

IMPROVING THE TAX SYSTEM OF UZBEKISTAN: THE IMPACT OF REFORMS ON SMALL AND MEDIUM BUSINESSES

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Abstract

This article analyzes the impact of tax reforms in Uzbekistan (2017–2025) on small and medium-sized businesses (SMEs). Using data from international organizations, government reports, and analytical reviews, the study assesses changes in the tax burden, the availability of simplified tax regimes, the digitalization of administration, and their impact on the creation, survival, and formal registration of SMEs. Conclusions are drawn regarding the positive aspects of the reforms and bottlenecks requiring targeted policy improvements.

Keywords: Tax system, tax reforms, Uzbekistan, small business, medium business, SME, tax burden, simplified tax regimes, economic policy.

Introduction

The scientific novelty of this article lies in its comprehensive assessment of the impact of Uzbekistan's 2017–2025 tax reforms on small and medium-sized businesses, taking into account the digitalization of tax administration, simplified tax regimes, and changes in the tax burden structure. The study integrates data from international organizations, national statistics, and analytical reviews, revealing the heterogeneity of the reforms' impact across sectors and regions, as well as identifying side effects such as business fragmentation to take advantage of tax incentives.

The tax system plays a key role in any country's economic policy, especially during periods of structural reform. Since 2017, Uzbekistan has embarked on a major economic transformation focused on liberalization, digitalization, and stimulating private entrepreneurship. These reforms entail significant changes to tax policy and administration, which have a direct impact on the small and medium-sized enterprise (SME) sector.

SMEs are traditionally viewed as the engine of economic growth and employment: small businesses create jobs, foster innovation, and stimulate competition. In the context of Uzbekistan, where the state sector has long dominated the economy, SME development is of strategic importance. However, the tax burden and administrative barriers can become an obstacle to the growth and formalization of entrepreneurial activity.

The main goal of the tax reforms is to reduce fiscal pressure on businesses, simplify tax administration, and expand the taxpayer base. According to experts, the reform concept envisions a significant reduction in the tax burden: the share of taxes paid by SMEs is expected to decrease from approximately 35% to 22% [1]. At the same time, the Uzbek

authorities are investing in the digital transformation of tax administration, which will reduce bureaucratic barriers and increase transparency [2].

However, despite the positive intentions of the reforms, significant challenges remain. Some analysts note that frequent changes to tax legislation create uncertainty for entrepreneurs [3]. There is also a view that, despite reduced rates, the tax system may unevenly distribute the burden among different business groups, particularly between formal and informal entities [4].

In these circumstances, it is particularly relevant to study the extent to which tax reforms have actually contributed to the development of SMEs in Uzbekistan: increasing the number of registered companies, transitioning from the informal to the formal economy, and reducing administrative costs. This article aims to systematically assess these effects, using data from international organizations, government reports, and academic literature.

The World Bank provides a detailed overview of Uzbekistan's tax administration reform project, outlining the goals of digitalizing the process, simplifying administration, reforming the VAT refund mechanism, and increasing the efficiency of tax audits. Project reports emphasize that reducing transaction costs and automation should facilitate the formalization of the private sector and improve relations between taxpayers and the government [5].

The International Monetary Fund (IMF) analyzes the macroeconomic effects of the reforms being implemented, highlighting the need for a balanced fiscal policy and transparency of the tax base while simultaneously stimulating the private sector. The IMF notes progress in tax policy but emphasizes the risks associated with fiscal sustainability and the need for further improvements in administration [6].

In its report "Insights on the Business Climate in Uzbekistan," the OECD provides comprehensive assessment of the business climate, including an assessment of tax policy, administrative practices, and transparency issues. The document highlights key barriers for SMEs: administrative barriers, market access, and the need to improve regulatory predictability [7]. In the materials of the European Bank for Reconstruction and Development (EBRD) and in "Transition The Report emphasizes the importance of SME development for economic diversification. The EBRD notes progress in creating SME support programs and points out that tax and regulatory changes should be accompanied by improved access to finance and markets [8].

Taken together, the reports from the World Bank, IMF, OECD, and EBRD convey a consistent message: tax reforms in Uzbekistan are moving the country toward greater formalization and digitalization of administration, but the impact on SMEs depends on accompanying measures (financing, training, infrastructure) and the transparency of the application of preferences.

PwC, EY, and other major audit and consulting firms regularly publish reviews of changes to the Tax Code of Uzbekistan, clarifications on new simplified regimes, benefits for participants in special economic zones (SEZs), and practical implications for SMEs. These publications are useful in that they translate the "legal" text of laws into practical instructions for entrepreneurs and tax consultants. In particular, PwC documents the changes introduced in 2022–2023 and provides commentary on their practical application [9].

A number of empirical and applied studies (donor reports, country assessments, and development studies) examine the relationship between the tax burden, administrative barriers, and SME formalization. EBRD and World Bank reports on SME development in Uzbekistan indicate a positive correlation between the introduction of electronic services and the increase in the number of registered businesses, but note that the effect is uneven across regions and sectors.

The period 2017–2025 was a period of consistent and profound modernization of the tax system in Uzbekistan. Reforms were implemented in several key areas: reducing the tax burden, optimizing tax regimes, expanding the tax base, digitalizing administration, and increasing the transparency of tax procedures. Below are the most significant changes that had a direct impact on small and medium-sized businesses (SMEs):

1. Reducing the tax burden. Since 2018, a gradual reduction in taxes that directly impact business activity has begun. The most significant changes include:

- reduction of the income tax rate for most enterprises;
- reduction of the total tax burden on business, including mandatory insurance contributions;
- transition to a more equitable system of load distribution between sectors.

