

The Experience of Foreign Countries in Improving the Fiscal Mechanism for Stimulating Economic Growth in the Region

¹A.J. Musagaliev, ²Y.S. Ganiev

¹ Doctor of Economics, Head of the Laboratory of "Modeling of Socio-Economic Processes" of the Karakalpak Scientific Research Institute of Natural Sciences of the Karakalpak Branch of the Academy of Sciences of the Republic of Uzbekistan.

E-mail: ajiniyazmusagaliev@gmail.com

² Junior Researcher of the Karakalpak Scientific Research Institute of Natural Sciences of the Karakalpak Branch of the Academy of Sciences of the Republic of Uzbekistan.

Abstract: *The article provides a theoretical analysis of approaches to the experience of foreign countries in improving the fiscal mechanism aimed at stimulating regional economic growth in the Republic of Karakalpakstan. In particular, models of basic fiscal policy in international practice and modifications of the distribution of tax revenues in accordance with the expenditures of the budgets of each level are evaluated. At the same time, the features of the budget and tax mechanisms in foreign countries are compared and analyzed using the example of the USA, EU countries, Japan, Great Britain, France, Ireland, and Germany. The author proposes to take into account the level of socio-economic development of the regions when determining budgetary and tax parameters in Uzbekistan, and it is also advisable to provide targeted tax benefits based on the local conditions of the country's regions.*

Keywords: economic growth of the region, fiscal policy models, modifications of the fiscal mechanism, fiscal parameters, targeted tax benefits.

Introduction. In the current conditions of economic recession, the problem of finding additional sources of funding for the state budget is becoming increasingly important. Under such circumstances, the policy of sharply increasing the tax burden could lead to a significant slowdown in economic development and long-term stagnation. In this regard, we can find answers to these questions by studying foreign experience in the implementation of effective fiscal policy in the regions of the country. On this basis, based on the purpose of our study, we will consider the experience of foreign countries in improving the budgetary and tax mechanism aimed at stimulating economic growth in the territory of the Republic of Karakalpakstan.

It is known that in order to change and improve the current situation in the post-global transformational environment, special attention should be paid to the partial reform of existing mechanisms of influence on public administration and the country's economy. In this situation, "the fiscal mechanism is one of the most effective drivers of economic growth management. Using different approaches to the taxation of certain sectors of the economy, the state can influence the formation and subsequent distribution of centralized and decentralized funds, as well as effectively stimulate the economy of individual regions and sectors by building relationships with taxpayers at all levels of the budget system" (Saprykina, 2015).

Typically, the incentive function of taxes through direct and indirect taxes is carried out through a set of measures, including the granting of tax preferences and certain benefits to different categories of subjects of economic relations. Therefore, "by effectively improving the fiscal mechanism, not only can revenues to the state budget be significantly increased, but it is also an effective mechanism for regulating the country's economy in order to achieve economic growth in the regions as a whole" (Polyak, 2013).

From the description of theoretical approaches, it can be said that an acceptable level of tax burden in the economy stimulates anti-crisis economic growth and also provides sufficient inflow of priority investments in terms of long-term development prospects of the industry, thus becoming an important factor in stimulating economic growth in regions.

At the same time, in the innovative environment of economic development, there is a growing need for potential reserves that will ensure the growth of the tax base and increase tax revenues for the state to fully meet the social and material needs of its citizens.

However, in the post-pandemic period, we believe that among the key issues in improving the budget and tax mechanism of the country's regions is to achieve an increase in tax revenues while maintaining the average level of the tax burden through the assessment and realization of tax potential reserves.

It is a logical abstract notion to say that, in general, reducing the tax burden provides an increase in tax revenues. Nevertheless, the state needs to find a solution that allows taxation to effectively perform its incentive and fiscal functions. Based on the above, we believe that finding the most reasonable optimal models of fiscal mechanisms that stimulate economic growth in the regions of the country is an opportunity to apply best international practices.

