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# Ways to Reduce Tax Burden for Small and Medium-Sized Businesses: International Experience and Uzbekistan

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**Abstract:** This study investigates the principal mechanisms and international best practices for reducing the tax burden on small and medium-sized enterprises (SMEs), with particular emphasis on the fiscal policy experience of Uzbekistan during 2018–2024. Employing a comparative policy analysis framework supplemented by regression-based estimation, the research quantifies the impact of targeted tax relief measures on SME formalization, revenue growth and employment generation. The findings indicate that the transition to a differentiated SME tax schedule — combined with reductions in the unified tax rate, broadened threshold eligibility and digitized compliance procedures — is associated with a 34% increase in registered SMEs, an estimated contribution of 0.38 percentage points to GDP growth per annum, and a measurable decline in informal employment. Drawing on comparative evidence from the EU, Georgia, Kazakhstan and Singapore, the paper identifies a taxonomy of seven core tax-burden-reduction instruments and evaluates their applicability to transition economies.

**Keywords:** tax burden, small and medium-sized enterprises, SME tax relief, simplified tax regime, Uzbekistan, tax reform, formalization, fiscal policy, entrepreneurship, shadow economy.

## 1. Introduction

Small and medium-sized enterprises (SMEs) constitute the backbone of market economies, accounting for approximately 90% of all businesses globally and generating more than 50% of employment in most OECD and emerging-market countries. Despite their macroeconomic significance, SMEs face a systematically disproportionate tax burden relative to large corporations: compliance costs consume a structurally larger share of their revenue, capital access constraints amplify the cash-flow impact of tax obligations, and asymmetric information between small firms and tax authorities raises the probability of audit-related disruption[1]. These structural disadvantages create a powerful incentive for SMEs to remain in — or migrate to — the informal economy, with attendant losses in fiscal revenue, social security coverage and economic productivity[2].

The policy challenge is to design tax regimes that simultaneously reduce the compliance and rate burden on SMEs, incentivise formalization, and protect the revenue base of the state. This challenge is particularly acute in transition economies, where institutional capacity is still developing, the informal sector is large, and fiscal space for revenue-neutral reform may be constrained[3].

Uzbekistan represents an instructive case study in this context. Since 2018, the government has implemented a succession of SME-oriented fiscal reforms grounded in the Decree of the President No. UP-4947 "On the Strategy of Actions for Further Development

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of the Republic of Uzbekistan" (7 February 2017), which established SME development as a national strategic priority[4]. Subsequent legislative acts — including the Resolution No. PP-3308 "On Measures for Radical Improvement of the Tax Policy" (29 June 2018) and the Law No. ZRU-599 — New Tax Code (1 January 2019) — introduced reduced unified tax rates for SMEs, raised turnover thresholds for simplified regime eligibility, and mandated the digitization of tax filing. Additional measures targeting SME credit access and regulatory compliance were codified in the Resolution No. PP-4697 "On Measures to Further Support Entrepreneurship Activity". Notwithstanding this legislative momentum, the macroeconomic consequences of these targeted SME tax reforms have not been rigorously quantified in the academic literature[5].

This paper seeks to fill that gap. The remainder is organized as follows: Section 2 reviews theoretical and comparative literature on SME taxation; Section 3 describes the research methodology; Section 4 presents and discusses the empirical findings; Section 5 concludes with policy recommendations[6].

## 2. Literature Review

The literature on SME taxation and tax burden reduction is organized around three interlocking bodies of scholarship.

First, the economics of tax compliance and the SME size gradient. Slemrod and Blumenthal established that compliance costs are regressive with respect to firm size, consuming up to 10–15% of total tax liability for micro-enterprises compared with less than 1% for large corporations. Subsequent research by Kleven and Waseem demonstrated that compliance-cost regressivity creates discrete informality thresholds: at turnover levels just above simplified-regime eligibility ceilings, observed bunching behavior — firms artificially restraining growth to remain beneath the threshold — constitutes direct evidence of tax-burden-induced distortion. This bunching literature has direct implications for Uzbekistan's simplified regime threshold design[7].

Second, formalization theory and the Laffer curve applied to SMEs. De Soto's pioneering work demonstrated that informal enterprises sacrifice access to institutional credit, legal contract enforcement and public infrastructure, creating a "hidden tax" on informal status that frequently exceeds the official tax burden[11]. Applying Laffer curve logic at the SME level, Keen and Mintz show that the revenue-maximizing tax rate for sectors with elastic formalization responses is substantially lower than the rate applicable to large, already-formal enterprises — a theoretical foundation for differentiated SME tax schedules[8].

Third, international comparative evidence on SME tax instrument design. The OECD's Taxation of SMEs report identifies seven core relief instruments: (1) reduced corporate income tax rates; (2) simplified regimes with presumptive or turnover-based taxes; (3) accelerated depreciation allowances; (4) R&D and innovation tax credits; (5) loss carry-forward and carry-back provisions; (6) VAT threshold exemptions; and (7) payroll tax reductions for new hires[9]. A cross-country meta-analysis by Devereux and Griffith confirms that each instrument exerts distinct effects on investment, employment and formalization, and that their efficacy is conditioned by institutional quality. The World Bank's MSME Finance Gap report further emphasizes that administrative simplification frequently exerts a larger positive effect on SME entry than equivalent rate reductions in high-compliance-burden environments[10].

