



INCREASING THE INDEPENDENCE OF LOCAL BUDGETS IN THE SOCIAL AND ECONOMIC DEVELOPMENT OF THE REGIONS

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Abstract

In all countries, according to their geographical location, diversity of industries, and other factors initial production, income and social capabilities of the regions are not the same. However, one of the most important tasks of the state is to ensure a stable growth of welfare of its citizens and to create equal conditions for the development of all regions. This is achieved by redistributing the state's financial resources through inter-budgetary relations, along with other economic instruments. Increasing the independence of local budgets will help to achieve social economic development. This paper studies current situation in budgeting and proposes the advantages of increasing its independence.

Keywords: Local Budget, State Budget, Budget Revenue, Uzbekistan

INTRODUCTION

Budget structure of the republic of Uzbekistan

Budget system. In a broad sense, the budget system consists of a combination of central and local budgets regulated by law, as well as a combination of taxes and fees, and intergovernmental fiscal transfers based on economic relations. It should be suitable for form of the government. In a narrow sense, the budget system is the sum of budgets of all levels in the country. The Republic of Uzbekistan is a unitary state. As the unitary state, the budget system of the Republic of Uzbekistan consists of two stages - the republican budget and local budgets. These budgets serve as an organizational form of the state budget in a country. The state budget combines the republican budget, the budget of the Republic of Karakalpakstan (autonomous republic within Uzbekistan) and local budgets.



At present, the state budget is consolidated by the state budgetary funds, which together with the state budget form the consolidated budget (Figure 1).

The Law of the Republic of Uzbekistan “On the Budget System” of 14 December 2000 establishes the legal basis for the functioning of the budgetary system and the budget system. According to this Law, “the budget system describes the budgets and budget recipients at different levels, the principles of the organization and establishment of budgets, the relationship between them in the budget process”

The budget of the republic is the central part of the budget system. The budget of the Republic shall be formed and used in accordance with the procedure established by the Law "On Budget System" and other legislative acts. The Republic's budget is a part of the state budget used to finance publicly-funded activities, envisaging the sources of income and the amount of revenue from them, as well as the amount and amount of funds allocated for specific purposes throughout the fiscal year. (Article 5 of the Law “On Budget System”)

