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IMPROVING TAX ADMINISTRATION IN THE ENTREPRENEURIAL ENVIRONMENT

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Abstract: This article examines how tax administration can be improved in the entrepreneurial environment of Uzbekistan, with particular attention to small business development, digital tax services, risk-based control, and voluntary compliance. Official data show that small business remains a structural pillar of the Uzbek economy: in 2025, small business entities generated 923.5 trillion UZS in value added and accounted for 52.2% of GDP. At the same time, the Tax Committee reported a 20.3% increase in tax revenues in 2024 and a broad shift toward electronic invoices, online cash registers, and automated tax reporting. The main finding is that tax administration reform should not be limited to stricter control; rather, it should integrate service orientation, proportional compliance obligations, risk segmentation, transparent VAT refunds, and data-driven audit selection. The proposed methodology links digital transformation with trust, reduced compliance costs, and sustainable revenue mobilization. The article concludes with practical recommendations for making tax administration more predictable, entrepreneur-friendly, and fiscally effective.

Key words: tax administration, entrepreneurship, small business, digital taxation, compliance risk management, VAT, Uzbekistan.

Аннотация: В данной статье рассматриваются пути совершенствования налогового администрирования в предпринимательской среде Узбекистана с особым вниманием к развитию малого бизнеса, цифровым налоговым услугам, риск-ориентированному контролю и добровольному соблюдению налоговых обязательств. Официальные данные показывают, что малый бизнес остаётся структурной основой экономики Узбекистана: в 2025 году субъекты малого бизнеса создали добавленную стоимость в размере 923,5 трлн сумов и обеспечили 52,2% ВВП. В то же время Налоговый комитет сообщил о росте налоговых поступлений на 20,3% в 2024 году, а также о широком переходе к электронным счетам-фактурам, онлайн-кассам и автоматизированной налоговой отчётности. Основным выводом исследования заключается в том, что реформа налогового администрирования не должна ограничиваться ужесточением контроля; напротив, она должна интегрировать сервисно-ориентированный подход, пропорциональные обязательства по соблюдению требований, сегментацию рисков, прозрачный возврат НДС и выбор налоговых проверок на основе анализа данных. Предлагаемая методология связывает цифровую трансформацию с укреплением доверия, снижением издержек соблюдения требований и устойчивой мобилизацией доходов. В заключение статьи представлены практические рекомендации по формированию более предсказуемой, ориентированной на предпринимателей и фискально эффективной системы налогового администрирования.

Ключевые слова: налоговое администрирование, предпринимательство, малый бизнес, цифровое налогообложение, управление рисками соблюдения требований, НДС, Узбекистан.

INTRODUCTION

The quality of tax administration is a decisive institutional factor for the development of entrepreneurship. For entrepreneurs, taxation is not only a financial obligation; it is also a daily administrative interaction with the state. Registration procedures, tax reporting, VAT refunds, electronic invoices, desk audits, risk notifications and dispute resolution mechanisms shape the cost of doing business. Therefore, improving tax administration in the entrepreneurial environment is directly connected with business formalization, investment decisions, employment creation and trust in public institutions.

In Uzbekistan, this issue is especially important because small business and private entrepreneurship account for a large part of economic activity. According to the National Statistics Committee, as of January 1, 2026, there were 1.2016 million active small business entities, including 493.0 thousand small enterprises and microfirms and 284.4 thousand individual entrepreneurs. In January-December 2025, small business entities generated 923,514.6 billion UZS in value added and their share in GDP reached 52.2% (National Statistics Committee, 2026). These indicators show that the tax administration system must be designed not only for large corporations but also for micro, small and medium-sized taxpayers with different levels of accounting

capacity and digital skills.

The relevance of the topic is also determined by the rapid digitalization of Uzbekistan's tax system. In 2024, tax revenues reached 199.6 trillion UZS, increasing by 20.3% compared with the previous year. The Tax Committee reported that all invoices and receipts were issued electronically, VAT reporting was 93% automated, and reports on property tax, land tax and turnover tax were fully automated (Tax Committee of Uzbekistan, 2025). These reforms create a stronger information base for tax administration, but they also raise new methodological questions: how to reduce the compliance burden while improving control; how to make risk-based audits transparent; how to protect taxpayers from excessive administrative pressure; and how to use digital data to support business development rather than only to punish errors.

International experience suggests that modern tax administration is moving from a control-centered model toward a service-oriented and data-driven model. The OECD emphasizes that digital transformation should make taxation simpler, less costly and more integrated with the natural systems that taxpayers already use for accounting, payments and transactions (OECD, 2023, 2025). The IMF similarly stresses that revenue administration reform must combine governance, risk management, operational processes and information systems (IMF, 2024). For Uzbekistan, this means that tax administration reform should balance fiscal objectives with the need to improve the entrepreneurial climate.

