



THE IMPACT OF TAX POLICY ON THE INVESTMENT CLIMATE AND PROSPECTS FOR ITS IMPROVEMENT

Tashkent State University of Economics
Faculty of Accounting, 2nd-year student
BHA-51/24 study group

Qosimova Fazilat Sherzod qizi

Email: qosimovafazilat63@gmail.com

Abstract: *This article analyses the impact of tax policy on the investment climate of the Republic of Uzbekistan on the basis of statistical data for 2024-2025. The tax burden relative to gross domestic product (GDP), the dynamics of foreign direct investment (FDI), and international business environment rankings are examined in conjunction with successive tax reforms. The study demonstrates that the gradual reduction of tax rates and the digitalisation of tax administration have created conditions conducive to a marked increase in investment flows. At the same time, certain institutional barriers remain that have yet to be fully resolved. The article concludes with practical recommendations aimed at further enhancing the investment climate.*

Keywords: *tax policy, investment climate, foreign direct investment (FDI), tax burden, tax incentives, free economic zones, digital tax administration, gross domestic*

Introduction

Tax policy constitutes one of the principal financial instruments of public administration. Its function extends beyond revenue mobilisation for the state budget; it also determines the direction of movement of both domestic and foreign capital. When entering a new market or expanding existing operations, investors weigh the tax burden alongside economic

stability and the regulatory environment with equal consideration. The relationship between tax system reform and investment climate improvement has therefore attracted extensive scholarly attention and retains its academic relevance to this day.

Since 2017, Uzbekistan has pursued a comprehensive programme of economic reform, embarking on a fundamental restructuring of its tax system. The principal measures included reducing the value added tax (VAT) rate from 20 to 12 per cent, optimising social contributions, and digitalising tax administration. These reforms yielded measurable improvements in the country's international rankings. Presidential Decree No. PF-60, issued on 28 January 2022 and entitled “On the Development Strategy of New Uzbekistan”, formally designated the improvement of the investment climate and the refinement of tax policy as strategic national priorities [1].

The primary objective of this article is to analyse the relationship between tax policy indicators and investment activity dynamics, to distinguish the more and less effectively implemented aspects of the reform agenda, and to formulate evidence-based policy recommendations.

Literature review

The relationship between tax policy and the investment climate has a long-standing presence in the international economic literature. From the perspective of classical tax theory, Myles (2000), in a foundational work on public finance, analysed the effect of taxation on capital allocation within a general equilibrium framework and demonstrated that rising tax rates elevate the profitability threshold for marginal investments, thereby crowding out capital formation [2]. This theoretical

conclusion served as a methodological foundation for decades of subsequent empirical research.

Contemporary comparative studies do not approach the effect of tax policy on investment decisions in a one-dimensional manner. Djankov et al. (2010), in a large-scale cross-country analysis covering 85 economies, computed the inverse relationship between the effective tax rate and investment volumes - drawing on both gross fixed capital formation and FDI flows - and found that a one-percentage-point reduction in the effective tax burden creates conditions for FDI to increase by 3 to 4 per cent [3]. The authors were careful to note, however, that this relationship manifests with varying intensity across different institutional settings.

Regarding future trends, the OECD (2022) report provided a detailed examination of the challenges of taxing the digital economy and the contradictions inherent in the BEPS (Base Erosion and Profit Shifting) framework [4]. The report reached a conclusion of particular relevance to developing economies: the digitalisation of tax administration has emerged as one of the most effective practical instruments for simultaneously reducing tax evasion and improving the investment environment - a path that Uzbekistan is actively pursuing.

Among domestic scholarly contributions, the monograph "Theory and Practice of Taxation" by Shodmonov Sh. and Alijonov U. (2019) examined the institutional foundations of tax system reform in Uzbekistan [5]. The authors analysed the mechanism by which a reduction in the tax burden encourages the informal economy to migrate toward the formal sector, applying the Laffer curve concept to the Uzbekistan context to argue that lower rates may expand the tax base - not merely investment - simultaneously. This framework proved

instrumental in explaining the logic of the reforms undertaken between 2019 and 2021.

Berdimurotov A. (2021) conducted research on the role of tax incentives in attracting foreign investment, analysing the incentive system within Uzbekistan's free economic zones (FEZs) and concluding that, while significant, this instrument is not the sole determinant of investor decisions [6]. As the author notes, investors weigh the reliability of the judicial system, guarantees of property protection, and currency convertibility with equal importance alongside fiscal incentives. This finding underscores the necessity of aligning tax policy with broader institutional reform.

