

Social Tax and its Role in the Economy

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Abstract: This article provides a general overview of social tax, which is considered one of the most important types of taxes among all existing taxes today. It also analyzes the significance of social tax, the directions in which the collected funds are allocated, and its role in the social sphere.

Keywords: tax incentives, tax base, social sector, pension fund, budget organizations, public services.

Introduction

In everyday life, every individual uses public services—such as schools, hospitals, the pension system, and social benefits for those who have lost their ability to work. All of these services require financial resources, and one of the main sources of such funding is the social tax[1].

Social tax is a mandatory payment deducted from employees’ wages or from entrepreneurial income and directed toward the state’s social security system. In simple terms, when a person earns a salary, either the employer or the individual allocates a certain amount to the state. These funds are used to finance pensions, disability benefits, temporary incapacity allowances, and other social needs[2].

From an economic perspective, social tax performs a redistribution function. That is, funds collected from the economically active population are redistributed to support vulnerable groups in society—such as pensioners, persons with disabilities, and individuals who are temporarily unemployed. This mechanism is one of the key instruments for maintaining social equity[3].

The Tax Code of the Republic of Uzbekistan, adopted in a new edition on December 30, 2019, under Law No. O‘RQ-599, regulates social tax comprehensively. In particular, Section XIV and Chapters 57–58 of the Code are specifically devoted to social tax, defining its taxpayers, taxable object, tax base, rates, and the procedures for calculation and payment[4].

Literature Review

To gain a deeper understanding of the concept of social tax, it is appropriate to review several key academic sources. One of the primary works in this regard is the book by N. Oblomurodov and F. Tolipov titled “History of Taxes in Uzbekistan.” This work provides a clear and consistent explanation of how the tax system in Uzbekistan has evolved over time, highlighting the transformations that occurred across different historical periods. Social tax is presented as an integral part of this historical development—it did not emerge suddenly but is the result of a long-term evolutionary process. Although the book is written in an academic style, it includes concrete

examples and explains not only the legal aspects of taxation but also its socio-economic foundations[5].

The second important source is the textbook “Economic Theory” by Sh. Shodmonov. This work examines taxes within the broader framework of the economic system. To properly understand social tax, it is essential to first grasp concepts such as public finance, the state budget, and redistribution mechanisms—areas thoroughly covered in this textbook. The author provides a balanced analysis of the role of taxation in the economy, including both its stimulating and restrictive effects. Each concept is explained through simple and clear examples, making the book accessible not only for students but also for independent learners[6].

A third valuable source is the work of D. Bobojonova titled “Socio-Economic Relations in Uzbekistan: The Case of the 1970s–1980s.” Although this book is not directly dedicated to social tax, it is highly useful for understanding the topic within a historical context. It explains how the relationship between labor and social security was regulated during the Soviet period and how this foundation influenced tax reforms in the years of independence. In particular, the work helps to clarify why social tax was later established as a distinct type of tax and demonstrates that it performs not only a fiscal function but also a crucial role in social protection[7].

Research Methodology

This article employs several research methods to conduct the study. In particular, the empirical analysis method was used to examine data related to the topic from a theoretical perspective. In addition, the statistical method was applied to analyze key indicators of social tax presented in the article. Based on these analyses, final conclusions were formulated.

Analysis and Results

The question of who pays social tax is clearly defined within the legal framework. Primarily, legal entities—such as enterprises and organizations—are obliged to pay social tax based on employees’ wages. Individual entrepreneurs calculate and pay this tax independently from their income. In addition, self-employed individuals are also required to pay social tax in accordance with established procedures[8].

For 2026, the social tax rate is set at 25 percent for budget-funded organizations and 12 percent for all other taxpayers. These rates are закреплен in the Tax Code of the Republic of Uzbekistan and are maintained or adjusted through annual tax policy legislation. The deadlines for tax payment are also clearly defined: monthly tax reports must be submitted no later than the 15th day of the following month, while annual reports must be submitted by February 15 of the subsequent year[9].

