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## ENSURING OFFICIAL EMPLOYMENT BY REDUCING THE TAX BURDEN ON THE INCOME OF THE POPULATION

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**Abstract.** The article analyzes the comparative quality of official and informal employment in organizations. Informal employment has a lower quality, manifested in its greater exposure to precarious employment, the concentration of its characteristics, leading to the most vulnerable position in the employment of workers in this employment sector. Currently, the distribution of workers according to wage standards in organizations is approximately equal, which does not motivate the majority of those hidden in organizations to legalize it. The significance of the conclusions from the study is the possibility of reducing shadow income through the introduction of effective mechanisms that influence the growth of informal employment in the context of deepening economic changes and modernization of the economy.

**Key words:** shadow economy, social, entrepreneurial subject, income of the population, the minimum size, labor, salary.

### Introduction

Today, the fight against the shadow economy remains one of the pressing problems in many countries around the world. A number of scientists and experts put forward various scientific approaches to studying the causes of the emergence and growth of shadow economy indicators in the country. The shadow economy is usually common in countries with low rates of socio-economic development, imperfect legislation, high levels of taxation, as well as in countries with overly bureaucratic economic regulations and high levels of corruption.

Goal 85 of the Development Strategy of New Uzbekistan for 2022-2026, consisting of the following seven priority areas, developed according to the principle "From an action strategy to a development strategy" consists of priority areas, goals and objectives for creating new jobs in the country, increasing incomes of the population and, thus, reducing poverty by at least 2 times by the end of 2026. At the same time, in order to develop an appropriate draft strategy for reducing employment in the informal sector, increasing the role of the public in reducing the shadow economy, conducting propaganda work to ensure social

protection among the population employed in the informal sector, introducing mechanisms for the prompt consideration of appeals from citizens, employees and employers in the field of labor on the principle of "one window", studying appeals and labor disputes and assistance in their resolution are given mechanisms that allow 450 thousand citizens, those working informally can fully enjoy social guarantees and benefits by organizing the activities of the Mehnat-M center in Tashkent as an experiment<sup>1</sup>.

Over the years of independence, the tax system has been formed in the country, legislative and regulatory acts in the tax sphere have been systematized, the Tax Code has been adopted, modern methods and mechanisms of tax administration have been introduced, an integral system of tax authorities and tax control has been created. In the conditions of modernization of the economy, the current taxation system is analyzed, due to changes in tax legislation and the requirements for a more complete introduction of innovations. Further simplification of taxation, the introduction into practice of effective taxation procedures are among the bodies of the state tax service in front of taxpayers – individuals and legal entities.

Informal employment of the population in the economy of Uzbekistan was ignored for a long time, was not considered seriously and was taken into account only after the adoption of the "Strategy of Action on five priority areas of development of the Republic of Uzbekistan in 2017-2021".

Uzbekistan, along with other States, has begun to take effective measures to prevent the growth of informal employment in the context of deepening economic changes and modernization of the economy. Roadmaps have been developed to improve regulatory legal acts in this area based on international experience, to ensure a high level of employment, low unemployment, reduce informal employment, increase labor productivity and real incomes of the population, and improve the business climate.

### **The main part**

Since January 1, 2019, the tax burden on the wage fund has been reduced by introducing a single personal income tax rate of 12% for all citizens, of which 0.1% is directed to individual accumulative pension accounts, citizens' insurance premiums have been canceled. Also, the single social payment rate has been reduced from 15% to 12% for all legal

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<sup>1</sup> Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. UP-60 "On the Development Strategy of New Uzbekistan for 2022-2026".

entities, including microenterprises, small enterprises and farms, as well as other enterprises in whose authorized capital less than 50% belongs to the state.<sup>2</sup>

Economic, social and legal factors are considered as factors influencing the emergence of the shadow economy. The social factor, firstly, the low standard of living (income) of the population leads to the development of hidden types of economic activity, secondly, to a high level of unemployment and income generation by a part of the population in any way, as well as to a significant social stratification of society.

The country is implementing appropriate measures to reduce the volume of shadow income, create equal conditions for competition by reducing the regulatory and administrative burden on business, automating procedures for compliance with tax legislation and simplifying its procedures.

