American Journal of Economics and Business Management

Vol. 9 Issue 2 | **pp.** 439-444 | **ISSN:** 2576-5973

Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Changes in The Turnover Tax Base in The Republic of Uzbekistan in 2026

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Abstract: This article examines the anticipated changes to the turnover tax regime in Uzbekistan in 2026 as an instrument of business taxation and budget revenue stability. Using comparative legal analysis, institutional assessment, and scenario-based evaluation of compliance costs, the study identifies key reform vectors, likely effects on small business formalization, and risks of base erosion, offering policy-relevant scientific conclusions.

Keywords: Turnover tax, tax reform, small business taxation, compliance costs,Uzbekistan, fiscal policy, tax administration.

1. Introduction

Turnover taxation occupies a structurally important position in contemporary tax systems where the state seeks to balance revenue sufficiency, administrative feasibility, and the economic goal of supporting small and medium-sized enterprises through simplified regimes. The turnover tax is a better alternative for small business entities that have: no ability to keep accounting records volatile cash flows only cash-based operations. Looking ahead to the year 2026, we conceive of further evolutionary modernization of their tax system by improving simple taxation, strengthening digital government, making tax design consistent with sectoral heterogeneity and business growth paths. Within this setting, "changes in turnover tax in 2026" should be studied not as isolated parameter adjustments but as an institutional redesign problem that affects incentives to formalize, firm growth decisions, the distribution of tax burden, and the efficiency of tax administration.

The scientific relevance of the topic is determined by three intertwined circumstances. First, turnover taxes have well-known theoretical shortcomings due to cascading effects and imperfect neutrality, yet they remain widely used for micro and small firms because they reduce compliance costs and can expand the tax net when administration is constrained. This creates a persistent research tension between classical optimal tax principles and the institutional constraints that shape feasible policy options [1]. Second, Uzbekistan's tax reforms over the last decade have combined rate and threshold adjustments with rapid digitization of tax administration, implying that changes in turnover taxation cannot be evaluated without considering enforcement technology, information flows, and compliance behavior. International research emphasizes that tax design and tax administration are complements: improving one without the other can yield weak or even adverse outcomes [2]. Third, the 2026 reform horizon is characterized

Citation: Ilhom qizi, J. D. Changes in The Turnover Tax Base in The Republic of Uzbekistan in 2026. American Journal of Economics and Business Management 2026, 9(2), 439-444.

Received: 09th Nov 2025
Revised: 17th Dec 2025
Accepted: 04th Jan 2026
Published: 23th Feb 2026

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by a dual objective: sustaining revenue while encouraging enterprise scaling, which in simplified regimes is often impeded by "threshold effects" that create incentives to remain small or split operations. The threshold problem is widely documented in the literature on small business taxation and simplified regimes [3].

Despite substantial descriptive commentary on Uzbekistan's tax reforms, a research gap persists in analytically linking possible 2026 turnover tax adjustments to the behavioral and administrative mechanisms through which they affect revenue, compliance, and business structure. Existing publications frequently focus on general reform direction, while less attention is paid to the micro-institutional channels that determine whether turnover taxation functions as a temporary entry regime or becomes a long-term equilibrium with reduced productivity and weak growth incentives. Moreover, empirical access to firm-level data is often limited, which necessitates methodological approaches that combine normative reasoning with scenario analysis grounded in administrative logic [4].

The aim of this article is to provide an academic assessment of likely and analytically grounded directions of turnover tax changes in Uzbekistan in 2026 and to evaluate their expected implications for taxpayer behavior, compliance costs, and revenue stability. The objectives are to clarify the institutional role of turnover taxation in the national tax architecture, identify the primary reform vectors relevant to 2026, develop a scenario-based analytical framework for assessing effects on revenue and compliance, and derive policy-relevant scientific conclusions about design trade-offs under administrative constraints [5].

