



ANALYSIS OF THE VAT ADMINISTRATION DEVELOPMENT IN UZBEKISTAN

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Received:	14 th June 2025	<p>This study provides a comprehensive analysis of the development of Value-Added Tax (VAT) administration in Uzbekistan. It traces the historical evolution of the VAT system, examining key reforms, regulatory changes, and administrative practices from its introduction to the present day. The research identifies fundamental, institutional, and instrumental challenges in the VAT framework, including inconsistencies in tax policy, the coexistence of traditional and modern VAT models, the prevalence of exemptions and reduced rates, and administrative inefficiencies. Emphasis is placed on the effectiveness of modern VAT mechanisms in enhancing compliance, broadening the tax base, and minimizing the cascading effects of taxation. The study also evaluates the impact of VAT reforms on small and medium enterprises, the informal economy, and overall fiscal stability. The findings highlight the need for continued institutional strengthening, policy simplification, and digitalization to ensure a more efficient and transparent VAT administration system in Uzbekistan.</p>
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INTRODUCTION

Value added tax (VAT) is a cornerstone of modern fiscal systems worldwide, serving as a major source of government revenue and a tool for ensuring macroeconomic stability. In Uzbekistan, VAT plays a pivotal role in financing public expenditures, stabilizing the economy, and formalizing economic activities. Understanding the evolution of VAT administration in Uzbekistan is essential for assessing its current effectiveness and identifying areas for reform.

The development of VAT administration in Uzbekistan reflects broader economic transformations, including the transition from a centrally planned economy to a market-oriented system, fiscal decentralization, and efforts to integrate into the global economy. Over the years, the VAT system has undergone several stages, each shaped by legislative changes, administrative capacity, and the socio-economic environment of the country. These stages have influenced not only the structure and rates of VAT but also the efficiency of tax collection, compliance levels, and the ability to curb informal economic activities.

This article aims to provide a comprehensive analysis of the gradual stages of VAT administration in Uzbekistan, examining the historical context, institutional developments, and policy measures that have shaped the current system. By evaluating these stages, the study highlights key lessons for improving VAT administration, enhancing revenue mobilization, and aligning Uzbekistan's VAT system with international best practices. The analysis also situates Uzbekistan's experience within the broader context of global VAT practices, offering insights into the mechanisms and strategies that can support efficient and sustainable tax administration in developing economies.

LITERATURE REVIEW

VAT serves as a pivotal instrument in fiscal policy, contributing significantly to government revenues and macroeconomic stability. Globally, VAT accounts for over 20% of budget revenues in many countries, underscoring its role in economic governance (OECD, 2021). In Uzbekistan, VAT has similarly been instrumental in revenue generation, though its effectiveness has been influenced by various administrative and structural challenges.

Internationally, two primary VAT models are recognized: the traditional (European) model and the modern (New Zealand) model. The traditional model features multiple tax rates, including reduced rates for essential goods and services. While this approach aims to alleviate the tax burden on basic necessities, it can introduce complexities and inefficiencies into the tax system (Bird & Gendron, 2007). Conversely, the modern model advocates for a single, uniform tax rate applied to all final consumption, minimizing administrative burdens and reducing opportunities for tax evasion (OECD, 2021).

Uzbekistan's VAT system has undergone significant reforms aimed at enhancing efficiency and compliance. The World Bank's Tax Administration Reform Project (P173001) has been instrumental in modernizing the State Tax

Committee's (STC) operations, focusing on automation, risk-based auditing, and the reduction of the informal economy (World Bank, 2020). Key initiatives include the implementation of an Integrated Tax Management Information System and the establishment of a comprehensive data center to support these reforms.

Despite these advancements, challenges persist. A study by the International Monetary Fund (2025) highlighted a decline in Uzbekistan's tax-to-GDP ratio, indicating potential inefficiencies in VAT collection and administration. Additionally, research by Inovatus (2025) identified institutional and technological gaps within the VAT system, suggesting the need for further modernization and alignment with international best practices.

Comparative studies have been conducted to evaluate Uzbekistan's VAT system against those of neighboring countries. For instance, an analysis of VAT practices in Kazakhstan, Turkey, and European countries revealed that Uzbekistan's system, characterized by multiple tax rates and exemptions, may benefit from simplification and the adoption of a single-rate model to enhance efficiency and compliance (Journalspark, 2025).