According to the United Nations Population Fund, as of January 1, 2022, the total population of the Earth was 7 billion 875 million people. Uzbekistan ranks 43rd in terms of population<sup>3</sup>.

According to the report on the demographic situation in the country, the number of permanent population of Uzbekistan in 2021 compared to 2020 increased by 712.4 thousand people, or 2.1%, to 35.27 million people. The number of women increased by 346.6 thousand, or 2%, men – by 365.7 thousand, or 2.1%. Uzbekistan is the leader among the Central Asian countries in terms of absolute demographic growth. Since 2010, the population of Uzbekistan has grown annually by an average of 1.8%, increasing by more than 5.4 million people. In addition, there is a gradual acceleration of growth rates<sup>4</sup>. Population growth over the same period amounted to 2.4 million people in Kazakhstan, 1.97 million in Tajikistan, 1.05 million in Kyrgyzstan and 0.91 million in Turkmenistan. Thus, over the past decade, Uzbekistan has accounted for more than 46% of the absolute population growth in Central Asia. However, it should be recognized that a significant absolute increase in the population of Uzbekistan is due to the size of the population<sup>5</sup>.

The unemployment rate in Uzbekistan as of January 1, 2022 was 9.6%, down 0.9% compared to the same period last year, up 0.2% compared to January-September 2021. As of

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<sup>2</sup> Decree of the President of the Republic of Uzbekistan dated June 29, 2018 No. UP-5468 "On the Concept of improving the tax policy of the Republic of Uzbekistan".

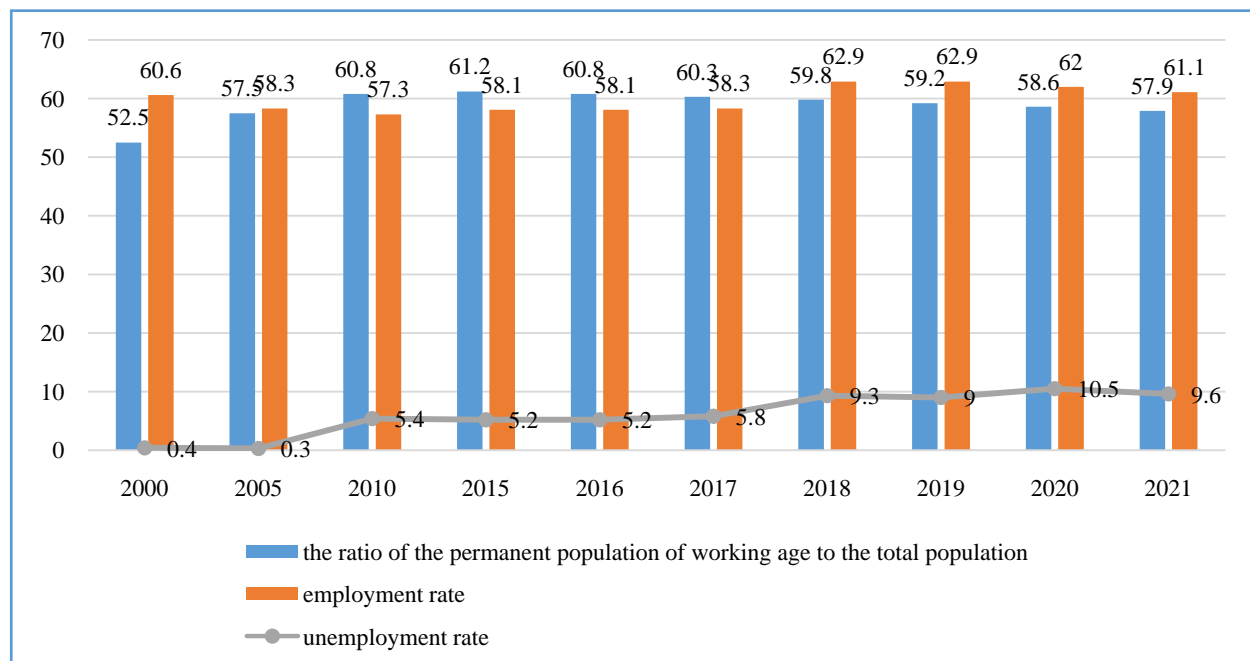
<sup>3</sup> [Dunyo.info/uz/site/inner?slug=o%E2%80%98zbekiston\\_aholi\\_soni\\_bo%E2%80%98yicha\\_dunyoda\\_43-o%E2%80%98rinda\\_qayd\\_etildi-bdn/](http://Dunyo.info/uz/site/inner?slug=o%E2%80%98zbekiston_aholi_soni_bo%E2%80%98yicha_dunyoda_43-o%E2%80%98rinda_qayd_etildi-bdn/)

<sup>4</sup> Data of the State Statistics Committee of the Republic of Uzbekistan.

