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The Importance of Taxes in Forming State Budget Revenues

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Abstract: The article analyzes the theoretical and practical aspects of the economic essence of direct taxes, their characteristics, and their importance in forming state budget revenues. It also presents the author's views on increasing the role of direct taxes in the formation of state budget revenues.

Keywords: State budget revenues, direct taxes, indirect taxes, corporate income tax, personal income tax

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1. Introduction

Taxes are considered a decisive financial source in forming the revenue base of the budget, serving as the main fiscal instrument for financing the socio-economic functions of the state. From this perspective, within the framework of the Concept for Improving the Tax Policy of the Republic of Uzbekistan, gradual reforms aimed at bringing the tax burden to a reasonable level, reducing disparities in the taxation of business entities, and expanding the tax base are being implemented in our country. Particular attention is being paid in tax policy to the expansion of production and the tax base [1].

In the Address of the President of the Republic of Uzbekistan, Shavkat Mirziyoyev to the Oliy Majlis, it was specifically emphasized that "it is necessary to reduce and simplify the tax burden for all categories of businesses, thereby expanding production and the taxable base [2]."

The Decree of the President of the Republic of Uzbekistan dated June 29, 2018, "On the Concept of Improving the Tax Policy of the Republic of Uzbekistan," envisaged radical reforms of direct taxes. In particular, significant changes were implemented in the mechanisms of corporate income tax and personal income tax, which are considered the main forms of direct taxation. These reforms contribute to ensuring the stability of budget revenues by improving tax legislation, simplifying tax administration, and creating a fair competitive environment across sectors of the economy. As a result, the tax system is emerging not only as a fiscal mechanism but also as an important tool for stimulating economic activity and strengthening the budget revenue base [3, 4].

Consequently, special attention has been paid to significantly reducing the impact of taxes on taxpayers' activities. This situation necessitates the development of proposals and recommendations based on a systematic theoretical and practical study of the importance of taxes in the formation of state budget revenues [5].

2. Methodology

It is noteworthy that researchers and economists of our country, such as A. Jo'raev, D. Daminov, and A. Islamkulov, who conducted studies on taxation, emphasize the economic essence of taxes in forming the state budget, the priority role of taxes in generating budget revenues, and their contribution to economic development, while also noting that increasing taxes may lead to a decline in GDP. Many researchers have also focused on the specific characteristics of taxes in the process of budget formation.

Taxes hold special significance as the primary financial source in forming state budget revenues. The issue of prioritizing taxes remains relevant in modern tax policy, since financing the state's social obligations, economic reforms, and strategic programs depends primarily on stable tax revenues. A number of scientific studies have been conducted in this area, resulting in certain achievements in the theory and practice of taxation. However, priorities regarding tax types and rates are determined according to each country's socio-economic development level, economic structure, and the specific features of its tax policy.

Therefore, the role of taxes in forming the state budget revenue base is closely linked with the stage of socio-economic development of the country, and assigning scientifically grounded priorities to taxes is one of the most important tasks. Taxes perform not only a fiscal function but also regulatory, redistributive, and incentive functions withi

3. Results and Discussion

In recent years, priority importance has been given to taxes in forming the state budget revenue base in our country. In particular, the fact that nearly 90 percent of the revenues of Uzbekistan's budget system are formed through tax revenues demonstrates the high fiscal importance of taxes. This situation is determined by the overall tax burden in the economy, as well as the level of tax burden identified across legal entities, individuals, and economic sectors [6].

At the same time, under the conditions of economic modernization and liberalization, a consistent fiscal and tax policy aimed at reducing the tax burden to an optimal level is being implemented. On the one hand, this policy stimulates entrepreneurial activity, while on the other hand, it ensures the stability of state budget revenues [7]. Thus, taxes continue to maintain their importance as the main and strategic source of state budget revenues. To gain a clearer understanding, let us refer to the data presented in Table 1.

Table 1

Dynamics of Changes in the Share of Taxes in the Structure of State Budget Revenues in Uzbekistan (trillion soums)

Nº	Types of Taxes	2026 Forecast	2027 Projection	2028 Projection
1	Total state budget revenues	368.9	425.5	486.2
2	Direct taxes	116.3	138.7	158.0
3	Indirect taxes	124.6	144.5	169.2
4	Resource taxes	45.8	52.8	59.5
5	Other revenues	82.2	89.6	99.5

According to the data in Table 1, a stable growth dynamic in the volume of state budget revenues in Uzbekistan is projected for 2026–2028. In particular, the total volume of state budget revenues is expected to amount to 368.9 trillion soums in 2026, increase to 425.5 trillion soums in 2027, and reach 486.2 trillion soums by 2028. This indicates the continuous expansion of the budget revenue base [8].

