



RAISING THE VAT REGISTRATION THRESHOLD AS A TAX POLICY INSTRUMENT FOR SMALL BUSINESS DEVELOPMENT IN UZBEKISTAN

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Abstract

The article examines the increase in the threshold for the transition of small business entities to the general tax regime and the payment of value added tax as one of the important instruments for supporting entrepreneurship in Uzbekistan. The role of small business in ensuring employment, increasing household income, developing a competitive environment, and expanding the state tax base is substantiated. Particular attention is paid to the provisions of Presidential Decree of the Republic of Uzbekistan No. UP-100 of May 26, 2026, which provides for raising the threshold for transition to the general tax regime from UZS 1 billion to UZS 5 billion.

The article shows that the previous threshold of UZS 1 billion, under conditions of rising prices and expanding entrepreneurial activity, began to create certain limitations for small businesses. When approaching the established limit, entrepreneurs could have incentives to artificially restrict turnover, split their business into several entities, conceal part of their revenue, or avoid issuing receipts. In addition, the transition to VAT is associated with more complex accounting procedures, the need to issue electronic invoices, maintain VAT credit records, and fulfill additional reporting requirements.

Based on the analysis, it is concluded that raising the threshold to UZS 5 billion contributes to reducing the administrative and financial burden on small businesses, creates conditions for the legal growth of turnover, decreases the risks of business



fragmentation, and strengthens entrepreneurs' trust in the tax system. This measure is considered not only as a tax relief instrument, but also as an important element in creating a favorable business environment, stimulating private initiative, and expanding the tax base in the long term.

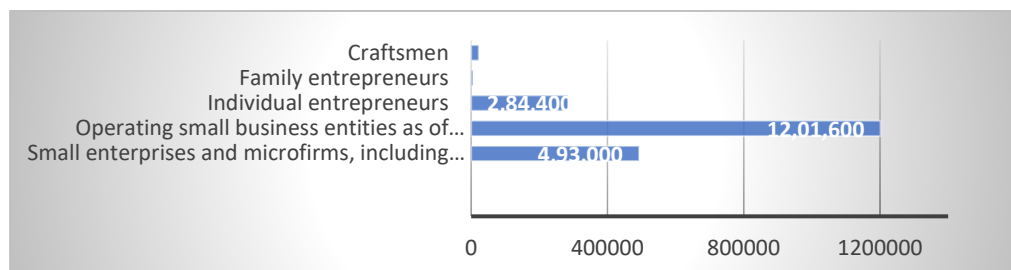
Keywords: Small business, private entrepreneurship, VAT, tax regime, tax administration, tax burden, simplified tax regime, tax reform, Uzbekistan, international experience.

Introduction

Small business is one of the key drivers of sustainable socio-economic development, as it performs several important functions at the same time: it creates employment, contributes to household income growth, strengthens the competitive environment, expands the supply of goods and services, and forms a broader tax base. In the context of Uzbekistan's ongoing economic transformation, support for small business and private entrepreneurship is of particular importance, since this sector adapts more quickly to changes in market conditions, requires relatively fewer initial resources, and is capable of involving broad segments of the population in economic activity.

In Uzbekistan, the importance of small business is confirmed by statistical indicators. Around 10.5 million people are employed in the small and medium-sized business sector, which accounts for 74% of total employment. As of January 1, 2026, the number of operating small business entities amounted to 1,201.6 thousand units, including small enterprises and microfirms, individual entrepreneurs, family entrepreneurs, craftsmen, and other business entities [16].

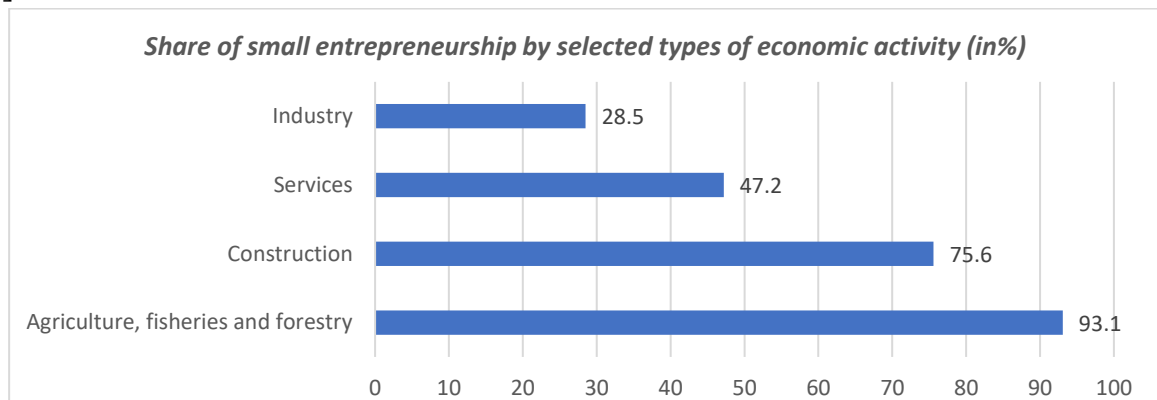
Key indicators of small business in Uzbekistan



Source: Author's compilation based on official data from the Statistics Agency under the President of the Republic of Uzbekistan.



