

Application Of Excise Tax On Certain Types Of Imported Products

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Abstract: This article examines the world experience of excise taxes, their impact on the economy, health and ecology. Based on the experience of countries such as the USA, the European Union, Turkey, Russia, South Korea and China, the results of excise taxes on tobacco, alcohol, sweet drinks, chips, fries, electronic cigarettes, pyrotechnics and expensive cars are reviewed.

In addition, the importance of excise taxes in Uzbekistan, statistical data on excise taxes collected from imported products in 2023-2024 and international comparisons are presented. In particular, the volume of food products such as potato chips and fries, as well as luxury goods such as pyrotechnics, electronic cigarettes and expensive cars, the geography of imports, customs duties collected and benefits provided are analyzed. The article provides recommendations for improving excise taxes, promoting healthy eating, limiting the advertising and illegal trade of harmful products. These measures are aimed at increasing state budget revenues and forming a healthy lifestyle for the population.

Keywords: Import, customs duties, exemption, excise duty, potato chips, fries, pyrotechnics, electronic cigarette, expensive car.

Introduction

The introduction of excise tax in Uzbekistan and its application to various products has gained significant importance in economic and social policy in recent years. Excise tax is a type of tax imposed by the state on certain goods and services, primarily applied to luxury items, as well as products and services that negatively impact public health, the environment, or social stability. One of the main objectives of excise tax is to improve public health. For example, excise taxes on tobacco and alcohol products help reduce their consumption and mitigate public health problems in society. Increasing excise tax can decrease the demand for such products and reduce the number of consumers, which in turn serves to prevent health issues arising in society.

The social impact of excise tax is also significant. Such a tax, applied particularly to luxury goods, including pyrotechnics, electronic cigarettes, and expensive cars, reduces consumer demand for these products while alleviating social and health problems. The effective implementation of such a tax not only increases demand for more environmentally friendly and health-conscious products in society but also contributes to filling the state budget [6].

The introduction of excise tax increases the incentive for producers to create new products, which in turn helps diversify the domestic market and support economic growth.

Uzbekistan is expected to become a member of the World Trade Organization (WTO) shortly. This process creates great opportunities for further liberalizing the country's foreign trade policy, aligning with international trade rules, and increasing competitiveness. However, WTO membership may also bring certain risks to the domestic market. In particular, an increased inflow of imported goods could intensify competition for local producers. In this regard, implementing mechanisms to protect domestic producers and effectively manage foreign trade within the framework of WTO requirements is becoming increasingly urgent. This analytical report thoroughly examines the issues of introducing excise taxes on certain products that negatively impact health and the environment, as well as luxury goods, and optimizing the exemptions granted on excise taxes for imports of these products.

Food products, such as potato chips and French fries, can pose health risks, as their high levels of salt and fats, along with preservation methods, can harm the human body. Imposing an excise tax on such products can not only limit their consumption but also support domestic producers [1].

Furthermore, products like electronic cigarettes and pyrotechnics are also dangerous for human health and public safety. Electronic cigarettes contain nicotine and other harmful substances, and their usage, particularly among young people, is observed to be increasing. Pyrotechnic products threaten public safety. Reducing imports of these products and imposing excise taxes on them would help decrease their usage and ensure safety.

Luxury goods, such as expensive cars, are also worthy of excise tax imposition. These types of products are used by high-income citizens, and their import can place a significant burden on the state budget. Introducing an excise tax on such goods could lead to a decrease in the consumption of these products and a more efficient allocation of resources.

By its economic nature, excise tax is an indirect tax and falls under the category of national taxes. The word "excise" is derived from the French language and means "to cut off" [3].

The long history of excise tax dates back to ancient Egypt, where it was levied on vegetable oil. In the 18th and 19th centuries, many countries introduced it mainly on high-revenue goods to increase their income, such as tobacco, alcohol, precious metals, food products (like chocolate, margarine, sugar), and goods under state monopoly. In Uzbekistan, excise tax has been introduced since 1992 [2].

