



SUSTAINABLE ECONOMIC GROWTH AND EFFECTIVE TAX POLICY

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Abstract. This article scrutinizes current economic reforms in Uzbekistan, effecting on tax and taxation. The role of government and its laws on taxing system is analyzed. The contribution of taxes in GDP is researched according to the types of taxes. The data collected from the last five years are compared and essential conclusions are drawn. The impact of the reduction of rates of taxes and mandatory payments in the country and the improvement of mechanisms for their collection have been analyzed in the article.

Key words: budget, GDP, income, insurance, pandemic, taxation, tax burden.

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I. INTRODUCTION

The ongoing economic reforms in the country are leading to sustainable and balanced economic growth, the development of small business and private entrepreneurship, as well as the improvement of living standards. The positive results achieved in terms of macroeconomic and financial stability require an in-depth analysis of all spheres of economic life of the society, first of all, the results of

ongoing reforms, new processes and qualitative changes, and draw the necessary conclusions.

The global crisis caused by the COVID-19 pandemic, which began in 2020, has changed the growth trends of the world economy and forced the countries of the world to change their socio-economic policies. This pandemic has not bypassed the Uzbek economy. According to the International Monetary Fund's April 2021 report, the world economy

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contracted by 3.3 percent. In addition, the economies of developed countries decreased by 4.7%, the economies of developing countries - by 2.2%. In 2020, the economy of the Russian Federation shrank by 3.0%, Kazakhstan by 2.6%, the Republic of Korea by 1.0%, while the economy of China went up by 2.3% and Turkey by 1.8%. As a participant of economic relations, firms and organizations are the owner of their property; in this regard, they are required to fully adhere to the principles of social justice, to obey the laws and rules adopted by the state, to take the demands of economic entities in the form of population and families into account. Under these requirements, firms are legally bound economic entities in the course of their activities, legally bound to public policy, and to some extent limited to the economic entities in the form of individuals and families [9]. Currently, research on optimization of the tax burden by unifying the types and rates of taxes, on justifying the elimination of ineffective tax benefits, on determining the

indicator of the tax burden on enterprises and regions of the Republic of Uzbekistan is becoming relevant [8]. Despite the recession in the world economy, the budget-tax aimed at implementing the priorities set out in the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021, further development of socio-economic spheres and mitigation of socio-economic consequences of the pandemic and as a result of monetary policy measures, the economy of Uzbekistan maintained a positive economic growth rate in 2020-2021.

II. METHODOLOGY

The methodology of this article is based on data collection, learning from other authors' work on this sphere, and analyzing the collected data by comparison.

III. DATA ANALYSIS

It is known that economic growth is determined in two ways: by the growth of gross domestic product (GDP) and the growth of GDP per capita. The statistics of the country's economic development are given in Table 1.

Table 1

Dynamics of GDP in the Republic of Uzbekistan¹

Name of indicators	Unit of measurement	2020	2021	2022 forecast	2023 target	2024 target
Gross Domestic Product	Billion sum	602 551	722 830	839 989	972 701	1 126 753
	Million dollar	59921	67871	74198	81057	88580
Real GDP growth	%	1,7	7,0	6,0	6,2	6,6

¹ Prepared on the basis of data from the State Statistics Committee of the Republic of Uzbekistan.



In 2020, the GDP is expected to reach 602,551.0 billion sums, and in 2021 - 722,830.0 billion sums. In 2022, this figure is projected at 839,989.0 billion sums. In addition, in 2023, the gross domestic product is expected to reach 972,701.0 billion sums. It is known that the main strategy of economic reforms in the country is to ensure the sustainability of economic growth and the proper and full functioning of economic mechanisms. Many factors affect macroeconomic growth, including fiscal policy. The impact of fiscal policy on economic growth is significant, and the improvement of this sector is directly related to economic growth. In recent years, the country has done a lot in the field of budget and taxation. In particular, from 2020 a new Tax Code will be introduced. This led to major changes and benefits in the field of tax and taxation. The new Tax Code is stated in a language that is more convenient and understandable to taxpayers, in

stark contrast to the previous tax code. This, in turn, has created considerable convenience for taxpayers, both legal entities and individuals.

