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WAYS TO REDUCE THE SHADOW ECONOMY THROUGH THE IMPROVEMENT OF TAX ADMINISTRATION

Latipova Nigora Abduraximovna

Independent Researcher,

National University of Uzbekistan named after Mirzo Ulugbek

Abstract: The shadow economy represents a significant challenge to sustainable economic development, effective public administration, and the stability of national budget revenues. This study examines the main ways of reducing the shadow economy through the improvement of tax administration, with particular attention to digitalization, risk-based tax control, simplification of tax procedures, taxpayer services, and institutional transparency. The purpose of the research is to identify effective tax administration mechanisms that can contribute to reducing informal economic activities and increasing voluntary tax compliance. The study applies theoretical, comparative, analytical, and qualitative research methods, including the analysis of scientific literature, international practices, and institutional approaches to tax administration. The results demonstrate that digital tax services, electronic invoicing, online cash registers, automated information exchange, and data-based risk assessment can significantly improve the transparency of economic transactions and strengthen tax control. The study also finds that excessive administrative burdens, complicated tax procedures, and insufficient taxpayer awareness may increase incentives to operate within the informal economy. Therefore, effective measures to reduce the shadow economy should combine enforcement mechanisms with taxpayer-oriented services and incentives for formalization. The study concludes that the integration of digital technologies, risk-based tax administration, simplified procedures, institutional transparency, and voluntary tax compliance can create favorable conditions for reducing informal economic activities, expanding the tax base, strengthening fair competition, and ensuring sustainable economic development. The findings are particularly relevant to Uzbekistan, where the modernization of tax administration and the expansion of digital public services provide significant opportunities for further formalization of economic activities.

Keywords: shadow economy, tax administration, tax compliance, digitalization, tax control, risk-based tax administration, informal economy, tax evasion, economic formalization, Uzbekistan.

INTRODUCTION

The shadow economy remains one of the major challenges affecting the sustainable development of national economies. It includes economic activities that are partially or completely hidden from government authorities in order to avoid taxation, regulatory requirements, social contributions, or other legal obligations. The expansion of the shadow economy can negatively affect public revenues, distort fair competition, reduce the effectiveness of economic policies, and weaken public confidence in government institutions. Therefore, reducing the scale of the shadow economy has become an important priority for many countries seeking to ensure sustainable economic growth and improve the efficiency of public administration. Tax administration plays a particularly important role in addressing the shadow economy. An effective tax administration system not only ensures the collection of tax revenues but also creates conditions for voluntary compliance with tax legislation.

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Traditional approaches based primarily on inspections and punitive measures are increasingly being replaced by modern approaches based on digital technologies, risk-based tax control, data analysis, electronic services, and taxpayer-oriented administration. These approaches can contribute to increasing transparency in economic activities and reducing opportunities for tax evasion. The development of digitalization has created new opportunities for improving tax administration. Electronic invoicing, online cash registers, digital tax reporting, automated information exchange, and data-based risk assessment allow tax authorities to identify potential violations more efficiently. At the same time, simplified tax procedures and accessible electronic services can reduce the administrative burden on businesses and encourage entrepreneurs to operate within the formal economy. Thus, the modernization of tax administration should be considered not only as a fiscal instrument but also as an important mechanism for formalizing economic activity. The relevance of this research is particularly significant for developing economies, where informal employment, unregistered businesses, cash-based transactions, and incomplete reporting may contribute to the expansion of the shadow economy. In such circumstances, improving tax administration requires a comprehensive approach that combines digital transformation, institutional reforms, effective tax control, transparency, and the development of constructive relations between taxpayers and government authorities. The purpose of this study is to identify effective ways of reducing the shadow economy through the improvement of tax administration and to examine the institutional, organizational, and digital mechanisms that can contribute to increasing tax compliance. The research objectives include analyzing the main factors contributing to the development of the shadow economy, examining the role of modern tax administration in reducing informal economic activities, evaluating the potential of digital technologies and risk-based tax control, and developing practical recommendations for improving tax compliance and increasing the transparency of economic transactions.