Materials and Methods

During 2023-2024, import data on products potentially subject to excise tax in Uzbekistan, including food products (potato chips, French fries), electronic cigarettes, pyrotechnics, and expensive cars, were analyzed using information and reports from the State Statistics Committee, the Customs Committee, the Ministry of Health, as well as international organizations.

This scientific study examined the economic and social impact of excise tax, as well as mechanisms for regulating imports. Scientific methods such as comparative, statistical, normative-legal analysis, systematic approach, comparison, induction, and deduction were employed in the research. Furthermore, foreign experiences were studied, and necessary proposals and recommendations were developed regarding the introduction of excise tax.

Research Results and Analysis

Research by foreign scholars has highlighted the economic and social impact of excise tax from various perspectives. Adam Smith (1776) evaluated excise tax as a tool for forming state revenues. Arthur Pigou (1920) considered it an effective means of reducing the consumption of harmful products and ensuring a healthy environment. Richard Musgrave (1959) emphasized the important role of excise tax in ensuring social equality. Gary Becker and Kevin Murphy (1988) substantiated its positive impact on the healthcare sector, assessing it as a tool for reducing harmful habits and analyzing its effectiveness in limiting the consumption of harmful products [7].

These studies show that when excise tax is applied to harmful products and luxury goods, it serves to ensure public health, social equality, and economic stability [4]. Therefore, it is advisable to introduce excise tax in Uzbekistan on food products such as potato chips and French fries, as well as electronic cigarettes, pyrotechnic devices, and expensive cars.

According to Article 289 of the Tax Code of the Republic of Uzbekistan, excise tax in our country is applied to alcohol and tobacco products, petroleum products (gasoline, diesel, gas, polyethylene granules, etc.), and certain types of imported goods (energy and stimulating drinks). This tax creates an opportunity to limit the import of products harmful to human health and the environment, create a competitive environment for local producers, and generate additional revenue for the state budget [12].

The excise tax rates established for some of the goods specified in this article are 2-3 times higher in foreign countries such as Turkey, Ukraine, South Korea, Russia, and Turkmenistan for tobacco and alcohol products compared to Uzbekistan. For example, in our country, the average excise tax per thousand cigarettes is 25 US dollars, while in Turkey it is 86, in Ukraine 54, in Russia 50, and in South Korea 35 US dollars. For 1 liter of vodka, the excise tax in our country is 2.4 US dollars, while in Turkey it is 20 and in South Korea 16 US dollars.

During the analysis years, the import volume, value, main countries of origin, collected customs duties, and applied exemptions for potato chips and French fries, pyrotechnics, electronic cigarettes, and expensive cars imported into our country over the last 3 years were analyzed. Below, we will discuss these areas in detail. Specifically, in 2021, from the import of 36 types of excisable goods with a total value of 555.9 million US dollars, a total of 307.7 billion UZS of excise tax was collected. By 2024, from 19 types of imported products valued at 762.7 million US dollars, a total of 1,070.0 billion UZS (an increase of about 3.5 times) of excise tax was collected [13].

While excise tax was collected on certain imported products until 2021, the collection of excise tax on these goods was abolished by Decision No. PQ-4938 of the President of the Republic of Uzbekistan dated December 30, 2020.

For example, household appliances (refrigerators, televisions, etc.), radiators and heating boilers, chocolate, milk, margarine, and flour products (waffles, cookies, etc.), household items (knives, saws, lamps, etc.), canned vegetables, carpets, rugs, and others.

In 2024, a total of 197.5 billion UZS in excise tax exemptions were granted on imported goods [13].

Considering that excise tax is also levied on products that are harmful to human health to a certain extent, it is possible to introduce excise tax on certain types of food products imported into our country, including potato chips and frozen fries (potato chips (HS Code 200520) and frozen fries (HS Code 200410)). The import volume of these products for 2022 and 2024 is presented below (Figure 1).

