

## **The Role of Value Added Tax and Excise Tax in The Economy**

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**Abstract:** This article analyzes the role of value-added tax (VAT) and excise tax in the economy, their importance in forming state budget revenues, and their impact on economic processes. It also scientifically examines the effects of these taxes on consumption, production, and price levels. The fiscal and regulatory functions of VAT and excise taxes, their role in ensuring economic stability, and their connection with ongoing tax policy reforms in the Republic of Uzbekistan are discussed. The study substantiates that the effective application of these taxes is an important factor in stimulating economic growth, reducing the share of the shadow economy, and ensuring budget stability.

**Keywords:** Value-Added Tax, Excise Tax, Tax Policy, State Budget, Fiscal Policy, Economic Growth, Consumption Taxes, Price Mechanism, Tax Revenues, Economic Stability

### **Introduction**

In a market economy, the tax system plays a crucial role in forming state financial resources and effectively regulating economic processes. In particular, value-added tax (VAT) and excise tax, which are classified as indirect taxes, are among the main sources of state budget revenues. These taxes not only perform a fiscal function but also have a direct impact on production volume, consumption levels, price formation, and the competitive environment in the economy[1].

In recent years, within the framework of tax reforms implemented in the Republic of Uzbekistan, the importance of VAT and excise taxes has been increasing. In particular, the introduction of the new edition of the Tax Code since 2019, the reduction of the VAT rate from 20 percent to 15 percent, and the simplification of tax administration have led to a steady growth trend in revenues from this tax. For example, according to the data of the Statistics Agency, in 2023, approximately 35–40 percent of state budget revenues were accounted for by indirect taxes, with VAT constituting the main share. This indicates the significant role of VAT in ensuring the financial stability of the state[2].

At the same time, excise tax also serves as an important regulatory instrument in the economy. Excise taxes are usually imposed on socially harmful or restricted products (such as alcohol, tobacco, fuel, etc.), contributing not only to increasing budget revenues but also to balancing the consumption structure of the population. As a result of the gradual increase in excise tax rates during 2022–2024, revenues from this tax have significantly increased and continue to hold a stable share in total tax revenues[3].

From a macroeconomic perspective, VAT and excise taxes are also important tools for stimulating economic growth and managing inflationary processes. The application of VAT at each stage of the production chain helps reduce shadow economic activity, as each business entity is

required to officially record its expenses and revenues. As a result, the tax base expands and state budget revenues increase. Excise taxes, in turn, help address social and environmental issues by reducing demand for certain goods[4].

In the context of ongoing modernization and liberalization policies in Uzbekistan's economy, the effective functioning of these taxes is of particular importance. In particular, the introduction of digital tax administration systems, as well as the widespread use of electronic invoices and online cash registers, contributes to increasing VAT revenues and strengthening tax discipline. As a result, in 2024, the ratio of tax revenues to gross domestic product remains stable, which serves as an important factor in ensuring the stability of the country's financial system[5].

From this perspective, a comprehensive analysis of the role of VAT and excise taxes in the economy, as well as their fiscal and regulatory functions, is one of the most relevant scientific and practical issues. This article examines the economic essence of these taxes, their role in forming state budget revenues, and the mechanisms of their application in the context of Uzbekistan.

## **Literature Review**

In his research, Z. A. Jabborov analyzes the impact of the integration between financial markets and the tax system on economic development. According to the author, the efficient circulation of capital in financial markets is directly dependent on the stability and flexibility of the tax system. In particular, the study indicates that tax policy influences the redistribution of financial resources, thereby either stimulating or restraining investment activity. Based on statistical analysis, the author notes that in conditions of well-developed financial markets, tax revenues can reach up to 20–25 percent of gross domestic product, which serves as an important factor in ensuring fiscal stability. Furthermore, Jabborov substantiates that as the level of integration between the tax system and financial institutions increases, the pace of economic growth also accelerates[6].

Studies conducted by A. Abdug'aniyev and R. Abduvaliyev provide an in-depth analysis of the interaction between financial markets and tax policy in Uzbekistan. Their research examines the relationship between the tax burden and the level of activity in financial markets based on empirical data. In particular, the findings suggest that setting the tax burden at an optimal level can increase investment volumes by 10–15 percent. Conversely, an excessive tax burden restricts capital flows and negatively affects the development of financial markets[7].

