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## **THE ESSENCE OF THE MECHANISM OF THE TAX REGULATION AND ITS IMPROVEMENT**

It cannot be imagined that any development can be done without taxes, more precisely without the influence of tax regulatory mechanisms. This article develops the essence of the mechanism of the tax regulation in the context of modernization of the economy, the directions of theoretical views in this area, as well as proposals and recommendations to improve the mechanism of the tax regulation to ensure the implementation of tax policy for full effectiveness. The article analyzes the opinions of various domestic and foreign economists on tax relations. The current state of tax relations in ensuring the socio-economic development of the country is generalized, the priority role of tax regulation is shown, as well as the main importance of taxes as an economic category in the regulation of socio-economic processes in the context of modernization of the economy.

**Keywords:** tax, tax regulation, tax mechanism, tax policy, tax burden.

## **СОЛИҚЛАРНИ ТАРТИБГА СОЛИШ МЕХАНИЗМИ МОҲИЯТИ ВА УНИ ТАКОМИЛЛАШТИРИШ**

Ҳар қандай тараққиётни солиқсиз, аниқроғи солиқларни тартибга солиш механизмлари таъсирсиз тасаввур қилиб бўлмайди. Ушбу мақолада иқтисодиётни модернизациялаш шароитида солиқларни тартибга солиш механизмнинг моҳияти, бу борадаги назарий қарашлар йўналишлари, шунингдек, тўлақонли самара келтирувчи даражада амал қилиши учун солиқ сиёсатини юритилишини таъминлаш, солиқларни тартибга солиш механизмини такомиллаштириш бўйича таклиф ва тавсиялар ишлаб чиқилган. Мақолада солиқ муносабатлари бўйича турли ватанимиз ва хорижий иқтисодчилар фикрлари таҳлил қилинган. Мамлакатни ижтимоий-иқтисодий ривожланишини таъминлашда солиқ муносабатларининг ҳозирги ҳолати умумлаштирилган, иқтисодиётни модернизациялаш шароитида солиқларни тартибга солишнинг истиқболли роли, шунингдек жамиятнинг ижтимоий-иқтисодий жараёнларини тартибга солишда солиқларнинг иқтисодий категория сифатида асосий моҳияти кўрсатиб берилган.

**Калит сўзлар ва иборалар:** солиқ, солиқларни тартибга солиш, солиқ механизми, солиқ сиёсати, солиқ юки.

## **СУЩНОСТЬ МЕХАНИЗМА НАЛОГОВОГО РЕГУЛИРОВАНИЯ И ЕГО СОВЕРШЕНСТВОВАНИЕ**

Невозможно представить, что любое развитие может происходить без налогов, точнее без влияния механизмов налогового регулирования. В данной статье раскрывается сущность механизма налогового регулирования в контексте модернизации экономики, направления теоретических взглядов в этой сфере, а также предложения и рекомендации по совершенствованию механизма

налогового регулирования для обеспечения реализации налоговой политики на полную эффективность. В статье анализируются мнения различных отечественных и зарубежных экономистов по налоговым отношениям. Обобщено нынешнее состояние налоговых отношений в обеспечении социально-экономического развития страны, показана приоритетная роль налогового регулирования, а также основное значение налогов как экономической категории в регулировании социально-экономических процессов общества в условиях модернизации экономики.

**Ключевые слова:** налог, налоговое регулирование, налоговый механизм, налоговая политика, налоговая нагрузка.

### **Introduction**

At that moment, modernization of the country's economy, further improvement and implementation of economic reforms in the tax system, strengthening the regulatory function of taxes, development of small businesses and further strengthening its role in the economy are becoming the most important issues of socio-economic development.

In the context of modernization of the economy, the role of tax regulation has increased, led to major changes and has become more complex. In modern tax knowledge, tax regulation is not studied in isolation, but is covered through a number of methods and tools of tax policy. It is the regulation of taxes that plays an important role in the development of the country's economy.

This, in turn, creates opportunities for solving important socio-economic problems such as the development of socio-economic processes, the provision of socio-economic security at the level of demand through taxes, the competitiveness of economic entities, income growth, employment.

