



The social and economic role of value-added tax in Uzbekistan

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Abstract: *The study explores the administration of value-added tax (VAT) in Uzbekistan, focusing on refining the tax collection system and improving VAT mechanisms. The article examines the unique characteristics of calculating the VAT base, highlighting specific complexities and issues in determining it. It emphasizes the need to enhance the formation of the tax base. Additionally, the research analyzes recent amendments and adjustments to VAT calculations and their practical outcomes, leading to relevant conclusions and the development of recommendations.*

Keywords: *added value, VAT base, tax, budget policy, budget, tax administration, tax potential, normative analysis, tax burden, tax reporting, tax revenues, tax incentives.*

Introduction: One of the main strategic priorities in Uzbekistan is to fill the domestic market with competitive products, continuously strengthen our national currency, implement widespread reforms, reduce the tax burden on economic entities, increase investment attractiveness and open wider pathways for investors, create opportunities for business representatives, and develop incentive measures to foster entrepreneurship.

Taxation is a key component of any state's financial policy, playing a decisive role in generating revenue and ensuring economic stability. As Uzbekistan's



economy continues to grow, unique measures and practices have been adopted in the field of taxpayer services and VAT administration. It is crucial to create a favorable environment for business entities to ensure compliance with tax laws and regulations in the country. Additionally, Uzbekistan's approach to taxpayer services and VAT administration is evolving in line with digitalization and global trends in international trade. This development enables a comprehensive understanding of the unique characteristics and impacts on businesses operating in Uzbekistan.

The effectiveness of our national tax system is ensured by adherence to established principles, criteria, and standards of taxation. Building effective tax systems is rooted in the ideas shaped by Adam Smith (a Scottish philosopher and economist, 1723–1790) in his book, *The Wealth of Nations* (1776), which outlined five key principles. Let's review these principles in the context of the state's taxes and fees:

1. **Principle of Certainty:** This principle implies that every tax or fee must be established by essential state laws and possess all the necessary elements, including the taxpayer, the taxable object, the tax base, the period and rate, the calculation method, and the payment deadlines. Any ambiguities in tax legislation are to be interpreted in favor of the taxpayer.
2. **Principle of Fairness:** This principle suggests universality in taxation, requiring that every legal or natural person identified as a taxpayer must pay taxes. Taxpayers are obligated to contribute to the state budget and finance its expenditures.
3. **Principle of Convenience:** This principle implies that each taxpayer should be informed about the taxes and fees they must pay within the specified period and procedure defined by state laws. It primarily aims at ensuring taxpayers fulfill their obligations while preventing abuse of authority by tax agencies.



4. **Principle of Economy:** The state must strive to minimize the expenses associated with collecting taxes and fees from taxpayers. The well-known phrase applies here: “The economy should be economical.”
5. **Principle of Equality:** Regardless of status or social origin, all taxpayers should bear an equal tax burden according to state tax legislation. Each participant in tax relations (both taxpayers and the state) has the right to defend their interests in court.

The reform of tax administration will be developed based on the principles mentioned above. Firstly, we must touch upon the different types of taxes, especially focusing on the Value Added Tax (henceforth VAT). VAT has been in place in our country since 1992, and its rate has been gradually reduced over the years. VAT was first introduced in international practice by French economist Maurice Lauré in 1954 and has been successfully applied in many countries transitioning to a market economy. For example, VAT was introduced in Eastern European countries (Germany, Denmark, the Netherlands, France, Switzerland) in the late 1960s and in Belgium, the United Kingdom, Italy, Luxembourg, and Norway in the early 1970s, and it remains in effect today. In numerous countries, VAT is used as an alternative and is known as a consumption tax or commercial tax. VAT has been introduced in more than 35 countries across Asia, Africa, and Latin America. All Commonwealth of Independent States (CIS) countries have introduced VAT since 1992. In foreign countries, VAT covers 12% to 30% of tax revenues in the state budget, amounting to approximately 5% to 10% of the Gross National Product.

