

Experiences of Effective Tax Policy Measures of Developing Countries

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In optimizing the existing tax system in Uzbekistan, the analysis of the experience of effective tax policy implementation of developed countries has served as an extremely important research tool. Developed countries often have a long history of developing and improving their tax systems, which allows us to learn valuable lessons from their experiences.

France is one of the countries that uses such advanced innovative approaches in the tax system and has advanced experiences.

Although the French tax system is fundamentally different from our tax system in many respects, it is worth learning from it to improve tax collection and eliminate tax evasion. First of all, let's talk about the French tax system in general.

The French national tax system differs from other countries of Western Europe in only a few but significant features. First, France is distinguished by its high social taxes - levies and allocations to social funds (they make up more than 40% of the total amount of mandatory payments and taxes, compared to the average for EU countries - 30%). Second, the structure of the French tax system has historically developed in such a way that the fiscal importance of indirect taxation (consumption taxes) in the total amount of government revenues exceeds the share of direct taxes. In particular, it is important that France is the homeland of value added tax. Thirdly, the basis of the budget process is the principle of priority of resources. Unlike many other countries, this parliament first approves the revenue part of the budget and then the expenditure part. Fourth, in contrast to the long-standing tradition of centralized governance, since the early 1980s the government has pursued a policy of decentralization, which consists of expanding the powers of local authorities and carrying out a corresponding redistribution of tax revenues. Fifth, in accordance with the requirements of the unification of tax systems within the European Union, the last decade has seen a decrease in tax rates with a simultaneous expansion of the taxable base due to the abolition of exemptions.

All laws of the French Republic on the introduction of new taxes or the abolition of old taxes, the scope of their application, are approved by the Parliament every year during the adoption of the state budget. In addition to the laws, there are various decrees and orders adopted to supplement, interpret and explain the existing laws in more detail.

In general, taxes and fees account for about 90-95% of budget revenues in France. In addition to the sufficiently centralized system of legislation in the field of taxation, local authorities are also given autonomy. They have the ability to independently determine local taxes, their rates and collection procedures. It should be noted that in France there is a fairly clear system of distribution of taxes to the central and local budgets.

The French Tax Service is part of the Ministry of Economy, Finance and Budget, headed by the Minister Delegate for Budgetary Affairs. Tax administration is carried out by the General Tax

Administration and the General Administration of Duties and Other Revenues. Structurally, the General Tax Administration consists of five departments:

- 1) department for preparation of legal documents (task: development of draft laws and other normative documents in the field of taxation);
- 2) department of general tax management (task: to ensure the collection of tax revenues to the state budget);
- 3) dispute resolution department (task: review of complaints and preparation of materials for prosecution of tax violations);
- 4) department of land and state property affairs (task: land cadastral assessment, management of movable and immovable property of the state),
- 5) personnel department (task: staffing the tax service).

The General Directorate of Customs and Revenue organizes the work of customs offices at the borders of France and within the country. It provides control over the implementation of state prohibitions on the sale of weapons, drugs, etc. Also carries out sanitary control of foreign trade.

About 80,000 employees work in the tax service system in 830 tax and 16 information centers. Tax authorities are selected through careful selection. Employees of the Tax Center calculate the taxable base for each tax, collect tax payments, and monitor the correct payment of taxes. Tax collection is regulated by the Tax Code (Code général des impôts), which is a model for other countries.

Some details of the organization of tax audits and the system of penalties provide an insight into tax control in France. For example, for failure to submit the return on time, the tax is collected in full and at the same time a penalty of 0.75% per month (9% per annum) is imposed. If the income is intentionally concealed for the purpose of evasion, the penalty ranges from 40% to 80% of the assessed tax amount. In the case of a regular decrease in income, taxes are collected from the accounts of the payer. In case of serious violation of tax legislation (forgery of documents, etc.), criminal liability, including imprisonment, is provided.

