



ENSURING THE HARMONY OF TAXATION AND LOCAL ADMINISTRATION IN INCREASING TAX CAPACITY

Sharipov Narzullo Gulomovich

Tashkent State University of Economics,
senior lecturer of

the "Economic Theory" department

E-mail: gavhar9369@gmail.com

ORCID: 0009-0008-3875-3821

Article history:	Abstract:
Received: 28 th May 2024 Accepted: 26 th June 2024	This article discusses the integration of taxation and local governance in tax capacity building. The research considered the theoretical foundations of the concept of harmony between taxation and local government bodies, determined the role of taxes in the formation of budgets of local government bodies, as well as the advanced international practice of harmonizing these two important elements of the social system. experiments were studied. The methodological part of the work includes the analysis of existing methods and models of coordination between tax and local authorities, as well as the identification of problems and obstacles in their mutual relations. Specific measures to optimize cooperation between tax authorities and local government authorities aimed at increasing the efficiency and transparency of this process were proposed.

Keywords: Tax, tax system, tax capacity, increasing tax capacity, taxation, local government, tax policy, management systems, local government, local budget.

INTRODUCTION

It is very important to ensure the harmony of taxation and local administration in increasing the tax potential of regions. The relevance and necessity of studying the problem of ensuring the harmony of taxation and local self-government in the conditions of modern society is limited by many factors affecting the economy, social relations and the structure of governance. These aspects ensure the relevance of this study and highlight its importance in terms of contemporary challenges and demands for the development of society. Modern changes in the global economy, such as globalization, technological innovation, and changes in the production structure, create new challenges for the tax system and local administration. Combining these two elements is becoming an important factor in ensuring financial stability and sustainable economic growth.

In the context of globalization, where companies operate in different markets, effective tax strategies and coordinated mechanisms of local governance are becoming the main factors of attractiveness of regions for investment and business development. Uncoordinated tax policies and decentralized local governance systems can lead to negative consequences such as capital flight and imbalances in social infrastructure. The role of taxes in the formation of local self-government budgets emphasizes the need to

optimize the relationship between tax authorities and local government bodies. Local budgets are the main financial source for solving social and economic problems at the level of regions and municipalities.

An effective balance between tax policy and local governance strategies allows for the creation of sustainable and attractive communities. This includes not only financial support, but also the development of infrastructure, educational programs, health and social protection systems. An analysis of international best practices for harmonizing taxation and local self-government systems allows identifying successful strategies and methods that can be adapted to specific conditions in countries such as Uzbekistan. Transferring successful mechanisms used in different countries can serve as a basis for developing their own strategies and strategic plans in line with national development needs and goals. Today's innovative technologies and lifestyle changes increase the complexity of maintaining harmony between taxation and local governance. Effective management of these changes requires constant analysis and adaptation of strategies at the level of national and regional governance structures.

LITERATURE REVIEW

The extent to which local authorities control these aspects has a significant impact on local authorities' tax revenues. It also regulates the extent to



which a tax is defined as "domestic". For example, local authorities in the UK raise a relatively small proportion of their income from taxes, which are fully under local control.

UK local authorities raise the bulk of their local tax revenue from property tax. It is also a feature of other "Anglophone" local government systems such as Australia, New Zealand and the Republic of Ireland. In contrast, other developed countries generate revenue from a wider variety of taxes. Some may charge local taxes entirely, while others may charge additional rates of national taxes such as fixed income or income or corporation tax. Sean and Kim's study of revenue sources and municipal debt confirms that "diversification of revenue sources helps improve governments' fiscal sustainability." Income diversification reduces income volatility and collects more sources of income through a diversified income portfolio. Provides stable income with less volatility of income but more income; Thus, it improves revenue adequacy and growth, which promotes fiscal sustainability.¹

According to V.R. Zakharin, the current tax system includes various taxes and fees, which may differ in each country. Taxes can be classified according to different criteria, and such types of taxes and fees may differ from country to country. For example, in most countries, all applicable taxes are divided into three types, depending on the level of organization:

- Federal;
- Regional;
- Local.²

In increasing the independence of local budgets, their revenue powers and spending obligations occupy the main place. The distribution of revenue powers and expenditure obligations between the budget system links exists in each country and depends on the financial system and fiscal policy. The relationship between the budget system links is formed on the basis of different principles, depending on the form of the state structure. In most countries, there are problems in defining revenue powers and expenditure obligations between central and local budgets, as well as between sub-budgets.³

RESEARCH METHODOLOGY

We analyze the qualitative data collected during the research using quantitative and non-quantitative

methods. We try to analyze our collected quantitative data related to the analysis of tax risks using descriptive and inferential statistics methods. In particular, we enrich our research with the help of data graphs and visualization methods.

