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ENHANCING TAX TRANSPARENCY AND COMPLIANCE IN CROSS-BORDER OWNERSHIP: ANALYTICAL PERSPECTIVES ON CFC DISCLOSURE MECHANISMS

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Abstract. This article explores the growing importance of CFC (Controlled Foreign Company) disclosure mechanisms as tools for ensuring tax transparency and fiscal discipline in the context of cross-border economic activity. The paper analyzes how modern tax systems utilize mandatory reporting standards, beneficial ownership declarations, and automatic information exchange to prevent the erosion of the national tax base. Drawing on OECD guidelines and global practices, the article assesses Uzbekistan's progress in aligning its tax reporting framework with international CFC compliance standards. Recommendations are provided for introducing a mandatory CFC disclosure form, integrating digital monitoring tools, and enhancing taxpayer awareness of offshore financial interests.

Keywords. Controlled Foreign Company (CFC), tax transparency, beneficial ownership, international tax compliance, automatic exchange of information (AEOI), OECD BEPS, fiscal reporting, offshore structure, Uzbekistan tax reforms.

Introduction.

In the context of rapidly evolving global financial markets, tax transparency and cross-border compliance have become focal points for national and international tax authorities. The increasing complexity of ownership structures, particularly those involving foreign-controlled entities, poses a significant challenge for ensuring fair taxation and preventing illicit capital flows. Among the key mechanisms developed to counteract these issues is the disclosure of Controlled Foreign Companies (CFCs)—a system by which taxpayers are required to report their ownership and control over foreign legal entities to the domestic tax administration.

The importance of CFC disclosure has grown significantly following the introduction of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan, especially Action 3, which addresses the need to strengthen rules concerning foreign income and its taxability within the jurisdiction of controlling shareholders. These international frameworks emphasize not only the legal obligation to disclose foreign ownership but also the need to introduce digital and automated solutions for consistent and verifiable reporting.

For developing countries like Uzbekistan, the incorporation of CFC disclosure standards is not merely a matter of fiscal control but also a step toward harmonizing national tax legislation with globally recognized principles of transparency, equity, and economic accountability. Uzbekistan is currently engaged in a process of fiscal modernization, marked by comprehensive tax code reforms, increased use of digital platforms, and an expressed interest in joining international treaties on information exchange such as the OECD's Common Reporting Standard (CRS).

Despite this progress, the current legal infrastructure in Uzbekistan does not yet contain a formalized system for mandatory CFC disclosure. While resident taxpayers are required to declare their total worldwide income, there are no specific provisions or instruments that mandate the disclosure of ownership in foreign companies, partnerships, or trusts. This lack of specificity creates administrative uncertainty and hinders the effective detection of offshore tax liabilities.

Furthermore, the rapid increase in cross-border investment by Uzbek residents—including holdings in low-tax jurisdictions—has heightened the risk of base erosion and tax avoidance. In this context,

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the absence of a CFC reporting regime represents a critical gap in the country's tax governance system. Addressing this issue requires a clear regulatory definition of CFCs, threshold rules for material ownership and control, and robust enforcement mechanisms embedded in the national tax reporting infrastructure.

The purpose of this study is to explore the theoretical and practical underpinnings of CFC disclosure systems, examine the current status of such frameworks in Uzbekistan, and provide policy-oriented recommendations for their improvement. By analyzing international norms and comparative models, the article seeks to contribute to the ongoing efforts to improve tax compliance, foster transparency, and secure fiscal revenues in a globalized economic environment.

Analysis and Current State.

1. Legal Framework for Foreign Income and Ownership Disclosure in Uzbekistan. The taxation of worldwide income by resident taxpayers is formally recognized in Uzbekistan's Tax Code. According to Article 215, all individuals and entities classified as tax residents are obliged to declare income received from both domestic and foreign sources. However, there is currently no dedicated legal provision or clause that mandates taxpayers to explicitly disclose their ownership or controlling interest in foreign companies.

