American Journal of Economics and Business Management

Vol. 9 Issue 3 **| pp.** 263-266 **| ISSN:** 2576-5973
Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

The Economic Essence of Profit Tax and its Role in the Financial Activities of an Enterprise

SHapaxat S[1], Ismoilov[2]

1. Termez State University
2. "Tashkent Institute of Irrigation and Agricultural Mechanization Engineers" National Research University

Abstract: This study is devoted to an in-depth examination of the theoretical and methodological foundations of profit tax accounting, as well as its interconnection with the financial accounting system. In the conditions of a modern economy, the profit tax is not only a fiscal tool that forms the state budget, but also a crucial financial lever that determines the investment attractiveness, profitability, and capital movement of enterprises. The article substantiates the current relevance of the Republic of Uzbekistan's transition to International Financial Reporting Standards (IFRS), particularly the application of IFRS (IAS) 12 "Income Taxes". The literature review analyzes ten dissertations defended by Uzbek scientists over the last three years (2023–2025), revealing how the issue is studied from both accounting and financial perspectives. The methodological part of the research utilizes economic and comparative-statistical analysis methods, highlighting the conceptual differences between the US Generally Accepted Accounting Principles (US GAAP), IFRS, and the National Accounting Standards (NAS) of Uzbekistan. Based on the analysis results, existing problems in recognizing temporary differences between financial and tax accounting bases, as well as in evaluating deferred tax assets and liabilities, are identified. Scientifically grounded solutions are proposed to eliminate these issues and harmonize national tax legislation with international standards.

Citation: SHapaxat S. and Ismoilov. The Economic Essence of Profit Tax and its Role in the Financial Activities af an Enterprise. American Journal of Economics and Business Management 2026, 9(3), 263-266.

Received: 28th Dec 2025
Revised: 22th Jan 2026
Accepted: 28th Feb 2026
Published: 18th Mar 2026

Keywords: Profit Tax, Financial Accounting, IFRS, NAS, GAAP, Deferred Taxes, Audit, Temporary Differences, Profitability, Tax Burden

1. Introduction

In the conditions of a market economy, the profit tax acts as a mechanism for directing a portion of the net profit generated by business entities toward societal needs. However, from the perspective of financial accounting, this tax is a decisive factor determining the final financial results of an enterprise, its dividend policy, and its opportunities for reinvesting own funds. Today, the relevance of this issue in the Republic of Uzbekistan is explained by the integration of the country's economy into the global financial space and the mandatory transition of large enterprises to International Financial Reporting Standards (IFRS). In particular, the practical implementation of IFRS (IAS) 12 "Income Taxes" requires a precise evaluation of the differences between accounting and tax bases. In the scientific community, this issue is studied based on two different approaches. From an accounting perspective, scholars focus on the methodology of recognizing deferred tax assets (DTA) and deferred tax liabilities (DTL), as well as identifying temporary and permanent differences. From a financial perspective, researchers analyze the impact of the profit tax on the weighted average cost of capital (WACC), free cash flows (FCF), and the investment potential of an enterprise at both macroeconomic and microeconomic levels. The harmonization of these approaches allows for the optimization of the tax burden in enterprises.

Literature Review

Issues regarding the profit tax and its connection with financial accounting are deeply investigated by local scientists. Particularly, the various aspects of this topic have been disclosed in dissertations approved by the Higher Attestation Commission (HAC) of the Republic of Uzbekistan in 2023–2025, specializing in 08.00.08 (Accounting, economic analysis, and audit) and 08.00.07 (Finance, money circulation, and credit). In the field of accounting and audit, A.B. Islomov studied the accounting of asset impairment based on IFRS (IAS) 36 in his scientific work, substantiating the role of impairment losses in forming the profit tax base and the emergence of temporary differences [1]. Similarly, Sh.Sh. Yariyev, in his research dedicated to improving financial control and audit based on international standards, developed a methodology for evaluating tax risks by internal audit services and controlling the correct reflection of profit tax liabilities [2]. B.B. Tojiyev researched the problems of reflecting the financial results and tax consequences of assets when forming financial statements in accordance with international standards [3]. In the doctoral (DSc) dissertation of Kh.A. Saidakbarov, the accounting and auditing of business processes in the management accounting system were considered, revealing the importance of tax planning within management accounting [4]. In the field of finance and taxation, J.N. Qosimov evaluated the impact of tax incentives, including profit tax rates, on investment projects in financing the innovative development of regions [5]. M.Sh. Fayzulloyev analyzed the prospects for reducing the shadow economy regarding profit tax through the use of digital technologies in implementing tax control [6]. S.A. Nazarov studied the issue of improving tax audits in the digital economy and proposed mechanisms to increase the transparency of settlements with counterparties when determining the taxable base of enterprises [7]. Z.O. Tursunov assessed the role of macroeconomic tax revenues in financing social-oriented expenditures [8]. Sh.J. Borotov substantiated the economic efficiency of granting local authorities the power to differentiate profit tax rates within the framework of increasing the effectiveness of the tax system in regional development [9]. Furthermore, B.B. Nomazov, in his research on improving the conceptual foundations of tax system modernization, scientifically proved the necessity of adapting generally established taxes to the requirements of international financial reporting [10]. These studies create a modern conceptual foundation for integrating tax accounting with financial accounting [11].