In France, charges of tax evasion by a legal entity are made only against the head of the company, and in case of overpayment of taxes, the difference is immediately refunded with interest. Debt write-off (tax amnesty) is carried out during presidential elections (every five years).¹.

France applies criminal and administrative sanctions generally accepted in the world fiscal practice for tax violations. Correctional and educational measures deserve special attention: after the court considers the case of fraudulent tax evasion, it allows the sentence to be repeatedly announced in the mass media for three months, and the sentence is notified to the convict's place of work or residence.

Computerized technologies are increasingly used in the process of tax data collection and processing. The tax service has a special department that works to simplify document circulation and automate calculations. Declarations are processed in special computer centers, each of which serves several dozen tax centers, and also provides exchange of tax information and services. For example, if necessary, another center can take over the processing of returns if the workload in a particular computing center becomes too high.

Tax legislation in the country is clarified or supplemented every year based on the current situation and the needs of the state budget.

Such frequent changes, although they cause problems for ordinary taxpayers, still make it possible to observe the main principle: all the expenditure part of the state budget is built only on

¹Onishchenko V. Podatkova system France // Vysnik podatkovo sluzbi Ukrain. — 2001 — No. 5. — 22-23.

the basis of the income part and cannot exceed it. This approach allows us to quickly respond to changing economic conditions.

The income of individuals, both citizens and non-residents, is subject to income tax (Impôt sur le revenu, IRPP) on a progressive (5-point) scale, with a maximum scale rate of 45% for those earning €177,106 or more in 2023. It is applied according to the scheme in Table 1.

Table 1. Of individuals in France income tax rates²

Scale	Range, EUR per year	Percent	Income tax in France (formula and annual amount in euros)
1	From 0 to 11,294 €	0%	0
2	From €11,294 to €28,797	11%	€1,925.33
3	From €28,797 to €82,341	30%	€17,988.53
4	From €82,341 to €177,106	41%	€56,842.18
5	Above €177,107	45%	Excess amount * 45% + €56,842.18

It is important to note that in France, taxes for individuals are collected not only from wages and business income, but also pensions and social benefits are included in the tax base.

The rate of property tax (impôt sur la fortune immobilière – IFI) is also progressive: it is calculated on 7 scales from 0 to 1.5%, depending on the value of the property.

The following tax types are defined for legal entities in France:

- corporate (profit tax) – Impôt sur les sociétés – IS;
- VAT - Taxe sur la valeur added - TVA;
- territorial economic contribution payment - Contribution économique territoriale - CET;
- retail outlet fee - Tascom (€5.15 to €30.64 per square meter of retail area);
- tax on the market value of real estate - Taxe sur la valeur vénale des immeubles (the annual payment of real estate owners is 3 percent of the fair value of the property as of January 1, 2024);
- transport tax – Taxe sur les véhicules des sociétés – TVS.

Profit tax is the third most important part of the French budget (Figure 7).

