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**IDENTIFYING AND ELIMINATING THE SCALE OF THE HIDDEN  
ECONOMY IN THE SERVICE SECTOR**

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**Abstract:**

The article notes that despite the implementation of several strict measures by the government of our country over the past five years to combat the hidden economy, its scale remains high to this day. It also highlights that although the share of the service sector in the structure of the country's GDP has been growing year by year, the scale of the hidden economy in this sector is also significant. Based on this, the authors have analyzed instances of the hidden economy identified in the service sector among economic entities in the Samarkand region and have presented their proposals and opinions on its prevention and elimination.

**Keywords:** the hidden economy, unobserved economy, gross domestic product, service sector, share of the hidden economy, desk control, desk audit, tax audit.

**Introduction**

**Relevance of the topic.** On August 6, 2024, a press conference was held at the Information and Mass Communications Agency by the Statistical Agency under the President of the Republic of Uzbekistan on the topic "Results of the assessment of the informal and hidden economy in Uzbekistan." The head and employees of the Statistics Agency, an expert of the International Monetary Fund, representatives of the republic's ministries and agencies and mass media took part in it.

At the press conference, the director of the Statistics Agency, Bahadir Begalov, made a presentation on the topic "Results of the evaluation of the informal and hidden economy in Uzbekistan." In this presentation, for the first time in the history of our country, the Agency estimated the scale of the hidden economy, summarizing the hidden economy through the term "unobservable economy", the unobserved economy is fully or partially covered in continuous statistical observations based on the "Guideline for the Assessment of the Unobserved Economy" of the Organization for Economic Cooperation and Development. It is defined as an economic activity that is not obtained and is evaluated by indirect methods in the reflection in statistical indicators.

It was recognized that the unmonitored economy includes informal, hidden and illegal types of economic activities.

Informal economy is understood to cover the activities of individuals producing goods and providing services without registering in the prescribed manner for the purpose of

earning income (for the market) and producing products for their own consumption of households.

Hidden economy includes the activities of enterprises and organizations that fully or partially hide their activity indicators in statistical reports in order not to be taxed or to not comply with the requirements established by law (requirements for sanitary hygiene, certification and working conditions, standards set for the number of employees for small enterprises, etc.). process is understood. Also, activities of enterprises operating without registration in the prescribed manner are also included in the underground economy.

Illegal economy means production, sale and storage of goods and services prohibited by law, as well as production and service activities that are carried out without the appropriate permission. They include arms trade, production and sale of narcotics, prostitution, smuggling and production of alcohol products without special permission, provision of illegal medical services, poaching and other activities.

In our republic, taking into account the cooperation of experts of international financial institutions and the suggestions received from the ministerial offices, a methodology of statistical evaluation of the "unobservable economy" has been developed . On the basis of this methodology, the size of the informal and hidden economy and its impact on the GDP of our country for the years 2017-2023 were statistically evaluated. By the end of 2023, the volume of the unobserved economy (the sum of the informal and hidden economy) in our republic will increase from 27.9% to 35.5% of GDP, in the industrial sector from 3.7% to 9.6%, in the construction sector from 20.5% to 41.4 %, services showed a change from 27.2% to 39.2%. In 2023, if we pay attention to the distribution of the size of the unobserved (informal and hidden) economy by sectors, then the service sector it corresponds to 48.5% , agriculture, forestry and fisheries 36.8%, construction 8.3%, industry 6.4%<sup>1</sup>.

Judging from the above-mentioned information, we can observe that the illegal economy is not evaluated while the informal and hidden economy is statistically evaluated. Due to the fact that the share of the illegal economy in the economy, including the influence on the formation of macroeconomic indicators, is insignificantly small, the international experience shows that the statistical assessment of illegal economic activity cannot be carried out.

As can be seen from the above figures, the share of the service sector in the GDP of our country is increasing from year to year, and the volume of the hidden economy in this sector remains high, or the share of the service sector in the overall estimated "Unobservable Economy" is 48.5%, which calls for large-scale reforms in this sector. requires implementation.

