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ADAPTING INTERNATIONAL TAX ADMINISTRATION PRACTICES (GEORGIA, ESTONIA) TO REDUCE THE SHADOW ECONOMY IN UZBEKISTAN

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Abstract

This article examines the reduction of the shadow economy share, which remains one of the most pressing obstacles to the sustainable economic development of Uzbekistan. The study provides a statistical and comparative analysis of international best practices, specifically focusing on Georgia and Estonia, which have successfully minimized underground economic turnover through comprehensive tax administration reforms. The research highlights the potential of adapting successful foreign frameworks—such as tax system digitalization, mandatory e-invoicing systems, and unified reinvestment incentives—into Uzbekistan's fiscal structure. Ultimately, the paper provides practical and scientifically grounded proposals and recommendations aimed at legalizing informal sectors and optimizing tax compliance within the country's modern economic landscape.

Keywords: shadow economy, tax administration, Georgian reforms, Estonian digital model, taxation, e-invoice.

1. Introduction

Today, the shadow economy across global jurisdictions is undergoing a profound structural transformation. According to data from the International Monetary Fund (IMF) and the World Bank, the shadow economy not only diminishes state budget revenues but also distorts fair market competition and undermines institutional trust.

In Uzbekistan, the scale of the informal sector remains substantial; unaccounted turnover persists particularly across public catering, consumer services, construction, and retail trade. Although Presidential Decree No. UP-6098 dated October 30, 2020, alongside accompanying institutional initiatives, accelerated formalization in recent years, radically upgrading the system necessitates studying and contextualizing premier foreign tax administration models. In this regard, Georgia—celebrated for decisive institutional overhauls—and Estonia—globally recognized for its end-to-end digital architecture—present exceptional academic and empirical value.

2. The Georgian Experience: Radical Reforms and Tax Simplification

In the early 2000s, Georgia ranked among the highest globally in shadow economy prevalence, estimated at 60–70% of GDP. However, sweeping anti-corruption and fiscal reforms implemented between 2004 and 2011 fundamentally reversed this trajectory:

- **Consolidation of Tax Categories:** Georgia slashed its tax catalog from 21 distinct taxes to just 6, drastically lowering compliance costs and dampening incentives for tax evasion.
- **Empirical Analysis and Statistical Impact:** Recent IMF analyses note that while discrepancies between formal and informal labor markets endure, eradicating systemic corruption within revenue authorities alongside streamlining public service delivery catalyzed an average annual GDP expansion of up to 7.5% [1].
- **Policy Takeaway for Uzbekistan:** Prioritizing administrative simplification and reporting transparency over punitive measures constitutes the vital first milestone in formalizing the shadow economy.

3. The Estonian Experience: "E-Residency" and Digital Tax Innovation

Estonia's tax framework has held the top position for tax competitiveness among OECD member states for over a decade [2]. Rather than relying on punitive enforcement, Estonia anchored its counter-informality agenda on a core philosophy: "Making full legal compliance simpler and cheaper than evasion."

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- **X-Road Interoperability and Automation:** The decentralized "X-Road" data exchange ecosystem interconnects the Estonian Tax and Customs Board with commercial banks, judicial bodies, and municipal registries. Consequently, over 95% of personal income tax returns are filed in an automated, pre-populated format [3].
- **Distributed Profit Exemption (Corporate Income Tax):** Retained and reinvested corporate earnings face zero corporate income tax. Taxation applies only upon profit distribution as dividends (at a 20/80 grossed-up rate, or roughly 22% on gross distributions). This eliminates the structural motive to divert operating profits into illicit cash flows.
- **E-Invoicing and Systematic Transparency:** Within modernization cycles spanning 2025–2027, Estonia has expanded mandatory B2B e-invoicing and eased threshold constraints, systematically suppressing carousel and VAT refund fraud chains.

4. Current Landscape in Uzbekistan and Comparative Analysis

Although Uzbekistan reduced the informal sector's share in manufacturing from 20% to approximately 6% in recent years, hidden turnover across the broader macroeconomy remains pronounced. Across the 2025–2026 fiscal cycles, the state has actively deployed digital fiscalization instruments—including digital product tracking, online cash registers, and electronic waybills (e-TTN). Nonetheless, structural taxation procedures require further systemic harmonization.

Criteria	Georgian Model	Estonian Model	Current Uzbek Practice
Primary Driver	Institutional deregulation; drastic tax-count reduction.	Full-stack digitalization; X-Road interoperability; reinvestment incentives.	Digital fiscal monitoring; online point-of-sale integration.
Systemic Complexity	Highly simplified (6 universal taxes).	Flat, neutral, and proportional structure.	Moderate complexity (under continuous reform).
Shadow Economy Policy	Formalization via aggressive anti-corruption campaigns.	Voluntary compliance fostered through frictionless digital design.	Chain-of-custody oversight and audit inspections.

5. Implementation Pathways for Uzbekistan

Synthesizing the institutional strengths of Georgia and Estonia yields three strategic trajectories for Uzbekistan's tax ecosystem:

1. **Adopting the Reinvested Profit Exemption:**

While Uzbekistan’s standard corporate income tax rate (15%) is moderate, businesses frequently divert capital to evade tax on cash generation. Instituting a zero-rate incentive on profits directly reinvested into capital expansion would incentivize firms to abandon illicit cash extraction and capitalize assets.

2. **Automating Inter-Agency Data Exchange (An X-Road Equivalent):**

Interconnecting the State Tax Committee, commercial banks, the Customs Committee, and the Cadastre Agency through automated data pipelines—bypassing discretionary human intermediaries—will enable real-time detection of imbalances between reported income profiles and actual consumption.

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3. **Simplification and Discretionary Reduction:**

Micro- and small-business reporting mandates must be rationalized. Minimizing subjective administrative intervention during desk tax audits (kameral nazorat) will curb compliance friction and lower informal incentives.

6. Conclusion

Curtailing the shadow economy cannot be achieved solely through elevated penalties or administrative pressure. The trajectories of Georgia and Estonia prove that the most durable remedy lies in rendering tax compliance operationally frictionless and economically advantageous. Systematically embedding Estonia's e-invoicing infrastructure alongside Georgia's structural simplicity provides Uzbekistan with a viable blueprint to compress its informal economy in the years ahead.

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