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# OPTIMIZATION OF TAX RATES: AS A FACTOR FOR INCREASING INVESTMENT ATTRACTIVENESS

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**Abstract:** This article provides a scientific and empirical analysis of the policy of optimizing tax rates[1] in the Republic of Uzbekistan for the period 2022–2024 and its impact on investment attractiveness. The relevance of studying the impact of tax policy on the investment climate is examined, in particular, the reduction of the value-added tax (VAT) rate from 15 percent to 12 percent starting in 2023, the retention of the profit tax rate at 15 percent[2], as well as important issues related to the dynamics of foreign direct investment (FDI). The results of the study show that reducing and simplifying tax rates is an effective tool for improving the business environment, expanding the tax base, and increasing investment attractiveness. The volume of FDI entering Uzbekistan in 2024 amounted to 2.836 billion US dollars, an increase of 31.5% compared to 2023. [3] The article presents practical proposals and recommendations for further optimization of tax rates. Comparative analysis, economic and statistical methods, and data from OECD, UNCTAD, and the World Bank were used as the research methodology.

[1] Law of the Republic of Uzbekistan No. O'RQ-812 (30.12.2022). Main directions of tax and budget policy for 2023. Lex.uz. https://lex.uz/docs/-6333246

[2] Law of the Republic of Uzbekistan No. O'RQ-891 (28.12.2023). Main directions of tax and budget policy for 2024. Lex.uz. https://lex.uz/docs/-6718864

[3] UNCTAD. (2025). World Investment Report 2025: FDI Statistics for Uzbekistan. Geneva: United Nations. https://unctad.org/system/files/non-official-document/wir_fs_uz_en.pdf

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**Keywords:** Tax rate, investment attractiveness, foreign direct investment, tax optimization, VAT, profit tax, tax policy of Uzbekistan.

## INTRODUCTION

In a modern economy characterized by globalization and increasing competition, tax policy remains one of the most important factors determining a country's investment attractiveness. Investment is considered a key source of economic growth, job creation and technological progress, and countries are increasingly competing to attract it. The Republic of Uzbekistan, as part of the large-scale economic reforms it has been implementing since 2017, is paying special attention to fundamentally reforming the tax system and improving the investment climate. [4]The entry into force of the New Tax Code in 2020, the gradual reduction and simplification of tax rates, and the improvement of tax administration are important steps in this area.[5]

In particular, the reduction of the VAT rate from 15% to 12% from 2023 was recognized as a historically significant change in Uzbekistan's tax policy. [6]This decision was expected to leave an additional 13 trillion soums of working capital at the disposal of entrepreneurs, as well as increase the country's attractiveness for foreign and domestic investors. However, reducing tax rates, on the one hand, may affect budget revenues, and on the other hand, in the long term, expand the tax base and stimulate economic growth.

The purpose of this study is to analyze the tax rate optimization policy of the Republic of Uzbekistan for 2022–2024, measure its impact on investment attractiveness, and develop scientifically based proposals and recommendations based on the conclusions. The scientific novelty of the study is as follows: first, the empirical relationship between Uzbekistan's tax reform and investment flows over the last 3 years is shown; second, a comparative analysis is conducted with the experience of regional countries; third, practical recommendations are given for further improving tax policy to increase investment attractiveness.

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[4]OECD. (2024). Trends and impacts of FDI in Uzbekistan: Roadmap for Sustainable Investment Policy Reforms. Paris: OECD Publishing. https://doi.org/10.1787/20865f29-en

[5]Tax Code of the Republic of Uzbekistan (No. O'RQ-599, 30.12.2019, as amended in 2023). Tashkent: Adolat, 2023.

[6] Gazeta.uz. (2022, December 19). What changes may occur in tax policy in 2023. https://www.gazeta.uz/oz/2022/12/19/tax-policy/

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**LITERATURE ANALYSIS ON THE TOPIC**

The relationship between tax rates and investment attractiveness has been widely studied in the international economic literature. Devereux and Freeman (1995) empirically prove that corporate tax rates have a significant negative impact on foreign direct investment. [7]They showed that each percentage point increase in the effective tax rate can reduce the volume of FDI by 3–4 percent. According to the study by Morisset and Pirnia, low tax rates or tax incentives can be an auxiliary tool in attracting investment, but they cannot completely replace the main investment factors such as good infrastructure, a stable political environment and a developed legal system.[8]

The OECD (2024) report on Uzbekistan, analyzing the investment climate, emphasizes the presence of tax incentives, but the need for their transparency and predictability. [9]OECD experts emphasize the need to move away from the policy of granting tax incentives on a "case-by-case basis" in Uzbekistan and to improve the general tax environment. Thus, while the analysis of the existing literature shows a positive relationship between the optimization of tax rates and investment attractiveness, this relationship is not simply mechanical, but rather occurs in interaction with other economic, institutional and political factors.

