

**VAT IN UZBEKISTAN: NEW RULES, ISSUES, APPLICATIONS, AND COMMON
MISTAKES**

Rafiyeva Zarina Khusanovna

Assistant of Department of Investments and Innovations
Samarkand Institute of Economics and Service

Xalmanova Shaxzoda Numonovna

Student of Samarkand Institute of Economics and Service

Abstract: This paper examines the application of value-added tax in the Republic of Uzbekistan in the context of ongoing tax reforms. It analyzes the theoretical foundations of VAT, current tax legislation, and recent changes in its administration. Particular attention is paid to the practical application of VAT, including common taxpayer errors when calculating the tax base, preparing primary documents, and using electronic invoices. Based on this analysis, the main trends in the development of the VAT system are identified and the need for further improvement of tax administration to increase its efficiency and reduce the administrative burden on business entities is substantiated.

Keywords: value-added tax, VAT, tax system, tax administration, tax legislation, tax reforms, electronic invoices, tax control

Introduction. Value-added tax (VAT) in Uzbekistan is one of the key instruments of fiscal policy, significantly impacting the financial and economic activities of enterprises of all types of ownership. In recent years, the government has been actively reforming the tax system to improve its efficiency, expand the tax base, strengthen enforcement of tax legislation, and reduce the shadow economy.

Since the beginning of 2025, significant changes to VAT regulations have come into effect in Uzbekistan, affecting the application of the tax, expanding the scope of taxpayers, and VAT refund mechanisms. Thus, from April 1, 2025, all legal entities engaged in the sale of pharmaceutical products and the provision of medical services are required to be VAT payers, regardless of income level. VAT reporting has been automatically generated by tax authorities based on online cash register data and electronic invoices.

Additionally, steps are being taken to deepen the digitalization of tax administration and tighten tax compliance requirements, including limiting accelerated VAT refunds for companies with tax violations and mandating the registration of foreign providers of electronic services.

In the agricultural sector, a transition to a zero VAT rate is planned from January 1, 2026 for domestically produced agricultural goods (with the exception of certain types), which is aimed at supporting producers and reducing the tax burden on key industries.

However, the implementation of reforms faces a number of practical challenges, including difficulties in interpreting tax liabilities, ambiguities in accounting for VAT in government contracts, and frequent errors by taxpayers when filing returns and preparing primary documents. These issues require detailed consideration, as they impact the transparency of tax administration and law enforcement practices in the country.

Literature review. Value-added tax (VAT) occupies a central place in the modern tax system of the Republic of Uzbekistan, serving as one of the main sources of state budget revenue and an important instrument of fiscal policy. Internationally, VAT is considered a universal indirect tax applied in most countries with developed tax systems and aimed at taxing added value at every stage of the production and circulation of goods and services.

In Uzbekistan, this tax was officially introduced to harmonize national tax legislation with international standards and has become a key element in the formation of the state's tax base. In recent years, Uzbekistan has been actively reforming its tax administration and VAT legal regulation with the aim of increasing transparency, digitalizing procedures, and expanding the tax base. Thus, certain benefits previously applicable to certain types of services and goods were abolished, leading to a revision of the scope of taxable items and requirements for taxpayers. Furthermore, starting in 2025, the expansion of the category of mandatory VAT payers affected pharmaceutical organizations and medical providers, reflecting the trend toward unifying the tax regime for a wide range of economic entities.

At the same time, measures are being implemented to strengthen compliance and tighten controls over VAT refunds for companies with unfavorable tax histories, which is associated with the digital transformation of tax administration and the fight against the shadow economy.

Significant attention in the scientific literature is devoted to assessing the effectiveness of the VAT collection mechanism, its impact on economic activity, and administrative barriers to compliance with tax legislation. Analytical studies emphasize the need to improve tax calculation and administration methods, and also highlight the importance of the C-efficiency indicator for assessing fiscal potential.

The literature review in this paper aims to comprehensively examine existing theoretical approaches, empirical research, and practical aspects of VAT application in Uzbekistan. It covers the evolution of the regulatory framework, current changes in administration, and the key issues and challenges faced by taxpayers and government agencies in implementing tax policy.

