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Improving The Practice of Taxing Individuals Engaged in Entrepreneurial Activities in Uzbekistan

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Abstract: This study examines the taxation practices of individuals engaged in entrepreneurial activities in Uzbekistan, addressing the challenges and inefficiencies in the current tax system. While previous research has explored various tax policies, gaps remain in understanding their impact on self-employed individuals and small businesses. Using a qualitative approach, the study analyzes tax regulations, economic trends, and sectoral distributions of entrepreneurs. Findings reveal significant growth in individual entrepreneurship, yet persistent barriers such as complex tax reporting and informal business taxation hinder further development. The results highlight the need for tax simplification, digitalization, and enhanced support mechanisms to foster entrepreneurship while ensuring compliance. These implications emphasize policy reforms that balance state revenue generation with business-friendly tax administration.

Keywords: Entrepreneur, Tax, Entrepreneurial Activity, Sole Proprietor, Craftsman, Family Entrepreneur, Small Business, Medium Business, Self-Employment, Income Tax, Turnover Tax

1. Introduction

International practice shows that small and medium-sized businesses are currently playing an important role in the economic development of the state. In particular, individual entrepreneurs also play a significant role in this regard, and the effective organization of their activities, as well as compliance with tax legislation, is important for ensuring social and economic stability. Taxation of entrepreneurs is not only related to supporting the state budget, but also to operating in accordance with legislative norms in the field of production and services, controlling the labor market and creating a fair competitive environment.

At the same time, tax evasion and risks of financial competition may arise among individual entrepreneurs, which creates economic problems. Therefore, it is important to improve the tax system, improve the operating conditions for entrepreneurs and clearly define their legal obligations.

The practice of taxation of individuals engaged in entrepreneurial activities in Uzbekistan is one of the important economic issues. Today, the main goal of tax policy for entrepreneurs in Uzbekistan is to encourage new businesses, simplify the relationship of entrepreneurs with the state, and create favorable conditions for their activities. However, there are various difficulties and shortcomings on this path, and it is necessary to create

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more clear and reliable mechanisms to increase the efficiency of relations between the tax administration and entrepreneurs [1], [2], [3].

Therefore, improving the practice of taxation of individuals engaged in entrepreneurial activities in Uzbekistan will serve to strengthen legal and economic relations in this area and increase state revenues. Taking into account the expansion of entrepreneurial activity in Uzbekistan and its impact on the state, improving the tax system will, first of all, contribute to the stability of business and attracting investments. This, in turn, will create new jobs, meet the demand for housing and services of the population, and have a positive impact on economic development.

Also, improving the practice of taxation of individuals engaged in entrepreneurial activities will serve to increase the confidence of taxpayers in society. If the process of working with the tax administration is simplified, entrepreneurs will be able to develop their activities more, which will allow them to strengthen their financial situation, as well as contribute to the development of the state budget. Therefore, this issue is important not only for taxpayers, but also for the country's economy.

Literature review

Issues related to the taxation of individuals engaged in entrepreneurial activity, including individual entrepreneurship, have been studied by many foreign and domestic economists, and we found it necessary to pay attention to some of them.

Economists K. McConnell and S. Brew consider entrepreneurship as an important type of activity based on continuous conditions and requirements. "Firstly, an entrepreneur combines production factors in the process of producing goods and services and acts as a "catalyst". Secondly, in the process of doing business, he takes on such a difficult task as making decisions. Thirdly, an entrepreneur is an organizing person who seeks to introduce new production technologies and produce new products. Fourthly, an entrepreneur is a person who takes risks. He takes risks not only with his own property, time, labor, but also with the funds contributed by his partners and shareholders" [4]. The advantages and disadvantages of registering an individual as an individual entrepreneur were revealed by economist V.M. Polyakova (Table 1).

Table 1. Positive and negative features of registering individuals as individual entrepreneurs [5].

No	Positive Features	Negative Features
1.	High mobility and flexibility in conducting business activities due to the ability to choose tax regimes	An entrepreneur has full personal liability for his obligations related to his business activities, even after the business has ceased.
2.	The possibility of applying a patent system of taxation, which would provide state support to law-abiding taxpayers	The obligation to prepare tax reports as needed
3.	Ease of making business decisions in current business activities	Frequent changes in government regulation and operating conditions
4.	The relative ease of ending a business	Restrictions on areas of activity (alcohol production, wholesale and retail trade in alcohol, with the exception of beer and beer-containing products), insurance activities (insurer), pawnshop activities, tour operator activities).
5.	A high level of freedom to manage one's own funds, no targeted management required	The lack of the possibility of running a joint business, since the status of an individual entrepreneur is registered for only 1 person
6.	The amount of insurance contributions is limited to the established payment to the Pension Fund	Payment of a fixed tax even in the absence of income
7.	Low state duty for registering as an entrepreneur	Inability to sell or re-register the business

From the above comparison, it can be concluded that an individual entrepreneur is a full-fledged economic entity capable of responding to changes in the institutional environment and is responsible for its financial obligations with all the property that is his property. The legal status of an individual entrepreneur allows him to be distinguished as a separate category, occupying an intermediate position between organizations and individuals as a taxpayer.

