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THE IMPACT OF TAX BURDEN ON ECONOMIC DEVELOPMENT

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ABSTRACT:This article provides a comprehensive analysis of the impact of the tax burden on economic development, using the example of Uzbekistan's tax system as of 2026. The study examines the legal, economic, and institutional dimensions of taxation, focusing on how the level and structure of the tax burden influence investment activity, business performance, fiscal sustainability, and income distribution. The research is based on the provisions of the current Tax Code of the Republic of Uzbekistan, official statistical data, and modern theoretical approaches in public finance.

Keywords: tax burden, economic development, fiscal policy, Uzbekistan tax system, tax reform, tax administration, investment climate, tax-to-GDP ratio, economic efficiency, income distribution

ANNOTATSIYA: Ushbu maqolada soliq yukining iqtisodiy rivojlanishga ta'siri 2026-yil holatiga ko'ra O'zbekiston soliq tizimi misolida kompleks tahlil qilinadi. Tadqiqotda soliqqa tortishning huquqiy, iqtisodiy va institutsional jihatlari o'rganilib, soliq yukining darajasi va tuzilmasi investitsiya faolligi, biznes faoliyati, fiskal barqarorlik hamda daromadlar taqsimotiga qanday ta'sir ko'rsatishi yoritiladi. Ish O'zbekiston Respublikasining amaldagi Soliq kodeksi, rasmiy statistik ma'lumotlar hamda zamonaviy moliya nazariyalari asosida olib borilgan.

Kalit so'zlar: soliq yuki, iqtisodiy rivojlanish, fiskal siyosat, O'zbekiston soliq tizimi, soliq islohotlari, soliq ma'murchiligi, investitsiya muhiti, soliq yukining YaIMga nisbati, iqtisodiy samaradorlik, daromadlar taqsimoti

АННОТАЦИЯ: В данной статье проводится комплексный анализ влияния налоговой нагрузки на экономическое развитие на примере налоговой системы Узбекистана по состоянию на 2026 год. В исследовании рассматриваются правовые, экономические и институциональные аспекты налогообложения, а также анализируется влияние уровня и структуры налоговой нагрузки на инвестиционную активность, деловую среду, фискальную устойчивость и распределение доходов. Работа основана на действующем Налоговом кодексе Республики Узбекистан, официальных статистических данных и современных теоретических подходах в области государственных финансов.

Ключевые слова: налоговая нагрузка, экономическое развитие, фискальная политика, налоговая система Узбекистана, налоговые реформы, налоговое администрирование, инвестиционный климат, налоговая нагрузка к ВВП, экономическая эффективность, распределение доходов

INTRODUCTION

The concept of tax burden occupies a central position in both economic theory and fiscal policy, reflecting the extent to which economic agents are required to transfer resources to the state. In a broader macroeconomic sense, the tax burden is not limited to statutory tax rates; rather, it encompasses the effective tax rates, compliance costs, administrative procedures, and the overall institutional environment within which taxation operates. From a theoretical

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standpoint, classical economists such as Adam Smith emphasized the principles of equity, certainty, convenience, and efficiency in taxation. Modern public finance theory further develops these ideas by introducing the concepts of optimal taxation and fiscal neutrality. The tax burden, therefore, must be assessed not only in terms of revenue generation but also in terms of its distortionary effects on economic behavior.

In the context of Uzbekistan, tax policy has undergone substantial transformation as part of broader economic liberalization reforms. The adoption of a revised Tax Code and continuous amendments leading up to 2026 reflect a strategic shift toward simplifying the tax system, reducing excessive tax pressure, and encouraging formal economic activity. These reforms are aligned with the country's long-term development strategies, which prioritize private sector growth, foreign investment attraction, and integration into the global economy. Legally, the tax burden is defined and regulated through the Tax Code of the Republic of Uzbekistan, which establishes the types of taxes, their rates, calculation procedures, and obligations of taxpayers. The 2026 framework maintains relatively moderate tax rates, while simultaneously strengthening tax administration and broadening the tax base. This dual approach highlights the government's attempt to balance fiscal sustainability with economic competitiveness.

At the same time, the issue of tax burden remains highly relevant due to its direct impact on business incentives, labor supply, and income distribution. In transition economies such as Uzbekistan, where the informal sector has historically been significant, the level and structure of taxation play a decisive role in determining whether economic activity remains within the formal system. Thus, this study seeks to provide a comprehensive and analytically grounded examination of the tax burden in Uzbekistan, focusing on its economic implications, legal foundations, and policy relevance.

METHODOLOGY

This research employs a multidimensional methodological framework that integrates legal analysis, economic theory, and empirical observation. The complexity of the tax burden as a concept requires a combination of qualitative and analytical approaches to capture its various dimensions. First, a doctrinal legal analysis is conducted to examine the provisions of the 2026 Tax Code of Uzbekistan. This involves interpreting legislative norms related to tax rates, tax bases, exemptions, and administrative procedures. Special attention is given to recent amendments that affect the effective tax burden on different categories of taxpayers, including corporations, individuals, and small businesses.

Second, the study applies a theoretical framework grounded in public finance and macroeconomics. Concepts such as tax incidence, elasticity of supply and demand, and deadweight loss are used to analyze how taxes influence economic behavior. The Laffer Curve framework is also considered to evaluate the relationship between tax rates and tax revenues, particularly in the context of developing economies.