Research methods of analysis include various approaches and tools used to study and analyze the combination of taxation and local governance in tax capacity building. Below are some of the main methods:

1. Statistical analysis. This method involves the use of statistical methods to process and interpret data on tax payments, income and expenses. Statistical analysis helps identify trends, patterns, and anomalies in tax reporting.

2. Financial analysis. Assessing the company's financial performance helps to determine its tax risks. This method includes analysis of financial statements, liquidity ratios, profitability, solvency and other financial characteristics.

3. Econometric analysis. This method is used to estimate the relationship between various economic variables and tax indicators. By constructing econometric models, it is possible to determine the factors affecting tax payments and risks.

4. Qualitative research. In addition to quantitative methods, qualitative research may include analysis of legislation, tax practices, market environment, and other factors that may affect tax risk.

5. SWOT analysis. This method allows us to assess the strengths and weaknesses of the company's tax strategy, as well as identify opportunities and threats related to changes in tax legislation or business environment.

6. Case Studies and Benchmarking. Analyzing case studies and comparing them with similar organizations or industries reveals: assessment of tax risks and effectiveness of tax strategies.

Effective use of these methods allows enterprises and organizations to more fully and accurately assess tax risks and develop strategies for their management.

ANALYSIS AND RESULTS

Taxes are considered the basis of the country's economy, and their correct organization is a factor that directly affects the state's development. In order to simplify the practice of tax collection, it will be managed with the help of various structures. For example, local government bodies are an integral part of the

¹ Shon, J. (2017). "State-Local Sales Tax, Spillover and Economic Activity: Examining County Governments in The U.S." *Local Government Studies*, 43(3), 429-450.

² Захарьин, В. Р. *Налоги и налогообложение : учебное пособие / В.Р. Захарьин. — 3-е изд., перераб. и доп. — Москва, 2023. — 336 с.*

³ Sirojiddinova Z.X., *Byudjetlararo munosabatlar. O'quv qo'llanma. Toshkent – 2010. infoCOM.UZ*



centralized system of tax policy. Local authorities will have the right to provide special benefits or make partial changes to different territorial tax collections, without losing the state tax policy. These rights are granted on the basis of tax legislation based on the capabilities of the local structure. Different countries may assign different responsibilities for tax policy to local governments. In general, local taxes occupy the main

place in the formation of the budget of local government bodies.

In our country, the role of local government bodies in conducting tax policy is incomparable. Based on world experience, local taxes have been introduced in the organization of local budgets in the territory of our country, and we can see their composition in Figure 1:

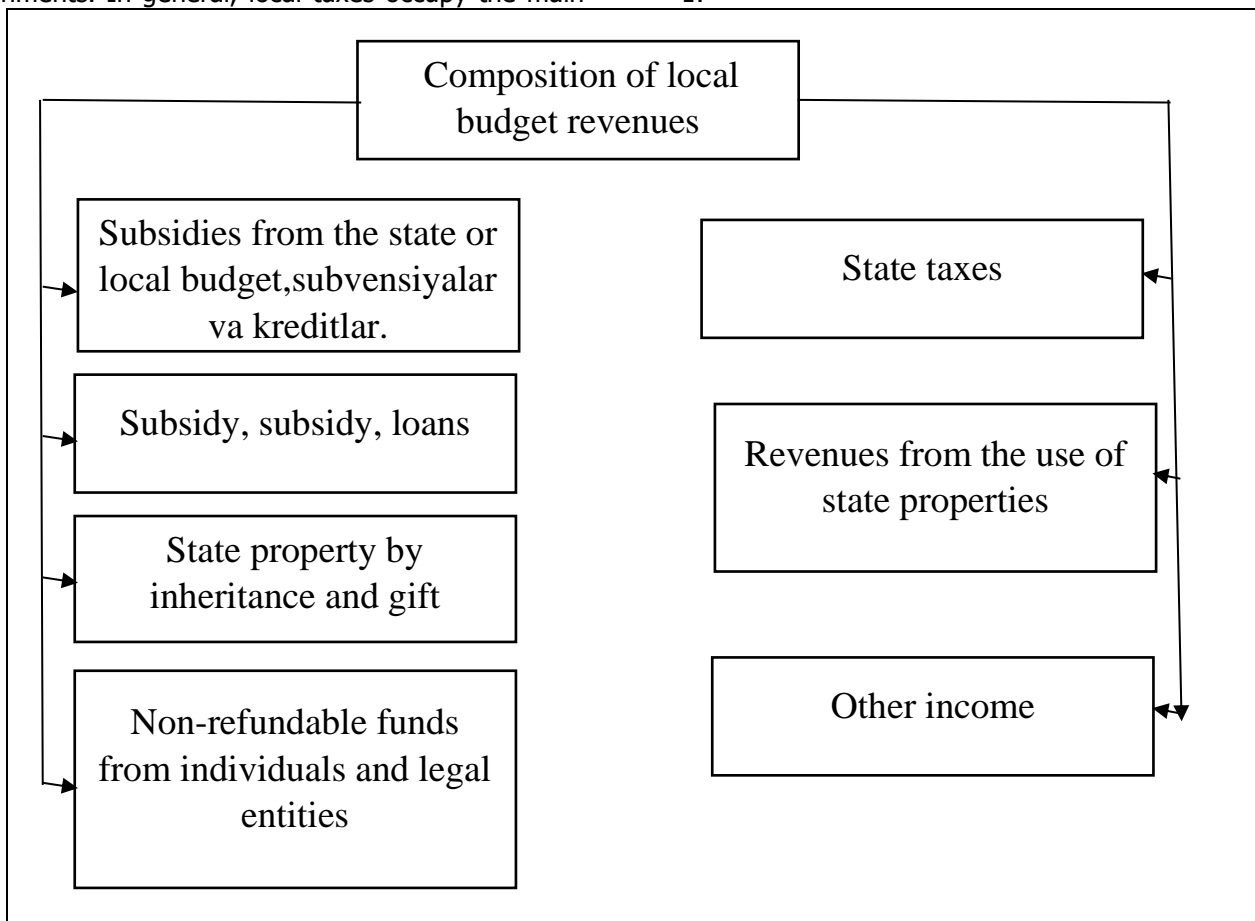


Figure 1. Structural structure of local budgets in our country⁴

As can be seen from the presented picture, local taxes are of great importance in the tax system of our country. We can see that these taxes can be a solution not only to regional material needs, but also to state-

level material problems. As an example, we can see by analyzing the table of tax revenues of Uchquduq district, which was selected as the object of study of our dissertation (Table 1).

Table 1

Territorial quota implementation in the section of types of taxes, implementation of the state tax inspection quota, on the example of Uchquduq district of Navoiy region (01.01.2022, in million soums)⁵

T/r	Tax types	Yearly		
		forecast	fact	%

⁴ Compiled by the author based on the information on the official website of the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan <https://soliq.uz/>

⁵ Formed on the basis of the information of the Uchquduk District Tax Department under the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan



				the difference	
I.	Total by district	28,109.3	31,511.7	3,402.3	112.1
	including:				
1.1.	Local taxes	3,276.9	3,661.2	384.3	111.7
	Fixed income tax	18.1	26.3	8.2	145.3
	Land tax of natural persons	193.3	404.4	211.1	209.2
	Property tax of natural persons	710.6	1,108.1	397.5	155.9
	Turnover tax	2,354.8	2,122.3	-232.6	90.1
1.2.	Income from major tax types	21,716.5	23,316.2	1,599.7	107.4
	Value Added Tax	0.0	6.1	6.1	0.0
	Excise tax	0.0	0.0	0.0	0.0
	Personal income tax	19,185.0	19,631.5	446.5	102.3
	Profit tax from legal entities	0.0	0.0	0.0	0.0
	Subsoil use tax	0.0	0.0	0.0	0.0
	Property tax of legal entities	1,134.1	1,240.6	106.5	109.4
	Land tax of legal entities	1,396.3	2,434.3	1,038.0	174.3
	Tax for use of water resources	1.1	3.8	2.7	346.0
1.3.	Tax-free earnings	3,116.0	4,534.3	1,418.3	145.5
	State duty, total	1,271.3	1,606.8	335.6	126.4
	Fines, total	789.2	1,262.3	473.1	159.9
	Fees, total	1,055.5	1,452.0	396.5	137.6
	Revenues from contracts for the sale of products	0.0	0.0	0.0	0.0
	Allocations to the state budget from the net profit of state unitary enterprises	0.0	3.9	3.9	0.0
	Other income	0.0	209.3	209.3	0.0