Another economist, Ya.Yu. Mitryushkin, studying the taxation of the activities of individual entrepreneurs as individuals, "noted that the simplified tax system is imperfect, the patent fee does not replace the sum of all taxes established for an individual entrepreneur, but only replaces the payment of income tax, which does not correspond to modern foreign experience of taxation and the principles of taxation of income from entrepreneurial activity" [6].

Russian economist N.Z. In his research, Zotikov "studied the taxation of individual entrepreneurs' income, assessed the impact of taxes on the development of entrepreneurial activity, and emphasized the need to stimulate them through taxes" [7].

Economist S.R. Shakhbanova "studied the mechanism of regulating individual entrepreneurs through taxes, the scientific and methodological aspects of alternative tax regimes for their taxation, and showed their advantages and disadvantages" [8].

Local economist N. Ashurova stated that "entrepreneurship is a special type of economic activity, which is based on independent initiative, responsibility for compliance with the law, the desire to maximize profits, and targeted activity" [9].

An analysis of the opinions of foreign economists on the entrepreneurial activity of individuals and their taxation shows that there is no similar system and approach in this regard.

Turning to the studies of domestic economists on the taxation of individuals engaged in entrepreneurial activity, by economist Sh.Kh.Dusiyarov [10] on the taxation of individuals engaged in entrepreneurial activity:

1. in order to further involve the population in entrepreneurial activity and create additional conditions for legal labor, to develop types of activities (works, services) that self-employed persons can engage in and to simplify taxation;
2. the issue of individual entrepreneurs engaged in several types of activity paying a fixed amount of tax separately for each type of activity, and when engaged in activities in two or more settlements, paying the tax established for the place of activity;
3. research has been conducted to improve the mechanism for taxation of persons with disabilities engaged in entrepreneurial activities.

Economist J.J. Urmonov, studying the issues of regulating the activities of business entities through the tax mechanism, proposed "In order to widely involve graduates of educational institutions in entrepreneurship, to grant entrepreneurs engaged in individual entrepreneurial activities the right to hire employees on a contractual basis and to introduce tax incentives for them" [11].

Economist I. Niyazmetov, in his research, presented the following ideas on a fixed tax: "The progressive mechanism of income taxation applies only to employees. That is, as the income of such citizens increases, the tax burden increases. The taxation of the income of individual entrepreneurs and the fixed tax account take a regressive form, and the more their income increases, the more the tax burden decreases" [12].

The legal basis for organizing entrepreneurial activity in Uzbekistan is established in the Constitution of the Republic of Uzbekistan, Laws, Decrees and Resolutions of the President of the Republic of Uzbekistan, and other regulatory legal acts. In accordance with the Constitution of the Republic of Uzbekistan, the basis of the economy of Uzbekistan, aimed at increasing the well-being of citizens, is property in various forms. The state creates conditions for the development of market relations and fair competition,

guarantees freedom of economic activity, entrepreneurship and labor, taking into account the priority of consumer rights [1]. It is also established that entrepreneurs have the right to carry out any activity in accordance with the legislation and independently choose the direction of their activities.

Article 31 of the Tax Code of the Republic of Uzbekistan defines the concept of an individual entrepreneur as follows. "An individual entrepreneur is an individual who is registered in the established manner and carries out entrepreneurial activity without forming a legal entity".

At the initiative of the President of the Republic of Uzbekistan, in order to ensure employment of the population and attract them to entrepreneurial activities, the areas of activity of citizens for self-employment were defined in the legislation.

In our opinion, it is appropriate to directly take into account self-employed citizens when defining the concept of an individual entrepreneur. That is, an individual entrepreneur is understood as an individual who, having passed state registration in the prescribed manner and without forming a legal entity, carries out entrepreneurial activities as a self-employed person.

From our research, it became clear that many economists have conducted scientific research on the contribution of self-employed citizens to the state economy and on the issues of taxation of them.

