



World Conference on Social Sciences, Law and Public Policy

Hosted Online from Toronto, Canada

Date: 26th February 2026

Website: <https://econferencia.com>

COMPENSATION FOR DAMAGE CAUSED TO ENTREPRENEURS BY UNLAWFUL DECISIONS OF TAX AUTHORITIES: FOREIGN EXPERIENCE AND COMPARATIVE ANALYSIS

N. Abdurakhimov

Researcher, Tashkent State University of Law

Annotasiya:

Judicial appeal against decisions adopted by state tax authorities and actions (or inaction) of their officials constitutes an essential guarantee for the protection of taxpayers' rights. Although the legislation of the Republic of Uzbekistan establishes procedures and time limits in this sphere, practical implementation reveals certain problems and legal gaps. In particular, issues concerning appeal deadlines, the complexity of judicial proceedings, the scope of judicial review over tax authority decisions, and the personal liability of officials who adopt unlawful decisions remain relevant.

In the context of digitalization, tax administration mechanisms are being modernized; however, reliance on automated systems and data processing may lead to erroneous or unlawful decisions adversely affecting entrepreneurs, including damage to their business reputation. This article examines civil law mechanisms for compensating both material damage and reputational harm caused by unlawful tax decisions, based on comparative analysis of the legal systems of Germany, France, and the United States. The study identifies deficiencies in Uzbek legislation and proposes reforms aimed at strengthening compensation mechanisms, particularly in relation to business reputation and non-material damage.



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Keywords: Tax authorities; unlawful decision; compensation for damage; business reputation; civil liability; administrative justice; tax disputes; digitalization; comparative legal analysis; state liability.

Judicial appeals against decisions adopted by state tax authorities and the actions (or inaction) of their officials represent an important guarantee for protecting the rights of citizens and business entities. The legislation of the Republic of Uzbekistan establishes procedures and time limits in this field; however, certain problems and gaps are observed in practice. In particular, appeal deadlines, the complexity of court proceedings, the scope of judicial control (review) over tax authority decisions, and the personal liability of officials who adopt unlawful decisions remain pressing issues.

The process of digitalization has led to positive changes in public administration, including in tax administration. The Tax Code of Uzbekistan and existing tax control mechanisms—such as desk audits, field audits, and tax audits—are being modernized to enhance effectiveness. However, under digitalization, tax authorities may rely heavily on automation in collecting, processing data, and making decisions. This may result in decisions based on incorrect data without proper consideration of the human factor. Consequently, this may negatively affect the business reputation of entrepreneurs. Therefore, under digitalization, the issue of compensating damage caused to business entities by incorrect, unlawful, or unfounded decisions of tax authorities becomes particularly relevant from a civil law perspective. It also necessitates harmonizing national legislation with international standards and the legal frameworks of developed countries through comparative analysis.

When studying damage caused by tax authorities, it is necessary to analyze, from a civil law perspective, not only property and material losses incurred by business



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entities but also the legal mechanisms for compensating damage to business reputation. The business reputation of entrepreneurs falls within the sphere of personal non-property rights and should not be analyzed solely in connection with property rights. Article 99 of the Civil Code of the Republic of Uzbekistan recognizes business reputation as a personal non-property right. Issues of its protection are reflected in Article 100 of the Civil Code. Furthermore, pursuant to Article 35 of the Law “On Guarantees of Freedom of Entrepreneurial Activity”, a business entity has the right to demand in court a refutation of information damaging its business reputation if the disseminator of such information cannot prove its accuracy[1].

If such damaging information is disseminated through mass media, the refutation must be published in the same media outlet. If the information is contained in a document issued by an organization, such document must be replaced or withdrawn. In other cases, the procedure for refutation is determined by the court. A business entity whose reputation has been damaged has the right, alongside demanding refutation, to claim compensation for losses and moral damages caused by the dissemination of such information.