The research focus addressed in this article is the methodological integration between the growing complexity of business transactions and the need for simple, predictable and proportional tax administration for entrepreneurs. While Uzbekistan has achieved significant progress in digital services and automated reporting, the study further emphasizes the importance of combining these instruments into an integrated methodology for improving tax administration in the entrepreneurial environment.

The aim of the article is to develop an IMRaD-based methodological approach to improving tax administration in the entrepreneurial environment of Uzbekistan. The objectives are: (1) to analyze the theoretical and international literature on tax administration and entrepreneurship; (2) to examine the empirical role of small business in the economy; (3) to evaluate selected digital and risk-based tax administration tools; (4) to propose a reform matrix linking taxpayer services, compliance risk management and business competitiveness.

The article is structured as follows. The literature review summarizes the key theoretical foundations. The methods section explains the research design, data sources and analytical variables. The results section presents descriptive findings in tables and figures. The discussion section interprets the findings and proposes a methodological reform framework. The conclusion summarizes the main arguments and recommendations (Figure 1).

Analytical framework for improving tax administration in an entrepreneurial environment

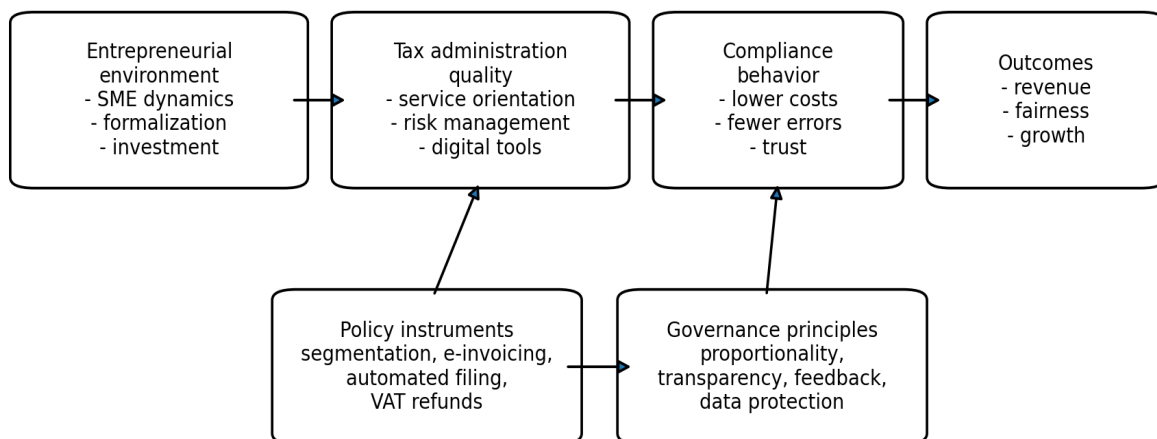


Figure 1. Analytical framework for improving tax administration in an entrepreneurial environment¹

REVIEW OF LITERATURE ON THE SUBJECT

The literature on tax administration has developed around three interrelated concepts: compliance, administrative capacity and taxpayer trust. In the classical public finance approach, taxation is primarily understood as a revenue-raising mechanism. However, modern tax administration research views revenue

¹ Source: developed by the author based on OECD (2023, 2025) and Cabinet of Ministers of Uzbekistan (2021).

collection as a function of institutional quality, taxpayer behavior, information systems and the perceived fairness of tax rules. Alm (2019) argues that tax compliance cannot be explained only by penalties and audit probabilities; trust, social norms and service quality also affect taxpayer behavior. For entrepreneurs, the administrative dimension is particularly important because small firms often have limited accounting staff and face higher relative compliance costs than large firms.

The compliance cost literature shows that small businesses are more sensitive to reporting frequency, documentation requirements and rule instability. When compliance is expensive, entrepreneurs may remain informal, underreport transactions, split businesses to remain below thresholds or avoid investment in growth. Therefore, tax administration reform should pursue two goals simultaneously: protection of the tax base and reduction of unnecessary administrative burden. This dual logic is reflected in the OECD concept of Tax Administration 3.0, which argues that taxation should become increasingly seamless, embedded in business processes and supported by real-time data rather than repeated manual reporting (OECD, 2023).