Investment flows cannot be accelerated without tax regulation, especially in key sectors. This, in turn, will make it impossible to carry out structural changes and modernization of the economy, re-equip enterprises with modern equipment and launch the production of competitive products (services). It will be possible to further increase the socio-economic importance of tax regulation, to introduce modern technologies in all areas and sectors, to develop export-oriented goods, to ensure their economic and social growth by launching their production.

### **Literature Review**

Even though the Tax Code of the Republic of Uzbekistan does not define the concept of “tax regulation”, it defines the terms related to the elements that drive taxes. It defines “The tax is understood as the obligatory non-paid payment established by this Code paid to the Government budget of the Republic of Uzbekistan or to the state trust fund” [1].

It is worth mentioning that I.A. Ergashev's opinion on the main criteria of tax regulation suggests that the improvement of the current tax administration will provide for such tax revenues in the future.

It should be noted that B. R. Sanakulova, Sh. Yakubov and I. A. Ergashev emphasized the improvement of tax administration as a key criterion for tax regulation. They believe that the main goal of the tax administration should be to focus on the clear and uniform implementation of the tax policy of the state by regulating the activities of participants in tax relations on the basis of the norms of the Tax Code. In this case, they emphasize that the proper organization of tax administration is important in ensuring a balance of interests between the state and society, given that the consent of the parties is not a mandatory and necessary element in the formation of tax relations. However, the applicant is not referring here to various financial guarantees.

It is defined in the Action Strategy that one of the most important and topical issues is the scientific analysis of the need to implement tax reforms and improve tax relations in the context of renewal and modernization of the country, thereby ensuring the stability of local budget revenues [2].

A. Kamolov argues that it is expedient to optimize the ratio of public and private interests in the investment of limited resources in the national economy itself, using the regulatory function of taxes [12, p. 76]. It should be noted that while recognizing that the main function of taxes is a fiscal function, the regulatory function of taxes is also an important and mutually beneficial concept in the organization of tax relations.

In his scientific work, T.F.Yutkina argues that from the point of view of modernization and improvement of tax regulation, the economic impact on investment processes, technology innovation in industries, budget balancing, management of internal tax relations. [17, pp. 383-393]. Here it is appropriate to reflect on the idea that in order to attract more investment in sectors of the economy, it is necessary to regulate the tax relations that apply to it.

A. Gryaznova argues that tax regulation is the practical implementation of one or more forms of tax policy, and that an active tax policy implies the extensive use of benefits. [16, p. 1168].

In his article, A.A. Maletsky argues that the goal of tax regulation is twofold. [13]. On the one hand, effective efforts to achieve the strategic goals of the country's development, and on the other hand, ensuring the optimal balance of private and public interests of economic entities are recognized as goals of tax regulation.

### **Research methodology**

The research used scientific observation, statistical observation, statistical graphs, data grouping, abstract-logical reasoning, induction and deduction methods. These research methods serve to form conclusions and recommendations for the development of the mechanism of tax regulation in the context of modernization of the economy.

### **Analysis and results**

In the context of increasing integration and globalization of the economy, it is important that the mechanism of the tax regulation focuses its capabilities on ensuring the socio-economic growth and competitiveness of the country. The mechanism of the tax regulation should remain one of the conditions for the development of the country's

social economy. In this context, the factor that improves the mechanism of the tax regulation is the formation of strong tax relations. At present, the improvement of the mechanism of the tax regulation should serve to strengthen the position of socio-economic processes to rise to the level of world standards.

The mechanism of the tax regulation serves as a very important tool in ensuring the competitiveness of the country's infrastructure with the production of quality innovative products, the implementation of structural reforms. It is known that tax regulation in the broadest sense emerges as a factor of socio-economic development.

Currently, modernization and diversification of the economy, technical and technological renewal, a sharp increase in its competitiveness, increasing export potential, production of imported goods (products), increasing the solvency of the population, increasing the efficiency of economic entities, investment inflows from various sources, innovative products (the solution of tasks such as the implementation of important priority projects aimed at the production of goods, services) remains dependent on the rational management of the tax regulatory mechanism.

