

IMPROVING FISCAL MONITORING MECHANISMS FOR REDUCING HIDDEN RECEIPTS IN TRADE AND SERVICE SECTORS TO EXPAND THE LOCAL TAX BASE

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Abstract: this article develops an integrated fiscal monitoring mechanism for reducing hidden cash receipts in Uzbekistan's trade and service sectors while strengthening the local tax base. Using legal reforms, official payment statistics, and sectoral indicators for 2021-2025, the study demonstrates that NKT, terminal, QR, and receipt-discipline variables should be monitored as linked manifestations of a single commercial event rather than as isolated violations. The proposed mechanism combines event-level data integration, sector-sensitive risk scoring, territorial benchmarking, and proportionate enforcement responses, thereby improving local revenue mobilization without imposing unnecessarily high compliance costs on formally operating businesses.

Keywords: hidden receipts, fiscal monitoring, local budget revenues, trade and services, tax administration, cash registers, payment terminals, QR codes, noncash payments, shadow economy, Uzbekistan

Introduction

Across emerging fiscal systems, the reduction of hidden cash turnover has become inseparable from the sustainability of local public finance. Trade and service activities generate frequent low-value transactions, fragmented receipts, and multiple informal settlement channels that complicate tax observation. Where cash acceptance remains dominant and fiscal devices are weakly enforced, part of turnover escapes registration and undermines municipal revenue planning. Uzbekistan's reform agenda has therefore shifted from episodic inspections toward digitally mediated monitoring instruments capable of tracing transaction behavior continuously. This shift is especially important for subnational budgets because retail and service activities form a broad and recurring taxable base. The policy question is no longer whether digital control matters, but how monitoring architecture should be designed to narrow concealed revenue streams effectively.

Recent legal reforms in Uzbekistan have created a markedly different institutional environment for monitoring retail and service payments. The 2025 legislative package revised liability for breaches involving cash registers, settlement terminals, electronic payment systems, and special QR codes, thereby broadening the compliance perimeter [1]. In parallel, Presidential Resolution PQ-247 established a special legal regime for individual entrepreneurs and self-employed persons, linking simplified taxation, platform reporting, and mandatory availability of special QR instruments [2]. These reforms do more than tighten sanctions, because they also redefine the informational infrastructure through which fiscal behavior becomes visible. Consequently, the study of hidden receipts can no longer rely solely on classical audit theory or descriptive tax

administration analysis. It must instead examine how legal obligations, payment technologies, and behavioral responses interact within a single fiscal monitoring mechanism.

The purpose of this article is to improve the fiscal monitoring mechanism aimed at reducing hidden cash receipts in trade and services while expanding the local tax base. To achieve that purpose, the article combines legal analysis, administrative logic, digital payment statistics, and sectoral service dynamics from Uzbekistan during 2021-2025. Particular attention is devoted to the relationship between point-of-sale discipline, terminal acceptance, QR-enabled payments, and receipt issuance practices within small-business intensive segments. The article argues that an effective monitoring mechanism should not merely detect isolated violations, but should rank them by fiscal risk and revenue mobilization potential. It also proposes a system in which information from cash registers, terminals, payment platforms, and local tax offices is integrated into an operational control loop. Such a design offers a more realistic path for converting observed transaction traces into measurable local budget gains [3].

Main Part

Unlike asset-based enforcement, fiscal monitoring in retail trade begins with transaction visibility rather than ex post debt recovery. The central premise is that concealed receipts emerge where the state cannot reliably observe the moment of sale. In trade and services, this moment is technologically capturable through cash registers, payment terminals, special QR codes, and platform-based receipts. When these instruments operate as separate compliance islands, taxpayers can migrate between channels and preserve informal turnover. A monitoring mechanism becomes effective only when it treats these channels as substitutable manifestations of one commercial event. Therefore, the design challenge lies in synchronizing heterogeneous payment traces into a unified fiscal signal that local tax administrations can interpret promptly.

Evidence from the payment system confirms that retail digitization has already widened the measurable perimeter of economic activity. According to the Central Bank, the total value of payments processed through 426 thousand payment terminals reached 326.7 trillion soums in 2024, substantially exceeding earlier years [4]. The same report shows that remote and contactless instruments became more prominent as QR, NFC, and platform-based solutions expanded among business entities. Such growth matters fiscally because every additional digital transaction potentially substitutes an unregistered cash payment that previously escaped observation. Yet the existence of infrastructure alone does not guarantee compliance, since merchants may still refuse terminals, omit receipts, or reroute payments outside registered devices. For that reason, fiscal monitoring must measure both technological availability and actual transactional discipline.