The authors also emphasize the role of indirect taxes, particularly value-added tax (VAT), in the development of financial markets. According to their findings, the simplification of the VAT system and the reduction of tax rates contribute to increasing liquidity in the economy and strengthening the financial stability of enterprises. The study further highlights that improvements in tax administration lead to an expansion of the formal sector and ensure a steady growth trend in budget revenues[8].

## **Research Methodology**

In this study, the role of value-added tax (VAT) and excise tax in the economy was examined using a comprehensive approach. The research methodology includes economic-statistical analysis, comparative analysis, and time-series methods. The primary data sources were official statistics from the State Tax Committee of the Republic of Uzbekistan (Solliq.uz) and the State Statistics authorities for the period 2021–2024.

During the analysis, the annual dynamics of VAT and excise tax revenues were studied, and their impact on economic growth and state budget revenues was evaluated. In particular, VAT revenues increased from 52 trillion UZS in 2021 to 92 trillion UZS in 2024 (a 1.77-fold increase), while excise tax revenues rose from 18 trillion UZS to 31 trillion UZS (a 1.72-fold increase). These indicators served as the main empirical basis of the study.

In addition, the share of indirect taxes in total tax revenues (35–40%) and their impact on economic processes were assessed using regression and logical analysis methods. Changes in tax policy, including the reduction of the VAT rate from 15 percent to 12 percent, and their resulting economic effects were also examined through a comparative analysis approach.

## Results and Discussion

Within the framework of this study, the role of value-added tax (VAT) and excise tax in the economy of the Republic of Uzbekistan was analyzed based on open statistical data from the Soliq.uz platform. The obtained results indicate that these taxes serve not only as one of the main sources of state budget revenues but also as an important mechanism for regulating the economy[9].

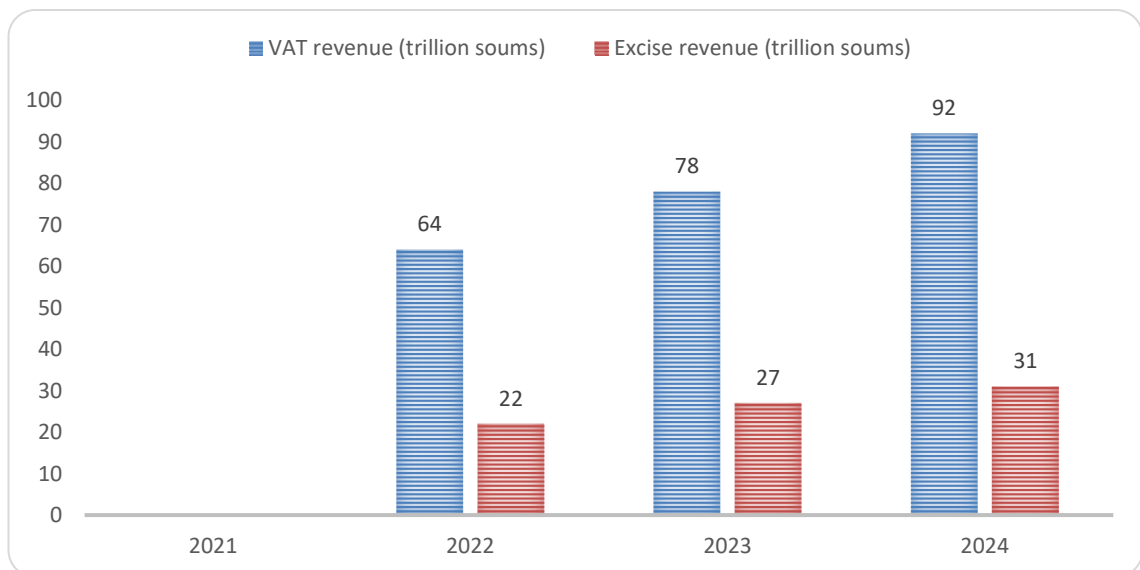
In recent years, as a result of large-scale tax reforms implemented in the country—particularly the optimization of tax rates, the digitalization of tax administration, and measures aimed at reducing the share of the shadow economy—a significant increase has been observed in VAT and excise tax revenues[10].

