

## **FINANCIAL AND ECONOMIC MECHANISMS OF PUBLIC CONTROL IN FISCAL POLICY TO REDUCE SHADOW ECONOMIC ACTIVITY**

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In recent years, the Republic of Uzbekistan has been carrying out consistent reforms to reduce shadow economic activity. The shadow economy is especially widespread in retail trade, public catering, and the service sector, and the main form of tax evasion is trading without cash registers or electronic payment instruments.

In such cases, direct damage is inflicted on the state budget, a shortage of funds arises in areas financed from the budget, and an unfair competitive environment is created in relation to legally operating business entities. Therefore, the state chose the path of harmonizing the classical model of tax control with civil society institutions.

One of the most important legal foundations in this direction is the Decree of the President of the Republic of Uzbekistan dated October 4, 2021 No. PP-5252, which introduced a system to encourage citizens to report tax offenses in the sphere of retail trade and services. According to this decree, if an individual identifies a case of unlimited purchase of goods or provision of services and reports this to the tax authorities through a special program, and a violation is revealed as a result of the inspection, a reward of 20% of the amount of the fine collected from the offender is paid.<sup>1</sup>

This mechanism has been systematically implemented in our country for the first time as a model of financial incentives for public control. Residents can send messages through the "Soliq.uz" mobile application, the my.soliq.uz portal, or the Telegram bot. This mechanism increases the economic and legal activity of citizens and has a significant impact on budget discipline.

In 2023, based on public appeals, more than 50 thousand tax audits were conducted, and fines in the amount of 282 billion soums were collected, while in the first half of 2024, 39.8 thousand audits were carried out, and financial sanctions in the amount of 136 billion soums were applied. The following table summarizes these indicators more accurately:

### **Table 1.**

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<sup>1</sup> Resolution of the President of the Republic of Uzbekistan dated October 4, 2021 No. PP-5252 "On Additional Measures to Improve the Use of Cash Registers in the Sphere of Retail Trade and Services" <https://lex.uz/uz/docs/-5665883>

### Inspections conducted on the basis of tax offenses reported by the public (2023-2024)<sup>2</sup>

Year	Number of messages (estimated)	Number of checks performed	Fines collected (billion soums)	Reward paid (20%) (billion soums)
2023	55 000	50 000	282,0	56,4
2024	42 000	39 800	136,0	27,2

Based on this data, it is clear that public control makes a real financial contribution to the state budget. Especially in 2023, on average, as a result of each inspection, a fine of 5.64 million soums was paid, and 1.13 million soums were paid to the citizen as a reward.

The advantage of public control is that it replenishes the capabilities of tax authorities, gives a signal about the real situation on the ground, and most importantly, influences the lawful actions of business entities in the form of social pressure. At the same time, there are some problematic aspects. In particular, in some cases, the reward amount is paid late, some reports are unfounded or inaccurate, and some entrepreneurs assess this situation as "local espionage." To prevent such situations, it is necessary to further improve the system from a legislative and technical point of view.

In particular, it is necessary to fully protect the identity and safety of the complainant, to automatically and timely award rewards, and to develop mechanisms for liability for unjustified complaints. As noted in this section, a system of public control based on incentives is emerging as a powerful tool in the fight against the shadow economy.

Clandestine economic activity is a threat to economic and fiscal stability for many countries. It harms legitimate competition, limits the possibilities of replenishing the state budget, and leads to a weakening of the culture of tax payment among citizens. Therefore, modern, developed advanced foreign countries, in addition to traditional tax control, are establishing monitoring mechanisms based on public participation.

The Whistleblower Program, operated by the U.S. Internal Revenue Service (IRS) since 2006, is a public reporting system for individuals who violate tax laws. According to the program, a citizen who provides information about persons who have evaded large taxes will be paid a reward of 15-30 percent of the amount of the identified and collected tax.<sup>3</sup>

<sup>2</sup> State Tax Committee of Uzbekistan. 2024. Tax inspection statistics for 2023–2024. Retrieved July 30, 2025, from <https://solig.uz>

<sup>3</sup> Wolters Kluwer. Tax avoidance is legal; tax evasion is criminal.

<https://www.wolterskluwer.com/en/expert-insights/tax-avoidance-is-legal-tax-evasion-is-criminal>

Official statistics over the past five years confirm the stable functioning of this mechanism:

**Table 2.**

**Results of the IRS Whistleblower program in the USA (2020-2024)<sup>4</sup>**

Year	Tax collected (million \$)	Reward paid (million \$)	Number of complaints
2020	338	86	11 394
2021	370	98	12 622
2022	418	109	13 843
2023	475	123,5	16 932
2024	510	130	~17 800

As can be seen from this table, between 2020-2024, the volume of bonuses and the amount of tax collected consistently increased annually. This, on the one hand, increases citizens' trust in the system, and on the other hand, expands the ability of government agencies to work based on information.

