



THE IMPACT OF GOVERNMENT POLICY ON ENTREPRENEURS' TAX BEHAVIOR

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Abstract. *This article examines the impact of government policy on entrepreneurs' tax behavior. Changes in tax policy, simplification of the tax system, tax incentives, subsidies, and increased tax control directly influence entrepreneurs' economic activities. Recent tax reforms and economic policy changes in Uzbekistan have contributed to supporting small and medium-sized businesses and improving tax compliance behavior. The article also discusses the effects of tax system changes on economic growth and the state budget, the reduction of tax evasion cases, and successes in combating corruption. The research findings highlight the crucial role of government policy in organizing an efficient tax system and fostering a fair economic environment.*

Keywords: *entrepreneurs, tax behavior, government policy, tax reforms, tax incentives, economic growth, tax system simplification, tax control, corruption.*

Introduction.

The interaction between entrepreneurs' tax behavior and government policy has become an integral aspect of economic development today. In developing countries like Uzbekistan, tax policy, the simplification of the tax system, and support for entrepreneurs significantly impact the efficiency and stability of economic activities. Entrepreneurs' attitudes toward tax payments and their aspirations for business development are directly influenced by the tax policy, legislation, and other economic measures implemented by the government.

The tax system serves as the foundation of a country's economic policy, guiding entrepreneurs in conducting their business activities. If the government strives to

improve the efficiency of the tax system, it incentivizes entrepreneurs and alters their tax-paying behavior. For instance in 2019, the Uzbek government initiated tax reforms and adopted a new Tax Code to simplify tax compliance [1]. The primary goal of this reform was to reduce the tax burden, support small and medium-sized enterprises (SMEs), ensure transparency, and combat corruption. Accordingly, tax incentives were provided to small businesses, which, in turn, influenced their tax behavior.

According to the 2024 report by the State Statistics Committee of Uzbekistan, the reduction in tax rates led to a 20% increase in the number of small business entities [2]. This demonstrates the effectiveness of the government's tax policy in supporting SMEs.

The impact of tax incentives, subsidies, and other financial support measures provided by the government to entrepreneurs is also worth studying. Tax incentives and subsidies offered by the government encourage entrepreneurs to attract additional investments into their businesses. This enhances the efficiency of economic activity and contributes to strengthening the national economy.

For example, in 2020, Uzbekistan introduced tax incentives aimed at developing SMEs. These incentives provided reduced tax rates and other favorable conditions for a period of three years. As a result, since 2020, the small business sector in Uzbekistan has experienced an average annual growth of 15% [2].

Methodology.

Various research methods were employed in this study to assess the impact of government policy on entrepreneurs' tax behavior. The research is based on a combination of qualitative and quantitative methods, aimed at conducting an in-depth analysis of how tax policy influences entrepreneurs' decision-making. Secondary sources, including reports from the State Tax Committee and the Statistics Agency of the Republic of Uzbekistan, academic articles, research studies,

international experiences, as well as analyses of legal and regulatory documents, were utilized.

The analytical methods applied in this study include descriptive statistics, regression analysis, and trend analysis. Specifically, the impact of recent tax reforms on the number of entrepreneurial entities was examined over time.

Literature review.

The influence of state policies on the tax behavior of entrepreneurs is a subject that has been extensively examined in both theoretical and empirical research. Understanding how government tax policies shape entrepreneurial behavior is essential for designing effective economic strategies, particularly in transitioning economies like Uzbekistan. A review of the existing literature reveals several key themes: the impact of tax system reforms, the role of tax incentives, the effect of tax simplification, and the role of tax enforcement and corruption in shaping tax compliance.

