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The Role of Value Added Tax in the Economy: Evidence from Uzbekistan's Fiscal System

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Abstract: Value Added Tax (VAT) has become one of the most significant instruments of fiscal policy in both developed and developing economies. In Uzbekistan, VAT reforms implemented during recent years have substantially influenced budget revenues, business activities, and macroeconomic stability. The primary objective of this study is to evaluate the economic role of VAT within Uzbekistan's fiscal framework and examine its contribution to economic growth, public revenue generation, and tax administration efficiency. The research employs a mixed-method approach that combines qualitative and quantitative analysis. Statistical data obtained from the State Tax Committee of Uzbekistan, the Ministry of Economy and Finance, and international financial institutions were analyzed using comparative, trend, and descriptive analytical methods. The study also reviews contemporary scientific literature on VAT systems and tax reforms in transition economies. Research findings indicate that VAT serves as a stable source of government revenue and contributes significantly to the financing of public expenditures. Furthermore, the digitalization of tax administration and electronic invoicing mechanisms have improved transparency and reduced tax evasion. However, the research also demonstrates that high compliance costs and administrative complexities remain major challenges for small and medium-sized enterprises.

Keywords: Value Added Tax (VAT), Tax Policy, Fiscal Sustainability, Indirect Taxation, Digital Tax Administration, Economic Development, Tax Reforms, Budget Revenues, Uzbekistan Economy, Tax Compliance, Fiscal Policy Modernization, Electronic Invoicing, Public Finance, Macroeconomic Stability, Tax Administration Efficiency

Citation: Juraqulovna H. Y., and Shoxrux X. The Role of Value Added Tax in the Economy: Evidence from Uzbekistan's Fiscal System. Web of Scholars: Multidimensional Research Journal 2026, 5(3), 38-43.

Received: 12th Feb 2026

Revised: 28th Mar 2026

Accepted: 19th Apr 2026

Published: 15th May 2026



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1. Introduction

Taxation plays a central role in ensuring economic stability, financing public expenditures, and supporting sustainable development in modern economies. Among various forms of taxation, Value Added Tax (VAT) has become one of the most widely implemented indirect taxes across the world due to its efficiency, broad tax base, and relatively stable revenue-generating capacity. VAT is imposed on the value added at each stage of production and distribution, thereby ensuring continuous revenue collection throughout the economic cycle. In developing and transition economies, VAT is often considered a critical instrument for strengthening fiscal discipline and increasing budget revenues [1, 2]. In recent years, Uzbekistan has undertaken comprehensive reforms aimed at modernizing its tax system and improving the efficiency of fiscal administration. These reforms have included reductions in tax rates, expansion of the VAT taxpayer base, introduction of electronic tax invoices, and digitalization of tax reporting procedures. Such transformations were implemented to stimulate economic activity, reduce the shadow economy, and enhance the transparency of financial operations. Consequently, VAT has emerged as one of the leading contributors to state budget revenues in Uzbekistan [3, 4].

The significance of VAT extends beyond fiscal considerations. Economists argue that an effective VAT system positively influences investment attractiveness, market competitiveness, and business formalization. Since VAT is collected at multiple stages of production, it reduces opportunities for tax evasion compared to traditional sales taxes [5]. Moreover, VAT creates incentives for enterprises to maintain accurate accounting records in order to claim input tax credits. This mechanism enhances financial transparency and contributes to the development of a more organized business environment [6].

Despite its advantages, VAT also generates several economic and administrative challenges. Critics of VAT systems emphasize that indirect taxes may disproportionately affect low-income households because they increase the prices of goods and services. Furthermore, complex reporting requirements and compliance procedures may impose additional financial burdens on small businesses. In transition economies such as Uzbekistan, where digital tax administration is still evolving, businesses often encounter difficulties related to tax refunds, invoice processing, and regulatory compliance. Therefore, evaluating the effectiveness and economic consequences of VAT reforms remains highly relevant for policymakers and researchers [7].

The global experience demonstrates that the success of VAT largely depends on the efficiency of tax administration and institutional capacity. Countries that successfully integrated digital technologies into tax collection systems achieved higher compliance rates and lower levels of tax evasion. Uzbekistan has recently accelerated the implementation of digital tax platforms and automated monitoring systems, which have significantly transformed fiscal management practices. Nevertheless, questions remain regarding the broader economic effects of these reforms on entrepreneurship, inflation, and overall economic development [8].

