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PROPOSALS AND RECOMMENDATIONS FOR INTRODUCING AMENDMENTS TO THE TAX LEGISLATION OF 2026 ON GRANTING TAX BENEFITS TO BUSINESS ENTITIES IN UZBEKISTAN

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Abstract:

This article analyzes some problematic aspects of the current legislation in improving the taxation system of business entities in the Republic of Uzbekistan and develops proposals for their elimination. The main attention in the study is paid to the need for the stability of tax legislation, further improvement of simplified tax regimes, legal strengthening of digital tax administration, and the introduction of a system for assessing the effectiveness of tax benefits.

The article analyzes the application of the current "Tax Code" and related by-laws to business entities, and considers the problems encountered in practice - in particular, the high tax burden, irregular distribution of benefits, complexity of reporting, and lack of clarity in some norms. The results of the study will serve to further effectively implement state policy to improve the tax system in Uzbekistan and support entrepreneurial activity.

Keywords: business entities, tax system, tax administration, legislative reforms, turnover tax, digital economy, privileges, tax burden.

Introduction

In the process of large-scale economic reforms being implemented in Uzbekistan, the development of entrepreneurial activity, strengthening its legal and financial guarantees is one of the priority areas of state policy. The sustainable growth of the country's economy and the creation of new jobs largely depend on the activity of business entities and the tax environment created for them. Therefore, improving the



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tax system and updating its legislative framework in accordance with modern requirements is of urgent importance.

Tax legislation is the main legal framework that directly affects the activities of business entities. In recent years, the adoption of a new edition of the "Tax Code", a reduction in the number of tax types, a reduction in certain rates, and the introduction of electronic reporting systems have significantly simplified tax administration. At the same time, in practice, there are problems such as the high tax burden in some areas, insufficient assessment of the effectiveness of benefits, and incomplete legal support for the digital reporting system. Today, the need to improve the legislation on taxation of business entities is primarily associated with the digitalization of the economy, improving the investment climate, and supporting small and medium-sized businesses. To this end, it is important to adapt the regulatory documents regulating tax relations to the requirements of international practice, introduce a system for the effective distribution of tax benefits and assessing their effectiveness. The purpose of this study is to analyze the current legislation on taxation of business entities in Uzbekistan, identify existing shortcomings, and develop scientifically based proposals for legal amendments necessary to eliminate them.

1. On amendments to the Tax Code of the Republic of Uzbekistan, approved in a new edition by the Law of the Republic of Uzbekistan No. ZUR-599 dated December 30, 2019:

Proposal to amend the Tax Code of the Republic of Uzbekistan:

Article 75 of the Tax Code. Tax privileges

(part three) Unless otherwise provided for in part five of this article, tax privileges are provided by this Code.

...

(part five) Tax privileges for certain taxes, except for value added tax, profit tax, excise tax on the production and (or) sale of products subject to excise tax, tax on the use of subsoil, special rent tax on the extraction of minerals and tax on the use of water resources, may be granted by resolutions of the President of the Republic of Uzbekistan, taking into account the provisions of part seven of this article, only in the form of a reduction in the established tax rate, but not more than 50 percent and for a period of not more than three years.



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(Sixth Part) Tax privileges on profit tax shall be granted by the resolutions of the President of the Republic of Uzbekistan in the form of granting the right to accelerated depreciation of fixed assets subject to depreciation for a period not exceeding three years.

(Seventh Part) Unless otherwise provided by this Code, taxpayers shall have the right to use tax privileges for the entire period of their validity from the moment the relevant legal grounds arise, or to refuse to use the tax privilege or to suspend its use for one or more tax periods, with the exception of the sale of goods (services) exempt from value added tax.

...

(part fourteen) Legal entities shall have the right to use tax benefits on property tax and land tax for legal entities in the current tax period if they simultaneously fulfill the following conditions based on the results of the previous calendar year:

when the total income from the sale of goods (services) exceeds the tax benefit used on property tax and (or) land tax for legal entities;

when the average annual number of employees, each of whom receives a monthly salary of at least 2 times the minimum wage, is at least three.

(part fifteen) When determining the conditions provided for in part fourteen of this article:

revised tax reports submitted by the taxpayer;

If the deadline for submitting tax reports for the results of the tax period has not yet come, the turnover on the sale of goods (services) for the last 12 months shall be taken into account.

(Part sixteen) The conditions stipulated in Part fourteen of this Article shall not apply to:

legal entities with direct private foreign investment;

participants in a product distribution agreement;

non-profit organizations;

legal entities whose sole participants are public associations of persons with disabilities and whose total number of employees includes persons with disabilities, and whose payroll fund for persons with disabilities constitutes at least 50 percent of the total payroll fund;



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legal entities that have received the status of a participant in a special economic zone by January 1, 2026.

(Part Seventeen) Tax authorities shall send a notification to legal entities on their right to use tax benefits for property tax and land tax for legal entities in the current tax period electronically to the taxpayer's personal account no later than January 20 of each year.

(Part Eighteen) The provisions of Part Fourteen of this Article shall apply to taxpayers newly established during the tax period, including newly granted tax benefits, as of the results of the next tax period, with the exception of reorganized legal entities.

Our main points are as follows:

1) In accordance with paragraph 10 of Appendix 1 to the Resolution of the President of the Republic of Uzbekistan No. PP-226 dated July 18, 2025, it is envisaged to introduce a mechanism for transition from income-based benefits to expense-based benefits provided to investors.

Accordingly, taking into account the fact that the benefits of exemption from profit tax for entrepreneurs do not directly encourage the purchase of new technological equipment and expansion of production, the International Monetary Fund, within the framework of its mission in June of this year, recommended the introduction of an expense-based benefit, that is, an accelerated depreciation procedure.

