JOURNAL OF MULTIDISCIPLINARY SCIENCES AND INNOVATIONS

VOLUME 5, ISSUE 03
MONTHLY JOURNALS

ISSN NUMBER: 2751-4390
IMPACT FACTOR: 9,08

TAX INCENTIVES FOR SMALL BUSINESS AND ENTREPRENEURIAL ACTIVITY IN UZBEKISTAN

Turayev Alijon Akmal ugli,
Acting associate professor of the department
of "Investment and Innovations", PhD
alijon.turayev@mail.ru
Sodikova Guzal Utkirovna,
Student of Samarkand institute of economics and service
sadykovaguzal746@gmail.com

Abstract

The 2026 reforms of the Uzbekistan Tax Code introduce a comprehensive set of tax incentives aimed at supporting small businesses and individual entrepreneurs. These measures include a reduced turnover tax rate, simplified compliance procedures, digital reporting mechanisms, and transitional incentives for businesses moving to general taxation. The study analyzes the legal framework, economic implications, and potential impact on entrepreneurship formalization and growth.

Keywords

small business, individual entrepreneurs, tax incentives, turnover tax, 2026 Tax code, digital compliance, formalization

Annotatsiya

2026-yil O‘zbekiston Soliq Kodeksi islohoti kichik biznes va yakka tartibdagi tadbirkorlarni qo‘llab-quvvatlashga qaratilgan keng qamrovli soliq imtiyozlarini joriy etadi. Ushbu chora-tadbirlar orasida aylanma soliq stavkasining kamaytirilishi, soliq hisoboti va hisobot topshirishning soddalashtirilishi, raqamli hisobot tizimlari hamda umumiy soliq tizimiga o‘tish jarayonidagi tadbirkorlar uchun vaqtinchalik imtiyozlar mavjud. Tadqiqot huquqiy asos, iqtisodiy ta’sir va tadbirkorlikni rasmiylashtirish hamda o‘sish imkoniyatlarini tahlil qiladi.

Kalit so‘zlar

kichik biznes, yakka tadbirkor, soliq imtiyozlari, aylanma soliq, 2026-yil Soliq kodeksi, raqamli soliq hisoboti, rasmiylashtirish

Аннотация

Реформа Налогового кодекса Республики Узбекистан 2026 года вводит комплекс налоговых льгот, направленных на поддержку малого бизнеса и индивидуальных предпринимателей. Меры включают снижение ставки налога с оборота, упрощение процедур отчетности, цифровые системы подачи отчетности и переходные льготы для предприятий, переходящих на общий налоговый режим. Исследование анализирует правовую базу, экономические последствия и возможное влияние на формализацию и рост предпринимательства.

Ключевые слова

малый бизнес, индивидуальные предприниматели, налоговые льготы, налог с оборота, Налоговый кодекс 2026, цифровая отчетность, формализация

INTRODUCTION

Small businesses and individual entrepreneurship play a pivotal role in fostering economic diversification, employment creation, and innovation in developing economies. In Uzbekistan, the government has increasingly recognized the importance of supporting micro and small enterprises as part of its broader strategy to stimulate private sector development, encourage formalization, and enhance economic resilience. The 2026 Tax Code reflects this policy orientation by introducing a range of tax incentives, exemptions, and simplified compliance measures aimed specifically at small businesses and individual entrepreneurs. These measures are designed to reduce fiscal burdens, simplify tax reporting procedures, and incentivize registration of previously informal economic activities.

The rationale behind these reforms is multi-faceted. First, by lowering tax rates and offering targeted exemptions, the state seeks to promote entrepreneurship among young and emerging business owners, thus stimulating domestic economic activity. Second, simplification of tax reporting and integration of digital compliance mechanisms, such as automated reporting and electronic transaction monitoring, aim to reduce administrative costs and increase overall tax compliance. Third, the reforms are intended to harmonize Uzbekistan's tax framework with international best practices, creating a more predictable and investment-friendly environment for small enterprises.

This study explores the scope and structure of these tax incentives, analyzes their potential economic and social implications, and evaluates how the 2026 legal framework aligns with broader national development objectives. By combining legislative analysis, official statistical data, and insights from academic and professional tax literature, the research seeks to provide a comprehensive understanding of the current opportunities and challenges faced by small business operators in Uzbekistan under the new tax regime.

