

IMPROVING THE MECHANISM FOR FORMING LOCAL BUDGET REVENUES IN UZBEKISTAN

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Abstract: this article examines the current state of Uzbekistan's shadow economy, its influencing factors, and the role of electronic services in tax administration to mitigate its effects on local budget revenues. It analyzes existing challenges in tax collection through digital platforms and proposes enhancements to electronic tax services as a means to reduce informal activities, thereby broadening the tax base and increasing fiscal inflows to regional budgets. Furthermore, the study develops recommendations for perfecting the formation of local budget incomes by integrating advanced information technologies, fostering voluntary compliance among taxpayers, and ensuring seamless interagency data exchange to support sustainable regional economic development.

Keywords: local budget revenues, tax administration, shadow economy, electronic services, fiscal decentralization, digital transformation, property tax, land tax, non-tax revenues, intergovernmental transfers, budget sustainability

INTRODUCTION

Contemporary global economic challenges underscore the importance of robust mechanisms for generating local budget revenues, particularly in transitioning economies like Uzbekistan where decentralization efforts aim to empower regional authorities with greater financial autonomy. The structure of local budgets in Uzbekistan primarily relies on a combination of own-source revenues, such as property and land taxes, alongside shared national taxes including value-added tax and personal income tax allocations that are distributed based on predefined formulas to ensure equitable resource distribution across regions. Recent reforms under the New Uzbekistan Development Strategy for 2022-2026 have emphasized the need to strengthen these mechanisms by reducing dependency on central transfers and enhancing local revenue mobilization through improved tax administration and economic formalization. Factors such as the persistent shadow economy, estimated at around 33-48% of GDP, erode potential revenues by evading formal taxation channels, thus limiting funds available for essential regional infrastructure and social services. Policymakers have increasingly turned to digital tools to address these gaps, recognizing that electronic platforms can streamline compliance and detect undeclared

activities more effectively than traditional methods. [1] This approach not only boosts transparency but also aligns with international best practices observed in countries like Estonia and Georgia, where digital tax systems have significantly curtailed informal sectors. Efforts to integrate advanced analytics into revenue forecasting further promise to refine the allocation processes, ensuring that local budgets reflect actual economic potentials rather than historical precedents.

Decentralization in Uzbekistan's fiscal framework has evolved since independence, with the Budget Code establishing clear delineations between central and local fiscal responsibilities to promote balanced regional growth. Local revenues are categorized into fixed sources, like fees from communal services and natural resource extraction royalties, and regulatory incomes that fluctuate with economic activity levels in each territory. The shadow economy exacerbates disparities by concealing substantial portions of taxable income, particularly in agriculture, trade, and construction sectors that dominate many regions, leading to underfunded public programs and heightened reliance on subsidies from the national budget. To counteract this, the government has implemented electronic invoicing and online cash registers, which facilitate real-time monitoring and reduce opportunities for evasion, ultimately channeling more funds into local coffers. Comparative analyses with neighboring Central Asian states reveal that Uzbekistan's progress in digitalizing tax services has already yielded measurable increases in revenue collection efficiency, though challenges persist in rural areas with limited internet access. Strengthening intergovernmental fiscal relations through performance-based grants encourages local authorities to prioritize revenue enhancement strategies, fostering a culture of accountability and innovation in budget management. Such measures are crucial for achieving the strategic goals of poverty reduction and inclusive development outlined in national policy documents. [2]

The interplay between economic formalization and local budget stability highlights the necessity for multifaceted reforms that address both structural and behavioral aspects of revenue generation in Uzbekistan. Informal economic activities not only deprive regions of vital tax inflows but also distort market competition, disadvantaging compliant businesses and hindering overall productivity growth. By leveraging electronic services in tax administration, authorities can automate processes like declaration filing and payment tracking, which minimizes human intervention and corruption risks while expanding the taxable base through better data accuracy. International experiences, such as those from the European Union member states, demonstrate that integrated digital ecosystems can increase revenue yields by up to 20% in the initial years of implementation, a benchmark Uzbekistan aims to approach through ongoing investments in IT infrastructure. [3] Moreover, incorporating

predictive modeling into revenue planning allows local governments to anticipate fluctuations caused by seasonal economic patterns or external shocks, thereby improving fiscal resilience. This comprehensive strategy ensures that enhancements in revenue formation mechanisms contribute directly to sustainable regional development, aligning fiscal policies with broader socioeconomic objectives.

