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Ways to Improve The E-Commerce Taxation Mechanism

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Abstract: The rapid growth of the digital economy has led to transformative shifts in global commerce, creating new challenges for tax systems in monitoring and regulating online transactions. In Uzbekistan, the expansion of e-commerce has prompted legislative and fiscal reforms, yet the current taxation mechanisms remain underdeveloped relative to the pace of digitalization. While several legal frameworks exist, there is a lack of a unified, transparent, and adaptive tax model tailored to the needs of e-commerce entities operating both domestically and across borders. This study aims to analyze the current legal and fiscal landscape of e-commerce taxation in Uzbekistan, evaluate international best practices, and propose a model mechanism to enhance tax administration and compliance in the digital sphere. The research reveals that Uzbekistan has introduced specific tax regimes—such as reduced tax rates and special accounts for e-commerce entities—but further improvements are required. A proposed multi-component model includes a unified electronic register, automated transaction monitoring, simplified reporting, and enhanced international cooperation. The study offers a structured taxation model rooted in the principle of "economic presence," drawing from OECD guidelines, EU VAT practices, and U.S. digital tax frameworks, while adapting them to the Uzbek context. Implementing the proposed framework would enhance tax base identification, encourage business formalization, reduce cash turnover, and increase transparency, thereby contributing to sustainable development of Uzbekistan's digital economy.

Keywords: E-Commerce, Taxation of E-Commerce, Digital Economy, Tax Administration, Online Transactions, Cross-Border Services, Digital Products

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1. Introduction

The emergence of a new type of entrepreneurial activity called e-commerce has led to the development of new forms of doing business, as well as the emergence of transnational digital companies. As a result of the rapid development of the digital economy in recent years, e-commerce has become an important segment of economic activity on a global scale. In particular, the popularization of online trading platforms during the COVID-19 pandemic has led to a change in traditional business models and a diversification of the tax base. The rapid growth of e-commerce has created new challenges for tax authorities - especially in terms of identifying taxpayers, monitoring cross-border transactions, and developing fair taxation mechanisms. The Republic of Uzbekistan is also gradually implementing measures to regulate e-commerce in legal and fiscal terms, in line with global trends. However, some aspects of the existing tax mechanisms have not adapted to the rapid development of e-commerce. Therefore, improving the e-commerce taxation system is considered an urgent scientific and practical issue[1].

Literature Review

Issues related to the taxation of e-commerce have been the subject of extensive international and domestic research in recent years. Richard Bird and Eric Zolt analyzed the institutional, technical, and legislative inconsistencies in the taxation of e-commerce in their work, emphasizing the need for cross-border information exchange and a unified approach. Michael Keen and Li Liu in their article "The Digital Revolution and the Future of Taxation" assessed the complexities of implementing tax mechanisms for digital services, including the effectiveness of the principle of taxation based on the user's location. Also, research on the "Digital Services Tax" (DST) adopted in the European Union shows that fiscal justice can be achieved by including the income of digital platforms in the tax base. Several scientific developments in this direction have also been carried out by domestic researchers. In particular, R.A. Abdurakhmonov and S.N. Qodirov, and T.Y. Boboyorova in their article "The Impact of Electronic Commerce on the Tax Base" analyze the problems in identifying and taxing electronic commerce activities and justify the need to establish information integration between electronic payment systems, banking and financial information, and logistics services[2].

2. Materials and Methods

This study used complex scientific approaches to study the mechanisms of e-commerce taxation. First, based on an analytical approach, the current regulatory framework, legislative documents, regulatory procedures for e-commerce and taxation in the Republic of Uzbekistan were analyzed in detail. Also, in order to study the best practices formed in world practice, the comparative analysis method was used. In this case, the experience of Uzbekistan was compared with the e-commerce taxation systems of developed countries such as the USA, Germany, and the Republic of Korea. This revealed differences and similarities in their tax policies, administrative mechanisms, and approaches to digital services. In the course of the study, statistical data of the State Tax Committee of Uzbekistan, presidential decrees, and an open database on revenues from e-commerce were also analyzed based on an empirical method. Based on this real data, the impact of e-commerce on the tax base, the dynamics of revenues, and the scope of use of preferential regimes were assessed[3].

Analysis

The tax system for e-commerce activities occupies an important place in the tax policy of Uzbekistan. Currently, instead of profit tax, value added tax (VAT) and sales taxes, special taxation mechanisms have been established for e-commerce entities, see Table 1. This approach can simplify tax reporting, legalize online trading activities, and increase fiscal transparency. According to current legislation, entrepreneurs engaged in e-commerce must open separate special accounts and carry out payment transactions with electronic trading platforms (marketplaces) only through this account. Otherwise, they are taxed in the usual manner and the provisions of Chapter 61 of the Tax Code of the Republic of Uzbekistan do not apply to them. Also, these benefits do not exempt them from other taxes, including personal income tax. The proposed approach makes it easier to identify an enterprise as a participant in e-commerce. An entity with a special account is considered to be engaged in e-commerce. This approach allows the Central Bank of Uzbekistan and the State Tax Committee to receive statistical and financial information in real time. Article 444 of the Tax Code of the Republic of Uzbekistan defines e-commerce as an object of taxation. Article 445 clearly specifies the tax base for the marketplace operator and sellers based on revenue. If the goods do not belong to the marketplace operator, the tax base should not be less than the difference between the revenue received from the buyer and the amount paid to the seller. In the experience of Kyrgyzstan, the single tax rate for e-commerce is set at 2%[4].

