

PERSONAL INCOME TAX RATES AND TAX BENEFITS IN UZBEKISTAN

Turayev Alijon Akmal ugli,

Acting associate professor of the department
of “Investment and Innovations”, PhD

alijon.turayev@mail.ru

Bakhtiyorova Rukhshona Ikromovna,

Student of Samarkand institute of economics and service

Annotation: This study examines the personal income tax system in Uzbekistan under the 2026 Tax Code, focusing on tax rates, exemptions, and preferential regimes. The study highlights the advantages of administrative simplicity and investment promotion, as well as challenges related to equity and potential market distortions. Policy implications and recommendations for improving the balance between efficiency, fairness, and fiscal sustainability are discussed.

Keywords: personal income tax, flat tax rate, tax incentives, Uzbekistan, fiscal policy, economic growth

Annotatsiya: Ushbu tadqiqot 2026-yilgi O‘zbekiston Soliq kodeksi doirasida daromad solig‘i tizimini o‘rganadi, shu jumladan soliq stavkalari, imtiyozlar va afzalliklar. Tadqiqot ma‘muriy soddalik va investitsiya rag‘batlantirishning afzalliklarini, shuningdek, adolatlilik va bozor buzilishlari bilan bog‘liq muammolarni yoritadi. Siyosiy tavsiyalar soliq tizimi samaradorligi, adolati va moliyaviy barqarorligini yaxshilashga qaratilgan.

Kalit so‘zlar: daromad solig‘i, yagona soliq stavkasi, soliq imtiyozlari, O‘zbekiston, fiskal siyosat, iqtisodiy o‘shish

Аннотация: В исследовании рассматривается система налога на доходы физических лиц в Узбекистане в рамках Налогового кодекса 2026 года, с акцентом на ставки налога, льготы и преференциальные режимы. Исследование выявляет преимущества административной простоты и стимулирования инвестиций, а также проблемы, связанные с равенством и возможными рыночными искажениями. Обсуждаются рекомендации по повышению эффективности, справедливости и финансовой устойчивости налоговой системы.

Ключевые слова: налог на доходы физических лиц, единая ставка налога, налоговые льготы, Узбекистан, фискальная политика, экономический рост

INTRODUCTION

Personal income taxation constitutes one of the central pillars of modern fiscal systems, fulfilling both revenue-generating and socio-economic regulatory functions. In the context of transition economies, tax policy plays a particularly significant role in shaping market institutions, reducing informality, and ensuring macroeconomic stability. Uzbekistan, as a rapidly reforming economy, has undertaken substantial transformations of its tax system over the past decade, aiming to create a more transparent, efficient, and investment-friendly fiscal environment.

A key feature of the current tax framework is the adoption of a flat personal income tax (PIT) rate, which, as of 2026, remains fixed at 12 percent for most categories of individual income. This approach reflects a strategic policy choice prioritizing administrative simplicity, predictability, and improved compliance. Unlike progressive taxation systems widely implemented in developed economies, the flat tax model in Uzbekistan minimizes complexity and reduces the incentives for tax evasion, thereby broadening the tax base.

At the same time, the tax system incorporates a range of targeted tax benefits and exemptions designed to stimulate economic activity in priority sectors. These include preferential regimes for information technology, foreign investment, innovation, and certain categories of income. Such incentives are embedded in the current Tax Code and related норматив-правовые акты, reflecting the government's broader strategy of economic diversification and integration into the global economy.

Despite these advantages, the existing system raises important theoretical and practical questions regarding equity, efficiency, and fiscal sustainability. In particular, the absence of progressive tax brackets may limit the redistributive capacity of the tax system, while selective tax incentives may create distortions and unequal treatment among taxpayers.

Against this background, the present study aims to provide a comprehensive and in-depth analysis of personal income tax rates and tax benefits in Uzbekistan under the 2026 Tax Code. The research focuses on examining the legal framework, evaluating the economic implications of the flat tax model, and assessing the effectiveness of tax incentives in achieving policy objectives. Through this analysis, the paper seeks to contribute to the broader academic discussion on optimal taxation in transition economies.

METHODOLOGY

This study employs a qualitative-analytical approach to examine personal income tax rates and tax benefits in Uzbekistan under the 2026 Tax Code. The research methodology combines legal analysis, economic interpretation, and comparative assessment to provide a comprehensive understanding of the topic.

The primary sources for this study include:

- the Tax Code of the Republic of Uzbekistan (2026 edition), which establishes current personal income tax rates, exemptions, and preferential regimes.
- normative-legal acts and government decrees that regulate tax benefits for specific sectors such as IT, innovation, and foreign investment.
- official statistical data from the State Committee of the Republic of Uzbekistan on Statistics, providing information on tax revenues, income distribution, and compliance levels.

RESULTS

The analysis of Uzbekistan's personal income tax (PIT) system under the 2026 Tax Code reveals a dual structure composed of a uniform flat tax rate and a set of targeted tax benefits designed to stimulate economic activity and support social policy objectives. The findings are based on legislative provisions, statistical data, and sectoral analysis.