From the perspective of sectoral structure, small business is particularly significant in areas where employment and entrepreneurial initiative are directly linked to the everyday economic activity of the population. The share of small entrepreneurship in GDP is 93.1% in agriculture, fisheries and forestry, 75.6% in construction, 47.2% in services, and 28.5% in industry. This indicates that tax policy toward small business has not only fiscal but also structural importance: it influences employment, regional development, household income, and the competitiveness of the national economy [17].



Source: Author's compilation based on official data from the Statistics Agency under the President of the Republic of Uzbekistan.

Small business also plays an important role in the formation of household income. According to preliminary data for 2025, total per capita income amounted to UZS 29.9 million, with a nominal growth rate of 116.6% and a real growth rate of 107.2%. At the same time, the share of income from self-employment in the structure of total income was 34.0%, while the share of income from small entrepreneurship reached 58.0%. In some regions, this indicator was even higher: 66.6% in Jizzakh region, 64.2% in Bukhara region, 63.5% in Tashkent region, and 61.9% in Namangan region [17].

Table 1. Household income and the role of small entrepreneurship in 2025

Indicator	Value
Total per capita income	UZS 29.9 million
Nominal income growth rate	116.6%
Real income growth rate	107.2%
Share of income from self-employment	34.0%
Share of income from small entrepreneurship	58.0%

Source: Author's compilation based on official data from the Statistics Agency under the President of the Republic of Uzbekistan.



In this context, improving the tax regime for small businesses becomes especially relevant. One of the most significant areas of recent reforms is the increase in the threshold for the transition of small businesses to the general tax regime from UZS 1 billion to UZS 5 billion. According to official information, this measure is expected to take effect from June 1, 2026 and is aimed at creating more favorable conditions for the growth of small businesses. The previous threshold had been established in 2019, and under conditions of rising prices it began to create incentives for some entrepreneurs to underreport turnover, avoid issuing receipts, or artificially split their business activities.

Raising the threshold for transition to the general tax regime is important for entrepreneurs who are at the stage of business growth. Under a low threshold, a small business may be forced to switch to a more complex tax regime before it has achieved sufficient organizational, financial, and human resource capacity. The transition to VAT is particularly sensitive, as it requires more complex accounting, the issuance of electronic invoices, control over input and output VAT, timely tax reporting, and the use of digital tools for tax administration. Therefore, increasing the threshold to UZS 5 billion can reduce administrative and financial costs for businesses, weaken incentives to artificially restrict turnover, and create conditions for the legal growth of entrepreneurship.

International experience also shows that VAT registration thresholds are widely used as an instrument to reduce tax burden and compliance costs for small businesses. In many countries, such thresholds serve a dual function. On the one hand, they protect small enterprises from excessive administrative costs related to VAT accounting and reporting. On the other hand, an excessively high or excessively low threshold may create behavioral distortions, including turnover underreporting, business fragmentation, or delayed business expansion. Therefore, determining an optimal VAT registration threshold is important both for tax policy and for entrepreneurial development.



Table 2. International experience in applying VAT/GST registration thresholds

Country / region	VAT/GST registration threshold or special regime	Importance for small business
European Union	A special SME scheme allows member states to apply VAT exemptions for small enterprises under certain conditions	Reduces VAT obligations and simplifies tax administration for small businesses
United Kingdom	Mandatory VAT registration applies when taxable turnover exceeds £90,000 over the last 12 months	Protects small businesses from premature transition to complex VAT accounting
Singapore	Mandatory GST registration applies when expected taxable turnover exceeds SGD 1 million over the next 12 months	A relatively high threshold allows small companies to grow without early administrative pressure
Georgia	Mandatory VAT registration applies when turnover exceeds GEL 100,000 over 12 months	The threshold serves as a boundary between small business taxation and the general VAT regime
Kazakhstan	From 2026, the reduction of the VAT registration threshold from 20,000 to 10,000 MCI has been discussed	Demonstrates an alternative approach aimed at expanding the number of VAT payers and strengthening fiscal coverage

For Uzbekistan, raising the threshold from UZS 1 billion to UZS 5 billion can be viewed as an adaptation of the tax regime to modern economic conditions. Unlike an approach focused only on expanding the number of VAT payers, this measure is aimed at ensuring a smoother transition from small to medium and larger business activity. It allows entrepreneurs to avoid restraining turnover growth, reduces the likelihood of artificial business fragmentation, and contributes to the formation of more trust-based relations between the state and taxpayers.

