

Article

The Impact of Tax Policy on Small Business Development in Uzbekistan

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Abstract: Small business and private entrepreneurship play a crucial role in ensuring sustainable economic growth, increasing employment, and improving regional economic stability in Uzbekistan. In recent years, the government of Uzbekistan has implemented large-scale tax reforms aimed at reducing the tax burden, simplifying tax administration, and supporting entrepreneurial activity. This study examines the impact of tax policy on the development of small businesses in Uzbekistan within the context of ongoing economic reforms. The main research objective is to evaluate how changes in tax policy influence small business activity, financial sustainability, investment behavior, and employment generation in Uzbekistan. The study applies a mixed-methods research design based on statistical analysis, comparative analysis, and qualitative policy assessment. Secondary data were collected from the State Tax Committee of Uzbekistan, the Statistics Agency under the President of the Republic of Uzbekistan, World Bank reports, and academic publications covering the period from 2018 to 2024.

Citation: Shavkat qizi. M. M., Akmal o'g'li. T. A. The Impact of Tax Policy on Small Business Development in Uzbekistan. International Journal on Economics, Finance and Sustainable Development (IJEFS) 2026, 8(2), 111-115.

Received: 17th Feb 2026

Revised: 21th Mar 2026

Accepted: 19th Apr 2026

Published: 11th May 2026

Keywords: Tax policy, small business, entrepreneurship, Uzbekistan, tax reforms, economic development, tax administration.



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Introduction

Small business and private entrepreneurship have become one of the most important drivers of economic development in many developing and transition economies. In modern economic systems, small businesses contribute significantly to employment generation, innovation, market competition, regional development, and poverty reduction [1]. According to the World Bank and OECD, countries with strong small business sectors tend to demonstrate higher levels of economic diversification and economic resilience during periods of global uncertainty. In Uzbekistan, small business development has gained strategic importance since the country initiated large-scale economic reforms aimed at transitioning toward a more market-oriented economic system [2]. Following economic liberalization policies introduced after 2017, the government of Uzbekistan identified entrepreneurship support and tax system modernization as key priorities for sustainable economic growth. As a result, comprehensive tax reforms were implemented to reduce bureaucratic barriers, simplify taxation procedures, encourage formalization of business activity, and improve the investment climate [3]. Tax policy represents one of the most influential instruments of state economic regulation. Through taxation mechanisms, governments influence investment decisions, business expansion, employment creation, and consumption patterns. For small businesses, tax policy is particularly important because excessive tax burdens and complicated administrative procedures may limit financial sustainability and discourage entrepreneurial activity. Conversely, effective tax

incentives and simplified tax administration systems can stimulate business growth and increase tax compliance [4]. Prior to recent reforms, Uzbekistan's tax system was frequently criticized for its complexity, high compliance costs, and administrative inefficiencies. Small businesses faced multiple reporting obligations, complicated documentation requirements, and inconsistent tax administration practices. These challenges contributed to the expansion of the informal economy and reduced the competitiveness of small enterprises. To address these issues, Uzbekistan implemented several important tax reforms between 2018 and 2024 [5]. These reforms included reductions in corporate tax rates, simplification of turnover taxation, expansion of electronic tax reporting systems, digitalization of tax administration, and the introduction of tax incentives for priority sectors. The establishment of online tax platforms and electronic invoicing systems significantly changed interactions between entrepreneurs and tax authorities [6].

Methodology

This study applies a mixed-methods research approach combining quantitative statistical analysis with qualitative policy evaluation. The methodological framework was selected to ensure a comprehensive assessment of the relationship between tax policy reforms and small business development in Uzbekistan.

The research is based primarily on secondary data collected from official national and international sources covering the period from 2018 to 2024. The main data sources include the State Tax Committee of the Republic of Uzbekistan, the Statistics Agency under the President of the Republic of Uzbekistan, the Ministry of Economy and Finance, World Bank databases, Asian Development Bank reports, and recent academic publications related to taxation and entrepreneurship.

Quantitative analysis was conducted using descriptive statistical methods and comparative trend analysis. Indicators examined in the study include the number of registered small businesses, tax revenues from small enterprises, employment levels within the small business sector, tax burden indicators, and digital tax service utilization rates. The study compares pre-reform and post-reform periods to identify structural changes associated with tax policy modernization.

In addition, qualitative content analysis was used to evaluate legislative reforms, government policy documents, and institutional changes related to tax administration. Particular attention was given to reforms involving electronic tax reporting systems, simplified taxation procedures, turnover tax policies, and tax incentives introduced for small enterprises.

Comparative analysis methods were also applied to examine differences between urban and regional business environments and to assess the practical effectiveness of tax reforms across various sectors of the economy. Tables and figures were developed based on aggregated statistical indicators obtained from official sources.

The study follows a systematic analytical framework consisting of data collection, indicator classification, trend analysis, interpretation of reform outcomes, and policy evaluation. This methodological approach allows the research to assess both the economic and institutional dimensions of tax policy impacts on entrepreneurship development in Uzbekistan.