In the context of deepening the process of structural restructuring of the economy, the country has paid special attention to the development and implementation of its state scientific, technical and innovative fiscal policy. As noted by the President of the Republic of Uzbekistan, "Our main priority is to further strengthen macroeconomic stability and maintain high rates of economic growth, including the balanced state budget at all levels, the stability of the national currency and prices in the domestic market".

In the Address of the President of the Republic of Uzbekistan to the Chambers of the Oliy Majlis dated December 28, 2018, "We must further improve the efficient use of State budget resources. All programs and projects to be financed from the State Budget must have quality and quantity indicators oriented to the final result" [4]. This reflects the urgency of the tasks facing fiscal policy.

The purpose of this idea is to ensure the competitiveness of scientific and innovative activities in the long-term organizational environment, based on the priorities identified in the program of the Action Strategy. At the same time, it is necessary to pay attention to the improvement of the mechanism of the tax regulation, as well as the development of its legal framework.

In the development of the legal framework of the mechanism of the tax regulation should play an important role in the structural restructuring of the economy and the saturation of the market with various competitive products (goods, services).

In the special economic literature, in our daily lives, in various media, "tax mechanism", "organization of the tax mechanism", "tax management", "tax regulation mechanism", "elements of the tax mechanism", "innovation" tax mechanism" and other similar terms. There have been instances of encounters in relationships and processes related to their content and the nature of their application.

There are six main theoretical approaches to the interpretation of the tax mechanism [5] [8] [9] [10] [14]:

- The structure and essence of the tax mechanism, as well as its role in the development of socio-economic processes;

- state regulation of the economy through tax mechanisms and ensuring economic growth;
- definition of objects and criteria of tax regulation;
- Taxes and mandatory payments to the budget;
- The procedure for granting tax benefits, as well as possible sanctions, administrative penalties;
- optimization of the amount of taxes.

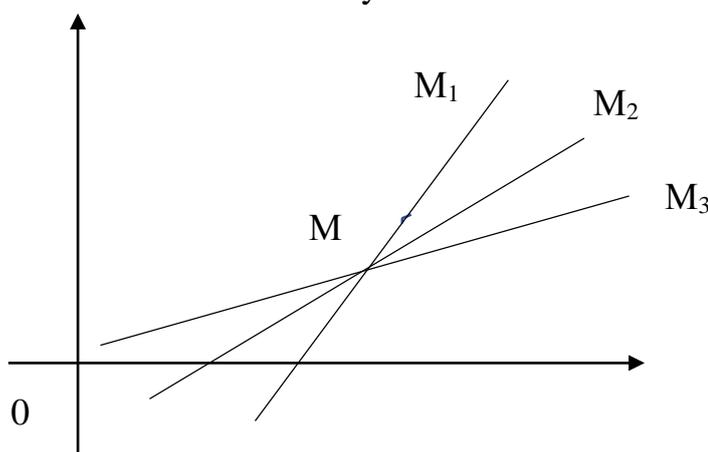
The six interpretations mentioned are interrelated, but they do not reveal the essence, characteristics and role of the tax regulatory mechanism in socio-economic development by ensuring a fully integrated relationship.

For instance, although the mechanism is an economic reality that has entered the field of economics from these technical areas, the word mechanism means the rational use of elements, methods, principles in the economy due to its nature. It acts as a subjective concept, at the will of the state, without regard to the essence of economic principles. Therefore, the state may make additions to the tax elements or exclude the ineffective tax element from the factors that shape the tax relationship. Therefore, the above mechanism was mentioned as a set of rules and means of tax relations that ensure the achievement of the goal of tax policy. This is not a coincidence, of course.

Currently, in spite of the measures taken to tax regulation in order to strengthen tax relations between taxpayers and budgets of all levels, there is no significant acceleration of the innovative development of business entities [7, 355-380].

The establishment of a tax regulation mechanism means the creation of a tax relationship that creates an environment that is economically (but not administratively) in which the interests of the state, the enterprise, and the worker intersect in a line. It is precisely by bringing them together that production efficiency, innovative development, and synergistic effects in the social sphere are ensured.