A second stream of literature focuses on risk-based tax administration. Compliance risk management is designed to allocate audit and enforcement resources to taxpayers and transactions with higher probability of non-compliance. The advantage of this model is proportionality: low-risk taxpayers should receive simplified services and faster refunds, while high-risk cases should be targeted through analytics and inspections. Uzbekistan's regulatory framework on tax risk management and tax inspections establishes procedures for identifying taxpayers with tax risk and categorizing them by risk level (Cabinet of Ministers of Uzbekistan, 2021). From a methodological perspective, the challenge is to make such risk criteria transparent enough to guide voluntary compliance while maintaining their effectiveness against deliberate evasion.

A third stream concerns digital tax administration. Electronic invoices, online cash registers, automated VAT reporting, data exchange with banks and public registries, and digital taxpayer accounts create opportunities for reducing errors and increasing traceability. According to the OECD, tax administrations increasingly use digital tools not merely to move paper processes online but to redesign the entire compliance architecture around data, analytics and taxpayer-centric services (OECD, 2025).

The entrepreneurship literature also supports the relevance of tax administration. The World Bank's Uzbekistan Country Economic Memorandum emphasizes that private sector development, competition and productivity growth are central for Uzbekistan's transition toward higher income status (World Bank, 2025). Tax administration contributes to this agenda through three channels: lowering the cost of formalization, reducing uncertainty in investment decisions, and improving fair competition between compliant and non-compliant firms. In this sense, tax administration should be seen as part of the business environment rather than a purely fiscal function.

The research gap identified in the literature is that many studies analyze tax policy rates, digital services or enforcement mechanisms separately, while fewer studies integrate these dimensions into a single methodology for entrepreneurship-oriented tax administration. This article contributes by proposing a framework in which tax administration is evaluated through four criteria: simplicity, predictability, proportionality and data-driven effectiveness (Table 1).

Table 1. Synthesis of literature and implications for the study²

Research stream	Core idea	Relevance for entrepreneurs	Implication for Uzbekistan
Tax compliance theory	Compliance depends on deterrence, trust, fairness and service quality.	Small firms react strongly to compliance costs and rule uncertainty.	Service orientation should accompany control measures.
Risk-based administration	Audits and controls should be targeted according to risk level.	Low-risk taxpayers need simplified procedures and faster refunds.	Risk criteria should be transparent and linked to taxpayer education.
Digital tax administration	E-invoices, online cash registers and automation reduce information asymmetry.	Digital tools can lower errors but require support and stable platforms.	Digitalization should be integrated with business processes and data protection.
Entrepreneurship policy	Private sector growth requires predictable rules and fair competition.	Tax administration affects formalization, investment and growth.	Tax reforms must support competitiveness, not only revenue collection.

² Source: developed by the author.

RESEARCH METHODOLOGY

The study uses a mixed documentary and descriptive analytical design. It does not rely on a field survey; instead, it combines official statistical data, legal documents and international methodological reports. This approach is appropriate because the purpose of the article is to develop a policy-oriented methodology rather than to estimate a narrow econometric relationship. The research object is the tax administration system as it affects the entrepreneurial environment. The research subject is the set of administrative instruments - digital reporting, risk-based control, VAT refund procedures, taxpayer services and compliance support - that shape the interaction between entrepreneurs and tax authorities.

The empirical base includes four groups of sources. First, the National Statistics Committee press release on key indicators of small business entities for January-December 2025 provides data on the number of entities, small business value added, sectoral shares, industrial output, investments, services, exports and imports. Second, Tax Committee data reported in January 2025 provide information on tax revenues, digital reporting and automated compliance tools. Third, national legal acts, especially the Cabinet of Ministers Resolution No. 1 of January 7, 2021 on tax risk management and tax inspections, are used to analyze the institutional framework. Fourth, OECD, IMF and World Bank publications are used to benchmark international approaches to digital tax administration, revenue administration reform and private sector development.

The analytical procedure consists of four steps. The first step is literature coding, where key concepts such as compliance cost, risk management, digital transformation and taxpayer trust are extracted from the literature. The second step is descriptive statistics, where selected small business and tax administration indicators are presented in tables and figures. The third step is problem diagnosis, where administrative bottlenecks are identified from the interaction between tax reforms and entrepreneurial needs. The fourth step is methodological synthesis, where a reform matrix is developed to connect administrative tools with expected outcomes.

The main variables are grouped into three categories. Entrepreneurial environment variables include the number of small business entities, share in GDP, sectoral shares, exports, imports and investment. Tax administration variables include tax revenue, automation of reports, electronic invoices, electronic receipts, online cash registers, VAT refund practices and risk-based control. Outcome variables include voluntary compliance, compliance cost reduction, fairness, trust, revenue stability and formalization. Since some variables are qualitative, the analysis uses a logic-model approach rather than statistical hypothesis testing.

