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## Risk Management at the Informal Economy Cutback (The Example of the Republic of Uzbekistan)

**M.R. Pinskaya, S.D. Shatalov, K.A. Ponomareva**

Financial Research Institute of the Ministry of the Finance of Russian Federation, Moscow, Russia

**ABSTRACT**

The paper analyzes ways of the informal economy cutback in the Republic of Uzbekistan, used in the tax sphere. The purpose of the study is to summarize the tax measures to solve this problem. During past few years, there have been taken certain steps in this direction, such as concessions for small businesses in catering, reducing the turnover tax rate in the real estate business, holding large-circulation “check” lotteries with valuable prizes, bringing construction industry workers into the legal field, digitalization of tax administration. According to the authors, the proposed tools correspond both to the practices characteristic of foreign experience and to the conditions peculiarities for making business in Uzbekistan. Also, the authors identified some directions for improving the state tax policy in counteracting the spread of the informal economy: focusing on reducing cash turnover through the use of tax deductions for personal income tax and VAT refunds on purchases; the overall tax culture development; digitalization of the tax reporting procedure; improving a legal status the regulation of the self-employed citizens; initiation of a single tax account mechanism. The scientific novelty lies in the research methodology. Based on a comparative legal analysis, the experience of various countries is used to illustrate the features of tax measures applied in practice to reduce the informal economy. The authors assume the theoretical results of the work will embody in proposals for improving the national tax legislation and will improve the Russian economic and legal doctrine, as well as the level of legal research within the EAEU and the CIS.

**Keywords:** taxation; informal economy; CIS; foreign experience; Republic of Uzbekistan; risks; tax regulation; tax policy; tax administration

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## INTRODUCTION

The informal economy has traditionally been defined as the performance of legal economic transactions without declaring them in the manner prescribed by tax, labour or other legislation. It is also defined in the literature as<sup>1</sup> [1, 2]:

- a field of human activity aimed at obtaining benefits, the main regulation of which takes place through dominant informal norms;
- all economic activity, for various reasons (non-monetary turnover, high taxes, legal prohibitions, etc.) not accounted for by official statistics and not included in GNP;
- a set of economic activities that are completely or partially not subject to state regulation, not supported by formal contracts and not captured by statistical and fiscal accounting.

Employment in the informal sector poses a number of socio-economic problems: due to its low productivity it holds back the economic growth of the state, representing an irrational diversion of resources [4, p. 64].

The problems of the informal economy have been widely studied in the foreign literature [5–8]. The negative and sometimes even destructive effects it has on many areas of society are far-reaching. Of particular importance are those related to investment, capital accumulation, labour force and economic growth.

In terms of fiscal measures to combat these adverse effects, the authors show a clear negative correlation between the volume of payments, including electronic payments, and the size of the informal economy. Approaches used by states to achieve better control over cash transactions have also been considered [5] — emphasising

that many new (and sometimes innovative) methods developed to support the formalisation of such activities will have little impact on the shadow economy if applied in isolation. A successful taxation strategy requires a holistic management approach in which traditional tax monitoring and law enforcement tools play a key role [5, 6].

The reasons for the development of hidden employment are well known, and the financial aspect remains decisive. Above all, it is a matter of absolute necessity (or desire) to increase one's resources or reduce one's costs. The objective pursued is to reduce the direct (wages, social contributions) or indirect costs (social or environmental regulations) associated with the intention to withdraw from a legal obligation. In addition, the emergence and development of shadow schemes are explained by such macroeconomic factors as the economic situation, the level of unemployment and the level of tax burden [9, p. 27].

Many international organizations are concerned about the problems of the informal economy. As noted by the International Labour Office, unregistered and unregulated enterprises often do not withhold deductions from wages as tax agents and do not pay insurance contributions, which deprives their employees of social protection and leads to their unfair competition with other organisations.<sup>2</sup>

Informal work is essentially synonymous (though not entirely adequate) with poverty and vulnerability. Although certain activities provide income and wealth, most informal economy workers work in

<sup>1</sup> Popov A.I. Economic theory. Textbook for Higher Education Institutions. 4th edition. St. Petersburg: Peter; 2006. 544 p.