RÉPARTITION DES RECETTES NETTES DE L'ÉTAT
EN 2022

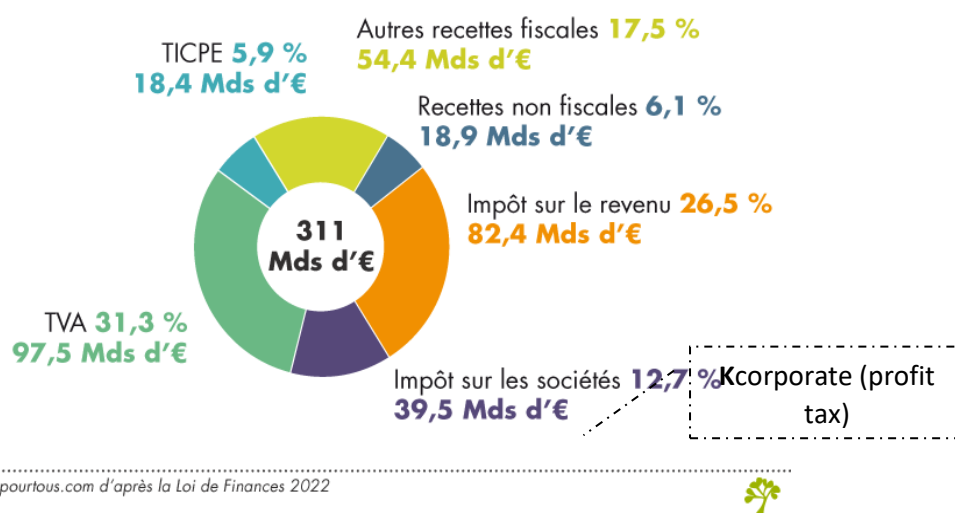


Figure 1. Share of corporate tax in taxable income

²<https://www.haussmann-patrimoine.fr/gestion-de-patrimoine/reperes/fiscalite/impot-sur-les-societes/>

The country's government has been gradually reducing the rates of this type of tax in recent years.

Table 2. Profit tax rates in France in recent years³

period	Rate for enterprises with an annual profit of up to 500,000 euros, %	The annual profit exceeds 500,000 euros rate for enterprises, %
2018	28	33,33
2019 year	28	31
2020 year	28	
2021 year	26.5	
2022 year	25	
2023 year		
2024 year		

A reduced rate is available for businesses with a low turnover (less than €10 million per year): 15% of taxable profits up to €42,500⁴.

Indirect taxes - VAT and excise duty - are very important for the French treasury. In France, the standard VAT rate is 20% of the value of the sale of the product or service to the final consumer.

Economic contribution tax (CET) has been introduced in the country since 2010. It combines the following:

- business development fee (CVAE) - determined by local authorities and paid by organizations and individual entrepreneurs at the place of business, the maximum rate is 1.5% for entities with a turnover of 50 million euros and more;
- land tax and commercial property (CFE) - rates for the ownership or lease of buildings, unfinished structures and the land under them are set by local authorities.

The amount of transport tax paid quarterly for cars used by enterprises for commercial or personal purposes depends on the type of car, its power, weight, and the level of emissions of gases that pollute the environment. In France, the tax base and the transport tax itself are determined depending on the year of manufacture or purchase of the car. Annual rates and principles of their application are given in Article 1010 of the Tax Code.

In general, the list of types of fiscal payments in France is approaching 200, and their list and conditions of application are updated every year. Such a developed system of payments to the local and federal budgets allows to maintain the social protection of the French population at a much higher level.

But this is not only due to the policy of introducing taxes, but also to the fact that their collection is at a high level. In France, the issue of liability for concealment of income, non-payment of taxes and tax evasion is of great importance.

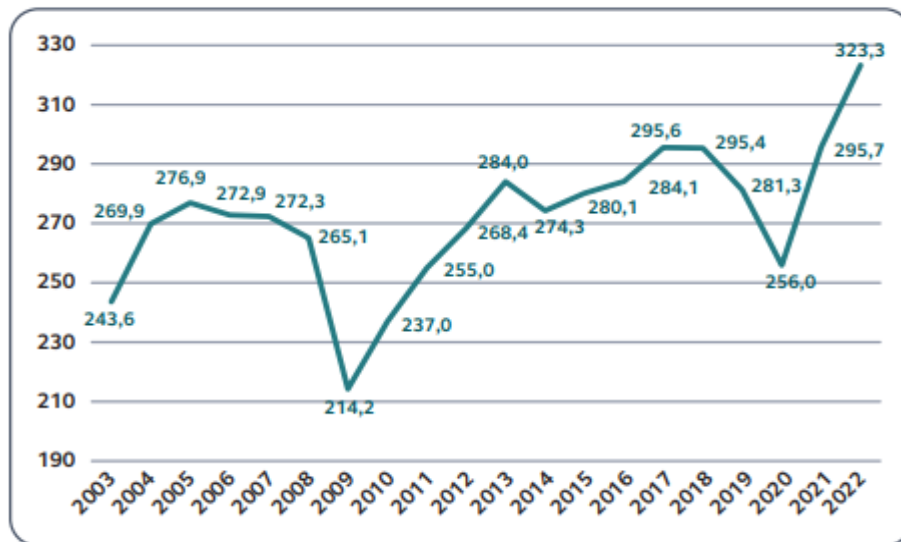
In fact, no matter how effective the tax policy is for the introduction of taxes and the application of favorable rates in any country, it is difficult to achieve a good result if the measures defined within the framework of this policy are not well paid attention to the implementation of work on collecting tax payments.