Numerous studies have explored the link between tax reforms and entrepreneurship. According to Koblits (2015), tax policy reforms, particularly those aimed at reducing the tax burden and increasing the efficiency of the tax system, tend to stimulate entrepreneurial activity [3]. Reforms that simplify the tax code and lower tax rates are associated with greater compliance, as entrepreneurs find it easier to understand and fulfill their tax obligations. In the context of Uzbekistan, several studies suggest that the introduction of tax reforms, such as the simplification of the tax code and the reduction of tax rates for small and medium-sized enterprises (SMEs), has positively affected the tax compliance of entrepreneurs. The introduction of the new Tax Code in 2020 was intended to create a more favorable business environment, and its impact was visible in the growth of SME registrations and a rise in tax revenue.

Individual tax behavior [4] often deviates from the rational model and is instead driven by personal well-being considerations [5]. The behavior and decision-making process of individuals [6] differ from purely rational choices, as they are influenced by personal heuristics and cognitive limitations [7]. The sovereign characteristics of a taxpayer are based on a rational self-assessment in pursuit of personal financial benefits. Tax evasion has always coexisted with tax systems, and this phenomenon is influenced by the perceived fairness of the system. Compliance with tax regulations is a priority for public finance, as it relates to equity, efficiency, and, ultimately, the effectiveness of the tax system. When a certain segment of the population has the opportunity to evade taxes or systematically avoid paying the required amounts, the tax system becomes unfair, placing an additional financial burden on honest taxpayers.

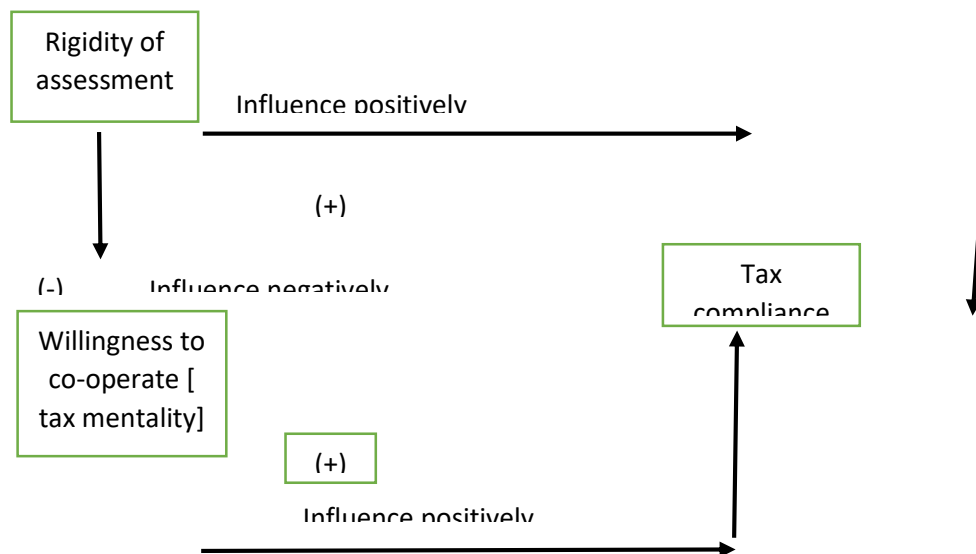


Fig.1. Strumpel's model of tax compliance Theories (1969)¹

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Hessing et al/1998.pp. 517-536,526

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On the other hand, the efficiency of the tax system is disrupted by the impact of the tax burden [8] (Kaplow, 1996), which in turn affects taxpayers' well-being [9] (Cullis & Lewis, 1997). Increasing tax rates and simplifying tax collection mechanisms are not sufficient to achieve economic growth within the socio-economic system. Instead, the use of tax models with low social efficiency may lead to a temporary increase in tax revenues. The persistence of "marginal" behavioral patterns among the population as a strategy to temporarily adapt to the tax burden contributes to the formation of tax evasion tendencies [10].

Furthermore, excessive tax declarations (over-filing) are often exploited, which does not have a tangible impact on the real economy. A sharp increase in the tax burden not only undermines taxpayers' ability to meet their obligations but also fuels social discontent regarding government inefficiency. For taxpayers, an optimal tax system is a crucial prerequisite for effective tax policy.