The share of direct taxes in the revenue structure also demonstrates a stable upward trend: it is

projected at 116.3 trillion soums in 2026, 138.7 trillion soums in 2027, and 158.0 trillion soums in 2028. This indicates that fiscal capacity is being strengthened due to increased revenues from income and profit taxes [9].

When evaluating the importance of taxes in forming state budget revenues, it is important to ensure a balance between fairness and efficiency. Theoretically, it is advisable to prioritize direct taxes in ensuring tax fairness because they are levied based on the taxpayer's real income and financial capacity. This contributes to ensuring the principles of vertical and horizontal equity [10].

However, prioritizing specific tax types in forming the state budget revenue base directly depends on the level of socio-economic development of the country, the breadth of the tax base, and the capabilities of tax administration. If the object or base of direct taxation is not sufficiently broad, placing the main tax burden on these taxes may increase taxpayers' tendency to evade taxes. This is because taxpayers directly feel the amount of tax they pay, which significantly affects their economic incentives [11].

From this perspective, in transition economies or developing countries, greater priority is often given to indirect taxes in order to ensure stable formation of state budget revenues. Indirect taxes, especially taxes collected during the consumption process, have a broad tax base and are relatively easier to administer [12].

Particularly in conditions where the shadow economy occupies a large share, indirect taxes become an important fiscal instrument in forming state budget revenues. Since it is difficult to directly tax hidden or illegally obtained incomes, such incomes can nevertheless be taxed indirectly once they enter the consumption process. Within the mechanism of indirect taxation, the legal or illegal origin of income loses significance, thereby broadening the coverage of tax revenues and ensuring the stability of budget revenues [13].

In 2019, the reduction of the basic corporate income tax rate from 14 percent to 12 percent and the unification of additional profit taxes for several types of goods contributed to increasing the investment activity of business entities by leaving them with a larger share of profit [14].

The introduction of a unified 12 percent personal income tax rate instead of the previous four-tier progressive rates, as well as the abolition of the mandatory 8 percent pension fund insurance contribution deducted from individuals' incomes, significantly increased the real incomes of the population [15].

The reduction of the tax rate on dividend income received by legal entities and individuals from 10 percent to 5 percent was aimed at developing investment activity through reducing the fiscal significance of direct taxes.

Analyzing the changes in the tax system in 2019, significant reforms aimed at reducing direct taxes were implemented. As a result, a system of single taxation on the final profit or income of legal entities and individuals was introduced. The previous practice of taxing the same income or profit two or more times was abolished.

For example, legal entities previously had to pay both profit tax and taxes for landscaping and social infrastructure development from the same profit. Similarly, mandatory contributions to state targeted funds were collected from turnover.

The changes implemented in the direct tax mechanism also led to an increase in their share within state budget revenues. The introduction of a unified 12 percent personal income tax rate and the

abolition of the mandatory 8 percent pension fund contribution significantly increased individuals' real incomes. Contrary to the expectations of many observers, these changes are projected not to reduce but rather to increase the share of this tax in state budget revenues.

The above-mentioned aspects reflect the positive outcomes of the reforms implemented in the tax system. Nevertheless, recent changes in the tax system have also led to an increase in the tax burden for medium-sized businesses.

Therefore, systematically analyzing the impact of changes in the tax system on the country's socio-economic development and implementing appropriate adjustments will undoubtedly contribute to the formation of an effective tax system.

4. Conclusions and Recommendations

While indirect taxes were given priority in forming state budget revenues in our republic until recent years, within the framework of the concept of improving tax policy, greater priority is now being assigned to direct taxes. As a result, since 2019 a sharp increase has been observed in the share of direct taxes within state budget revenues. This situation is positively assessed, as taxes are increasingly being levied according to the principle of fairness.

In line with the stabilization and development of the national economy, it is advisable to maintain the trend of increasing the share of direct taxes in state budget revenues. At the same time, growth in state budget revenues should be achieved not by increasing tax rates, but by expanding the tax base.

In order to reduce enterprises' inclination toward shadow economic activity and to balance the profit tax burden with the burden on payroll funds, it is advisable to partially increase the corporate income tax rate, which is the main type of direct tax. However, this should be accompanied by a reduction in indirect tax rates. In addition, tax privileges related to profit tax should be reviewed, and ineffective exemptions should be abolished.

Since individual entrepreneurs who have switched to the general taxation regime do not maintain accounting documents, it is impossible to determine their profits in the same manner as for legal entities. Therefore, a simplified procedure for determining the tax base for calculating profit tax should be developed for them.

It is also necessary to reconsider the rates of the unified tax payment, optimize sharply differentiated rates according to types of activity, and particularly reduce the unified tax payment rate for legal entities whose main activity is property leasing.

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