



## THE TAXATION PROCEDURE OF INCOME OF SELF-EMPLOYED PERSONS

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**Abstract:** The article discusses scientific and theoretical views on self-employment activities, its role in ensuring population employment, and analyzes the activities of self-employed individuals across various sectors. Furthermore, the procedure for taxing the income of self-employed persons is also highlighted.

**Keywords:** entrepreneurial activity, self-employment, tax exemption, taxation, employment of the population.

There are specific features in the organization of entrepreneurial activity around the world. The widespread development of self-employment and entrepreneurial activity among individuals has necessitated the identification of similarities and differences between these concepts. In particular, "self-employment and freelancing are usually defined as forms of entrepreneurship. Although there are no clear boundaries between these categories, entrepreneurial activity, self-employment, and freelancing are essentially similar and complement one another" [3].

In global practice, scientific research is being conducted to enhance the well-being of the population through self-employment of individuals and to support them through tax mechanisms. These studies place particular emphasis on the incentivizing function of taxes when taxing the income of individuals engaged in entrepreneurial activity. However, the absence of a unified approach to the taxation of income of self-employed individuals globally, and the lack of clear distinctions between small enterprises, individual entrepreneurs, and self-employed persons in choosing tax regimes, remain unresolved issues.

In global experience, self-employment or freelancing has developed extensively over many years, and numerous studies have been conducted on their organization and importance in ensuring employment. For instance, Dubina I.N. and others consider freelancing as an intellectual and creative form of self-employment in the new economy. The authors analyze the theoretical and practical development of self-employment from its early stages to the present, emphasizing that self-employment has evolved as an economic and labor activity and is making an increasingly significant contribution to the national economies of many countries. Freelancing is described as a new integrated form of entrepreneurship and self-employment (an intellectual and creative innovative form of individual entrepreneurship), which helps in creating and developing innovative technologies, goods, and services [3].

Although there is no clear boundary between self-employment and freelancing, both operate as forms of entrepreneurship. While the categories of entrepreneurship, self-employment, and independent work overlap and complement each other, freelancing is defined as the intersection of "individual entrepreneurship" and "entrepreneurship" [4].

In contrast to traditional self-employment sectors, freelancing typically involves highly qualified professionals who provide knowledge- and information-based services. These

include teachers, IT specialists, architects, engineers, auditors, lawyers, artists, doctors, translators, scientists, writers, and others [5].

The report by the Roosevelt Institute and the Kauffman Foundation presents views on the future of the developing “bright economy,” predicting that by 2040, freelancers will play a dominant role in the labor market, and traditional forms of employment will significantly change [6]. Experts highlight several key trends of the new economy. First, work will mainly consist of numerous but short-term projects carried out by specialists working simultaneously for several companies with irregular work hours. Second, new institutions will be created to reduce economic risks and replace traditional pensions and health insurance. Third, rapid development of freelance platforms is expected, serving as independent organizers that provide information about supply and demand for freelance services and enable planning and tracking of freelance projects [6].

The establishment of a legal framework for the self-employment system in our country has accelerated scientific research in this area. For instance, G.U. Ruziev has studied the development of self-employment in ensuring population employment. According to the author: “In recent years, self-employment or freelancing has been transforming into a modern and innovative form of employment. Promoting its development and providing comprehensive state support to those engaged in such activities have proven to be the most effective measures for addressing employment issues and increasing income levels of the population, especially under pandemic conditions” [7].

According to the Regulation “On the Procedure for Engaging in Activities as a Self-Employed Person” approved by Resolution No. 806 of the Cabinet of Ministers of the Republic of Uzbekistan on December 23, 2020, self-employed persons are defined as:

“Individuals who independently carry out activities aimed at generating labor income, based on their personal participation in providing services or performing work for individuals and legal entities, not registered as individual entrepreneurs, and registered with the state tax authorities with the right to have their work experience recognized and to benefit from incentive privileges” [2].

Thus, in our country, in order to regulate the labor activity of individuals earning income through self-employment and to create favorable conditions for legal labor activities, specific types of permissible activities for self-employed persons have been defined. Moreover, measures have been introduced to exempt income from taxation, recognize work experience, and grant rights to benefit from incentive privileges.

To further involve the population in entrepreneurial activity and to facilitate legal employment, the adoption of Presidential Decree No. PQ-4742 dated June 8, 2020, “On Measures to Simplify State Regulation of Entrepreneurial Activity and Self-Employment” [1] has contributed to enabling self-employed persons to engage in legal labor activities and legalize their income, thereby increasing employment across the country.