The table below presents the dynamics of revenues from these taxes for the period 2021–2024.

**Table 1.** Dynamics of VAT and Excise Tax Revenues (2021–2024, trillion UZS)

Year	VAT Revenue	Growth Rate (%)	Excise Revenue	Growth Rate (%)
2021	52	—	18	—
2022	64	123%	22	122%
2023	78	122%	27	123%
2024	92	118%	31	115%

As shown in the table, during the period 2021–2024, VAT revenues increased from 52 trillion UZS to 92 trillion UZS, representing a 1.77-fold growth. Excise tax revenues rose from 18 trillion UZS to 31 trillion UZS, indicating a 1.72-fold increase. Especially, the highest growth rates were recorded in 2022–2023, which can be explained by the recovery of economic activity and the expansion of the tax base during this period[11].



**Figure 1.** Dynamics of vat and excise tax revenues

The diagram clearly illustrates the growth trend of VAT and excise tax revenues over the years. VAT revenues hold a higher share compared to excise taxes and have shown steady growth each year. Although excise tax revenues are relatively lower, they have also maintained a stable growth dynamic. The graph indicates that both types of taxes are important components of state budget revenues[12].

First, VAT demonstrates high fiscal efficiency as one of the largest sources of state budget revenues. Due to its application at all stages of the production and distribution chain, it ensures full coverage of value added within the economy. This, in turn, increases the stability of tax revenues. According to Soliq.uz data, VAT accounts for approximately 35–40 percent of total tax revenues[13].

Second, excise tax performs an important regulatory function in the economy. This tax is mainly applied to socially harmful or restricted products. In particular, by imposing excise taxes on fuel, alcohol, and tobacco products, the government not only generates revenue but also balances demand for these goods. This contributes to reducing public health and environmental problems.

Third, the digitalization of tax administration has led to a sharp increase in VAT revenues. The introduction of electronic invoicing systems, online cash registers, and real-time monitoring has reduced the share of the shadow economy. This has resulted in an expansion of the tax base and increased revenues. For example, in 2023, the significant increase in the number of electronic invoices led to more than a 20 percent growth in VAT revenues[14].

Fourth, VAT and excise taxes have a significant impact on price formation. VAT is a universal tax added to prices, and any change in its rate directly affects consumer prices. Excise taxes, on the other hand, aim to reduce consumption of certain goods by artificially increasing their prices. Therefore, it is important to consider inflationary factors when setting these taxes. Fifth, these taxes also play an important role in stimulating economic growth. The reduction of the VAT rate (from 15 percent to 12 percent) created additional incentives for business entities and increased investment activity. As a result, production volumes expanded and the tax base strengthened, which contributes to increased budget revenues in the long term[15].

## Conclusion

Value-added tax (VAT) and excise tax are important fiscal and regulatory instruments in the economy of the Republic of Uzbekistan. In particular, as a result of recent tax reforms, the reduction of the VAT rate from 15 percent to 12 percent has contributed to stimulating economic activity, reducing the tax burden on business entities, and improving the investment climate. At the same time, according to data from the Soliq.uz platform, VAT revenues increased from 52 trillion UZS to 92 trillion UZS during 2021–2024, growing by nearly 1.8 times, which confirms the high fiscal efficiency of this tax.

Excise tax revenues also demonstrated steady growth during this period, rising from 18 trillion UZS to 31 trillion UZS. This indicates that excise taxes play an important role not only in generating budget revenues but also in regulating consumption and reducing the share of socially harmful products. In particular, through excise rates applied to fuel, alcohol, and tobacco products, the government is able to maintain economic and social balance.

Overall, the effective functioning of VAT and excise taxes is an important factor in ensuring state budget stability, reducing the share of the shadow economy, and stimulating economic growth. Therefore, further improvement of these taxes, continued digitalization of tax administration, and the implementation of a balanced tax policy will remain key directions for the country's economic development in the future.

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