<sup>5</sup> [www.eurasian-research.org/publication/a-brief-review-of-uzbekistans-demographic-profile/?lang=ru](http://www.eurasian-research.org/publication/a-brief-review-of-uzbekistans-demographic-profile/?lang=ru)

January 1, 2022, the number of labor resources amounted to 19,345.0 thousand, an increase of 101.1% or 202.6 thousand people compared to the same period in 2020. The number of people employed in the sectors of the economy amounted to 13,538.9 thousand, an increase of 2.3% (299.3 thousand people) compared to the corresponding period last year. As of January 1, 2022, the population employed in the formal sector was 6196.3 thousand people, in the informal – 5885.5 thousand. As of January 1, 2022, the number of labor resources amounted to 19,345.0 thousand. According to the results of the study, the total number of people in need of work was 1441.8 thousand, the unemployment rate among the economically active population was 9.6%. Also, among people aged 16-30, the unemployment rate was 15.1%, and among women – 13.3%. As of January 1, 2022, the economically inactive population of the republic amounted to 4364.2 thousand, an increase of 0.5% or 19.8 thousand people compared to the corresponding period last year<sup>6</sup>.

In 2000-2021, there was an increase in the share of the working-age population in the republic from 52.5% to 57.9%, and in 2018-2021 - a decrease from 59.5% to 57.9%. Interestingly, the current state of the demography of Uzbekistan and the age composition of the population are optimal from an economic point of view.



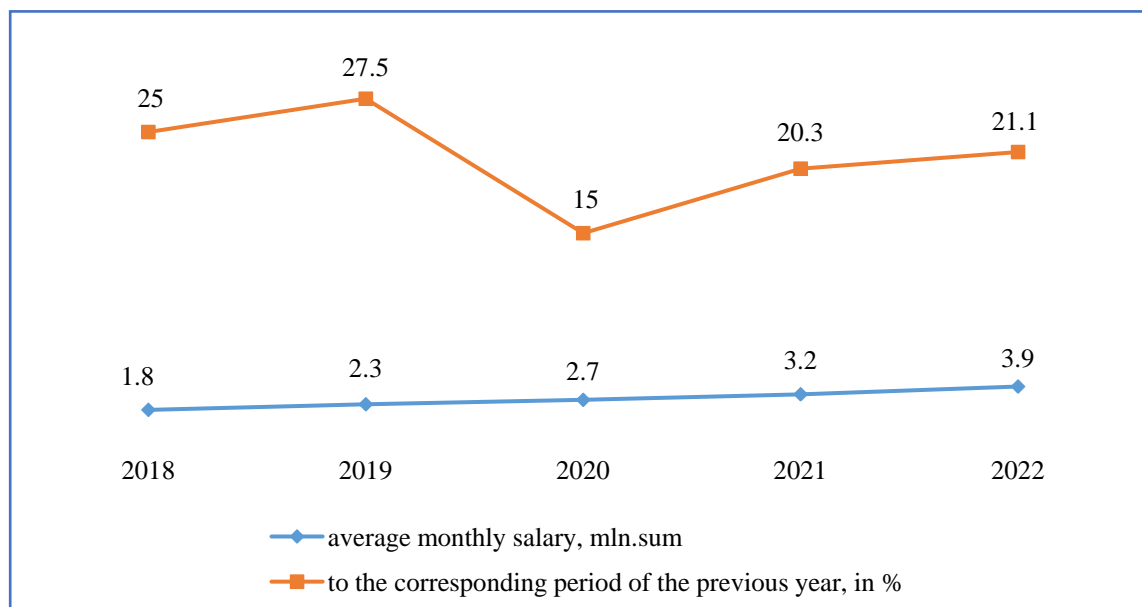
**Picture 1. The share of the permanent population of working age in relation to the total population, as well as the level of employment and unemployment<sup>7</sup> (percentage).**

<sup>6</sup> Mehnat.uz/oz/news/ozbekistonda-ishsizlik-darajasi-96-foizni-tashkil-etdi.

