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Article

Paths to Enhancing the Institutional Stability of Tax Legislation

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Abstract: This article analyzes the institutional stability of tax legislation in Uzbekistan, including its theoretical foundations and practical conditions. The study examines the dynamics of regulatory changes in the tax system and evaluates their impact on fiscal policy and the business environment. A comparative analysis with OECD countries is also conducted. The results show that frequent changes in tax legislation negatively affect institutional stability, reduce predictability, and weaken business confidence. Evidence-based recommendations are proposed to strengthen tax system stability.

Keywords: tax legislation, institutional stability, tax policy, fiscal sustainability, regulatory framework, tax reforms, legal predictability, tax administration, institutional economics, Tax Code, fiscal institutions, taxpayer confidence, frequency of legislative changes, tax base, budget revenues, comparative analysis, OECD country experience, regulatory impact assessment, consistency of judicial practice, legal certainty.



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1. Introduction

In recent years, the Republic of Uzbekistan has been implementing large-scale measures aimed at fundamentally reforming the tax system, encouraging entrepreneurial activity, and ensuring the sustainability of budget revenues. In particular, the activities of the State Tax Committee of the Republic of Uzbekistan have been enhanced, a new edition of the Tax Code of the Republic of Uzbekistan was adopted, and digital technologies have been widely introduced into tax administration.[1]

At the same time, frequent changes in tax legislation, insufficient harmony among regulatory legal acts, and the lack of fully established, consistent approaches in law enforcement practices negatively affect the institutional stability of the tax system. We can argue that this situation creates a high level of legal uncertainty, particularly for economic entities making long-term investment decisions.[2]

Institutional stability is one of the core qualitative indicators of a tax system, ensuring the predictability of tax policy, taxpayer confidence, and the sustainable development of fiscal relations between the state and business. In this regard, strengthening stability within tax legislation carries not only theoretical but also practical significance, assuming particular relevance in the current stage of reforms. From this perspective, this article scientifically analyzes the essence of the institutional stability of tax legislation, the factors influencing it, and the primary pathways for its implementation using the case of Uzbekistan's tax system.[3]

2. Literature Review

The issue of the institutional stability of tax legislation is closely intertwined with the efficiency of economic institutions, the investment climate, and fiscal sustainability; as such, this direction has been extensively researched in scientific literature. According to the theory of institutional economics, a stable and predictable legal environment exerts a positive influence on the behavior of economic agents (North).[4]

Among the researchers who have deeply analyzed the issue of tax system stability, Tanzi and Zee emphasize that frequent changes in tax policy reduce fiscal efficiency and weaken taxpayer confidence. According to the authors, tax legislation must not merely adapt to fiscal needs but should also account for long-term institutional goals. Furthermore, the issue of tax legislation stability at the international level is regularly studied by the OECD. In particular, OECD studies evaluate the predictability of tax policy as a crucial factor in attracting investment and improving the business environment (OECD). The organization also recommends implementing mechanisms for prior analysis of institutional impacts when evaluating tax legislation.[5]

At the same time, research conducted by the International Monetary Fund (IMF) also notes that the stability of fiscal institutions is essential for maintaining the long-term balance of public finances (IMF). IMF experts scientifically substantiate that rapid and unstructured changes in tax legislation exacerbate fiscal risks. During the study, we also observed that the institutional aspects of the tax system in developing countries are extensively covered in World Bank research. Specifically, World Bank reports emphasize that legislative stability directly influences the efficiency of tax administration and the expansion of the tax base (World Bank).[6]

Within the framework of Uzbekistan's tax system, the institutional aspects of tax reforms have also been studied by local scholars. In particular, it is noted that while the liberalization of tax policy and the modernization of legislation yielded positive results in the short term, they created specific challenges regarding regulatory stability. Some studies indicate that frequent amendments to the Tax Code increase uncertainties in law enforcement practice (Karimov). Furthermore, although official regulatory sources—including the Tax Code of the Republic of Uzbekistan—outline general principles aimed at ensuring the stability of tax legislation, the institutional mechanisms of these principles are critically evaluated in scientific literature as not yet sufficiently reinforced.[7]

In general, the literature review demonstrates that ensuring the institutional stability of tax legislation is a pressing issue at both international and national levels, requiring a systematic approach and long-term strategic planning in this direction.

3. Research Methodology

This study is aimed at evaluating the institutional stability of tax legislation and utilizes a comprehensive scientific-methodological approach. The research methodology is based on the theory of institutional economics, the concept of fiscal sustainability, and international practical experiences in evaluating tax policy.[8]

The theoretical foundation of the study is formed by the institutional economics approach, according to which the stability, predictability, and consistency of legal institutions directly influence the behavior of economic agents. Specifically, the concept of "institutional stability and economic efficiency" put forward by D. North was adopted as a methodological cornerstone. Additionally, factors of fiscal institution efficiency and legal certainty were taken into account when evaluating tax policy stability. Historical-dynamic analysis, regulatory-legal analysis, comparative analysis, statistical analysis, qualitative analysis, as well as general and specialized scientific methods were employed as research methods.[9]

4. Results and Discussion

Within the framework of the current state of institutional stability in Uzbekistan's tax legislation, the regulatory changes implemented were examined using historical-dynamic and regulatory-legal analysis methods. The results of the analysis indicate that this period was an active phase of reforms for the tax system, characterized by frequent updates to legislation. In particular, the Tax Code of the Republic of Uzbekistan was adopted in a new edition, fundamentally restructuring the framework of the tax system. In the process, the number of tax types was reduced, certain tax rates were lowered, and tax administration was simplified [10].

