



# The economic essence of indirect taxes in Uzbekistan and ways to improve the methodology for their forecasting.

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## ABSTRACT

The article examines the role of indirect taxes in the tax system of the Republic of Uzbekistan, reforming the tax system, further improving and increasing the efficiency of the tax mechanism, as well as generally recognized international norms and standards in the field of taxation, and draws conclusions from advanced international experiences.. It defines the main directions of improvement of control mechanisms, the main focus is on policy reforms, technological integration and capacity building in tax authorities.

## Keywords:

Tax burden, tax legislation, mechanism of indirect taxes, tax benefits, indirect taxation, direct taxation, tax revenue, value added tax, import, customs duty, excise tax, customs payments, taxes and taxation, excise products, practice of taxation of excise goods.

**Introduction.** Indirect taxes play an important role in the formation of state budget revenues and indirectly affect economic processes through the price mechanism. In Uzbekistan, indirect taxes, such as value added tax, excise tax and customs duties, are used as a means of ensuring fiscal stability, regulating the domestic market and influencing the composition of consumption. The economic essence of these taxes is explained by the fact that they shift the tax burden to the final consumer, which directly affects the macroeconomic balance, inflation processes and the well-being of the population. Legal payers of indirect taxes are those who export products (works, services). However, the real payers of the tax burden to the budget are the consumers of goods (works, services), that is, all indirect taxes are directly borne by consumers. These taxes are imposed in addition to the cost of goods (works, services). The

positive side of indirect taxes is that they limit the export of goods produced in the republic, help distribute goods within the country, and somewhat curb the rate of inflation (excess money supply in circulation).

**Analysis of literature on the topic.** In a number of countries at different stages of economic development, it is recognized as an effective form of indirect taxation.

According to Q.A.Yahyoev, "Taxes are divided into indirect and indirect taxes, or direct and indirect, depending on their economic nature. Direct taxes are paid directly by the taxpayers themselves, that is, both the legal and actual payers of the tax are the same person. There is no case of shifting the burden of direct taxes to others. Indirect taxes include all income taxes and all property taxes. Legal payers of indirect taxes are those who send products (works, services) (providers of services). But the real

payers of the tax burden to the budget are the consumers of goods (works, services), that is, the real taxpayers are hidden here. [1].

A.V. Vakhobov, A. Juraev, referring to tax control, stated that "Prevention and elimination of tax violations requires constant improvement of existing measures and methods. The growth of tax crimes has a negative impact on meeting the state's needs for financial resources, and as a result, the state is forced to seek tax-free revenues. This, in turn, leads to an increase in the state's internal and external debts." [2].

M.M. Shadurskaya, referring to indirect taxes, defined "Indirect taxes are taxes in the form of additional prices imposed on the tariff of goods and services." [3]

D.E. Giles, L.M. Tedds defined smuggling as all legal or illegal, market or non-market operations carried out with the aim of evading tax payments from the tax authority. Evasion of indirect taxes is often associated with smuggling, especially crimes against customs tariffs. Smuggling crimes affect monetary and non-monetary revenues, such as embargoes, product quality and quotas [4].

O. T. Hai and L. M. See conducted a study on non-compliance due to the difficulties encountered in measuring the participation of companies and individuals, whether intentionally or unintentionally, in tax payments. Therefore, the main focus of this study is on the phenomenon and factors of non-compliance with excise taxes among importers as taxpayers [5].

O.R. Tegetaeva believes that "although excise tax is included in the structure of indirect taxes, its main importance today is that it is a criterion for assessing the state and prospects of social consumption of the population" [6].

M.A. Troyanskaya and Y.O. Nizamieva note that "creating opportunities for using excise tax as an effective form of indirect taxation as a means of regulating consumption and stimulating production, ensuring their sustainability is of great importance" [7].

However, it is worth noting that the topic of tax administration has been studied very little in scientific research conducted in our country.

**Research methodology** This article studies the scientific works of foreign and domestic economists devoted to the types of indirect

taxes, the role of indirect taxes in the tax system of the Republic of Uzbekistan, tax administration, and the specific features of indirect taxes. The methods of grouping statistical data, comparative analysis, and sample observation were used in the analysis of the data of the Tax Committee. The research methodology used the methods of comparative analysis of literature, logical and structural analysis, grouping and comparative comparison, economic-statistical analysis and comparative analysis, and sample observation.