The effect of the implementation of effective tax policy measures can be seen in the year-by-year increase in the share of tax revenues in the state budget (Figure 8).

³<https://www.haussmann-patrimoine.fr/gestion-de-patrimoine/reperes/fiscalite/impot-sur-les-societes/>

⁴<https://www.compta-online.com/taux-is-impot-sur-les-societes-ao2921>

Recettes fiscales de l'État 2003-2022 (Md€)



Source : Cour des comptes – données direction du budget

Figure 2. The dynamics of taxable income over the years

In France, the total amount of taxes paid by a taxpayer can be as much as 75 percent of his annual income, so the issue of saving and optimizing obligations there is very acute. To ensure that his decision does not go beyond the limits allowed by law, the French government has established a whole system of control.

Data from banks, customs, police and notaries can be analyzed to detect dishonesty or errors in paying taxes. In addition, a system of using indirect methods of determining real income based on the sums of expenses taken into account during the reporting period has been established.

If violations or inaccuracies are identified, the following may apply:

- penalty: 0.75% of the unpaid amount of obligations for each month of the debt, and 10-40% of the declared amount if the payer delays the declaration;
- transfer of property and funds in bank accounts;
- deprivation of a driver's license for up to 3 years;
- imprisonment for up to 5 years and a fine of up to 250,000 euros when the facts of a large concealment are revealed.

The following actions, such as understatement, omission or misstatement of a taxpayer's tax return, are considered tax evasion in accordance with the law:

- willful failure to submit a tax return;
- concealing certain income or property in a tax return;
- willfully causing insolvency;
- any conduct aimed at tax evasion or attempted evasion.

On July 1, 2019, the tax police was established to combat tax violations. It consists of tax agents who have the authority to conduct legal investigations and prosecute those responsible for tax evasion.

In case of tax evasion, the tax authorities apply a penalty called "Intérêt de retard", the rate of which is 0.20% of the amount of tax actually due every month (from January 1, 2018). Late payment interest is charged when tax evasion results in paying less tax than is actually due.⁵

⁵<https://rouzade.com/cf-nalogovye-pravonarushaniya-i-shtrafy-vo-francii>

The amount of penalties varies depending on whether the taxpayer acted in good faith.

Therefore, this tax penalty can be as follows:

- 10% of the tax actually due if the taxpayer is honest and the error was the reason;
- If the taxpayer acted intentionally, 40% of the tax actually due;
- If the taxpayer engages in undeclared work or illegal activities, 80% of the actual tax due.
- 100% if the check is contested.

Taxpayers also have the right to make mistakes. The right to make a mistake is the possibility of every citizen to make a mistake due to ignorance of the rule applicable to his situation, without the risk of financial penalties for the first violation. This right applies to both individuals and companies.

In practice, if the declarant has made a mistake in good faith, he will not be penalized within the required time if he makes a correction on his own or after being suggested by the administration.

Decree No. 2021-25 of January 13, 2021 created the Tax Compliance Check (ECF) to ensure the correct application of tax rules and thereby increase their security in tax matters⁶.

In France, the tax authorities have information about the bank databases: they receive information about every account opening, every large money transfer, which can officially be a reason for further verification of the declaration filled out by the taxpayer himself. In addition, the tax centers use separate databases for land tax, house tax, as well as databases for the availability of racehorses, yachts and aircraft.

