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# Institutional Mechanisms for Optimizing the Tax Burden and Ensuring Production Profitability in Uzbekistan's Agriculture

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**Abstract:** This article examines issues related to improving the taxation mechanism of Uzbekistan's agro-industrial complex on the basis of economic, fiscal, and institutional approaches. The article substantiates that the specific features of agricultural production, including seasonality, natural and climatic risks, dependence on water resources, and the mismatch between the timing of costs and revenues, indicate the need to shape tax policy not on the basis of a general fiscal approach, but in connection with the sector's real economic capacity.

**Keywords:** agriculture, tax mechanism, fiscal stability, tax burden, corporate income tax, VAT, land tax, profitability, agrarian sector, tax incentives, efficient use of resources, investment incentives.



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## 1. Introduction

A comprehensive approach to the tax regulation of the agro-industrial complex should, first of all, be aimed at taking into account the production cycle within the sector, the structure of costs, the timing of income formation, and the specific features of resource use. In the context of Uzbekistan, this requirement is especially relevant, since during 2015–2025 the total volume of products (services) in agriculture, forestry, and fisheries increased from 103.3 trillion soums in 2015 to 462.8 trillion soums in 2024 and reached 538.9 trillion soums by the end of 2025. At the same time, at the end of 2024, the share of this sector in GDP amounted to 19.2 percent. This indicates that the agrarian sector continues to maintain its strategic importance in the national economy and, consequently, that its tax mechanism should be built not on the principle of formal equality but on the principle of economic conformity.[1]

Certain regulatory decisions adopted in recent years demonstrate the beginning of institutional movement in this direction. In particular, the law on the main directions of tax and budget policy for 2025 abolished the procedure for calculating land tax at a double rate for agricultural land plots located within the administrative boundaries of cities and towns. In addition, in 2024, approval was granted to direct 40 percent of revenues received by the state budget from the tax for the use of water resources to financing water supply services; in 2023, the task was set to revise tax rates for the use of water resources in agriculture and, starting from 2025, to develop a mechanism of coefficients linked to water metering and management technologies. These measures may be assessed, on the one hand, as an attempt to account more precisely for the use of land and water resources through tax instruments and, on the other hand, as an effort to harmonize the natural-resource characteristics of agrarian activity with the tax mechanism.[2]

## 2. Materials and Methods

The article uses general scientific research methods. The analysis was carried out on the basis of economic indicators.

## 3. Results and Discussion

The analysis of the structure of state revenues of the Republic of Uzbekistan in 2018–2025 shows that qualitatively important structural shifts occurred in the fiscal system. If in 2018 total revenues amounted to 79,099 trillion soums, by 2025 this indicator reached 359,776 trillion soums. During this period, the volume of revenues increased 4.55 times, with the average annual growth rate exceeding 24 percent. Such dynamics indicate the expansion of the revenue base of the state budget, the growth of tax administration capacity, and the strengthening of the level of fiscal coverage in the economy (Figure 1).[3]

Structurally, the most important change is manifested in the sharp decline in the share of indirect taxes. In 2018, indirect taxes accounted for 51.8 percent of total revenues, while in 2025 this indicator decreased to 30.5 percent. In particular, the share of VAT fell from 35.2 percent to 21.1 percent, while the share of excise tax decreased from 14.2 percent to 6.1 percent. This means that in the fiscal system the relative weight of consumption-based tax sources has declined, while the role of sources based on income and profit has been increasing.[4]

Changes in corporate income tax are especially significant. This type of tax increased from 3,283 trillion soums in 2018 to 72,304 trillion soums in 2025, meaning that growth of more than 22 times was observed. Its share in total revenues rose from 4.1 percent to 20.1 percent. This situation shows that the fiscal coverage of enterprise profits has expanded, the degree of formalization of legal entities' activities has increased, and the importance of direct taxes in state revenues has strengthened.[5]



Figure 1. Analysis of the share of taxes in the state budget in 2018–2025, percent

