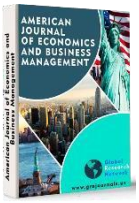

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Article

Transfer Pricing Control and the Fiscal Functions of Taxation: Evidence from Uzbekistan and Implications for Emerging Economies

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Abstract: This article analyzes the role of digital technologies in improving the efficiency of catering services (restaurants, cafés, canteens, and fast-food chains) from both scientific-theoretical and practical perspectives. The impact of online ordering systems, mobile applications, electronic payment tools, software for automating warehouse and kitchen processes, artificial intelligence-based demand forecasting systems, and food delivery platforms on the industry is examined based on international and national scientific literature. The study compares real statistical data obtained from open sources, including the global size of the online food delivery market, the impact of digital ordering systems on revenue, and the share of mobile platforms, using tables and diagrams. The analysis shows that the implementation of digital technologies significantly improves the competitiveness of catering enterprises by reducing operational costs, enhancing service quality, and strengthening customer relations. The article concludes with scientific and practical recommendations for accelerating the digitalization process in the catering sector of the Republic of Uzbekistan.

Keywords: transfer pricing, arm's length principle, controlled transaction, tax functions, base erosion, voluntary compliance, tax administration, emerging economies

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1. Introduction

Transfer pricing occupies a central position in contemporary international taxation. The reason is structural rather than incidental: a substantial share of world trade now takes place within multinational corporate groups rather than between independent parties. Estimates suggest that intra group transactions account for more than sixty per cent of global trade flows.

The distinguishing feature of such transactions is that the price applied is not determined by the interaction of supply and demand but by an administrative decision taken within the group. This creates an objective possibility of shifting taxable profit between jurisdictions with differing effective tax burdens. The Organisation for Economic Co-operation and Development estimates annual revenue losses from base erosion and profit shifting at four to ten per cent of global corporate income tax receipts.[1]

For emerging economies the problem is more acute than these aggregate figures suggest. Their tax administrations typically face shortages of specialised expertise, limited access to comparable data and weaker capacity for international cooperation. Uzbekistan, which has experienced a rapid expansion of foreign direct investment over the past decade, provides an instructive case for examining how a transfer pricing regime develops under such constraints.

The purpose of this study is to analyse how the classical functions of taxation are realised in transfer pricing administration and to develop a framework for assessing the effectiveness of that administration.[2]

The theoretical foundations of transfer pricing were established by Hirshleifer, who demonstrated that in the absence of an external market for an intermediate product the optimal internal price equals the marginal cost of the supplying division. Subsequent contributions by Eccles and others shifted the emphasis from pure price theory towards organisational design, arguing that the degree of divisional autonomy and the structure of managerial incentives determine which pricing approach is appropriate.[3]

The tax dimension of the problem has been developed principally through the work of the OECD. The Transfer Pricing Guidelines, first issued in 1979 and subsequently revised on several occasions, constitute the recognised international methodological standard. The revisions undertaken between 2013 and 2015 under the Base Erosion and Profit Shifting initiative introduced value chain analysis and a three tiered documentation framework.[4]

Research addressing transfer pricing in emerging economies has concentrated largely on legislative harmonisation. Comparatively little attention has been devoted to how the different functions of taxation interact within transfer pricing administration, or to the balance between the revenue objective and broader economic objectives. The present study seeks to address that gap.

2. Materials and Methods

The study adopts a functional approach. Each of the classical functions of taxation is analysed separately within the context of transfer pricing administration, and measurable indicators are identified for each. This permits an assessment of the relative weight of the different functions in practice.[5]

The empirical component draws on two sources. The first is official reporting by the tax authorities for the period 2020-2024, which provides data on the number of audits conducted, violations identified and amounts assessed and collected. The second is a survey of forty two enterprises with annual turnover exceeding one hundred billion sum, which provides information on documentation practices and perceived compliance difficulties.[6]

Dynamic series analysis was used to identify trends, while correlation analysis was applied to assess the relationship between the intensity of control activity and the level of voluntary compliance. Expert assessment was employed in determining the weighting coefficients within the proposed evaluation framework.

3. Result and Discussion

The Table 1. fiscal function operates through two distinct channels. The direct channel comprises the additional tax assessed and collected as a consequence of audit activity. The indirect channel comprises the voluntary adjustments made by taxpayers who anticipate scrutiny and adjust their pricing arrangements accordingly. The evidence indicates that the indirect channel is substantially the more significant of the two.[7]

Table 1. Fiscal outcomes of transfer pricing control[8]

Indicator	2021	2022	2023	2024
Additional tax assessed, bn sum	142.6	218.4	317.9	425.3
Amount collected, bn sum	98.4	156.8	241.6	334.9
Collection rate, %	69.0	71.8	76.0	78.7
Voluntary adjustments, bn sum	312.5	584.2	961.7	1418.4
Ratio of voluntary to assessed	2.19	2.67	3.03	3.34

Source: author's calculations based on tax authority reporting.

