BG Pulse Journal USA
ISSN:1947-2536 http://www.bgpulseusa.com/index.php/bg

ANALYSIS OF THE TAX SYSTEM FOR INDIVIDUAL ENTREPRENEURS

Zarina Khusanovna Rafieva
Assistant Professor at the Department of Investments and Innovations.
Email: zrofiyeva@gmail.com
Tursinboev Amirullo
Samarkand Institute of Economics and Service,
Faculcy of Economics, 2nd grade student
Email: amirullatursinbaev7@gmail.com
https://doi.org/10.5281/zenodo.20233727

Abstract. This article analyzes the economic content and practical significance of the tax system for individual entrepreneurship and its support mechanisms. The study examines the economic efficiency of tax rates, simplified accounting systems, benefits, and tax payment procedures introduced for individual entrepreneurs. It also highlights the importance of measures aimed at developing small businesses based on reforms implemented in recent years.

Key words: individual entrepreneurs, tax system, tax rates, benefits, simplified tax system, small business, fiscal policy.

Introduction

Individual entrepreneurs [1]are a key element of the small business sector, playing a vital role in generating employment in the country's economy and developing the service and trade sectors. Their activities are recognized as a key factor in increasing economic activity and income growth. Therefore, the issue of regulating and supporting the activities of individual entrepreneurs is relevant from both a scientific and practical perspective.

In recent years, Uzbekistan has implemented a number of reforms aimed at simplifying the tax system, encouraging entrepreneurship, and reducing the informal economy. Specifically, measures have been introduced to optimize the tax burden on small and medium-sized enterprises, digitalize reporting processes, and expand the system of benefits. These changes are helping to create a more favorable economic environment for small businesses.

In particular, one of the important regulatory acts adopted in this area after 2022 is the Decree of the President of the Republic of Uzbekistan, aimed at improving tax administration and supporting business entities. According to this Decree, “certain tax incentives for business entities, simplification of administrative procedures, and widespread implementation of digital systems have been established, demonstrating the ongoing reforms in this area”[2].

In this context, a scientific study of the activities of small and medium-sized enterprises within the tax system allows us not only to assess their economic efficiency but also to analyze the effectiveness of existing measures. This research has significant scientific implications for the development of small businesses, ensuring tax stability, and determining the practical implications of economic reforms.

Literature review

[1]Sole Proprietorship (SPE)
[2]President of the Republic of Uzbekistan, “Resolution on improving tax administration in the Republic of Uzbekistan and supporting business entities,” 2024, https://lex.uz/ru/docs/-7681520

Many researchers have conducted academic research on the taxation system for various types of businesses, including sole proprietors. In particular, K. A. George's article, "Taxing the Freelance Economy: Policy Challenges and Opportunities", provides an in-depth analysis of the role of the tax system for sole proprietors and self-employed individuals in the modern economy. The researcher examines the mechanisms for determining the income of small entrepreneurs operating through digital platforms and effectively collecting taxes from them. The study substantiates the importance of simplifying tax administration, implementing digital monitoring systems, and principles of voluntary taxation. [2]

The article "Tax Compliance of Entrepreneurs and Digital Transformation" by J.C. Burdini and other scholars also examines the tax compliance of individual entrepreneurs in the context of digital transformation [3]. The researchers empirically assessed the effectiveness of electronic tax returns, online payment systems, and automated control tools for entrepreneurs. The authors emphasize that the complexity of the tax system forces small businesses to move into the shadow economy. The significance of this article for this topic lies in its premise that improving the business environment is possible by simplifying the tax system. However, the lack of sufficient study of the experience of Central Asian countries in the study constitutes a scientific shortcoming.

R.M. Byrd's research paper, "Tax Policy and Small Business Development", analyzes the role of taxation of small businesses and sole proprietors in economic development [4]. The author emphasizes that the primary objective of taxation is not only to collect revenue but also to stimulate entrepreneurial activity. The article demonstrates the advantages of preferential tax rates, the patent system, and simplified tax regimes. A key aspect of this study is that it interprets a favorable tax environment for small businesses as a significant factor in economic growth.