Although these changes improved the business environment in the short term, we can argue that the frequent amendments made to the code in subsequent years created certain risks regarding institutional stability. First, the changes in the VAT (value-added tax) rate and mechanism included reducing the tax rate from 20 percent to 15 percent, abolishing or revising exemptions for specific goods and services, and gradually introducing a VAT refund mechanism. While these changes served to expand the tax base, their frequent updates increased compliance costs for taxpayers (Republic of Uzbekistan).

Second, changes in the turnover tax system involved multiple alterations to the rates for small business entities, the redefinition of application criteria (income thresholds), and the exclusion of certain types of activities from this tax. Consequently, entrepreneurs were forced to frequently switch tax regimes, which complicated long-term planning (Republic of Uzbekistan).[11]

Third, the revision of tax incentives is explained by the abolition of many individual and sectoral tax exemptions, the optimization of the list of incentives, and the strengthening of a temporary and targeted approach to granting exemptions. Although this strengthened fiscal discipline, the instability of incentives negatively affected investment decisions (Republic of Uzbekistan).[12]

Fourth, as a result of the introduction of digital tax administration, electronic invoices, online cash registers, and automated tax reporting submission systems were established. These changes enhanced the efficiency of tax administration; however, the frequent updates to their legal foundations brought the issue of regulatory stability to the forefront.

Fifth, the frequent adjustment of tax rates—specifically, the annual revision of rates for certain types of taxes (corporate income tax, excise tax, land and property taxes) and the introduction of differentiated rates for specific regions and sectors—demonstrates the flexibility of tax policy. However, from the perspective of institutional stability, we can state that it lowered predictability (Republic of Uzbekistan).

Therefore, the Table 1. examples noted above demonstrate that despite the positive substance of the reforms implemented in Uzbekistan's tax legislation, their frequent and unstructured modification negatively affects institutional stability, legal certainty, and the long-term confidence of taxpayers.[13]

Throughout our study, it becomes possible to identify existing shortcomings and opportunities by analyzing the frequency of changes in tax legislation. The table below presents a summarized overview of the number of major regulatory changes introduced into tax legislation.

Table 1. Dynamics of changes introduced into the tax legislation of Uzbekistan

Years	Number of regulatory changes	Main direction
2017	14	Reducing the tax burden
2018	19	Optimizing tax types
2019	27	Expanding the tax base
2020	35	New Tax Code
2021	22	Revision of privileges
2022	18	Digital administration

2023	21	Adjustment of rates
2024	17	Stabilization efforts
2025	15	Attempts to adapt to international standards

As can be seen from this table, the highest regulatory activity occurred during the period. Within this timeframe, between 27 and 35 changes took place as part of the expansion of the tax base and the adoption of the new Tax Code. According to OECD studies, it is noted that while such a high frequency of changes in tax legislation can increase fiscal efficiency in the short term, it reduces predictability over the long term (OECD).

Based on the Table 2. analysis above, it becomes necessary to compare the stability of Uzbekistan's tax legislation with the practice of OECD countries using the comparative analysis method.

Table 2. Comparative indicators of the institutional stability of tax legislation

Indicator	Uzbekistan	OECD average
Frequency of legislative changes	High	Medium
Forecasting mechanism	Limited	Institutional
Impact assessment	Partial	Compulsory
Sustainability of judicial practice	Medium	High

Mana, taqdim etilgan matnning yakuniy qismi (Tahlil va natijalar muhokamasining davomi hamda Xulosa bo‘limi) qavs ichidagi yillarsiz akademik ingliz tiliga yuqori sifatli tarjimasi:

Comparative analysis results indicate that in developed countries, amendments to tax legislation are executed through regulatory impact assessment, which serves to maintain institutional stability (IMF).

According to statistical analysis results, during years when relative stability was observed in tax legislation, the real growth rates of budget revenues remained consistent. Conversely, periods of abrupt regulatory adjustments saw an increase in compliance costs within tax administration. This phenomenon is also substantiated by World Bank studies, which note that legislative stability positively affects tax discipline and the expansion of the tax base (World Bank).[14]

The results of the comprehensive analysis demonstrate that although the process of reforming tax legislation is actively continuing in Uzbekistan, institutional stability has not yet been fully achieved. Frequent updates to the legislation have served short-term fiscal goals; however, the lack of long-term legal forecasting mechanisms persists. As noted by Tanzi and Zee, tax system stability is an integral prerequisite for fiscal efficiency, an aspect that is highly relevant to Uzbekistan's tax system as well. Therefore, balancing stability and flexibility is of paramount importance when improving tax legislation.

