JOURNAL OF MULTIDISCIPLINARY SCIENCES AND INNOVATIONS
VOLUME 5, ISSUE 03
MONTHLY JOURNALS
ISSN NUMBER: 2751-4390
IMPACT FACTOR: 9,08

THE ROLE OF TAX CONTROL IN REDUCING THE SIZE OF THE SHADOW ECONOMY

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Annotation. This study examines the role of tax control in reducing the scale of the shadow economy and improving economic transparency. The research analyzes the theoretical foundations of tax compliance and evaluates the institutional mechanisms of tax administration in Uzbekistan based on the current tax legislation and statistical indicators. Special attention is given to modern tax control instruments such as digital tax administration, electronic payment systems, risk-based tax audits, and fiscal monitoring technologies. The study shows that strengthening tax control significantly increases tax compliance, improves fiscal discipline, and contributes to the gradual legalization of economic activity.

Keywords: shadow economy, tax control, tax compliance, fiscal policy, tax administration, digital taxation, Uzbekistan.

Annotatsiya. Mazkur tadqiqotda yashirin iqtisodiyot hajmini qisqartirishda soliq nazoratining ahamiyati va iqtisodiy shaffoflikni ta'minlashdagi roli tahlil qilinadi. Maqolada soliq to'lovchilarning xatti-harakatlariga ta'sir etuvchi nazariy yondashuvlar, shuningdek, O'zbekiston Respublikasining amaldagi soliq qonunchiligi hamda statistik ma'lumotlari asosida soliq ma'muriyatchiligi mexanizmlari o'rganildi. Tadqiqotda raqamli soliq boshqaruvi, elektron to'lov tizimlari, riskga asoslangan soliq tekshiruvlari va fiskal monitoring kabi zamonaviy soliq nazorati vositalarining samaradorligi alohida ko'rib chiqildi.

Kalit so'zlar: yashirin iqtisodiyot, soliq nazorati, soliq intizomi, fiskal siyosat, soliq ma'muriyatchiligi, raqamli soliq tizimi, O'zbekiston.

Аннотация. В данной работе рассматривается роль налогового контроля в сокращении масштабов теневой экономики и повышении прозрачности экономической деятельности. В исследовании анализируются теоретические основы налоговой дисциплины и институциональные механизмы налогового администрирования на основе действующего налогового законодательства и статистических данных Республики Узбекистан. Особое внимание уделяется современным инструментам налогового контроля, включая цифровое налоговое администрирование, электронные платежные системы, риск-ориентированные налоговые проверки и фискальный мониторинг.

Ключевые слова: теневая экономика, налоговый контроль, налоговая дисциплина, фискальная политика, налоговое администрирование, цифровое налогообложение, Узбекистан.

INTRODUCTION

The shadow economy represents one of the most persistent structural challenges facing modern economies. It includes all economic activities that are deliberately concealed from public authorities to avoid taxes, social security contributions, or compliance with administrative regulations. Such activities distort economic statistics, reduce government revenues, weaken fiscal policy effectiveness, and undermine fair market competition. For transitional and developing economies, the scale of the shadow sector can significantly influence macroeconomic stability and sustainable development.

Uzbekistan has experienced significant economic transformation over the past decade, accompanied by reforms aimed at improving fiscal governance and reducing informal economic activity. Despite these efforts, the shadow economy remains substantial. Recent statistical estimates indicate that unobserved economic activity accounted for approximately one-third of the country's gross domestic product. In 2025 the share of the shadow and informal economy reached around 32.9–33% of GDP, although this figure represents a decline compared with earlier estimates of 45–50% in 2019.

The persistence of such a large hidden sector demonstrates that traditional regulatory measures alone are insufficient. Effective tax administration and tax control mechanisms play a crucial role in addressing this issue. Modern tax control systems integrate digital monitoring tools, risk-based audits, electronic invoicing, and cashless payment systems to improve transparency and ensure compliance with tax legislation.

