

## THE IMPORTANCE OF TAX POTENTIAL IN THE FORMATION OF LOCAL BUDGET REVENUES

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### Abstract

The tax potential plays an important role in the formation of local budget revenues, as it is one of the main means of ensuring the financial independence of territories and increasing economic stability. Tax potential refers to the possibilities of attracting the economic resources available in the territory to the local budget by taxation. The article covers the mechanisms of full determination of tax potential in the formation of local budget revenues, expansion of the taxable base, identification of hidden economic activities and their involvement in taxation. Also, the emphasis is on the importance of local budgets to increase the number of objects subject to taxation by developing business entities in the regions, increasing production capacity, expanding service areas in order to strengthen the sources of income. At the same time, the article analyzes the possibilities of improving the activities of local tax authorities, increasing tax revenues through the use of modern information technologies. The effective use of tax potential helps to ensure stable financial resources of the local budget, provides the basis for the development of social infrastructure in the regions, expansion of the provision of quality services to the population.

**Keywords:** Local budget, tax potential, tax revenues, budget stability, tax base, economic potential, tax administration, hidden economy, tax policy, fiscal policy, tax benefits, tax burden.

### Introduction

Local budgets, as an integral part of the state financial system, serve as an important tool in ensuring the stability of the country's economy, territorial socio-economic development and the well-being of the population. The potential for the

full use of the financial independence and economic potential of each region directly depends on the sufficiency of local budget revenues. Therefore, the issue of determining the existing tax potential and its rational use in the formation of local budget revenues remains one of the pressing issues in the current conditions. This process is important as a key factor in ensuring the macroeconomic stability of the state, the implementation of social protection programs and the development of production potential in the regions.

The stable and sufficient formation of local budgets ensures the effective implementation of the tasks set by state bodies at the territorial level. And the use of tax potential, along with increasing local income, serves to develop the entrepreneurial activity of the population, create new jobs and expand the taxable base. In particular, it is considered very important to stabilize budget revenues in order to increase the standard of living of the population and ensure territorial well-being. Therefore, the study of the possibility of increasing the source of local income through the rational use of tax potential is of great scientific and practical importance.

Tax potential is understood as indicators that fully reveal the existing economic resources, production and service opportunities in the territory, the size of the hidden economy, the tax base and its capabilities. This concept serves as an important basis for the full mobilization of internal capabilities in the formation of local tax revenues, the identification of new taxable objects, the full and timely collection of tax revenues. In this respect, the study of tax potential serves to determine the possibilities for the formation of local budget revenues and helps to properly establish financial management.

Today, the importance of local budgets is growing in improving the efficiency of the formation and use of state budget funds, ensuring the provision of public services in accordance with the requirements of the population. At the same time, the measures implemented to deepen economic reforms, expand market relations and improve the taxation system require new approaches to the formation of local income. It is from this point of view that the need to develop the scientific and practical basis for the formation of local budget revenues is increasing through the correct assessment of tax potential and its full mobilization.

Tax revenues play a key role in the formation of local budget revenues, and by increasing these revenues, it is possible to ensure sustainable economic development in the regions. And in increasing tax revenues, factors related to the

production potential of the territory, the development of entrepreneurship, the service sector and the income of the population play a decisive role. Therefore, the process of assessing tax potential is closely related to the full identification of internal capabilities, the rational use of economic resources, the formation of new taxable bases and the reduction of the hidden economy.

The process of studying the importance of tax potential in the formation of local budgets involves several stages. In this process, the analysis of the economic and social indicators of the territory, the identification of existing objects of taxation, the study of tax revenues and their structural structure, the analysis of the financial condition of taxpayers and the search for opportunities to reduce hidden economic activity are considered an important task. At the same time, determining ways to effectively use tax potential through the study of international experience is also one of the pressing issues.

The economic reforms carried out in the Republic of Uzbekistan, including the reform of the tax system, measures to increase the share of local budgets in the formation of the state budget, provide ample opportunities for ensuring financial stability at the local level. The full mobilization and effective use of tax potential makes it possible to develop production potential in the regions, create new jobs, develop the domestic market and increase the standard of living of the population. At the same time, an important place is occupied by ensuring the financial independence and stability of local budgets, the use of tax potential in the qualitative implementation of the tasks set by the state.