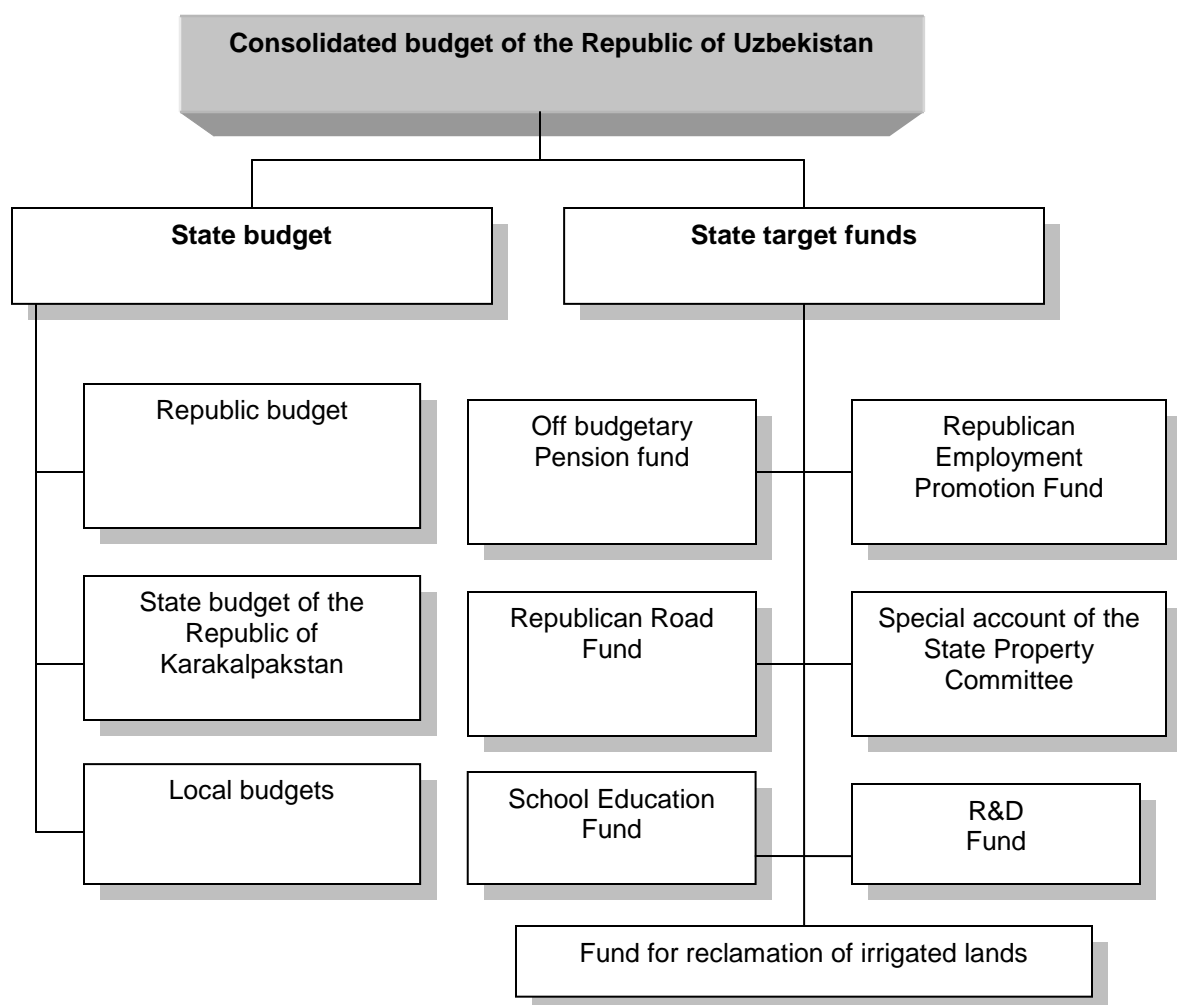


Figure 1 Structure of the state consolidated budget of the Republic of Uzbekistan
Source: The Law of the Republic of Uzbekistan “On the Budget System” of 14 December 2000

In Uzbekistan, the sources of revenue generation of each local budget are defined by certain laws, and it is legally protected that funds from these sources will be received in full and in a timely manner.

Each of the laws and regulations currently being drafted by the government should serve the stability, resilience and independence of our nation. It is well-known that local budgets, as an important part of the public finance system, play an important role in the implementation of social and economic policies on the ground.

Based on this, it is important to strengthen the legal framework to ensure the financial sustainability of local budgets. That is, strengthening the legal basis of each revenue item of the regional budgets, ensuring their unconditional inflow to the relevant budget, and the development of new sources of income will contribute to the stabilization of the budget.

The Budget Code of the Republic of Uzbekistan identifies sources of revenue generation and directions for their use in local budgets. Revenues of the budget of the Republic of Karakalpakstan, local budgets of provinces and Tashkent city are formed from several sources of income. They can be conditionally divided into 2 groups.

I. **Local Budget revenues** - These revenues are legally attributed to fully local budgets. that is, local taxes and mandatory levies that form in this province or district. One of the major tasks that local financial bodies face today is to increase their share of their revenues in the total revenues of local budgets. As regional budgets increase their revenues, they become financially independent, reducing their dependence on higher budgets, for example, provincial or national budgets, and as a result, the national budget contributes to economic development, further development of the country and welfare of the population. Currently, according to Article 52 of the Budget Code, the following are the local budgets revenues:

- a) Local taxes and other mandatory payments. Local taxes and fees - for the purpose of creating a source of social and economic development of the territory, reproduction of natural and other material resources, creation of necessary conditions for the functioning of state and local governments.
- b) Non-refundable receipts from legal entities and individuals, as well as from foreign countries. These revenues include gifts in the form of gifts, gifts, as well as free donations.
- c) Income from markets. Income from the various markets (dehkan markets, commodity markets, livestock markets, etc.) located in the respective administrative areas (one-time payments) are also included in local revenues.
- d) Other income. Income from the sale of property transferred to the state, income from the placement, rent and sale of state assets according to the established norms, state duties, fees, indemnities and penalties to the budget of the Republic of Karakalpakstan, local budgets of

provinces and Tashkent city. , the property which is to be transferred to the state revenue under the right of inheritance revenues from sale and other incomes in accordance with the legislation. The importance of local taxes in the tax system is determined by their number and their role in total tax revenues. Local taxes are the primary source of income for local governments and their types are determined by the tax legislation of each country. Since the introduction of local taxes to the present day, changes in their structure have not only been quantitatively but also substantially. To date, new species have been introduced and are being effectively harvested.

