



# Assessment of Tax Compliance Costs for Businesses in the Republic of Tajikistan

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# ASSESSMENT OF TAX COMPLIANCE COSTS FOR BUSINESSES IN THE REPUBLIC OF TAJIKISTAN



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All results, including baseline data, were posted at [www.ifc.org](http://www.ifc.org) and [www.worldbank.org](http://www.worldbank.org).

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## KEY FINDINGS

- The principal outcome of the tax reform implemented in recent years in the Republic of Tajikistan is the reduction of administrative burden on the private sector associated with compliance with tax legislation through simplified tax procedures and less time required to pass these procedures.
- During the tax reform process, time costs of tax compliance decreased by one-third and constituted about 21.1 business days in 2016. This trend is observed across all types of taxpayers regardless of taxation regime or business size.
- Time saving is observed at all stages of tax procedures. The Tax Code effectuated on January 1, 2013, allowed to substantially decrease the time for office work of tax accounting, which is the most labor-consuming stage of the tax procedure.
- After the electronic system of tax return filing was implemented, the number of taxpayers who submit tax returns remotely, that is, through the Internet, has increased. As a result, the time spent for trips to the tax authorities has decreased.
- Time costs of value added tax (VAT) payers for tax accounting are higher than time costs of companies operating under the simplified tax regime. This is due to the more number of taxes and complex administration. Over the period of monitoring, the difference between time spent tends to increase.
- Costs of tax compliance is a comparable issue for business development similar to the tax rate amount. Less tax burden and lower costs for tax accounting are the key advantages of the simplified tax regime.
- On the back of reduced time costs of tax accounting, the financial costs also tend to decline. Since 2012, average tax accounting costs declined twofold, as denominated in U.S. dollar equivalent.
- Tax compliance costs seem to be retrograding. With regard to micro-businesses, the costs of tax administration constituted 3.3 percent of annual turnover. This indicator is comparable in value with the uniform tax rate and may be considered as an additional type of tax.
- Total costs of tax compliance incurred by the private sector amounted to 0.1 percent of GDP in 2016, which is 2.5 times less than 2012.
- Annual economic effect of reduced administrative burden on the private sector with regard to tax legislation compliance was estimated at US\$6.8 million in 2014 compared to total expenditures in 2012.
- The percentage of inspected entrepreneurs increased substantially in 2014, where tax control covered almost two-thirds of taxpayers. In 2016, the share of inspected taxpayers scaled down to 52 percent.



- Risk-based assessment system used by the tax authorities helped scale back the overall scope of tax inspections. However, the share of VAT payers who experienced tax audits continuously increases. As annual turnover of a taxpayer goes up, the probability of passing through tax inspection increases as well.
- Time costs of passing tax inspections by one taxpayer decreased from 3.9 business days in 2012 to 2.4 days in 2014; accordingly, the financial costs of businesses fell as well.
- In 2016, a sharp increase in the frequency of detection of various violations as a result of the tax audit was reported. The most common consequences of the violations identified were the imposition of fines or penalties and/or additional taxation. As a result, more taxpayers consider the level of control by the tax authorities to be burdensome.
- Business communities in Tajikistan have a favorable subjective perception of the tax authorities' image. This is mostly true for business qualities of tax officials, which are perceived more favorably, rather than their personal qualities (honesty and impartiality).
- The data of international surveys held by the World Bank Group demonstrate an upward trend in Tajikistan in various world rankings associated with the tax system, and such data justify the need to continue reforms in the tax administration area.

# BACKGROUND

## TASKS AND OBJECTIVES OF THE STUDY

The International Finance Corporation (IFC), a member of the World Bank Group, is the largest global development institute, which is focused on support to the private sector in emerging economies. IFC, through its work with more than 2,000 companies worldwide, mobilizes capital, expertise, and influence to create markets and opportunities for developing countries.

The objective of the IFC Central Asia Tax Project is to improve compliance with mandatory requirements of tax legislation through better transparency and simplification of tax administration procedures. Simplification of tax accounting procedures will allow to reduce costs of tax compliance, lessen the administrative burden on small and medium businesses, reduce barriers to exit of budding entrepreneurs from the formal economy, and serve as a driver for economic growth in Tajikistan.

The key element of reforms is an immediate assessment of their efficiency and possibility for adjustments based on assessment results. With this view, IFC through its technical assistance tax reforms projects, has conducted a series of studies, which allow to monitor the tax system reforming processes in Tajikistan. The main goal of the studies was a periodic assessment of time and costs of taxpayers in Tajikistan to comply with the mandatory requirements of the tax legislation.

The baseline year for assessment of the reforming progress was 2012. As part of the study, three rounds of measurements were performed, where the tax administration costs of the Tajik taxpayers were assessed at a regular time span—in 2012, 2014, and 2016.

Equitable intervals of measurements allowed an immediate assessment of the impact of implemented tax reforms on the cost of taxpayers to comply with tax legislation. In addition, actual data on tax system status helped elaborate clear recommendations for the Government with the focus on elimination of identified issues and reduction of tax administration costs of businesses.

This report presents the results of all three rounds of business environment surveys in the area of tax regulation. It includes the estimates of tax accounting costs of taxpayers in Tajikistan in 2012, 2014, and 2016.

## ECONOMY AND BUSINESS ENVIRONMENT IN TAJIKISTAN

Tajikistan, with a population of 8.7 million people is, one of the poorest countries in the Europe and Central Asia region. The national gross domestic product (GDP) per capita was US\$796 in 2016.<sup>1</sup> The Tajik economy mostly consists of the industry and agricultural sectors; the agricultural sector employs 64 percent of the country's population. The National Statistic Agency reports that the agricultural sector's contribution to GDP had declined from 23.8 percent to 20.7 percent from 2011 to 2016, though this sector remains the largest national economy sector<sup>2</sup>.

The second largest contribution to GDP is made by the industrial sector. The industrial sector is primarily represented by the manufacturing sector (with 62.2 percent in the total manufacturing output as of end of 2016<sup>3</sup>). In 2016, the national GDP was TJS 54.5 billion, which is roughly equivalent to US\$7 billion (average weighted exchange rate of Tajik somoni to U.S. dollar: TJS 7.9 = US\$1). GDP growth rates dropped from 7.4 percent in 2011 to as low as 6 percent in 2015.

In 2016, GDP increased at 6.9 percent. One of the drivers for GDP growth was consumption growth triggered by the renewed remittances of labor migrants. By various estimates, the migrants' remittances is about 40 percent of the national GDP. As reported by the National Bank of Tajikistan, about 95 percent of remittances come from Russia.<sup>4</sup> It is expected that an increase in remittances volume will continue, although the economic growth prospects in Russia still remain uncertain.

The World Bank's forecast for the economic sector in Tajikistan in the midterm period anticipates 5.2 percent annual average growth.<sup>5</sup> Such growth will be mainly associated with an increase in manufacturing output. It is expected that commissioning of the Rogun hydropower plant would become an additional growth driver. Once this power plant is put into service at the end of 2018, the power generation quantity will increase. Poverty reduction is also anticipated and it is forecasted at 25.7 percent by 2019. In 2015, the national official poverty rate was 31.3 percent of the population.

Every year, the World Bank publishes the international ranking of ease of doing business, which covers virtually every country in the world. This ranking defines the ease of doing business in a country based on several indicators, including starting a business, dealing with construction permits, taxation, getting electricity, getting credits, and so on. Based on the 2018 Doing Business report, Tajikistan ranks 123 among 190 economies.<sup>6</sup> Tajikistan is ranked at the bottom of the list<sup>7</sup> by ease of doing business among 24 countries of the Europe and Central Asia region (Table 1).

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<sup>1</sup> <http://www.vsemirnyjbank.org/ru/country/tajikistan/overview#1>

<sup>2</sup> [http://www.stat.tj/ru/img/e37b548394b7b88961c832850b383539\\_1508737865.pdf](http://www.stat.tj/ru/img/e37b548394b7b88961c832850b383539_1508737865.pdf)

<sup>3</sup> [http://www.stat.tj/ru/img/357eafa385e4580eb1ea219927718db1\\_1484381673.pdf](http://www.stat.tj/ru/img/357eafa385e4580eb1ea219927718db1_1484381673.pdf)

<sup>4</sup> [http://www.bbc.com/russian/international/2016/01/160126\\_tajikistan\\_migrant\\_revenues\\_down](http://www.bbc.com/russian/international/2016/01/160126_tajikistan_migrant_revenues_down)

<sup>5</sup> <http://www.vsemirnyjbank.org/ru/country/tajikistan/overview#3>

<sup>6</sup> <http://russian.doingbusiness.org/rankings>

<sup>7</sup> These data do not cover all countries of the Europe and Central Asian region

*Table 1.  
International ranking of ease of Doing Business in 2018*

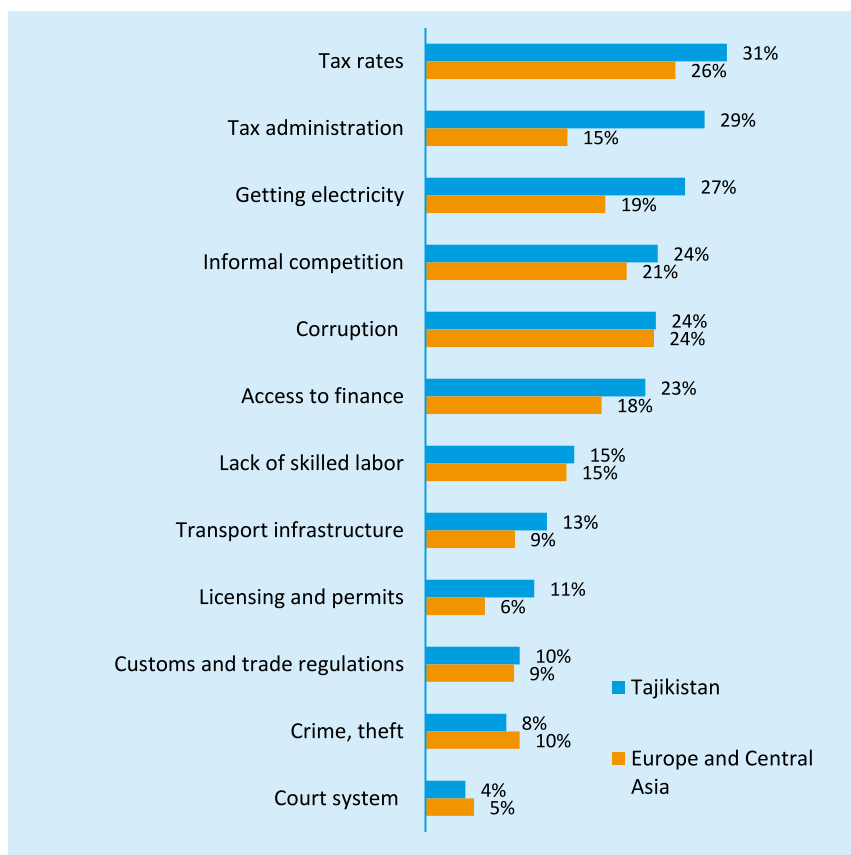
COUNTRY	WORLD RANKING	EUROPE AND CENTRAL ASIA REGION
Georgia	9	1
Lithuania	16	3
Russian Federation	35	4
Kazakhstan	36	5
Belarus	38	6
Moldova	44	10
Armenia	47	12
Azerbaijan	57	16
Uzbekistan	74	19
Ukraine	76	20
Kyrgyz Republic	77	21
Tajikistan	123	24

In parallel to the Doing Business ranking, one of the most comprehensive international surveys of business environment is the ‘Enterprise Surveys’, which has been regularly conducted by the World Bank since 1990. In this survey, managers and appropriate specialists (accountants, HR specialists, lawyers, and so on) of micro, small, and medium enterprises are interviewed. This survey covers a broad range of business environment topics, including access to finance, competent labor force, corruption, connections to utilities grids, administrative regulation, and so on. The latest survey in Tajikistan was conducted in 2013, involving 359 businesses.<sup>8</sup>

Taxation issues are the most challenging for the private sector in Tajikistan. These issues take leading positions in the broad list of administrative barriers to business development (Figure 1). Tax burden is a constraint for development of every third business in Tajikistan. This is also substantiated by the findings of the Doing Business international survey. According to this survey, Tajik businesses have to pay as high as 65 percent of their profit in the form of taxes and contributions, which is twice as high as the similar indicator of the region’s other countries. In addition to the tax rate amount, which has been historically the most pressing issue for taxpayers, the tax administration procedure is ranked second out of the problems for doing business. In terms of prevalence, this aspect is almost equal to the tax burden value, as reported by 29 percent of businesses surveyed. So, this indicator is somewhat high. To compare: on average, twice less taxpayers (15 percent) in the Europe and Central Asia region, including Tajikistan, stated that tax administration was an issue for business development (Figure 1).

<sup>8</sup> <http://www.enterprisesurveys.org/data/exploreeconomies/2013/tajikistan#regulations-and-taxes>

*Figure 1.  
Constraints for private sector development in Tajikistan*



Taxation issues are followed by the electricity connection constraints. In terms of electricity supply, Tajikistan is ranked at the bottom of the Doing Business survey. It should be mentioned that corruption and access to finance, which traditionally hold the leading positions by the extent of difficulty for entrepreneurs, give way to the urgency of taxation and electricity supply issues. The fact that tax regulation holds the top two positions in the ranking of administrative barriers to doing business in the country — and in terms of complexity tax accounting is comparable to the tax rate amount—justifies the pressing need to reform tax legislation and ensure better compliance.

## METHODOLOGY OF STUDY

This study covered operational commercial enterprises in Tajikistan, including legal entities and individual entrepreneurs who have been engaged in business and regularly submitted their tax returns in 2012, 2014, and 2016. Farm holdings and entrepreneurs operating under the voluntary patent-based taxation system were not covered by this study because of the special tax regime. Thus, to estimate the businesses costs of tax compliance, the businesses that had regularly kept tax records during the review period and submitted tax returns for the respective taxation year were selected.

Overall, three rounds of study of business costs in different taxation periods were conducted in the process of implementation of tax reforms:

ROUND 1	ROUND 2	ROUND 3
was held from November 2013 to February 2014 and covered the tax reporting period of 2012	was held from January to May 2015 and covered the tax reporting period of 2014	was held from January to May 2017 and covered the tax reporting period of 2016

The survey was conducted through personal structured interviews with respondents using a questionnaire. This structured questionnaire was developed by IFC experts in line with the international standards applicable for studies of tax reporting costs to enable further international benchmarking. The average duration of the interviews was 45 minutes. The questionnaire consisted of individual blocks, and each such block covered a specific topic of tax reporting. The major topics were the following:

- General data on a taxpayer
- Tax accounting
- Conduct of tax inspections
- VAT refund procedure
- Tax appeals
- Assessment of performance of tax authorities and perception
- Assessment of taxation environment

The sections on VAT refund procedures and tax appeals were not included in this analytical note because of the small number of respondents who went through such tax procedures for the review period. An insufficient number of observations makes it impossible to conduct statistical analysis. Data received may be processed through the qualitative analysis only.

The respondents were represented by business owners/individual entrepreneurs, managers of companies/taxpayers, or other most competent specialists in the area of study (finance managers, accountants, and so on). If various specialists of the interviewed company were the most competent respondents, several people were interviewed. For the purpose of interviewing, the respondents were initially recruited by phone.

Stratified random sampling was used for this study. For simple random sample, all objects of total population have equal nonzero probability to be selected for sampling and such type of sampling precludes the need to weigh the results. In case of stratified random sampling, all objects of total population are divided into uniform groups/strata, and then simple random sampling within each stratum is arranged. This approach allows to obtain statistically significant data with the preset level of error both for each stratum and for the total population with the use of appropriately computed weighting coefficient.

Study sampling was stratified along the following criteria:

- Tax regime chosen by a taxpayer
- Size of a taxpayer (determined by the annual income of business)
- Geographic area of taxpayer operations

The Tax Committee of Tajikistan (hereinafter, the Tax Committee) collected the data on population distribution by the selected strata and performed direct random sampling of taxpayers for the study in accordance with the methodology developed and presented by IFC.

The Tax Committee data show that the total population of this survey amounted to 62,352 taxpayers in 2012 and 43,962 and 46,805 taxpayers in 2014 and 2016, respectively (Table 2).

*Table 2.  
Distribution of total population of taxpayers with breakdown by tax regime*

	2016		2014		2012	
	N	%	N	%	N	%
Simplified tax regime	41518	89%	38704	88%	53743	86%
General tax regime	5287	11%	5258	12%	8609	14%
Total	46805	100%	43962	100%	62352	100%

Table 3 describes the distribution of interviewed taxpayers based on the tax regime in each round of survey. It is clear that with regard to the criteria of tax regime, the sampling of the total population shifted toward taxpayers who operated under the general regime. Sampling was redistributed to derive a sufficient number of observations in this stratum, which is adequate for further statistical analysis and has the comparable level of permissible error. The computed weighted coefficients reconstruct the pattern of total population by the tax regime in the process of describing an average taxpayer.

*Table 3.  
Distribution of interviewed taxpayers disaggregated by tax regime*

	2016		2014		2012	
	N	%	N	%	N	%
Simplified tax regime	993	60%	985	60%	1043	69%
General tax regime	507	40%	515	40%	428	28%
Other	n/a	n/a	n/a	n/a	31	2%
Total	1500	100%	1500	100%	1502	100%

A similar approach was used for calculation of sampling of size of taxpayer, which was identified by annual income/revenue. Analysis of the total population structure by size of taxpayer shows that more than half of all businesses fall under the category of micro-business, with turnover less than TJS 100,000 (Table 4).

