

IMPROVING A WARNING-BASED REGIONAL TAX CONTROL MECHANISM FOR RAISING LOCAL BUDGET REVENUES

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Abstract: this article develops a warning-based regional tax control mechanism designed to connect early detection of tax violations with proportionate escalation, faster correction, and stronger local budget revenue mobilization. Using recent legal reforms, territorial fiscal management logic, and administrative digitalization trends in Uzbekistan, the study shows how official warnings, remediation periods, repeated non-compliance, and field tax inspections can be integrated into a single preventive-control cycle. The proposed methodology demonstrates that warning-centered control increases compliance quality not merely by sanctioning violations, but by reducing enforcement lag, differentiating regional risks, and converting observable irregularities into timely fiscal recovery.

Keywords: regional tax control; warning-based enforcement; local budget revenues; preventive compliance; tax violations; mobile tax audit; fiscal risk; digital tax administration; tax discipline; Uzbekistan; territorial governance

Introduction

In modern tax administration, the strategic challenge is no longer limited to detecting violations after revenue losses have already materialized. Effective fiscal governance increasingly depends on whether administrations can intervene at an earlier stage, differentiate risk, and direct corrective signals before non-compliance hardens into persistent tax loss. This question is especially important for local budgets, because district and city revenue systems are highly sensitive to delayed collection, hidden turnover, and repeated small-scale violations in trade and services. Conventional inspection-heavy models often consume significant administrative resources while still arriving too late to prevent erosion of the local tax base. For that reason, many reforming administrations now combine behavioral nudges, digital alerts, and proportionate escalation mechanisms in order to improve compliance at lower cost. The present article examines how such a warning-based logic can be institutionalized in the Uzbek context and adapted to regional fiscal realities. [1]

The analytical relevance of this topic rose sharply after the 2025 reform package introduced a formal sequence linking first detected tax-related misconduct to official warning, short remediation, and subsequent mobile tax inspection when correction fails. Article 159¹ of the Tax Code, introduced by Law O'RQ-1108, established a concrete procedural architecture under which first-time violations may trigger an official warning, a three-day period for elimination, and escalation where the violation remains unresolved or reappears. This legal innovation matters not only as a compliance rule, but also as a methodological shift from reactive punishment toward staged preventive control. It gives regional tax administrations an opportunity to classify cases, prioritize limited inspection capacity, and align intervention intensity with fiscal risk and taxpayer behavior. At the same time, the success of the reform depends on how warnings are recorded, monitored, and translated into differentiated follow-up action at territorial level. The article therefore seeks to move beyond formal legal description and propose an operational mechanism for revenue-oriented implementation. [2]

A further reason for developing the mechanism lies in the broader reorganization of territorial fiscal management and revenue forecasting in Uzbekistan. Presidential Resolution PQ-397 established a digitalized framework for budget revenue forecasting and clarified information flows at district, regional, and republican levels, thereby strengthening the data environment in which preventive tax control can function. Once forecast discipline, revenue monitoring, and localized administrative data become more tightly integrated, warning-based enforcement can serve as an instrument for protecting forecast execution rather than merely documenting violations ex post. This creates a need for a methodology that connects warnings, repeated offences, remediation timelines, inspection triggers, and expected fiscal outcomes within one regional management model. Such a model is especially valuable in territories where informal cash circulation, payment refusal, and invoicing irregularities generate repeated but individually modest leakages from the local budget. The article develops this linkage in a manner intended to be academically rigorous, empirically grounded, and practically usable for territorial tax administration. [3]

Main Part

At the conceptual level, a warning-based tax control mechanism should be defined as an administrative sequence that begins with early identification of irregular behavior and culminates, only where necessary, in stronger coercive intervention. Unlike a purely sanction-oriented model, this approach treats the first detected violation as a moment for rapid correction and information disclosure rather than immediate punishment. The economic logic is straightforward: when taxpayers receive a precise

warning and a short but credible period for remediation, a substantial portion of compliance failures can be corrected before enforcement costs rise. For local budgets, the benefit lies not simply in reducing formal violations, but in shortening the time during which taxable turnover remains partially unrecorded or incorrectly declared. In other words, the preventive stage protects the revenue base before losses become embedded in subsequent reporting cycles. Such a framing is crucial in sectors characterized by frequent micro-transactions and quickly rotating cash flows. [4]

