

**MODERNIZATION OF THE MECHANISM OF TAXING THE INCOME OF
POPULATION AND BUSINESS IN THE REPUBLIC OF UZBEKISTAN**

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Introduction

Under current conditions, the necessity of exempting a certain portion of income from taxation in order to ensure the essential living needs of the population is widely recognized. One of the first studies in this field in Uzbekistan was conducted by economist O. Abdurakhmonov in 2003, and although more than twenty years have passed since then, this issue remains relevant today [1]. The scholar interprets non-taxable income not merely as a tax benefit, but as a financial expression of the human right to live. In his view, a person's right to maintain a normal standard of living and satisfy basic material and spiritual needs is guaranteed by legislation and therefore should be taken into account in tax policy. Ignoring this principle may lead to further impoverishment of low-income groups and reduce their economic activity.

Main Part

The results of international studies indicate that when the non-taxable minimum income is aligned with the poverty line, tax policy serves not only as a mechanism for redistributing income within society but also as an important instrument for reducing social inequality. According to the criteria of the Organisation for Economic Co-operation and Development (OECD), relative poverty is defined as 50–60 percent of median income. Establishing this indicator as the minimum non-taxable income is considered a characteristic feature of the social welfare state model. However, the implementation of such a system requires reducing the share of the shadow economy and compensating for potential budget revenue losses through the expansion of the tax base [2].

According to the World Bank classification, countries are divided into high-income, upper-middle-income, lower-middle-income, and low-income groups based on their income levels. At the same time, separate global poverty thresholds are established for each group. In this study, the relationship between the minimum non-taxable income and the poverty line is initially analyzed using the example of high-income countries (see Table 1).

Data on non-taxable income levels and national poverty thresholds were compiled based on official online sources of the respective countries. In determining the amount of non-taxable income, incomes subject to a zero-percent tax rate, personal tax allowances, and other deductions automatically excluded from the taxable income base were also taken into account [3]. It should be noted that most of the countries presented in the table use the relative poverty criterion when assessing poverty. All indicators in the table are annual figures and cover data for 2024.

In some of the high-income countries presented in the table, the minimum non-taxable income is set very close to the national poverty threshold. For example, in Germany, the non-taxable income for individuals amounts to €16,050, which is only €522 below the poverty threshold of €16,572. In the United States, the difference is \$460. In Singapore, by contrast, the minimum non-taxable income exceeds the poverty threshold by \$278. These figures indicate the existence of a fiscal approach aimed at almost completely protecting low-income groups from the tax burden.



Indicators of Non-Taxable Income and National Poverty Thresholds in High-Income Countries

No.	Country	Annual Non-Taxable Income	Poverty Threshold
1	United Kingdom	£12,570	£9,200
2	Germany	€16,050	€16,572
3	United States	\$14,600	\$15,060
4	Japan	¥1,030,000	¥1,270,000
5	Singapore	SGD 20,000	SGD 19,722
6	Belgium	€16,500	€18,235

It can also be observed that these indicators are relatively close in the other countries presented in the table. For instance, in Belgium, the non-taxable income established for individuals is approximately 90 percent of the national poverty threshold, while in Japan this figure amounts to 81 percent. In the United Kingdom, the non-taxable income of £12,570 exceeds the poverty threshold of £9,200, meaning that income below the minimum living standard is not taxed.

In general, in almost all six high-income countries examined, the minimum non-taxable income is set very close to the poverty threshold. This demonstrates that tax policy in high-income countries is based on the principle of protecting the minimum standard of living from taxation, indicating a tendency to establish the minimum non-taxable income at or above the poverty threshold [4].

From this perspective, studying the experience of foreign countries in improving the personal income tax system and supporting low-income groups is of significant scientific and practical importance for Uzbekistan.

Based on the above analysis, the following proposals are put forward:

1. To introduce progressive taxation of personal income.
2. To ensure the effective functioning of the progressive taxation mechanism by simultaneously introducing declaration-based income taxation and establishing a minimum non-taxable income.
3. To define the poverty threshold as the minimum non-taxable income level.

References

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