

Global Conference on Multidisciplinary Research and Innovation
Hosted Online from Berlin, Germany
Date: 2nd October, 2026
Website: https://econferencia.com

TURNOVER TAX OR VAT? REGIME CHOICE AND TAX BURDEN OF SMALL FIRMS IN UZBEKISTAN

Muxammadjon Erxanov
Independent Researcher,
Tashkent State University of Economics, Tashkent, Uzbekistan

Abstract

Micro-firms and small enterprises in Uzbekistan choose between a 4% turnover tax and a standard regime of 12% VAT and 15% profit tax. Using State Tax Committee data for 2023–2025, a regime-choice breakeven model, a growth decomposition and a three-model revenue forecast, this thesis reaches four conclusions. First, firms are migrating to the standard regime: the share of turnover-tax payers fell from 65.0% to 59.2%, and the effective VAT-plus-profit-tax rate of standard-regime firms (3.52% of turnover in 2025) is below the 4% turnover tax, as the model predicts for firms whose creditable purchases exceed two-thirds of turnover. Second, the tax burden is moderate and nearly proportional (about 9% of turnover), and about 80% of revenue growth came from a wider base. Third, 87% of the revenue increase came from profit-insensitive labour and property taxes. Fourth, recorded tax preferences grew by 30.8% a year to 5.2 times the taxes paid. Revenue is forecast to reach UZS 24.5 trillion in 2026 and UZS 29.2 trillion in 2028.

Keywords: small business taxation; turnover tax; value-added tax; regime choice; tax burden; tax expenditures; Uzbekistan.

JEL classification: H21, H25, H32, H68, L25, O53.



Global Conference on Multidisciplinary Research and Innovation
Hosted Online from Berlin, Germany
Date: 2nd October, 2026
Website: https://econferencia.com

Introduction

Most tax systems treat small firms differently because, below a certain size, the cost of measuring profit and value added exceeds the revenue at stake. A tax on gross receipts is the usual answer, but it ignores costs, breaks the VAT credit chain and creates incentives to stay small (Bird & Wallace, 2004; Keen & Mintz, 2004; Kanbur & Keen, 2014). Whether such a regime supports or holds back firm growth is therefore an empirical question.

Uzbekistan offers a clear test. Since 2020, micro-firms and small enterprises (legal entities) have chosen between a turnover tax, at a unified 4% rate since 2023 for gross income up to UZS 1 billion, and a standard regime of 12% VAT and 15% profit tax. In 2025, 482,868 active entities of this kind paid UZS 22.3 trillion in taxes on a turnover of UZS 247.0 trillion. In 2026, first-time switchers to VAT were exempted from profit tax for one year (Law ZRU-1108), and Decree PF-100 raised the transition threshold to 12,000 base calculation units (UZS 5.28 billion from 1 September 2026) and introduced an optional simplified 6% VAT for trade, catering and services.

The thesis tests three hypotheses. **H1 (regime migration):** because input VAT is creditable only in the standard regime, firms with a high share of creditable purchases find it cheaper, so the share of turnover-tax payers declines. **H2 (base-driven growth):** the burden is close to proportional to turnover, and revenue grows mainly through base expansion. **H3 (preference expansion):** tax preferences grow faster than both turnover and taxes paid.

Data and methodology

The study uses State Tax Committee aggregates for 2023–2025: the number of active firms by region, activity and tax regime; taxes paid by type; turnover; and tax preferences recorded in returns. Structural change is measured by the dissimilarity index, the χ^2 test and Cramér's V; regional divergence by the HHI and

a β-regression. The tax burden is K = T/Q, where T is taxes paid and Q turnover, and revenue growth splits exactly into a base effect and a burden effect: $\ln[T_{2025}/T_{2023}] = \ln[Q_{2025}/Q_{2023}] + \ln[K_{2025}/K_{2023}]$. Revenue for 2026–2028 is the equal-weighted mean of a constant-burden, a linear and a power model.

