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# The Impact of Tax Burden on the Development of Small Business and Private Entrepreneurship

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**Abstract:** This article analyzes the impact of the tax burden on the development of small business and private entrepreneurship. It examines how tax rates, tax administration efficiency, and tax incentives influence entrepreneurial activity and business expansion. The study also explores the mechanisms of optimizing tax policy to support small business development, using Uzbekistan as a case study. In addition, it highlights the role of tax reforms in improving the business climate, attracting investment, and encouraging formalization of entrepreneurial activities. The findings suggest that an optimal tax burden is a key factor in ensuring sustainable economic growth and enhancing the competitiveness of small enterprises.

**Keywords:** Tax burden, small business, private entrepreneurship, tax policy, tax incentives, economic growth, tax reforms, business environment.



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## Introduction

Small business and private entrepreneurship represent one of the most important pillars of any national economy. They not only contribute significantly to the gross domestic product (GDP), but also play a crucial role in job creation, income generation, innovation, and the formation of a competitive market environment. In transition economies, particularly those shifting toward market-based systems, the activity of small business entities directly influences macroeconomic stability and long-term development.[1]

Tax policy is one of the key instruments of state economic regulation. Through taxation, governments influence economic behavior, redistribute income, and ensure the functioning of public finance systems. The level of tax burden has a dual effect on small business development. On the one hand, it ensures stable budget revenues and supports macroeconomic sustainability. On the other hand, excessively high tax burdens may reduce entrepreneurial incentives, limit investment capacity, and increase the informal sector of the economy. Therefore, determining the optimal level of taxation remains a highly relevant scientific and practical issue.[2]

In recent years, the Republic of Uzbekistan has implemented a wide range of reforms aimed at supporting small business and private entrepreneurship. These include the simplification of tax rates, digitalization of tax reporting systems, and expansion of tax incentives for entrepreneurs. As a result, a more favorable business environment has been created. However, practical observations show that in certain sectors, relatively high tax pressure and complex administrative procedures still hinder business development.[3] This article provides a theoretical and empirical analysis of the impact of tax burden on small business

development and proposes recommendations for improving tax policy efficiency.

### **Literature Review**

The impact of tax burden on small business and entrepreneurship has been widely discussed in economic literature, with various theoretical approaches focusing on the relationship between taxation and entrepreneurial activity.

Nasimov R.A., in his study "Evolutionary Analysis of the Impact of Tax Burden on Entrepreneurial Activity in the Republic of Uzbekistan," emphasizes that the optimal level of tax burden ensures a balance between budget stability and business activity. According to the author, excessively high taxation may push small enterprises into the informal sector, increasing the shadow economy [4].

Sagdiev Mirkamol, in his research on tax reforms in Uzbekistan, argues that recent reforms have improved the business environment by introducing simplified tax regimes for small and medium enterprises. He highlights that digitalization of tax administration and optimization of tax rates have positively influenced business sustainability and growth [5].

Ibodullayev A.A. and Sul-tonboyev M.G. emphasize the stimulating role of tax policy in economic development. According to them, tax incentives and preferences play a crucial role in increasing investment activity among small enterprises [6].

Dekhanov M. notes that the introduction of simplified taxation systems in Uzbekistan has significantly reduced business costs and improved economic activity among small firms [7].

International studies also confirm that small businesses are highly sensitive to tax burden. For instance, Poutziouris, Chittenden, and Michaelas demonstrate that increases in tax rates negatively affect investment decisions and business expansion strategies [8].

Overall, the literature indicates that maintaining an optimal tax burden is essential for sustainable small business development. While excessive taxation restricts economic activity, a balanced and simplified tax system promotes growth and innovation.

### **Research Methodology**

This study employs a comprehensive methodological approach to analyze the impact of tax burden on small business and private entrepreneurship development. The main methods used include system analysis, comparative analysis, and statistical generalization. These methods allow for the identification of interrelationships between tax policy and entrepreneurial activity.

The research examines tax reforms implemented in Uzbekistan in recent years, focusing on changes in tax rates, simplified taxation regimes, and tax incentives. Statistical data from official sources were used to evaluate the contribution of small businesses to economic growth.[9]

Comparative analysis was conducted by comparing Uzbekistan's tax system with those of selected developed and developing countries. This approach helped identify best practices in tax policy optimization.

Inductive and deductive reasoning methods were also applied to derive general conclusions from specific cases and empirical observations.

Furthermore, a systems approach was used to analyze the interconnection between tax administration, digital tax services, and the overall business environment. This demonstrated that tax burden is influenced not only by tax rates but also by administrative efficiency.