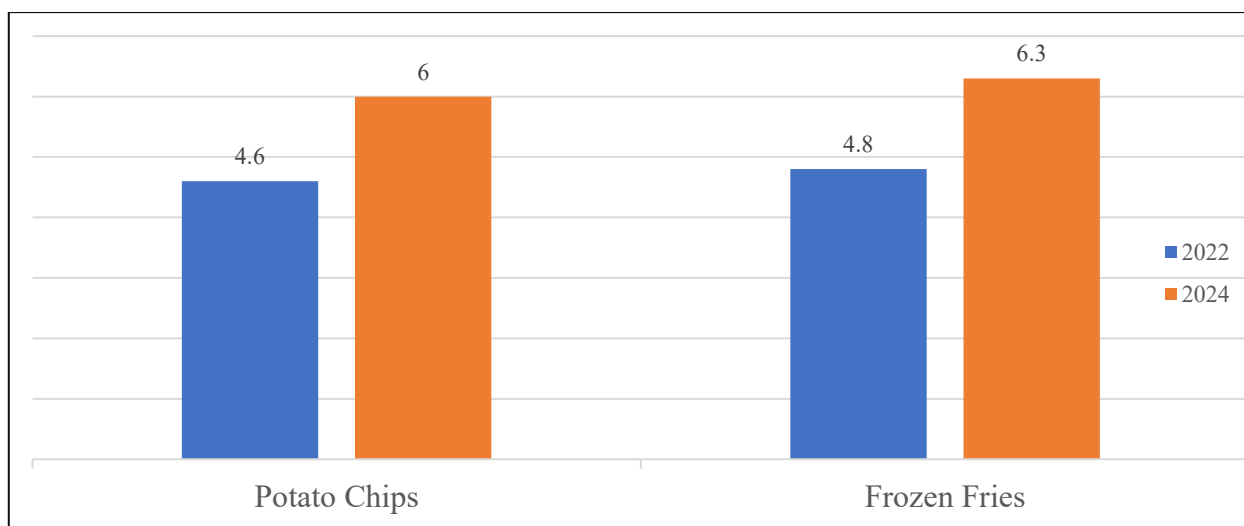


Figure 1. Import of chips and frozen fries in 2023 - 2024 (in thousand tons)

In 2024, 12.3 thousand tons (31.8 million US dollars) of chips and frozen fries were imported, which is an increase of 2.8 thousand tons or 30% compared to 2023 (2022: 9.4 thousand tons, 28 million US dollars). Of which:

- Chips amounted to 6 thousand tons (21 million US dollars), an increase of 1.4 thousand tons or 30% (in 2023: 4.6 thousand tons, 22 million US dollars);

- Frozen fries amounted to 6.3 thousand tons (11 million US dollars), an increase of 1.5 thousand tons or 31% (in 2023: 4.8 thousand tons, 5.8 million US dollars).

Examining the import geography of these products:

- Chips were mainly imported from Russia 93% (5.5 thousand tons), Kazakhstan 3% (193 tons), Belarus 1% (72 tons), and Germany 1% (57 tons).

- Frozen fries were imported from Poland 56% (3.5 thousand tons), Russia 13% (857 tons), the Netherlands 11% (696 tons), Latvia 7% (450 tons), and Belgium 6% (370 tons). [13]

It was found that the main part of the imported potato chips consisted of brands such as "Lays" (Russia), "Grizzly" (Kazakhstan), and "Bulba" (Belarus), while the majority of frozen fries consisted of brands such as

"McCain" (Poland, Netherlands), "We Fry" (Russia), "Aviko" (Poland), "Damco" (Belgium), and "Lamb Weston" (Netherlands).

In accordance with Decree No. PF-41 of the President of the Republic of Uzbekistan dated March 23, 2023, the import duty on potato chips, frozen fries, and oils containing trans fats was set at a zero rate (until January 1, 2027). In 2024, the total exemptions applied to these products amounted to 92 billion UZS. The amount of exemptions granted for these products in 2024 is presented below (Figure 2).