To ensure reliability, the article relies primarily on official or institutional sources and triangulates national data with international frameworks. The limitation is that the article does not measure taxpayer-level perceptions directly. Therefore, the findings should be interpreted as a methodological and policy analysis that can guide future survey-based or econometric research (Table 2).

Table 2. Data sources and indicators used in the article³

Source	Main indicators	Period	Use in analysis
National Statistics Committee of Uzbekistan	Number of small business entities; GDP value added; sectoral shares; exports/ imports	2021-2025; Jan-Dec 2025	Entrepreneurial environment and small business dynamics
Tax Committee of Uzbekistan / Kun.uz report	Tax revenues by category; digital reporting; e-invoices; online cash registers; VAT refund indicators	2024	Tax administration performance and digitalization
LexUZ legal database	Tax risk management and tax inspection framework	2021-2026 versions	Institutional and legal analysis
OECD, IMF, World Bank	International principles of digital transformation, revenue administration and private sector development	2023-2025	Benchmarking and methodological synthesis

ANALYSIS AND RESULTS

The first empirical result is the structural importance of small business in Uzbekistan. The number of active small business entities exceeded 1.2 million at the beginning of 2026, while the sector generated more than half of GDP in 2025. This scale means that any administrative friction in the tax system affects a large share of economic actors. A tax administration model built mainly around large taxpayers cannot be sufficient for a

³ Source: developed by the author.

diversified economy in which individual entrepreneurs, microfirms, dehqan farms, family enterprises and small firms operate with different capacities.

The second result is the rapid growth of small business value added. Between 2021 and 2025, the value added of small business entities in GDP increased from 455.7 trillion UZS to 923.5 trillion UZS. This increase reflects both economic expansion and the growing statistical visibility of entrepreneurial activity. The tax administration implication is that digital systems should be designed to capture this growing activity in a way that minimizes manual paperwork and supports formalization (Figure 2).

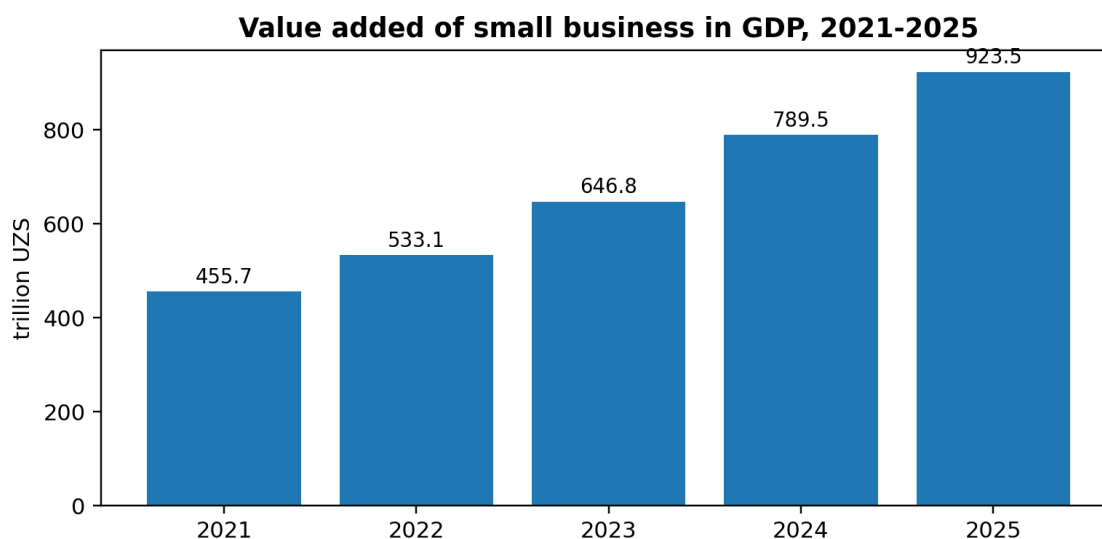


Figure 2. Value added of small business entities in GDP, 2021-2025⁴

The third result is that small business is not concentrated in only one branch. In 2025, small business accounted for 93.1% of agriculture, forestry and fisheries, 75.6% of construction, 47.2% of services and 28.5% of industry. It also accounted for 36.6% of exports and 53.6% of imports. Such a structure requires differentiated tax administration: agriculture and household-related activities may need simplified registration and advisory services, while importers and exporters require VAT, customs and e-invoicing integration (Table 3; Figure 3).