Thus, the relevance of this topic is determined by several factors. First, small business occupies a significant place in employment and household income in Uzbekistan. Second, the transition to VAT is associated with substantial administrative and financial costs, which are particularly burdensome for small enterprises. Third, international practice confirms the need to apply special regimes and VAT registration thresholds to reduce compliance costs for small businesses. Fourth, raising the threshold to UZS 5 billion may become an important instrument for formalizing business turnover, preventing artificial business fragmentation, stimulating entrepreneurial growth, and expanding the tax base in the long run [1].



Literature Review

The taxation of small businesses and private entrepreneurship has been widely examined in both national and international literature. Existing studies generally focus on several interrelated research areas: the role of simplified tax regimes, tax compliance costs, VAT registration thresholds, tax incentives, business formalization, and the impact of tax administration on the growth behavior of small and medium-sized enterprises.

In the Uzbek academic literature, the taxation of small business and private entrepreneurship has been studied by several domestic scholars. B.R. Sanakulova examined reforms in the taxation of small business and private entrepreneurship in Uzbekistan, emphasizing the importance of tax privileges and preferences as instruments for supporting entrepreneurial activity [4]. N.E. Zhiyanova and S.A. Tukhtabaeva analyzed further directions for improving the taxation of small business entities under market conditions, highlighting the need to balance fiscal interests with incentives for business development [8]. O.A. Shodiev focused on the specific features of the simplified taxation system in Uzbekistan and its role in reducing the tax and administrative burden on small business entities [5]. K.N. Tukhsanov's dissertation research also addressed the improvement of taxation mechanisms for small business and private entrepreneurship, indicating that this issue has been studied not only at the level of articles but also within specialized doctoral research [6]. These domestic studies show that the scientific basis for analyzing small business taxation in Uzbekistan has already been formed. However, the specific issue of raising the VAT transition threshold from UZS 1 billion to UZS 5 billion as an independent tax policy instrument remains insufficiently studied in the national literature.

Recent international studies have expanded the discussion by focusing on tax compliance costs, behavioral responses to thresholds, and the complexity of VAT administration. Padi (2025), using a survey of 520 SMEs in Ghana and PLS-SEM methodology, investigated the drivers of VAT compliance among small and medium-sized enterprises. The study confirms that VAT compliance is a multidimensional phenomenon influenced not only by tax rates, but also by administrative procedures, taxpayer awareness, trust, and enforcement mechanisms. This is important for Uzbekistan because raising the VAT threshold may reduce the number of small firms exposed to complex VAT procedures before they reach sufficient organizational capacity.



Ndlovu (2024) studied the challenges faced by small business owners in relation to VAT compliance in South Africa [11]. The study shows that VAT is often perceived by small firms as one of the most complex and burdensome taxes due to accounting requirements, documentation, filing obligations, and the need to manage input and output VAT. This conclusion is directly relevant to the Uzbek case, where the transition to VAT may also increase administrative and financial costs for entrepreneurs operating in trade, catering, and services.

Ouyang (2023) examined the relationship between digital finance and small business tax compliance in China [12]. The study found that digital finance can reduce tax non-compliance, especially in sectors where tax-related information is more difficult to monitor, such as wholesale, retail, catering, and lodging. For Uzbekistan, this finding is significant because the effectiveness of raising the VAT threshold should be considered together with digital tax administration, online cash registers, electronic invoices, and cashless payment systems.

Saptono et al. (2024) analyzed tax complexity and firm tax evasion using cross-country data covering more than 46,000 companies from 83 countries [13]. Their findings indicate that higher tax complexity and longer time required to comply with tax obligations are associated with a greater probability of tax evasion. This supports the argument that tax simplification for small businesses can reduce incentives for underreporting turnover, artificial fragmentation, and informal activity.

Klimsa (2023) investigated threshold-dependent tax enforcement and firm behavior, showing that tax thresholds may influence firms' size decisions and compliance behavior [14]. This line of research is highly relevant to VAT threshold policy because a low threshold may create a "cliff-edge" effect, where firms deliberately limit their growth or split activities in order to remain below the threshold.

Hosono (2024) studied the interaction between size-dependent tax policy and financial frictions in Japan [15]. The research shows that tax rules based on firm size may create behavioral distortions when firms adjust their formal characteristics to preserve tax benefits. This conclusion strengthens the theoretical relevance of studying Uzbekistan's VAT threshold reform, since the previous UZS 1 billion threshold could encourage business fragmentation or artificial limitation of turnover.