In particular, V.Ye. Gimpelson and R.I. According to Kapelyushnikov, the issues of improving taxation of self-employed citizens and determining their legal status in order to legalize their income from labor activities are in the focus of attention of scientists and practitioners. One should agree with the opinion that non-payment of taxes by informal workers "limits the budget capabilities of the state and violates morality" [13]. According to the calculations of V. Gimpelson, A. Zudina, the share of informal workers is 20-30% and continues to grow [14], according to the research of N.I. Malis, tax policy should provide an impetus for the legalization of microbusiness [15].

According to M.R. Pinskaya's research, self-employed individuals can be divided into 3 categories [16].

1. Law-abiding individuals who pay taxes under any circumstances.
2. Law-abiding individuals who pay taxes if a tax audit is unavoidable.
3. Law-abiding individuals who do not pay taxes under any circumstances.

Based on the above studies and the opinions of economists, we can make the following observations regarding the practice of taxation of individuals engaged in entrepreneurial activities.

Individual entrepreneurs operate in accordance with the requirements of the law by paying taxes. This allows them to formalize their activities and protect their rights;

By paying taxes, entrepreneurs ensure the legal stability of their activities. This helps them to conduct business in the long term and successfully.

Paying taxes helps entrepreneurs expand their financial and social opportunities. If they are given additional incentives or benefits through the tax system, this increases their competitiveness in the market.

Individual entrepreneurs contribute to the creation of new jobs through their activities. This leads to the reduction of social problems and the creation of new opportunities for the population.

2. Materials and Methods

The methodology of this study employs a qualitative research approach, integrating document analysis, statistical review, and comparative assessment to examine the taxation practices of individuals engaged in entrepreneurial activities in Uzbekistan. The research

is based on an extensive review of existing literature, including studies by both domestic and international economists, legal frameworks such as the Tax Code of Uzbekistan, and government resolutions related to tax policies. Data was gathered from official reports, economic studies, and statistical sources detailing the dynamics of individual entrepreneurship and tax payment trends. This study also analyzes sectoral variations in entrepreneurial activities, evaluating tax burdens across different business categories. A comparative assessment of tax structures and incentives applied in other economies is conducted to identify best practices and potential areas for reform.

The research also incorporates an evaluation of tax policy efficiency through an analysis of the number of registered individual entrepreneurs and their growth over recent years, considering different taxation regimes such as fixed income tax, turnover tax, and value-added tax. By identifying regulatory gaps and administrative inefficiencies, the study formulates recommendations for improving tax compliance and facilitating business growth. The findings are derived from secondary data sources, making this a non-experimental study, but with a strong emphasis on policy evaluation and economic analysis. The methodological approach allows for an in-depth exploration of taxation challenges while providing insights into potential reforms to enhance the business environment and encourage sustainable economic development in Uzbekistan.

3. Results and Discussion

Let us focus on the features of paying income tax from individuals in a strictly defined amount by individual entrepreneurs (Table 2).

Table 2. Features of paying income tax in a fixed amount by individual entrepreneurs in Uzbekistan.

No	Individual Entrepreneur:	Tax is Paid:
1.	In case of engaging in several types of activities	Separately for each type of activity
2.	In case of conducting business activities in a place where there is no state registration	At the higher of the two rates: - at the place of registration; - at the place of actual activity
3.	In case of disability of group I or II	Regardless of the type of activity and the place of its implementation, it pays 50% of the fixed amount, but not more than 50% of the base calculation amount.
4.	In the case of being engaged in the production and sale of handicraft products (goods, services) (when being a member of the "Hunarmand" association)	This type of activity does not pay tax
5.	when renting out property	Personal income tax at a rate of 12%, taking into account tax exemptions and the procedure for their application, in accordance with Article 380 of the Tax Code

Income tax, which is collected from individuals by individual entrepreneurs in a strictly defined amount, is levied depending on the source of income generated.

The indicators of changes in the number of individuals engaged in entrepreneurial activity by tax regime (Figure 1) have an impact on the nature and economic significance of taxation of entrepreneurial individuals.

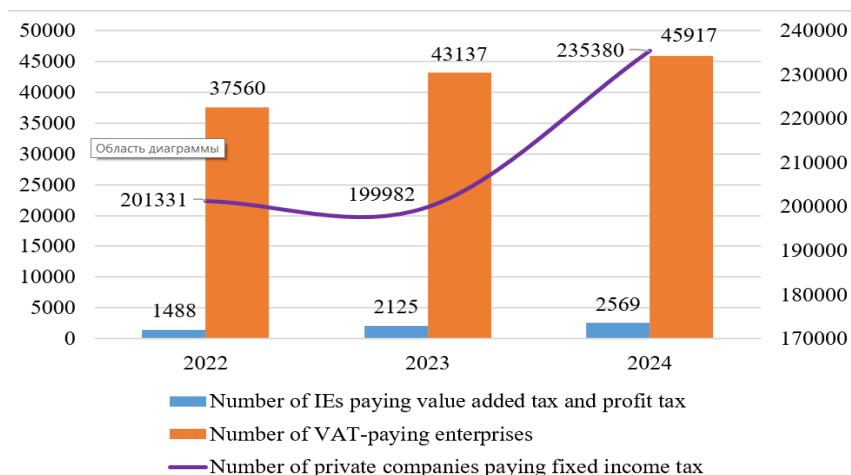


Figure 1. Dynamics of changes in the number of individuals engaged in entrepreneurial activities by tax payment regime.