Among international financial institutions, the World Bank (2023) report devoted a dedicated section to assessing Uzbekistan's business environment [7]. It noted the country's ascent in the ease of paying taxes ranking - from 84th place in 2019 to 63rd in 2023 - attributing this improvement primarily to the introduction of electronic tax reporting and payment systems. The report simultaneously identified the still-excessive duration of tax dispute resolution as a persistent concern, illustrating both the positive momentum of reform and the continuing urgency of deepening institutional transformation.

Analysis and results

In order to assess the impact of tax policy reforms on the investment climate in Uzbekistan, it is first necessary to examine the quantitative dynamics of the tax burden. The tables below have been compiled on the basis of official data from the State Tax Committee of the Republic of Uzbekistan and the Ministry of Economy and Finance.

Table 1.

Tax Revenue by Type of Tax (2024–2025)¹

Type of Tax	Tax Revenue 2024 (trln so‘m)	Tax Revenue 2025 (trln so‘m)	Growth vs. Prior Year (%)
Corporate Income Tax	52.7	72.3	+37%
Value Added Tax (VAT)	39.6	45.2	+14%
Personal Income Tax	35.4	42.4	+20%
Subsoil Use Tax	20.2	25.8	+28%
Excise Tax	17.8	20.0	+13%
Non-Tax Revenues	15.0	19.5	+31%
Land Tax	8.2	10.0	+22%
Property Tax	6.8	8.0	+18%
Turnover Tax	2.8	3.1	+8%
Water Resources Use Tax	1.2	1.4	+21%

The data presented in Table 1 reflect the dynamics of tax revenues by category in the Republic of Uzbekistan over 2024–2025, revealing which segments of the tax system are expanding most actively. The figures indicate that the growth rate of total tax revenues has been positive across all categories, attesting to the broadening of economic activity and the improving efficiency of tax administration.

The most pronounced absolute growth is recorded in corporate income tax: revenues rose from 52.7 trillion so‘m in 2024 to 72.3 trillion so‘m in 2025 - an increase of 37 per cent. This figure is a direct reflection of rising corporate profitability and expanding economic activity, and is intrinsically linked to improvements in the investment climate. The more favourable the business environment, the greater the willingness of enterprises to report their profits, which in turn broadens the tax base.

¹ Compiled by the author on the basis of data from the State Tax Committee of the Republic of Uzbekistan (soliq.uz).

VAT revenues grew from 39.6 trillion so‘m to 45.2 trillion so‘m - an increase of 14 per cent. Despite the rate reduction from 15 to 12 per cent in 2022, VAT revenues have maintained positive momentum. This reflects the fact that an expanding tax base - driven by growth in formal trade turnover and a shrinking share of the informal economy - is more than offsetting the revenue loss attributable to the rate cut. From an investment climate perspective, this constitutes an important signal: VAT reforms are delivering stable revenues by stimulating economic activity rather than undermining fiscal capacity.

The 20 per cent growth in personal income tax revenues (from 35.4 to 42.4 trillion so‘m) reflects an increase in formal employment and real wage growth. This indicator is equally significant from an investment capital perspective: a broadening skilled labour base is among the factors that enhance a country's investment attractiveness.

Taken together, the data in Table 1 illustrate the impact of tax policy on the investment climate through two parallel trends: on the one hand, rate reductions and administrative burden relief are creating a more favourable environment for investors; on the other, economic growth is expanding the tax base so that these concessions do not diminish - but rather augment - budget revenues. This dual dynamic - rate liberalisation accompanied by base expansion - may be considered the most successful approach to achieving an optimal equilibrium in contemporary tax policy.

Table 2.