## **LITERATURE REVIEW**

Issues of the formation of local budget revenues, ensuring their financial stability and strengthening territorial independence have become a priority of economic policy in recent years. In particular, there is a lot of theoretical and practical research on the assessment of the potential of the territorial tax, the rational use of its capabilities and its application to local financial policy. In addition to scientists of our country, foreign economists have been comprehensively highlighting the impact of tax potential on economic development.

In Particular, Mahmudov A.A. and Toshboev I.X. in the formation of local budget revenues, tax revenues serve as the main source. In their opinion, “the assessment of the tax potential of territories ensures the formation of budgetary policies in accordance with the real economic situation”. The authors argue that the

structural structure of tax potential is inextricably linked with such indicators as the volume of production, the number of inhabitants, the level of income and entrepreneurial activity [5].

Also, Karimov T.T. in his research, he extensively covered the concept of tax potential, linking it not only with real receipts, but also with potential economic opportunities. In his opinion, “the stability of the local budget directly depends not only on the size of tax revenues, but also on their stagnation”. This idea, in practical terms, serves as an important methodological basis for forecasting tax revenues, financial planning and eliminating Inter-budgetary inequalities [4].

S.Yusupov and A.Sattorov promotes that tax potential can be fully exploited by lowering the level of fiscal centralization in strengthening local budgets, that is, by granting more financial independence to the regions. They justify the fact that the centralization of tax policies at the local level can limit financial activity, which can prevent the full use of economic potential [7].

Referring to foreign experiences, the views of economists such as Joseph Shtiglit and Paul Krugman are noteworthy. They see the concept of tax potential as a means of ensuring fiscal equality between regions. Especially in states with a federated structure, mechanisms for the fair Organization of inter-budgetary distribution are formed by assessing tax potential. On the example of Germany and the United States, the tax base at the local level is re-evaluated annually on the basis of special algorithms, and a system of transfers is formed based on this data [14].

In the conditions of Uzbekistan, there is still research on this. Safarova D. [8] and Karimov T. [4] in his scientific articles, he argues that economic activity at the local level, the state of the entrepreneurial environment, employment of the population and the presence of taxable objects are seen as the main factors of tax potential. They believe that at present, real tax potential is not being determined in many areas, which creates false projections in budget planning.

At the same time, international financial organizations also make their recommendations in this direction. Experts from the International Monetary Fund and the World Bank have proposed to introduce a system for assessing tax potential based on specific indicators in territorial fiscal policy. They argue that through this system, the possibilities of not only ensuring the stability of tax revenues, but also reducing the share of the hidden economy, strengthening fiscal discipline and “shading” economic activity will expand [12].

In addition, Kadyrov A., Kasimov M. and Usmanova N. in the studies carried out by the local level, practical proposals have been made to realize the tax potential through the expansion of the tax base, especially through the increase in land and property tax revenues. They promote that it is possible to simplify the local tax system and ensure transparency through the inventory of land resources, updating Cadastral data and the introduction of digital technologies [6].

Also, in their research by authors such as T.Komilov and N.Ochilova, it was noted that not only economic factors are of particular importance in assessing tax potential, but also institutional and organizational-treatment factors. In their opinion, the level of interaction between tax authorities and local authorities, the openness of tax information, the knowledge and potential of participants in budgetary processes directly affect the real level of assessment of tax potential [9].

In this regard, the “methodology for complex assessment of regional tax potential” developed by academician I.R.Kholkhozhayev is also worth noting. This methodology consists of a complex of various indicators and includes economic, demographic, infrastructural and fiscal parameters. This increases the accuracy of tax potential by providing a multi-factor approach to territorial assessment [10].

The analysis of the above literature shows that approaches to the issue of tax potential in the formation of local budget revenues are diverse, among which the most effective are complex indicator analysis, joint accounting of economic and institutional factors, the introduction of digital technologies, the full formation of a database and an approach through forecasting models. These approaches serve as an important theoretical and practical basis for determining the tax potential, making strategic decisions to increase it, as well as stabilizing the income portion of local budgets.

