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Article

The Direct Taxation System in Uzbekistan and its Specific Features

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Abstract: This article investigates the sources of budget revenue in Uzbekistan and the importance of direct taxes in its formation. Additionally, it examines the category of direct taxes, their unique features of collection, tax rates, and the ongoing reforms aimed at improving the administration of direct taxes and analyzes their impact on tax revenues. This article analyzes the basic principles, formation, stages of development and current mechanisms of the direct taxation system in the Republic of Uzbekistan. In particular, the content and essence of the main direct taxes, such as profit tax, turnover tax, personal income tax, their role in budget revenues and regulation of the economy are highlighted. In addition, studies the impact of recent reforms in Uzbekistan's tax policy, in particular, the impact of innovations such as reducing tax rates, simplifying tax administration, and introducing digital technologies on the direct taxation system. The analysis substantiates the strategic importance of direct taxes in ensuring a fair distribution of the tax burden in the country, supporting entrepreneurial activity, and ensuring budget stability. The conclusions and recommendations provide scientific and practical suggestions for improving the efficiency of the system.

Keywords: Budget, Budget Revenue, Tax, Direct Taxes, Profit Tax, Personal Income Tax, Turnover Tax

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1. Introduction

It is known that taxes were initially introduced during wartime and used to raise funds for the state treasury. Over the years, with changes in the forms of economic regulation by governments and the expansion of trade relations between countries, the role of taxes has steadily increased. Today, taxes are the main source of state budget revenues, as well as an effective instrument for regulating business activities and stimulating economic development. It should be especially emphasized that the importance of taxes in forming the budget revenue is very significant, as these funds are spent on financing public expenditures and needs, social services and infrastructure costs. Additionally, they are an important factor in reducing income inequality through income redistribution, encouraging foreign direct investment, and increasing the well-being of the population.

Each country should pay particular attention to the forms of taxation when implementing fiscal policy. In this regard, it is necessary to accurately determine the amount and share of taxes to ensure the stable functioning and growth of the economy. In practice worldwide, there are various types of taxes, including profit tax, income tax, wealth tax, property tax, land tax, social tax, and others. These taxes are divided into groups based on their different elements and characteristics. The two most common tax groups which include direct and indirect taxes in the globally. The former types are levied directly to the budget from the income and entrepreneurial activities of enterprises and individuals. The taxpayers of these taxes are solely the payers themselves.

Ensuring stable economic development and progressing the population welfare are priority direction of the ongoing economic policy in Uzbekistan. The government continues to implement measures aimed at ensuring economic growth and further improving the living standard of the population in the coming years. Notably, the "Uzbekistan — 2030" strategy has been developed, which sets out goals for sustainable economic development until 2030[1]. The national taxation system plays an important role in achieving these goals. In Uzbekistan's tax system, direct taxes are categorized into a separate group, which includes taxes collected from the income of taxpayers, namely profit tax, income tax, and turnover tax. The direct taxes share in the budget is higher compared to other income groups. Lowering the rates of direct taxes, correctly determining their share, and simplifying the tax system positively influence the achievement of development targets. This article examines the reforms implemented in the administration of direct taxation, changes in the direct taxes structure, the amount of tax rates, tax revenue and its percentage in the budget.

2. Materials and Methods

Numerous scholars have conducted research on the system of direct taxation and its significance in the budget revenue formation, as well as on the improvement of direct tax mechanisms. In particular, economist D. Daminov argues that reducing the tax rate for direct taxes on income will allow enterprises to retain the majority of their income, accelerating investment activities and developing the market economy[2].

Abd Hakim et al. investigated the influence of direct and indirect taxes on economic advancement. According to their opinion, direct taxes are imposed on income and business activities of taxpayers and collected straightly to the government. The direct tax burden cannot be passed to others. Direct taxes in the developing countries are linked to foreign direct investment practically, these taxes stimulate the inflow of foreign direct investment to the countries. Therefore, direct taxes can help reduce the unemployment rate in developed and developing countries [3].

L.Thaçi and A. Gerxhaliu point out that developing countries need to apply a more effective tax policy through the use of more direct taxes and the gradual reduction of tax revenues from international trade taxes in order to encourage taxpayers to increase their participation in production, trade and investment growth [4].

