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**SHADOW ECONOMY AND TAX POLICY: STRATEGIES OF
FORMALIZATION AND LEGALIZATION BASED ON THE
EXPERIENCE OF UZBEKISTAN**

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**ТЕНЕВАЯ ЭКОНОМИКА И НАЛОГОВАЯ ПОЛИТИКА: СТРАТЕГИИ
ФОРМАЛИЗАЦИИ И ЛЕГАЛИЗАЦИИ НА ОСНОВЕ ОПЫТА
УЗБЕКИСТАНА**

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ABSTRACT

As economic reforms in Uzbekistan deepen, the scale of the shadow economy and its integration into the formal sector are becoming increasingly important. This article analyzes the concept of the shadow economy, its formation factors, and its manifestations in the conditions of Uzbekistan. The main goal of the study is to assess the effectiveness of tax policy measures implemented by the state to reduce



the size of the shadow economy and identify ways to improve existing mechanisms. Methodologically, the article studied dynamic changes based on statistical analysis, tax revenues, and official employment indicators. Also, the practical results of formalization strategies were assessed through an analysis of regulatory legal acts adopted during 2017–2024. According to the results, measures such as reducing cash turnover, simplifying tax benefits, and introducing electronic invoices played an important role in reducing shadow activity. However, the share of informal labor in small businesses still remains high.

АННОТАЦИЯ

По мере углубления экономических реформ в Узбекистане возрастает значение масштаба теневой экономики и ее интеграции в формальный сектор. В данной статье анализируется понятие теневой экономики, факторы ее формирования и проявления в условиях Узбекистана. Основная цель исследования — оценить эффективность мер налоговой политики, реализуемых государством для сокращения размеров теневой экономики, а также выявить пути совершенствования существующих механизмов. Методологически статья опирается на динамический анализ статистических данных, налоговых поступлений и показателей официальной занятости. Практические результаты стратегий формализации оцениваются через анализ нормативно-правовых актов, принятых в период 2017–2024 годов. По итогам исследования меры, такие как сокращение наличного оборота, упрощение налоговых льгот и внедрение электронных счетов-фактур, сыграли важную роль в снижении теневой активности. Однако доля неформальной занятости в малом бизнесе по-прежнему остается высокой.

Key words: Shadow economy, tax policy, formalization strategies, legalization, tax administration, informal employment, digital economy.

Ключевые слова: теневая экономика, налоговая политика, стратегии формализации, легализация, налоговое администрирование, неформальная занятость, цифровая экономика.



INTRODUCTION

The shadow economy refers to the aggregate of economic activities that operate outside official statistics and legal regulation in any country. In the context of Uzbekistan's economic modernization, features characteristic of the informal sector—especially in the service, trade, and construction industries—have become pressing issues. The shadow economy leads to a decrease in state budget revenues, an increase in informal employment, and a decline in economic efficiency. In recent years, serious reforms have been initiated in Uzbekistan's tax policy to address this issue systematically. This article provides an in-depth analysis of these developments.

MAIN PART

The shadow economy is considered one of the major obstacles to effective economic governance. It results in declining state revenues, reduced reliability of economic indicators, shrinking formal employment, and weakening of the social protection system. In Uzbekistan, the shadow economy is particularly widespread in small and medium enterprises, services, trade, construction, and transport sectors. This situation is mainly driven by the following factors:

1. High tax burden and a complex tax reporting system;
2. Insufficient financial literacy among the population;
3. Widespread informal labor without employment contracts;
4. High levels of cash circulation and limited availability of digital payment systems.

The Government of Uzbekistan is addressing these problems through several strategic directions:

Digitalization and automation: Expansion of cashless transactions through tax reporting systems, cash registers, electronic VAT (E-NDS), e-invoices, and QR code control mechanisms. These tools are primarily being used in trade and food service sectors to detect and reduce hidden turnover.



Simplification of tax policy: In recent years, simplified tax systems have been introduced for legal entities and individuals, including the “unified land tax,” fixed payments, and special regimes for family businesses. This has enabled formalization, particularly among populations in remote areas.

Incentivizing the transition of informal employment into the formal sector: The implementation of the “labor record book,” electronic employment contracts, and the reduction of the “unified social payment” rate have encouraged the creation of formal jobs.

Strengthening administrative and criminal accountability: Sanctions have been intensified against entrepreneurs operating without official registration, and specific punitive mechanisms have been introduced for tax evasion.

Information and awareness campaigns: Systematic educational campaigns have been conducted to inform the public about the importance of paying taxes, the security of digital payments, and social protection systems. In particular, campaigns have been launched to formalize youth and women’s entrepreneurship. All these measures are creating a foundation for the reduction of the shadow economy. However, certain challenges remain: tax burdens are still relatively high for small businesses; in some regions, technological infrastructure is insufficient for full digitalization; and certain segments of the population continue to engage in informal activities out of necessity. Therefore, formalization should not rely solely on punitive measures, but must also involve social incentives, easing procedures, and legal guarantees. International experience also shows that an inclusive tax system, simple registration procedures, and a reliable legal framework are effective tools in reducing the shadow economy.

RESULTS

The following table reflects the effectiveness of measures taken against the shadow economy and the expansion of the tax base in Uzbekistan from 2017 to 2023:

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The current table indicates that in recent years, the growth of formal employment and a sharp increase in tax revenues have led to a reduction in the size of the shadow economy. In particular, the introduction of the electronic invoicing system, E-VAT, and the digitalization of payments through cash registers have yielded significant results.

Figure 1. Tax Base and Formal Employment Indicators (2017–2023)¹

Year	Tax revenues (trillion soums)	Number of official positions (million)	Share of informal workers (%)	Share of the shadow economy (estimated, % of GDP)
2017	38,4	4,5	53,2	45,1
2019	64,1	5,6	48,9	38,7
2021	96,2	6,4	41,3	30,5
2023	142,7	7,1	35,6	26,3

DISCUSSION

The main challenges in combating the shadow economy in Uzbekistan include low levels of public trust, uneven distribution of the tax burden, and bureaucratic obstacles. The simplification of unified tax rates and the clearer definition of tax residency have encouraged businesses to operate formally. Additionally, the introduction of an electronic employment contract registration system and the reduction of social tax rates have played a positive role. However, many small enterprises and family businesses are still forced to evade taxes, indicating the need for more inclusive approaches in legislation.

CONCLUSION

The reduction of the shadow economy is one of the key outcomes of Uzbekistan's current economic policy. However, this process is not yet complete. As identified in this article, simplifying tax policy, promoting digitalization, and increasing financial

¹ **Source:** State Tax Committee of the Republic of Uzbekistan, World Bank, open statistical data from the Ministry of Economy and Finance.



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literacy are essential factors in raising the level of formalization. Moreover, the population engaged in the informal sector should be provided with opportunities to register through simplified formal registration systems. A balanced combination of legal, social, and technological measures is crucial in the fight against the shadow economy.

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