## **RESEARCH METHODOLOGY**

This article develops a scientific research methodology based on a systematic approach to analyzing the role and importance of tax potential in the formation of local budget revenues. The study harmonized methods of theoretical, empirical and statistical analysis. First of all, in order to determine the economic essence of the concept of tax potential, advanced theoretical resources, scientific articles, regulatory legal acts, official data of the Ministry of Finance of the Republic of

Uzbekistan, the Tax Committee and the state statistics committee were studied. Through this approach, the conceptual foundations of tax potential and mechanisms for influencing the local budget have been clarified.

For the empirical part of the study, the role of local budget revenues in certain regions of Uzbekistan and tax revenues in their formation was analyzed. In the process of this analysis, indicators such as the volume of territorial tax revenues, their composition, growth rates and their share in relation to the budget were taken as a basis. The data obtained on the basis of a statistical approach was analyzed and found differences in the level of tax potential between the regions. This played an important role in determining ways to ensure the sustainability of local budget revenues by increasing tax potential.

Also explored were the interrelationships of tax administration, Tax Policy and Budget Policy, their impact on economic activity at the local level. During the study, a complex of approximated indicators was used to determine the tax potential. Through these, the size of the tax base, the number of taxpayers, the formalized level of economic activity and fiscal opportunities were evaluated. As a result of methodological approaches, scientific conclusions were developed aimed at more effective implementation of local budget policies, full use of tax potential and strengthening territorial economic independence.

## **ANALYSIS AND RESULTS**

Economic stability and financial independence of local budgets are an important component of territorial development. Therefore, the issue of the formation of local budget revenues, their analysis and improvement is considered as one of the most important directions of State Financial Policy. Local budget revenues serve as a financial basis in attracting the internal capabilities of the territory, providing quality services to the population, ensuring uninterrupted financing of social spheres.

The composition of local budget revenues is usually formed from sources such as tax revenues, defective receipts, receipts from the sale of property, receipts on loans received, receipts of State target funds. The largest share usually corresponds to the contribution of taxes, since they are directly related to local economic activity, providing stable receipts. Tax revenues include profit tax of legal entities, income tax of individuals, land and property taxes, improvement tax, Social tax and other types of taxes.

In contrast, irregular receipts are formed from sources such as payments for the use of state and municipal property, fines, receipts from the provision of public services, receipts from the activities of state organizations. While these revenues are less in size than taxes, they help to increase the stability of the local budget. Funds from the sale of property are also an important source in the formation of local budget revenues. This is obtained mainly through the privatization of state and municipal property objects, the sale or lease of state shares. In addition, there are also receipts from state target funds in the form of funds, grants and subsidies, which are directed to the local budget.

An in-depth analysis of the structural structure of local budget revenues will help the financial authorities of the territory to assess the available opportunities, make full use of tax potential, determine the possibilities of increasing defective revenues, and effectively organize cost financing. At the same time, the correct formation of the structure of local budget revenues plays an important role in improving the quality of life of the population, creating new jobs and the complex development of the territory.

To create effective mechanisms for the formation of local income, it is necessary to regularly monitor these sources of income, reduce hidden economic activity in the regions, expand the tax base and increase financial opportunities by stimulating entrepreneurial activity. Therefore, these processes can be made more understandable by visually presenting the structure of local budget revenues in the form of a table below (Table 1):

**Table 1. Local budget revenue structure**

№	Source of income	Description and significance
1	Tax revenues	Legal entities and individuals receive income tax, land, property, Social tax, etc.
2	Defective receipts	Use of state property, public services, fines and other resources
3	Receipts from the sale of property	Receipts from the privatization and rental of public and municipal property objects
4	Revenues of State target funds	Subsidies from centralized funds, receipts in the form of grants
5	Loans and borrowed funds received	Funds attracted from state and commercial banks and financial institutions.
6	Receipts from payment services	Receipts from utilities and other services
7	Foreign grants and funds	Funds and technical assistance allocated by foreign organizations
8	Fines and Pensions	Funds levied for failure to pay taxes and other mandatory payments on time
9	Receipts from licenses and permits	Proceeds from operating licenses and permits
10	Other receipts	Other receipts and funds from various sources

From the data in the table above, we know that taxes, as a source of formation of local budget revenues, occupy the largest share and are the main financial backbone of the local budget. The increase in economic activity in the regions, the development of new industries of production and services will expand the tax base, which will steadily increase the income tax of individuals and legal entities, land and property taxes, Social tax revenues. Thus, tax revenues provide the opportunity to cover the basic costs of the local budget, finance social services and ensure sustainable development in the area.