Table 3. Selected small business indicators in Uzbekistan, January-December 2025⁵

Indicator	Value	Interpretation for tax administration
Active small business entities as of Jan. 1, 2026	1,201.6 thousand	Large number of taxpayers requires digital self-service and segmented support.
Small business value added in GDP	923.5 trillion UZS; 52.2% of GDP	Administrative burden affects a core part of the economy.
Industrial output of small business	383.9 trillion UZS; 34.9% of total industry	E-invoicing and VAT controls should not discourage production growth.
Construction work by small business	230.9 trillion UZS; 73.6% of total construction	Sector-specific risk indicators are needed for cash flow and subcontracting.
Services by small business	595.1 trillion UZS; 56.7% of services	Online cash registers and digital payments are essential for transparency.
Exports and imports by small business	12.4 bn USD exports; 25.39 bn USD imports	Tax and customs data integration is important for trade facilitation.

⁴ Source: National Statistics Committee of the Republic of Uzbekistan (2026).

⁵ Source: developed by the author.

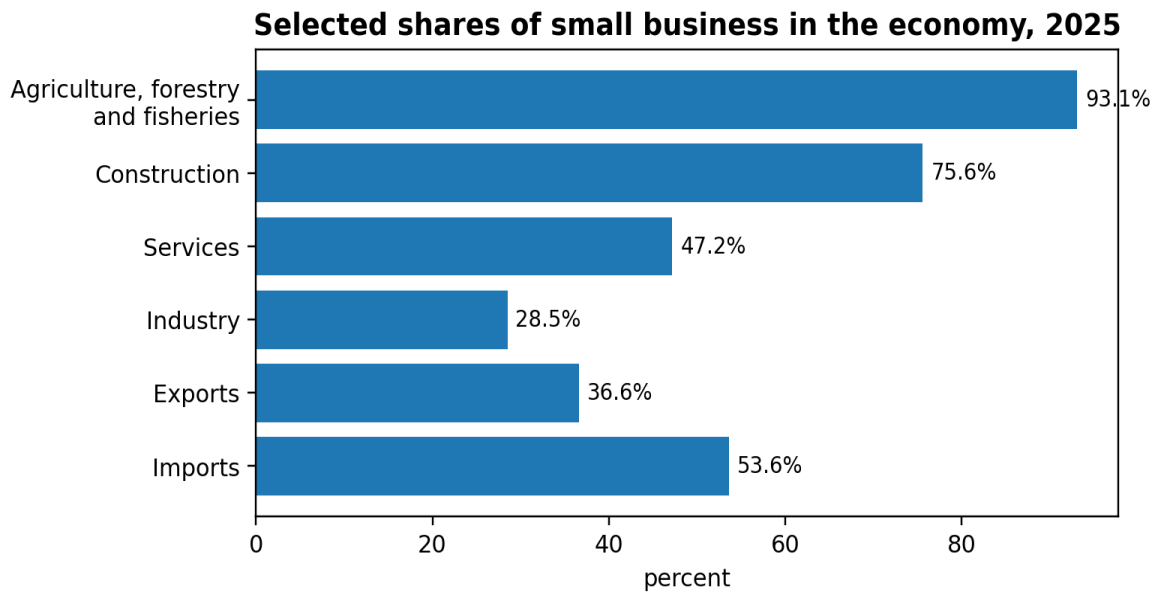


Figure 3. Selected shares of small business in Uzbekistan's economy in 2025⁶

The fourth result concerns fiscal performance and the digital tax administration base. In 2024, total tax revenues reached 199.6 trillion UZS. Profit tax, VAT and personal income tax were the largest categories, while turnover tax remained smaller in absolute fiscal contribution. This distribution suggests that entrepreneurship-oriented tax administration should pay attention not only to rates but also to the quality of VAT administration, profit reporting, wage formalization and sector-specific tax bases (Figure 4).