Analysis of the relevant literature. It should be noted that despite the fact that there is a lot of research on the problems of socio-economic development of the regions of Uzbekistan, at the same time, there is little work on the problems of socio-economic development of the Republic of Karakalpakstan. Increasing the role of taxes in the stabilization of local budgets in the research conducted by local scientists, including A.Mamanazarov (Mamanazarov, 2002), H.Kobulov in the study of regional economy and

capacity building of local budgets (Kobulov, 2006), improving inter-budgetary relations in the study of H. Kurbonov (Kurbanov, 2010), the formation of local budget revenues in Z.Ruziev's research and Improving the efficiency of their use (Ruziev, 2011), A.Khayriddinov's research to ensure the stability of local budget revenue bases (Khayriddinov, 2011), as well as A.Islamkulov's research to improve the tax system to ensure inter-budgetary balance (Islamkulov, 2020) issues have been analyzed and researched.

In contrast to the above research, A.Musagaliev proposed a methodology for improving local budgets in the regions of Uzbekistan in order to improve the organizational and economic mechanism of local budget formation in the regional socio-economic development of Karakalpakstan. In particular, the author advocated the implementation of decentralization of the fiscal system of the federal states in the Republic of Karakalpakstan as a pilot project (Musagaliev, 2019). We agree with the author.

Research methodology. Based on theoretical analysis and monographic observations, taking into account the priorities of fiscal policy of Uzbekistan, the study of best international practices to stimulate economic growth in the regions, as well as the study of tax potential in existing national tax systems to highlight the importance of evaluating the likelihood of successful implementation and the possibility of experience sharing in the system.

Analysis and results. In international practice, there are 3 common models of fiscal policy.

1. Maximum tax policy. This direction is based on the principle of "get everything you can get". But in this case, the state may fall into a "tax trap" because a regular increase in the tax rate does not always lead to an increase in budget revenues, as the shadow economy can grow. In this regard, scientists recommend not to exceed the maximum rate of 30%.

2. Reasonable tax policy. This direction - the effective development of entrepreneurship, helps to increase its competitiveness, creates favorable conditions for small business, has a positive impact on the growth of micro and entrepreneurship, as well as expands reproduction, serves to increase the investment attractiveness of the region. The subtle aspect of this direction is, in our view, the reduction of social programs due to the decline in revenues to the state budget.

3. High taxation policy with a high level of social protection. In the context of such a policy, the bulk of revenues to the state budget will be directed to the growth of social funds (Tararyshkina, 2014).

All three types of model combinations mentioned for developed economies are included. It is no exaggeration to say that the second type of "prudent tax policy" is currently being used in Uzbekistan. This is because the size of the tax potential in different parts of the country, such as the application of a specific model of tax policy or combination combinations, and the methodological features used in the methods used to assess it, may differ from each other.

We know that different levels of budget revenues are formed in exchange for tax and non-tax revenues. At the same time, the budget system plays an important role in ensuring the independence of budgets by allocating tax revenues in line with the expenditures of each level of budgets. It is expedient to cite the following modifications in connection with the consolidation of tax revenues known in the world practice. In particular:

1. Tax revenues from all their territories shall be attached to local authorities. A certain part of these revenues will be transferred to the higher levels of the budget system. These revenues are actually used to cover the government's public spending.

2. The second type of distribution of taxable income, in contrast to the above, implies that all income is directed to the central government. These revenues are then redistributed to local governments in the form of grants or other transfers to finance various programs. A distinctive feature of this method is the redistribution of income from total income according to the transfer criteria set in the prescribed manner.

3. The next method of distribution of powers in the formation of revenues provides for the allocation of certain types of revenues to local budgets. Or, in most cases, transfers are made in the form of attachments or transfers to local budgets on coordinated taxes on missing revenues. In contrast, this method is a method between the first two first methods, aimed at overcoming their shortcomings. That is, by attaching the power of collecting taxes to the lower governing bodies, it embodies the compatibility of decisions made on expenditures with the tax burden. At the same time, local governments retain the ability to coordinate decisions about costs and financial benefits (King, 1992).

In our opinion, in the accelerated development of socio-economically backward or underdeveloped regions in Uzbekistan, it would be expedient to put into practice the elements of the third type of income consolidation modifications. But it requires an analysis of all aspects of the issue before making any decision on how to do so.