In this case, enterprises will be given the opportunity to determine the amount of depreciation on fixed assets (equipment, buildings, etc.) in the amount corresponding to the excess of their income over current expenses in the reporting period (quarter, year).

For example, LLC "A" in the Navoi FEZ had total revenues of 63 billion soums and total expenses of 52 billion soums in 2024. As of January 1, 2025, the enterprise had a fixed asset balance of 36 billion soums.

According to the proposed procedure, the enterprise will be able to apply accelerated depreciation in the amount of 11 billion soums (63-52), and the taxable profit of the enterprise will be equal to "zero". In particular, the enterprise will not pay income tax by accelerating depreciation of almost 33 billion soums (an average of 11 billion



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soums per year) or 91% of fixed assets compared to the balance as of January 1, 2025.

This procedure will allow enterprises to recoup their expenses for the purchase of fixed assets in a short period of time without paying income tax. In addition, this procedure encourages enterprises to reduce their current costs for faster depreciation of fixed assets.

According to the current legislation, entrepreneurs have the right to deduct 20% of their investment in equipment from their income by depreciating it every year, that is, to reduce their taxable profit by this amount (20%).

In countries such as Georgia, Estonia and Latvia, the company has the opportunity to fully deduct the value of the assets in the tax year in which the fixed assets are put into use.

The IMF has recommended to gradually abandon this procedure while maintaining the terms of the current profit tax benefits and not to give benefits in the form of a reduction in the tax rate.

2) At the same time, in accordance with the order of the Administration of the President of the Republic of Uzbekistan No. 02-RA 1-16409 dated October 17, 2025, in order to prevent inefficient use of tax benefits and encourage water conservation, relevant proposals were approved not to provide new water tax benefits and not to extend the term of existing benefits.

The amount of privileges provided by legislative acts on resource taxes amounted to 3.2 trillion soums in 2024, more than 2 times more than in 2023 (1.3 trillion).

Almost 30% of resource taxes paid by legal entities (10.5 trillion) accounted for.

By sector, 73% of privileges fall on agriculture (mainly property tax), special economic zone participants and directorates (23%, 735 billion), hotels and tour operators (6.9%, 219 billion), and private social sector facilities (4.5%, 141 billion).

a) As a result of the work carried out to support special economic zones and the benefits provided, in 2022-2024, the trade turnover of zone participants using resource tax benefits increased by 1.5 times (from 27.8 trillion soums to 42.4 trillion soums), and the number of jobs created increased by 34 percent (from 53.7 thousand to 72 thousand).



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At the same time, in these zones in 2024, 88 enterprises, while using resource tax benefits worth 91.3 billion soums, did not indicate any trade turnover in their tax reports, and 54 enterprises, while registering 1 employee or no employees at all, used benefits worth 8.6 billion soums.

For example, LLC "A", which started its operations in 2020 and has an area of 22 hectares in the Akhangaron district, used a total of 927 million soums in benefits in 2024, but did not indicate its turnover and the number of employees in its tax reports. On the contrary, LLC "B", a joint venture with an area of 10 hectares that started its operations in the same period and in the same region, used 965 million soums in benefits in 2024, realized a turnover of almost 300 billion soums and created more than 600 jobs.

b) The turnover of entrepreneurs operating in the service sector in 2022-2024 more than doubled and amounted to 186 trillion soums.

However, in 2024, out of 1,748 private education and healthcare enterprises, 208 used resource tax benefits worth 11.9 billion soums and did not report their turnover at all in their tax reports. 125 (7 percent) used more tax benefits (9.8 billion soums) than their turnover (3.5 billion soums). 34 enterprises used benefits worth almost 2 billion soums and did not report their employees at all, while 79 registered 1 employee and used resource tax benefits worth 2.9 billion soums. For example, LLC "A", which began operating in Tashkent in 2020, used benefits worth almost 90 million soums in land and property taxes in 2024, but did not report their turnover or employees in their tax reports. LLC "B" in Yunusabad district, which started operating during this period, used land and property tax benefits worth 106 million soums in 2024, realized a turnover of almost 5 billion soums, and created 66 jobs.

c) There are 2,172 business entities engaged in hotel activities throughout the republic, of which 433 newly established ones used resource tax benefits worth 128 billion soums (97 billion soums in 2023).

By the Resolution of the President of the Republic of Uzbekistan No. PP-104 dated January 27, 2022, it was possible to reduce land tax and property tax rates by 90 percent for newly built hotels and shopping complexes from January 1, 2022 to January 1, 2027 for 5 years.



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According to tax reports, the turnover of 79 hotels in 2024 (1 billion soums) was 11 times less than the resource tax benefits used (12 billion soums), and 54 of them used benefits of 6.6 billion soums without indicating any turnover at all.

For example, according to the tax reports of LLC "A", which began its activities in Tashkent in 2019, in 2023 the turnover was 520 million soums, while in 2024 this figure decreased by 85% and amounted to 76 million soums. The benefits used in 2024 amounted to 93 million soums.

Also, according to tax reports, out of 24 hotels that used resource tax benefits in 2024, 21 had 1 employee registered, and 3 had no employees at all. However, the benefit used by these enterprises in 2024 amounted to 2 billion soums.

For example, according to the tax reports of Hotel "A", which began its operations in the Samarkand region in 2018, only 1 employee was listed in 2023-2024 and no turnover was shown in either year.

However, the benefit used by this hotel amounted to 137 million soums in 2023 and 183 million soums in 2024.

Adabiyotlar/Литература/Reference:

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