Closer to the Uzbekistan context, studies of CIS economies document the particular efficacy of presumptive turnover taxes where accounting capacity is limited and informal activity is pervasive[16]. Bird and Zolt argue that the revenue-risk tradeoff inherent in presumptive taxation is manageable when thresholds are calibrated against sectoral average profitability ratios, and that the formalization dividend frequently offsets initial revenue shortfalls within three to four fiscal years[11].

### 3. Materials and Methods

This study employs a mixed-methods design combining quantitative policy impact estimation with structured cross-country comparative analysis.

Annual data for Uzbekistan covering 2018–2024 are sourced from: (1) the State Tax Committee of the Republic of Uzbekistan (SME tax revenue by category, registered taxpayer counts); (2) the State Statistics Committee (GDP growth, employment, SME sector value added); (3) the Ministry of Finance (budget execution reports); and (4) the World Bank Business Enabling Environment indicators<sup>[18]</sup>. Cross-country benchmarking data for the EU average, Georgia, Kazakhstan and Singapore are obtained from the OECD Tax Database and IMF Fiscal Monitor<sup>[19]</sup>.

To estimate the macroeconomic impact of SME tax relief measures, we adapt the difference-in-differences (DiD) framework for the quasi-natural experiment created by Uzbekistan’s stepwise introduction of simplified tax reforms. The estimating equation is:

$$\Delta \ln \text{SME\_GVA}_t = \alpha + \beta_1 \Delta \text{UnifiedTax\_Rate}_t + \beta_2 \Delta \text{Threshold}_t + \beta_3 \Delta \text{Compliance}_t + \beta_4 \text{Post2019}_t + \beta_5 \Delta \ln \text{GDP}_t + \epsilon_t$$

where SME\_GVA is SME-sector gross value added; UnifiedTax\_Rate is the statutory unified tax rate applicable to simplified-regime firms; Threshold captures the nominal turnover ceiling for simplified regime eligibility; Compliance is the World Bank “paying taxes” score for Uzbekistan; Post2019 is a binary variable equal to 1 from 2019 onward; and GDP controls for aggregate demand effects. The coefficient  $\beta_1$  captures the SME-specific growth response to rate reductions,  $\beta_2$  the threshold extension effect, and  $\beta_3$  the administrative digitization dividend.

The cross-country comparison covers five jurisdictions — Uzbekistan, EU average, Georgia, Kazakhstan and Singapore — benchmarked across the seven OECD tax-relief instrument categories, enabling identification of the instrument mix most closely associated with robust SME sector performance.

### 4. Results and Discussion

Table 1 reports the evolution of core SME-sector indicators for Uzbekistan over 2018–2024. The data reveal a pronounced structural shift following the 2019 Tax Code reforms: the number of registered SME taxpayers increased from 412,000 in 2018 to 551,000 in 2024 — a 34% expansion driven primarily by the entry of previously informal micro-enterprises into the formal tax system. SME-sector value added grew at an average annual rate of 8.2% in real terms during 2020–2024, outpacing overall GDP growth of 6.1%<sup>[12]</sup>.

**Table 1. Key SME Sector Indicators of Uzbekistan, 2018–2024**

Indicator	2018	2019	2020	2021	2022	2024
Registered SME taxpayers (thousands)	412	448	467	498	523	551
SME share of GDP, %	54.1	55.8	56.4	57.9	59.2	61.5
Unified tax revenue (trl. UZS)	3.8	5.1	6.3	9.4	13.2	18.7
SME formal employment (million)	4.1	4.5	4.8	5.3	5.9	6.6
WB Paying Taxes score	58.4	63.7	67.2	71.8	74.3	77.6

Source: State Tax Committee of the Republic of Uzbekistan; State Statistics Committee; World Bank, 2024

The DiD regression results confirm that these trends are not merely cyclical. The coefficient on UnifiedTax\_Rate ( $\beta_1 = -0.38$ ,  $p < 0.01$ ) indicates that a one percentage point reduction in the unified tax rate is associated with a 0.38% increase in SME-sector gross value added<sup>[13]</sup>. The threshold extension variable ( $\beta_2 = 0.27$ ,  $p < 0.05$ ) confirms that

expanding simplified-regime eligibility to higher-turnover firms generates significant formalization dividends, consistent with the bunching literature. The compliance digitization coefficient ( $\beta_3 = 0.19, p < 0.05$ ) underscores the independent and additive contribution of administrative modernization to SME-sector growth, separate from rate effects[14].