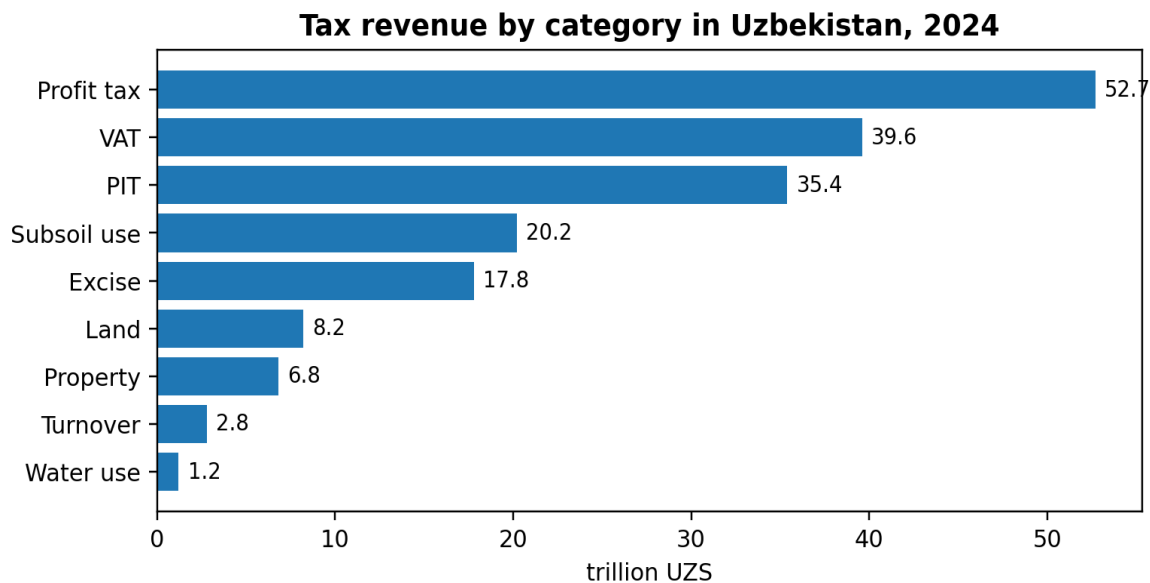


Figure 4. Tax revenue by category in Uzbekistan, 2024⁷

The fifth result is the expansion of digital administration. The reported shift to electronic invoices and receipts, automated reporting and online cash register data creates the foundation for risk-based analytics. In 2024, voluntary adjustments through the Auto-Cameral system amounted to 37.9 trillion UZS and helped taxpayers avoid financial sanctions of 13.8 trillion UZS. This indicates that digital pre-audit and feedback systems can shift tax administration from punishment after violation to prevention before sanctions. For entrepreneurs, such an approach is more consistent with a supportive business environment (Table 4).

⁶ Source: National Statistics Committee of Uzbekistan (2026).

⁷ Source: Tax Committee of Uzbekistan data reported by Kun.uz (2025).

Table 4. Tax administration reform instruments and expected effects⁸

Instrument	Current role	Expected effect	Entrepreneurial risk if poorly designed
Electronic invoices and receipts	Create transaction-level data and reduce paper documents.	Fewer errors, better VAT traceability and faster reporting.	High costs for microfirms if software and support are insufficient.
Automated tax reporting	Pre-fills declarations using administrative data.	Lower compliance time and fewer technical mistakes.	Over-automation may generate unjustified liabilities without appeal channels.
Auto-Cameral system	Detects inconsistencies and allows voluntary corrections.	Prevention of sanctions and better tax base accuracy.	Requires clear explanations and reasonable response deadlines.
Risk-based audit selection	Targets high-risk taxpayers and transactions.	Efficient control and lower pressure on compliant firms.	Opaque criteria can reduce trust and increase perceived arbitrariness.
Fast VAT refunds for low-risk firms	Links taxpayer rating with accelerated refund procedures.	Improves cash flow and rewards compliance.	Rating system must be transparent and regularly updated.

The results show that the improvement of tax administration in the entrepreneurial environment should be understood as a governance methodology rather than a set of isolated digital services. Uzbekistan has achieved a substantial digital shift, but the next stage should focus on integration, proportionality and trust. The main methodological principle is that administrative instruments must be differentiated according to taxpayer capacity and risk. A newly registered microenterprise, an export-oriented manufacturer, a restaurant using online cash registers and a large private company should not experience the same compliance procedures.

The first policy implication is the need to move from digitalization to digital transformation. Digitalization means that existing forms are submitted electronically. Digital transformation means that taxation becomes embedded in business transactions so that reporting is automatically generated, verified and explained. For entrepreneurs, the most valuable reform is not simply another online portal, but a reduction in duplicate data entry, fewer conflicting requirements and a clear dashboard showing tax obligations, deadlines, risk notifications and refund status.

The second policy implication is the importance of proportional compliance. The tax administration should classify taxpayers not only by fiscal risk but also by administrative capacity. For low-risk micro and small businesses, simplified regimes, pre-filled returns and advisory notifications should dominate. For medium-sized businesses entering VAT chains, the system should provide clear guidance on invoice documentation, input VAT claims and refund procedures. For high-risk cases, data analytics and audits should be focused, documented and subject to appeal rights.

