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TURNOVER TAX AND ITS ROLE IN THE ECONOMY

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Abstract

This scientific work provides information on the turnover tax calculated and paid based on their turnover by industrial enterprises, service organizations, self-employed individuals, sole proprietors, and other business entities currently operating in our country. It also explains, through statistical indicators, the contribution of this type of tax to the state budget.

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Introduction

Today, the stability of any country's economy directly depends on how fair and simple its tax system is. In Uzbekistan, the turnover tax introduced to support entrepreneurship is an important mechanism that provides significant opportunities, especially for small and medium-sized businesses[1].

The Decree of the President of the Republic of Uzbekistan dated February 10, 2023, No. PF-21, became a turning point in further improving the turnover tax system. This document introduced a completely new procedure for categorizing business entities, which directly contributed to reducing the tax burden. The main essence of the decree is that it gave small business representatives the freedom to choose their tax payment method[2].

In particular, according to this decree, entrepreneurs with an annual turnover of up to 500 million UZS are required to pay a fixed tax of 20 million UZS per year, while those with a turnover between 500 million and 1 billion UZS are required to pay 30 million UZS annually. Firstly, entrepreneurs are no longer required to calculate monthly revenues and submit complex reports. Secondly, if the entrepreneur's profit is high, paying a fixed amount is significantly more cost-effective compared to a percentage-based rate (4%)[3].

According to Article 461 of the Tax Code of the Republic of Uzbekistan, turnover tax is a simplified taxation regime applied mainly to business entities whose total annual income does not exceed 1 billion UZS. Its main role in the economy is that it relieves entrepreneurs from complex calculations and the obligation to pay multiple separate taxes, consolidating them into a single unified rate[4].

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The rates established under Article 467 of the Tax Code (generally 4%, but potentially lower depending on the type of activity and region) enable entrepreneurs to direct their resources toward business expansion rather than complicated accounting processes. From an economic perspective, turnover tax contributes to reducing the share of the shadow economy. This is because when tax rates are low and calculations are simple, entrepreneurs are more interested in operating legally rather than concealing their income[5].

In this article, we will provide a detailed analysis of the legal foundations of turnover tax, its advantages, and its impact on economic growth in the current period of reforms.

Literature Review

From a theoretical perspective, the economic incentive role of turnover tax is thoroughly explained in the textbook “Taxes and Taxation” authored by A. Jo‘rayev and his co-authors. According to the authors, such a simplified taxation system reduces excessive administrative costs for entrepreneurs. In other words, entrepreneurs are able to allocate their financial resources not to maintaining complex accounting systems, but to expanding their businesses and creating new jobs. This, in turn, has a positive impact on the growth of the country’s gross domestic product[6].

Regarding practical outcomes and statistical analyses, articles published in analytical journals such as *Economic Review* play an important role. Studies published in these sources indicate that in recent years, the optimization of turnover tax rates (particularly the introduction of a unified 4% rate) has led to a sharp increase in the number of entrepreneurs in the service and trade sectors. According to analysts, the simplicity of such a tax system directly contributes to bringing businesses out of the “shadow economy” and stabilizing state budget revenues[7].

Research Methodology

This article employs several research methods to conduct the study. In particular, through empirical analysis, data related to the topic were examined from a theoretical perspective. In addition, statistical methods were used to analyze indicators related to turnover tax, and based on these analyses, final conclusions were drawn in the article.

Analysis and Results

As emphasized by A. Jo‘rayev and his co-authors in the textbook “Taxes and Taxation,” any effective tax system must be both understandable and motivating for entrepreneurs. According to the authors, the main strength of turnover tax lies in its simplicity. That is, instead of complex calculations, an entrepreneur pays a fixed percentage of their net revenue and focuses on developing their business[8].

Today, these theoretical views are being confirmed in practice. In particular, the unified 4% rate established in the Tax Code and the tax exemption benefits for entrepreneurs with an annual turnover of up to 100 million UZS correspond exactly to the incentive principle highlighted by Jo‘rayev. Analysis shows that such simplification of tax administration has created significant opportunities, especially for small enterprises in the service sector. As a result, entrepreneurs now prefer to declare their income openly rather than avoid taxation. This not only increases the profitability of businesses but also ensures the stability of state budget revenues. Thus, the theoretical principle of “simple tax – developed business” is producing real results in the economy of Uzbekistan today[9].

The turnover tax system is primarily designed for small business entities. According to Article 461 of the Tax Code, entrepreneurs and legal entities with an annual total income not exceeding 1 billion UZS are eligible to apply this tax regime. However, not all entities can operate under this system. For example, producers of excisable goods, extractive industries, and owners of large trade complexes are required to follow the general taxation regime[10].

