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IMPROVEMENT OF TAX POLICY IN THE REPUBLIC OF UZBEKISTAN IN 2022-2024 AND ITS EFFECT ON ECONOMIC DEVELOPMENT

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ABSTRACT

This article analyzes the main directions of the tax policy implemented in the Republic of Uzbekistan during 2022–2024, the reforms aimed at improving the tax system, and their impact on economic development. The article highlights measures related to the digitalization of tax administration, optimization of the tax burden, support for entrepreneurship, and improvement of the investment climate.

Keywords: Republic of Uzbekistan, tax policy, tax reforms, tax system, tax administration, digitalization, state budget, entrepreneurship, investment climate, economic development, tax incentives.

Introduction

In a market economy, tax policy is an important component of state economic policy. The effective organization of the tax system is of great importance in the sustainable formation of state budget revenues, supporting entrepreneurial activity, stimulating investments, and ensuring economic growth. Therefore, in recent years, Uzbekistan has been implementing consistent reforms to improve the tax system and bring it into line with international standards. During 2022–2024, large-scale measures were implemented in the country to further improve tax policy. In particular, special attention was paid to the digitalization of tax administration, expanding the scope of electronic services, simplifying tax reporting, creating favorable conditions for taxpayers, and supporting business entities. These reforms served to increase the transparency and efficiency of the tax system, reduce the share of the shadow economy, and ensure stable state budget revenues. The legal framework for these changes was strengthened by the

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Tax Code of the Republic of Uzbekistan, decrees and resolutions of the President of the Republic of Uzbekistan, and priority tasks set within the framework of the Development Strategy of New Uzbekistan for 2022–2026. Particular attention was paid to improving tax policy, increasing the competitiveness of economic sectors, enhancing investment attractiveness, and supporting the development of the private sector.

MAIN PART

In 2022, the Ministry of Finance of the Republic of Uzbekistan introduced a number of amendments and additions to the tax legislation in order to improve the taxation system for legal entities and individuals. These innovations serve to increase the efficiency of the tax system, simplify tax administration, and create more favorable conditions for business entities. In 2022, most of the main tax rates were left unchanged. In particular, the value added tax was set at 15 percent, profit tax at 15 percent (20 percent for certain categories of taxpayers), income tax for individuals at 12 percent, property tax for legal entities at 2 percent, and land tax for agricultural land at 0.95 percent. In addition, the social tax for business entities was retained at 12 percent, and for budgetary organizations at 25 percent. The base rate of turnover tax was also left at 4 percent. The scope of VAT payers has been expanded. Now, regardless of the annual income of the enterprise, tax consulting organizations, auditing organizations, and non-profit organizations are also VAT payers. However, non-profit organizations have this obligation only if they are engaged in entrepreneurial activities. A new procedure has also been introduced for producers of agricultural products. Previously, farms with an area of 50 hectares or more of irrigated land were considered VAT payers, but now this figure has been reduced to 25 hectares. Some VAT benefits have also been canceled. In particular, benefits for physical education and sports services, in addition to services provided by budgetary organizations, as well as benefits for certain banking transactions set in fixed amounts, have been canceled. Legal entities providing financial and insurance services have been given the right to issue invoices once at the end of the month, rather than for each operation. In this regard, the Tax Code was amended to recognize the last day of the calendar month as the date of sale of these services. In addition, the list of cases in which adjustments to the previously recorded VAT amount should be made has been

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expanded. A procedure has been introduced for recording the amount of VAT paid for goods and services used in the production of exported products and actually received without waiting for the receipt of foreign currency to the exporter's bank account. This norm applies only to disciplined taxpayers who have provided foreign currency receipts on time for the past year and do not have overdue receivables under export contracts. If the export receipts or part of them are not received by the accounts of commercial banks in the Republic of Uzbekistan within 180 calendar days from the date of customs clearance of exported products, the previously recorded VAT amount or the relevant part of it is canceled in accordance with the established procedure. The requirement to submit a separate application to the tax authorities for the refund of the negative amount of VAT has also been canceled. Now, the taxpayer will only need to notify the tax authority of the amount of VAT to be refunded when submitting a tax return. Starting in 2022, another important change has been introduced in the value added tax. Now, a single tax period of one month has been established for all categories of VAT payers. Previously, other reporting periods were in effect for certain categories of taxpayers, but the new procedure will simplify reporting. Also, from April 1 to December 31, 2022, a new mechanism was introduced as a pilot in the activities of Navoi Mining and Metallurgical Combine JSC, Almalyk Mining and Metallurgical Combine JSC, and Uzbekistan Airways JSC. In accordance with this procedure, it was determined that the negative balance of VAT will be compensated by reducing the amount of VAT payable on imported goods. The procedure for calculating excise tax and paying it to the budget has been retained in the previous procedure. At the same time, excise tax rates, which were set at a fixed amount, were indexed by an average of 10 percent starting June 1, 2022. As a result, the excise tax rates established in October 2021 for domestically produced alcohol and tobacco products remained in effect until June 1, 2022. Later, new indexed rates began to apply for these products. Excise tax rates on petroleum products, including gasoline, diesel fuel and other petroleum products sold to end consumers, were also increased by 10 percent as of June 1, 2022 in a one-time procedure. The excise tax rate on polyethylene granules was reduced. The rate, which was previously 20 percent, is now set at 10 percent. This procedure was applied not only to domestic manufacturers, but also to entities importing polyethylene granules. In addition, excise tax was completely