In the article named "Tax Administration and the Informal Economy", by J. Alma and other researchers examine the relationship between the informal economy and the tax system for individual entrepreneurs [5]. The researchers explain the relationship between tax severity and entrepreneurs' motivation to pay taxes using economic models. The authors suggest that effective tax administration facilitates entrepreneurs' transition to the formal economy.

A.A. Abdullaev's article, "Analysis of the Current State of Taxation of Individual Entrepreneurs and Self-Employed Individuals", provides a detailed analysis of the current taxation system for individual entrepreneurs in Uzbekistan [6]. The scholar evaluates the economic efficiency of increasing the number of self-employed individuals in the country and the tax incentives introduced for them. The study emphasizes the advantages of patenting, fixed tax rates, and an electronic registration system.

The manual "Characteristics of Taxation of Individual Entrepreneurs," prepared by Sh. S. Gulyamov, examines the theoretical and practical aspects of taxation of individual entrepreneurs [7]. The author analyzes the advantages of the simplified taxation system for business entities, the procedure for maintaining tax records, and its role in generating state budget revenues. The importance of this source for this topic lies in its detailed explanation of the mechanisms of taxation of individual entrepreneurs based on Uzbek practice.

Research methodology

This article uses a systematic approach to analyzing the activities of sole proprietors. The study examined regulatory documents and statistical data on the tax system, benefits, and regulatory mechanisms. Descriptive analysis was also used to identify the role of sole proprietors in the economy and the structure of their tax burden. A comparative approach was used to identify differences between various tax rates and benefits and evaluate their effectiveness.

Analysis and results

An analysis of scientific research on the taxation system for individual entrepreneurs shows that in the modern economy, effective taxation of small businesses and the self-employed is important not only for ensuring the stability of the state budget but also for the development of the entrepreneurial environment. Research conducted by international economists has shown that improving tax administration through digital technologies, the introduction of electronic tax filing systems, and simplified tax regimes have a positive impact on the legalization of small business activities. The importance of a flexible and convenient tax system is particularly emphasized in countries with a high share of the informal economy.

An analysis of Uzbek scholars' research shows that tax reforms implemented in the country to support individual entrepreneurs and the self-employed are contributing to increased economic activity. Research has scientifically proven that fixed tax rates, patenting, and electronic registration systems create a favorable institutional environment for small businesses. However, regional differences in the tax burden, insufficient incentives for certain types of activities, and problems with the transparency of tax information have also been identified.

Overall, the analysis demonstrates the need for further improvement of the tax system for individual entrepreneurs. Specifically, key areas include the full digitalization of tax administration, differentiation of the tax burden based on the type of activity and income level, and strengthening incentive mechanisms aimed at reducing the informal economy. In the future, it is necessary to conduct in-depth empirical research in this area at the regional and industry levels, adapt international experience to Uzbek practice, and develop evidence-based proposals for improving tax compliance among small businesses.

The small business tax system is a key driver of economic development, stimulating entrepreneurial activity, and generating state budget revenue. In recent years, Uzbekistan has been implementing large-scale reforms aimed at simplifying the existing tax system for individual entrepreneurs and self-employed individuals, reducing the administrative burden, and introducing digital governance mechanisms. The table below compares the key differences between the tax system in effect until 2026 and the special tax regime for 2026-2030. (Table 1)

Table 1

Comparative description of the taxation system for small businesses (until 2026 and for the period 2026–2030)[3]

Indicators	**The procedure is valid until 2026.**	**Special Agreement for 2026–2030**
Tax type	The fixed turnover tax was applied mainly to individual entrepreneurs, while organizations with annual revenue exceeding 100 million soums paid a turnover tax of 4%.	A single tax rate of 1% of turnover has been introduced for all organizations.
Applicable organizations	Individual entrepreneurs and self-employed persons	Small and medium-sized enterprises, as well as individual entrepreneurs with an annual turnover of up to 1 billion soums.
Set limits	For amounts exceeding 100 million soums, a turnover tax of 4%	Only a single threshold of 1 billion soums will be maintained,

[3] https://azma.uz/tpost/soliq-yatt-ozbekiston-2026

	was introduced, and for amounts exceeding 1 billion soums, a general taxation system was applied.	and if it is exceeded, the tax system will be transferred to the general taxation system.
Conditions for self-employed persons	Individuals with incomes of less than 100 million soums are exempt from paying taxes.	The benefit has been cancelled and now all income is subject to a 1% tax.
Administrative management level	Different tax regimes required separate monitoring and fixed fees were available.	A unified proportional system and automated calculation mechanism based on digital platforms have been introduced.

