MINISTRY OF HIGHER EDUCATION, SCIENCE AND INNOVATION OF THE REPUBLIC OF UZBEKISTAN

GULISTAN STATE UNIVERSITY

Department of Accounting and Finance

Teaching and Methodological Materials on “The Role of Value Added Tax in the Economy”

Documents prepared by Mamatkulova Yayra Dilmurod qizi

Gulistan, 2026

Mamatkulova Y. D. The Role of Value Added Tax in the Economy. Electronic study guide for students of the 60410200 – Accounting programme. Gulistan State University, 2026. 10 pp.

This study examines the role, fiscal significance and practical application of value added tax (VAT) in ensuring sustainable fiscal policy and government budget revenues. It discusses mechanisms for taxing value added at the stages of producing and selling goods and services, the distribution of the tax burden, risk mitigation and the contribution of VAT to national economic competitiveness. It also considers international experience in VAT rates, administration and digitalisation (electronic invoices), particularly in European Union countries, China and Türkiye.

These teaching and methodological materials were discussed by the University Teaching and Methodological Council.

(Minutes of meeting No. _____)

“___” October 2026

Reviewer: M. J. Urazmetov, PhD in Economics, Associate Professor

THE ROLE OF VALUE ADDED TAX IN THE ECONOMY

1.1. The concept of value added tax and its functions in the economy

Value added tax (VAT) is an indirect tax levied on the value created at successive stages of producing goods, performing work, providing services and selling them. Value added is the difference between the value of a company's output and the value of goods and services purchased from other businesses. Although VAT-registered businesses are generally responsible for calculating and remitting the tax, its economic burden is usually borne by final consumers.

In theory, VAT is a consumption-based tax implemented through the difference between output tax charged on sales and deductible input tax on purchases. Businesses charge VAT on goods and services sold and deduct VAT paid on eligible purchases, subject to statutory conditions. This mechanism helps prevent the same value from being taxed repeatedly along the production and supply chain. VAT therefore differs from a traditional turnover tax levied on gross sales at every transaction stage.

VAT plays an important role in modern public finance. It is a relatively stable source of government revenue, helping finance education, healthcare, infrastructure and other socioeconomic priorities. Collection at several stages of economic activity contributes to revenue continuity. Invoices and supporting documents also facilitate transaction verification and strengthen tax compliance.

The economic importance of VAT extends beyond revenue collection. When administered effectively, it encourages transparent accounting, proper documentation of business transactions and consistent taxation throughout production. Under the destination principle widely applied internationally, exports are generally zero-rated, while imports are taxed in the country of consumption. This approach links taxation to the location of final consumption.

Nevertheless, VAT effectiveness depends on rates, exemptions, refund procedures and the quality of tax administration. Because lower-income households may spend a larger share of their income on consumption, assessments of VAT's distributional effects should also consider targeted social assistance and other tax measures. Delayed refunds and complex reporting requirements may impose additional financial and administrative burdens, particularly on small businesses.

1.2. The economic nature and significance of value added tax

The economic nature of VAT lies primarily in taxing value created in the production of goods, performance of work and provision of services. Value added represents the difference between the selling value of output and the value of goods,

raw materials and services used to produce it. VAT differs from certain other taxes because it is calculated at successive stages of production and sale.

The economic significance of VAT is closely linked to its contribution to government revenue. The tax generates budget receipts through transactions in goods and services. VAT has been applied in Uzbekistan since 1992. Its introduction made it possible to tax the value created at each stage of production and distribution. Consequently, VAT remains important for financing public expenditure and taxing economic transactions.

1.3. The importance of VAT for exports and the development of foreign trade

VAT is significant not only for government revenue but also for the regulation of external economic activity. In particular, VAT treatment of exports affects the competitiveness of domestic producers in international markets. Applying a zero rate to exports helps remove the domestic consumption-tax burden from goods sold to foreign customers. Properly designed export VAT mechanisms are therefore an important condition for supporting foreign trade.

Article 260 of the Tax Code of the Republic of Uzbekistan provides special tax treatment for exports and equivalent transactions. Zero-rating does not mean that an exporting enterprise is entirely outside the VAT system: where the applicable requirements are met, input VAT on purchased resources is also recognised under the prescribed procedure. This mechanism is intended to prevent accumulated tax costs along the production chain from unnecessarily increasing export prices.

The practical effectiveness of VAT in export operations depends on the clarity and speed of input-tax crediting and refunds. Resolution No. 160 of the Cabinet of Ministers of the Republic of Uzbekistan, dated 11 March 2025, amended VAT refund procedures. In particular, it specified supporting documents for cases in which information on export transactions is unavailable in the relevant electronic systems. These rules aim to substantiate exports, ensure reliable tax records and prevent unjustified refunds.