### **Analysis and results.**

In recent years, Uzbekistan has been implementing systematic measures to reform the tax system, in particular, to simplify and improve the administration of indirect taxes. However, the digitalization of the economy, rapid changes in the consumer market, and the strengthening of external economic factors further increase the need for accurate forecasting of indirect tax revenues. Since current forecasting approaches are often based on historical data, they cannot fully reflect sharp changes in the economic situation.

In this regard, this article aims to theoretically analyze the economic nature of indirect taxes in Uzbekistan, assess their role in budget revenues, and substantiate ways to improve the methodology for forecasting indirect taxes. It is expected that the results of the study will serve to increase the accuracy of forecasting in tax policy planning and enhance the effectiveness of fiscal decisions.

Tax reforms, while stimulating entrepreneurship, can also lead to positive changes in other sectors of the economy. For example, as a result of increasing the efficiency of the tax system, budget revenues increase, which allows the expansion of social programs implemented by the state. At the same time, by reducing the tax burden, consumers' incomes can increase and they can spend more, which will help increase domestic consumption. Due to the close relationship between different sectors of the economy, reforms in the tax system play an important role in ensuring overall economic stability in the long term. According to the experience of many countries, tax reforms have a significant impact on the business

environment and investment flows. In particular, international financial institutions are also calling for the use of tax reforms to support entrepreneurship and economic growth. Tax simplification and digitalization processes optimize public administration and reduce corruption. The widespread introduction of electronic systems makes it possible to make the activities of tax authorities more transparent and simplify the process of fulfilling taxpayers' obligations. In general, by improving the tax system, countries can stimulate economic growth, improve the business environment, and increase state budget revenues. Tax reforms have a positive impact not only on the economic, but also on the social spheres. Therefore, tax policy continues to be improved in accordance with modern requirements and economic conditions, which is of decisive importance in ensuring economic stability and development.

The economic essence of indirect taxes.

Indirect taxes play an important role in the formation of state budget revenues, they are collected as part of the price of goods, works and services. In Uzbekistan, indirect taxes mainly include value added tax (VAT), excise tax and customs duties. The economic essence of these taxes is that the tax burden is not directly borne by the taxpayer, but is shifted to the final consumer.

Indirect taxes are an effective instrument for ensuring macroeconomic stability, regulating the consumption structure and implementing state fiscal policy. In particular, VAT serves to reduce the hidden economy by being collected along the value added chain in the economy. Excise taxes, on the other hand, are a means of limiting the consumption of socially important goods and reducing externalities associated with health.

The current state of forecasting indirect taxes in Uzbekistan.

Forecasting indirect tax revenues is important in determining the parameters of the state budget. In practice, the forecasting process is based mainly on the following factors:

GDP volume and its structural growth;  
Dynamics of consumer spending;  
Inflation rate;

Import and export volume;

Tax rates and tax benefits.

Currently, forecasting is based more on statistical and extrapolation methods, and the level of digitalization in the real sector and tax administration is not sufficiently taken into account. As a result, in some cases, discrepancies arise between the forecast of indirect tax revenues and actual implementation.

Ways to improve the methodology for forecasting indirect taxes.

To make the forecast of indirect taxes more accurate and reliable, it is advisable to improve the following methodological areas:

Introduction of macroeconomic models

When forecasting VAT and excise revenues, it is necessary to use econometric models that take into account aggregate demand, consumption and investment factors.

Use of digital databases.

It is necessary to expand the possibilities of real-time forecasting based on data from electronic invoices, online cash registers and customs information systems.

Forecasting that takes into account tax risks.

The introduction of risk models that assess the behavior of taxpayers, the share of the hidden economy and the level of tax discipline will increase the accuracy of the forecast.

The use of scenario forecasting methods.

Developing forecasts based on several scenarios for inflation, import volumes or changes in tax policy will reduce fiscal risks.

The use of elements of artificial intelligence.

It will allow to identify seasonality and hidden trends in tax revenues by analyzing large volumes of data.

Our proposal: The forecast of budget revenues from value-added tax is calculated using the following formula:

$$F_{vat} = \sum_{i=1}^n [Tb]_{(i-cur)} * [rTb]_{i} * e^{Tr} \pm [Extrev]_{i} \pm [ChP]_{i} + [Extshadec]_{i}$$

Fvat - forecast of value-added tax (on domestic goods and services);

i, n - economic sectors;

Tbi-cur - value added in the current period in the relevant economic sector;

rTbi - estimated growth coefficient in the relevant economic sector;

eTr - effective tax rate in the economic sector;

Extrevi - additional income or losses expected in the relevant economic sectors as a result of changes in tax policy;

ChPi - debt and overpayments expected to be paid or returned in the future in the relevant economic sectors;

Extshadeci - additional income expected to be received from reducing the hidden economy in the relevant economic sectors.