*Table 4.  
Distribution of total population of taxpayers, breakdown by size (annual profit)*

	2016		2014		2012	
	N	%	N	%	N	%
Micro-business 1 (<TJS 100,000)	42097	90%	39646	90%	48417	78%
Micro-business 2 (TJS 100,000–200,000)	1489	3%	1237	3%	6397	10%
Small business 1 (TJS 200,000–500,000)	649	1%	571	1%	4403	7%
Small business 2 (TJS 500,000–800,000)	398	1%	408	1%	873	1%
Medium business (TJS 800,000–5 million)	1343	3%	1397	3%	1514	2%
Large business (>TJS 5 million)	829	2%	703	2%	748	1%
Total	46805	100%	43962	100%	62352	100%

Proportional distribution of sampling against the total population would certainly lead to excessive number of micro-businesses in the sampling and poorly represented medium and large taxpayers. Such distribution would make it impossible to perform statistically significant analysis by size of taxpayer within each stratum. Furthermore, as described below, the size of a business is one of the key parameters that have a serious effect on tax administration costs. To this end, the share of micro-businesses in the sampling was considerably reduced, and the representation of medium and large taxpayers was approached to the statistically acceptable value (Table 5).



*Table 5.  
Distribution of interviewed taxpayers, breakdown by size (annual profit)*

	2016		2014		2012	
	N	%	N	%	N	%
Micro-business 1 (<TJS 100,000)	738	51%	772	51%	494	33%
Micro-business 2 (TJS 100,000–200,000)	279	17%	249	17%	274	18%
Small business 1 (TJS 200,000–500,000)	108	7%	104	7%	278	19%
Small business 2 (TJS 500,000–800,000)	71	5%	59	5%	154	10%
Medium business (TJS 800,000–5 million)	205	14%	211	14%	189	13%
Large business (>TJS 5 million)	99	6%	105	6%	113	8%
Total	1500	100%	1500	100%	1502	100%

Each round of the study included a survey in all regions of Tajikistan, thereby ensuring maximum geographic coverage. Because the location does not have a strong effect on tax accounting costs of businesses, geographic distribution in the sampling was almost equal to the total population (Table 6 and Table 7).

*Table 6.  
Distribution of total population of taxpayers, disaggregated by region*

	2016		2014		2012	
	N	%	N	%	N	%
Dushanbe	14800	32%	14299	33%	21885	35%
Districts of Republican Subordination (DRS)	7893	17%	7106	16%	10275	16%
Sughd province	14179	30%	13576	31%	19677	32%
Khatlon province	9933	21%	8981	20%	8943	14%
No data	-	-	-	-	1572	3%
Total	46805	100%	43962	100%	21885	35%

*Table 7.  
Distribution of taxpayers interviewed with breakdown by region*

	2016		2014		2012	
	N	%	N	%	N	%
Dushanbe	503	34%	504	34%	557	37%
DRS	257	17%	257	17%	300	20%
Sughd province	441	29%	440	29%	404	27%
Khatlon province	299	20%	299	20%	241	16%
No data	1500	100%	1500	100%	1502	100%

Taxpayers' database for all rounds of surveys was generated and presented by the State Tax Committee of the Republic of Tajikistan upon request and in line with the methodology developed by the consultants of IFC.

# TAX ENVIRONMENT IN TAJIKISTAN

## TAX ADMINISTRATION REFORMS

The Central Asia Tax Project of IFC is part of the regional Investment Climate Advisory Services Program implemented by the World Bank Group. IFC, through its project, actively assists the Government of Tajikistan and the Tax Committee with improvements on the existing tax administration system. In particular, the project supports the following tax reform areas:

- Introducing tax inspections system with risk-based assessments of taxpayers
- Conversion of tax reporting to electronic submissions
- Simplification of tax reporting forms and decrease in filing time
- Improvements of VAT administration procedures, including VAT refund
- Capacity strengthening of the tax authorities
- Development and conduct of outreach activities for the private sector, including distribution of training materials on taxation matters among the private sector

In 2012, over 20 different types of taxes were effective in Tajikistan, which put a heavy administrative burden on businesses and hampered their development. IMF Report 'Speeding up Tax Administration Reforms' mentions that small and medium entities were forced to submit 54 tax returns over the year. It was also impossible to deliver tax returns in electronic format through the Internet (taxpayer user account).

During 2012–2016, a series of tax administration reforms was implemented in Tajikistan. The objective of these reforms was to strengthen tax compliance by increasing transparency and simplification of tax procedures. These activities have mainly resulted in reduction of tax accounting costs for taxpayers and provided incentives for the entrepreneurs in doing business in the formal economic sector, thereby ensuring economic growth. Moreover, these activities were focused on improved performance of the tax authorities in the country.

In 2011, the Government of Tajikistan established a committee for drafting a new Tax Code that would be based on international experience, recommendations, and proposals made by the businesses, international donors and other organizations.<sup>9</sup> The World Bank Group and other international donors provided consultative aid in learning from international experience and discussion of proposals and recommendation received in the process of drafting the new Tax Code of Tajikistan.

Hence, since January 1, 2013, a new version of the Tax Code came into force, including the following major amendments:

<sup>9</sup> Pursuant to Resolution No. 307 of the Government of the Republic of Tajikistan "On establishment of committee for drafting new version of Tax Code of the Republic of Tajikistan," dated June 24, 2011, a Committee was established with representatives of ministries, agencies, and business communities of Tajikistan to review recommendations and proposals for the draft Tax Code of the Republic of Tajikistan.

- Increase in VAT registration threshold from TJS 200,000 to TJS 500,000; meanwhile, the threshold for application of simplified tax regime was reduced from TJS 800,000 to TJS 500,000.
- Retail tax was abolished.
- The forms for social security and individual income taxes were combined into one uniform tax form (reduction in number of tax forms associated with these types of taxes).
- Road users tax rate was lowered.
- Forms for profit tax and minimum income tax were unified (drop in number of tax forms).
- Changes were made in selected taxes' rates.
- Other modifications were implemented.


Apart from tax legislation changes, the Tax Committee had been implementing the following reforms to improve tax administration from 2014 to 2016, with the focus on simplified tax procedures, better accessibility, and higher quality of services rendered by tax authorities.

- Electronic submission of tax reports and returns
- Electronic VAT and excise tax reporting forms; new way for submission of returns in electronic format, submission of statistical reporting in electronic format through a taxpayer user account available on the Tax Committee website; these efforts were coordinated with the National Statistics Agency of Tajikistan
- Development of new electronic services provided by tax authorities to taxpayers
- Adoption of risk assessment system to plan tax inspections of those taxpayers who are most likely to evade taxes
- Installed payment kiosks in the regions, where taxpayers have a free access to the Internet, a user account, and other electronic services of tax authorities.

Implementation of the system of electronic filing of tax returns has reduced personal contacts between taxpayers and tax authorities. In addition, the electronic reporting system increases the responsibility of a taxpayer for computation of taxes and filing of tax returns. After a number of consultations and studies, the Tax Committee provided the option for most of the taxpayers to switch to the electronic declaration system without a need to pay for electronic key and the service.

Another step aimed at facilitation of doing business was a transition from paper-based invoices to electronic forms. This service allows VAT payers to record the numbers of invoices assigned through the electronic declaration system after a transaction has been processed and helps avoid the need to purchase a limited number of invoice forms at the Tax Committee, as was the case earlier.

The risk-based tax inspections system allows the Tax Committee to reduce the number and frequency of inspections of good faith taxpayers and focus the Committee's work only on those entities who infringe the tax laws. Because of reallocated resources, tax authorities may now pay more attention to provision of additional services to taxpayers, in particular, information support and consulting.



Meanwhile, it should be noted that the social and economic situation, slowdown of GDP growth, and other factors may have implications for performance and entail delayed tax reforms in the country. For instance, higher targets for tax collections and a risk of decline in tax revenue were the reasons for delayed cancellation of road users' tax from 2017 to 2019; the risk-based tax inspections system decreased the number of scheduled tax inspections, but on the other hand, the number of unscheduled inspections, including desk audits, increased.

## BUSINESS COSTS OF COMPLIANCE WITH TAX LEGISLATION

The primary purpose of this study was to assess and monitor the costs incurred by the taxpayers to comply with mandatory requirements of tax legislation. All reforms carried out by the Government and the Tax Committee with the support of the World Bank Group were designed to simplify tax procedures and thereby reduce administrative burden on businesses in the tax administration area. The latter should become an additional driver for economic support and growth and for higher tax collections due to decreased tax compliance costs.

Generally, the same employees/accountants in a company who are engaged in accounting and tax accounting perceive their professional activities as an integral process. Hence, to ensure accuracy of assessments, it was important that the respondents were presented with formulations that make a distinction between accounting and tax accounting in a clear and understandable way. Finally, the following definitions were used:

- **ACCOUNTING** is a type of activity to account income and expenses of a company but not associated with taxation. In other words, this is a type of activity that a company would perform in any case even if it did not have to pay any taxes.
- **TAX ACCOUNTING** is the activities on accounting of income and expenses of a company associated with taxation, production and storage of source documents, accounts maintenance, calculation of taxes and social contributions, filling out and submission of tax forms, payment of taxes, any interaction with tax authorities, and so on. In other words, this is the activity of a company connected to the compliance with tax legislation.

Tax administration costs of taxpayers being assessed during this study include labor costs (salaries paid to employees who do tax accounting) and indirect costs, such as payment for outsourcing services, acquisition of specialized software for tax accounting, purchase and maintenance of cash registers, invoices, forms. The principal indicator of the success of ongoing reforms in the tax administration areas is the time costs of taxpayers because such costs accurately reflect any changes that might happen.

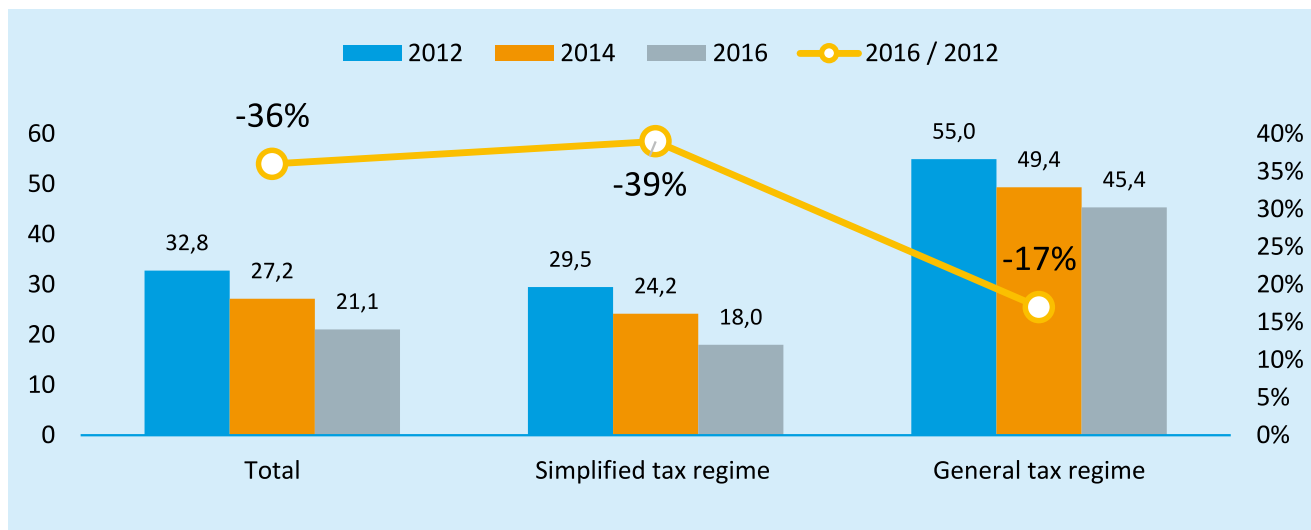
## TIME COSTS

- During the tax reform process, administrative burden on the private sector was reduced through simplified tax procedures and decreased time to pass those procedures. Since 2012, time costs of taxpayers had reduced by one-third and constituted 21.1 business days, according to the results of 2016.
- Time saving for tax administration is reported across all types of taxpayers, regardless of a tax regime, size of business, and at every stage of the tax procedure.
- Taxpayers who operate under the general tax regime spend more time for tax administration compared to taxpayers who follow the simplified tax regime. The number of taxes to be paid and complex administration entails such a situation. During the period of monitoring, the difference in the time spent tends to increase.
- Principal benefits of the simplified tax regime include less tax burden and lower costs for tax accounting, which are the key obstacles for private sector development. The companies paying uniform tax are not encouraged to switch to the general tax regime and such companies represent a large portion of the total number of taxpayers in Tajikistan.
- The new Tax Code, as effectuated on January 1, 2013, reduced the excessive administrative burden on taxpayers. This is primarily associated with the office work for tax accounting, which is the most costly stage of tax administration and takes over half of total time spent for taxation purpose.
- As a result of the implemented electronic system of filing tax returns, a sharp increase in the number of taxpayers (up to 45 percent) who delivered tax returns through the Internet was reported and, accordingly, considerable saving of time for visits to tax authorities.

Time costs of tax accounting consist of the total time over a year spent by all employees in a company-taxpayer who deal with the tax administration process and expressed as person-days per year. Tax records maintenance by the staff accountants of an enterprise is the commonly used tax administration practice in Tajikistan. Over 95 percent of taxpayers maintain tax records in-house, without outsourcing this function. The data of all rounds of the study indicate that this practice has not changed for the past years. Thus, expenses on labor remuneration of employees are a major component in the company's cost structure for tax accounting.

The monitoring data show that over the period of tax reforms, average time costs of tax accounting to comply with tax legislation reduced by one-third and reached 21.1 business days in 2016 (Figure 2). The key achievement of the tax legislation reforms pursued in Tajikistan is reduction of administrative burden on taxpayers due to simplified tax procedures and less time spent for such procedures.

*Figure 2.  
Dynamics of time costs of tax records by a type of taxpayer, in person-days per year*



Historically, businesses operating under the general tax regime spend more time for tax accounting compared to those who follow the simplified tax regime. The gap between time costs of the two tax regimes is not only substantial, but it also tends to increase. In the beginning of monitoring, the difference in time required for tax administration was not more than twofold, while as of end of 2016, time costs of VAT taxpayers accounted for 45.4 days. Therefore, the time costs exceeded the similar costs of businesses following the simplified regime by 2.5 times.

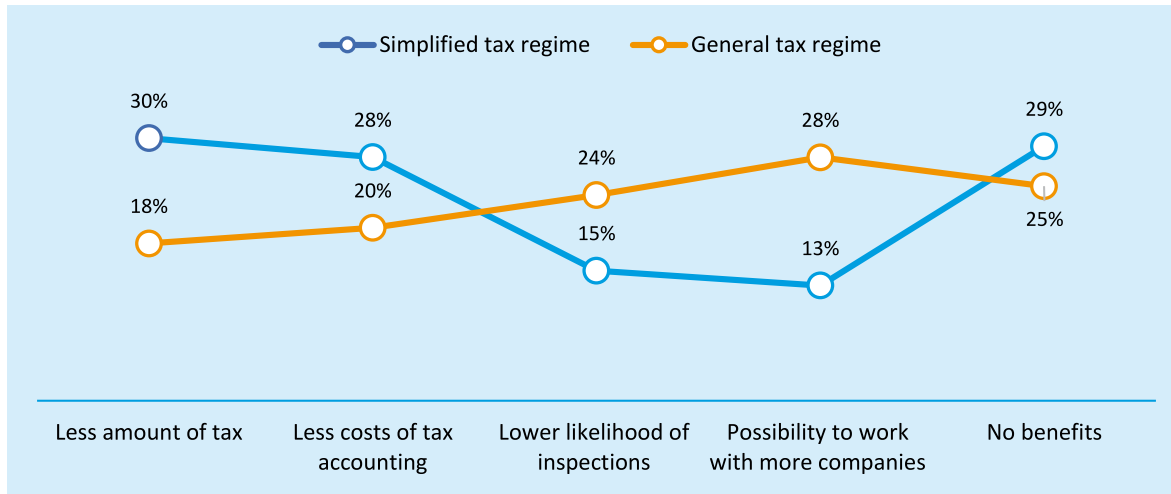
In absolute terms, reduction of time costs of entrepreneurs who operate under different regimes is almost equal. Maximum relative reduction was experienced by the taxpayers working under the simplified tax regime. Whereas the time cost reduction from the moment of tax reforms was 17 percent of baseline level with regard to the general tax regime, the same indicator for the simplified tax regime was 39 percent (Figure 2).

It should be noted that the overwhelming majority (89 percent) of the total number of taxpayers (total population of the survey) operate under the simplified tax regime. Therefore, the reforms of tax administration pursued are not selective but rather focused on the large part of taxpayers in Tajikistan.

During the survey, the respondents were asked to name the benefits of the tax regime they follow. It is worth mentioning that entrepreneurs who operate under the simplified tax regime think that the key advantage of the regime is the lesser tax amount, along with lower costs of tax administration compared to the general tax regime (Figure 3). Moderate tax accounting costs is virtually the same significant factor as the amount of paid taxes.



