



EXISTING PROBLEMS IN INCREASING THE TAX POTENTIAL OF REGIONS AND THEIR SOLUTIONS

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Abstract

This article analyzes the existing problems in the process of increasing the tax potential of the regions of the Republic of Uzbekistan and develops practical solutions for their elimination. The regional tax potential is seen as one of the important factors in strengthening the income base of local budgets, ensuring fiscal independence and promoting macroeconomic stability. The article reveals the main problems such as insufficient formation of the tax base, wide coverage of the informal economy, systemic shortcomings in the tax administration, underdevelopment of economic infrastructure and low level of investment attractiveness. The article also developed proposals for identifying territorial tax opportunities on the basis of advanced foreign experiments, their full mobilization and optimizing fiscal policy in the cross-sectional areas. The author reasoned that it is possible to develop tax potential by digitizing the tax database, supporting small business and private entrepreneurship in the regions, increasing the tax culture and improving inter-budgetary relations. The results of the article can serve to improve state tax policy at the local level, ensure economic equality between regions and strengthen socio-economic stability.

Keywords: Tax, Tax potential, tax base, fiscal policy, tax administration, budget revenue, territorial development, economic stability, Tax Policy, local budget, investment attraction, informal economy, tax burden, economic infrastructure, inter-budgetary relations, tax database.



Introduction

Tax policy is one of the most important tools that determine the financial basis of any state. Especially in the context of a market economy, the fiscal potential of the state directly depends on tax revenues as the main source of budget revenues. In this process, each region of the country is differentiated according to its economic capabilities, production potential, demographic composition and entrepreneurial environment. Therefore, the issues of determining, assessing and increasing the tax potential of territories are becoming one of the most relevant areas of economic policy. After independence, the Republic of Uzbekistan has also implemented comprehensive measures aimed at radically reforming the tax system and adapting it to modern requirements. But the problems that are still waiting for a solution in this area are especially significant at the territorial level.

In recent years, the level of fiscal centralization in the country has been reduced and there has been consistent efforts to increase the independence of local budgets. This situation, in turn, has a direct impact on the financial stability, economic independence and self-financing opportunities of the territories. In such conditions, the issue of determining the tax potential of each territory, its full and effective use, mobilization of available resources and increasing tax revenues is becoming more relevant. But the current situation shows that in many districts and provinces the existing economic opportunities are not sufficiently exploited, their tax base is limited, and this situation leads to a financial imbalance between the regions.

The discrepancy in tax revenues between the regions is explained by several factors. First, the territorial imbalance of the level of economic activity is the main reason, while in some regions there is a rapid development in the areas of industry, service or agriculture, in others these areas are slow to develop or do not exist at all. Second, the low employment levels at the local level and the high share of informal labor force are leading to a decrease in tax revenues. This leads to a narrowing of the taxation base, expanding the scope of the clandestine economy. The third aspect is the problems that arise in the tax administration, including deficiencies in the full registration of taxpayers, monitoring their activities and the effective maintenance of control mechanisms. As a result, some taxpayers do not fully fulfill their obligations or operate outside the system as a whole.

At the same time, the culture and legal literacy of taxpayers are also important. In some regions, the attitude of the population to paying taxes is slow, the level of



social responsibility is low, which also negatively affects the tax potential. Especially among representatives of small businesses, this condition is more common. Therefore, it is necessary to carry out systematic propaganda and explanatory work in order to form a conscious approach of the population to tax issues, to increase the level of knowledge of taxpayers.

The strategic approach aimed at increasing the tax potential of the regions is carried out, first of all, by fully mobilizing existing economic resources, improving the investment environment, stimulating production and creating new jobs. This, in turn, ensures the emergence of new entities, the expansion of the tax base and an increase in budget revenues. It is important to strengthen the cooperation of local authorities and tax authorities, coordinate their activities and strengthen the system of responsibility.

From international experience, it is known that many developed and developing countries widely use digital technologies in increasing their territorial tax potential. In particular, solutions such as electronic invoicing system, automatic monitoring, payment of taxes through mobile applications provide effective results at the territorial level. There are also positive shifts in this regard in Uzbekistan, but the need to introduce them uniformly throughout the territories of the Republic remains relevant.

LITERATURE REVIEW

Scientific research has been carried out on the tax potential of regions by many economists and researchers, whose opinions provide an important theoretical framework for improving territorial tax policies, increasing tax revenues, and preventing hidden economies. In particular, there are opportunities to increase tax capacity by deeply analyzing the tax base, increasing taxpayer activity, implementing digital control systems and adapting international experiences to local conditions. For example, A.Vahobov and A.Zhuraev in their works, which developed theoretical foundations for the system of taxes and taxation, argue that the correct functioning of the territorial location of the production and service sectors, the level of economic activity and the mechanisms of taxation are important factors in determining the territorial tax potential. In their opinion, the incomplete mobilization of the local tax base leads to insufficient budget revenues, which directly negatively affects the territorial policy of the State [4].