Main Body

The fight against the shadow economy represents a critical priority for many nations worldwide, including Uzbekistan, where informal activities continue to maintain a significant scale within the national economy. Uzbekistan's shadow economy is estimated at 245 trillion soums, constituting approximately 48% of GDP, according to analyses from the State Tax Committee. This phenomenon encompasses complex socio-economic realities that escape state oversight, often driven by individuals or groups pursuing personal or collective gains through concealed operations that exploit state and non-state assets illegally. In the context of local budgets, such evasion directly undermines revenue formation by reducing collections from key sources like property taxes and shared national levies, which are essential for funding regional infrastructure and social programs. To address this, Uzbekistan has pursued policies aimed at creating a favorable business environment, reinforcing entrepreneurial rights, and providing additional incentives to diminish the informal sector's share. The President's special decree approved the New Uzbekistan Development Strategy for 2022-2026, which outlines measures to reduce informal employment, enhance public involvement in combating the shadow economy, and ensure social protection for those transitioning from informal to formal sectors. [4]

Within the tax system, the widespread adoption of modern information and communication technologies plays a pivotal role in encouraging voluntary fulfillment of obligations by taxpayers, thereby elevating overall tax collections that feed into local budgets. This strategy focuses on limiting human involvement, automating decision-making, and introducing uniform standards to streamline operations across regions. [5] Key directions include transitioning interactions between state tax authorities and taxpayers to remote formats, fully automating relationships via broad application of ICT, and expanding interactive public services. Additionally, establishing efficient electronic data exchange with other government bodies and organizations helps resolve existing bottlenecks in information sharing. In Uzbekistan, these efforts have led to noticeable improvements in revenue predictability for local budgets, as digital tools enable better tracking of economic activities that were previously hidden. For instance, regions with higher digital penetration have reported increased property tax revenues due to enhanced cadastral data integration.

The proliferation of internet networks has not only facilitated state services but also spurred the growth of social media platforms, enabling citizens to engage in communication, information exchange, broadcasting, e-commerce, online education, advertising, and service provision. However, this has simultaneously created avenues for untaxed income generation through online resources, where mechanisms for identifying and taxing such revenues remain underdeveloped in the Tax Code. Currently, only physical persons earning from social networks are required to pay income tax, but without robust enforcement, these inflows often go unreported, affecting local budget revenues derived from personal income tax shares. The absence of visibility into these transactions for tax authorities limits their ability to impose taxes, and even when detected, proving such income lacks a systematic framework. Platforms like Telegram exemplify this, where users create channels, bots, and groups for free advertising, product sales, service delivery, online tutoring, consultations, and increasingly popular delivery services, with payments routed through electronic systems like Click or Payme directly to personal bank cards. [6]

Numerous service providers operate within social networks, including those affiliated with legally registered entrepreneurs who bypass terminal payments in favor of personal card transfers under various pretexts, thereby underreporting turnover and evading taxes that would otherwise contribute to local budgets. This practice diminishes the tax base and results in untaxed profits, while tax authorities lack sufficient mechanisms to detect, analyze, and tax these hidden incomes. Similarly, in commodity trading, citizens establish small online groups with 1,000 to 2,000 subscribers for home delivery or postal shipping of goods, offering convenience that saves time for buyers who pay via bank cards through systems like Click. Assuming an average of 220 such operators per region, the republic-wide total reaches 3,080, each adding a 15% markup on daily sales of 5 million soums, where 85% covers product costs. Calculations reveal daily turnover of 15.4 billion soums, monthly at 462 billion soums, with a taxable base after deducting costs leading to approximately 2.8 billion soums in uncollected 4% taxes, directly impacting local revenue shortfalls. [7]

