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INSTITUTIONAL AND LEGAL FOUNDATIONS OF THE FORMATION AND DEVELOPMENT OF THE VALUE ADDED TAX SYSTEM IN THE REPUBLIC OF UZBEKISTAN

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Abstract. This article examines the formation and development of the value added tax (VAT) system in Uzbekistan from the early transition years to the present. Using doctrinal legal analysis, historical-comparative and institutional approaches, it traces how the legal framework moved from fragmented regulation to a codified system and identifies the institutional drivers of reform. The study finds that the evolution of VAT in Uzbekistan has followed three directions: codification and unification of rules, gradual rate and base rationalization, and digitalization of administration. It also identifies persisting challenges, including refund delays, tax gaps, and the frequency of legislative change. The article concludes with policy recommendations for strengthening legal certainty and administrative efficiency.

Keywords: value added tax, Uzbekistan, Tax Code, tax reform, institutional framework, tax administration, digital economy

Introduction

VAT is one of the most widely adopted fiscal instruments in the world. Over 170 countries now apply it, and it typically accounts for a substantial share of public revenue. For transition economies, VAT has had a special significance. It replaced the Soviet-era turnover and sales taxes and served as a tool for integrating national tax systems into the global market economy.

In Uzbekistan, VAT was introduced in the early 1990s as part of the shift from a centrally planned to a market-based economy. Since then it has become one of the principal sources of state budget revenue. Its legal regulation has changed repeatedly, from separate laws and government regulations to the unified Tax Code, which took effect on 1 January 2020. The reform agenda that began with the Concept for Improving Tax Policy (2018) and continued with the Development Strategy of New Uzbekistan for 2022–2026 has substantially changed the architecture of VAT. The changes affect the rate, the registration threshold, refund procedures, the taxation of foreign digital service providers, and electronic invoicing.

Despite this importance, the institutional and legal foundations of VAT in Uzbekistan have received limited systematic attention in English-language scholarship. This article addresses that gap. It aims to (1) outline the stages of VAT development, (2) analyse the legal and institutional framework, and (3) assess the effectiveness and remaining problems of the current system.

The study uses doctrinal analysis of legislation and presidential acts, a historical-comparative method to identify stages of development, and comparison with international standards (OECD guidelines, EU VAT Directive, and IMF recommendations). The empirical basis consists of legal texts, official publications of the State Tax Committee, and international tax-policy reviews.

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Literature Review

Theoretical foundations. The classical literature presents VAT as a broad-based consumption tax levied at each stage of production with a credit for input tax. This design makes it neutral to the length of the production chain (Tait, 1988; Ebrill et al., 2001). Schenk and Oldman (2007) offer a comparative legal analysis of VAT design. Keen and Lockwood (2010) explain the rapid global diffusion of VAT, showing that it is associated with greater revenue-raising capacity, particularly in countries open to trade.

Developing and transition economies. Bird and Gendron (2007) show that VAT introduction in developing and transitional countries depends critically on administrative capacity, with exemptions, multiple rates, and weak refund systems eroding its efficiency. Keen and Smith (2006) examine VAT fraud and evasion, in particular carousel and missing-trader schemes, and argue that the credit mechanism creates specific compliance risks. These findings are relevant for Uzbekistan, where refund control and invoice verification have been central reform topics.

International standards. The OECD International VAT/GST Guidelines (2017) recommend the destination principle for cross-border trade in services and intangibles. This is the conceptual basis for the VAT regime that Uzbekistan applies to foreign suppliers of electronic services. The EU VAT Directive (2006/112/EC) is often used as a benchmark for harmonization, especially by countries seeking closer trade ties with the EU.

Uzbek scholarship. Local studies mostly cover the tax system as a whole and focus on practical issues of accounting and reporting. They also discuss the effect of VAT on business activity and the budget. Comprehensive legal-institutional analyses of VAT development remain relatively scarce, and this article contributes to filling that gap.

Discussion

Stages of development

Stage 1: Establishment (early 1990s to late 1990s). After independence, Uzbekistan created its own tax system, and VAT was introduced in 1992, replacing the Soviet turnover tax. The initial regime was characterised by a high rate, a number of exemptions, and unstable regulation through frequent amendments. The institutional base was the newly formed state tax service.

Stage 2: Consolidation (2000s to 2017). The system was improved through the Tax Code of 1997 and its numerous amendments. The VAT rate stood at 20% for many years. Administration was relatively formal, with paper-based reporting and extensive audit practice.