Thus, export zero-rating and input-tax credits help businesses enter foreign markets. Their use, however, depends on lawful documentation of export transactions and proper fulfilment of tax obligations. Consistent VAT administration can reduce unnecessary restrictions on exporters' working capital, improve transparency in costing and pricing, and support the sustainable development of foreign trade.

2. The role and significance of VAT in Uzbekistan's economy

In Uzbekistan, VAT is a key instrument for managing public finances and taxing transactions in goods and services. It has been applied since 1992. Its introduction established a system for taxing value created at successive stages of production and trade. Alongside generating budget revenue, VAT also helps regulate the recording and taxation of economic activity.

The development of Uzbekistan's VAT system is closely associated with tax-policy reforms. In particular, the reduction of the standard VAT rate from 20% to 15% in 2019 was one measure intended to reconsider the tax burden on businesses. Changes in the rate may affect working capital, production costs and pricing decisions. The scale of these effects, however, depends on the firm's operations, cost structure and market conditions and cannot be explained by the rate reduction alone.

The practical significance of VAT is reflected in the precise definition of taxpayers, taxable transactions and the tax base. In Uzbekistan, sales of goods and services and imports of goods are central components of the VAT mechanism. The relationship between output VAT and input VAT deductible under the law helps prevent the full value of a product from being taxed repeatedly at consecutive stages. Accurate invoices and documentation of business transactions are therefore essential.

VAT effectiveness should not be assessed solely by the amount collected. Other important criteria include accurate administration, understandable taxpayer procedures, well-founded exemptions and the ability to credit or refund excess VAT lawfully. These factors influence the business environment, financial planning and the growth of formal economic activity. VAT reforms should therefore combine the goals of stable revenue and improved conditions for doing business.

Overall, VAT in Uzbekistan serves a fiscal function while also promoting transparency and tax discipline. Further improvements require simpler reporting, effective use of digital accounting systems and consistent enforcement of tax legislation. Such an approach can help balance government revenue needs with the sustainable operation of businesses.

3. International experience in VAT implementation and its relevance to Uzbekistan

International experience indicates that VAT effectiveness depends not only on the tax rate but also on administration, simplified reporting and clear rules for cross-border transactions. The European Union has introduced the One Stop Shop (OSS) scheme for certain e-commerce transactions. It allows businesses to register in one member state, submit a single return and pay VAT through that system for

eligible cross-border sales. This reduces the administrative costs associated with separate registrations in several countries.

Singapore also offers useful experience. It applies the Goods and Services Tax (GST), which is similar to VAT. The Inland Revenue Authority of Singapore (IRAS) provides clear guidance on accounting for output tax and input tax. Special rules also cover imported digital services and certain low-value goods. These arrangements help maintain tax coverage and provide predictable rules for businesses in a growing digital economy.

The Organisation for Economic Co-operation and Development (OECD) recommends applying the destination principle to VAT in international trade. This approach seeks to reduce the risk of double taxation or unintended non-taxation across jurisdictions. For Uzbekistan, these experiences are relevant to improving the recording of e-commerce transactions, clarifying rules for cross-border services and simplifying digital reporting. Such measures may strengthen compliance while reducing administrative burdens.

4. Assessing the economic impact and effectiveness of VAT

Assessing VAT effectiveness requires more than measuring budget receipts. Its economic outcomes also depend on collection costs, taxpayers' administrative obligations and the breadth of the tax base. A fuller assessment therefore combines fiscal performance with the quality of tax administration.

Useful indicators include VAT revenue growth, changes in taxable turnover, differences between assessed and collected tax, and the share of VAT refunded. Comparing these measures over time helps identify changes in the tax base and collection performance. Higher receipts do not necessarily indicate better administration: inflation, consumption volumes and legislative changes may also affect the results.

Correlation and regression analysis can be used to study the relationship between VAT and the economy. For example, researchers may test statistical associations between VAT receipts and retail turnover, gross domestic product or imports. Time-series data should cover comparable periods and units, with inflation and tax-rate changes controlled for. Correlation alone does not establish that VAT causes economic growth; causal conclusions require separate econometric testing.

The practical efficiency of tax administration also depends on the ability to reconcile electronic invoices, tax returns and deductible input VAT. The teaching materials discuss procedures for determining the VAT base, recording tax and submitting returns. Clear procedures may reduce calculation errors and unjustified

discrepancies. At the same time, the additional time and costs imposed on small firms by complex procedures should be assessed.

