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The Share of Excise Tax Revenues in the State Budget Income of the Republic of Uzbekistan: an Economic Analysis For 2020–2024.

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Abstract: This analytical article provides an in-depth study of the share of excise tax in the state budget revenues of the Republic of Uzbekistan for the period 2020–2024. The article presents a well-grounded analysis of the annual excise tax revenues, their growth rates, and trends. According to the results of the analysis, excise tax can be considered one of the main financial sources of the state budget. At the same time, it has been observed that other tax and customs duty segments have also shown significant growth year by year. The share of excise tax in budget revenues has increased during certain periods and decreased during others.

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Introduction

In the modernization of a market economy, ensuring fiscal stability, and financing the socio-economic obligations of the state, the role of the tax system is extremely important. Among tax revenues, excise tax occupies a special place due to its fiscal significance, its impact on price stability, and its regulatory function in managing the consumption of certain categories of goods. Excise tax is one of the key sources of state budget revenue, and it not only contributes to budget replenishment but also serves as a tool for managing economic processes by influencing the behavior of economic agents.

In the Republic of Uzbekistan, tax policy underwent gradual reforms during 2020–2024, leading to significant changes such as the unification of excise tax, optimization of tax rates, and expansion of the tax base. This period is also characterized by the pandemic, global economic instability, redistribution of fiscal burdens, and the liberalization of the domestic

market. Therefore, analyzing the dynamics of excise tax revenues, assessing their share in total budget revenues, and identifying the factors influencing these changes have both scientific and practical relevance today.

Covering the years 2020–2024 allows for a comprehensive assessment of this short but reform-intensive period for this type of tax. This article provides a scientific analysis of the annual dynamics of excise tax revenues, their share in the state budget, the key causes and factors behind the observed changes, and conclusions aimed at improving efficiency in this area.

Literature Review: The roots of the practice of collecting excise tax for the state treasury date back to the Han Dynasty in China and the Maurya Empire in India, while the theoretical foundations of taxing consumer goods were reflected in A. Smith's work *"The Wealth of Nations."*

A. Smith put forward the idea of excise tax as a neutral tax that could generate revenue for the state budget without increasing the natural wage level. The main condition for such an approach is that if the price of goods subject to excise taxation (such as alcohol, tobacco, jewelry, sugar, petroleum products, etc.) becomes excessively high, consumers may reduce their purchases of these goods because they are not considered essential for primary needs.

Delipalla (2009) describes excise tax as one of the components of indirect taxes. According to Section 6 of the 1976 Excise Act, excise tax imposed on imported goods also applies to locally produced goods. This duty functions as a mechanism to change consumption patterns or social engineering trends. Goods subject to mandatory excise taxation under the Excise Act include alcoholic beverages, tobacco, cigarettes, four-wheel drive vehicles, multi-purpose vehicles, and playing cards. Giles and Tedds (2002) define smuggling as all legal or illegal, market or non-market operations carried out to evade tax payments to the tax authorities. Evasion of indirect taxes is often associated with smuggling, especially crimes related to customs tariffs. Smuggling offenses affect both monetary and non-monetary revenues, such as embargoes, product quality, and quotas. Haiva See (2011) conducted research on non-compliance due to difficulties faced by companies and individuals involved in intentional or unintentional tax evasion activities. Therefore, this study focuses on the occurrence and factors of excise tax non-compliance among importers as taxpayers.

Additionally, the French economist F. Demezou emphasized: *"Excise alone is capable of generating revenue equal to that of all other taxes combined."* (Djamalov, Urazmetov 2021).

Research Methodology This article employs comparative analysis as well as induction and deduction evaluation methods. Using the comparative method, scientific conclusions were drawn regarding the practical significance of creative approaches in effectively managing the taxation of excisable goods.

Analysis and Discussion of Results: Excise tax is considered a primary tax that can be introduced during periods of economic transformation, as its implementation and administration do not pose significant difficulties for the state. Historically, excise taxes have been levied on producers rather than consumers and collected at the place of production. In addition, this tax is often set at a fixed amount per unit of product, which simplifies tax administration. Furthermore, if the types of goods subject to taxation are thoroughly studied and properly introduced, the revenue generated relative to administrative costs can be notably high.