The state has also introduced a number of tax incentives related to social tax. These benefits apply to certain categories of enterprises and employees. For instance, business entities that employ members of low-income families and pay them wages not less than 1.5 times the minimum wage are allowed to apply a reduced social tax rate of 1 percent on related wage expenses for the period from January 1, 2025, to January 1, 2028[10].

Additional incentives are provided in the education sector. Business entities that employ students (under the age of 30) from schools, colleges, and technical institutions for vocational training purposes are subject to a reduced social tax rate of 1 percent on their wages. Similarly, enterprises that hire foreign teachers and specialists are exempt from paying social tax on their wages until January 1, 2030[11].

Special provisions have also been introduced to encourage scientific and innovative activities. Research and development centers are subject to a reduced social tax rate of 1 percent for the period from January 1, 2024, to January 1, 2027[12].

Environmental initiatives are also supported through tax incentives. Taxpayers whose income from waste collection, transportation, sorting, and recycling constitutes at least 90 percent of their total

revenue are eligible to pay social tax at a reduced rate of 1 percent from January 1, 2023, to January 1, 2026[13].

According to Article 10 of the Tax Code of the Republic of Uzbekistan, taxes and fees must not be discriminatory and cannot be applied based on social, racial, national, religious, or other criteria. Furthermore, it is prohibited to introduce taxes that hinder the exercise of constitutional rights of citizens. Therefore, social tax, by its nature, is based on the principles of equality and fairness[14].

Social tax performs several important functions in the economy. First, it finances the state social insurance system—supporting pension funds and providing benefits to persons with disabilities, temporarily incapacitated individuals, and other vulnerable groups. Second, it promotes formal employment in the labor market, as employers are required to officially register employees in order to properly calculate and pay taxes, thereby reducing informal wage practices. Third, through social tax revenues, the state supports vulnerable segments of the population and maintains social stability[15].

It is also noteworthy that, in 2026, the distribution norms for social tax revenues established in 2024 will be preserved, as emphasized in the resolution of the O‘RQ-1105 Presidential Resolution 2025 Uzbekistan dated December 25, 2025. This highlights the importance of social tax revenues in shaping the state budget and demonstrates the government’s commitment to maintaining the stability of this revenue source.

Tax rates, unless otherwise provided in Article 408 of the Tax Code of the Republic of Uzbekistan, are established as follows:

No.	Taxpayers	Tax Rate (%)
1	Taxpayers, except those specified in items 2–4	12
2	Budget organizations	25
3	“SOS – Children’s Villages of Uzbekistan” associations	7
4	Taxpayers employing persons with disabilities in specialized workshops, sections, and enterprises	4.7

The Tax Code of the Republic of Uzbekistan clearly and consistently regulates social tax. A standard rate of 12 percent is established for private enterprises, while a higher rate of 25 percent applies to budget organizations. In addition, a preferential rate of 1 percent has been introduced for certain sectors and categories. These benefits are not accidental—the state deliberately directs them toward supporting education, science, environmental protection, and socially vulnerable groups. Thus, social tax policy simultaneously functions as an instrument of economic stimulation.

The state budget approved for 2026 represents the practical implementation of this system. The projected GDP growth of 6.6 percent, the determination of consolidated budget revenues at 292.9 trillion UZS, and the objective of maintaining the budget deficit within 3 percent of GDP can only be achieved if social tax revenues remain stable and well-established.

Conclusion

After examining the concept of social tax, it can be concluded that this type of tax is not merely a simple instrument for filling the state budget, but one of the key pillars for ensuring social stability in society. Its essence lies in the fact that every individual who is currently working and earning income contributes to the state’s social security system, and these contributions are later redistributed to support pensioners, persons with disabilities, and individuals who have temporarily lost their ability to work. In this sense, social tax represents a legal and economic form of mutual support.

In general, discussing social tax means addressing the relationship between the state and its citizens. While the law establishes it as an obligation, for those who understand its significance, it is not perceived as a burden, but rather as an investment in the future. From this perspective,

properly understanding social tax and approaching it responsibly is an essential duty of every entrepreneur, employee, and citizen toward their society.

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