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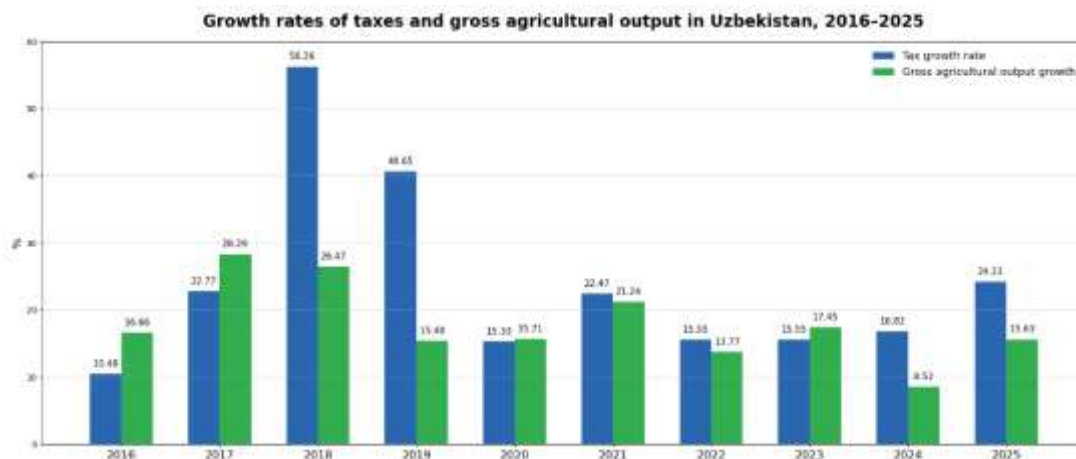
that the fiscal coverage of enterprise profits has expanded, the degree of formalization of legal entities' activities has increased, and the importance of direct taxes in state revenues has strengthened.[7]

At the same time, the increase in the share of other revenues from 12.7 percent to 24.3 percent requires particular attention. In 2018–2025, this source grew 8.7 times and became one of the directions that made the largest contribution to the growth of total revenues. However, if the composition of other revenues is not sufficiently disclosed, it is difficult to determine whether they represent a stable fiscal source or one-off receipts.[8]

The indicated trends affected the structure and dynamics of tax revenues. A study of the system of tax payments by enterprises in the post-pandemic period shows that corporate income tax revenues in 2025 increased 2.5 times compared with 2020; however, the share of corporate income tax revenues in the budget of the Republic of Uzbekistan decreased by 1.5% in 2025. The remaining taxes show stable revenue growth. Analysis of the sectoral structure of taxpayers serves as a basis for studying the variables that determine the dynamics of tax revenues. It should be noted that the total amount of taxes collected from the agricultural sector is growing faster than the growth rate of gross output in the agricultural segment of the agro-industrial complex (Figure 2).[9]

The analysis of the ratio between the growth rate of taxes and the growth rate of gross agricultural output in 2016–2025 shows the need to study the issue of proportionality between the agrarian sector and the fiscal system in Uzbekistan as a separate scientific problem. According to the analysis, during the period under review the average growth rate of taxes was 24.0 percent, while the growth rate of gross agricultural output was 17.8 percent. As a result, the ratio of tax revenue growth to agrarian output growth averaged 138.1 percent.[10]

This indicates that during the period under consideration the dynamics of tax revenues generally formed at higher rates than the dynamics of agricultural production. However, this process was not uniform. In 2016–2017, the growth of gross agricultural output exceeded the growth of taxes, whereas in 2018–2019 tax revenues accelerated sharply. In particular, the ratio amounted to 212.57 percent in 2018 and 264.02 percent in 2019. This shows that fiscal revenues grew at a much higher rate than the volume of agrarian production.



**Figure 2.** Analysis of the ratio between tax growth rates and gross output in agriculture in 2016–2024, percent

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In 2020–2023, a relative balancing was observed. During this period, the ratio averaged 101.26

percent, and the difference between tax growth and the growth of gross agricultural output was not sharp. This means that fiscal processes moved closer to the growth dynamics of the agrarian sector. However, in 2024–2025 the ratio increased again, reaching 197.44 percent and 154.9 percent, respectively. In particular, in 2024, when the growth of gross agricultural output declined to 8.52 percent, the fact that taxes increased by 16.82 percent indicates a relative strengthening of fiscal pressure.

