

THE LOCAL FEES AND TAXES IN FORMING REGIONAL BUDGETS: FINANCIAL

Ergasheva Aziza - Samarkand Institute of
economics and service, Assistant at the
Department of Investments and Innovations

alijon.turayev@mail.ru

Mamasharipov Humoyun – Samarkand Institute of
economics and service, Faculty of Economics
3rd year student

mamasharipovhumoyun6@gmail.com

Abstract: The article is aimed at strengthening the revenue base of local budgets in the context of the reform of the state financial system in the Republic of Uzbekistan, in particular, at analyzing the role of local taxes and fees. The article studies the theoretical foundations of fiscal decentralization processes, including the concepts of fiscal federalism of economists such as R. Musgrave and W. Oates, in comparison with the modern practice of Uzbekistan. The level of regional financial independence is assessed based on real statistical data for 2023-2025, the laws on the State Budget and legal experiments carried out on the "Neighborhood Budget" system. As a result of the study, the role of property, land and income taxes in the stability of the local budget is scientifically substantiated. Also, practical proposals have been developed to reduce interregional financial imbalances, optimize the share of transfers, and increase the incentive of local authorities to expand the tax base. This article is intended for economists, finance professionals, and students of higher education institutions.

Keywords: Local budget, fiscal decentralization, financial independence, land tax, property tax, personal income tax, neighborhood budget, inter-budgetary transfers, vertical imbalance, social spending, tax administration, territorial development, Pareto efficiency.

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In the modern system of state administration, the transfer of power from the center to the lower levels, that is, the process of decentralization, has not only political, but also deep economic foundations. The reforms implemented in the Republic of Uzbekistan in recent years have established the principle of "for human dignity" as a priority, which directly requires solving the problems of the population on the spot, that is, at the mahalla and district levels. In order to eliminate territorial socio-economic

problems, local government bodies must have sufficient financial resources and the authority to independently manage them.¹

The Law of the Republic of Uzbekistan "On the State Budget for 2024" and the budget parameters for 2025 show that expanding the revenue base of local budgets is considered a strategic task in the country. Local taxes - land tax, property tax and other fees - are not only a source of budget revenues, but also an important economic instrument for developing regional infrastructure and improving the business environment. In particular, the introduction of the "Neighborhood Budget" system as a legal experiment starting in 2023 has ushered in a new era in the allocation of financial resources to the lowest level.²

The relevance of the study is that today many regions are still highly dependent on transfers from the republican budget. This reduces the motivation of local authorities to expand the tax base in their territories and find new sources of income. Therefore, analyzing the real role of local taxes and fees in the formation of regional budgets, identifying existing problems and scientifically substantiating ways to achieve financial independence is an urgent task today. This article will cover these issues in detail based on theoretical approaches and real statistical data for the last three years.

Analysis of literature on the topic

Theories of fiscal decentralization and budget federalism have gained wide popularity in world economic thought. Research in this area can be conditionally divided into "first generation" and "second generation" theories of fiscal federalism. The founders of the first generation theory are Richard Musgrave and Wallace Oates. Musgrave (1959) in his theory of social finance divides the economic functions of the state into three main blocks: macroeconomic stabilization, income redistribution, and resource allocation (allocation). He believes that the stabilization and redistribution functions should be at the central government level, since attempts at the local level will be ineffective. However, the function of distributing public goods and services in accordance with the needs of the population (allocation) is most economically efficient for local governments to perform.³

Wallace Oates (1972) in his famous "Decentralization Theorem" argues that local governments understand the preferences and needs of their populations better than the central government. Therefore, if the costs of producing a public good are the same in

¹Agency for Technical Regulation of Uzbekistan. (2025). Implementation of the Resolution on measures to ensure the implementation of the Law of the Republic of Uzbekistan on the State Budget for 2024.

²President of the Republic of Uzbekistan. (December 26, 2022). On additional measures to further expand the financial capabilities of makhallas through the introduction of the makhalla budget system (Resolution No. PQ-458).

³Wallace E. Oates. (2005). Toward a second-generation theory of fiscal federalism. *International Tax and Public Finance*, 12(4), 349–373.

all regions, its distribution at the local level is Pareto-optimal than a uniform centralized distribution. Oates's approach is complemented by the principle of "fiscal equivalence", according to which users of public services should recover their costs through local taxes.

Tiebout's (1956) model proposes the concept of "voting with one's feet," which suggests that residents will move to areas that offer favorable tax rates and public service packages, creating competition among local governments, which in turn forces them to manage local budgets more efficiently.

