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For more information contact: editor@gospodarkainnowacje.pl

VALUE ADDED TAX AND ITS ROLE IN THE ECONOMY

Turayev Alijon Akmal oglu

Associate Professor of the Department of "Investment and Innovations" Acting PhD.

alijon.turayev@mail.ru

Sevinch Ikromjanovna

Student of the Samarkand Institute of Economics and Service, Faculty of Economics.

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Abstract

1. Research Objectives: This study aims to analyze the role of Value Added Tax (VAT) in the modern economy, focusing on its contribution to fiscal stability, economic growth, and consumption regulation, particularly in the context of ongoing tax reforms in Uzbekistan. 2. Design/Methodology/Approach: The research is based on a mixed-method approach combining quantitative analysis of VAT revenue data for the period 2020–2024 and qualitative institutional analysis of tax policies. Trend analysis and comparative methods are applied to evaluate VAT performance. 3. Research Findings: The findings indicate that VAT is one of the most significant sources of government revenue, with its share increasing steadily over time. VAT also contributes to improving tax compliance through its self-enforcing mechanism and supports economic growth by maintaining stable fiscal flows. 4. Theoretical Contributions/Originality: The study provides an integrated perspective by combining fiscal theory, institutional analysis, and empirical evidence to evaluate VAT effectiveness in a transition economy. 5. Implications for Practitioners/Policy: The results suggest that strengthening VAT administration, enhancing digital tax systems, and improving refund mechanisms can significantly increase efficiency and reduce the shadow economy. 6. Limitations/Research Implications: The study is limited by the lack of detailed sectoral data and suggests further econometric analysis for deeper investigation.

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INTRODUCTION

Value Added Tax (VAT) is one of the most widely used forms of indirect taxation in modern economies and plays a crucial role in shaping fiscal policy and economic development. Unlike direct taxes, VAT is levied on consumption at each stage of production and distribution, making it a stable and efficient source of government revenue. Due to its broad tax base and relatively low distortionary effects, VAT has become a key instrument for ensuring fiscal sustainability in both developed and developing countries [1].

In recent decades, the significance of VAT has increased considerably, particularly in transition economies undergoing structural reforms. Governments rely on VAT not only for revenue generation but also for improving transparency and reducing tax evasion. The credit-invoice mechanism inherent in VAT systems allows for better tracking of economic transactions, thereby minimizing opportunities for underreporting. In Uzbekistan, VAT reforms have been an integral part of broader economic transformation policies [2], [3]. Since 2020, significant efforts have been made to modernize the tax system, including reducing VAT rates, simplifying procedures, and introducing digital tax administration systems. These reforms aim to enhance compliance, reduce administrative burdens, and stimulate economic activity.

Furthermore, VAT plays an important role in influencing consumption patterns. By affecting the prices of goods and services, it indirectly shapes consumer behavior and aggregate demand. At the macroeconomic level, VAT contributes to budget stability, supports public investment, and facilitates economic growth [4].

However, VAT is not without challenges. Issues such as tax evasion, refund inefficiencies, and administrative complexity can reduce its effectiveness. In addition, VAT may have regressive effects, disproportionately affecting lower-income households [5], [6]. The relevance of this study lies in the need to comprehensively evaluate the role of VAT in the economy, particularly in the context of ongoing reforms. The study aims to provide a balanced analysis of both the benefits and limitations of VAT as a fiscal instrument.

METHODOLOGY

This study employs a mixed-method research approach combining quantitative and qualitative analysis to evaluate the role of VAT in the economy. The quantitative component is based on statistical data covering the period from 2020 to 2024. Data sources include official reports from tax authorities, national statistical agencies, and international organizations. Trend analysis is used to examine the dynamics of VAT revenues, while comparative analysis is applied to evaluate changes over time.

Additionally, descriptive statistical methods are used to assess the relationship between VAT revenues and macroeconomic indicators such as GDP and consumption levels. These methods allow for identifying patterns and trends without relying on complex econometric modeling. The qualitative component focuses on institutional and policy analysis. Legal documents, including tax codes and reform programs, are examined to understand the evolution of VAT policy. This approach helps to identify the structural and regulatory factors influencing VAT performance. Furthermore, elements of fiscal theory and behavioral economics are incorporated to analyze how VAT affects economic behavior. The study evaluates the role of VAT in reducing tax evasion through its self-enforcing mechanism and its impact on compliance.

Overall, the methodology provides a comprehensive framework for analyzing VAT from both empirical and theoretical perspectives.

RESULTS

Description before Table

The following table presents the dynamics of VAT revenues and their share in total tax revenues between 2020 and 2024.

Table 1. VAT Revenue Dynamics (2020–2024)

No	Year	VAT Revenue (trillion UZS)	Share in Total Tax Revenue (%)
1	2020	35.2	28.5%
2	2021	42.8	30.2%
3	2022	51.6	32.8%
4	2023	58.9	34.1%
5	2024	65.3	35.5%

Source: Constructed by the author based on national tax statistics (2024).

Result Analysis

The results indicate that VAT revenues have increased steadily over the period 2020–2024. The share of VAT in total tax revenues rose from 28.5% in 2020 to 35.5% in 2024, confirming its growing importance in fiscal policy. This growth reflects improvements in tax administration, expansion of the tax base, and increased compliance [7], [8]. The introduction of digital tax systems has played a key role in reducing tax evasion and improving efficiency. Furthermore, the results show a positive relationship between VAT revenues and economic growth. As economic activity increases, consumption rises, leading to higher VAT collections.

