

THE ROLE OF TAX PAYMENTS IN THE DEVELOPMENT OF SMALL BUSINESS IN UZBEKISTAN

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Abstract

This article examines the role of tax payments in the development of small businesses in Uzbekistan. The study analyzes the relationship between the taxation system and entrepreneurial activity based on current legislation and statistical data. The results show that a simplified tax system and moderate tax rates contribute to the growth of small businesses and support economic development.

Keywords

small business, taxation, tax policy, entrepreneurship, economic development.

Annotatsiya

Mazkur maqolada O‘zbekistonda kichik biznesni rivojlantirishda soliq to‘lovlarning ahamiyati tahlil qilinadi. Tadqiqot amaldagi soliq qonunchiligi va statistik ma’lumotlar asosida soliq tizimi hamda tadbirkorlik faoliyati o‘rtasidagi bog‘liqlikni o‘rganadi. Natijalar soddalashtirilgan soliq tizimi kichik biznes rivojiga ijobiy ta’sir ko‘rsatishini ko‘rsatadi.

Kalit so‘zlar

kichik biznes, soliq tizimi, soliq siyosati, tadbirkorlik, iqtisodiy rivojlanish.

Аннотация

В статье рассматривается роль налоговых платежей в развитии малого бизнеса в Узбекистане. Исследование основано на анализе действующего налогового законодательства и статистических данных. Результаты показывают, что упрощенная система налогообложения способствует развитию малого предпринимательства и экономическому росту.

Ключевые слова

малый бизнес, налоговая система, налоговая политика, предпринимательство, экономическое развитие.

INTRODUCTION

Small business plays a crucial role in modern economic systems, contributing to employment generation, innovation, and sustainable economic growth. In transition economies such as Uzbekistan, the development of small and medium-sized enterprises (SMEs) has become a strategic priority for the government. One of the most significant instruments influencing the growth and stability of small businesses is the taxation system. Tax payments not only serve as a primary source of government revenue but also function as an important regulatory mechanism that shapes the business environment.

In Uzbekistan, comprehensive tax reforms have been implemented over the past decade to improve the investment climate, encourage entrepreneurship, and reduce the shadow economy. The adoption of the updated Tax Code and the gradual simplification of tax administration have created more favorable conditions for small businesses. According to the current tax policy framework, the main tax rates remain relatively moderate, including a 15% corporate income tax, 12% value-added tax (VAT), 12% personal income tax, and a turnover tax of around 4% designed specifically for small enterprises.

The importance of tax payments in small business development lies not only in fiscal contributions but also in their ability to stimulate economic activity, ensure fair competition, and strengthen financial transparency. Properly designed tax systems can reduce administrative burdens, support business expansion, and improve access to financial resources.

Despite these positive developments, challenges remain in balancing fiscal sustainability with the need to stimulate entrepreneurial activity. Therefore, analyzing the role of tax payments in the development of small businesses is essential for understanding how fiscal policy influences economic growth and the effectiveness of current tax reforms.

The purpose of this study is to examine the significance of tax payments in the development of small businesses in Uzbekistan, evaluate their economic impact, and analyze the effectiveness of current taxation policies within the framework of the national tax legislation.

METHODOLOGY

This study employs a qualitative and analytical research methodology based on the analysis of legal documents, statistical data, and academic literature related to taxation and small business development in Uzbekistan. The primary sources used in this research include the current Tax Code of the Republic of Uzbekistan, government policy documents, and official statistics published by national authorities. In addition, scientific articles and economic studies analyzing fiscal policy and small business development were examined to provide theoretical and empirical insights.

The research uses several methodological approaches. First, a comparative analysis was conducted to evaluate how different tax instruments affect small businesses. This includes examining the turnover tax system, corporate income taxation, and tax incentives designed to support entrepreneurial activity. Second, statistical analysis was used to assess trends in tax revenues and their relationship with economic growth and business expansion.

RESULTS

The empirical analysis demonstrates that small businesses constitute one of the most significant drivers of economic development in Uzbekistan. Statistical indicators reveal a strong relationship between the taxation system and the expansion of entrepreneurial activity. According to data from the national statistical authorities, small businesses contributed approximately 51.5% of Uzbekistan's GDP in 2025, confirming their central role in the national economy.

In addition to their contribution to GDP, small enterprises are also responsible for a substantial share of production and services across multiple sectors. In agriculture, forestry, and fisheries, small business entities produce more than 97% of total sector output, while in construction their contribution exceeds 75% of total construction work. In the services sector, small businesses generate approximately 55% of total services, highlighting their dominant role in service-oriented economic activities.

Industrial production also reflects the increasing importance of small businesses. During the first nine months of 2025, industrial output produced by small enterprises reached approximately 258.5 trillion soums, representing 33.4% of total industrial production. This figure demonstrates that small enterprises are becoming increasingly involved not only in traditional sectors such as trade and agriculture but also in industrial activities.