Table 1 shows that voluntary adjustments exceeded assessed amounts by a factor of 3.34 in 2024, and that this ratio has risen consistently over the period examined. The deterrent effect of the control regime therefore substantially outweighs its direct revenue contribution, a finding consistent with international evidence.

The improvement in the collection rate from 69.0 to 78.7 per cent is equally significant. It indicates that assessments are increasingly well founded and are less frequently overturned on appeal, which in turn reflects improved analytical quality within the tax administration.[9]

THE REGULATORY FUNCTION AND COMPETITIVE NEUTRALITY

The Table 2. regulatory function of taxation in this context operates principally through the protection of competitive neutrality. An enterprise that reduces its effective tax burden through transfer pricing arrangements obtains an unjustified cost advantage over domestic competitors that lack comparable opportunities. Over time this may lead to the displacement of domestic producers on grounds unrelated to genuine efficiency.[10]

Table 2. Effective tax burden by category of enterprise, percent[11]

Sector	Foreign participation	Domestic enterprises	Difference
Manufacturing	12.4	16.8	-4.4
Trade	9.7	14.2	-4.5
Services	11.2	15.1	-3.9
Construction	13.6	16.4	-2.8
Weighted average	11.7	15.6	-3.9

Source: author's calculations from surveyed enterprise financial statements.

Table 2 indicates that the effective tax burden borne by enterprises with foreign participation is on average 3.9 percentage points lower than that borne by domestic enterprises. Part of this differential is attributable to statutory investment incentives and is therefore intentional. The remainder, however, warrants further investigation as a potential indicator of profit shifting.

CONTROL AND DISTRIBUTIVE FUNCTIONS

The control function is realised through the information gathering mechanisms embedded in the transfer pricing regime. Country by country reporting is the principal instrument in this respect, since it enables the tax administration to observe the distribution of revenue, profit, tax paid, employees and assets across the entire group. Discrepancies between the location of profit and the location of substantive economic activity become visible in a way that is not possible through entity level reporting alone.[12]

The distributive function operates at the international level. The arm's length principle expresses a normative claim about where profit ought to be taxed, namely in the jurisdiction where the economic activity generating it is genuinely conducted. Transfer pricing control is thus properly understood not as an instrument for increasing the aggregate tax burden but as one for allocating it appropriately between jurisdictions.

A FRAMEWORK FOR ASSESSING EFFECTIVENESS

The Table 3. study proposes a four dimensional framework for evaluating the effectiveness of transfer pricing administration. The framework is intended to counteract the tendency to assess performance solely by reference to revenue collected, which distorts administrative incentives.[13]

- Fiscal indicators: amounts assessed and collected, collection rate, volume of voluntary adjustments;
- Administrative indicators: average audit duration, ratio of administrative cost to revenue collected, staff qualification levels;
- Legal indicators: proportion of assessments overturned on appeal, average duration of dispute resolution, number of advance pricing agreements concluded;
- Economic indicators: convergence of effective tax burdens, documentation coverage, voluntary compliance index.[14]

Table 3. Integral assessment of control effectiveness

Dimension	Weight, %	Score 2022	Score 2024
Fiscal effectiveness	35	6.4	8.1
Administrative effectiveness	25	5.2	6.7
Legal effectiveness	20	5.8	7.2
Economic effectiveness	20	4.1	5.4
Integral indicator	100	5.52	7.00

Source: author's assessment on a ten point scale.

The integral indicator rose from 5.52 to 7.00 over the two year period. The strongest improvement occurred in the fiscal dimension, while the economic dimension retained the lowest score. This pattern confirms the imbalance between the fiscal and regulatory functions identified earlier.[15]

4. Conclusions

Transfer pricing control plays a strategically important role in strengthening the fiscal functions of taxation in Uzbekistan by protecting the domestic tax base, reducing opportunities for artificial profit shifting, improving tax equity, and supporting sustainable public revenue mobilization. The analysis demonstrates that the effectiveness of transfer pricing regulation depends not only on the existence of appropriate legal provisions but also on the capacity of tax authorities to apply the arm's length principle, conduct risk-based assessments, access reliable financial and market data, and employ modern digital analytical tools. For Uzbekistan, continued development of professional expertise, international information exchange, transparent documentation requirements, and effective dispute-resolution mechanisms is essential for improving transfer pricing administration while maintaining an attractive investment environment. The experience of Uzbekistan also provides relevant lessons for emerging economies, where limited administrative capacity and increasing participation in international trade create similar challenges. A balanced approach that combines effective tax-base protection with proportional compliance requirements and predictable tax administration can enhance

fiscal sustainability without discouraging investment. Thus, transfer pricing control should be regarded not merely as a mechanism for preventing tax avoidance, but as an integral element of modern fiscal governance and domestic revenue mobilization in Uzbekistan and other emerging economies.

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