Figure 3.  
Benefits of tax regime, which was followed by a business in 2016



Substantial costs of tax accounting may represent one more administrative barrier to transition of enterprises from the simplified tax regime to the general tax regime. Hence, even if there is no opportunity to operate with the large number of companies, entrepreneurs prefer to operate under the simplified tax regime; however, such situation definitely hampers the business development. The willingness of entrepreneurs to pay taxes under the simplified regime to minimize the administrative expenses for tax accounting and the amount of taxes payable demonstrates that entrepreneurs are discouraged from the growth in the context of formal economy and transition from the simplified regime to the general tax regime, as a business develops. Certainly, these factors have a negative effect on the development of companies and the entire real sector of economy.

Based on the international survey 'Doing Business in 2018', Tajikistan ranks 123 among 190 economies surveyed. Along with a broad range of indicators, which feature the ease of doing business, the positions of Tajikistan on the 'Taxation' indicator are below the overall rating, that is, 132.<sup>10</sup> Despite the low international ranking of the country with regard to taxation, Tajikistan demonstrated a sharp upturn within one year; thus, the improvement by 41 ranks over the recent years was reported —from 173 in 2016 to 132 in 2018.

The Doing Business survey analyzes the taxes and mandatory contributions, which a medium-size company has to pay in a respective year and administrative burden associated with payments of taxes and contributions, as well as necessary post-filing procedures and tax payment. To ensure international benchmarking, a company with specific profile is considered: this is a medium-size business, with 60 staff employees; the ownership form is a limited liability company; it manufactures and sells consumer goods; and so on.

The Doing Business report shows that time costs of tax accounting in Tajikistan amounts to 224 hours per year, which is equivalent to 28 business days. Generally, this figure corresponds well to the results of the survey of tax compliance costs because the time span includes only preparation and filing of reporting and payment of three major types of taxes and contributions, namely, the corporate income tax, VAT or sales tax, and labor taxes, including payroll taxes and social contributions.

<sup>10</sup> <http://russian.doingbusiness.org/rankings>

Time costs of tax administration in Tajikistan exceed the average indicator for the Europe and Central Asia region (218.4 hours per year). Besides, the results of the Doing Business survey show that the total tax burden on one taxpayer in Tajikistan is 65.2 percent of its profit. This indicator is nearly two times higher than the region’s average indicator. Finally, the last factor that keeps Tajikistan at the bottom of the ranking is its position on ‘Post-filing procedures’ index. This index applies to time costs for compliance with requirements for refund of VAT and waiting time to receive VAT refund, as well as costs of corporate income tax audit. However, these indicators were not in the scope of this study and accordingly, may not be comparable (Table 8).

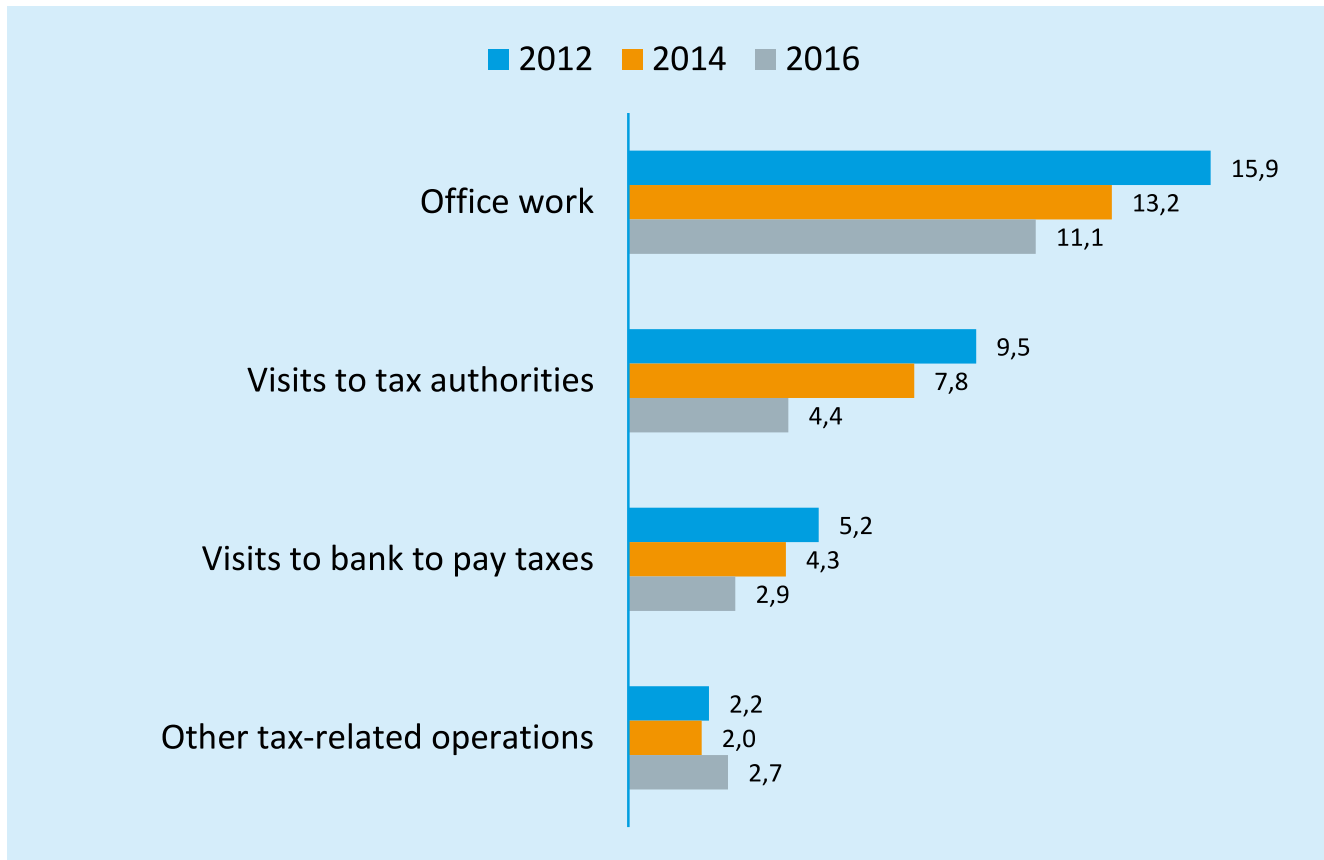
The combination of these factors preconditions the low rank of the country in the final ranking with respect to the ‘Paying taxes’ indicator, both in the international ranking and the Europe and Central Asia region ranking, where Tajikistan ranked 22 of 25 economies in the region.

*Table 8.  
International ranking of ease of tax administration, 2017*

COUNTRY	RANKING OF TAXATION	TIME (hours per year)
Azerbaijan	35	195
Armenia	87	313
Belarus	96	184
Georgia	22	269
Kazakhstan	50	178
Kyrgyz Republic	151	225
Latvia	13	169
Lithuania	18	109
Moldova	32	181
Russian Federation	52	168
Tajikistan	132	224
Uzbekistan	78	181
Ukraine	43	328

The most costly stage of the tax accounting procedure is maintenance of tax records in the office, which takes over half of all businesses’ time for tax compliance. Office work expenses tend to decline and it is interlinked with the general reduction of time costs for tax accounting (Figure 4).

*Figure 4.  
Time costs structure of tax accounting by a type of activity  
over time, in person-days per year*



Reduction of time costs for office work is a direct consequence of the tax legislation reforms. In 2012, the Tajik businesses paid more than 20 types of taxes. Small and medium companies had to submit 54 tax returns every year. The new Tax Code helped decrease an excessive administrative burden on taxpayers; in particular, certain taxes (for example, sales tax) were cancelled and the total number of required tax forms was reduced. The new Tax Code allowed to combine tax forms for the social security and individual income taxes and allowed the use of unified tax forms to declare profit tax and minimum income tax. Double decrease of the number of tax forms required to declare these taxes could not but have an effect on the total time spent for tax accounting in a taxpayer's office.

Office-based tax management takes many forms depending on various features of a taxpayer. First, it depends on the tax regime followed, which is conditioned by the number of paid taxes and time for their administration. As noted earlier, businesses operating under the general tax regime incur maximum time costs. This situation is caused by the need to administer VAT and profit tax, which are the most costly among all possible types of taxes in terms of time spent for administration (Table 9). On average, it took 6.3 business days to keep records of profit tax and 7.1 business days for VAT records in 2016.

*Table 9.  
Time costs of office work of tax accounting by major types of taxes in 2016 and percentage of taxpayers who consider tax accounting to be complicated*

	General tax regime		Simplified tax regime	
	Person/day	complicate	Person/day	complicate
Individual income tax	4,1	3%	3,0	3%
Corporate profit tax	6,3	14%		
VAT	7,1	18		
Tax payable under simplified regime			3,9	9%
Social security	3,9	2%	2,5	7%
Road users' tax	4,1	7%	3,7	0%

The second costly stage of tax administration is visits to tax authorities for various purposes. In the beginning of the monitoring (in 2012), total time spent by one taxpayer for visits to tax authorities was 9.5 business days (Figure 4). Needless to say that administrative burden related to this component of tax compliance should be diminished.

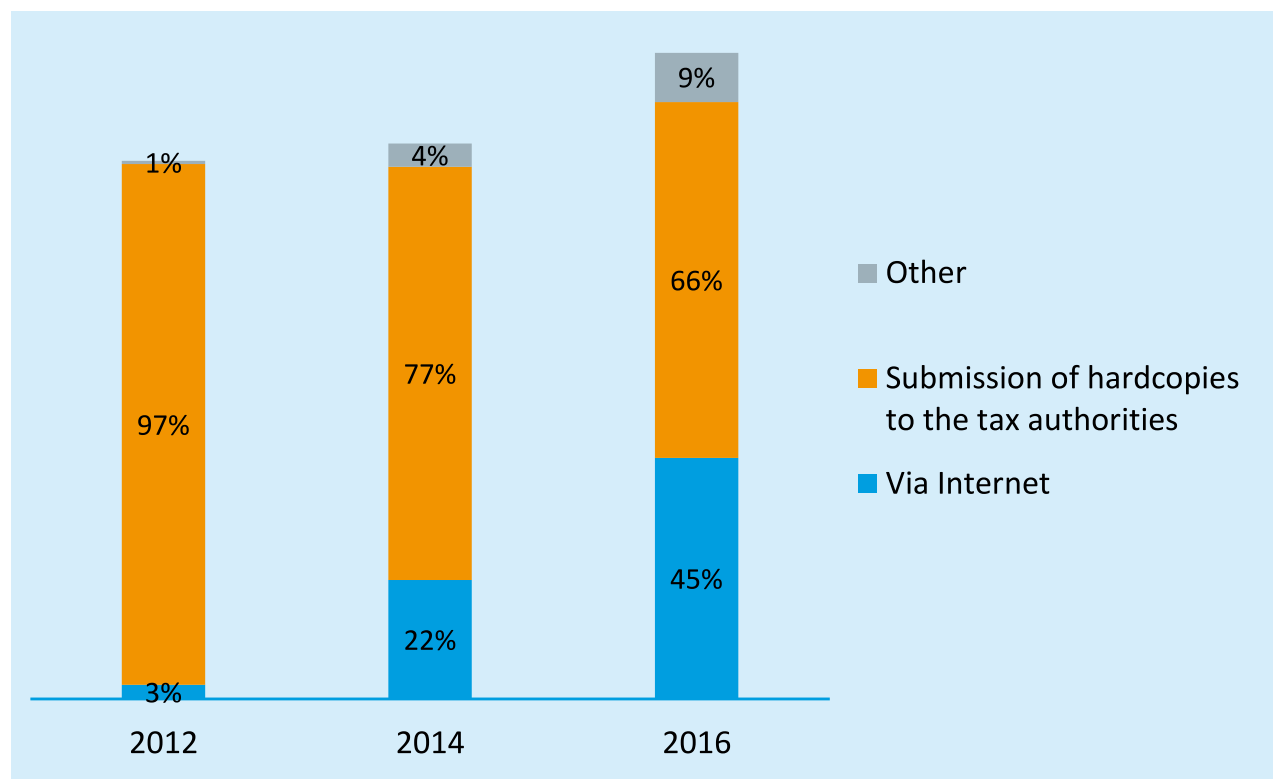
From 2014 to 2016, the Tax Committee had implemented a series of reforms in the tax administration, with IFC support. The key area for reforms was an active introduction of various electronic services, including application of the electronic system of filing tax returns and declaration, adoption of electronic VAT reporting forms, and so on.

As a result, the monitoring data show a sharp decline in time costs for visits to tax authorities in 2016 compared to the similar indicator in 2014. In 2014, taxpayers spent 7.8 business days for trips to tax authorities; the survey in 2016 identified that this indicator had dropped by more than 40 percent and constituted 4.8 business days (Figure 4). Over the period of tax reforms and monitoring of changes, total time for visits to tax authorities has declined by more than two times.

Reduction of time for visits to tax authorities is closely interlinked with a higher share of taxpayers who filed tax returns through the Internet. Time costs for visits to tax authorities decreased in proportion to the share of taxpayers who preferred web-based filing of tax returns. At the onset of the tax reforms, this practice was practically absent, but by 2016, almost half of the respondents mentioned that they used electronic channels for submission of tax returns (Figure 5).

Despite the apparent advantages and convenience of web-based submissions of tax returns, including lack of direct contacts with tax inspectors along with time savings, most taxpayers still prefer going to tax authorities to file paper-based returns. Some portion of such taxpayers utilize this option in combination with electronic filing of tax returns.

*Figure 5.  
Options for filing tax returns*



One of the most common reasons for submission of paper-based returns is a well-established habit. Every third entrepreneur stated that it is easier and more convenient to submit the hard copies (Table 10).

Another common reason (that should be carefully examined) is the lack of technical ability of taxpayers to use the new service that is in place and submit tax returns through the Internet. One-third of entrepreneurs could not file tax returns because they did not have access to the Internet and almost as many respondents (29 percent) simply did not have computers at their disposal. In total, 48 percent of taxpayers did not submit tax reports remotely in 2016 because of the above reasons. Thus, it can be stated that poor equipping and insufficient penetration of the Internet are the main barriers to the development of electronic filing of tax reports and appropriate technologies.

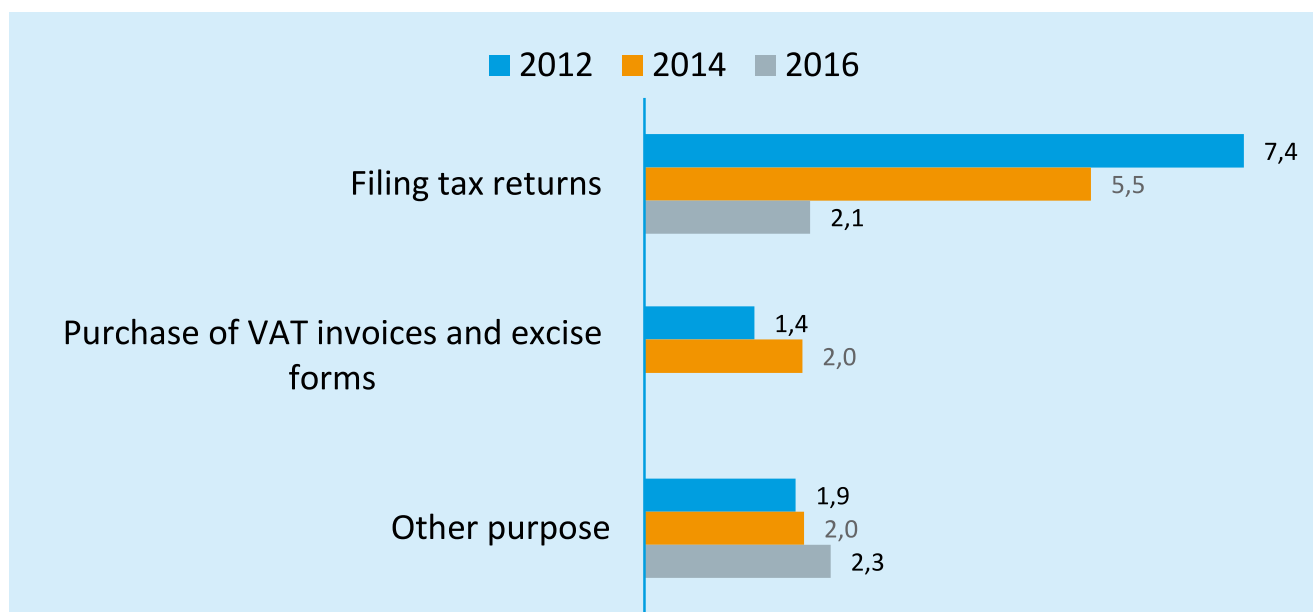
*Table 10.*  
*Reasons why taxpayers did not submit tax returns through the Internet in 2016*

It is convenient and handy to submit paper-based documents	33%
No Internet connection	33%
No computers were available in a company in 2016	29%
Tax inspector usually helps fill out tax returns	17%
Unnecessary because of low volume of tax returns	16%
Employees did not know how to use the electronic declaration system	4%
I was not aware about such possibility	4%
Tax inspector forces to submit hardcopy return	3%
No trust in electronic document management; it could be unsafe	1%
Electronic declaration and digital signature are too expensive	1%

During the survey, respondents were asked about the purpose of their trips to the tax authorities. Of course, the main purpose was the need to file tax returns. In 2012, taxpayers spent 7.4 working days for that purpose, which was more than two-thirds of total time for all trips to the tax authorities (Figure 6). At the same time, the dynamics of travel time for reporting purposes also demonstrates a strong correlation with the growth in the share of taxpayers submitting tax reports through the Internet.