<sup>7</sup> Data of the State Statistics Committee of the Republic of Uzbekistan.

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According to the results of 2022, the average monthly nominal salary in Uzbekistan amounted to 3 million 892 thousand soums (for the same period last year – 3 million 214 thousand soums), the growth rate by the corresponding period of 2021 was 21.1%<sup>9</sup>.



**Picture 2. Dynamics of average monthly wages  
(January–December)<sup>10</sup>**

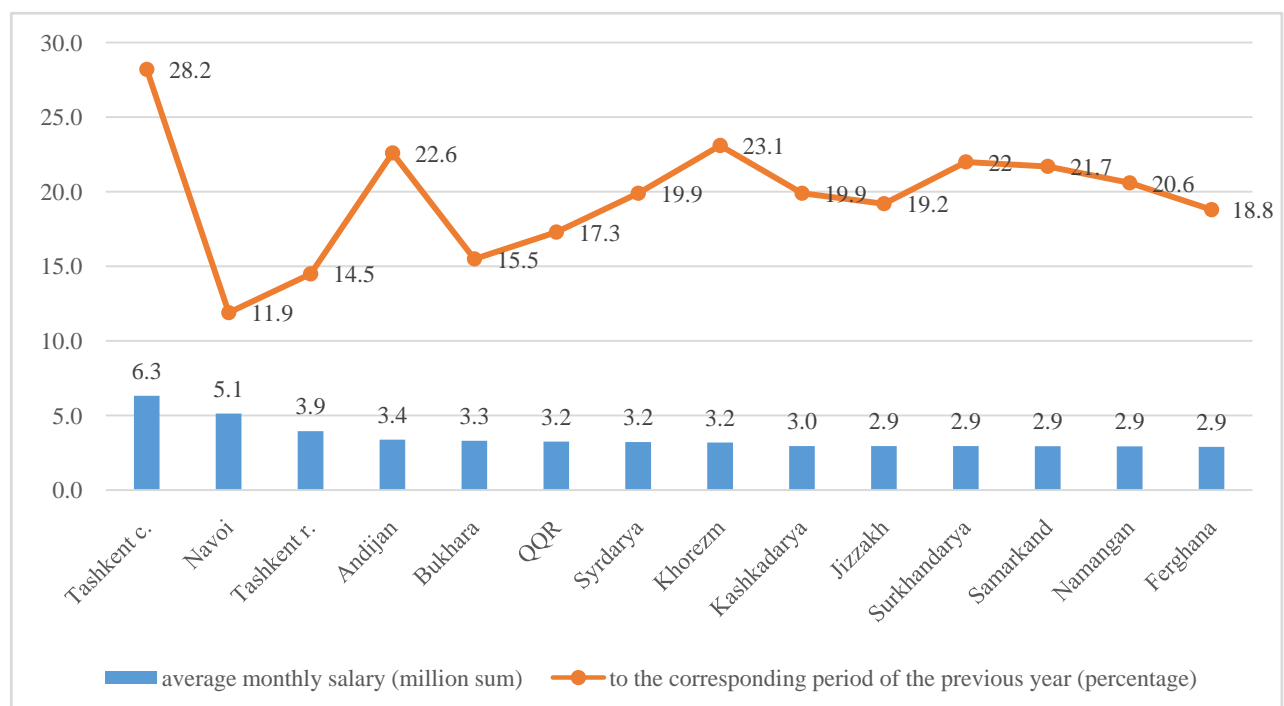
<sup>8</sup> Taken from the official website of the Ministry of Employment and Labor Relations. [mehnat.uz/uz/news/uzbekistonda-ishsizlik-darazhasi-96-foizni-tashkil-etdi](http://mehnat.uz/uz/news/uzbekistonda-ishsizlik-darazhasi-96-foizni-tashkil-etdi)

<sup>9</sup> Prepared based on data from the Statistics Agency under the President of the Republic of Uzbekistan.