<sup>1</sup> Unobserved economy: results of assessment of informal and hidden economy in Uzbekistan" 08.08.2024. The website of the Center for Economic Research and Reforms <https://review.uz>, analysis department.

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### **Analysis of literature on the topic**

Among the scientists and researchers who studied the problems of the hidden economy at the international level: E. Shutherland, K. Hart, E. Feige, P. Gutmann, G. Yamada, A. Portes, S. Sass en-Koob, D. Mead, S. Morrisson , B. Dallago, F. Schneider, A. Buex, P. Lemieux, S. Williams, D. Andrews, A. Sanchez, A. Johnson, L. Feld and others .

Scientists and researchers who conducted scientific research in this field in our country include: A. Olmasov, Sh. Qabilov, K. Mambetjanov, A. Khudoynazarov, A. Akhmadaliev, N. Abulqosimov, N. Mominov, R.M. Alimov, V.N. Galkin, Z.S. Zaripov, T.V. Iminov, A.T. Isakhodjaev, I. Ismailov, Q. Mirajonov, A.A. Artikov, Kh. Odilkoriev, I. Rustamov, Z.K. Toshev and others can be included.

### **Research Methodology**

Logical approach, comparative analysis, grouping, analysis and synthesis and other methods of economic analysis were used in the research process.

### **Analysis and Results**

Digitization of industries or "Digital economy" has been defined as the main direction of reducing the scale of the hidden economy in our country. Separate decisions and decrees of the President and decisions of the Cabinet of Ministers were also adopted in this area.

On October 5, 2020, the President's decree № PF-6079 "On the approval of the "Digital Uzbekistan-2030" strategy and measures for its effective implementation" provides for the rapid digital development of economic sectors, the social sphere and the state administration system, including electronic state services The strategy for further improvement of the display mechanisms until 2030 has been approved <sup>2</sup>.

In 2019, in cooperation with experts from international financial institutions, an assessment of the scale of the underground economy was carried out in our country, and based on the results of the proposals submitted to the government, the underground circulation, especially trade and catering, transportation by motor vehicles, housing construction and repair, and the provision of residential services since it remains at a high level in the sectors, to reduce the level of the hidden economy, to automate the procedures for compliance with the requirements of the tax legislation and in order to simplify its procedure, the President's decree No. PF-6098 of October 30, 2020 "On organizational measures to reduce the underground economy and increase the efficiency of tax authorities" was adopted <sup>3</sup>.

In order to ensure the implementation of the above decrees, the Cabinet of Ministers' decision №. 1 of January 17, 2021 "On tax risk management, identification of taxpayers

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<sup>2</sup>Decree No. PF-6079 of the President of the Republic of Uzbekistan on October 5, 2020 "On approval of the Digital Uzbekistan-2030" strategy and measures for its effective implementation.

<sup>3</sup>Decree of the President of the Republic of Uzbekistan dated October 30, 2020 No. PF-6098 "On organizational measures to reduce the underground economy and increase the efficiency of tax authorities."

(tax agents) with tax risk and organization and conduct of tax audits" <sup>4</sup>was adopted. It is determined by an automated computer system to identify and categorize them. In order to implement the measures taken, according to the decree of the President No. PF-6098, additional information in 19 areas should be provided to the tax committee in real time by relevant ministries and agencies through electronic means of communication.

Tax risk is defined as the possibility of non-fulfillment or incomplete fulfillment of tax obligations by the taxpayer (tax agent), which may lead to non-payment or non-payment of taxes and fees (hereinafter referred to as taxes) to the budget system (4).

This automated program of the tax authorities ("*Tax risk identification, analysis and assessment*") evaluates the tax risk based on preliminary calculations only for business entities officially registered with the state.