According to Russian economist I. Gashenko If direct taxes prevail in the tax structure (primarily, personal income tax), then this serves as the most important sign of the financial and economic stability of the state. Direct taxation is a flexible instrument in the tax mechanism, since it effectively reduces the tax burden on production. Thus, by reducing the rates of tax on profits, personal income, the enterprise can receive more funds at its own disposal [5].

PhD H. Yangiboev conducted research on improving the mechanism for calculating and collecting direct taxes, stating that if the rates of direct taxes, which are taxes levied directly on profit and property, are increased, the potential for development decreases, slowing down economic development [6].

PhD R. Khojakulov developed the conceptual features of direct taxes, noting fiscal, economic regulation, stimulating taxpayer activities, determining income diversification, and reflecting tax functions as these features [7].

M.Băzgan researched the effect of direct and indirect taxes on the economic growth on time series connected to Romania from 2009 (2nd quarter) to 2017 (2nd quarter) based on a vector autoregressive model. Results of analysis show that there is a less significant impact of changing the value of direct taxes on economic growth [8].

Đurović-Todorovićet al. examined the connection between direct taxes and economic development in OECD countries over 20-year period starting from 1996. Results showed that there is a statistically significant relationship between tax revenues growth, personal income tax, corporate income tax and gross domestic product in OECD countries [9].

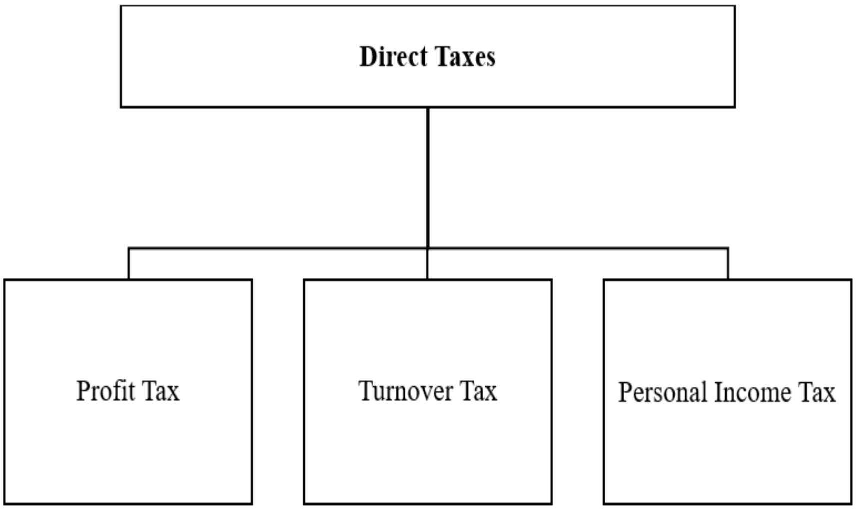
M.Balasoiu et al. argued that lowering direct taxation can increase disposable income, stimulate consumption and economic growth, encourage investment, increase competitiveness, and reduce tax evasion and avoidance, leading to a more efficient tax system [10].

3. Results and Discussion

In Uzbekistan, funds to finance necessary expenses for improving the living standards of the population and developing infrastructure are allocated from the state budget revenues. Therefore, ensuring timely receipts into the budget and increasing their amount is crucial. Similar to other countries, taxes constitute the main part of budget revenue sources in Uzbekistan. According to the current tax legislation, taxes in this country are divided into 5 groups depending on the formation of budget revenue, which include the following:

a. Direct taxes;
b. Indirect taxes;
c. Resource payments and property tax;
d. Dividends;
e. Other revenues and other non-tax receipts.

The first group, direct taxes, has the highest proportion among the given income groups. According to data from the Ministry of Economy and Finance, these taxes accounted for almost 33% of budget revenues in 2024 [11]. Direct taxes include three types of taxes[12]. They are presented in the Figure 1.



Source: Prepared by the author on the basis of the Presidential Resolution of the Republic of Uzbekistan No. RP-455 which adopted on December 25, 2024.

Figure 1. Direct Tax Types in Uzbekistan.

Profit tax falls under the group of taxes paid under the standard taxation regime. The payers of this tax are legal entities and individual entrepreneurs who have received income exceeding one billion UZS from the sale of goods during the tax period or who are voluntary taxpayers. The profit tax rate is 20% for banks, polyethylene granule producers, and mobile communication companies, 10% for taxpayers engaged in electronic commerce, and 15% for others. Also, the rate for income in the form of dividends is set at 5%.

