

INTERNATIONAL APPROACHES TO TAXING SMALL-SCALE ENTREPRENEURSHIP AND SELF-EMPLOYMENT

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Annotatsiya: *Kichik biznes va o'zini o'zi band qilishni soliqqa tortish zamonaviy fiskal tizimlarning markaziy masalalaridan biriga aylangan, ayniqsa tarkibiy o'zgarishlar jarayonidan o'tayotgan iqtisodiyotda. Ushbu iqtisodiy faoliyat turlari ish o'rinlari yaratish, daromadlarni shakllantirish va qashshoqlikni kamaytirishda muhim rol o'ynaydi, biroq yuqori darajadagi norasmiylik va ma'muriy qiyinchiliklar sababli ularni samarali soliqqa tortish eng murakkab vazifalardan biri bo'lib qolmoqda. Xalqaro tajriba shuni ko'rsatadiki, mamlakatlar turli yondashuvlarni qo'llashgan, jumladan soddalashtirilgan rejimlar, taxminiy soliqqa tortish, patent asosidagi tizimlar va daromad solig'i tizimlariga to'liq integratsiya. Ushbu maqolada rivojlangan va rivojlanayotgan mamlakatlar amaliyotlari taqqoslanib, ularning kuchli va zaif tomonlari baholanadi hamda o'tish davridagi iqtisodiyotlar uchun qo'llash mumkin bo'lgan siyosiy xulosalar yoritiladi. Tadqiqot natijalari soliqqa tortish tizimlari soddalik va adolat o'rtasida muvozanatni ta'minlashi, ixtiyoriy soliq to'lovini rag'batlantirishi, soliq majburiyatlarini ijtimoiy himoya bilan integratsiya qilishi va raqamli texnologiyalardan samarali foydalanishi lozimligini ko'rsatadi.*

Kalit so'zlar: *kichik biznes, o'zini o'zi band qilish, soliqqa tortish, norasmiylik, fiskal tizimlar, xalqaro taqqoslash.*

Abstract: *The taxation of small-scale entrepreneurship and self-employment has become a central issue in modern fiscal systems, particularly in economies undergoing structural transformation. These categories of economic activity play a crucial role in job creation, income generation, and poverty reduction, but they remain among the most difficult to tax effectively due to high levels of informality and administrative challenges. International experience demonstrates that countries have adopted a wide range of approaches, including simplified regimes, presumptive taxation, patent-based systems, and full integration into income tax frameworks. This paper examines comparative practices across developed and developing countries, evaluates their strengths and weaknesses, and outlines policy lessons that can be applied in transitional economies. The findings suggest that taxation systems must balance simplicity and fairness while promoting voluntary compliance, integrating tax obligations with social protection, and leveraging digital technologies.*

Keywords: *small-scale entrepreneurship, self-employment, taxation, informality, fiscal systems, international comparison*

Аннотация: *Налогообложение малого предпринимательства и самозанятости стало центральным вопросом современных фискальных систем, особенно в*

экономиках, проходящих этап структурных преобразований. Эти виды экономической деятельности играют важнейшую роль в создании рабочих мест, формировании доходов и сокращении бедности, однако остаются одними из самых трудных для эффективного налогообложения из-за высокого уровня неформальности и административных трудностей. Международный опыт показывает, что страны применяют широкий спектр подходов, включая упрощённые режимы, предполагаемое налогообложение, патентные системы и полную интеграцию в рамки подоходного налога. В данной статье анализируются сравнительные практики в развитых и развивающихся странах, оцениваются их сильные и слабые стороны, а также формулируются политические уроки, которые могут быть применены в переходных экономиках. Результаты исследования показывают, что налоговые системы должны обеспечивать баланс между простотой и справедливостью, стимулировать добровольное соблюдение налоговых обязательств, интегрировать их с системой социальной защиты и эффективно использовать цифровые технологии.

Ключевые слова: малое предпринимательство, самозанятость, налогообложение, неформальный сектор, фискальные системы, международное сравнение.