Our proposal: The forecast of budget revenues from excise tax is calculated using the following formula:

$$F_{exc} = \sum_{i=1}^n \left[ \text{Tb} \right]_{i-cur} * \left[ \text{rTb} \right]_{i} * eTr \pm \left[ \text{Extrev} \right]_{i} \pm \left[ \text{ChP} \right]_{i} + \left[ \text{Extshadec} \right]_{i}$$

Fexc - forecast of excise tax (on domestic goods);

i, n - excisable goods;

Tbi-cur - tax base for the relevant excisable goods in the current period;

rTbi - calculated growth coefficient for the relevant excisable goods;

eTr - effective tax rate for the relevant excisable goods;

Extrevi - additional income or losses expected for the relevant excisable goods as a result of changes in tax policy;

ChPi - debts and overpayments expected to be incurred or refunded in the future for the relevant excisable goods;

Extshadeci - additional income expected to be incurred to reduce the hidden economy for the relevant excisable goods.

Our proposal: The forecast of budget revenues from customs duties is calculated using the following formula:

$$F_{cus} = \{ Im * cadj * ctax * rvat + Im * cadj * ctax * re + Im * cadj * ctax * rc + Im * cadj * ctax * rf \} * er \pm Extrev \pm ChP + Extshadec$$

Fcus - forecast of customs duties;

Im - forecast of import volumes;

cadj - average formed ratio of the customs value to the statistical value;

ctax - average formed share of imports subject to payment;

rvat - effective rate of value added tax;

re - effective rate of excise tax;

rc - effective rate of customs duties;

rf - effective rate of customs fees;

er - forecast of the exchange rate for the next year;

Extrev - additional income or losses expected as a result of changes in customs policy;

ChP - debts and overpayments expected to be written off or refunded in the future;

Extshadec - additional income expected to be generated from reducing the shadow economy.

Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022

“On the Development Strategy of New Uzbekistan for 2022-2026”, Resolution of the President of the Republic of Uzbekistan No. PQ-20 dated May 30, 2024

“On measures to organize an open dialogue of the President of the Republic of Uzbekistan with entrepreneurs”, Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 489 dated August 14, 2020

“On measures to improve tax administration in relation to value-added tax and foreign legal entities”, Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 153 dated April 4, 2022

“On amendments to certain resolutions of the Government of the Republic of Uzbekistan” and this serves to a certain extent in the implementation of the tasks set out in other regulatory documents related to the sector.

Value Added Tax (VAT) is considered a major source of revenue for governments worldwide as a key component of modern tax systems and at the same time influences economic decisions.

Its introduction and development in different countries is influenced by many socio-economic factors, political reasons and international trends. In the case of Uzbekistan, the introduction of VAT is an important stage in the financial history of the country, which is closely related to the general direction of economic development. Our study aims to study the emergence of VAT in Uzbekistan, its implementation and problems, as well as subsequent reforms. By analyzing the process of introducing VAT in the conditions of Uzbekistan, this study aims to reveal its impact on the economy, its effectiveness in generating revenues and its importance in creating tax and budget policy.

Indirect taxes have a long history. During the Timurid period, direct taxes were considered the main taxes, including land tax (khiraj), personal tax (juzya), the obligation to deliver livestock (ulaq) and some extraordinary taxes (ovorizot). During the Timurid period, the "tamga" tax was widespread as an indirect tax, which was collected mainly from artisans and merchants. Historically, excise tax was considered a tax on production, not consumption, that is, it was collected from manufacturers at the place of production. The fact that excise tax was set at a fixed amount per unit of product or as a percentage of the value of the goods further complements the administrative advantages of the tax. In addition, excise taxes, especially when calculated per unit of administrative costs, can bring high revenues if the group of excisable goods is carefully thought out and includes a limited group of goods.

The main difference between excise taxes and other consumption taxes and mandatory payments is: first, the specificity of their scope - application to the consumption of a specific good (service) or group of goods (services), and second, they are not equivalent. The first feature distinguishes excise taxes from consumption taxes with a broad tax base - value added tax or sales tax, and the second feature distinguishes them from various fees and charges paid for the use of goods and services by the public.

