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RESTRICTING INDIVIDUAL PRIVILEGES IN PROFIT TAX: THE ECONOMIC EFFICIENCY OF LAW NO. O'RQ-1108

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ANNOTATION: The article analyzes the economic substance and efficiency potential of the reform restricting individual and long-term corporate profit tax privileges, introduced by Law No. O'RQ-1108 of the Republic of Uzbekistan dated December 25, 2025. Drawing on tax expenditure theory (Surrey) and international literature on the effectiveness of tax incentives (Easson, Zolt), the institutional problems of the privilege system are substantiated. Based on Tax Committee registry data as of 2025, the high concentration of privileges is revealed (top 1% of recipients - 86%, Gini coefficient - 0.98). The scope limitations of Law O'RQ-1108 - in particular, its exclusion of VAT and customs privileges - are critically examined. The study proposes a phased roadmap for a broader reform of the privilege system.
Keywords: profit tax, tax privileges, O'RQ-1108, tax expenditures, accelerated depreciation, tax base, budget efficiency.

INTRODUCTION

The tax privilege system is one of the most extensive yet least transparent elements of Uzbekistan's tax and budget policy. According to Tax Committee registry data, in 2025, 155,854 companies used tax privileges totaling 119.1 trillion soums; together with customs privileges (59.1 trillion soums), the total volume of preferences reached 178.2 trillion soums, i.e., 9.6% of GDP, or 49% of tax and customs revenues [2]. This indicator demonstrates that Uzbekistan effectively has two parallel tax systems - a general regime based on standard rates, and a privileged regime consisting of exemptions, reduced rates, and special regimes [2].

The urgency of the problem lies in the fact that the privilege system is distributed in a highly uneven manner: 156 companies, representing only 0.1% of all recipients in the registry, hold 67% of the privileges, while the largest 1% of recipients hold 86%, and the Gini coefficient of the distribution is 0.98 [2]. Under such concentration, competitive conditions are distorted between companies operating in the same sector but holding different tax statuses - for an entity operating under the standard rate, the existence of a privileged competitor effectively becomes a “hidden tax” It was precisely in response to this institutional problem that, on December 25, 2025, the Republic of Uzbekistan adopted Law No. O'RQ-1108 [1]. This law, for the first time, put an end to the practice of granting individual and indefinite-term privileges on profit tax: from now on, such privileges may only be granted in the form of accelerated depreciation of depreciable fixed assets, and for a term not exceeding three years [1, 4]. Privileges on other taxes (VAT, excise tax, and

taxes for the use of subsoil and water resources) may only be introduced as a rate reduction of no more than 50%, within the same three-year limit [1].

Therefore, the purpose of this article is to analyze the economic substance of Law O'RQ-1108, the extent to which it resolves the structural problems of the privilege system, and its scope limitations, as well as to develop, on the basis of the conclusions obtained, proposals for a broader reform of the privilege system.

LITERATURE REVIEW

The theoretical basis for understanding the economic nature of tax privileges is S. Surrey's concept of "tax expenditures": according to this concept, tax privileges are essentially equivalent to direct budget expenditures, since they too redistribute state resources in favor of particular groups, but unlike traditional budget expenditures, they remain outside parliamentary approval and public oversight [8]. This approach has subsequently also been recognized by the International Monetary Fund and other international financial institutions, which particularly emphasize the need for transparent accounting of tax expenditures [3].

In the international literature on the impact of tax incentive measures on investment activity (Easson, Zolt), it has been substantiated that tax privileges are often not a decisive factor for foreign investors - investment decisions are more strongly influenced by infrastructure quality, the stability of the institutional environment, and administrative simplicity than by the tax rate [10, 11]. This conclusion is also being confirmed in Uzbekistan's conditions: although the country scored 70.7 out of 100 points on taxation in the World Bank's Business Ready 2025 study, the sub-indices related to the transparency of privileges and public participation in their introduction remain in the range of 0–5.5 points [7].

