

**DEVELOPMENT OF THE “TAX FREE” SYSTEM IN UZBEKISTAN BASED ON
FOREIGN EXPERIENCE*****Safarov Giyosiddin Abdullaevich****DSc, professor of "Taxes and taxation" department,
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Abstract. This paper investigates the “Tax Free” system in foreign countries and Uzbekistan, as well as its importance in the development of the country’s economy. Moreover, the paper highlights the prospects for the development of the “Tax Free” system in Uzbekistan based on foreign experience.

Key words: Tax Free, VAT, VAT rate, operator, tourism, retail trade.

Аннотация. В данной статье изучена система «Tax Free» в зарубежных странах и Узбекистане, а также ее значение в развитии экономики страны. Более того, в статье освещены перспективы развития системы «Tax Free» в Узбекистане на основе зарубежного опыта.

Ключевые слова: Tax Free, НДС, процентная ставка НДС, оператор, туризм, розничная торговля.

Introduction. The modern economy is characterized by its vast scale, unique features, rapid changes, and global significance. In this context, alongside classical factors influencing product pricing, taxes also play a crucial role. One such tax is the Value Added Tax (VAT), which directly affects the formation of product prices and is one of the main sources of state budget revenues in many countries. The range of goods and services subject to VAT is broad, and its mechanism is relatively more complex compared to other types of taxes. Although the primary purpose of this tax is fiscal, it also serves multiple functions. Notably, VAT plays an important role in increasing the attractiveness of tourism and achieving economic growth through its development. The Development Strategy of New Uzbekistan for 2022–2026 outlines "effective measures for liberalizing foreign trade, tax, and fiscal policies in the process of reforming the national economy" [1]. In this regard, continuous attention is being paid to liberalizing foreign trade and improving the tax system in accordance with modern requirements.

Analysis

Foreign citizens have the right not to pay Value Added Tax (VAT) on purchases made during their stay, and this system is known in international tax practice as Tax Free. The Tax Free system is implemented in more than 50 countries around the world. It allows foreign visitors to reclaim the VAT paid on goods purchased once they leave the country where the purchase was made.

The refund amount depends on the VAT rate, the purchase price, and the commission charged by the Tax Free operator. Refunds vary from country to country and typically range from 7% to 22% of the purchase price. This system is available to both individuals and legal entities. For legal entities, Business Tax Free applies to purchases made during business trips abroad [3].

Exempting foreign visitors from paying VAT in the host country significantly boosts the volume of purchases and promotes the development of domestic production, which helps safely meet internal market demand.

The Tax Free system was first introduced in 1980 on a ferry route from Trelleborg, Sweden, to Germany. Due to its effective results, the practice was quickly adopted by other countries.

There are several Tax Free operators in the global economic community (Table 1).

Table 1
Tax Free Operators [4]

Premier Tax Free	Tax Free Worldwide	Global Blue	Innova Tax Free
It includes 20 countries, among them 15 European nations (Austria, Belgium, Italy, Czech Republic, France, Germany, Greece, the Netherlands, Hungary, Ireland, Portugal, Spain, Sweden, Switzerland, and the United Kingdom) and 5 countries from other parts of the world (Argentina, South Africa, Morocco, Jordan, and Singapore). Ireland's Premier Tax Free service was established in 1985 by The Fintrax Group.	It includes 8 countries (Austria, Germany, Denmark, Ireland, Iceland, Norway, the United Kingdom, and the Faroe Islands) that are part of Premier Tax Free.	It includes 36 countries, among them 29 European countries (Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovenia, Slovakia, Spain, Sweden, Switzerland, and the United Kingdom) and 7 countries from other parts of the world (Argentina, South Korea, Morocco, Turkey, Singapore, Japan, and Uruguay). Switzerland's Global Blue service was established in 1980 by the Global Refund Group.	It includes five countries (Spain, France, England, Italy, Portugal, and the People's Republic of China).

Table 1 presents the major Tax Free operators and the countries they serve, highlighting their crucial role in the effective functioning of the system. The Global Blue operator covers 36 countries and plays a significant role in the successful operation of the Tax Free system. Similarly, Premier Tax Free, which includes 20 countries, is considered one of the major operators in the field.

The United States does not have a Tax Free system. However, in the U.S., foreign visitors can receive discounts of up to 11% at major retail outlets when making purchases by presenting a foreign passport.

According to Resolution No. 653 of the Cabinet of Ministers of the Republic of Uzbekistan dated November 8, 2022, starting from January 1, 2023, a pilot Tax Free system was introduced.

Under this system, foreign nationals are partially refunded the VAT paid on certain goods purchased from retail businesses in Uzbekistan [2].

According to this resolution, the Tax Free system allows foreign nationals to receive a refund of the VAT amount paid for specific goods purchased in Uzbekistan, provided they export these goods from the territory of the Republic of Uzbekistan.

