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Mechanisms for the Expansion of Sources of Revenues of Local Budgets at the Current Stage of Implementation of Reforms in the Republic of Uzbekistan

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Abstract:

The article shows the problems and ways of improving and activating mechanisms for expanding the sources of revenues of local budgets by improving the existing laws in the country, optimizing local taxes in the country, removing business from the shadow economy, expanding the powers of local authorities in making decisions on expanding sources of revenue for the budgets of their territories.

Keywords: Revenues, budgets, The Republic of Uzbekistan, government, economic

1. Introduction

At the present stage of the reforms being carried out in Uzbekistan within the framework of the Action Strategy on the five priority directions of development of the Republic of Uzbekistan in 2017–2021, the development of the Concept of Administrative Reform in the Republic of Uzbekistan, as well as the preparation of a new version of the law "On local government", tax reform and the development of a new tax code, the revitalization of the local government system is crucial in solving the issue of ensuring the self-sufficiency of local budgets in terms of subsidiary reduction, empowerment and providing greater flexibility interterritorial governance. This article discusses current organizational, legal, financial and economic aspects of strengthening the mechanisms of increasing regional budget revenues in the Republic of Uzbekistan.

The operation of the local government system is carried out in accordance with the laws that establish the framework of relations between its participants and regulate their powers, duties, functions, and responsibilities. The quality of these laws determines the effectiveness of the operation of the local government system. In the current legislation of Uzbekistan there are some inconsistencies and contradictions that prevent effective functioning of local government system (Table 1).

Legal Act	Powers of Local Authorities in Terms of Local Budget Revenues
1. Constitution of the Republic of Uzbekistan [3]	Article 100. The jurisdiction of local authorities includes: - the formation and execution of the local budgets, the establishment of local taxes, fees, the formation of extra-budgetary funds;
	Article 123. A single tax system operates in the territory of the Republic of Uzbekistan. The right to establish taxes belongs to the Oliy Majlis of the Republic of Uzbekistan.
2. Law of the Republic of Uzbekistan "On Local Government" [4]	Article 24. Powers of the Council of People's Deputies. The main powers of the regional, district and city councils of people's deputies are: - setting local tax rates and other obligatory payments within the limits established by law.
	Article 25. Powers of the hokim. Khokim of the region, district, city: - introduces lowering and increasing coefficients to the established rates for individual taxes determined by the legislation, taking into account the peculiarities of the regions and the place of activity.

Table 1: Legal Framework for Securing the Powers of Local Authorities to form their Own Budgets

2. Review of Existing Legislation

The author has analyzed the basic legal norms of securing the powers of local authorities on the formation of revenues of their own budgets [1,2]. Recommendations on their improvement were submitted to the Committee on Budget and Economic Reforms of the Legislative Chamber of the Republic of Uzbekistan. To date, a number of amendments have already been made to current legislation, however, it remains unresolved so far and requires consideration of important enactment on powers of local authorities (Council (Kengash) of people's deputies and Khokim (head) of the territory) regarding local taxes and fees.

Thus, in the Constitution of the Republic of Uzbekistan [3], Article 100 assigns local taxes and fees to the jurisdiction of local authorities. Wherein, according to the article 123, the right to impose taxes belongs and is reserved by the Parliament of the country. Thus, there are discrepancies in the establishment of the powers of local authorities in terms of local taxes. In order to resolve the issue of necessity and importance to clarify the wording of Article 100, let us turn to the Law of the Republic of Uzbekistan "On local government", the Tax and Budget Codes of the Republic of Uzbekistan.

The Law of the Republic of Uzbekistan "On local government" [4] establishes the economic and financial basis for the activities of local government, its authority in resolving issues on drafting and executing of the local budget and reporting on its execution, developing and adopting promising programs for the development of the territory and the rules of development of the territory; in determining the amount of local taxes and fees, duties, providing benefits for local taxes, fees and payments received by the local budget in accordance with applicable law.

Article 24 of the Law of the Republic of Uzbekistan "On local government" confirms the necessity of clarifying the wording of Article 100 of the Constitution of the Republic of Uzbekistan with regard to the rights of the local authorities - "imposing the size of local taxes"

In the Tax Code of the Republic of Uzbekistan [5], Article 23 imposes taxes that in force in the country, specifying which of the generally imposed taxes are applicable to local taxes.

In the Budget Code of the Republic of Uzbekistan [6], Article 52 shows the revenues fixed and credited to the budget of the Republic of Karakalpakstan, local budgets of regions and the city of Tashkent, including local taxes established by the Tax Code [5] article 23, national taxes as a share imposed annually by the Decree of the President of the Republic of Uzbekistan "On the forecast of the main macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan" for planned fiscal year "by the relevant Annex [7], other revenues, as well as subventions, transferred revenues and grants allocated from the republican budget of the Republic of Uzbekistan to the republican budget of the Republic of Karakalpakstan, regional budgets of regions and the city budget of Tashkent are also annually determined by a separate Appendix of the Presidential Decree [7].

