

THE ROLE OF INTERBUDGET TRANSFERS AND TAXES IN ENSURING THE FINANCIAL INDEPENDENCE OF LOCAL BUDGETS

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Abstract: This article highlights the role of interbudgetary transfers and taxes in interregional development, increasing the financial independence of local budgets and ensuring balance.

Key words: Independence of local budgets, transfer, inter-budgetary transfer, action strategy, national subsidies, taxes and etc.

Introduction

As known that the proper management of budget relations is one of the most important and complex issues. The reason is that the development of the regions, the living conditions of the population, adequate social protection of low-income families and individuals largely depends on the ability of the state authorities in the regions to correctly solve financial issues. The practice of developed countries shows that increasing investment activity in regions, their socio-economic development, further development of existing infrastructure, improving the quality of social services to the population, and at the same time creating new jobs are carried out through local budgets. For this reason, local budgets are the main support of the policy carried out by our state in terms of social protection of the population. According to the international experience, we can witness that the increase in the independence of local budgets allows to ensure the effective performance of important socio-economic tasks under the responsibility of local authorities.

The first priority of the Decree of the President of the Republic of Uzbekistan "On the Development Strategy of New Uzbekistan for 2022-2026" is called "Building a people-friendly state through the promotion of human dignity and the further development of a free civil society" and in the second paragraph of the 2nd goal of this direction "... to strengthen their responsibility for socio-economic development of regions, raising the standard of living of the population, formation and control of the local budget" and the first paragraph of the 3rd goal envisages the implementation of measures aimed at "further expanding the financial capabilities of local governments in solving local issues and increasing their accountability to the public regarding the performance of each task, as well as the funds spent". Increasing the independence of local budgets is a very important issue in the positive implementation of these tasks. Therefore, it is an important factor to drastically reduce the dependence of local budgets on the central budget, to fundamentally reform inter-budgetary relations, and to ensure the independent work of local state authorities in the effective management of local budget funds.

"On the state budget of the Republic of Uzbekistan for 2022" dated June 7, 2017 №5075 "On measures to expand the budgetary powers of local state authorities in the formation of local budgets" and Laws of June 7, 2017 №3042 "On expanding the budget powers of local government bodies and increasing their responsibility in the formation of local budget revenues", "Strategy of actions on five priority areas of development of the Republic of Uzbekistan in 2017-2021" dated March 2, 2020 №5953, as well as other regulatory and legal documents related to this field, this research work serves to a certain extent. Therefore, it is important to constantly analyze the level of provision of local budgets with stable sources of income and use various methods to increase their financial independence.

Analysis of literature on the topic

As mentioned above, ensuring the independence of local budgets is one of the most urgent problems of today. Cases related to the independence of local budgets are covered in detail in the works of a number of Russian economists, including Y.Orlova, Y.Arbatskaya, Y. Bushmin and others. In particular, the Russian economist-scientist Y.Orlova emphasizes that "increasing the level of independence of local budgets is a priority in the modernization of the financial system". In addition, Y.Arbatskaya in her scientific works justified that "the effective socio-economic development of the regions depends on many factors, including the level of independence of the relevant local budgets". Y.Bushmin states that "one of the main problems in managing local budgets is that the share of local budgets' revenues is not proportional to the share of its expenses". Also, among the uzbek economists E.Akromov, O.Iminov, O.Olimjonov, K.Yakhyoev, T.Malikov, N.Khaydarov, A.Vakhobov, Z.Srojiddinova, G.Kasimova, H.Jamolov studied the important issues of the formation and development of the budget system, including the problems of ensuring effective implementation of local budgets, strengthening their financial capabilities, and contributed to finding solutions to related problems. Theoretical and practical aspects of formation and stability of local budget revenues, collection of local taxes and levies were researched by B.Abibullayev, J.Yesmurzayev, S.Jubayev, A.Mamanazarov, A.Suvonov, K.Tojibaeva, H. Kabulov, Kh.Kurbanov and A.Khairiddinov.

As a research methodology, based on monographic observations, it is aimed to generalize opinions about the potential of regions to pay real taxes in the implementation of inter-budgetary transfers, to clarify the role of inter-budgetary transfers and taxes in the development of regions and ensuring the financial independence of local budgets. "Independence of local budgets" refers to the state of sufficiency of one's own income to finance planned expenses. At the same time, the independence of local budgets represents the level of authority of the local authorities in forming the budget revenues of the relevant administrative region and spending from them on the basis of the approved budget-tax legislation. Their independence means the ability to cover the socio-economic and other expenditure obligations provided for in this budget at the expense of their own funds based on the expansion of financial resources through the effective use of the tax and financial potential of the regions.