The turnover tax is a special regime tax paid by legal entities whose annual total revenue is not more than 1 billion UZS, and by business individuals whose sales income during the tax period ranges between 0,1 and 1 billion UZS. The rates of turnover tax are 4% for taxpayers in all sectors of the economy, 4% for agricultural product procurement organizations and individual entrepreneurs, 4%, 2%, and 1% for retail trade taxpayers depending on their location, and 3% for taxpayers selling goods electronically.

Personal income tax is charged on the income of people and individual entrepreneurs engaged in entrepreneurial activities. The tax rate for individuals is 12%, and for individual entrepreneurs, it is set as a fixed amount depending on the type of activity and location.

Direct taxes are not only the main source of budget revenue but also an effective instrument for regulating the economy. Reducing the burden of direct taxes increases the amount of funds remaining at the disposal of taxpayers, which positively impacts the stable development of the national economy. In the current years, in the economic reforms carried out in order to raise the economy to a higher level in our country, special attention is paid to the improvement of the direct tax system. In this regard, measures are being implemented to reduce and standardize the direct tax burden and simplify tax calculation procedures. Specifically, the Action Strategy adopted for the development of our country in 2017-2021 outlined key directions for improving tax policy, including continuing the policy of reducing the tax burden and simplifying the tax system, improving tax administration, and expanding relevant incentive measures [13]. To ensure the implementation of these tasks, improve the business environment, increase investment activity, and foster a healthy competitive environment, the 8% tax for improvement and social infrastructure development, which was levied on net profit, was unified with the profit tax starting from 2018. Additionally, in June 2018, the Concept for Improving the Country's Tax Policy was adopted and implemented starting in 2019 [14]. Within the framework of this concept, a number of changes were made to reduce direct tax rates, narrow the differences in tax burden, and simplify taxation. In particular, the profit tax rate was reduced from 14% to 12%, and for commercial banks by 2% from initial 22%, for mobile communication enterprises, the additional tax on profit calculated based on profitability was abolished, and the rate was increased from 14% to 20%, the profit tax withholding rate at the source for income in the form of dividends and interest was reduced from 10% to 5%, enterprises with an annual turnover exceeding 1 billion UZS were transitioned from paying turnover tax to profit tax, a single 12% personal income tax rate was introduced, replacing the progressive tax rate consisting of 4 scales (0%, 7.5%, 16%, and 22.5%), the turnover tax was set for taxpayers with an annual total income of up to 1 billion UZS, and its tax rate was reduced from 5% to 4%. Furthermore, based on the new edition of the Tax Code adopted in 2019 and implemented from 2020, fixed tax for certain types of entrepreneurial activity was included in the personal income tax [15]. The changes in the basic direct tax rates are shown in the following Figure2.

Source: Prepared by the author based on research results.

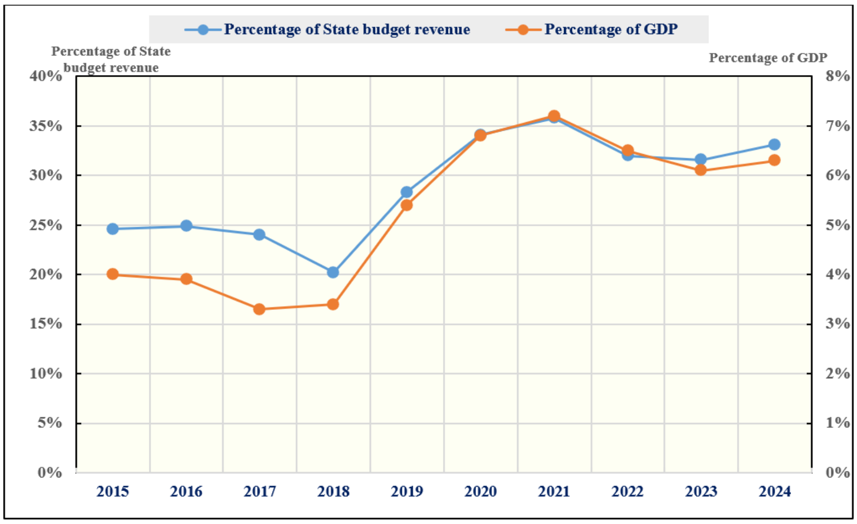
Figure 2. Comparative Analysis Percentage of Basic Tax Rates for Direct Taxes in Uzbekistan (2015-2024).