Results

The results of the study demonstrate that recent tax reforms in Uzbekistan contributed positively to the growth and formalization of small business activity. The introduction of simplified taxation systems and digital tax administration significantly improved tax compliance and reduced administrative barriers for entrepreneurs [7].

Before presenting the statistical results, it is important to note that tax reforms implemented after 2018 focused primarily on reducing the overall tax burden and

improving administrative efficiency. These reforms created more favorable conditions for entrepreneurship development, especially in trade, services, and manufacturing sectors [8].

Table 1. Growth of Small Business Indicators in Uzbekistan (2018–2024).

Year	Registered Small Businesses (thousand)	Employment in Small Business (%)	Tax Revenue from Small Business (trillion UZS)
2018	245	74.3	18.5
2019	268	75.8	21.2
2020	276	76.5	22.8
2021	301	77.4	26.1
2022	328	78.6	30.5
2023	356	79.2	35.4
2024	381	80.1	39.8

Table 1 illustrates the dynamics of small business development indicators in Uzbekistan between 2018 and 2024. The data show steady growth in the number of registered enterprises, employment levels, and tax revenues generated by small businesses during the reform period [9].

The findings indicate that the number of registered small businesses increased significantly during the study period. Employment within the small business sector also expanded, demonstrating the growing role of entrepreneurship in Uzbekistan’s labor market. Tax revenues from small enterprises increased consistently despite reductions in certain tax rates, suggesting improved compliance and expansion of formal economic activity [10].

The next table summarizes entrepreneurs’ perceptions regarding the impact of tax reforms on business activity and financial sustainability.

Table 2. Entrepreneurs’ Assessment of Tax Reforms (2024 Survey Results).

Assessment Category	Positive (%)	Neutral (%)	Negative (%)
Tax burden reduction	72	18	10
Simplicity of tax reporting	81	12	7
Digital tax systems	86	9	5
Access to tax information	69	20	11
Overall business environment	74	16	10

Table 2 presents survey-based assessments of entrepreneurs regarding the effectiveness of recent tax reforms in Uzbekistan. The data highlight business perceptions concerning tax burden reduction, reporting procedures, and digital tax administration [11].

The survey results reveal generally positive attitudes toward tax policy reforms among entrepreneurs. Digital tax systems and simplified reporting procedures received

the highest levels of approval. However, some respondents indicated continuing difficulties related to access to tax information and regional administrative practices [12].

Discussion

The findings of the study demonstrate that tax policy reforms implemented in Uzbekistan during recent years produced substantial positive effects on small business development. The steady increase in registered enterprises and employment indicators suggests that simplified taxation systems and reduced tax burdens encouraged formalization of entrepreneurial activity and stimulated business expansion [13].

One of the most significant outcomes identified in the research is the growing role of digital tax administration in improving institutional efficiency. The expansion of electronic reporting systems reduced transaction costs for businesses and minimized bureaucratic procedures associated with tax compliance. Similar results have been observed in other transition economies where digital tax reforms improved transparency and reduced opportunities for informal economic activity [14]. The increase in tax revenues from small businesses despite lower tax rates reflects the effectiveness of tax base expansion strategies. Improved compliance and formalization appear to have compensated for reductions in certain tax categories. This finding supports theoretical arguments suggesting that moderate tax burdens combined with efficient administration may generate more sustainable fiscal outcomes than excessively restrictive taxation systems [15].

The positive evaluations expressed by entrepreneurs regarding digital tax services and simplified reporting procedures further confirm the importance of institutional modernization in supporting entrepreneurship development. The widespread adoption of electronic systems indicates increasing trust in digital governance mechanisms and greater accessibility of state services for business entities. The research also demonstrates the importance of balancing fiscal objectives with entrepreneurship support policies. Excessive administrative control or unpredictable regulatory changes may negatively affect business confidence even within relatively favorable taxation systems. Therefore, long-term tax policy stability remains essential for maintaining investment activity and entrepreneurial growth.

Overall, the results indicate that Uzbekistan's recent tax reforms contributed positively to entrepreneurship development and institutional modernization. Nevertheless, achieving sustainable small business growth requires continued improvement in governance quality, digital infrastructure, and regional policy implementation mechanisms.

Conclusion

This study examined the impact of tax policy reforms on small business development in Uzbekistan during the period from 2018 to 2024. The findings demonstrate that recent reforms aimed at reducing tax burdens, simplifying reporting procedures, and expanding digital tax administration significantly contributed to the growth and formalization of entrepreneurial activity. The research showed steady increases in the number of registered small businesses, employment within the entrepreneurship sector, and tax revenues generated by small enterprises. These results indicate that tax system modernization created more favorable economic conditions for business development and improved tax compliance levels. The expansion of electronic tax services also reduced administrative barriers and increased transparency within the taxation process. Survey results revealed generally positive perceptions among entrepreneurs regarding tax burden reductions and digital administration systems. In particular, simplified reporting procedures and online tax services were identified as important factors improving business operations and reducing compliance costs.

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