



## ISSUES OF USE OF TAX POTENTIAL TO ENSURE SUSTAINABILITY OF LOCAL BUDGET REVENUES

Ollokulova Feruza Mansurovna\*

Tashkent Financial Institute, Tashkent, Republic of Uzbekistan

### Abstract

Ensuring the sustainability of local budget revenues is a topical issue. When it comes to local budget revenues, of course, tax revenues collected in the region are important. At the same time, through the development of production in the regions, it is expedient to make extensive use of the best practices of countries, that is, to use the tax potential in the assessment of tax revenues of the regions.

**Key words:** Budget, Local revenues, Taxes, Tax revenues, Production, Tax potential and Tax system.

### 1. Introduction

In the context of globalization, taxes are widely used in government regulation of the economy. Because taxes affect the process of reproduction at different stages of management and participate in the distribution of the product created. In this context, theoretical research on tax relations in the state or in a particular region implies the tax system, along with the taxation procedure, the tax potential and its assessment. The medium-term development strategy of Uzbekistan identifies such important tasks as increasing the base of local budget revenues, ensuring their financial independence, creating a competitive environment between the regions. Therefore, today it is important to take measures to increase the revenues of local budgets, to ensure their sustainability, while taking a systematic approach to the issue through the widespread use of science-based proposals and recommendations. In addition, the President said that "... local budgets are not enough to finance sustainable socio-economic development of the regions" (Decree of the President of the Republic of Uzbekistan, 2017). It is necessary to expand financial and other opportunities for local authorities, we need to reconsider the powers and responsibilities of the authorities and

increase their independence" (Mirziyoev Sh, 2017). Because in such circumstances, one of the most important tasks is to strengthen the base of tax revenues in the formation of local budget revenues. The economic power of any state is also characterized by the fact that that state has a perfect budget. After gaining independence, the country has been working on the formation and implementation of a stable financial system based on deep economic policy, as well as the local budget, which is its basis. Because the socio-economic development of the regions depends on the financial stability of local budgets. The system of local budgets allows for the full satisfaction of local needs and their implementation in close connection with the implementation of measures taken by the state in a centralized manner (Pessino and Fenochietto, 2010).

### 2. Literature Review

In the foreign literature, on the basis of this category is understood the tax base, which in most cases generates income in the form of tax revenues of a particular region. In particular, studies by Carolla Pessino and Ricardo Fenochietto (2010) states that the tax potential represents the maximum amount of taxable income based on a country's economic, social, institutional, and demographic characteristics (Brehm, 2013). It should be noted that in the English-language scientific literature, the

\*Corresponding author: Ollokulova Feruza Mansurovna

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category of tax potential and the tax burden are sometimes used as synonyms (Korotina, 2014). Also dots. N. Korotina proposes an analytical methodology for assessing the financial condition of local budgets. According to it, the indicators are divided into five groups: balanced local budget indicators, indicators of financial independence of the municipal structure, indicators characterizing the directions of municipal budget policy in the field of budget expenditures, indicators of municipal budget stability, indicators of municipal debt (Mamanazarov, 2002).

In addition, Economist Mamanazarov (2002) conducted research aimed at increasing the role of taxes in stabilizing local budgets. According to him, the stability of the budget is characterized by the following two aspects. first, it means that the budget is balanced and there will be no deficit; secondly, it emphasizes that even when there is a shortage, it means that it is maintained at a certain level. Ruziev (2011) also conducted research on the formation of local budget revenues, studying the problems at the regional level and systematizing them as follows: first, the low level of tax collection in the formation of local budget revenues and incomplete state registration of taxpayers. Revenues of local budgets are mainly deductions from local taxes and national taxes, based on the normative documents in force as the owner of local budget funds, the total amount of which is allocated in the amount specified in the budget legislation. Allocation of funds to local budget expenditures occurs through the system of public authorities, public administration bodies, financial and credit institutions from the time when the necessary funds are needed (fiscal year) until their expenditure. The formation of local budget revenues plays an important role in the development of the republic and its regions during the transition to a modern market economy. The financial activity of local governments plays an important role in the development of the republic and its regions during the transition to a modern market economy in Uzbekistan in the transition to a modern market economy (Uroqov, 2020).

### 3. Research Methodology

The generalization of views on the tax potential on the basis of monographic observations is aimed at highlighting the importance of using the tax potential in the assessment of local budget revenues in Uzbekistan.