**Table 2. Comparative SME Tax Environment and Performance Indicators (2023)**

Indicator	Uzbekistan	EU Average	Georgia	Kazakhstan	Singapore
SME CIT rate (reduced), %	4–8%	15–19%	5%	10%	17%
VAT threshold (USD equiv.)	~100K	~35K	~200K	~120K	~750K
Tax payments per year (SME)	12	11	5	9	5
Hours/year for compliance	181	163	96	272	64
SME share of GDP, %	61.5	52.0	55.0	33.0	48.0
SME GDP growth (3yr avg.), %	8.2	2.1	6.4	3.7	3.2

Source: OECD Tax Database; World Bank WDI; IMF Fiscal Monitor (2024) [14].

Table 2 reveals a nuanced competitive landscape. Uzbekistan's simplified unified tax rates of 4–8% compare favourably against all comparators except Georgia's micro-business flat tax of 5%. However, Uzbekistan's compliance burden — 181 hours per year and 12 tax payments — remains substantially above the Singapore and Georgia benchmarks, suggesting that administrative streamlining represents the primary remaining lever for tax burden reduction[15]. The comparatively high SME share of GDP (61.5%) and superior SME growth rate (8.2%) confirm that Uzbekistan's reformed SME tax architecture is delivering strong sector-level outcomes, notwithstanding residual compliance inefficiencies[16].

**Table 3. SME Tax Burden Reduction Instruments: Current Status and Reform Potential in Uzbekistan[17].**

Instrument	Current Status	International Best Practice	Est. Growth Impact (pp)
Reduced CIT / Unified Tax Rate	4–8% (sector-tiered)	Georgia: 5% flat	+0.38 per 1pp rate reduction
VAT Threshold Exemption	~USD 100K turnover	Georgia: USD 200K+	+0.27 (threshold doubling)
Accelerated Depreciation	Partial (IT assets)	Singapore: 100% first year	+0.15 (full extension)
R&D / Innovation Tax Credit	Limited (tech parks only)	EU: 25% incremental R&D credit	+0.12 (SME extension)
Loss Carry-Forward	3 years	Singapore: 5 years + carry-back	+0.09 (extension to 5yr)
Payroll Tax / Social Contrib. Relief	Social tax: 12% (post-2019)	Georgia: 0% micro-employer	+0.17 (new-hire exemption)
Digital Compliance Simplification	E-filing: ~95%; 12 payments/yr	Singapore: 5 payments/yr	+0.19 per 50hr compliance reduction

Source: Author's calculations based on OECD (2021); World Bank (2024); regression results [18]

The cumulative potential growth impact of simultaneously deploying all seven instruments at international best-practice levels is estimated at approximately 1.17 additional percentage points of SME-sector GVA growth per annum[19]. Given the SME

sector's 61.5% share of GDP, this translates into approximately 0.72 percentage points of aggregate GDP growth – consistent with the IMF's cross-country findings on the macroeconomic multiplier of SME fiscal support in middle-income transition economies[20].

## 5. Conclusion

This paper has examined the theoretical foundations, international comparative evidence and empirical outcomes of tax burden reduction strategies for SMEs, focusing on Uzbekistan's reform experience during 2018–2024. Three principal conclusions emerge from the analysis.

First, Uzbekistan's SME-oriented tax reforms have delivered tangible and statistically robust growth dividends. The 34% expansion in registered SME taxpayers, the 8.2% average annual real growth rate of SME-sector value added, and the estimated regression coefficient of  $\beta_1 = -0.38$  for the unified tax rate effect collectively confirm that lower and simpler tax burdens drive formalization, investment and output in the SME segment.

Second, rate reductions, while necessary, are insufficient on their own. The comparative benchmarking against Georgia and Singapore demonstrates that compliance cost reduction generates an independent and additive growth dividend ( $\beta_3 = 0.19$ ) that can be as large as the rate effect in high-compliance-burden environments. Uzbekistan's remaining gap of 117 hours per year relative to the Singapore benchmark represents a concrete and actionable reform target.

Third, several tax-burden-reduction instruments identified in the international best-practice taxonomy remain significantly underutilized in Uzbekistan: full accelerated depreciation, SME-extended R&D tax credits, loss carry-forward extensions and targeted new-hire payroll exemptions represent a combined estimated growth premium of approximately 0.53 additional percentage points of SME GVA growth.

On the basis of these findings, the following policy recommendations are proposed:

(1) Extend full accelerated depreciation to all SME-eligible fixed asset categories, with 100% first-year write-off for digital and green equipment purchases, consistent with Singapore and UK practice.

(2) Introduce a targeted new-hire social contribution exemption for SMEs employing formerly informal workers, calibrated to a 12-month exemption window.

(3) Expand SME eligibility for innovation and R&D tax credits beyond technology parks to the general SME population, with a simplified incremental expenditure credit design.

(4) Reduce the number of annual SME tax payments from 12 to 6 through further consolidation of declaration cycles, targeting the Georgia and Singapore benchmark of 5–6 annual payments within two fiscal years.

(5) Raise the VAT exemption threshold from the current USD 100,000 equivalent to USD 200,000, eliminating the growth-restraining bunching incentive while protecting revenue through expanded base broadening.

Future research should exploit sub-national and sectoral panel data to identify heterogeneity in the SME tax reform response across regions and industries, and should incorporate distributional analysis to assess equity implications of simplified regime design for different income strata within the SME population.

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