Another crucial consideration concerns the trade and services structure that underpins local tax capacity in Uzbekistan's regions. Official statistics indicate that trade services consistently occupy the largest share within total market services, with retail segments remaining dominant in 2025 [5]. Small business entities also account for a substantial share of retail turnover, which means tax administration outcomes are strongly shaped by micro and small merchant behavior [6]. This sectoral composition explains why hidden receipts in thousands of fragmented outlets can produce significant aggregate revenue losses for local budgets. It also suggests that an effective mechanism should focus less on rare large violations and more on frequent medium-risk noncompliance. In other words, the architecture of monitoring must reflect the real distribution of turnover, traders, and payment modalities across territorial markets.

From a methodological perspective, hidden receipts should be interpreted as a discrepancy between economic activity that is technologically observable and turnover that is fiscally registered. This discrepancy can be inferred from combinations of terminal use, QR issuance, receipt generation, average transaction values, and repeated refusal complaints. A merchant displaying high sales activity but persistently low fiscal receipt counts generates a stronger concealment signal than one with occasional device interruptions. Likewise, a business that accepts only cash despite functioning within a QR-enabled service cluster deserves a differentiated risk assessment. Such logic requires moving beyond binary compliance judgments toward probabilistic monitoring based on transaction anomalies. Hence, the proposed mechanism relies on risk scoring rather than uniform sanctioning, allowing local tax units to direct attention where hidden turnover is most likely concentrated [3].

Legal modernization after 2025 significantly strengthened this analytical transition from episodic inspection to evidence-based fiscal surveillance. The revised Article 221 of the legislation explicitly covers failures to use mandatory cash registers, terminals, electronic payment systems, or special QR codes, as well as refusal to issue required documents or accept eligible noncash payments [1]. The same provision also differentiates sanctions by targeting the use of another taxpayer's registered terminal or QR instrument with a much higher penalty. This is economically important because borrowed devices and third-party QR codes create a deliberate masking technique rather than a simple compliance lapse. Therefore, the law implicitly supports a risk hierarchy in which intentional concealment receives stronger response than passive omission. A modern monitoring mechanism should formalize that hierarchy analytically instead of leaving it only to discretionary inspection practice.

The role of PQ-247 is equally significant because it links payment discipline with the formalization pathway for entrepreneurs operating on digital platforms. The resolution introduced a one percent turnover tax regime for eligible individual entrepreneurs and self-employed persons, while assigning reporting and payment responsibilities to payment organizations within the special legal regime [2]. It also made the presence of a platform-generated special QR code a mandatory retail requirement, effectively equating its absence with nonuse of cash registers or terminals. This innovation reduces the administrative distance between platform turnover, tax reporting, and retail compliance checks. It also creates an opportunity to observe merchants who are transitioning from informal activity into simplified formal regimes without imposing classical paperwork burdens. Consequently, fiscal monitoring can become both stricter and more inclusive when legal simplification is paired with traceable payment channels.

A decisive shift in monitoring quality occurs when administrative data are organized around the commercial event rather than around isolated violations. In practical terms, one sale can generate several digital footprints: a terminal authorization, a QR acceptance record, a fiscal receipt, a merchant identifier, and a geolocated outlet marker. If these elements are reconciled in near real time, local tax authorities gain a much sharper picture of underreporting patterns. If they remain disconnected, enforcement continues to rely on fragmented evidence and manual suspicion. The proposed mechanism therefore begins with event-level integration and only afterwards aggregates risks at the outlet, taxpayer, and territorial levels. Such sequencing improves both analytical accuracy and the fiscal relevance of subsequent control actions [7].

Table 1. Statistical Background of Formalization-Sensitive Trade and Service Indicators in Uzbekistan, 2021-2025

Source: Compiled by the author from the National Statistics Committee of the Republic of Uzbekistan and author calculations based on official small business indicators [6].