Round 3 of monitoring concluded that the time spent by entrepreneurs decreased significantly, amounting on average to 2.1 working days compared to 2016 (Figure 6). In absolute terms, the savings in travel time to the tax authorities during the reform period exceeded 5 working days, surpassing the result achieved from saving time on office work. Thus, due to efficient reform of this stage of tax procedures (although it was not an extremely time-consuming stage), it was possible to achieve the same result in terms of scale as in simplifying the most labor-consuming part of the tax accounting procedure.

Figure 6.  
Time costs of visits to tax authorities offices for various purposes, in person-days per year

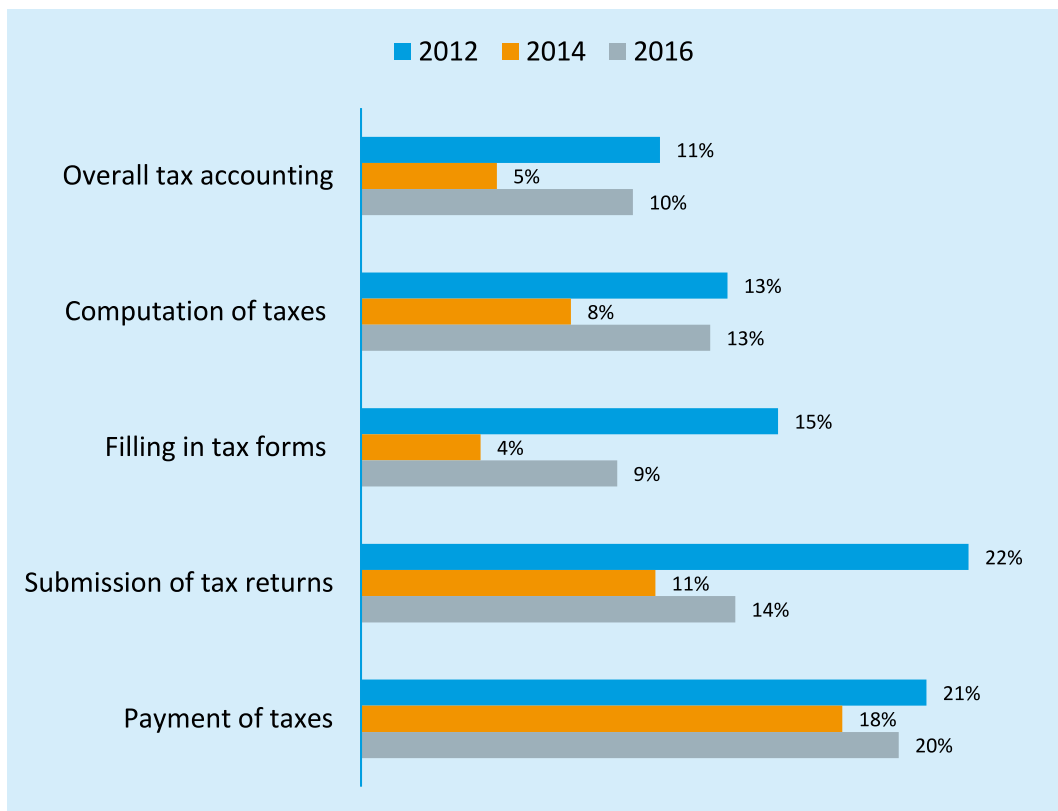


Another step aimed at simplifying administrative regulation in the framework of tax reform was the cancellation of paper-based forms of VAT invoices and their translation into electronic format. This step allowed VAT payers to register electronic numbers of invoices without the need to purchase a limited number of forms from the Tax Committee. As a result, the need to visit the tax authorities for acquiring VAT invoices had completely disappeared in 2016. This allowed taxpayers to save both time for tax accounting and direct costs for acquisition of various tax forms (the decline was from TJS 172 in 2012 to TJS 51 in 2016).

The share of entrepreneurs who rate the stages of the tax procedure as complex was not significant. In the opinion of respondents, the most problematic areas were the filing of tax reports and the process of paying taxes. Every fifth surveyed taxpayer stated these reasons during the first round of monitoring (Figure 7). Once the new Tax Code was enacted in 2013, taxpayers became more optimistic in their subjective assessments of the complexity of tax accounting. Based on data of Round 2 of the survey, the share of respondents who consider any stage of tax administration to be challenging has significantly decreased. This was typical for all stages of the tax procedure.

Though certain favorable changes in subjective perception of the difficulty of compliance with tax legislation were observed initially by entrepreneurs, the economic crisis in the country in recent years has not allowed to secure the success of the first years of tax reform. Data of the latest monitoring in 2016 demonstrate a decrease in the level of positive attitude in respondents' assessments and more complex stages of the tax procedure according to the subjective perception of taxpayers (Figure 7).

*Figure 7.  
Share of taxpayers who believe that certain tax-related activities are complicated*



As described earlier, the tough economic situation had a negative effect on the national budget tax revenues in Tajikistan. In 2014, tax revenues constituted 22.7 percent of the country's GDP, but by the end of 2016 the share of tax revenues decreased by more than 2 percentage points to 20.6 percent of GDP.<sup>11</sup> The need to increase tax collections could not but affect the private sector; in particular, it entailed certain changes in favorable assessments of the complexity of tax accounting, which returned to the original level for most of the stages.

However, the percentage of critical assessments had not returned to its earlier values with respect to every stage of the tax administration procedure. When assessing the complexity of filling out tax forms and filing tax returns in 2016, the share of respondents who stated that these stages are difficult for them is significantly lower than during Round 1 of monitoring. It is assumed that this is an immediate outcome of the well-targeted reform of these stages of the tax procedure, namely, the reduction in the number of tax forms and introduction of the electronic tax filing system in recent years.

11 <http://pubdocs.worldbank.org/en/615841500543125516/ECA2017-TJK-RUS-003.pdf>



## COST OF COMPLIANCE WITH TAX LEGISLATION

- On the back of reduced time costs for tax accounting, the costs of compliance with tax legislation also tend to decline. Because of inflation and sharp exchange rate differences of the U.S. dollar to the Tajik somoni, a decrease in financial expenses in the national currency was not significant. The average tax accounting costs declined twofold compared to 2012, if denominated in U.S. dollar equivalent, that is, down to US\$145 in 2016.
- Annual costs of tax legislation compliance are linked with the profile of a company-taxpayer. A legal entity who is a VAT payer spends nearly three times more compared to an individual entrepreneur who follows the simplified tax regime.
- Tax compliance costs seem to be retrograding. With regard to micro-businesses, the costs of tax administration are 3.3 percent of annual turnover; this is a sort of additional tax.
- Overall relative financial burden on the national economy associated with observance of tax legislation requirements has reduced for the reform period by more than 2.5 times and amounted to 0.1 percent of GDP in 2016.
- Economic effect of the effectuated new Tax Code in 2013 and tax administration reform was estimated at US\$6.8 million in 2014 compared to total expenditures in 2012. .

Ongoing tax system reforms in Tajikistan are focused on acceleration and simplification of tax accounting for taxpayers. Decrease in time costs of tax compliance should ultimately result in financial savings. Release of additional funds of the businesses is the ultimate goal of tax reforms because these savings could then be reinvested in a business and the amounts of taxes will increase accordingly. In other words, reduction of administrative burden related to compliance with tax legislation will facilitate the economy growth in the country either by tax collections or development of the real sector of economy.

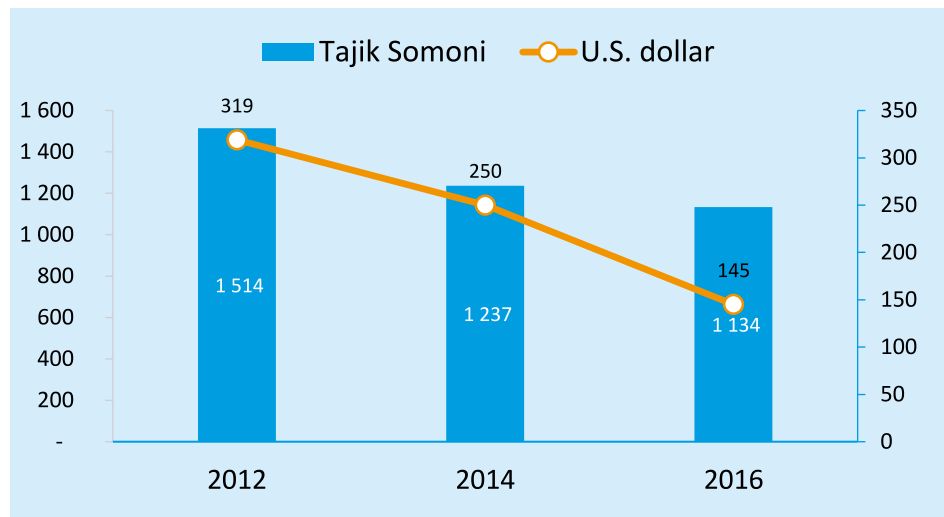
Financial costs of maintaining tax records include labor costs of all employees of company-taxpayers who are involved in tax administration process, as well as the payment for the services of third-party specialists, if such functions are outsourced in part or in total. In addition, to calculate total financial costs, the following direct expenses should be accounted:

- Purchase of forms, invoices, book of records, and other tax forms
- Obtaining of tax-related information (specialized materials, database, learning and teaching aids, participation in workshops, and so on)
- Purchase and maintenance of dedicated software for bookkeeping and tax accounting

The expenses being reviewed disregard the costs of business for paying such taxes because the objective of surveys was not an assessment of tax burden on the businesses but the monitoring of efficiency of ongoing reforms in terms of assessment of tax administration costs.

In addition to decreased time costs for tax administration, the survey identified a reduction in the financial expenses of taxpayers for compliance with the requirements of tax legislation. In 2012, one average taxpayer in Tajikistan spent TJS 1,514 per year for tax accounting (Figure 8). After the new Tax Code was enacted in 2013, the cost of tax accounting decreased in parallel with a decrease in time costs by almost the same amount (17 percent) and constituted an average of TJS 1,237 in 2014. The last round of the study found a discrepancy in the dynamics of time and financial costs for tax administration. So, if the reduction in time costs in 2016 was very significant (from 27.2 days to 21.1 days, which is equivalent to 22 percent decrease), the money costs remained practically at the same level. Financial savings for tax accounting in 2016 amounted to as low as 8 percent, decreasing by only TJS 103 compared to 2014 (Figure 8).

*Figure 8.  
Dynamics of financial costs of one taxpayer for compliance with requirements of tax legislation*



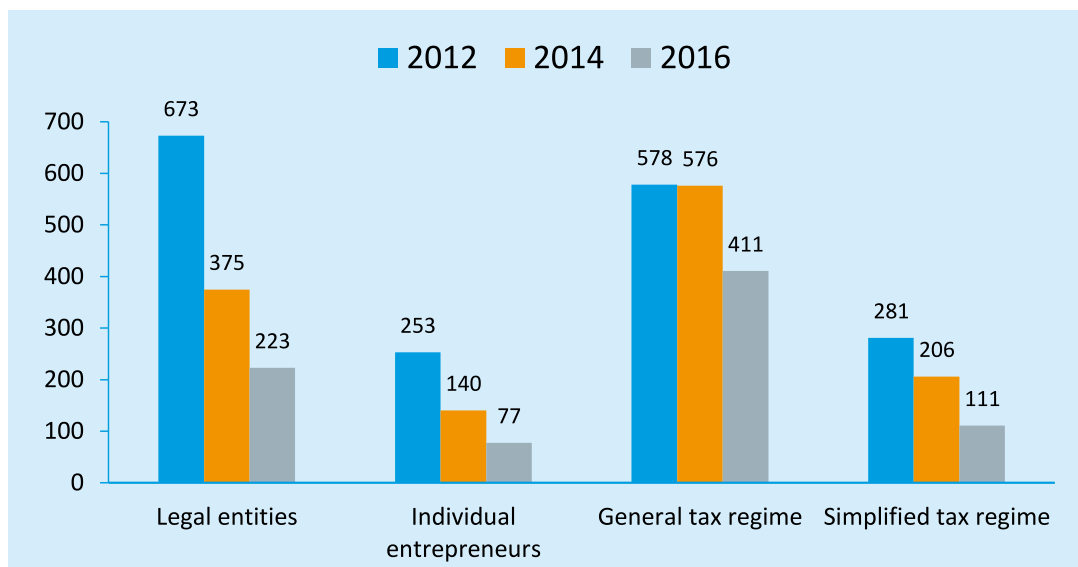
One of the key indicators characterizing the state of the economy is the exchange rate of the national currency to the leading world currencies, primarily to the U.S. dollar. In 2014, the exchange rate of the Tajik somoni to the U.S. dollar did not vary strongly from the rate in 2012; the costs of entrepreneurs for tax accounting (if recalculated in U.S. dollars) correlate with both time and money costs in Tajik somoni. Round 3 of the study was held in the period of economic recession. One of the consequences of the economy crisis in Tajikistan was a sharp drop in the rate of the Tajik somoni to the U.S. dollar. If in 2014 the weighted average exchange rate of the national currency was TJS 4.94 to US\$1, by the end of 2016 this ratio increased by more than 1.5 times, reaching TJS 7.84 to US\$1.<sup>12</sup> Thus, taxpayers' financial costs for tax accounting in 2016 decreased significantly and accounted for US\$145, which was 42 percent less than the similar costs in 2014.

12 <http://pubdocs.worldbank.org/en/615841500543125516/ECA2017-TJK-RUS-003.pdf>

It is clear that these assessments are conservative and represent the lower threshold against the actual costs of tax accounting. During the survey the entrepreneurs mostly referred to the formal salary of their employees, based on which the financial costs were estimated. Given that the actual level of labor costs exceeds the formally declared salary, the taxpayers incur higher costs of tax accounting compared to estimated costs, but it is still impossible to come up with accurate numbers.

It is natural that annual costs of compliance with the tax legislation requirements directly depend on the amount of income and an organizational and legal form of registration of a taxpayer. If a taxpayer is a legal entity, his/her financial costs of tax administration will be almost three times higher than the comparable expenses of an individual entrepreneur (Figure 9). This proportion is fairly stable and has been maintained throughout the period of monitoring of the entrepreneurs' costs.

*Figure 9.  
Dynamics of financial costs of tax administration depending on type of taxpayer and tax regime, in U.S. dollars*



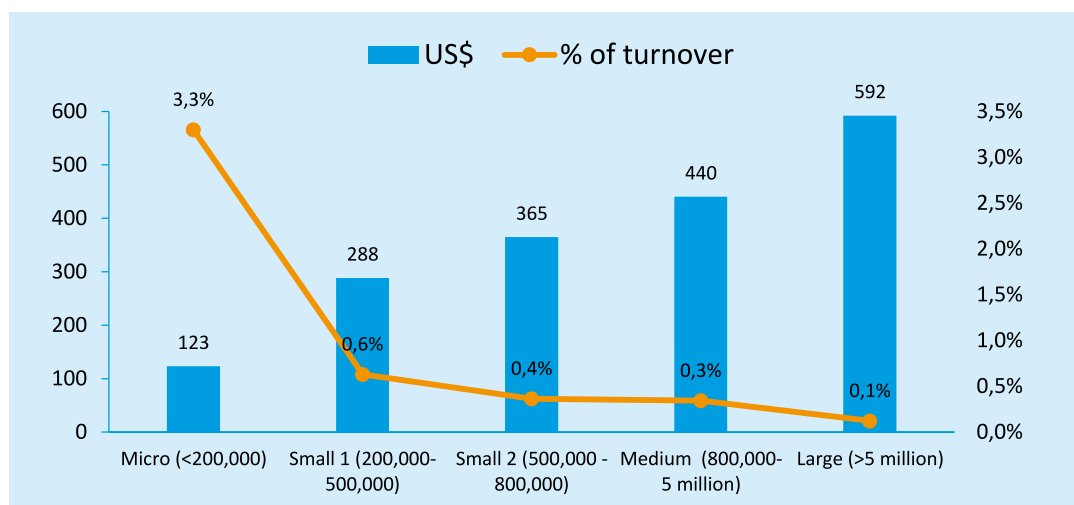
The cost of tax accounting for companies operating under the general tax regime is also significantly higher than for those who choose the simplified taxation regime. This is because, unlike the simplified regime, the general tax regime requires accounting for VAT and profit tax. As already noted, it takes plenty of time to maintain records for such types of tax accounting in an office, and in comparison to other taxes, such taxes were rated by respondents as the most difficult in terms of administration. The latter circumstance should inevitably lead to the need for entrepreneurs to hire more qualified specialists (accountants) who can administer VAT and profit tax, which directly affects the financial costs of tax administration.

At the same time, if the relative gap in the costs of taxpayers working under different tax regimes has increased during the reform period, the stability was observed in absolute terms. VAT payers spend on average US\$300 more per year for tax administration compared to entrepreneurs following the simplified tax regime.

Business features such as size and tax regime are interlinked because a business’s size is defined by its annual turnover, and the latter has an effect on the tax regime that a business may choose. Medium and large businesses have to work under the general regime with VAT, because their annual turnover exceeds the threshold of mandatory registration of VAT, and micro-businesses choose the simplified tax regime to minimize tax and administrative burden. Besides, a company’s size is directly linked to the staff number, which varies between 4.4 people in a micro-company (turnover less than TJS 200,000) to 64.1 people in a large company (turnover above TJS 5 million). Staff number has an immediate effect on the scope of tax accounting work in a company, including records of income and social security taxes.