LITERATURE REVIEW AND METHODOLOGY

The shadow economy has been widely studied by economists, researchers, and international organizations due to its significant impact on economic development, public finances, employment, and social welfare. The concept of the shadow economy generally refers to economic activities that are deliberately concealed from public authorities in order to avoid taxation, social security contributions, or compliance with legal and administrative requirements. Researchers emphasize that the scale of the shadow economy is influenced by a combination of economic, institutional, social, and administrative factors. One of the influential approaches to the study of the shadow economy is associated with Friedrich Schneider and other researchers who have examined the relationship between taxation, regulation, institutional quality, and informal economic activity. Their research demonstrates that high tax burdens, excessive regulation, weak institutional quality, and limited trust in public institutions can encourage individuals and businesses to move economic activities into the informal sector. From this perspective, reducing the shadow economy requires not only stronger control mechanisms but also improvements in the overall quality of tax administration and the business environment. Another important area of research focuses on the relationship between taxation and informal economic activity. Previous studies indicate that complicated tax legislation, high compliance costs, and excessive administrative procedures may increase incentives for businesses to conceal income or operate without official registration. In contrast, transparent taxation, simplified reporting procedures, and accessible digital tax services can encourage taxpayers to comply voluntarily with tax regulations. The role of digitalization in reducing the shadow economy has received increasing attention in recent academic literature. Digital tax administration enables

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governments to collect, process, and analyze large volumes of economic information. Electronic invoices, online cash registers, electronic tax declarations, automated data exchange, and digital taxpayer services can increase the transparency of financial transactions. These technologies also allow tax authorities to identify unusual transactions and potential tax violations through risk-based approaches. The literature also emphasizes the importance of taxpayer behavior and institutional trust. Tax compliance is not determined solely by the probability of inspection or the severity of penalties. Taxpayers are more likely to comply with tax obligations when they perceive the tax system as fair, transparent, predictable, and convenient. Therefore, modern tax administration should combine effective enforcement with taxpayer services, education, consultation, and mechanisms for voluntary compliance. International experience demonstrates that successful strategies for reducing the shadow economy generally involve several interconnected measures, including digital transformation of tax administration, simplification of tax procedures, improvement of tax risk management, strengthening information exchange, increasing transparency, reducing opportunities for corruption, and improving communication between tax authorities and taxpayers. For Uzbekistan, these findings are particularly relevant because the modernization of tax administration and the expansion of digital public services create new opportunities for reducing informal economic activities. The transition toward electronic tax services, digital reporting, online fiscal systems, and automated control mechanisms can contribute to improving tax compliance and increasing the transparency of economic transactions. Despite the considerable number of studies devoted to the shadow economy, there remains a need for further research into the practical relationship between modern tax administration and the reduction of informal economic activities. In particular, greater attention should be paid to how digital technologies, risk-based tax control, taxpayer-oriented services, and institutional reforms can be integrated into a comprehensive strategy for reducing the shadow economy.

The research methodology is based on a combination of theoretical, comparative, statistical, and analytical approaches. The main purpose of the methodological framework is to identify the key factors contributing to the development of the shadow economy and to determine effective mechanisms through which improvements in tax administration can contribute to its reduction. The study applies a systematic approach to examine the shadow economy as a multidimensional economic phenomenon. Within this framework, the relationship between tax administration, taxpayer compliance, digitalization, administrative procedures, and the scale of informal economic activity is analyzed. This approach makes it possible to consider the shadow economy not only as a consequence of tax evasion but also as a result of broader institutional and economic conditions. A literature analysis method is used to examine scientific publications, research papers, reports of international organizations, and relevant theoretical approaches concerning the shadow economy and tax administration. The literature review helps identify major determinants of informal economic activity and evaluate previously proposed mechanisms for improving tax compliance. A comparative analysis method is applied to examine different approaches to tax administration and shadow economy reduction. Particular attention is given to the experience of countries that have implemented digital tax administration, electronic invoicing, online cash registers, automated tax reporting, and risk-based tax control. Comparative analysis makes it possible to identify practices that may be adapted to national conditions. The research also employs an analytical method to evaluate the relationship between tax administration efficiency and the formalization of economic activities. The analysis focuses on several key indicators, including the level of tax compliance, administrative burden, digitalization of tax services, transparency of financial transactions, and effectiveness of tax control mechanisms. The study uses a qualitative approach to identify institutional and organizational factors affecting taxpayer