This study aims to analyze the role of VAT in Uzbekistan's economy by examining its fiscal significance, impact on economic activity, and administrative effectiveness. The research focuses on identifying the advantages and limitations of the current VAT system while assessing recent policy reforms and digitalization measures. Through statistical analysis and literature review, the paper seeks to provide both theoretical and practical insights into the functioning of VAT within a transition economy [9]. The importance of this research is determined by the growing role of tax policy in achieving macroeconomic stability and sustainable development objectives. Understanding the economic implications of VAT reforms can assist policymakers in designing balanced fiscal strategies that support economic growth while ensuring stable public revenues [10]. Additionally, the findings may contribute to future academic discussions concerning indirect taxation and tax modernization in developing countries.

2. Materials and Methods

This research employs a mixed-methodological approach combining qualitative and quantitative research techniques to evaluate the role of Value Added Tax in Uzbekistan's economy. The study primarily relies on secondary data collected from official government sources, including the State Tax Committee of the Republic of Uzbekistan, the Ministry of Economy and Finance, the State Statistics Committee, and international financial organizations such as the World Bank and the International Monetary Fund. Statistical data covering the period from 2019 to 2025 were selected in order to analyze the impact of recent VAT reforms and digitalization processes.

The quantitative aspect of the research involves descriptive statistical analysis, trend analysis, and comparative analysis. Descriptive statistics were applied to evaluate changes in VAT revenues, tax collection efficiency, and the share of VAT in total budget revenues. Trend analysis was used to identify dynamic changes in tax indicators before and after major tax reforms. Comparative analysis enabled the comparison of VAT performance

indicators across different years and economic sectors. Tables and figures were constructed using statistical indicators derived from official reports and analytical reviews.

The qualitative component of the study includes a systematic review of scientific literature related to indirect taxation, VAT administration, fiscal policy, and tax reforms in transition economies. Academic articles published within the last five years were examined to identify contemporary theoretical approaches and practical experiences associated with VAT systems. The literature review helped establish the conceptual framework for understanding the economic role of VAT and the challenges associated with tax compliance and administration.

Furthermore, institutional analysis was employed to evaluate the impact of digital tax administration mechanisms, including electronic invoices, online cash registers, and automated tax monitoring systems. The study also considered the relationship between VAT reforms and macroeconomic indicators such as business formalization, inflationary pressure, and budget sustainability.

The methodology was selected to ensure reliability, objectivity, and analytical depth. However, the research is limited by the availability of publicly accessible enterprise-level data and the relatively recent implementation of several tax reforms, which restricts long-term econometric evaluation.

3. Results

The analysis of Uzbekistan's fiscal indicators demonstrates that VAT has become one of the most stable and significant sources of state budget revenues. Following the implementation of tax reforms and digital administration systems, VAT collection efficiency increased substantially between 2019 and 2025. The reduction of the VAT rate from 20% to 15%, combined with broader taxpayer registration and electronic invoicing systems, contributed to improved compliance and reduced levels of informal economic activity [11]. The following table presents the dynamics of VAT revenues and their share in total state budget revenues during the analyzed period.

Table 1. Dynamics of VAT Revenues in Uzbekistan (2019–2025)

Year	VAT Revenue (trillion UZS)	Share in Budget Revenue (%)
2019	23.4	28.1
2020	31.2	30.4
2021	38.6	31.7
2022	46.9	32.8
2023	57.4	34.1
2024	63.8	34.5
2025	71.3	35.2

Source: Compiled by the author based on data from the State Tax Committee of Uzbekistan, Ministry of Economy and Finance reports, and Stat.uz analytical bulletins.

The table indicates a continuous increase in VAT revenues throughout the observed period. Despite reductions in the VAT rate, total revenues increased due to improved tax administration and expansion of the formal business sector. The growing share of VAT in state budget revenues confirms its strategic importance within Uzbekistan's fiscal system [12].

The second table presents the sectoral distribution of VAT contributions across major industries.

Table 2. Sectoral Distribution of VAT Contributions in 2025

Economic Sector	VAT Contribution (%)
Industry	35.4
Trade and Services	29.8
Construction	14.2
Agriculture	8.7
Transport and Logistics	7.1
Other Sectors	4.8

Source: Developed by the author based on statistical information from Stat.uz and the Ministry of Economy and Finance of Uzbekistan

The table reveals that industrial enterprises and trade sectors remain the largest contributors to VAT revenues. The relatively lower contribution of agriculture reflects the existence of preferential tax mechanisms and sector-specific exemptions. The findings also indicate that economic diversification influences the composition of indirect tax revenues [13].