The final result and assessment of the fiscal policy is the current tax burden. The tax burden is an indicator of the tax policy pursued in the country and plays an important role in the economy. As a result of improving the tax system, reducing tax rates and providing tax benefits, as well as increasing production, the level of the tax burden in the country has decreased significantly. This had a direct impact on GDP growth. It is known that the current tax burden is determined at the macroeconomic level by the ratio of state budget revenues to GDP. This method is widely used in many countries around the world and serves as a basis for assessing the level of the current tax burden. Today, this figure is 21.4% as of January 1, 2022

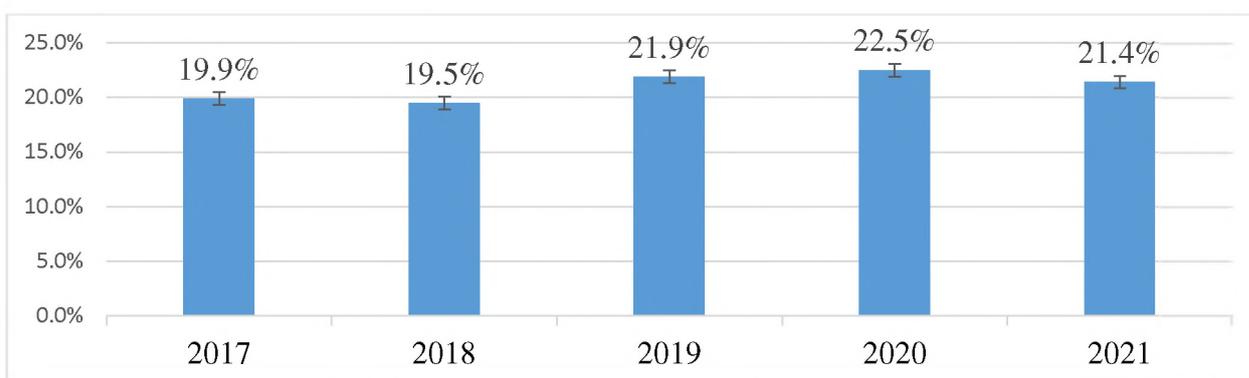


Fig. 1. Dynamics of the tax burden, as a percentage of GDP²

² Author's calculation based on the data of the Ministry of Finance of the Republic of Uzbekistan



In 2018, the tax burden at the macroeconomic level in the country was 19.5 percent, in 2019 it was 21.9 percent or in 2020 it was 22.5 percent. As we can see, the level of the tax burden can be seen to increase by 0.6 percentage points in 2020 compared to 2019. It is also expected that this figure will be 21.4% in 2021. Such a change in the level of the tax burden can be explained by the increase in the number of taxpayers as a result of the reduction of basic tax rates.

The analysis shows that the number of value-added taxpayers was 6,796 in 2018, up from 113,477 in 2020, or an increase of 106,681 in the period under review. Also, the number of land tax payers of legal entities in 2018 was 12887, in 2020 it was 155023 or increased to 142,136 in the analyzed period.

Table 2
Changes in the number of taxpayers by individual tax types³

Taxtypes	2016	2017	2018	2019	2020	Growth rate in 2020 compared to 2016
Value-addedtax	4 958	5 617	6 796	82 405	113 477	+ 108 519
Incometax	5 752	6 518	7 609	53 051	113 868	+ 108 116
Turnover tax	156 850	161 310	164 465	177 701	321 638	+ 164 788
Property tax for legal entities	8 213	8 987	9 261	58 334	58 856	+ 50 643
Land tax levied on legal entities	10 300	11 689	12 887	70 046	155 023	+ 144 723
Tax for the use of water resources	2 936	3 187	3 443	56 024	136366	+ 133 430
Total:	189 009	197 308	204 461	497 561	899 228	+710 219

As can be seen from Table 2, the number of taxpayers by major tax types was 189,009 in 2016 and 899,228 in 2020. Or the number of taxpayers by major tax types increased by 710,219 during the period under review. This, in turn, had a positive effect on the increase in tax revenues due to the expansion of the tax base as a result of the transition of the shadow economy to the formal economy. That is, as a result of improving and simplifying the tax system, we can see that the number of taxpayers has increased as a result of registration and legalization

³ Author's calculation based on the data of the Ministry of Finance of the Republic of Uzbekistan



of their activities in the informal sector, and the share of tax revenues in budget revenues has increased.

In the table below we can see the level of tax burden in some countries.

Table 3

The dynamics of the average tax burden in some countries of the world, as a percentage of GDP

Countries	Tax burden rate
France	46,0
Germany	39,0
Japan	36,1
Kazakhstan	29,0
Ukraine	27,0
Russian Federation	30,7
Belorussia	33,9

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When comparing the level of tax burden in some countries with the level of tax burden in our country, the highest tax burden is in France - 46%, Germany - 39% and Japan - 36.1%. Low levels of the tax burden are 27 percent in Ukraine and 29 percent in Kazakhstan. In recent years, the level of the tax burden in our country fluctuates around 30%. This means that it corresponds to the level of the theoretical and scientifically based tax burden in the economy and does not adversely affect economic development.

