

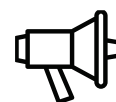
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ANALYSIS OF PRACTICAL PROPOSALS FOR FURTHER IMPROVEMENT OF TAX ADMINISTRATION IN UZBEKISTAN

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Abstract: The article summarizes the country's long-term progress in improving tax administration in the tax sphere, emphasizes the role and importance of the interregional tax inspectorate in improving large-scale reforms aimed at further strengthening the trust of business circles. Some important reforms implemented in the tax system of Uzbekistan have been studied, scientific and practical conclusions and proposals have been developed based on foreign experience and its application in our country.

Key words: tax policy, tax revenues, analysis, risks, efficiency, digital platform, methods and tools, analysis, optimization, tax incentives, tax rate.

INTRODUCTION

The enhancement of revenue-generating capacity through tax policy strategies, ensuring the sustainability of public expenditures, strengthening fiscal policy in developing countries, implementing a fair and inclusive tax system, and improving the mechanisms for developing and implementing tax policy strategies through the effective use of digital platforms are among the priority areas of scientific research in this field.

Moreover, these reforms are often associated with the need to establish a more efficient, transparent, and equitable tax structure that ensures economic growth, stimulates investment, and guarantees sufficient revenue collection for public functions.

LITERATURE REVIEW

According to A. Fedorov [1], he proposed "measures to improve tax administration that reduce the administrative burden and stimulate the investment activity of large taxpayers. He developed methods and approaches to incentivize investment activity through taxation, which significantly expand and complement the existing tax benefits and increase their investment resources, as well as evaluated their effectiveness."

V.G. Bayborodina [2] defines "tax reform as a fundamental transformation of the tax system and its management mechanism, resulting in partial or complete changes in tax relations."

I.A. Mayburov [3] emphasizes that "tax reform is the fundamental restructuring of the tax system to align it with the new content of the state tax policy."

N.M. Demytyeva [4] states that tax policy is a reflection of the broader economic policy of the state. She highlights that tax policy has an independent significance and should be grounded in scientific tax theory: "The results of tax policy implementation largely determine what adjustments the state must make to its economic strategy and how the tax system should be structured."

M.V. Karp [5] considers tax policy to be an integral component of the state's medium- and long-term financial strategy. It includes the concept of government activities in the tax sphere, tax mechanisms, and tax system management.

According to O. Sitnikova [6], "when including a taxpayer in a consolidated group, it is necessary to recognize or specially revalue the assets. Additionally, a procedure must be developed for carrying forward the company's losses incurred prior to joining the group. Special attention should be given to ensuring that the consolidated taxpayer is internationally recognized as a single economic entity with consistent value."

Yu. Darykina [7] focuses on the characteristics of large taxpayers, noting that "large taxpayers are typically characterized by high cash flow, a wide range of document circulation, use of integrated structures subject to simplified tax regimes, and engagement in cooperation with various firms both domestically and internationally."

ANALYSIS AND DISCUSSION OF RESULTS

Tax reforms in the Republic of Uzbekistan aimed at creating a fair, transparent, forward-looking, and internationally compliant tax system are proving to be economically and legally well-founded, as well as convenient and beneficial for taxpayers.

First and foremost, the legal framework for ensuring the tax-related rights of business entities and investors has been established. A new Tax Concept, the Tax Code, and more than 150 laws, presidential decrees, resolutions, and other regulatory documents have been adopted.

This indicates that business entities are receiving increased attention and support from the state. In this article, we present a number of proposals based on the current problems encountered in tax legislation.

1. Problem:

The absence of clearly defined fixed financial sanctions for tax-related violations contributes to their occurrence. For instance, in an effort to reduce tax liabilities, some enterprises conceal the actual number of employees or underreport salary amounts in tax declarations—sometimes even showing wages below the statutory minimum.

For reference:

During 1,100 field tax audits conducted by tax authorities in 2024, 1,400 cases of unregistered employees were identified. In most of these cases, employers failed to provide payroll information for unregistered workers, and thus the minimum monthly wage was used as the base to determine the tax liability. As a result, fines totaling 3.7 billion UZS were imposed.

Proposed Recommendation:

Establish fixed-amount fines for the following tax violations:

Failure to report employees engaged in labor activities and the wage fund in tax declarations – impose a fine equivalent to 10 times the minimum monthly wage for each unreported employee.

Unauthorized or excessive use of land plots without documentation or beyond the limits specified in legal documents confirming land rights – impose a fine equivalent to 10 times the minimum monthly wage.

Currently, there are cases during tax inspections where informal employees either refuse to provide or provide false information about their wages and employment periods. Due to limitations in existing legislation (particularly Article 223 of the Tax Code), such cases cannot be adequately addressed.