Anesa et al. (2024) examined SME tax minimization as a shared responsibility involving tax accountants, SMEs, and the state [16]. Their study argues that the behavior of SMEs in the tax system is shaped not only by legal rules, but also by



professional intermediaries, administrative complexity, and the perceived fairness of tax obligations. This is important for Uzbekistan because raising the threshold should be accompanied by advisory support, taxpayer education, and predictable VAT administration.

In addition to academic literature, international policy documents and legislative reforms provide an important basis for comparative analysis. The OECD notes that VAT compliance costs can be disproportionate for many small businesses relative to their turnover. Therefore, many countries use VAT liability thresholds to reduce administrative costs and protect small firms from excessive compliance burdens. At the same time, the OECD emphasizes that VAT thresholds must be designed carefully in order to minimize incentives for firms to remain artificially below the registration limit.

The European Union has also introduced important reforms in this area. From 1 January 2025, the EU SME VAT scheme allows small enterprises, under certain conditions, to sell goods and services without charging VAT and to reduce their VAT compliance obligations. The purpose of the scheme is to simplify VAT rules for small firms and facilitate cross-border activity within the single market. According to EUR-Lex, Directive (EU) 2020/285 introduced simplified rules aimed at reducing the administrative burden and compliance costs for small businesses [20].

The United Kingdom provides another relevant example. From 1 April 2024, the VAT registration threshold was increased from £85,000 to £90,000. According to the UK government, this measure was expected to reduce the administrative burden by approximately £5 million per year and decrease the number of micro-businesses required to register for VAT. The current UK rule requires VAT registration when taxable turnover over the last 12 months exceeds £90,000 [18].

Singapore applies a comparatively high GST registration threshold. According to the Inland Revenue Authority of Singapore, a business must register for GST if taxable turnover exceeds SGD 1 million under the retrospective test or is expected to exceed SGD 1 million in the next 12 months under the prospective test. This approach allows many small firms to operate outside the GST system until they reach a more substantial scale of business activity [19].

Georgia also applies a VAT registration threshold. According to recent tax guidance, VAT registration is generally required when taxable turnover exceeds GEL 100,000 within any continuous 12-month period. This example is useful for comparison with



Uzbekistan because both countries use turnover thresholds as a boundary between simplified taxation and general VAT obligations [19].

For Uzbekistan, the relevance of this research has increased after the announcement of reforms under Presidential Decree No. UP–100 of 26 May 2026. According to the official information of the President of Uzbekistan, the reform package aims to create more favorable economic conditions and a regulatory environment for small business growth. Publicly reported materials indicate that from 1 June 2026 the threshold for the transition of small businesses to the general tax regime is planned to increase from UZS 1 billion to UZS 5 billion. The reform is justified by the fact that the previous threshold was established in 2019 and, under conditions of price growth, began to encourage some entrepreneurs to underreport turnover, avoid issuing receipts, or split business activities [1].

Thus, the literature review shows that the general problems of small business taxation, simplified tax regimes, compliance costs, and VAT administration have been widely studied. However, the specific case of Uzbekistan's fivefold increase in the VAT transition threshold remains insufficiently examined in the international academic literature. This creates a clear research gap. The present article contributes to this gap by interpreting the increase in the VAT registration threshold not only as a tax relief measure, but also as an institutional instrument for reducing compliance costs, preventing artificial business fragmentation, supporting formal business growth, and expanding the tax base in the long run.

Materials and Methods

This study applies a qualitative and analytical research design aimed at examining the increase in the VAT registration threshold as a tax policy instrument for supporting small business development in Uzbekistan. The research focuses on the reform measures introduced under Presidential Decree No. UP–100 of May 26, 2026, which provides for raising the threshold for the transition of small businesses to the general tax regime from UZS 1 billion to UZS 5 billion starting from June 1, 2026. The reform is analyzed in the context of reducing compliance costs, preventing artificial business fragmentation, improving VAT administration, and creating more favorable conditions for formal business growth [1].

The methodological basis of the study is formed by a systematic, institutional, comparative, and statistical-analytical approach. The systematic approach is used



because the taxation of small businesses is considered not as an isolated fiscal measure, but as part of a broader socio-economic system that includes employment, household income, entrepreneurial activity, competition, tax discipline, and budget revenues. The institutional approach allows the study to assess the role of the state, tax authorities, legal norms, and digital tax administration in shaping the business environment. The comparative approach is used to compare Uzbekistan's VAT threshold reform with international practices of VAT registration thresholds and simplified tax regimes for small businesses.