From these observations, analyzing inflows to citizens' plastic cards—excluding salaries—by purpose and amount could identify patterns where sums exceeding 5 million soums occur up to 10 times monthly, subjecting the excess to a 1% tax rate to curb the shadow economy and expand the tax base for local budgets. Establishing a dedicated unit within the state tax service for scrutinizing plastic card transactions would facilitate this taxation and oversight. Under the President's Decree PQ-5252 dated October 4, 2021, on improving cash register usage in retail, catering, and household services, from January 1, 2022, individuals scanning purchase receipt fiscal

marks via a special mobile app receive 1% cashback on their bank cards from the republican budget at month's end. [8] Violations such as non-use of cash registers or terminals, artificial price manipulation based on payment method, unregistered entrepreneurship, or fake marking on mandatory labeled products trigger fines, with informants receiving 20% of the penalty amount.

Proposals include ensuring full QR code affixation in all retail outlets to prevent tax violations, protect consumer rights, and enable electronic appeals via mobile apps. Additionally, installing electronic information monitors in markets to continuously display tax updates, enhance economic literacy, appeal procedures, and videos from the State Tax Committee would promote compliance. Overall, a primary driver of the shadow economy stems from consumers not demanding receipts in dealings with entrepreneurs, particularly in trade and catering, fostering unfair competition. [9] If every consumer insists on receipts, the informal share would decline, evasion cases decrease, and budget inflows rise, propelling national economic advancement and bolstering local fiscal capacities.

Fiscal decentralization in Uzbekistan involves granting regions greater control over revenue sources to stimulate local economic initiatives, yet the shadow economy poses a substantial barrier by siphoning potential taxes away from formal channels. Property and land taxes, as primary own-source revenues for local budgets, suffer when informal land use or unregistered properties evade assessment, leading to chronic underfunding in rural districts. Digital cadastral systems, integrated with tax platforms, offer a solution by automating property registrations and valuations, ensuring accurate revenue projections. Studies indicate that regions implementing such systems have seen up to 15% growth in property tax collections annually. [10] Moreover, non-tax revenues from administrative fees and asset sales can be optimized through online portals that transparently auction public resources, minimizing corruption and maximizing returns. This multifaceted approach aligns with global trends where digital governance has transformed local fiscal landscapes.

Intergovernmental transfers remain a cornerstone of local budget formation in Uzbekistan, compensating for revenue disparities across regions, but their effectiveness hinges on reducing informal activities that distort needs assessments. The Budget Code stipulates formulas for allocating shares of national taxes like VAT and excise duties, yet shadow operations in high-value sectors inflate perceived economic weaknesses, prompting excessive transfers. [11] Electronic tax filing mandates for businesses have begun to reveal hidden turnovers, allowing more precise transfer calculations based on actual taxable activities. In practice, provinces with advanced digital adoption report lower transfer dependencies, as formalized economies generate

sufficient own revenues. Enhancing data analytics in transfer mechanisms could further refine equity, ensuring funds target genuine development needs rather than compensating for evasion losses. Such refinements promote fiscal responsibility at the local level.

The role of small and medium enterprises in bolstering local revenues cannot be overstated, as their formalization directly amplifies tax inflows amid Uzbekistan's push for entrepreneurial growth. Informal SMEs, prevalent in trade and services, evade contributions to local budgets through unreported sales, but electronic invoicing requirements compel transparency. Platforms like the State Tax Committee's online portal enable seamless declaration and payment, reducing administrative burdens while capturing previously untaxed transactions. Evidence from pilot regions shows a 12-18% revenue uptick post-implementation. Furthermore, incentives such as reduced rates for digital compliers encourage shifts from shadow to formal operations, expanding the base for property and income taxes. [12] This strategy not only sustains local budgets but also fosters inclusive economic ecosystems.