As of 2026, the standard personal income tax rate in Uzbekistan is 12%, applied to the majority of employment income, self-employment earnings, rental income, and other domestic-source income. This flat rate is consistent for residents and, with minor exceptions, non-residents, ensuring a predictable and administratively simple system.

Statistical data from the State Committee of the Republic of Uzbekistan on Statistics indicates that PIT contributes approximately 12–15% of total national tax revenues, highlighting its role as a stable source of government funding. The uniform rate has been associated with higher compliance levels compared to the previous multi-tiered system, as taxpayers benefit from simplicity and transparency in filing and payment procedures.

Preferential Tax Benefits

In addition to the flat rate, the 2026 Tax Code introduces several preferential regimes aimed at encouraging investment, innovation, and regional development. Key categories include:

Information Technology and Innovation Incentives: Residents working in IT Park and technology-focused enterprises benefit from reduced effective income tax rates, sometimes as low as 7.5%, to promote knowledge-based industries.

Foreign Investor Exemptions: Certain foreign individuals obtaining tax residency in Uzbekistan can be exempted from taxation on foreign-source income, thereby attracting skilled expatriates and international capital.

Research and Innovation Activities: Income derived from scientific research and innovative projects may qualify for partial or full exemptions, reflecting the government's emphasis on technological advancement.

Regional and Sectoral Incentives: Tax benefits are available in designated regions to stimulate local economic development and reduce regional disparities.

These incentives are carefully structured to target strategic sectors, with the goal of promoting sustainable economic growth without broadly undermining the tax base.

While the flat 12% rate ensures administrative efficiency, analysis indicates potential challenges for vertical equity, as low- and high-income individuals are taxed at the same proportion of income. Selective tax exemptions partially offset this concern by providing relief to targeted groups, yet they do not fully address income inequality.

On the other hand, the uniform rate, coupled with transparent reporting requirements, appears to enhance tax compliance, particularly among formal sector employees. Compliance data suggest a moderate reduction in informal employment and increased voluntary reporting since the adoption of the flat PIT system.

The preferential regimes have stimulated notable growth in specific sectors:

- the IT and technology sectors have seen a steady increase in employment and registered companies, partially attributable to favorable tax conditions.
- regions benefiting from localized tax incentives report higher investment inflows and increased economic activity, supporting the government's decentralization and regional development policies.

Overall, the results indicate that Uzbekistan's personal income tax system balances simplicity, fiscal stability, and targeted economic incentives, though questions about equity and broad-based redistribution remain.

DISCUSSION

The results of this study reveal a complex interplay between efficiency, equity, and economic policy in Uzbekistan's personal income tax (PIT) system under the 2026 Tax Code. The combination of a flat tax rate and a network of targeted tax incentives demonstrates a deliberate policy approach designed to foster economic growth, attract investment, and simplify administrative processes, while also attempting to support strategic social and technological objectives.

The adoption of a flat 12% PIT rate provides a highly streamlined framework for both taxpayers and the tax authorities. In practical terms, this simplification reduces the administrative burden associated with filing, reporting, and compliance enforcement, which is especially significant for a transitional economy like Uzbekistan. Research on flat tax regimes indicates that simplicity often correlates with higher voluntary compliance, as taxpayers perceive the system as transparent, predictable, and fair in procedural terms. The experience in Uzbekistan supports this observation: since the introduction of the flat rate, there has been a notable reduction in informal labor and unreported income, which strengthens the overall fiscal position of the government. This suggests that administrative efficiency and revenue stability can be enhanced through straightforward tax structures, even in contexts with limited institutional capacity.

Targeted tax benefits form an integral component of the PIT framework, providing tailored relief to priority sectors and activities. Incentives for the IT sector, scientific research, innovation-driven enterprises, and certain regional development projects illustrate a supply-side strategy designed to stimulate investment, employment, and technological advancement. By

lowering effective tax burdens for high-growth and knowledge-intensive sectors, the government fosters conditions for innovation-led economic expansion, aligning with broader development goals and international best practices. The observable growth in IT Park employment, increased registration of startups, and heightened foreign investment activity highlight the tangible impact of these policies on sectoral performance.

Despite the system's efficiency, the flat rate raises critical equity considerations. A uniform rate of 12% applies across all income levels, meaning that lower-income individuals contribute the same proportional share as high-income earners. While this simplicity enhances compliance and reduces administrative overhead, it also limits the redistributive capacity of the tax system, which may exacerbate income disparities. Targeted exemptions, such as those for research and innovation or foreign investors, partially mitigate inequity, but they tend to favor specific groups rather than addressing the broader population. Consequently, the flat PIT system, while efficient, may not fully align with social equity objectives and may necessitate complementary policies, such as expanded social support programs or universal allowances, to achieve a more balanced fiscal outcome.

The strategic targeting of tax benefits, while beneficial for growth, carries the risk of creating sectoral imbalances and market distortions. By offering preferential treatment to selected industries, such as IT, innovation, or specific regions, the tax system may inadvertently divert resources and investment away from non-preferred sectors, potentially creating competitive disparities. This selective approach underscores the importance of careful policy design and monitoring, ensuring that incentives drive desired economic outcomes without compromising overall market efficiency. Over time, policymakers must assess whether these benefits continue to align with national priorities and whether adjustments are required to prevent inefficiencies or unintended economic concentrations.

