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Turnover Tax and its Role in the Economy

Turayev Alijon Akmal oglu
Associate Professor of the Department of "Investment and Innovations" of the Samarkand Institute of Economics and Service, Acting PhD

Siddiqov Ramazon
Samarkand Institute of Economics and Service, Student of group IK 124, Faculty of Economics

Abstract: This study examines the role of turnover tax in supporting small business development and ensuring fiscal stability in the economy. The research is based on empirical analysis of tax revenue structures, particularly focusing on the contribution of small business taxes to total budget revenues. The findings indicate that turnover tax plays a significant role in expanding the tax base and increasing government revenues by simplifying tax compliance for small and medium-sized enterprises. The analysis also shows that turnover tax contributes to the formalization of economic activity and improves tax administration efficiency. However, the study highlights potential limitations, including the unequal tax burden on low-profit businesses. The results suggest that turnover tax is an effective fiscal instrument when combined with digital tax administration and balanced tax policy design.

Keywords: *turnover tax, small business taxation, fiscal policy, tax revenue, tax compliance, SME development, tax administration, economic growth, Uzbekistan.*

Introduction

In modern economic systems, taxation plays a crucial role in regulating economic activity and ensuring sustainable fiscal development. Among various tax instruments, turnover tax has gained importance as a simplified taxation mechanism, particularly for small and medium-sized enterprises (SMEs). Unlike profit-based taxes, turnover tax is levied on gross revenue, making it easier to administer and comply with [1].

In developing economies, where informal economic activity is widespread, turnover tax is often used as a tool to expand the tax base and encourage business formalization. Governments implement this tax to reduce administrative complexity, improve compliance rates, and ensure stable budget revenues.

The case of Uzbekistan provides a relevant example of the practical application of turnover tax. As illustrated in Figure 1, taxes collected from small businesses, including turnover tax, constitute a significant share of total budget revenues [2], [3]. This indicates the growing role of simplified tax regimes in supporting fiscal sustainability and economic development.

The main objective of this study is to analyze the economic role of turnover tax and to evaluate its impact on small business activity, tax compliance, and government revenue generation.

Methodology

This study is based on a qualitative and analytical research approach using secondary data from official national sources. The analysis focuses on the structure of tax revenues and the contribution of small business taxation to the overall budget.

A descriptive and comparative method is applied to evaluate the role of turnover tax in different economic contexts. The study also uses graphical analysis based on statistical data (Figure 1) to interpret the relationship between small business taxation and fiscal performance.

In addition, theoretical analysis is incorporated to understand the advantages and limitations of turnover tax within the broader framework of fiscal policy and economic development.

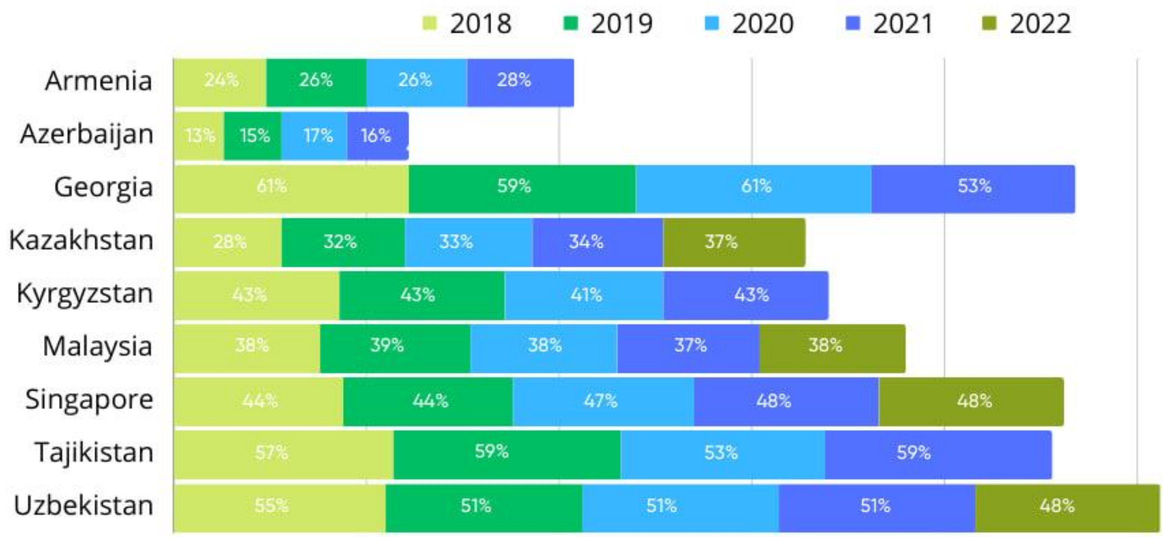
Results and Discussion

The analysis of turnover tax systems demonstrates that turnover tax plays a significant role in supporting small businesses, ensuring stable fiscal revenues, and simplifying tax administration in developing economies.

Figure 1,2. Share of Small Business Taxes (including Turnover Tax) in Total Budget Revenues (Uzbekistan)[1]

[1] Source: State Tax Committee of the Republic of Uzbekistan, Statistical Report, 2024

Chart 3. Share of SMEs in GDP (%)



Source: Asian Development Bank's Data Library on Small and Medium-Sized Enterprise Monitor (2023)

First, the findings indicate that turnover tax is particularly effective for small and medium-sized enterprises (SMEs). As illustrated in Figure 1, taxes collected from small businesses, including turnover tax, constitute a significant share of total budget revenues in Uzbekistan [4], [5]. This confirms that turnover tax plays an important role in expanding the tax base and ensuring stable fiscal inflows.

Second, the results show that turnover tax contributes to simplifying tax compliance. Since it is calculated based on gross revenue rather than profit, businesses face fewer accounting complexities. This leads to higher compliance rates and encourages the formalization of economic activity.

Third, the analysis reveals that turnover tax has both advantages and limitations [6], [7], [8]. While it supports administrative efficiency and reduces tax evasion, it may also impose a relatively higher burden on low-margin businesses. This indicates the need for a balanced tax policy that considers both simplicity and fairness.

Furthermore, the findings suggest that turnover tax has an indirect impact on pricing behavior. Businesses may transfer part of the tax burden to consumers, which can influence market prices, especially in less competitive sectors [9], [10], [11].

In addition, digitalization plays a key role in improving turnover tax administration [12]. The use of electronic reporting systems enhances transparency, reduces errors, and improves the accuracy of tax collection [13], [14].

Overall Result Conclusion

Overall, the results confirm that turnover tax is an effective fiscal instrument for supporting small businesses and ensuring stable government revenues, particularly in economies with a significant informal sector [15].

Conclusion

The study concludes that turnover tax is an important fiscal instrument for supporting small businesses and ensuring stable government revenues. The findings show that turnover tax simplifies tax compliance, encourages formal economic activity, and contributes significantly to the expansion of the tax base.

The analysis based on Figure 1 confirms that small business taxes, including turnover tax, play a key role in the structure of budget revenues. This highlights the importance of simplified taxation systems in developing economies.

However, turnover tax also has limitations, particularly in terms of fairness, as it does not account for differences in business profitability. Therefore, policymakers should ensure a balanced approach by combining turnover tax with other tax instruments and digital tax administration tools.

Overall, turnover tax can be considered an effective tool for promoting economic growth and fiscal stability when properly designed and implemented.

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