

## **Restricting Profit Concealment Through Foreign Structures: Institutional Measures for Tax Transparency in Uzbekistan**

**Yuldashev Lazizbek Umarbekovich**  
independent researcher

**Abstract.** This article examines institutional and legal mechanisms for preventing tax base erosion caused by undisclosed profits through foreign legal structures controlled by domestic taxpayers. It analyzes global experiences with anti-avoidance measures—especially the regulation of foreign-controlled entities—and assesses how such frameworks can be adapted to Uzbekistan. Particular attention is given to the role of digital oversight, international data exchange systems, and beneficial ownership declarations. The study proposes regulatory steps for Uzbekistan to strengthen its fiscal transparency infrastructure and integrate CFC-related tax controls with global standards.

**Keywords:** foreign-controlled entity, tax evasion, profit concealment, tax transparency, beneficial ownership, CFC regulations, Uzbekistan tax reforms, OECD BEPS, AEOI, institutional tax oversight

**Introduction.** The increasing internationalization of business and capital flows has intensified the use of offshore and foreign corporate structures for profit shifting and tax avoidance. In many jurisdictions, especially those with low tax rates and minimal disclosure requirements, taxpayers can establish foreign entities that accumulate profits while remaining effectively controlled from the resident country. This practice leads to base erosion, budget losses, and growing inequality in tax burdens.

For Uzbekistan, where fiscal reforms aim to improve transparency and taxpayer trust, unregulated foreign profit concealment poses a significant institutional challenge. While the Tax Code mandates the declaration of worldwide income by residents, it lacks mechanisms to detect, verify, and tax profits held in foreign-controlled legal structures. This article investigates how countries address this issue and how Uzbekistan can adapt institutional practices for identifying, monitoring, and taxing controlled foreign companies.

**Review of Relevant Literature.** Academic and policy literature emphasizes the link between international transparency and equitable taxation. Musgrave (1989) and Stiglitz (2000) argue that tax systems must evolve to match the economic reality of taxpayer behavior. OECD reports, especially BEPS Action 3 and 12, stress the

need for legal definitions of control, minimum ownership thresholds, and mandatory reporting mechanisms. Other studies underline the role of beneficial ownership identification and the implementation of information exchange agreements (e.g., CRS, FATCA).

Uzbek scholars such as Kurbanov (2020) and Ruzmetova (2022) have highlighted the limited scope of cross-border tax disclosure in national legislation. They emphasize the need for legal reform and institutional modernization to prevent tax evasion through foreign entities.

### **Analysis and Current Conditions:**

#### **1. Legal Gaps in Ownership Disclosure.**

While Uzbekistan's Tax Code is built on the principle of global income taxation for resident individuals and entities, it does not explicitly define what constitutes a Controlled Foreign Company (CFC). The absence of a legal definition leads to uncertainty in determining tax obligations for profits held abroad. Furthermore, the law does not require residents to disclose ownership stakes, voting rights, or control over foreign companies unless those profits are repatriated or voluntarily declared. This loophole creates a significant challenge for tax enforcement bodies.

#### **2. Institutional Weaknesses in Monitoring.**

The institutional framework in Uzbekistan lacks a specialized unit or department within the tax authority dedicated to monitoring international corporate ownership structures. Tax inspectors typically focus on domestic income verification, leaving foreign-source income largely unexamined. The absence of training, resources, and inter-agency cooperation restricts the government's ability to identify and trace hidden foreign entities. In comparison, countries with effective CFC regimes have established central registries and risk-assessment units that focus on identifying high-risk taxpayers engaged in cross-border activities.

#### **3. Digital Platform Limitations.**

Despite the development of digital tax platforms such as SoliqMa'lumot and my.soliq.uz, there is no integration of modules that capture foreign corporate ownership or control data. These systems primarily cater to domestic income, VAT, and social tax declarations. There is no requirement for taxpayers to input information about foreign company registration numbers, jurisdictions, asset values, or shareholder agreements. Without automated matching against global data standards (e.g., Legal Entity Identifiers or Tax Identification Numbers), the risk of underreporting and misreporting remains high.

#### **4. Absence from Global Exchange Networks.**

Uzbekistan is not yet a participant in the OECD's Common Reporting Standard (CRS) or a signatory to the Multilateral Competent Authority Agreement (MCAA). This absence restricts the country's access to valuable information regarding financial accounts, dividends, and interest held abroad by its tax residents. Consequently, even when tax authorities suspect offshore holdings, they lack the means to obtain verified documentation from foreign jurisdictions. Integrating into such frameworks would allow automatic exchange of information (AEOI), strengthening compliance and audit capabilities.

#### **5. Administrative Challenges in Enforcement.**

Even when foreign income is voluntarily declared or detected, Uzbekistan's current legal and administrative tools are insufficient to ensure effective taxation. There is no established procedure for retroactive tax assessment, income reclassification, or profit adjustment related to CFC structures. Furthermore, there are no anti-deferral rules to prevent taxpayers from indefinitely postponing taxation of passive foreign income. Many countries have introduced minimum taxation thresholds, substance requirements, and penalty regimes to discourage the use of artificial foreign entities—tools currently absent in Uzbekistan's tax framework.

#### **Conclusions and Recommendations:**

To address the risk of foreign profit concealment, Uzbekistan must introduce a combination of legal, institutional, and technological reforms. These include:

- Defining “controlled foreign company” (CFC) in the Tax Code: A precise legal definition should cover ownership thresholds, control indicators, and passive income categories. This will reduce ambiguity for both taxpayers and regulators.
- Establishing CFC reporting thresholds and disclosure obligations: Taxpayers who directly or indirectly control foreign legal entities must be required to disclose ownership, governance structures, and financial results, even if profits are not repatriated.
- Integrating CFC monitoring tools into digital platforms: Tax declarations should include dedicated CFC reporting sections with validation against external data. Advanced analytics and AI-driven risk scoring can help flag suspicious patterns of cross-border ownership and income.
- Expanding participation in international agreements (CRS, AEOI, MCAA): Uzbekistan must commit to tax information exchange standards. This includes creating technical infrastructure for data exchange and legal safeguards for confidentiality and enforcement.

- Enhancing inter-agency coordination and training: Close cooperation between the Tax Committee, Ministry of Finance, Central Bank, and anti-money laundering units is essential. Staff must be trained in international tax law, digital audits, and financial forensics.
- Launching public awareness and voluntary compliance programs: Taxpayers need guidance on foreign reporting requirements. Transitional amnesties or voluntary disclosure schemes can encourage early compliance and help build a transparent reporting culture.
- Establishing anti-deferral rules and minimum tax requirements: Passive foreign income should be taxed currently if it exceeds certain thresholds or if the foreign entity lacks substantial business activity.

#### References:

1. Musgrave, R.A. (1989). Public Finance in Theory and Practice. New York: McGraw-Hill.
2. Stiglitz, J.E. (2000). Economics of the Public Sector. New York: W.W. Norton & Co.
3. OECD (2015). BEPS Action 3 and Action 12 Reports. Paris: OECD Publishing.
4. OECD (2023). Tax Transparency in the Digital Age. Paris: OECD.
5. Kurbanov, F. (2020). Legal Challenges of International Tax Cooperation. Tashkent: Legal Reform Journal.
6. Ruzmetova, N. (2022). Transparency and Taxation of Foreign Entities in Uzbekistan. Tashkent Economic Review.
7. Uzbekistan Tax Code (current edition), Article 215–220.