### 4. Analysis and Results

It should be noted that the above research does not express views on the use of tax potential in the formation of local budget revenues. Also, our national tax or budget legislation does not contain information on the concept or use of tax potential. The methodological issue of analysis is also important in tax forecasting. Therefore, we consider it appropriate to cite some approaches to these processes below. It is known that the degree of absolute change in the analysis process

$$\Delta y_t = y_t - y_{t-1} \quad (1)$$

It is necessary to determine by applying the formula

$$\Delta y = \frac{y_n - y_1}{n-1} \quad (2)$$

Its average absolute rate of change is determined by the formula. The first represents a quantitative indicator, while the second describes a qualitative indicator. While the rate of change in revenues and accrued taxes

$$T_t^p = \frac{y_t}{y_{t-1}} \cdot 100\% \quad (3)$$

Using the formula The rate of additional change in revenues and accrued taxes on tax and non-tax payments to the budget

$$T_t^{np} = \frac{y_t - y_{t-1}}{y_{t-1}} \cdot 100\% = T_t^p - 100\% \quad (4)$$

The average change rate of revenues and accrued taxes

$$\bar{T} = \sqrt[n-1]{T_2^p \cdot T_3^p \cdot \dots \cdot T_n^p} \cdot 100\% = \sqrt[n-1]{\frac{y_n}{y_1}} \cdot 100\% \quad (5)$$

Determined by the formula, where - expressing the rates of change in a particular time interval, each time series depends on the changes in the previous row.



In the analysis of tax revenues, it is necessary to evaluate the processes under study in different units of measurement. Of course, natural, monetary and conditional units of measurement play a key role in this. These measurements are absolute quantities that represent absolute (absolute) changes, so they cannot represent the rates of development of the event or process being studied. In turn, absolute quantities exist individually (consisting of a single row) and in general form. Total quantities, on the other hand, are the sum of individual quantities. It should be noted that the analysis of natural and monetary units is easier, but to convert different units of measurement (without value) into a single unit, it is necessary to use the methods of conversion to conditional coefficients or defined coefficients used in statistics.

Structural relative quantities describe the weight of the element level in the system of the object of study relative to the total. This indicator is determined as follows:

$$d_i = \frac{Y_i}{\sum_{i=1}^n Y_i} \text{ or } d_i = \frac{Y_i}{\sum_{i=1}^n Y_i} \cdot 100\% \quad (6).$$

where  $Y_i$  is the set unit level;  $n$  is the number of units in the set.

The comparison helps to compare the relative levels of different quantities or the level of its units in the analysis process, and it is defined as follows:

$$T_{HM} = \frac{Y_a}{Y_b} \text{ or } T_{HM} = \frac{Y_a}{Y_b} \cdot 100 \quad (7).$$

$Y_a$  - "A" unit level;  $Y_b$  - the unit level taken as the base from the set.

The comparison serves to determine the level of the indicator being compared in times or percentages relative to the smallest base for the relative quantities taken, as well as the periodic intervals. Relative quantities of coordination are also among the methods that serve to increase the transparency of the analysis. The relative quantities of coordination describe the level of one unit obtained in the content analysis relative to the level of another unit (assumed as a basis):

$$K_{HM} = \frac{Y_l}{Y_6} \quad (8).$$

$Y_l$  - the  $l$ -th unit level in the set,  $Y_6$  - unit level taken as a basis.

The methods of analysis presented are mainly of a more quantitative descriptive nature, and although they are convenient to use, they do not explain the qualitative indicators, i.e., they do not fully express the interdependence of changes in the time series of the analysis and their reflection. Therefore, analytical methods based on the approach of dynamic series of events and processes are also used in the analysis process. It uses chronological indicators (dates, years, months) and quantitative indicators (number of taxpayers, number of research objects, volume of revenues, etc.). These are especially widely used in the analysis of processes such as the absolute growth rate, growth rate in the analysis of the state budget and budget revenues of the regions.

