

Article

Characteristics of Taxation for Individual Entrepreneurs

Xojiboyev Muxiddin Shodimuxamedovich¹

1. Andijan Institute of Agriculture and agrotechnologies, "Accounting and Audit," Candidate of Economic Sciences
- * Correspondence: xojiboyevmuhiddin77@gmail.com

Abstract: The objective of this study is to analyze Uzbekistan's taxation system for individual entrepreneurs (IEs), emphasizing the need for a supportive tax framework to encourage entrepreneurship. Using data from Uzbekistan's Tax Code, recent legal amendments, and national economic reports, the study applies a comparative analysis methodology to evaluate the effectiveness of fixed and turnover tax regimes. Key outcomes highlight challenges in low turnover thresholds and complex reporting requirements, which prompt some entrepreneurs to close and reopen businesses to avoid tax complications. This turnover cycle reflects IEs' reluctance to shift to higher tax regimes. Policy implications advocate for raising turnover thresholds and streamlining tax reporting, particularly for IEs exceeding 100 million soums in annual turnover. These reforms could enhance economic stability, reduce administrative burdens, and support sustained small business growth, thereby contributing to Uzbekistan's long-term economic resilience and small enterprise development

Keywords: Sole Trader, Fixed Tax, Gross Annual Income, Declaration, Retail, Turnover Tax, Value Added Tax, Income Tax

1. Introduction

In the context of global instability occurring throughout the world, the opportunities of small business are being widely used to increase the competitiveness of the national economy, including improving its structural composition. Therefore, supporting small businesses and implementing an effective tax mechanism to create sufficient conditions for them is becoming one of the important directions. "Currently, one of the priority directions of economic policy is not only expanding the tax base and revenues of budgets at all levels, but also reforming the country's tax system to ensure the stimulation of the development of socially significant economic entities, including small and medium-sized businesses." As of April 1, 2024, the number of individual entrepreneurs operating in Uzbekistan is [number missing]. Accordingly, today, improving the taxation regime for small business entities, especially individual entrepreneurs, taking into account changes in the country's economy, is becoming increasingly relevant.

Reducing the tax burden on the economy, eliminating imbalances in the level of tax burden in the simplified and general tax systems, optimizing the number of taxes through unification, reducing the negative impact of the simplified taxation procedure, creating a favorable financing system through the tax mechanism for expanding business activities and implementing new projects are considered important priority areas of ongoing scientific research in this field.

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Methodologically, this research draws upon Uzbekistan's Tax Code and recent amendments affecting IEs, coupled with qualitative data from local studies. A comparative framework will facilitate the understanding of tax-induced behaviors among IEs, particularly around turnover thresholds, and reveal areas where policy adjustments could improve support for small entrepreneurs. This approach aims to provide insights that are not only theoretically sound but also practically applicable within the Uzbek context.

The findings from this study are expected to underscore the need for regulatory adjustments that can alleviate tax-related barriers for IEs, thus encouraging their progression towards higher income brackets without fearing excessive tax burdens. Ultimately, the results could offer valuable policy implications, advocating for increased turnover thresholds and simplified reporting requirements. These insights could contribute to a tax environment conducive to sustainable growth for IEs, reinforcing Uzbekistan's economic resilience and promoting broader small business development.

2. Materials and Methods

The methodology for this study involves a comprehensive review and comparative analysis of Uzbekistan's taxation framework for individual entrepreneurs (IEs). Data were gathered from national legislation, including the Tax Code of Uzbekistan, and relevant amendments addressing tax policies for small businesses. Additional data sources include reports and guidelines from government publications on tax compliance and entrepreneurship. A key aspect of the methodology was identifying variations in tax obligations based on turnover thresholds, as well as examining the impact of tax policies on IE behavior, specifically focusing on fixed and turnover tax structures. This approach allowed for a critical assessment of how current policies influence IEs' operational decisions, such as the choice to remain under fixed tax systems or transition to turnover-based taxes.