**RESEARCH METHODOLOGY**

The following scientific methods are used in this study:

First, a comparative analysis method is used to compare changes in tax rates and investment flows in Uzbekistan in 2022–2024. In addition, Uzbekistan's tax performance is compared with that of Central Asian and CIS countries.

Secondly, the method of economic and statistical analysis is used to analyze real data from UNCTAD (2025), OECD (2024), the World Bank, and the Statistics Agency of Uzbekistan for the last 3 years (2022–2024).

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[7]Devereux, MP, & Freeman, H. (1995). The impact of tax on foreign direct investment: Empirical evidence and the implications for tax integration schemes. International Tax and Public Finance, 2(1), 85–106. https://doi.org/10.1007/BF00877495

[8]Morisset, J., & Pirnia, N. (2001). How tax policy and incentives affect foreign direct investment. In LT Wells, NJ Allen, J. Morisset, & N. Pirnia (Eds.), Using Tax Incentives to Compete for Foreign Investment: Are They Worth the Costs? (pp. 69–108). World Bank/FIAS.

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Thirdly, the method of documentary analysis is used to analyze changes in the tax legislation of the Republic of Uzbekistan - Laws No. ORQ-812, ORQ-891, ORQ-1014 and amendments to the Tax Code.[10]

Fourth, the causal analysis method seeks to establish a causal relationship between tax changes and investment volume. For this purpose, the correlation between the two variables and methodological approaches from the existing empirical literature are used. The main sources of information for the study are: UNCTAD World Investment Report 2025; OECD "Roadmap for Sustainable Investment Policy Reforms in Uzbekistan" (2024); US Department of State Investment Climate Review 2024; Data from the Uzbekistan Statistical Agency; Lex.uz official legislative base; World Bank and IMF reports. The following are limitations of the study: in addition to taxes, other factors (political stability, infrastructure, quality of the workforce) also have a significant impact on investment attractiveness, and it is difficult to analyze them separately; some data are not fully available in open sources.

## MAIN PART: PROBLEM ANALYSIS AND RESULTS

### Dynamics of tax rates in Uzbekistan in 2022–2024

Over the past three years, a number of fundamental changes have been made to tax policy in the Republic of Uzbekistan. Reducing the VAT rate from 15 percent to 12 percent from 2023 is the largest simultaneous reduction in the tax history of Uzbekistan. This decision has served to leave approximately 13 trillion soums of additional working capital at the disposal of entrepreneurs. The main tax rates for 2022–2024 are set as follows: basic profit tax rate - 15 percent; personal income tax - 12 percent; VAT rate - 12 percent from 2023 (previously 15%); social tax - 12 percent (25% for budgetary organizations); property tax for legal entities - 1.5 percent. In addition, the turnover tax rate was simplified: rates ranging from 4–25 percent for 14 types of activity were unified to a single 4 percent. The profit tax rate on exported goods was set at 0 percent, which encouraged export-oriented investments.

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In the tax policy for 2025, President Mirziyoyev's decision stipulates that VAT and profit tax rates will not be increased until 2028. [11]This decision guarantees investors tax stability for long-term planning.

**The impact of changes in tax rates on investment volume**

When analyzing the dynamics of foreign investment inflows to Uzbekistan, a significant increase in investment activity was observed in parallel with tax reforms. According to the UNCTAD World Investment Report 2025, the volume of FDI inflows to Uzbekistan was as follows:[12]

2020: 1.728 billion US dollars;

2021: $2.275 billion (+31.7%);

2022: $2.498 billion (+9.8%);

2023: US$2.156 billion (-13.7%);

2024: $2.836 billion (+31.5%).

The sharp increase in the volume of CIT by 31.5% in 2024 can be explained by the lagged effect of the VAT rate reduction (effective from 2023) and other tax incentives. However, the decrease in the volume of CIT in 2023 (−13.7%) indicates that this process is complex and multifactorial. In 2024, fixed capital investments in Uzbekistan totaled 39 trillion soums (approximately 39 billion US dollars), an increase of 27.6% compared to 2023.[13] Foreign investments amounted to 333.8 trillion soums (26.39 billion US dollars), an increase of 152.1% compared to 2023. This figure was the highest volume of foreign investment in the history of Uzbekistan. Distribution of investments by main sectors: manufacturing — $9.42 billion (35.7%); electricity and gas supply — $5.14 billion (19.5%); mining and metallurgy — $4.51 billion (17.1%).[14] By country of main investors: China — 25.6%, Russia — 13.4%, Saudi Arabia — 7.9%, Turkey — 6.4%, UAE — 5.8%, Germany — 4.3%.

