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VALUE-ADDED TAX IN UZBEKISTAN: CURRENT PRACTICES, INTERNATIONAL EXPERIENCE, AND POLICY RECOMMENDATIONS FOR IMPROVEMENT

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Abstract
This article examines the role and practical application of the value-added tax (VAT) in Uzbekistan, highlighting key challenges and comparing local practices with international experience. Drawing from the VAT systems of Germany, France, Turkey, and Kazakhstan, the study offers analytical insights and policy recommendations aimed at enhancing efficiency, transparency, and fairness in Uzbekistan's VAT administration. Emphasis is placed on the reduction of bureaucratic barriers in refund procedures, the rationalization of tax exemptions, and the advancement of digital infrastructure. The article concludes with proposals to modernize VAT administration through increased automation, simplification, and digitalization, based on successful international models.

Keywords: Value-added tax, Uzbekistan tax system, VAT refund, tax exemptions, digitalization, international practice, fiscal transparency, tax burden, export, tax fairness

Introduction

Value-added tax (VAT) is a key component of modern tax systems and serves as a significant source of public revenue in both developed and developing countries. It is levied on the added value at each stage of production and distribution of goods and services. Apart from its fiscal function, VAT plays an instrumental role in promoting transparency and digital transformation in the economy.

Introduced in Uzbekistan in 1992 at an initial rate of 30%, the VAT rate has gradually been reduced to the current level of 12%, in line with economic reform strategies. However, challenges remain in the practical application of VAT, including refund inefficiencies, overuse of exemptions, and technical shortcomings in digital systems.

2. International Best Practices in VAT Administration

The experience of various countries offers valuable lessons in efficient VAT administration:

2.1. Germany and France (European Union)

Germany and France utilize advanced digital technologies to ensure transparency and compliance. Germany applies a 19% standard VAT rate, which constitutes a major portion of government revenues. France imposes a 20% rate but provides targeted exemptions and incentives for small and medium-sized enterprises.

2.2. Turkey

Turkey operates a differentiated VAT rate system, with the standard rate at 20%. Reduced rates (1% or 10%) apply to essential goods and services, such as food and healthcare, allowing for consideration of population income levels and social equity.

2.3. Kazakhstan

Kazakhstan shares a similar VAT rate (12%) with Uzbekistan, yet the refund process for exporters is more streamlined and transparent. This makes the Kazakh system a relevant benchmark for reform in Uzbekistan.

3. Challenges in the VAT System of Uzbekistan

Despite the progress made, several issues persist in Uzbekistan's VAT administration:

- **Refund Delays and Bureaucracy:** Exporters face delays due to lengthy and bureaucratic refund procedures. Electronic invoice systems often suffer from data entry errors and system failures, leading to prolonged processing times.
- **Inefficient Tax Exemptions:** VAT exemptions in sectors such as agriculture, medical equipment imports, and certain services have led to tax distortions and decreased revenue. These exemptions may also incentivize tax evasion through loopholes.
- **Avoidance by Small Businesses:** Many small enterprises utilize simplified tax regimes to avoid VAT payments, narrowing the tax base and limiting revenue potential.
- **Technological Deficiencies:** Existing electronic tax platforms and monitoring systems lack reliability and user-friendliness, increasing administrative complexity and enforcement risks.

4. Policy Recommendations for Improvement

To improve the effectiveness of VAT in Uzbekistan, the following reforms are proposed:

4.1. Simplification and Automation of VAT Refunds

Automated processing of VAT refunds should be introduced for exporters and businesses with overpayments. This would eliminate bureaucratic hurdles and improve efficiency.

4.2. Rationalization of VAT Exemptions

Gradual reduction or targeted limitation of exemptions—particularly in agriculture and healthcare—could broaden the tax base and increase fiscal revenue. Exemptions should be confined to clearly defined social or economic objectives.

4.3. Broadening the Tax Base and Ensuring Equity

Reform of simplified tax regimes and expansion of VAT coverage among small businesses can enhance tax fairness. Enhanced monitoring by tax authorities is needed to curb evasion.

4.4. Strengthening Digital Infrastructure

Investments in modern software solutions and IT systems are essential to support e-invoicing and real-time tax monitoring. The systems must be user-friendly to ensure compliance and efficiency.

4.5. Promoting Fiscal Transparency

Increasing the transparency of tax payments and providing public access to aggregate VAT data can build trust in the tax system and encourage voluntary compliance.

5. Conclusion

VAT remains a central pillar of Uzbekistan's fiscal system. To harness its full potential, the country must address systemic inefficiencies, embrace international best practices, and implement modern solutions tailored to local conditions. Enhancing transparency, digitalization, and equity in VAT administration can strengthen the business environment, secure public revenue, and foster sustainable economic development.

Drawing from global experience, Uzbekistan can elevate its VAT system to a new level by modernizing refund mechanisms, streamlining exemptions, and expanding the digital ecosystem. These reforms are essential not only for fiscal sustainability but also for ensuring fairness and trust in the country's tax administration.

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