From the standpoint of civil law theory, unlawful actions committed by state bodies and their officials against citizens require partial or full activation of state liability. In continental European legal systems, this issue is interpreted in conjunction with the concept of “immunity”[2].

In Germany, taxpayer rights are guaranteed by extensive procedural rules. Within one month after receiving a tax decision, the taxpayer has the right to file an objection (Einspruch)[3]. This internal appeal is a mandatory first stage and is considered by specialized appeal departments. Taxpayers may submit complaints in writing or electronically. If the issue is not resolved or the taxpayer is



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dissatisfied, they may file a claim within one month with the Finance Court (Finanzgericht)[4].

Specialized finance courts operate at the federal state level. Proceedings are conducted under the Finance Court Code (Finanzgerichtsordnung). Appeals to the Federal Finance Court (Bundesfinanzhof) are permitted only in specific cases, mainly involving new legal questions or incorrect interpretation of legal norms[5]. Certain guarantees exist, including strict deadlines, possible suspension of enforcement (Aussetzung der Vollziehung), and full judicial review. The court independently assesses evidence and may amend or annul tax decisions. Under Article 34 of the Basic Law (1949) and Section 839 of the Civil Code, state liability (Amtshaftung) applies for unlawful actions of officials[6].

In France, tax disputes fall under administrative courts. Taxpayers must first submit a prior administrative complaint (réclamation préalable). Generally, complaints must be filed by December 31 of the second year following the year in which the tax was assessed[7]. If no response is given within six months, the complaint is deemed rejected. Afterward, the taxpayer may file a claim with the competent court within two months[8]. French administrative courts may determine the correct amount of tax and amend the decision accordingly. Appeals may be made to the Administrative Court of Appeal (Cour administrative d'appel) and subsequently to the Council of State (Conseil d'État).

Liability of officials is based on the concept of "faute personnelle." The state is generally liable unless the official's actions involve intentional misconduct or gross fault[9].

In the United States, the mechanism for resolving federal tax disputes is structured through several avenues. First, a taxpayer may use internal administrative procedures by applying to the IRS Independent Office of Appeals. This independent body reviews preliminary findings issued as a result of tax



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audits. Typically, after receiving a “30-day letter,” the taxpayer has 30 days to respond and request review by the Appeals Office[10]. The appeals process is aimed at negotiation and settlement; often disputes are resolved without proceeding to court.

If no agreement is reached at the administrative stage or the taxpayer chooses not to pursue it, the Internal Revenue Service (IRS) issues a Notice of Deficiency, which specifies the additional amount of tax allegedly owed and informs the taxpayer of the right to seek judicial review. From the date of issuance of the Notice of Deficiency, the taxpayer has 90 days to file a petition with the U.S. Tax Court[10]. The Tax Court is a specialized federal court where taxpayers may challenge the disputed tax amount without first paying it — this is known as the “pre-payment forum.” The 90-day deadline is strict; if missed, the Tax Court will not consider the case. In such a situation, the taxpayer must pay the disputed tax and subsequently file a claim for refund with the IRS. If the claim is denied or no response is received within six months, the taxpayer may file a lawsuit in a Federal District Court or the U.S. Court of Federal Claims. This procedure is known as “pay-and-sue.” In practice, especially where large sums are disputed, taxpayers often prefer the Tax Court because it does not require prior payment. [10]

Proceedings before the Tax Court resemble ordinary judicial proceedings: parties present evidence, witnesses may be examined, and the judge evaluates all circumstances and issues a decision. There is no jury; cases are decided by a single judge. If the judge determines that the IRS assessment is excessive, the tax amount may be reduced or annulled. In rare cases, the court may increase the tax liability if justified by newly discovered facts. Decisions of the Tax Court may be appealed to the Federal Courts of Appeals. Further review by the U.S. Supreme Court is extremely rare and generally limited to significant legal issues.