The literature indicates that while Uzbekistan has made strides in reforming its VAT system, challenges related to administrative capacity, technological infrastructure, and structural inefficiencies remain. Aligning Uzbekistan's VAT system with the modern, single-rate model could potentially streamline operations, reduce compliance costs, and enhance overall tax revenue generation. Continued reforms, supported by international expertise and tailored to Uzbekistan's socio-economic context, are essential for optimizing VAT administration and achieving sustainable fiscal outcomes.

ANALYSIS AND DISCUSSION

In Uzbekistan, the development of the VAT mechanism and its administration has been based on different approaches and models at various stages, which can be studied according to the following periods.

Table 1.
Stages of VAT Administration Development¹

Stage	Period	VAT Policy and Models
I	Until 1992	Turnover tax
II	1992 – 1998	Transition to the traditional VAT model
III	1999 – 2007	Adaptation of the traditional VAT model
IV	2008 – 2018	Traditional VAT model
V	2019 Since	Transition to the modern VAT model

In Uzbekistan, the taxation of goods through a sales tax and turnover tax was initially applied, primarily based on the value of goods and services at the final stage of the value-added chain. This system remained in effect until 1992, after which it was replaced by taxes better suited to a market economy, tested in several foreign countries, notably VAT and excise taxes. Initially, VAT obligations were imposed on all enterprises, regardless of ownership form (excluding banks and insurance organizations), and even on entrepreneurial entities without legal status.

From this period onward, VAT was collected through an invoice-based chain mechanism, where each participant in the value-added chain calculated tax based on the value they added. This allowed for effective monitoring of operations along the entire chain. The VAT model during this period was largely based on the traditional model, but unlike it, instead of reduced (differential) rates, it relied on multiple tax exemptions. From this perspective, the VAT model in this period can be considered closer to the traditional model than the modern model. Specifically, the initial VAT rate during this period was quite high, reaching 30% (see Figure 1).

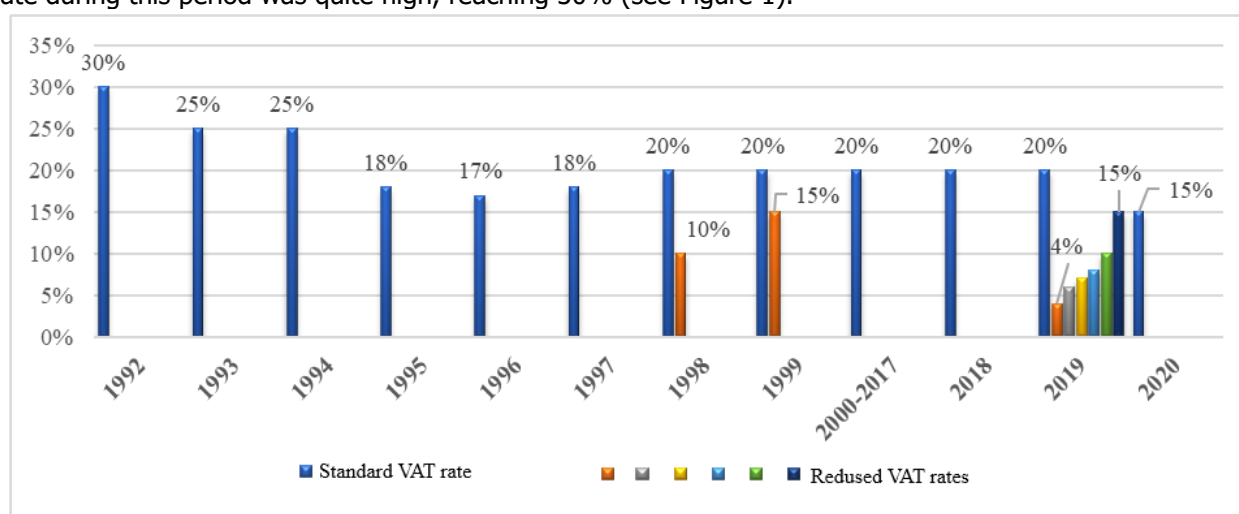


Figure 1. VAT rates in Uzbekistan in 1992 - 2020²

¹ Formulated by the author

² Formulated by the author

The tax rate, as one of the key elements of the tax mechanism, plays a crucial role in determining the efficiency of its administration. If the tax rate is set excessively high relative to the payment capacity of consumers and business entities, it can increase tax evasion and raise administrative costs for the tax system. For this reason, the 30% tax rate was gradually reduced over the years and brought down to 18% in 1997. From 1998, with the adoption of the first Tax Code, a number of changes were implemented in tax administration.