2. Methodology

The study implements a multi-method design that combines institutional analysis, scenario-based analytical evaluation, and comparative legal analysis. By analyzing how comparable instruments are structured globally and in post-Soviet tax systems, the comparative legal component is used to interpret turnover taxation as a simplified regime. It focuses on the standard parameters that usually change during reform cycles: eligibility criteria, tax base definition, sector-specific rates, threshold levels for mandatory regime transition, and reporting and invoicing requirements. Comparative legal reasoning makes it easier to identify which levers are crucial for neutrality and incentives, and this approach is effective because turnover tax reforms are often implemented through amendments that alter these parameters rather than totally replacing the instrument.

Through the use of institutional analysis, formal regulations are connected to administrative capacities and taxpayer behavior. Turnover taxation is viewed as a contract-like agreement between the state and small businesses, whereby the state agrees to a simplified calculation and a reduced level of auditing in exchange for a less precise assessment of the businesses' ability to pay. According to international scholarship, the analysis thus demonstrates how digital reporting, point-of-sale data, e-invoicing systems, and risk-based audit selection complement one another and are crucial to modern compliance management. Given that the effectiveness of turnover tax reforms depends on the administration's capacity to prevent sectoral arbitrage, underreporting, and artificial fragmentation, this strategy makes sense.

Instead of relying on confidential or inaccessible microdata, the anticipated results for 2026 are organized using scenario-based analytical evaluation. Tenable reform vectors that are consistent with popular modernization paths tightening base definition and anti-avoidance provisions, changing eligibility and thresholds, modifying rates and differentiation, and integrating with digital control mechanisms are the foundation of the scenarios. For each scenario, the analysis evaluates the relative strength and direction of the effects on three outcomes: compliance costs, formalization and growth incentives, and revenue stability. The scenario approach is methodologically justified when reforms are

prospective or when ex ante empirical evaluation needs to be based on theory-informed reasoning and explicit assumptions rather than econometric identification.

The study uses conceptual references to optimal tax theory and simplified taxation to frame trade-offs between neutrality, equity, and administrability, drawing on the public finance tradition that considers taxation as the second-best problem under information constraints. The methodological choices put coherence with Uzbekistan's institutional conditions first rather than making point forecasts, and they aim to produce conclusions about mechanisms that can be interpreted scientifically.

3. Result and Discussion

Results

According to the analysis, rather than completely replacing the instrument, the most significant changes in turnover taxation in 2026 are probably going to come from a combination of deeper administrative integration and parameter recalibration. The first finding relates to the anticipated transition from a purely rate-centered adjustment logic to a design strategy that employs sectoral differentiation, eligibility, and thresholds as the main levers to align the regime with enterprise heterogeneity [6]. A single uniform rate can be administratively convenient but economically blunt in simplified systems. It may undertax high-margin sectors and overtax low-margin sectors, which would encourage strategic classification and distort resource allocation. In order to more accurately estimate effective tax burdens across sectors while maintaining simplicity in calculation, the 2026 horizon is thus analytically linked to greater differentiation or stricter classification rules. The main institutional result of this shift is not just distributional but also behavioral: the incentive to move activities into categories with lower effective burden is diminished when the turnover rate and margin structure are more accurately aligned [7].

The second finding pertains to the reinforcement of threshold architecture as a crucial element in establishing firm growth incentives. A taxpayer must use VAT and profit tax accounting when a revenue ceiling establishes their eligibility for turnover tax, which raises the marginal tax rate implicitly. If it would make economic sense to expand in some businesses, this gives an incentive to shrink reported turnover, split up the firm or remain under the ceiling [8]. From a procedural point of view, according to the analysis, 2026 reform should offer solutions leading to more gradual changes, which can be ensured by, e.g., introducing transitional rules or recalculation thresholds or by having partial obligations reducing discontinuity. The reason is that narrowing the notch reduces the private cost of formal growth and in turn it can increase the tax base in the medium term whenever a firm grows without excessive strategic underreporting [9].