The current legal framework regulating taxation in Uzbekistan is based on the Tax Code of the Republic of Uzbekistan, which establishes the procedures for tax administration, taxpayer obligations, and control mechanisms implemented by tax authorities. In recent years, the government has intensified reforms aimed at strengthening tax control, digitalizing fiscal administration, and expanding the formal sector of the economy. Against this background, the role of tax control in reducing the shadow economy becomes particularly relevant for both economic policy and academic research. This study examines the mechanisms through which tax control contributes to reducing the scale of hidden economic activity, focusing on the experience of Uzbekistan. The research analyzes statistical indicators, legislative frameworks, and modern approaches to tax administration that influence the legalization of economic activity.

The purpose of this research is to evaluate the role of tax control in reducing the shadow economy and to analyze the effectiveness of fiscal monitoring mechanisms in improving tax compliance and economic transparency.

METHODOLOGY

This study employs a mixed methodological approach combining qualitative and quantitative research methods to analyze the role of tax control in reducing the shadow economy. The research is based on theoretical analysis, statistical evaluation, and institutional assessment of tax administration mechanisms operating in Uzbekistan.

The theoretical foundation of the study relies on economic theories of tax compliance, institutional economics, and public finance. These theoretical perspectives explain the relationship between tax policy, enforcement mechanisms, and taxpayer behavior. According to the institutional approach, the size of the shadow economy is influenced by the efficiency of government institutions, the level of regulatory burden, and the effectiveness of enforcement mechanisms.

The empirical component of the research uses official statistical data from national economic reports and public sources to evaluate the scale and dynamics of the shadow economy in Uzbekistan. Special attention is given to indicators such as the share of unobserved economic activity in GDP, sectoral distribution of informal activity, and trends in tax revenue growth.

Statistical analysis is complemented by comparative evaluation of economic sectors where informal activity is most prevalent. Previous studies show that agriculture, construction, and service sectors are particularly vulnerable to shadow economic practices due to seasonal employment, cash-based transactions, and fragmented business structures.

The research also includes legal analysis of the regulatory framework governing tax administration in Uzbekistan. Particular emphasis is placed on provisions of the Tax Code related to tax control procedures, including tax audits, monitoring systems, electronic fiscal data exchange, and compliance mechanisms.

In addition, the study examines institutional reforms implemented by tax authorities, including the introduction of digital tax services, online cash registers, electronic invoices, and automated risk-analysis systems used to detect tax evasion. These reforms represent an important shift toward modern tax administration models based on digital monitoring rather than traditional inspection methods.

By integrating theoretical perspectives, statistical evaluation, and legal analysis, this research provides a comprehensive assessment of how tax control mechanisms contribute to reducing the scale of the shadow economy.

RESULTS

The empirical analysis demonstrates that strengthening tax control has become one of the most important instruments for reducing the shadow economy in Uzbekistan. Over the past several years, reforms in tax administration and digitalization have contributed to gradual improvements in economic transparency and tax compliance. Statistical data indicate that the shadow and informal economy remains a significant component of the national economy. Estimates suggest that unobserved economic activity accounted for approximately 505 trillion soums in 2024, equivalent to around 34–35 percent of the country's GDP. This large share highlights the scale of economic activities that operate outside official reporting systems and therefore escape taxation.

At the same time, recent trends show a gradual reduction in the relative size of the shadow sector. According to official estimates, the share of the hidden economy declined from nearly half of GDP in 2019 to approximately one-third by 2025. This improvement reflects the impact of structural reforms, including modernization of tax administration, expansion of electronic payment systems, and enhanced tax monitoring mechanisms. Sectoral analysis reveals that the shadow economy is not evenly distributed across economic activities. The highest levels of unregistered economic activity occur in agriculture, construction, and service sectors. In agriculture, more than seventy percent of economic activity may occur outside formal reporting systems due to widespread household production and informal labor arrangements. Construction and service sectors also exhibit high levels of unreported transactions, often related to cash payments and temporary employment arrangements.

Tax control measures have increasingly focused on these high-risk sectors. The tax authorities have implemented monitoring systems designed to track business transactions, identify inconsistencies in financial reporting, and detect undeclared economic activity. The introduction of electronic fiscal devices and online cash registers has significantly improved the ability of tax authorities to monitor retail transactions in real time. Another important development has been the expansion of cashless payment systems. Digital payment technologies create electronic transaction records that increase transparency and make it more difficult for businesses to conceal revenues. As the use of electronic payments expands, opportunities for tax evasion through unrecorded cash transactions decline.