4. Discussion

The results of this study confirm that VAT plays a decisive role in ensuring fiscal sustainability and economic formalization in Uzbekistan. The steady increase in VAT revenues during the analyzed period demonstrates the effectiveness of recent tax reforms and administrative modernization policies. Although the VAT rate was reduced from 20% to 15%, government revenues continued to rise, indicating that improvements in tax administration and expansion of the tax base were more influential than nominal tax rates. This finding supports the theoretical argument that efficient tax administration can significantly increase fiscal performance even under lower tax burdens.

One of the most important outcomes identified in the research is the positive impact of digitalization on tax compliance. The implementation of electronic invoices, online cash registers, and automated monitoring systems substantially improved transparency within the taxation process. Businesses became more accountable for financial transactions, while tax authorities gained greater control over revenue flows. Similar results have been observed in other transition economies where digital tax administration reduced the shadow economy and enhanced public trust in fiscal institutions. Consequently, Uzbekistan's experience demonstrates that technological modernization can strengthen the effectiveness of indirect taxation mechanisms [14].

The sectoral analysis of VAT contributions also provides important insights into the structure of Uzbekistan's economy. Industrial enterprises and trade organizations account for the largest share of VAT revenues due to their high transaction volumes and developed accounting systems. In contrast, the agricultural sector contributes a relatively smaller share because of tax exemptions and preferential fiscal treatment. While such preferences support rural development and food security objectives, they may also narrow the tax base and reduce overall revenue potential. Therefore, policymakers face the challenge of balancing social priorities with fiscal efficiency [15].

The findings additionally reveal that VAT reforms positively influenced business formalization and market transparency. Enterprises operating within the formal economy increasingly adopted standardized accounting practices in order to benefit from input VAT deductions. This process encouraged greater financial discipline and reduced opportunities for hidden transactions. The survey results indicate that most businesses recognize the advantages of digital tax systems, particularly simplified reporting procedures and reduced direct interaction with tax officials. Such developments contribute to lowering corruption risks and improving institutional trust.

Nevertheless, the research also highlights several persistent challenges associated with VAT administration. Small and medium-sized enterprises continue to experience difficulties related to compliance costs, tax refund procedures, and administrative documentation requirements. These challenges may discourage entrepreneurial activity, particularly among newly established firms with limited financial and technical resources. Moreover, because VAT is an indirect tax, it may increase the prices of goods and services, thereby affecting low-income consumers more significantly than high-income groups. This regressive characteristic remains one of the main criticisms of VAT systems globally.

The discussion further suggests that the long-term success of VAT reforms depends on institutional stability and continuous policy adaptation. Digitalization alone cannot guarantee fiscal efficiency unless supported by transparent legal regulations, taxpayer education programs, and effective dispute resolution mechanisms. In Uzbekistan, ongoing reforms aimed at simplifying tax procedures and improving taxpayer services may further strengthen the economic role of VAT in the coming years.

Overall, the study demonstrates that VAT is not only a source of public revenue but also an important instrument for economic regulation, transparency, and modernization. The results confirm that well-designed VAT systems can simultaneously support fiscal sustainability and broader economic development objectives in transition economies.

5. Conclusion

This study examined the economic role of Value Added Tax within Uzbekistan's fiscal system and analyzed the effects of recent tax reforms and digitalization processes. The findings demonstrate that VAT has become one of the most important and stable sources of government revenue, significantly contributing to fiscal sustainability and public expenditure financing. The consistent growth of VAT revenues between 2019 and 2025 confirms the effectiveness of reforms aimed at expanding the tax base and modernizing tax administration mechanisms. The research revealed that digital technologies such as electronic invoices, automated tax monitoring systems, and online reporting platforms substantially improved tax compliance and transparency. These reforms reduced opportunities for tax evasion and encouraged the formalization of business activities. As a result, the efficiency of tax collection increased despite reductions in the VAT rate, indicating that administrative modernization can have a stronger impact on fiscal performance than tax rate increases alone. The study also identified the sectoral structure of VAT contributions within Uzbekistan's economy. Industrial enterprises and trade organizations remain the leading contributors to VAT revenues due to their extensive economic activity and developed accounting systems. At the same time, preferential tax treatment for agriculture and selected sectors continues to influence the composition of budget revenues. This demonstrates the necessity of balancing fiscal objectives with broader socio-economic development priorities.

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