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behavior. Particular attention is given to the role of trust in government institutions, fairness of taxation, simplicity of tax procedures, accessibility of electronic services, and the effectiveness of communication between tax authorities and taxpayers. The methodological framework also includes the analysis of secondary statistical and institutional data. Where available, data related to tax revenues, registered business entities, digital tax services, tax compliance, and informal economic activity are considered to identify existing trends and potential relationships. Based on the results of the analysis, practical recommendations are developed for improving tax administration and reducing the shadow economy. These recommendations focus on expanding digital tax services, strengthening risk-based tax control, simplifying administrative procedures, improving taxpayer awareness, increasing institutional transparency, and encouraging voluntary compliance. The combination of these methods provides a comprehensive methodological basis for examining the problem and allows the study to move from theoretical analysis toward practical recommendations for reducing the shadow economy through the improvement of tax administration.

RESULTS AND DISCUSSION

The results of the study demonstrate that the effectiveness of tax administration is one of the important factors influencing the scale of the shadow economy. The analysis indicates that the expansion of informal economic activities is closely associated with the complexity of tax procedures, administrative barriers, limited transparency of financial transactions, insufficient taxpayer awareness, and the level of trust between taxpayers and government institutions. Therefore, reducing the shadow economy requires a comprehensive transformation of tax administration rather than relying exclusively on traditional inspection and penalty mechanisms. One of the main findings of the study is that digitalization can significantly strengthen tax administration and increase the transparency of economic activities. The introduction of electronic tax reporting, electronic invoices, online cash registers, automated tax services, and digital information exchange provides tax authorities with more accurate and timely information about economic transactions. This makes it possible to identify inconsistencies in tax reporting and detect potential cases of tax evasion more efficiently. Digital technologies also contribute to reducing the administrative burden placed on taxpayers. When tax declarations, payments, registration procedures, and communication with tax authorities are available electronically, businesses can save time and financial resources. Simplification of administrative procedures may therefore reduce the motivation of entrepreneurs to conceal economic activities or remain outside the formal economy. Another significant result concerns the importance of risk-based tax administration. Traditional tax control based on large-scale inspections may require considerable administrative resources and can create additional pressure on businesses. A risk-based approach allows tax authorities to concentrate their resources on taxpayers and transactions that demonstrate a higher probability of non-compliance. The use of analytical systems and large datasets can improve the accuracy of risk assessment and make tax control more targeted and efficient. The study also demonstrates that tax compliance depends not only on enforcement but also on taxpayers' perceptions of the tax system. If taxpayers consider tax regulations complicated, unfair, or unpredictable, their willingness to comply may decrease. Conversely, transparent taxation, clear administrative procedures, accessible consultation, and efficient electronic services can strengthen voluntary compliance. An important aspect of reducing the shadow economy is the formalization of small businesses and self-employed economic activities. Small enterprises may be particularly sensitive to administrative costs and complicated reporting requirements. Simplified registration, convenient electronic reporting, reasonable tax obligations, and accessible digital services can encourage such businesses to operate