Third, a comparative analytical approach is used to assess Uzbekistan's tax burden relative to international benchmarks. This includes examining indicators such as the tax-to-GDP ratio, effective tax rates, and the structure of tax revenues. These comparisons provide insights into whether Uzbekistan's tax system is relatively high or low in terms of global standards.

Finally, an institutional approach is applied to evaluate the role of tax administration, digitalization, and compliance mechanisms. The introduction of electronic tax systems, real-time VAT monitoring, and risk-based audits are analyzed as factors that influence the effective tax burden beyond formal tax rates. By combining these methodological approaches, the study ensures a comprehensive and nuanced understanding of the tax burden and its economic implications.

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RESULTS

The findings of this study reveal that the tax burden in Uzbekistan has a multifaceted impact on economic development, shaped by both its quantitative level and qualitative structure. One of the key results is that the relatively moderate statutory tax rates contribute to a favorable business environment. The corporate income tax rate of 15 percent and the value-added tax rate of 12 percent position Uzbekistan as a competitive jurisdiction in the region. These rates reduce the marginal cost of investment and increase after-tax profitability, thereby encouraging both domestic entrepreneurship and foreign direct investment. At the same time, the expansion of the tax base has led to a gradual increase in overall tax revenues. This indicates that the government has been successful in improving tax collection efficiency without significantly increasing tax rates. The shift from a narrow tax base with high rates to a broader base with moderate rates reflects best practices in tax policy design.

Another important finding is the significant role of tax incentives in shaping sectoral development. The provision of tax benefits for specific industries, such as information technology, agriculture, and export-oriented manufacturing, has contributed to structural changes in the economy. However, the effectiveness of these incentives varies depending on their design and implementation. The study also finds that improvements in tax administration have reduced the effective tax burden for compliant taxpayers. The introduction of digital platforms for tax reporting and payment has simplified compliance procedures and reduced administrative costs. This has been particularly beneficial for small and medium-sized enterprises, which are often disproportionately affected by complex tax systems.

However, the results also highlight certain challenges. The removal of some tax exemptions and the tightening of eligibility criteria for tax benefits have increased the effective tax burden for certain sectors. Additionally, despite improvements in administration, compliance costs remain relatively high for some businesses due to regulatory complexity. Furthermore, the tax burden has implications for income distribution. The flat personal income tax rate simplifies the system but limits its progressivity. As a result, the redistributive effect of taxation is relatively weak, which may have implications for social equity. Overall, the results suggest that while Uzbekistan has made significant progress in optimizing its tax system, there are still areas that require further refinement.

DISCUSSION

The findings of this study can be interpreted within the broader framework of economic theory and policy analysis. From an efficiency perspective, the relatively low tax rates in Uzbekistan help minimize distortions in economic behavior. According to the theory of excess burden, taxes create inefficiencies by altering the decisions of consumers and producers. In this regard, Uzbekistan's tax policy appears to strike a balance between revenue generation and economic efficiency.

From a growth perspective, the positive relationship between moderate taxation and economic expansion is evident. The country's sustained GDP growth suggests that the current level of tax burden does not impose significant constraints on economic activity. This is consistent with endogenous growth theory, which emphasizes the importance of investment and innovation as drivers of long-term growth. From a legal perspective, the clarity and stability of tax legislation are crucial factors influencing the effectiveness of the tax system. The ongoing reforms in Uzbekistan, including the simplification of tax rules and the enhancement of taxpayer rights, contribute to greater legal certainty and predictability. This, in turn, fosters trust in the tax system and encourages voluntary compliance.

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However, the discussion also highlights potential risks. An increase in the tax-to-GDP ratio, while beneficial for fiscal sustainability, may lead to higher tax pressure if not accompanied by corresponding improvements in public services. This underscores the importance of ensuring that tax revenues are used efficiently and transparently. Another critical issue is the balance between tax incentives and neutrality. While targeted incentives can promote specific sectors, they may also create distortions and reduce overall efficiency. Therefore, policymakers must carefully evaluate the cost-benefit ratio of such measures. Finally, the issue of equity remains a key concern. The limited progressivity of the tax system suggests that additional measures may be needed to address income inequality. This could include the introduction of differentiated tax rates or enhanced social spending financed through tax revenues.

CONCLUSION

The analysis demonstrates that the tax burden in Uzbekistan plays a complex and dynamic role in shaping economic outcomes. The current tax system, characterized by moderate rates and ongoing reforms, has contributed to a favorable economic environment and sustained growth. At the same time, the study identifies several areas for improvement. These include enhancing the progressivity of the tax system, reducing compliance costs, and ensuring the efficient use of tax revenues. The findings also highlight the importance of maintaining a balanced approach to taxation that supports both economic efficiency and social equity.

From a policy perspective, the optimal tax strategy for Uzbekistan should focus on three key priorities. First, maintaining moderate tax rates to preserve competitiveness and encourage investment. Second, broadening the tax base through improved administration and reduced reliance on exemptions. Third, strengthening the institutional framework to ensure transparency, accountability, and fairness in taxation. In conclusion, the tax burden is not merely a fiscal indicator but a fundamental determinant of economic performance and social welfare. Its effective management requires a comprehensive and integrated approach that takes into account economic, legal, and institutional factors.

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