Note: The profit tax rate in 2015 includes the improvement and social infrastructure development tax rate.

This figure given above shows the changes percentage of basic tax rates for direct taxes in Uzbekistan between 2015 and 2024. Overall, percentage of basic tax rates for all direct taxes reduced in this period. The profit tax rate decreased gradually from 15.5% to 15%, the personal income tax rate dropped considerably from 23% until 12%, and the turnover tax rate declined by 1% from initial 5% over a decade starting from 2015.

Furthermore, in 2025, the main direct tax rates remained at their 2024 levels.

To assess the influence of these rate changes to develop of the economy, particularly how the decrease in the direct tax burden affects it, we should focus on the changes in these tax revenues proportion in both GDP and state budget incomes. The changes of this trends in recent times are presented in below Figure 3.

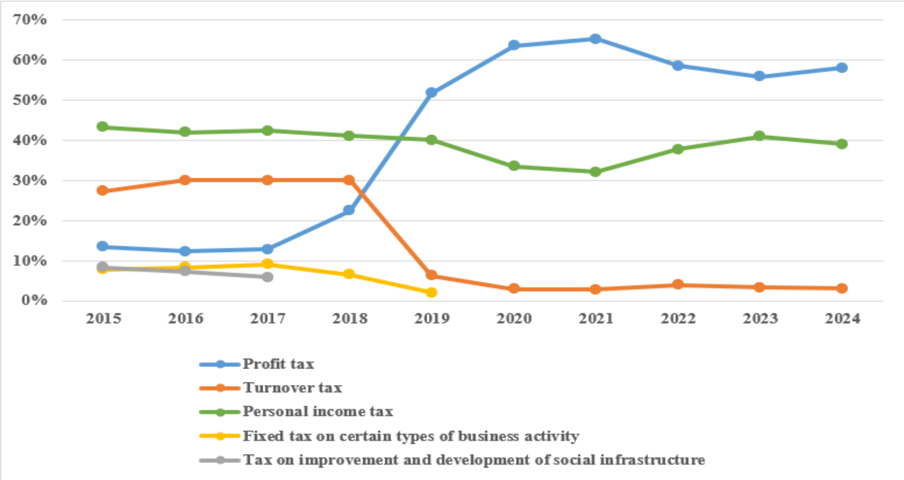


Source: Author's calculation based on data from the National Statistics Committee and the Ministry of Economy and Finance of the Republic of Uzbekistan.

Figure 3. Trends of direct tax revenue in GDP and state budget revenues for Uzbekistan, 2015-2024 [11, 16].

The line graph illustrates the changes of direct tax percentage in GDP and state budget revenues for Uzbekistan during 2015-2024. Both figures increased significantly over a period 10 years. In 2015, the direct taxes percentage in GDP was 4% and decreased slightly to well over 3% in 2018. In subsequent years, this figure experienced a noticeable increase, reaching just above 6% in 2024. Similarly, in the initial year, the direct taxes contribution in State Budget revenues was almost 25% and decreased gradually to around 20% by 2018. Then this figure witnessed a significant growth to 33% in the latest year. This demonstrates that the reforms implemented within the tax concept have had a positive impact on the increase in the percentage of direct taxes.

To study the increase in the direct taxes percentage in more detail, it is necessary to analyze this indicator for each type of tax. The share of each tax type within direct taxes is given in the following Figure 4.



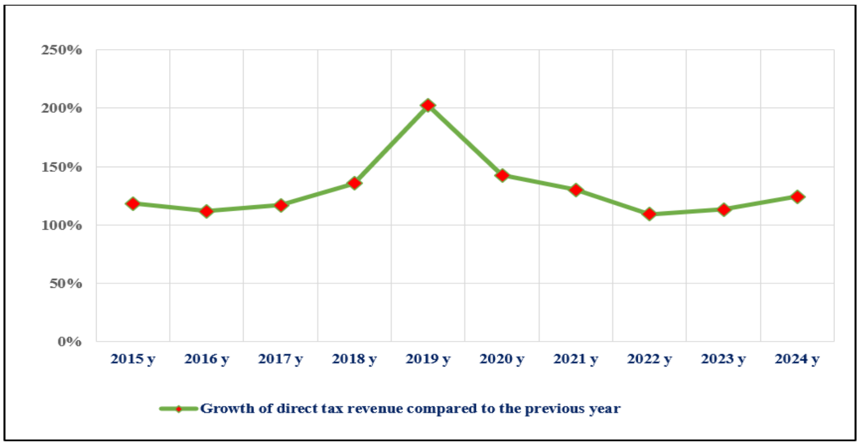
Source: Calculated by the author based on data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