One of the significant changes in this stage of VAT system development was the introduction of a simplified taxation procedure for small business entities. During this period, several changes were made to the composition of VAT payers, with VAT payment initially required only from business entities with legal entity status. Furthermore, starting from 1998, microfirms and small enterprises, whose staff size was determined based on the average annual number of employees, were given the option to switch voluntarily from the general tax regime to a simplified regime. This system envisaged the payment of a "single tax" instead of six main taxes under the general regime, including profit tax, VAT, property tax, land tax, improvement and infrastructure development tax, and environmental tax. Certain business entities engaged in specific activities, such as trade, public catering, lottery organizations, and notaries conducting private practice, were required to pay the single tax (later modified to a unified tax) without the option to choose (Toshmatov et al. 2004).

Another most significant reforms were the shift from a single-rate to a differentiated tax rate structure, with a standard rate of 20%, a 10% rate for certain social goods, and a 0% rate for exports. During this stage, the VAT mechanism became somewhat aligned with the traditional European model. However, due to the difficulties it posed for tax administration in terms of control and monitoring, the rate for some socially significant goods and services was initially increased to 15% in 1999. From 2000 onward, this system was abolished, and until 2020, only the standard rate of 20% and the zero rate for exports were applied.

During this period, numerous exemptions were also applied within the VAT mechanism. Tax exemptions were granted for a total of 37 types of activities related to the sale of goods and services, as well as for 9 types of activities related to the import of goods and services. This practice contributed to increasing the number of gaps in the VAT chain and eroding the tax base.

In the tax code effective until 1998, the VAT administration included only a single provision regarding liability for violating tax obligations. According to this provision, if a non-VAT payer reflected VAT in an invoice, the amount was considered unlawfully stated, and a fine equal to 20% of that amount was imposed. It was stipulated that the buyer would not be subject to any recalculation with the budget regarding VAT, nor would any penalties apply to them.

It can be observed that at this stage of VAT mechanism development, tax legislation was limited in fully covering the VAT chain and its associated scenarios, which in turn created difficulties in the comprehensive enforcement of VAT administration.

The next stage of VAT administration development began in 2008 with the adoption of the new edition of the Tax Code, which established a legal basis and introduced amendments and additions to certain procedures previously implemented in VAT administration during the second stage.

Specifically, the composition of VAT taxpayers was more clearly defined. Under the tax legislation effective until 2008, taxpayers included legal entities of the Republic of Uzbekistan that voluntarily or mandatorily paid VAT, as well as legal and natural persons importing goods (works or services). Starting from 2008, in addition to legal entities of the Republic of Uzbekistan, VAT payment obligations were also imposed on tax agents, non-residents conducting taxable turnover in the country, resident legal entities, and trusted persons responsible for conducting company operations. Furthermore, unlike the previous regulation, the VAT payment obligation was established solely for legal and natural persons engaged in the import of goods.

The list of entities not recognized as taxpayers was also clearly defined. According to this list, non-profit organizations (only within the scope of their non-profit activities) and taxpayers under the simplified regime (Single Tax Payment (STP), single land tax, and fixed taxes) were exempted from paying VAT. For the implementation of VAT administration, enterprises opting for the STP were required to submit an application one month before the beginning of the next quarter of the calendar year, while newly established entities had to apply before commencing their activities. Legal entities wishing to switch to VAT were required to submit an application following the same procedure (Ismailov et al., 2012).

The tax base was defined as taxable turnover and imports. Additionally, to strengthen the administration and control of VAT-applicable turnover, clear rules were established regarding the place and date of goods (works, services) realization.

During this period, mainly two types of tax rates were applied. The standard rate remained at 20% for almost the entire period. Only in 2019, with the adoption of the new tax policy concept, several changes were introduced to address the inefficiencies of the VAT collection system, which absorbed taxpayers' working capital, increased the intermediate and final value of consumer products, and hindered cooperation between large and small businesses. Initially, efforts were made to fully implement the traditional VAT model to improve its socio-economic function³.