Indicator	2021	2022	2023	2024	2025
Small business retail turnover, trillion UZS	186.8	229.2	287.1	345.4	400.5
Small business services volume, trillion UZS	231.5	294.2	378.0	477.9	595.1
Retail turnover annual growth, %	—	22.7	25.3	20.3	16.0
Services volume annual growth, %	—	27.1	28.5	26.4	24.5
Retail-to-services ratio, %	80.7	77.9	76.0	72.3	67.3
Retail turnover cumulative growth vs 2021, %	0.0	22.7	53.7	84.9	114.4
Services cumulative growth vs 2021, %	0.0	27.1	63.3	106.4	157.1
Average annual retail increment since 2021, trillion UZS	—	42.4	50.2	52.9	53.4
Average annual	—	62.7	73.2	82.1	90.9

services increment since 2021, trillion UZS					
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Table 1 synthesizes the macro and payment environment in which hidden receipt risks evolved during 2021-2025. The figures show that small business retail turnover and the volume of services expanded strongly, while terminal and QR-enabled transaction flows also increased. At the same time, the shadow and informal economy remained materially significant, meaning growth in digital instruments did not automatically eliminate concealed turnover. This coexistence of digital expansion and persistent informality is precisely why monitoring design matters more than infrastructure count alone. A large terminal network may coexist with selective cash use if merchants can still manipulate receipt issuance or channel switching. Thus, fiscal monitoring must be built as a behavioral control system, not merely as a technical inventory of devices.

The first implication of these trends is that local tax authorities should treat payment digitization as a source of comparative evidence. A district exhibiting rapid growth in trade services but unusually weak receipt density relative to terminal activity should be flagged automatically. Likewise, a territory with growing QR issuance but low corresponding fiscal registration may indicate partial adoption aimed at formal appearance rather than genuine compliance. Comparative diagnostics are especially useful for subnational budgets because they reveal where mobilizable reserves are territorially concentrated. They also help avoid overly uniform inspection strategies that waste administrative effort on low-risk localities. For this reason, territorial benchmarking should become a permanent layer within the proposed fiscal monitoring system [8].

The second implication concerns the economics of merchant choice under alternative payment disciplines in retail practice. Many small traders do not reject formal devices because of one single tax motive; they respond to liquidity needs, customer habits, device costs, and perceived enforcement probability. Nevertheless, when sanctions rise and digital acceptance becomes easier, the relative attractiveness of concealed cash turnover declines. This means the state can influence behavior more effectively by lowering compliance frictions while raising the expected cost of deliberate opacity. Monitoring design should therefore combine detection with facilitation, especially in service niches where transaction values are small but highly repetitive. That dual approach is more fiscally productive than relying exclusively on punitive raids after large arrears have already emerged.

A third implication follows from the relation between hidden turnover and local budget planning. Revenue forecasts at the territorial level become less reliable when service-sector turnover grows faster than registered tax receipts. Such divergence materially complicates expenditure commitments, interbudgetary balancing, and fiscal accountability for district administrations. PQ-397, which strengthened digital budget forecasting and territorial revenue planning, provides a supportive institutional backdrop for integrating monitoring outputs into local fiscal management [9]. Once monitoring indicators are linked to budget forecasting, tax control ceases to be a narrow compliance task and becomes part of public finance strategy. In that sense, reducing hidden receipts should be understood as a forecasting and governance issue as much as a tax enforcement issue.

The practical operation of the mechanism requires a sequence of analytical filters that transform raw payment data into prioritized control cases. The first filter checks whether a merchant legally required to use NKT, terminals, or special QR instruments has active and current identifiers. The second filter compares expected transaction traces with actual fiscal receipt issuance over rolling observation windows. The third filter classifies anomalies by severity, distinguishing temporary disruptions from repeated refusals, channel substitution, and third-party instrument usage. Only after these filters are completed should the case move into warning, field verification, or sanction pathways. This sequence reduces arbitrary intervention and makes enforcement more proportionate to the fiscal significance of each violation [10].

Risk classification becomes more reliable when it incorporates sector-specific transaction behavior rather than generic turnover assumptions. Cafes, delivery services, beauty salons, repair shops, pharmacies, and small retail outlets differ in ticket size, payment mix, and time-of-day concentration. A uniform threshold applied across all categories will either under-detect concealment in some activities or overburden compliant firms in others. The proposed model therefore recommends sectoral baselines built from median transaction frequencies, cashless shares, receipt ratios, and complaint histories. These baselines should then be adjusted territorially because urban centers and rural districts display different consumer payment habits. Such calibration allows the monitoring mechanism to remain analytically disciplined without becoming insensitive to real market diversity.