In Uzbekistan, the fact that, according to Article 467, the tax rate for e-commerce entities is set at 2% instead of 4%, and Article 337 specifies the profit tax rate at 7.5% instead of 15%, is an important simplification in this direction[5].

Nevertheless, it is necessary to further improve the mechanism for taxing e-commerce separately. This legal mechanism will allow legalizing e-commerce, simplifying tax calculation, encouraging small and medium-sized businesses, reducing non-bank cash flow, and increasing revenues to the state budget. It is also possible to support e-commerce entities by reducing VAT, especially by exempting entrepreneurs importing paid advertising services from this obligation. This will increase their interest in working legally[6].

The rapid development of e-commerce on a global scale has led to the need to formulate new approaches to tax policy. In the context of the digital economy, real-time detection of transactions, cross-border control of the activities of legal entities and individuals, and ensuring fiscal transparency have become urgent tasks for states. Therefore, many countries are improving the mechanisms for taxing e-commerce entities and developing tax strategies adapted to the digital economy [7].

- a. OECD approach: “BEPS Action Plan 1” - The Base Erosion and Profit Shifting (BEPS) Action Plan 1, developed by the Organization for Economic Cooperation and Development (OECD), sets out the main principles for the fair taxation of income from the digital economy. This approach puts forward the concept of “economic presence”, which forms a taxation mechanism based on the geographical location of the user, their activity on online platforms and their use of digital services as a source of income[8].
- b. US experience - In the US, the issue of e-commerce taxation is regulated within the framework of a federal structure. After the 2018 South Dakota v. Wayfair case, the US Supreme Court granted states the right to impose sales tax on goods and services sold through online commerce. This gave states the opportunity to tax online platforms based on their economic activity, even if they are not physically located in the same territory [9].
- c. European Union experience - Value Added Tax (VAT) is applied to e-commerce services in the European Union countries. Through the One-Stop-Shop (OSS) system, which came into force on July 1, 2021, entities providing e-services can fulfill their tax obligations in all member states through a single portal without registering. This approach creates convenience for small and medium-sized enterprises and simplifies tax reporting and payment mechanisms [10].

The experience of developed countries shows that the main principle in taxation of e-commerce entities is to make decisions based on the principle of “economic presence”. For example, European Union countries also apply value added tax (VAT) to cross-border services. In the US, states have set economic thresholds to force large online platforms operating in their territories to pay taxes[11].

Table 1. A model e-commerce taxation mechanism for Uzbekistan.

Direction	Description
1. Identification and registration of e-commerce entities	• Single electronic register: registration via my.soliq.uz
2. Simplified tax rates and regimes	• Special accounts: separate bank accounts for each entity
3. Monitoring of transactions and determination of the tax base	• Automatic identification: automatic identification based on transactions

4. Tax declaration and reporting	• Single tax rate: 2% AOS (Article 467)
5. Procedure for imported digital services	• Special regime: if $\geq 90\%$ of income is from e-commerce
6. Incentive mechanisms	• VAT: automatic registration when exceeding the cross-border trade volume
7. Legal framework and regulatory compliance	• Real-time monitoring: connected to the VAT system via API
8. Expected results	• Tax base: marketplace revenue, digital services, brokerage commission

3. Results and Discussion

The results of this study highlight the growing necessity of adapting Uzbekistan's tax system to the rapid evolution of e-commerce, a sector that continues to expand with the global digital economy. Analysis of the legal framework and tax administration in Uzbekistan reveals a number of positive developments, particularly the introduction of special tax regimes for e-commerce entities, including reduced profit tax rates (7.5% instead of 15%) and simplified turnover tax rates (2% instead of 4%) as outlined in Articles 337 and 467 of the Tax Code. These simplified mechanisms aim to stimulate legal engagement in the e-commerce sector while improving fiscal transparency. However, empirical evidence and comparative analysis with international practices suggest that current regulatory measures are insufficient to address the complexities of digital transactions, especially in cross-border contexts[12].