Example (under current procedure):

For 12 unregistered employees of “A.O.J” LLC, using the current minimum monthly wage (1,155,000 UZS), the total taxable base over 12 months would be calculated as 166.3 million UZS. Based on a 20% penalty rate, this results in a fine of 33.3 million UZS.

Under the proposed revision:

The same 12 employees would be assessed using 10 times the minimum monthly wage (11,550,000 UZS), totaling 138.6 million UZS in fines – an increase of 105.3 million UZS compared to the current system.

2. Problem:

There are recurring instances where certain taxpayers use land plots without proper documentation or in areas larger than what is specified in cadastral records.

For reference:

In 2024, unauthorized or excessive land use was identified in 10.4 thousand properties, covering 3,487.8 hectares, and in 2025, in 10.8 thousand properties, covering 3,787.4 hectares.

Proposed Recommendation:

Establish fixed-amount penalties for the following violations:

Failure to declare employees engaged in labor activities and the wage fund in tax reports; and

Use of land plots without documentation or in excess of the area specified in land ownership documents – a fine equal to 10 times the minimum monthly wage per violation.

Under current legislation, unauthorized or excessive land use is subject to a tax rate four times higher than the standard rate, as per Article 429 of the Tax Code. However, due to the absence of a direct financial penalty, this measure proves insufficient, and many business entities continue such practices without correction.

Under the proposed revision:

In addition to the assessed tax amount of 585.1 billion UZS for the unauthorized land use in 10.8 thousand cases, an additional fine of 125.4 billion UZS could be imposed (calculated as 11,550,000 UZS – 10 times the minimum wage – per case). This measure is expected to significantly reduce such violations.

3. Problem:

In an effort to evade taxes, many enterprises engage in the illegal extraction of mineral resources or fail to report the actual volume of extracted minerals in their tax declarations. Currently, there are no adequate enforcement mechanisms for such violations.

For reference:

In 2024, 836 supervisory inspections were conducted across 489 enterprises to verify the actual volume of non-metallic mineral extraction. These revealed a total extracted volume of 19.3 million m³, while only 13.3 million m³ had been reported in tax declarations – a discrepancy of 6.04 million m³. As a result, 17.3 billion UZS in taxes were recovered.

Proposed Recommendation:

Introduce the following fixed penalties:

For legal entities: a fine equal to 30 times the minimum monthly wage for the unauthorized extraction, transportation, or concealment of mineral resources in tax declarations;

For individuals: a fine equal to 10 times the minimum monthly wage.

When such a violation is detected for the first time, the business entity should receive an official warning, and a fixed fine should be applied. This approach is expected to deter further violations.

Example:

If a fine of 30 times the minimum wage had been imposed for each of the 836 violations in 2024, the total penalty would have amounted to 29.0 billion UZS.

4. Problem:

During desk (cameral) tax audits, tax authorities do not currently have the legal authority to request documents not already in their possession. This limitation reduces the effectiveness of audits, increases the number of thematic tax audits, and results in more fines being levied against taxpayers.

For reference:

In 2023, additional taxes of 9.1 trillion UZS were assessed during desk audits where tax authorities had the right to request documents. In contrast, due to lack of authority in 2024, this figure dropped to 1.3 trillion UZS – a sevenfold decrease. Additionally, during January–September of 2022–2023, 81.6 thousand desk audits were conducted, of which 62.2 thousand involved requests for documentation.

Proposed Recommendation:

Grant tax authorities the right to request from taxpayers any documents or information not available within the tax authority's system during desk audits.

Expected Impact:

Implementing this recommendation would create the potential to assess an additional 3.5–4 trillion UZS in taxes annually and significantly improve audit efficiency. It would allow verification of taxpayer-reported data based on actual documents, eliminate disputes, reduce the number of thematic audits, and minimize penalties.

International Practice:

In countries such as Russia, Germany, Italy, and the United States, tax authorities are authorized to request additional documentation from taxpayers during desk audits. For example, under the Russian Tax Code, during a desk audit, tax authorities may request accounting records, clarifications regarding submitted tax reports, and any other relevant information related to the calculation and payment of taxes.

5. Problem:

Currently, there is no established procedure for calculating taxes and penalties for foreign legal entities providing electronic services that register late, i.e., after the legally specified period.

Proposed Recommendation:

If a foreign legal entity fails to register within thirty (30) days from the commencement of its operations in the Republic of Uzbekistan, tax authorities should be authorized to calculate and collect the tax liabilities and penalties retroactively for the period prior to registration.