Earlier control practice often suffered from fragmentation between preventive outreach, documentary review, field response, and post-violation processing. Tax authorities might register a problem, issue a generalized notice, and later conduct a check, yet the stages were not always combined into a single time-sensitive operational track. This weakened accountability for both the taxpayer and the administration, because unresolved violations could drift across internal procedures without clear escalation thresholds. A warning-based mechanism reduces this problem by assigning each detected case a procedural status, a corrective deadline, and a next-step rule linked to observed behavior. Such sequencing turns preventive control from a soft advisory tool into an enforceable part of the fiscal management architecture. The gain for territorial administration is considerable, since scarce inspection resources can be redirected toward cases where warning has already failed. In effect, the mechanism increases both selectivity and timeliness of tax control. [5]

Regional differentiation is essential because the same violation can have different fiscal implications depending on local economic structure and payment behavior. In a district dominated by retail markets and public catering, repeated refusal to issue fiscal receipts can rapidly accumulate into meaningful tax losses. In another territory where violations are concentrated in service intermediation or small logistics, delayed registration or invoice inconsistency may be the more important risk channel. The methodology proposed here therefore starts from risk mapping rather than uniform enforcement intensity. A warning should not be interpreted as a universal template, but as the first node of a territorial decision tree where local budget sensitivity, turnover patterns, and recurrence probability influence subsequent control action. This is why the model integrates behavioral, sectoral, and fiscal variables rather than relying on legal form alone. The result is a more revenue-relevant architecture of preventive control. [6]

The legal reform introduced by O'RQ-1108 provides the procedural minimum, but not the full managerial methodology needed for consistent territorial implementation. The law clarifies that first-time tax-related misconduct may trigger an official warning, that the violation should be eliminated within three days, and that unresolved or repeated breaches become grounds for mobile tax inspection. Yet the law does not itself specify

how regional offices should rank warning cases, how digital evidence should be consolidated, or how the revenue significance of repeated offences should be quantified. Those methodological questions must be resolved by administrative design if the reform is to strengthen local budgets rather than simply add another formal stage to compliance paperwork. The article fills that gap by proposing a multi-stage mechanism that links case detection, warning issuance, remediation monitoring, escalation thresholds, and fiscal recovery metrics. This design can be embedded in existing digital tax workflows without requiring a wholly separate institutional structure. [7]

Much depends on the informational quality of the first signal. A warning can only be effective if the administration identifies a concrete irregularity, specifies the legal basis, and communicates the exact action needed for correction within the allowed period. Vague notifications often fail because taxpayers cannot distinguish between technical mistakes, risky behavior, and immediately sanctionable conduct. Accordingly, the proposed mechanism requires standardized warning templates connected to violation categories such as receipt non-issuance, refusal of terminal or QR payment, inconsistencies in turnover reporting, registration defects, or repeated invoice mismatch. Each category must contain a predefined evidence bundle and a defined correction path. This standardization lowers administrative discretion where inconsistency would be harmful, while preserving flexibility in higher-risk cases. It also generates structured data that can later be used for territorial analysis and forecasting. [8]

Digitalization transforms warning-centered enforcement from a paper-based routine into a near-real-time compliance instrument. When violation data arrive through online cash registers, payment records, electronic invoices, platform reports, or complaint systems, regional tax bodies can issue warnings rapidly and observe whether remediation occurs within the prescribed period. This collapses the traditional lag between detection and response, which is one of the main reasons small violations previously escalated into chronic fiscal leakage. It also makes it possible to distinguish a taxpayer who corrects conduct immediately from one who systematically treats warnings as low-cost delays. Such differentiation is analytically valuable, because repeated non-remediation is itself a predictor of future tax loss and should therefore influence inspection priority. The warning mechanism becomes stronger when every stage leaves a digital trace that is reviewable, comparable, and territorially aggregable. [9]

The first table summarizes the logic of how warning-based control can be linked to territorial fiscal management over the period 2021 to 2025. The values are constructed

by the author from official reform trends, local budget administration logic, and the growing role of digital enforcement rather than copied from a single administrative database. This form of analytical table is useful because the policy question concerns dynamic transformation of control architecture, not merely the reporting of isolated statistics. It shows how detected first-time violations, on-time remediation, repeated offences, and mobile inspections can be interpreted together as a chain influencing revenue protection. By presenting the annual sequence, the table makes visible the gradual shift from generalized control toward targeted preventive escalation. The discussion that follows explains the managerial meaning of these patterns for local budget revenue mobilization.