<sup>2</sup> International Labour Office. "Transition from the informal to the formal economy". Report V (I) URL: [https://www.ilo.org/wcmsp5/groups/public/—ed\\_norm/—relconf/documents/meetingdocument/wcms\\_218371.pdf](https://www.ilo.org/wcmsp5/groups/public/—ed_norm/—relconf/documents/meetingdocument/wcms_218371.pdf)

precarious and hazardous conditions and are illiterate, poorly qualified and lack training opportunities; their income is less predictable and less regular and they earn less than workers in the formal economy, they have to work for longer hours; they do not bargain collectively, have no representative rights and are often hired on uncertain or hidden terms; they are more financially and physically vulnerable, as they are excluded or effectively outside the scope of social security systems and occupational health and safety, maternity protection and other labour law provisions.<sup>3</sup>

The conclusions of the International Labour Office in 2002 note that “although there is no universal, precise or accepted description or definition of the term ‘informal economy’, there is a common understanding that it refers to a wide variety of conditions in which workers, businesses and entrepreneurs find themselves, but which are characterised by certain characteristics. They face particular difficulties and problems, the intensity of which may vary according to national, rural or urban conditions”. Measures to improve productivity levels include modernizing the institutional framework of small and medium-sized enterprises (SMEs), increasing their access to financial markets, and assisting them in technological development. For example, laws in the Dominican Republic, Nicaragua, Peru aim to create an enabling, stimulating, and competitive environment for SMEs; these countries provide incentives for women, older workers, persons with disabilities and youth to enter the workforce.<sup>4</sup>

<sup>3</sup> International Labour Office. “Transition from the informal to the formal economy”. Report V (I), п. 3. URL: [https://www.ilo.org/wcmsp5/groups/public/—ed\\_norm/—relconf/documents/meetingdocument/wcms\\_218371.pdf](https://www.ilo.org/wcmsp5/groups/public/—ed_norm/—relconf/documents/meetingdocument/wcms_218371.pdf)

<sup>4</sup> International Labour Organization. The informal economy in Africa: Promoting transition to formality: Challenges and strategies. URL: [https://www.ilo.org/wcmsp5/groups/public/—ed\\_emp/—emp\\_policy/documents/publication/wcms\\_127814.pdf](https://www.ilo.org/wcmsp5/groups/public/—ed_emp/—emp_policy/documents/publication/wcms_127814.pdf)

A. Portes and S. Sassen-Koob put forward three points about the informal sector:

1) these activities are essentially transitory, a consequence of the lack of penetration of modern capitalism in underdeveloped regions and thus destined to disappear with the success of industrialisation;

2) it is assumed that the principal reason for the persistence of the informal sector is the availability of surplus labour force;

3) the informal sector is mostly characteristic of peripheral economies, being essentially another expression of their underdevelopment [10].

The successes of the transition implementation to formal activities are related to the presence of favourable macroeconomic, social, legal, and political conditions. They are not stand-alone projects but an integral part of national development strategies. A new outlook allows for a change in the policy and regulatory framework for SMEs as well as labour and employment conditions.

In terms of taxation issues, two main types of informal activity can be distinguished:

1) the activities of unregistered enterprises and self-employed working entirely outside the formal economy (unregistered employment);

2) the operation of companies registered in the formal sector that deliberately underreport the scale of their activities (misreporting) [11].

While the former completely evade taxes and usually do not comply with other mandatory legal requirements, such as wages or working conditions, the latter may (especially in cash transactions) not report only part of their profits or revenues, and

[public/—ed\\_emp/—emp\\_policy/documents/publication/wcms\\_127814.pdf](https://www.ilo.org/wcmsp5/groups/public/—ed_emp/—emp_policy/documents/publication/wcms_127814.pdf)

conceal information regarding salaries in order to reduce their taxes and contributions [12, p. 48].

Let us consider these types of informal activity and directions of its reduction using the example of the Republic of Uzbekistan as a post-Soviet country that has common features with the Russian Federation.