Expected Outcome:

Implementation of this measure would ensure that foreign providers of electronic services register with the tax authorities and fulfill their tax obligations within the prescribed timeframe. This would result in the collection of approximately 39.0 billion UZS in taxes and 18.2 billion UZS in penalties.

According to Article 279 of the Tax Code, the procedure for registering foreign legal entities providing electronic services is defined.

For reference:

Since 2022, five foreign companies that have provided services worth a total of 363.9 billion UZS in Uzbekistan have not registered to date. In Turkey, the tax authority imposes VAT and applies penalties for the period during which the foreign entity was required to be registered.

Tax Administration and Digitalization

1. Problem:

There is insufficient data to verify the accuracy of the tax base and tax amounts reported by registered foreign companies.

For reference:

An analysis comparing data obtained from commercial banks on payments made by individuals to foreign companies in 2023 and January–June 2024, against VAT reports submitted by these companies, revealed that 13 companies had underreported taxes totaling 106.7 billion UZS.

Proposed Recommendation:

Make it mandatory for foreign companies providing electronic services to attach a detailed income breakdown (transaction-level data) in tabular format as part of their electronic tax filings.

Expected Outcome:

Implementing this proposal could ensure an additional annual inflow of 106.7 billion UZS in tax revenue from foreign electronic service providers. It would also enhance the effectiveness of tax control measures and allow the identification and enforcement of compliance for companies operating without VAT registration in Uzbekistan.

International Benchmark:

Thailand's Tax Code requires foreign companies to submit detailed income breakdowns (with full transaction-level information) as part of their tax reports.

2. Problem:

Verifying the legitimacy of tax deductions claimed for mortgage payments subsidized by the government currently requires manual cross-referencing via the “subsidiya.idm.uz” platform, which consumes additional time and resources.

For reference:

In 2024, 29,126 declarations were submitted by citizens for tax deductions on subsidized mortgage payments.

As of April 1, 2025, this number rose to 40,404 declarations, with the total claimed tax relief reaching 158.6 billion UZS.

Of this, 74.0 billion UZS was refunded in 2024, and 135.7 billion UZS by April 1, 2025.

Proposed Recommendation:

Ensure the integration of the “subsidiya.idm.uz” platform into the tax system to automate the verification of subsidy eligibility for mortgage payments covered by state subsidies, including down payments and interest portions.

Expected Outcome:

If implemented, the verification process for mortgage subsidies will become automated, reducing workload and enabling timely refunds to taxpayers.

For reference:

As of April 1, 2025, 40.4 thousand individuals had submitted declarations claiming tax relief on mortgage loans and interest payments, with the total benefit amounting to 158.6 billion UZS—an increase of 11.3 thousand declarations (138.7%) and 61.7 billion UZS (183.5%) compared to the same period the previous year.

3. Problem:

Architectural planning tasks, design and cost estimate documentation, and the acceptance-delivery certificates for construction projects are not yet digitized. Since these certificates are not numbered and their data is not transmitted to tax authorities in real-time, it is currently not possible to verify the volume of work performed, materials used, or number of workers employed by construction enterprises against their tax reports.

Proposed

Recommendation:

Architectural-planning assignments, project estimates, and construction acceptance-delivery certificates should be digitized and integrated into the national information system “Transparent Construction”, ensuring real-time transmission to tax authorities.

Expected Outcome:

This implementation could generate an additional 1.5 trillion UZS in tax revenues for the state budget.

Construction companies often face inconsistencies and challenges in reporting the materials used, labor employed, and actual start and end dates for a given project. Notably, there are cases of unregistered (non-invoiced) goods being stored, used, and sold without proper documentation.

Example:

During field inspections in 2024, 43 cases were identified where workers were unregistered, unaccounted goods were sold, and revenues were not recorded in financial registers, leading to the assessment of 110.6 billion UZS in taxes.

4. Problem:

The Central Bank currently does not provide tax authorities with real-time data on transactions made by individuals to foreign legal entities offering electronic services. As a result, tax authorities cannot verify the

accuracy of the tax reports submitted by these foreign entities. Commercial banks often refuse to provide such data, citing banking secrecy, even in response to formal inquiries.

Proposed Recommendation:

Mandate the Central Bank to provide the State Tax Committee with quarterly real-time data on transactions made by individuals to foreign legal entities providing electronic services.

Expected Outcome:

This measure could generate approximately 100 billion UZS in additional annual tax revenue.

For reference:

In 2023, individuals transferred USD 22.7 million, and in 2024, USD 20.4 million, to foreign legal entities via international payment cards (Visa, MasterCard, etc.).