An analysis of the table shows that under the previous system, several tax regimes were in effect for individual entrepreneurs, creating complexities in tax accounting. Specifically, the requirement to apply a flat personal income tax or a 4% turnover tax based on income created an additional administrative burden for entrepreneurs. Under the new system, the introduction of a single 1% turnover tax for all small businesses serves to simplify the tax system. Furthermore, establishing a single limit makes tax requirements for entrepreneurs clear and understandable.

Furthermore, the abolition of benefits for the self-employed in the new special regime demonstrates its aim to establish the principle of equal taxation for all entities. The introduction of an automated calculation system through digital platforms will reduce human error, improve the efficiency of tax administration, and reduce the share of the shadow economy. However, the effectiveness of the new system largely depends on the income level of entrepreneurs, regional economic conditions, and the level of development of digital infrastructure.

The presented diagram is intended to systematically cover the organizational and economic structure of individual entrepreneurs, their taxation mechanisms, and the benefits provided. It illustrates the interconnectedness of the individual entrepreneur's areas of activity, elements of the tax system, tax rates, tax payment procedures, and the calculation base, and comprehensively expresses the role of this institution in the economic mechanism. (Figure 1)

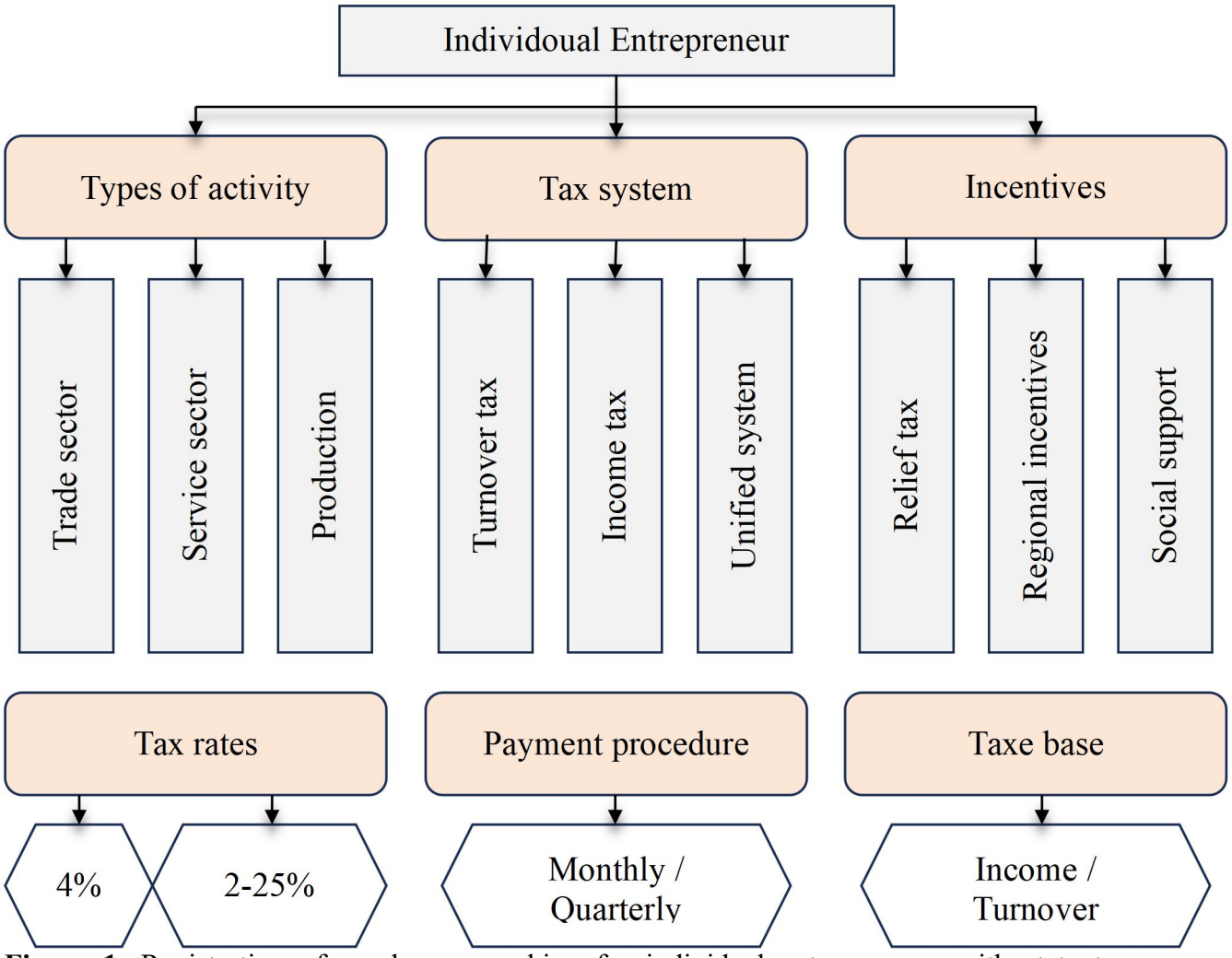


Figure 1. Registration of employees working for individual entrepreneurs with state tax authorities.[4]

The analytical framework divides SME activity into three main areas: trade, services, and production, indicating their broad participation in the economy. The section on the tax system reflects the fiscal regulation of SMEs through turnover tax, income tax, and a single tax mechanism. At the same time, the difference in tax rates, ranging from 2% to 25% depending on the type of activity, indicates that tax policy is based on a differentiated approach.

The second analytical section presents the benefits package as an important incentive for small businesses. Specifically, a low tax burden, regional incentives, and social support measures contribute to the sustainable operation of small businesses. Furthermore, the introduction of a monthly or quarterly tax payment procedure and calculation based on income or turnover simplifies tax administration and creates a favorable tax environment for small businesses.

The tax system regulating the activities of individual entrepreneurs is based on a relatively flexible and differentiated approach, which facilitates the increased economic activity of small