INRODUCTION

In the twenty-first century, small-scale entrepreneurship and self-employment have become increasingly significant components of both developed and developing economies. They serve as a foundation for employment generation, income diversification, and resilience against economic shocks. For individuals unable to access formal labor markets, self-employment provides a means of livelihood and often acts as a pathway out of poverty. At the same time, the growing importance of these activities presents serious challenges for policymakers, particularly in the design of taxation systems that can effectively capture revenue without discouraging entrepreneurial initiative.

The need for effective taxation mechanisms arises from several interrelated factors. First, the number of self-employed individuals has expanded rapidly in recent decades due to structural changes in labor markets, globalization, and digitalization. Freelance work, informal service provision, and micro-scale trade have become increasingly visible segments of the economy. Second, small-scale entrepreneurs often operate in sectors where informality is pervasive, meaning that their activities may not be registered, monitored, or taxed. This deprives governments of a potentially large source of fiscal revenue and creates inequalities between those who pay taxes and those who remain outside the system. Third, the taxation of these groups is not only a fiscal matter but also a social one, as the design of tax systems influences incentives to formalize, access social protection schemes, and engage with the state as legitimate economic actors.

The international experience shows that there is no single model of taxation for small-scale entrepreneurship. Countries adopt different approaches depending on their administrative capacity, economic structure, and policy priorities. In some developed economies such as Germany and France, self-employed individuals are integrated into general income tax systems with additional deductions for business expenses and obligatory contributions to social insurance funds. In contrast, transitional and developing economies often rely on simplified regimes, such as fixed payments or presumptive taxation, designed to minimize administrative costs and reduce barriers to compliance. Each of these approaches carries advantages and disadvantages. Simplified systems can attract entrepreneurs into the formal economy but risk creating inequities and under-taxation, while integrated systems are more equitable but can impose significant compliance burdens on small taxpayers.

The challenge, therefore, lies in finding the right balance. Policymakers must design taxation mechanisms that secure revenue, promote fairness, and remain administratively feasible. At the same time, these systems must encourage entrepreneurship and avoid driving economic activity into informality. This paper examines how different countries have approached this dilemma and explores lessons that may be relevant for economies in transition.

The taxation of small-scale entrepreneurship has attracted considerable scholarly attention for several decades. Early research by Vito Tanzi in the 1990s drew attention to the structural difficulties of taxing informal and small-scale economic activity in developing countries. Tanzi argued that such activities are typically characterized by poor record-keeping, small transaction sizes, and limited visibility to tax authorities, all of which make standard income taxation impractical. His work highlighted the need for special regimes tailored to the characteristics of these taxpayers.

Subsequent research has expanded this discussion. James Alm and Jorge Martinez-Vazquez, in their comparative studies of taxation in developing economies, argued that presumptive taxation and simplified regimes can reduce compliance costs and improve revenue collection. They emphasized, however, that such systems must be carefully designed to avoid creating opportunities for evasion or arbitrage. For example, when simplified regimes are overly generous, they can incentivize larger businesses to fragment into smaller units in order to qualify for preferential tax treatment.

The Organisation for Economic Co-operation and Development (OECD) has published multiple studies examining the taxation of small and medium-sized enterprises. These reports stress three principles: transparency, proportionality, and administrative feasibility. According to the OECD, taxation systems must be transparent so that taxpayers understand their obligations, proportional so that tax burdens align with income capacity, and administratively feasible so that costs of compliance do not outweigh benefits.

Empirical studies from Latin America provide evidence on the impact of simplified taxation. Perry and colleagues (2007) found that simplified regimes in Brazil, Mexico, and Argentina encouraged greater formalization of small entrepreneurs, though with mixed

success. While some micro-entrepreneurs were brought into the tax net, others remained informal due to limited enforcement capacity.

In Europe, research has highlighted the tension between equity and simplicity. Kleven (2016) examined how small business owners in Denmark responded to tax thresholds and found evidence of "bunching," where income was deliberately kept below reporting thresholds to minimize tax obligations. This demonstrates that even in advanced economies, small-scale entrepreneurship poses unique challenges to tax policy.

More recently, attention has shifted to the role of digitalization. De Mooij and Liu (2020) have argued that new technologies such as electronic invoicing, real-time reporting, and mobile-based tax filing systems have transformed tax administration for small taxpayers. In countries such as Estonia and Georgia, these innovations have made compliance easier and more transparent, significantly improving voluntary participation.

