

**THE ESSENCE AND ADMINISTRATION OF TURNOVER TAX IN UZBEKISTAN:
A COMPREHENSIVE INSTITUTIONAL AND ECONOMIC ANALYSIS****Turayev Alijon Akmal ugli**Acting associate professor of the department
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Abstract. This study examines the economic essence, legal framework, and administrative procedures of turnover tax in Uzbekistan within the context of recent tax reforms. Particular attention is given to the 2026 amendments to the national tax legislation, which introduce differentiated tax rates, enhanced digital administration, and transitional mechanisms for business growth. The research highlights the advantages of turnover tax in reducing compliance costs and promoting formalization of small businesses, while also addressing its structural limitations, including potential distortions related to profitability and equity.

Keywords: turnover tax, tax system, Uzbekistan, small business, tax policy, tax reform, fiscal policy, tax administration

Annotatsiya. Ushbu maqolada O'zbekistonda aylanmadan olinadigan soliqning iqtisodiy mohiyati, huquqiy asoslari va uni to'lash tartibi zamonaviy soliq islohotlari doirasida tahlil qilinadi. Tadqiqotda 2026-yildagi soliq qonunchiligi o'zgarishlariga alohida e'tibor qaratilib, unda differensial soliq stavkalari, raqamlashtirilgan soliq ma'murchiligi hamda biznesni rivojlantirishga qaratilgan o'tish mexanizmlari yoritilgan. Shuningdek, ushbu soliq turining kichik biznesni qo'llab-quvvatlash va iqtisodiy faoliyatni legallashtirishdagi ijobiy jihatlari bilan bir qatorda, uning rentabellik va adolatlilik bilan bog'liq muammolari ham tahlil qilingan.

Kalit so'zlar: aylanma soliq, soliq tizimi, O'zbekiston, kichik biznes, soliq siyosati, soliq islohotlari, fiskal siyosat, soliq ma'murchiligi

Аннотация. В данной статье рассматриваются экономическая сущность, правовая база и порядок администрирования налога с оборота в Республике Узбекистан в условиях современных налоговых реформ. Особое внимание уделяется изменениям налогового законодательства 2026 года, включая введение дифференцированных ставок, развитие цифрового налогового администрирования и механизмов перехода для растущего бизнеса. В исследовании анализируются преимущества данного налога, способствующего снижению административной нагрузки и легализации предпринимательской деятельности, а также его недостатки, связанные с вопросами справедливости и рентабельности.

Ключевые слова: налог с оборота, налоговая система, Узбекистан, малый бизнес, налоговая политика, налоговые реформы, фискальная политика, налоговое администрирование

INTRODUCTION

The modernization of national tax systems has become a central priority for many developing economies seeking to enhance fiscal sustainability while fostering entrepreneurial activity. In this context, the Republic of Uzbekistan has undertaken a series of structural tax reforms aimed at simplifying compliance, broadening the tax base, and stimulating the formalization of economic activity.

Among the key instruments introduced within this reform agenda is the turnover tax regime, which serves as a simplified taxation mechanism primarily targeted at small and medium-sized enterprises. Unlike conventional profit-based taxation systems, turnover tax is levied on gross receipts, thereby eliminating the need for complex cost accounting and financial reporting

procedures. This feature makes it particularly suitable for emerging businesses with limited administrative capacity.

The significance of turnover tax extends beyond administrative simplification. It reflects a broader institutional approach to balancing fiscal interests with economic inclusivity. The amendments introduced in the 2026 version of Uzbekistan's Tax Code further reinforce this approach by incorporating differentiated tax rates, expanding digital tax administration, and introducing transitional incentives for growing enterprises.

This study seeks to provide a comprehensive analysis of the conceptual foundations, legal structure, and practical implementation of turnover tax in Uzbekistan, with particular emphasis on its economic implications and policy relevance.

METHODOLOGY

The research adopts an interdisciplinary analytical framework combining elements of legal analysis, economic theory, and institutional assessment. The primary sources include the current version of the Tax Code of Uzbekistan, as well as supplementary норматив-ҳуқуқий ҳужжатлар regulating taxation practices.

In addition, the study relies on secondary sources such as academic literature on simplified taxation regimes, international comparative studies, and macroeconomic indicators reflecting tax system performance. A qualitative approach is employed to interpret the functional role of turnover tax within the broader fiscal system, while elements of comparative analysis are used to contextualize Uzbekistan's experience within global tax practices.