Tax centers have information about the purchase of a car, real estate, even the declaration that the taxpayer fills out when starting a job. Tax authorities actively cooperate and share information with customs, the police and companies such as France Telecom, Electricité de France and Engie (a major gas and energy company). This volume of data allows checking the accuracy of the income statement provided by the taxpayer at any time, without leaving the workplace, currently it is impossible to open bank accounts secretly from the tax department in, for example, Paris, Lille and Marseille. Primary data processing is computerized: each declaration is thoroughly checked on a computer. Anything can attract an inspector's attention: even an inexplicable increase in child care costs. The suspicious reference is again "loaded" into the computer, checked using a special program, and all the information about the taxpayer's financial situation is displayed on the screen, including the current income, the address of the employer and the marital status of the last three years.

If this is not enough, another program is activated that checks the last addresses of the taxpayer. The third program provides information about real estate, deeds of sale, gifts and other documents to assess how reliable the price of the transaction is. If the price does not match the declared income, a review will be initiated. Headquartered in the Pantin suburb of Paris, a special department of the National Tax Audit Office processes the press every day: special attention is paid to sections on purchases and sales, job advertisements, and the lives of the rich. Other departments—up to 1,300 in total—collect information directly on the ground through their contacts in the police, city halls, banks, restaurants and even car dealerships. These departments often find traces of crimes in the underground economy. Tax inspectors use informal sources of information, including anonymous letters, neighbors' testimony, and informants. The tax administration will officially reward informants after collecting the amount owed from the debtor along with penalties.

The inspectors themselves work only for a salary - they do not receive bonuses at the expense of the funds saved in the state treasury. A novelty in recent years has been not only the exchange of information between tax authorities and the police, but also joint operations. About fifty tax

⁶Source: <https://rouzade.com/cf-nalogovye-pravonarusheniya-i-shtrafy-vo-francii>

inspectors, both police officers and tax inspectors, work in criminal police departments. In addition, tax inspectors have the right to familiarize themselves with the case pending in court in accordance with the law. They are particularly interested in information related to financial fraud and abuse, the secret financing of political parties and the activities of slush funds. Finally, the tax office, although it officially refuses, uses the services of private detectives. Often ordinary taxpayers fall into "control networks" organized by tax inspectors. An ordinary employee's file is checked approximately every 8 years, a notary's file - 28 years, a hairdresser - 40 years, a doctor - 50 years, and a farmer - once 134 years. A special service - the National Tax Audit Directorate deals with privileged persons.

In particular, it controls major political officials. There are also certain criteria for enterprises - small firms (turnover up to 5 million euros) are checked relatively quickly - every three months. Large multinational companies are dealt with by the National International Inspection Directorate, which employs approximately 250 people. Such enterprises are fully inspected every 6-7 years. In addition, the duration of the examination can reach one year.

Tax authorities do not consider offenses that do not exceed 5% of income tax as crimes. However, this debt is required to be repaid with interest - 0.75% per month. A fine of 10 percent of the tax amount is imposed for delaying the declaration to the tax authorities. If the late filing period is more than one month, the penalty is 40%, but after the return is not filed and the second reminder, the penalty is doubled again. In theory, even a punishment such as the deprivation of a driver's license for up to 3 years can threaten. Willful tax evasion is punishable by imprisonment from one to five years and a fine from 5 to 250,000 euros, in addition to repayment of all amounts and interest for the overdue period.⁷ There are ways to force a defaulter to pay the full amount of tax to the government, including seizing bank accounts, wages, and property. At the same time, the legislation provides for the possibility for the taxpayer to appeal against the decision of the tax authorities, including to appeal to the court.

In general, the French tax system has developed strict and complex measures to prevent and combat tax violations, and the implementation of these measures is strictly controlled.

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