Challenges in rural areas, where internet infrastructure lags, necessitate targeted investments to extend digital tax services and curb shadow activities impacting local revenues. Mobile apps for tax reporting, coupled with offline syncing capabilities, bridge connectivity gaps, allowing farmers and small traders to comply without urban travel. Such innovations have proven effective in similar contexts, yielding higher land tax collections by formalizing agricultural leases. Partnerships with telecom providers to subsidize data access further democratize these tools, ensuring equitable revenue growth across territories. Ultimately, these efforts mitigate regional imbalances, channeling more funds into essential services like education and healthcare. [13]

International benchmarks provide valuable insights for Uzbekistan's revenue enhancement strategies, particularly in combating shadow economies through integrated digital ecosystems. Countries like Kazakhstan have successfully reduced informal sectors by 10-15% via unified tax portals that link banking, customs, and fiscal data. Adapting similar models could amplify Uzbekistan's local budget inflows by automating cross-verifications of transactions. Moreover, blockchain-based tracking for supply chains minimizes evasion in trade-heavy regions, boosting VAT shares allocated locally. Collaborative forums with regional peers facilitate knowledge exchange, tailoring best practices to local contexts. This global perspective enriches domestic reforms, ensuring resilient revenue mechanisms. [14]

Economic modeling underscores the potential gains from shadow economy reduction, projecting substantial uplifts in local budget capacities through enhanced tax administration. Simulations based on current data suggest that a 10% informal sector

contraction could yield an additional 5-7% in regional revenues annually. [15] Digital audit tools, employing AI for anomaly detection, expedite this by identifying undeclared incomes swiftly. Regions piloting these technologies report improved compliance rates, translating to higher investments in public goods. Integrating such models into policy planning refines revenue forecasts, aligning budgets with dynamic economic realities.

Stakeholder engagement, including public awareness campaigns, is vital for sustaining revenue growth by fostering a culture of compliance against shadow practices. Educational initiatives via social media and community workshops demystify tax processes, encouraging voluntary declarations that bolster local funds. Feedback mechanisms in digital platforms allow users to suggest improvements, enhancing user-friendliness and adoption. Successful cases in urban centers demonstrate that informed citizens demand receipts more frequently, pressuring businesses to formalize. This bottom-up approach complements top-down reforms, creating synergistic effects on revenue formation. [16]

Aspect of Local Budget Revenue Formation	Key Challenges from Shadow Economy	Proposed Digital Enhancements	Projected Impact on Revenues
Property Tax Collection	Unregistered properties and informal land use evade assessments, leading to revenue shortfalls in rural areas.	Integration of cadastral databases with electronic tax platforms for automated valuations and registrations.	Increase of 10-15% in annual collections through better coverage and accuracy.
Land Tax Mobilization	Concealed agricultural activities reduce taxable base, affecting funds for local infrastructure.	Mobile apps for offline reporting synced with central systems to capture remote transactions.	Enhancement of 8-12% in revenue yields by formalizing leases and usages.
Shared VAT Allocations	Undeclared sales in trade sectors distort economic indicators, resulting in	Real-time electronic invoicing linked to banking data for transparent turnover tracking.	Boost of 12-18% in local shares due to expanded formal tax base.

	inequitable distributions.		
Personal Income Tax Shares	Informal employment hides wages, limiting contributions to regional social programs.	AI-driven analytics on card transactions to detect and tax excess inflows.	Growth of 5-10% in inflows from formalized personal earnings.
Non-Tax Revenues from Fees	Unmonitored administrative services lead to underreported collections.	Online portals for fee payments and auctions of public assets with blockchain security.	Rise of 7-14% through minimized corruption and maximized returns.
Excise Duty Distributions	Shadow production in manufacturing evades duties, impacting environmental and health funding.	Digital labeling and e-freight bills for supply chain monitoring.	Improvement of 9-15% in allocated funds via reduced evasion.
Resource Extraction Royalties	Informal mining and extraction activities bypass royalties, depriving resource-rich regions.	Geospatial tech integrated with tax systems for activity verification.	Augmentation of 11-16% in revenues from accurate oversight.
Administrative Fines and Penalties	Lack of reporting on violations reduces penalty inflows to budgets.	Automated notification and appeal systems via mobile apps.	Elevation of 6-11% through efficient enforcement and collections.
Intergovernmental Transfer Adjustments	Inflated informal indicators skew needs assessments, prompting excessive subsidies.	Predictive modeling using digital data for precise formula calculations.	Optimization leading to 4-8% savings redirected to own-source enhancements.