As the most important indicators in determining the independence of local budgets, it is possible to note that local budgets are provided with their own income equal to their expenses, the share of transfers is low (or absent), and the level of authority of the local government in freely disposing of the relevant budget can be noted.

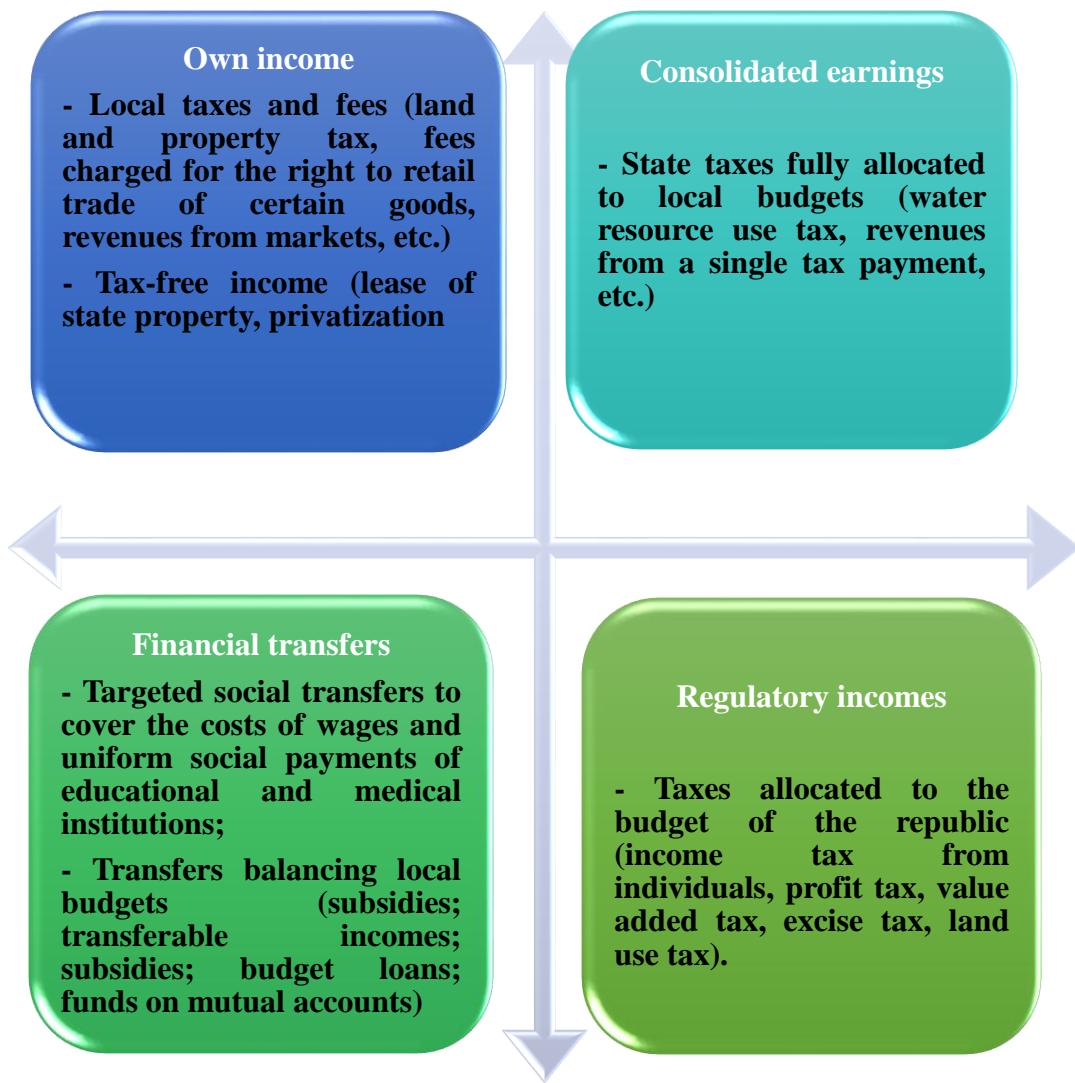
Analysis and results

The sufficiency of local budgets' income compared to the expenses of the sources of formation determines their level of independence. Most economists classify the composition of revenues of local budgets as fixed and regulatory revenues. In some sources, revenues of local budgets are divided into own revenues, assigned revenues, and regulatory revenues. In our opinion, according to the sources of formation, local budget revenues can be classified as follows. (Picture 1)

