

IMPLEMENTATION OF A COMPLIANCE RISK MANAGEMENT SYSTEM IN THE REPUBLIC OF UZBEKISTAN

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Abstract

This article examines the implementation of a compliance risk management system in the Republic of Uzbekistan amid ongoing institutional and anti-corruption reforms. It explores the essence of compliance and its importance for ensuring the legality, transparency, and effectiveness of government agencies and economic entities. It analyzes the regulatory framework governing compliance control, as well as its practical application in the public and corporate sectors. Particular attention is paid to the challenges and limitations of implementing compliance systems, including the shortage of qualified personnel and the need for further legislative improvements. The article outlines prospects for the development of a compliance risk management system, taking into account international standards and best practices.

Keywords: Compliance, compliance risks, compliance control, anti-corruption policy, corporate governance, Republic of Uzbekistan.

Introduction

In countries with developed tax administration, the activities of tax authorities are based on a comprehensive system of tax risk management (compliance risk CRM (computer-based management, CRM), which aims to ensure voluntary compliance with tax legislation. The level of development of such systems is used by international financial institutions as a key criterion for assessing the effectiveness of tax administration and the quality of public administration.

In the Republic of Uzbekistan, the implementation of a tax risk management system has become an important element of tax administration reforms aimed at reducing the shadow economy, increasing tax discipline, and fostering partnerships between tax authorities and taxpayers.

Literature review on the topic

Issues of tax risk management and tax compliance have been widely covered in the works of international organizations, foreign and domestic researchers, as well as in regulatory and analytical documents devoted to tax administration reform.

In international scientific and applied literature, recommendations from the Organisation for Economic Co-operation and Development (OECD) have played a fundamental role in shaping the concept of tax risk management. OECD studies view compliance risk management as a systemic and continuous process aimed at stimulating voluntary compliance with tax legislation through segmentation of taxpayers, analysis of their behavior, and the application of differentiated enforcement measures [1]. It is emphasized that the effectiveness of tax

administration is determined not by the volume of audits, but by the quality of risk-based management.

The International Monetary Fund has made a significant contribution to the development of tax compliance theory and practice. In its methodological materials, the Compliance Risk Management (CRM) system is defined as a key element of modern tax administration, ensuring the transition from reactive control to preventive risk management [2]. The IMF emphasizes the need to use digital technologies, remote analysis data and continuous feedback from taxpayers.

World Bank research examines tax risk management in the context of improving the investment climate and reducing the shadow economy. Research emphasizes that the implementation of CRM systems reduces the administrative burden on conscientious taxpayers while simultaneously increasing the detection of systemic violations [3].

In international academic literature (works by M. Brown, J. Slemrod, and K. Sandford), tax compliance is analyzed through the lens of behavioral economics. The authors conclude that voluntary compliance with tax obligations depends largely on the level of trust in tax authorities, the transparency of procedures, and the fairness of the tax system [4]. In this context, CRM is viewed as a tool for fostering partnerships between the state and taxpayers.

Scientific publications from countries with developed tax administrations (Australia, Canada, and the United Kingdom) emphasize the importance of a sectoral approach to assessing tax risks. Researchers note that comparing taxpayers' financial and economic indicators with industry averages allows for the identification of hidden risks without the need for strict control measures [5].

In the Republic of Uzbekistan, issues of tax compliance and tax risk management are actively explored in the works of domestic economists and lawyers. Recent academic publications emphasize that the transition to a risk-based tax administration model is a logical step in tax system reform and is consistent with international standards [6]. Particular attention is paid to the institutional aspects of CRM system implementation, staffing, and the need for digitalization of tax processes.

Analytical materials from the State Tax Committee of the Republic of Uzbekistan and the Fiscal Institute under the State Tax Committee examine tax risk management as a tool for reducing the shadow economy and increasing tax collection without increasing fiscal pressure [7]. These studies emphasize the importance of compliance campaigns aimed at voluntarily rectifying identified violations by taxpayers.

Thus, an analysis of scientific and practical literature shows that tax (compliance) risk management is recognized by the international community and domestic researchers as a key element of effective tax administration. Modern research agrees that the implementation of CRM systems contributes to improved tax compliance, reduced audit costs, and the development of sustainable partnerships between tax authorities and taxpayers.

Research Methodology

The study utilized systemic and risk-based approaches, as well as structural-functional and comparative-legal methods. The analysis is based on official data from the State Tax Committee

of the Republic of Uzbekistan and materials from international financial institutions. The use of analytical, inductive, and deductive methods allowed us to summarize the results of implementing the tax risk management system and identify areas for further improvement.

Analysis and Results

Particular attention was paid to the implementation of a tax risk management system in Uzbekistan as part of the International Monetary Fund (IMF) technical assistance from October 2020 to April 2021. The main goal of this assistance was to create a modern CRM system capable of providing comprehensive remote analysis of taxpayer activity and selecting the most effective tools.