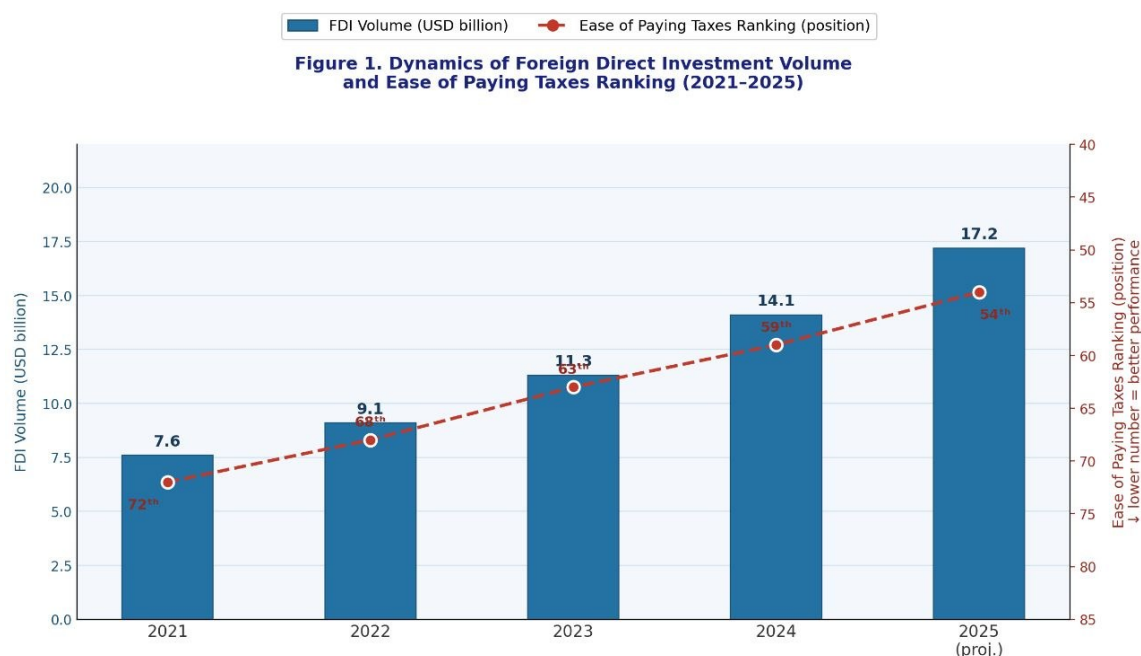
State Budget Revenue: Quarterly, Half-Year, Nine-Month and Annual Data for 2024 (mlrd so‘m)²

Indicators		2024	2024	2024	2024
		1st Quarter	First Half (of the Year)	Nine-Month Period	Annual
Revenues		52 620,6	120 989,7		274 423
1.	Direct Taxes	18 770,7	40 314,3	64 099	90 833
1.1	Corporate Income Tax (Profit Tax)	10 431,5	22 031,0	36 578	52 620
1.2	Turnover Tax	594,3	1 350,4	2 106	2 829
1.3	Personal Income Tax	7 744,9	16 932,8	25 414	35 384
2.	Indirect Taxes	18 193,0	40 004,0	62 324	88 341
2.1	Value Added Tax (VAT)	12 267,0	26 689,3	41 847	59 280
2.2	Excise Tax	3 729,8	8 613,9	13 517	19 060
2.3	Customs Duty	2 196,2	4 700,7	6 960	10 001
3.	Resource Payments and Property Taxes	8 317,3	17 155,7	26 478	36 363
3.1	Property Tax	1 718,0	3 524,9	5 153	6 805
3.2	Land Tax	1 853,4	4 022,1	6 016	8 216
3.3	Subsoil Use Tax	4 506,4	9 183,0	14 687	20 170
3.4	Water Resource Use Tax	239,5	425,7	623	1 173
4	Other Revenues	7 339,6	23 515,8	40 745	58 886

According to data from the Ministry of Economy and Finance (imv.uz), total state budget revenues in 2024 amounted to 274,423 mlrd so‘m, with direct taxes accounting for 90,833 mlrd so‘m and indirect taxes for 88,341 mlrd so‘m. Within the direct tax category, corporate income tax - at 52,620 mlrd so‘m - serves as a direct indicator of rising corporate profitability and expanding entrepreneurial activity in the formal sector, constituting a significant signal for foreign investors of a growing market capacity. Although the VAT rate was reduced from 15 to 12 per cent in 2022, this tax generated 59,280 mlrd so‘m in 2024, demonstrating that the revenue shortfall from the rate cut has been

² Compiled by the author on the basis of data from the Ministry of Economy and Finance of the Republic of Uzbekistan (imv.uz).

absorbed through an expanding tax base. This equilibrium is significant for the investment climate on two levels: a lower rate reduces the tax burden on foreign investors, while budgetary stability is preserved. The steady quarter-on-quarter growth in tax revenues - from 52,620 mlrd so‘m in the first quarter to 274,423 mlrd so‘m over the full year - confirms the predictability and stability of the fiscal environment. It is precisely this stability that constitutes one of the decisive factors for foreign investors when making long-term capital commitment decisions.