Comparative analysis was employed to evaluate the effectiveness of tax regimes for IEs with varying income levels, particularly those near the threshold limits for higher tax obligations. Data on income thresholds, tax rates, and registration procedures were analyzed to understand the administrative burdens on IEs and the potential for tax-induced business closures and re-registrations. To assess the practical implications of these policies, qualitative insights were gathered from local studies on small business taxation in Uzbekistan, providing context to the experiences of IEs under current regulations. This methodological framework ensures a thorough understanding of how existing tax policies impact entrepreneurship dynamics, focusing on outcomes that may inform future policy adjustments aimed at fostering a more supportive environment for small enterprises in Uzbekistan.

There are a number of scientific works by domestic and foreign economists dedicated to improving the mechanisms of taxation of small business entities.

The theoretical foundations and socio-economic significance of small business taxation have been studied by foreign economists such as M. Marchese^{1}, V. Simon^{2}, P. Braunerhjelm^{3}. They have contributed to the development of the theory of taxation of individual entrepreneurs, which are considered small business entities.

On this topic, a number of scientific studies have also been conducted by scientists of our country. In particular, the problems of improving the taxation of small business entities have been directly and indirectly researched in the scientific works of E. Mansurov^{4}, Q. Muftaydinov^{5}, I. Niyazmetov^{6}, Sh. Toshmatov^{7}, R. Khusainov^{8} and others.

3. Results and Discussion

Any individual can carry out entrepreneurial activities as an individual entrepreneur (IE) without establishing a legal entity. First of all, we would like to discuss who an IE is and how they are organized.

An individual entrepreneur is considered to be an individual who is registered in the prescribed manner and carries out entrepreneurial activities without establishing a legal entity.

Individuals who carry out entrepreneurial activities without establishing a legal entity, but are not registered as individual entrepreneurs, are considered as individual entrepreneurs for the purposes of taxation and application of liability measures against them.

To register as an individual entrepreneur, one must choose one of the following two methods:

1. Apply to the State Services Center;
2. Submit an application remotely through the new.birdarcha.uz website for state registration of a business entity.

If an individual entrepreneur personally submits an application, a state fee equal to 1 times the base calculation amount (BCA) is paid (375,000 soums from October 1, 2024).

When applying online, a payment of 0.9 times the BCA is made as specified in the appendix "Davlat boji stavkalarining miqdori" to the Law of the Republic of Uzbekistan "Davlat boji to'g'risidagi" No. URQ-600 dated January 6, 2020.

After that, the IE is issued a certificate of registration. After receiving the certificate, they can engage in more than 90 types of activities listed in Resolution No. 6 of the Cabinet of Ministers of the Republic of Uzbekistan dated January 7, 2011 "On Approval of the List of Types of Activities That Individual Entrepreneurs Can Engage In". These include retail trade, craftsmanship, household services, and other types of activities.

IEs registered in the prescribed manner whose goods (services) sales do not exceed 100 million soums have the right to choose one of the following income tax payment regimes when being registered:

- a. method of paying taxes based on the declaration of total annual income. IEs who choose to pay taxes through this method first submit an initial declaration to the tax authority by the end of the month of registration. Then they pay taxes by the first half of each month. The annual declaration for the reporting year is submitted to the tax authority no later than April 1 of the year following the reporting year, and the tax amount indicated in this declaration must be paid by June 1, as stipulated in Article 385 of the Tax Code;
- b. method of paying income tax in a fixed amount. Through this method, the fixed amount income tax is paid monthly by the 15th day, starting from the month following the month of state registration.

The Law of the Republic of Uzbekistan No. URQ-891 dated December 28, 2023 "Soliq va byudjet siyosatining 2024 yilga mo'ljallangan asosiy yo'nalishlari qabul qilinganligi munosabati bilan O'zbekiston Respublikasining ayrim qonun hujjatlariga o'zgartirish va qo'shimchalar kiritish to'g'risida" establishes fixed tax rates for individual entrepreneurs from January 1, 2024 (Table 1).