This results in a situation where the legal obligation to report foreign income exists in theory, but the mechanism to identify and verify the underlying legal structures—such as foreign corporations, trusts, or partnerships—remains underdeveloped. As a consequence, the tax authority cannot easily distinguish between ordinary foreign income and income that should be attributed to a CFC under the control of a domestic taxpayer.

2. Absence of a Standalone CFC Disclosure Form

Unlike many OECD member states, Uzbekistan does not currently provide a separate Controlled Foreign Company (CFC) disclosure form that resident individuals or corporations must file annually. In jurisdictions such as the United States (Form 5471) and the United Kingdom (CFC Compliance Pack), such forms are critical for tracking foreign corporate holdings and identifying passive income streams.

The absence of a specific disclosure tool hinders systematic data collection and risk analysis. It also limits the tax authority's ability to implement a differentiated compliance strategy for taxpayers with international exposure. Without a legally mandated CFC reporting format, disclosures remain voluntary, incomplete, and unverifiable in practice.

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3. Digital Tax Infrastructure and Its Current Limitations

Uzbekistan has made commendable strides in digitizing tax administration through platforms such asmy.soliq.uz. These platforms allow taxpayers to file income declarations, receive automated tax calculations, and access real-time account information.

However, the current digital infrastructure does not include modules or data fields tailored to controlled foreign companies or foreign beneficial ownership. There is no integrated tool for linking foreign tax identification numbers, entity registration data, or international financial accounts to the domestic taxpayer's profile. This technological limitation reduces the efficiency of audit targeting, compliance scoring, and proactive monitoring by the tax authority.

4. Progress Toward International Transparency Standards

Uzbekistan has shown a growing commitment to joining the international tax transparency community. The government has signaled interest in adhering to the OECD’s Common Reporting Standard (CRS) and the Multilateral Competent Authority Agreement (MCAA)—frameworks which enable automatic exchange of financial information between jurisdictions.

Nevertheless, Uzbekistan has not yet formally implemented these agreements. As a result, the country remains outside the global network of information-sharing partners, limiting its access to reliable data about foreign financial accounts, investments, and company ownership linked to its own residents. This isolation hinders enforcement capabilities in the context of CFC-related risks.

5. Practical Risks of Non-Disclosure and Passive Income Shifting

The lack of a robust CFC disclosure regime increases the risk that resident taxpayers may use foreign entities to shift passive income out of Uzbekistan’s tax jurisdiction. This includes dividend income, royalty payments, interest income, and capital gains accrued through foreign subsidiaries or offshore investment vehicles.

In the absence of proactive monitoring, such income may go undeclared, leading to underreporting, erosion of the national tax base, and unfair advantages for non-compliant taxpayers. Moreover, this practice threatens the equity of the tax system by imposing a higher relative tax burden on purely domestic taxpayers.

International case studies show that early implementation of disclosure requirements and digital monitoring significantly improve voluntary compliance rates and revenue collection, while also reducing the administrative burden of audits and litigation.

Conclusions and Recommendations

Based on the above analysis, the following conclusions can be drawn:

1. Uzbekistan’s tax policy acknowledges foreign income in its taxable base, but lacks a formalized mechanism to disclose CFC holdings explicitly.
2. Global best practices, including OECD BEPS and CRS standards, highlight the importance of proactive disclosure regimes and taxpayer education.
3. Integrating automated data processing and international reporting standards is essential for effective monitoring and risk analysis.

Recommendations:

1. Introduce a mandatory Controlled Foreign Company (CFC) Disclosure Form.
2. Amend the Tax Code to define “controlled foreign entity” and establish thresholds.
3. Digitally integrate the CFC disclosure into the taxpayer’s personal account on the Soliq Ma’lumot platform.
4. Launch a public awareness campaign to educate taxpayers.
5. Strengthen cooperation with foreign jurisdictions by ratifying international tax information exchange agreements.

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