Micro-businesses, mainly represented by individual entrepreneurs with minimum staff, spent about US\$123 for tax accounting in 2016. The costs of taxpayers to comply with tax legislation increase in proportion to the annual turnover of a taxpayer, and the difference may be sixfold. Financial costs of companies with turnover of TJS 200,000 to 800,000, that is, the small businesses, increase intermittently up to US\$317 per year (Figure 10). Large companies incur the largest costs of tax compliance that make US\$592 per year on average.

Figure 10.  
Financial costs of tax accounting and share in profit by size of taxpayer, 2016



Although micro-businesses with profit of less than TJS 200,000 spend the minimum on tax administration, they still bear the maximum relative financial burden. Average costs of such taxpayers exceed 3 percent of the annual profit (Figure 10). Given the fact that many micro-companies operate based on the simplified tax regime, it is suggested that tax administration is one more additional tax comparable by its value with the uniform tax rate (from 5 percent to 6 percent of annual profit). Certainly, it represents a serious barrier to micro-business development and to the formal registration in the shadow economy sector because in this environment primarily highly profitable companies remain competitive after they pay out and administer all due taxes. Those taxpayers who are not able to ensure a highly profitable business at the early stage have to either go into liquidation or operate to some extent in the shadow sector.

Despite the high financial costs of medium and large taxpayers, their relative costs are still insignificant—0.06 percent and 0.03 percent, respectively (Figure 10). It may be argued that the administrative burden on medium and large businesses associated with tax legislation compliance generates no obstacles for business development.

Favorable developments in the area of reduced financial burden on businesses in the tax administration area have a positive impact on the national economy. As reported by the Tax Committee, 62,352 legal entities and individual entrepreneurs in 2012 were engaged in economic activities and submitted tax returns (this survey did not cover entrepreneurs who operated under patent-based tax and farmholdings). If these data are extrapolated on average costs of one taxpayer across total population of respondents in the country, the total costs of all taxpayers to comply with mandatory requirements of tax legislation in 2012 would amount to TJS 94.4 million, which is equivalent to US\$19.9 million<sup>13</sup> (Figure 11).

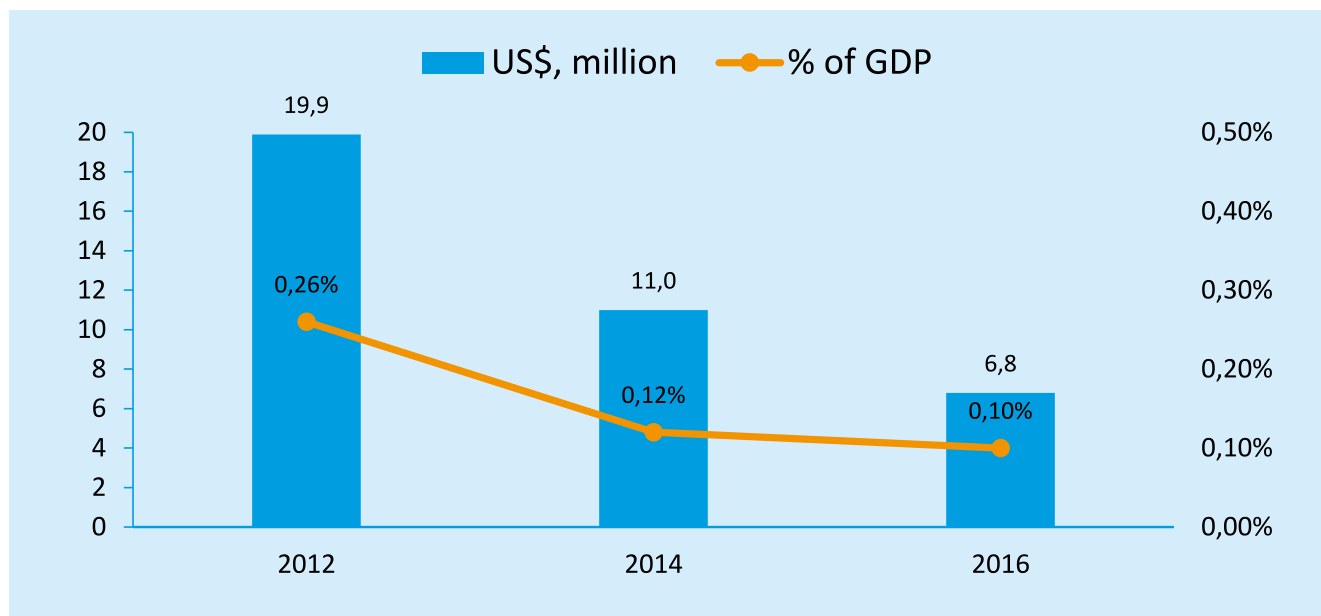
By 2014, the total expenditures on tax administration decreased by almost half and accounted for US\$11 million. Basically, the drop in expenses was achieved by decreased number of taxpayers and the lesser time spent on tax accounting. The last round of monitoring demonstrates a further reduction in the tax compliance costs across all taxpayers, which is caused not only by reduction of the administrative burden on the private sector but also mainly by a sharp jump in the U.S. dollar exchange rate in relation to the Tajik somoni.

As a result of reduced total tax administration costs, taxpayers tend to cut their expenditures relative to the country's GDP. During the period of tax reforms and monitoring of changes, the relative private sector costs of tax accounting decreased from 0.26 percent in 2012 to 0.1 percent of the country's GDP in 2016 (Figure 11).

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<sup>13</sup> Assuming the average weighted exchange rate of the U.S. dollar to the Tajik somoni was US\$1/TJS 4.74 in 2012.

Figure 11.  
Dynamics of cumulative financial costs of tax accounting and share of GDP



When assessing the economic impact of the reforms, it is necessary to consider the following factors: changes in the average time costs and, as a result, the financial costs of each taxpayer; dynamics of the total number of taxpayers for the reviewed period; the exchange rate difference with respect to the U.S. dollar; inflation rate; tax rate; and so on. In other words, to get a true picture of the savings from implemented reforms, it is necessary to project the existing costs of one taxpayer to the situation of the past years (the baseline year of monitoring), which is measured by the ongoing reforms progress. That is, there should be an assessment of what would have been the total expenditures of the national economy with the current costs of maintaining tax records.

Based on the official statistics on the inflation level, the total number of taxpayers, the weighted average rate of the national currency, and so on, the annual savings of US\$6.8 million from reducing the tax administration costs in 2014 compared to 2012 is estimated. The same computations for 2016 show that due to the tax system reforms, the economy of Tajikistan would have received additional US\$1.4 million in 2014.

## INSPECTIONS OF COMPLIANCE WITH TAX LEGISLATION


- The risk assessment system for planning tax inspections introduced by the Tax Committee has allowed to scale down the share of taxpayers inspected in 2016 to 52 percent of the total number of inspected taxpayers in 2012.
- The proportion of inspected companies operating under the general tax regime has grown throughout the monitoring period, reaching 63 percent in 2016. This segment of taxpayers comes under the scrutiny of the tax authorities. The size of the company also affects the likelihood of being exposed to a tax audit.
- The coverage of tax inspections in Sughd region, unlike other regions, has steadily grown in all rounds of the survey regardless of the tax reforms carried out.
- Although the number of inspected taxpayers increased, their total time and financial costs for passing all tax audits during a year reduced.
- In 2016, a sharp increase in the frequency of detection of various violations upon the tax audit findings was reported. Only 17 percent of the inspected taxpayers said that they did not face any consequences after the audit. The most common consequences of the violations identified were the imposition of fines or penalties and/or additional taxation.
- Round 3 of the study showed a logical intermittent growth of taxpayers (from 23 percent to 44 percent) who believe that the level of control by the tax authorities is excessive.

The state-level control over compliance with mandatory requirements of the tax legislation by business entities could be a sizeable administrative burden on entrepreneurs, and the financial expenses on passing the tax control procedures/tax audits may contribute heavily to the total tax administration costs of entrepreneurs.

The IFC Investment Climate Advisory Services Program assists the Tax Committee with improving tax administration, including the reforming of the tax audit system by the introduction of the risk assessment system for inspections planning. This system is based on initial analysis of the level of risk and targeted identification of those taxpayers who are likely to evade taxes. The system of risk-based tax inspections allows the Tax Committee to minimize inspections of good faith taxpayers and focus the work only on the taxpayers who repeatedly fail to comply with tax legislation.

During the survey, entrepreneurs were asked about their experience of passing tax inspections and inspections that implied any form of tax control such as

- Scheduled documentary inspections of all types of taxes;
- Thematic inspection of certain types of taxes;
- Counter audit (in case of verifying contractors of an entrepreneur);
- Raid audit (checking cash accounting, cash registers, tax patents, permits, and so on); and Desk audit at the tax office.



Time costs of going through the tax control were also assessed if a respondent was sure that he/she was the subject of tax audit but he/she could not specify the type of tax control and if a respondent believed that an inspection was unauthorized.

It can be stated that the coverage of tax inspections in Tajikistan remains consistently high. Throughout the monitoring period of the ongoing tax administration reforms, more than half of all taxpayers were audited annually by the tax authorities (Figure 12). If by 2012 the proportion of taxpayers inspected was just over half, then after the introduction of the new Tax Code, the coverage by tax inspections had practically reached two-thirds of the total number of taxpayers in Tajikistan. A possible explanation for such a situation is an increased focus of the tax authorities on compliance with new tax regulations that have just been enacted and a higher number of errors and violations of tax legislation because of the poor enforcement of new provisions.

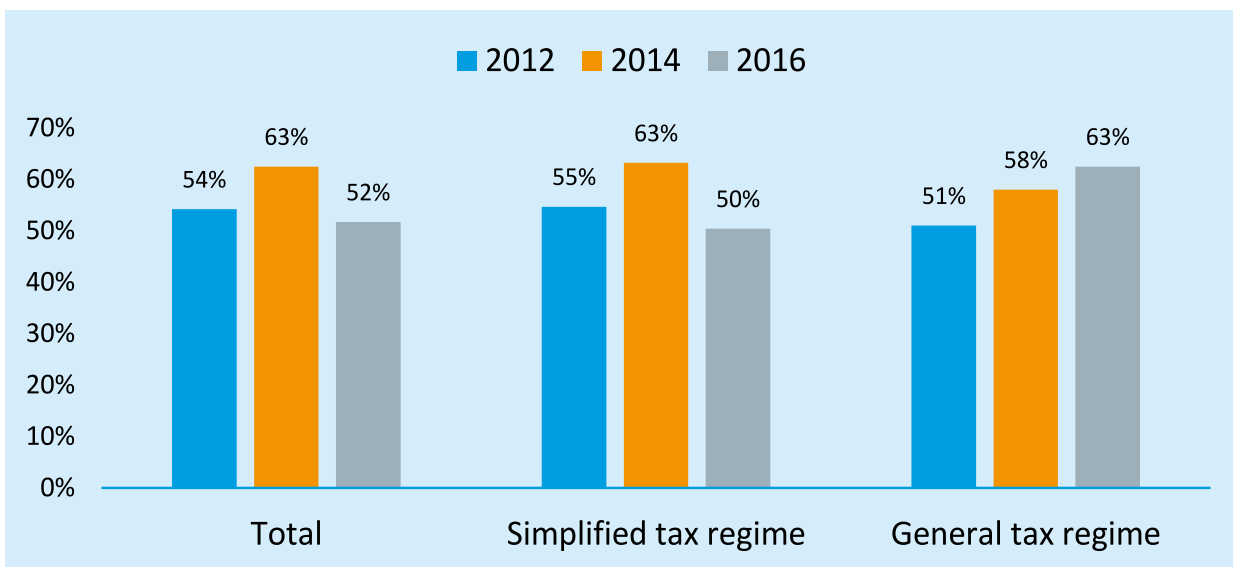
The latest round of the study recorded a reduction in the scope of coverage by tax audits to the level of 2012. It can be assumed that the risk assessment system during tax audits, as introduced by the Tax Committee with IFC's advisory assistance, has been successful and reduced the overall administrative burden on the private sector in Tajikistan.

This is also confirmed by a comparative analysis of the dynamics of coverage by inspections depending on the tax regime. The dynamics of tax inspections' coverage of entrepreneurs working on the simplified taxation regime was similar to the overall dynamics of the total population of taxpayers interviewed for this study. This is because this group is represented by the majority of all taxpayers (89 percent) in the country.

The dynamics of inspections' coverage of companies operating under the general tax regime varies considerably. The share of those who passed the tax audit presents a stable upward trend. This suggests that after the introduction of the risk assessment system the tax authorities have concentrated even more on taxpayers working under the general regime. It is assumed that in this group of taxpayers (because of its size), there is the highest probability of identifying errors in tax legislation and a much greater chance of raising the taxable base.



Figure 12.  
Dynamics of coverage of tax inspections, breakdown by tax regime



However, the share of entrepreneurs who passed tax inspections over the year remains very high in Tajikistan. Based on international practice, efficient integration of the risk assessment system in the tax audits' planning allows to further reduce the number of inspected taxpayers. An example of the best international experience in the scope of inspections is South Africa, where tax inspections coverage was not more than 2 percent for income tax payers and 3 percent for VAT payers.<sup>14</sup>

As mentioned earlier, one of the most extensive global studies of the business environment is the Enterprise Survey, which is regularly conducted by the World Bank and covers 139 countries around the world. One of the topics considered in this survey is the state regulation and taxation. One of the estimated indicators is formulated as 'Percent of firms visited or required to meet with tax official'.

Although the latest survey of enterprises was carried out by the World Bank in 2013, the data clearly show the position of Tajikistan compared to other countries of the Eastern Europe and Central Asia region. According to published data,<sup>15</sup> about three-fourths of all entrepreneurs in Tajikistan in 2013 had to deal with tax authorities (Table 11). This figure is one of the highest in the region. These data confirm the urgency of reforming the tax control area in Tajikistan.

<sup>14</sup> Based on data of the World Bank Foreign Investment Advisory Service, 2006

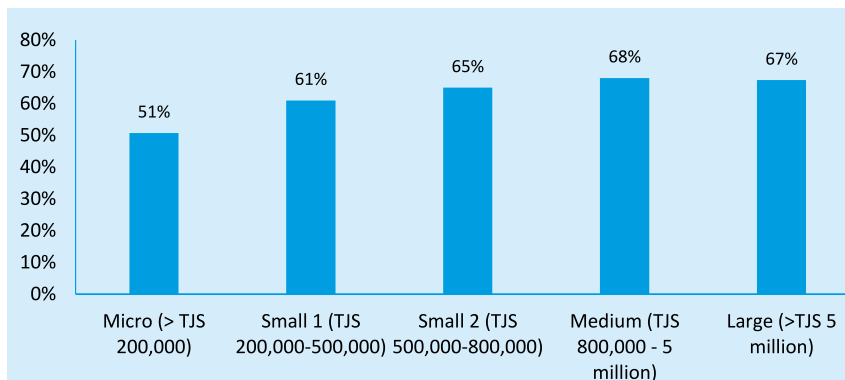
<sup>15</sup> <http://www.enterprisesurveys.org/data/exploretopics/regulations-and-taxes#europe-central-asia--1>

*Table 11.  
Percentage of enterprises who were inspected or had to meet with tax authorities in 2013*

Kosovo	93,8%
Kyrgyz Republic	91,2%
Azerbaijan	84,2%
Armenia	76,7%
Montenegro	74,8%
Tajikistan	73,9%
Macedonia	70,2%
Moldova	70,2%
Bosnia and Herzegovina	69,1%
Bulgaria	62,6%
Ukraine	61,6%
Romania	58,2%
Turkey	54,9%
Serbia	50,9%
Russian Federation	48,1%
Belarus	36,6%
Kazakhstan	32,4%
Uzbekistan	30,2%
Georgia	24,8%

The likelihood of being inspected by the tax authorities depends not only on the tax regime but also on the size of a taxpayer. In 2016, about half of the micro-businesses were inspected, but in the group of medium and large businesses, more than two-thirds of taxpayers claimed that they had to pass at least one tax inspection (Figure 13). Hence, it can be stated that in terms of the tax control procedure, the tax authorities paid careful attention to medium and large businesses that are VAT payers.

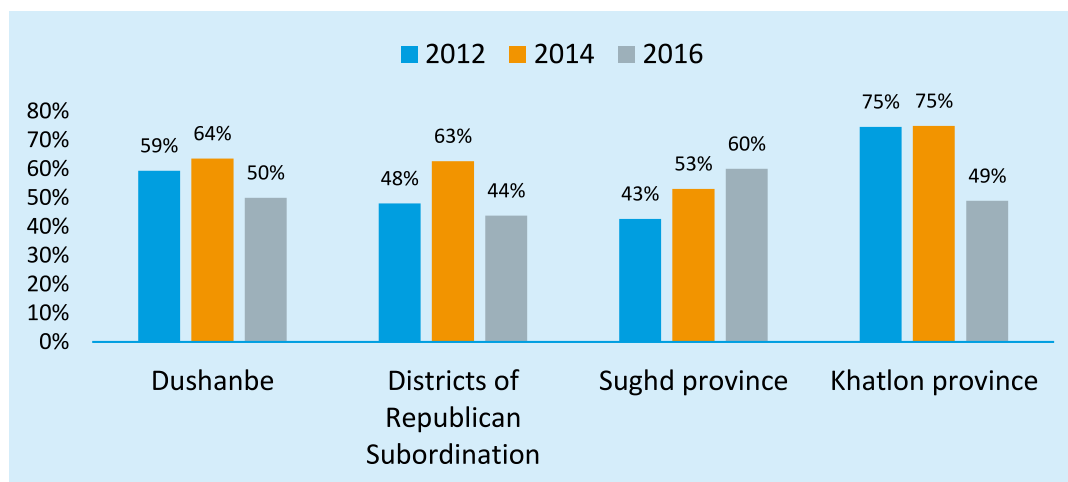
*Figure 13.  
Coverage of tax inspections based on size of taxpayer, 2016*



The attention of control bodies to taxpayers varies greatly by a region. Overall, in Dushanbe and the DRS, this trend is observed: a substantially higher number of tax audits in 2014 and then a decline in the percentage of audited taxpayers to the level of 2012 (Figure 13).