METHODOLOGY

This study employs a qualitative legal and policy analysis approach to examine tax incentives for small businesses and individual entrepreneurs under the 2026 Uzbekistan Tax Code. The methodology focuses on a systematic review of primary legal sources, government documents, and relevant academic literature, complemented by an interpretative analysis of statistical and policy data.

Primary sources include the official 2026 Tax Code of Uzbekistan, amendments and decrees issued by the President and Parliament, and regulatory guidelines published by the Ministry of Finance and State Tax Committee. These sources provide detailed provisions regarding tax rates, exemptions, reporting requirements, and digital compliance measures for small enterprises.

Secondary sources consist of scholarly articles, professional tax commentaries, and reports from international organizations analyzing small business taxation and policy effectiveness. These sources offer contextual understanding of the objectives, rationale, and potential economic impact of the incentives, as well as comparisons with international best practices.

Additionally, publicly available statistical data from the State Statistics Committee of Uzbekistan were used to identify trends in small business formation, formalization rates, and sectoral contributions to the national economy. This data helps contextualize the relevance of the tax incentives and assess their potential effectiveness in fostering entrepreneurial activity.

The research process involved a three-step analytical framework:

- compilation and examination of legislative texts to identify applicable tax incentives, exemptions, and compliance simplifications for small businesses.

JOURNAL OF MULTIDISCIPLINARY SCIENCES AND INNOVATIONS

VOLUME 5, ISSUE 03
MONTHLY JOURNALS

ISSN NUMBER: 2751-4390
IMPACT FACTOR: 9,08

- comparative analysis with previous tax regimes to highlight significant changes introduced in 2026 and their intended economic outcomes.
- enterpretation of the combined legal and statistical information to evaluate potential impacts on entrepreneurial growth, formalization, and fiscal revenue.

By integrating legal, policy, and statistical perspectives, this methodology ensures a comprehensive and nuanced analysis of the 2026 tax incentives, capturing both the regulatory structure and the practical implications for small business operators in Uzbekistan.

The 2026 tax reforms in Uzbekistan introduce a significant and multifaceted set of incentives for small businesses, individual entrepreneurs (IEs), and the self-employed, reshaping the fiscal environment with both tax rate adjustments and structural compliance improvements. These outcomes reflect a deliberate policy shift in the Uzbekistan Tax Code toward reducing barriers to entrepreneurship and enhancing transparency and formal economic activity.

Turnover Tax Reductions and Threshold Adjustments. A cornerstone of the 2026 tax incentives is the substantial reduction of the turnover tax for individual entrepreneurs and self-employed persons. Under the new regime, those with annual turnover up to UZS 1 billion will be taxed at a flat rate of 1 % on turnover, a marked decrease from the previous 4 % rate that applied to this category under the old thresholds. This measure is intended to alleviate the fiscal burden on micro and small enterprises, promote formalization, and reduce informality in sectors with high self-employment levels. The quota for mandatory reporting is also aligned with this structure, linking tax liability to turnover rather than complex multiple tax bases. Such a reduction is expected to improve cash retention capacity for smaller entities and encourage reported business growth.

Abolition and Reconfiguration of Fixed Taxes. Parallel changes involve abolishing the fixed personal income tax previously applied to individual entrepreneurs and eliminating the exemption for self-employed individuals with income under UZS 100 million. While the elimination of exemptions might seem counter-intuitive, it simplifies the legal framework and reduces administrative complexity for taxpayers and the state alike. In practice, this reduced complexity, combined with the lower turnover tax, tends to be favorable for small entrepreneurial operations by minimizing compliance thresholds and harmonizing the tax system with actual economic performance.

Encouragement of Business Formalization and Digital Integration. The reforms do not only adjust tax rates but also extend incentives through digital compliance and reporting simplification. Uzbekistan plans to introduce integrated digital platforms, mandatory QR code systems for transaction recording, and e-wallet functionalities, making tax compliance more efficient and accessible for small enterprises. This digital dimension supports transparency, reduces informal economic transactions, and facilitates data-driven decision-making both for tax authorities and entrepreneurs. In some frameworks, transaction data processed through these platforms will contribute to bank loan assessments, potentially easing access to credit for compliant entrepreneurs.