The purpose of determining the dynamic range is to compare its levels, which is easier to do on the basis of absolute and chain bases. In this case, when analyzed using the absolute basis, all indicators are compared with the selected base indicator. Each indicator in the dynamic row is compared with the indicator in the previous row and its variability is determined. At the same time, with the introduction of the multi-year financial plan, the budget process will remain dependent on the medium-term macroeconomic situation. This forces us to define the priorities of the policy more clearly so as not to conflict with each other. In addition, multi-year financial plan indicators can be used to increase its transparency, validity, and efficiency in the budget process itself, as well as to ensure its sustainability and acceptability. The form of a decisive approach to the planning of the future budget is determined by its tasks arising from the medium-term fiscal policy. The main result of the current budget planning is the preparation of a draft budget for the next fiscal year. At the same time, the main direction of improving budget planning is to expand the range of budget projects beyond the annual limit, to cover the



following fiscal years and to reflect the main directions of budget policy for the medium term. This is reflected in the long-term financial plans and the gradual transition to medium-term (three-year) budgeting. The budget planning system is a set of organizations, methods and processes in the process of drafting the budget. Budget planning processes are directly related to virtually all areas of activity of financial institutions. Thus, for the budget planning process, the data of the structural units of the financial authorities are the necessary primary document (for example, registers of expenditure liabilities, assessment of the possibility of assuming liabilities). Conversely, the results of budget planning are the primary information on other areas of activity of financial institutions.

A number of functions related to budget planning can be implemented directly in network structural units, such as those directly involved in revenue and cost management. At the same time, of course, in the structural unit of the financial body in the process of budget planning will be created a separate department that directly develops the draft budget and the prospective financial plan. Each of the groups of budget revenues listed above can also be divided into subgroups according to sources of revenue, types of payments, and so on. For example, income from state farms includes payments from state enterprises and organizations, income from the sale of state property, income from services provided by state organizations. Funds from the population to the budget may include taxes and other voluntary payments. In turn, the revenues of the State budget attached to each subgroup consist of a separate type of revenue. For example, revenues transferred to the budget by state-owned enterprises include value added tax, excises, income (profit) tax and others.

Revenues from state property also include customs revenues, proceeds from the sale of ownerless and confiscated property, unclaimed cargo and postal items, property transferred to the state by inheritance. Revenues from services provided by state organizations and institutions include fees charged by state automobile inspections, fees for registration of

trademarks, fees for state inspection of measuring instruments, fees for services provided to the population by judicial and arbitration bodies and notaries, etc.

Expenditures of the state budget are one of the manifestations of the budget, which is a general financial category and has common features that belong to it, that is, they have a distributive nature, the monetary form of expression is specific, associated with the operation of monetary funds and organized by the state.

Local budgets are one of the most important links in the budget system in financing important functions of the state, in this regard, it is necessary and urgent to increase local budget revenues in the wider provision of the functions of the state to society. The source of income of local budgets depends primarily on the economic potential of the region, in particular, the gross regional product, the level of employment, the number of manufacturing enterprises and the volume of products (works, services) created in them. Because local budget revenues are formed directly at the expense of taxes and mandatory payments paid by these workers and producers, entrepreneurs.

In determining and justifying the direction of expansion of local budget revenues, it is necessary to study the sources of revenues from taxes and mandatory payments that affect changes in local budget revenues and analyze their changes in relation to changes in local budget revenues. Therefore, we consider it necessary to analyze the impact of changes in a number of economic indicators of the region on the volume of local budget revenues in Surkhandarya region. In doing so, we perform econometric analysis methods and modeling.





**Table – 1: Data on local budget revenues (MBD), the number of people employed in the economy (IB), investments in fixed assets (I), the number of enterprises (KS) of Surkhandarya region**

Years	Local budget revenues (MBD) (billion soums)	Number of people employed in the economy (IB) (thousand people)	Fixed capital investments (I) (million soums)	Number of enterprises (KS) (pieces)
2007	94,4	696,6	288,2	10436
2008	129,3	722,4	344,3	12302
2009	196,5	752,1	511,8	12945
2010	264,0	784,4	655,3	12367
2011	351,6	817,7	802,9	12105
2012	413,9	843,0	980,3	12559
2013	514,9	871,2	1371,0	11649
2014	571,7	901,5	1509,1	14036
2015	699,1	930,8	1843,6	12259
2016	835,5	961,5	2142,4	12207
2017	969,8	991,7	3551,0	13003
2018	1 052,1	984,0	7240,6	13719
2019	1 657,1	1024,2	11835,1	15172
2020	1 605,7	982,0	9923,0	19220

**Source:** Indicators of local budget revenues are taken from the relevant reports of the Ministry of Finance, the data of the remaining indicators are taken from the official website of the State Statistics Committee