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In the United States, several legislative guarantees protect taxpayers' rights. The Taxpayer Bill of Rights enshrines the right to fair treatment, the right to be informed, the right to challenge the IRS position and be heard, the right to retain representation, and the right to an independent appeal. Additionally, if an IRS employee commits unlawful actions (for example, harassment or unauthorized disclosure of information), the taxpayer may claim compensation in specified amounts. For instance, legislation provides for the possibility of recovering up to \$1,000 for certain unlawful actions. However, such compensation is paid from the state budget and does not directly affect the official personally.

In conclusion, the U.S. tax dispute resolution system provides several layers of protection — from internal administrative appeals to independent judicial review. Although procedurally complex, the system is designed to balance the interests of the state and taxpayers.

In international practice, mechanisms for compensating damage caused to business entities as a result of unlawful tax decisions by government or tax authorities are gradually developing. Some sources emphasize the necessity of compensating damage arising from improper tax administration[11]. At the same time, it is noted that state liability is not absolute[12].

Although there are numerous studies on the exercise and protection of personal non-property rights of entrepreneurs[13] and compensation for damage caused to intangible benefits[14], research specifically addressing compensation for damage caused by tax authorities remains limited, and judicial practice in this sphere is extremely rare.

In Uzbekistan, within the framework of the Tax Code, the number of taxes and fees has been reduced, forms of tax control (desk audits, field audits, tax audits) have been clearly defined, and mechanisms for refunding overpaid or excessively collected taxes and paying interest have been introduced. The implementation of



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digitalization and information-communication technologies has expanded the integration of tax reporting and other databases and automated audit processes. This increases efficiency, strengthens control, and reduces corruption risks.

On the one hand, such a system allows optimization of oversight and protection of taxpayers' rights. On the other hand, reliance on automation, algorithms, and databases may lead to human errors, logical miscalculations, or technical mistakes, resulting in unfounded tax debts or penalties. This may negatively affect the financial condition, investment attractiveness, and business reputation of entrepreneurs.

Although civil law claims, court protection, compensation, restoration of damage, and restoration of reputation are theoretically available in Uzbekistan, in practice these mechanisms may be unclear or limited. The Tax Code provides mechanisms for refunding overpaid taxes and paying penalties, but it does not contain specific provisions regarding compensation for reputational damage caused to business entities by unlawful decisions of tax authorities.

General norms of state liability and tort liability exist in the Civil Code; however, practical application and judicial experience in this sphere are almost absent. Currently, there is virtually no judicial practice in Uzbekistan concerning civil (tort) liability of tax authorities for damage to business reputation. Taxpayers usually focus primarily on material or financial compensation.

In our view, it would be appropriate to introduce special provisions into the Civil Code to guarantee compensation not only for material and financial damage but also for harm to business reputation caused by unlawful administrative decisions of state bodies, including tax authorities.

Furthermore, it is advisable to expand the possibility of claiming compensation from state bodies through civil law claims and to develop legislative norms



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providing that compensation for damage to business reputation may include both material and non-material components.

It is also necessary to ensure a balance between confidentiality and transparency, particularly with respect to publication of tax audit results, tax debts, fines, and sanctions in open databases, so as to prevent unjustified damage to entrepreneurs' business reputation.

In the context of digitalization, compensation for damage caused to the business reputation of entrepreneurs by tax authorities is a relevant, urgent, and complex civil and social issue. Currently, Uzbek legislation lacks sufficient mechanisms, especially regarding compensation for reputational damage.

Therefore, based on the above proposals, it is necessary to undertake reforms in legislation, regulatory frameworks, and judicial practice in order to ensure a high level of legal culture and effective protection of entrepreneurs' rights.

Thus, alongside increasing efficiency and control in tax administration during the digitalization stage, particular attention must also be paid to protecting entrepreneurs' rights, business reputation, and civil law guarantees — which constitutes an important condition for the democratic development of the national legal system.

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