Chamber tax inspection – tax reports submitted by taxpayers, tax agents and (or) other information on the activities of the taxpayer available in the tax authority in order to verify that taxes and fees are calculated correctly by taxpayers (tax agents), paid on time and in full to the budget system. inspection conducted by the tax authority based on study and analysis;

Tax audit is a tax audit conducted by a tax authority to ensure that the taxpayer's (tax agent's) financial and tax reports for a certain period comply with the tax legislation in all respects and are correct, as well as the correct formulation and reflection of tax obligations in accounting and accounting for taxation purposes. checking the accuracy of calculation and payment.

There are different ways to calculate the share of "hidden economy". They can be summarized into two main categories:

The first is micro-methods (direct), which is carried out through surveys, selective observations, tax audits;

The second is macromethods (indirect). It is determined by monetary methods, employment composition and results, and balance methods <sup>5</sup>. Cameral tax inspection and tax audit, which we indicated above, belong to the category of micro method (direct) of determining the share of the hidden economy.

Through the automated system, we have identified hidden economic situations in business entities in Samarkand region, including entities in the service sector, during 2021 and 2023 and <sup>6</sup>eliminated them based on the requirements of Articles 138 (cameral tax audit) and 140 (tax audit) of the Tax Code of the Republic of Uzbekistan. , we will consider the cases of additional revenues to the state budget. An analysis of this for 2021-2023 is presented in the table below (Table 1).

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<sup>4</sup>Resolution No. 1 of the Cabinet of Ministers of the Republic of Uzbekistan dated January 17, 2021 "On tax risk management, identification of taxpayers (tax agents) with tax risk, and organization and conduct of tax audits."

<sup>5</sup>H.P. Abulqosimov, N.G. Mominov, "Secret Economy" Study guide, T.:2020 "New edition" p. 304;

<sup>6</sup>Tax Code of the Republic of Uzbekistan, Section Y, Chapter 17, Articles 138-140.

**Table 1 Information on the volumes of the hidden economy identified in Samarkand region in 2021 and 2023 based on Cameral tax inspections and Tax audits of business entities (including the service sector) and additional payments accrued to the budget as a result of their elimination\***

Indicators	2021 years			2023 years			
	Cameral inspection	tax audit ***	total	Cameral inspection	tax audit ***	total	
<b>1. Total cases identified during tax audits (additional tax is calculated)</b>							
1.	1. Number of subjects	4771	179	4950	3325	296	3621
	2. Estimated tax amount, mln. soum	357303.6	89671.9	446975.5	145657.0	202417.0	348074.0
	3. Volume of hidden or understated realization works and services, million soums	2143821.6	529262.2	2673083.8	903073.4	974414.4	1877487.8
<b>2. Cases in the field of services identified during tax audits (additional tax is calculated)**</b>							
2.	1. Number of subjects	2713	86	2799	1125	141	1266
	2. Estimated tax amount, mln. soum	211191.8	54215.0	265406.8	28676.3	109118,2	137794.5
	3. Volume of hidden or understated works and services, million soums	1185533.3	361441.9	1546975.2	169777.7	541700.0	711477.7
<b>3. Share of the service industry in total identified cases, %</b>							
3.	1. According to the number of subjects	56.8	48.0	56.5	33.8	47.6	34.9
	2. On the calculated tax amount	59.1	60.4	59.3	19.6	53.9	39.5
	3. by the size of the hidden minimum	55.2	68.2	57.8	18.7	55.5	37.8

\* Prepared by the authors on the basis of the information of tax authorities of Samarkand region;

\*\*Enterprises from section G to section C (codes 45..-96..) of the classifier approved by the decision of the Cabinet of Ministers dated 24.08.2016 No. 275 of the sphere of services were taken into account;

\*\*\* From the tax audit, only entities that hid and understated the scope of sales of goods and services were taken.