Refunds are made only after it is confirmed that the purchased goods have been taken out of Uzbekistan by the foreign citizen either in their checked baggage or carry-on luggage. To receive a VAT refund, a request must be submitted within three months from the date of purchase. The refund applies only to goods on which VAT was actually paid. Moreover, the total value of purchased goods eligible for VAT refund must be at least 1 million Uzbek soums [2].

Under Uzbek legislation, the VAT refund to a foreign national is issued after the 25th day of the month following the month in which their departure from Uzbekistan is confirmed. In this case, foreign citizens are refunded 90% of the total VAT amount paid on goods eligible under the Tax Free system. The remaining 10% of the VAT amount, as indicated on the receipt, is retained as the operator's service fee.

The "Tax Free" system enables foreign tourists to receive a refund on the value-added tax (VAT) paid on purchases made during their visit. This mechanism serves as a stimulus for inbound tourism and domestic retail sales. Countries such as the UAE, Singapore, and EU member states have successfully implemented this system. For Uzbekistan, which is actively integrating into the global economy and developing its tourism sector, the introduction of a modern and efficient Tax Free system holds strategic importance.

The Tax Free system involves several steps:

1. A tourist makes a purchase at a participating store.
2. They request a Tax Free form and receipt.
3. At the border (airport or land exit), the form is validated by customs.
4. The tourist receives a VAT refund either in cash, bank card, or via transfer.

To qualify, the goods must:

- Be exported within a certain period (typically 90 days).
- Exceed a minimum amount (varies by country, e.g., €50 in many EU states).

Global Experience

1. European Union

- VAT refund applies to non-EU residents.
- Digital validation and automated kiosks have made the process efficient.
- Third-party operators (e.g., Global Blue, Planet) handle administration.

2. Singapore

- A digital Tax Free system is integrated with the Immigration & Checkpoints Authority.
- Tourists can claim refunds electronically via kiosks at airports.
- The refund is processed in multiple currencies or through e-wallets.

3. United Arab Emirates

- Implemented in 2018, managed by Planet.
- Real-time digital platform, integrated with retailers and customs.
- High compliance and ease-of-use increase tourist satisfaction.

Current State in Uzbekistan

Uzbekistan introduced a pilot Tax Free system in 2022, primarily in Tashkent and Samarkand.

Key features:

- Applicable to purchases exceeding 1 million UZS.
- Only goods taken out of Uzbekistan within 90 days are eligible.
- VAT refunds can be claimed at airports via special counters.

However, challenges persist:

- Limited store participation.
- Manual paperwork processes.
- Lack of awareness among tourists.
- No mobile/digital application support.

Key Issues Hindering Development

- Technological gaps: No centralized digital platform for real-time validation.
- Institutional fragmentation: Lack of coordination between the Tax Committee, customs, and retail networks.
- Legal uncertainty: Ambiguities in VAT laws and refund procedures.
- Low tourist awareness: Insufficient promotion of the system abroad.

Recommendations Based on Foreign Experience

1. Create a centralized digital Tax Free platform connected to customs, retail, and financial institutions.
2. Outsource operations to experienced global service providers (like Global Blue or Planet).
3. Simplify eligibility criteria and reduce the minimum purchase amount to encourage usage.
4. Promote the system internationally through tourism campaigns, airport displays, and travel agencies.
5. Provide multi-language support and mobile applications for refund tracking and form generation.
6. Train retail and customs staff on Tax Free protocols and customer service.

Expected Benefits for Uzbekistan

- Boost tourism receipts: Tourists are more likely to spend more if they know they can claim VAT refunds.
- Support retail sector: Local merchants can attract more foreign buyers.
- Enhance international image: Being a “tourist-friendly” destination improves competitiveness.

- Encourage formalization of retail sales: Tax Free participation may reduce shadow economy transactions.

For Uzbekistan, the development of an efficient, transparent, and digital Tax Free system is a vital step toward aligning with global tourism practices. Leveraging international best practices and tailoring them to national conditions will maximize economic benefits and support sustainable tourism growth.

Analysis shows that the VAT refund process for foreign citizens' purchases has not yet been effectively organized, resulting in limited efficiency of the system. This highlights the need to further develop the tax free system in Uzbekistan based on international best practices. Notably, in the European Union member states, the tax free system is well-developed and applies not only to purchases made within a single country but also across all EU countries. Additionally, fast-track VAT refund procedures have been implemented for goods eligible under the tax free system.

Conclusion

In order to develop the tax free system in Uzbekistan based on international experience, attention should be given to the following:

- Establishing cooperation with tax free operators that hold a significant position in the global economic community and utilizing their experience in the development of this system;
- Increasing the attractiveness of the tax free system for foreign citizens by revising the timeframe for VAT refunds on eligible goods. In this regard, it is necessary to ensure that foreign citizens can receive the VAT refund in cash or other forms upon departure from the territory of the Republic of Uzbekistan, according to their preference.

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