Tax reform is an integral part of broader state reforms and is a method chosen by the government to improve financial stability by enhancing tax collection and the quality of public services (OECD, 2010). These reforms are implemented through measures such as simplifying financial control, adjusting the progressivity of tax rates, introducing acceptable new taxes, eliminating inefficient existing taxes, expanding the tax base, and streamlining tax collection. Government reform efforts aim to simplify citizens' contractual relationships with the state, improve the quality of public services, and enhance the overall efficiency of state affairs in terms of financial requirements and conditions.

The efficiency of the tax system and the effectiveness of the government contribute to the optimal management of financial resources, leading to economic growth. This, in turn, ensures economic prosperity, social cohesion, and the sustainability of an independent democratic state [11].

The effectiveness of the tax system depends on the economic environment and the social characteristics of taxpayers. The stability of the tax system is determined

by the fair distribution of the tax burden relative to actual income. Socializing the concept of tax justice by addressing self-interest in taxation is a central factor in determining the efficiency of a tax model [12]. A fair distribution of the tax burden is the foundation for consistent taxpayer behavior regarding tax obligations and underscores the importance of an equitable tax system. The literature on tax incentives highlights their critical role in shaping entrepreneurs' decisions regarding investment and tax compliance. Research by M Stiglingh, R Smit [13] argues that targeted tax incentives, such as tax credits and subsidies for specific industries or regions, can drive investment and innovation, especially in developing economies. For instance, tax relief for SMEs can lower barriers to entry and allow entrepreneurs to invest more capital into business expansion. In Uzbekistan, government policies that provide tax breaks for small businesses have been linked to higher rates of business activity in the sector [1]. These incentives are often designed to reduce the financial burden on entrepreneurs, particularly in the early stages of business development.

Tax system simplification is another area of focus in the literature, with numerous studies emphasizing its role in encouraging compliance. According to OECD (2018), simplified tax systems are directly correlated with higher levels of tax compliance, especially among SMEs. Entrepreneurs tend to be more willing to comply with taxes when the process is straightforward and not excessively burdensome. In the case of Uzbekistan, the government's decision to implement a unified tax payment system in 2019 has been widely praised for making the tax process more transparent and easier to navigate. This simplification has led to a noticeable increase in voluntary tax compliance among small businesses, as reported by the Uzbek Tax Committee (2020). Research by Koblits [4] further supports this, noting that simplified tax regulations not only reduce the cost of compliance but also promote a more entrepreneurial-friendly environment.

One of the significant challenges in many developing economies is the issue of tax evasion and the role of corruption in distorting tax compliance. Several studies have shown that weak tax enforcement and corruption can lead to significant levels of tax evasion, as entrepreneurs may perceive the cost of non-compliance as lower than the cost of complying with the tax system (Smit, 2017). In contrast, stronger tax enforcement and the elimination of corruption are seen as essential for improving tax compliance. The introduction of more stringent tax audits and the enforcement of tax laws in Uzbekistan since 2020 have contributed to a decline in tax evasion rates, with reports indicating a 10% reduction in tax avoidance activities [1]. This improvement is partly due to the establishment of a more transparent and effective system for monitoring and enforcing tax laws.

International comparisons have also been made to assess the impact of tax policy on entrepreneurial behavior. Studies by the OECD (2018) highlight that successful tax systems in countries with high entrepreneurial activity often share characteristics such as low tax rates, simplified tax structures, and effective enforcement mechanisms. These elements not only reduce the cost of tax compliance but also foster a culture of entrepreneurship and innovation. Drawing on these international experiences, Uzbekistan has adopted several best practices, such as reducing tax rates for small businesses and introducing targeted incentives for innovation-driven enterprises. These practices are expected to lead to long-term improvements in tax compliance and entrepreneurial behavior.