Today, many countries limit the list of goods subject to excise taxation to tobacco, alcohol, and petroleum products. These goods generate high revenue, have a relatively small number of producers, and fall into clearly defined categories. However, tax rates should not be set excessively high. In countries with transitional economies, high excise rates may lead to smuggling becoming a major issue. Since locally produced goods with high excise rates may be taxed at lower rates in neighboring countries, demand for smuggled goods can increase. Additionally, this tax should be collected at an earlier stage in the VAT calculation chain. It is

advisable to collect excise tax at the time of import or during the production process (upon release).

Most countries use excise taxation to regulate supply and demand. Imposing excise tax on a particular type of good reduces demand for it, which in turn decreases production volume. Underutilization of production capacity increases unit costs, leading to an unjustified rise in the cost price of the goods.

On the other hand, the theoretical foundations of excise taxation are aimed at increasing budget revenues while simultaneously addressing social issues by limiting the consumption of certain harmful or non-essential goods. For example, excise taxes on alcohol and tobacco products help prevent excessive consumption and contribute to protecting public health. Similarly, excise taxes on fuel products encourage greater use of public transportation and promote a shift toward vehicles powered by alternative energy sources.

Excise taxation was first introduced in the Republic of Uzbekistan in 1992 in accordance with the Law "On Taxes Collected from Enterprises, Associations, and Organizations" adopted on February 15, 1991, taking into account subsequent amendments and additions introduced due to the transition to a market economy. According to the Tax Code of the Republic of Uzbekistan, excise tax is an indirect tax levied on the budget and calculated within the price and the value-added tax base, representing a portion of net income. Although excise tax shares some similarities with value-added tax, it differs in its specificity and its direct connection to certain types of goods.

Table 1.

Dynamics of Excise Tax Revenues by Years

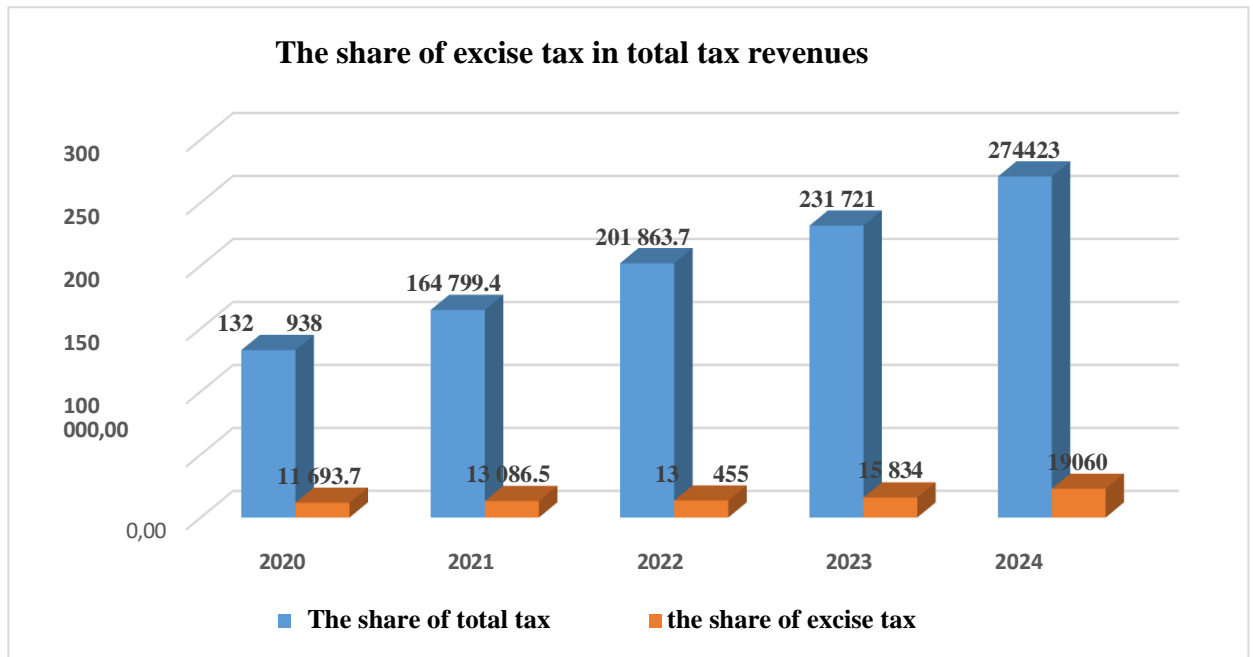
Years	2020	2021	2022	2023	2024
Revenues (in billion UZS)	11,697.3	13,086.5	13,455	15,834	19,060
Growth rate	13.4%	11.88%	2.82%	17.68%	18.71%
Share in the state budget	9.03%	8.89%	6.67%	6.83%	6.85%

If we consider the data on total tax revenues for 2020–2024, state budget revenues amounted to 132,938 billion UZS by the end of 2020. Compared to 2019 indicators, revenues increased by 20,774 billion UZS, or 18.5%. By the end of 2021, budget revenues reached 164,799.4 billion UZS, exceeding the forecast by 17,111.2 billion UZS, or 111.5%, and increasing by 31,861.3 billion UZS compared to 2020.