### GENERAL CHARACTERISTICS OF TAX MEASURES TO COMBAT THE INFORMAL ECONOMY IN UZBEKISTAN

The informal economy is a significant socio-economic phenomenon for Uzbekistan. As of 2020, it was estimated at 245 trillion som, equivalent to almost half the national GDP.<sup>5</sup> The country ranks first among Central Asian countries on this indicator.<sup>6</sup> “The shadow” economic turnover is particularly prevalent in the sectors of trade, catering, accommodation services, road transport, etc.<sup>7</sup> Undoubtedly, the problems of informal economy are typical for many post-Soviet countries [13–16]. Thus, it originated and spread in Belarus in the field of legal economy in such areas as production of consumer goods, agriculture, services, construction and industry [17, p. 55]. In Kyrgyzstan, the share of the non-observed (hidden and informal) economy in the gross domestic product is also high and amounted to 23.2% in 2014. According to the National Statistical Committee of the Kyrgyz Republic, its volume, as estimated from the production side, increased from 92.8 billion KGS in 2014

to 102.3 billion KGS in 2015. Its share in GDP has also increased, from 23.2 to 23.8%, and compared to 1995, by 17 times [18, p. 108].

Informal employment in Uzbekistan has long been out of sight and not seriously considered. Only after the adoption of the Strategy of Action on the Five Priority Development Areas of the Republic of Uzbekistan for 2017–2021,<sup>8</sup> fundamental reforms in this area began [19, p. 78].

An important step towards eliminating the negative consequences of the spread of the informal economy was the presidential decree “On organisational measures to reduce the shadow economy and increase the effectiveness of the tax authorities”. The document provides for the following measures:

- the possibility of SMEs engaged in catering temporarily excluding payments from individuals from taxable income;
- reduction of the turnover tax rate for entities engaged in real estate activities to 13%;
- monthly reporting by construction organisations concerning employees hired without a contract (indicating the amounts paid);
- possibility of purchase of goods (services) by entities via corporate cards without a contract, subject to receipt of electronic invoices (online receipts);
- notification of the Business Ombudsman under the President of Uzbekistan on the initiation of tax audits and on-site inspections;
- conducting “receipt” lotteries in all regions of Uzbekistan in 2020;
- equipping tax authorities with server equipment and software in conjunction with a reduction in the number of employees;

<sup>5</sup> Uzbekistan’s shadow economy is estimated to be worth 245 trillion soums. Uz24 (online). 29.10.2020. URL: <https://uz24.uz/ru/articles/tenevaya-ekonomika> (accessed on: 20.06.2022).

<sup>6</sup> Uzbekistan has the biggest shadow economy in Central Asia. Radio Ozodi. URL: <https://rus.ozodi.org/a/uzbekistan-zanimaet-pervoe-mesto-po-tenevoy-ekonomike-v-tsentralnoy-azii/31335526.html> (accessed on: 20.06.2022).

<sup>7</sup> How the Finance Ministry proposes to reduce the shadow economy. Gazeta.UZ (online). 15.10.2020. URL: <https://www.gazeta.uz/ru/2020/10/15/shadow-economy/> (accessed on: 20.06.2022).

<sup>8</sup> Approved by Presidential Decree No. PD-4947 of 07.02.2017. URL: <https://lex.uz/docs/3107042#3109624> (accessed on: 20.06.2022).

• Uzbekistan's accession to the OECD automated tax information exchange.<sup>9</sup>

The practice of introducing such measures is consistent with foreign experience. For example, a lottery with the possibility of winning valuable prizes (including cars) has led to a significant increase in the number of receipts and in the number of entities using virtual cash registers (VCs) in their economic activities. Due to the identified effectiveness, this tool is expected to be used on a regular basis.<sup>10</sup>

Improving the taxation of construction companies is also strategic. Despite the rapid growth of the industry, as of 2022, half of its enterprises have only one employee, which clearly indicates the presence of labour tax evasion schemes.<sup>11</sup> Thus, strengthening the control and administrative function of the fiscal authorities will bring employees in the construction industry into the legal field, which will also increase competition in this area and eliminate distortions in the business environment between good taxpayers and tax-evading organisations.

Moreover, a significant transformation of Uzbekistan's tax system can be expected in the medium term. In particular, in 2022 the President announced the need to reduce the tax burden on businesses to 25% (from the current 28%), the VAT rate reduction to 12% (starting from 2023), and to combine land

and property taxes.<sup>12</sup> In addition to economic support to entrepreneurs in the post-pandemic period due to COVID, these measures will ensure the stability of tax revenues.