Since 1992, VAT (along with excise taxes) in Uzbekistan has entirely replaced the indirect taxes previously in place—those on trade and production (including imports). By the end of 1991, the foundation of the existing tax system in the Republic of Uzbekistan had been established. During this period, normative-legal documents were adopted, such as the Law on Income Tax from Citizens of the Republic of Uzbekistan, foreign citizens, and stateless persons, which came into



effect in February 1991, and the Law on Taxes from Enterprises, Associations, and Organizations of the Republic of Uzbekistan. Additionally, in Article 8 of the Tax Code titled "Principle of Obligatory Nature," it states that "every person is required to pay taxes and fees as stipulated in this Code. No one can be obligated to pay taxes and fees with all the attributes of taxes but not stipulated in this Code or established in violation of its provisions."

Furthermore, the Decrees of the President of the Republic of Uzbekistan, such as No. PF-60 dated January 28, 2022, on the "Development Strategy of New Uzbekistan for 2022-2026," No. 595 dated September 22, 2021, on "Improving Taxpayer Registration and Simplifying the Procedure for VAT Refunds," and No. PF-6098 dated October 30, 2020, on "Organizational Measures to Reduce the Shadow Economy and Increase the Efficiency of Tax Authorities," along with other decrees aimed at supporting citizens, economic sectors, and business entities during the COVID-19 pandemic, reflect this commitment.

The tax reforms undertaken by our government consist of five main directions. As noted, the primary goal of economic policy is to implement economic reforms to ensure employment, increase income, and improve the quality of life, creating a favorable business environment and supporting small businesses and private entrepreneurship by reducing the tax burden. Within the framework of the main directions of tax and budget policy, several important documents regarding VAT have been adopted.

Among these is the resolution of the Cabinet of Ministers of the Republic of Uzbekistan titled "On Measures to Further Improve Taxpayer Registration and Simplify VAT Refund Procedures" and the resolution on "Measures to Improve VAT and Tax Administration Related to Foreign Legal Entities." These resolutions laid the groundwork for a new stage and the digitalization of the sector. According to these resolutions, applications for VAT registration are to be reviewed within seven



days. If the tax authorities do not provide the results of the review within the stipulated period, the taxpayer is automatically granted a special certificate of registration.

Moreover, starting from March 1, 2023, VAT and certain requirements are mandatory for legal entities with a state share of 50% or more in their charter capital. These requirements include accounting for fixed assets, intangible assets, and inventory materials; and reflecting all operations related to the formation and reduction of their charter capital in the "E-aktiv" automated information system of state tax authorities. When entities discard inventory after expiration due to unfitness, physical or moral deterioration, or loss or damage, they are required to reflect these actions in the "E-aktiv" system within three business days.

The 2019 revision of the Tax Code introduced a new regulation in Article 274, allowing the refund of negative VAT balances for business entities. Based on this article, the Cabinet of Ministers adopted a resolution on August 14, 2020, to improve VAT and tax administration related to foreign legal entities. According to the regulation developed from this resolution, as of December 31, 2020, 9,096.8 billion UZS of VAT refunds were processed and returned to taxpayers. By December 31, 2023, this amount reached 19,666.7 billion UZS, marking a 115% growth rate.

Summary. The Republic of Uzbekistan introduced the Value Added Tax (VAT) in 1992, which is based on foreign experience. The VAT has been effectively used as a tool for increasing revenue and funding the state budget. Today, VAT is a universally accepted consumption tax applied in many countries worldwide, and Uzbekistan has successfully implemented this practice. The VAT rate in the country has been gradually reduced to create favorable conditions for businesses.

Additionally, recent government decisions and orders have digitized the tax system, simplifying the VAT payment and registration processes. Various reliefs and refund mechanisms for taxpayers have also reflected positive changes in this area.



The government's recent decisions aim to enhance the efficiency of tax authorities and support business entities.

Proposals:

1. **Optimize the VAT rate:** It is essential to maintain the VAT rate at an optimal level for both the population and businesses to reduce tax burdens and further improve the business environment.
2. **Strengthen digitization:** Expand the digitization processes of the tax system and utilize modern technologies. This will enable more transparent and faster VAT collection.
3. **Simplify tax refund mechanisms:** Further simplify and automate the process of refunding negative VAT amounts to reduce bureaucratic barriers for businesses.
4. **Enhance tax collection control:** Implement modern monitoring systems to accurately track taxpayer accounts and prevent illegal activities in the sector.
5. **Expand international cooperation on VAT:** Learn from the advanced VAT practices of foreign countries and apply them in Uzbekistan to make the VAT system more effective.

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