The definition of the tax base and the decrease in base erosion opportunities under a turnover framework are the subjects of the third outcome. Turnover taxation is susceptible to artificial deduction-like behavior through netting, bartering, or reclassification of receipts, as well as underreporting of receipts, particularly in cash-intensive industries. Without accounting safeguards, a 2026-oriented modernization is likely to limit practices that effectively transform turnover tax into something more akin to a margin tax and clarify the base definition [10]. The main analytical conclusion is that base tightening improves revenue reliability when it is applied with clear regulations and coordinated administrative verification; however, it may also increase compliance costs for microfirms if it is not accompanied by standardized reporting interfaces and simplified digital tools [11].

The fourth result concerns the integration of turnover tax administration with digital transaction infrastructure. The direction of reforms suggests that digitalisation will increasingly provide the backbone for enforcement, making simplified regimes sustainable without excessive auditing. If point-of-sale data, e-receipts and banking information are reconciled more systematically, the probability of underreporting being detected effectively rises, which changes taxpayer behaviour even without changes in statutory rates. In this context, a change in turnover tax in 2026 may be better represented by stronger third-party reporting and risk scoring than by changes to the headline rate.

The analytical consequence is that compliance becomes more uniform across firms, reducing unfair competition from noncompliant businesses and potentially allowing lower statutory rates without revenue loss, assuming enforcement is effective [12].

The fifth result is the existence of a trade-off between simplification and neutrality which becomes starker as the economy formalizes. Turnover taxes have an appeal in this early stage of formalisation, as they are simple to calculate and can pull firms into the tax net. But as firms grow and inter-firm trade increases, the cascade effect of turnover taxation can mangle supply chains and outsourcing decisions. The reform vector in 2026 is backward to treat the turnover tax more explicitly as a transitional regime, and forward with policies encouraging timely movement to VAT-based regimes when firms mature. The effect of such a change would be a clearer institutional path: entry through turnover tax, growth under better recordkeeping and progress toward VAT and profit taxation with less friction.

Discussion

The results can be interpreted through the lens of second-best taxation, where policy design must respect informational constraints and administrative capacity rather than pursuing ideal neutrality. In the classic public finance framework, when the tax authority cannot costlessly observe true income or value added, simplified tax bases can be welfare-improving even if they introduce distortions, because they reduce compliance and administrative costs and increase overall participation. Applied to Uzbekistan's 2026 turnover tax reforms, this implies that the scientific evaluation should not equate modernization with immediate elimination of turnover tax, but rather with making it function more effectively as an administrable and growth-compatible instrument [13].

The proposed shift to a simplification and clearer segregation has echoes in international experience, too (in that simple systems often end up with arbitrage when the boundaries of categories are clear),. "We tax economists believe that the tax system is like an ecosystem," Slemrod says, with taxpayers strategically responding to the architecture of rules, and sometimes it's more effective to tighten enforcement and clarifying rules than changing rates. In this view, the attempt by the 2026 reform to focus on base definition and digital integration can be seen as an attempt to shift the compliance equilibrium: as more and more third-party information becomes available in real time evasion becomes less attractive and even though the simplified regime remains low in terms of compliance costs there is some reduction in revenue leakage. The cautionary note, however, is that over complexity in this area of classifi cation could subvert the very simplicity which provides the rationale for turnover taxation. As such, a fundamental design principle here is to differentiate only as long as it remains administratively feasible and remains understandable in the realm of small business opportunities [14].

The threshold and transition problem identified in the results aligns with the broader literature on "notches" and "bunching" in tax systems, where firms cluster below thresholds to avoid regulatory and tax burdens. While the current study does not estimate bunching empirically, the mechanism is well established: if the jump in compliance costs and tax liability at the threshold is large, rational firms will manage reported turnover to remain eligible. Russian scholarship on special tax regimes similarly notes that simplified taxation can create structural incentives for business fragmentation and informal practices when the threshold is binding and enforcement is uneven. For Uzbekistan in 2026, the scientific implication is that improving transition smoothness is likely to yield efficiency gains that exceed the static revenue effects of simple rate changes. A well-designed transition can simultaneously increase recorded turnover and reduce the incentive to split firms, which in turn improves the integrity of both simplified and general regimes [15].

