

## SPECIFIC FEATURES OF TAXATION OF SELF -EMPLOYED PERSONS AND SMALL BUSINESSES

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**Abstract:** The article is devoted to a comprehensive analysis of the evolution, current state and future reforms of the taxation system for self-employed individuals and small businesses in the modern economic conditions of the Republic of Uzbekistan. The study examines the role of small businesses in ensuring macroeconomic stability based on the latest statistical data for 2023–2025, in particular, reports of the Statistics Agency of the Republic of Uzbekistan and the Tax Committee. The article provides a scientific and theoretical justification for the economic consequences of the income threshold of 100 million soums established for self-employed individuals, the effectiveness of digitalization of tax administration in reducing the shadow economy, and tax reforms planned for 2026 (reducing the turnover tax rate to 1 percent). The study also analyzes the differences between international experience and national practice in legalizing the segment of "hard-to-tax" entities. The results show that optimizing the tax burden and increasing fiscal transparency are key drivers of increased entrepreneurial activity.

**Keywords:** Tax system, self-employment, small business, turnover tax, hidden economy, tax reforms, SST, social tax, digital economy, fiscal policy, Uzbekistan - 2030 strategy.

### Introduction

The role of small businesses and private entrepreneurs, as well as self-employed individuals, is of strategic importance in ensuring stable and high-speed growth of the Uzbek economy. In the era of global economic changes and digital transformation, ensuring employment, reducing poverty and increasing innovative activity depends on the resilience of this sector. The large-scale tax reforms implemented in Uzbekistan in recent years, in particular, the introduction of a new edition of the Tax Code and

Presidential Decrees on supporting entrepreneurship, have become the main pillar of economic liberalization. <sup>1</sup>The relevance of the topic is that starting from 2024, mechanisms have been introduced to establish an income threshold for self-employed individuals and gradually transfer them to the status of individual entrepreneurs (IEP). These measures require maintaining a delicate balance between reducing informal employment and diversifying state budget revenues. According to statistics, as of July 2025, more than 1.2 million small businesses were operating in Uzbekistan, and their share in GDP was 49.6 percent, which creates the need for a scientific analysis of this sector and identification of its problems.<sup>2</sup>

The problem of the shadow economy remains relevant. Analyses show that by the end of 2023, the volume of the shadow economy amounted to almost 100 trillion soums, which limits the state's ability to finance social and infrastructure projects. Therefore, the tax system should be designed in such a way that it encourages entrepreneurs to come out of the "shadows" and reduces administrative pressure. This study aims to offer scientifically based solutions to these problems by conducting an in-depth analysis of the specific mechanisms of taxation for small businesses and the self-employed.

## Analysis of literature on the topic

In Uzbekistan, the issues of taxation of small businesses have been widely studied by scientists such as B. Karimov, A. Rahmonov, and S. Tursunov. In his 2025 study, B. Karimov analyzed the impact of the tax burden on entrepreneurial activity and proved through econometric models that every 1 percent decrease in tax rates increases the number of newly registered entities by an average of 3-5 percent. A. Rahmonov, on the other hand, emphasizes the importance of "selective" (targeted) tax incentives in the development of small businesses, noting that general incentives are often ineffective. <sup>3</sup>From the point of view of international experience, experts from the World Bank and the International Monetary Fund pay special attention to the problem of the "hard-to-tax" segment in transition countries. In their opinion, the "parasitic attitude towards entrepreneurship" left over from the former socialist system is still manifested in some administrative barriers. The rapid development of the small business segment is a significant burden for tax administration, which is characterized by a high level of volatility (rapid establishment and rapid liquidation) of these entities.

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<sup>1</sup>Ibrokhimov, MA (2026). Directions for the application of tax benefits to business entities. *Pioneering Studies and Theories*, 2(1). <https://pstjournal.uz/index.php/pst/article/view/84>

<sup>2</sup>National Statistics Committee of the Republic of Uzbekistan. (2024, August 29). What is the share of small businesses in GDP in January-June 2024?