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within the formal economy. Consequently, tax administration reforms should take into account the specific characteristics and capabilities of small and medium-sized enterprises. The results further indicate that improving information exchange between government institutions can contribute to the identification of hidden economic activities. Integration of tax information with relevant administrative and financial databases can provide a more complete picture of taxpayers' economic activities. Such integration can help identify discrepancies between declared income, transactions, assets, and other available information. At the same time, effective data protection and cybersecurity mechanisms are essential to ensure public confidence in digital tax administration. The Uzbek context demonstrates the relevance of these findings. The modernization of tax administration and the expansion of electronic services create favorable conditions for increasing transparency in economic relations. The broader use of digital technologies can reduce opportunities for undeclared transactions, improve tax collection, and simplify interaction between businesses and tax authorities. However, technological modernization alone cannot completely eliminate the shadow economy. It should be accompanied by institutional reforms, improvements in tax legislation, increased transparency, and the development of taxpayer education. The discussion of the findings suggests that punitive measures should not be regarded as the only instrument for combating the shadow economy. Excessively strict enforcement may encourage some economic actors to seek alternative informal mechanisms. A more balanced approach should combine effective control with incentives for formalization. Such incentives may include simplified procedures, reduced compliance costs, digital services, consultation, and transparent mechanisms for resolving tax disputes. The findings are consistent with the conclusions of previous studies that identify taxation, regulatory burden, institutional quality, and trust as important determinants of informal economic activity. At the same time, the present analysis emphasizes the growing importance of digital transformation. Modern tax administration provides opportunities to move from reactive control toward preventive and analytical approaches based on real-time information and risk assessment. Another important finding is that reducing the shadow economy can generate broader economic benefits. Increased formalization expands the tax base, improves the sustainability of public revenues, strengthens fair competition, and provides better protection for workers and entrepreneurs operating within the legal framework. Formal economic activity also improves the quality of statistical information used for economic policymaking and enables the government to design more effective development programs. Based on the results, several key directions for improving tax administration can be identified. First, digital tax services should be further expanded and integrated. Second, risk-based tax control should be strengthened through modern analytical technologies. Third, tax procedures should be simplified, particularly for small businesses and self-employed individuals. Fourth, taxpayer education and consultation should be improved. Fifth, transparency and accountability within tax administration should be strengthened in order to increase public trust. Overall, the results confirm that reducing the shadow economy is a complex and long-term process that requires coordinated institutional, technological, and economic measures. Effective tax administration should create a balance between control and taxpayer support. The combination of digitalization, simplified procedures, risk-based control, institutional transparency, and voluntary compliance can provide a sustainable foundation for reducing informal economic activities and strengthening the formal economy.

CONCLUSION

The study concludes that improving tax administration is one of the most effective institutional mechanisms for reducing the shadow economy and increasing the transparency of economic activities.

The analysis demonstrates that the expansion of the shadow economy is influenced by a combination of factors, including complicated tax procedures, administrative barriers, insufficient transparency, high compliance costs, limited taxpayer awareness, and weak trust in public institutions. Therefore, the reduction of informal economic activities requires a comprehensive and systematic approach. The findings show that digitalization plays a particularly important role in the modernization of tax administration. Electronic tax reporting, electronic invoicing, online cash registers, automated tax services, and digital information exchange can improve the transparency of economic transactions and strengthen tax control. The wider implementation of these technologies can reduce opportunities for tax evasion while simultaneously making compliance with tax obligations easier and more convenient for taxpayers. The study also confirms the importance of risk-based tax administration. Instead of relying primarily on traditional inspections, tax authorities should increasingly use analytical systems and available data to identify high-risk taxpayers and transactions. This approach can improve the efficiency of tax control, reduce unnecessary administrative pressure on compliant businesses, and allow government resources to be used more effectively. Another important conclusion is that reducing the shadow economy cannot be achieved solely through penalties and enforcement measures. The development of voluntary tax compliance should become an essential component of modern tax administration. Simplified tax procedures, accessible electronic services, taxpayer education, transparent decision-making, and effective communication between tax authorities and taxpayers can contribute to increasing public trust and encouraging businesses to operate within the formal economy. For Uzbekistan, further improvement of tax administration should focus on the integration of digital technologies, expansion of electronic services, development of risk-based tax control, simplification of taxation procedures, and strengthening cooperation between tax authorities and taxpayers. Particular attention should be paid to small businesses and self-employed individuals, as excessive administrative costs and complicated procedures may encourage informal economic activity. In general, the reduction of the shadow economy should be viewed not only as a fiscal objective but also as an important component of sustainable economic development. A transparent and efficient tax administration system can expand the tax base, increase budget revenues, strengthen fair competition, improve the business environment, and contribute to the formalization of employment and economic activities. Thus, the most effective strategy for reducing the shadow economy is based on the combination of digitalization, simplified tax administration, risk-based control, institutional transparency, taxpayer education, and voluntary tax compliance. The implementation of these measures can create favorable conditions for strengthening the formal economy and ensuring sustainable socio-economic development.

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