<sup>10</sup> Prepared based on data from the Statistics Agency under the President of the Republic of Uzbekistan.

In the context of regions, the largest amount of average monthly wages was recorded in Tashkent (6 million 314 thousand), Navoi (5 million 125 thousand) and Tashkent regions (3 million 946 thousand), and the smallest – in Ferghana (2 million 900 thousand), Namangan (2 million 924 thousand) and Samarkand (2 million 944 thousand), regions. During the reporting period, only in three administrative regions (Tashkent, Tashkent and Navoi regions) the level of nominal wages is higher than the national average, and in all other regions this indicator is lower than the republican one.

In Uzbekistan in 2022, when analyzing the average monthly salary by region, the highest figure was recorded in Tashkent – 6.3 million soums, an increase of 28.2% compared to the corresponding period last year, in Navoi region 5.1 million soums – an increase of 11.9%, in Tashkent region – 3.9 million soums – an increase of 14.5% and vice versa, the lowest rates are observed in the Ferghana, Namangan, Samarkand, Surkhandarya and Jizzakh regions – 2.9 million soums, an average increase of 20.5%.

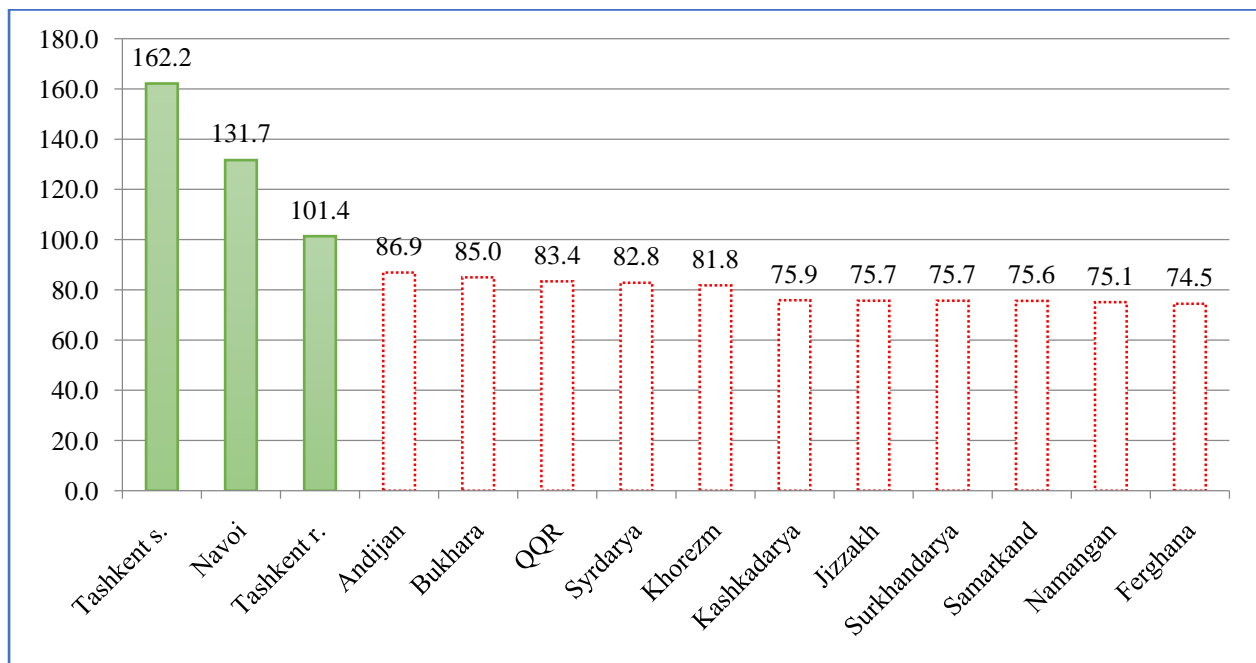


Picture 3. Average monthly salary in 2022 by region <sup>11</sup>

<sup>11</sup> Prepared on the basis of data from the State Statistics Committee of the Republic of Uzbekistan.