Uzbekistan's PIT regime reflects a strategic orientation toward international integration. Special provisions for foreign residents and exemptions on foreign-source income serve to attract skilled expatriates and foreign capital, increasing the country's competitiveness in a globalized economic environment. These measures align with contemporary global trends, where transitional economies leverage tax policy to integrate into international labor and capital markets. Nevertheless, careful management is required to safeguard the domestic tax base, as excessive preferential treatment could reduce revenue or create opportunities for tax avoidance. Balancing global competitiveness with domestic fiscal sustainability remains a critical policy challenge.

Policy Implications and Strategic Considerations

The discussion suggests that while Uzbekistan's PIT system effectively promotes administrative simplicity, compliance, and investment, it may benefit from supplementary measures to address gaps in equity and redistribution. Introducing modest progressivity, expanding universal allowances, or providing broader social transfers could enhance the system's fairness without undermining its efficiency. Moreover, periodic evaluation of sector-specific tax benefits is essential to ensure that they remain aligned with the evolving economic structure and development priorities.

In summary, Uzbekistan's PIT framework demonstrates a pragmatic and forward-looking approach to taxation in a transitional economy. It successfully combines a flat tax rate with selective incentives to promote investment, innovation, and regional development. At the same time, the system presents challenges in terms of vertical equity and potential economic distortions, necessitating ongoing policy monitoring and adjustment. Overall, the framework reflects a careful balancing of efficiency, growth, and social objectives, illustrating the complexities of tax policy design in emerging economies.

CONCLUSION

The analysis of Uzbekistan's personal income tax system under the 2026 Tax Code reveals a carefully calibrated approach that seeks to balance administrative efficiency, economic growth, and social objectives. The adoption of a flat 12% tax rate provides simplicity and predictability, reducing compliance burdens for both taxpayers and authorities while contributing to stable government revenue. Evidence indicates that this structure has enhanced voluntary compliance, reduced informal employment, and strengthened the formal tax base, demonstrating the practical benefits of streamlined taxation in a transitional economy.

At the same time, the system incorporates a variety of targeted tax incentives and exemptions, aimed at fostering strategic sectors such as information technology, scientific research, innovation-driven enterprises, and regional development initiatives. These benefits have proven effective in stimulating sectoral growth, attracting skilled foreign professionals, and promoting investment in high-priority industries. They reflect a supply-side orientation, emphasizing economic dynamism and integration into the global economy, while supporting Uzbekistan's broader policy goals of technological advancement and regional diversification.

However, the flat PIT structure also presents significant equity and redistributive challenges. By taxing all income at the same proportional rate, the system limits its capacity to address income inequality, with low-income individuals carrying a proportionally similar burden as high-income earners. Although targeted exemptions provide relief for certain groups, the broader population may still face limitations in achieving equitable fiscal outcomes. Additionally, selective incentives, while stimulating growth in priority sectors, can potentially create market distortions or unequal competitive conditions across industries and regions.

Policy implications of these findings suggest that Uzbekistan could enhance the fairness and inclusiveness of its PIT system without undermining efficiency. Potential measures include introducing modest progressivity, expanding universal allowances, or coupling tax revenue with social transfer programs. Regular monitoring and evaluation of sector-specific incentives are also necessary to ensure alignment with evolving economic and social objectives.

In conclusion, Uzbekistan's 2026 personal income tax framework represents a pragmatic model for transitional economies, effectively balancing simplicity, investment promotion, and fiscal stability. While challenges related to equity and market distortions remain, the system demonstrates the potential of combining a flat tax rate with carefully targeted benefits to achieve strategic economic and social outcomes. Future reforms should focus on maintaining this balance, ensuring that tax policy continues to support both growth and fairness within the economy.

REFERENCES

1. Trading Economics. (2026). Uzbekistan: Personal income tax rate and historical trends.
2. UzDaily. (2025, December 10). Key legislative changes and tax code updates effective from 2026.
3. Kun.uz. (2025, November 20). Personal income tax rates and benefits in Uzbekistan remain stable in 2026.
4. RemotePeople. (2026). Uzbekistan payroll tax guide: Personal income tax compliance for residents and foreign employees.
5. President.uz. (2025). Government incentives for scientific research and innovation in Uzbekistan.
6. State Committee of the Republic of Uzbekistan on Statistics. (2025). Statistical report on personal income, employment, and regional development 2025–2026. Tashkent, Uzbekistan: SCUzS.
7. World Bank. (2025). Uzbekistan economic and fiscal update: Tax policy, compliance, and revenue performance. Washington, DC: World Bank Group.

JOURNAL OF MULTIDISCIPLINARY SCIENCES AND INNOVATIONS

VOLUME 5, ISSUE 03
MONTHLY JOURNALS



ISSN NUMBER: 2751-4390

IMPACT FACTOR: 9,08

8. OECD. (2024). Tax administration and compliance in transition economies: Comparative studies with Uzbekistan. Paris: OECD Publishing.