Figure 4. Contribution of Different Tax Types in Direct Tax Revenue in Uzbekistan (2015-2024).

The figure which is given above provides information about contribution of 5 different taxes namely profit tax, turnover tax, personal income tax, fixed tax which are levied for certain types of business activity and improvement and development of social infrastructure tax within direct taxes in Uzbekistan from 2015 to 2024. Overall, the share of all taxes in direct tax revenue decreased significantly during the given period, with the exception of profit tax which the reverse was witnessed. Initially, the share of profit tax was placed third position with well over 13%. This figure rose dramatically until approximately 60% in the final year and replaced the highest indication. The percentage of personal income tax reduced slightly from initial from about 43% to the final 39 % during 2015-2024. This figure for turnover tax saw a dramatic decrease from well under 28% until around 3% between 2015 and 2024. In 2025, The fixed tax on of entrepreneurial activity for certain types and improvement and social infrastructure development tax share made just over 7% and 8% respectively. These figures saw a noticeable decrease, with the former falling to around 2% in 2019 and the latter dropping to nearly 6% in 2017.

In our opinion, these changes can primarily be attributed to the transfer of turnover tax payers with a turnover exceeding 1 billion UZS to profit tax, as well as the tax burden reduction and the decline in the number of tax types.

At this juncture, when researching direct tax revenues, it is important to focus on their growth rates in recent years. This is because analyzing the growth of these tax revenues allows for a broader assessment of the effect of administration changes for direct taxes. The growth of direct tax amounts in Uzbekistan is presented in the following Figure 5.



Source: Calculated by the author based on data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

Figure 5. Growth of Direct Tax Revenue Compared to the Previous Year in Uzbekistan between 2015 and 2024.

The above figure gives information about growth of direct tax revenue in comparison with the previous year in Uzbekistan over a 10-year period. Overall, direct tax revenues have consistently increased during the period shown. In 2015, direct tax revenues grew by 118%. This indicator continued to rise in subsequent years, reaching its peak at 202% in 2019. While it continued to grow in the following years, it was 124% in 2024. In general, growth rate of direct tax receipts increased by 6%, from initial 118% to the final 124% in this period.

4. Conclusion

In conclusion, the main portion of budget revenues in Uzbekistan is formed from tax receipts. The sources of state budget revenues are divided into five groups, with direct taxes holding the largest share. Direct taxes include profit, turnover, and personal income taxes. Taxes which involve profit and turnover taxes are collected from business entities, while personal income tax is collected from individuals.

In recent years, tax policy in the country has focused on reforms aimed at reducing the amount of direct taxes, distributing the tax burden equally, and decreasing the number of tax types. Specifically, the main rates of direct taxes have been significantly lowered. The direct taxation procedure under the simplified regime has been improved, that is, turnover taxpayers with an annual total income exceeding 1 billion UZS have been transitioned to paying profit tax. Additionally, the number of direct tax types has been reduced from five to three.

As a result, direct tax revenues have consistently increased year by year. The share of these taxes in GDP has grown from 4% to just over 6%, and their share in State Budget revenues has increased from nearly 25% to well above 33%. Within the structure of direct tax revenues, profit tax revenue has sharply increased, personal income tax has remained almost unchanged, and turnover tax has sharply decreased. At the same time, direct tax revenues have grown at a stable pace compared to the previous year.

Based on this analysis, we can conclude that the drop of direct tax rates, the equal tax burden distribution among taxpayers, and the direct taxation system simplification have a positive influence to rise tax revenues. This is because these measures reduce the tax burden on direct taxpayers, increase the funds remaining at their disposal, foster a competitive environment, and improve states for running business activities. Furthermore, the low tax burden for direct taxes contributes to an increase in the amount of foreign direct investments and enhances the competitiveness of the national economy.

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