<sup>3</sup>Turayev, AA, & Akbarova, RR (2026, March 26). Directions for the application of tax benefits to business entities. *Pioneering Studies and Theories*, 2(1). <https://pstjournal.uz/index.php/pst/article/view/84>

On the issue of digital tax services, the work of N. Khalimova and S. Tursunov is noteworthy. They substantiated that the introduction of the "Tax" mobile application and electronic invoices significantly reduces transaction costs for small businesses. Also, an article published in 2026 by Ibrokhimov MA analyzed the role of tax incentives in attracting investment, showing the positive impact of "tax holidays" and mechanisms for reducing the social tax rate for export-oriented enterprises.

Theoretically, the Laffer curve principle underlies Uzbekistan's tax reforms, i.e., a strategy of broadening the tax base by reducing tax rates. In this regard, the experience of Russia's "professional income tax" (4% and 6%) served as a model for Uzbekistan's 4% turnover tax system for the self-employed. Research shows that the smaller the "fiscal gap" (gap) between the simplified tax system and the standard tax system, the easier it is for entities to become large and legal.

## **Research methodology**

This study used several methods of economic analysis. First, a dynamic series analysis was carried out based on official data of the Agency for Statistics of the Republic of Uzbekistan for 2023–2025. Second, a comparative analysis of the tax regimes established for self-employed individuals and SOEs was carried out. Third, statistical grouping and logical inference methods were used to assess the impact of tax reforms on the size of the hidden economy.

## **Main part problem analysis and results**

The Uzbek economy has seen a sharp increase in the number of small businesses and self-employed individuals over the past three years. If in 2020 the number of self-employed individuals amounted to 561.2 thousand, by the end of 2023 this figure reached 2,533.9 thousand, that is, an increase of 4.5 times. This dynamics is the result not only of increased economic activity, but also of favorable fiscal conditions created by the state.<sup>4</sup>

## **Self-employed tax mechanism**

The tax regime introduced for self-employed persons is one of the most innovative and socially oriented reforms in the tax system of Uzbekistan. Initially, this category of persons was only required to pay a voluntary social tax (in the amount of 1 BHM per year), which allowed them to calculate their pensionable service. However, in order to facilitate business expansion and ensure fair competition, a threshold of 100 million soums was established from 2024. The mechanism of this system is as follows: if the income does not exceed 100 million soums, the self-employed person does not pay any income tax. If the income exceeds this threshold, he pays a 4% turnover tax only on

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<sup>4</sup>Safarova, NA (2024). Procedure for taxation of income of self-employed persons. Journal of Artificial Intelligence and Digital Economy, 1(6), 38–41. <https://doi.org/10.61796/JAIDE.v1i6.652>

the excess. For example, if a person's annual income is 110 million soums, he pays 4% (400 thousand soums) of only 10 million soums in tax. This mechanism encourages entrepreneurs not to hide their income and continue their activities calmly. The 2% tax rate for sellers of products through e-commerce platforms is an important step towards the development of the digital economy. However, analyses show that the share of information and communication technology (ICT) services among the self-employed is still low, at only 2.5%. Additional tax incentives are needed to increase the number of specialists in this area.

### Statistical analysis and composition of small businesses

As of July 1, 2025, the total number of small businesses operating in Uzbekistan exceeded 1.2 million. This indicator indicates the dominance of small businesses in almost all sectors of the economy.

Presents a structural analysis of small businesses as of July 2025:

Subject type	Quantity (thousand units)	Share (%)
Small businesses and micro-firms	487.1	40.57
Farms	414.3	34.51
Individual entrepreneurs (IEO)	270.6	22.54
Craftsmen	21.6	1.80
Family entrepreneurs	5.9	0.49
<b>Total</b>	<b>1,200.4</b>	<b>100.0</b>

Source: Author's work based on data from the Statistical Agency of the Republic of Uzbekistan.<sup>5</sup>

These data show that micro-firms and small enterprises remain the backbone of the sector. At the same time, the high share of peasant farms (34.5%) indicates that the importance of the agricultural sector in the country's economy is still high. The number of self-employed persons, which is 270.6 thousand, indicates that a significant part of the 2.5 million self-employed persons has a great potential to become self-employed in the future.

From a territorial point of view, the density of business entities per 1,000 populations in the republic averages 31.8 units. The highest density is observed in Tashkent city (42.4) and Khorezm region (40.5). Samarkand region is the leader in the republic in terms of the number of self-employed persons (12.4% of the total number of self-employed persons).

