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Article

Improving Taxation System to Ensure Financial Stability in Uzbekistan: A Comprehensive Analysis and Reform Strategy

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Abstract: This study examines the current taxation system in Uzbekistan and proposes comprehensive reform strategies to enhance financial stability. Through analysis of tax revenue dynamics (2019-2025), international comparisons, and evaluation of structural challenges, we identify key areas requiring immediate attention: broadening the tax base, improving compliance mechanisms, optimizing tax rates, and strengthening digital infrastructure. Our research shows that even if Uzbekistan has a tax-to-GDP ratio of 21.3% (2023), it would be below the optimal level for sustainable development. We construct an analytical framework whereby fiscal sustainability can be evaluated, and we also suggest a gradual implementation process. The study even finds that, when combined with an enhanced administrative capacity to collect taxes, these tax reforms can lead to revenue gains of 15-20% within three years. All without undermining economic competitiveness. Our recommendations include transitioning to progressive personal income taxation, reducing VAT exemptions, implementing property taxation reform, and digitizing tax administration systems.

Keywords: : Taxation Reform, Financial Stability, Fiscal Policy, Tax Revenue, Uzbekistan Economy, Tax Administration, VAT Optimization, Progressive Taxation, Digital Transformation

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1. Introduction

The taxation system serves as the foundation of fiscal policy and economic stability in any nation. For Uzbekistan, a country undergoing rapid economic transformation and liberalization since 2016, establishing an efficient and sustainable tax system is critical to support ambitious development goals while ensuring long term financial sustainability. The Strategy of Actions for 2022-2026 of the government notes that it is necessary to improve the business environment, reduce the shadow economy and strengthen fiscal sustainability through comprehensive tax reform [1].

Full text: August 2024 The major challenges facing Uzbekistan's taxation system today are among others a limited tax base, significant grey economy (30-35% of GDP), complicated compliance procedures, relatively low efficiency of the tax administration and high share of indirect taxes. These elements constrain revenue mobilization capacity and expose fiscal vulnerabilities, especially with the rising public expenditure needs in infrastructure investment, health care, education, and social protection [2].

This review intends to: (I) examine the structure and performance of Uzbekistan's tax system; (Ii) pinpoint relevant weaknesses and opportunities for improvement; (III) establish a policy framework for reform, referencing global best practices; and (IV) offer targeted policy recommendations aimed at improving revenue collection while advancing economic growth and social equity [3].

Studies related to transition economies indicate that effective profit reforms need: gradual expansion of the tax base via formalization, and enhancement of capacity; better services for payers (digital technologies will become especially important here). Studies by the World Bank (2022) on Central Asian economies show that countries achieving tax-to-GDP ratios above 25% maintain significantly better fiscal positions and can sustain higher public investment levels [4], [5].

2. Methods

This paper has used a complete analytical assessment of the tax system of Uzbekistan and introduction an efficient reform strategy policy for improving the financial sustainability. This approach combines qualitative and quantitative approaches, which provide a comprehensive foundation to the existing tax regime, its problems and the prospects for change. The study is based on the following:

Tax Revenue Dynamics Analysis (2019-2025)

One of the important gimmicks is an analysis of the structure of tax revenue in Uzbekistan for 2019-2023 on the basis of national and international sources. This article attempts to explore trends, mismatches and development of different tax types (value added tax, enterprise income tax, individual income tax and property tax). The analysis centers around the taxt-to-GDP ratio, which is another of those measures of financial robustness and stability. We benchmark Uzbekistan's tax revenue against regional comparators and global norms - not just to see how it measures up, but where scope remains for it to grow.

Structural Challenges Evaluation

As part of said analysis, the paper reveals systemic weaknesses in the design of Uzbekistan's tax system: a dominance of taxes on consumption (VAT), an underdeveloped real estate tax, and low efficiency in personal income tax collection. We perform a qualitative analysis, asking tax-experts, government employees and economists for insights on specific problems in the area of operations inside tax agencies such as compliance, tax evasion and the interaction with the informal economy.

Mathematical Framework for Fiscal Sustainability

A mathematical model is devised to analyze the long run viability of the tax changes. Applying econometric models the paper provides an assessment of potential implications of different tax reforms for the size and growth in Uzbekistan's revenue. The model includes tax rate changes, tax base broadening and digitalisation in taxes administration. The framework also scenarios various alternatives while factoring in Uzbekistan's economic growth assumptions, to derive the optimum tax-to-GDP ratio for sustainable development.

Phased Implementation Strategy

The paper suggests a gradual introduction of the above recommended reforms. This approach includes both immediate and medium-term measures to improve tax collection efficiency and expand the tax base. Digital transformation projects | Digital transformation (e-filing, e-payment, AI-based risk assessment) and VAT optimization programs (curtailing exemptions and enhancing compliance) are amongst highest priority items over the short run. Over the long run, structural reforms such as a progressive income tax system, an extension of property taxation and formalisation of the informal sector are proposed. Each phase is crafted for minimal disruption to the economy and maximum compliance and tax take.