Regime choice is modelled for a firm whose creditable purchases equal a share α of turnover, with profit margin ρ, a share φ of VAT shifted to buyers and profit-tax rate τ. The turnover tax costs 4% of turnover; the standard regime costs:

$$R_2 = 0.12\cdot(1-\varphi)\cdot(1-\alpha) + \tau\cdot\rho \quad (1)$$

Setting $R_2 = 4\%$ gives the breakeven margin below which the standard regime is cheaper:

$$\rho^* = [0.04 - 0.12\cdot(1-\varphi)\cdot(1-\alpha)] / \tau \quad (2)$$

With φ = 0, the standard regime can be cheaper only if α > 2/3. To link the model to the data, the turnover of turnover-tax payers is backed out from collections ($Q_{tt} = T_{tt}/0.04$), and the observed effective rate of standard-regime firms is $\hat{R}_2$ = (VAT + profit tax)/(Q − Q_{tt}).

Results

Regime migration. The number of active firms fell from 486,259 in 2023 to 435,531 in 2024, mainly through register clean-up, and recovered to 482,868 in 2025. The regime structure, however, shifted markedly (Table 1): turnover-tax payers fell by 9.4% and their share from 65.0% to 59.2%, while standard-regime firms rose by 15.5%. Cramér's V for regimes (0.050) is almost twice that for activities (0.027). The remaining turnover-tax payers are very small: their implied average turnover is about UZS 167 million, one-sixth of the old threshold and only 3.2% of the new one.



Table 1. Key indicators of micro-firms and small enterprises, 2023–2025

Indicator	2023	2024	2025	2025/2023
Turnover-tax payers, number (share, %)	315,848 (65.0)	273,792 (62.9)	286,048 (59.2)	–9.4%
VAT + profit-tax payers, number (share, %)	170,411 (35.0)	161,739 (37.1)	196,820 (40.8)	+15.5%
Turnover (Q), UZS trillion	209.1	215.8	247.0	+18.1%
Taxes paid (T), UZS trillion	18.1	20.3	22.3	+23.2%
Tax burden K = T/Q, %	8.67	9.39	9.04	+0.37 p.p.
Effective rate of standard regime $\hat{R}_2$, %	3.89	3.80	3.52	−0.37 p.p.
Tax preferences, UZS trillion	68.0	81.5	116.2	+71.0%
Preferences to taxes paid, times	3.75	4.02	5.20	+1.45

Source: author's calculations based on State Tax Committee data.

The breakeven model explains why switching pays (Table 2). Without VAT shifting, firms gain from the standard regime only if $\alpha > 2/3$, and then only below a margin of 2.7% at $\alpha = 0.7$, 10.7% at $\alpha = 0.8$ (wholesale) and 18.7% at $\alpha = 0.9$ (retail). Shifting half of the VAT to business buyers raises the breakeven margin to 6.7% even at $\alpha = 0.5$, which explains voluntary VAT registration by firms selling to other businesses (de Paula & Scheinkman, 2010). The one-year profit-tax exemption makes the standard regime cheaper for every firm with $\alpha > 2/3$, whatever its margin. The simplified 6% VAT, by contrast, suits high value-added services rather than trade.



Table 2. Effective rate of the standard regime (R_2, % of turnover) and breakeven margins

Purchase share α	ρ = 5%	ρ = 10%	ρ = 20%	ρ*, % (φ = 0)	ρ*, % (φ = 0.5)	R_2 in exemption year, %
0.5 (services)	6.75	7.50	9.00	none	6.7	6.0
0.7 (industry)	4.35	5.10	6.60	2.7	14.7	3.6
0.8 (wholesale)	3.15	3.90	5.40	10.7	18.7	2.4
0.9 (retail)	1.95	2.70	4.20	18.7	22.7	1.2

Note: R_2 columns assume φ = 0 and τ = 15%; "none" means the 4% turnover tax is cheaper at any margin. Source: author's calculations based on equations (1)–(2). The data are consistent with this mechanism. The observed effective rate of standard-regime firms fell from 3.89% to 3.52% of turnover, below the 4% turnover tax in every year; 3.52% corresponds, for example, to α = 0.8 and ρ ≈ 7.5%. VAT and profit tax per standard-regime firm fell by 6.8% as smaller, less profitable firms switched. H1 is supported.