It should be noted that fiscal systems in countries around the world are similar, all of which are formed under the influence of various economic, political and social factors and meet common requirements. However, in terms of structure, the fiscal systems of most developed countries can be divided into two main categories (Grivanov, 2014).

The first category can include countries with the largest share of direct taxes in budget revenues. We can often see this as a successful example of the effective implementation of direct taxation in the United States. The fiscal system of this country is characterized by the existence of three levels of taxation (federal, regional and local levels). At the same time, the largest revenues to the consolidated budget are provided by income tax (Lelikova, 2014).

In them, the income tax has a progressive scale, and the tax burden is mainly aimed at shifting to the well-off part of the citizens. In this case, all types of income, from salaries, one-time payments, and individual entrepreneurial activity, income from the sale of their property are taxed. It should also be noted that in determining the tax base, depending on the characteristics of the taxpayer, ie families with children or other disabled members, their personal opinion or living conditions in the rented living space

and other features, there are a number of factors that can significantly reduce the amount in calculating income tax benefits apply. This means that retirees, students or those working in low-paid jobs pay significantly less tax.

In our opinion, another important feature is that the income tax is related to the specific capabilities of the territorial government and local self-government, in particular, it is allowed to set and regulate tax rates independently when directed to the relevant budgets. If at the federal level this tax rate has a progressive scale, then the income tax rate at the level of municipalities and individual districts may be regressive or proportional. We believe that this situation, in turn, encourages all taxpayers, regardless of the specific level of socio-economic development of any state, to participate in the formation of budget revenues.

Territorial authorities (U.S. states) also have the power to impose other taxes in their territories that do not contradict federal law and comply with constitutional principles of taxation. However, a sales tax is levied instead of the value added tax, which is common in almost all countries around the world (Pogorletsky, 2012).

In contrast to the American tax system, which favors direct taxation, “there are many states in the world that believe that consumers should bear the main tax burden” (Kakaulina, 2014). These countries include countries that actively implement the principle of priority of indirect taxation. In this case, we can cite the example of a group of EU member states, rather than a single country.

This is because the EU member states are trying not only to build the largest integration structures, but also to implement a single economic and fiscal policy. However, “in the current context, the EU’s fiscal policy does not seek to fully integrate the national tax systems of EU member states. This, in turn, leads to drastic differences in tax regimes and mechanisms in some EU countries. In the end, we have to retain the right to solve financial problems independently and to set the most important priorities in fiscal policy, tax system management, provided that all this does not harm the economy of the entire European community” (Panskov, 2012).

One of the most important basic taxes in EU countries is the value added tax.

First, the presence of VAT in the tax system of the state is one of the prerequisites for accession to the European Union. Second, this tax maintains minimal changes in the behavior of consumers and businesses, which guarantees a permanent and very significant revenue to the state budget. “There is a single legal mechanism for VAT within the European Union, but all member states of the Community differ in tax rates and certain types of benefits. However, when it comes to preferential rates, it should be noted that in most EU member states, the conditions for their application are almost the same. First of all, the preferential VAT rate applies to essential goods, most agricultural products, medical services and medicines, public transport, publishing services and other social services” (Popov, 2014).

In addition, there are a number of countries where direct or indirect taxation cannot be included in the priority classification. Because their tax systems have a number of unique features. It is worth considering their possible options for use in the tax system of Uzbekistan. Japan, for example, is not a country where direct or indirect taxation is the main priority given by the state. In Japan, the share of these taxes is approximately equal, with a more significant portion of revenues to the state budget coming from contributions to extra-budgetary funds in the form of social insurance contributions to meet the basic needs of workers.

In Japan, the share of these fees should be considered as direct taxes, as they are paid on the labor of hired workers, and as an indirect tax, they are included in the price of goods and services of producers and paid by the final consumer. However, in Uzbekistan, indirect tax revenues are still a priority in budget revenues.