It should be stressed that Uzbekistan is also an active participant in the labelling programme under the auspices of the Russian Centre for Development of Advanced Technologies (CDAP). Experts have already noted that digital control of cigarette sales has led to a 20% increase in excise duties; as a result of such measures, two alcoholic beverages have been taken out of the “shadows”, while imports have grown by 50%. In this regard, based on the peculiarities of the Uzbek economy, further expansion of the labelling system for gas-fueled equipment and vegetable oils is planned.<sup>13</sup>

### **DIRECTIONS FOR IMPROVING UZBEKISTAN'S TAX POLICY TO COUNTERACT THE INFORMAL ECONOMY**

Let us consider promising directions for tax policy development in terms of counteracting the informal economy, in particular a number of measures that are not sufficiently reflected in it (see *Table*).

Let's look at the Table data in more detail.

### **IMPROVED INFORMATION EXCHANGE BETWEEN TAX AUTHORITIES AND “THIRD” PARTIES**

In the first instance, this could involve a closer exchange of financial information between the “third” parties and tax authorities. Such initiatives have already been discussed

<sup>9</sup> OECD — Organisation for Economic Co-operation and Development — An international economic organisation of developed countries that recognises the principles of representative democracy and free market economies.

<sup>10</sup> State Tax Committee — on the economic effect of receipt games. *Gazeta.UZ* (online). 04.01.2021. URL: <https://www.gazeta.uz/ru/2021/01/04/check-games/> (accessed on: 20.06.2022).

<sup>11</sup> How real estate developers in Uzbekistan evade paying taxes. State Tax Committee reveals typical schemes *Podrobno.UZ* (online). 23.06.2022. URL: <https://www.podrobno.uz/cat/proisshestviya/kak-zastroyschiki-v-uzbekistane-ukloniyayutsya-ot-uplaty-nalogov-v-gnk-rasskazali-o-tipovykh-skhemakh/> (accessed on: 20.06.2022).

<sup>12</sup> Presidential Decree of the Republic of Uzbekistan “On the New Uzbekistan Development Strategy for 2022–2026”. *Lex UZ*. URL: <https://lex.uz/ru/docs/5841077> (accessed on: 20.06.2022).

<sup>13</sup> How Uzbekistan has benefited from digital labelling of goods. *Sputnik Uzbekistan* (online). 18.06.2022. URL: <https://uz.sputniknews.ru/20220618/kakuyu-polzu-prinesla-uzbekistanu-tsifrovaya-markirovka-tovarov-25437130.html> (accessed on: 20.06.2022).



Table

**Perspective direction for the tax policy development to counteract the informal economy**

Direction	Comment
Improved information exchange between tax authorities and “third” parties	Consistent with international best practices
Improving measures aimed at discouraging the use of cash by the population	Development of personal income tax deductions or a VAT refund mechanism on purchases is appropriate
General development of taxpayers’ tax culture	Eliminating the conflict between the interests of honest taxpayers and informal business entities when filing complaints
<b>Developing the use of digital technologies</b>	
Submission of tax returns declarations	Assumes the additional use of technical means in calculating the tax liabilities of persons
Improving taxation of self-employed citizens	Improving the taxation mechanism for taxi drivers, including those operating through Internet platforms
Introduction of a single taxpayer account mechanism	Eliminates errors in tax payments and reduces the cost of fulfilling tax obligations
Interactive display of purchases by business entities	Can increase taxpayers’ tax culture (engagement) and reduce manifestations of ‘fiscal illusion’
Developing tax relations between levels of government	Assumes the transfer of some taxation powers to the local level

Source: compiled by the authors.

in professional expert forums in Uzbekistan, in particular, the launch of inter-agency automatic exchange of bank account data (subject to electronic request), as well as real-time monitoring of the movement of funds and cash-flow on plastic cards of the citizens (if the legally established criteria are met) were the subjects of discussion.<sup>14</sup>

Such measures are generally in line with best international practice. However, the decision to implement them should be based on whether the information obtained can best be used in the state’s fiscal function.

<sup>14</sup> State Tax Committee: Card turnover project will affect 500–700 people Gazeta.UZ (online). 11.04.2020. URL: <https://www.gazeta.uz/ru/2020/04/11/turnover-cards/> (accessed on: 20.06.2022).

