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ISSUES OF ENHANCING COMPETITIVENESS IN THE LIGHT INDUSTRY SECTOR THROUGH THE REDUCTION OF TAX ARREARS

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Abstract. Tax arrears are debts owed by a taxpayer to the budget in respect of **taxes, fees, penalties, and other mandatory payments stipulated by legislation** that have not been paid within the deadlines established by law. An increase in the amount of tax arrears reduces the competitiveness of enterprises. From a scientific perspective, **tax arrears** are not merely a reduction in budget revenues but also a factor affecting the **liquidity, financial stability, investment activity, and economic security** of an enterprise. This process has a significant negative impact on the further development of the **light industry** and on ensuring its competitiveness, as is the case with enterprises in other sectors. From this perspective, conducting a scientific analysis of this process and developing scientific recommendations aimed at reducing tax arrears is of significant scientific relevance. Accordingly, the main objective of this article is to develop scientific recommendations based on a scientific analysis of **these processes**.

Keywords: taxation, tax arrears, tax burden, incentive role of taxes, tax policy, light industry enterprises, tax incentives, tax deductions, tax exemption.

INTRODUCTION

From a substantive perspective, it is appropriate to assess the impact of reducing tax arrears on the activities of taxpayers from two perspectives, namely, positive and potentially negative effects. This process is important for reducing the tax burden and ensuring the competitiveness of enterprises in the textile, garment and knitwear, leather and footwear, and fur industries of the light industry sector. This is because reducing tax arrears in light industry enterprises, first, brings tax obligations into proper order, reduces penalties and fines, and improves the financial condition of the enterprise; second, mechanisms for restructuring or paying tax arrears in installments enable enterprises to manage working capital more efficiently; third, a reduction in tax arrears may improve an enterprise's creditworthiness and financial discipline; fourth, a decrease in the debt burden increases the possibility of directing released funds toward modernization and new projects; fifth, reduced financial pressure contributes to more efficient utilization of production capacities, while a reduction in penalties, fines, and other financial expenses may increase net profit. In addition, regular monitoring of tax arrears strengthens enterprises' motivation to fulfill their tax obligations on time, and directing financial resources toward business development rather than debt repayment contributes to enhancing competitiveness.

Certainly, although a number of scientific studies have been conducted at both international and domestic levels on methodological aspects related to reducing tax arrears in enterprises, relatively few specific scientific studies have focused on reducing tax arrears in light industry enterprises. Therefore, this issue remains relevant as an object of scientific research.

LITERATURE REVIEW

Scientific research on issues related to reducing tax arrears in enterprises has been conducted by a number of foreign scholars as well as domestic researchers. In particular, Professor S. Elmirzaev has examined the structure of tax arrears, their causes, tax compliance, and tax debt management using Uzbekistan as a case study. Kh. Abdukarimov has analyzed the main causes of tax arrears, the improvement of tax collection mechanisms, taxpayer services, simplification of the tax system, and communication between tax authorities and taxpayers. U. Azamjonov has examined issues related to increasing local budget revenues through the targeted use of accounts receivable, tax administration, taxpayer notification, and digital collection mechanisms. J. Mirpulatov has also conducted research in this area, examining tax arrears in relation to **fiscal risk**, budget stability, macroeconomic cycles, and the sustainability of budget revenues.[1] However, at present, relatively few scientific studies have focused on the scientific and methodological foundations of reducing tax arrears in light industry enterprises, taking into account their specific characteristics, and the need for such research

remains.

RESEARCH METHODOLOGY

The methodology of scientific research on the emergence of tax arrears and their reduction in light industry enterprises is based on dialectical, systematic, and institutional approaches, through which the concept, types, and economic essence of tax arrears are revealed. Based on expert assessment and content analysis, the factors influencing the formation of tax arrears can be identified. Through dynamic, structural, and comparative analysis, the factors influencing the formation of tax arrears are determined. Based on **risk scoring** and cluster analysis, taxpayers are grouped according to the risk of tax arrears. In addition, in accordance with established scientific practice, research methods widely used within the framework of scientific research methodology can be extensively applied in conducting scientific research.

ANALYSIS AND RESULTS

In Uzbekistan, it is appropriate to assess tax administration aimed at reducing tax arrears not merely as a process of compulsory collection of arrears, but as an integrated mechanism comprising the prevention of tax arrears, their early identification, voluntary repayment, compulsory collection, and write-off of irrecoverable debts. Under the current Tax Code, tax arrears include taxes not paid within the prescribed period, including advance and current payments, as well as penalties and financial sanctions not paid within the prescribed period. Tax arrears arise not from a single cause, but under the influence of **the financial condition of the enterprise, tax payment discipline, tax administration, the economic environment, and institutional factors** (Figure 1).