Quite opposite trends in the dynamics of coverage by tax inspections were identified in the remaining regions. So, during the first and second rounds of the survey, three-fourths of the surveyed entrepreneurs in Khatlon region stated that they were checked by the tax authorities at least once a year. This indicator has remained unchanged until 2016, when the coverage of audited taxpayers fell sharply, accounting for 49 percent of the respondents. The reasons for such a sharp change in this trend cannot be analyzed as part of this study.

*Figure 14.  
Dynamics of coverage of tax inspections, breakdown by region*



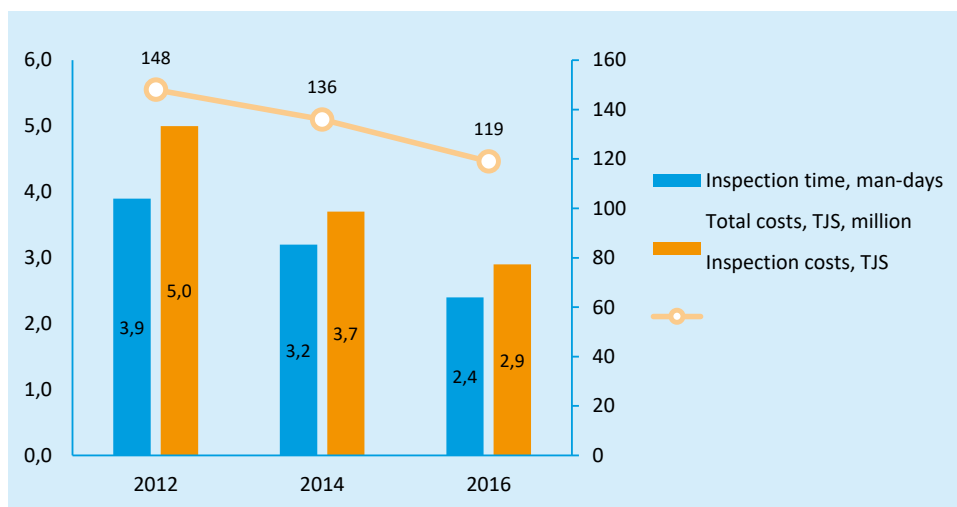
The analysis of the responses of entrepreneurs in Sughd region also demonstrates unusual features in the scope of tax control. Each subsequent circle of monitoring recorded an increase in the proportion of entrepreneurs inspected by the tax authorities. Ultimately, Sughd region with a minimum coverage rate in 2012 (43 percent) took the leading position among all regions in terms of the number of taxpayers inspected in 2016.

Despite the unstable variations in coverage by tax audits, the total time spent by inspected taxpayers to pass all tax control procedures demonstrates a downward trend. If in 2012, it took about 4 business days for entrepreneurs to pass all inspections, by 2016 this indicator decreased almost twice, that is, 2.4 working days per year (Figure 15).

Consequently, the financial costs of entrepreneurs undergoing the tax control procedure decrease every year. According to the 2016 survey data, the average financial costs of one entrepreneur to pass tax audits were TJS 119, which constituted only about 10 percent of the total costs of taxpayers for compliance with the tax legislation requirements.

As a result, overall administrative burden on the country’s economy also diminishes. If at the beginning of the monitoring total annual costs of all businesses inspected by the tax authorities reached TJS 5 million, by 2014 this number dropped to TJS 3.7 million. Despite the increase in coverage by tax audits in 2014, the total savings were achieved due to reduction in time costs and the financial costs of inspections of one taxpayer, as well as a decrease in the total number of taxpayers in the population. The trend in reduced total costs for tax control has remained and by the end of 2016 such costs were less than TJS 3 million (Figure 15).

*Figure 15.  
Dynamics of costs of inspections held by Tax committee*

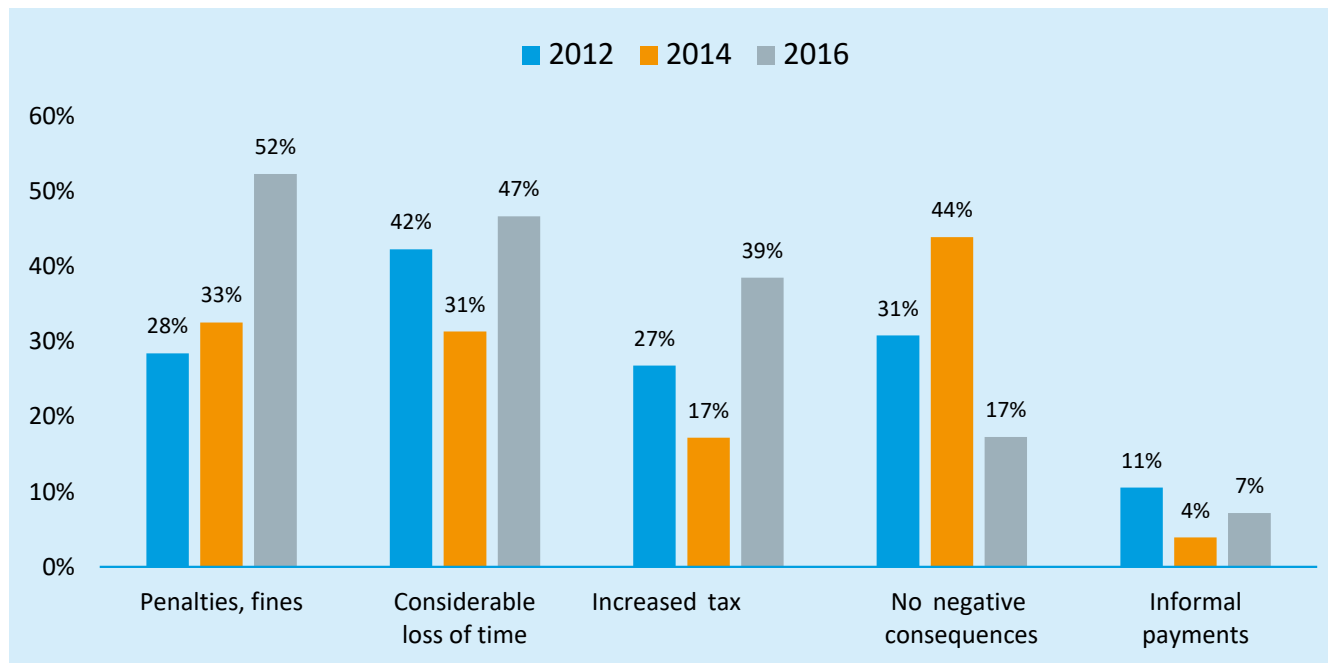


These estimates do not account for the government agencies’ costs of organization and conduct of tax control, which should also be quite high. As estimated by inspected entrepreneurs in 2016, a tax inspector spent about 12 hours in a company’s office during one inspection and this indicator varies heavily depending on the size of the taxpayer: 11 hours for micro-businesses and 36 hours for large enterprises. At the same time, during 2016 every business was inspected by the tax authorities 2.4 times on average. Thus, the actual expenditures of the country’s economy on controlling activities to check compliance with tax legislation should be significantly higher than the estimates presented in this study. This once again points to the need to continue the tax administration reforms and reduce further the coverage of entrepreneurs by tax inspections.

As already noted, the economic crisis in Tajikistan in recent years has affected virtually all areas of economic activities. Decline in tax collections could not but affect the activities of business entities. The responses of entrepreneurs regarding their experience of passing tax inspections demonstrate a sharp increase in the number of negative implications of the inspection findings.

First, the number of cases where the tax audit findings did not detect any violations and a businessman would not experience any negative consequences sharply reduced. In 2014, 44 percent of the taxpayers inspected said there were no negative consequences, but in 2016, the percentage of such taxpayers went down to 17 percent (Figure 16). It means that the remaining overwhelming majority of respondents (83 percent) faced some negative impact on their business after passing the tax control procedure.

*Figure 16.  
Dynamics of consequences of the last tax inspection*



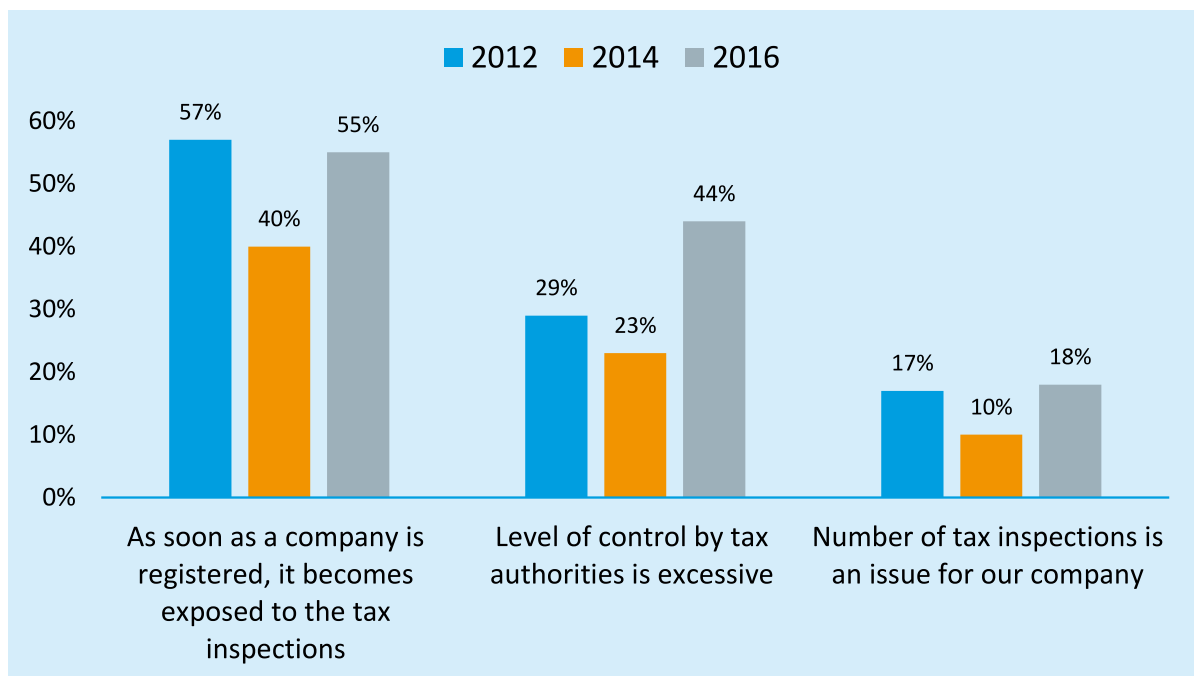
Taxpayers are aware that in addition to direct financial losses after the tax inspection, they may also incur indirect costs in the form of time spent on passing the tax control procedure. Almost half of the surveyed entrepreneurs (47 percent) noted a significant loss of working hours as a negative consequence of the tax audit (Figure 16).

The most common negative consequence of a tax audit is imposition of fines or penalties by the supervisory authorities. In 2016, fines/penalties were imposed as a result of every second inspection carried out by the tax authorities. Whereas during the first two rounds of monitoring the frequency of charging penalties was relatively small and remained at approximately the same level, in 2016, the share of such cases increased dramatically, amounting to 52 percent of all controlled entrepreneurs (Figure 16).

In 39 percent of cases, taxpayers also incurred additional financial losses; specifically, they were charged more taxes upon the tax audit findings. Again, as in the case of fines and penalties, the percentage of such taxpayers reached its maximum in 2016 compared to all years of the study. The economic crisis has forced tightening of control and supervisory activities of tax authorities in relation to entrepreneurs. Decrease in tax revenues of the state budget entailed higher administrative pressure on existing taxpayers that certainly had an effect on their development and financial resilience to external shocks.

Closer attention by the tax authorities has definitely touched upon the taxpayers' subjective perception of the problematic nature of the tax inspections process. In the opinion of more than half of the entrepreneurs (55 percent) when a company is registered, it immediately becomes an object of tax audits (Figure 17).

*Figure 17.*  
*Share of taxpayers who agree with the following statements*



In 2014, the proportion of respondents who support this view was 40 percent. An abrupt increase in the share of taxpayers who believe that the level of tax authorities control is excessive was reported. In 2014, this opinion was shared by about a quarter of the entrepreneurs, but after only two years, the number of such businesses had almost doubled and constituted 44 percent of respondents. Finally, almost every fifth taxpayer (18 percent) considers the number of tax inspections to be an administrative barrier to the development of his/her business and acknowledges that such inspections is a problem for a company.

## BUSINESS PERCEPTION OF TAX ENVIRONMENT

- Subjective perception of tax environment by taxpayers is marked by multidirectional trends. After adoption of the new Tax Code in 2013, a positive trend was observed in terms of assessments of businesses, but the economic crisis of the recent years has levelled these achievements.
- Total tax rate for the businesses is one of the highest in the region's countries and constituted 65 percent of profit; besides, it is the most common constraint for doing business in the country.
- Hence, businesses have to resort to various schemes of understatement of tax base.

As mentioned earlier, the key goal of the study was an attempt to provide the best objective assessment of taxpayers' costs of compliance with tax laws. An equally important task was to analyze overall business perception of the tax environment, where they operate. During all three rounds of the study, the respondents were asked to provide their opinion<sup>16</sup> about various dimensions of business activities, which were directly or indirectly associated with taxation and tax legislation.

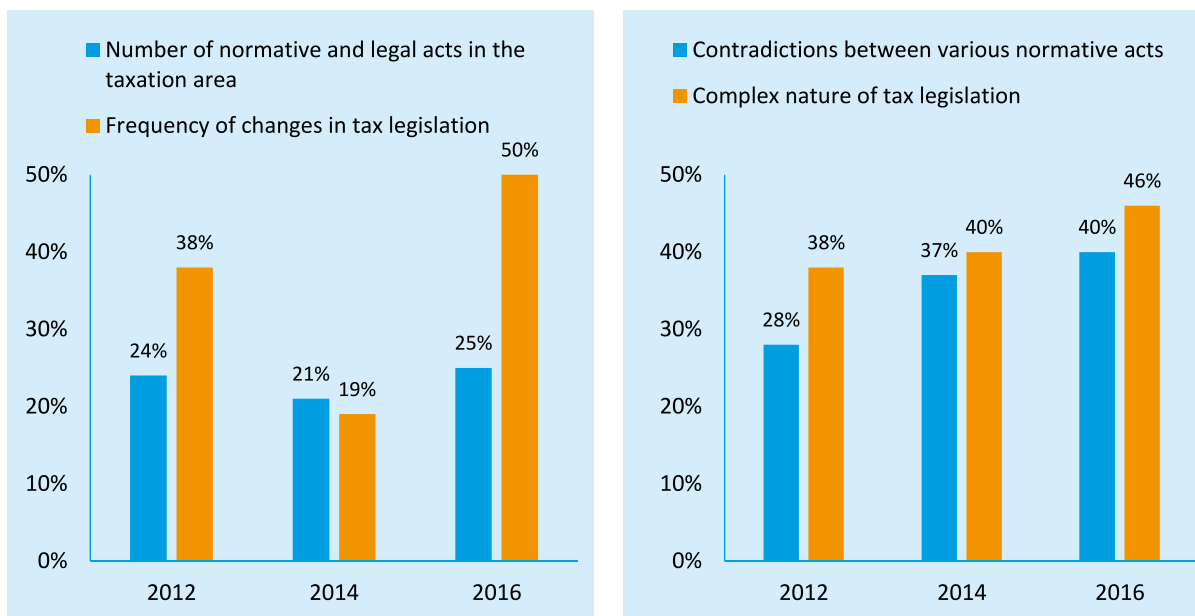
The coherent reforms of tax system in Tajikistan were bound to be reflected in the taxpayers' assessment of changes in the tax legislation. The study's findings note a sharp change in the number of taxpayers who think that frequent changes to the tax legislation is an issue for doing business (the share of respondents who thought that this is a 'huge problem' or 'very huge problem'). In the beginning of regular monitoring, only 38 percent of respondents shared this view, and after the new Tax Code was approved, the share of such businesses decreased by two times (Figure 18). The last round of the survey in 2017 demonstrated an intermittent increase of this indicator: half of the taxpayers mentioned that too frequent changes in taxation hinder business development.

Although the assessments of the frequent changes in tax legislation vary substantially, the number of regulatory acts, per se, is problematic for only a quarter of the entrepreneurs. Unlike the previous indicator, the percentage of taxpayers who consider it to be an obstacle for doing business has remained virtually unchanged over the last few years of observations.

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<sup>16</sup> Assessment was given on a five-point scale, with criteria varying from 'not a problem' to 'serious problem'.