U.Kh.Normurzaev in his scientific research on the effectiveness of tax benefits shows that benefits are not given incorrectly and consistently, as one of the reasons for the complete non-realization of tax potential. In his view, “while tax incentives should be an economic incentive factor in the cross-section of territories, in practice it is leading to a decrease in tax revenues” [5].

S.S.Azimov argues that the possibility of determining the real state of tax potential increases through the use of external sources of information in his scientific research on improving chamber tax investigations. In his opinion, “through Chamber analysis, it is possible to accurately assess the income of economically functioning entities and identify hidden sources of tax” [6].

Reflecting on the influence of the informal economy on the tax system, R.R.Ergashev says that it is necessary to bring clandestine economic activities to the legal field in order to increase the territorial tax potential. According to him, “by formalizing the informal sector, it is possible to expand the tax base and increase budget revenues” [7].

I.M.Niyazmetov argues that by improving the mechanisms of taxation, it is possible to ensure the stability of the entire tax system. In his research, he promotes the need to introduce differential taxation mechanisms, based on local-level economic indicators [8].

B.A.Normatov, on the other hand, argues that it is possible to increase tax discipline in the territories by strengthening the legal framework of tax audits. In his opinion, “Tax Control conducted on a legal basis will make taxpayer activities transparent and serve to increase budget revenues” [9].

In his research on forecasting tax revenues, S.K.Khudoyqulov notes that a forecasting methodology should be developed for each region based on the pace of economic development and demographic changes. This allows effective tax policy planning [10].

F.I.Isaev says that through the methodology of tax analysis, it is necessary to deeply analyze the level of use of available resources in regions, taxpayer payment discipline, indicators of tax involvement of economic sectors [11].

A.Kh.Islamkulov, on the other hand, argues that the tax potential of the territories is central to ensuring inter-budgetary proportionality. He believes that “financial equality can be achieved through the full mobilization of local tax sources and their fair distribution” [13].



Y.S.Yefremova, on the other hand, emphasizes in her study the issue of maintaining tax potential by reducing debt. According to him, “the collection of taxpayer debtor debts in favor of the budget through legal mechanisms ensures the stability of tax revenues” [14].

RESEARCH METHODOLOGY

In this article, as a research methodology, approaches were taken to determine the relationship between systematic analysis, tax revenues and territorial economic potential. The main focus was on assessing the existing tax potential of the territories, internal and external factors affecting its formation, as well as the level of use of existing resources. When determining the effectiveness of tax policies, analytical methods were used based on the analysis of statistical indicators and the dynamics of tax data in the cross-section of Regions. During the study, the factors that form the revenue part of the state budget and their territorial differences were studied in depth. In this process, factors such as the level of digitization, tax administration, entrepreneurial activity and informal economy were given special attention. Also, advanced foreign experiments were studied and the possibilities of adapting them to national conditions were analyzed. The results of the study served to develop practical recommendations on the path to reducing economic imbalance between regions, full-fledged use of tax potential and achieving fiscal stability.

ANALYSIS AND RESULTS

Tax revenues are the main source of the state budget, which is decisive in ensuring socio-economic stability in the country. Through taxes, the state funds social services, such as health, education, infrastructure, security. At the same time, the amount of tax revenues also reflects the state of the country's economy, the activity of the entrepreneurial environment and the level of income of the population. Measures such as economic reforms in the Republic of Uzbekistan in recent years, improving the business environment, the introduction of digital tax systems are leading to an increase in tax revenues. In particular, there is a year-to-year increase in tax revenues as a result of improvements in tax administration, a reduction in the clandestine economy, and efforts to formalize the informal sector. The figure below shows the amount of tax revenue provided by the state tax committee of the Republic of Uzbekistan from 2021 to 2024. These figures clearly represent how

year after year the size of the country's economy and the effectiveness of tax management are changing. Growth in each year is a clear manifestation of positive results in economic activity, the number of taxable entities, the expansion of the tax base and fiscal policy (Figure 1):

