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## **CONTROL THE HIDDEN ECONOMY IN A DEVELOPING COUNTRY THROUGH TAXES**

**Annotatsiya:** Maqolada rivojlanayotgan mamlakatlardagi soliq islohoti ya'ni, norasmiy sektor, yoki yashirin iqtisodiyotga ta'sirini o'rganib chiqilgan va asosiy e'tiborni soliq islohotining ikki turiga qaratdi, birinchisi soliq tushumlarini jalb qilishning strategik rejasi bilan tavsiflangan tarkibiy soliq islohoti va ikkinchisi islohot natijasida yashirin iqtisodiyotdan soliq to'lovchilar qismiga o'tish islohoti haqida xususiy takliflar berilgan.

**Kalit so'zlar:** soliq tizimi, soliq islohoti, norasmiy sektor, yashirin iqtisodiyot, qora iqtisodiyot, soliq to'lovchilarning huquqiy madaniyati, soliq siyosati

**Annotatsiya.** В статье изучено влияние налоговой реформы в развивающихся странах, а именно на неформальный сектор или скрытую экономику, с основным акцентом на два типа налоговых реформ: первая — структурная налоговая реформа, описанная стратегическим планом привлечения налоговых поступлений, и вторая — реформа перехода от скрытой экономики к налогоплательщикам в результате реформы, с предложениями по улучшению ситуации.

**Ключевые слова:** налоговая система, налоговая реформа, неформальный сектор, теневая экономика, серая экономика, правовая культура налогоплательщиков, налоговая политика

**Abstract.** The tax reform in developing countries in the article studied the impact on the informal sector or hidden economy, with a focus on two types of tax reforms, the first being a structural tax reform described by a strategic plan to increase tax revenues, and the second being a reform transitioning from the hidden economy to taxpayers as a result of the reform, with specific proposals for improvement provided.

**Keywords:** tax system, tax reform, informal sector, shadow economy, gray economy, taxpayers' legal culture, tax policy.

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## **INTRODUCTION**

Policymakers in developing countries must ensure a steady flow of financial resources, including government revenue, to achieve development goals. Politicians in developing countries have many problems mobilizing government revenues and, in particular, tax revenues. At the heart of the mobilization of tax revenues in developing countries, it is necessary to strengthen the tax system, including the implementation of tax reforms. Nevertheless, a number of challenges limit the ability of politicians in developing countries to effectively implement tax reform. These problems include, for example, the lack of sufficient liability in tax relations between the state

and citizens, the development of tax policy-including the expansion of the internal tax base and the limitation of administrative infrastructure for the effective management of “difficult to collect” internal taxes, the presence of a large informal sector. While the impact of the clandestine economy on the tax revenues of countries has been studied in several studies, as we know, the issue of the influence of the clandestine economy, in developing countries on tax reform, has not been studied in the literature.

According to Schneider and Buehn, shadow activities can be broadly considered as economic activities and revenues that bypass state regulation, taxation, or surveillance. In a narrow sense, a clandestine economy focuses on productive economic activities that are usually included in national accounts, but remain underground due to tax or regulatory burdens. According to Medina and Schneider, in the period from 1991 to 2015, the average size of the clandestine economy of 158 countries of the world was 31.9% of the official GDP, with high levels of the clandestine economy recorded in 2 of the developing countries. Developed countries have a relatively low level of the hidden economy.

## **LITERATURE REVIEW**

Taking into account the further liberalization of trade by countries around the world and the high openness of trade as a result, and the importance of international trade tax revenues in general tax revenues in many developing countries, the World Bank, including International Financial Institutions, recommended reforming the structure of tax revenues to developing countries at the expense of domestic tax revenue, this type of tax reform is similar in spirit to tariff-tax reform or point-to-point reform, providing for a proportional reduction in tariffs. the gradual increase in consumption tax has been studied by, for example, Keen and Ligthart; Kreckemeier and Raimondos-Møller. Tariff-tax reform is expected to reduce disruptions related to taxation of trade while keeping consumer prices unchanged and affecting the manufacturing sector of the economy. Such tax reform contributes to the effective distribution of resources in the production sector and increases well-being based on productivity. This could be an increase in state income and welfare-for example, Fujiwara, Keen and Ligthart, Kreckemeier and Raimondos-Møller, Naito thought that according to scholars, taxes would increase revenues if the state ran the right policy.

After a number of recent studies, this analysis considers the level of tax reform as the degree to which the structure of tax revenues of developing countries approaches the composition of tax revenues of developed countries, for which a very weak dependence of tax revenues is taken into account. the structure on international trade tax revenues, it should be noted that, as described here, tax reform does not raise the question of whether domestic taxation, i.e. domestic direct taxes and indirect taxes, is optimally developed, on the contrary, it aims to cover the efforts made by countries to reduce the dependence of the structure of tax revenues on international trade tax revenues, taking A large part of tax reform has provided empirical evidence that it leads to high mobilization of tax revenues, especially in countries that further strengthen their participation in international trade, that is, improve the level of trade openness, this process develops well.