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abolished for enterprises producing liquefied gas. This change was intended to reduce production costs in this sector and develop competition in the domestic market. Starting from January 1, 2022, a number of innovations have also been introduced in the procedure for calculating profit tax. In particular, a separate procedure for recognizing depreciable assets has been established. It has been determined that when determining the tax base, depreciable assets will include fixed assets and intangible assets that meet the criteria provided for in the Tax Code. Also, the previously applicable restrictions on carrying forward losses to subsequent periods for 10 years in an amount not exceeding 60 percent of the tax base of the current tax period have been abolished. Reserves formed by commercial banks have also been included in the expenses taken into account when calculating profit tax. It has been determined that reserves in the amount of 80 percent of the norms established by the Central Bank will be recognized as expenses. In addition, the costs of material assistance provided to educational institutions, orphans and children deprived of parental care have also been included in the expenses deductible when calculating profit tax. Starting from January 1, 2022, the net profit retained by non-residents operating through a permanent establishment after paying taxes has been equated to dividends and a 10% profit tax rate has been established. Net profit is understood as the difference between total income and expenses incurred as a result of the activities of a permanent establishment. In this case, the net profit determined for the current tax period may be reduced by the amount of losses incurred in previous tax periods and not previously taken into account. A new procedure for determining positive and negative exchange rate differences in calculating profit tax has also been introduced. The exchange rate difference resulting from the revaluation of assets or claims denominated in foreign currency, if their value increases, as well as from the decrease in the value of liabilities denominated in foreign currency, is recognized as a positive exchange rate difference. However, positive and negative exchange rate differences arising from the revaluation of issued or received deposits are not taken into account when determining the tax base. Another important change is that tax authorities are authorized to make adjustments to the tax base for profit tax if the price of the concluded transaction is lower than the market price of goods or services. This procedure is implemented in a similar way to the mechanism used for value added tax. The composition of taxpayers for personal income tax in 2022, the current tax rates, the procedure for calculating taxes, the 0.1 percent contribution to citizens' personal savings pension accounts, and the deadlines for submitting tax reports remain unchanged.

At the same time, the list of non-taxable income has been expanded. Now, wages and other income of young families directed to pay mortgage loans and accrued interest on them are not subject to tax. In addition, educational loans received by taxpayers from commercial banks for education in professional and higher educational institutions and funds directed to cover interest on them are also included in non-taxable income. Income from renting housing to students is also exempt from income tax. Also, membership fees paid by the taxpayer to international organizations during the tax period in an amount up to eight times the base calculation amount, as well as wages and other income directed to retraining and advanced training in non-state educational institutions are also included in non-taxable income. In 2022, the composition of taxpayers for social tax, the current rates, the tax calculation mechanism, and the deadlines for submitting reports remained unchanged. However, a new procedure was established for craft entities that are members of the "Hunarmand" association. According to it, they received the right to pay social tax not monthly, but once a year in the amount of at least one time of the base calculation. In addition, for the period from January 1, 2022 to January 1, 2023, social tax for individual entrepreneurs operating in the districts of the republic, except for the city of Tashkent, was set at 50 percent of the base calculation. This benefit is aimed at supporting entrepreneurial activity in the regions and encouraging the creation of new jobs.

On the basis of the law adopted on December 30, 2022, a number of important amendments and additions were made to the Tax Code of the Republic of Uzbekistan. These changes will serve to further improve the tax system, support entrepreneurial activity, and simplify tax administration starting in 2023. One of the most important innovations is the reduction of the value-added tax rate from 15 percent to 12 percent starting from January 1, 2023. This change is aimed at reducing the tax burden for enterprises and stimulating economic activity. The period for verifying the validity of VAT amounts to be refunded from the budget has also been shortened. Previously, such audits lasted 60 days, but according to