International Practice:

In South Korea, banks are required to report cross-border digital payment data to tax authorities to automatically monitor tax compliance. France mandates that payment systems (PayPal, Stripe, etc.) share non-resident payment data with the tax service under its electronic payments legislation.

5. Problem:

In the catering sector, the turnover generated through existing automated accounting systems (such as R-Keeper, JOWi) is often not reflected in tax calculations, leading to underreporting.

Proposed Recommendation:

Ensure that each order processed through catering establishments' automated accounting systems (R-Keeper, JOWi) generates an automatic fiscal receipt (ONKM) or electronic invoice.

Expected Outcome:

By automatically generating ONKM receipts for each order, the taxable turnover could increase by 3 trillion UZS, contributing 800 billion UZS in additional tax revenues.

For reference:

Out of 18,586 catering businesses across the country, only 950 (5.1%) have integrated the R-Keeper system with the tax authority. Between January and April 2025, their total turnover was 831.3 billion UZS, averaging 875 million UZS per establishment.

International Practice:

Since January 1, 2020, all POS systems in Kazakhstan have been integrated with fiscal devices, transmitting real-time data to the tax authority. In Azerbaijan, all trade and transaction data must be submitted to tax authorities. Similar requirements exist in Russia, South Korea, Turkey, USA, Spain, Italy, and other countries.

6. Problem:

Despite being required to exercise due diligence when selecting counterparties, some taxpayers bypass this rule and engage with suspicious entities to artificially reduce VAT liabilities or claim excessive refunds from the budget. These negative practices are not currently reflected in the evaluation of business credit ratings or tax compliance risk assessments.

6. Problem:

Entrepreneurs are required to exercise due diligence when selecting counterparties. However, some taxpayers circumvent this obligation by engaging in transactions with suspicious entities. As a result, they artificially reduce their VAT liabilities or generate excessive refunds from the budget. These negative practices are currently not considered in the evaluation of business risk or stability ratings.

Proposed Recommendation:

When assessing the stability rating of business entities:

Deduct 10 points from the rating if the taxpayer is found to have claimed (or intends to claim) VAT credits on goods purchased from inactive counterparties, particularly when the VAT payer's special certificate was not valid at the time of transaction.

Expected Outcome:

Implementation of this proposal would have a corrective impact on taxpayers and could generate approximately 1 trillion UZS in additional annual tax revenue.

For reference:

In 2024, 6,000 taxpayers claimed 1 trillion UZS in VAT from transactions with 755 counterparties listed in the registry of suspicious companies.

7. Problem:

There are frequent cases where agricultural producers (clusters, farmers, and dehqon households) sell their products in cash at local markets without formally registering the goods, thereby evading taxes.

Proposed Recommendation:

Introduce a system where subsidies are allocated based on the volume of agricultural products (excluding cotton and grain) sold via electronic invoices.

Additionally, require agricultural producers to input relevant data into the “Agroplatform” information system and the “Assessment of the Agrarian and Food Sector Situation” platform.

Expected Outcome:

This measure could generate an estimated 250 billion UZS in additional budget revenues annually.

It will also ensure that agricultural goods are properly registered in accounting records, preventing tax evasion.

8. Problem:

When vehicles belonging to legal entities with recognized tax debts are seized, enforcement is ineffective due to the lack of authority to immobilize these vehicles. In some cases, tax authorities are unable to seize vehicles because they are not physically present or registered at the taxpayer’s location.

Proposed Recommendation:

Grant tax authorities the authority to remotely seize vehicles and enforce their immobilization through the Ministry of Internal Affairs.

Expected Outcome:

This would enable the timely collection of 300–400 billion UZS in additional tax debt.

It would also allow enforcement actions against over 44,000 vehicles registered to 13,000 legal entities owing a combined 2.3 trillion UZS in tax debt.

For reference:

As of January 1, 2025, tax arrears increased by 2.4 trillion UZS among legal entities, 312.8 billion UZS among individual entrepreneurs, and 157.2 billion UZS among individuals (land, property, and declaration-based taxes).

Moreover, 160,100 enforcement cases amounting to 3.1 trillion UZS (61.8% of the total volume) remained unenforced for more than two months, of which:

495.3 billion UZS were overdue by 6–12 months;

888.9 billion UZS were overdue for more than a year.

International Practice:

In Kazakhstan, Belarus, and Russia, individuals with outstanding tax debts are prohibited from registering vehicles or real estate.

9. Problem:

Regardless of whether objections to tax debts are valid or not, the collection process must proceed through the courts. This process places an additional burden on taxpayers in the form of state duty, equal to 2% of the claim amount, and no less than one Base Calculated Amount (BCA).

