

## Spotlight 1. Government Revenues

*Uzbekistan collects more in revenues than lower middle-income countries on average and even more than developing ECA. Ambitious tax reforms in 2018-19 do not appear to have resulted in lower revenues, providing a good cushion for the authorities to help tackle enterprise restructuring that may lead to both reduced revenues from SOEs and the need to finance social safety support to individuals that lose jobs in the process. Creating a more predictable tax system remains a priority for the government, as does the need to improve tax collections without necessarily raising tax rates.*

### CONTEXT AND RECENT DEVELOPMENTS

**Budget revenues in 2018 increased to their 2015 level as a share of GDP after declining during 2016-17.** The recovery in 2018 was due to the positive impact of the exchange rate devaluation in September 2017 and the comprehensive economic reforms the authorities initiated in 2017 (Table S1.1). Revenues in 2015 and 2018 are little changed from their 2003 level as well, even though revenues in 2018 benefit from the inclusion into the budget of several state-targeted funds (see Chapter 1).

**Table S1. 1. Government Revenues, 2003-2018**  
(in percent of GDP)

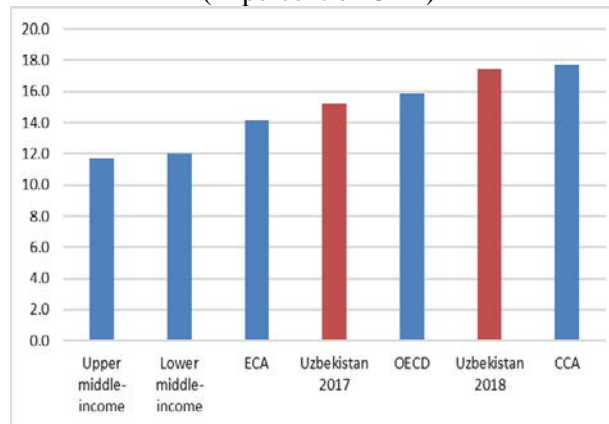
	2003	2005	2010	2015	2016	2017	2018
<b>Total Revenue, incl. extrabudgetary funds<sup>1</sup></b>	<b>27.9</b>	<b>25.6</b>	<b>30.8</b>	<b>28.0</b>	<b>25.4</b>	<b>24.7</b>	<b>27.9</b>
<b>Budget Revenue, excl. extrabudgetary funds<sup>2</sup></b>	<b>20.0</b>	<b>18.2</b>	<b>18.4</b>	<b>17.7</b>	<b>16.9</b>	<b>16.4</b>	<b>19.4</b>
Tax Revenues	18.9	17.3	17.2	16.3	15.5	15.2	17.4
Taxes on incomes and profits	5.6	5.2	5.1	4.9	4.6	4.3	4.2
Payable by enterprises	2.9	2.7	2.8	2.8	2.6	2.4	2.4
Payable by individuals	2.7	2.5	2.3	2.1	2.0	1.9	1.8
Taxes on domestic goods and services	11.6	10.5	10.5	9.7	9.2	9.1	11.7
Value added tax	4.5	4.3	5.3	5.2	4.9	4.9	6.8
Sales tax	0.9	1.0	0.5	0.7	0.7	0.6	0.4
Excises	5.9	3.3	3.0	2.7	2.6	2.5	2.4
Mining tax	0.3	1.9	1.7	1.2	1.0	1.1	2.1
Property taxes	1.0	1.1	1.0	1.0	1.1	1.1	1.0
Taxes on international trade and transactions	0.7	0.6	0.6	0.7	0.6	0.7	0.4
Other budget revenue (tax and non-tax)	1.1	0.9	1.2	1.5	1.4	1.2	2.0
Social security contributions (pension and employment funds)	5.3	5.2	6.8	6.9	6.1	5.9	5.9
Other revenues (including the UFRD, road fund, and grants)	2.6	2.3	5.6	3.4	2.4	2.4	2.6

Sources: World Bank staff data revisions for 2003-2015, IMF's database for 2003-2018.

**Tax revenues as a share of GDP in Uzbekistan are substantially larger than in ECA on average and in the lower middle-income countries.** Uzbekistan's tax revenues are 5.4 percentage points of GDP higher in 2018 than the average of the lower middle-income countries; this difference does not include Uzbekistan's substantial off-budget revenues which are likely to have increased over time (Figure S1.1). Taxes on goods and services (as a percent of revenue) in Uzbekistan in 2018 are on average larger than in ECA and in the lower middle-income countries, while taxes on income, profits, capital gains as well as taxes on international trade are lower than in these comparators. The taxes on international trade in Uzbekistan are lower in 2018 due to large exemptions (see Chapter 2 on tax expenditures).