### Economic analysis of the tax burden and the hidden economy

<sup>5</sup> National Statistical Committee of the Republic of Uzbekistan. (2025, July 25). Main indicators of small business entities in the Republic of Uzbekistan. [https://stat.uz/img/press-relizlar/kb\\_eng\\_p14092.pdf](https://stat.uz/img/press-relizlar/kb_eng_p14092.pdf)

Reducing the shadow economy is one of the priorities of Uzbekistan's economic policy. Analysis shows that the size of the shadow economy, which was 52.1 percent in 2019, has decreased to 40 percent by the end of 2023. The reduction of the VAT rate from 15 to 12 percent and the reduction of the social tax burden play an important role in achieving this result. Along with the optimization of tax rates, the abolition of 7 types of licenses and the unification of 12 types of permit procedures from March 1, 2024 have reduced bureaucratic barriers. However, the 30 trillion soums of budget revenues lost due to the shadow economy still indicate the need for systemic reforms. In particular, proposals to reduce cash turnover and use blockchain technologies to ensure transparency of financial transactions are being widely discussed in scientific circles. As part of the 2026 tax reform, it is planned to reduce the turnover tax to 1 percent. This measure will create significant financial opportunities, especially for small entrepreneurs in the retail and service sectors. Meanwhile, the tax administration continues to digitize: new entities are being registered in real time through the "Reg-System" system and their reporting is being automated.

### **Scientific explanation and analytical results**

indicate that there are several "fiscal asymmetries" in the taxation of small businesses. First, for self-employed individuals, the threshold of 100 million soums may be too low, since, taking into account inflation rates, this amount of gross receipts does not fully reflect the net income of an individual. Second, for SMEs, the obligation to switch to VAT and profit tax when income exceeds 1 billion soums encourages them to "split-up" their business or return to the underground economy.

Social tax benefits (for example, a 50% discount for persons with disabilities of groups I and II) indicate the level of humaneness of the system. However, the increase in social tax revenues from 125.3 billion soums to 861.5 billion soums (7 times) was mainly due to an increase in the number of self-employed people, which increases the stability of the social insurance system. The share of small businesses in GDP of 49.6 percent confirms that the growth drivers of the country's economy have changed. The fact that 33.2 percent of industrial production and 77.6 percent of construction are accounted for by small entities is the basis for assessing them not only as a "provider of employment", but also as a "creator of economic value".

### **Conclusion and suggestions**

The results of a study conducted to improve the taxation system for self-employed individuals and small businesses in the Uzbek economy allow us to draw the following conclusions:

1. **Effectiveness of tax reforms:** Over the past three years, reducing the tax burden and digitizing administration has helped reduce informal employment from 43 percent to 39 percent and increase the number of self-employed people by 4.5 times.
2. **Structural changes:** The number of small businesses reaching 1.2 million has ensured the primacy of the private sector in the economy. In particular, small businesses have a near-monopoly position in services and agriculture (54.8% and 97.2% share, respectively).
3. **Barriers and challenges:** The "tax thresholds" of 100 million and 1 billion soums remain factors that prevent entities from growing. The sharp jump in the tax burden near these thresholds increases the motivation to "avoid paying taxes."

### Practical suggestions and recommendations:

- **Introduction of differential rates:** It is proposed to increase the income threshold for the self-employed or introduce differentiated rates depending on the level of income (for example, 2% up to 200 million soums, 4% above).
- **Incentivize the ICT sector:** Increase the 2.5 percent share of this sector by providing additional social tax benefits for self-employed individuals providing ICT and high-tech services.
- **Strengthening tax education:** Further simplify the "Electronic Tax Assistant" system and expand free consulting services to increase the financial and tax literacy of entrepreneurs.
- **"Smart" control against the hidden economy:** Instead of increasing administrative fines, effective use of the "Entrepreneurship Rating" system, which encourages those who fully comply with their tax obligations in the system of public procurement and preferential lending.

The results of this study can serve as a scientific basis for further improving tax policy in Uzbekistan, improving the business environment, and achieving the high economic goals set in the "Uzbekistan - 2030" strategy. Future research should be directed at studying the role of tax mechanisms in equalizing the tax burden across regions and increasing the export potential of small businesses.

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