The methodological emphasis is placed on identifying causal relationships between tax policy design and economic behavior, particularly in relation to small business development and compliance dynamics.

RESULTS

Conceptual and economic nature of turnover tax. Turnover tax represents a distinct category of indirect simplified taxation, characterized by its reliance on gross revenue as the primary tax base. This approach fundamentally departs from the principles of income taxation, where net profit serves as the basis for tax liability.

From an economic standpoint, the defining feature of turnover tax lies in its neutrality with respect to cost structures. By disregarding expenses, it eliminates opportunities for tax avoidance through cost manipulation, while simultaneously reducing compliance complexity. This dual effect enhances administrative efficiency and ensures a relatively stable stream of fiscal revenue.

At the same time, the simplicity of the tax base introduces certain structural trade-offs. Since the tax burden is applied uniformly to revenue, businesses with lower profit margins may experience a relatively higher effective tax rate compared to high-margin enterprises. This asymmetry highlights the inherent tension between simplicity and equity in tax design.

Nevertheless, within the Uzbek context, turnover tax fulfills an important developmental function by lowering entry barriers for formal economic participation and encouraging the legalization of informal business activities.

Legal regulation and institutional features (2026 framework). The legal foundation of turnover tax in Uzbekistan is embedded within the national Tax Code, which defines its scope, applicability, and administrative procedures. The 2026 amendments reflect a continuation of the government's strategy to refine and optimize simplified taxation regimes.

Under the current framework, the standard turnover tax rate for most legal entities is set at 4 percent of total revenue. At the same time, a preferential rate of 1 percent has been introduced for individual entrepreneurs and small-scale taxpayers whose annual turnover does not exceed a specified threshold. This differentiation represents a targeted policy measure aimed at supporting micro-businesses and self-employed individuals.

The institutional structure governing turnover tax also incorporates sector-specific considerations. Certain industries, particularly those characterized by digital transactions or platform-based services, are subject to adjusted tax rates and reporting requirements. These

adaptations demonstrate an increasing responsiveness of the tax system to evolving economic realities.

Furthermore, the regulatory framework emphasizes transparency and accountability through the integration of digital technologies. Electronic invoicing, automated reporting, and real-time data exchange between taxpayers and tax authorities have become central components of tax administration.

Mechanism of tax base formation and calculation. The determination of the tax base under the turnover tax regime is relatively straightforward, as it is based on the total volume of revenue generated from economic activity within a given reporting period. This includes income derived from the sale of goods, provision of services, and performance of works.

The absence of expense deductions simplifies the calculation process and reduces the need for detailed financial documentation. However, it also necessitates accurate revenue tracking to prevent underreporting.

The calculation itself follows a proportional model, where the applicable tax rate is applied directly to total turnover. This mechanism ensures predictability and ease of planning for taxpayers, as their tax obligations are directly linked to revenue performance.

Tax administration and payment procedures. The procedural aspects of turnover tax payment have undergone significant modernization in recent years. The introduction of digital tax administration systems has transformed the interaction between taxpayers and regulatory authorities.

Taxpayers are required to register through unified electronic platforms, which facilitate automatic data integration and minimize bureaucratic procedures. Tax reporting is largely automated, with pre-filled декларациялар becoming increasingly common.

Payment obligations are typically structured on a quarterly basis, allowing for a balanced distribution of tax liabilities throughout the fiscal year. Advances in financial technology have further streamlined the payment process, enabling real-time transactions and reducing delays. This digital transformation not only enhances efficiency but also strengthens compliance by reducing opportunities for tax evasion and improving monitoring capabilities.

Transition mechanisms and growth incentives. An important feature of the turnover tax system is its role as an entry point into the formal tax environment. As businesses expand and exceed established thresholds, they are required to transition to the general taxation regime.

Recognizing the potential challenges associated with this transition, policymakers have introduced a range of supportive measures. These include temporary tax relief, simplified accounting requirements, and the gradual introduction of more complex tax obligations. Such mechanisms are designed to ensure continuity in business operations while encouraging long-term growth and integration into the broader economic system.