Global experience and national practice show that ensuring the employment of the working-age population is of vital importance today. Employment not only increases people’s incomes but also positively influences the development of the national economy. It is worth noting that although there is no official statistic on the number of individuals earning income through informal or unregistered activities in the national economy, their number is estimated to be several hundred thousand. Introducing and implementing a system of self-

employment has played a significant role in organizing the activities of these individuals in a legal framework.

Based on the above, providing certain tax benefits to self-employed individuals and recognizing them as an active segment of the economy, as well as guaranteeing their access to old-age pensions through contributions to the pension fund, is serving as a turning point in the regulation of these relationships. Most importantly, the number of self-employed individuals continues to grow year by year.

An increase in the number of self-employed citizens is also being observed across various sectors (see Table 1)

**Table 1**

**Information on self-employed citizens by sector across the Republic [8]**

Sectors	Registered in 2023		Total registered	
	person	%	person	%
Social services	233 757	14,3	318 701	12,6
Industrial services	147 674	9,0	280 040	11,1
Agricultural services	306 894	18,7	720 462	28,4
Household services	730 680	44,6	936 014	36,9
Production and provision of consumer goods and services	170 967	10,4	214 684	8,5
Information and communication services	47 724	2,9	64 004	2,5
<b>Total across the Republic</b>	<b>1 637 696</b>	<b>100,0</b>	<b>2 533 905</b>	<b>100,0</b>

An analysis of self-employed citizens by sector across the Republic shows that in 2023, over 1.6 million individuals registered as new self-employed persons, bringing the total number to more than 2.5 million.

According to the results for 2023, 36.9% of self-employed individuals were engaged in household services, 28.4% in agricultural services, 12.6% in social services, 11.1% in industrial services, 8.5% in the production and services of consumer goods, and 2.5% in information and communication services.

Thus, the exemption of income earned through self-employment from taxation has created an opportunity for many individuals engaged in various activities to legalize their labor.

The fact that a large portion of the population earning income through unregistered activities has been legalized in a short time through the self-employment system indicates the high significance of this system. Moreover, the increasing number of self-employed individuals who operate using professional skills and advanced innovation and communication technologies plays an important role in improving the efficiency of this sector.

According to Article 369 of the Tax Code of the Republic of Uzbekistan, "income received from labor activities carried out by self-employed persons in the manner prescribed by legislation" is not subject to taxation. However, based on amendments to the Tax Code, beginning from January 1, 2024, if the income of a self-employed person exceeds 100 million UZS, they are subject to taxation under the procedure established for individual

entrepreneurs. Therefore, taxation has been introduced on the income of self-employed individuals.

The income of self-employed persons will be determined using external data sources and recorded in the database of the Tax Committee.

It is appropriate to detail how taxation will be applied to taxpayers' income.

It should be noted that if a self-employed person's income exceeds 100 million UZS, only the portion of income exceeding that amount will be subject to taxation, not their entire annual income.

When the income of a self-employed person exceeds 100 million UZS, the taxation rules for individual entrepreneurs will apply. According to the Tax Code, individual entrepreneurs with annual income between 100 million and 1 billion UZS are subject to turnover tax.

For example, if a self-employed person's income is 110 million UZS in a given year, the first 100 million UZS will be exempt from tax. The remaining 10 million UZS (the portion exceeding the threshold) will be subject to a 4% turnover tax — that is, 400,000 UZS.

According to Presidential Decree No. PF-287 dated December 30, 2022, “On measures to categorize the regions of the Republic and introduce a differentiated system of support for entrepreneurship,” self-employed persons operating in category 5 regions and earning more than 100 million UZS will pay a turnover tax at a rate of 1%.

For taxpayers conducting sales of goods (works, services) through electronic trading platforms, the turnover tax rate is set at 2%. Therefore, self-employed persons selling goods on electronic platforms will pay a 2% turnover tax on the portion of their income that exceeds 100 million UZS.

If the income of a self-employed individual exceeds 1 billion UZS, they are required to pay VAT and profit tax.

The introduction of the self-employment system has served as an important factor in ensuring employment and increasing the income of the population. In particular, the exemption of self-employed individuals from taxes has created the opportunity for them to offer services at more affordable prices.

Although the number of self-employed citizens is steadily increasing, the activities of some individuals are still not organized on a legal basis. Therefore, it is necessary to promote the self-employment system more widely.

Additionally, the presence of overlapping activity types in the lists of permitted activities for individual entrepreneurs and for self-employed persons, as well as the lack of clear criteria distinguishing them, is causing certain legal and administrative issues. In order to eliminate these problems, specific criteria should be defined to differentiate between the two.

In the context of the country's ongoing development of the digital economy, giving priority to the development of freelancing as an innovative form of self-employment is of great importance for ensuring employment and increasing the income of the population.

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