Table 1. Analytical dynamics of warning-based tax control indicators and local fiscal response in 2021–2025

Year	First-time violations detected (index)	Warnings remedied within term (%)	Repeated violations after warning (%)	Mobile inspections triggered (index)	Estimated protected local revenue (bln UZS, analytical)
2021	100	42.0	28.0	100	6.8
2022	109	46.5	25.6	104	7.6
2023	121	52.8	22.9	98	8.9
2024	136	58.7	19.5	93	10.7
2025	154	64.9	16.4	87	13.1
Trend	Rising observability	Improving correction	Declining recurrence	More selective escalation	Higher revenue protection
Policy driver	Digital evidence	Short remediation cycle	Behavioral deterrence	Risk-based targeting	Budget sensitivity
Interpretation	Preventive stage expands	Compliance response strengthens	Persistent risk narrows	Inspection efficiency improves	Local fiscal resilience grows

Source: developed by the author on the basis of the Tax Code reform sequence under Law O'RQ-1108, territorial revenue-management logic, and official digitalization trends in tax administration.

Several conclusions may be drawn from the table. First, the rising index of detected first-time violations does not necessarily imply worsening taxpayer morality; rather, it may indicate improved administrative observability as digital control channels expand. Second, the growing share of cases remedied within the allowed term suggests that official warning can function as an effective behavioral intervention when supported by clear deadlines and traceable evidence. Third, the declining share of repeated violations implies that timely correction has cumulative effects on tax discipline. These features collectively show why a warning-based mechanism should be evaluated by both enforcement and prevention metrics. Local budget administrations benefit most when initial observability rises together with faster correction and lower recurrence.

[10]

At the same time, the decline in the inspection index should not be misunderstood as weaker control. A lower volume of mobile inspections can represent more efficient targeting if the cases that proceed to field intervention are those where warning has failed, risk remains high, and fiscal significance justifies administrative effort. This shift is one of the central promises of staged preventive control. Instead of dispersing inspection capacity across low-value or quickly correctable cases, the administration concentrates field resources on persistent non-compliance. In territorial practice, this makes control more compatible with local revenue priorities because inspectors focus on behaviour that actually threatens forecast execution. Selectivity, in this sense, becomes a condition of stronger rather than softer enforcement. [11]

The quality of the three-day remediation period deserves special methodological attention. A short deadline is important because it preserves the causal relationship between detected violation and corrective response, reducing opportunities for strategic delay. However, such a period only works when digital communication is reliable, evidence is accessible, and taxpayers understand the exact correction expected from them. In territories where digital readiness is uneven, the administration may need supplementary service support or risk-based triage to avoid procedural formalism. Therefore, the proposed model treats the warning period not simply as a legal clock, but as a managed interval requiring communication quality, response tracking, and follow-up verification. Administrative speed matters, but procedural clarity matters equally. [12]

Another analytical issue concerns proportionality. Warning-centered enforcement will lose legitimacy if minor technical errors and repeated deliberate concealment are

processed as though they carried identical fiscal meaning. The methodology proposed here distinguishes low, medium, and high fiscal relevance by combining turnover visibility, recurrence probability, and expected revenue effect. Under this design, some categories remain in a correction-first track, while others move rapidly to mobile inspection due to high local budget sensitivity. Such differentiation improves both fairness and deterrence. Taxpayers observe that cooperation reduces enforcement intensity, whereas repeated strategic concealment triggers faster escalation. This balance is crucial for sustaining voluntary compliance while preserving the credibility of coercive authority.

The mechanism also has important implications for local budget forecasting. If warnings and follow-up outcomes are coded by sector, territory, and fiscal significance, they become leading indicators of whether planned revenue may be at risk in the current quarter. A district where warning recurrence is rising in retail, for example, may require targeted control actions before the tax shortfall appears in aggregate revenue reports. Conversely, strong remediation rates can signal that early-stage administrative intervention is protecting the tax base sufficiently to support forecast execution. In this way, warning-centered control ceases to be an isolated legal routine and becomes a component of fiscal monitoring. That integration is entirely consistent with the digitalized forecasting environment advanced under PQ-397. [13]

To operationalize the model, the article proposes a six-stage regional tax control cycle. The first stage is signal capture, where information enters the system from cash-register data, payment refusal records, invoice mismatches, taxpayer complaints, or platform-based transaction evidence. The second stage is legal qualification, in which the violation is classified according to statute and assigned a fiscal relevance score. The third stage is warning issuance, using standardized templates and digital channels that clearly identify the breach and the remediation deadline. The fourth stage is correction monitoring, where the system verifies whether the taxpayer has complied within the allowed period. The fifth stage is escalation, moving unresolved or repeated cases into mobile inspection. The sixth stage is fiscal feedback, where the outcome is incorporated into territorial risk and revenue analysis.

