



## ISSUES OF ENHANCING SIGNIFICANCE OF TAXES IN STABILIZING BUDGET REVENUES IN UZBEKISTAN

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**Abstract.** The article is devoted to the analysis of the development of regional economies through taxes (evidence from Tashkent region). In addition, the article analyzes the revenue base of the region, as well as assesses the adequacy of local budget revenues and their composition, local taxes and levies. Moreover, the article examines the revenues of the local budget of Tashkent region and the fiscal relations of the region, as well as provides conclusions and proposals on the development of the regional economy through taxes.

**Key words:** regions, regional economy, taxes, tax system, tax revenues, local budget, local taxes, levies.

**Introduction.** With the aim of creating a favorable investment climate for investors currently developed countries are challenging tax competition by sharply reducing tax burden. Herewith, the focus is made on the scientific solution of problems related to the formation of local budget revenues, as well as the economic development of individual regions through direct taxes. Due to the urgency of this issue, there is a growing need for regular research in this area. At a time when the international ranking of countries for the payment of taxes is annually published, it is crucially important to focus on raising powers of local authorities in implementing fiscal policy.

This is due to the fact that in foreign countries, limited powers of local public authorities in assessing the tax potential of the regions and raising local budget revenues demonstrate a negative impact. Therefore, doing research in this area and further implementation of the results in practice will promote economic development of the region, growth of local budget revenues and, in turn, enhance the role of countries in international rankings.

The concept of improving the tax policy of the Republic of Uzbekistan determines such priorities as simplification of tax legislation, sharp reduction of the tax burden, strengthening the revenue base of relevant budgets through the full coverage of taxable objects and increasing tax collection, improving the mechanisms of local tax administration.

**Literature review.** Determination, calculation and collection of additional taxes and non-tax funds to local budgets will not only provide additional funds for budget revenues, but also create conditions for economic development of business in the region and the implementation of social programs of local governments. With this aim, identification and collection of additional funds to local budgets has always been in the focus of attention of the world economists.

In particular, in the opinion of Russian economists A. Seleznev and N. Dotsenko, “the local budget is the crucial problem of financing, thus it is essential to establish proper system of formation of local budget revenues” (Seleznev, 2016).

Moreover, in this regard the Russian economist O.V. Serebryakova notes that “financing of local structures is the most fundamental and most difficult issue in the implementation of reforms in local government” (Serebryakova, 2017).

According to other economists Yu.A.Vlasova and A.I.Abramova, “The revenue potential of local budgets requires active implementation of public-private partnership, maximum introduction of tax incentives for doing business and reduction of bureaucratic barriers to production. Reducing non-budget expenditures and raising related costs will increase efficiency of fiscal policy in the region (Vlasova and Abramova, 2015).

Furthermore, domestic scientists have studied the issues of large-scale involvement of local taxes and non-tax revenues in the stabilization of local budget revenues as well.

In particular, our domestic economists, professor U.Burkhanov and Associate Professor Kh.Kurbanov have noted that due to the high value of fixed assets in large real sector enterprises, the property tax rate is higher than in fixed assets used in production (for commercial purposes). Herewith they propose to apply differentiated property tax rates, which, in turn, will further accelerate the activities of small businesses and private entrepreneurship (Burkhanov and Kurbanov, 2018).

Professor Sh.A. Toshmatov has analyzed a number of measures aimed at raising local budget revenues. In his opinion, it is required to improve the system of distribution of taxes between different levels of budgets within the framework of ensuring the interest of local governments in maximizing tax revenues, as well as the need to improve the mechanism of assessing regional tax capacity and collection of local taxes (Toshmatov, 2017)

From the point of view of scholar in economics A. Khayriddinov, it should be determined in advance that a certain part of the amount of taxes (among national taxes) to be levied by the tax system in each local administrative territory should be left in a fixed contribution and on a permanent basis in the form of revenues directly attached to the disposal of local budgets. Herewith, the focus will be made on improving the system of normative allocations, which is one of the basic combinatorial options for redistribution of revenues between the links of the budget system, as well as the needs of local budgets to prioritize their combined revenues to ensure the stability of revenue bases (Khayriddinov, 2011).

