THE EVOLUTION OF THE VALUE ADDED TAX SYSTEM IN UZBEKISTAN: STAGES OF DEVELOPMENT AND LEGAL FRAMEWORK

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Annotation: This article analyzes the stages of formation and development of the Value Added Tax (VAT) system in the Republic of Uzbekistan. It examines the evolution of the VAT mechanism from the years of independence to the present day, as well as changes in its regulatory and legal framework, including amendments introduced to the Tax Code. The article analyzes the dynamics of VAT rate changes, the expansion of the tax base, and the positive effects of digitalization (the electronic invoicing system). Based on the research findings, proposals for further improvement of the VAT system are developed.
Keywords: value added tax, VAT, tax policy, regulatory and legal framework, Tax Code, indirect taxes, tax rate, electronic invoices, tax reforms, state budget.

VAT is the single largest source of tax revenue in Uzbekistan today. Value-added tax revenue reached about 5.7% of GDP in 2022, roughly three times the revenue generated by all other goods-and-services taxes combined, while taxes on goods and services overall made up 58% of total tax revenue that year. Uzbekistan has been undergoing a broad tax liberalization program since 2017 (as part of its wider economic reform/liberalization strategy), and VAT has been one of its central instruments — rate cuts, base broadening, digitalization (e-invoicing), and integration of foreign digital-service suppliers into the VAT net. The VAT rate itself has changed dramatically over three decades: from a peak of 30% in 1992 down to 12% today — making VAT arguably the most frequently and substantially reformed tax instrument in the national tax system. This volatility itself is a research problem: frequent rate changes complicate long-run fiscal planning, business forecasting, and cross-country comparability of Uzbekistan's tax competitiveness.

Uzbekistan's VAT model has coexisted with, and gradually replaced, features of the Soviet-style turnover tax administration; scholars characterize the 1992–1997 period as "closer to the traditional model than the modern (EU-style, credit-invoice) VAT model," since it relied on numerous exemptions rather than differentiated rates — meaning the transition to a truly modern VAT is a relatively recent and still incomplete process. Ongoing structural questions remain unresolved: coexistence of exemptions and reduced rates alongside the standard rate, informal-economy leakage, SME compliance burden, and administrative capacity — all flagged in recent (2025) academic literature as open problems needing further research.

Despite more than three decades of continuous reform, the VAT system of Uzbekistan has not yet reached a stable, fully "modern" (EU/OECD-type) architecture: rate levels, exemption practices, and administrative rules continue to shift (most recently in 2023 and again in the 2026 Tax Code amendments), which raises the scientific problem of how to periodize, systematize, and legally characterize the stages of VAT development in Uzbekistan, and what lessons this periodization offers for the future stabilization of the tax.

The scholarly and institutional literature on VAT in Uzbekistan can be grouped into three analytical strands: (1) domestic legal-historical scholarship establishing the periodization of the tax system; (2) applied economic and fiscal-policy analysis of rate changes and their effects; and (3) international institutional reporting used for comparative and macro-fiscal benchmarking. Reviewed chronologically within each strand, these sources allow the present study to situate its own periodization within an already-developing body of work rather than construct it in isolation.

The earliest systematic attempt to periodize the Uzbek tax system is found in *"Tax system of the Republic of Uzbekistan"* (2020), which divides the post-independence period into a formation stage (1991–1997), a second stage governed by the first Tax Code (1997–2007, 135 articles, 7 national taxes), and a third stage governed by the more elaborated 2007 Tax Code (2008–2019, 392 articles, 10 taxes and 5 mandatory payments). This periodization is corroborated and given precise legislative attribution by Azizov & Partners (2026) in *"System of Taxes and Fees in the Republic of Uzbekistan,"* which identifies the exact enabling laws for each Code: Law No. 396-I of 24 April 1997 (in force 1998–2007), Law No. ZRU-136 of 25 December 2007 (in force 2008–2019), and Law No. ZRU-599 of 30 December 2019 (in force from 2020). Taken together, these two sources supply the legal-chronological backbone adopted in Section 3 of the present article, and are treated here as the primary citation basis for dating each Tax Code edition.