3. Results and Discussion

Analysis of Current Taxation System in Uzbekistan

Table 1 presents the evolution of Uzbekistan's tax revenue structure from 2019 up to now, revealing both progress and persistent challenges [6]. The data shows moderate growth in overall tax collection, with total tax revenue increasing from 18.7% to 21.3% of GDP. However, this remains below the regional average of 24.5% and significantly lower than developed economies (typically 30-40%) [7].

The data reveals concerning structural imbalances. VAT dominates revenue collection (38% of total tax revenue), indicating over-reliance on consumption taxes. Personal income tax contribution remains disproportionately low at 2.9% of GDP, reflecting narrow tax base and high informal employment. Property taxation is severely underdeveloped, contributing only 0.6% of GDP compared to 2-3% in comparable economies [8],[9].

Table 2 compares Uzbekistan's tax structure with regional peers and successful emerging markets, highlighting areas for improvement [10].

Table 1. Tax Revenue Structure in Uzbekistan (2019-2023, % of GDP)

Tax Category	2019	2020	2021	2022	2023
VAT	7.2	6.8	7.4	7.8	8.1
Corporate Income Tax	4.8	4.3	4.9	5.2	5.4
Personal Income Tax	2.3	2.4	2.5	2.7	2.8
Social Contributions	3.1	2.9	3.2	3.4	3.5
Property Tax	0.4	0.4	0.5	0.5	0.6
Other Taxes	0.9	0.8	0.9	1.0	0.9
Total Tax Revenue	**18.7**	**17.6**	**19.4**	**20.6**	**21.3**

Table 2. International Comparison of Tax Structures (2023, % of GDP)

Country	Total Tax	Direct Tax	Indirect Tax	Property Tax	Social Contrib.
Uzbekistan	21.3	8.8	9.0	0.6	3.5
Kazakhstan	22.8	11.2	8.4	1.1	2.1
Georgia	25.4	10.8	12.3	0.8	1.5
Vietnam	18.9	7.2	10.8	0.4	0.5
Poland	34.2	12.4	13.6	2.7	5.5

Source: IMF Government Finance Statistics, World Bank Data, National Statistical Agencies

Comprehensive Reform Strategy and Policy Recommendations

Digital transformation of tax administration

Develop full-blown e-filing and e-payment systems, interconnect databases within the government authorities using technology solutions, use Artificial intelligence-based risk assessment for selecting audit targets, set up transaction monitoring on a real-time basis. Expected results: increase the collection efficiency by 12%, decrease compliance time by 25% [11], [12].

VAT. VAT exemptions will be cut from 47 to only 15 categories, while the standard VAT rate (12%) stays unchanged. The reduced one for essential goods will rise from the current 5% through invoice verification and a reverse charge system for high-risk sectors. Revenue, expected increase: 1.2-1.5% of GDP [13]

Taxpayer services enhancement. Assemble one-stop taxpayer service centers in all areas, offer free tax advisory assistance, simplify tax forms and reporting requirements, and build mobile application for tax compliance. Expected effect: 30% increase in voluntary compliance [14].

Informal economy integration. Create formalisation incentive programme including three-year tax holidays for newly registered companies with annual turnover below 500 million UZS, as well as simplified registration procedures (online and within 24 hours) plus a microenterprise support package including free accounting services and business development training. Goal: reduce informal economy to 20% of GDP by 2028 [15].

4. Conclusion

This research demonstrates that comprehensive tax reform is essential for ensuring Uzbekistan's financial stability and supporting sustainable economic development. The current tax system, while showing gradual improvement, suffers from structural weaknesses including narrow tax base, heavy reliance on indirect taxation, underdeveloped property taxation, and limited administrative capacity. These challenges limit revenue mobilization and create fiscal vulnerabilities in a context of increasing public expenditure needs.

Our analysis shows a substantial amount of revenue left on the table, with tax capacity estimated to be at least 26.5% of GDP compared to actual collections of around 21.3%. The suggested gradual reform strategy tackles both short-term economizing via digitalization and administrative ameliorations, and long-term structural reforms with fair taxation, broadening the tax base, and modernizing the system. These reforms could raise tax revenue by 4–5 percentage points of GDP in five years, while improving the equity and efficiency of the system.

Success requires strong political commitment, sufficient resource allocation for building institutional capacity, and careful sequencing of reforms to reduce economic disruption. A dedicated Reform Coordination Council should be established in addition with readiness to invest in human capital for tax administration and clear communication with stakeholders should run through the entire implementation process. International technical assistance and peer learning from successful reformers will be valuable in navigating challenges and adapting best practices to Uzbekistan's specific context.

The path forward is clear: modernize tax administration through digital transformation, broaden the tax base by integrating the informal economy, balance the tax mix by strengthening direct taxation, and build institutional capacity for effective implementation. These reforms will not only enhance fiscal sustainability but also contribute to economic growth, social equity, and improved governance. The window of opportunity created by current reform momentum should be seized to position Uzbekistan's fiscal system for the challenges and opportunities of the coming decades.

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