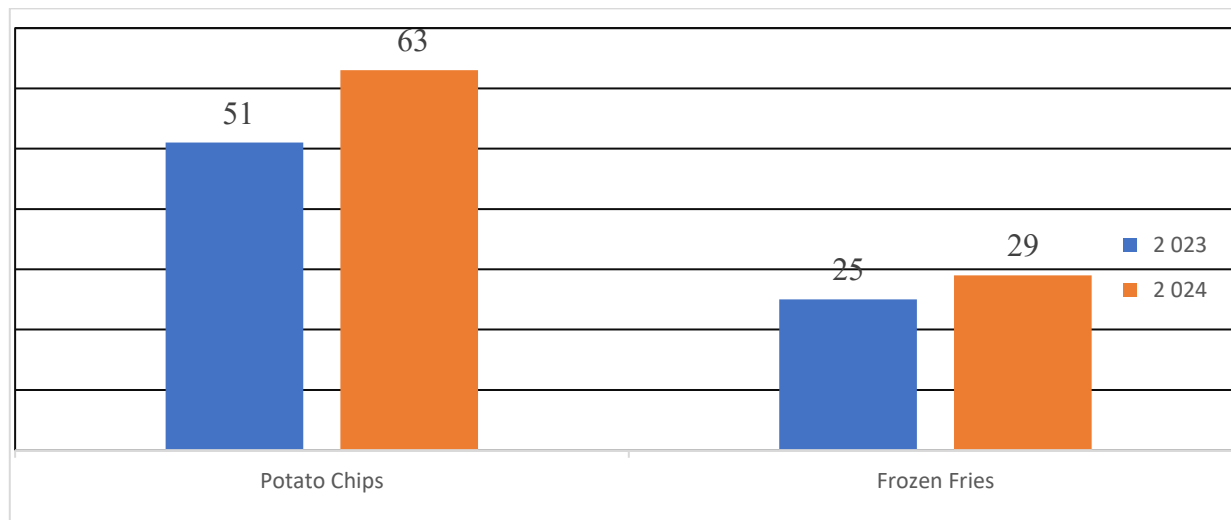


Figure 2. Exemptions granted for imported potato chips and fries products in 2023-2024 (in billion UZS)

It can be seen from the table above that imports of potato chips and frozen fries products increased by 17% in 2024 compared to the previous year.

For reference: exports of potato chips in 2024 amounted to 186 tons (351 thousand US dollars), a decrease of 695 tons or 85% compared to 2022 (in 2022: 1.1 thousand tons, 642 thousand US dollars), and were exported to a total of 8 countries (in 2022: 2 countries), mainly Tajikistan (98 tons), Singapore (29 tons), Korea (21 tons), Kyrgyzstan (17 tons), and Kazakhstan (12 tons).

Exports of frozen fries amounted to 44 tons (71 thousand US dollars) and were made only to Tajikistan (no exports in 2022). [13]

According to the Ministry of Agriculture, 33 thousand tons of chips are produced annually in Uzbekistan. The share of enterprises in Fergana, Namangan, and Surkhondaryo regions, as well as Tashkent city, accounts for 99% of this production.

According to the recommendation of the World Health Organization, the daily salt intake norm for a person should not exceed 5 grams, and the fat norm should not exceed 10 grams per 10 kg of body weight [16].

Data analysis shows that 100 grams of chips contain on average 2.5 grams of salt (50% of the daily norm) and 30 grams of fat (25-30% of the daily norm) [17].

Doctors and nutritionists state that consuming potato chips can lead to metabolic disorders, excess weight, diabetes, cardiovascular diseases, sexual weakness, and the development of tumors causing cancer [15].

Based on this, this international organization has announced a ban or restriction on chip consumption. Also, over 40% of the world's population is overweight. This figure is 50% in Uzbekistan, and the average daily salt consumption of the population is 15 grams [15].