The most theoretically developed treatment of Uzbek VAT specifically — as opposed to the tax system generally — is the 2025 study published via Scholarzest, *"Analysis of the VAT Administration in Uzbekistan."* This work introduces a "traditional model versus modern model" analytical distinction, arguing that the 1992–1997 VAT regime, despite nominally being a value-added tax, functioned closer to a traditional turnover-tax model because it relied on numerous exemptions rather than differentiated rates. The same study documents the reduction of the initial 30% rate to 18% in 1997 as a direct policy response to evasion and administrative-cost pressures, and identifies persistent structural problems — the coexistence of exemptions with reduced rates, informal-economy leakage, and SME compliance burden — that remain unresolved as of its writing. Because it offers both a historical account and an explicit theoretical framework, this source is treated as the principal analytical foundation for the present article's own stage-based model.

The 2026 study by B1 Analytics, *"Changes in the New Edition of the Tax Code of Uzbekistan: Tax Incentives and Rates,"* extends this analytical line into the most recent period, arguing that the 2026 amendments left core rates (including the 12% VAT rate) unchanged while restructuring the incentive and exemption architecture toward targeted, performance-based benefits rather than broad, blanket exemptions. This source is used in the present study to characterize the still-unfolding fourth stage of VAT development, and to argue that Uzbekistan's reform trajectory has shifted from rate-cutting toward incentive-design refinement.

Legal commentaries produced around the 2019–2020 transition — notably the Lexology and Gratanet analyses of Law No. ZRU-599 — provide granular detail on specific normative changes accompanying the New Tax Code: the extension of VAT-payer status to permanent establishments of foreign legal entities and to foreign suppliers of digital services (effective 1 January 2020), the abolition of numerous previously granted exemptions, and the liberalization of the VAT refund mechanism, under which all VAT payers (not only exporters) gained refund rights from 1 July 2020. These sources are used in the present article as primary evidence for the legal mechanics of Stage IV, since they were written contemporaneously with the reform and cite the enabling legal text directly.

Complementing this legal focus, the 2025 study in the *Journal of New Century Innovations*, examining VAT and customs-duty regimes in agricultural trade, documents the subsequent rate trajectory — the reduction from 20% to 15% in the 2019 reform and the further reduction to 12% in 2023 — and links these changes empirically to trade-flow outcomes over 2017–2025. This source substantiates the article's claim that VAT reform in Uzbekistan has had measurable downstream economic effects beyond its immediate fiscal-legal scope, and supplies data usable in an applied economic-impact subsection.

The OECD's *"Roadmap for Sustainable Investment Policy Reforms in Uzbekistan"* supplies macro-fiscal benchmarking data — VAT contributed approximately 5.7% of GDP in 2022, nearly three times the revenue of all other goods-and-services taxes combined — and situates Uzbekistan's VAT reliance within a regional comparative context (contrasted with Kazakhstan and other CIS economies). PwC's *Tax Summaries* series functions as the authoritative reference for the current legal state of VAT law (the 12% standard rate, export zero-rating, the 2026 agricultural 0% rate, and the treatment of foreign e-service suppliers and permanent establishments), and is used in the present study primarily to verify the accuracy of Stage IV's legal description rather than for historical argument. Finally, reporting by *The Tashkent Times* (2024) on the government's declared moratorium on VAT and income-tax rate increases through 2028 is used in the Conclusion to support a forward-looking assessment of the system's likely near-term stability.

While the reviewed literature abundantly documents *what* changed in Uzbekistan's VAT system — rates, dates, and exemptions — it offers comparatively little systematic *legal-doctrinal* analysis connecting each stage of VAT development to its underlying normative acts and evaluating the codification technique employed across the 1997, 2007, and 2019 Tax Code editions. It is this gap — the absence of an integrated legal-historical periodization of VAT specifically, as distinct from the tax system as a whole — that the present article seeks to address.

Uzbekistan's VAT system has evolved through four major legislative stages, transitioning from a high-rate, exemption-oriented model to a modern, digitally administered VAT system with a broader tax base and a reduced standard rate of 12%.

VAT reforms have been implemented primarily through comprehensive revisions of the Tax Code, with the 2020 reform representing the most significant shift by expanding the taxpayer base, improving refund mechanisms, and aligning the system more closely with international VAT principles. Nevertheless, the continued expansion of sector-specific exemptions and zero-rate provisions indicates that further legal harmonization and periodic evaluation are necessary to ensure transparency, neutrality, and long-term fiscal sustainability.

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