Stage 3: Systemic reform (2018 to 2019). The Presidential Decree of 29 June 2018 on the Concept for Improving Tax Policy defined the strategic direction: simplification, reduction of the tax burden, enhanced taxpayer rights, and digitalization. In 2019 the VAT rate was reduced from 20% to 15%, and the new Tax Code was adopted (Law No. ZRU-599 of 30 December 2019), taking effect on 1 January 2020.

Stage 4: Digitalization and further rationalization (2020 to present). The Tax Code introduced VAT on electronic services supplied by foreign companies to individuals, which brought Uzbekistan in line with OECD recommendations. The standard rate was reduced from 15% to 12% from 1 January 2023, and electronic invoicing and automated reporting expanded. For 2026, a zero rate was introduced for agricultural products sold by agricultural producers (excluding cotton and grain), and an optional 6% regime was reported for trade, catering and services from 1 June 2026. In September 2026, Law No. ZRU-1173 extended the foreign-supplier regime to foreign electronic

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marketplaces selling goods to individuals, effective 12 December 2026. Official sources should be consulted to confirm the final text of these recent measures.

Legal framework

The VAT system rests on a hierarchy of legal acts:

1. **The Constitution,** which establishes the duty to pay legally established taxes and the principle that taxes are set by law.
2. **The Tax Code,** which is the primary source. Its general part defines principles, rights and obligations, while the special part regulates VAT (taxpayers, object of taxation, taxable base, rates, exemptions, credit and refund rules, and special rules for non-residents).
3. **Presidential decrees and resolutions,** which set annual tax policy and often serve as the initial vehicle for reform measures later incorporated into the Code.
4. **Cabinet of Ministers and State Tax Committee regulations,** which govern procedures such as invoicing, registration, and refund mechanisms.

A notable feature is the strong role of the executive in initiating reform, with annual packages announced in the budget and tax policy documents for the coming years.

Institutional framework

The principal institution is the State Tax Committee, which administers VAT, performs audits, controls refunds, and runs electronic services. The Ministry of Economy and Finance is responsible for fiscal policy and budget planning. The Customs authorities administer import VAT. Digital platforms such as the electronic invoicing system, the personal taxpayer cabinet, and online cash registers are institutional tools that connect transaction data directly with tax administration. The shift toward risk-based audit and data analytics reflects a broader movement from formal to analytical control.

Results

The analysis yields the following findings.

Result 1: Codification improved legal certainty. Moving from scattered regulation to a single Tax Code consolidated VAT rules, clarified taxpayer rights, and reduced contradictions between acts.

Result 2: Rate reduction signals a pro-growth orientation. Lowering the standard rate from 20% to 15% and then to 12% reduced the formal tax burden and the incentive to evade. It also raised the importance of base protection and administrative efficiency as sources of revenue.

Result 3: Alignment with international practice. The destination-based taxation of foreign digital services and, more recently, of foreign marketplaces corresponds to OECD recommendations and extends the tax base into the digital economy.

Result 4: Digitalization is the most significant institutional change. E-invoicing, automated reporting, and data matching strengthen control over input-tax credits and reduce direct contact between taxpayers and officials.

Result 5: Persisting challenges. Despite progress, several problems remain:

- Frequent legislative changes, which create uncertainty for business planning.
- Refund delays and verification burdens, particularly for exporters.
- A significant gap between potential and actual VAT revenue because of the informal economy.
- Adjustment costs for small businesses, especially those near the registration threshold, where lowering or raising it changes compliance obligations substantially.
- The need for continued capacity building within tax administration.

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Conclusion

The VAT system of Uzbekistan has evolved from a transitional instrument into a modern, increasingly digital consumption tax. Its development reflects a consistent reform logic: unified legislation, reduced rates, expanded coverage of the digital economy, and technology-driven administration. The institutional-legal framework, built on the Tax Code and implemented by the State Tax Committee and related bodies, now corresponds in many respects to international standards.

Nevertheless, the system's effectiveness depends on resolving remaining problems. The following recommendations follow from the analysis:

1. **Ensure legislative stability** by adopting medium-term tax policy commitments and limiting mid-year changes.
2. **Accelerate and automate refunds,** using risk-based criteria so that compliant exporters receive timely payments.
3. **Strengthen data analytics** to detect fictitious invoicing and missing-trader schemes.
4. **Evaluate special regimes** (reduced rates, thresholds, optional simplified schemes) regularly to avoid distortions and fragmentation of the VAT chain.
5. **Improve taxpayer education and consultation** during the preparation of reforms.

Future research could quantify the VAT gap, measure the revenue and behavioural effects of the 2023 rate reduction, and compare Uzbekistan's experience with other Central Asian and EAEU countries.

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