Irregular receipts also play an important role in the structure of the local budget. While proceeds from sources such as public property use, utilities, public services, fines are generally less than taxes, they help increase the financial stability of the areas. For example, payments for public services are directed to improving the quality of services provided to the population and the development of territories.

The proceeds from the privatization and leasing of public and communal property facilities, on the other hand, fall into the local budget as additional income. It is often used to fund large projects, develop infrastructure, and support social sectors. Also, subsidies and grants allocated from state target funds serve as additional financial resources to the local budget, in particular, directed towards poverty reduction, education and health care development.

Loans and foreign grants received in the structure of local budget revenues are also of great importance, which are used to carry out large-scale infrastructure projects, eliminate the consequences of natural disasters and create new jobs. At the same time, the proceeds from fines and pension payments, licenses and permits will help increase local budget revenues.

From the above analysis, it can be seen that the diversification of the structure of local budget revenues and the effective use of all sources are important for strengthening territorial financial stability. At the same time, in order to increase revenues to the budget, it is necessary to carry out explanatory work on the development of entrepreneurship in the regions, legalization of the hidden economy, expansion of the tax base, increasing tax discipline with the population. Thanks to this, local budget revenues will increase, the living standards of the population will improve, and the regions will develop steadily.

The financial stability and independence of local budgets is one of the important factors in ensuring the economic development of the territories, the well-being of

the population and social stability. Therefore, the formation of sources of income at the local level and their sustainable development are considered priority areas of State Financial Policy. Of particular importance in this process is the issue of full use of tax potential and its effective management. Tax potential is understood as the real possibilities of taxable production, service, trade and other types of economic activity that exist in the territory. That is, it means turning the internal economic capabilities of the area into a financial resource through tax revenues. The tax potential in the formation of local budget revenues, first of all, serves as a stable source of income increases. The development of production enterprises, services and trade activities in the regions will increase the number of objects subject to taxation, create new jobs and serve to increase the income of the population. Through this, the volume of receipts such as income tax of individuals, profit tax of legal entities, Social tax, land and property taxes increases. This allows for timely financing of the costs of the local budget, increasing the funds being directed to the social spheres.

Secondly, the effective use of tax potential will strengthen the financial independence of the local budget before the state budget. Provides an opportunity to cover the financial needs of the region through the proceeds of its own resources. This reduces the need for centralized financing, expands the financial capabilities of local governing bodies, and increases their responsibility for Area Development.

Thirdly, the full use of tax potential serves to reduce hidden economic activity by expanding the tax base. It can strengthen control through the digitization processes of local tax authorities, fully form the taxpayer base and make the taxation process transparent. At the same time, by monitoring tax revenues in the cross-section of the territories, the level of full employment of tax potential is determined, deficits are received and tax discipline is increased.

Fourth, it is necessary to pay special attention to the development of entrepreneurship in the employment of tax potential. The reason is that the increase in business entities creates additional jobs in the regions, as a result of their activities, the volume of production and service increases, which expands the taxable base. In particular, measures to support entrepreneurship, such as preferential loans, tax incentives, the creation of a comfortable infrastructure, will help to increase the territorial tax potential.

In the formation of local budget revenues, the tax potential simultaneously serves as a source of income, a factor for increasing economic activity, a means of ensuring financial stability. Therefore, an in-depth study of this topic and the full employment in practice of the opportunities identified in it will serve to strengthen public Financial Policy (Table 2):

**Table 2 The importance of tax potential in the formation of local budget revenues<sup>1</sup>**

№	Specification	Importance and impact
1	The concept of tax potential	Represents the economic opportunities that can be taxed in the area
2	Its role as a source of income	Provides stable revenues to the local budget and funds expenses
3	Impact on financial independence	The area reduces its dependence on centralized funds
4	Expansion of the tax base	Increases the tax base through new production and services
5	Reducing the hidden economy	Legalizes clandestine activities through tax administration and digitization
6	Impact on the development of entrepreneurship	By encouraging entrepreneurship, it creates new jobs and increases revenues
7	Stability of the local budget	The state supports financial stability and social spheres
8	Increase economic activity	The economy of the region develops, and the income of the population increases
9	Enhances control and monitoring	Ensures a complete and timely fall in tax revenues
10	Serves sustainable development	Increases the financial capabilities of local government

In the table above, we have covered the importance and impact of tax potential in various aspects in the formation of local budget revenues. First of all, the concept of tax potential refers to the process of transforming economic opportunities in an area into a financial resource by taxation. This process serves as one of the most sustainable and sustainable sources of income for the local budget, increasing revenues to the local budget, making it possible to finance the social costs of the area in time.