3. Recommendations

It is necessary to resolve the issue relating to the above discrepancies that exist in the current legislation regarding the rights of local authorities with regard to local taxes and to amend or clarify article 100 of the Constitution of the Republic of Uzbekistan.

This recommendation is due to the fact that in case of discrepancies between the regulatory legal acts, the regulatory legal act which has a higher legal force is applied [8]. Consequently, at present, in the case of a decision by the representative authority of the territory to take advantage of this discrepancy in the current legislation, the provision of Article 100 of the Constitution will have its effect, with all its the ensuing consequences. Taking into account the fact of the expansion of powers of local authorities (in particular, the lifting of restrictions on the creation of local funds at the expense of sources not considered by legislation) (9), continuing of the process of fiscal decentralization in terms of expanding the responsibilities and powers of local authorities in addressing the task of expanding the taxable base in each city and region (10), it is necessary to consider amending the existing legislation. Along with this, to provide local authorities and management more powers and freedom of action in solving problems of self-sufficiency, balancing their own budgets, increasing their incomes, which is very important for territories, especially those working in the FEZ (free economic zone) mode, which are growing in Uzbekistan, today there are 14 [11,12].

As it is known in the FEZ for businesses, privileges are established, in connection with which the territorial budget loses part of the income (lost income) and the local authorities face the problem of ensuring its balance, which is aggravated by the fact that the economic structure of the country's territories is dominated by business entities for which there is a simplified taxation system (for them a single tax has been introduced into the Republican budget), thus, entrepreneurs who have switched to the "simplified payment system" do not participate in the formation of revenues of local budgets. In this regard, among the serious problems, the President of the Republic of Uzbekistan Sh. Mirziyoyev at the Government meeting in January 2017 called "insufficient funds of local budgets to finance sustainable socio-economic development of territories" [10] and set the task of increasing local funds budgets "by developing practical measures to expand the taxable base in each city and district, without taking into account the contribution of large enterprises" [10]. Solving the tasks set in the short-term period (and in the territories of the FEZ and in the long-term period up to 30 years) is impossible without financial support — transfers to local budgets from the central Republican budget in the framework of intergovernmental relations that require improvement, as well as decision-making on the management of the territory and budget due to the execution of the task "to strictly ensure the withdrawal of the Republic of Karakalpakstan and all districts of the Tashkent region from subvention. This year will become an examination on the reduction of subjectivity for other khokimiyats, as well as the relevant bodies" [10]. Thus, at the present stage, for objective and subjective reasons, it is important and necessary to provide financial support for individual territories. In the conditions of withdrawal of territories from subventions and lack of dotation, the budget of the Republic of Karakalpakstan, the budgets of the regions, and the city of Tashkent need to use the mechanism of co-financing important social expenditures from Republican and local budgets, that is, to use subsidies from educational, health care and social welfare institutions), which are not yet used in the domestic practice of budgetary regulation.

The solution to the problem of expanding the tax base is seen in optimizing local taxes, as well as in developing and adopting measures to remove the business sector from the shadows.

2.1. Optimization of Local Taxes

- In terms of the land tax, there are potential opportunities for increasing the volume of their revenues to local budgets on the basis of carrying out work on identifying non-registered used lands; resolving the issue of the possible transfer to uncompensated use of unsuitable land for use, and possibly to private ownership (for reference: in the Republic of Uzbekistan land is owned by the state). In this case, there will not be direct income from lands transferred for use, but as a result of their improvement by users of these lands in the future, they will be able to receive income that will be subject to taxation either on the basis of a declaration of income or by taxation of purchase and sale transactions – agricultural products and other results and products derived from the use of these lands. Hidden reserves for land tax also exist due to the inefficient work of cadastral services engaged in cadastral valuation and registration of land for use;
- Tax administration of the tax on property of individuals and land tax on individuals in terms of the order of their payment has features that make it difficult to execute the budget, since their tax period is extended in time. These taxes are paid from January 1 to October 15 of the reporting period, in connection with which local budgets have a problem with the cash gap in budget execution. In this connection, it is advisable to make a decision on their payment to the budget with a breakdown into shares and the payment of the established part of the amount on a quarterly basis;
- In terms of the tax on property of individuals: the taxable base for payers is the inventory value of taxable objects, determined by the body that carries out state registration of rights to real estate. In the absence of an assessment of the object of taxation by the authorized body for the assessment of the property of individuals, the taxable base is the notional value of the property established by law. Inaccuracies in determining the value of the property of individuals lead to losses and shortfalls in income by local budgets;
- In part of the local tax in force until 2018 for the improvement and development of social infrastructure. This tax was paid from the profit remaining at the disposal of the legal entity after deducting the income tax. The marginal rate of this tax for more than 10 years was 8% of net profit.