An important factor from the perspective of modern international tax architecture is the Pillar Two (GloBE) rules developed by the OECD and applied starting in 2024, which introduce a 15% global minimum effective tax rate for groups of international companies with annual revenue exceeding EUR 750 million [9]. If a company's effective rate in Uzbekistan, due to national privileges, falls below 15%, the difference is automatically collected in favor of the jurisdiction where the parent company is located - in this case, the national tax privilege benefits not the investor but the foreign budget [2, 9]. This theoretical basis further strengthens the necessity of reforms such as O'RQ-1108 in the international context.

Among national economists, B. Alikhonov has conducted a quantitative analysis, based on registry data, of the concentration of the privilege system in Uzbekistan and its negative impact on the competitive environment [2], while A. Jo'rayev has substantiated the need to maintain a tax expenditure report and proposed developing a "benchmark tax system" methodology [3]. However, none of these works has examined in depth, as a separate subject of institutional-legal and economic analysis, precisely the restrictions introduced by Law O'RQ-1108 on profit tax - this article was written to fill this scientific gap.

RESEARCH METHODOLOGY

The research methodology is built on a three-stage approach. In the first stage, the text of Law O'RQ-1108 is studied through the method of normative-legal analysis, comparing the procedure before and after its adoption (before/after analysis).

In the second stage, a statistical-descriptive analysis is carried out based on the open registry of the Tax Committee and data from the Anti-Corruption Agency [2, 14]: the distribution of privileges by sector, company size, and legal basis, concentration indicators (share of top-1%, top-0.1%), and the Gini coefficient are analyzed.

In the third stage, using scenario and budget-arithmetic analysis methods, the potential budget impact of abolishing privileges and reducing standard rates is assessed, and compared with the International Monetary Fund's estimates for Uzbekistan [6].

ANALYSIS AND RESULTS

To gain a clearer understanding of the substance of Law O'RQ-1108, it is useful to compare the procedure before and after its adoption (Table 1).

Criterion	Before O'RQ-1108 (until end of 2025)	After O'RQ-1108 (from 2026)
Form of profit tax privilege	Full or partial rate reduction (including down to 0%)	Only accelerated depreciation of fixed assets
Term of privilege	Indefinite or long-term (up to 10–50 years in individual cases)	No more than 3 years
Basis for granting	Presidential decisions, on an individual basis	Presidential decisions, but only in the form of depreciation
Other taxes (VAT, excise, etc.)	Various, unsystematized	Rate reduction of no more than 50%, ≤3 years

Table 1. Comparison of the procedure before and after the adoption of Law O'RQ-1108. Source: compiled by the author based on [1, 4].

As the table shows, the central idea of the reform is to close the channel of individual privileges “in monetary form” (fully or partially reducing the rate, indefinite or long-term) on profit tax, and to replace it solely with an accelerated depreciation mechanism directly linked to production activity [1, 4]. The economic logic of this approach is that, unlike a rate reduction, the depreciation privilege applies only when a real investment (capital expenditure on fixed assets) is actually made - meaning the privilege is automatically tied to investment activity, while rent-based profit is taxed at the standard rate.

To assess the overall scale of the privilege system, the key indicators as of 2025 are presented in Table 2.

Indicator	Value (2025)
Number of companies that used tax privileges	155,854
Total volume of tax privileges	119.1 trillion soums
Total volume of customs privileges	59.1 trillion soums
Total preferences (tax + customs)	178.2 trillion soums
Share of total preferences in GDP	9.6%
Share of total preferences in tax-customs revenue	49%
Number of privilege norms in the registry	732
Of which outside the Tax Code (sub-legislative acts)	321 (43.9%)
Gini coefficient of privilege distribution	0.98

Table 2. Overall scale of tax and customs privileges in Uzbekistan, 2025. Source: compiled by the author based on [2].