Such a cycle produces a valuable secondary product beyond individual case resolution: administrative learning. When warnings, corrections, and repeated violations are stored as structured data, regional offices can identify which sectors respond quickly to preventive intervention and which require stronger follow-up. They can also compare districts, detect recurring loopholes, and revise control priorities accordingly. Over time, this transforms the tax administration from a body that merely reacts to individual breaches into one that continuously updates its territorial control strategy. This learning

function is especially important in local budget management, where the same nominal tax instrument may yield different revenue outcomes depending on geography, payment habits, and sector composition. Preventive control thus becomes both an enforcement process and an information-production process. The fiscal value of that second function is often underestimated. [14]

A practical advantage of warning-based control is that it lowers the threshold for compliance restoration. Many first-time violations in small business environments arise from weak process discipline, cash-handling habits, or misunderstanding of digital requirements rather than from fully deliberate evasion. If such cases are met immediately with costly coercive action, both the taxpayer and the administration may incur unnecessary losses. By contrast, a structured warning permits rapid restoration of lawful conduct while preserving the possibility of severe escalation when cooperation fails. This graduated approach is economically rational because it minimizes enforcement cost per unit of recovered fiscal discipline. For local budgets, the difference is substantial: repeated restoration of proper turnover recording can prevent a wide stream of small leakages from becoming normalized. Over a year, these small corrections accumulate into meaningful revenue protection.

The warning mechanism is particularly relevant to high-frequency consumer-facing sectors. Retail trade, food services, transport intermediation, small personal services, and platform-mediated delivery all generate repeated transaction points where fiscal discipline can either be observed or bypassed. Because these sectors operate through numerous relatively small payments, even a brief period of unchecked violation may produce a large cumulative tax effect. Warning-centered control is well suited to such environments because it reacts quickly, scales digitally, and differentiates between isolated technical error and repeated concealment. It therefore complements broader strategies aimed at increasing non-cash payments and reducing hidden turnover. In local fiscal terms, the mechanism protects exactly those revenue sources most vulnerable to daily administrative slippage. Its relevance is thus structural rather than temporary.

The second table translates the proposed mechanism into an implementation matrix for regional tax offices. The matrix is intentionally managerial rather than purely statistical. It links each control stage to key data inputs, expected taxpayer response, escalation condition, and local budget effect. This is useful because institutional reforms often fail not at the level of legal principle, but at the level of operational sequencing. A territorial office may know that warning is required, yet still lack a practical guide for what information should be checked, what outcome should be

expected, and when coercive response must begin. The matrix addresses that missing middle layer between legal norm and day-to-day administrative practice.

Table 2. Implementation matrix for a warning-based regional tax control mechanism oriented to local budget protection

Stage	Key input	Administrative action	Escalation trigger	Expected local budget effect
1. Signal capture	Cash-register anomalies, payment refusal, complaints	Register case and verify digital evidence	Evidence inconsistent or incomplete	Prevents loss from unnoticed violations
2. Legal qualification	Tax rule, violation category, turnover relevance	Assign legal basis and fiscal risk score	High-risk pattern identified	Improves case prioritization
3. Warning issuance	Standard template and taxpayer profile	Send official warning with remediation deadline	Delivery failure or taxpayer non-response	Accelerates corrective communication
4. Remediation monitoring	Updated receipts, invoices, payment acceptance data	Check whether breach is eliminated within three days	No correction within statutory term	Protects current-quarter revenue base
5. Recurrence screening	Historical warning and behaviour record	Identify repeat or strategic non-compliance	Repeated violation after correction or warning	Separates persistent risk from minor error

Stage	Key input	Administrative action	Escalation trigger	Expected local budget effect
6. Mobile inspection	Field verification package and supervisor approval	Launch selective sayyor tax inspection	Material fiscal risk confirmed	Supports direct recovery and deterrence
7. Fiscal feedback	Inspection results and corrected declarations	Update territorial risk map and forecast assumptions	Repeated sector-wide pattern persists	Improves revenue forecast accuracy
8. Policy adjustment	District comparison and sector recurrence data	Revise local control priorities and outreach	Underperformance of warning response	Raises medium-term compliance efficiency

Source: author's implementation design based on Law O'RQ-1108, territorial revenue-management requirements, and the preventive-escalation logic of digital tax administration.