Based on the functions they perform, excise taxes can be divided into three main groups: the first group includes traditional excise taxes (on alcoholic beverages and tobacco products). The collection of excise taxes in this group mainly has two goals: to limit the consumption of socially harmful products and to achieve fiscal objectives; the second group includes excise taxes on oil and oil products; the third group includes excise taxes on luxury goods, which usually do not have a clearly defined fiscal goal. Excise taxes in this group often perform a redistributive function, since the consumers of these products are the wealthy segment of the population. In addition, it is worth mentioning other goals, for example, by imposing an excise tax on capital-intensive manufactured goods, such as luxury goods (cars, expensive

electronics, etc.) in some countries, to stimulate labor-intensive industries, by introducing an excise tax in addition to customs duties on imported goods, to stimulate domestic producers, or to improve the foreign trade balance. A transition economy can achieve positive results through a rationally established excise taxation system, since excise taxes can generate a significant share of tax revenues in the early stages of the transition period.

Since excise tax is an indirect tax, its economic essence is characterized by financial relations based on objective mandatory payments that arise between the state and legal entities. Therefore, excise tax should be considered as a specific fiscal economic category.

Excise tax also occupies an important place in the general tax policy of the state in developed foreign countries. Excise tax is a type of indirect tax that is directly imposed on the price of products and services of an enterprise or in the form of a surcharge. If the economic essence of excise tax is manifested in satisfying the interests of the national economy by ensuring budget revenue and attracting more funds, its social essence is expressed in increasing the solvency of the population, that is, the main consumers. This is reflected in the reduction of excise tax objects (excise goods), a decrease in tax rates, and an increase in the solvency of the population.

Excise tax, by its nature, is an indirect tax that is included in the price of goods and paid by the final consumer. Its socio-economic essence is expressed and improved only at the level of distribution. Excise tax was first introduced in 1992 in accordance with the Law of the Republic of Uzbekistan "On Taxes Collected from Enterprises, Associations and Organizations" adopted on February 15, 1991, taking into account the changes and additions subsequently introduced by the laws of the Republic of Uzbekistan and the transition of the republic's economy to market relations. According to the Tax Code of the Republic of Uzbekistan, excise tax is a part of net income collected in the form of an indirect tax, taken into account in the price and value added tax base. Excise tax has certain similarities with value added tax, but is

distinguished by its specificity, the degree of connection with specific goods.

Excise tax rates are set as a percentage of the value of a good or service (ad valorem), in absolute terms (fixed) in relation to a unit of measurement expressed in kind, as well as at a mixed rate consisting of ad valorem and fixed rates. The tax base for excisable goods, for which excise tax rates are set in absolute terms (fixed), is determined based on the volume of excisable goods expressed in kind. For manufactured excisable goods, for which excise tax rates are set in percentages (ad valorem), the tax base is the value of the sold excisable goods, excluding excise tax and value added tax. For excisable goods provided for business purposes, as accrued dividends, free of charge or in exchange for other goods (works, services), as well as in the case of sale at prices below the cost of goods, the tax base is the value calculated on the basis of the price determined by the taxpayer at the time of transfer of the goods, which is not less than their actual cost.

#### **Conclusions and recommendations.**

Introduce a single model based on the integration of macroeconomic factors (GDP, consumption volume, inflation, import dynamics) as well as microdata (electronic invoices, online cash registers, customs declarations) in forecasting indirect tax revenues (VAT, excise and customs duties).

Gradually introduce artificial intelligence and machine learning algorithms (time series forecasting, regression, random forest) along with multi-factor econometric models to increase forecast accuracy.

Strengthen the sectoral approach to forecasting VAT revenues, i.e., the formation of separate forecast indicators for trade, industry, services and import operations.

Introduce a scenario-based forecasting mechanism in tax forecasts that pre-evaluates the impact of changes in tax policy (rates, benefits, administrative procedures).

Taking into account the level of digitalization, form short-term forecasts based on real-time data and harmonize them with medium-term forecasts.

Strengthen data exchange and methodological harmonization between the Tax Committee,

Customs authorities and the Statistical Agency in developing indirect tax forecasts.

Introduce a system of indicators and a monitoring mechanism for regular assessment of forecast errors in order to ensure the transparency of the forecasting methodology.

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