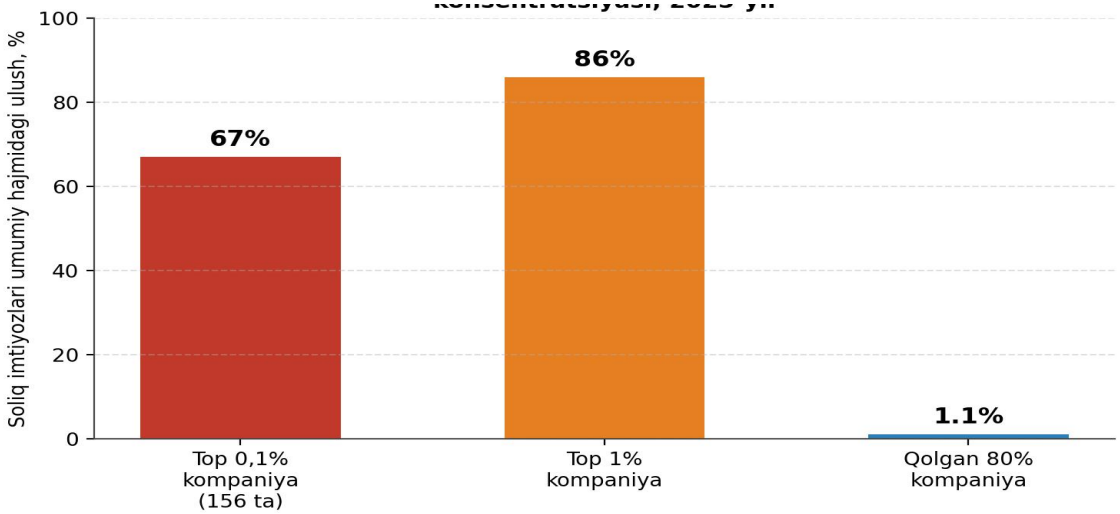


Chart 1. Concentration of tax privileges by company, 2025. Source: compiled by the author based on [2].

As shown in Chart 1, the main problem of the privilege system is not its overall volume (although this is also a large figure, amounting to 9.6% of GDP), but rather its extremely uneven distribution. While 80% of all recipients hold only 1.1% of the privileges (the median privilege amount is a mere 8 million soums per year), 156 companies, representing 0.1% of recipients, hold 67% of the privileges [2]. Such a level of concentration shows that it does not match the original purpose of the privileges - supporting small and medium-sized businesses and innovative, export-oriented sectors.

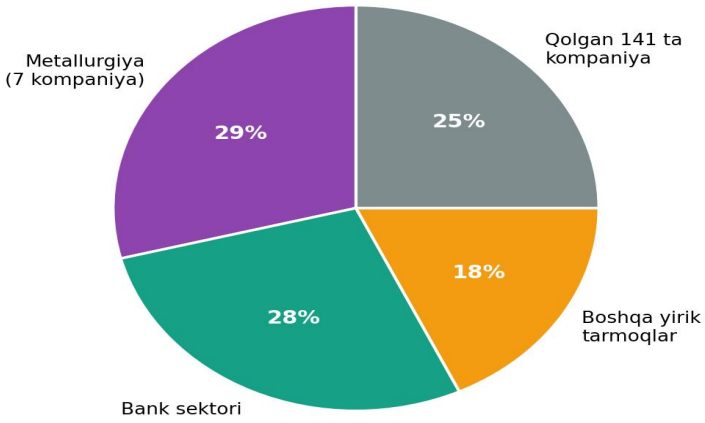


Chart 2. Sectoral distribution among the TOP-200 privilege recipients, 2025. Source: compiled by the author based on [2].

The sectoral breakdown (Chart 2) shows that among the TOP-200 largest privilege recipients, just 7 metallurgy companies hold 24 trillion soums in privileges, i.e., 29% of this group's privileges. Together with the banking sector, these two sectors account for 57% of privileges within the TOP-200 [2]. In the services sector, the ratio of tax paid to privilege received is 1 to 0.74, while in industry this figure is 1 to 0.37 - meaning the services sector (mainly due to the IT-Park regime) receives roughly twice as much privileged “relief” as industry [2].

A clear example of how individual and long-term privileges operated in practice before the adoption of O'RQ-1108 is the experience of free economic zones (FEZ). In 2020–2021, FEZ residents used a total of 242.2 billion soums in profit tax privileges (Chart 3) [5].