*Figure 18.  
Share of taxpayers who see the following problems for business*

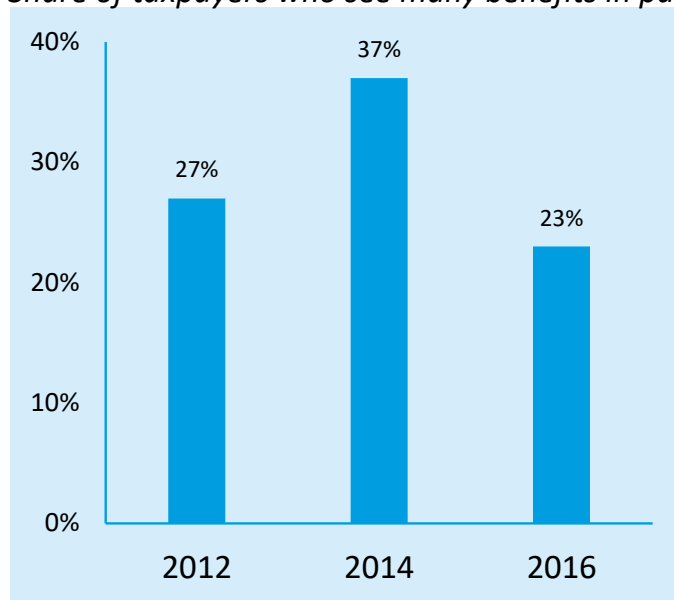


Traditionally, a heavy tax burden is one of the major constraints for small and medium business development. Data of the business environment survey held by the World Bank in 2013 show that high tax rates constrained the business development of 31 percent of entrepreneurs in Tajikistan. The overwhelming majority of taxpayers see no benefits in paying taxes. It can be argued that after adoption of the new Tax Code in 2013, the business community in Tajikistan showed a more positive attitude to the tax environment. The share of businesses who agreed that it was beneficial to observe tax legislation increased by 37 percent and, probably, this was due to a sort of optimistic expectations of taxpayers (Figure 19).

However, the data of the latest monitoring round indicate a 'reset' to the initial perception of the benefits of paying taxes among the private sector. One of the possible explanations for such a change in this trend may be the economic crisis in Tajikistan. The difficult economic situation of the past few years had an effect both on the decline in the national GDP growth rates and reduction of tax revenues to the country's budget. If tax revenues in 2014 amounted to 22.7 percent of the GDP of Tajikistan, then in 2015, this indicator reduced by 0.8 percentage points. At the end of 2016, the decline in tax revenues has not only continued but also accelerated. Total tax revenues in 2016 amounted to 20.6 percent of GDP, that is, 1 percentage point drop in the national GDP.



Figure 19. Share of taxpayers who see many benefits in paying taxes<sup>17</sup>



The slowdown in GDP growth and volume of tax revenues to the budget definitely touched upon the more intensive work of the tax authorities. The need to increase tax collections resulted in a higher pressure from the tax authorities on the private sector. It is natural that in such tough economic situations, on the one hand, and a higher administrative burden,<sup>17</sup> on the other hand, the taxpayers' subjective perception of the tax environment in Tajikistan has deteriorated noticeably.

The World Bank Group conducts a large-scale worldwide survey on the ease of Doing Business in different economies<sup>18</sup> and publishes its data on a regular basis. More than 180 countries participate in this survey. The survey considers various dimensions of business operations, including taxation and tax administration matters.

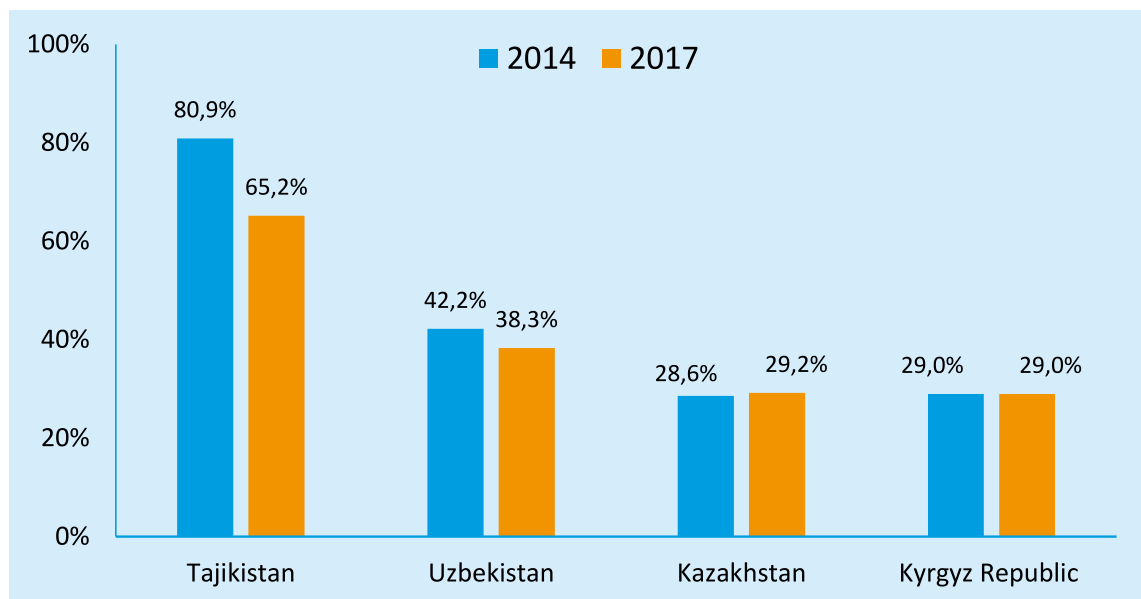
One of the evaluated parameters is the total tax, which consists of a tax rate and mandatory contributions that a company should pay in the second year of its operations; the total tax is expressed as the share of income. In 2014, a medium-size taxpayer<sup>19</sup> in Tajikistan had to spend over 80 percent of the revenue as taxes and contributions (Figure 20). It is not surprising that in terms of such tax burden on the private sector, Tajikistan was ranked 173 in the Doing Business ranking with regard to the 'Taxation' indicator. One year later, the tax burden diminished and total tax rate for a medium-size taxpayer had dropped to 65.2 percent. This situation enabled improved ranking of Tajikistan and its move upwards by 33 ranks in the international ranking of ease of tax compliance.

<sup>17</sup> Share of respondents who 'completely agree' or 'rather agree' that there are many benefits for a business to pay taxes.

<sup>18</sup> Doing Business, <http://russian.doingbusiness.org/rankings>

<sup>19</sup> Definition of a 'medium-size' entrepreneur is available at [http://russian.doingbusiness.org/Methodology/paying-taxes#Общая\\_налоговая\\_ставка\\_\(%\\_от\\_прибыли\)](http://russian.doingbusiness.org/Methodology/paying-taxes#Общая_налоговая_ставка_(%_от_прибыли)).

*Figure 20.  
Total tax (percentage of profit) paid by businesses in Central Asia region,  
as reported in Doing Business for 2014–2017*

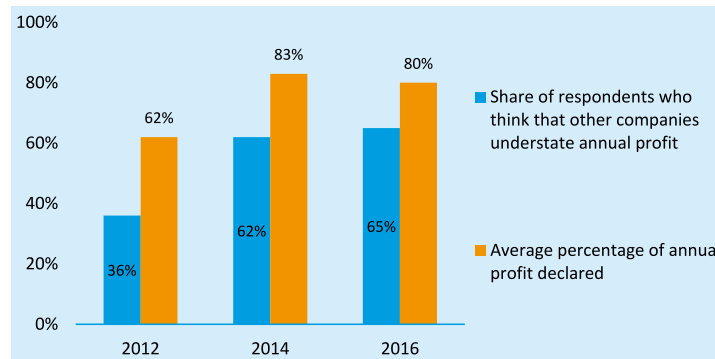


Nevertheless, the total tax burden on entrepreneurs remains high, though it has decreased substantially. For comparison, this indicator in the neighboring countries of the Central Asian region is almost twice as low as in Tajikistan (Figure 20).

Because of a relatively heavy tax burden, the entrepreneurs have to resort to various schemes for understatement of tax base. One of the commonly used practices is an informal salary (its portion or full amount) paid by an employer to a company's employees. More than three-fourths of respondents (78 percent) in 2016 mentioned that some companies operating in the same sector followed this practice.

The second most frequently used method is under declaration of annual income of a company for taxation purpose. About one-third of respondents in 2012 mentioned that such a practice exists and during the last rounds of monitoring, this share almost doubled (Figure 21). It is assumed that such dramatic increase is conditioned by the economic issues of the country, so a taxpayer has to resort to various means of savings, including savings on taxes, to keep a business running. The scale of understated tax base could be substantial. On average, about one-fifth of annual profit is concealed. This indicator has also changed substantially from the moment of the first survey in 2012. At that time, in the opinion of respondents, over one-third of annual profit was concealed. An assumption is that in recent years, the practice of understated profit has become more widespread, but the magnitude of this phenomenon has diminished.

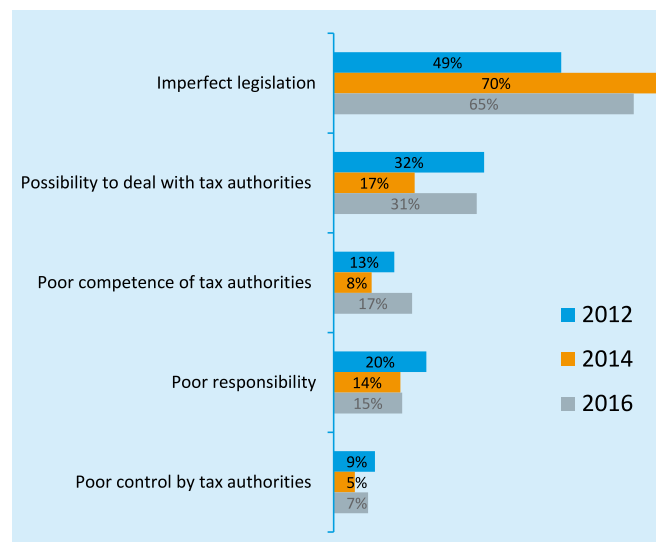
*Figure 21.  
Assessment of scale of underdeclared annual profit to reduce tax base*



During a survey, it was impossible to ask explicitly and get an open answer from a business interviewed about whether the company declares its profit fully or partially. Therefore, indirect evaluations were used, whereby a respondent was asked to give an answer about other companies operating in the same sector, rather than about his/her company. This approach enables an implicit assessment of the extent of the problem in question. Thereby, assessment of the scale of reduced tax base should be considered as conservative, with the understanding that there is a high probability that the real situation differs from the simulated state; the situation in the field could be even worse.

According to entrepreneurs, taxpayers may hide some portion of revenue from taxation because of imperfect legislation. This point of view is shared by two-thirds of respondents who participated in the last round of the 2016 survey (Figure 22). It was also possible for taxpayers to deal with individual representatives of tax authorities, and such answer was given by 31 percent of the interviewed entrepreneurs. In 2014, this indicator went down to 17 percent, but based on the results of the latest round of survey, the share of those respondents who agree with this statement has again nearly doubled. It can be assumed that the national economic crisis encouraged entrepreneurs to search for various options to negotiate a reduction of taxable base.

*Figure 22.  
Possibilities for reduction of taxable base*



## ASSESSMENT OF PERFORMANCE AND ATTITUDE TO TAX AUTHORITIES

- Generally, tax authorities are well perceived by the business community in Tajikistan. Business qualities of the tax authorities' officials were assessed better than their personal qualities such as honesty and impartiality.
- Adoption of the new Tax Code had translated into a better image of tax authorities. However, the higher focus of tax controlling bodies in recent years was bound to reflect on the smaller number of positive views.
- Of course, the taxpayers noticed actual reduction of time costs for tax accounting. Positive changes were primarily associated with reduced and simplified tax returns forms.
- Better information transparency of tax authorities and accessibility of tax-related information also have a good impact on the image of the Tax Committee in the opinion of the business community of Tajikistan.

It is clear that taxpayers on their own do not keep track of the time they spend for tax accounting. Reduction of costs over a year may not be so crucial for a business that it would be noted by entrepreneurs. Thus, it was equally important to identify a perception of tax authorities in qualitative terms because an emotional component may affect the efficiency of interaction of entrepreneurs and officials.

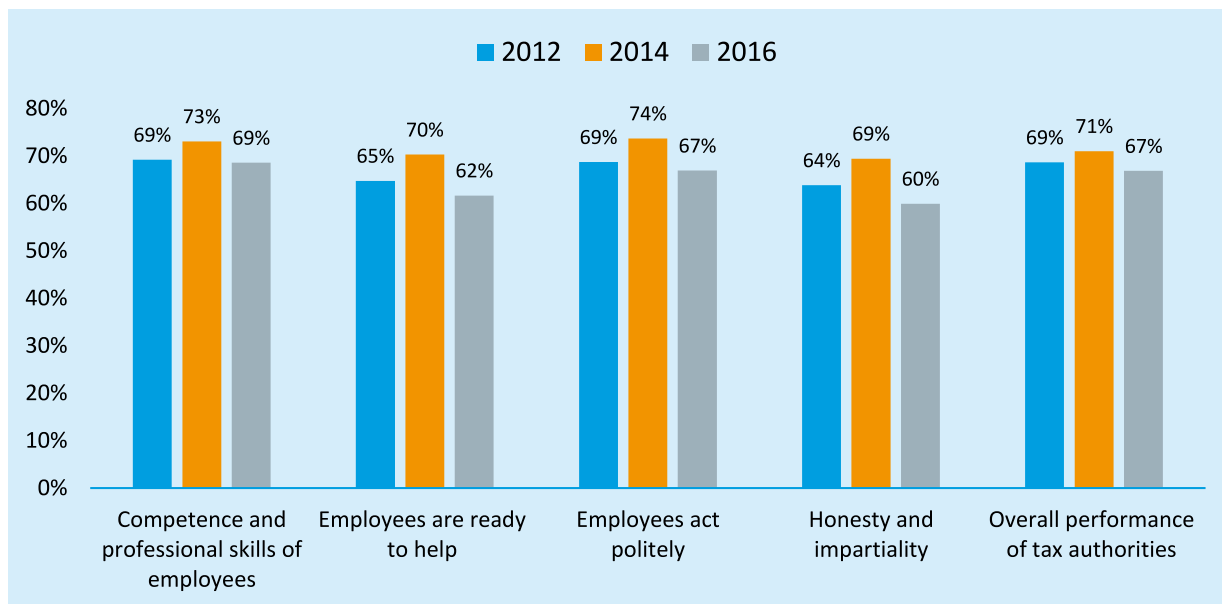
During the survey, the taxpayers were requested to provide a subjective view of various aspects of tax officials' operations and share their opinion on the overall perception of tax service. Figure 23 outlines average values on a scale from 0 percent to 100 percent, where 100 percent implies full compliance with the parameter being assessed.

All aspects of tax officials' performance reviewed were evaluated positively by taxpayers. No indicator fell below 60 percent of 100 percent, which points to the positive perception of tax authorities by the businesses. It should be noted that the maximum score was assigned to the business qualities of the officials. The competence of tax officials and overall performance was assessed at 69 percent and 67 percent, respectively (Figure 23). The personal qualities of tax officials are perceived less optimistically by the businesses. Insignificant number of respondents agreed that tax officials are honest and impartial and ready to help.

The results of monitoring show a common trend for most of the parameters reviewed during the study. Round 2 demonstrates a positive trend in the taxpayers perception of the tax authorities image as compared to the first baseline survey in 2012. It can be assumed that the positive dynamics is related to the new Tax Code, which entered into force between Round 1 and Round 2 of entrepreneurs' opinion poll.

Round 3 of monitoring in 2016 was held during the economic crisis in Tajikistan, which curbed the optimism of taxpayers in assessing the tax authorities performance. Basically, the assessments lowered down to the baseline level. Meanwhile, the decline of positive opinions was the highest with respect to the personal features of tax authorities' employees.

*Figure 23.  
Dynamics of tax authorities' performance assessment*

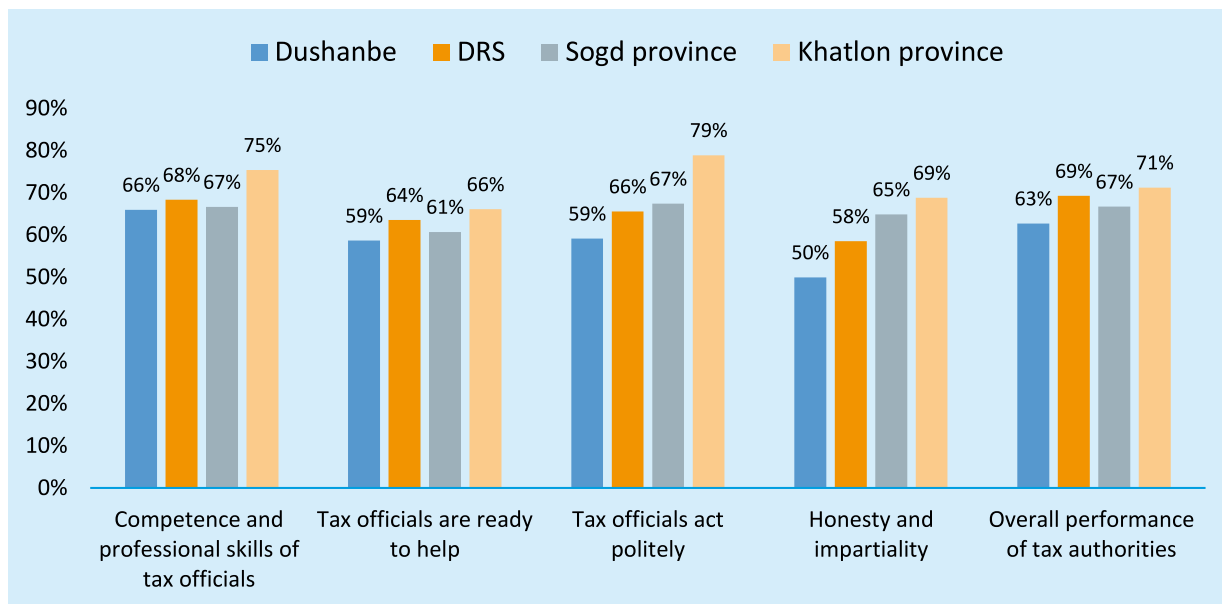


Reduced level of tax collections, higher control, and the difficult economic situation in combination contributed to the downfall of taxpayers' attitude to representatives of tax authorities. The fact that the assessments of personal qualities were worse than those of business qualities points to the presence of a significant emotional component in the respondents' answers.