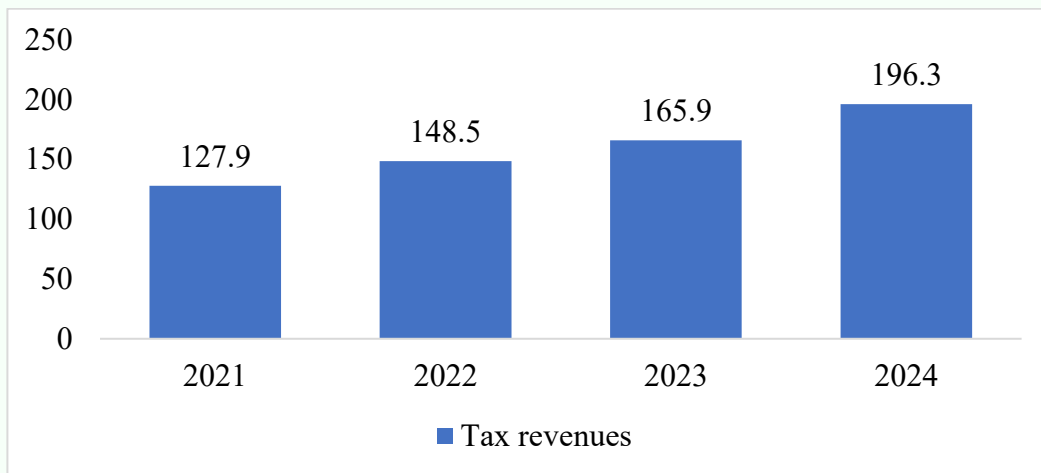


Figure 1. Tax revenues in the Republic of Uzbekistan, 2021-2024 [17]

As can be seen from the picture above, from 2021 to 2024, tax revenues in the Republic of Uzbekistan have increased at a stable pace. Tax revenues of Rs 127.9 trillion in 2021, increased by Rs 20.6 trillion in 2022 to Rs 148.5 trillion. In 2023, this figure rose to 165.9 trillion soums, with an increase of 17.4 trillion soums compared to 2022. In 2024, however, tax revenues reached 196.3 trillion soums, an increase of 30.4 trillion soums over the previous year. This increase is a sign that tax policy is being maintained in the country, economic activity is increasing, as well as that tax management is being effectively established. In particular, the sharp increase observed in 2024, along with the expansion of the fiscal capabilities of the state, will make it possible to invest more in social spheres. It was reported that in 2025, the state tax committee was tasked with securing tax revenues of Rs 224 trillion. This meant nearly 27.7 trillion more revenue than in 2024. Such a high Plan indicates confidence in the digitized, transparent and fair functioning of the tax system. This increase in tax revenues indicates a further expansion of economic activity in the Republic, an expansion of the tax base and an increase in the number of taxpayers. At the same time, these figures provide a stable basis in financing the long-term socio-economic plans of the state.

In recent years, reforms such as liberalization of tax policy, digitalization of tax management, promotion of business activities by reducing the tax burden have been implemented in Uzbekistan. While these measures serve general fiscal stability at the national level, it still remains an urgent task to ensure the opening of tax potential at the territorial level. Despite adequate economic opportunities in some provinces and districts, tax revenues remain low. This situation is exacerbating financial inequality between regions, maintaining dependence on the central budget and limiting territorial independence.

The problems that are causing the complete non-realization of tax potential in the regions are multifaceted and complex. Among the most fundamental of these are the prevalence of informal economy, deficiencies in tax administration, low taxpayer awareness, insufficient tax base, and poor investment activity. In order to overcome these problems, it is necessary to take a systematic approach, study international experiences, introduce digital technologies, strengthen cooperation between local authorities and tax services.

We will analyze exactly these problems in the table below and formulate solutions corresponding to each of them (Table 1):

Table 1 Problems in increasing the tax potential of Regions and their solutions¹

№	Problems	Solutions
1	High share of the informal economy	Giving incentives to formalize clandestine activities, strengthening monitoring and control
2	Lack of accuracy in the registration of taxpayers	Digital identification and creation of a single electronic register
3	Weak tax administration	Improving the skills of tax employees, strengthening the technological infrastructure
4	Narrowness of the tax base	Development of new economic sectors, expansion of the service and services sector
5	Low legal literacy of taxpayers	Constantly conducting informational and explanatory campaigns
6	Weak investment	Improving local infrastructure, providing tax benefits on an analytical basis
7	Inefficient application of tax credits	Separation of benefits on a targeted, temporary and consequential basis
8	Low economic activity at the regional level	Implementation of entrepreneurship promotion programs
9	Inadequate digital technology	Full implementation of electronic taxation systems, connection with ERP and CRM systems
10	Weak forecast of tax revenues	Development of forecasting methodologies, introduction of analysis based on artificial intelligence

¹ Prepared by the author



From the data given in the table above, we can know that, first of all, the implementation of tax potential is carried out not only by increasing tax rates, but also by increasing the number and activity of taxable entities, ensuring transparency, improving the economic environment.