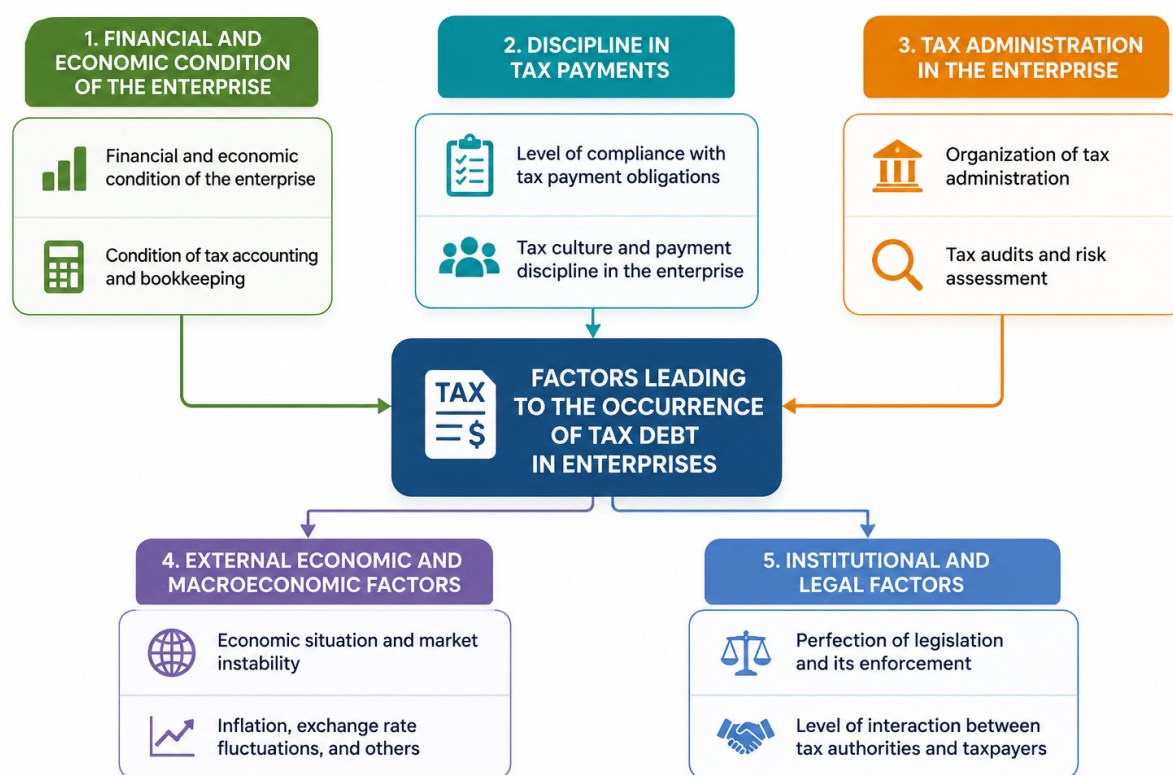


Figure 1. Factors Leading to the Occurrence of Tax Debt in Light Industry Enterprises¹

As can be seen from the above Figure 1, the emergence of tax arrears in light industry enterprises is influenced by a number of factors in terms of their nature and impact. A brief analysis of these factors shows that one of the primary factors is the financial and economic condition of the enterprise. This mainly includes a shortage of working capital in light industry enterprises, low liquidity, an increase in accounts receivable, an increase in accounts payable, operating at a loss, a decline in profit, a decrease in production volume, high

1 Муаллиф томонидан тузилган.

credit burden, and uneven cash flows, all of which may lead to the emergence of tax arrears in enterprises. Another factor is the high tax burden, whereby high tax liabilities relative to the enterprise's income may also increase the risk of tax arrears. In this regard, it is necessary to assess the amount of taxes, tax rates, the number of taxes, the overall burden of taxes and fees, and the ratio of tax liabilities to income. In particular, if a mismatch arises between the enterprise's tax payments and operating cash flow, the risk of tax arrears increases.