Combined incomes are the incomes generated by the full consolidation of some state taxes that should fall into the republican budget in order to ensure the financial stability of this budget. Regulatory incomes are from large potential tax types and other mandatory payments that are determined to be collected in the republican budget as certain allocations to local budgets, a part left on the basis of regulations, which is given to ensure the proportionality of revenues and expenses of local budgets. Financial transfers are aid money that is considered as income from the upper budget to the lower budget to ensure the balance of budgets. The composition of financial transfers can be characterized as social and regulatory transfers. Inter-budgetary transfers are the main means of ensuring interregional equality by the state. The word "transfer" (French - transfer) means "to transfer", "to move", and inter-budgetary transfers mean the transfer of funds between upper and lower budgets in the form of inter-budgetary transfers. In accordance with the Budget Code in Uzbekistan, budget transfers include subsidies, transferable incomes, subsidies, budget loans, and mutual account funds. The amount of inter-budgetary transfers is determined based on the full collection of all taxes and other mandatory payments related to the territory and the appropriation of funds allocated from the budget. The essence of inter-budgetary transfer relations is that the budget is usually created to implement the social and economic functions of the state.

Picture 1





Picture 1. Classification and description of revenues of local budgets

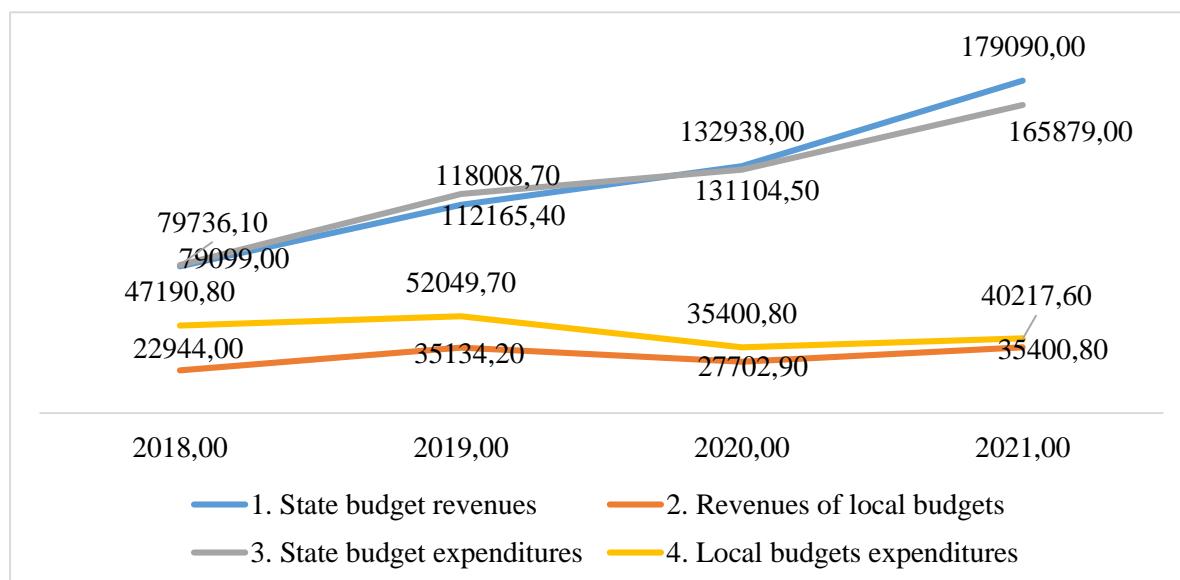
Analyzing Table 1 below, in 2018, state budget revenues amounted to 79,099 billion soums, and by 2021, this indicator will reach 179,090 billion soums, that is, 2, increased by 26 times. State budget expenditures increased 4.6 times, that is, in 2018, 79,736.1 billion soums were spent from the state budget, and by 2021, 165,879.0 billion soums were spent. In 2018-2021, the revenues of local budgets increased by 1.3 times from 22944.3 billion soums to 35173.0 billion soums, and their expenses decreased from 47190.8 billion soums to 40217.6 billion soums.

Table 1

**Changes in revenues and expenses of the State budget and local budgets in 2018-2021
(in billion soums)**

№	Indicators	YEARS			
		2018	2019	2020	2021
1.	State budget revenues	79 099,0	112 165,4	132 938,0	179 090,0
2.	Revenues of local budgets	22 944,3	35 134,2	27 702,9	35400,8
3.	State budget expenditures	79736,1	118008,7	131104,5	165879

4.	Local expenditures budgets	47190,8	52049,7	35400,8	40217,6
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Revenues of local budgets also tend to increase, but this growth is much lower compared to expenses. In particular, in 2021, the weight of expenses incurred by local budgets was 1.15 times higher than the weight of income. Such a situation, on the one hand, shows that local budget revenues are not proportional to expenses, and on the other hand, it indicates that the country is giving priority to the development of the social sphere. In the analyzed years, the volume of expenditures of local budgets was higher than their revenues. In turn, according to the budget legislation, local budgets are not allowed to end the financial year with a deficit. In this regard, the deficit of local budgets is covered through inter-budget mutual settlements, transfers and budget loans.