Table 1. Tax rate for taxpayers paying tax in fixed amounts

T/r	Type of activity	Monthly tax rates (in sums)			
		Tashkent city	Nukus city and regional center cities	other cities	other settlements
1.	Retail trade::				
	with food and non-food products	907 500	726 000	363 000	242 000
	with agricultural products in farmers' markets	302 500	181 500	121 000	60 000
	with newspapers, magazines and book products	302 500	181 500	121 000	60 000
2.	Household services	302 500	181 500	121 000	60 000
3.	Other types of activities	302 500	181 500	121 000	60 000
4.	Cargo transportation services by automobile transport:				
	For trucks with a load capacity of up to 3 tons	181 500			
	For trucks with a load capacity of more than 3 tons	275 000			

Individual entrepreneurs pay the following amounts of social tax simultaneously with the fixed tax:

For themselves, at least 1 times the BCA per month – 375,000 sums;

For hired employees working in shopping complexes and markets, 0.5 times the BCA per month – 182,500 sums;

For hired employees in other areas of activity, 1 times the BCA per year – 375,000 sums.

As can be seen from the social taxes set for IEs, they have the right to hire up to 5 employees. Issues such as registering hired employees with tax authorities and paying taxes for them are regulated by Resolution No. 707 of the Cabinet of Ministers of the Republic of Uzbekistan dated 22.11.2021 "Yakka tartibdagi tadbirkorlar tomonidan yollangan xodimlarni davlat soliq xizmati organlarida hisobga qo'yish hamda soliq solinadigan daromadlar va chegiriladigan xarajatlar hisobini yuritishni tartibga solish chora-tadbirlari to'g'risida". According to this resolution, individual entrepreneurs wishing to hire employees are entitled to do so after opening a bank account in the prescribed manner. After that, a written employment contract is concluded between the individual entrepreneur and the employee. It was established that individual entrepreneurs carrying out entrepreneurial activities with hired employees can operate only at one address branch.

Now, individual entrepreneurs can register their hired employees electronically with state tax authorities through a personal account or mobile application. The state tax authority provides an employee registration card within 1 working day.

Individual entrepreneurs must calculate and withhold personal income tax at the source for each hired employee, and submit an income tax report by the 15th of each month.

Additionally, individual entrepreneurs paying income tax based on a declaration of total annual income have been given the opportunity to keep records of income and deductible expenses related to the sale of goods (services). In this case, individual entrepreneurs can deduct actually incurred expenses related to carrying out entrepreneurial activities when calculating taxes on their income.

In addition to the above taxes, when the annual turnover exceeds 100 million soums, individual entrepreneurs transition from a fixed tax to a turnover tax regime without

changing their status. If the annual turnover exceeds 1 billion soums, they are required to transition to paying value-added tax and profit tax.

Individual entrepreneurs with an annual turnover exceeding 100 million soums but not exceeding 1 billion soums can voluntarily choose one of two methods to pay the turnover tax. (Figure 1)