Low payment discipline in light industry enterprises also contributes to the emergence of tax arrears. In some cases, even when an enterprise has the ability to pay taxes, failure to fulfill its tax obligations on time may result in tax arrears. In this regard, such factors as delayed tax payments, recurring arrears, failure to pay assessed taxes on time, the existence of previous tax arrears, and an increase in penalties and financial sanctions may have a negative impact, making it necessary to take measures to reduce them. Errors in tax reporting and accounting in light industry enterprises may also emerge as one of the factors contributing to the occurrence of tax arrears. It should be emphasized that tax arrears do not always arise as a result of an enterprise's deliberate failure to pay taxes. In other words, they may also arise as a result of arithmetic errors in reporting, incorrect determination of the tax base, incorrect application of tax benefits, discrepancies between accounting and tax records, errors in invoices, incorrect preparation of electronic reports, and similar circumstances.

The improper regulation of accounts receivable and accounts payable in light industry enterprises may also lead to the emergence of tax arrears. If the available cash resources of light industry enterprises are directed toward repaying bank loans, paying wages, settling payments to raw material suppliers, and covering rent and utility expenses, tax payments may be delayed. Therefore, such ratios as accounts payable / total liabilities and loan payments / operating cash flow may serve as important factors in forecasting tax arrears. External economic and macroeconomic factors may also affect the emergence of tax arrears. In this regard, tax arrears may be influenced by factors beyond the control of the enterprise, such as inflation, exchange rate fluctuations, increases in interest rates, changes in energy resource prices, increases in raw material prices, declining domestic demand, changes in export markets, and economic crises. For an enterprise dependent on imported raw materials, for example, a sharp change in the exchange rate may increase production costs, reduce profits, and consequently intensify the risk of tax arrears (Table 1).

Table 1.
Analysis of the Tax Debt Situation of Light Industry Enterprises in Surkhandarya Region²

Indicators	2021	2022	2023	2024	2025	2025/2021	Annual Average Compound Growth Rate, %
Total tax amount, bln UZS	126.8	186.9	214.4	175.6	201.9	1.59	+12.33
Growth rate, %	—	+47.40	+14.71	-18.10	+14.98	—	—
Real (at 2021 prices), bln UZS	126.8	166.4	175.5	130.9	140.3	1.11	+2.55
Real change, %	—	+31.25	+5.44	-25.41	+7.16	—	—
Tax debt, bln UZS	12.7	14.8	17.3	15.8	22.3	1.76	+15.11
Growth rate, %	—	+16.54	+16.89	-8.67	+41.14	—	—
Real (at 2021 prices), bln UZS	12.7	13.2	14.2	11.8	15.5	1.22	+5.09
Enterprises operating below capacity, units	6	3	7	4	4	0.67	-9.64

² Compiled based on data from the Tax Committee.

It can be concluded from this table that, in nominal terms, tax revenues increased 1.59-fold over the five-year period, with an average annual growth rate of 12.33%. However, when inflation is taken into account, the picture changes considerably: real tax revenues reached their peak in 2023 at UZS 175.5 billion and were 20.1% lower in 2025, amounting to UZS 140.3 billion. The average annual real growth rate was only 2.55%. In 2022, nominal growth amounted to 47.40%, whereas in 2024 it declined by 18.10%; such fluctuations cannot be explained solely by the economic dynamics of the sector. Tax debt, in contrast, followed an upward trend and grew faster than tax revenues, with a nominal CAGR of 15.11% compared with 12.33% for tax revenues, and a real CAGR of 5.09% compared with 2.55%, respectively. In 2025, tax debt increased by 41.14% year-on-year (by 31.5% in real terms) (Table 2).

Table 2.

Relative Analysis of Tax Debt-Related Indicators of Light Industry Enterprises in Surkhandarya Region³

Indicator	2021	2022	2023	2024	2025
Tax burden $\tau = T/Q$, %	4.500	6.519	5.152	2.937	3.040
Tax debt ratio $\delta = D/T$, %	10.02	7.92	8.07	9.00	11.05
Share of tax debt in output D/Q, %	0.451	0.516	0.416	0.264	0.336
Tax per enterprise, bln UZS	0.156	0.221	0.464	0.437	0.499
Tax debt per enterprise, bln UZS	0.0156	0.0175	0.0374	0.0393	0.0551
Tax per employee, mln UZS	19.56	23.61	28.31	32.39	49.12
Ratio of tax to wage fund T/W	1.369	1.032	1.120	1.299	1.814
Ratio of tax to fixed assets T/F, %	8.68	9.78	10.59	8.18	14.07

The analysis of Table 2 shows that the tax burden on light industry enterprises has decreased by almost half. In 2022, taxes accounted for 6.519% of the sector's output, whereas this indicator declined to 2.937% in 2024 and stood at 3.040% in 2025. The relative decrease amounted to 53.4%. At the same time, in 2024, output in the light industry sector increased by 43.67%, while tax revenues decreased by 18.10%. The difference between these two indicators amounted to 61.8 percentage points. The tax burden declined from 5.152% to 2.937% within one year, representing a relative decrease of 43.0%.