The disproportionality of local budgets' incomes with expenses is also directly related to the composition of their income sources. We can see the trend of changes in the composition of local budget revenues in 2018-2021 in Table 2 below. In particular, in 2018-2021, the share of local taxes and fees in the structure of local budget revenues was 18.9% on average, allocated revenues were 20.3% on average, and regulatory revenues were the largest share, i.e. on 58.4% on average, and other incomes make up 2.4%. A high share of regulatory revenues in the composition of local budget revenues is a negative situation in terms of ensuring their independence and indicates high budget dependence.

Table 2

The composition of local budget revenues in 2018-2021 and its change (billion, soum)

№	Composition of revenues of local budgets	Years			
		2018	2019	2020	2021
		22944,30	35 134,20	27 703,00	35 173,00
1.	Total revenues	4 523,20	5 396,40	5 178,30	7 703,20
1.1	Local taxes and fees	2 606,10	2 360,20	1 974,30	2 457,30

1.2	Property tax	1 504,20	2 313,20	2 386,70	4 082,80
1.3	Land tax	0,7	0,6	X	X
1.4	Beautification and infrastructure development tax	112,6	341,3	817,3	1 163,20
1.5	Local fees	301	381,1	X	X
2.	Income from markets	6 422,70	5 378,60	4 847,30	7 144,30
2.1	Consolidated earnings	3 790,90	1 988,70	X	X
	Allocation to the State budget from the single tax payment	X	X	1 353,93	1 649,40
2.2	Turnover tax	1 024,80	658,9	286,3	397
2.3	Fixed tax	128,4	314,5	478,8	684,4
2.4	Tax for use of water resources	145,9	298,2	560,4	868,2
2.5	Tax on the use of underground resources	651	1 075,00	968,1	1 614,90
2.6	State taxes	419,5	626	804,1	1 152,70
2.7	Penalties	262,2	417,3	395,6	777,7
3.	DAN fees	11 388,1	23 853,4	16 947,70	19 279,10
3.1	Regulating income	763,7	2 994,6	1 809,52	2 600,20
3.2	Profit tax of legal entities	4 067,8	9 122,3	9 082,40	11 019,70
3.3	Income tax of individuals	4 526,3	8 105,1	1 266,40	0
3.4	Value added tax	2 030,3	3 631,4	4 789,40	5 659,20
4.	Other taxes	610,3	505,8	729,6	1 046,30

The distribution of regulatory revenues between budget units on the basis of regulations does not allow ensuring the proportionality of revenues and expenses of local budgets and increasing their financial independence. In this regard, it is necessary to focus on increasing the volume of own and assigned revenues of local budgets, reducing the hidden economy, rational use of natural and labor resources, and large-scale development of entrepreneurship in the regions.

It is known that starting from 2020, a new budget system was introduced in our country aimed at further increasing the responsibility of allocators of budget funds, ensuring the freedom of local state authorities in the formation of revenues of local budgets and the use of their funds. In particular, starting from 2020, the state budget is approved by law. A new procedure for the distribution of types of taxes between budget units (republican budget; republican budget of the Republic of Karakalpakstan, regional budgets of regions and the city budget of Tashkent city; budget of districts and cities) has been put into practice. Including 5 types of taxes in district and city budgets; 13 types of taxes and fees in the republican budget of the Republic of Karakalpakstan, in the regional budgets of the regions, in the city budgets of the city of Tashkent; 4 types of taxes are completely left in the budget of the Republic.

Conclusions and suggestions

In conclusion, we can say that inter-budgetary transfers are always aimed at preventing the sharp stratification of the social situation in the territory of the country, full and continuous implementation of state functions, as well as ensuring the growth of the economic potential of the regions. However, their methods and goals are different, and the use of these methods and goals with the ability to correctly evaluate them will lead to more effective results of budget funds. On the basis of the above information, it would be appropriate if budget transfers were introduced in Uzbekistan in the following order:

- developing significant projects at the republican level, including those of high social importance, and allocating financial support from the higher budget for their implementation. In this case, the condition of financing part of the projects through the local budget and other local sources can be established as a requirement;
- introduction of a temporary support mechanism for projects aimed at generating permanent additional income for the accounting period by supporting local business representatives. In this case, the assistance funds from the higher budget will be compensated in the next years from the local budget revenues formed as a result of the implementation of this project.

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