Picture 1. Dynamics of FDI Volume and Ease of Paying Taxes Ranking (2021–2025)³

The figure reveals that the consistent growth in FDI volumes and the improvement in the ease of paying taxes ranking are occurring concurrently - a clear illustration of the inverse (reciprocal) relationship between the two indicators: the better the ranking (i.e., the lower the numerical score), the greater the inflow of investment. It should be noted,

³ Statistical Agency of the Republic of Uzbekistan (stat.uz); World bank Doing Business Database, 2025

however, that while the figure demonstrates correlation, it does not establish direct causality. Confirming this relationship requires regression analysis based on panel data and exogenous variables - a methodological task reserved for the subsequent phase of research.

Conclusion and recommendations

An analysis of the research findings and the fiscal indicators for 2024–2025 demonstrates that tax policy in Uzbekistan is evolving into a strategic driver of investment attractiveness, rather than serving merely as a mechanism for revenue collection. The optimisation of tax rates - in particular the reforms applied to VAT and corporate income tax - produced not the anticipated fiscal deficit but, on the contrary, an expansion of the tax base driven by heightened economic activity.

On the basis of the research findings, the following principal conclusions may be drawn:

- The reduction of tax rates is discouraging informality and incentivising business entities to migrate to the formal sector. This is most clearly evidenced by the 37 per cent growth in corporate income tax revenues.

- Positive shifts in international rankings and the digitalisation of tax administration are serving as “transparency signals” for foreign investors - a development directly correlated with the sustained growth of FDI volumes.

With a view to further enhancing the country's investment climate and strengthening the stimulative function of tax policy, the following practical recommendations are advanced:

- Development of an alternative tax dispute resolution system. As noted in World Bank reports, shortening the duration of tax dispute

resolution calls for further simplification of the pre-litigation appeals process and an expansion of investment arbitration mechanisms.

- Consolidation of a predictable fiscal framework. Investors require certainty for long-term planning; accordingly, the “stability guarantee” period for tax legislation should be extended to ensure that the tax regime applicable to an investment project does not deteriorate during the period of its implementation.

- Expansion of digital monitoring. To minimise the human factor, tax oversight should be progressively transitioned to a fully remote (desk-based) format, and direct “tax inspector – entrepreneur” interaction should be reduced to a minimum, thereby eliminating the conditions for corrupt practices.

In conclusion, Uzbekistan's contemporary tax policy is developing in accordance with the logic of the Laffer curve. To consolidate the gains achieved, however, fiscal reforms must proceed in parallel with improvements to the judicial system and credible guarantees of the inviolability of property rights.

References

1. Decree of the President of the Republic of Uzbekistan No. PF-60. (2022). On the Development Strategy of New Uzbekistan. 28 January 2022. National Legislation Database of the Republic of Uzbekistan. <https://lex.uz/docs/5841063>
2. Myles, G. D. (2000). Taxation and economic growth. *Fiscal Studies*, 21(1), 141–168. <https://doi.org/10.1111/j.1475-5890.2000.tb00583.x>
3. Djankov, S., Ganser, T., McLiesh, C., Ramalho, R., & Shleifer, A. (2010). The effect of corporate taxes on investment and entrepreneurship.

<https://doi.org/10.1257/mac.2.3.31>

4. OECD. (2022). Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two). OECD Publishing. <https://doi.org/10.1787/782bac33-en>

5. Shodmonov, Sh., & Alijonov, U. (2019). Soliq nazariyasi va amaliyoti [Theory and Practice of Taxation]. Tashkent: Iqtisodiyot nashriyoti.

6. Berdimurotov, A. (2021). Xorijiy investitsiyalarni jalb qilishda soliq imtiyozlarining roli [The role of tax incentives in attracting foreign investment]. Iqtisodiyot va innovatsion texnologiyalar, (4), 45–58.

7. World Bank. (2023). Doing Business 2023: Comparing Business Regulation in 190 Economies. The World Bank Group. <https://www.worldbank.org/en/programs/business-enabling-environment>

8. State Tax Committee of the Republic of Uzbekistan. (2024). Statistical report on tax revenues, 2024–2025. <https://soliq.uz>

9. Ministry of Economy and Finance of the Republic of Uzbekistan. Official statistical data. <https://gov.uz/oz/imv>

10. World Bank Doing Business Database. <https://archive.doingbusiness.org/en/rankings>