The second generation of fiscal federalism theory (Weingast, Qian, etc.) focuses more on political economy and institutional aspects. Representatives of this theory analyze the behavior of local officials and their incentives to increase revenues. If local budget deficits are constantly covered by high-level budget expenses (soft budget constraints), local governments will not have an incentive to work efficiently.

Uzbek scientists A. Vakhobov, A. Juraev and others have studied the issues of improving the activities of local financial bodies, strengthening the revenue base of regional budgets and ensuring interregional financial balance. Their studies emphasize the need to increase the incentive role of local taxes, in particular, to assess land and property taxes based on market principles. In recent years, the socio-economic effectiveness of the "Makhalla Budget" system and its impact on the financial independence of local self-government bodies have become one of the main topics in scientific debates.

Research methodology

This study uses dialectical and logical methods of studying economic phenomena, a systematic approach, comparative analysis, statistical grouping, and induction and deduction methods. The information base of the study is the legislation of the Republic of Uzbekistan on the budget for 2023-2025, reports of the Ministry of Economy and Finance, data of the Tax Committee, and recommendations of international financial institutions (IMF, World Bank).

The following sequence was followed when analyzing the data:

1. The composition and dynamics of local budget revenues in 2023-2024 were studied in the section of assigned and regulatory revenues.
2. The growth rates of local taxes (property, land, water resources taxes) and their share in total revenues were calculated.
3. As part of the "Neighborhood Budget" experiment, the distribution of revenues in 14 districts and their targeted use were analyzed.
4. Trends in the coming years were assessed based on the budget parameters and forecasts set for 2025.

The reliability of the results is ensured by their reliance on real statistical indicators and regulatory legal documents.

Main part problem analysis and results

Uzbekistan's modern budget system has a two-tier (republican and local) structure, with local budgets, in turn, including regional, district, and city budgets. The main obstacle to achieving financial independence is the excess of local budget expenditures over revenues and the resulting vertical imbalance.

Analysis of local budget revenues (2023-2024)

The 2024 budget policy focused on giving more authority to local authorities and diversifying their revenue base. The table below provides comparative indicators of the main sources of local budget revenues in 2023-2024:

Types of income	2023 (billions of soums)	2024 (billion soums)	Growth (%)	Share in 2024 (%)
I. Consolidated revenues (total)	25,569.9	31,451.4	23.0%	41.99%
Property tax from individuals	1,273.8	2,368.4	85.9%	3.16%
Property tax from legal entities	3,058.1	4 346.4	42.1%	5.80%
Land tax (total)	5,806.2	7 171.1	23.5%	9.57%
Water resources tax	799.7	1,261.1	57.7%	1.68%
II. Regulatory revenues	23,589.1	26,608.7	12.8%	35.53%
Personal Income Tax (Income Tax)	17,888.2	22,056.5	23.3%	29.45%
Profit tax (local share)	5,700.9	4,552.3	-20.2%	6.08%
III. Fees and other revenues	1,317.2	1,770.4	34.4%	2.36%

Source: Compiled by the author based on information from the Ministry of Economy and Finance of the Republic of Uzbekistan and the Tax Committee.

Analysis of results and scientific interpretation

The analysis shows that the total volume of local budget revenues increased significantly in 2024. The 23% increase in consolidated revenues indicates an increase in funds under the direct management of local authorities. The largest growth rate was observed **in property taxes collected from individuals (85.9%)**. There are several reasons for this sharp increase. Firstly, as a result of the registration and digitization of

cadastral data in the republic, many real estate objects that were previously excluded from taxation were included in the tax base. Secondly, the taxable value of property is being indexed and brought closer to market value. This is consistent with Oates' principle of "fiscal equivalence", that is, as the cost of territorial infrastructure (roads, lighting, security) increases, it is considered fair that owners who use it pay more taxes. **Land tax** revenues increased by 23.5% to 7.1 trillion soums. Land tax is considered the "best local tax" in classical economics, since land is an immovable resource and its base cannot be hidden or moved to another area. The revision of the base rates for non-agricultural land in 2024 provided stable revenues for local budgets.

water tax revenues have both fiscal and environmental implications. It is not only a way to supplement the budget, but also a mechanism to encourage the efficient use of resources in the face of water scarcity.

However, the decrease in **corporate income tax** revenues by 20.2% is noteworthy. This can be explained by the transition of large enterprises to centralized tax payments to the republican budget or by a decrease in economic activity in some regions. This indicates that the stability of local budgets depends more on the administrative division than on the level of regional business development.

The "Neighborhood Budget" system and its results

One of the most progressive directions of Uzbekistan's budget reforms is the decentralization of financial resources to the community level. By Resolution No. PQ-458, a legal experiment was conducted in 14 districts starting in June 2023.