Specifically, starting in 2019, significant changes were introduced into the VAT mechanism under the new tax policy concept. These changes aimed to eliminate the imbalance in the tax burden under the general and simplified

³ Decree No. PF-5468 of the President of the Republic of Uzbekistan dated June 29, 2018, on the Concept for Improving the Tax Policy of the Republic of Uzbekistan.

taxation regimes formed over more than 20 years, prevent the misuse of the “small business entity” status, and mitigate the cascade effect arising from taxing added value through two tax mechanisms (VAT and the Single Tax Payment). From 2019 onward, annual turnover (gross revenue) was established as the decisive criterion for determining whether an enterprise should remain under the simplified tax regime or be mandatorily transferred to the general taxation regime.

Accordingly, based on the results of the previous year, enterprises with an annual turnover exceeding 1 billion soums or reaching the specified amount during the year are transferred to the general taxation regime and become VAT payers. This measure aimed to expand VAT coverage. However, it was introduced without reducing the 20% VAT rate.

By 2019, it became clear that applying such a high VAT rate to all business entities was not feasible. Most small business entities, which had previously paid the Single Tax, would face financial difficulties, product prices would rise sharply, and other problems would emerge.

As a result, as a measure, a simplified procedure for calculating and paying VAT was devised⁴. This, in turn, established two procedures within a single VAT system, namely the general and simplified procedures. According to this, business entities with a total turnover not exceeding 3 billion UZS during the tax period, and single tax (YAST) payers with a total turnover not exceeding 1 billion UZS, could pay VAT at reduced (basic 7%) rates without the right to credit input VAT paid to suppliers. The VAT rates were tiered for certain types of activities (see Table 2.2). Specifically, 8% for construction organizations, 6% for trade organizations (retail and wholesale), 10% for catering and hotel service providers, 15% for consulting service providers (audit, tax advisory, brokerage), and 4% for agricultural enterprises (except for self-produced products).

However, this procedure deviated from the perspective of tax administration control and from the modern VAT model, which is considered optimal. By creating numerous gaps in the VAT chain, it intensified the cascading effect of VAT and generally led to further complications in the VAT system. For this reason, this procedure was abolished with the adoption of the new Tax Code on January 1, 2020.

Additionally, during the fourth stage of VAT administration development from 2008 to 2020, tax authorities strengthened control over export turnover subject to the zero-rate VAT. Besides the requirement to export goods in foreign currency, a strict list of documents confirming the export was established. In particular, to verify that goods were indeed exported, exporters were required to submit to tax authorities the approved copy of the contract, the customs declaration marked for export, and documents attached to the goods confirming that the customs authority had approved shipment of the goods to the designated country. This, in turn, significantly reduced cases of false export operations aimed at unjustifiably reclaiming VAT from the budget.

Although a number of reforms were implemented to improve and strengthen tax administration, elements of the traditional VAT model that cause breaks and gaps in the value-added chain persisted in the VAT mechanism. One of these shortcomings is the presence of numerous exemptions in the VAT system. In particular, under the Tax Code in effect until 2020, a total of 37 types of goods and services were exempt from VAT, including 17 types of financial services, 2 types of insurance services, and 11 types of import operations, amounting to a total of 67 exemption types. This, in turn, led to disruptions in the VAT chain and, due to the cascading effect of VAT, increased opportunities for tax evasion (Tashmatov, 2020).

The discussion above reviewed the development of the VAT mechanism in Uzbekistan and the evolution of its tax administration up to the present stage, highlighting key issues and gaps that warrant deeper analysis. Studying the historical development stages of VAT provides two main benefits for improving VAT administration. First, it allows for a better understanding of the tax policies implemented over time, the functioning of its mechanism, and the shortcomings that have persisted and been carried forward to subsequent stages. This analysis helps identify the factors that have contributed to these issues and their continuation. Second, it enables an assessment of the extent to which the current VAT system deviates from the theoretically and practically optimal model, as well as the impact of these deviations on administrative efficiency, providing a basis for addressing inconsistencies and enhancing overall VAT administration.

⁴ Law of the Republic of Uzbekistan N-508, dated December 24, 2018, “On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of the Main Directions of Tax and Budget Policy of the Republic of Uzbekistan for 2019.

