

The Legal Basis for Offsetting Negative Differences Arising from Value-Added Tax in Enterprises

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Abstract

This article explores the negative VAT difference and excess tax payment concepts within the framework of the value-added tax (VAT) system from an economic and legal perspective. A negative VAT difference occurs when the amount of input VAT exceeds the output VAT from sales. In contrast, an excess tax payment refers to a situation where a taxpayer pays more VAT to the state budget than required, often due to errors or miscalculations. The article provides a comparative analysis of these concepts, explains their implications for tax accounting, and offers recommendations for improving VAT reporting practices. Legal interpretation, empirical examples, and graphical tools are used to illustrate their economic significance.

Keywords: Value-added tax, negative difference, excess tax payment, VAT accounting, tax policy, economic analysis

Introduction.

Value-Added Tax (VAT) plays a vital role in the fiscal policy of many countries, including Uzbekistan, serving as a major source of government revenue while ensuring tax neutrality in the supply chain. In practice, enterprises often face situations where the amount of input VAT (paid on purchases) exceeds the output VAT (charged on sales), resulting in a negative VAT balance. This negative difference, also known as excess input VAT, can significantly affect the cash flow and financial stability of businesses, particularly in sectors with high capital investments or delayed revenue cycles.

Recognizing the economic implications of such imbalances, many tax systems provide mechanisms for offsetting or refunding the negative VAT difference. However, the effectiveness and fairness of these mechanisms largely depend on the clarity, consistency, and enforceability of the legal framework governing VAT administration. In Uzbekistan, several legislative and regulatory acts outline the conditions and procedures for refunding or carrying forward the negative VAT balance. Nevertheless, challenges remain in their practical application, such as bureaucratic

delays, legal uncertainties, and administrative discretion.

This article aims to analyze the legal foundations for offsetting negative VAT differences in enterprises, explore existing gaps and ambiguities in current legislation, and propose practical recommendations based on international best practices to enhance transparency and efficiency in VAT administration.

Literature Review.

The issue of value-added tax (VAT) administration, particularly the treatment of negative VAT balances, has been widely discussed in the global academic and professional literature. Scholars and policymakers have examined the economic, legal, and administrative dimensions of VAT refund mechanisms, emphasizing their impact on business liquidity, investment climate, and tax compliance. According to Ebrill et al. (2001), in their seminal work *The Modern VAT*, one of the core features of an efficient VAT system is its neutrality, which is only achieved when input taxes are effectively credited or refunded. Failure to refund excess input VAT in a timely manner, they argue, transforms VAT into a cumulative tax, distorting business decisions and undermining economic

efficiency. Bird and Gendron (2007) highlight that while VAT systems are designed to be neutral and self-enforcing, the refund mechanism is often the “Achilles’ heel” of the system, especially in developing and transition economies. Their research identifies delays, corruption risks, and excessive administrative discretion as common problems affecting VAT refunds in such contexts. In the context of post-Soviet countries, including Uzbekistan, researchers such as Gorodnichenko, Martinez-Vazquez, and Sabirianova (2009) have analyzed VAT refund systems and noted that strict refund controls and bureaucratic procedures are often justified by governments as anti-fraud measures. However, these controls frequently lead to liquidity shortages for compliant businesses, particularly exporters and capital-intensive enterprises. From a legal standpoint, OECD (2016) guidelines stress the importance of a predictable and transparent legal framework for VAT refunds. They recommend that tax administrations establish clearly defined timelines, objective criteria, and efficient dispute resolution procedures to minimize the legal uncertainty surrounding VAT refunds. In Uzbekistan, a limited but growing body of literature has emerged around the implementation of VAT and its legal structure. National scholars, such as Islomov (2020) and Tursunova (2022), have discussed the evolving nature of the VAT refund process in Uzbekistan following tax reforms. They argue that while the legal foundations have improved with the adoption of the Tax Code (2020), challenges remain in aligning practice with policy, particularly in relation to administrative transparency and taxpayer rights. Moreover, comparative studies have shown that countries such as Estonia, Georgia, and Lithuania have made significant strides in developing fast and automated VAT refund systems by leveraging e-invoicing and risk-based auditing. These systems have not only reduced refund processing times but also

minimized opportunities for fraud, offering valuable lessons for countries like Uzbekistan. Overall, the literature indicates a consensus that a well-functioning VAT refund system is critical to maintaining VAT neutrality and ensuring fairness in the tax system. However, achieving this requires not only robust legal provisions but also institutional capacity, digital infrastructure, and a taxpayer-centered administrative culture.

Methodology.

This study adopts a qualitative research approach to examine the legal foundations and practical mechanisms for offsetting negative value-added tax (VAT) differences in enterprises, with a particular focus on the Republic of Uzbekistan. The research methodology is based on a combination of legal analysis, comparative review, and policy evaluation. Legal and Normative Document Analysis Primary data for the study were collected through an in-depth review of national legislation, including the Tax Code of the Republic of Uzbekistan (2020), presidential decrees, Cabinet of Ministers’ resolutions, and guidelines issued by the State Tax Committee. These documents were analyzed to understand the legal procedures, rights, and limitations concerning the refund or offsetting of excess input VAT. Comparative Analysis to provide broader context and highlight potential areas for reform, a comparative analysis was conducted by examining the VAT refund systems of selected countries with similar economic structures, such as Georgia, Kazakhstan, and Lithuania. This involved analyzing publicly available tax laws, OECD and IMF reports, and World Bank policy papers related to VAT administration and refund procedures. Case Study and Practice-Based Review the research includes an examination of recent cases and reports involving VAT refund claims in Uzbekistan. Data were gathered from tax dispute summaries, business surveys (where available), and expert commentary. These practical insights help assess how well the legal norms are

implemented in real-world scenarios and what challenges enterprises face during the refund process. Expert Opinion and Academic Sources secondary data were drawn from academic articles, policy research papers, and reports by international organizations such as the OECD, IMF, and UNCTAD. In addition, opinions from legal scholars and tax consultants in Uzbekistan were considered to evaluate the interpretation and application of VAT refund regulations. Synthesis and Recommendations findings from all sources were synthesized to identify existing gaps in legislation, inconsistencies in implementation, and opportunities for reform. The study concludes with a set of legal and administrative recommendations aimed at improving the VAT refund system's efficiency, fairness, and transparency.

