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Turnover Tax Regime and Its Impact on The Activities of Small Business Entities

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Abstract: In recent years, turnover tax has emerged as a pivotal fiscal instrument for supporting small business activities in developing economies such as Uzbekistan. Despite its simplification benefits, the turnover tax regime poses challenges in terms of revenue generation and fair tax distribution. This study aims to explore the role, evolution, and effectiveness of the turnover tax system in Uzbekistan's small business sector. Using a mixed-method approach that includes comparative policy analysis, statistical trend evaluation, and a study of legislative frameworks, the research identifies the key benefits and structural limitations of the turnover tax regime. Results indicate that while turnover tax has simplified compliance and encouraged formalization, its declining share in state revenues raises concerns about long-term fiscal sustainability.

Keywords: business, small business, tax regime, simplified taxation, turnover tax, threshold, tax rate

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1. Introduction

In the current era of globalization, governments are focusing their attention on ensuring population employment and achieving macroeconomic stability. Small and medium-sized enterprises (SMEs) play a crucial role in a country's stable economic growth and social development. These business entities hold significant influence in the global economy. In recent years, they have formed the majority of business entities in many countries around the world, making substantial contributions to gross domestic product (GDP) and job creation. According to the World Bank, SMEs constitute more than 90% of global businesses and over

50% of total employment worldwide. In rapidly developing countries, formal SMEs account for up to 40% of national income [1], [2]. Furthermore, these business entities are especially important in promoting economic growth, creating additional jobs, reducing poverty, and mitigating income inequality.

Currently, many developed and developing countries around the world are implementing reforms aimed at supporting the activities of SMEs. Taxation is considered an effective instrument for encouraging the operations of small and medium-sized business entities. As a result, many countries have introduced the turnover tax regime to promote the activity of enterprises in this category. This regime is a form of simplified taxation that reduces tax obligations and simplifies tax administration for small and medium-sized enterprises. Consequently, business owners are motivated to establish enterprises and operate officially, while also gaining opportunities for consistent

operation, growth into larger businesses, and the creation of additional employment [3], [4].

Literature Review

A number of economists have conducted research on supporting small and medium-sized business entities through special tax regimes, improving turnover tax administration, and ensuring sustainable economic growth based on this type of tax. In particular, M. Mas-Montserrat noted that simplified tax regimes are intended for taxpayers who are difficult to tax—such as self-employed individuals, non-legal business entities, small enterprises, and farms. This regime supports compliance with tax legislation by applying lower rates compared to the standard tax system and by reducing the costs of fulfilling tax obligations [5].

According to Professor J. Urmonov, providing tax incentives and reducing tax rates for small business entities helps promote their activities and strengthen their financial performance, ultimately contributing to increased tax revenues in the state budget [6].

Professor I. Niyazmetov emphasized that for business entities operating under simplified regimes, it would be reasonable to introduce a reduced (preferential) profit tax rate when transitioning to the general tax regime [7].

Economist Q. Tuksanov highlighted that, in today's conditions, simplified taxation systems are practiced in most countries around the world. These systems, designed for small businesses and private entrepreneurs, aim to improve tax administration and simplify the tax calculation process for entrepreneurs [8].

Moreover, J.-F. Wen argued that simplified taxation—specifically turnover-based taxation—is a straightforward approach compared to others, as it eases the tax accounting and payment obligations for micro and small enterprises. It also enables tax administrations to focus on larger enterprises for revenue sources, allowing those businesses to contribute more significantly to the state budget. Turnover taxes can also be an important tool in broader strategies aimed at increasing employment and entrepreneurship in the formal sector, eventually contributing to long-term economic development [9].

Researcher A. Chandrika stated that tax policy is one of many government policies used to promote the development of micro, small, and medium-sized enterprises. In general, there are two widespread models of taxation for these enterprises: a standard system with reduced rates and simplified rules, and a fully simplified system. She distinguishes two taxation regimes for micro, small, and medium enterprises:

Simplified standard regime, which includes reduced tax rates and specific norms;

Fully simplified regime, which is based on turnover, includes a single tax rate, and involves simplified tax administration [10].

According to F. Wei and J.-F. Wen, in developing and transition economies where the administrative and compliance costs of taxing corporate income are highly regressive, turnover-based presumptive business income tax systems are widely used. Their research analyzed the optimal turnover threshold and tax rate for SMEs and found that the ideal turnover tax rate should range between 2% and 3% for annual turnover around USD 115,000[11].

Researcher A. Botirov point out that it is necessary to purposefully optimize the current taxation system for small business entities by differentiating tax rates based on the type of activity and the location of the taxpayer[12], [13].