An economist A.Kh. Islamkulov thinks that with the aim of ensuring stability of state budget revenues in the country, as well as balance of budget revenues at different levels, it is necessary to clearly define the powers of central and local governments in the financial, budgetary and tax spheres, while ensuring the stability of local budgets. (Islamkulov, 2019).

In the opinion of domestic scientist O. Meyliev, in ensuring financial sustainability of local budgets, first of all, it is crucially important to develop measures to enhance the economic potential of the regions and their rational use. In this regard, the most significant

issue in the priorities of the tax policy of the country is improving taxation system of these facilities in the efficient use of local resources and property in the country (Meyliev, 2020).

**Analysis and results.** The considerations put forward by the above-mentioned economists examine the current financial factors within the current framework of expanding the revenue base of local budgets. Reforms ongoing in the context of these factors, along with the stabilization of financial flows at the central-regional level, will create opportunities for formation of a financial mechanism that encourages the system of rational use of local governments' economic potential.

In ensuring the financial stability of local budgets, first of all, it is vitally important to develop measures to enhance economic potential of the regions and their rational use. In this regard, our economists often pay particular attention to the need for alternative allocations from the revenues of the republican budget.

However, to support scientific and theoretical views specified above, in our opinion, the most important issue in the priorities of tax policy is improvement of taxation of local resources in the country, i.e. efficient use of land, water and property.

In reliance upon the concept of improving tax policy, the country is implementing comprehensive and large-scale reforms to simplify tax legislation, sharply reduce tax burden, strengthen the revenue base of relevant budgets by improving the coverage of taxable objects and raising tax collection.

It should be noted that the role of taxes is essential in the development of production in the regions, further stimulation of investment activity, as well as enhancing socio-economic welfare. Therefore, specific conditions of each region with the account of the existing opportunities, adaptation of tax policy to their level of development, efficient use of the tax mechanism in the current conditions of economic liberalization and modernization are at the forefront of reforms aimed at ensuring socio-economic development.

Deepening reforms in Uzbekistan will require local authorities to raise their role in the socio-economic development of the regions, expand their financial and budgetary rights and strengthen their financial base.

Taking into consideration that the reforms ongoing in the financial and fiscal system of the country play a significant part in ensuring the nearest future of the economic development, such factors as the dependence of the region on financial resources and the ability of the authorities to concentrate them within the territory, as well as to ensure their targeted orientation necessitates a qualitative and objective assessment and increase of the income potential of the regions.

Nowadays it is quite urgent to raise efficiency of local authorities, ensure integrated development of the regions, further stimulate the social sphere, provide optimal placement of productive forces, as well as rational use of natural resources, land, water, production and labor potential.

In terms of regions, the majority of socio-economic expenditures are financed by means of taxes. Therefore, taking into account specific economic situation and opportunities of each region, tax policy represents a priority in ensuring socio-economic

development of the country in the current conditions of production and effective use of the tax mechanism.

The economic reforms ongoing in the country, expanding the powers of local governments necessitates ensuring the socio-economic stability of the administrative territory. In order to ensure duly execution of these objectives in full, it is required to provide them with a certain financial base. In this regard, local budgets constitute the foundation of this base.

It should be noted that the share of state budget expenditures in local budgets in Uzbekistan in 2010 constituted 41.3%, in 2017, then this figure was 53.8%, in 2018 - 56.9% and in 2019 this indicator accounted for 55.5%. However, while state budget revenues have been growing year by year, in 2017 local budget revenues increased by 12.1 percent compared to the previous 2016, by 13.2 percent in 2018, and by 25.1 percent in 2019.

In 2016-2019, despite a sharp increase in the number of taxpayers and taxable entities, the share of property and land taxes, which constitute local budget revenues, decreased in tax revenues.

The analysis shows that the share of property tax in the state budget accounted for 0.04 percent in 2016, 0.04 percent - in 2017, 0.033 percent - in 2018, and 0.25 percent - in 2019. During the same period the share of land tax amounted to 0.02 percent in 2016, 0.02 percent in 2017, 0.019 percent in 2018, and 0.016 percent in 2019.

As we have witnessed as a result of the study of the legal basis for the distribution of taxes between budgets and the formation of local budget revenues, the process is complicated in some extent. In this regard, we consider essential to analyze the dynamics of changes in tax revenues in the Tashkent region and their distribution among local budgets, as well as the practice of formulating local budget revenues.