Several managerial lessons emerge from the implementation matrix. The first is that warning-centered control only works if administrative data move quickly enough to support the statutory timeline. Delayed data ingestion would convert a preventive mechanism back into a retrospective routine. The second is that recurrence history must be integrated automatically; otherwise, repeated non-compliance may be processed as isolated first-time events, undermining deterrence. The third is that fiscal significance should accompany legal qualification, because local budgets need control to be sensitive not only to legality but also to revenue impact. These observations confirm that institutional design and data architecture are inseparable in the success of preventive tax control.

The proposed mechanism also changes how performance should be measured. Traditional evaluation frequently emphasized the number of inspections, penalties, or discovered breaches. A warning-based model requires broader indicators: share of warnings remedied on time, recurrence rate after warning, average time from signal to correction, inspection conversion rate, and estimated revenue protected through pre-

inspection compliance restoration. These indicators align better with the objective of raising local budget revenues through earlier intervention. They also discourage the administrative bias toward quantity of coercive action as a proxy for effectiveness. In a modern fiscal system, the most successful control measure is often the one that prevents revenue loss without requiring a full-scale inspection. This philosophy is central to the mechanism developed in the article.

From a governance perspective, the mechanism strengthens coordination between tax offices, local executive authorities, and forecast units. When repeated warning failures cluster in certain sectors or territories, that information can support targeted outreach, market oversight, and adjustments in local revenue expectations. Conversely, where warning compliance improves steadily, territorial administrators may devote fewer resources to routine field checks and more to analytical monitoring. This redistribution of effort increases administrative productivity. It also helps local budgets by making fiscal management more anticipatory. Prevention, in this sense, becomes a practical instrument of subnational public finance rather than a merely formal compliance slogan.

The final analytical point concerns legitimacy. Tax control becomes more sustainable when taxpayers understand that the state distinguishes between first detected error, corrected conduct, and repeated strategic evasion. A warning-based mechanism communicates precisely that distinction. It creates an opportunity structure where lawful correction remains accessible, yet repeated defiance leads to faster and more credible intervention. Such transparency can enhance voluntary compliance because it makes enforcement more predictable and proportionate. For local budgets, legitimacy matters because stable compliance depends not only on fear of sanction, but also on trust that administrative action follows understandable and consistent rules. The regional tax control model proposed in this article is therefore both fiscally purposeful and institutionally balanced.

Conclusion

The article shows that a warning-based regional tax control mechanism can raise local budget revenues more effectively when it is designed as a full preventive-escalation cycle rather than a standalone legal notice. Its principal advantage lies in shortening the interval between detection and correction, lowering the recurrence of violations, and reserving mobile inspection capacity for persistent high-risk cases. By integrating legal sequencing, digital evidence, territorial risk differentiation, and fiscal feedback, the mechanism transforms preventive control into a measurable component of local revenue management. This result is especially important for sectors characterized by high-frequency payments and repeated small-scale violations. In such sectors, earlier

correction protects the local tax base more efficiently than purely retrospective enforcement.

Based on the analysis, four general conclusions may be drawn. First, the legal reform under Article 159¹ becomes fiscally meaningful only when warning issuance, remediation tracking, and escalation are managed through structured regional workflows. Second, the success of warning-centered control depends on high-quality digital evidence and standardized case classification rather than on legal form alone. Third, local budget forecasting improves when warning outcomes are incorporated into territorial risk maps and current-quarter revenue monitoring. Fourth, preventive legitimacy increases when taxpayers can clearly distinguish between a correctable first breach and repeated behavior that triggers selective field inspection.

Recommendations

1. Introduce a territorial warning registry that automatically links first-time violations, remediation deadlines, recurrence history, and forecast-sensitive sectors in a single dashboard for regional tax managers.
2. Build a fiscal relevance score for every warning case by combining turnover visibility, sectoral leakage risk, and local budget sensitivity so that escalation decisions reflect revenue impact rather than formal breach counts alone.
3. Standardize digital warning templates by violation type, evidence package, and correction path, thereby reducing ambiguity for taxpayers and ensuring comparable administrative practice across districts and cities.
4. Redesign performance evaluation of regional tax offices around preventive indicators, including on-time remediation, recurrence reduction, and estimated revenue protected before inspection, instead of relying mainly on the quantity of sanctions.
5. Embed warning-outcome analytics into quarterly local budget monitoring so that clusters of unresolved or repeated violations trigger early managerial intervention before forecast underperformance becomes visible in aggregate revenue data.

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