According to the results of the analysis, in the regions of the republic with a low level of average monthly wages, the tax rates on income received in the form of wages are reduced, that is, the establishment of the application of personal income tax and the social tax rate paid to the wage fund of individuals for legal entities, with the exception of budget organizations in some areas of the republic when performing labor activities in the amount reduced in accordance with the current for a certain period of time serves to sharply reduce the scale of shadow income received even by individuals, carrying out informal activities by reducing expenses in the form of taxes and fees in respect of wages by tax agents-employers – legal entities.

In the context of regions, the ratio of average monthly wages to average monthly wages (Fig.6) in the republic increased by 162.2% in Tashkent, by 101.4% in Tashkent region and by 131.7% in Navoi region, in Ferghana region – by 74.4%, in Namangan – by 75.1%, in Jizzakh, Kashkadarya, Samarkand and Surkhandarya regions – by 75.5%. Against the background of rising wages, inequality in the context of territories is growing. For example, if in 2021 the difference in average wages by region was 2 times (Tashkent/Surkhandarya region), then in 2022 it reached 2.18 times (Tashkent/Ferghana).



**Picture 5. Average monthly salary by region in relation to the average monthly salary in the republic <sup>12</sup>.**

<sup>12</sup> The analysis was carried out by the author on the basis of data from the Statistics Agency under the President of the Republic of Uzbekistan.

In 2021, the population receiving an average of up to 1 million soums per month was 34.5% (1.6 million people), in 2020 – 40% (1.8 million people). The indicator of employees receiving salaries from 1 million to 2 million soums in 2020 is 27.1% (1.2 million people), last year the share of such workers decreased by 24.1% (1.2 million people). On the contrary, if in 2020 the number of citizens receiving salaries from 2 million to 4 million soums amounted to 22.3% (987.2 thousand people), then in 2021 it increased by 24.7% (1 million 157.4 thousand). In addition, if in 2020 the number of salary recipients from 4 to 5 million. the sum was 3.7% (162.4 thousand people), then in 2021 it reached 5.7% (268.4 thousand people). The number of people receiving salaries of 5 million soums or more has also increased, an increase of 6.9% in November 2020 (304.2 thousand people), in 2021 – 11% (513.2 thousand people).

The following are the results of the analysis of the highest average monthly salaries in the context of industries at the end of last year:

in banking, insurance, leasing and credit intermediary activities – 10.8 million soums;

in the field of information and communications – 7.5 million soums;

in the field of transportation and storage – 5.1 million soums;

in industry – 4.9 million soums;

in the construction sector – 4.7 million soums;

in the sphere of trade – 3.9 million soums;

in the sphere of art, entertainment and recreation – 3.1 million soums;

in the sphere of accommodation and food services – 3.1 million soums;

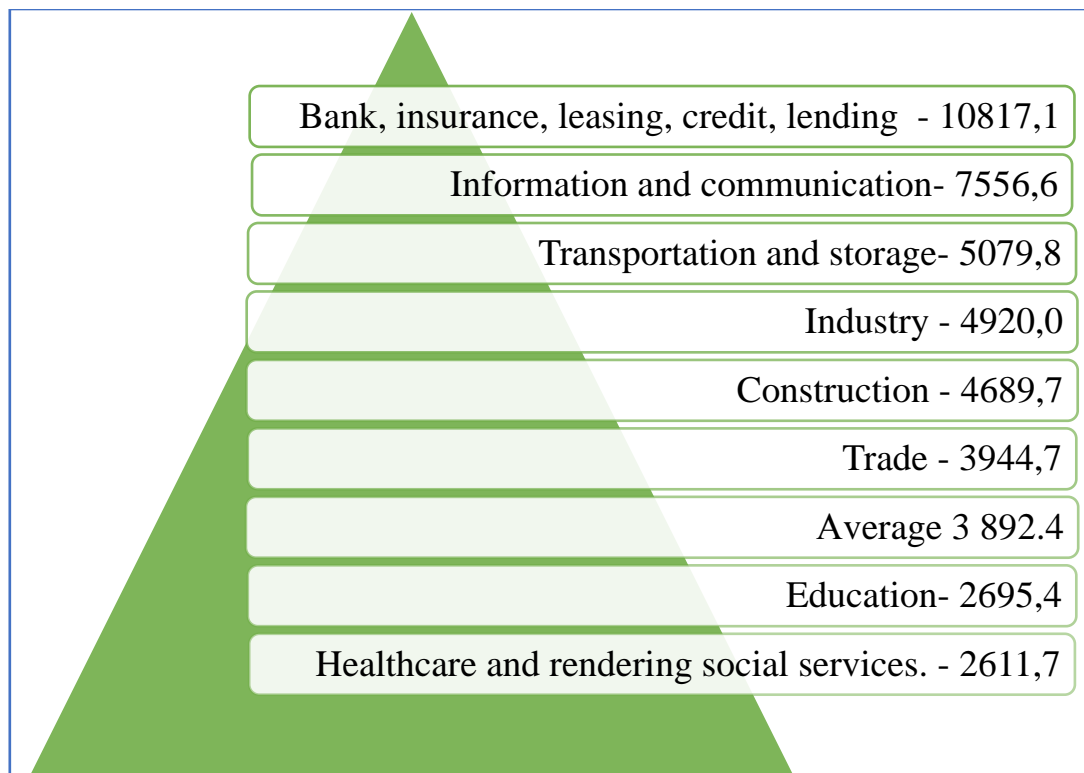
in the field of education – 2.6 million soums;