The literature also explores the social dimension of taxation. Kanbur and Keen (2014) argue that taxation should not be viewed solely as a mechanism of revenue collection but also as a means of integrating entrepreneurs into broader social protection systems. Linking taxation with benefits such as pensions and health insurance can create incentives for compliance and strengthen the legitimacy of tax systems.

Overall, the literature indicates that effective taxation of small-scale entrepreneurship requires a multi-dimensional approach. It must balance simplification with fairness, integrate taxation into social policy, and leverage modern technologies to reduce costs and improve compliance.

International experience reveals a diverse set of approaches to taxing small-scale entrepreneurship and self-employment. Each approach reflects the economic, social, and administrative context of the country implementing it. In Georgia, the government introduced a special regime for micro and small businesses that exempts those below a certain turnover threshold from income tax, while applying low rates to slightly larger businesses. This system has proven attractive, with thousands of street vendors, artisans, and service providers registering voluntarily. The success of the system lies in its simplicity and low administrative burden.

Kazakhstan has taken a different path by introducing a patent-based system in which entrepreneurs pay a fixed percentage of their projected income. While this method expanded tax coverage, it created opportunities for underreporting, as projected income is often underestimated. Nevertheless, the regime remains popular because it is predictable and easy to comply with.

Germany provides another example, where self-employed individuals are fully integrated into the general income tax system. They file annual tax returns, declare income and expenses, and pay contributions to pension and health insurance systems. The advantage of this approach is equity, as taxes are directly linked to actual income. However, the system imposes significant administrative burdens, which can discourage very small entrepreneurs.

Statistical data highlight the importance of these policy choices. According to the World Bank (2022), self-employment accounts for 46 percent of total employment in low-income

countries but only 15 percent in high-income countries. This suggests that taxation of self-employment is especially critical in poorer economies, where it represents a large share of the labor force. The International Labour Organization (2021) reports that in some developing regions, informal self-employment exceeds 70 percent of non-agricultural employment. This indicates that failure to design effective tax regimes not only undermines fiscal capacity but also perpetuates inequality and social vulnerability.

Despite various reforms, several challenges remain common across countries. Underreporting of income is widespread, as small entrepreneurs often deal in cash and lack incentives to declare full earnings. Administrative burdens discourage compliance, especially in contexts where digital infrastructure is weak. Fixed payment systems create inequities, as low-income entrepreneurs may be overburdened while high-income individuals underpay relative to their earnings. Finally, in many systems there is a weak link between taxation and social benefits, reducing the perceived value of compliance.

The most successful international examples combine simplicity with integration. Estonia's use of digital tax platforms allows self-employed individuals to file returns quickly and transparently, while linking tax contributions to social security entitlements. Turkey's system of integrating small business taxation with pension and health insurance has increased compliance by demonstrating tangible benefits to taxpayers. These experiences show that reforms must not only focus on the technical design of tax systems but also on building trust and demonstrating value to the taxpayer.

The evidence suggests that developing and transitional economies should prioritize reforms that simplify procedures, adopt progressive elements to ensure fairness, and invest heavily in digital tools. At the same time, linking taxation to social protection will be crucial for ensuring that entrepreneurs view taxes not as a burden but as a contribution that secures future benefits.

CONCLUSION

The taxation of small-scale entrepreneurship and self-employment remains one of the most complex areas of fiscal policy. International approaches reveal that there is no single solution. Systems range from simplified fixed-payment regimes to fully integrated income tax models, each with strengths and weaknesses. Simplified systems promote compliance and reduce administrative costs but risk inequity, while integrated systems ensure fairness but can deter participation due to complexity.

The most important lesson from international experience is the need to strike a balance. Tax regimes must be simple enough to encourage compliance but equitable enough to ensure fairness. They must be supported by modern digital technologies to reduce administrative costs, and they must be linked to social benefits to increase taxpayer trust. For transitional economies, where informality is widespread, these lessons are particularly relevant. Effective reform in this area could expand the tax base, strengthen fiscal capacity, and support inclusive economic development.

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