Table 3. Research methods and their application in the study

Research method	Application in the article
Analysis and synthesis	Used to examine the content of tax reforms, identify their impact on small businesses, and summarize the main findings.
Systematic analysis	Allows the increase in the VAT threshold to be considered as part of the broader system of entrepreneurship support, tax administration, and budget policy.
Comparative analysis	Used to compare Uzbekistan's tax policy with international practices in regulating small businesses and applying VAT registration thresholds.
Institutional analysis	Applied to assess the role of tax legislation, tax authorities, and digital control mechanisms in the development of small businesses.
Statistical analysis	Used to examine the dynamics and structure of small business entities, employment, turnover, tax revenues, and other relevant indicators.
Logical method	Used to justify the cause-and-effect relationship between raising the VAT threshold and reducing the administrative burden on businesses.
Generalization	Applied when formulating conclusions and policy recommendations for improving tax support for small businesses.

The empirical and informational base of the study consists of official legal documents, statistical data, policy reports, and academic literature. The main source is Presidential Decree No. UP-100 of May 26, 2026, as well as official information published by the President of the Republic of Uzbekistan. According to the official source, the reform is expected to reduce incentives for underreporting turnover, non-issuance of receipts, and artificial business fragmentation. It is also expected to expand opportunities for legal business growth for more than 600,000 small enterprises and generate at least UZS 2 trillion in additional annual budget revenues through increased transparency of the tax base.



Table 4. Information sources used in the study

Source of information	Purpose of use in the study
Tax legislation of the Republic of Uzbekistan	To analyze the legal framework for small business taxation and the transition to the general tax regime.
Presidential Decree No. UP–100 of May 26, 2026	To examine the content, objectives, and expected effects of the VAT threshold reform.
Official information of the President of Uzbekistan	To identify the policy rationale behind raising the threshold from UZS 1 billion to UZS 5 billion.
Data of the Tax Committee	To assess the structure of taxpayers, VAT administration issues, and tax compliance trends.
Data of the Statistics Agency	To analyze the role of small business in employment, income generation, and sectoral development.
Academic publications by domestic and foreign authors	To review theoretical and empirical approaches to small business taxation, VAT compliance, and tax simplification.
International experience	To compare Uzbekistan’s reform with VAT registration threshold practices in other countries.

The study also uses elements of comparative legal analysis. This method is necessary because VAT registration thresholds are widely used in many countries as an instrument for reducing the compliance burden on small enterprises. The experience of the European Union, the United Kingdom, Singapore, Georgia, Kazakhstan, and other economies is considered in order to identify common approaches and possible lessons for Uzbekistan. Particular attention is paid to how different countries balance two objectives: protecting small businesses from excessive administrative costs and maintaining a sufficiently broad VAT base.

The research follows a step-by-step analytical logic. First, the role of small business in Uzbekistan’s economy is examined through employment, income, and sectoral indicators. Second, the previous threshold of UZS 1 billion is analyzed as a potential constraint on business growth. Third, the reform raising the threshold to UZS 5 billion is assessed in terms of its expected impact on administrative costs, business behavior, tax compliance, and formalization. Fourth, foreign experience is used to compare the logic of VAT threshold policy. Finally, the study develops conclusions and policy recommendations for improving the tax environment for small businesses.



Table 5. Stages of the research process

Stage	Content
1. Problem identification	The study identifies the problem of premature transition of small businesses to the general tax regime and VAT obligations.
2. Theoretical justification	The role of small business in employment, income growth, competition, and tax base expansion is explained.
3. Analysis of the reform	The increase in the threshold from UZS 1 billion to UZS 5 billion is examined as a tax policy measure.
4. Assessment of expected effects	The potential impact on compliance costs, business formalization, fragmentation risks, and entrepreneurial growth is analyzed.
5. Comparative analysis	International practices of VAT registration thresholds and simplified tax regimes are reviewed.
6. Policy interpretation	The reform is interpreted as an institutional instrument for improving the business environment.
7. Generalization of findings	Conclusions and recommendations are formulated for tax policy and small business support.

The main analytical indicators used in the study include the number of small business entities, the share of small business in employment, the contribution of small business to household income, the VAT registration threshold, tax compliance costs, administrative burden, risks of turnover underreporting, and expected changes in tax base transparency. These indicators make it possible to evaluate the reform not only from a fiscal point of view, but also from a broader socio-economic perspective.

Table 6. Main analytical indicators

Group of indicators	Specific indicators
Small business development indicators	Number of small business entities, employment in small business, sectoral contribution, business turnover.
Tax indicators	VAT registration threshold, tax revenues, VAT compliance obligations, tax burden.
Administrative indicators	Reporting requirements, accounting costs, electronic invoices, interaction with tax authorities.
Behavioral indicators	Turnover underreporting, non-issuance of receipts, artificial business fragmentation.
Socio-economic indicators	Employment, household income, competition, formalization of entrepreneurial activity.

The expected result of the study is to provide a scientific justification that raising the VAT registration threshold is not merely a tax relief measure, but also an important



instrument for creating a more favorable entrepreneurial environment. From a policy perspective, the reform may reduce administrative and financial costs for small businesses, weaken incentives for artificial business fragmentation, encourage legal turnover growth, and contribute to the long-term expansion of the tax base.