The economic factors underlying this divergence can be considered as follows. The first is the investment and VAT credit factor. In 2024, UZS 911.3 billion in fixed capital investment was attracted to the sector. Input VAT paid when purchasing equipment and materials is credited against VAT payable, thereby reducing the amount of VAT due. At a 12% rate, this potential tax credit would amount to UZS 109.4 billion, which is 2.8 times greater than the observed decrease in tax revenues (UZS 38.8 billion). Thus, in quantitative terms, this mechanism is sufficient to explain the observed decline. The second factor is depreciation and interest expenses. Following substantial investment, depreciation charges and interest expenses increase, which reduces the corporate income tax base. This indicates that investment may have a J-curve-shaped effect on the tax base: negative in the short term and positive in the medium term. The third factor is tax incentives. Light industry enterprises benefit from customs and VAT exemptions on imported equipment, as well as sector-specific tax incentives. In 2025, although investment increased to UZS 2,381.3 billion, or 2.6 times the 2024 level, tax revenues increased by only UZS 26.3 billion. Therefore, the VAT credit mechanism cannot be regarded as the sole and complete explanation; it is possible that imported equipment was exempt from VAT, in which case no input VAT would have been generated.

According to the analysis, tax debt among light industry enterprises in the region increased from UZS 12.7 billion in 2021 to UZS 22.3 billion in 2025. Although the absolute amount is not particularly large, its dynamics and relative indicators deserve attention. First, tax debt grew faster than tax revenues: the nominal CAGR was 15.11% compared with 12.33%, while in real terms the corresponding rates were 5.09% and 2.55%, respectively. Second, the tax debt ratio, $\delta = D/T$, increased from 7.92% in 2022 to 11.05% in 2025, representing the highest level during the five-year period. Third, the 41.14% increase in tax debt in 2025 coincided with the year in which the sector received record levels of investment and government support.

3 Compiled by the author based on data from the Tax Committee.

CONCLUSIONS AND RECOMMENDATIONS

Based on the above analysis, it can be concluded that **the principal criterion for assessing the effectiveness of tax debt reduction should not be limited to the amount of debt collected.** A more scientifically sound approach is to jointly assess **the reduction in the emergence of new tax debt, the acceleration of repayment of existing debt, and the preservation of taxpayers' solvency.**

To achieve this, tax debt should first be identified and prevented at an early stage. The most effective approach is not to collect tax debt after it has arisen, but to identify the factors leading to its emergence in advance. In this regard, it is advisable to continuously monitor taxpayers' personal tax accounts, identify discrepancies between assessed and paid taxes, provide electronic notifications regarding approaching payment deadlines, automatically classify overdue liabilities, analyze the dynamics of tax debt growth, and identify enterprises experiencing financial difficulties at an early stage.

As a subsequent direction, risk-based tax administration should be strengthened. Applying the same level of control to all taxpayers may result in inefficient use of tax authorities' resources. Therefore, it is advisable to classify enterprises according to their level of tax-debt risk. In addition, the expansion of electronic tax administration is essential because, first, it reduces the human factor in calculations; second, it provides taxpayers with timely information about their outstanding liabilities; and third, it enables tax authorities to monitor tax debt automatically.

Encouraging taxpayers to voluntarily repay their outstanding liabilities is also one of the effective mechanisms in this area. The most cost-effective and economically efficient method of reducing tax debt is not compulsory collection, but encouraging voluntary payment. In this regard, it is important to provide advance notifications about tax debt, display outstanding liabilities electronically, allow payments to be made in several installments where legally permissible, enable enterprises experiencing financial difficulties to make use of available lawful relief measures, and provide taxpayers with appropriate advisory support.

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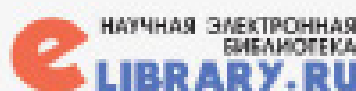
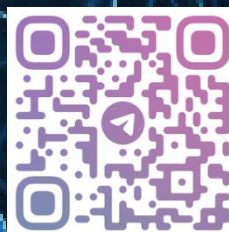
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