When drawing conclusions about VAT efficiency in Uzbekistan, it is important to distinguish projected figures for 2025 from actual results. Periodic VAT revenue data should be compared with tax-base and economic-activity indicators. This would help establish more reliably which changes reflect economic conditions and which are associated with improvements in accounting and oversight.

In general, effective VAT administration requires stable and predictable rules, reliable accounting systems and balanced protection of taxpayers' lawful interests. The goal is not merely to increase revenue but also to lower collection costs, improve transparency and avoid imposing excessive administrative burdens on economic activity.

Theoretical and legal foundations of value added tax

Theoretical approaches to VAT describe it as a mechanism designed primarily to tax final consumption rather than production costs directly. Economic literature treats VAT as a multistage indirect tax intended to avoid cascading taxation. Each business deducts eligible input VAT from output VAT charged on sales and remits the balance to the budget. This prevents the tax burden from accumulating uniformly at every link of the production chain.

The International Monetary Fund publication The Modern VAT identifies a consumption-based tax base, input-tax credits and continuity of the VAT chain as important design features. It distinguishes the invoice-credit, subtraction and addition methods. The widely used invoice-credit method enables documentation of taxable sales and purchases, but its effectiveness depends on reliable invoices and consistent application of credit rules.

A key theoretical characteristic of VAT is tax neutrality. Under this principle, economically similar transactions should not face markedly different tax burdens merely because of their legal form or the length of the supply chain. The OECD International VAT/GST Guidelines link this principle to destination-based taxation of international transactions. Thus, VAT is theoretically associated with the location of final consumption rather than the place of production.

Academic literature also distinguishes VAT exemptions from zero-rating. Exempt transactions may restrict the deduction of input VAT, whereas zero-rated transactions generally preserve input-tax credits or refunds when legal conditions are satisfied. Evaluations of preferential treatment should therefore consider not only nominal rates but also production costs, non-creditable tax and effects on working capital.

Who ultimately bears the VAT burden is another important theoretical question. Although the seller is legally responsible for charging and remitting VAT, the economic burden may be shared among consumers, producers and other market participants. Price elasticities of demand and supply, competition and firms' pricing power affect the outcome. It is therefore incorrect to assume that a change in the VAT rate automatically produces an identical change in consumer prices.

A 2025 study by Ruud de Mooij, Shafik Hebous and Michael Keen argues that a well-designed VAT can raise revenue with relatively limited economic distortions. The authors also note that using VAT to selectively favour particular industries may undermine neutrality. Accordingly, VAT performance should be assessed through revenue, breadth of coverage, completeness of input-tax credits, administrative costs and taxpayer compliance costs.

In Uzbekistan, theoretical and legal analysis of VAT requires examining the relationships among taxpayers, taxable transactions, the tax base, rates and input-tax credit rules established by the Tax Code. These topics are addressed separately in the teaching materials. However, historical rates and procedures cited in educational texts do not necessarily reflect current law. Research should therefore clearly distinguish theoretical concepts, historical experience and provisions currently in force.

Methodological priorities for improving VAT include maintaining a consistent tax base, streamlining input-tax credits, reducing unjustified interruptions in the VAT chain and ensuring proportionate administration. These priorities can reconcile public-finance objectives with the need for a stable and predictable tax environment for businesses.

This study is also aligned with the objectives established in the following decrees of the President of the Republic of Uzbekistan:

- Decree No. PF-5468 of 29 June 2018, "On the Concept for Improving the Tax Policy of the Republic of Uzbekistan";
- Decree No. PF-5837 of 26 September 2019, "On Measures to Further Improve the Tax Policy of the Republic of Uzbekistan";
- Decree No. PF-6098 of 30 October 2020, "On Organisational Measures to Reduce the Shadow Economy and Improve the Efficiency of Tax Authorities."

The objectives of continuously improving tax policy, simplifying administration and reducing the shadow economy, as established in these decrees, are closely linked to putting the theoretical principles of VAT into practice.

Practical exercises on the role of VAT in the economy

1. A VAT-registered enterprise purchases raw materials from another enterprise for UZS 1,500,000, including VAT, to manufacture a product. It sells the finished product for UZS 2,200,000, including VAT.

How much VAT must the enterprise remit to the government budget?

2. A VAT-registered enterprise purchases raw materials from another enterprise for UZS 1,500,000, excluding VAT, to manufacture a product. It sells the finished product for UZS 2,200,000, including VAT.

How much VAT must the enterprise remit to the government budget?

3. Using the following stages of production and distribution, determine how much VAT consumers ultimately pay when purchasing white shirts, even though the tax is included in the price. Answer: _____ million UZS.