2. Materials and Methods

The research employed a multi-method qualitative and quantitative approach to assess the impact of turnover tax on small business entities in Uzbekistan. The methodology comprised the following components:

Document Analysis: Key legislative documents were reviewed, including Uzbekistan's Tax Code, Presidential Decrees, and policy reform concepts from 2018–2025.

This helped identify legal definitions, historical changes in tax rates, and structural changes to the simplified taxation regime.

Comparative Analysis: The study compared Uzbekistan's turnover tax regime with those of other developing economies to understand international best practices and differences in implementation structures. Data were drawn from the OECD, IMF, and World Bank publications.

Statistical Trend Analysis: Data from the State Tax Committee and National Statistics Committee were used to track the evolution of turnover tax rates, taxpayer composition, and revenue contributions from 2015 to 2025. Graphical models were constructed to visualize tax rate shifts and changes in budget contributions.

3. Results and Discussion

Small business entities play a vital role in Uzbekistan's economy. These small enterprises significantly contribute to ensuring sustainable economic growth, increasing the number of employed individuals, and facilitating the organization of business operations. According to the data from the National Statistics Committee, small business entities account for approximately 86.0% of all active enterprises, represent 74.0% of total employment, and contribute 54.3% to the gross domestic product (GDP) [14].

Since the early years of Uzbekistan's independence, special attention has been given to the development and state support of small business activities. Legal entities categorized as small business subjects were identified, and, based on the type of economic activity and number of employees, microfirms and small enterprises were included in this classification. Furthermore, since the year

2000, measures have been implemented to accelerate the development of small business activities and expand incentives for their operations. Notably, individual entrepreneurs were added to the category of small business entities, and a formal classification of enterprises belonging to small businesses was approved [15]. Based on this classification, microfirms and small enterprises were defined according to their economic activity and workforce size. Starting from 2023, the criteria for defining small business entities in Uzbekistan have been revised. Business entities are now classified into three categories based on the total amount of their income and the number of founders. These classifications are presented in the following table 1.

Table 1. Categories of Business Entities in Uzbekistan

№	Business Category	Business Entities	Criteria	
			Total Income Threshold	Founders
1	Small	Individual entrepreneurs	Individuals engaged in entrepreneurial activities	
		Microfirms	Up to 1 billion UZS	Individuals
		Small enterprises	From 1 billion to 10 billion UZS	Legal entities
2	Medium	Other enterprises	From 10 billion to 100 billion UZS	
3	Large		100 billion UZS and above	

Source: Prepared by the author based on the Decree of the President of the Republic of Uzbekistan No. PF-21 dated February 10, 2021.

As can be seen from the table above, small business entities include individual entrepreneurs, microfirms, and small enterprises. In this context, business entities with a total annual income of up to 1 billion UZS and founded by individuals are classified as microfirms, while those with annual income ranging from 1 to 10 billion UZS and founded by legal entities are classified as small enterprises.

The tax system is an effective tool for developing and encouraging the activities of small business entities. In Uzbekistan, special attention has been paid to simplifying the tax system to promote small entrepreneurship and strengthen its role in the national economy. In particular, since 1998, a simplified tax regime has been introduced for small enterprises. Under this regime, instead of paying national and local taxes and fees, small enterprises paid a single tax based on gross revenue. In the following years, taxation for small businesses was further simplified. For example, starting from July 1, 2005, microfirms and small enterprises were required to pay a unified tax payment in place of both the single tax and mandatory contributions to off-budget funds. This simplification reduced the tax burden, made tax calculations easier for small businesses, and minimized tax reporting requirements. As a result, small business activity expanded and contributed positively to the steady development of the national economy.

During this period, the classification of small business entities was based on the type of economic activity and the number of employees. However, this sometimes led to underreporting of actual employees by enterprises and created significant disparities in the tax burden among taxpayers. In recent years, reforms have been implemented in Uzbekistan's taxation system to eliminate existing problems, improve the business environment, and ensure fair competition. These reforms aim to address the imbalance in the tax burden between entities under simplified and general tax regimes. In particular, under the Concept for the Improvement of Tax Policy adopted in 2018, starting from 2019, the unified tax payment was retained only for taxpayers with an annual turnover of up to 1 billion UZS, and its base rate was reduced from 5% to 4%. Additionally, property, land, and water taxes were introduced for these taxpayers. Microfirms and small enterprises with turnover exceeding 1 billion UZS were transferred to the general tax regime. Beginning January 1, 2020, with the enforcement of the new edition of the Tax Code, the term "unified tax payment" was officially replaced with "turnover tax."

Currently, the calculation and collection of turnover tax is regulated by the Tax Code. According to this legal document, the following are considered turnover tax payers:

- Legal entities with annual total income not exceeding 1 billion UZS;
- Individual entrepreneurs with realized income ranging from 100 million to 1 billion UZS during the tax period.