It should be noted that they intersect at the collision line (see Fig. 1).



Here: M, M1, M2, M3 - the intersection of interests.

**Fig. 1. Increasing economic and social activity by combining different interests of tax regulation mechanisms<sup>1</sup>**

The point of intersection does not mean that interests are shifted or subordinated from one to another, from one to the third, but at this point each stakeholder gains opportunities that are relevant to them and provides dynamic growth in them. It should

<sup>1</sup>Source: Created by author

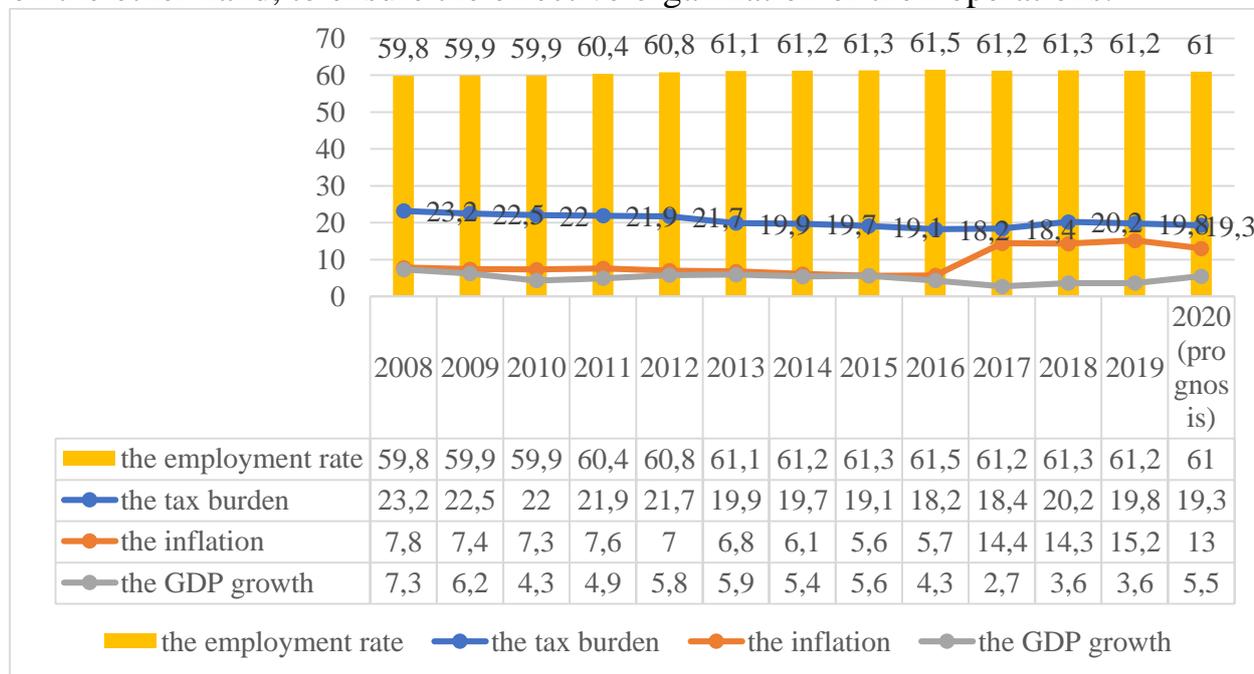
be noted that the intersection of three interests at one point also creates a basis for achieving a synergistic effect for each stakeholder. Therefore, the mechanism of the tax regulation will have to create such an effective situation at the same time, not individually, but in a complex way.

When it is talked about the tax mechanism, we try to directly imagine the tax elements, methods and principles of application. However, to say that such actions are completely correct, and that the mechanisms of the tax regulation based on them are effective, may also lead to further complication of the tax complexity.

The main reason for that, the development of the economy in the context of globalization can change the mechanisms of public policy in both manufacturing and non-manufacturing sectors. At the same time, it can be said that tax payments can change the ways of managing the profits of legal entities, their levels of profitability (profitability). Therefore, the financial health of manufacturing and non-manufacturing enterprises (organizations) is directly related to profit (income). Therefore, the full effectiveness of the mechanism of the tax regulation requires an effective tax policy related to the activities of enterprises (organizations).