At the regional level, the full use of tax potential helps to strengthen the financial stability of the state. Because the increase in local receipts reduces dependence on centralized funds, forms a culture of effective use of the territories ' own capabilities, and increases responsibility. At the same time, due to the activities

<sup>1</sup> Prepared by the author

of new production enterprises and the service sector, the number of objects subject to taxation increases, new jobs are created, which increase the income of the population and expand the tax base.

The use of tax potential is also important in the process of reducing the hidden economy. In this direction, opportunities for the legalization of non-tax activities will be created by digitizing the system of tax administration, strengthening control mechanisms. At the same time, it will be possible to stabilize revenues by increasing the tax culture of the population, creating an effective connection between the tax authorities and business entities.

The development of entrepreneurial activity is one of the main sources of increasing tax revenues in the regions. Therefore, it is possible to form new centers of economic activity in the regions by supporting entrepreneurs, creating favorable conditions for them, developing lending systems, correctly determining tax benefits. This, while strengthening the financial stability of local budgets, also serves to promote the economy of the area.

The aspects presented in the table above show that the full use of tax potential in the formation of local budgets is a complex and multifaceted process. To do this, planned actions should be carried out by local authorities to assess the tax potential and implement it. It is an important tool for carrying out the social functions of the state, increasing the standard of living of the population and ensuring economic stability. Therefore, each region can achieve economic independence at the local level by fully exploiting its tax potential.

## CONCLUSION

In conclusion, the tax potential plays an important role in the formation of local budget revenues. Research in this article shows that it is possible to ensure their financial independence by correctly assessing the economic potential and fiscal capabilities of the territories. Tax potential is the opportunity to maximally formulate taxes that fall into the budget on the basis of the economic resources available in the territory. Today, in Uzbekistan, it has become an important issue to expand stable sources of income of local budgets, increase tax revenues, improve tax policies taking into account territorial features.

Analysis has shown that the tax potential in some areas is not fully exploited. This is caused by the narrowness of the tax base, the lack of formalization of certain types of activities, the low level of efficiency of the tax administration and

problems with tax discipline. Also, an ambiguous and tightly centralized system of inter-budgetary relations also prevents the full use of tax potential at the local level. Therefore, we have put forward the following suggestions for this::

First, it is necessary to develop and introduce a unified methodology for assessing and controlling local tax potential. This methodology should be formulated taking into account the size of the tax base, the economic activity of payers, the development of infrastructure and other relevant factors.

Secondly, it is necessary to improve the tax administration in the cross section of the territories. In this regard, it is relevant to deepen the processes of digitization, establish open and transparent relations with taxpayers, direct the activities of tax authorities to profitability. It is especially useful to use motivational approaches when working with small business entities.

Thirdly, it is necessary to expand the sources of income that are constantly falling into the local budget. In this, it is advisable to develop financial mechanisms such as effective management of state property, leasing, rational use of land resources, and not relying solely on taxes.

Fourth, in inter-budgetary Relations, local authorities should be given more authority and financial independence. This makes it possible for the regions to freely implement social and economic development programs based on their tax potential.

Fifth, subvention and transfer mechanisms need to be revised based on a differential approach to ensure equality of tax potential and budget distribution between regions. Resource-rich and economically active areas should be less dependent on the state budget with full mobilization of their resources, and additional financial support should be provided to resource-limited areas.

In general, the correct and effective assessment of tax potential in the formation of local budget revenues, the establishment of its full use, serves as an important factor in increasing financial independence and stimulating territorial economic activity. Therefore, a comprehensive and consistent approach in this direction is necessary by policy makers at the state and territorial levels. Only then will local budgets have a stable, solid and financial basis suitable for socio-economic needs.

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