**Table 1 Tax revenues in Tashkent region and their distribution between the national and local budgets in 2016-2019**

(billion UZS)

| №  | Indicators  | 2016    | 2017    | 2018    | 2019     |
|----|---|---------|---------|---------|----------|
| 1. | <b>State budget funds (targeted funds), total</b>       | 5 131,6 | 6 245,8 | 9 208,6 | 11 920,5 |
| 2. | <b>Growth rate compared to the previous year (in %)</b> | 102,3   | 101,8   | 147,4   | 129,4    |
| 3. | <b>Republican state budget (taxes)</b>                  | 1 691,3 | 2 161,6 | 4 013,8 | 3 168,2  |
|    | <b>Growth rate compared to the previous year (in %)</b> | 103,7   | 122,7   | 231,9   | 115,3    |
| 4. | <b>Share of total budget revenue</b>                    | 33,0    | 3 4,6   | 43,6    | 26,6     |
| 5. | <b>Local budgets' revenue</b>                           | 1 502,3 | 1 756,7 | 1 929,6 | 3 722,6  |
| 6. | <b>Growth rate compared to the previous year (in %)</b> | 109,5   | 102,6   | 109,8   | 105,3    |
| 7. | <b>Share in the total budget revenue 106,8 %</b>        | 0,3     | 0,28    | 0,21    | 0,31     |



According to the analytical data of the State Tax Board of Tashkent region in 2016-2019, the growth rate of total tax revenues of the consolidated state budget of the Republic constituted 120.2 percent, while the growth of tax revenues by the Republican state budget of the Republic accounted for 143.3 percent, and the growth rate of local budgets amounted to 106.8 percent.

Analyzing the share of these revenues in all three budget revenues, the share of the state budget revenues in the composition of the consolidated state budget revenues averaged 34.5 percent, while the share of local budget revenues in the composition of these consolidated budget revenues averaged 0,28 percent.

Table 2

### Share of taxes in the local budget revenues in 2016-2020

| №  | Indicators                                       | 2016    | 2017    | 2018    | 2019    |
|----|--|---------|---------|---------|---------|
| 1. | Local budget revenues, total                     | 1 502,3 | 1 756,7 | 1 929,6 | 3 722,6 |
| 2. | Growth rate compared to the previous year (in %) | 109,5 % | 102,6 % | 109,8 % | 105,3 % |
| 3. | Revenues from local taxes                        | 588,2   | 631,1   | 735,6   | 550,7   |
| 4. | Growth rate compared to the previous year (in %) | 103,4%  | 107,3%  | 116,5   | 74,8%   |
| 5. | Share in the local budget revenues               | 39,1 %  | 35,9 %  | 38,1 %  | 14,8 %  |

When comparing this situation with the receipt of taxes that directly constitute local budget revenues, the share of taxes in local budget revenues is quite unstable. In particular, if in 2016-2018 tax revenues have been growing year by year, compared to the previous year, revenues decreased sharply by 25.2% (185.0 billion UZS) by 2019.

In addition, the share of taxes in the structure of the local budget has remained almost unchanged at the level of 32.0 percent.

In turn, this situation requires the analysis of the structure of payers of property and land taxes, which represent the main revenues of the local budget, and the collection of taxes accrued thereto.

Table 3 Share of tax receipts in the state budget and local budgets by Tashkent region

| №  | Indicators   | 2016    | 2017    | 2018    | 2019     |
|----|--|---------|---------|---------|----------|
| 1. | State budget revenues (targeted funds), total                      | 5 131,6 | 6 245,8 | 9 208,6 | 11 920,5 |
|    | Local budget revenues, total                                       | 1 502,3 | 1 756,7 | 1 929,6 | 3 722,6  |
| 2. | Property tax revenue   | 190,2   | 205,6   | 252,8   | 260,9    |
| 3. | Share of the property tax in the total budget revenues, in percent | 6,0     | 5,2     | 4,2     | 3,0      |
|    | Share of the property tax in the local budget revenues, in percent | 12,6    | 11,7    | 13,1    | 7,0      |
| 4. | Land tax revenue   | 84,6    | 103,6   | 178,2   | 228,0    |
| 5. | Share of the land tax in the total budget revenues, in percent     | 2,7     | 2,7     | 3,0     | 2,4      |
| 6. | Share of the land tax in the local budget revenues, in percent     | 5,6     | 5,9     | 9,2     | 6,1      |

According to the analytical data, in 2016-2019 in Tashkent region, the property tax in the revenues of the consolidated state budget of the Republic tends to decrease in a very volatile situation. In particular, if in 2016 tax revenue from the property constituted 6.0%, in 2017 it was 5.2%, in 2018 it equaled to 4.2% and in 2019 it accounted for 3.0%.