The above table contains information provided by the Uchquduq District Tax Department, and this information represents the final situation of 2021. From the table, we can see that the amount of taxes collected by the district tax office has been collected at the beginning of the year, compared to the forecasted amount in the books. According to the table, the amount of annual tax revenues is 3,402.3 mln. was more than soum. The table above shows the three main types of taxes, which are divided into local taxes, major tax revenue and tax-free revenue. Among these types of taxes, the taxes that bring the largest income to the district budget are the incomes of major types of taxes.

The projected value of these types of taxes at the beginning of the year is 21,716.5 million. It was 23,316.2 million soums. Soum formed. In general, by analyzing the table, we can see that the tax revenues coming to local budgets are also important enough in the state budget.

This shows the need for coordination between local government and tax policy. Independent functioning of local budgets is characterized by the availability of local income sources of local government bodies. Local budgets should be provided with sufficient funds to perform various tasks in their regions. The fact that land and property tax is included in the category of



local taxes in our country leads to an increase in the weight of local taxes in the total volume of tax revenues coming to the state budget.

Generally speaking, today the composition of taxes in our country can be divided into two large groups: local taxes and state taxes (Table 2):

Table 2
Structure of the tax system in the Republic of Uzbekistan⁶

№	State taxes	Local taxes and fees
1	Tax in favor of legal entities	Property tax
2	Personal income tax	Land tax
3	Value added tax	Social infrastructure development tax
4	Excise tax	Tax on the use of gasoline, diesel fuel and gas for vehicles
5	Tax on the use of underground resources	Fee for trading rights
6	Tax for use of water resources	License fee for the sale of certain types of goods
7	Customs tax	Fee for transfer of legal and natural persons engaged in business
8	Securities registration fee	Other fees
9	State duty	
10	Other income	

From the above picture, it is not difficult to see that local taxes play an important role in the tax policy of our country. These taxes are managed and regulated by local government bodies. Partial changes and additions to local taxes, taking into account the preferences of the Central Tax Administration, is one of the tasks of local state authorities. It can be seen that in the tax policy of our country, the process of mutual harmony between tax authorities and local state authorities occupies an important place.

Based on the information given above, we can see that taxes play an incomparable role in the

development of the country's budget. Among the above-mentioned forms of budget revenues, some taxes and fees are controlled by local government systems, and such taxes are called local taxes. Tax revenues collected on the basis of local taxes are charged to local budget revenue. This is done on the basis of the state tax policy. The practice of local budgets is used to simplify and efficiently use the collection of the state budget. Today, in our country, the structural structure of local budgets has been developed and regulated on the basis of the budget code (Fig. 2).

⁶ Maxammadiev Azizjon Maxmadvalievich “Davlat budjeti daromadlari shakllanishida soliqlarning roli va ularni takomillashtirish”, bitiruv malakaviy ishi.