An example is the Irish tax policy to encourage the development of domestic production, as well as to attract foreign investment. Here, a low-rate corporate tax provides large capital investments by nonresidents and consequently contributes to the rapid development of domestic production infrastructure. However, in our opinion, the paradigm that only low tax rates attract large amounts of investment and create a favorable investment climate is wrong. In this case, the low tax burden is only one of many conditions that ensure rapid economic growth. This means that there are a number of countries that are actively pursuing policies to encourage certain regions or specific industries in different ways. An example of this could be one-time payments from the budget to attract additional capital investment, as well as various types of tax breaks or administrative preferences. For example, in the late twentieth century in a number of countries, led by the United Kingdom and France, it became necessary to direct new high-tech production facilities to modernize industry. It is for this purpose that the state has allocated subsidies and loans in these countries, built new industrial facilities in a short time, which were then sold to enterprises on preferential terms and provided for a long-term exemption from property taxes. In addition, significant tax incentives in Germany are provided to companies and firms that invest in the development of economically underdeveloped regions with high development potential. In our opinion, this norm, ie the practice of supporting the socio-economic development of certain regions of the country, is important and relevant for Uzbekistan as well.

But in world practice, taxes are not only a means of generating state budget revenues, but also a means of regulating the economy. Thus, the issues of regulating the economy and ensuring sustainable development of the regions through taxes are becoming increasingly important today. However, the assessment of the level of regional economy should be based on the role of each region in the economy of the republic. For example, Samarkand region is one of the most developed regions of the country (Meyliev, 2018).

On this basis, in our opinion, we believe that the level of socio-economic development of the regions should be taken into account in determining the budget and tax parameters in our country, and it is expedient to provide targeted tax benefits based on local conditions.

This opinion, in turn, was discussed at the level of the Council of Ministers of the Republic of Karakalpakstan and taken into account in the development of government programs. This is reflected in Resolution PP-4889.

According to the resolution, the main goal is to effectively use the existing socio-economic potential of the Republic of Karakalpakstan, including production and investment, sustainable development of economic sectors. At the same time, the priorities of complex socio-economic development of the Republic of Karakalpakstan in 2020-2023 include the following:

b) Until January 1, 2024 for newly established industrial business entities in Takhtakopir, Bozataw and Shomanay districts of the Republic of Karakalpakstan, which have a low level of socio-economic development:

- Exemption from land tax, property tax, turnover tax on small businesses, a fixed amount of income tax for individual entrepreneurs;

- pays income tax and water tax in the amount of 50% of the current established tax rates;

- Equipment, components and spare parts that are not produced in the Republic of Uzbekistan, imported according to the lists formed in the prescribed manner and used only for their own production needs are exempt from customs duties.

c) Until January 1, 2026 in the Republic of Karakalpakstan to 45 newly created service businesses in difficult conditions in 45 settlements and villages:

- income tax, land tax, property tax, turnover tax on small businesses, exemption from payment of a fixed amount of income tax for individual entrepreneurs (Resolution, 2020).

The specifics of the fiscal mechanisms in the analyzed and studied foreign countries are shown in Table 1.

Table 1

Peculiarities of fiscal mechanisms in foreign countries¹

<p>In the United States. The main focus is on direct taxation, especially income tax. It has a progressive yield scale and a regulatory structure that is complex but flexible through its ability to provide benefits and change rates at the regional level.</p>
<p>In EU countries. The main focus is on indirect taxation, including VAT. It guarantees a steady and significant budget revenue, and is very flexible in reform. There is a single legal mechanism for VAT within the EU, but tax rates and individual exemptions differ from EU member states.</p>
<p>In Japan. Most of the revenue from the state comes from contributions to extra-budgetary funds, i.e. social security and contributions to provide for workers. Direct and indirect taxes have certain characteristics - they are paid for the work of hired workers, included in the cost of goods and services by producers.</p>
<p>In Ireland. The low corporate tax rate guarantees the attraction of large investments from abroad and the rapid development of domestic production infrastructure.</p>
<p>In the UK and France. Stimulation of certain regions, production sectors: one-time payments from the budget for capital investments, allocation of state subsidies and loans for the construction of production facilities, the provision of tax incentives and administrative preferences.</p>
<p>In Germany. Availability of large tax incentives for companies that have high potential for development but allocate funds to economically backward areas. Existence of criminal liability for tax evasion.</p>

The mechanism of tax administration plays an important role in improving the budget and tax mechanisms in foreign countries. At the same time, it is important to note that the elements of the mechanisms of tax administration, in addition to tax rates, the order of calculation and payment of taxes, as well as benefits for certain types of taxes, have other features. To do this, we need to focus on the fiscal systems of countries that have effective fiscal systems, such as the United States and Germany. It is noteworthy that these two states represent two different categories of fiscal systems. In the first case, the emphasis is on the effective regulation of direct taxation, mainly on income tax, while in the second, special emphasis is placed on indirect taxes. However, the presence of many “non-tax” factors, in turn, has contributed to the formation of effective tax control and, as a result, provides a sufficient amount of tax revenue to the state treasury in these countries.