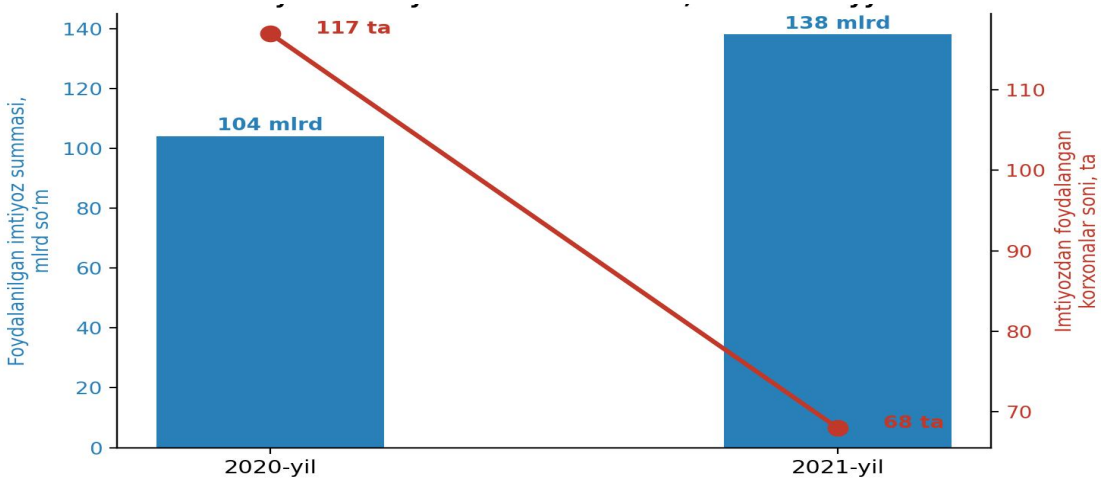


Chart 3. Dynamics of profit tax privilege use in free economic zones, 2020–2021. Source: compiled by the author based on [5].

As Chart 3 shows, although the number of enterprises using the privilege decreased from 117 to 68 (by 39%) in 2021, the amount of privilege used increased from 104 billion soums to 138

billion soums (by 33%). This trend indirectly confirms that the privilege is becoming increasingly concentrated in favor of larger companies, and substantiates the necessity of restricting precisely such individual, long-term privileges - a task that O'RQ-1108 is aimed at addressing [1, 5].

At the same time, the scope limitations of Law O'RQ-1108 must be specifically emphasized. First, the law applies only to individual privileges on profit tax; the 150 VAT privilege norms and the 59.1 trillion soums in customs privileges recorded in the registry remain outside the scope of this law [2]. Second, of the 732 privilege norms in the registry, 321 (43.9%) still operate outside the Tax Code, i.e., on the basis of sub-legislative acts (decrees, resolutions) - these are not directly regulated by O'RQ-1108 [2]. Third, even after the law's adoption, new privileged regimes continue to be introduced in parallel: in May 2026, initiatives were approved to exempt creative-industry counterparties from taxes for 2026–2030, and to exempt participants of the Tashkent International Financial Center from major taxes until 2076 [2].

To assess the reform's potential budget-economic effect, the International Monetary Fund's calculations are of significant importance: abolishing ineffective customs privileges could bring additional budget revenue of up to 3.2% of GDP [6]. According to independent expert estimates, reducing standard tax rates (including reducing profit tax from 15% to 10%) could lead to a reduction in budget revenue of approximately 77 trillion soums; however, abolishing a large part of the existing 119 trillion soums in privileges could nearly fully cover this fiscal gap: if 60–70% of the privileged base were returned to the budget, additional revenue could amount to 71–83 trillion soums (Chart 4) [2].