Furthermore, some foreign countries have imposed taxes on products that negatively affect human health, including potato chips. For example, a 20% VAT was introduced in England in 1994. Hungary introduced an excise tax in

2011 (\$1.19 per kg), with revenues directed to public health protection programs. Colombia adopted a special law in 2023 to combat unhealthy food products, setting tax rates at 10% in 2023, 15% in 2024, and 20% in 2025. In the UK, South Korea, and Chile, chip advertising is permitted during times when the majority of the

population is not watching television, while it is banned during children's programs in Norway, Sweden, Canada, and Singapore [5].

In our country, in order to reduce the consumption of products high in salt, sugar, and fat, Presidential Decree No. PF-6099 was adopted on October 30, 2020, which tasked the development of a draft law providing for restrictions on the advertising of these products. However, to date, no relevant amendments have been made to the Law "On Advertising".

The draft state program for 2024 envisages the approval of a "Healthy Eating Strategy" to promote a healthy lifestyle among the population. This includes restricting the advertising of products high in trans fats, sugar, and salt on TV (especially children's channels) and on the streets, as well as requiring food producers to indicate the amount of trans fats, sugar, and salt on product packaging [18].

According to information provided by the Uzbekistan Agency for Technical Regulation under the Cabinet of Ministers, the use of various substitutes or adulteration of products with other substances is becoming widespread in food production today. Specifically, in the first 6 months of 2024, products were found non-compliant in 13 cases due to the use of fat substitutes in milk, yogurt, butter, cream, and condensed milk products.

In our country, no excise tax is established for pyrotechnic devices (3604 10) (currently a 30% import duty is applied). Foreign countries, including Georgia (5%), the USA (12%), and China (15%), have introduced excise taxes.

In Japan, India, Thailand, and Indonesia, pyrotechnic devices are considered products that pollute water and air and injure human body parts, with excise taxes ranging from 5% to 80%.

Pyrotechnic devices were imported into our country in 2024 worth \$312.3 thousand (145 tons) (2023 - \$527 thousand, 158 tons). For reference, these products were imported only from China, mainly accounted for by "Global Luxury Trade" LLC (53%, Samarkand) and "Maxem Fireworks" LLC (35%, Tashkent city).

The consumption of electronic tobacco products (8543 40) is increasing in our country. Specifically, in 2024, 260 thousand units (\$4.2 million) of electronic cigarette devices were imported by 19 business entities. Importers are mainly "Tashkent Tobacco Distribution" (61%), "Boyoo Tech" (9%), "Yusunny" (6%), and "Uzbat" enterprises (6%), with imports mainly coming from China (37%), Germany (34%), and Switzerland (14%). For reference, such devices in Uzbekistan are subject only to a 5% import duty (4.6 billion UZS in 2024) and 12% VAT (7.4 billion UZS) [13].

In order to prevent the popularity of electronic cigarettes among young people, Indonesia, Israel, and South Korea have established separate excise taxes of up to 360% on electronic cigarette devices.

Furthermore, digital marking is advisable to prevent the smuggling of electronic cigarette devices into our country and protect the population from counterfeit products (PQ-203. 30.05.2024) [20].

For reference: during 2024, a total of 577 cases of illegal movement of tobacco products across the customs border were detected, involving 3 million packs of cigarettes worth 64 billion UZS [13].

Russia has introduced mandatory marking of all electronic cigarettes and their components through the "Chestny Znak" system since 2021. Kazakhstan introduced a digital marking system for tobacco and electronic cigarettes in 2024 [8].

In recent years, due to the rising standard of living of our country's population, interest in cars has been increasing.

Excise tax on imported cars was abolished in our country from August 1, 2020 [12]. As a result, the number of imported passenger cars has tripled in the last 3 years, including luxury cars (conditionally valued above 40 thousand US dollars), which increased by 2.6 times [13].