Despite the government's progress, including the use of special accounts for e-commerce payments and provisions to determine tax bases based on marketplace activities, challenges remain in effectively identifying digital taxpayers and ensuring consistent tax compliance. For instance, the current system relies heavily on voluntary registration and lacks a centralized digital identification mechanism that can automatically track and integrate data from banking, payment, and logistics services. The absence of a real-time, automated monitoring infrastructure undermines the efficiency of tax collection and opens gaps in enforcement. Comparative analysis with the OECD's BEPS Action Plan 1, the U.S. economic nexus model, and the EU's One-Stop-Shop VAT regime shows that Uzbekistan could benefit from adopting similar principles, such as recognizing "economic presence" and automating cross-border service taxation[13].

Furthermore, statistical evidence from the State Tax Committee illustrates the increasing fiscal potential of e-commerce revenues in Uzbekistan. Yet, up to 40% of digital business activities remain informal due to limited integration between online platforms, tax systems, and financial institutions. The study also reveals that many entrepreneurs avoid formalization due to VAT obligations on imported digital services, which restrict their marketing capabilities through platforms like Google and Meta. This indicates the need for policy revision to reduce such burdens and encourage broader compliance[14].

Based on international benchmarking and domestic legal analysis, the study proposes a model mechanism for e-commerce taxation consisting of eight integrated components: electronic registration, simplified regimes, automatic transaction monitoring, single-rate declarations, special rules for imported services, incentive measures, and real-time oversight via API connectivity. The implementation of this framework would strengthen legal clarity, enhance digital transparency, and foster formal participation in the digital economy[15].

Suggestions. Taxing e-commerce is an important tool not only for increasing revenues to the state budget, but also for increasing economic activity and ensuring the sustainable development of the digital economy. The main task for Uzbekistan in this

regard is to create a comprehensive mechanism that combines legislation, information technologies and tax administration, meeting modern needs[16].

Table 2 outlines strategic policy proposals aimed at enhancing the taxation mechanism for e-commerce in Uzbekistan. It includes five key proposals along with corresponding implementation notes. First, the legalization of the principle of economic participation calls for the formal registration of foreign digital service providers and their obligation to pay VAT in Uzbekistan. Second, the strengthening of a single digital identification system recommends registering all e-commerce entities in a centralized state database, utilizing AI and Big Data technologies for automatic identification. Third, the creation of an integrated monitoring system suggests real-time data exchange via API integration between banks, payment processors, and logistics providers with digital platforms. Fourth, the proposal highlights educational and incentive measures including tax breaks, grants, and technical support for newly registered e-commerce businesses. Lastly, expanding international cooperation is emphasized by advocating for collaboration with the OECD and other global financial organizations to enhance tax information exchange and improve oversight on cross-border digital services. These measures aim to foster transparency, increase compliance, and support sustainable development of the digital economy in Uzbekistan[17].

Table 2. Proposals for improving the mechanism of taxation of e-commerce in the conditions of Uzbekistan.

Proposal	Note
1. Legalization of the principle of economic participation	Establish a legal basis for the registration of foreign companies providing digital services and their obligation to pay VAT in Uzbekistan.
2. Strengthening the single digital identification system	All e-commerce entities should be registered in a single state register and automatically identified using artificial intelligence and Big Data technologies.
3. Integrated monitoring system with banking and logistics services	Real-time data exchange should be introduced based on an API connecting banks, payment systems and delivery services with the DS
4. Educational and incentive measures	Q. Provide tax incentives, grants, technical assistance and consulting services to newly registered e-commerce entities.
5. Expanding international cooperation	Establish cooperation with the OECD and other international financial organizations on the exchange of tax information and strengthening control over digital services.

The proposed measures will help formalize e-commerce entities in the country, distribute the tax burden fairly, and increase fiscal transparency.

4. Conclusion

The rapid growth of e-commerce in Uzbekistan, driven by digital transformation and global integration, necessitates the modernization of existing tax mechanisms to ensure effective regulation and fiscal transparency. The study highlights that the current legal framework, while partially adapted to online trade, still lacks the flexibility and technological integration required to capture the full scope of digital transactions. By comparing international practices and analyzing Uzbekistan's current tax code, the research proposes a model that emphasizes simplified tax regimes, digital identification, automated transaction monitoring, and integrated systems across banking, logistics, and tax administration. Key recommendations include the formalization of the "economic

presence” principle, real-time data exchange through APIs, and the registration of foreign digital service providers for VAT obligations. Additionally, educational support and fiscal incentives for small and newly registered e-commerce entities are proposed to foster compliance and growth. The introduction of a unified digital registry and the use of artificial intelligence in identifying taxpayers represent innovative steps toward a transparent and adaptive fiscal system. These reforms not only aim to increase budget revenues but also contribute to the development of a competitive and legal e-commerce environment. Overall, the implementation of a comprehensive and dynamic taxation framework tailored to the realities of the digital economy will enhance state control, support business development, and ensure the sustainability of fiscal policy in Uzbekistan’s evolving digital landscape. The suggested mechanisms serve as both a strategic and practical roadmap for the future of e-commerce taxation in the country.

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