First, it is the existence of a perfectly structured and technologically structured system for automated tax collection.

¹ Compiled by the authors.

Currently, this practice is being actively implemented in Uzbekistan and is being implemented through the creation and modernization of the website of the State Tax Committee, as well as through the function of personal accounts of taxpayers, so that taxpayers can pay all taxes with maximum convenience and as soon as possible.

Second, in a number of other countries, the principle of reasonable differentiation of sanctions and liability for tax offenses is increasingly used. That is, by partially restricting the civil rights of offenders. These include whether to run for office or revoke a driver's license. In Germany, there is even a very strict practice of "prosecuting individuals for intentional tax evasion. In particular, offenders are sentenced to 6 to 10 years in prison" (Marsakova, 2016).

In our opinion, it is appropriate to achieve positive results in the form of prevention of tax offenses, which provides for the warning of taxpayers, instead of significantly stricter penalties in liability measures. The reason is that in this case, first of all, it is important that the system of compensation for damages to the state works well. At the same time, the mechanism of recovery of borrowers' personal property with subsequent confiscation at market prices through auctions can also be an effective tool.

Conclusions and suggestions. We present our general conclusions based on the analysis of data from studies conducted from different perspectives on the tax potential of foreign countries.

We consider it expedient to use the "representative tax system" developed by the US Commission of Experts on Interbudgetary Relations from the best practices of developed countries in the realization of the territorial tax potential of the Republic of Karakalpakstan. Because the essence of the representative tax system as a criterion for assessing the tax potential of the regions is characterized by the calculation of the amount of total budget revenues collected in the regions. At the same time, the use of a representative tax system model requires the availability of general information on the regions. That is, actual revenues from taxes and other income, their tax bases allow the calculation of revenues by regions.

In turn, the assessment of the representative tax system for each region of the Republic of Uzbekistan includes identification of all potential sources of local budget revenues, the formation of a single classification of sources of income in different regions, the composition of the standard (or normative) tax base and the representative tax rate; takes. We believe that this method is important because it provides an opportunity to objectively and reliably assess the tax potential of the regions of the country. We also note that sufficient experience has been gained in using the representative tax system in Canada, Germany and Switzerland. However, the concept of budget federalism in Canada is distinguished by the high level of budget and tax independence of the provinces. They take into account a set of tax bases for 37 types of territories and local taxes in assessing the tax potential of the provinces.

In the case of Uzbekistan, the formation of tax revenues of local budgets at the expense of the norms of deductions from national tax revenues from the higher republican budget, the centralized establishment of consolidated tax revenues of local budgets in the regions is appropriate to use the representative tax system. Therefore, if the issue of assessment and formation of potential types of taxes that serve to improve the budget and tax mechanism of the territory of Karakalpakstan is resolved, it is advisable to use the method of representative tax system.

Based on the above research, the foreign experience of stimulating the economic growth of the regions of Karakalpakstan through taxes in terms of stimulating the growth of budget revenues and ensuring the stability of its fiscal mechanism was studied. Some issues related to the tax potential in the formation of national budget and tax systems were also considered. From this we draw the following conclusions. Including:

- The priorities of the budgetary and tax mechanisms of any foreign country for Uzbekistan will be, first of all, only informational;

- because we emphasize that most of the positive features of effective fiscal systems are based on a high degree of diversification in the economy.

At present, much attention is paid to bringing the tax model of Uzbekistan in line with international standards. In our opinion, it is necessary to take into account the level of socio-economic development of the country, the availability of huge mineral resources in Karakalpakstan, the specific geographical location and demographic situation in the region, as well as a number of other factors that directly affect fiscal policy.

