



THE ROLE AND IMPORTANCE OF TAXATION IN THE FORMATION OF GOVERNMENT BUDGET REVENUES

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Abstract

The article analyzes the role and significance of taxes in forming state budget revenues, as well as their impact on economic and social processes. The fiscal, stimulating, distributive, and regulatory functions of taxes are examined from both theoretical and practical perspectives. The study also reviews the ongoing tax reforms in Uzbekistan aimed at modernizing the tax system and strengthening budget stability. The article highlights the strategic importance of taxes in improving public financial policy and ensuring economic sustainability.

Keywords: Taxes, state budget, fiscal policy, budget revenues, tax system, tax administration, economic stability, incentive functions, distribution, public finance.

Introduction

The state budget plays a crucial role in the economic, social, and political development of a country. The formation and stability of budget revenues are the main prerequisites for the state to fully fulfill its responsibilities. In today's globalization environment, the effectiveness of fiscal policy, the sustainability of economic management, and the improvement of public welfare largely depend on tax revenues. Taxes are the primary source of public finance; through them, the state not only finances its functions but also actively intervenes in economic processes, regulates them, and provides incentives.

Within the context of large-scale economic reforms being implemented in the Republic of Uzbekistan, modernizing the tax system, reducing the tax burden,



simplifying tax administration, and creating a favorable business environment are among the priority directions. The country's fiscal stability, the quality financing of public expenditures, the implementation of infrastructure projects, and the level of support for education and healthcare systems directly depend on the proper and efficient organization of tax revenues.

This article provides a comprehensive analysis of the role of taxes in forming state budget revenues, examines their impact on economic and social processes, and evaluates the tax reforms being carried out in Uzbekistan and their effectiveness.

Main Part

Taxes are mandatory and non-refundable payments that serve as the primary means of financially supporting state activities. Approximately 70-80 percent of state budget revenues are formed through tax receipts. This indicator demonstrates the significant role of taxes within the public finance system.

The state budget finances the following areas: development of education and healthcare systems, social protection programs and pension provision, defense and security, infrastructure projects such as roads, transportation, and communications, as well as the functioning of public administration and local authorities. Without stable tax revenues, it is impossible to implement economic policy, ensure social protection of the population, and guarantee national security.

Taxes are not only a tool for replenishing the budget but also function as a regulatory mechanism within the economy. For example, tax incentives for high value-added sectors stimulate the inflow of foreign direct investment, while benefits for export-oriented enterprises contribute to the formation of a positive trade balance. Taxes directly or indirectly affect almost all economic processes. Properly set tax rates encourage economic activity, whereas excessive tax burden may reduce investment incentives. Therefore, tax policy is continuously improved by the state.

In the case of Uzbekistan, the reduction of tax rates for business entities and the simplification of tax administration have led to GDP growth, an increase in the number of new enterprises, and improved employment levels. Thus, taxes are an important fiscal instrument for ensuring economic balance and development.

One of the main functions of taxes is to support the principle of social equity within society. Higher-income groups pay more taxes, while socially vulnerable segments of the population are supported through the state budget. In this way, taxes serve as



a mechanism for implementing social justice. Public services financed from the budget—such as education, healthcare, pension systems, infrastructure, and subsidies—are provided through tax revenues. This highlights the indispensable importance of taxes for societal stability. Each year, the state sets fiscal objectives such as maintaining macroeconomic stability, controlling inflation, and keeping public debt at an optimal level. The achievement of these goals directly depends on the volume and stability of tax revenues. If tax revenues are stable, the state can finance investment projects on time, keep budget deficits under control, and expand its capacity to manage economic risks. The digitalization of tax administration such as the unified system, online cash registers, and electronic submission of tax reports has contributed to increased tax revenues and reduction in the shadow economy. Between 2019 and 2024, Uzbekistan's tax system underwent fundamental reforms: the VAT rate was reduced from 20% to 12%, the social tax burden was lowered, the unified tax payment system was simplified, and tax control was transitioned to electronic formats. As a result of reforms, tax revenues increased, voluntary tax compliance improved, the scale of the economy expanded, and the state budget became more stable.

Literature Review

Renowned economists such as Adam Smith, Abba Lerner, Richard Musgrave, David Ricardo, and John Stuart Mill have identified taxes as the foundation of public finance. Adam Smith's "Principles of taxation" remain a fundamental theoretical source for shaping modern tax policy. Uzbek scholars including Q. Abdullayev, R. Giyosov, G. Pardayev and Sh. Khayrullayev have extensively studied issues related to improving tax administration, optimizing the tax burden, and presidential decrees constitute the core legal and regulatory framework for tax policy.

Conclusion

The role of taxes in forming state budget revenues is invaluable; they serve not only as a fiscal source but also as a strategic mechanism for economic governance. The stability of tax revenues ensures the implementation of state economic policy, sustainable macroeconomic growth, the functioning of the social protection system, and the continuity of public services.

Through tax revenues, the state finances key sectors of the economy and simultaneously implements programs aimed at ensuring social justice. The study



demonstrates that the more efficient and transparent the tax system is, the more stable state budget revenues become. Optimization of tax policy, rationalization of tax rates, proper targeting of tax incentives, simplification of tax administration, and digitalization of the system are key drivers of increasing budget revenues.

In particular, reducing the shadow economy strengthening taxpayer discipline and creating a favorable tax environment play a crucial role in increasing tax revenues. The tax reforms implemented in Uzbekistan in recent years such as the reduction of the VAT rate, revision of tax incentives, and transition to an electronic tax system have contributed to increased state budget revenues, enhanced economic activity, and improved conditions for business entities. As result, the budget deficit has decreased, the tax base has expanded and fiscal stability has been strengthened.

Overall, the strategic role of taxes in the structure of state budget revenues is essential for ensuring the country's economic independence, social stability, and financial sustainability. In the future, further modernization of the tax system, fair distribution of the tax burden, and full digitalization of tax administration will contribute to strengthening budget stability and achieving new of economic development.

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