The first problem is the breadth of the informal economy, which means that many types of economic activity in the country are still outside the scope of official statistics and taxation. Such cases are often caused by poor control mechanisms or low legal awareness. To overcome this problem, it is necessary to explain that while control is tightened, formalization benefits the business.

Another important problem is the narrowness of the tax base. This situation is especially pronounced in districts and remote areas with low economic activity. To overcome this, special attention should be paid to improving the territorial investment environment, developing new economic directions, innovative and service sectors.

The low legal literacy of taxpayers also negatively affects the potential. In order to formulate the concept that taxation in citizens is a social responsibility, it is necessary to actively use media, educational programs and propaganda materials. Weak investments, on the other hand, limit territorial economic activity. By improving the state of infrastructure, creating guaranteed conditions for foreign and domestic investors, taxable facilities will increase. At the same time, the effectiveness of tax incentives must be constantly analyzed and presented on the basis of a targeted, temporary and economic effect.

The solutions that we show in the table mainly rely on digitization. In this, the identification of taxable entities through electronic systems, ERP (resource management system) and CRM (customer handling system), control of their activities and access to real-time information will strengthen tax administration. When forecasting tax revenues, it is also important to clarify based on artificial intelligence, large-scale data analysis.

From this point of view, it is necessary that each territory, in order to increase its tax potential, thoroughly analyze its economic capabilities, identify existing problems and carry out measures that are appropriate and scientifically based on local conditions. This provides the basis not only for fiscal independence, but also for economic growth on the scale of the entire Republic.



CONCLUSION

In conclusion, the issue of increasing the tax potential of territories has become one of the most relevant directions of state fiscal policy today. Against the background of the economic reforms carried out in the Republic of Uzbekistan, the gradual strengthening of the Territorial Management System, the increasing level of independence of local budgets, it is important that each territory has its own financial potential. During the study, it was found that many factors – economic, social, administrative and institutional problems-are contributing to the complete failure of tax potential in the regions of the country. It is these circumstances that cause a financial imbalance between the regions and increase dependence on the central budget.

In order to increase the potential of the regional tax, it is necessary first of all to effectively use the available opportunities and resources. Even in areas with a sufficiently wide tax base, taxable objects have not been fully identified or misjudged. Therefore, first of all, an in-depth analysis of the tax base on each territory should be carried out, creating an electronic register of updated tax sources, taking into account production capacities, service sector, tourism and other economic segments. This serves not only to identify the available resources, but also to increase the efficiency of their use.

Also, at the territorial level, comprehensive measures should be carried out to reduce the hidden economy. In this regard, it is necessary to digitize tax administration, to widely introduce technologies that allow real-time monitoring of taxpayer activities. For example, the integration of the electronic invoice system, online cash registers and tax information systems enhances tax Control and serves to reduce illegal activities. Through this it will be possible to increase the volume of tax revenues.

In addition, the strengthening of cooperation between local authorities and tax services is also of urgent importance. Regional authorities should provide practical support to the tax authorities, knowing well the economic status of their territory, potential taxpayers and areas of activity. This leads to an increase in territorial fiscal capacity. At the same time, it is also effective to carry out information and propaganda work on a systematic basis in order to increase the legal culture of taxpayers, to form their conscious attitude towards taxes.



International experience shows that the support of small and medium-sized businesses, simplifying the processes of their formalization, plays an important role in increasing local tax revenues. Even in the conditions of Uzbekistan, it is possible to stimulate the involvement of small business entities in taxation, increase economic activity by providing them with benefits, and, as a result, expand the tax base. In particular, positive motivation should be given by identifying the types of tax evasion activities, while taking legal action against them, by involving these subjects in formal activities.

Based on the above, we have put forward the following proposals:

1. To develop a methodology based on unified criteria for assessing regional tax potential and their implementation in practice;
2. Creation of electronic monitoring systems for the types of economic activities to determine and expand the tax base;
3. Introduction of digital control tools to reduce the hidden economy at the local level;
4. To carry out continuous propaganda work aimed at raising the consciousness of taxpayers and developing their legal culture;
5. Improving information exchange between local government and tax authorities, strengthening functional cooperation;
6. Development and step-by-step implementation of an adapted, local-context tax policy based on the study of international experience.

In general, a systematic and comprehensive approach to increasing the tax potential of territories is necessary. This will not only ensure the stability of the state budget, but also bring positive results such as territorial economic development, the creation of new jobs, an increase in entrepreneurial activity. The full employment of tax potential will set the stage for the economic growth of all regions of Uzbekistan.

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