As can be seen from the data in Figure 1 above, it reflects the changes in the number of individual entrepreneurs (IEOs) under various tax regimes over the past three years.

In terms of overall growth dynamics, the number of IEOs in 2022 was 240,379, while in 2023 this figure was 245,244 without sharp changes. However, by the end of 2024, the total number of IEOs was 283,866, with a growth trend of 43,487 in 2022-2024, or 18.1%. This indicator indicates a significant increase in individual entrepreneurial activity and increased interest in tax regimes.

The number of UITs paying value added tax and profit tax was 1,488 in 2022, 2,125 in 2023, and 2,569 as of January 1, 2025. In 2022-2024, it increased by 1,081, or 72.6%. The number of entrepreneurs in this category increased significantly during the analyzed period. This means that UITs have expanded their activities, have greater economic indicators, and have switched to the value added tax regime. The number of UITs paying turnover tax was 37,560 in 2022, 43,137 in 2023, and 45,917 as of January 1, 2025. In 2022-2024, it has a growth trend of 8,357, or 22.2%. This indicator indicates that the economic activity of small and medium-sized businesses has increased and that most of them prefer to pay taxes on turnover. The number of individual entrepreneurs paying fixed income tax was 201,331 in 2022, 199,982 in 2023, and 235,380 as of January 1, 2025. In 2022-2024, it has a growth trend of 30,049, or 16.9%. Although a slight decrease was observed in this segment in 2023, a significant increase was recorded in 2024. This indicates a recovery and significant increase in the number of entrepreneurs who prefer a flat income tax.

In general, although there has been a significant increase in the number of entrepreneurs in this category under the value-added and profit tax regimes, the number of entrepreneurs in this category is still lower than in other regimes. This regime is more suitable for SMEs with larger turnover and is directly related to the level of disclosure of their income. Under the turnover tax regime, growth in this segment continues to be stable and is used moderately. The flat-rate income tax regime is the most widely used tax regime by SMEs, and the number of entrepreneurs has increased rapidly. As a result of the reforms, this segment has recovered and achieved high indicators. It is noteworthy that economic activity increased in 2024, and the number of entrepreneurs in all categories is showing an upward trend.

The number of individuals engaged in entrepreneurial activities by sector and their change trends are directly related to economic stability (Figure 2).

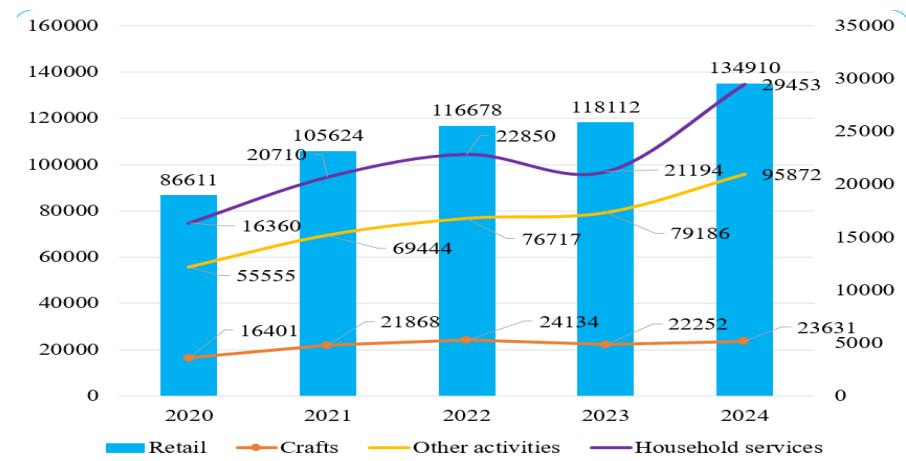


Figure 2. Dynamics of changes in the number of individuals engaged in entrepreneurial activities by sector.