Overall Fiscal Sustainability	Cumulative evasion erodes budget stability, hindering development investments.	Comprehensive digital ecosystems linking all revenue streams.	Holistic increase of 15-20% in local budget capacities over medium term.
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Conclusion

The examination of Uzbekistan's local budget revenue mechanisms reveals that persistent shadow economy activities significantly hinder fiscal inflows, but targeted digital interventions offer substantial pathways for improvement. By integrating electronic tax services, regions can automate compliance processes, reducing evasion and expanding taxable bases across key sectors like agriculture and trade. This not only elevates own-source revenues such as property and land taxes but also refines shared national allocations, ensuring more equitable resource distribution. International comparisons affirm that such reforms yield measurable gains in budget sustainability, fostering resilient economic structures. Stakeholder involvement through awareness initiatives further reinforces these gains, promoting a culture of transparency and accountability. Ultimately, these strategies align with national development goals, channeling enhanced revenues toward inclusive growth and poverty alleviation. First conclusion: Digitalization of tax administration effectively curtails informal activities, boosting local revenues by capturing previously hidden transactions. Second conclusion: Enhanced interagency data exchange minimizes revenue leakages, optimizing fiscal transfers and own-source collections. Third conclusion: Incentives for voluntary compliance, like cashback programs, encourage formalization, directly increasing budget inflows. Fourth conclusion: Comprehensive monitoring via AI and analytics refines revenue forecasting, supporting long-term fiscal planning.

Advancements in local budget formation underscore the need for ongoing reforms that address structural vulnerabilities exacerbated by informal economies. Electronic platforms have demonstrated efficacy in real-time oversight, diminishing opportunities for evasion while streamlining administrative burdens for taxpayers. This leads to heightened collections from diverse sources, bolstering regional capacities for public investments. Policy frameworks that prioritize rural digital access ensure inclusive benefits, mitigating disparities between urban and peripheral areas. Collaborative efforts with international partners enrich these mechanisms, incorporating proven methodologies for sustained impact. In essence, a holistic approach integrating

technology, education, and incentives propels Uzbekistan toward fiscal independence and economic vitality.

Recommendations

Based on the first conclusion regarding digitalization's role in curbing informal activities, implement a nationwide rollout of AI-enhanced transaction monitoring systems specifically tailored for regional tax offices, incorporating machine learning algorithms to predict and prevent evasion patterns unique to local economic profiles, thereby ensuring proactive revenue protection without overburdening small businesses. Drawing from the second conclusion on interagency data exchange, establish a unified blockchain-based platform that securely links banking, customs, and tax databases across all regions, enabling automated cross-verification of financial flows and reducing administrative silos, which would facilitate seamless revenue allocation adjustments based on real-time economic data.

In line with the third conclusion emphasizing incentives for compliance, introduce tiered rebate programs for enterprises demonstrating consistent use of electronic receipts and declarations, scaled according to regional economic indicators, to stimulate formalization in underrepresented sectors like artisanal crafts and seasonal agriculture, fostering organic growth in local tax bases.

Stemming from the fourth conclusion on improved forecasting through analytics, develop customized simulation tools for local budget planners that incorporate scenario-based modeling of shadow economy reductions, integrated with satellite data for verifying land and property usages, allowing for dynamic adjustments in revenue strategies that anticipate external economic shocks.

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