A similar situation can be witnessed in the example of the land tax. In particular, in 2016-2019 the share of land tax in the structure of revenues of the consolidated state budget of the Republic in Tashkent region in 2016 constituted 2.7 percent, in 2017 this indicator accounted for 2.7 percent, in 2018 it amounted to 3.0 percent and in 2019 - 2.4 percent.

Table 4

Comparative indicators of property tax paid by taxpayers - legal entities and individuals in Tashkent region

| №  | Years | Taxpayers – legal entities |   |             | Taxpayers – individuals |   |             |
|----|-------|----------------------------|---|-------------|-------------------------|---|-------------|
|    |       | Number                     | Difference in comparison with the previous year | Growth rate | Number                  | Difference in comparison with the previous year | Growth rate |
| 1. | 2015  | 529                        | 5   | 100,9       | 505 596                 | 3 015   | 100,9       |
| 2. | 2016  | 536                        | 7   | 101,3       | 514 370                 | 8 774   | 101,7       |
| 3. | 2017  | 803                        | 267   | 149,8       | 524 832                 | 10 462  | 102,0       |
| 4. | 2018  | 1 140                      | 337   | 142,0       | 543 102                 | 18 270  | 103,5       |
| 5. | 2019  | 5 234                      | 4 094   | 459,1       | 685 352                 | 142 250   | 126,2       |
| 6. | 2020  | 7 522                      | 2 288   | 143,7       | 734 528                 | 49 176  | 107,2       |

When comparing this situation with the number of payers of property and land taxes, the following situation can be observed. During the analyzed period 2016-2019, the number of legal entities and individuals paying property tax has been constantly demonstrating an upward trend. In particular, the number of legal entities paying property taxes in 2016 increased by 101.3 percent, in 2017 - by 149.8 percent, in 2018 - by 412.0 percent, and by 2019 their number increased by 459.1 percent. This has happened due to the fact that in 2019, in compliance with the amendments to the tax legislation of the Republic of Uzbekistan, all legal entities that used to pay turnover tax, were transferred to the payment of property tax.

In turn, the number of individuals in 2016-2019 demonstrated an upward trend, which increased by 101.7 percent in 2016, 102.0 percent in 2017, 103.5 percent in 2018 and 126.2 percent in 2019.

Table 5

**Comparative indicators of the payers of land tax paid by legal entities and individuals in Tashkent region**

| №  | Years | Taxpayers – legal entities |   |             | Taxpayers – individuals |   |             |
|----|-------|----------------------------|---|-------------|-------------------------|---|-------------|
|    |       | Number                     | Difference in comparison with the previous year | Growth rate | Number                  | Difference in comparison with the previous year | Growth rate |
| 1. | 2015  | 938                        | 18  | 101,9       | 415 337                 | 6 015   | 102,6       |
| 2. | 2016  | 958                        | 20  | 102,1       | 423 350                 | 8 013   | 101,9       |
| 3. | 2017  | 1 037                      | 79  | 108,2       | 436 649                 | 13 299  | 103,1       |
| 4. | 2018  | 2 241                      | 1204  | 216,1       | 449 859                 | 13 210  | 103,0       |
| 5. | 2019  | 18 862                     | 16621   | 841,2       | 578 013                 | 128 154   | 128,4       |
| 6. | 2020  | 19 176                     | 314   | 101,7       | 606 013                 | 28 000  | 104,8       |

During the analyzed period, the number of legal entities and individuals paying property taxes in 2016-2019 was constantly growing. In particular, the number of legal entities paying land tax in 2016 increased by 102.1 percent, in 2017- by 108.2 percent, in 2018 - by 216.1 percent, and by 2019 their number increased by 841.2 percent. This has happened due to the fact that in 2019, in compliance with the amendments to the tax legislation of the Republic of Uzbekistan, all legal entities, that pay turnover tax, have been transferred to the payment of land tax.