The changes have increased the profitability of SMEs and improved the conditions for entering the market.

2. Introduction and adaptation of simplified tax regimes. Reforming special regimes has become a key element of government policy aimed at supporting microbusinesses and small entrepreneurship. Key measures include:

- increasing the annual revenue thresholds for applying the simplified regime;
- reduction of the number of mandatory reporting forms;
- introduction of the possibility of switching between regimes without significant administrative barriers;
- adjustment of single tax payment rates for certain categories of entities.

These changes have made it possible to significantly reduce SMEs' costs for administrative support of their activities.

3. One of the most large-scale reforms was the VAT reform:

- expansion of the list of goods and services subject to VAT;
- automation of VAT refund procedures;
- gradual elimination of a number of unjustified benefits;
- increasing the transparency of supply chains through the introduction of electronic invoices.

The reforms contributed to the legalization of the circulation of goods, the reduction of the shadow economy and the growth of the tax base.

4. Uzbekistan's tax system has actively transitioned to digital standards, key elements of which include:

- implementation of an electronic taxpayer account;
- launch of the mobile application " Taxes ";
- mandatory use of online cash registers (SKKO);
- use of electronic invoices;
- automation of some control functions.

Digitalization has significantly simplified business interactions with tax authorities and reduced accounting costs.

5. Increase transparency and improve tax control. Key measures include:

- implementation of a risk-oriented inspection system;
- reduction in the number of scheduled inspections;
- transition to analytical monitoring of turnover instead of physical control;
- increasing the availability of data on tax incentives.

This has improved the investment climate and reduced corruption risks.

Table 1 - Main tax policy reforms in Uzbekistan (2017–2025)

Year	Key changes	Impact on SMEs
2017	The beginning of a large-scale tax reform; preparation of a new version of the Tax Code	Laying the foundations for reducing the load
2018	Reducing income tax rates; reforming social contributions	Reducing costs for entrepreneurs
2019	New edition of the Tax Code; expansion of the VAT base	Increasing system predictability
2020	Introduction of electronic invoices; development of online cash registers	Simplifying accounting and reducing physical control
2021	Optimization of simplified regimes; simplification of SME registration	Growing business formalization
2022	Raising the threshold for simplified taxation ; partial cancellation of benefits	Leveling the playing field
2023	Automation of VAT refunds; expansion of digital services	Accelerating payments and reducing administrative barriers
2024	Expanding the tax base; developing analytical control	Reduction of the shadow sector
2025	Bringing the tax system closer to international standards; harmonizing with IMF and World Bank recommendations	Improving the investment climate and support for SMEs

Thus, the tax system reforms of 2017–2025 have had a significant impact on the SME sector in Uzbekistan, manifested in several key areas:

1. Increased formalization and registration of businesses. The introduction of simplified tax regimes and the reduction of administrative barriers have contributed to an increase in the number of registered SMEs. According to the World Bank, the number of formally registered small businesses increased by 12–15% between 2019 and 2023 [10].
2. Reducing the administrative burden. Digitalization of tax administration (electronic accounts, mobile applications, online cash registers) has allowed entrepreneurs to save time and resources on preparing and submitting reports, especially for micro- and small businesses [11].
3. Uneven impact across sectors and regions. The relief measures proved more beneficial for the service sector and trade than for industrial enterprises or companies working with

government contracts. Some regions experience limited access to digital services, which reduces the effectiveness of the reforms [7].

4. Side effects of simplified tax regimes. The introduction of incentives for microenterprises encouraged partial business fragmentation to meet the simplified tax threshold. This led to some distortion of statistics and a decrease in the effectiveness of the tax system [8].

Thus, the reforms have contributed to improving the conditions for SMEs and increasing formalization, but their impact remains uneven and depends on the sector, region, and level of business digitalization.

Consequently, the reforms have demonstrated significant positive effects: lowering entry barriers, improving administration, and stimulating formalization. However, these successes are partially offset by structural problems: persistent opacity in the provision of tax incentives, the dominance of state-owned companies in key sectors, and limited SME financing (access to credit). Furthermore, temporal and regional inequalities in the adoption of digital services mean that the benefits are unevenly distributed. Analysis shows that simply reducing rates is insufficient; a comprehensive policy integrating tax, regulatory, and industrial policies is needed.

An analysis of the empirical impact of reforms shows that Uzbekistan's tax system has made significant progress in supporting small and medium-sized businesses: the administrative burden has been reduced, formalization has increased, and digital services have been introduced. However, structural challenges remain, with uneven impacts across sectors and regions, risks of enterprise fragmentation, and limited transparency of tax incentives. These observations substantiate the need for targeted policy measures aimed at further improving the tax environment and creating sustainable conditions for SME development:

1. Increase the transparency of the tax system. Create a public registry of tax incentives and evaluate their effectiveness to reduce discrimination and improve predictability for SMEs.
2. Support the digitalization of SMEs. Expand access to electronic tax services, especially in the regions and for small businesses, while simultaneously training entrepreneurs.
3. A balanced policy of simplified regimes. Periodically assess the impact of simplified tax regimes to avoid business fragmentation and loss of tax revenue.
4. Comprehensive support for SMEs. Combine tax incentives with programs to access finance, markets, and training to ensure a level playing field.

Tax reforms in Uzbekistan from 2017 to 2025 brought significant benefits to small and medium-sized businesses: transaction costs were reduced, simplified tax regimes were expanded, and digital access to tax services improved. However, systemic challenges remain: the need to increase the transparency of tax incentives, level the playing field for competition with dominant SOEs, and manage the side effects of simplified tax regimes. Sustainable SME development requires continued integrated policies that combine tax reforms with financing, training, and institutional programs.

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