The amount of turnover tax is calculated based on the tax base and the established tax rate. The tax base is the total income for legal entities, and income received within the scope of business activity for individual entrepreneurs. Currently, turnover tax rates are regulated by the Tax Code and are applied in two forms:

- As a percentage of income;
- As a fixed amount.

Percentage-based turnover tax rates are applied depending on the type of economic activity carried out by the taxpayer. The applicable turnover tax rates in Uzbekistan for the year 2025 are presented in the following diagram.

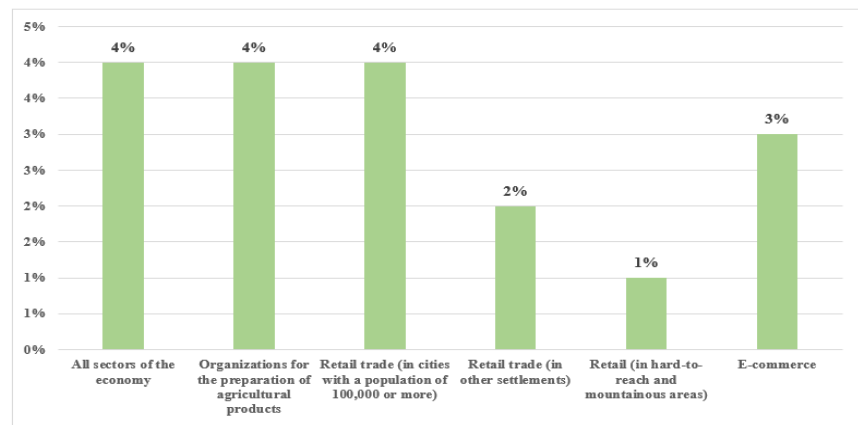


Figure 1. The amount of turnover tax rates for taxpayers in the economy in Uzbekistan in 2025

Source: Prepared by the author based on the Tax Code.

From the figure 1 above, it can be observed that in 2025 the turnover tax rates in Uzbekistan are set as follows: 4% for taxpayers in all sectors of the economy, 4% for organizations engaged in the procurement of agricultural products and for individual entrepreneurs, 4%, 2%, and 1% for taxpayers in the retail trade sector depending on their location, 3% for taxpayers involved in e-commerce.

Studying turnover tax rates and analyzing their changes over the years is of significant importance. In the research of these indicators, special attention was paid to changes in the base rate of turnover tax. The dynamics of base rate changes in recent years are presented in the following figure.

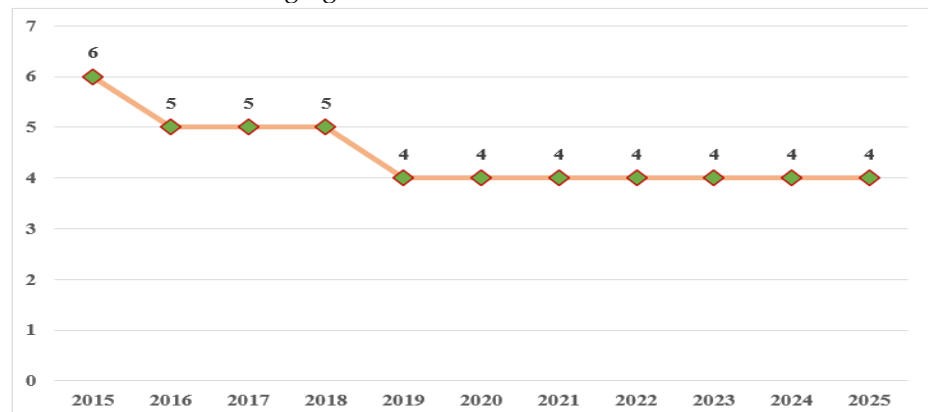


Figure 2. Analysis of Changes in the Base Turnover Tax Rate in Uzbekistan (2015–2025), in %

Source: Prepared by the author based on research findings

Based on the above figure 2, the basic turnover tax rate in our country had a decreasing trend in 2015-2025. In particular, the tax rate was 6% in 2015, but was reduced to 5% in 2016 and 4% in 2019. In general, the basic turnover tax rate was reduced by 2% during this period.

Starting from 2023, Uzbekistan introduced the fixed-sum turnover tax rate system. Taxpayers who choose this system are granted the following benefits:

- Income received as dividends is exempt from taxation;
- They are exempt from submitting tax reports related to this tax and dividend income.

The fixed rate of turnover tax will be 25 million UZS for taxpayers with a turnover of up to 500 UZS in 2025, and 34 million UZS for those with a turnover of over 500 million UZS. The changes in the amounts of this tax rate over the years are presented in the table below.