The object and base of this tax rely on very simple concepts. The tax object is the total revenue earned by an entrepreneur from the sale of goods or provision of services. The tax base is the monetary value of this revenue. In other words, the tax is calculated as a fixed percentage of the total income earned within a given period, without deducting expenses. This significantly simplifies accounting procedures. The

reporting period is monthly rather than quarterly—reports must be submitted and payments made no later than the 15th day of each month[11].

Regarding tax benefits, the government has created significant conveniences to support small businesses. For instance, if an entrepreneur's annual turnover does not exceed 100 million UZS, they are fully exempt from paying this tax. Additionally, since 2023, entrepreneurs have been given the right to choose: they may either pay a percentage-based tax (usually 4%) based on their revenue or opt to pay a fixed annual amount, thereby being completely exempt from reporting obligations[12].

One of the most important and widely discussed aspects is the transition from turnover tax to profit tax. If an entrepreneur's annual turnover exceeds the threshold of 1 billion UZS, they are required to switch immediately (starting from the following month) to the general taxation regime, which includes paying Value Added Tax (VAT) and profit tax. During this transition, the payment of turnover tax is discontinued. Under the profit tax system, the entrepreneur pays tax not on total turnover but on net profit, calculated after deducting all expenses (such as wages, rent, and raw materials). Although this system is more complex, it ensures greater transparency and provides opportunities to work with larger business partners as the business expands[13].

Finally, the table below presents information on which categories of taxpayers are subject to turnover tax and the applicable tax rates established in the Tax Code.

Table 1. Turnover Tax (AOS) Rates (%)

No.	Taxpayers	Tax Rates (%)
1	Taxpayers in all sectors of the economy, except those specified in items 2–5	4
2	Taxpayers in the retail trade sector	
2.1	Depending on location:	
	– In cities with a population of 100,000 or more	4
	– In other населated areas	2
	– In remote and mountainous districts	1
2.2	Regardless of location, for turnover from the sale of tobacco products	4
3	Procurement organizations engaged in purchasing, sorting, storing, and packaging agricultural products	4% of turnover or 25% of gross income
4	Taxpayers whose sole participants are public associations of persons with disabilities, the “Nuroni” Foundation, and the “Association of Chernobyl Participants of Uzbekistan,” provided that persons with disabilities, war veterans, and 1941–1945 labor front veterans constitute at least 50% of total employees, and their wage fund is at least 50% of the total payroll	0
5	Individual entrepreneurs and self-employed persons	1

According to the draft State Budget of the Republic of Uzbekistan for 2026 and the approved macroeconomic forecasts, the role of turnover tax (AOS) in budget revenues is expected to demonstrate a

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specific dynamic trend. According to estimates, total state budget revenues in 2026 are planned to reach 368.9 trillion UZS, of which more than 286 trillion UZS is projected to come from tax and customs revenues[14].

Against the backdrop of these large figures, the share of turnover tax in total budget revenues is relatively small—expected to be around 1–1.5 percent. For example, revenues from this tax type were projected at 3.6 trillion UZS for 2025 (reflecting a 25% increase compared to the previous year). In 2026, due to increased economic activity and the introduction of new tax regulations, the absolute amount of revenues is expected to grow slightly; however, its share in the overall budget structure will remain relatively stable.

So, why is the share of this tax in the budget relatively small compared to other taxes? There are several main reasons for this. First, the primary purpose of turnover tax is not to maximize budget revenues, but to support small businesses, which have significant social importance. The government collects the main share of revenues from large enterprises through Value Added Tax (VAT) and profit tax, while providing tax incentives to small businesses to foster their development. Second, the relatively low tax rate (usually around 4%) naturally generates less revenue compared to higher-rate taxes (such as the 15% profit tax). Third, once successful entrepreneurs exceed the annual turnover threshold of 1 billion UZS, they are automatically transferred to the general taxation regime with higher tax contributions[15].

Conclusion

After a comprehensive analysis of the topic of turnover tax, it can be concluded that this type of tax is not merely a tool for filling the state budget, but rather one of the most important drivers of small business development in our country. As observed, the simplified procedures and tax rates established by the Tax Code allow entrepreneurs to allocate more time and financial resources to expanding their businesses instead of dealing with complex accounting processes.

From an economic perspective, the share of turnover tax in the state budget (approximately 1–1.5%) may seem relatively small. However, its main benefit is reflected not in numerical indicators, but in its social impact. In other words, this tax type encourages thousands of entrepreneurs to move out of the “shadow economy” and operate legally. Forecasts for 2026, particularly the introduction of new regulations for self-employed individuals, indicate a further expansion of the tax base.

As a final remark, it should be noted that the consistent improvement of the turnover tax system contributes to the creation of a healthy competitive environment in the economy. During the period before entrepreneurs exceed the annual turnover threshold of 1 billion UZS and transition to profit tax, this tax system serves as a kind of protective shield and a foundation for growth. In the future, further digitalization of this system and optimization of tax rates across sectors will help increase the share of small businesses in the gross domestic product.

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