The literature suggests that state policies significantly shape the tax behavior of entrepreneurs. Simplified tax systems, targeted tax incentives, and efficient tax enforcement are key factors that promote voluntary tax compliance and foster entrepreneurship. In the case of Uzbekistan, recent tax reforms and the implementation of a more transparent and simplified tax system have had a positive effect on entrepreneurial behavior, leading to increased business activity and greater tax compliance. However, challenges remain, particularly in areas such as corruption

and the need for continued reforms to ensure a level playing field for all entrepreneurs. Further research is necessary to evaluate the long-term impacts of these reforms and to explore additional strategies for fostering a more tax-compliant entrepreneurial environment.

Research and Analysis.

The simplification of the tax system significantly influences the decisions made by entrepreneurs and their economic activities. The complexity of tax procedures and the challenges associated with tax legislation can negatively impact entrepreneurs' tax compliance behavior.

In 2018, the government of Uzbekistan introduced a simplified version of the Tax Code, reducing multiple tax rates and making the calculation system more transparent. These measures proved effective in supporting the development of small and medium-sized enterprises (SMEs). By 2019, in response to the need for further tax simplification, a unified tax payment system was introduced. According to the 2019 report of the Uzbek Tax Committee, tax simplification resulted in a 25% increase in tax compliance among small businesses.

If there is unfairness or corruption within the tax system, it negatively affects entrepreneurs' willingness to pay taxes. Ineffective tax enforcement may encourage tax evasion among businesses. However, strengthening tax oversight and combating corruption can positively change entrepreneurs' attitudes toward tax compliance.

Since 2020, the Uzbek government has implemented various reforms aimed at enhancing tax oversight. A system for studying and monitoring taxpayers was introduced by tax authorities to combat corruption and encourage businesses to fulfill their tax obligations. In 2022, with the introduction of an advanced tax monitoring system, cases of tax evasion decreased by 10%.

Table 1. Changes in Uzbekistan's tax policy and the growth rates of entrepreneurial entities

Year	Changes in tax policy	Growth rate of entrepreneurial entities (%)
2018	Introduction of tax incentives	6.4
2019	Simplified tax payment methods	13.3
2020	Introduction of a unified tax payment system	23.1
2021	Amendments to the Tax Code	19.3
2022	Strengthening tax control	11.3
2023	Implementation of new tax policies or changes	12.0
2024	New tax system reforms	-18.0

This table illustrates the relationship between tax policy changes and the growth rate of entrepreneurial entities in Uzbekistan over the years. The data suggest that tax incentives, simplification, and reform have generally led to increased entrepreneurial activity, while stricter tax control and policy shifts may have had mixed effects. The negative growth rate in 2024 indicates possible challenges arising from new tax reforms.

Between 2018 and 2024, significant changes in Uzbekistan's tax policy had a notable impact on the growth rate of entrepreneurial entities. Below is an analysis of the tax reforms implemented during these years and their respective outcomes.

In 2018, tax burden reduction led to a 6.4% growth rate in the number of entrepreneurial entities. While tax incentives encouraged the establishment of new businesses, no significant surge was observed.

In 2019, tax payment procedures were simplified for entrepreneurs, resulting in a 13.3% growth rate. This reform became one of the key factors that facilitated the emergence of new small businesses.

2020 saw the introduction of a unified tax payment system and tax burden optimization, creating a favorable business environment. As a result, the growth rate reached a record high of 23.1%, marking a sharp increase in the number of small and medium-sized enterprises (SMEs). Following this peak, new regulatory mechanisms were introduced, leading to a slight decline in growth to 19.3% in 2021. In 2022, an increase in tax control measures led to a greater perceived tax burden

among entrepreneurs, negatively affecting business growth. In 2023, the introduction of a new tax policy helped stabilize the growth rate at 12%, signaling some level of consistency and predictability for entrepreneurs. However, in 2024, the implementation of additional tax reforms caused a sharp decline in the growth rate of entrepreneurial entities, dropping to -18%. This suggests that the increased tax burden or regulatory constraints may have become an obstacle to business development.