Thus, the methodology of the study combines systematic, institutional, comparative, and statistical-analytical approaches. This methodological framework makes it possible to comprehensively assess the increase in the VAT registration threshold as a tool for reducing compliance costs, stimulating entrepreneurial activity, improving tax administration, and supporting the sustainable development of small businesses in Uzbekistan. The section is based on the methodological framework and prior literature review materials prepared for this article.

Results and Discussion

Presidential Decree No. UP–100 of May 26, 2026 represents an important stage in the further simplification of the tax regime for small businesses in Uzbekistan. The key element of the reform is the planned increase in the threshold for the transition of small businesses to the general tax regime from UZS 1 billion to UZS 5 billion starting from June 1, 2026. This measure is aimed at creating more favorable tax conditions for small business entities, reducing the administrative burden, improving VAT administration, and preventing artificial business fragmentation. The reform also reflects the fact that the previous threshold, established in 2019, no longer corresponded to current economic conditions because price growth increased the nominal turnover of many small businesses even when their real scale of activity had not significantly expanded.

From an economic point of view, the previous threshold of UZS 1 billion created a “threshold effect” for entrepreneurs. As small businesses approached this limit, they faced a choice: either continue expanding and move to a more complex tax regime, or artificially restrict turnover in order to remain under the simplified regime. This situation could generate negative behavioral incentives, including underreporting of turnover, non-issuance of receipts, and splitting one business into several formally separate entities. Therefore, the increase of the threshold to UZS 5 billion should be interpreted not only as a tax relief measure, but also as a regulatory instrument aimed at changing the behavior of small business entities and supporting their formal growth. Table 7.



Main problems of the previous VAT threshold in Uzbekistan

Problem of the previous threshold	Economic manifestation	Possible consequence
Low threshold for transition to the general tax regime	Entrepreneurs could quickly reach the turnover limit	Restriction of small business growth
Complexity of VAT transition	More complex accounting, electronic invoices, input and output VAT calculation	Increase in accounting and administrative costs
Risk of business fragmentation	Business activities could be divided into several entities	Distortion of the real tax base
Turnover underreporting	Some entrepreneurs could avoid declaring the full amount of sales	Reduced transparency of business activity
Non-issuance of receipts	Part of turnover could remain outside official tax records	Budget losses and weaker tax discipline

The comparative analysis shows that Uzbekistan's reform is consistent with international trends in small business taxation. In many countries, the VAT threshold is not only a technical tax parameter, but also a policy tool for balancing two objectives: protecting small firms from excessive administrative costs and maintaining a sufficiently broad and transparent tax base. Therefore, the increase of the threshold from UZS 1 billion to UZS 5 billion should be assessed within a broader institutional framework of entrepreneurship support, tax simplification, and voluntary tax compliance.

A key result of the reform is the expected reduction of compliance costs. VAT administration requires more complex accounting, the issuance of electronic invoices, monitoring of input and output VAT, timely reporting, and interaction with digital tax administration systems. For large enterprises, these requirements are a standard part of financial management. However, for small businesses, especially in trade, catering, and services, such obligations may become a serious financial and organizational burden. By raising the threshold, Uzbekistan gives small businesses more time to strengthen accounting capacity, improve financial management, and prepare for a future transition to the general tax regime.



Table 8. Impact of the reform on reducing VAT transition costs

Type of cost	Content of the cost	How the higher threshold reduces the problem
Accounting costs	Need to hire an accountant or tax consultant	Small firms can remain longer under a simpler tax regime
Administrative costs	Preparation of reports, electronic invoices, VAT credit control	Fewer small entities face premature VAT obligations
Financial costs	Possible increase in tax burden and changes in pricing policy	Entrepreneurs receive more time for financial adaptation
Organizational costs	Need to introduce accounting software and digital procedures	Transition becomes more gradual and prepared
Error risks	Mistakes in VAT calculation, reporting, and documentation	Lower probability of penalties and tax disputes

The reform may also contribute to the formalization of business turnover. When the tax threshold is too low, entrepreneurs may have an incentive to limit sales or operate partially outside the official accounting system. A higher threshold reduces the perceived penalty for business growth and encourages entrepreneurs to declare turnover more transparently. In this sense, raising the threshold can support the long-term expansion of the tax base, even if it may reduce the immediate number of small businesses required to apply the general tax regime.

Another important result is the reduction of incentives for artificial business fragmentation. Under the previous threshold, some firms could divide their operations into several smaller entities in order to remain below the UZS 1 billion limit. Such behavior distorts competition, complicates tax administration, and weakens the reliability of official business data. Raising the threshold to UZS 5 billion reduces the economic motivation for such behavior and allows businesses to operate in a more transparent and consolidated form.