DISCUSSION

The findings of this study indicate that the turnover tax regime in Uzbekistan occupies a strategically important position within the broader fiscal architecture, particularly in relation to small business development and the formalization of economic activity. Its simplified structure reduces compliance costs and administrative barriers, thereby encouraging voluntary participation in the tax system. This is especially significant in economies where informal activity constitutes a substantial share of total output.

Recent statistical trends suggest that the expansion of simplified tax regimes, including turnover tax, has contributed to a steady increase in the number of registered small enterprises and individual entrepreneurs. This dynamic reflects the effectiveness of reduced tax rates and simplified reporting procedures in promoting business legalization. At the same time, the growth in the number of taxpayers under this regime has supported the diversification of budget revenues, reducing reliance on large corporate taxpayers.

However, the reliance on gross revenue as a tax base introduces important economic implications that warrant critical evaluation. One of the central issues lies in the regressive nature

of turnover taxation with respect to profitability. Enterprises operating with low margins—such as retail trade or service sectors with high operational costs—may face a disproportionately higher effective tax burden compared to capital-intensive or high-margin businesses. This can distort competitive conditions and influence business structure decisions.

In addition, the presence of threshold-based eligibility criteria creates behavioral incentives that may not always align with economic efficiency. Businesses may deliberately limit their turnover or fragment their operations into smaller entities in order to remain within the simplified regime. Such practices can hinder economies of scale and reduce overall productivity. This phenomenon has been observed in various jurisdictions employing similar tax systems and remains a relevant concern in the Uzbek context.

At the institutional level, the increasing digitalization of tax administration represents a significant advancement. The integration of electronic invoicing systems, real-time reporting, and automated контроля mechanisms has improved transparency and reduced opportunities for tax evasion. Empirical observations indicate that digital tools not only enhance enforcement capacity but also build trust between taxpayers and authorities by simplifying interactions and reducing discretionary interventions.

Furthermore, the introduction of differentiated tax rates in 2026 reflects a more nuanced approach to tax policy. By applying lower rates to micro-entrepreneurs and maintaining moderate rates for larger entities within the simplified regime, policymakers aim to achieve a balance between equity and efficiency. This differentiation partially mitigates the regressive effects of turnover taxation while preserving its administrative advantages.

Nevertheless, the long-term sustainability of the turnover tax system depends on its ability to adapt to structural changes in the economy. As businesses grow and economic complexity increases, reliance on simplified taxation alone may become insufficient. In this regard, the effectiveness of transition mechanisms to the general taxation regime becomes critically important. A poorly managed transition could discourage business expansion or incentivize continued informality.

From a comparative perspective, international experience suggests that hybrid taxation models—combining elements of turnover-based and profit-based taxation—may offer a more balanced solution. Such models can retain simplicity for smaller taxpayers while introducing greater fairness for more complex business structures.

CONCLUSION

The analysis confirms that turnover tax in Uzbekistan serves as an essential instrument for achieving key fiscal and economic policy objectives, including the promotion of small business development, the expansion of the tax base, and the reduction of informal economic activity. Its simplified design and relatively low tax rates make it accessible and attractive to a broad segment of taxpayers, thereby enhancing overall compliance.

The reforms introduced in 2026 represent a significant step forward in refining this system. The implementation of differentiated tax rates, the expansion of digital tax administration, and the introduction of transitional incentives demonstrate a clear commitment to improving both efficiency and inclusivity within the tax framework. These measures have strengthened the institutional capacity of the tax system and contributed to a more favorable business environment.

At the same time, the study highlights several structural limitations inherent in turnover taxation. The absence of cost deductions and the reliance on gross revenue as a tax base can lead to inequitable outcomes and distort economic decision-making. Addressing these challenges requires a careful balance between maintaining simplicity and enhancing fairness.

Looking ahead, further reforms should focus on increasing the flexibility of the tax system and improving its responsiveness to different business models. This may involve the gradual integration of more sophisticated tax instruments, as well as the refinement of eligibility thresholds and transition mechanisms. Strengthening taxpayer education and expanding the use of digital technologies will also be critical in sustaining high levels of compliance.

In conclusion, while turnover tax remains a highly effective tool in the current stage of Uzbekistan's economic development, its future success will depend on continuous adaptation and policy innovation. A well-calibrated approach that combines simplicity with economic rationality will be essential for ensuring long-term fiscal stability and inclusive growth.

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