C.M. Tiebout argues that the reduction of tax revenues through the introduction of tax incentives could pose risks to the supply of goods to society. Therefore, tax policy should serve the welfare of society and not reduce budget revenues [11, 416-424].

Therefore, it is necessary to optimize the mechanisms of the tax regulation, on the one hand, and to create opportunities for enterprises with the status of legal entities, on the other hand, to ensure the effective organization of their operations.



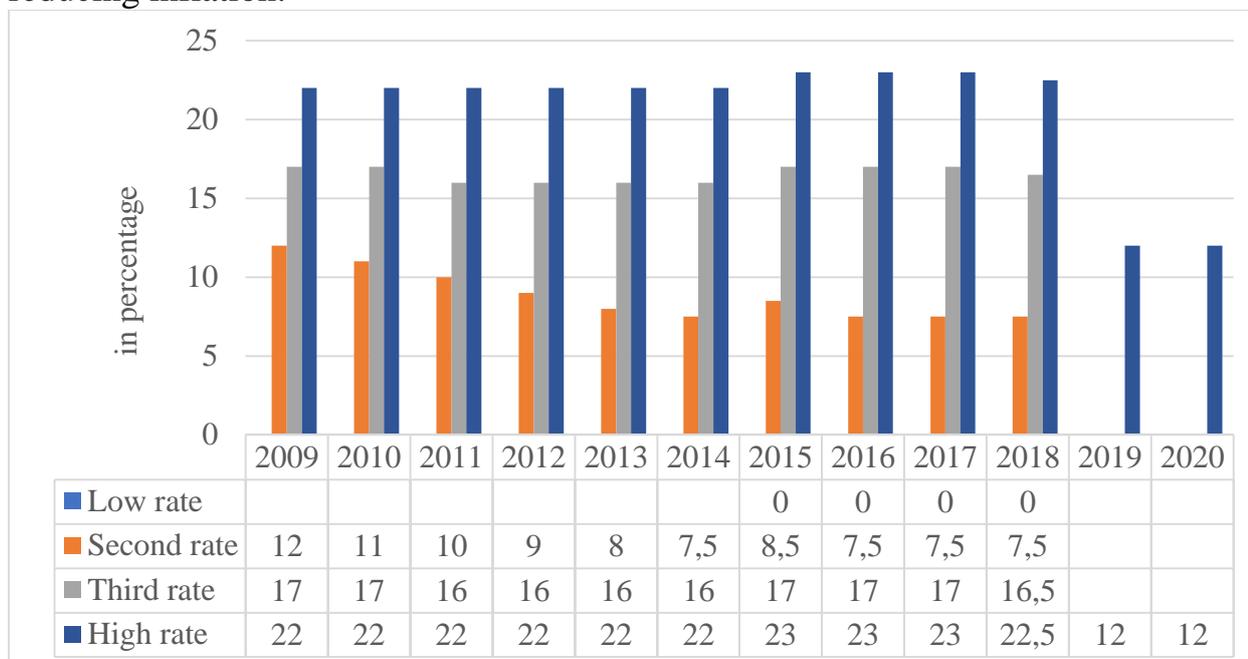
**Fig. 2. Dynamics of GDP growth, inflation rate, employment growth rate and reduction of tax burden<sup>2</sup>**

According our opinion, the main objectives of the mechanism of the tax regulation should be to mitigate the fluctuations of the economic cycle, to ensure sustainable GDP

<sup>2</sup> Created by the author on the basis of [www.stat.uz](http://www.stat.uz), [www.mf.uz](http://www.mf.uz), [www.data.worldbank.org](http://www.data.worldbank.org)

growth, to ensure a high level of employment in the context of moderate inflation (Fig. 2.)