[4]Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On measures to regulate the registration of employees working for individual entrepreneurs with state tax authorities and the accounting of taxable income and deductible expenses" dated November 22, 2021, No. 707, https://lex.uz/docs/-5739505

businesses. Segmentation by type of activity and differentiation of tax rates demonstrate the state's commitment to ensuring a balance between economic stability and entrepreneurial development in fiscal policy. Simplifying the tax base and periodic payment procedures reduce the administrative burden on individual entrepreneurs and improve their efficiency.

In a nutshell, this system is an important institutional mechanism aimed at supporting small businesses. The system of benefits and the simplified tax regime facilitate the integration of SMEs into the formal economy and create conditions for their sustainable development. Overall, the elements presented in the framework confirm the existence of a comprehensive system that serves to increase employment, reduce the shadow economy, and support economic growth by encouraging individual entrepreneurship.

Conclusion and suggestions

Individual entrepreneurs occupy a significant position in the small business segment of the economy and are a key factor in ensuring employment and increasing entrepreneurial activity. According to analysis, the simplified tax system, differentiated rates, and flexible payment procedures introduced for them facilitate doing business and strengthen financial stability. Furthermore, the benefits and support measures provided facilitate the integration of state-owned enterprises into the formal economy and create favorable conditions for their effective operation. Overall, this system has a positive impact on economic growth, increasing employment, and reducing the shadow economy by stimulating the development of small businesses.

Simplified tax mechanisms introduced for individual entrepreneurs will help improve their efficiency. Differentiated tax rates and flexible tax payment procedures are an important factor in ensuring the financial stability of small businesses and creating a more favorable business environment. This will have a positive impact on increasing the share of the formal sector in the economy.

Overall, the existing system of support for small and medium-sized enterprises plays a significant role in economic growth, increasing employment, and reducing the shadow economy. At the same time, further improvement of these mechanisms will contribute to the competitiveness of small businesses and strengthen economic stability.

