was presumably based on economic and demographic data. This last point is perhaps the most significant from the standpoint of the EU VAT as a destination-based VAT. As was to be expected, not everyone agreed with the commission's ambitious plan to totally destroy the internal fiscal boundaries. The majority of the criticism was focused on two things: the implementation of an origin-based system with a clearinghouse mechanism and the significant equalization of tax rates. The council accepted the commission's compromise solution to the issue in response to the criticism. In 1993, the council established "transitional arrangements," keeping in mind the objective of "definitive arrangements based in principle on the taxation in the Member State of origin of the supply of goods and services." Although it does not "complete" the internal single market, these agreements set down the EU's current policy for cross-border commerce within the EU. While preserving the destination concept, the 1993 directive replaced previous enforcement and collection mechanisms at the fiscal borders with enterprise-level administrative controls, so bringing the EU VAT closer to a single internal market. The standardized identification numbers used to identify taxable individuals within the EU, the requirement that taxable individuals keep sufficient records and issue invoices that meet specified criteria, the requirement that taxable individuals file returns within EU-wide deadlines reporting specific information, and the requirement that taxable individuals file ecapitulative statements pertaining to all transactions completed in the previous year were some of the features of these controls.These administrative constraints, along with an automated information interchange between member state tax authorities, constitute the foundation of the present "transitional" system. In order to foster collaboration and communication between EU tax administrations, member states that export products to other member states enter data into an electronic database, which is accessible online by the member states that receive the commodities. This database is called the Value Added Tax Information Exchange system.In order to guarantee that the destination principle would be upheld without the use of actual "toll gates," the removal of one set of burdens (fiscal barriers) led to the introduction of another, mostly administrative one.

In the context of business-to-business (B2B) transactions, the "reverse charge" method makes it easier to apply the destination principle. Under this system, registered business purchasers, who are audited and controlled by destination tax authorities, self-assess the VAT. Therefore, the B2B "intraCommunity acquisition of goods" is covered by the destination principle; nevertheless, procedures are completed at the destination point rather than the border.

The accompanying requirements apply to B2B intra-community purchases of goods:

- ❖ The goods must be traded between taxable individuals in separate member states;
- ❖ the acquisition must be made with the intention of supplying the goods again in the member state of the taxable individual acquiring the goods;
- ❖ the exporting trader's member state must identify the person to whom the subsequent supply is made as established and liable for VAT purposes;
- ❖ the VAT is not charged (it is "exempt" with credit for input taxes paid, or zero rated); the VAT is payable by the taxable individual to whom the goods are supplied (by the "reverse charge" mechanism); and
- ❖ the merchant records the output VAT on its VAT return and, if it is entitled to a deduction, deducts the input VAT (which was self-assessed) on the same return when the goods are resold in the member state of the purchasing trader.

Hence, budgetary sovereignty is preserved by member nations.The purchasing trader's or the destination's member state guarantees that the purchased products are taxable. It is not the seller's or the origin's member state's responsibility to make sure the items are properly taxed in the member state of destination. The distance-selling rule makes it easier to apply the destination principle in business-to-consumer (B2C) transactions. That law requires suppliers to register for VAT in the destination state and charge the destination state's VAT on their sales if their sales to final consumers and other nontaxable people in a member state above a certain level. Bills that have been introduced in Congress resemble a rule that would allow states in the United States to compel remote vendors to collect use taxes on sales made through mail order or the Internet, even if the vendors do not physically operate in the state. This authority would only be granted if the states sufficiently harmonize and streamline their tax systems to meet demands from Congress. While the "transitional" system's removal of intra-EU fiscal borders has significantly reduced obstacles to the internal market's seamless operation, it has also resulted in new issues. A portion of them are shown in the Appendix, which discloses the intricate place-of-taxation regulations under the current framework. These regulations vary depending on a number of factors, including whether the supply is between EU members or between EU members and non-EU members, whether it is B2B or B2C, whether it involves commodities or services, and the specifics of the supply. Further issues surface as a result of the removal of physical border controls for intra-EU commerce, which has given rise to the possibility of fraudulent refund claims—a topic we want to address in a future Views on VAT aricle. Lastly, the EU shares issues with other destination-based VAT regimes concerning the provision of services, for which border restrictions are, in certain cases, becoming less and less important. We take a closer look at these matters as they are very relevant now and highlight the challenges the US would face if it decides to implement a value added tax.

Conclusion. A thorough summary of the main components of the European Union Value Added Tax (EU VAT) system is given in the introduction. It starts by describing the normal VAT rates and the idea that all goods and services provided inside the EU must be VAT-exempt. The work provides explanations of taxable transactions, the credit-invoice method, and the complexities involved in locating the location of source for goods and services.

A discussion of the historical development of the EU VAT system is held, with particular attention to the fine balance that must be struck between removing taxes from the internal market and preserving an effective consumption tax based on destination. It emphasizes the shift from fiscal boundaries to administrative restrictions, which include reverse charge mechanisms in business-to-business transactions and standardized identity numbers**.** The difficulties the EU has had in balancing the requirements of an internal single market with the need for a destination-based consumption tax are discussed in the work. The introduction ends with several new difficulties alluded to, such as the possibility for fraudulent refund claims and the intricacy of place-of-taxation legislation.

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