Although excise tax revenues increased in 2022 compared to 2021, it can be observed that the growth rate declined in 2023. The main reason for this is the reduction of the excise tax rate on AI-80 gasoline to zero until the end of 2023, as well as a decrease in the sales volume of alcohol and tobacco products.

In the following diagram, we will focus on the share of excise tax within the structure of total tax revenues.

Figure 1

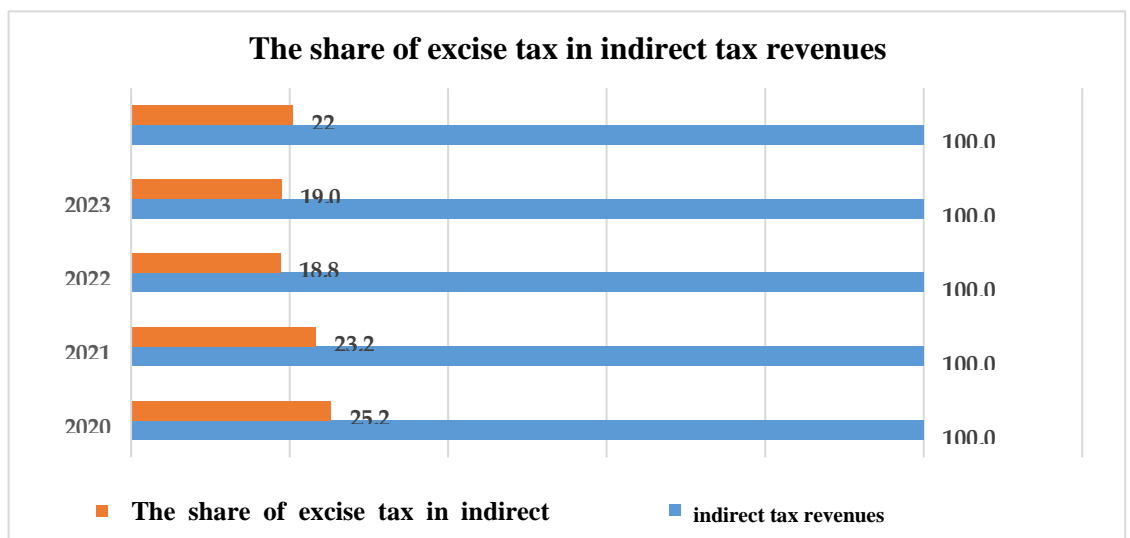


Excise tax revenues (billion UZS) within total tax revenues for 2020–2024

In 2020, excise tax revenues accounted for 11,697.0 billion UZS of total budget revenues. In 2021, this amount increased by 1,389.2 billion UZS compared to the previous year, reaching 13,086.0 billion UZS. In 2022, excise tax revenues amounted to 13,455.0 billion UZS collected in the state treasury. In 2023, excise tax revenues increased by 2,379.0 billion UZS compared to the previous year, totaling 15,834.0 billion UZS. In 2024, excise tax revenues received by the state budget reached 19,060.0 billion UZS, which is 3,226.0 billion UZS more than the previous year.

Looking at these figures in percentage terms, excise tax accounted for 8.7% of total tax revenues in 2020, 7.4% in 2021, 6.6% in 2022, 6.8% in 2023, and 9.55% in 2024. From the above data, it is evident that excise tax revenues within the budget do not show a consistent trend of increase or decrease. This is due to changes being implemented in excise tax administration.

Figure 2



The share of excise tax in total indirect tax revenues (billion UZS) for 2020–2024

In 2020, certain changes were made in excise tax administration. In particular, excise tax rates on alcoholic products, cigarettes, gasoline, diesel fuel, and gas sold to the final consumer were not indexed from April 1, 2020, due to the coronavirus pandemic. From August 1, 2020, excise tax on the import of motor vehicles was abolished.