Experimental mechanism: In selected districts, 10 percent of property and land taxes collected from individuals in communities will be deposited directly into the community's own fund. The right to spend these funds is given to the council of citizens' assemblies, which, with the participation of the district's assistant mayor, will solve the most pressing problems of the community (internal roads, garden repair, landscaping).

Areas where the experiment was conducted (sample)	Main results of the system
Uchtepa district, Tashkent city	The population's confidence in paying taxes has increased, and revenue forecasts have been met with flying colors.
Samarkand v. Urgut district	More than 100 small projects to improve local infrastructure were funded.
Fergana v. Baghdad district	The participation of neighborhood activists in reducing tax arrears has increased by 30%.

This system acts as an economic "stimulus." If neighborhood residents see that 10 percent of their taxes are being spent on paving their streets, tax evasion will decrease. This is the local version of the Tiebout model: residents demand and exercise control over quality services in return for their taxes.

Key indicators for 2025:

- Local budget revenues are projected to total **101.4 trillion soums**, an increase of 21% compared to 2024.
- **the State Budget** in local budgets will remain stable (23.1 trillion soums).
- A certain degree of independence (through the application of coefficients) remains with local government authorities in setting tax rates.

At the same time, the issue of inter-budgetary transfers remains relevant. In 2025, regulatory transfers totaling **31.2 trillion soums** will be allocated to regional budgets. These funds will be mainly directed to covering social sector expenses (teachers' and doctors' salaries).

Main transfer recipient regions:

1. Kashkadarya region – 3.6 trillion soums.
2. Namangan region – 3.5 trillion soums.
3. Surkhandarya region – 3.4 trillion soums.

Interestingly, Tashkent city, Tashkent region, and Navoi region are considered "donor" regions that channel funds to the republican budget. This situation indicates the high level of regional economic inequality in Uzbekistan and the need to focus on developing the revenue base of non-donor regions in the next stage of fiscal decentralization.

Analysis of scientific debates and problems

There are a number of theoretical and practical problems in the process of fiscal decentralization. First, the issue of **macroeconomic stability**. Some researchers believe that decentralization can lead to uncontrollable deficits at the local level and, as a result, inflation. However, the experience of Uzbekistan shows that the establishment of strict debt limits for local budgets reduces this risk.

Second, **administrative capacity**. Local governments are experiencing a shortage of staff to analyze budgets and plan effectively. As Musgrave points out, decentralization leads to a waste of resources if the quality of local governance is poor. Third, **the risk of corruption**. When funds are diverted from the center to the periphery, they become difficult to control. That is why Uzbekistan has introduced the "Open Budget" portal, which allows citizens to track budget expenditures online and vote.

Conclusion and suggestions

The results of the study show that the role of local levies and taxes in the formation of regional budgets in Uzbekistan is significantly strengthening. The trends for 2023-2025 reflect bold steps towards financial independence, but the following proposals should be implemented to further improve the system:

1. **Aligning the tax base with market value:** It is necessary to accelerate the process of transitioning from cadastral value to market value in calculating property and land taxes. This will not only increase budget revenues, but also ensure the efficient use of land resources.
2. **Expanding the "Neighborhood Budget" system:** Given the positive results of the 14 districts where the experiment was conducted, it is proposed to implement this system in all neighborhoods of the republic and gradually increase the allocation amount from 10 percent to 20 percent.
3. **Granting additional tax powers to local authorities:** It is advisable to give Local Councils the right to set the rates of certain fees and taxes (e.g., tourism fees, environmental fees) within a wider range, based on territorial characteristics.
4. **Transforming the transfer system into an incentive-based system:** When allocating transfers to regions, it should be taken into account how much they have increased their revenues compared to the forecast. If a region increases its revenues, its transfers should not be reduced, but rather additional bonuses should be provided.
5. **Digital monitoring and increased transparency:** It is necessary to further improve the real-time monitoring system (Dashboard) of local budget revenues at the district level, allowing each citizen to see where the taxes paid by their neighborhood are spent.
6. **Introduction of PIMA (Investment Management Assessment) criteria:** When selecting local investment projects, it is necessary to establish a system for assessing their economic efficiency and social benefits based on international standards.

In short, local taxes and fees are not just numbers, but the foundation of regional development. Having achieved financial independence, local authorities will become the most reliable partners of the central government in improving the well-being of the population in their territories, creating new jobs and modernizing infrastructure. 2025 and beyond will be a period for Uzbekistan to complete the process of fiscal decentralization and build a sustainable regional economy

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