The discussions on base tightening and administrative integration should also be linked to the broader debate on the impact of digitalisation on tax compliance. International experience suggests that e-invoicing, e-receipts and data matching can significantly increase compliance if supported by credible enforcement and user-friendly systems that reduce errors and disputes. If Uzbekistan's 2026 reforms intensify digital controls for turnover taxpayers, the outcome will likely be a shift from audit-based to system-based compliance. This could reduce discretionary interactions and increase

predictability, which would benefit small businesses. However, microfirms with limited digital literacy may face higher effective compliance costs, which could cause them to exit the formal economy. Therefore, digital controls must be complemented by simplified interfaces, standardised accounting templates, and targeted support. Otherwise, the reform may unintentionally reduce the gains of formalisation.

From a domestic scholarly perspective, Uzbek researchers emphasise that tax reforms should be evaluated by more than just revenue outcomes; they should also be evaluated in terms of their influence on entrepreneurship and the investment climate, particularly with regard to predictability and administrative burden. Through this lens, the 2026 turnover tax changes should be assessed based on whether they maintain a stable and comprehensible regime for small businesses while establishing a credible pathway towards more equitable taxation for growing enterprises. The article's conceptual contribution is to frame turnover tax not as a static privilege for small businesses, but as an institutional bridge whose design must incorporate transition incentives and compliance technology.

"In light of comparative post-Soviet research, work on Russian and Eurasian tax administration has shown how simplified regimes last longer than they should because the politically and administratively convenient dimensions them, even when they have distorted and dual-track compliance cultures. The findings of this study indicate that the 2026 reform in Uzbekistan could be protected against this challenge by including an explicit exit mechanism and a programme for transition support in the design of the turnover tax. But if the reforms instead are about tightening constraints and pulling revenues from an SCR without tackling the jumps in thresholds or growth incentives, then the regime could just be a stable long-run game that limits productivity. On the other hand, modest tightening of bases in line with a smoother transition and an effective role for digital application may allow turnover tax to be useful as an ideal point of entry such that it serves at best the purpose of formalisation to withstand a later switch-over to VAT.

And lastly, the domino worry is worth noting. Turnover taxes may upset supply chains with tax being charged on gross receipts at each stage without deduction of input tax. This can provide impetus for vertical integration, or sub-contracting may decrease. The international tax literature consequently views VAT as more neutral. The policy recommendation for 2026 is that the design of turnover taxes must reduce their negative impact on sectors with long value chains, either by excluding parts of these chains (and the double taxation they imply), or by applying differentiated rates, or by speeding up their transition to VAT when firms operate largely in a B2B environment. This interpretation links the results to a broader narrative of modernisation: a turnover tax is justifiable where administrative simplicity is paramount, but neutrality becomes increasingly valuable as the economy becomes more integrated and formalised.

4. Conlusion

The article demonstrates that the most meaningful changes to Uzbekistan’s turnover tax in 2026 are likely to result from redesigning eligibility and thresholds, strengthening the definition of the tax base and integrating it more deeply with digital compliance infrastructure, rather than from making isolated rate adjustments. The scientific contribution lies in clarifying the mechanisms through which turnover tax reforms affect taxpayer behaviour, such as classification incentives, threshold-induced growth constraints, underreporting risks and the compliance impact of third-party information. The findings suggest that the success of reforms depends on maintaining simplicity for micro and small firms, while reducing discontinuities that encourage business fragmentation and strategic underreporting. In practice, balanced reforms in 2026 should facilitate the transition to VAT-based regimes, target enforcement through system-based controls and ensure that digital requirements are accompanied by usability and support to prevent increased informality. Future research should focus on the empirical evaluation of the effects of thresholds and compliance responses at firm level once the 2026 reforms

have been implemented. This evaluation should use administrative microdata and quasi-experimental designs to quantify behavioural changes and revenue outcomes.

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