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the new regulations, this period has been set at 30 days. This will allow business entities to return funds faster. Some tax benefits were also canceled in 2023. In particular, from April 1, previously valid VAT benefits for geological services, the sale of postage stamps, stamped postcards and envelopes, as well as research and innovation work carried out at the expense of the state budget, were canceled. In addition, from July 1, 2023, VAT benefits applied to the security services of the National Guard also lost their effect. According to the new regulations, in some cases, state authorities and management bodies may be recognized as value added tax payers based on a resolution of the President or the Cabinet of Ministers. In order to improve tax administration, a procedure was also introduced for recalculating VAT amounts that were not taken into account during the period when the certificate was temporarily suspended, after the certificate was restored. As a result, the taxpayer and its buyers had the opportunity to adjust their tax calculations for the relevant period in accordance with the requirements of the legislation. Conveniences have also been created for large taxpayers. Now they have the right to transfer the VAT amounts paid on imported goods to the account of funds that must be refunded from the budget. This process is carried out by tax and customs authorities in an automated manner. For this, the participant in foreign economic activity is required to make an appropriate mark when filing a customs declaration. Starting from 2023, significant reforms have been implemented in the system of calculating and collecting income tax. These changes were introduced to improve tax administration, support entrepreneurship, and stimulate export activity. According to the new regulation, profit from exports is taxed at a 0% tax rate, regardless of the share of export proceeds in the total income of the enterprise. However, this exemption does not apply to the income of foreign organizations providing services through a permanent establishment in the territory of Uzbekistan. Also, if the cost of installation, adjustment or commissioning services is not separately indicated in international contracts for the purchase of equipment, the taxable income of a non-resident is determined based on the market price of these services. This procedure serves to ensure transparency in taxation. The deadline for submitting information on profit tax paid in advance has also been re-established. Now, taxpayers can submit the relevant certificate based on the projected profit by the 15th of the first month of the following

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quarter. The legislation also provides for preferential conditions for certain business entities. In particular, enterprises that have switched from the turnover tax system to the profit tax system will have the right to use a reduced tax rate if they meet the established criteria. In addition, they can also use the opportunity to calculate the taxable base in a simplified manner. Business entities whose income exceeds the threshold established by law also have the right to maintain a preferential rate in the next tax period if certain conditions are met. At the same time, these benefits do not apply to enterprises extracting minerals, excise tax payers, and entities attempting to take advantage of tax relief through artificial distribution of income. The net profit of foreign organizations operating through a permanent establishment remaining after tax is assessed as a dividend and is taxed at the current rate. If a more favorable rate is established in international agreements, that rate can be used. New rules have also been introduced for enterprises using subsoil. Expenditures incurred in geological exploration, mine development and preparation for extraction are accounted for separately as depreciable assets. These costs are gradually transferred to expenses based on the standards established by law and are taken into account as a deduction when determining taxable income. Starting in 2023, the procedure for applying turnover tax has also been significantly updated. The main goal of these reforms is to simplify the taxation system, create equal conditions for entrepreneurs, and organize tax administration more efficiently. In accordance with the new procedure, a single 4 percent tax rate has been established for the majority of turnover tax payers. As a result, a single approach has been introduced instead of the previously existing different rates, making tax calculations much more convenient. At the same time, preferential rates have been maintained for business entities operating in certain regions. In particular, enterprises located in remote and mountainous areas were granted the right to pay tax at a rate of 1 percent, and some entrepreneurs in other settlements at a rate of 2 percent. Some entities engaged in e-commerce also have the opportunity to use this procedure. For enterprises operating in cities with a population of more than 100 thousand people, the 3 percent rate was retained. Another important innovation in the legislation is the introduction of a fixed-rate tax payment system. Now, turnover tax payers, if they meet the requirements established by law, can choose to pay tax not on an accrual basis, but in the form of a fixed-rate amount. This provides

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for one amount for entities whose annual income does not exceed the established criteria, and a different fixed-rate tax amount for those who earn more. The fixed-rate tax amount is divided into equal shares throughout the year and transferred to the state budget every month at fixed times. An entrepreneur who wishes to choose this system must submit an appropriate notification to the tax authority within a predetermined period. After that, he will have the right to pay taxes under the new procedure. Newly established business entities are also given the opportunity to choose a fixed tax system during the state registration process. This will simplify tax accounting at the very beginning of their activities. If the taxpayer subsequently wishes to abandon this procedure, then the transition to the general regime will be carried out from the next tax period. In the event of a transition to a fixed system in the middle of the tax period, the amount to be paid will be calculated proportionally based on the number of months remaining until the end of the year. These changes, while making the turnover tax system simpler, more understandable and convenient, will facilitate the process of fulfilling tax obligations of entrepreneurs and contribute to the sustainable development of their financial activities.

CONCLUSION

In conclusion, the tax policy implemented in the Republic of Uzbekistan in 2022–2024 served as an important component of economic reforms to improve the tax system, sustainably form state budget revenues, and support entrepreneurial activity. During this period, consistent measures were taken to digitize tax administration, widely introduce electronic services, simplify tax reporting, and create favorable conditions for taxpayers.

As a result of the reforms implemented, the openness and transparency of the activities of tax authorities increased, the efficiency of tax administration improved, and a more favorable business environment was created for business entities. At the same time, measures aimed at optimizing the tax burden and encouraging investments had a positive impact on increasing economic activity, creating new jobs, and increasing state budget revenues. Analysis shows that the tax policy implemented in 2022–2024 was an important factor in ensuring sustainable economic growth in the country, developing the private sector, and increasing investment attractiveness. The improvement of the tax system based on international standards and the widespread use of modern information technologies have further increased its effectiveness. In order to further develop tax policy in the future, it is advisable to ensure the stability of tax legislation, expand digital tax administration, develop analytical management mechanisms, and further improve the quality of electronic services provided to taxpayers. These measures will help ensure the sustainable development of the Uzbek economy, strengthen state budget revenues, and develop a modern and efficient tax system.

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