Consumer-facing incentives also matter because receipt discipline improves when buyers perceive a tangible benefit from demanding registered proof of payment. Earlier reforms that encouraged receipt verification demonstrated that household participation can expand the informational reach of tax administration beyond formal inspections [11]. However, such participation is most valuable when complaints and receipt confirmations feed directly into the same risk engine used for administrative analysis. If citizen signals remain institutionally detached, they produce noise rather than targeted fiscal intelligence. Therefore, the monitoring mechanism should combine machine-generated anomalies with verified consumer observations in a weighted manner. This blended institutional design strengthens enforcement legitimacy while preserving analytical rigor throughout local fiscal administration.

Table 2. Risk Matrix for the Proposed NKT-Terminal-QR Fiscal Monitoring Mechanism

Source: Developed by the author on the basis of O'RQ-1108, PQ-247, the Tax Code, and official payment-system practice [1], [2], [7].

Violation / signal	Primary data source	Fiscal risk level	Local budget implication	Recommended response
No fiscal receipt despite recorded sale activity	NKT logs, complaint records	High	Direct underreporting of taxable turnover	Automated warning, rapid verification, repeated-case sanction
Refusal to accept terminal payment	Terminal complaint file, outlet inspection	Medium-High	Preserves cash opacity and suppresses	Short correction window, then

			noncash traceability	targeted inspection
Refusal to accept special QR payment	QR platform log, taxpayer profile	Medium-High	Blocks low-cost formal payment channel for small merchants	Digital notification and mandatory compliance check
Use of another taxpayer's terminal	Acquirer data, merchant identifiers	Very High	Masks real seller and diverts taxable turnover	Immediate high-priority field action and sanction
Use of another taxpayer's QR code	QR-platform registry, merchant metadata	Very High	Conceals outlet-level fiscal base and distorts territorial assignment	Immediate sanction procedure and forensic reconciliation
Inactive device with continuing commercial activity	Registry status, electricity or sales traces	Medium	Enables selective cash collection outside fiscal capture	Risk scoring and timed reactivation requirement
Large gap between sales intensity and receipt density	NKT analytics, sector baseline	High	Suggests systematic suppression of recorded receipts	Analytical review followed by selective audit
Repeated short-term outages during peak hours	Device telemetry, time-stamped turnover patterns	Medium	Facilitates strategic migration to unregistered cash moments	Pattern-based warning and technical inspection
Low cashless acceptance in digitally dense service clusters	Territorial benchmark dashboard	Medium	Reduces formalization speed and local revenue mobilization	Territorial outreach plus comparative supervision

Table 2 presents the operational structure of the proposed NKT-terminal-QR monitoring mechanism and its associated response matrix. The table emphasizes that violations should be separated by source, fiscal risk, and recommended action rather than grouped into one undifferentiated compliance category. That distinction is essential because refusal to accept a QR payment, omission of a receipt, and use of a чужой QR instrument are not equivalent from either a legal or fiscal perspective. Their probabilities of deliberate concealment and their budgetary

consequences differ materially across trade and service segments. Therefore, enforcement effectiveness depends on the accuracy of response matching, not simply on the number of inspections conducted. A mechanism that classifies correctly can recover more tax base with fewer intrusive interventions.

The architecture proposed here also reduces transaction costs for compliant businesses, which is crucial for maintaining voluntary cooperation. When low-risk anomalies trigger automated warnings and self-correction windows, entrepreneurs can regularize behavior without immediately entering punitive procedures. That design mirrors broader reforms in Uzbekistan's tax administration, where digital interaction increasingly substitutes paper-heavy processes and discretionary contact [12]. It also preserves enforcement capacity for higher-risk cases involving systematic receipt suppression or instrument substitution. In economic terms, the mechanism reallocates administrative resources from routine verification toward fiscally meaningful intervention. Such reallocation improves not only compliance outcomes but also the perceived fairness of local tax oversight.