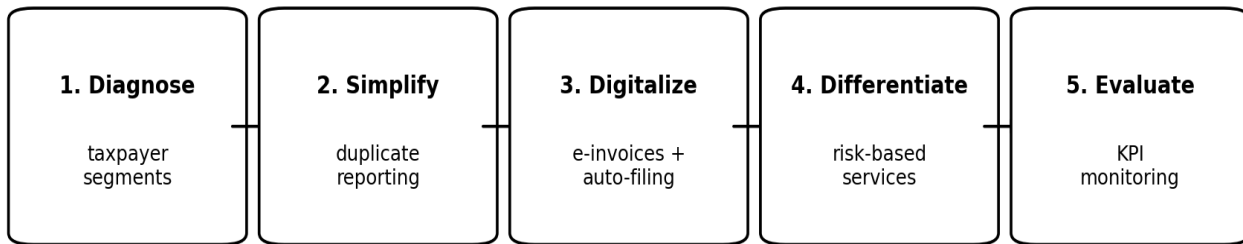
The third implication concerns VAT administration. VAT is essential for fiscal revenue, but for entrepreneurs it can also create cash-flow pressure when refunds are delayed or documentation is disputed. Fast VAT refunds for high-rated taxpayers can become a powerful incentive for voluntary compliance. However, the rating methodology should be clear, accessible and correctable. Entrepreneurs must understand which behaviors improve or reduce their rating, and they should have the possibility to correct technical errors without disproportionate sanctions.

The fourth implication relates to the shadow economy. Digital receipts, online cash registers and e-invoices can reduce unrecorded transactions, but formalization cannot be achieved only through surveillance. Entrepreneurs will formalize when the benefits of formal status exceed the costs. These benefits include access to bank finance, public procurement, export support, VAT refunds, legal protection and participation in supply chains. Tax administration should therefore cooperate with banks, business associations and local authorities to turn compliance into a business advantage.

The fifth implication is institutional feedback. A modern tax administration should measure not only revenue collected but also taxpayer experience. Recommended KPIs include average time to file returns, number of corrected pre-filled reports, refund processing time, number of complaints, success rate of administrative appeals, proportion of audits resulting in material adjustments, number of taxpayers moving from high-risk to low-risk categories, and business satisfaction with digital services. Such indicators would align tax administration with the broader goals of the Uzbekistan-2030 reform agenda, which emphasizes measurable results and digital monitoring of public policy implementation (Figure 5).

⁸ Source: developed by the author.

Proposed methodological roadmap for service-oriented tax administration reform



Implementation logic: reduce compliance costs - protect low-risk firms - target high-risk cases - monitor results

Feedback loop: business surveys + administrative data + appeal outcomes + shadow-economy indicators

Figure 5. Proposed methodological roadmap for service-oriented tax administration reform⁹

The proposed methodology can be summarized as a five-stage cycle: diagnose, simplify, digitalize, differentiate and evaluate. Diagnosis identifies taxpayer segments and pain points. Simplification reduces unnecessary procedures and stabilizes administrative guidance. Digitalization integrates transaction data and automated reporting. Differentiation applies risk-based control and service levels. Evaluation measures outcomes and feeds them back into policy design. This cycle is consistent with international good practice and with the practical needs of Uzbekistan’s entrepreneurial environment.

Digital indicators also show that the new administrative model should be evaluated through both fiscal and taxpayer-service outcomes. Full electronic issuance of invoices and receipts is a major step, but the final policy effect depends on whether entrepreneurs experience fewer reporting errors, faster refunds, simpler correction procedures and lower perceived inspection pressure (Figure 6; Table 5).