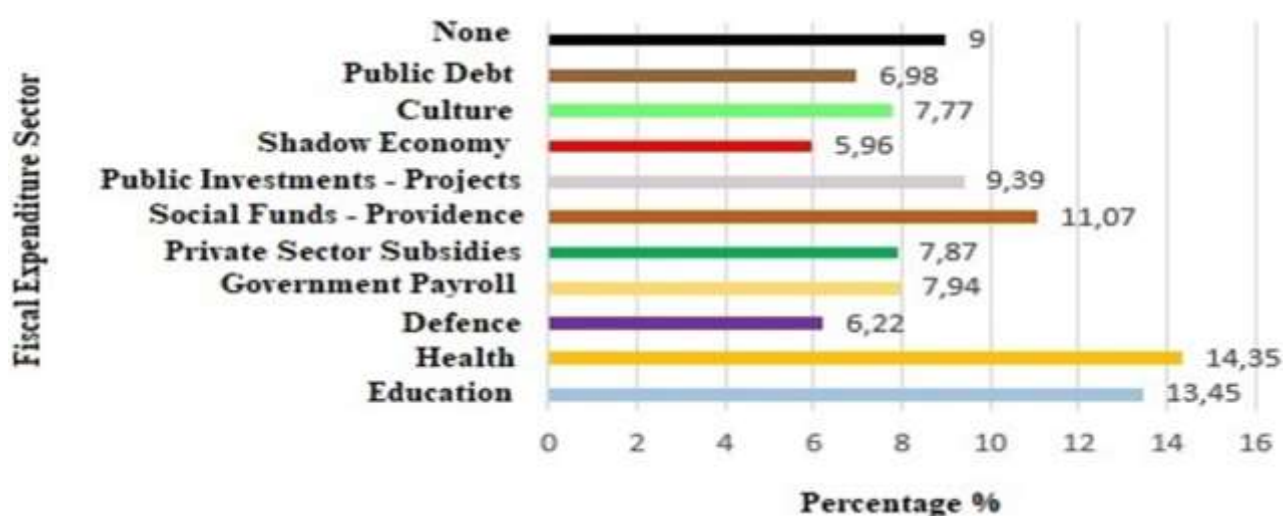


Figure 1. Fiscal expenditure sector in 2023

Interestingly enough, the structure of the costs that taxpayers prefer is as shown in Fig.1. From Fig.2, it appears that in a restructuring of budgetary expenditure, it is preferable to focus on spending on Health, Education, Social Security and Public Investment. In relation to existing state budget expenditures, there is a feeling that much more than taxpayers would like is spent on servicing public debt. Nevertheless, this is not confirmed by the apparently fewer actual amounts of the state budget being directed towards the public debt. Characteristically, taxpayers have been reconciled with the existence of illegality, expecting it to be even less than what is actually recorded, while in 2023 it rose into 21.5%.

