VALUE ADDED TAX IN UZBEKISTAN: THEORETICAL FOUNDATIONS AND CURRENT PRACTICE

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Abstract. Value added tax (VAT) constitutes one of the central revenue instruments of the Uzbek fiscal system, as established in Article 17(1) of the Tax Code of the Republic of Uzbekistan (2019). This article examines the structural features of the Uzbek VAT system, including its tax base, rate structure, exemption categories, and invoice-based credit mechanism. Drawing on the provisions of the Tax Code and comparative VAT literature, the study analyzes the economic efficiency implications of the current design, identifies potential distortions arising from exemptions and special treatments, and proposes reforms to enhance revenue productivity and reduce compliance costs. The paper finds that while the Uzbek VAT broadly conforms to international best practices in its general structure, targeted reforms in exemption policy and digital administration could significantly improve the system's performance.

Keywords: value added tax, VAT, Uzbekistan, tax reform, tax base, invoice credit method, revenue productivity.

Introduction

Value added tax is the dominant indirect tax instrument in virtually all modern tax systems, including that of Uzbekistan. As enumerated first among the taxes established in Article 17 of the 2019 Tax Code, VAT plays a central role in the country's revenue architecture. Its broad base, self-enforcing invoice credit mechanism, and destination-based structure make it an attractive revenue instrument from both efficiency and administrative perspectives.

However, the economic effects of VAT depend critically on the specific design choices embedded in each country's implementation: the statutory rate, the breadth of the tax base, the treatment of exemptions and zero-ratings, the threshold for mandatory registration, and the efficiency of refund administration. Each of these parameters creates trade-offs among revenue adequacy, economic neutrality, distributional equity, and administrative feasibility.

Literature review

The foundational analysis of VAT as a consumption tax instrument appears in Diamond and Mirrlees (1971), who establish the efficiency case for taxing final consumption while exempting intermediate transactions. Ebrill et al. (2001) provide a comprehensive empirical and policy analysis of VAT design across countries, finding substantial variation in effective rates, base breadth, and administrative efficiency. Their cross-country evidence suggests that VAT revenue performance (measured by C-efficiency) is strongly correlated with the uniformity of the rate structure and the breadth of the tax base.

For transition economies, Martinez-Vazquez and McNab (2000) examine the challenges of VAT implementation in contexts with limited administrative capacity and significant informal sectors. They find that refund administration is a particular bottleneck, as delays and denials of legitimate VAT credits impose hidden costs on compliant taxpayers and distort investment decisions.

The uzbek vat: structural features

Tax Base and Rate

The Uzbek VAT applies to the supply of goods and services within the territory of Uzbekistan, as well as to imports. The standard rate, as established in the Tax Code, applies uniformly to most taxable supplies, with limited exceptions for zero-rated exports consistent with the destination principle. This rate structure is broadly consistent with international practice, though the Code provides for various exemptions that narrow the effective tax base.

Exemptions and Economic Distortions

VAT exemptions under the 2019 Tax Code cover a range of goods and services, including certain financial services, healthcare, education, and cultural activities. While these exemptions may serve equity or social policy objectives, they create economic distortions by breaking the VAT chain and generating cascading effects for exempt suppliers who cannot reclaim input VAT. The Code's approach to exemptions broadly follows international practice but warrants periodic review to assess whether the exempted sectors have characteristics that justify the associated distortions.

Registration Threshold and Compliance

The mandatory registration threshold for VAT is a critical design parameter. A threshold set too low increases compliance costs for small businesses and imposes administrative burdens on the tax authority; a threshold set too high creates competitive distortions between registered and unregistered suppliers. The Tax Code's provisions on the turnover tax as an alternative for smaller taxpayers (Article 18) effectively establish a lower bound for VAT registration, creating a two-tier system that requires careful calibration.

Revenue productivity and reform options

Revenue productivity of the Uzbek VAT can be assessed using the C-efficiency ratio — the ratio of actual VAT revenues to the theoretical revenue that would be collected if VAT were applied at the statutory rate to all final consumption. C-efficiency shortfalls reflect both policy gaps (exemptions and reduced rates) and compliance gaps (evasion and administrative failures). Improving both dimensions requires complementary policy and administrative reforms.

On the policy side, rationalization of exemptions — guided by a consistent framework distinguishing social policy objectives from arbitrary preferences — would broaden the tax base and reduce distortions. On the administrative side, digitalization of invoice reporting and real-time matching of input and output VAT claims would reduce fraud and accelerate legitimate refunds, improving both revenue security and taxpayer cash flow.

Conclusion

The VAT as established in the 2019 Tax Code of Uzbekistan provides a sound structural foundation for indirect taxation. Key reform priorities include rationalization of exemption categories, improvement of refund administration, and further digitalization of VAT compliance processes. These reforms, if implemented consistently with the Code's principles of certainty, cooperation, and taxpayer correctness, have the potential to significantly improve both the revenue yield and the economic neutrality of the Uzbek VAT.

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