Figure 2 above shows the changes in the number of individual entrepreneurs operating in various sectors from 2020 to the end of 2024. We will conduct the analysis in the following form:

Overall growth dynamics: in 2020, the total number of entrepreneurs was 174,927, in 2021, the total number of entrepreneurs was 217,646, in 2022, 240,379, in 2023, 240,744, and as of January 1, 2025, the total number of entrepreneurs was 283,866, an increase of 108,939 (62.3%) compared to 2020, and an increase of 43,122 (17.9%) compared to 2023. This indicator indicates a significant increase in entrepreneurial activity. In particular, the number of new registrations in 2024 is 148,713, showing a very high growth trend.

The majority of individuals engaged in entrepreneurial activities, on average about 50 percent, are engaged in retail trade. While individuals engaged in retail trade were 86,611 in 2020, they will be 134,910 in 2024, an increase of 48,299, or 55.8 percent. This situation can certainly be assessed positively. The number of entrepreneurs in the retail trade sector has a constant growth trend. This indicates a high level of consumer market activity among the population and a high interest of new entrepreneurs in starting a business in this area.

Individuals engaged in craft activities

In 2020, there were 16,401 individuals, and in 2024, there was an increase of 7,230, or 44.1%, compared to 2021, and 1,379, or 6.2%. The number of artisan individuals in 2020 was significantly lower than in other periods, which can be explained by the pandemic situation observed in 2020. The growth rate of the number of entrepreneurs in the craft sector is lower than in other sectors. This indicates the need to take additional incentive measures for entrepreneurship in this sector.

Individuals engaged in household services

In 2020, there were 16,360 people, and in 2024, there were 29,453 people, an increase of 13,093 people, or 80.0%. This sector has the highest growth rate. This situation indicates an increase in the population's demand for household services or the development of service infrastructure, as well as the strengthening of mechanisms for encouraging representatives of this sector in the regions.

A general conclusion can be drawn that:

1. retail trade and household services are the leaders in the structure of individuals engaged in entrepreneurial activities, and these sectors continue to occupy the main share in economic activity. In particular, significant growth has been observed in the household services sector.

2. the growth trend of handicraft activities is somewhat slower, and it is advisable to introduce additional benefits and programs to increase the number of entrepreneurs in this area.
3. the sharp increase in the number of individuals engaged in entrepreneurial activities in 2024 is a positive result of the reforms being implemented to support entrepreneurship.

4. Conclusion

As a general conclusion, we can note that in the process of improving the practice of taxation of individuals engaged in entrepreneurial activities in Uzbekistan, such strategic directions as simplification of the tax system, digitalization, granting of benefits and strengthening education for entrepreneurs are of great importance. It is also appropriate to focus on supporting the development of small and medium-sized businesses, ensuring transparency and increasing mutual trust between tax authorities and entrepreneurs.

Today, along with the implementation of many positive reforms in the field of taxation of individuals engaged in entrepreneurial activities in Uzbekistan, we can observe the following situations that require attention in this area:

1. Today there is no clear mechanism for taxation of informal business entities that secretly earn income by forming various groups through electronic programs, including the Telegram program. In the future, we believe that the development of a mechanism for legalizing the income of business entities engaged in such activities and developing a taxation mechanism will yield positive results.
2. It is important to simplify the tax system in order to improve the taxation practices of individuals engaged in entrepreneurial activities in Uzbekistan. Reducing complex bureaucracy and redundant reporting, introducing electronic tax reports and declarations will be a great help for entrepreneurs. This will not only provide convenience for entrepreneurs, but also create the opportunity for effective control for state bodies.
3. The introduction of digitalization processes and the implementation of innovative systems is an important step towards increasing the efficiency of the tax payment system. Enabling entrepreneurs to pay taxes and submit reports through digital platforms will be an important tool in restructuring the tax system. Also, the use of electronic databases of tax authorities will facilitate the work of entrepreneurs.
4. It is very important to provide entrepreneurs with clear and understandable education on the basics of taxes and legislation. This will, first of all, help them to avoid making mistakes in paying taxes and conduct their activities legally. Trainings, seminars and webinars organized for entrepreneurs will allow them to explain new rules and assistance related to the tax system.
5. The work of tax authorities should be transparent and open. Entrepreneurs should clearly understand all information on paying taxes and their rights. At the same time, it is advisable for tax authorities to ensure transparency in their activities and conduct open dialogue with entrepreneurs.
6. The tax system should meet the requirements and needs of each entrepreneur. Enabling entrepreneurs to pay taxes via mobile phone or mobile applications will facilitate their comprehensive activities.

These proposals will help make the taxation practices of individuals engaged in entrepreneurial activities more efficient and fair. The goal is to enable entrepreneurs, support their activities, and at the same time strengthen the state tax collection system.

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