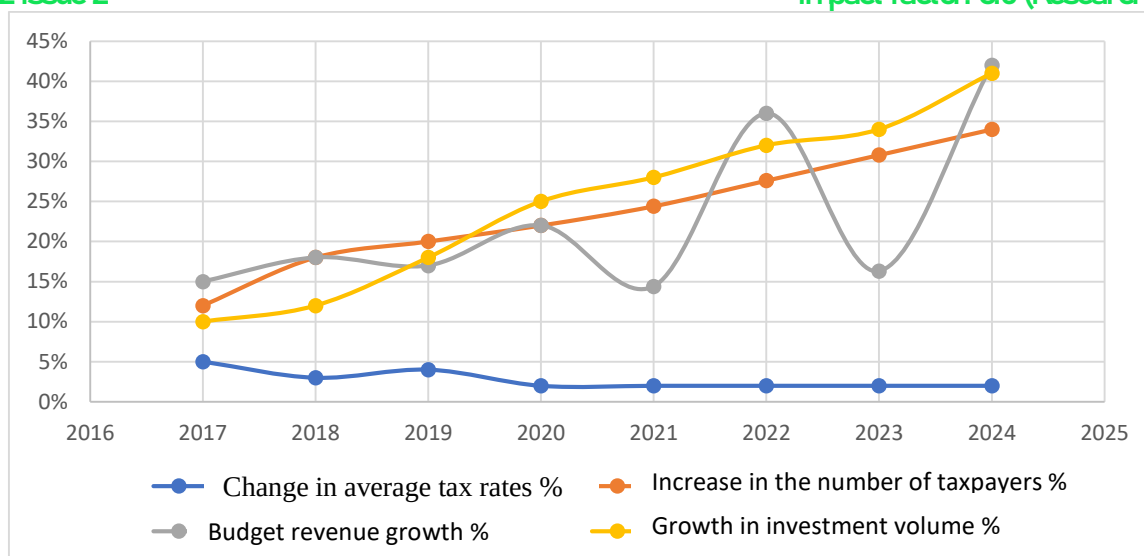


Figure 3. The impact of the reduction in average tax rates on economic indicators.

According to the table, from 2017 to 2024, tax rates steadily decreased, and from 2020 onward, they were maintained at a level of 2%. This contributed to an increase in economic activity. At the same time, the number of taxpayers increased annually, from 12% in 2017 to 34% in 2024, indicating an expansion of the tax base.

While budget revenues have increased, some years saw a decline (14.4% in 2021 and 16% in 2023). However, significant growth was recorded in 2022 and 2024, with an increase of 36% and 42%, respectively. Investment flows have also consistently risen, from 10% in 2017 to 41% in 2024, showing improved economic stability and a better business environment.

Currently, there are 9 types of taxes in the country, and their rates vary. According to experts, the tax burden indicator is not that high in the republic. It has been determined that its total amount stands at around 23-24%. However, the majority of the population cannot consider this percentage as low or average. Therefore, attempts to earn hidden income have become a consistent reflex.

Among some financial experts, there is a belief that "the tax burden causes the emergence of a shadow economy," but isn't it the high level of taxes that leads to tax evasion?

One of the issues regarding tax evasion is the low sense of responsibility for paying taxes among some individuals. In this process, tax authorities are tasked with a significant role. They should aim to act as service-oriented bodies, not as enforcers. If a citizen fails to pay certain taxes, the tax officer should visit them and explain the situation and the system. The citizen may not even know where the tax originates, but it is essential that the specialist explains this.

Discussion. Overall, the reduction in tax rates, the increase in the number of taxpayers, and the rise in investment flows have positively impacted the state budget and created a foundation for economic growth.

The analysis shows that tax policy relaxations have had a positive effect on entrepreneurship development, while periods of increased control and regulation have resulted in slower business growth. Notably, the sharp decline observed in 2024 suggests that the tax system may be imposing excessive burdens on entrepreneurship. Therefore, it is necessary to reassess the tax policy in the future to improve the business environment and ensure sustainable growth.

The successful implementation of tax policy directly affects the country's economic development. When taxpayers' behavior is properly aligned, the state budget increases, stability in the economy is ensured, and the investment climate improves.

Since 2017, the economy of Uzbekistan has shown consistent growth rates. By 2024, the country's GDP (Gross Domestic Product) grew by 6.2%, demonstrating the effectiveness of the tax policy. Measures aimed at supporting small and medium-sized businesses by the state have also significantly contributed to economic growth.

The impact of state policies on entrepreneurs' tax behavior not only ensures economic growth but also guarantees a fair and efficient distribution of wealth in the economy. Simplified tax systems, tax incentives, transparent controls, and anti-corruption efforts help entrepreneurs conduct their activities legally and efficiently. Uzbekistan's innovations and reforms in tax policy continue to support small and

medium-sized businesses, ensure fairness in tax payments, and strengthen the stability of the national economy. These reforms also help enhance Uzbekistan's economic competitiveness on the international stage.

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