Stage 1. “Yulduzlar jilosi” farm grows 100 tonnes of raw cotton and sells it to a cotton-processing plant (cluster) as follows:

• Total cotton-growing costs, including VAT: UZS 250 million.

• How much VAT may be included in those costs? Answer: _____ million UZS.

• The farm sells 100 tonnes of cotton to the cotton-processing plant for UZS 400 million, including VAT.

• How much VAT must “Yulduzlar jilosi” farm remit to the government budget? Answer: _____ million UZS.

Stage 2. The “Paxta zavod” cotton-processing plant (cluster) processes the purchased cotton and sells the processed fibre to “Fortuna tekstil” LLC, a producer of yarn and fabric:

• Cost of purchasing raw cotton, including VAT: UZS 400 million.

• How much VAT is included in the purchase cost? Answer: _____ million UZS.

• The processed cotton fibre is sold to “Fortuna tekstil” LLC for UZS 700 million, including VAT.

• How much VAT must the “Paxta zavod” enterprise remit to the government budget? Answer: _____ million UZS.

Stage 3. “Fortuna tekstil” LLC processes the purchased cotton fibre into yarn and fabric and sells the finished materials to the “MosYanteks” joint venture, a clothing manufacturer:

• Cost of purchasing processed cotton fibre, including VAT: UZS 700 million.

• How much VAT is included in the purchase cost? Answer: _____ million UZS.

• The finished yarn and fabric are sold to “MosYanteks” for UZS 1,100 million, including VAT.

• How much VAT must “Fortuna tekstil” LLC remit to the government budget? Answer: _____ million UZS.

Stage 4. The “MosYanteks” joint venture processes the purchased yarn and fabric into finished white shirts and sells them to the “Ideal” trading company:

• Cost of purchasing yarn and fabric, including VAT: UZS 1,100 million.

• How much VAT is included in the purchase cost? Answer: _____ million UZS.

• Finished white shirts are sold to “Ideal” for UZS 1,600 million, including VAT.

• How much VAT must “MosYanteks” remit to the government budget? Answer: _____ million UZS.

Stage 5. The “Ideal” trading company distributes and sells the finished white shirts to consumers:

• Cost of purchasing the white shirts, including VAT: UZS 1,600 million.

• How much VAT is included in the purchase cost? Answer: _____ million UZS.

• “Ideal” sells the shirts to consumers for UZS 2,350 million, including VAT.

• How much VAT must “Ideal” remit to the government budget? Answer: _____ million UZS.

• Consumers purchase and use shirts worth UZS 2,350 million. How much VAT do they ultimately pay through the purchase price? Answer: _____ million UZS.

Conclusion

In conclusion, VAT is not only a source of government revenue but also an important financial mechanism for taxing consumption, crediting tax at successive production stages and promoting neutrality in economic activity. Its effectiveness

depends not only on the tax rate but also on a clearly defined tax base, a reliable invoicing system and properly functioning input-tax credit rules.

International research shows that successful VAT implementation requires simple and consistent rules, legal certainty and convenient conditions for taxpayer compliance. These lessons can provide a theoretical basis for further VAT reforms in Uzbekistan. Tax policy should be evaluated not only through fiscal indicators but also in terms of economic neutrality, business costs and administrative quality.

References

1. Tax Code of the Republic of Uzbekistan, 30 December 2019, Law No. O‘RQ-599 (as amended). https://lex.uz/docs/4674902

2. Ebrill, L., Keen, M., Bodin, J.-P., and Summers, V. (2001). The Modern VAT. Washington, DC: International Monetary Fund.

3. OECD. (2017). International VAT/GST Guidelines. Paris: OECD Publishing. https://doi.org/10.1787/9789264271401-en

4. Decree of the President of the Republic of Uzbekistan No. PF-5468 of 29 June 2018, “On the Concept for Improving the Tax Policy of the Republic of Uzbekistan.”

5. Decree of the President of the Republic of Uzbekistan No. PF-5837 of 26 September 2019, “On Measures to Further Improve the Tax Policy of the Republic of Uzbekistan.”

6. Decree of the President of the Republic of Uzbekistan No. PF-6098 of 30 October 2020, “On Organisational Measures to Reduce the Shadow Economy and Improve the Efficiency of Tax Authorities.”

7. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 160 of 11 March 2025 (concerning VAT refund procedures).

8. European Commission. VAT One Stop Shop (OSS): Official information. https://vat-one-stop-shop.ec.europa.eu/

9. Inland Revenue Authority of Singapore (IRAS). Goods and Services Tax (GST): Official guidance. https://www.iras.gov.sg/taxes/goods-services-tax-(gst)

10. Tax Committee of the Republic of Uzbekistan. Official VAT information and guidance. https://soliq.uz/