**In 2018-19, the authorities introduced ambitious tax reforms aimed at helping stimulate economic activity, supporting more efficient revenue collection, and simplifying tax administration.** The thrust of the reform has been on reducing and unifying the tax burden on small and large enterprises, unifying the rates of corporate profit tax, personal income tax, and the social tax to 12 percent, rationalizing the VAT payments, reducing the number of direct taxes and mandatory payments, and improving tax administration procedures (Table S1.2).<sup>1</sup> Despite the lower tax rates, the tax reform significantly improved compliance -- as expected -- and increased revenues in 2019. The authorities have also begun efforts to transform the customs and pension systems.

**Figure S1. 1. Tax Revenues in Uzbekistan and Comparators, 2017-2018**  
(in percent of GDP)



Source: World Bank, IMF, and Uzbekistan authorities.

### Some of the important changes are:

- The government reduced the corporate profit tax rate to 12 percent in 2018, almost half its 2003 level, before increasing it to 15 percent from January 2020.
- A flat personal income tax of 12 percent replaced several bands with a higher top marginal rate.
- Taxation of individual entrepreneurs vary depending on their turnover. A simplified VAT of 7 percent is in effect from January 2019 until January 2022 for firms with annual turnover below UZS 3 billion.
- The government decided to eliminate the simplified VAT and VAT privileges on imports and reduce the VAT from 20 percent to 15 percent from October 2019.
- The government increased import tariffs on some goods and introduced excise taxes on some goods in January 2019 and in January 2020 bringing the average import tariff to 8 percent.
- The property tax rate for individuals was reduced from 1.7 percent in 2016 to 0.2 percent in 2019 and for firms from 5 percent to 2 percent.
- The unified tax for micro- and small enterprises (MSEs) was cut from 13 percent in 2005 to 4 percent in 2019.
- The payroll tax rate was reduced from 31 percent in 2005 to 25 percent for large firms and to 12 percent for MSEs in 2019. From January 2020, the payroll tax was reduced from 25 percent to 12 percent for state enterprises defined as legal entities with a state share in the charter capital in the amount of 50 percent or more.
- The tax on dividends was reduced from 15 percent in 2005 to 5 percent in 2019.

<sup>1</sup> Cabinet of Ministers Resolution #1065 of December 31, 2018.

## KEY CHALLENGES

**The tax system needs to be more predictable and less complex.** Although the Tax Code lays out the key tax bases and the rates for the personal income tax and the VAT, other tax rates are set by the government in the annual budget resolutions, which have become essentially mini-Tax Codes.<sup>2</sup> While the 2019 tax reform appropriately focused on simplifying taxes, reducing taxes on labor, and broadened the VAT, the further tax reform remains a priority to improve the attractiveness of Uzbekistan for investment. Although the threshold between small and large enterprises was changed from the number of employees to annual turnover, small firms still have strong incentives to stay small, downsize, or split themselves to avoid migrating into the standard tax regime, with implications for job creation.

**Table S1. 2. Uzbekistan: Key Tax Rates, 2003-2019**  
(in percent, at the beginning of each calendar year)

	2003	2005	2010	2015	2016	2017	2018	2019
Corporate profit tax (standard rate)	20	15	9	7.5	7.5	7.5	14	12
Personal income tax								
lowest band	13	13	11	8.5	7.5	7.5	7.5	12
highest band	32	30	22	23	23	23	22.5	12
number of bands	3	3	3	3	4	4	4	0
VAT <sup>1</sup>	20	20	20	20	20	20	20	20
Unified tax for micro and small firms								
manufacturing	12	13	7	5	5	5	5	4
agriculture <sup>2</sup>	6	6	6	6	5	5	5	4
Unified social payment <sup>3</sup>	37.2	31	25	25	25	25	25	12
Dividend tax	15	15	10	10	10	10	10	5
Property tax	3	3.5	3.5	4	5	5	5	2

*Source:* The World Bank based on the government's annual budget resolutions.

*Notes:* (1) A simplified VAT of 7 percent was introduced in January 2019 for firms with annual turnover up to UZS 3 billion; the VAT was reduced to 15 percent from October 1, 2019. (2) Except those paying unified land tax. (3) The sum of contributions paid by firms to the Pension Fund, Employment Promotion Fund and Trade Union Fund. In addition, in 2003 employees paid 2.5 percent of their wages to the Pension Fund, 4 percent in 2010, 8 percent in 2018, and zero in 2019.