In 2021, excise tax revenues increased by 1,389.2 billion UZS, or 11.9%, compared to 2020, reaching 13,086.5 billion UZS. The increase in revenues was mainly due to the average 15% indexation of tax rates in February and October 2021 for alcohol, tobacco, petroleum products, and beer. Despite this indexation, excise tax revenues from alcoholic products remained at the 2020 level.

In 2022, excise tax revenues amounted to 13,455.0 billion UZS, an increase of 368.5 billion UZS, or 2.8%, compared to 2021. Changes affecting excise tax revenues in 2022 included a 10% average increase in absolute excise rates for alcohol and tobacco products from June 1, 2022, the abolition of excise tax for liquefied gas producers, a reduction in the excise rate for mobile communication services from 15% to 10%, and a reduction in excise rates on polyethylene granules (including imports) from 20% to 10%.

In 2023, excise tax revenues were influenced by several factors. From January 1, 2023, excise rates on rectified ethyl alcohol from food raw materials, technical rectified ethyl alcohol from ether-aldehyde fractions, and ethyl alcohol from the main fraction were increased fivefold. Excise rates on alcohol and tobacco imports were reduced by 5%. In alcohol production, excise rates were determined based on the share of ethyl alcohol. From February 1, 2023, excise rates on alcohol, tobacco, gasoline, diesel fuel, and gas production were indexed by 10%.

In 2024, excise tax rates were planned to be indexed in three stages. Specifically, from January 1, 2024, excise rates on the production of tobacco products (cigarettes, hookah tobacco, smoking tobacco, pipe tobacco, etc.) were increased by 12%. Rates on rectified ethyl alcohol from food raw materials, technical rectified ethyl alcohol from ether-aldehyde fractions, and ethyl alcohol from the main fraction were doubled. Meanwhile, rates on alcoholic products, as well as on imported filtered and unfiltered cigarettes, papiros, cigars, bidis, and kretek, were reduced by 5%.

Conclusion and Recommendations:

Although excise tax is one of the main sources of state budget formation, there are currently a number of practical issues related to identifying taxpayers, applying tax rates, and collecting taxes:

According to Article 2891 of the Tax Code, the excise tax rate for heated tobacco sticks is set at 341,000 UZS/kg (2024). According to the relevant decision of the Parties Conference of the World Health Organization's Framework Convention on Tobacco Control, heated tobacco products are classified as tobacco products. All restrictions applicable to tobacco products also apply to heated tobacco products.

Heated tobacco produces aerosols containing nicotine and other chemicals, which the user inhales orally using a tobacco heating system. Additionally, the device replicates the motions typical of smoking ordinary cigarettes, and in some cases, specially designed cigarettes containing heated tobacco are used.

Currently, analyzing the excise tax calculation for VUSE brand electronic cigarettes, the retail price of the product is 65,000 UZS, and the excise tax contained ($605 \text{ UZS} \times 2 \text{ ml} = 1,210 \text{ UZS}$) accounts for 1.9% of the retail price.

If the excise tax rate for liquids containing nicotine is doubled, the price of VUSE brand electronic cigarettes would increase to 66,300 UZS (an increase of 1,300 UZS or 2%), and the excise tax contained ($1,210 \text{ UZS} \times 2 \text{ ml} = 2,420 \text{ UZS}$) would account for 3.6% of the retail price.

Therefore, doubling the excise tax rate for this type of product would result in additional tax revenues for the state budget.

Analysis of alcohol production volumes and the excise tax calculated for these volumes revealed that some alcohol-producing enterprises sold grain distillates. It should be noted that under current legislation, excise tax is not applied to grain distillates. From a technological perspective, both rectification and distillation methods ultimately produce ethyl alcohol.

Legislation stipulates that field tax audits of excise goods producers and sellers must be conducted with prior notification. During field tax audits, the following are checked:

Compliance with rules for selling and labeling alcohol and tobacco products, and the availability of relevant permits or licenses;

Documentation confirming the legal origin of goods being stored, used, or sold.

Conducting field tax audits with prior notification in these enterprises allows the concealment of illegally sourced goods, which is a significant drawback.

Based on the above analysis and conclusions, the following recommendations are proposed:

1. Align the excise tax rate for heated tobacco sticks with that of cigarettes, papiros, cigarillos (cigars), bidis, and kreteks.
2. When setting excise tax rates for alcoholic products, include both grain distillates and rectified ethyl alcohol in the applicable types of spirits.
3. Conduct unannounced field tax audits in enterprises producing and selling ethyl alcohol, alcoholic, and tobacco products to detect violations, which will positively contribute to improving excise tax administration in the future.

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