Such instruments should be narrowly focused, based, for example, on the identification of a typical “profile” of tax evaders. Otherwise, such practice can lead to increased administrative burden on taxpayers as well as pressure on businesses by regulatory authorities.

### **IMPROVING MEASURES AIMED AT DISCOURAGING THE USE OF CASH BY THE POPULATION**

As of today, the informal economy is predominantly cash-based. Therefore, it is important to make it more attractive for taxpayers to use electronic means of payment as compared to their “paper” counterparts.

Such an approach is widely represented in the practice of foreign countries. For example, in the Republic of Korea, taxpayers are allowed to deduct from their income tax return a percentage of the amount of their purchases paid for with credit or debit cards. It is argued that this has led to an increase in the number of electronic transactions [7].

A number of countries have imposed restrictions on cash payments. For example, in Turkey, payments over 8,000 liras (and any rentals over 500 liras) must be made through the banking system or post offices.<sup>15</sup>

Thus, the development of tax measures aimed at discouraging Uzbek residents from using cash can be seen as a promising direction. The introduction of any separate taxes (e.g., on cash withdrawals or withholding tax) on such transactions may be redundant. At the same time, starting from 1<sup>st</sup> January 2022, taxpayers who register purchases in the Soliq app<sup>16</sup> will be entitled to claim a taxpayer's bank card cashback of 1% of the amount of purchases (except for some types of transactions, such as purchases of railway tickets, utilities, communication services, etc.).<sup>17</sup>

### GENERAL DEVELOPMENT OF TAXPAYERS' TAX CULTURE

The tax system and tax culture of a country are interconnected and interdependent. When establishing taxes and changing their elements, the level of tax culture of society

and individuals should be taken into account [20, p. 28].

The areas of work to improve the level of tax culture include: launching education programmes for taxpayers, including the recognition and encouragement of those who are "bona fide"; conducting research within different segments of the population, among other things to determine the factors reflecting their trust (mistrust) in the activities of tax authorities.

It should also be emphasised that improving the financial literacy of taxpayers is also an important task for the Russian Federal Tax Service. Various formats of events are used to address it: starting from organising excursions to schoolchildren visiting tax offices, giving open lectures at universities for students, and up to mobile tax offices visiting individual businesses (organisations) or even remote rural and urban settlements.<sup>18</sup>

Finally, it is important to assist developing countries to increase taxpayer involvement in tax collection [the experience of the African Tax Administration Forum (ATAF) in encouraging exchange of experience<sup>19</sup> in this area is exemplary in this context].

Communication tools (media messages, social media, launching an advertising campaign, etc.) should be used to increase the attractiveness of coming "out of the shadows". In order to remove the psychological barriers preventing taxpayers from applying to the fiscal authorities, tax amnesty could be granted to economic entities.

<sup>15</sup> Information note "Reducing opportunities for tax non-compliance in the underground economy". OECD. URL: <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/49427993.pdf> (accessed on: 20.06.2022).

<sup>16</sup> Electronic government services portal for tax authorities my.soliq.uz

<sup>17</sup> Eradicating the "shadow economy" in Uzbekistan: how does the receipt-issue process work? Uzreport (online). URL: <https://uzreport.news/society/iskorenenie-tenevoy-ekonomiki-v-uzbekistane-kak-prohodit-protsess-vidachi-chekov-> (accessed on: 20.06.2022).

<sup>18</sup> The implementation of a regional project to improve financial and tax literacy was discussed at a meeting. Federal Tax Service of Russia (official website). 17.01.2022. URL: [https://www.nalog.gov.ru/rn53/news/activities\\_fts/11799033/](https://www.nalog.gov.ru/rn53/news/activities_fts/11799033/) (accessed on: 20.06.2022).

<sup>19</sup> OP-ED: 5 reasons why the Tax Administration Library is a great hub for publications from African Tax Administrations. ATAF (online). 31.01.2022. URL: <https://www.ataftax.org/5-reasons-why-the-tax-administration-library-is-a-great-hub-for-publications-from-african-tax-administrations> (accessed on: 20.06.2022).