In addition, risk-based tax audits have become an important component of modern tax control. Instead of conducting random inspections, tax authorities increasingly rely on analytical tools and big data systems to identify taxpayers with a high probability of non-compliance. This approach improves the efficiency of tax administration while reducing unnecessary administrative burdens on compliant businesses. The combination of digital monitoring, risk-based audits, and improved legal enforcement has contributed to increased tax revenues and gradual formalization of economic activity. Reports indicate that government measures aimed at legalizing economic activity have resulted in additional budget revenues and the formal registration of thousands of businesses and jobs previously operating in the shadow sector.

DISCUSSION

The findings of this research demonstrate that tax control plays a crucial role in reducing the shadow economy by influencing both the economic incentives and behavioral patterns of taxpayers. Effective tax control mechanisms increase the probability of detecting tax evasion, thereby raising the expected cost of non-compliance. From the perspective of economic theory, taxpayer behavior is influenced by the relationship between potential benefits of tax evasion and the risks associated with detection and penalties. When tax control systems are weak, businesses may perceive tax evasion as a low-risk strategy for reducing costs. However, when monitoring mechanisms are strengthened and detection becomes more likely, the expected cost of evasion increases, encouraging businesses to operate within the formal economy.

The digitalization of tax administration represents a particularly significant transformation in this regard. Traditional tax control relied heavily on manual inspections and retrospective audits, which were often limited in scope and vulnerable to administrative inefficiencies. Modern digital tax systems allow authorities to monitor economic transactions in real time, enabling faster detection of irregularities and more efficient enforcement. Another important factor influencing the effectiveness of tax control is institutional trust. In many economies, the persistence of the shadow sector is partly associated with low levels of trust in government institutions. When taxpayers perceive the tax system as unfair or inefficient, they may be more inclined to avoid compliance. Therefore, improving transparency, simplifying tax procedures, and ensuring fair enforcement are essential components of successful strategies to reduce the shadow economy.

The experience of Uzbekistan demonstrates that reducing the shadow economy requires a comprehensive policy approach that combines stronger tax control with broader economic reforms. These reforms include simplifying business registration procedures, reducing administrative barriers, expanding digital financial services, and improving the overall investment climate. In addition, targeted measures aimed at sectors with high levels of informal activity are necessary. For example, agriculture and construction sectors often involve temporary labor and small-scale operations that are difficult to regulate using conventional tax systems. In such cases, simplified tax regimes, digital payment platforms, and improved labor registration mechanisms can help encourage formalization.

International experience also confirms that tax control alone cannot eliminate the shadow economy. Instead, it must be integrated with broader institutional reforms that improve governance, reduce corruption, and promote economic inclusion. When tax enforcement is combined with supportive economic policies, businesses are more likely to transition from informal to formal operations.

CONCLUSION

The shadow economy remains a significant challenge for economic development and fiscal sustainability in many countries, including Uzbekistan. A large hidden sector reduces government revenues, distorts economic statistics, and undermines fair competition in the marketplace. The findings of this study demonstrate that tax control plays a key role in reducing the size of the shadow economy. Strengthening tax administration, implementing digital monitoring systems, and expanding electronic payment technologies contribute to greater transparency and improved tax compliance.

Recent reforms in Uzbekistan have already produced measurable results, reflected in the gradual decline of the shadow economy's share in national GDP. However, the persistence of informal activity in several sectors indicates that further improvements in tax administration and economic policy are necessary. Future efforts should focus on expanding digital tax infrastructure, improving risk-based monitoring systems, and strengthening institutional capacity within tax authorities. At the same time, policies aimed at simplifying tax procedures and supporting business formalization will be essential for encouraging voluntary compliance.

Overall, reducing the shadow economy requires a balanced approach that combines effective tax control with broader economic reforms designed to increase transparency, promote entrepreneurship, and strengthen the institutional framework of the national economy.

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