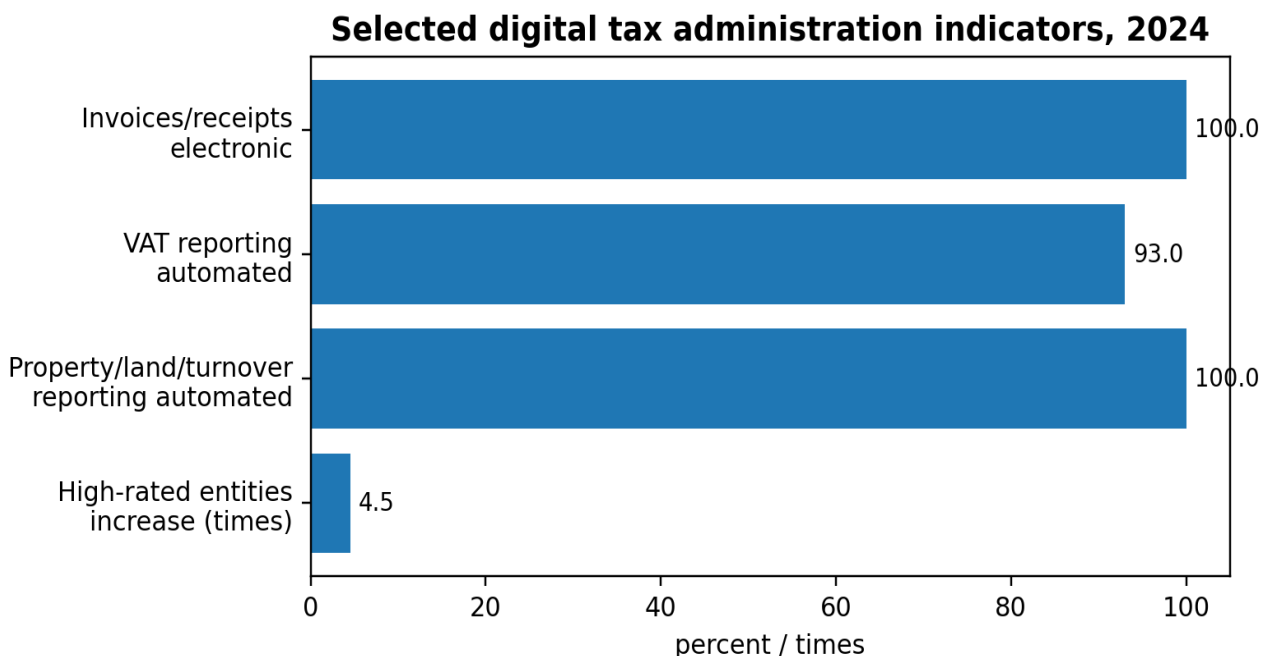


Figure 6. Selected digital tax administration indicators in Uzbekistan, 2024¹⁰

9 Source: developed by the author.

10 Source: Tax Committee of Uzbekistan data reported by Kun.uz (2025).

Table 5. Recommended KPIs for entrepreneurship-oriented tax administration¹¹

KPI group	Indicator	Purpose	Expected managerial use
Compliance cost	Average time for filing and correction	Measure administrative burden	Simplify forms and remove duplicate data fields
Service quality	Response time to taxpayer requests	Measure service capacity	Improve digital helpdesk and sectoral guidance
VAT refunds	Average refund processing time by risk category	Measure cash-flow support	Reward reliable taxpayers and monitor delays
Risk management	Share of audits with material findings	Measure targeting accuracy	Improve risk models and reduce unnecessary audits
Trust and dispute resolution	Appeal success rate and number of complaints	Measure legal certainty	Revise unclear rules and improve explanations

CONCLUSIONS AND SUGGESTIONS

This article examined the improvement of tax administration in the entrepreneurial environment using Uzbekistan as a case study. The analysis confirms that small business and private entrepreneurship are central to the national economy, generating 52.2% of GDP in 2025 and operating across agriculture, construction, services, industry and trade. Therefore, tax administration is not a narrow fiscal issue but an important factor of business competitiveness, formalization and inclusive growth.

The main conclusion is that improving tax administration requires a balanced methodology. Revenue mobilization should be achieved through better data, voluntary compliance and fair competition rather than through excessive pressure on entrepreneurs. Digital tools such as electronic invoices, online cash registers and automated reports are valuable only when they reduce uncertainty, prevent errors and make interaction with the tax authority simpler. Risk-based administration is effective only when low-risk taxpayers are genuinely protected from unnecessary inspections and high-risk cases are selected on clear, evidence-based criteria.

The following practical recommendations are proposed. First, taxpayer services should be segmented by business size, sector and digital capacity. Second, pre-filled returns and automated reports should be expanded with clear explanations and easy correction procedures. Third, the VAT refund system should reward reliable taxpayers through predictable and transparent fast-track mechanisms. Fourth, tax risk criteria should be communicated in a way that supports voluntary compliance without revealing sensitive anti-evasion algorithms. Fifth, administrative performance should be measured not only by revenue but also by compliance costs, refund time, dispute outcomes and taxpayer satisfaction. Sixth, the tax administration should strengthen cooperation with business associations to test new digital requirements before full implementation.

Future research should complement this policy analysis with surveys of entrepreneurs, firm-level compliance cost measurement and econometric testing of the relationship between digital tax services, formalization and business growth. Such research would make it possible to evaluate which specific tax administration instruments create the greatest positive effect for entrepreneurship in Uzbekistan.

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