## **METHADODOLOGY**

An empirical analysis resulted in several findings. First, the hidden economy reduces the likelihood of systemic tax reform, especially in low-income countries. Tax policy reform and several areas of income Administration reform are negatively affected by the expansion of the hidden economy, and they include personal income tax, income tax from legal entities, goods and services tax, excise tax, property tax and income management. regions. Secondly, an increase in the volume of the economy of hidden hinders the process of reforming the transition to taxes in

countries where the structure of tax revenues is highly dependent on international trade tax revenues. Finally, hidden economy contributes to tax transition reform in countries where the economy is more open to international trade.

Given the need to conduct or encourage tax transition reform in developing countries, the question may arise as to whether the expansion of the underground economy will change the efforts of politicians to effectively and effectively implement tax transition reforms. This question is especially relevant for countries where the structure of tax revenues is highly dependent on international trade tax revenues. Indeed, by erasing the domestic tax base, the expansion of the hidden economy can limit the scale of tax transition reform, since politicians in these countries, in particular, in countries where the composition of tax revenues is highly dependent on sales tax revenues - are less susceptible. reform of the tax revenue structure to reduce their dependence on international trade tax revenues. Most importantly, they can even raise sales taxes eventually and continue to rely on sales tax revenues as an important source of off-resource tax revenues. However, increasing trade taxes reduces countries 'participation in international trade, depriving their citizens of many of the benefits of international trade, further stimulating and ultimately leading economic agents' participation in the clandestine economy. Leads to an increase in the volume of the hidden economy. In this context, we can assume that the hidden economy can reduce the size of the tax transition reform, in particular, in countries where the structure of tax revenues is highly dependent on international trade tax revenues.

## **ANALYSIS AND RESULTS**

The answer to the question of whether trade openness is important for the influence of the hidden economy on tax transition reform depends on how trade openness itself affects the hidden economy, since the openness of trade practically provokes the need to implement tax transition reforms. For example, if a high level of trade openness leads to a reduction in the hidden economy, then trade openness helps to expand the internal tax base (due to a decrease in informality) and, as a result, contribute to the implementation of tax transition reform. Conversely, if the openness of trade further expands the informal sector, the chances of increasing domestic income will decrease and this will undermine the implementation of tax transition reform.

On the other hand, by increasing external competition, trade openness can lead to the expansion of the informal sector in developing countries. Goldberg and Pavcnik argue that trade openness can lead to an expansion of the informal sector, as it can threaten the jobs of workers in the formal sector and encourage the redistribution of production from the formal sector to the informal sector. They empirically observed that labor market regulation plays a large role in the impact of trade reforms on the informal sector. This is because trade reforms increase informality in the presence of rigor in the labor market, but reduce it when the labor market is flexible (which was in Colombia). Bosch et al also found that trade liberalization led to an increase in informality in the labor markets of the Brazilian capital, from about 1% to 2.5%. Reviewed 12 literature on the impact of trade openness on the informal sector, and concluded that the informal economy could benefit from trade in the context of capital mobility, loan clearance, and skill development, as all of these factors allow. They observed, among other things, that the openness of trade reduces informality in the trade sector, but can increase informality in the non-trade sector. For this reason, these factors leave the obvious impact of trade openness on the informal sector uncertain and ultimately small.

Amemia is similar to the generalized least squares estimator, which is used to evaluate simultaneous equations involving a linear probability model - known as a generalized least squares estimator or a generalized two-step probit estimator. i.e., an equation whose dependent

variable is a continuous variable) and the probit model i.e., an equation whose dependent variable is a binary variable. According to Newey, the estimator is asymptotically equivalent to the minimal procedure. In these over-identified systems, the two-step least squares are more efficient than the estimators of instrumental variables.

## **CONCLUSION**

The structure of tax revenues to reduce the dependence of international trade on tax revenues. Analysis and dataset of the impact of the hidden economy on structural tax reform have been used. It covers a sample of 40 developing countries from 2000 to 2015. The analysis on the impact of the clandestine economy on tax transition reform used an unbalanced panel dataset of 114 states. Empirical analysis has used different evaluators and perform several analytical actions. First, the hidden economy reduces the likelihood of a full-scale tax reform, especially in low-income countries. First, a fully hidden economy reduces the likelihood of systematic reforms (at the level of 5 percent) in several areas of Tax Policy and tax administration, including income tax on individuals, income tax on legal entities, goods and services tax. Excise taxes, property taxes and income management areas. Secondly, in countries where the composition of tax revenues depends on international trade tax revenues, the hidden economy disrupts the tax reform process; for these countries, the greater the share of international trade tax revenues in nonrecourse's tax revenue, especially the greater the negative impact of the hidden economy on the level of tax reform.

The main message of this analysis is that the expansion of the clandestine economy reduces the likelihood of a steady increase in tax revenues, including in several areas of Tax Policy and income management, which can increase the implementation of tax reform in these countries, improving its participation in international trade. Given the strong advantages of international trade and the fact that support for taxation reform is associated with a greater mobilization of tax revenues, it ensures that the expansion of the clandestine economy significantly hinders the tax transition reform process and reduces tax involvement. Complements several previous studies on the impact of hidden economy tax revenues, showing that in developing countries not only the hidden economy can reduce tax revenues.

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