Starting from January 2022, residents of Uzbekistan will be entitled to a reward (20% of the fine) if they complain, for example, about “inappropriate” behaviour of a salesperson or when a receipt is not given or when an item is overpriced when paid by credit card (or not accepted by a shop employee).<sup>20</sup> This initiative has already resulted in both a significant increase in tax revenues and an increase in the involvement of citizens in tax relations. Despite this, the increased use of the rewards system may lead to resistance from unscrupulous individuals. There have already been instances of vigilante justice against citizens when they demand receipts from retailers, even going so far as to initiate threats, insults, posting videos on the internet and accusations of “snitching or fingering”.<sup>21</sup>

Obviously, information from the purchaser about the commission of an offence by the seller, on the contrary, contributes to the effectiveness of the tax function of the state. However, the existence of such aggressive manifestations may directly affect the effectiveness of the institution of voluntary tax reporting.

### SUBMISSION OF TAX RETURNS DECLARATIONS

In pursuit of the goal of full digitalisation of tax relations and legalisation of business activities, taxpayers will be obliged to submit tax returns via the “E-aktiv” and “E-

rent” systems. The first mechanism is aimed at achieving full electronic control over the accounting of inventory movements, while the second involves mandatory submission of lease agreements by taxpayers in order to prevent fraud.<sup>22</sup>

It was originally intended that from 2022 the use of both systems would be compulsory for a wide category of taxpayers. However, the test use of the services has shown that the current situation is making tax administration dramatically more complicated due to the “unreadiness” of the software code used, the unclear methodology for filling in the required documents and the general unpreparedness of the users. Thus, there is a risk of a new round of “shadowing” of certain individuals and unintentional distortion of business conditions between “unscrupulous” and “legal” economic entities.<sup>23</sup>

Foreign experience of introducing digital tax administration systems demonstrates that the occurrence of software errors at the first stage of their functioning is absolutely normal. In particular, in the process of transition to the pre-filing of tax returns to individuals at the first stage, erroneous versions of them can be provided [21]. However, digitalisation, if properly configured, can, firstly, free up considerable human resources and, secondly, allow the tax authorities to generate either the same income with a lower tax burden or a greater amount with the same level of tax burden.

Reducing tax rates is impossible without increasing the transparency of commodity and financial flows. In this regard, we can only welcome the prudent position of Uz-

<sup>20</sup> In Uzbekistan, a shopper can get 20% of the fine for not giving out a receipt by a shop assistant. Retail Loyalty (online). 16.05.2022. URL: <https://retail-loyalty.org/news/v-uzbekistane-pokupatel-mozhet-poluchit-20-ot-shtrafa-za-nevydachu-cheka/> (accessed on: 20.06.2022).

<sup>21</sup> Not snitches, but helpers. Since the beginning of the year, citizens have reported more than 46,000 violations in retail outlets to tax authorities Podrobno.Uz (online). 29.04.2022. URL: <https://podrobno.uz/cat/obchestvo/ne-stukachi-a-pomoshchniki-s-nachala-goda-grazhdane-soobshchili-nalogovoy-o-bolee-chem-46-tysyachakh/> (accessed on: 20.06.2022).

<sup>22</sup> Property tax, E-Ijara, E-Aktiv, tax gap. The main thing from the meeting with the head of the State Tax Committee. Gazeta.UZ (online). 18.01.2022. URL: <https://www.gazeta.uz/ru/2022/01/18/taxes/> (accessed on: 20.06.2022).

<sup>23</sup> From entrepreneur to criminal. Changes in tax legislation have raised a lot of objections. From Radio Ozodi. URL: <https://rus.ozodlik.org/a/31656826.html> (accessed on: 20.06.2022).



Uzbekistan's fiscal authorities on gradually attracting businesses to use the E-aktiv system. Thus, starting from April 2022, its compulsory application will apply only to four categories of goods (cement, glass, timber and cotton), and further expansion of this list will be determined based on the results obtained for the "pilot" categories. Working groups are planned to improve the methodology, so that the mechanism is expected to be operational by the fourth quarter of 2023. A moratorium on penalties for non-use of "E-aktiv" (except for "pilot" goods) is also introduced, and the use of certain indicators indicating the existence of tax risks for taxpayers in terms of their VAT payments is suspended.<sup>24</sup> Finally, in order to improve the attractiveness of paying property tax, the criteria for the minimum value of taxable objects will be revised, including a wider application of reduction factors.<sup>25</sup>

### IMPROVING TAXATION OF SELF-EMPLOYED CITIZENS

As an important aspect, further improvement in the regulation of the legal status of the self-employed can certainly be highlighted, and in the first place we are talking about the position of taxi drivers. At present, according to Uzbekistan's legislation, only organisations (i.e., legal entities) can carry out such activities and individual citizens need to conclude an employment agreement with a taxi company. However, this approach may be considered outdated given that the current global business model is for drivers

to generate income through the use of mobile aggregator apps.