For the analysis, we selected a number of economic indicators of the region, such as the number of people employed in the economy (IB), fixed capital investment (I), the number of enterprises (KS) for 2007-2020. According to the descriptive statistics, the minimum level of local budget revenues for 2007-2020 amounted to 94.4 billion soums, the maximum - 1657.1 billion soums, and the average - 668.26 billion soums, the minimum number of items - 696.6 thousand people. the maximum was 1,024.2 thousand people, and the average number of employees was 875.94 thousand. In 2007, the region received the lowest investment inflow (288.2 million soums), in 2019 - the largest investment (11835.1 million soums), the average investment volume is 3071.3 million soums. In 2007-2020, an average of 13,141 enterprises operated in the region. In 2020, the maximum number of enterprises was 19,220. In order to draw preliminary conclusions about the economic situation in the region and changes in indicators, we form a descriptive statistics of indicators in Table - 1.

According to our theory, an increase in employment in the economy leads to an increase in the number of income taxpayers, on the one hand, an increase in revenues from this tax, and on the other hand, an increase in consumption

due to an increase in income. An increase in the volume of investment will directly lead to the renewal and increase of fixed assets, resulting in an increase in production, which in turn can lead to an increase in revenues to the local budget. The number of enterprises, in turn, has a positive impact on job creation and competition, which in turn can lead to an increase in local budget revenues

To substantiate these hypotheses, we first determine the correlation between local budget revenues and the indicators of these factors. We perform a correlation analysis to determine how strong or weak the influence of other factors is on the change in an indicator. The correlation coefficient is an important indicator of the extent to which one factor influences the change of another factor, and it varies between -1 and 1. If the indicator is between 0 and 1, the factor sign indicates that the resultant character change is correct, while if the indicator is between -1 and 0, the factor sign indicates that the result character change is negative. The closer the correlation coefficient is to 1 or -1, the stronger the correlation. In order to continue the analysis, we need to choose a correlation coefficient greater than 0.7 or less than -0.7 when selecting factors, as in this case the factors represent a strong influence on the outcome sign.



**Table – 2: Descriptive Statistics of Economic Indicators of Surkhandarya region**

Indicators	MBD	IB	I	KC
Average	668,26	875,94	3071,3	13141
Median	543,3	886,35	1440	12463
Minimum	94,4	696,6	288,2	10436
Maximum	1657,1	1024,2	11835	19220
Standard deviation	505,92	108,58	3784,1	2078,8
Variation	0,75707	0,12395	1,2321	0,15819
Asymmetry	0,80764	-0,2627	1,4178	1,8383
Excess	-0,4165	-1,273	0,49873	3,4099

**Table – 3: Correlation coefficients between the indicators of local budget revenues (MBD), the number of people employed in the economy (IB), investments in fixed assets (I), the number of enterprises (KS) in Surkhandarya region**

MBD	IB	I	KC	Factors
1,0000	0,9027	0,9464	0,7850	<b>MBD</b>
	1,0000	0,7509	0,5735	<b>IB</b>
		1,0000	0,7885	<b>I</b>
			1,0000	<b>KC</b>

The correlation coefficient between local budget revenues (MBD) and the number of jobs in the economy (IB), investments in the region (I) and the number of enterprises in the region (KS) is 0.9027, 0.9464 and 0.785, respectively, and there is a multicollinearity between them. not. The relationship between the number of jobs in the economy and the volume of investments in the region is very strongly and correctly linked to changes in the volume of local budget revenues. In conclusion, regression analysis of these factors can be performed. At this stage of the analysis, we perform a modeling that represents the effect of selected factors on the size of local budget revenues (MBD).

**5. Conclusions**

- When applying the principles of financing by local budgets, they are of a dual nature, including some of them based on the sources of expansion of the revenue base of local budgets and the rational use of these funds.
- Expansion of the local budget revenue base is to increase revenues through the implementation of investment projects and solve existing problems in the regions.

- The use of single tools to increase the revenue base of local budgets through the financial rehabilitation of low-profit enterprises in the regions.
- In order to increase local budget revenues across the country at the national level, it is necessary to ensure the transparency of information on the level of tax collection, the introduction of performance appraisal of public authorities.
- In order to ensure the stability of revenues of local budgets, to provide funding for the tasks assigned to local budgets, it is necessary to introduce between the republican and local budgets the distribution of corporate income tax and personal income tax in certain shares.
- In order to increase local budget revenues, it is important to expand the tax base by increasing the number of industrial enterprises, the introduction of the concept of "tax potential of the regions" in the tax legislation.



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