Empirical data from the State Statistics Committee and international organizations were used to analyze trends in small business development and tax revenue dynamics.[10]

### **Analysis And Results**

The impact of tax burden on small business development is widely recognized in both theoretical and empirical economic literature. A large body of modern studies consistently confirms the existence of a strong and multidimensional relationship between tax policy instruments and entrepreneurial activity. In particular, taxation influences not only the financial capacity of small enterprises but also their investment behavior, willingness to formalize operations, and long-term growth strategies. From a macroeconomic perspective, an optimal tax structure is considered one of the key determinants of a favorable business environment, especially in transition economies where institutional frameworks are still developing.[11]

In the context of Uzbekistan, recent years have witnessed significant tax reforms aimed at improving the

business climate and encouraging entrepreneurship. These reforms include the simplification of tax regimes for small businesses, reduction of certain tax rates, expansion of digital tax administration systems, and introduction of various tax incentives designed to reduce administrative burdens. As a result, there has been a noticeable increase in entrepreneurial activity, particularly in sectors such as services, trade, construction, and manufacturing. However, despite these positive developments, several structural challenges remain, including regional disparities in business development, uneven access to financial resources, and persistent administrative complexities in some tax procedures.[12]

According to official statistical data, in 2024 the total tax payments made by small businesses in Uzbekistan increased by more than 31%. This significant growth reflects not only an expansion in the number of operating enterprises but also an increase in overall business turnover and profitability within the sector. Moreover, this trend is closely associated with improved tax compliance, broader formalization of previously informal businesses, and the gradual digitalization of tax reporting systems, which have enhanced transparency and reduced opportunities for tax evasion [13].

From an analytical perspective, this growth can be explained through several interconnected factors. First, the expansion of small business activity has led to a broader tax base, meaning that more enterprises are contributing to public revenues. Second, ongoing improvements in tax administration efficiency—such as the introduction of electronic invoicing, online tax filing systems, and automated monitoring tools—have significantly reduced transaction costs for both taxpayers and tax authorities. Third, the gradual shift toward a more predictable and transparent tax policy environment has increased entrepreneurs' confidence in formal economic participation.

At the same time, it should be noted that the increase in total tax payments does not necessarily imply a proportional increase in the tax burden per individual enterprise. In many cases, the observed growth is the result of higher business turnover and improved economic activity rather than an increase in tax rates. Nevertheless, certain categories of small businesses, especially newly established firms and low-capital enterprises, may still experience relatively higher pressure from fixed costs and compliance obligations.[14] Overall, these developments indicate that while Uzbekistan's tax reforms have had a generally positive effect on small business expansion, the effectiveness of tax policy continues to depend on maintaining a careful balance between revenue generation and business sustainability.

The table 1. below summarizes key indicators of small business development:

**Table 1.** Dynamics of Small Business and Tax Revenues (Uzbekistan, 2023–2025).

Indicators	2023	2024	Growth (%)
Number of small businesses (thousand units)	365	387	+6.0
Taxes paid by small businesses (trillion UZS)	5.4	7.1	+31.5
Turnover (trillion UZS)	64.5	80.6	+24.9
Newly registered enterprises (thousand units)	38	41	+7.8

Source: Prepared by the author based on data from the State Tax Committee and Statistics Agency.

As shown in the table, both turnover and tax contributions of small businesses are increasing proportionally. This indicates that although the absolute tax burden is growing, overall business activity is also expanding.

However, higher tax burden does not always produce positive effects. In some cases, it may create liquidity pressure on small enterprises. Nasimov R.A. notes that increased taxation may lead to a rise in informal economic activity. This is particularly relevant for small firms with limited capital resources.

At the same time, other studies emphasize the importance of tax incentives in maintaining business stability. Empirical data show that tax revenues in Uzbekistan increased by more than 20% in 2024, reflecting broader economic growth and an expanded tax base.

Sectoral analysis indicates that industries such as services and catering are particularly sensitive to tax burden, as it directly affects profitability levels [15].

Overall, the results confirm that the optimal level of tax burden is crucial for balancing fiscal revenue generation and business sustainability. While moderate taxation supports economic development,

excessive tax pressure may constrain entrepreneurial expansion.

### Conclusion

In the context of increasing importance of small business and private entrepreneurship, ensuring an optimal tax burden is one of the key priorities of state economic policy. The analysis conducted in this study demonstrates that the level of tax burden directly influences business scale, investment decisions, and participation in the formal economy.

The results indicate that increasing tax revenues is associated with economic expansion and growth of business activity. However, excessive tax burden may negatively affect profitability, especially for newly established and low-capital enterprises.

Literature analysis shows that the impact of taxation is determined not only by its level but also by the simplicity of the tax system, transparency of administration, and effectiveness of incentives. Therefore, simplified taxation regimes play a crucial role in supporting sustainable business development [1].

Empirical findings also confirm that maintaining an optimal tax burden contributes to GDP growth, employment expansion, and increased contribution of small businesses to the national economy. Conversely, excessive taxation may increase the shadow economy and reduce entrepreneurial activity.

In general, improving tax policy, optimizing tax burden, and expanding digital tax administration systems are essential for strengthening economic stability and improving the business environment.

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