

THE ROLE AND IMPORTANCE OF TAXES IN FORMING STATE  
BUDGET REVENUES

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**Abstract:** *This article analyzes the economic essence of taxes, their role in the fiscal system, and their importance in forming state budget revenues. It also discusses types of taxes, their functions, their role in the state financial system, and their significance in ensuring economic stability. The study provides scientifically grounded conclusions on increasing budget revenues through taxation and improving the tax system.*

**Keywords:** *tax system, state budget, fiscal policy, tax functions, revenues, economic stability.*

**Introduction**

In a market economy, the state budget is considered a central and strategically important component of the country’s financial system. It serves as the main financial source for financing socio-economic development programs, implementing state economic policy, and ensuring social protection of the population. In this regard, the stability and efficiency of the state budget directly depend on the strength of its revenue sources.

Taxes play a leading role in forming state budget revenues, as they are among the most stable, legal, and predictable financial resources of the state. Through taxes, the state redistributes a certain share of the economy’s created value and directs it toward public needs. At the same time, tax revenues cover a significant part of public expenditures and ensure economic independence.

The economic essence of taxes is defined by their multifunctional nature. They perform not only a fiscal (revenue-generating) function but also regulate economic processes, shape investment conditions, redistribute income, and ensure social equality. In particular, taxes help the state reduce economic imbalances and regional disparities.

Thus, the efficiency of the tax system is directly linked to the stability of the state budget and also affects economic growth rates, business climate, and the level of tax culture in society. A well-organized tax system not only increases budget revenues but

also contributes to overall macroeconomic stability through stimulating economic activity.

Today, tax reforms in the Republic of Uzbekistan are aimed at further improving the system, increasing transparency, and aligning it with international standards. In the context of the digital economy, automation of tax administration, implementation of electronic reporting systems, and optimization of tax burden remain among the most urgent tasks.

## **Main Part**

### **1. Economic Essence and Functions of Taxes**

Taxes are mandatory payments imposed by the state and collected from individuals and legal entities in accordance with legally established procedures. Taxes are a key source of financial resources necessary for the state to perform its economic, social, and political functions. In this sense, taxes are one of the most important instruments of the state financial system.

The economic essence of taxes is determined by their redistributive nature. Through taxes, a portion of national income created in the economy is transferred to the state and redistributed for public purposes. This process plays an important role in implementing socio-economic policy and ensuring efficient allocation of economic resources.

In addition, taxes act as a tool that complements and regulates market mechanisms. Through them, the state indirectly influences economic processes and coordinates production, consumption, and investment activities.

Taxes perform the following main functions:

- **Fiscal function** – the main source of state budget revenues, providing financial resources for socio-economic programs.
- **Regulatory function** – influences economic processes through tax rates, incentives, and preferences, supporting certain sectors and improving investment conditions.
- **Redistributive function** – reduces social inequality by redistributing income and wealth among different social groups.
- **Incentive function** – promotes investment, production modernization, and innovation through tax incentives and benefits.

Overall, taxes are multifunctional financial instruments that simultaneously form the state budget, regulate economic processes, and ensure social stability.

### **2. The Role of Taxes in State Budget Revenues**

Taxes constitute the main and most stable part of state budget revenues. They are the backbone of the public financial system, providing the necessary resources for state functions. Therefore, the share of tax revenues in the budget is an important indicator of fiscal stability.

In the Republic of Uzbekistan, the state budget is mainly formed from value added tax (VAT), corporate income tax, personal income tax, and excise tax. These taxes cover different segments of the economy and ensure revenues from production, consumption, and income generation.

VAT is one of the largest sources of budget revenue, applied at almost all stages of goods and services circulation. Corporate income tax reflects business profitability, while personal income tax ensures revenues from individuals' earnings. Excise tax is applied to specific goods and performs both fiscal and regulatory functions.

A high share of tax revenues strengthens the financial independence of the state, reduces dependence on external borrowing, and ensures macroeconomic stability. Moreover, tax revenues finance key social sectors such as education, healthcare, social protection, and infrastructure.

Efficient tax revenue management contributes to budget optimization, reduction of deficits, and rational use of economic resources. Therefore, improving tax system efficiency is one of the priority directions of fiscal policy.