In turn, during 2016-2019, the number of individuals increased by 101.9 percent in 2016, 103.1 percent in 2017, 103.0 percent in 2018 and 128.4 percent in 2019.

These circumstances require implementation of significant reforms in land and property taxation in Uzbekistan. In this regard, the “Action Strategy for further development of the Republic of Uzbekistan for five priority areas” has set such top-target

objectives as further optimization of budget expenditures, reconsideration of the list and amount of taxes and compulsory payments to local budgets, expansion of production capacity of regions in order to raise local budget revenues, reduce tax burden and simplify taxation system, property and land, which constitute the basis of local budget revenues improving tax administration and expanding appropriate incentives.

The Resolutions of the President of the Republic of Uzbekistan “On measures to further improve the system of state registration of real property rights” as of April 5, 2019, Decree of the President of the Republic of Uzbekistan “On measures to radically improve the system of land accounting and state cadaster” as of September 7, 2020, as well as Decree of the President of the Republic of Uzbekistan “On further improvement of resource taxes and property tax” as of December 3, 2020 have determined implementation of comprehensive reforms in terms of the state registration of rights to real property, maintenance of geodesy, cartography and state cadastres, as well as taxation of real estate and land.

There are the following objective and subjective reasons for the implementation of radical reforms in the state registration of the rights to real estate and land, maintenance of geodesy, cartography and state cadastres and their taxation. These barriers have hampered economic and social reforms ongoing in the country:

**first**, current statutory framework for state registration of real estate and land rights, maintenance of geodesy, cartography and state cadastres and their taxation were adopted in the early years of independence and, thus they first of all, have contradicted to the international legal standards, as well as contemporary standards adopted in the economic and social spheres.

**second**, implementation of the land oversight in the country, in particular, allocation of land, its accounting, raising agricultural crops, as well as the control of property, accounting and preparation and registration of cadastral documents under the authority of a single body in some cases has caused conflicts of interest in these areas.

This is an obvious fact, that 2.4 million real estate objects in the country have not yet been fully registered, including cadastral documents for about 1 million real estate objects, and 44.0 million hectares of land have not been fully accounted for. For example, a case-study in Kibray district of Tashkent region has revealed that 406 hectares of land were used without legal documents, as well as 78 hectares of illegal housing and non-residential facilities.

Rapid elimination of these drawbacks and shortcomings requires large-scale comprehensive economic reforms in the country to keep accurate records of land and related resources, to further improve the system of their rational use. In turn, full accounting of land and property, collection of taxes from them according to the procedure established by law, ensures stability of revenues of local budgets of the country.

**Conclusion and proposals.** Based on the analytical data, specified above, in order to raise tax revenues, we recommend to provide rational and efficient use of property and natural resources in Uzbekistan and to ensure that local budgets are taxed in compliance with international taxation standards:



- control of agricultural lands, including placement of agricultural crops, soil valuation, appointment of the Ministry of Agriculture as the authorized body to determine their normative value, increase soil fertility, conduct research in soil science, geobotanics;
- assign the powers of for state registration of real property rights, geodesy and cartography, maintenance of state cadastres, maintenance of geodesy, cartography and state cadastres to the Republican Land Resources, Geodesy, Cartography and State Cadastre. In addition, taking into consideration its direct relation with taxation, establish close relationship with the State Tax Committee;
- in order to organize the Republic land resources, geodesy, cartography and state cadastre, land balance in the country and its reporting, real estate reporting, formation of a single system of state cadastres in the National Geographic Information System and information submission to it directly only through telecommunication networks;
- integration of the online geoportal of the state cadaster into the national Geographic Information System;
- in reliance upon international taxation standards, it is recommended to gradually introduce real estate tax through reconsideration of the calculation procedure of property and land tax;
- in order to regulate efficient and rational use of land resources and property, local governments should be assigned the right to apply increasing and decreasing land tax coefficients for non-agricultural land in districts and cities based on their economic development in reliance upon the basic land tax rate.

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