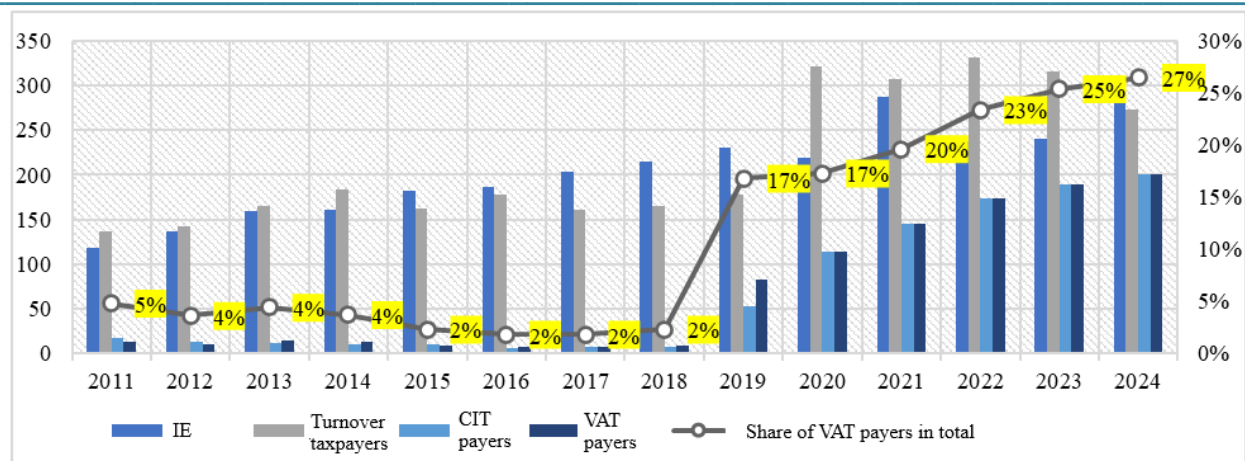


Figure 2. Dynamics of changes in the number of taxpayers in Uzbekistan

An analysis of VAT-related statistical data begins with examining the dynamics of changes in the number of VAT payers over the years. As shown in Figure 2.2, the number of VAT payers decreased year by year until 2019. In particular, in 2011, VAT payers accounted for 5% of the total number of taxpayers, but by 2018, their share had declined to only 2% of all business entities registered as taxpayers.

The main reason for this can be explained by the two tax regimes in effect at that time, particularly the simplified taxation system for small business entities based on the Single Tax (ST), unified land tax, and property tax, and the general taxation system that required payment of VAT, profit tax, and other taxes. This led to an uneven distribution of the tax burden among business entities, causing most businesses to forgo expansion. As a result, newly established businesses adopted the simplified tax regime, while taxpayers under the general system fragmented and shifted to the simplified regime through various mechanisms.

Based on the above, the main issues in Uzbekistan's VAT system up to 2018 can be summarized as follows.

First, the fundamental issue is related to VAT policy. The existing policy deviated both theoretically and practically from an ideal VAT system. While VAT's primary function is to generate budget revenues, the mechanism in Uzbekistan included numerous exemptions for social goods, services, and financial activities, indicating that VAT was also used for purposes beyond revenue generation.

Second, the institutional issue concerns the VAT model itself. Until 2019, the system did not adhere to a single clear model, containing elements of both the traditional and modern approaches. From a traditional model perspective, although there was a high standard rate, it lacked differentiation (except for the short-term measures in 2018). From a modern model perspective, a single rate existed, but it was excessively high and accompanied by numerous exemptions. Additionally, the coexistence of VAT and turnover-based consumption taxes within one system caused breaks in the VAT chain. To evade VAT obligations, many entities misused special regimes and applied various schemes, highlighting institutional weaknesses.

Third, the instrumental issue relates to VAT rates, reporting, and payment deadlines. The 20% rate applied until 2019 created a heavy tax burden not only on consumers but also on producers, due to the cascade effect. This made revising the VAT rate and its structure an urgent matter.

Fourth, the administrative issue involves VAT management tools such as invoices, collection mechanisms, and public oversight. The invoice-based system required electronic generation and integration into the tax authority database for effective monitoring. The collection mechanism itself had not undergone reforms since its introduction, while other countries had adopted approaches like split payment or reverse charge. Moreover, many countries employ cashback and other systems to involve consumers in public oversight, whereas in Uzbekistan VAT control remained limited to tax authorities.

These fundamental, institutional, instrumental, and administrative problems indicate that a comprehensive reform of Uzbekistan's VAT system, from policy to administration, is necessary to improve efficiency, compliance, and revenue collection.

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