As a result of the research, the following proposals were developed:

Firstly, it would be advisable to more clearly differentiate tax rates for individual entrepreneurs depending on the type of activity and regional characteristics, which would contribute to the sustainable development of small businesses.

Secondly, it is necessary to reduce administrative costs and increase transparency through full digitalization and automation of the tax reporting process for small and medium-sized enterprises.

Thirdly, it is necessary to expand access to loans and financial resources for small businesses, in particular, to increase the number of preferential loan programs.

Fourth, it is recommended to strengthen the system of regional incentives to support small and medium-sized enterprises, especially by introducing additional tax breaks in underdeveloped regions.

References

[1] O‘zbekiston Respublikasi Prezidenti, “O‘zbekiston Respublikasida soliq ma’murchiligini takomillashtirish hamda tadbirkorlik subyektlarini qo‘llab-quvvatlashga oid qaror”, Lex.uz, 2024-yil, https://lex.uz/ru/docs/-7681520

[2] I. Stroila, P. Steffens, and C. Plewa, “Reimagining entrepreneurial ecosystems for sustainable development,” Journal of Business Research, vol. 210, Article no. 116132, ISSN: 0148-2963, 2026. Available: https://www.sciencedirect.com/science/article/pii/S0148296326001669

[3] C. Boar and M. Knowles, “Optimal taxation of risky entrepreneurial capital,” Journal of Public Economics, vol. 234, Article no. 105100, ISSN: 0047-2727, 2024. https://www.sciencedirect.com/science/article/pii/S0047272724000367

[4] United Nations Development Programme (UNDP), Specifics of Taxation of Individual Entrepreneurs, Tashkent, Uzbekistan, 2023. https://files.acquia.undp.org/public/migration/uz/un_uzb_Handbook_Specifics_of_Taxation_of_Individual_Entrepreneurs.pdf

[5] A.A. Abdullayev, “Yakka tartibdagi tadbirkorlar va o‘zini o‘zi band qilgan shaxslarni soliqqa tortishning amaldagi holati tahlili,” Yashil iqtisodiyot va taraqqiyot, vol. 1, no. 12, pp. 45–52, 2024. https://www.researchgate.net/publication/385628942_YAKKA_TARTIBDAGI_TADBIRKORLAR_VA_OZINI_OZI_BAND_QILGAN_SHAXSLARNI_SOLIQQA_TORTISHNING_AMALDAGI_HOLATI_TAHLILI

[6] Sh.S. G‘ulomov, “Yakka tartibdagi tadbirkorlarni soliqqa tortishning o‘ziga xos xususiyatlari,” Yashil iqtisodiyot va taraqqiyot, vol. 2, no. 5, pp. 33–39, 2024. https://yashil-iqtisodiyot-taraqqiyot.uz/journal/index.php/GED/article/view /9012

[7] Рафиева Зарина Хусановна. (2026). Налоговое Регулирование Доходов Населения и Его Социально-Экономические Последствия. IQRO, 21(2), 100–103. https://wordlyknowledge.uz/index.php/iqro/article/view/6764

[8] Рафиева З.Х., Файзуллаев А.С., Эгамбердиев А.И., Особенности Налогообложения Сельскохозяйственных Предприятий, JMBM. 2025. №4. https://cyberleninka.ru/article/n/osobennosti-nalogooblozheniya-selskohozyaystvennyh-predpriyatiy-1

[9] https://zenodo.org/records/14777860

[10] Bozorov A., “Tadbirkorlik bilan shug‘ullanuvchi jismoniy shaxslarni soliq nazorati mexanizmi asosida tartibga solish masalalari”, Green Economy and Development, Vol.2, Issue 10, pp.150–158, 2024, https://doi.org/10.60078/2992-877X-2024-vol2-iss10-pp150-158

[11] Navro‘zova F., “Yakka tartibdagi tadbirkorlar va o‘zini o‘zi band qilgan shaxslarni soliqqa tortishning amaldagi holati tahlili”, Iqtisodiy taraqqiyot va tahlil, Vol.2, Issue 10, pp.150–158, 2024, https://doi.org/10.60078/2992-877X-2024-vol2-iss10-pp150-158