2. Material and Methods

This research utilizes economic, comparative, and statistical analysis methodologies. Through the comparative analysis method, the differences between the three main financial accounting systems used in global practice were compared: US Generally Accepted Accounting Principles (US GAAP), International Financial Reporting Standards (IFRS), and the National Accounting Standards (NAS) of Uzbekistan. The goal is to identify obstacles in adapting Uzbekistan's national practice to international standards. Analyses show that US GAAP (ASC 740 standard) requires a strict 50 percent probability threshold to recognize uncertain tax positions (FIN 48) in accounting for deferred taxes, which represents a highly conservative approach. IFRS (IAS 12), on the other hand, relies on the balance sheet liability method and allows the use of the "expected value" probability (based on IFRIC 23) when evaluating the differences between the carrying amount of an asset or liability and its tax base at the reporting date. Meanwhile, Uzbekistan's NAS system has historically been based on a tax-driven accounting model, where the requirements for systematically evaluating deferred tax assets and liabilities are not fully formed. The majority of national enterprises reflect only the profit tax calculated for the current period in their statement of financial results. Statistical and economic analysis methods were also applied to mathematically model the extent to which changes in tax rates affect the net profitability indicators (ROE, ROA) of enterprises.

3. Results and Discussion

The conducted economic and purely statistical analyses demonstrated the direct impact of changes in profit tax accounting on the financial condition of enterprises. In the Republic of Uzbekistan, the base rate of the profit tax for 2024–2025 was maintained at 15 percent [12]. Comparative analysis shows that for entities engaged in e-commerce, the 7.5 percent rate applied in 2024 was increased to 10 percent starting from 2025. If an enterprise's taxable profit is 1 billion UZS, an increase in the rate by 2.5 percentage points leads to a real decrease of 25 million UZS in the net profit retained by the enterprise. In the IFRS system, such legislative changes require recalculating all existing deferred tax liabilities at the new rate (10 percent) from the reporting date, which directly affects the current year's retained earnings. Furthermore, the discrepancies between national and international standards create several problems [13], [14]. The first problem is the artificial concealment of differences between accounting and tax records. Enterprises operating under NAS, to avoid spending excessive effort on calculating the tax base, try to "adjust" their financial profit to the requirements of the tax code, which compromises the objectivity of the financial statements. The second problem is the lack of automation and the shortage of human resource capacity when applying the IFRS (IAS) 12 standard. To solve these problems, it is necessary to introduce a mechanism into the Tax Code of Uzbekistan that recognizes the profit formed on the basis of international financial reporting standards, with minor adjustments, as the tax base [15]. Additionally, digitalizing accounting processes for large taxpayers based on ERP (Enterprise Resource Planning) systems will allow for the automatic calculation of deferred taxes and eliminate errors associated with the human factor.

4. Conclusion

Profit tax accounting is inextricably linked with the overall financial strategy of an enterprise. The research results and the analysis of recent scientific works approved by the HAC indicate that aligning tax accounting with international standards (IFRS) is not merely a technical process, but a strategic step that increases the investment attractiveness of an enterprise. The comparative analysis among US GAAP, IFRS, and NAS systems demonstrated the need to clearly differentiate tax and financial accounting in Uzbekistan, to correctly evaluate temporary differences using the balance sheet method, and to form a culture of legal tax burden optimization. Stability in tax legislation and the correct application of IFRS requirements will serve to ensure the competitiveness of national enterprises in the global market.

REFERENCES

[1] A. B. Islomov, Improvement of accounting and audit of asset impairment in economic entities, PhD dissertation abstract, Tashkent, Uzbekistan, 2023.

[2] Sh. Sh. Yariyev, Improvement of financial control and audit based on international standards, PhD dissertation abstract, Tashkent, Uzbekistan, 2023.

[3] B. B. Tojiyev, Accounting for asset impairment in accordance with international financial reporting standards, PhD dissertation abstract, Tashkent, Uzbekistan, 2023.

[4] Kh. A. Saidakbarov, Accounting and audit of business processes in the management accounting system, DSc dissertation abstract, Tashkent, Uzbekistan, 2024.

[5] J. N. Qosimov, Financing the innovative development of regions in Uzbekistan, PhD dissertation abstract, Tashkent, Uzbekistan, 2023.

[6] M. Sh. Fayzulloyev, Prospects for using modern methods of tax audits in implementing tax control, PhD dissertation abstract, Tashkent, Uzbekistan, 2023.

[7] S. A. Nazarov, Improvement of tax audits in the conditions of the digital economy, PhD dissertation abstract, Tashkent, Uzbekistan, 2023.

[8] Z. O. Tursunov, Improvement of the state pension provision system in Uzbekistan, PhD dissertation abstract, Tashkent, Uzbekistan, 2024.

[9] Sh. J. Borotov, Increasing the effectiveness of the tax system in regional development, PhD dissertation abstract, Tashkent, Uzbekistan, 2024.

[10] B. B. Nomazov, Improvement of the conceptual foundations of tax system modernization, PhD dissertation abstract, Termez, Uzbekistan, 2025.

[11] International Accounting Standards Board, International Financial Reporting Standards (IFRS). London, U.K.: IASB, 2022.

[12] OECD, Tax Administration 2023: Comparative Information on OECD and Other Advanced and Emerging Economies. Paris, France: OECD Publishing, 2023.

[13] World Bank, Public Financial Management and Accountability in Developing Economies. Washington, DC, USA: World Bank, 2021.

[14] J. E. Stiglitz and J. K. Rosengard, Economics of the Public Sector, 4th ed. New York, NY, USA: W. W. Norton & Company, 2015.

[15] P. Atrill and E. McLaney, Accounting and Finance for Non-Specialists, 11th ed. Harlow, U.K.: Pearson, 2022.