The distribution of entrepreneurs' responses about an image of the tax authorities was uneven and varied greatly by the region surveyed. The highest average scores for both business and personal qualities of Tax Committee employees were assigned by taxpayers in Khatlon region. Entrepreneurs in Dushanbe provided unfavorable judgments about the tax officials' performance (Figure 24).

An assumption is that the less the size of a municipal formation is, the more close an informal communication between public officials and business community; thus, it ensures better support from the tax officials to taxpayers in maintaining and compliance with tax accounting as compared to a big city. So, the best regional practice of public services in the taxation administration should be learned and scaled up in the country.

*Figure 24.  
Regional differences in performance assessment of tax authorities, 2016*

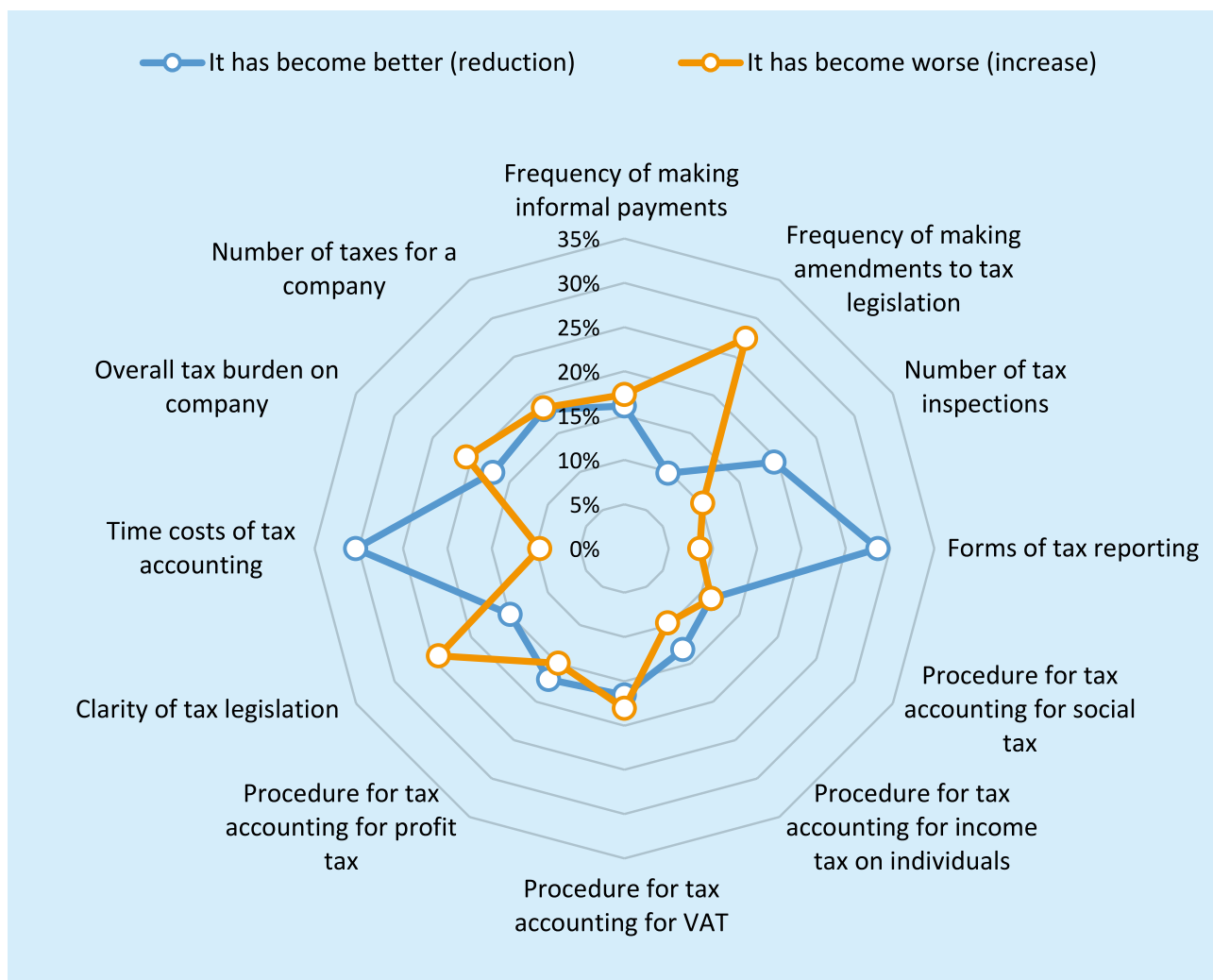


As already mentioned, in 2013, the new Tax Code came into force in Tajikistan, which has cardinally changed some aspects of tax regulation. The innovations were aimed at simplifying tax accounting and reducing the administrative burden on the private sector in the area of tax administration and the resulting growth of tax receipt to the national budget. Two stages of survey conducted before and after effectuation of the new Tax Code helped assess changes in entrepreneurs' perception of the complexity of tax administration.

While little time has passed since the adoption of the new Tax Code, in 2014 entrepreneurs had already experienced positive changes in tax administration. Businesses hold the view that the changes were primarily associated with reduced number and simplification of forms of tax reporting and resulting reduction of time spent on tax accounting. Nearly one in three of the surveyed taxpayers noted improvements after introduction of the new Tax Code. At the same time, the share of respondents who hold the opposite opinion was significantly lower and constituted as little as 10 percent of respondents (Figure 25). The taxpayers' subjective perception of reduced time costs for tax administration is supported by the survey data, which indicate decreased time for tax compliance in Tajikistan.

It is natural that negative assessments were given by entrepreneurs to such components of the tax environment as frequency of introducing changes in tax legislation and its clarity, which is a direct consequence of the taxpayers' reaction to the new Tax Code. It takes some time to implement any transformations, so that taxpayers can develop the practice of administering taxes pursuant to the new legislation.

Figure 25.  
Changes in tax administration pointed by taxpayers after adoption of the new Tax Code



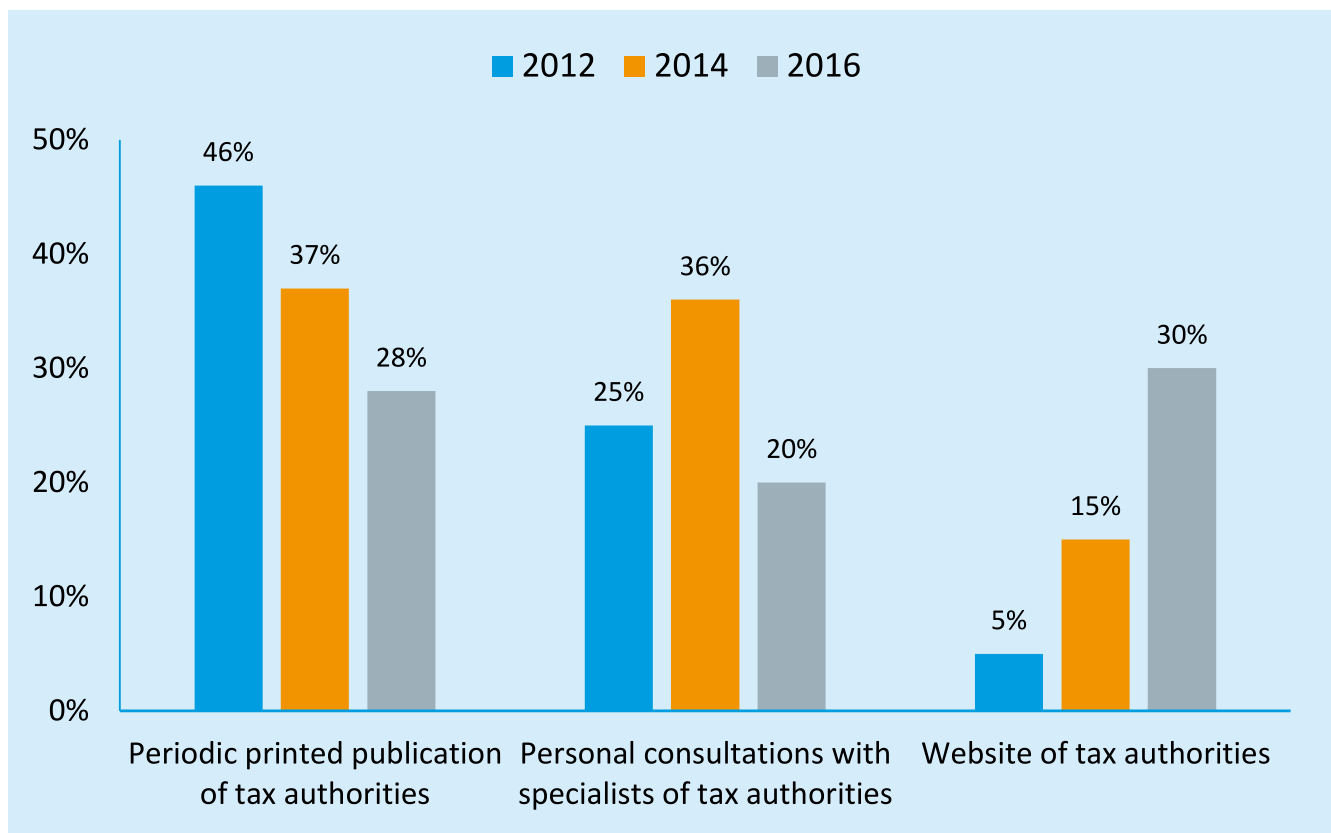
Ongoing reforms, which always necessitate changes in the tax legislation, should be accompanied by an adequate outreach support for taxpayers. The results of the study show positive developments in this area. Only a small group of respondents (15 percent) said that accessibility of tax-related information was an issue for them. The size of this group is stable and has not changed during three rounds of the survey. Over half of the taxpayers did not think that access to information about tax legislation is an issue for doing business.

The decreased share of businesses who chose periodic printed publication of tax authorities as the key source of information about taxes should be noted. Whereas in the beginning of monitoring almost every second taxpayer used this source, after the 2016 results, this share dropped to 28 percent of surveyed respondents (Figure 26).

The decline in the popularity of print media is accompanied by a concurrent increase in the number of users of the tax authorities' website. In 2012, the percentage of users was insignificant (about 5 percent), but during the monitoring period, a sixfold increase was observed. In 2016, almost every third taxpayer chose the tax authorities' website as the main source of tax-related information.

Better accessibility of tax-related information and transparency of tax authorities should have an impact on shaping a positive image of the Tax Committee in the opinion of the business community in Tajikistan.

*Figure 26.  
Sources of information about tax legislation*



Although many positive trends in reduction of tax administration costs and attitude of tax authorities were identified during the monitoring, it is not possible to argue explicitly that taxpayers were satisfied with the quality of public services in the tax administration area. The share of respondents who agree that the tax authorities render high-quality services was insignificant and constituted as little as 19 percent of the total number of interviewed taxpayers. Most of the taxpayers hold an opposite view. Almost half of the interviewed entrepreneurs in 2016 (45 percent) believed that the quality of public services rendered by tax officials needs improvements.



## ANNEX 1. VAT REFUND AND TAX APPEALS

Taxpayers operating under the general VAT regime have the right to recover the difference between profit, which is not earned yet, and VAT already paid, when the amount of VAT paid turns out to be overestimated. During the survey the interviewed VAT payers described their experience with VAT refund. The share of those who believed that they had the right to return VAT is rather small and falls in the range of 15 – 20 percent of those operating under the general tax regime during all three rounds of the survey (see Table 12). Despite that, only near half of them appealed to tax authorities for refund of VAT paid in excess. While in 2012 the share of those who claimed for VAT refund was 59 percent of those who had the right for refund, in 2014 – 2016 this share reduced to a half of all potential beneficiaries of VAT refund.

Not all taxpayers who claimed their VAT refund succeeded. The percentage of taxpayers who managed to receive VAT refunds was different at each of the three rounds of monitoring. Though in 2012 only little over half of applicants received VAT refunds from the budget, in 2014 three fourth of applicants for VAT reimbursement mentioned that they were able to recover VAT overpaid in one form or another. The results of the third round of the monitoring demonstrated a decrease of the share of those VAT refunded to 58 percent of proprietors who filed their appeals (see Table 12). That said the taxpayers do not get the whole amount of VAT refund they count upon and state in their appeals. In 2016 those who managed to get reimbursed, received only 76 percent of the claimed VAT amount.

*Table 12.  
Experience with VAT refunds of taxpayers operating under the general fiscal regime*

	2016	2014	2012
Those, who had the right for VAT refund	19%	15%	20%
Those who claimed VAT refund	51%	50%	59%
Those, who were refunded	58%	76%	56%
Percent of the amount claimed	76%	91%	82%

VAT refund is possible both in the form of direct return of funds to the taxpayer’s current account as well as in the form of offset against other taxes, including future payments of VAT itself. Most taxpayers, who claimed VAT refund in 2016, planned to offset the overpaid tax against VAT of the future periods, apparently believing that it was the safest way to receive VAT refund (see Table 13). In practice, offsets against future VAT payments prevail. In 2016 in most (72 percent) cases the tax authorities returned VAT by offsetting it against taxes of future fiscal periods. Despite the fact that each third VAT taxpayer, who claimed VAT refund in 2016, expected to be reimbursed in the form of money return, in reality only 19 percent of respondents acknowledged that they had managed to do it.

*Table 13.  
VAT refund form in 2016*

	Planned	Refunded
Return of money to the company's current account	33%	19%
Offset against other taxes	17%	28%
Offset against future VAT payments	56%	72%

As it was already mentioned earlier, about half of taxpayers claimed VAT refund in 2016. There are several reasons of why the proprietors did not take advantage of their right for VAT refund. The first reason is that they had concerns that after filing a claim for VAT refund they would be additionally inspected by tax authorities. 38 percent of respondents, who did not file claims for VAT refund in 2016, stated this reason (see Table 14). Also, each third taxpayer who had the right for VAT refund refused to be reimbursed for the overpaid VAT because the refund procedure was quite complicated in their opinion. The same number of refusals took place because the refund procedure was considered to be time consuming. It is worth mentioning that in each case the taxpayers were quite skeptical about the very possibility of VAT refund from the state budget and they did not believe they were able to return the overpaid tax.

*Table 14.  
Reasons for why the taxpayers did not claim VAT refund in 2016*

Claim of VAT refund will cause additional tax inspections of our company	38%
VAT refund procedure is very time consuming	35%
The amount of tax was too small to be worth addressing this issue	34%
VAT refund procedure is very complicated	31%
I know that we'll not receive VAT refund in any case	20%
VAT refund procedure is costly	16%

During the survey respondents were asked about their experience of being subjects to various penalties imposed by tax authorities. While in 2012 only one of five respondent taxpayers stated cases of imposition of penalties, fines or additional tax charges, the results of the subsequent rounds of monitoring demonstrated a tendency of growth of the number of proprietors who had been imposed tax penalties. According to the results of 2016 each third (35 percent) taxpayer stated that he had been imposed some penalties by tax authorities (see Table 15).

Not always the proprietors agreed with the actions of tax authorities and considered the imposed penalties to be legitimate. Only two of three proprietors who had paid fines or additional tax charges admitted that the claims of tax authorities were fair. Each third taxpayer expressed his disagreement with the additional charges; moreover, this percentage remained almost unchanged during all three rounds of the monitoring.

Despite the disagreement with the tax penalties the taxpayers do not file complaints with tax authorities. Only in one case of ten proprietors appealed to tax authorities regarding the imposed penalties and fines. One can say that practice of appealing to tax authorities is uncommon in the Republic of Tajikistan.

*Table 15.  
Experience of taxpayers operating under the general tax regime with tax penalties  
and filing appeals against them*

	2016	2014	2012
Cases of imposing penalties, fines or charging additional taxes	35%	25%	20%
Share of cases when a taxpayer agreed with the penalties	66%	62%	61%
Appeals filed	10%	7%	13%

There are two constraints for filing appeals with tax authorities by taxpayers. First of all, the proprietors think that it is unrealistic to prove their point, and they do not believe that something will change as a result of filing their appeals or complaints. This is an opinion of 69 percent of taxpayers who were imposed penalties by tax authorities in 2016 but they did not file appeals against the actions of tax authorities (see Table 16). The second factor influencing the proprietors' attitude to appeals and complaints is a fear of consequent actions of tax authorities, which can create problems for their businesses in the future. Taking into account the skepticism regarding the effectiveness of appeals and complaints such behavior of the taxpayers is quite justified.


*Table 16. Reasons for not filing appeals in 2016*

Taxpayers did not believe that something would change	69%
In order to avoid problems with tax authorities in the future	57%
The amount of refund was insignificant	13%
The company lacks competent staff to fulfill this task	9%

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