In April and September 2022, international experts assessed the implementation of the CRM system, providing recommendations for its further improvement and expansion of functionality. In their recommendations, international financial institutions emphasize the need to reach all taxpayers, including those in good faith, through remote interaction and timely notification of identified tax risks.

Based on international recommendations, the tax authorities of the Republic of Uzbekistan have developed a concept for a tax risk management system, including tools for identifying, assessing, and minimizing risks.

The tax risk management system is a continuous process consisting of six interrelated stages (Table 1).

Table 1

Tax risk management

1.	Identification of tax risk	identifying violations in registration, reporting, concealment of the tax base, and payment of taxes
2.	Risk analysis and assessment	determination of the probability and potential damage
3.	Selecting risk management methods	notifications, consultations, desk and on-site audits
4.	Application of measures of influence	implementation of selected measures
5.	Development and implementation of risk mitigation measures	adjustment of reporting and voluntary correction of violations
6.	Monitoring results and feedback	evaluation of effectiveness and adjustment of approaches

Risk identification occurs across four main obligations of taxpayers: registration, filing tax and financial reports, concealment of the tax base presented in tax reports, and payment of taxes.

To ensure successful operation of CRM in Uzbekistan, 41 registers of typical tax risks, 40 criteria for determining tax risks, and a sectoral approach based on average industry indicators have been developed.

CRM allows for remote analysis of the activities of all taxpayers, including disciplined ones, and selection of optimal measures of influence. [8].

In April 2022, the Fiscal Institute under the State Tax Committee of the Republic of Uzbekistan hosted a roundtable discussion with representatives of the State Tax Committee, the International Monetary Fund, construction industry specialists, and the scientific community.

The main goal of the event was a systematic discussion of the current state of the construction sector, identified tax violations, and associated tax risks (Table 2).

Table 2. Dynamics of financial indicators of construction companies in the Republic of Uzbekistan, 2019–2022

Indicator	2019	2020	2021	2022
Average profitability (%)	8.5	9.2	10.0	3.1
Number of companies with profitability <0 (%)	20	22	23	24
Number of companies with profitability of 0–1% (%)	55	57	58	60
Number of companies with profitability of 1–3% (%)	5	5	5	4
Average growth in turnover (%)	12	15	17	18

Additionally, it was discovered that approximately 50% of construction organizations registered one employee, which may indicate concealment of the actual number of personnel.

Examples of identified tax evasion schemes:

- selling housing below market value;
- artificially inflating expenses to reduce the taxable base;
- contribution of large funds to the authorized capital without confirmation of sources of income;
- concealment of the actual volume of work performed through failure to submit electronic invoices.

Table 3. Distribution of tax risks and the amount of accrued taxes and fines among construction companies in Uzbekistan (CRM pilot project, 2022)

Risk category	Number of companies	Taxes and fines assessed (billion soums)
High risk	327	346.1
Medium risk	4,270	834.6
Help without checks	2 101	105.2
Total recalculations	—	657.9

A pilot project in the construction industry identified 6,698 companies with tax risks totaling 1,982.2 billion soums, including 327 high-risk companies that underwent tax audits and 4,270 medium-risk companies that underwent desk audits. The data confirms the effectiveness of CRM in improving tax compliance and risk management at the industry level.

In accordance with Decree No. PP-178 of the President of the Republic of Uzbekistan dated March 25, 2022, priority tasks for the period 2023–2026 have been identified. These include expanding the coverage of economic sectors and types of taxes, integrating a sectoral approach with more precise sectoral indicators, and developing remote channels of interaction with taxpayers.[9] The implementation of a CRM system contributes to the sustainable reduction of

tax risks, increased transparency of tax administration, and encourages voluntary compliance with tax obligations.

Conclusions and Suggestions

The implementation of a compliance risk management system in the Republic of Uzbekistan has demonstrated high effectiveness in increasing the transparency of tax administration and identifying tax violations at an early stage. A pilot project in the construction industry has demonstrated a significant reduction in tax evasion and increased voluntary compliance with tax obligations.

The CRM system operates as a continuous and comprehensive process, encompassing identification, analysis, assessment, selection of risk management methods, application of measures, and monitoring of results. The development of tax risk registers, assessment criteria, and the implementation of a sectoral approach have ensured holistic risk management across key economic sectors.

To improve the compliance risk management system, it is recommended to expand the use of CRM to all key sectors of the economy, including trade, manufacturing, and agriculture; intensify the use of modern information technologies to automate the monitoring and analysis of tax risks; strengthen advisory work with taxpayers to increase voluntary compliance with tax obligations; develop additional methodological recommendations and industry-specific indicators for more accurate risk identification; and ensure regular training for tax authority employees in CRM system operation methods and compliance risk assessment.

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