Table 2. Analysis of Changes in the Fixed Turnover Tax Rates
(in million UZS)

№	Total Annual Turnover of Taxpayer	Annual Tax Rate			Change	
		2023 y	2024 y	2025 y	+/-	%
1	Not exceeding 500 million UZS	20	25	30	10	150
2	Exceeding 500 million UZS	30	34	40	10	133

Source: Prepared by the author based on research findings.

The table 2 above shows that the fixed rate of turnover tax for 2023-2025 increased from 20 million UZS to 30 million UZS for taxpayers with a turnover of up to 500 million UZS, and from 30 million UZS to 40 million UZS, that is, by 10 million soums, for those with a turnover of more than 500 million UZS.

To evaluate the effectiveness of the reforms aimed at improving turnover tax administration, the composition of taxpayers, and the types and levels of tax rates, it is important to examine changes in tax revenues. For this purpose, attention was given to the share of turnover tax in total budget revenues. The trends in this indicator over recent years are illustrated in the following figure.

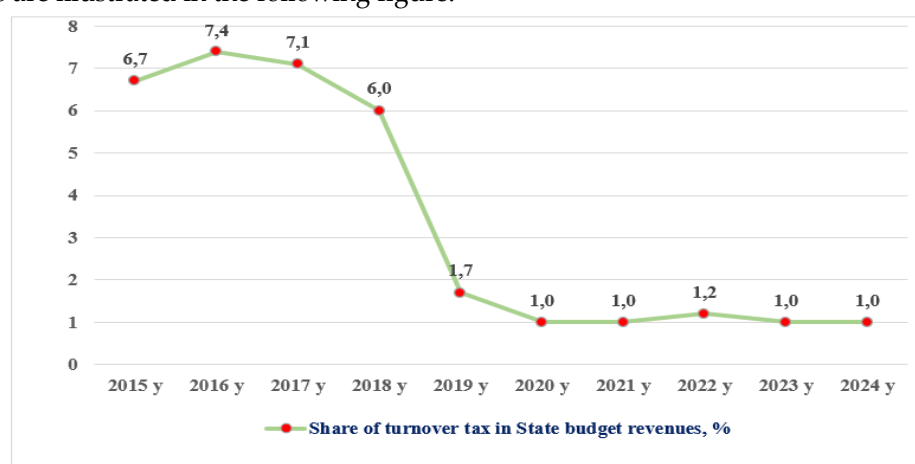


Figure 3. Share of Turnover Tax in State Budget Revenues in Uzbekistan (2015–2025), in %

Source: Prepared by the author based on data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

According to the data in the figure 3 above, the share of turnover tax in the state budget revenues in Uzbekistan has shown a declining trend during the period from 2015 to 2025. Specifically, this tax accounted for over 6% of state budget revenues between 2015 and 2018, but dropped to 1.7% in 2019, and further to 1% in 2020, maintaining that level in the subsequent years. In total, the share of turnover tax in budget revenues has decreased by 5.7 percentage points during this period. In our opinion, the main reason for this decline was the implementation of the Tax Policy Improvement Concept, which, starting from 2019, transitioned small business entities with annual turnover exceeding 1 billion UZS to the general taxation system.

4. Conclusion

In conclusion, from the early years of independence, Uzbekistan has implemented policies aimed at supporting the activities of small business entities. To foster and stimulate their growth, a simplified taxation regime was introduced, replacing standard taxes and mandatory contributions with a single turnover tax. This approach simplified tax calculation, reduced tax obligations, and ultimately led to rapid development of small business activities, enhancing their role in the national economy. This had a positive impact on the consistent development of the national economy.

In recent years, the country has undertaken reforms to improve the business environment and promote fair competition, with a focus on eliminating disparities in tax burdens among business entities. Notably, the adoption of the Tax Policy Improvement Concept led to refinements in the turnover-based taxation system applicable to small businesses. Under these reforms, turnover tax is now levied only on small enterprises with annual turnover up to 1 billion UZS.

This clearly shows that turnover tax is primarily applicable to individual entrepreneurs and microfirms classified as small businesses. The existence of turnover tax for small business entities remains crucial for the development of the national economy. Although its share in state budget revenues may be relatively small, its contribution to GDP, business formation, and employment generation is significant. This tax plays a vital role in encouraging the formalization of newly established and low-income enterprises, promoting the growth of small businesses, and supporting their transition from the informal to the formal economy. In addition, our country aims to increase the share of small and medium-sized businesses in GDP to 60%, their share in industrial production to 40%, and their share in employment to 78% by 2030[4]. We believe that turnover tax will have a positive impact on achieving these goals by developing small businesses.

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