**With the reforms of SOEs, it is likely that a guaranteed source of tax revenues will decline over the short term.** A large share of taxes is currently collected from a relatively small number of SOEs, which greatly simplifies tax administration. But SOEs also receive a wide range of privileges, including subsidized intermediate inputs and preferential access to credit, which enables them to carry an elevated tax burden. As Uzbekistan's economy transitions to market, the number of SOEs and their privileges will decline. At the same time, off-budget revenues and spending and quasi-fiscal operations need to be brought on budget. In the short term, the budget impact may be negative, but over the longer term, the boost to the economy from the structural reforms and increased fiscal transparency are likely to be revenue positive.

<sup>2</sup> For example, the 2019 budget resolution is 138 pages long, four-fifths of which is dedicated to setting various tax rates.

**The revenue fluctuations in recent years and potential decline in revenue in the future pose a risk to policy-makers and underline the importance of a medium-term approach to budget revenue to ensure the sustainability of financing the urgently needed higher public expenditure on infrastructure, education and health care that are critical for economic growth and development.** The strategic importance of domestic revenue mobilization by developing a Medium-Term Revenue Strategy (MTRS)<sup>3</sup> is to mobilize revenues through a tax system that can secure macroeconomic sustainability, while reflecting distributional considerations and creating appropriate incentives for economic and social development. Although the Uzbekistan’s 2019 annual budget presented estimates of main fiscal indicators for the budget year and the two following years, the projections excluded the off-budget operations and revenues<sup>4</sup>. Moreover, tax reform should be viewed as a multi-year undertaking to meet the revenue needs to have a clearer picture of the likely revenues over a meaningful planning period. The taxpayers and investors also need to have more certainty on how they will be treated and what the tax implications of their investment and other decisions will be.

**Paying taxes in Uzbekistan has improved but remains time-consuming.** According to the Doing Business 2020, Uzbekistan ranks 69<sup>th</sup> on the Paying Taxes indicator. Uzbekistan made paying taxes easier and less costly for companies by introducing an electronic system for filling and paying VAT, land tax, unified social payments, CIT, infrastructure development tax, environmental tax, personal pension fund contributions and cumulative pension contributions. It also eliminated some small taxes and significantly reduced the number of payments. However, complying with tax regulations can still be improved: to comply with regulations on taxes in Uzbekistan, a company must spend 181 hours (down from 356 hours in 2010), and pay 40.1 percent of its profit (down from 94.9 percent of its profits in DB 2010). The OECD average on hours to comply is 159.4. However, the pervasive state control and tax enforcement methods such as the use of commercial banks for tax reporting<sup>5</sup> and collection (e.g., through debiting accounts of tax debtors without the account holder’s acceptance) are among the factors that contribute to the unfavorable business environment in Uzbekistan.<sup>6</sup>

## POLICY OPTIONS

### *Improve the predictability of revenue and tax changes*

**A medium-term approach to predictability of revenues and the tax system will help entrepreneurs and citizens plan better.** Tax reform should also help widen the tax base by reducing exemptions and preferences and encourage firms to expand (see Chapter 2). To mobilize revenues in a sustainable matter, the government should consider adopting a medium-term strategic approach to effectively

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<sup>3</sup> The need for MTRS was highlighted in the Addis Ababa Initiative in 2015, which aimed to strengthen revenue administration and improve fairness, transparency, efficiency, and effectiveness of the tax systems.

<sup>4</sup> The 2020 budget includes the consolidated indicators for 2020 and indicative parameters for 2021-22. For the first time in Uzbekistan’s history, the budget was approved by the parliament.

<sup>5</sup> For example, the Central Bank of Uzbekistan (CBU) instruction (issued in 2002) orders that all payment transactions of legal entities over a threshold of a few thousand dollars be reported by commercial banks to the CBU and tax inspectorate. Presidential resolution of June 26, 2018 “On measures to radically improve performance of tax bodies” orders that tax units can stop transactions on banking accounts of any firm and take its tax arrears from bank accounts without consent of that firm.

<sup>6</sup> There are also reports from businesses about unofficial ad hoc levies collected by local authorities for charity, local infrastructure development, holding various events.

administer taxes. A MTRS would guide and direct the reform agenda of Uzbekistan over the coming 4-6 years. For this comprehensive and multi-faceted endeavor (that includes policy, administration, and legal components) to succeed, it is important to build on current reform efforts.

### *Strengthen tax collection*

Chapter 2 of the PER focuses on tax expenditures. Besides revising the list of tax and customs exemptions, tax collection could be improved by streamlining and unifying IT systems (including to help the authorities compare taxpayers with registered entities), reorganizing the one-stop shop for customs tariff and excise payments, improving services and information to all taxpayers, and strengthening the management of large taxpayers. Implementation of a risk-based auditing system should also help.