Burden and sources of revenue growth. Taxes grew by 23.2% and turnover by 18.1%, so the burden rose from 8.67% to 9.04%, or about UZS 9 per UZS 100 of turnover. The log-log elasticity of revenue to turnover is 1.09 (R^2 = 0.86), indicating a nearly proportional burden. By the decomposition, 79.7% of revenue growth came from a wider base and 20.3% from a heavier burden. H2 is supported. Growth was, however, concentrated in taxes paid regardless of profit: labour taxes (personal income and social tax) contributed 11.4 percentage points and property and resource taxes 8.8 points, together 87% of the increase. Their combined share rose from 49.1% to 56.3% of the total, reflecting wage legalisation, rate indexation

and the digitisation of cadastral and water-metering data. Profit tax, by contrast, grew by only 1.5% over two years.

Tax preferences and forecast. Recorded preferences rose from UZS 68.0 trillion to 116.2 trillion (CAGR 30.8%), 3.5 times the growth of turnover, reaching 5.2 times the taxes paid; their elasticity to turnover is 3.22. Because the series records exempt and reduced-rate bases, it overstates revenue forgone, but the trend is clear. H3 is supported. With turnover growing at its 2023–2025 CAGR of 8.67%, the combined forecast puts revenue at UZS 24.5 trillion in 2026 and UZS 29.2 trillion in 2028, with the burden edging up to 9.21%; the three models differ by at most 3.2%. If preferences kept growing at the same pace, they would reach about 82% of forecast turnover by 2028, an unsustainable path.

Regional divergence. Concentration increased: Tashkent city's share rose from 17.2% to 19.0%, and the HHI from 870 to 914. Larger regions grew faster ($r = 0.65$, $p = 0.012$; $\beta = 0.037$, $p = 0.026$), although the result rests on the capital, without which the correlation is insignificant.

Conclusions and policy recommendations

Taxation of micro-firms and small enterprises in Uzbekistan delivers a moderate, almost proportional burden of about 9% of turnover, with revenue growing mainly through a wider base. Firms are moving from the turnover tax to the standard regime because, for those with documented purchases above two-thirds of turnover, it is cheaper. E-invoicing makes such purchases visible and creditable, so the VAT chain draws firms into fuller compliance without coercion (Pomeranz, 2015). Three tensions remain: the burden is shifting towards profit-insensitive labour and property taxes; preferences are growing far faster than the base; and the gains concentrate in Tashkent city. The new 12,000 BCU threshold also extends



the turnover tax to firms with turnover more than 30 times that of the average payer, and the one-year exemption may only postpone bunching. Five measures follow:

1. Convert the one-year profit-tax exemption into a permanent transition band, for example a profit-tax rate rising from 0% to 15% over three years after the threshold is crossed.
2. Tie tax preferences to measurable results (jobs, investment, exports), publish an annual tax-expenditure report with revenue-forgone estimates and phase out ineffective preferences.
3. Ease the profit-insensitive burden on the smallest firms, for example through a reduced property-tax rate or a social-tax credit for new hires, financed by savings on untargeted preferences.
4. Use e-invoice and online cash-register data to give turnover-tax payers a pre-calculated comparison of their liability under each regime.
5. Provide targeted, time-limited support for regions outside Tashkent and for industry and construction, and publish taxpayer distributions by turnover band, regime and region.

References

1. Bird, R. M., & Wallace, S. (2004). Is it really so hard to tax the hard-to-tax? The context and role of presumptive taxes. In J. Alm, J. Martinez-Vazquez, & S. Wallace (Eds.), Taxing the hard-to-tax: Lessons from theory and practice (pp. 121–158). Elsevier.
1. de Paula, Á., & Scheinkman, J. A. (2010). Value-added taxes, chain effects, and informality. American Economic Journal: Macroeconomics, 2(4), 195–221.
2. Kanbur, R., & Keen, M. (2014). Thresholds, informality, and partitions of compliance. International Tax and Public Finance, 21(4), 536–559.



3. Keen, M., & Mintz, J. (2004). The optimal threshold for a value-added tax. Journal of Public Economics, 88(3–4), 559–576.
4. OECD. (2010). Tax expenditures in OECD countries. OECD Publishing.
5. Pomeranz, D. (2015). No taxation without information: Deterrence and self-enforcement in the value added tax. American Economic Review, 105(8), 2539–2569.
6. Republic of Uzbekistan. Tax Code (Law ZRU-599, as amended); Laws ZRU-1014 (2024) and ZRU-1108 (2025); Decrees PF-50 (2025) and PF-100 (2026). https://lex.uz