the lowest average salary was recorded in the field of healthcare and social services – 2.5 million soums.

When calculating the average monthly salary by the end of 2022, the data of 3 million 13.8 thousand employees were used, of which 37.4% work in the field of education, 16.1% are representatives of the healthcare sector.

The ratio of the average monthly salary in the field of education to the average monthly salary in the republic in 2020 was 74.1%, in 2021 – 71.8%, in 2022 – 69.2%.





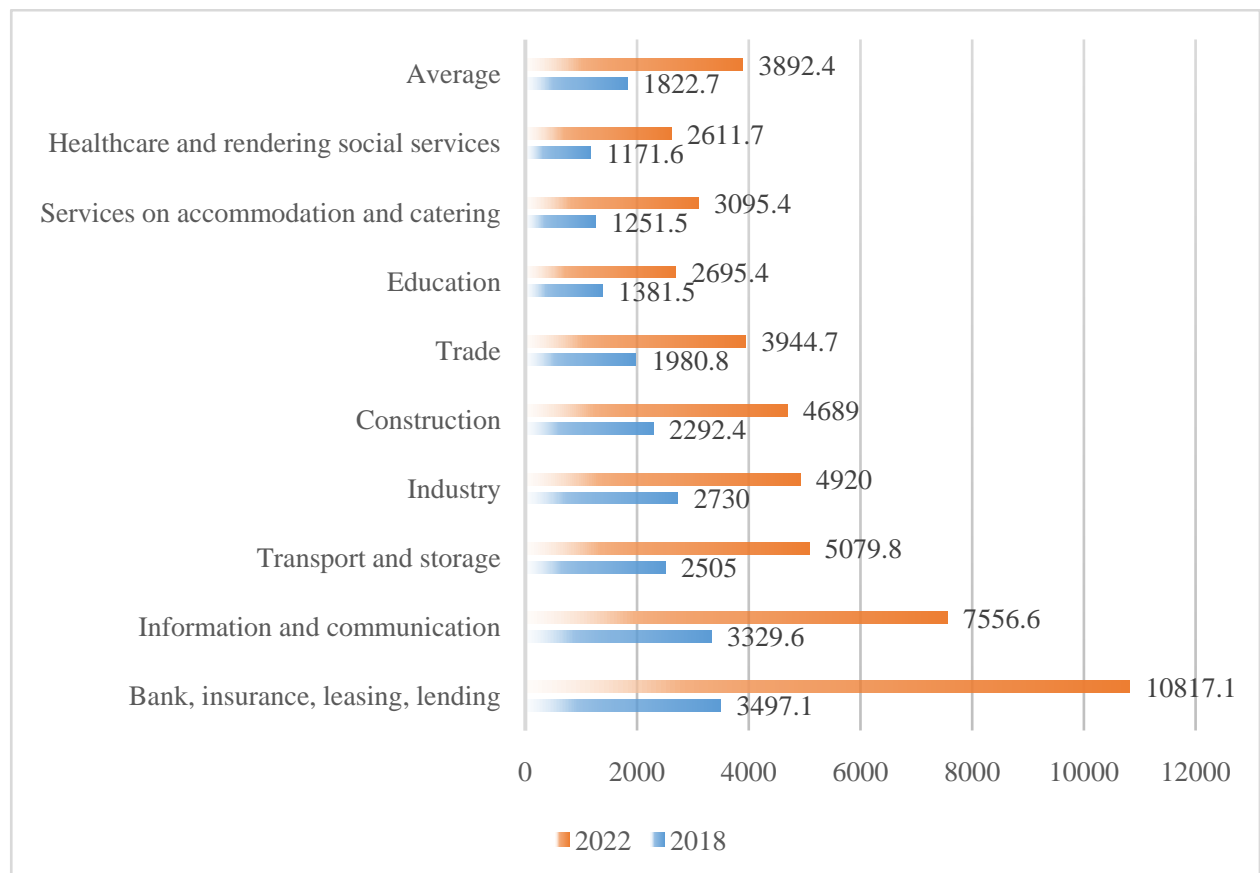
**Figure 6. The highest monthly salary by industry by the end of 2022**