These results substantiate that a simple fiscal approach is insufficient in taxing the agrarian sector. Agricultural production is characterized by seasonality, dependence on natural and climatic risks, mismatch between the timing of costs and revenues, and instability of profitability. Therefore, tax policy should be assessed in connection with the growth rates of gross agricultural output, sector profitability, production costs, and the reinvestment capacity of farms.[12]

The agricultural segment of Uzbekistan’s agro-industrial complex is characterized by a relatively unstable financial position. This is explained, on the one hand, by natural factors, namely weather conditions, scarcity of water resources, soil fertility, and the climate dependence of yields, and, on the other hand, by market conditions, changes in price ratios, and investment-resource constraints (Figure 3).

The data in Figure 3 show that the analysis of profit dynamics by types of economic activity in 2015–2024 reveals a sharp unevenness in profit formation across sectors of Uzbekistan’s economy. Total profit increased from 10,202.8 billion soums in 2015 to 111,646.4 billion soums in 2024, growing 10.9 times. However, this growth did not occur uniformly across all sectors. On the contrary, the main share of profit was concentrated in areas such as industry, transport and logistics, trade, and mining.

The most important structural shift is manifested in the sharp increase in the share of manufacturing. The profit of this sector amounted to 2,545.1 billion soums in 2015 and reached 73,250.1 billion soums in 2024. As a result, its share in total profit increased from 24.9 percent to 65.6 percent. This indicates that the corporate income tax base in the economy is being formed mainly at the expense of industrial sectors.[13]

Sectors	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Agriculture, forestry and fisheries	69.4	35.7	61.5	75.5	36.7	-348.4	54.0	-154.3	-501.0	-188.3
Mining and quarrying	1396.6	3213.4	-1752.8	126.6	-1814.3	1975.6	11206.1	4523.8	5735.8	8634.5
Manufacturing	2545.1	955.5	7410.7	16481.4	35380.3	38928.5	60105.2	83448.3	57658.1	74250.1
Electricity, gas, steam and air conditioning supply	-312.6	552.4	-789.5	-834.5	-1239.1	4761.8	-960.7	3641.6	3157.3	2891.1
Water supply, sewerage, waste collection and disposal	9.7	9.8	17.1	-203.4	-122.9	-134.2	-128.3	-271.9	-633.9	-495.5
Construction	229.1	160.5	165.5	245.7	296.2	319.6	793.4	1073.4	-117.1	-0.4
Trade and repair	1355.3	1488.7	1375.3	2022.7	1598.0	1848.1	2550.0	3503.0	5003.1	8067.5
Transportation and storage	3117.9	1021.2	2752.6	3117.9	-4297.8	-4001.1	3009.3	-814.5	8236.3	14090.4
Real estate activities	112.1	151.1	160.8	172.9	236.0	111.5	191.5	110.5	155.2	287.7
Information and communication	582.5	564.6	-2551.1	1164.2	1008.2	1160.1	1624.1	2890.2	2341.8	2311.8

Figure 3. Profit and loss by types of economic activity in 2015–2024, billion soums

The situation is completely different in agriculture, forestry, and fisheries. This sector recorded small positive profits in 2015–2019, but from 2020 onward it shifted into losses in several years. In particular, the loss amounted to -348.4 billion soums in 2020, -154.3 billion soums in 2022, -501.0 billion soums in 2023, and -188.3 billion soums in 2024. This shows that the profit-generating capacity of the agrarian sector is low and unstable.