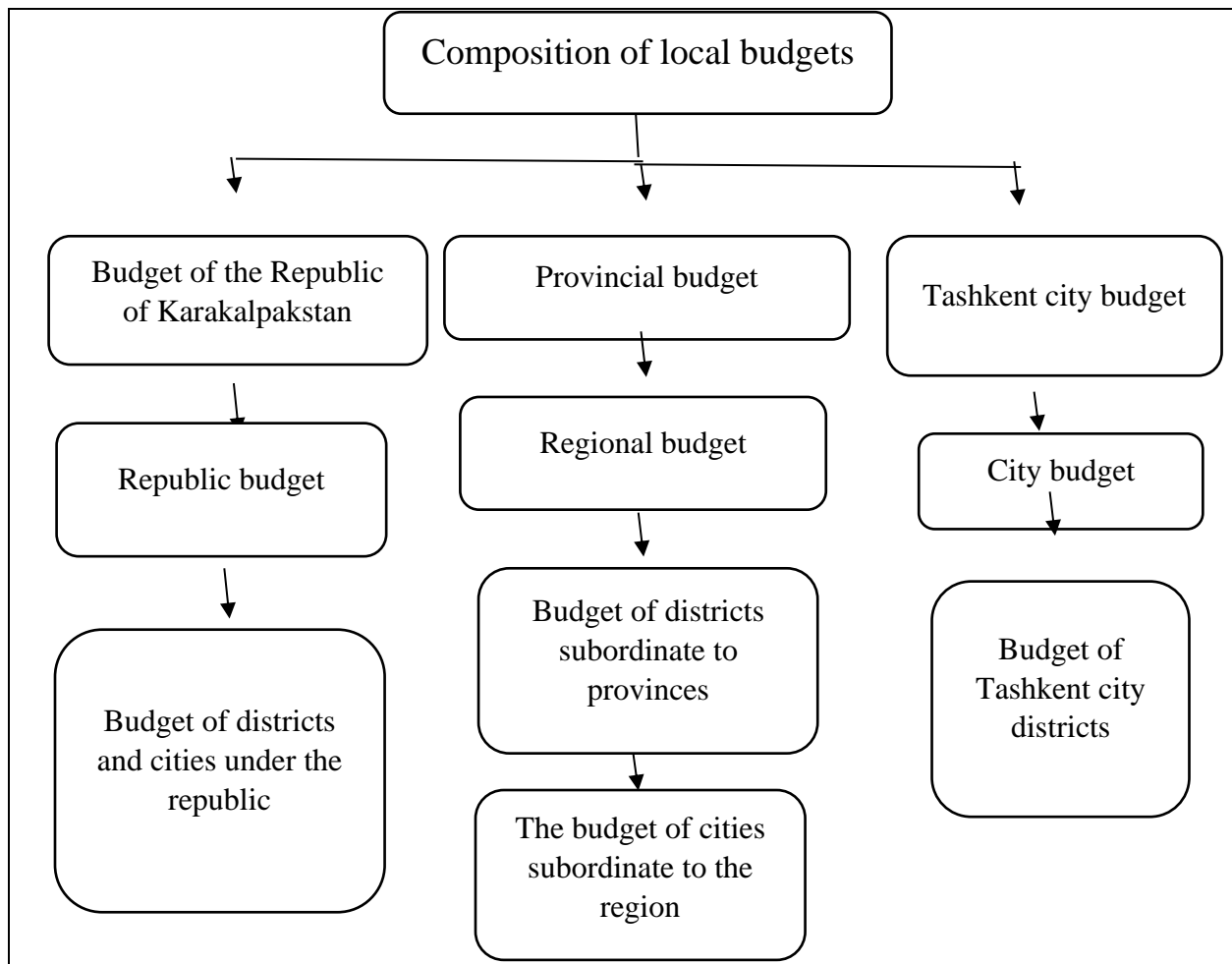


Figure 2. Structural structure of local budgets⁷

In Uzbekistan, local taxes and receipts to local budgets are formed at the expense of funds allocated by the state during the approval of the state budget for the next financial year. Local budgets play a key role in the overall budget structure of Uzbekistan and provide financing for the activities of local state authorities.

CONCLUSION

In conclusion, we can say that the need for an integrated approach in solving the problem of harmonization of taxation and local self-government bodies is very important. The implementation of strategies and measures aimed at ensuring the harmony of taxation and local administration allows to increase the financial stability of regions and the quality of public services.

As a result of the analysis, proposals and conclusions presented in our research work, the main proposals and recommendations aimed at ensuring the harmony of taxation and local administration in

increasing the tax potential in our country are as follows:

1. Optimization of tax strategy. We advise you to review and improve your tax strategy, taking into account the modern challenges and requirements of the business environment. This includes revising tax rates, simplifying tax payment procedures, and giving incentives to investors and entrepreneurs.

2. Increased consistency. It is important to strengthen coordination between tax authorities and local administrations. This can be achieved by developing cooperation, information sharing and improved communication mechanisms to ensure consistency of decisions and steps taken.

3. Professional education. Tax and local government officials should undergo professional training and development to ensure they are competent in modern taxation and local government practices.

⁷ O‘zbekiston Respublikasi Prezidenti Shavkat Mirziyoevning Oliy Majlisga Murojaatnomasi. – T.: “O‘zbekiston” NMIU, 2021 y.