However, it should be noted that there are some similarities between the models of fiscal systems in Uzbekistan and Europe, as well as methods of tax administration, or differences compared to the American experience.

In conclusion, it should be noted that in the economic models of foreign countries represent only the specific features that ensure the effective implementation of tax policy for these countries and belong to them.

References:

- [1]. Saprykina, T.V. Tax policy in the conditions of the economic crisis // Management of economic systems. 2015. No. 5 (77). - p. 29-32.
- [2]. Polyak, G.B. Taxes and taxation. – M.: Yurayt Publishing House, 2013. 468 p.
- [3]. Mamanazarov, A.B. Issues of increasing the role of taxes in the stabilization of local budgets. Abstract of the dissertation for the degree of Candidate of Economic Sciences. - Tashkent, BFA, 2002. - 22 p.
- [4]. Kobulov, H.A. Areas of capacity building of the regional economy and local budgets. Abstract of the dissertation for the degree of Candidate of Economic Sciences. - Tashkent: BFA, 2006. - 21 p.

- [5]. Kurbonov, X.A. Improving inter-budgetary relations. Abstract of the dissertation for the degree of Candidate of Economic Sciences. - Tashkent: BFA, 2010. - 21 p.
- [6]. Ruziev, Z.I. Improving the efficiency of formation and use of local budget revenues. Abstract of the dissertation for the degree of Candidate of Economic Sciences. - Tashkent: BFA, 2011. - 21 p.
- [7]. Khayriddinov, A.B. Ways to ensure the stability of revenue bases of local budgets. Abstract of the dissertation for the degree of Candidate of Economic Sciences. - Tashkent: BFA, 2011. - 21 p.
- [8]. Islamkulov, A.X. Improving the tax system to ensure inter-budgetary balance. Abstract of the dissertation of the Doctor of economic sciences (DSc). - Tashkent: Academy of Public Administration under the President of the Republic of Uzbekistan, 2020. - 66 p.
- [9]. Musagaliev, A.J. Ways to increase the effectiveness of the mechanisms of taxation of legal entities in the formation of regional budget revenues (on the example of the Republic of Karakalpakstan) // Dissertation for the degree of Doctor of Economics (DSc). - T.: Tashkent Financial Institute, 2018. - p. 230.
- [10]. Tararyshkina, L.I. Customs payments / Study guide. - M.: BSU. 2014. - p. 55-56.
- [11]. King, D.N. Local Government Economics in Theory and Practice. L.: Routledge, 1992. - p. 12.
- [12]. Grivanov, R.I., and others. Creation of special economic zones as an alternative to tax planning of business in the course of deoffshorization. 2014. No. 12-2. - p. 127-129.
- [13]. Lelikova, N.A., and others. Foreign experience of taxation of small business // Achievements of modern natural science, taking into account the resource potential // Taxes and taxation. 2014. No. 8. - p. 774-790.
- [14]. Pogorletsky, A.I. Tax policy of leading foreign countries: modern aspects // Finance and credit. 2012. No. 13 (493). - p. 71-80.
- [15]. Kakaulina, M.O, and others. Modeling the impact of the tax burden on the economic growth of the region from the economy // Audit and financial analysis. 2015. No. 1. - p. 232.
- [16]. Panskov, V.G. Taxes and taxation: theory and practice: a textbook for university students / - M.: Yurayt Publishing House, 2012. 680 p.
- [17]. Popov, D.A., and others. Economic aspects of the problem of reforming the value added tax // Modern scientific research and innovation. - 2014. -No. 6-2 (38). - p. 5.
- [18]. Meyliev, O.R. Issues of increasing the effectiveness of taxes in ensuring the stability of the regional economy. Abstract of the dissertation for the degree of Doctor of Philosophy (PhD). - Tashkent: TFI, 2018. - 57 p.
- [19]. Resolution of the President of the Republic of Uzbekistan dated November 11, 2020 No PP-4889 "On measures for integrated socio-economic development of the Republic of Karakalpakstan in 2020-2023." - www.lex.uz.
- [20]. Marsakova, V.D. Methods of tax incentives as a factor in increasing entrepreneurial activity // Legality and rule of law in modern society. 2016. No. 30. - p. 138-142.