[11] Gazeta.uz. (2025, January 10). What changes have occurred in taxes in 2025? https://www.gazeta.uz/oz/2025/01/10/taxes-2025/

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**Effectiveness of Tax Optimization Policy: Problems and Opportunities**

The policy of reducing tax rates has led to a number of positive results. First, improving the business environment: the reduction of the VAT rate and the unification of the turnover tax have reduced business costs and increased the attractiveness of the Uzbek market for foreign companies. Second, expanding the tax base: as a result of the reduction and simplification of the turnover tax rate, more enterprises have moved to the formal economy, which ultimately ensured the stability of budget revenues. Third, improving international ratings: Uzbekistan ranked 83rd out of 133 countries in the Global Innovation Index in 2024. It also ranks 100th out of 184 countries in the Index of Economic Freedom. However, there are a number of problems. The first problem is the provision of tax benefits on an "individual basis". The 2024 US State Department report notes that the Uzbek government continues to provide tax incentives on an ad hoc basis, and this approach is slowing down the overall reform process. The second problem is the issue of tax stability and predictability. While the commitment to reduce the VAT rate and not increase the basic rates until 2028 is a positive signal, a number of rates for small and medium-sized businesses (excise, fixed amounts of turnover tax) are regularly indexed to inflation. The third problem is the complexity of tax administration. Uzbekistan still ranks below average in the Doing Business/ Business Ready indicators for taxes. It is necessary to develop digital administration and reduce red tape in the tax system. The fourth problem is the balance between tax incentives and budget sustainability. The IMF (2024) report notes that while continuing reforms to reduce the tax burden in Uzbekistan, expanding the tax base and reducing the shadow economy remain important tasks to maintain stable public finances.

**Comparative Analysis: Regional Context**

When comparing Uzbekistan's tax rates with those of neighboring countries, the following picture emerges: in terms of VAT, Uzbekistan is at the level of Kazakhstan (12%), lower than Russia (20%), and the same as Kyrgyzstan and Tajikistan (12%); in terms of profit tax, Uzbekistan is at the level of Kazakhstan (20%) and Russia (20%) at 15%. According to OECD data, gross fixed capital formation in Uzbekistan amounted to 32.2% of GDP (2023), which is higher than the average for Central Asian countries. [15]This indicator indicates an improving investment climate. Since 2022, Uzbekistan has developed a system of tax incentives for seven special economic zones

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(SEZs).[16] The benefits established for foreign investors in SEZs (profit tax exemption, preferential customs regime, etc.) increase the country's international competitiveness.

**CONCLUSION AND SUGGESTIONS**

The conducted research allows us to draw the following conclusions:

First conclusion. The policy of optimizing tax rates implemented in Uzbekistan in 2022–2024 — in particular, the reduction of the VAT rate from 15 percent to 12 percent, the unification of the turnover tax, and ensuring the stability of basic rates — has laid the foundation for a significant improvement in the investment climate.

Second conclusion. According to UNCTAD, the volume of FDI entering Uzbekistan in 2024 amounted to $2.836 billion, an increase of 64.2% compared to 2020. The sharp increase in the volume of foreign investment by 152.1% in 2024 can be assessed as a delayed positive effect of tax reforms.

Third conclusion: Lowering tax rates is a necessary but not sufficient condition for increasing investment attractiveness. Tax stability, transparency, and quality of governance also play an important role.

Fourth conclusion: The provision of tax benefits on an "individual basis" in Uzbekistan remains an obstacle to improving the nationwide investment climate, and this approach should be gradually abandoned.

**Further reduce and simplify tax rates.** It is necessary to gradually reduce the corporate tax rate from 15 percent to 12 percent and guarantee the stability of basic tax rates until 2030. This will increase the confidence of long-term planning for foreign investors.

**Systematization of tax incentives.** It is necessary to abandon the practice of granting incentives "on an individual basis" and move to a system of transparent and universal investment incentives based on clear criteria. It is recommended to expand incentives in special economic zones and bring them into line with international standards.

**Developing digital tax administration.** Fully digitizing the tax payment process, simplifying interaction with tax authorities, and reducing time costs will reduce business costs and improve the investment climate.

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**Integration of tax policy with investment strategy.** Tax policy needs to be aligned with the goal of reaching $70 billion in investments within the framework of Uzbekistan's New Uzbekistan Development Strategy for 2022–2026.[17]

**Establish a scientific monitoring and evaluation system.** Annually measuring the impact of tax changes on investment attractiveness using empirical methods and openly publishing the results will be the basis for continuous improvement of tax policy. The results of this study will be of practical importance for government bodies in the field of tax policy, international investors and economic researchers, and can contribute to the rapid development of the Uzbek economy and increase its global investment competitiveness.

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