Transitional Incentives for Growth. Importantly, for entrepreneurs scaling beyond simplified regimes, targeted incentives are incorporated to smooth the transition from turnover tax to the general VAT and corporate income tax system. Newly transitioning entities may qualify for a one-year corporate income tax exemption and specific deductions for accounting service expenses for a limited period. These provisions lower the immediate financial burden of scaling, making it more attractive for growing enterprises to enter the broader formal tax regime without an abrupt increase in tax liability.

Administrative and Compliance Cost Reductions. Beyond tax rates per se, reforms reduce non-fiscal burdens. The new system consolidates penalties into fewer categories, decreases late-filing fines, and simplifies reporting procedures by allowing combined penalties for multiple missed submissions. Such administrative reforms directly impact small business viability because compliance cost—time, expertise, and money—is often a significant barrier for nascent enterprises.

Regional and Sectoral Incentives. While the primary focus of the Tax Code is on broad incentives for small business, regional adjustments—such as in autonomous republics like Karakalpakstan—extend additional localized tax incentives beyond 2028, including reductions in profit and land taxes and almost complete tax relief for certain large investments. These localized incentives further stimulate entrepreneurial activity, particularly in less economically developed zones.

Economic and Policy Implications. Overall, these results suggest that the 2026 regime is structured to prioritize economic inclusion and growth for smaller enterprises. By aligning tax liability with actual business performance through lower turnover tax rates, reducing compliance costs via digital integration, and encouraging formalization with transitional incentives, Uzbekistan's policy recalibration aims to strengthen the small business sector's contribution to GDP and employment growth. Empirical evidence from earlier evaluations in Uzbekistan indicates that well-designed tax incentives can indeed enhance entrepreneurial entry, reduce informality, and support broader economic dynamism even if short-term revenue pressures emerge for the state budget.

DISCUSSION

The 2026 tax reforms in Uzbekistan represent a strategic pivot towards facilitating small business growth, formalization, and digital compliance, reflecting a clear governmental commitment to nurturing entrepreneurship as a central pillar of economic development. The significant reduction in turnover tax for individual entrepreneurs and self-employed individuals—from the previous rates to a flat 1%—is particularly noteworthy. This policy effectively lowers the financial barrier for micro and small enterprises, allowing more resources to be allocated to business expansion, investment in human capital, and technological adoption. The reduction also aligns with international best practices for supporting nascent enterprises, where simplified taxation and low compliance burdens are shown to enhance entrepreneurial entry rates and business survival.

The abolition of fixed personal income tax and certain low-income exemptions, while superficially increasing liability for very small operators, paradoxically contributes to legal and administrative simplicity, reducing confusion over obligations and streamlining enforcement. This simplification can encourage voluntary registration and compliance, mitigating the persistence of informality that historically undermines Uzbekistan's tax base. It also reflects a shift from static tax structures towards performance-based taxation linked directly to turnover, which is more closely correlated with business viability and cash flow availability.

A particularly innovative aspect of the reforms is the integration of digital compliance mechanisms, including mandatory QR codes for transactions and automated reporting tools. These systems reduce bureaucratic friction, enhance transparency, and create real-time data flows that can support targeted policy interventions. For small businesses, digital reporting reduces the need for costly accounting services, while simultaneously allowing tax authorities to monitor compliance efficiently. Over time, these tools are likely to reduce administrative burdens substantially, encourage wider adoption of formalized business practices, and facilitate access to banking and credit services for compliant entrepreneurs.

The transitional incentives for businesses scaling from simplified regimes to the general VAT and corporate income tax system are another critical feature. By offering a one-year corporate income tax exemption and deductions for professional accounting services, the reforms reduce the short-term fiscal shock associated with growth and formalization. This approach not only incentivizes enterprise expansion but also mitigates the risk that businesses might deliberately remain below thresholds to avoid higher taxes, a common challenge in developing economies. These measures, therefore, have the potential to increase long-term tax compliance and broaden the formal business sector.

Nevertheless, certain challenges remain. While the reduced turnover tax and simplified compliance framework are beneficial for micro and small enterprises, the elimination of low-income exemptions may disproportionately affect the lowest-income entrepreneurs, particularly in rural areas with limited digital infrastructure. Effective implementation will therefore require targeted support, such as taxpayer education programs, accessible digital platforms, and regional assistance initiatives to ensure equitable benefits across different sectors and localities.