### **3. The Role of Taxes in Economic Stability**

Taxes are one of the most important financial and economic instruments of the state in ensuring economic stability. Through taxes, the state influences macroeconomic processes, maintains balance, and supports sustainable growth.

Taxes regulate demand and supply in the economy. By adjusting tax rates and incentives, the state can stimulate or restrain certain sectors, ensuring efficient allocation of resources and preventing market imbalances.

Taxes also play an important role in controlling inflation. Changes in tax burden affect consumer spending and investment decisions, thereby stabilizing aggregate demand and price levels. Thus, tax policy, together with monetary policy, ensures economic stability.

A well-developed tax system leads to several positive outcomes:

- stimulates economic growth through incentives;
- reduces the shadow economy;
- improves the business environment;
- ensures budget stability.

In addition, tax predictability is crucial for attracting investment, as it increases investor confidence and supports capital inflows.

#### 4. Features of the Tax System in Uzbekistan

The tax system of Uzbekistan has been gradually reformed since independence and is being aligned with modern market economy requirements. Recent reforms aim to improve efficiency, transparency, and the business environment.

Key features include continuous institutional modernization and alignment with international standards, which increases investment attractiveness.

Main reform directions:

- optimization of tax rates to stimulate economic activity;
- digitalization of tax administration;
- introduction of electronic tax reporting systems;
- reduction and simplification of tax burden.

As a result, transparency has improved, administration has become simpler, and business interaction with the state has become more convenient. These reforms also help reduce the shadow economy and stabilize budget revenues.

#### 5. Problems and Directions for Improvement

Despite the ongoing tax reforms and modernization efforts in Uzbekistan, the national tax system still faces several structural and administrative challenges that limit its full efficiency and potential contribution to sustainable economic development.

One of the most significant issues is the continued presence of the **shadow economy**, which reduces the transparency of economic activities and leads to the underreporting of taxable income. This, in turn, negatively affects state budget revenues and weakens the effectiveness of fiscal policy.

Another important challenge is the **incomplete coverage of the tax base**. Certain economic activities, informal businesses, and property-related incomes are not fully captured within the taxation system. This limits the state's ability to ensure fairness and equal tax contribution across all sectors of the economy.

In addition, the **complexity of tax calculation procedures** remains a burden for both taxpayers and tax authorities. Complicated reporting requirements and frequent regulatory changes can create difficulties for small and medium-sized enterprises, increasing compliance costs and administrative pressure.

Furthermore, there are noticeable **regional disparities in tax revenues**, which are mainly caused by differences in economic development levels across regions. Industrially developed regions generate significantly higher tax revenues compared to

less developed areas, leading to fiscal imbalance and unequal budgetary capacities at the regional level.

To effectively address these challenges, several strategic measures should be implemented. First, it is essential to further enhance the **digital transformation of tax administration** by introducing advanced technologies such as artificial intelligence, big data analytics, and fully automated tax monitoring systems. This would improve transparency, reduce human error, and increase tax collection efficiency.

Second, strengthening **tax culture and legal awareness among citizens and businesses** is crucial. Improving public understanding of tax obligations can significantly reduce tax evasion and encourage voluntary compliance.

Third, there is a need to **optimize the system of tax incentives and exemptions**. While tax benefits are important for stimulating investment and supporting priority sectors, they should be carefully designed to avoid unnecessary budget losses and ensure economic efficiency.

Finally, the adoption of **international best practices in taxation** is highly important. Learning from developed countries' experiences in tax administration, digital systems, and compliance mechanisms can help improve the overall effectiveness of the national tax system.

In conclusion, a comprehensive and well-coordinated approach is required to further develop the tax system. Such reforms will contribute to strengthening budget stability, accelerating economic growth, reducing the shadow economy, and creating a more transparent and competitive business environment.

## Conclusion

Taxes are the main and most stable source of state budget revenues. They perform fiscal, economic, and social functions simultaneously. An efficient tax system ensures financial stability of the state, stimulates economic growth, and improves social welfare.

Taxes are a multifunctional mechanism that helps the state regulate economic processes, strengthen fiscal discipline, and create conditions for sustainable development.

In Uzbekistan, ongoing tax reforms require further strengthening of digitalization, transparency, and fairness to improve overall system efficiency.

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