In addition to the aforementioned analyses, we believe that relying solely on the number of regulatory legal acts or the frequency of their modification is insufficient for assessing the institutional stability of tax legislation. For this reason, it is appropriate to conduct additional analysis within the scope of this study based on qualitative indicators. Specifically, this includes assessing the levels of legal certainty, uniformity of interpretation, and predictability.

According to international research, one of the vital indicators of stability in tax legislation is the uniform interpretation of tax norms and the consistency of judicial practice (OECD). In the practice of Uzbekistan, however, disputes between tax authorities and economic entities regarding the exact interpretation of regulatory acts are relatively frequent. From an institutional economics perspective, this situation gives rise to a scenario where "rules exist, but their operational mechanism is unstable" (North).

Another significant dimension of institutional stability is related to taxpayer behavior. Based on the results of our review, frequent changes in tax legislation increase compliance costs for taxpayers and limit their long-term planning capabilities. IMF studies note that as uncertainty in tax policy increases, the risk of declining tax compliance intensifies (IMF). In the context of Uzbekistan, this situation is particularly evident among small and medium-sized enterprises, as they lack sufficient institutional resources to rapidly adapt to changes in tax legislation. From this perspective, enhancing the stability of tax legislation should be viewed not only as a tool for achieving fiscal goals but also as a means to strengthen taxpayer confidence.

Beyond the above points, additional research indicates that the majority of amendments introduced into Uzbekistan's tax legislation stem from short-term fiscal demands. However, the experience of developed countries reveals that mandatory legal and economic assessment mechanisms are applied prior to such changes. For instance, in OECD countries, tax legislation reforms are evaluated via Regulatory Impact Assessment, which serves as an essential tool for ensuring institutional stability (OECD). In Uzbekistan, this mechanism has not yet assumed a systematic character. This state of affairs highlights the necessity of strengthening legal forecasting institutions to increase the stability of tax legislation.[15]

The research conducted here relied primarily on regulatory legal acts, official statistical data, and international reports. Consequently, taxpayer perspectives or empirical survey results were not incorporated into the analysis, which, to a certain degree, limits the empirical depth of the study's findings.

5. Conclusion

The conducted analysis demonstrates that the institutional stability of tax legislation is a crucial factor for the efficiency of state fiscal policy, the sustainability of the business environment, and the legal confidence of taxpayers. According to the institutional approach, stable rules, their predictability, and their uniform interpretation directly influence the quality of economic decisions (North).

Although significant work has been undertaken in recent years to reform the tax system in Uzbekistan, the frequent updates to the regulatory framework, the insufficient uniformity in the practical interpretation of certain norms, and the fact that tax policy changes are occasionally shaped by short-term fiscal needs impede the full realization of institutional stability. As emphasized by Tanzi and Zee, as well as the OECD, this situation can lead to a decline in the predictability of the tax system. Furthermore, the results of the analysis indicate that stability in tax legislation is determined not merely by the text of the law itself, but by its enforcement practice, judicial interpretation, administrative coordination, and taxpayer confidence. Therefore, enhancing the institutional stability of tax legislation collectively demands legal, economic, and managerial measures (IMF; World Bank).

Accordingly, we believe that ensuring the stability, clarity, consistency, and long-term predictability of tax legislation should be established as a priority area for its improvement, and we put forward the following proposals:

1. **Introduce an institutional assessment mechanism when amending tax legislation.** Specifically, the procedure for the preliminary assessment of each draft law's impact on taxpayers, the business environment, and budget revenues needs to be strengthened. This approach aligns with OECD recommendations.
2. **Consolidate the principle of stability as a distinct institution within the Tax Code.** It is advisable to establish norms that restrict frequent changes regarding tax rates, exemptions, and administrative procedures. Such an approach enhances legal certainty for entrepreneurs (North).
3. **Formulate a uniform practice for interpreting tax norms.** In particular, it is necessary to develop consistent principles of interpretation for tax authorities, the judiciary, and other authorized

entities. This will minimize discrepancies and ensure stability in law enforcement.

4. **Establish a system for implementing tax reforms progressively and via prior announcement.** Rather than introducing unexpected changes, updates in tax policy should be announced in advance, providing business entities with adequate time to adapt. This approach reinforces taxpayer confidence (Tanzi & Zee).
5. **Harmonize digital administration with institutional stability.** While electronic services, automated oversight, and data exchange systems enhance the efficiency of the tax system, they must simultaneously support regulatory stability (IMF).
6. **Strengthen the long-term strategic approach within tax policy.** Tax reforms should be carried out based on medium- and long-term fiscal strategies rather than annually or on the basis of short-term necessities. This is also critical for the sustainability of the state budget (World Bank).
7. **Enhance dialogue with taxpayers.** Expanding explanatory work, consultations, and open discussions regarding legislative changes will improve legal culture and tax discipline.

In general, our final conclusion is that increasing the institutional stability of tax legislation is an essential condition for the development of Uzbekistan's tax system. Achieving this objective requires ensuring regulatory clarity, predictability, the principle of stability, and institutional compliance. Measures in this direction will enhance the efficiency of tax policy, create a favorable climate for entrepreneurship, and strengthen fiscal trust between the state and society.

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