The issue of improving the business tax environment for taxi drivers has been raised regularly, but the options have never gone beyond legislative drafts.<sup>26</sup> In 2017, the possibility of granting patents to drivers was the subject of discussion, but the idea had to be abandoned due to unpreparedness for the upcoming changes. In 2018 and 2019, there were proposals for taxi drivers to act as individual entrepreneurs. Finally, in 2020, the Uzbek tax authorities announced the possibility of paying drivers through mobile aggregator apps and charging them with social tax and a reduced personal income tax.

The main reason for state "resistance" to the idea of changing the legislation in this part is that the widespread introduction of simplified taxation regimes could aggravate public security concerns. To address such concerns, the state tax authorities have even proposed requiring intermediaries to open separate subdivisions in Uzbekistan (with publication of full information about themselves), to host servers in the country, and to fully integrate internal control systems with state regulations.<sup>27</sup> However, experts point out that Uzbekistan has an acute shortage of "bona fide" taxi drivers in a generally developed "shadow" segment.<sup>28</sup> Thus, the legalisation of drivers would not only increase

<sup>24</sup> Businesses will be encouraged to use E-aktiv in stages. UzReport news agency (online). 27.02.2022. URL: <https://uzreport.news/economy/biznes-budet-privlekatsya-k-ispolzovaniyu-e-aktiv-poetapno> (accessed on: 20.06.2022).

<sup>25</sup> Ministry of Finance clarifies new procedure for calculating property tax. Buxgalter.Uz (online). 22.02.2022. URL: [https://buxgalter.uz/publish/doc/text179109\\_minfin\\_razyasnil\\_novyy\\_poryadok\\_rascheta\\_naloga\\_na\\_imushchestvo](https://buxgalter.uz/publish/doc/text179109_minfin_razyasnil_novyy_poryadok_rascheta_naloga_na_imushchestvo) (accessed on: 20.06.2022).

<sup>26</sup> On the fifteenth of May, the taxi experiment launches. What will change. Spot (online). 08.05.2021. URL: <https://www.spot.uz/ru/2021/05/08/taxi/> (accessed on: 20.06.2022).

<sup>27</sup> Decree of the President of the Republic of Uzbekistan "On Additional Measures for Further Improvement of Linear Taxi Activities in the Republic of Uzbekistan". Portal for discussion of normative legal acts. URL: <https://regulation.gov.uz/ru/document/2910> (accessed on: 20.06.2022).

<sup>28</sup> Legalisation of "gypsy cab drivers" and the Uber model: from 1st of July, individuals will be allowed to provide taxi services and operators will be obliged to host servers in Uzbekistan. Spot (online). 26.03.2019. URL: <https://www.spot.uz/ru/2019/03/26/taxi/> (accessed on: 20.06.2022).

tax revenues, but also provide drivers with a minimum social package.

In 2021, an experiment to “whitewash” this market was launched. Uzbek individual entrepreneurs are given the opportunity to provide taxi services subject to a simple list of conditions concerning the age of the driver, the period of operation and exploitation of the vehicle, etc.<sup>29</sup> In our view, based on Russian and international experience, such a strategy leads to positive results in the necessary liberalisation of the market and increased competition.

The creation of distortions in the business environment (depending on the form of its organisation) can be highlighted as a disadvantage of the extension of preferential taxation regimes. This distortion can lead to the creation of tax schemes whereby a taxpayer who performs an employment function ‘surreptitiously’ recognises himself as self-employed in order to reduce his tax liabilities. To date, this type of tax evasion can be combated at the legal level, namely through the development of general and specific principles indicating the unfairness of the economic transaction performed.