Research Methodology. The methodological basis of this study is based on the fundamental tenets of economic theory, taxation theory, and scientific approaches to the analysis of indirect taxes and tax administration. In studying value-added tax in the Republic of Uzbekistan, a combination of general scientific and specialized methods was used to ensure a comprehensive and objective analysis of the problem under consideration.

Analysis and results. An analysis of the practice of applying value-added tax in the Republic of Uzbekistan shows that VAT remains a key source of state budget revenue. In recent years, there has been a steady upward trend in VAT revenue, due both to the expansion of the tax base and to measures to digitalize tax administration. The introduction of electronic invoices, online cash registers, and automated tax reporting has contributed to increased transparency and reduced tax evasion.

An analysis of the current VAT application mechanism revealed that the main changes affected the taxpayer registration procedure, the conditions for offsetting input VAT, and the refund procedures. While expanding the scope of mandatory VAT payers has increased the fiscal impact, it has also increased the administrative burden on small and medium-sized businesses. This problem is particularly acute for companies that lack sufficient human and financial resources to maintain complex tax records.

A study of tax administration practices has identified a number of common problems and errors made by taxpayers. These include incorrectly prepared primary documents, inconsistencies between electronic invoices and accounting records, errors in determining the tax base, and incorrect application of tax rates. Significant difficulties also arise in calculating and refunding VAT on export transactions and government contracts, often leading to tax disputes between businesses and tax authorities.

The results of a comparative analysis with international practice show that Uzbekistan has generally developed a basic VAT model consistent with generally accepted principles of indirect taxation. However, problems remain related to excessive regulation of certain procedures and insufficient predictability of tax administration. This reduces business confidence in the tax

system and requires further improvement of tax control mechanisms and taxpayer service support.

Thus, the analysis allows us to conclude that VAT reform in Uzbekistan generally contributes to increased efficiency of the tax system and increased budget revenues. However, achieving sustainable results requires further simplification of administration procedures, improved outreach by tax authorities, and a reduction in the number of common taxpayer errors. This will contribute to a favorable tax environment and the development of entrepreneurial activity.

Conclusion. The study found that value-added tax is a key element of the tax system of the Republic of Uzbekistan and plays a significant role in generating state budget revenue. Reforms implemented in recent years are aimed at improving the VAT application mechanism, expanding the tax base, digitalizing tax administration, and enhancing tax discipline among business entities. An analysis of current tax legislation and its application revealed that the introduction of electronic tax control tools, such as electronic invoices and automated reporting, has contributed to increased transparency of tax transactions and a reduction in VAT evasion. However, it was also found that the increased complexity of tax calculation and administration procedures increases the burden on taxpayers, particularly small and medium-sized businesses, which may negatively impact their financial stability. The study's results also reveal a number of challenges in VAT enforcement, including common errors in determining the tax base, preparing primary documents, and applying tax rates. These issues often lead to tax disputes and financial losses for businesses, highlighting the need to further refine the legal framework and improve the quality of methodological clarifications from tax authorities.

Overall, it can be concluded that the current VAT system in Uzbekistan largely complies with international indirect taxation standards, but requires further adaptation to the digital economy and business needs. The implementation of comprehensive measures to simplify administration, develop a service-based approach to tax control, and improve taxpayer tax literacy will contribute to more effective VAT application and strengthen the financial stability of the national economy.

References

1. Bird, R. M., & Gendron, P. P. (2007). *The VAT in developing and transitional countries*. Cambridge University Press.
2. Cnossen, S. (2015). *Excise tax policy and administration*. World Bank Publications.
3. European Commission. (2020). *Excise duty tables*. Directorate-General for Taxation and Customs Union. https://ec.europa.eu/taxation_customs/
4. IMF. (2018). *Tax policy assessment framework*. International Monetary Fund. <https://www.imf.org>
5. Musgrave, R. A., & Musgrave, P. B. (1989). *Public finance in theory and practice* (5th ed.). McGraw-Hill Education.
6. OECD. (2021). *Consumption tax trends: VAT/GST and excise rates, trends and policy issues*. OECD Publishing. <https://www.oecd.org/tax/consumption/>
7. Rosen, H. S., & Gayer, T. (2014). *Public finance* (10th ed.). McGraw-Hill Education.
8. Stiglitz, J. E. (2000). *Economics of the public sector* (3rd ed.). W. W. Norton & Company.