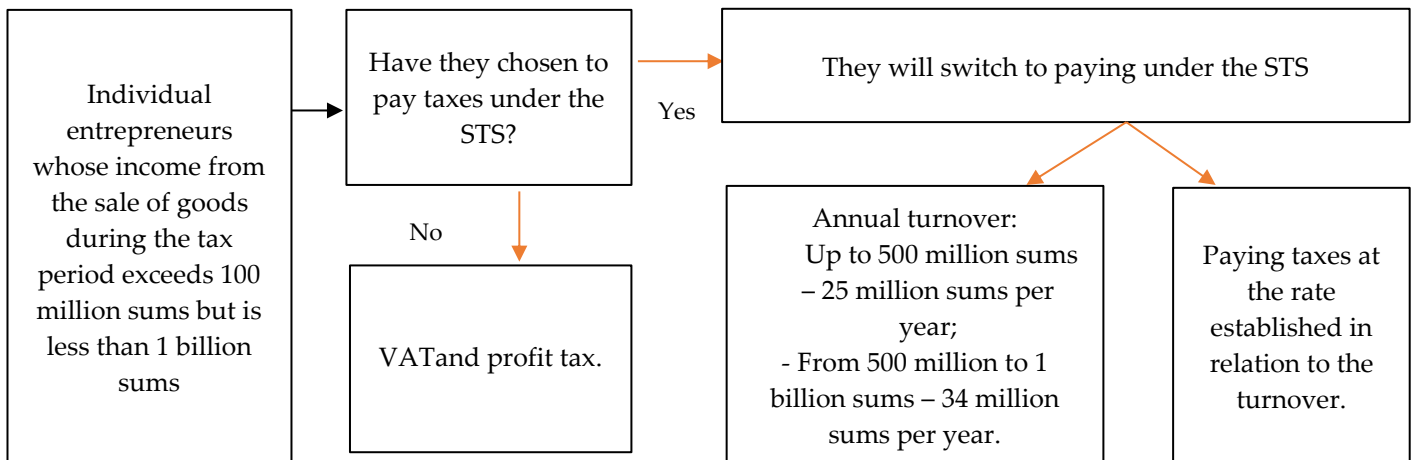


Figure 1. Changes in tax regimes for individual entrepreneurs

As seen from the figure, individual entrepreneurs with an annual turnover exceeding 100 million soums but less than 1 billion soums, who pay turnover-based tax, must pay one-twelfth of 25 million soums monthly if their turnover is up to 500 million soums per year. Those with a turnover between 500 million and 1 billion soums must pay one-twelfth of 34 million soums monthly. Under this method, IEs paying fixed taxes are exempt from submitting tax and financial reports.

In the second method, IEs with an annual turnover exceeding 100 million soums but less than 1 billion soums pay a turnover tax of 4% on their turnover during the reporting period. Additionally, IEs that use this method must submit tax and financial reports.

The taxation mechanisms for IEs mentioned above offer several conveniences. At the same time, we propose the following to improve the taxation system for IEs:

- a. When IEs's annual turnover exceeds 100 million soums or 1 billion soums, it is placed on the same level as legal entities in terms of taxation. At the same time, IEs are required to complete and submit additional tax and financial reports. This creates extra work and expenses for IEs.
- b. The annual turnover threshold of 100 million soums or 1 billion soums established for IE taxation is relatively low for a year. Based on practical experience, most IEs are reluctant to switch to turnover-based taxation. As a result, IEs nearing the 100 million soums turnover threshold often cease operations and restart under a different name. In reality, the same investor is behind both the closing and reopening of these IEs, which creates unnecessary complications.

Based on the above considerations, the following recommendations have been developed:

1. Introduce simplified tax reports for IEs with an annual turnover exceeding 100 million soums or 1 billion soums, or implement a fixed tax system for IEs with an annual turnover exceeding 1 billion soums;
2. Raise the threshold for annual turnover, which triggers a change in tax regimes, from 100 million soums to 500 million soums and from 1 billion soums to at least 3 billion soums. This would likely reduce the frequency of IE closures and reopenings

4. Conclusion

As a result of years of reforms in the field of taxation in Uzbekistan, convenient tax mechanisms have been introduced and are continuously being improved for small business entities, especially individual entrepreneurs (IEs). Currently, IEs with an annual turnover of up to 100 million sums pay a fixed tax based on their location and type of activity. Additionally, IEs with an annual turnover exceeding 100 million sums but less than 1 billion soums can either pay a fixed tax of 25 million or 34 million sums annually, or, at their discretion, opt to pay taxes based on the established rates on their turnover during the reporting period. Furthermore, IEs with an annual turnover exceeding 100 million sums but less than 1 billion soums are also given the option to voluntarily pay VAT and profit tax. However, IEs with an annual turnover exceeding 1 billion sums are required to pay VAT and profit tax, just like other legal entities. Moreover, IEs have the right to hire up to five employees. For each hired worker, depending on the type of activity, IEs must pay social tax in the amount of 0.5 to 1.0 times the basic calculation amount.

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