



SELF-EMPLOYED AND FREELANCE TAX IN UK AND UZBEKISTAN

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Introduction: The subject of *financial law* includes tax relations and activities for the formation and execution of budgets at various levels, e.g., spending public funds, monitoring their targeted and effective use. In recent years, the issue of legal interaction with freelancers has gradually become relevant for almost every business. It's helpful if the freelancer is a citizen of a particular country, a private individual or an entrepreneur and this simplifies the taxation process. However, sometime projects in private sector or state entities require the knowledge and expertise of self-employed or foreign subject matter experts. Some law makers believe that freelancers should not pay taxes, whereas others think the opposite. This report will analyze these details between two countries: United Kingdom and Uzbekistan.

Overview from the perspective of Uzbekistan

Freelancing refers to the format of on-demand services. It is an expanding trend today and will continue to evolve.

A freelancer is a specialist who performs specific tasks that can be performed remotely, without an official employment relationship with the customer. Therefore, he or she is not obliged to comply with the internal labor regulations. Usually, a freelancer-executor works under his own schedule which gives him an ability to set realistic deadlines for the completion of work and deliver the results to the customer without an in-person interaction.

Whether you want to assemble furniture, create a mobile application, or even launch a new product, there are already competent contractors involved for almost any task. Until recently, freelancers were in demand mainly only in IT. But the digitalization of almost all areas of business has provided a regular demand for specialists in various industries and fields. Marketplaces of professional expertise will continue to develop along with ordinary product and service platforms. After all, it is more convenient and financially advantageous for the customers to compare prices and rely on online performance reviews before choosing to work with a particular freelancer.

Freelancers with good experience and rating have the benefit and freedom to choose their work in a diversified pool of customers, variety of projects and the ability to work for well-paying Western customers while living in sunny Asia.

Freelancer statuses

The status of a freelancer suggests answers to many questions: how to draw up transactions according to documents, what taxes to pay, what factors to consider when making calculations.

A freelancer can have different statuses: an *individual* and *self-employed*.



Individual

If the freelancer is an *individual*, a civil law contract is arranged with the freelancer. It is important to remember that the relationship between a customer and an individual freelancer under a civil law contract is regulated by the Civil Code.

A freelancer is not an employee in the traditional sense, but rather a performer, or a contractor.

Taxes and contributions: If the freelancer is an individual, the customer acts as a tax agent, as such, he has an obligation to withhold personal income tax and pay insurance premiums.

Today, many freelancers in Uzbekistan are engaged in various fields of work. They mainly focus on conducting private lessons, sewing, document translation services and logistic services. Some freelancers in Uzbekistan also provide services to overseas companies, through networks such as Upwork or Fiverr.

They make decent income, however, they are usually not documented or reported to the government officially. This creates difficulties in terms of monetary transactions with customers and getting a loan from banks. In addition, they do not accumulate retirement funds through government sponsored pension plans and their seniority is not taken into consideration.

Self-employed income tax in Uzbekistan

The introduction of the concept of “self-employed” with a simplified form of conducting business is a positive step for the freelance market in Uzbekistan. By obtaining the status of self-employed freelancers will not face problems with income statements and accrual of retirement money as well as seniority for the purposes of pension distribution as they pay taxes from their income. In addition, self-employed freelancers do not need to be concerned about fines from the government tax office for non-payment of taxes.

In accordance with *Article 22 of the Tax Code of Uzbekistan*, taxpayers are required to calculate and pay the established taxes and fees in full in a timely manner.¹

Benefits of being self-employed

There are several reasons why this is beneficial and profitable to be self-employed:

1. Legal opportunity to work from home. Self-employed workers do not have to be concerned of tax audits, fines and prosecution for illegal business activities.

¹ Article 22. Obligations of Taxpayers

- calculate and pay the established taxes and levies timely and in full;
- appear at the tax authority upon receipt of a summons on the need to examine documents or provide explanation;
- provide the purchaser with invoices, checks or other documents equivalent to them upon sale of goods (services);
- to provide access to officials of tax authorities, who conduct a tax audit, to the documents which serve as the ground for calculation and payment of taxes for exploring them, as well as to relevant information stored on electronic media;
- comply with the legal requirements of tax authorities and other authorized bodies, not interfere with the legal activities of these bodies and their officials;



2. Confirmed work experience and pension. The self-employed maintain their service seniority and accumulate funds in a guaranteed pension plan.