The gradual implementation of economic reforms has created an opportunity for a full dynamic shift of macroeconomic indicators under the influence of the tax regulatory mechanism. It should be noted that the reduction of the VAT rate, which has a high share in state budget revenues, did not have a significant impact on curbing inflation. However, it is natural that the efforts made in this direction will serve to reduce inflation by 2025. Nevertheless, the experience of countries around the world shows that the downward trend in VAT rates cannot severely limit the growth of inflation. This is due to the fact that the reduction of the VAT rate in 2017-2019 should be done in 2010-2016, but under the influence of some factors, individuals are rapidly reducing the tax rate to 12% (Fig. 3.) and actively working at retirement age. making payments to incoming pensioners (by the Decree of the President of the Republic of Uzbekistan No. PF-5597 of December 12, 2018) to 100%, increasing the salaries of professors and teachers working in government agencies, the education system to 60% (this process is further (excluding incentives) did not have a significant effect on reducing inflation.



**Fig. 3. Dynamics of changes in personal income tax<sup>3</sup>**

However, it was important to keep inflation at the forecast level for 2018-2019, as keeping it at the forecast level created ample opportunities for the development of small business and private entrepreneurship. Even in the context of a coronavirus pandemic (COVID-19), conditions have been created for their full support. It is also advisable to explain the created opportunities with the following practical measures.

<sup>3</sup> PQ-1024 of the President of the Republic of Uzbekistan dated 29.12.2008; PQ-1245 dated 22.12.2009; PQ-1449 dated 24.12.2010; PQ-1675 dated 30.12.2011; PQ-1887 dated 25.12.2012; PQ-2099 dated 25.12.2013; PQ-2270 dated 04.12.2014; PQ-2455 dated 22.12.2015; PQ-2699 dated 27.12.2016; Prepared by the author on the basis of the decisions of 29.12.2017 No PP-3454 "On the forecast of key macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan"

Monitoring the path of socio-economic development under quarantine, in the current pandemic coronavirus (COVID-19), our country must develop more steadily and rapidly to further strengthen the competitive environment in a rapidly changing world market environment. This requires a completely new approach to maintaining and improving the viability of tax regulation mechanisms.

Taking into account the existing factors of the current socio-economic processes, it is expedient to introduce a mechanism of tax regulation in accordance with the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 "On the Strategy of Action for the Further Development of the Republic of Uzbekistan".

An important task remains to develop draft regulations aimed at reducing the subsidization of cities and districts by further optimizing the mechanism of the tax regulation in quarantine, deepening the process of fiscal decentralization. To implement this, it will be possible to further optimize the mechanisms of the tax regulation, increase the capacity of local budgets by revising the list and amount of taxes and mandatory payments that remain at the disposal of local budgets, as well as reduce their subsidies.

It follows that the mechanism of the tax regulation should not only provide for the improvement of tax elements, objects, methods, etc., but also serve to ensure the solution of problems arising in the framework of budget revenues and expenditures.

### **Conclusion and proposals**

To achieve this, the following tasks of tax regulation must be fulfilled:

- optimization of the taxation system in order to create favorable conditions for the development of private entrepreneurship as a key factor in the socio-economic development of the country;
- creation of a favorable tax environment for the development of small business and private entrepreneurship by reducing the tax burden;
- Development and implementation of promising methods for activating innovation and investment processes by increasing investment attraction;
- Development and gradual introduction of tax methods that stimulate the innovative development of economic entities;
- Creation of a stable and long-term financial base for local governments in order to address the challenges of development of the country through the expansion of the tax base and the improvement of the mechanism of taxation.

A careful study of the concept of improving tax policy and the practical implementation of the current new version of the Tax Code, to determine under what conditions it is synergistic, and in which cases the mechanism of the tax regulation needs to be further improved or amended remains a very important and topical issue. Therefore, it is necessary for the relevant tax authorities, in cooperation with academics, to make proposals to improve the mechanism of the tax regulation by amending certain articles of the Tax Code.

Based on the above data, we can say that in the current context of radical changes in the tax system, it is expedient to implement the following.

First of all, to create and implement a tax system that can fully meet the requirements of modernization of the economy. This should be done on the basis of the experience of studying the tax system of developed countries.

Secondly, the tax burden must be fairly distributed in order to ensure a healthy competitive environment in the economy.

Thirdly, the work done in the tax system should be carried out mainly on the basis of socio-economic and geographical conditions.

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