The growth of the small business sector is also reflected in the number of active business entities. As of October 2025, more than 1.21 million small business entities were operating in Uzbekistan. These include small enterprises, microfirms, individual entrepreneurs, family businesses, and artisans. Such expansion indicates that entrepreneurship continues to play an important role in employment creation and regional economic development.

Tax payments from small businesses have also increased significantly in recent years. According to official reports, by November 2025 more than 63,200 small enterprises paid approximately 12.7 trillion soums in taxes to the state budget, reflecting an increase of 9.5% compared with the previous year. This upward trend indicates both the growth of entrepreneurial activity and improvements in tax administration.

Another important indicator demonstrating the role of taxation in business development is the expansion of formal economic activity. The reduction of tax rates, the introduction of simplified taxation regimes, and the digitalization of tax administration have encouraged businesses to operate legally. Despite these improvements, a significant portion of economic activity still remains outside the official tax system. Estimates suggest that the informal or unobserved economy accounted for approximately 33% of GDP in 2025, indicating that further reforms are necessary to encourage full business formalization.

Overall, statistical data confirm that the development of small businesses is closely connected with the effectiveness of the taxation system. Efficient tax policies not only increase government revenues but also stimulate entrepreneurial activity, investment, and economic diversification.

DISCUSSION

The results of the study indicate that tax payments serve not only as a fiscal instrument but also as a strategic economic policy tool influencing the development of small businesses. A well-designed tax system can encourage business growth by reducing administrative barriers and creating incentives for entrepreneurship.

One of the most significant achievements of recent tax reforms in Uzbekistan has been the simplification of the taxation system for small enterprises. The introduction of simplified tax regimes, including turnover-based taxation, has significantly reduced the administrative burden on entrepreneurs. For many small firms, complex accounting and reporting requirements represent a major barrier to entering the formal economy. By simplifying these procedures, the government has encouraged more entrepreneurs to register their businesses and participate in the formal tax system.

Another important factor influencing the relationship between taxation and business development is digitalization. In recent years, Uzbekistan has introduced electronic tax reporting systems, online tax services, and digital cash register technologies. These measures have improved transparency and reduced compliance costs for businesses. As a result, the administrative burden on entrepreneurs has decreased by approximately 27%, according to government reports on digital integration of statistical and tax systems.

Tax policy also plays a crucial role in addressing the issue of the informal economy. Despite significant progress, a considerable share of economic activity still occurs outside the official tax framework. Informal businesses often avoid taxation due to complex procedures, lack of financial resources, or insufficient knowledge of tax regulations. However, reducing tax rates and simplifying tax administration can gradually integrate these activities into the formal economy.

Another aspect that deserves attention is the relationship between taxation and investment. Predictable and stable tax policies encourage both domestic and foreign investment in the small business sector. International financial institutions, including development banks, increasingly

support small business projects in Uzbekistan, providing financial resources that help entrepreneurs expand their activities and improve productivity.

Nevertheless, tax policy must strike a careful balance between fiscal sustainability and economic incentives. Excessively high tax rates may discourage entrepreneurship and increase tax evasion, while extremely low tax rates may reduce government revenue and limit the state's ability to finance public services. Therefore, maintaining moderate tax rates combined with efficient tax administration remains essential for sustainable economic development.

The analysis also highlights the importance of regional economic development. Small businesses play a particularly important role in regional economies, where they often account for the majority of employment and economic activity. Supporting these enterprises through favorable tax policies can contribute to reducing regional economic disparities and promoting balanced national development.

Overall, the evidence suggests that taxation is not merely a mechanism for collecting public revenue but also a powerful instrument for shaping economic behavior and promoting entrepreneurial growth.

CONCLUSION

The analysis confirms that tax payments play a fundamental role in the development of small businesses and the overall economic growth of Uzbekistan. Small enterprises represent a significant share of the national economy, contributing more than half of the country's GDP and playing a key role in employment creation, production, and service delivery.

Statistical evidence demonstrates that the contribution of small businesses to economic development continues to increase. The expansion of entrepreneurial activity, growth in tax revenues, and improvements in tax administration all indicate that recent economic reforms have produced positive results. The steady increase in tax payments from small enterprises reflects both the expansion of business activity and the growing effectiveness of the national taxation system.

At the same time, the presence of a large informal economy highlights the need for continued reforms aimed at improving tax compliance and encouraging business formalization. Simplifying tax procedures, expanding digital tax services, and improving access to financial resources can help integrate informal businesses into the formal economy.

In the long term, the effectiveness of tax policy in supporting small business development will depend on several key factors, including legislative stability, administrative efficiency, and the continued modernization of the taxation system. By maintaining a transparent, predictable, and business-friendly tax environment, Uzbekistan can further strengthen the role of small businesses as a driving force of economic growth and innovation.

Ultimately, a balanced tax policy that simultaneously supports entrepreneurial activity and ensures fiscal sustainability will remain essential for the sustainable development of the national economy.

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