An often overlooked benefit of integrated fiscal monitoring is its contribution to competition policy and market neutrality. Merchants who conceal receipts can undercut compliant competitors by avoiding taxes, distorting prices, and retaining informal cash advantages. When monitoring becomes more consistent and data-driven, the effective tax burden is distributed more evenly across similar firms. This strengthens incentives for formal firms to remain within the registered economy and invest in lawful payment infrastructure. It also improves the quality of local business statistics used for regional development planning. Hence, the gains from monitoring extend beyond revenue collection into the broader institutional quality of the market environment. There is also a macro-fiscal reason to prioritize hidden receipt reduction in retail and services. The President's 2026 Address noted that the uncontrolled and shadow economy had been reduced from earlier levels near one half to around twenty eight percent, while future reforms aim to push cashless transactions in trade and services above seventy five percent [13]. These targets imply that monitoring mechanisms must now deliver measurable implementation capacity rather than symbolic control. The retail and service economy is where these targets become operationally real, because everyday payments determine whether formalization deepens or stalls. Accordingly, local tax monitoring should be treated as a frontline instrument of macroeconomic formalization policy. Its design must therefore support both national anti-shadow objectives and district-level revenue mobilization.

For this reason, performance evaluation should move beyond counting devices installed or inspections completed. The more meaningful indicators are receipt density per outlet, share of noncash acceptance among obligated businesses, anomaly resolution speed, repeated violation rates, and additional local revenue mobilized after intervention. These indicators reveal whether monitoring changes actual fiscal behavior rather than merely administrative appearances. They also allow regional tax offices to compare effectiveness while accounting for structural differences in commerce and services. Embedding such metrics in regular reporting would strengthen institutional learning and reduce dependence on occasional campaigns. Over time, this would turn fiscal monitoring into a continuously improving governance function instead of a reactive enforcement cycle.

Implementation, however, should remain continuously and institutionally sensitive to data quality and proportionality concerns. Temporary internet interruptions, hardware failures, and onboarding problems for small merchants can generate false positives if the monitoring engine is

too rigid. To avoid this, anomaly scoring should include persistence, repetition, and cross-source confirmation before high-severity actions are initiated. The model should also maintain an auditable trail explaining why a taxpayer was classified into a particular risk tier. Such transparency is necessary for legal defensibility and for sustaining business trust in digital administration. A technically advanced system that lacks procedural fairness would ultimately weaken, rather than strengthen, durable compliance.

Taken together, these arguments support a redefinition of fiscal monitoring from a narrow inspection tool into an integrated local revenue instrument. In that redefinition, NKT, terminals, QR codes, receipts, platform data, and consumer signals become coordinated observables within one administrative framework. The primary objective is not punishment for its own sake, but the reduction of concealed turnover that erodes the tax base of cities and districts. Where this framework functions well, local budgets gain more stable own-source revenues and regional fiscal planning becomes more realistic. Where it fails, digital infrastructure may expand while hidden receipts simply migrate between channels. The decisive factor is therefore the quality of integration, prioritization, and response embedded within the monitoring mechanism itself.

Conclusion

The analysis confirms that hidden receipt reduction in trade and services cannot be achieved through isolated inspection practices or device installation campaigns alone. Effective control emerges only when payment terminals, cash registers, QR instruments, and receipt issuance are monitored as interconnected evidence of one taxable commercial event. This integrated perspective makes it possible to distinguish technical noncompliance from deliberate concealment and to prioritize interventions according to local fiscal significance. As a result, fiscal monitoring becomes a direct instrument for strengthening own-source revenues of territorial budgets rather than a narrowly punitive administrative routine.

The study also demonstrates that recent legal and digital reforms in Uzbekistan create a realistic foundation for a more selective and evidence-based monitoring regime. Stronger sanctions under the revised legal framework, simplified platform-based formalization, and expanding noncash infrastructure together reduce the feasibility of persistent hidden turnover. However, these advantages can generate stable fiscal results only when they are embedded in a monitoring system using risk scoring, territorial comparisons, sectoral baselines, and auditable response logic. Therefore, improving the NKT-terminal-QR monitoring mechanism is both a tax-administration task and a broader public-finance strategy for local budget resilience.

Recommendations

1. Introduce an event-level reconciliation module that automatically links terminal authorizations, fiscal receipts, merchant identifiers, and QR payment records into one taxable transaction profile.
2. Create territorial risk dashboards for district tax offices that rank outlets by receipt density anomalies, cashless refusal frequency, and repeated device-substitution signals.
3. Establish sector-specific monitoring thresholds for cafes, delivery services, retail shops, beauty services, repair services, and pharmacies instead of using one universal compliance benchmark.
4. Combine automated warning procedures with short self-correction windows for low-risk anomalies, while reserving intensive field actions for repeated and fiscally material concealment patterns.

5. Integrate fiscal monitoring outputs into local budget forecasting and performance evaluation so that additional registered turnover is measured as a revenue mobilization result, not merely as an inspection statistic.

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