*(in thousand soums)<sup>13</sup>*

If we compare individual industries, we can trace a clear wage inequality. In particular, during the period from 2018 to 2022, wages of employees engaged in banking, insurance, leasing, credit and intermediary activities, in the field of information and communications increased by 3 times (from 3.5 million soums to 10.8 million soums), 2.27 times (from 3.3 million soums to 7.5 million soums), in the field of education – by 95%.

If we pay attention to the dynamics of changes in the average monthly salary in the country by industry during 2018-2022, we can observe an increase from 3497.1 thousand soums in 2018 to 10817.1 thousand soums in 2022, or 3.1 times in banking, insurance, leasing, credit and intermediary activities, in the field of communications and information – from 3329.6 thousand soums to 7556.4 thousand soums or 2.7 times, in the field of health and social services from 1171.6 thousand soums to 2611.7 thousand soums. soums or 2.2 times, in the sphere of accommodation and food, despite the smaller monthly salary, from 1251.5 thousand soums in 2022 to 3095.4 thousand soums, or 2.5 times.

<sup>13</sup> The analysis was carried out by the author on the basis of data from the Tax Committee under the Ministry of Economy and Finance of the Republic of Uzbekistan.



**Figure 8. Dynamics of changes in average monthly wages by industry<sup>14</sup>.**

*(January-December, thousand UZS)*

### Conclusions

The existence of an informal economy is one of the acute problems of our, and not only our, country. And the solution to this problem is seen by many in the tightening of legislation and administrative measures to combat shadow workers. In fact, the informal economy is not a disease, but a symptom of another disease: bureaucratization of economic life, high costs of doing legal business, a large number of prohibitions and restrictions for entrepreneurial activity. Fighting the symptom, as you know, is a hopeless business. At best, you won't get a positive result. At worst, you will do even more harm.

Accordingly, the task is not the destruction of the informal economy, but its legalization, the transformation of shadow workers into law-abiding taxpayers. In other words, it is necessary to fight not with the informal economy, but with ineffective rules (laws, by-laws, state regulation measures) that prevent the legalization of informal business.

<sup>14</sup> The analysis was carried out by the author on the basis of data from the Tax Committee under the Ministry of Economy and Finance of the Republic of Uzbekistan.

Expert assessments and surveys conducted among business entities indicate the preservation of a high level of shadow turnover in the economy, especially in the areas of trade and catering, road transport, housing construction and repair, accommodation services, which infringes on the economic interests of bona fide entrepreneurs and creates unequal conditions for them to do business.

Regardless of the high and (or) low level of monthly wages, in comparison with previous years, an increase has been achieved in activities with a high risk of informal hiring of workers, in particular, retail trade and catering, hotel, passenger and cargo transportation by motor transport, repair and maintenance of vehicles, computers, as well as from the provision of services for the repair of household appliances, if the income is the main part of the total income at the end of the current reporting (tax) period, then the application to economic entities, for those carrying out this activity, the lowering coefficient for the type of taxes, calculated income in the form of wages will serve to reduce the level of shadow income by increasing the level of official registration of employees for work.

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