From a macroeconomic perspective, these reforms could stimulate higher business formation rates and foster innovation by freeing financial and administrative resources for productive use. However, short-term impacts on state revenue may be observed as turnover taxes decrease for small enterprises, requiring careful fiscal planning. Evidence from previous policy interventions in Uzbekistan suggests that initial revenue reductions are often offset in the medium term by increased business activity, formalization, and subsequent tax base expansion.

In conclusion, the 2026 tax incentives demonstrate a holistic approach to small business policy, combining financial relief, administrative simplification, digital integration, and transitional support. The policy framework addresses structural barriers to entrepreneurship, encourages formal economic activity, and fosters sustainable growth within Uzbekistan's emerging private sector. The long-term effectiveness of these reforms will depend on continuous monitoring, adaptive policymaking, and complementary measures to ensure that digital tools, taxpayer education, and regional support are aligned with the overarching goal of inclusive and dynamic entrepreneurial development.

CONCLUSION

The 2026 reforms of the Uzbekistan Tax Code represent a decisive step toward fostering a more supportive environment for small businesses and individual entrepreneurs. By reducing turnover tax rates, abolishing complex fixed taxes, and streamlining compliance procedures, the state has significantly lowered both financial and administrative barriers to entrepreneurship. The introduction of digital reporting mechanisms, QR code-based transaction monitoring, and automated tax services further strengthens this framework by enhancing transparency, reducing compliance costs, and facilitating easier access to formal economic participation.

The policy also strategically addresses enterprise growth through transitional incentives, allowing businesses to move from simplified regimes to the general VAT and corporate income tax system without immediate fiscal shock. This approach encourages formalization, increases long-term tax compliance, and fosters sustainable growth of the private sector. Collectively, these measures are poised to stimulate business formation, improve economic diversification, and enhance employment opportunities across Uzbekistan.

Nevertheless, the ultimate success of these reforms depends on effective implementation, particularly in rural areas and among low-income entrepreneurs who may face challenges with digital compliance. Complementary support measures, including taxpayer education and accessible digital infrastructure, will be critical to ensuring equitable benefits and maximizing the impact of tax incentives.

Overall, the 2026 Tax Code reforms exemplify a holistic and forward-looking approach to small business policy, combining fiscal relief, administrative simplification, digital innovation, and growth-oriented incentives. These reforms have the potential to strengthen Uzbekistan's entrepreneurial ecosystem, promote formalization, and contribute meaningfully to long-term

ISSN NUMBER: 2751-4390
IMPACT FACTOR: 9,08

economic development. Continuous monitoring, evaluation, and adaptive policymaking will be essential to sustain these gains and ensure that small businesses remain a dynamic and resilient pillar of the national economy.

REFERENCES

1. Government of Uzbekistan. (2026). Tax Code of the Republic of Uzbekistan (amended 2026). Tashkent, Uzbekistan: Ministry of Finance. https://www.gov.uz/en/laws/finance/taxcode2026
2. State Tax Committee of Uzbekistan. (2025). Guidelines on turnover tax and simplified tax regimes for individual entrepreneurs. Tashkent, Uzbekistan: Ministry of Finance. https://www.soliq.uz
3. UzDaily. (2025, August 12). Uzbekistan to cut turnover tax to 1% for small entrepreneurs and self-employed.
4. KPMG Uzbekistan. (2025, December). Tax incentives for legal entities and individual entrepreneurs in Uzbekistan. KPMG International.
5. Kun.uz. (2025, November 27). Tax burden on sole proprietors and self-employed to be reduced in 2026.
6. Corpenza. (2026). Uzbekistan company establishment and tax guide. Corpenza Legal & Tax Services.
7. Tashkent Times. (2025, October 10). Turnover tax for sole entrepreneurs and self-employed to be cut to 1% from 2026.
8. Sci-P.uz. (2025). Tax policy and small business growth in Uzbekistan: Empirical evaluation. Asian Economic Policy and Taxation Journal, 3(2), 45–68.
9. Xabardor.uz. (2026, January 5). From January 1, 2026, fines for late tax reporting reduced for entrepreneurs.
10. Ministry of Economy and Finance of Uzbekistan. (2025). Digital tools and tax reporting modernization for small enterprises. Tashkent, Uzbekistan: Government Press. https://www.mf.uz/en/reports/digital-tax-initiative