3. Official income. You can get consumer loans, soft loans, and apply tax deductions.

4. Minimum tax. No income tax or other fees. It is enough to pay the social tax in the amount of at least 1 basic calculated amount per year (*Article 408 of the Tax Code of Uzbekistan*).²

5. Be your own boss. The self-employed do not have an employment contract, a supervisor or a strict work schedule.

6. Expanding the customer base. Self-employed people can easily open a bank account to accept payment by transfer from legal entities. In addition, the presence of state registration inspires confidence among partners.

7. Minimum of documents. The self-employed do not need to keep accounting records, submit reports or file a tax return, as sole proprietors do. Accounting for income and expenses can be kept voluntarily directly in the Tax application.

Obligatory tax payments

What taxes and mandatory payments need to be paid.

All income received from the activities of self-employment are not subject to personal income tax³: Funds they earn are kept for themselves in entirety. It is enough to pay the social tax - at least 1 *basic calculated value* in Uzbekistan per year - this is 245 thousand soums. It can be paid using any payment system.

Self-employed people do not need to pay any insurance or make other contributions. Moreover, only income received from self-employment activities in the list of permitted types are exempt from personal income tax.⁴ At the moment, 68 fields of work and services have been included in the list of activities that self-employed people can engage in. This list is continuing to expand. One can work in several fields at once. If income is received from other activities, personal income taxes need to be paid.

The status of self-employed or the operation of the business entity can be suspended at any time. This only requires notifying the tax authorities through the Tax office mobile application before the suspension of business operation. The tax office will subsequently remove the status of self-employed from the State Tax Committee⁵ database.

How to work and accept payments from foreign customers?

Self-employed people can work with foreign customers and legal entities without establishing a contract. The basis for the work may be the acceptance of a public offer,

² Article 408. Special Considerations Relating to Calculation and Payment of Tax by Certain Categories of Physical Persons

³ ПИТ

⁴ Постановление (2020). Президента Республики Узбекистан О Мерах По Упрощению Государственного Регулирования Предпринимательской Деятельности И Самозанятости. <https://lex.uz/docs/4849605>

⁵ STC



the exchange of electronic messages or issued invoices (invoices), including in electronic form.

Payment from foreign customers for the work performed can be accepted in foreign currency to a bank account in Uzbekistan. Moreover, there is no need to enter information about this into the Unified electronic information system of foreign trade operations as it is done by individual entrepreneurs or legal entities. The funds received can be cashed at any bank in foreign currency and used at the individual's own discretion.

As of *July 1, 2021*, more than 852 thousand self-employed people are registered in Uzbekistan, of which over 310 thousand (36.3%) are men and women under 30 years of age. In terms of regions, the largest number of self-employed youths are in Samarkand, Fergana and Andijan regions. The following data shows the most common categories of services registered in Uzbekistan:

- household services (hairdressing, manicure, cosmetology, pedicure, laundry and ironing at home, key making, shoe tailoring, repair and painting- 106 thousand self-employed;
- provision of services in agriculture (grazing and care, assistance to owners of household plots in planting and caring for agricultural crops) - 71 thousand self-employed;
- services in the industrial sector (wooden architecture, plumbing, electrical installation, collection of waste paper, plastic, scrap metal, etc.) - 51 thousand. self-employed;
- social services (tutoring at home, childcare and care, housekeeping, cleaning, traditional medicine) - 44 thousand. self-employed;
- production of consumer goods and services (sale of bread, popcorn at home, ice cream, salads, soft drinks, ayran, tugs and trade in agricultural products at dekhkan markets) - 26 thousand. self-employed;
- services in the field of ICT⁶ (activity in social networks, development of software, mobile applications and websites, creation and processing of text) are engaged in 9.5 thousand. self-employed.