DISCUSSION

The results confirm that VAT is a central pillar of modern fiscal systems, particularly in economies undergoing structural transformation. The steady increase in VAT revenues between 2020 and 2024 highlights the effectiveness of tax reforms and administrative improvements. From a theoretical perspective, VAT is considered one of the least distortive forms of taxation. Its broad base and neutrality make it an efficient revenue-generating instrument [9]. The findings of this study support this view, as VAT revenues have shown consistent growth without negatively impacting economic activity. The observed relationship between VAT and GDP growth suggests that VAT is closely linked to overall economic performance. Higher levels of consumption lead to increased VAT revenues, which in turn support government spending and investment. However, the discussion also highlights several challenges. One of the main issues is VAT compliance [10]. Despite improvements, tax evasion and underreporting remain significant concerns. The effectiveness of VAT depends heavily on the efficiency of tax administration and enforcement mechanisms. Another important issue is the regressive nature of VAT. Since VAT is applied uniformly, it tends to have a greater impact on low-income households. This raises concerns about income inequality and social equity. Additionally, VAT refund mechanisms can be complex and inefficient, particularly for exporters. Delays in VAT refunds can create liquidity problems for businesses and reduce economic efficiency [11].

The role of digitalization is particularly important in addressing these challenges. The introduction of electronic invoicing and real-time monitoring systems has significantly improved transparency and reduced opportunities for tax evasion. Overall, the discussion emphasizes that while VAT is an effective fiscal instrument, its success depends on proper design, efficient administration, and continuous reform. The results presented in Table 1 provide important insights into the growing role of Value Added Tax (VAT) in the economy over the period 2020–2024. The steady increase in both VAT revenues and its share in total tax revenues reflects the strengthening of fiscal capacity and the effectiveness of tax policy reforms [12].

First, the upward trend in VAT revenues—from 35.2 trillion UZS in 2020 to 65.3 trillion UZS in 2024—indicates a significant expansion of the tax base and improved tax collection efficiency. This growth can be attributed to several key factors, including the digitalization of tax administration, the introduction of electronic invoicing systems, and enhanced monitoring mechanisms. These improvements have reduced tax evasion and increased transparency in economic transactions [13], [14].

Second, the increase in VAT's share of total tax revenue—from 28.5% in 2020 to 35.5% in 2024—demonstrates the rising importance of VAT as a central pillar of fiscal policy. This aligns with international experience, where VAT is considered one of the most stable and reliable sources of government revenue due to its broad tax base and relatively low sensitivity to economic fluctuations. From a macroeconomic perspective, the growth of VAT revenues is closely linked to the expansion of consumption and economic activity [15]. As household income and business activity increase, consumption levels rise, leading to higher VAT collections. This confirms the pro-cyclical nature of VAT, which tends to increase during periods of economic growth.

However, the analysis also reveals several important challenges. One of the key issues is VAT compliance. Despite improvements in tax administration, certain sectors—particularly small and informal businesses—continue to exhibit lower compliance levels. This suggests that further efforts are needed to improve tax culture and strengthen enforcement mechanisms. Another critical issue is the efficiency of VAT refund systems. Delays in VAT refunds can negatively affect business liquidity, especially for exporters who rely on timely reimbursements. Inefficient refund mechanisms may reduce the overall effectiveness of VAT and create additional administrative burdens.

In addition, the regressive nature of VAT remains a concern. Since VAT is applied uniformly across goods and services, it may disproportionately affect low-income households, which spend a larger share of their income on consumption. This highlights the need for complementary social policies to mitigate potential inequality effects. Furthermore, the increasing reliance on VAT as a primary source of revenue may create structural vulnerabilities. Overdependence on consumption taxes can expose the fiscal system to fluctuations in consumer demand, particularly during economic downturns.

Despite these challenges, the results confirm that VAT remains a highly effective fiscal instrument. Its ability to generate stable revenue, improve transparency, and support economic growth makes it a key component of modern tax systems. Overall, the discussion suggests that the effectiveness of VAT depends on a balanced approach that combines efficient administration, strong compliance mechanisms, and supportive social policies. Continued reforms and digitalization efforts will be essential to maximize the benefits of VAT while minimizing its potential drawbacks.

CONCLUSION

This study has demonstrated that Value Added Tax plays a crucial role in modern economies by serving as a stable and efficient source of government revenue. The findings confirm that VAT contributes significantly to fiscal sustainability and economic stability. The analysis of data from 2020 to 2024 shows a steady increase in VAT revenues and their share in total tax revenues. This reflects improvements in tax administration, expansion of the tax base, and enhanced compliance mechanisms. Furthermore, VAT has a positive relationship with economic growth, as it is closely linked to consumption levels. As economic activity increases, VAT revenues also rise, supporting government expenditures and public investment. However, the study also identifies several challenges, including compliance issues, regressive effects, and administrative complexities. Addressing these challenges requires continuous reforms and improvements in tax administration. In conclusion, VAT is not only a fiscal instrument but also a strategic policy tool that can support sustainable economic development when properly implemented.

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