As can be seen from the table, in 2021 At the end of the cameral tax audits, the amount of concealing and understating the volume of sales of goods and services in 4771 business entities in Samarkand region amounted to 2143.8 billion soums, and additional taxes and payments of 357.3 billion soums were calculated for these entities, including 2713 in the field of services. hiding or understating the amount of work and services performed at the enterprise 1185.5 billion soums, and 211.2 billion soums of additional taxes were calculated for these entities.

During 2023, the amount of concealing and understating the volume of sales of goods and services in 3,325 economic entities and understating them in reports amounted to 903.0 billion soums, and additional taxes and payments of 145.6 billion soums were calculated for these entities, including those performed in 1,125 enterprises in the field

of services. hiding or understating the volume of work and services amounted to 169.7 billion soums 28.6 billion soums of additional taxes were calculated for the entities.

During 2021, tax audits of the region revealed cases of concealment of revenues from the sale of goods and services amounting to 529.2 billion soums in 179 entities, and a total of 89.7 billion soums (excluding fines) of taxes and fees were added to the budget for these entities, of which 86 services the case of concealment of revenues from the realization of services amounting to 361.4 billion soums in the subject in the field of 54.2 billion soums were assessed as additional taxes to the budget.

During 2023, tax audit inspections of the region revealed a situation of concealment of revenues from the sale of goods and services amounting to 974.4 billion soums in 296 entities, and a total of 202.4 billion soums (excluding fines) of taxes and payments to these entities are additional to the budget. 141 entities in the field of services were found to be concealing revenues from the realization of services amounting to 541.7 billion soums, and additional taxes of 109.1 billion soums were calculated for these entities.

As can be seen from the above figures, in 2021, the share of the service sector in the volume of the hidden economy determined in total inspections (cameral, tax audits) was 57.8 percent, and in 2023 it was 37.8 percent, or in 2023 it decreased by 20 points compared to 2021.

In 2023, the size of the hidden economy found in tax audits decreased by 1.4 (2673.1/1877.4) times compared to 2021, while the size of the hidden economy found in the services sector decreased by 2.2 (1546.9/711.4) times compared to 2021.

This situation indicates that in recent years, great attention has been paid to the digitization of the economy in the fight against the hidden economy, the shortcomings detected by computer software products are constantly sent to the economic entities by the tax authorities without depending on the human factor, and these shortcomings are sent by the economic entities to the inspections. is being achieved by eliminating up to In addition, tax benefits for companies using electronic payments, online NCMs and other cases, and procedures for returning a part of the amount paid to citizens for payment checks for purchased goods, performed work and services are showing their effectiveness.

### **Conclusion and Suggestions**

Digitalization of the economy, which is widely recognized internationally, is the main way to reduce the scale of the underground economy and the level of corruption.

Based on the above analysis, we make the following suggestions for further developing the level of the digital economy in our country and reducing the scope of the hidden economy:

Ensuring the implementation of parameters of the digital economy, which limit the human factor, reduce the scale of the hidden economy and the level of corruption, within the time limits set by the Presidential Decree, under strict control;

In addition, the organization of the integration of the database of government agencies, for example, when submitting the annual reports submitted by economic entities to the

tax authorities and statistical offices, if there are different amounts, automatically reject and indicate the deficiency in the database - through artificial addition as a result, the indicators of the hidden economy will be automatically eliminated, the level of reliability of statistical indicators will increase, and the calculation of additional revenues to the budget will be ensured;

Comprehensive implementation of digitization measures increases economic efficiency indicators, while the organization of digitization measures in the system of some ministries and committees at a high level and others at a low level disrupts the process of database integration, figuratively speaking, "the chain is broken", which does not give the expected economic result;

In accordance with the requirements of the Decree of the President of the Republic of Uzbekistan PF-6079 dated 05.10.2020, to ensure that the results of monitoring the activities of state bodies and organizations and local executive authorities within the framework of digitization and the measures taken against their officials are constantly reported in the media;

Creation of mechanisms for continuous improvement of the skills of working with digital technologies of responsible employees of economic entities;

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