### INTRODUCTION OF A SINGLE TAXPAYER ACCOUNT MECHANISM

Speaking at the first Tashkent International Investment Forum, the President of Uzbekistan pointed out that the total number of taxes has been reduced from 13 to 9 (while reducing the tax burden on taxpayers). It was also noted that over the past five years the country has significantly simplified the procedure for issuing licences and permits.<sup>30</sup>

<sup>29</sup> This will improve competition — Yandex Go on the taxi experiment. Spot (online). 20.05.2021. URL: <https://www.spot.uz/ru/2021/05/20/taxi/> (accessed on: 20.06.2022).

<sup>30</sup> Uzbekistan cuts total taxes — Mirziyoyev. Regnum news agency. 24.03.2022. URL: <https://regnum.ru/news/economy/3543279.html> (accessed on: 20.06.2022).

The implementation of these measures is a continuation of the systematic actions to improve fiscal policy and tax administration. The use of a single tax account would make it much easier for taxpayers to make payments to the budget and increase the attractiveness of doing business legally.

A similar mechanism already exists in the Russian legislation.<sup>31</sup> A Single Tax Account (STA), to which a single tax payment (STP) should be transferred, indicating only its amount and TIN, will be opened in the Federal Treasury for each citizen.

At the same time, the tax authority, on the basis of available documents and information (including information provided in some cases), will independently set off the STP against the taxpayer’s fulfilled tax payment obligation. Russian experts note that there are currently more than 900 trillion variants of payment documents when completing tax declarations, which leads to a significant risk of error.<sup>32</sup>

### CONCLUSIONS

The paper considers measures to counteract the informal economy applied in various countries, including the Republic of Uzbekistan, for which the significance of this problem is confirmed by the results of the conducted analysis. Over the past few years, the state has introduced a wide range of tax instruments aimed at combating the negative consequences of the informal economy, and these, according to the authors of the study, are consistent with practices used abroad (e.g. conducting tax lotteries) and the specifics of

<sup>31</sup> Federal Law No. 263-FL of 14.07.2022 “On Amendments to Parts One and Two of the Tax Code of the Russian Federation.” URL: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_421873/](https://www.consultant.ru/document/cons_doc_LAW_421873/)

<sup>32</sup> The Federal Tax Service is preparing a single tax bill for businesses. National News Agency (online). 10.08.2021. URL: <https://nsn.fm/economy/fns-gotovit-edinyi-nalogovyi-schyot-dlya-biznesa> (accessed on: 20.06.2022).

the business environment in Uzbekistan (e.g. in terms of improving taxation of business activities of construction organisations).

In the medium term, a more significant digital transformation of the tax system can be expected, but, at the same time, a number of possible areas for improvement of the country's tax policy to counteract the infor-

mal economy are worth noting: development of information exchange between tax authorities and "third" parties; introduction of a unified taxpayer account mechanism; interactive reflection of purchases made by individuals using non-cash funds; improvement of the taxation mechanism for self-employed persons, including taxi drivers and so on.

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## ABOUT THE AUTHORS



**Milyausha R. Pinskaya** — Dr. Sci. (Econ.), Associate Professor, Head of the Tax Policy Center of the Financial Research Institute of the Ministry of the Finance of Russian Federation, Moscow, Russia  
<http://orcid.org/0000-0001-9328-1224>  
[mpinskaya@nifi.ru](mailto:mpinskaya@nifi.ru)



**Sergey D. Shatalov** — Dr. Sci. (Econ.), Associate Professor, Principal Researcher of the Tax Policy Center of the Financial Research Institute of the Ministry of the Finance of Russian Federation, Moscow, Russia  
<http://orcid.org/0000-0001-9680-4166>  
[shatalovsd@nifi.ru](mailto:shatalovsd@nifi.ru)



**Karina A. Ponomareva** — Dr. Sci. (Jur.), Associate Professor, Leading Researcher of the Tax Policy Center of the Financial Research Institute of the Ministry of the Finance of Russian Federation, Moscow, Russia  
<http://orcid.org/0000-0002-2951-3067>  
[kponomareva@nifi.ru](mailto:kponomareva@nifi.ru)

### *Authors' declared contribution:*

**Pinskaya M.R.** — problem statement and formation of research conclusions.

**Shatalov S.D.** — article concept development.

**Ponomareva K.A.** — critical literature analysis, description of the results.

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