Table 9. Expected effects of raising the VAT threshold in Uzbekistan

Direction of impact	Expected effect	Economic interpretation
Administrative burden	Reduction in accounting and reporting pressure	Small firms can grow without immediate exposure to complex VAT procedures
Business growth	Expansion of legal turnover	Entrepreneurs have less reason to restrict sales artificially
Tax discipline	Greater transparency of turnover	Lower incentives for hidden sales and non-issuance of receipts
Business fragmentation	Reduction in artificial splitting	More accurate reflection of real business scale
Tax base	Long-term expansion	Formal growth of businesses may strengthen future budget revenues
Entrepreneurial confidence	Greater trust in tax policy	Predictable and realistic rules improve the business environment



The reform is also important in relation to the proposed simplified VAT procedure for trade, catering, and service sectors. These areas contain a large number of small firms and are characterized by frequent daily transactions, active interaction with consumers, online cash registers, electronic payments, and a high need for simple tax administration. A simplified VAT mechanism can soften the transition for businesses that voluntarily choose or are eventually required to enter the VAT system. Therefore, the higher threshold and simplified VAT procedure should be viewed as complementary instruments: the first creates more space for growth, while the second reduces the burden of transition to VAT.

Table 10. Simplified VAT procedure for selected sectors

Sector	Potential problem	Role of simplified VAT
Trade	Large number of transactions and complex inventory turnover	Simplifies calculation of tax obligations
Catering	High daily sales volume and variable costs	Reduces pressure on small cafés and food service businesses
Services	Diverse operations and documentation difficulties	Makes tax administration more accessible
B2C small businesses	Sales mainly to final consumers	Reduces accounting and tax barriers

From a policy perspective, the Uzbek reform corresponds to the logic observed in international practice: small businesses should not be forced into complex VAT administration before they reach a level of organizational maturity that allows them to comply with such obligations efficiently. The EU SME scheme, the UK's threshold increase, and Singapore's high GST threshold all demonstrate that tax systems use VAT thresholds to prevent excessive compliance costs for small firms. Uzbekistan's increase to UZS 5 billion follows this same policy rationale, while also addressing domestic problems such as turnover underreporting, receipt non-issuance, and business fragmentation.

At the same time, international practice also shows that a higher VAT threshold should be supported by effective digital monitoring and risk-based tax administration. If the threshold is raised without proper control mechanisms, some businesses may continue to use artificial schemes to remain below the limit. Therefore, Uzbekistan should combine the reform with online cash register data, electronic invoices, cashless



payments, taxpayer education, and advisory support for businesses approaching the threshold.

Overall, the results of the analysis show that the increase in the VAT transition threshold from UZS 1 billion to UZS 5 billion is a significant tax policy measure aimed at improving the entrepreneurial environment in Uzbekistan. It reduces administrative and financial pressure on small businesses, supports legal turnover growth, weakens incentives for business fragmentation, and brings national tax policy closer to international practices of VAT simplification for small enterprises. In the long run, this reform may contribute not only to the development of small business, but also to the expansion of the tax base through greater formalization and improved taxpayer compliance.

Conclusion and Recommendations

The conducted analysis shows that raising the threshold for the transition of small businesses to the general tax regime from UZS 1 billion to UZS 5 billion, as provided by Presidential Decree No. UP-100 of May 26, 2026, is an important measure of state support for small business and private entrepreneurship in Uzbekistan. This reform is aimed not only at reducing the tax and administrative burden, but also at creating a more favorable entrepreneurial environment, stimulating the legal growth of business turnover, preventing artificial business fragmentation, and expanding the tax base in the long run.

From a scientific point of view, this measure confirms the need for a flexible approach to the tax regulation of small businesses. The tax system should take into account not only the fiscal interests of the state, but also the real organizational, financial, and human resource capacities of business entities. If tax obligations become excessively complex for small businesses, this may encourage turnover underreporting, non-issuance of receipts, business fragmentation, or the movement of part of business activity into the informal sector. In contrast, clear, predictable, and feasible tax rules contribute to voluntary tax compliance.

From a practical point of view, raising the threshold to UZS 5 billion creates conditions under which entrepreneurs can expand their businesses without fearing a premature transition to the more complex VAT regime. Under the previous conditions, reaching a turnover of UZS 1 billion could be perceived by entrepreneurs not as an indicator of business success, but as the beginning of more complicated tax



obligations. The new threshold changes this logic: business growth becomes safer, more economically reasonable, and institutionally supported.