Data provided above does not represent true statistics as the actual numbers are significantly lower. In this regard, it is proposed:

- in order to identify the current state of freelancing in Uzbekistan, conduct an online survey, and, based on the results, introduce new activities to the existing list of products and services that self-employed individuals can engage in;
- in order to increase tax revenues for the government budget and fulfill the tax obligations of taxpayers conduct PR campaigns promoting the benefits of registering as self-employed.

⁶ Information and Communications Technology



Overview from the perspective of the UK

The UK freelance tax system

HM Revenue and Customs⁷ collects and distributes taxes and disbursements for self-employed individuals as part of its role as the UK's tax, payment, and customs authority.

Although freelancing is a popular way of working, the term does not exist for tax purposes. Instead, it be categorized as a lone trader, a business partner or a limited company trader. HMRC⁸ provides a helpful guide for assessing your self-employment status and discovering various fields of work.

Overall, anyone working for themselves in the UK – whether as a sole trader or as a business partner – is required to pay income tax, *National Insurance contributions*⁹, and possibly *VAT*¹⁰. Every year, taxes are paid by completing a self-assessment return. Residents and non-residents are subject to the same tax rates. While there are some minor rule differences between the two groups, the main distinction is that residents pay taxes on their worldwide income, whereas non-residents are only taxed on their income earned in the United Kingdom.

Self-employed income tax in the UK

Everyone who earns money in the UK through company or job – whether for themselves or for someone else – must pay income tax in the UK. In both circumstances, the amount you pay is determined by your earnings: the amount you pay is determined by a series of progressive tax bands. Furthermore, Scotland's tax brackets differ slightly from those in England, Wales, and Northern Ireland.

To summarize this study, I would like to note that regardless of what country a person lives in taxes must always be paid. As presented in the case of *Dasha (2018)*, she was the owner of a flower shop in Volgograd, dreaming of moving her business and family to America, settles in Los Angeles. As a result, she faced significant tax obligations. Moreover, in the case *Poornima (2018)* it clearly stipulated all the calculations in regard to taxes.

Conclusion

In conclusion, the taxation of self-employed individuals and freelancers is a complex and evolving issue, influenced by the legal frameworks and economic conditions of different countries. Both the United Kingdom and Uzbekistan have specific regulations for self-employed and freelance workers, though there are notable differences in their approaches.

In Uzbekistan, the introduction of the self-employed status has significantly simplified the taxation process for freelancers. This system offers benefits such as minimal tax payments, the ability to work with foreign clients, and access to official

⁷ HMRC

⁸ The term Her Majesty's Revenue and Customs (HMRC) refers to the tax authority of the U.K. government. The agency, also known as Her Majesty's Revenue Services, is responsible for collecting taxes, paying child benefits, enforcing tax and customs laws, and enforcing the payment of minimum wage by employers.

⁹ NICs

¹⁰ Value Added Tax



documentation for loans and pension accumulation. The government's efforts to regulate and recognize the self-employed sector have provided freelancers with a sense of security and legitimacy, while also contributing to the country's tax base.

In contrast, the UK has a more established and regulated system for freelancers, with specific categories such as sole traders, business partners, and limited companies. Freelancers in the UK are required to pay income tax, National Insurance contributions, and possibly VAT. The tax system is well-defined, and freelancers must submit annual self-assessment returns. While the UK system is more formalized, it offers a clear structure for tax compliance, which can sometimes be a challenge for those unfamiliar with the system.

Both countries acknowledge the growing role of freelancers in their economies, particularly in sectors such as technology, education, and creative services. However, the taxation systems reflect the unique economic and regulatory contexts in which these freelance markets operate. For freelancers, understanding the tax obligations and benefits in their country of residence is crucial to ensure compliance and to fully benefit from the opportunities available to them.

As freelancing continues to grow globally, it will be important for both the UK and Uzbekistan to adapt their tax systems to the changing nature of work and to consider how best to support the self-employed workforce while ensuring fair tax contribution.

It is worth noting that regardless of how people try to avoid the taxes, unfortunately, they end up facing major consequences as an American politician Spark Matsunaga said:

*"In this world, only death and taxes are inevitable"*¹¹

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