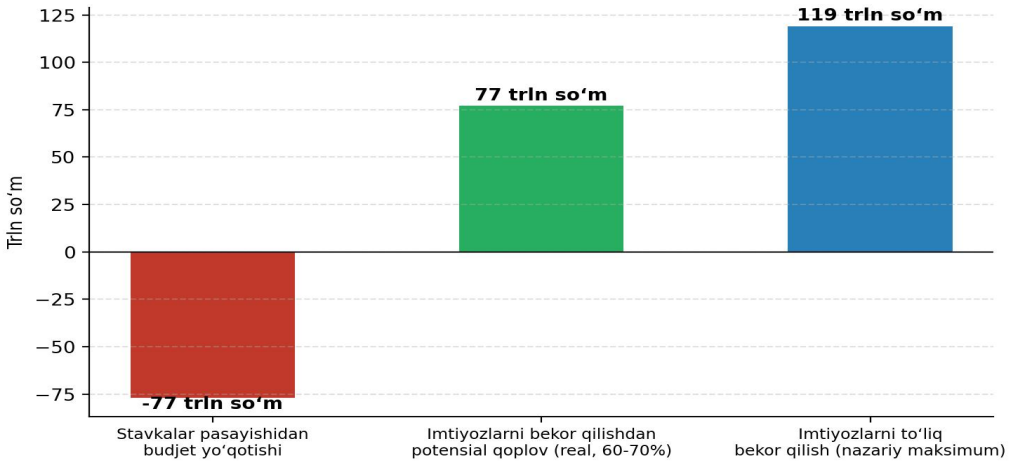


Chart 4. Estimated budget impact of reducing standard rates and abolishing privileges, trillion soums. Source: compiled by the author based on [2, 6].

This calculation shows that the approach initiated through O'RQ-1108 - restricting individual privileges and instead introducing uniform, low, and predictable rates for everyone - is a strategy justified not only from the standpoint of fairness and competition, but also from a purely fiscal standpoint. To measure the success of the reform, independent analysts have proposed key performance indicators (KPIs) targeted through 2029 (Table 3).

Indicator	As of end of 2025	Target by 2029
Share of privileges in GDP	9.6%	≤ 1.5%
Number of privilege norms in the registry	732	≤ 40
Norms outside the Tax Code	321 (43.9%)	0
Share of top 1% recipients in privilege volume	86%	≤ 35%
Share of privileges reaching small and medium businesses	~1%	≥ 40%
Gini coefficient of privilege distribution	0.98	≤ 0.40

Table 3. KPI indicators targeted for reform of the privilege system through 2029. Source: compiled by the author based on [2].

The indicators in Table 3 once again confirm that O'RQ-1108 itself covers only one part of these goals - the channel of individual privileges on profit tax. Achieving the remaining indicators (including the complete abolition of norms outside the Tax Code, and the reduction of VAT and customs privileges) will require the adoption of additional, broader-scope normative-legal acts at subsequent legislative stages.

CONCLUSIONS AND RECOMMENDATIONS

The analysis conducted shows that Law O'RQ-1108 is a well-founded and necessary step aimed at ending one of the most serious institutional problems in Uzbekistan's tax system - the practice of individual, indefinite-term privileges on profit tax. By replacing privileges with an accelerated depreciation mechanism, the law ties the privilege to real investment activity and limits it in time to three years, which increases the predictability of tax expenditures and strengthens budget discipline [1, 4].

At the same time, the analysis also clearly showed the scope limitations of O'RQ-1108: the law regulates only a portion of the total tax and customs privileges, which amounted to 178.2 trillion soums in 2025 - namely, individual privileges on profit tax - while VAT privileges (150 norms) and customs privileges (59.1 trillion soums) effectively remain outside its scope [2]. Furthermore, nearly half (43.9%) of the norms in the registry still operate outside the Tax Code, on the basis of sub-legislative acts, which continues to negatively affect the transparency of the system.

Based on the above conclusions, the following proposals have been formulated: first, the approach applied in O'RQ-1108 - restricting individual privileges in term and form - should be gradually extended to VAT and customs privileges as well; second, all new privileges should be introduced only through the Tax Code and with a mandatory “sunset” clause (automatic three-year expiration); third, based on the tax expenditure concept proposed by S. Surrey [8], it would be advisable to institutionalize an annual “tax expenditure report” and submit it to parliamentary discussion together with the draft budget law; fourth, in accordance with OECD Pillar Two requirements [9], a domestic minimum top-up tax (QDMTT) mechanism should be introduced for large international groups, otherwise part of the existing privileges will continue to benefit foreign budgets rather than investors; fifth, the transparency sub-indices in the Business Ready rating [7]

should be improved by opening the privilege registry and its efficiency indicators to regular public monitoring.

The analysis conducted and the proposals developed in this article may serve as a methodological basis for further research - in particular, for an econometric assessment of the practical results of O'RQ-1108 in 2026–2028, and for quantitative modeling of scenarios for a broader reform of the privilege system.

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