Results and Discussion.

The analysis of Uzbekistan's VAT system reveals a number of critical insights regarding the legal and practical aspects of offsetting negative differences (i.e., excess input VAT). While there have been notable improvements in the legislative framework since the adoption of the new Tax Code in 2020, several issues persist in the actual implementation of VAT refunds and offsets, which impact businesses' liquidity and tax compliance behavior. Legislative Improvements and Current Provisions, the 2020 Tax Code of the Republic of Uzbekistan introduced clearer procedures for VAT refund claims. Article 263 of the Code outlines the right of taxpayers to receive a refund of excess input VAT under specific conditions, such as when input VAT exceeds output VAT for more than three consecutive months or when the taxpayer is an exporter of goods or services. Additionally, Presidential Decree No. PF-6011 (2019) and related Cabinet of Ministers' Resolutions reinforced the need to digitize VAT accounting and refund processes through the implementation of the E-Soliq platform. The introduction of electronic invoicing (E-NDS) and digital

VAT reporting has helped improve transparency and reduce manual errors in VAT calculations. Practical Challenges and Delays, despite legal provisions, many enterprises report delays and procedural complexity in obtaining VAT refunds. For example, a 2022 survey conducted by the Chamber of Commerce and Industry of Uzbekistan found that over 45% of businesses faced delays exceeding three months when applying for VAT refunds, even when they fulfilled all legal requirements. One common issue is the lengthy verification process by the tax authorities, who often require extensive documentation and perform additional audits before approving refunds. In some cases, businesses are requested to provide supplier-level documentation, which can be difficult to obtain, especially for SMEs. This creates a cash flow bottleneck, particularly for exporters and construction firms with high input VAT levels.

Case Example, textile Exporter in Tashkent Region, a notable example is a textile company in the Tashkent region, which exports over 80% of its products. The company reported accumulating more than 1.5 billion UZS in refundable input VAT in 2023. Although it submitted the refund request through the E-Soliq system, the process took over four months due to repeated documentation requests and an unannounced field audit. As a result, the company experienced a working capital shortage that delayed salary payments and raw material purchases.

Institutional Constraints, institutional factors also contribute to inefficiencies in the refund process. There is no fixed legal deadline for the tax authority to process and approve VAT refunds, creating legal uncertainty for taxpayers. Additionally, lack of risk-based auditing systems means that even low-risk, compliant taxpayers are subjected to the same scrutiny as high-risk entities, leading to inefficiencies. Positive Developments and Pilot Projects, on a more positive note, the State Tax Committee launched a pilot fast-track refund system for certified exporters in

2023. Under this initiative, low-risk exporters receive VAT refunds within 15 working days if they meet specific criteria, such as a clean tax compliance record and electronic invoice matching. Early results suggest that this pilot has reduced refund times by 40% for participating companies.

Comparison with International Practice, compared to countries like Georgia and Lithuania, where automated VAT refund systems are supported by integrated digital tax platforms and strict statutory deadlines (usually 30 days), Uzbekistan's system still lags in terms of speed and predictability. These countries use risk scoring algorithms to prioritize refund claims, reducing unnecessary delays for law-abiding taxpayers. Legal Gaps and Recommendations, the absence of a guaranteed refund timeline, ambiguity in audit triggers, and limited taxpayer appeal mechanisms are key legal gaps that need to be addressed. The legal framework should be amended to include:

- A maximum processing time (e.g., 30 calendar days) for standard refund claims.

- Risk-based audit criteria to streamline verification.

- A digital tracking system where businesses can monitor refund status in real time.

Conclusion.

The study highlights that while Uzbekistan has made significant strides in reforming its VAT system, particularly with the adoption of the 2020 Tax Code and the digitalization of tax reporting, substantial challenges remain in the practical implementation of offsetting or refunding negative VAT balances. Excess input VAT, if not refunded in a timely and transparent manner, can create serious cash flow issues for businesses, especially exporters and capital-intensive enterprises. The absence of clearly defined statutory timelines for VAT refunds, burdensome documentation requirements, and excessive administrative discretion continue to undermine the effectiveness of the current system. These issues contribute to legal uncertainty, reduce taxpayer trust, and may even

discourage formal economic activity. However, recent pilot initiatives such as the fast-track VAT refund mechanism for exporters and the use of electronic invoicing systems demonstrate the potential for modernization and improved efficiency. Drawing on successful international models, such as those of Georgia and Lithuania, Uzbekistan can benefit greatly from further aligning its legal and institutional framework with global best practices. To ensure the VAT system remains neutral, fair, and business-friendly, it is essential to introduce time-bound procedures, risk-based audits, and real-time digital monitoring tools. Strengthening legal guarantees for taxpayers and enhancing institutional capacity will not only reduce administrative delays but also promote economic growth through improved tax compliance and a more favorable investment environment. In conclusion, closing the gap between legal norms and administrative practice is key to creating a VAT system that supports enterprise development while safeguarding public revenues.

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