This Table 1. situation is of fundamental importance in assessing the mechanisms of agricultural taxation. Although the agrarian sector may occupy an important place in the economy in terms of gross output, it is much weaker than industry or trade in terms of net profit formation. Therefore, tax policy in agriculture should be developed not only on the basis of revenues or production volume, but in connection with profitability, the risk of losses, seasonality, rising costs,

natural and climatic factors, and opportunities for investment recovery.[14]

**Table 1.** Profitability of types of economic activity in 2024, percent

	Profitability level	
	ratio of profit before corporate income tax, loss (-), to the cost of sold products (goods, works, and services)	ratio of gross profit, loss (-), from the sale of products (goods, works, and services) to the cost of sold products (goods, works, and services)
<b>Total</b>	15,1	35,2
<b>agriculture, forestry, and fisheries</b>	-4,8	17,1
<b>mining and quarrying</b>	30,4	71,9
<b>manufacturing</b>	24,4	48,4
<b>electricity, gas, steam, and air conditioning supply</b>	-3,5	2,0
<b>water supply; sewerage, waste collection and disposal</b>	-14,6	19,1
<b>construction</b>	-0,002	12,7
<b>wholesale and retail trade</b>	5,6	16,9
<b>transportation and storage</b>	22,9	36,3
<b>accommodation and food service activities</b>	-8,8	45,4
<b>information and communication</b>	12,1	81,2
<b>financial and insurance activities</b>	912,3	1 282,0
<b>real estate activities</b>	18,5	104,7

The analysis results show that the corporate income tax base is highly unevenly distributed across sectors of the economy. In 2024, 65.6 percent of total profit was attributable to manufacturing, 12.6 percent to transportation and storage, 7.7 percent to mining, and 7.2 percent to trade. Agriculture had a negative share in total profit. This substantiates that corporate income tax cannot be the main fiscal instrument in taxing the agrarian sector; on the contrary, tax mechanisms for this sector should be directed toward stimulating production stability and investment opportunities.

Profitability indicators by sector show that profit formation in the economy is not uniform. In the economy as a whole, profitability before corporate income tax amounted to 15.1 percent, while gross profit profitability from product sales amounted to 35.2 percent. The 20.1 percentage point difference between these two indicators means that a significant part of gross profit formed at the production and sales stage is reduced due to subsequent operating, financial, and administrative expenses.

The situation in agriculture, forestry, and fisheries is even more complex. In this sector, gross profit profitability amounted to 17.1 percent, while profitability before corporate income tax was -4.8 percent. Thus, although agriculture generated positive gross profit at the product sales stage, it fell into a loss position in the final financial result. This indicates that profit in the agrarian sector is being eroded not because of the difference between cost and selling price, but under the influence of subsequent expenses, financial burden, storage and transport costs, seasonality, and other operational factors.

Compared with the economy as a whole, agriculture showed results lower by 19.9 percentage points in terms of profitability before corporate income tax and by 18.1 percentage points in terms of gross profit profitability. This means that agriculture lags significantly behind the average economic indicator not only at the level of final profit but also at the gross margin level. At the same time, although the gross profitability of agriculture and trade is almost the same, final profitability in trade was 5.6 percent, while in agriculture it was -4.8 percent. This confirms the high internal cost pressure in the agrarian sector.

These results are of important methodological significance in developing tax mechanisms for the agro-industrial complex. Agriculture plays an important role in creating gross output, ensuring employment, and maintaining food security; however, from the standpoint of net profit formation, it is not yet able to serve as a stable fiscal base. Therefore, when assessing the possibilities of corporate income tax in the taxation of the agrarian sector, the sector's real profitability, cost structure, seasonal cash flows, risk of losses, and the distribution of profit along the value chain must be taken into account separately.[15]

#### 4. Conclusion

The main direction for improving the taxation mechanism of Uzbekistan's agro-industrial complex should not be limited to a narrow approach aimed solely at increasing fiscal revenues. The analysis shows that although state budget revenues and corporate income tax receipts are growing rapidly, agriculture, forestry, and fisheries remain weak and unstable in terms of final profitability. Therefore, for the agrarian sector, tax policy should not be built on a fiscal model based on the profit base, as in industry or trade, but as a comprehensive mechanism that stimulates resource efficiency, production stability, investment, processing, exports, and food security.

The scientific significance of the article lies in the fact that it substantiates the need to assess the tax potential of the agrarian sector not through the volume of gross output, but through profitability, profit formation, tax revenue growth, and the ratio between real production growth. This makes it possible to advance a new methodological approach to agricultural taxation: the concept of the "balance between fiscal burden and agrarian stability."

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