In our opinion, the downward trend in the tax burden in our country is mainly due to the reduction of the shadow economy and the reduction and optimization of tax rates. This is because the government is pursuing a policy of reducing direct tax rates as

a priority of fiscal policy. These tax rates have been reduced by several percent in recent years as the decline in direct tax rates has a direct impact on taxpayers' income. This, in turn, has a positive impact on taxpayers' income growth, expansion of production and business activities, as well as their investment activity.

As a result of the reduction of the value added tax rate from 20% to 15% within the Decree of the President of the Republic of Uzbekistan dated June 29, 2018 PF-5468 "On the concept of improving the tax policy of the Republic of Uzbekistan" enterprises, companies and farms led to an increase in excess. This will have a positive effect on the formation of new tax bases in the future.



The rates of corporate income tax, personal income tax and single social payment, which directly affect the income of taxpayers, have been significantly reduced.

Table 4

Dynamics of basic tax rates⁴(in percent)

Tax types	2017	2018	2019	2020	2021
Income tax	7,5	14	15	15	15
Dividend tax	10	10	5	5	5
Property tax	5	5	2	2	1,5
Government trust funds	3,5	3,2	0	0	0
Single tax payment	5	5	4	4	4
Taxes on salary:					
- Single social payment	24	15	12	12	12
- Insurance fee	8	8	0	0	0
- Income tax	0, 7.5, 17, 23	0, 7.5, 16.5, 22.5	12	12	12

⁴Made by authors



The corporate income tax rate was 14 percent until January 1, 2019, while from January 1, 2019, the figure was set at 15 percent. Also, the dividend tax was reduced from 10% to 5%, property tax from 5% to 2%, and allocations to state trust funds from 3.2%. the single tax payment was reduced from 5 percent to 4 percent.

The amount of taxes and fees established in accordance with the Tax Code of the Republic of Uzbekistan has been reduced from 19 to 15.

The system of taxation of individuals and the taxation of their income has also been improved. The progressive taxation practice in the taxation of personal income was abolished and a system of proportional taxation was introduced. The single rate of

personal income tax was set at 12 percent, and the payment of compulsory insurance premiums (8 percent of employment) was abolished. As a result, according to the analysis, the amount of "hands-on" wages increased by an average of 6.5% and the tax burden on the salary fund was reduced.

The highest rate of personal income tax was 22 percent in 2014, while in 2017 the figure was 23 percent. Or the tax rate for this type of tax increased by 1 percent during the period under analysis.

Reducing personal income tax rates and taxing at a single 12 percent rate, in turn, will have a positive impact on real incomes of individuals. It has also led to a significant reduction in the tax burden on individuals

Table 5

Analysis of specific rates of personal income tax⁵

The level of the minimum wage	2014	2015	2016-2017	2018	2019
1 time	7,5%	0%	0%	0%	12 % ⁶
2 times					
3 times					
4 times					
5 times					
6 times	16%	17%	17%	16,5%	
7 times					

⁵Made by authors

⁶ Provided by the Decree of the President of the Republic of Uzbekistan dated June 29, 2018 No PF-5468 "On the concept of improving the tax policy of the Republic of Uzbekistan."



8 times					
9 times					
10 times					
More than 10 times	22%	23%	23%	22,5%	

It is known that allocations to extra-budgetary funds also slightly increase the tax burden for enterprises and have a negative impact on workers' wages. This is because high allocations from the wage fund to extra-budgetary funds will be an excessive tax burden on the enterprise and lead to a reduction in their income. As a result, allocations to extra-budgetary funds were abolished in order to increase the investment savings of enterprises, create new jobs, produce new products, expand production activities and increase workers' incomes. This, in turn, has led to a reduction in the tax burden on the country, both at the macroeconomic level and at the micro level.

IV. CONCLUSION

In recent years, increasing the share of small business in GDP has been one of the priorities of economic policy. Today, the system of taxation of small businesses in the country is being improved. As a result, the volume of products produced by small businesses is growing in GDP. The new jobs created in the country are mainly due to small businesses. In recent years, the country has created an average of more than half a million jobs each

year. To this end, the single tax rate for small businesses has been reduced in recent years to 4 percent, which will lead to a reduction in the tax burden on these enterprises and expand their production.

In general, the reduction of rates of taxes and mandatory payments in the country and the improvement of mechanisms for their collection have a positive impact on reducing the current tax burden and timely payments to the budget. It is noteworthy that the reduction of tax rates by several percent in the analyzed periods did not reduce budget revenues for these types of taxes. On the contrary, tax revenues are expected to increase in absolute terms. This indicates that the economy is developing steadily with the reduction of the tax burden.

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