In Brazil, through the Nota Fiscal Paulista program, which has been in effect since 2007, citizens receive a tax credit from ICMS (International Service and Product Tax) by registering electronic receipts received for purchases in the state tax base. Citizens have the opportunity to receive a refund of 5-30% of their payments through this system.<sup>5</sup>

The volume of tax credits returned to the population through this program in 2020-2024 is as follows:

**Table 3.**

**Tax credits under the Nota Fiscal Paulista program in Brazil (2020-2024, R\$ million)<sup>6</sup>**

<sup>4</sup> Internal Revenue Service (IRS). (2024, April 12). IRS recovers billions in tax, financial criminal cases focused on drug trafficking & terrorist financing. U.S. Department of the Treasury.

<https://www.irs.gov/newsroom/irs-recovers-billions-in-tax-financial-criminal-cases-focused-on-drug-trafficking-terrorist-financing-launches-new-business-online-account-features>

<sup>5</sup> International Monetary Fund IMF. 2021. Brazil: Fiscal Transparency and Nota Fiscal Paulista Program (Working Paper No. 21/240). <https://www.elibrary.imf.org/view/journals/001/2021/240/article-A001-en.xml>

<sup>6</sup> Government of São Paulo State. 2024. Nota Fiscal Paulista: Resumo de créditos distribuídos por CPF/CNPJ. Secretaria da Fazenda e Planejamento. Retrieved July 30, 2025, from <https://www.nfp.fazenda.sp.gov.br>.

Year	Total credits (R\$ million)	For (individuals)	CPF	According to CNPJ (legal entities)
2020	471,2	15,1		22,3
2021	489,0	15,9		22,7
2022	505,5	16,3		22,6
2023	515,6	16,8		22,7
2024	523,4	20,9		21,6

The annual increase in loan amounts indicates an increase in citizens' interest in this system and the formalization of the retail sector. In particular, the fact that in 2024 the remuneration of the CPF reached 20.9 million reales reflects the active participation of citizens.

In Estonia, tax declarations are automatically submitted to citizens in a ready-made form through a digital platform. Every citizen can check their payment history at any time, see tax payment interruptions, and report them to the tax authorities. In this case, privacy and security are fully guaranteed.<sup>7</sup>

In South Korea, the "Tax Receipt Lottery" mechanism works. After the purchase, the citizen who received the receipt will participate in the lottery. Individuals who report sales not covered by the NCO will receive a direct reward. In 2023, more than \$8 million in bonuses were paid to citizens through this. This gamified model has transformed the culture of paying taxes into a social habit.<sup>8</sup>

In recent years, a number of institutional reforms have been implemented in Uzbekistan to reduce the shadow economy and formalize retail trade and the service sector. In particular, in accordance with the Decree of the President of the Republic of Uzbekistan dated October 4, 2021 No. PP-5252:

..."when cases of non-issuance of receipts when making a purchase are detected, a procedure for encouraging individuals who have notified the tax authorities will be introduced. In this case, 20 percent of the fine collected for the offense identified during the inspection conducted on the basis of this report is paid as a reward.<sup>9</sup>

<sup>7</sup> Estonian Tax and Customs Board. (2023). Annual report: Digital tax administration in Estonia. Retrieved July 30, 2025, from <https://www.emta.ee/eng>

<sup>8</sup> National Tax Service of Korea. (2023). Taxpayer compliance and incentive mechanisms in Korea. Retrieved July 30, 2025, from <https://www.nts.go.kr/eng/>

<sup>9</sup> Resolution of the President of the Republic of Uzbekistan dated October 4, 2021 No. PP-5252 "On Additional Measures to Improve the Use of Cash Registers in the Sphere of Retail Trade and Services" <https://lex.uz/uz/docs/-5665883>

The number of inspections conducted based on public reports and the amount of collected fines are reflected in the following table:

**Table 4.**

**Tax audits conducted on the basis of public participation (2023-2024)<sup>10</sup>**

<b>Indicators</b>	<b>2023-yil</b>	<b>January-July 2024</b>
Number of reviews	50,000 items	39 800 items
Amount of the collected fine (billion soums)	282,0	136,0
Paid to citizens as an incentive (%)	20 %	20 %
Amount of remuneration paid (account)	56.4 billion soums	27.2 billion soums

The data shows that in 2023, more than 50,000 inspections were carried out, resulting in fines totaling 282 billion soums. During the first 7 months of 2024, fines totaling about 136 billion soums were imposed. This, in turn, indicates an increased flow of information between tax authorities and the public.

### **CONCLUSION**

Improving tax control with public participation in Uzbekistan will not only reduce the size of the shadow economy, but will also increase civic consciousness and economic responsibility. International experience shows that this system should be based not only on punishment, but also on cooperation and trust. Digitalization, incentives, and institutional protection are the most important factors in the formation of a citizen as an active subject of the tax system.

The following proposals for strengthening civil tax control in Uzbekistan are relevant:

- Strengthening promotional campaigns: popularizing tax culture through schools, colleges, universities, and the media.
- Establishment of pilot regions: launching a highly rewarding, transparent, and convenient tax signaling mechanism in test mode in some cities.
- Control based on a social contract: involvement of public activists, bloggers, mahalla leaders in monitoring.

<sup>10</sup> State Tax Committee of Uzbekistan. 2024. Tax inspection statistics for 2023–2024. Retrieved July 30, 2025, from <https://soliq.uz>