Table 1 Share of local taxes in state budget revenues

Indicators	Years									
	2015		2016		2017		2018		2019(planned)	
	Billion UZS	%	Billion UZS	%	Billion UZS	%	Billion UZS	%	Billion UZS	%
Revenues (excluding target funds)	36493,3	100	41043,5	100	49681,0	100	79099,1	100	102627,6	100
Local taxes	4 122,3	11,3	4 879,2	11,9	5691,5	11,5	5654,2	7,1	3685,4	3,6
1.1 Property tax	1 393,0	3,8	1659,3	4,0	2129,7	4,3	2606,1	3,3	1851,1	1,8
1.2 Land tax	750,1	2,1	966,7	2,4	1091,8	2,2	1504,2	1,9	1834,3	1,8
1.3 Tax on consumption of gasoline, diesel fuel and liquefied gas for vehicles	1242,9	3,4	1531,3	3,7	1784,5	3,6	1543,9	2,0	- **	-
1.4 Tax for the improvement and development of social infrastructure	736,2	2,0	721,9	1,8	685,5	1,4	- *	-	-	-

Source: Ministry of Finance of Uzbekistan

As shown in the table, the share of local taxes in the state budget revenues is on average 4-12%. The data show that the role of local taxes in the formation of state budget revenues is insignificant. In particular, in the analyzed period (2015-2019) the share of property tax was 1.8-4.3%, land tax - 1.8-2.4%, and tax on improvement and development of social infrastructure -

1.4-4.4%. 2.0 percent (unified by 2018 with income tax). the tax on the use of gasoline, diesel and gas for vehicles was 2.1-3.7% (unified by 2019 with excise tax). The analysis shows that the share of local taxes in the formation of state budget revenues has declined sharply in recent years.

Depending on the average of this indicator, we can conditionally divide the administrative regions of the country into two groups:

- administrative regions where the level of local taxation in the formation of budget revenues is below the national average;
- administrative regions where the level of local taxes is higher than the national average when forming budget revenues.

The share of local taxes in budget revenues should not be the only one that determines their role. In this regard, if one considers the role of local taxes in the formation of budget revenues, depending on the level of this indicator, such an assessment should be considered as an unreasonable estimate. As international experience shows, the effectiveness of the system of budgetary revenues applied in the national economy of any country is not only characterized by the above indicator, but also depends on the organization of budget revenues.

II. **Regulatory revenues of local budgets**- In the financial practice of Uzbekistan, it is no secret that local budgets' own revenues (local taxes and fees) are not sufficient to fully cover the costs of the regional budget. In this regard, higher regulated (balancing) revenues are provided by higher budgets to cover these expenses in full and in a timely manner and to supplement local budget revenues based on the principle of balanced local budgets. Consequently, the bulk of local budget revenues are formed through intergovernmental taxes and intergovernmental taxes, and balanced revenues and expenditures are ensured.

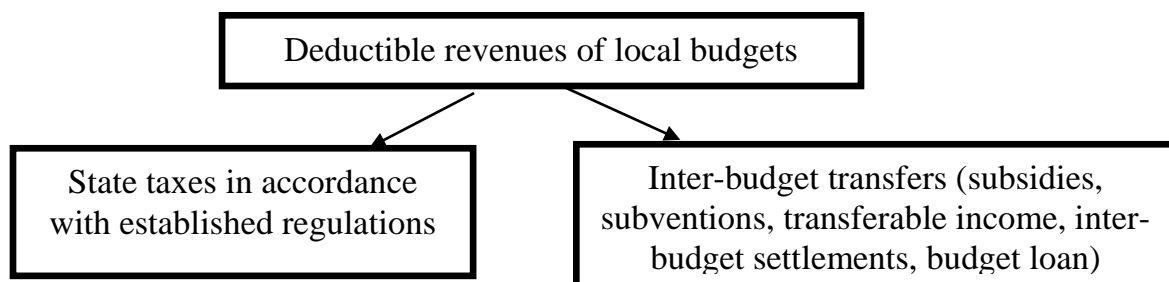


Figure 2 Deductible revenues of local budgets

Source: Author's compilation

State taxes in accordance with established regulations. Some of the national taxes that are to be transferred to the full republican budget are left to the local budgets, depending on the level

of socio-economic development of the respective region (region, district, city), the amount of expenditure from the local budget, and the local budget. Estimates of local and national tax revenues and projections of minimum expenditures of local budgets are taken into account when setting the standards. This is due to the need to change the regulations to cover local budget expenditures through taxes from the area and to reduce the volume of transfers from higher budgets to lower budgets.