Proposed Recommendation:

Recognize tax liabilities arising from tax reports or audits as acknowledged tax debts, thereby allowing tax authorities to collect without judicial proceedings.

Expected Outcome:

This reform would enable the timely collection of 100–200 billion UZS in tax arrears, reduce administrative burdens, and save taxpayers from incurring unnecessary court fees.

For reference:

In 2023–2024, taxpayers were charged more than 8.0 billion UZS in state duties related to court proceedings.

Legal Basis:

According to Article 60 of the Tax Code, a tax debt may be considered “acknowledged” if the taxpayer does not file an objection to the tax demand notice.

During tax audits, the taxpayer directly participates in the review and decision-making process. If the taxpayer disputes the demand, the tax authority cannot impose asset restrictions, which allows the taxpayer to potentially transfer or dispose of assets within the 60-day notice period.

International Practice:

In Georgia, if a tax debt arises from a tax (or customs) declaration and no appeal is filed within the legal timeframe, the debt is automatically considered acknowledged.

In Latvia, the tax administration is authorized to collect acknowledged tax debts and related costs directly from a taxpayer’s bank or cash accounts, immovable and movable property, or from third parties without requiring a court order.

10. Problem:

Under current legislation, turnover from the sale of goods (or services) and their import within projects financed by foreign debt from international financial institutions (IFIs) or foreign financial organizations (FFOs)

is exempt from value-added tax (VAT) until January 1, 2028. As a result, the paid VAT amounts are included in the cost of goods and services, leading to a break in the VAT chain.

Proposed Recommendation:

Abolish the VAT exemption for goods (and services) purchased under IFI/FFO-financed projects to ensure full VAT accounting during procurement for project implementation.

Expected Outcome:

This would generate 1,866.4 billion UZS in turnover from 1,553 enterprises. Enterprises participating in such projects currently purchase goods and services inclusive of VAT, without claiming the corresponding tax credits due to the exemption. Consequently, these participants request VAT refunds for the overpaid amounts from the project funds provided by IFIs/FFOs.

Moreover, Article 267 of the Tax Code states that VAT paid on the production or supply of exempt goods/services cannot be claimed as a tax credit.

Since imported goods under the project are VAT-exempt, and the corresponding local goods/services are also exempt, local manufacturers are at a competitive disadvantage compared to imported alternatives.

CONCLUSION AND RECOMMENDATIONS

The analysis presented in this study highlights a number of systemic and procedural gaps within Uzbekistan's current tax administration framework. The identified challenges—ranging from the underreporting of labor and transactions, non-transparent practices in the construction and agricultural sectors, to inadequate real-time data exchange between financial institutions and tax authorities—demonstrate the need for a more comprehensive, data-driven, and legally empowered tax administration model.

The proposed recommendations are designed to address these challenges through legislative adjustments, digital integration, and institutional capacity-building. Specifically, they call for:

The implementation of fixed penalties for tax violations to reduce subjectivity in enforcement and enhance taxpayer compliance.

Digitization and integration of sector-specific data, such as in construction and agriculture, to ensure real-time oversight and traceability of transactions.

Improved inter-agency data sharing, especially with the Central Bank and commercial banks, to track cross-border and digital service-related financial flows.

Automation and systematization of reporting from foreign service providers and domestic automated accounting systems, particularly in high-risk sectors such as catering and e-commerce.

Enhancing enforcement mechanisms for tax debt collection, including legal authority for remote vehicle seizures and streamlined administrative procedures.

Eliminating legal loopholes, such as VAT exemptions that distort competition and hinder local industry growth.

Collectively, these reforms are expected to significantly reduce the tax gap, improve voluntary compliance, and foster a culture of fiscal discipline. In quantitative terms, successful implementation could generate several trillion Uzbek soums in additional annual tax revenues, while also improving the efficiency of public resource allocation.

Furthermore, the digitization and automation components of the proposals align well with global trends in e-governance and smart taxation, as well as Uzbekistan's broader economic development strategy. By 2026, the integration of these measures could elevate Uzbekistan's tax administration to internationally recognized best practices, supporting macroeconomic stability, promoting fair competition, and strengthening investor confidence.

Therefore, it is strongly recommended that policymakers, in collaboration with relevant regulatory and financial institutions, prioritize the phased implementation of the outlined measures. This will not only reinforce Uzbekistan's fiscal sustainability but also build the institutional foundations for long-term inclusive economic growth.

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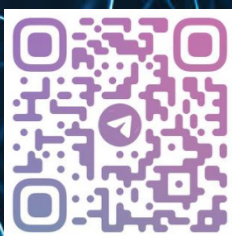
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