For reference: in 2024, a total of 83 thousand passenger cars (in 2021: 27 thousand) worth \$1.9 billion (\$0.8 billion) were imported. Of which, by value:

- Up to \$40 thousand: 76.6 thousand, share 93%, worth \$1.6 billion (2021: 25 thousand, 22%, \$623 million);
- \$40 - \$70 thousand: 4.8 thousand, share 6%, worth \$251 million (2 thousand, 2%, \$89 million);
- Above \$70 thousand: 1 thousand, share 1%, worth \$105 million (0.3 thousand, 1%, \$40 million).

Expensive cars valued above 40 thousand US dollars, such as Traverse (\$53 thousand), Kia K8 and K9 (\$54 and \$66 thousand), Kia Stinger (\$56 thousand), Tahoe (\$86 thousand), are being produced in Uzbekistan.

According to Resolution No. 347 of the Cabinet of Ministers dated June 2, 2020, the amount of recycling fee for vehicles, self-propelled machines, and equipment is collected based on the Basic Calculation Value (BCV) depending on their power source.

For example, for the RANGE ROVER L460 with an engine displacement of 4395 cm³ and a value of \$168 thousand, and the BMW M550Xi 2023 (Euro 6) with the same engine displacement (4395 cm³) and a value of \$37 thousand, the same recycling fee was collected - 300 times the BCV (113 million UZS).

In foreign countries, imported cars are subject to excise tax in addition to recycling tax. For instance, excise taxes on luxury cars are 28% in India, 25% in Brazil, 40-125% in Indonesia, 10% on cars valued above \$50,000 in the USA, 10% on cars valued above €40,000 in the UK, and up to 40% on large-engine cars (over 4.0 liters) in China.

For reference: according to Decree No. PQ-3818 dated 29.06.2018, until January 1, 2020, an excise tax of 20% of the customs value was applied to the import of passenger cars valued at \$40 thousand or more and equivalent, provided they were not older than 2 years from the date of manufacture [19].

Based on the practice in foreign countries of setting high excise rates for high-value and high-fuel-consumption cars, applying this practice in our country could help achieve environmental sustainability and prevent excessive outflow of foreign currency.

Conclusion and Proposal

From the above analysis, we can conclude that in recent years, there is a need to introduce excise tax on certain products imported into our country that negatively affect human health and public safety, including potato chips and frozen fries, as well as goods such as pyrotechnics, electronic cigarette devices, and expensive cars, and to optimize the existing excise tax rates. The following proposals are being put forward:

1. Based on the excise tax rates existing in foreign countries, increase the current excise tax rates for alcohol and tobacco products by an average of 2 times;
2. Introduce excise tax on certain types of food products at the following rates:
 - For packaged chips (2005 20 2000) - 25%, but not less than 35,000 UZS per kg; for unpackaged chips (2005 20 80) - 10%, but not less than 7,000 UZS per kg;
 - For packaged frozen fries (2004 10 10) - 25%, but not less than 7,500 UZS per kg; for unpackaged fries (2004 10 99) - 10%, but not less than 2,000 UZS per kg.

For reference, based on these rates, the excise tax calculated for chips and frozen fries imported in 2024 would amount to 115 billion UZS.

3. Introduce excise tax on certain types of luxury goods at the following rates:
 - For expensive cars (above 40,000 US dollars) - 10% (additional 450 billion UZS);
 - For electronic cigarette devices - 25%, but not less than 40,000 UZS per unit (additional 14.2 billion UZS);
 - For pyrotechnic products - 50% (additional 2.3 billion UZS).
4. Introduce relevant amendments to the Law "On Advertising" regarding restricting or prohibiting the advertising of products with excessive salt and fat content, particularly potato chips and frozen fries;
5. Implement digital marking for electronic cigarette devices;
6. Considering that the regular consumption of potato chips and frozen fries causes certain harm to human health, it would be advisable to develop the production and popularize the consumption of fruit chips as an alternative.

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