4. Development of innovative activities. In order to increase the efficiency and transparency of the processes, it is recommended to actively research and introduce innovative methods and technologies to the tax system and local government authorities.

5. Attention to social aspects. It is recommended to pay special attention to social aspects, such as the impact of changes in the tax field on the social structure of tax authorities and local government bodies and on the well-being of citizens.

6. Cooperation with international experience. To achieve better results, it is recommended to actively cooperate with international experts and organizations, studying the experience of successful reforms in the field of taxation and local government in other countries.

These conclusions and recommendations are the basis for ensuring the harmony of taxation and local administration in increasing the tax potential of our country, and help to support economic development and strengthen social stability. Further development of this topic implies a more in-depth study of the specific mechanisms of cooperation between tax authorities and local government authorities, as well as monitoring the implementation of the proposed measures.

REFERENCES:

1. Tax Code of the Republic of Uzbekistan. - T.: "Adolat", 2020
2. Decree of the President of the Republic of Uzbekistan No. PF-5468 of June 29, 2018 "On the concept of improving the tax policy of the Republic of Uzbekistan";
3. Decree of the President of the Republic of Uzbekistan No. PF-6079 of October 6, 2020 on the approval of the "Digital Uzbekistan-2030" strategy and measures to improve its implementation
4. PQ- Decision No. 73
5. Decision No. 359 of the Cabinet of Ministers of the Republic of Uzbekistan "On additional measures for the widespread introduction of modern information and communication technologies in the tax administration"
6. Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis. - T.: "Uzbekistan" NMIU, 2021.
7. Sharipov N.G. Ways to reduce tax liabilities of taxpayers // Web of Scientists and Scholars: Journal of Multidisciplinary Research, Vol. 2 No. 6 (2024). 11-17 p. URL: <https://webofjournals.com/index.php/12/article/view/1501>
8. Sharipov N.G'. Davlat byudjeti daromadlari barqarorligini ta'minlashda soliqlar ahamiyati // "Moliyaviy texnologiyalar" ilmiy elektron jurnali, 2024-yil 2-son. 213-220 b. URL: <http://fintech.tfi.uz/?p=836>
9. Sharipov N.G'. Hududlar soliq salohiyatini oshirishda soliq risklarini boshqarishning zamonaviy tendensiyalari // "Yashil" iqtisodiyot va taraqqiyot" jurnali, 2024-yil 8-son. 138-143 b. URL: <https://yashil-iqtisodiyot-taraqqiyot.uz/journal/index.php/GED/article/view/2570>
10. Sharipov N.G'. Xalqaro iqtisodiyotda tashqi savdning mamlakat iqtisodiyotigi o'rnini va uni rivojlantirishning zamonaviy usullari // TADQIQOTLAR jahon ilmiy-metodik jurnali, Vol. 39 No. 8 (2024). 224-233 b. URL: <http://tadqiqotlar.uz/index.php/new/article/view/3798>
11. Maxammadiev Azizjon Maxmadvalievich "Davlat budjeti daromadlari shakllanishida soliqlarning roli va ularni takomillashtirish", bitiruv malakaviy ishi.
12. Shon, J. (2017). "State-Local Sales Tax, Spillover and Economic Activity: Examining County Governments in The U.S." *Local Government Studies*, 43(3), 429-450.
13. Захарьин, В. Р. *Налоги и налогообложение : учебное пособие / В.Р. Захарьин. – 3-е изд., перераб. и доп. — Москва, 2023. – 336 с.*
14. Sirojiddinova Z.X., *Byudjetlararo munosabatlar. O'quv qo'llanma. Toshkent – 2010. infoCOM.UZ*
15. Vahobov A., Jo'raev A. *Soliqlar va soliqqa tortish. Darslik. –T: "Sharq", 2009. -448 b.*
16. Миляков Н.В. *Налоги и налогообложение. Учебник. –М.: «ИНФРА-М», 2008. -520 с.*
17. <http://www.lex.uz> – website of the base of laws of the Republic of Uzbekistan
18. <https://www.imv.uz> – website of the Ministry of Economy and Finance
19. <http://www.soliq.uz> – the website of the State Tax Committee of the Republic of Uzbekistan
20. <http://www.stat.uz> – the website of the State Statistics Committee of the Republic of Uzbekistan