The study of revenues from this tax in the budgets of the territories (in particular, in the districts of the Samarkand region) proved the ineffectiveness of this tax. So, in the structure of budget revenues of the districts of most parts of the country, the revenues for this tax are insignificant and fluctuate within 0.05 to 1.5-2%. In this regard, at the round table devoted to "Actual issues of socio-economic development of the territories of the Samarkand region, problems of increasing the revenues of local budgets and withdrawing them from subventions" with the participation of the hokim (head) of the Samarkand region and hokims of districts and cities of the region, representatives of the movement of entrepreneurs and businessmen of UzLiDep (Liberal-Democratic Party of Uzbekistan) and experts of the Banking Financial Academy, we proposed to consider the elimination of this tax and instead of introducing new more efficient local taxes (for example, sales tax or tax on consumption), or the transfer of the national tax on personal income (PIT) to local budgets, with the consolidation of the status of a local tax. In world practice in many countries of the world, the sales tax (consumption tax), the tax on personal income are local taxes. The transfer of personal income tax to local budgets will entail an increase in the activity of local authorities in resolving the issue of providing employment for the unemployed employable population, taking measures to create new and additional jobs, and intensify work towards organized labor commuting. For example, the conclusion of contracts for the organized supply of labor to large enterprises in neighboring countries and foreign countries under strict control over the observance of the rights of labor migrants by the host country and the employer.

From January 2018, the tax on the improvement and development of the social infrastructure was combined with the corporate income tax into a single income tax. Both taxes had the same taxable base. As a result, local budgets lost one of four local taxes. In the process of developing a new tax code, it is important and necessary to take into account the importance of fair separation of income powers and revenues between the central and local authorities and to resolve the issue of securing personal income tax to the local budgets.

Removal from the shadow of the business sector (for example: consumer service enterprises; enterprises of small and wholesale retail; landlords who give residential and non-residential premises for rent without registration and payment to the budget and etc.) provides for the creation of conditions for the legalization of shadow income (for example, through a tax amnesty, the temporary abolition of punishments provided for by law for a set period of time), for example, on the terms of the target direction of funds withdrawn from the shadow of the region's economy without the right to withdraw from circulation within 3-7 years (corresponds to the average period of time which is established in the FEZ as a preferential period for foreign investments, in order to ensure the stable operation of the invested foreign capital). This practice is known and generally used in countries in transition. [13]. This measure will make it possible to increase the volume of domestic investments, which is very important for ensuring the sustainability of the economy of the territories and the country as a whole in the conditions of economic and financial instability in the world market. It seems important and expedient to increase the volume of domestic investments, since a domestic investor, unlike a foreign one, is unlikely to resort to the practice of capital flight, on the contrary, he/she will be interested in protecting his/her investments in the country.

The implementation of this recommendation involves the development of a program and a set of measures in accordance with which, within the established timeframe, voluntary registration of the shadow business, its legalization should be organized, carried out and completed, as well as carried out work on re-issuing the business to their actual owners based on their voluntary volitional expression. After the deadline, carry out planned activities to identify hidden business owners and unregistered shadow business with the establishment of strict sanctions up to the withdrawal of the

business object in favor of local authorities with their subsequent sale at auctions and crediting funds from the sale to local budgets. In order to ensure efficiency, it is important to involve the local community, residents of communities in participating in these events.

The next aspect that we would like to touch upon in the article concerns the further development of the system of local government in the Republic of Uzbekistan in the direction of the transition from the direct appointment of the head of the representative and executive power of territorial education - khokim to the President mechanism of alternative choice of a candidate for this post from among those nominated by the local public, as well as self-nominated candidates. This measure will allow raising the level of the electoral process to a qualitatively new level, electing to a leading position a worthy candidate whom local residents are well aware of and trust in managing their territory, as well as increasing the responsibility of the khokim in making decisions on territorial management.

Restructuring and revitalization are also required by the work of the Kengash of people's deputies, who, in accordance with the law [4], are vested with greater powers in the management of the territory. In particular, in the consideration and adoption of the draft local budget, after which the khokim has the right to approve or reject it. At the present stage, the execution of budgetary rights for reviewing a local budget project in terms of forecasting revenues, local taxes and expenses, as well as monitoring its execution in established periods (quarterly, semi-annual, nine month and fiscal year) by deputies of the Council of people's deputies of the territories is purely formal, mainly because of their incompetence in these issues. While the deputies who are obliged to take the initiative in exploring the possibilities of increasing the revenues of the territorial budget, while not allowing an increase in the tax burden, and also in optimizing expenditures while ensuring their sufficiency.

The solution to this problem is possible through the organization of a permanent system of compulsory education for newly elected and existing deputies of the Kengash of people's deputies of territorial entities, khokims and their deputies. For the functioning of the system, it is necessary to develop short-term programs and to prepare methodological support for training the above-mentioned contingent of listeners to the foundations of regional management and the budget process both with separation from the main activities of the local executive authorities (for newly elected local executives) and without separation from on-site training using the E-government platform in territorial entities.

It appears that the issues addressed in the article are relevant in the context of the implementation of the objectives of the Action Strategy for the further development of the territories of the Republic of Uzbekistan for 2017-2021, in the preparation of the Concept of Administrative Reform in the Republic of Uzbekistan and the new version of the Law of the Republic of Uzbekistan "On State Government".

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