Rates of national tax deductions to the budgets of the Republic of Karakalpakstan, regions and Tashkent city for 2015-2019

If we analyze the rates of deductions from national taxes to local budgets in 2015-2019 based on the table data, in some provinces the rates of deductions were increased in 2019 compared to 2015 and in some cases. For example, in Bukhara region, 55% of corporate income tax was paid in 2015, and 79% in 2019 would be retained. In Navoi region, 57% of corporate income tax and VAT were retained in 2015, with 100% and 26% remaining for 2019 respectively.

Clearly, the allocation of deductions does not have any regularity by regions and years. The high standards imply not only the increased interest in tax revenues but also the low economic potential of our regions. High or low levels of allocation are directly related to the economic potential of the regions.

The economic development, economic potential, natural climatic conditions and demographics and geographical location of each region, district and city in our country are not the same, so the revenues and expenditures of these regions are not mutually exclusive. For example, in some areas we have a high population and poor climatic conditions, and the socio-economic infrastructure is not up to date. Of course, the costs are high in such areas, but the local budget is not able to finance these expenses from their own income. Therefore, the socio-economic infrastructure is not in demand, and as a result, there are factors in these regions that impede the development of manufacturing, services and other businesses, leading to a reduction in local taxes.

As we have already mentioned, local budgets are an integral part of the state budget. Therefore, the higher budget provides various types of financial assistance to the lower budgets in order to cover the difference between the revenues and expenditures of the budget in the event that they do not have enough resources to cover their expenses. According to Article 142 of the Budget Code, the budget of the Republic of Karakalpakstan, local budgets of provinces and Tashkent city should have balanced revenues and expenditures.

Intergovernmental transfers. Inter-budgetary transfers are made in the form of subventions, transferable revenues, subsidies, budget loans and mutual settlements.

The volumes of inter-budgetary transfers are determined based on the adoption of legislation that changes the income and expenditure of various levels of budgets in the current fiscal year, as well as the full receipt of all relevant taxes and other mandatory payments and the appropriation of budget funds.

Thus, in order to balance local budgets, the republican budget provides financial support to lower budgets in the form of subventions, subsidies and budget loans.

Surkhandarya, Syrdarya, Jizzakh, and Namangan regions are balanced by regulatory taxes, transferable income and subsidies for employers, social benefits and centralized investments.

In 2009, besides subsidies, transferable revenues and subventions, Namangan and Surkhandarya regions received subsidies. In 2010 and 2011, only Namangan region was subsidized, and since 2012 no regional budget has been subsidized. The subsidies are now allocated from the regional budget to individual district and city budgets.

In 2013, the local budgets will receive 3687.2 billion soums. In 2014, in 7 regions it was allocated 2929.1 bln. soums. In 2015, 6211.8 billion sums were allocated to 6 local budgets. In 2016, 2402.9 billion sums were allocated to 5 local budgets. In 2017, 1397.1 billion sums were allocated to 4 local budgets. In 2018, a significant amount of subventions have been allocated to all regional budgets to pay salaries and single social payments, almost double the salaries of social workers, including the education system.

CONCLUSION

In conclusion, the deficit of the budget of the Republic of Karakalpakstan, local budgets of provinces and Tashkent city is inadmissible. It is also necessary to mobilize funds for the adoption and implementation of these local budgets (excluding budget loans from higher budgets), expenditures beyond the approved budget, and provide financial guarantees and guarantees in favor of other legal entities and individuals at the expense of relevant budgets; Granting of budget loans and credit lines to legal entities and individuals is not allowed. Further studies should focus on the impacts of local budget reforms on the economic development of the regions in Uzbekistan.

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