Table 11. Main Results of the Analysis of Raising the Threshold for Transition to the General Tax Regime from UZS 1 Billion to UZS 5 Billion

No.	Research result	Justification
1	The higher threshold reduces the administrative burden on small businesses	Entrepreneurs are able to remain under a simpler tax regime for a longer period without a premature transition to VAT
2	The measure stimulates the legal growth of turnover	A higher threshold reduces incentives to hide revenue or artificially limit sales
3	The risk of business fragmentation decreases	The higher limit makes the practice of splitting one business into several entities less attractive
4	Conditions are created for employment growth	The growth of small businesses contributes to job creation, especially in trade, services, catering, and family entrepreneurship
5	Entrepreneurs' trust in the tax system is strengthened	The state demonstrates its willingness to adapt tax rules to current economic realities
6	A basis is formed for long-term growth in tax revenues	Although VAT revenues may change in the short term, the formalization of turnover expands the tax base in the long run
7	The risk of tax errors among small businesses decreases	Entrepreneurs that are not yet ready for complex VAT accounting receive more time for organizational and financial adaptation
8	The business environment improves	A more flexible tax regime contributes to private initiative, competition, and business activity

International experience also confirms that VAT registration thresholds are widely used as an instrument to reduce tax compliance costs for small businesses. In the European Union, the United Kingdom, Singapore, and other countries, special regimes and registration thresholds are applied to prevent small enterprises from facing excessive tax administration requirements at early stages of development. This is particularly relevant for Uzbekistan, where small business plays a significant role in employment, household income formation, competition development, and tax base expansion.

At the same time, raising the threshold for transition to the general tax regime should be accompanied by additional institutional measures. The increase in the threshold itself creates more favorable conditions for business; however, to achieve sustainable results, it is necessary to ensure transparency of turnover, digital monitoring, advisory support for entrepreneurs, and stability of tax rules.



Recommendations

Based on the results of the study, the following recommendations can be proposed.

1. Strengthen advisory support for small businesses during the transition to VAT

It is necessary to create a permanent advisory support system for entrepreneurs approaching the threshold for transition to the general tax regime. Such support may include guidance on VAT accounting, electronic invoicing, calculation of input and output VAT, preparation of tax reports, and the use of digital tax services. This would reduce the number of tax errors and improve the readiness of small businesses for transition to a more complex tax regime.

2. Introduce an adaptation period for entrepreneurs transitioning to VAT for the first time

For small business entities that transition to the general tax regime for the first time, it would be appropriate to introduce a soft adaptation period. During this period, emphasis should be placed not on penalties, but on warnings, training, and methodological assistance. This approach would allow entrepreneurs to adapt to new requirements without a sharp increase in administrative and financial risks.

3. Develop risk-based tax control

The increase of the threshold to UZS 5 billion should be accompanied by the development of risk-based tax control. Tax authorities can use digital data from online cash registers, electronic invoices, banking transactions, and tax reports to identify real risks of business fragmentation, turnover underreporting, and non-issuance of receipts. At the same time, compliant entrepreneurs should not face excessive tax control.

4. Improve the digital administration of VAT

Digital tax administration tools should be made as convenient as possible for small businesses. It is necessary to simplify the interfaces of electronic services, automate the calculation of tax liabilities, develop guidance prompts in taxpayers' personal accounts, and introduce training modules for entrepreneurs. This would reduce technical errors and increase voluntary compliance with tax requirements.



5. Ensure stability and predictability of tax policy

For small businesses, not only the level of tax burden matters, but also the stability of tax rules. Frequent changes in tax regimes may create uncertainty and reduce entrepreneurial investment activity. Therefore, further changes in small business taxation should be introduced gradually, with prior explanation, impact assessment, and consideration of the views of the business community.

6. Conduct regular assessment of the impact of the new threshold on business and the budget

After the introduction of the new threshold, it is advisable to conduct an annual assessment of its impact on the number of small business entities, declared turnover, tax revenues, employment, cases of business fragmentation, and tax discipline. Such monitoring would make it possible to determine whether the higher threshold actually contributes to turnover formalization and business development.

7. Use international experience in further improving the tax regime

When developing further support measures for small businesses, it is advisable to take into account the experience of countries that apply special regimes for small enterprises, VAT registration thresholds, simplified reporting, and digital tax support services. However, international experience should be adapted to Uzbekistan's national conditions, the level of entrepreneurship development, the structure of the economy, and the capacity of tax administration.

Final Conclusion. Thus, raising the threshold for transition to the general tax regime from UZS 1 billion to UZS 5 billion is a timely and economically justified measure of support for small businesses in Uzbekistan. The main effect of this reform is that entrepreneurs receive the opportunity to develop more naturally without limiting their turnover because of fear of a complex tax regime. In the long run, this may contribute to employment growth, higher household income, stronger competition, formalization of entrepreneurial activity, and expansion of the state tax base.

Therefore, Presidential Decree No. UP–100 of May 26, 2026 can be considered an important stage in forming a more flexible, fair, and growth-oriented tax policy for small business and private entrepreneurship in Uzbekistan.



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