

# THE ROLE AND IMPORTANCE OF FOREIGN EXPERIENCE IN STRENGTHENING THE REVENUE BASE OF LOCAL BUDGETS

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## Abstract

This article analyzes the theoretical and methodological aspects of strengthening the revenue base of local budgets, as well as the experience of foreign countries in this field. In particular, mechanisms such as fiscal decentralization, increasing the share of local taxes, digitalization of tax administration, and diversification of non-tax revenue sources are examined. The study also develops practical recommendations based on institutional factors and the possibilities of adapting advanced foreign practices to national conditions. The research findings contribute to ensuring the financial independence of local budgets and promoting the sustainable socio-economic development of regions.

**Keywords:** Local budget, revenue base, fiscal decentralization, local taxes, tax administration, non-tax revenues, transfers, budget sustainability, foreign experience, financial independence.

## Introduction

Local budgets serve as a decisive financial mechanism in the socio-economic development of regions. The stable and sufficient formation of the revenue base of local budgets plays a crucial role in improving the quality of public services, modernizing infrastructure, and ensuring the well-being of the population.

In global practice, fiscal decentralization policies are consistently implemented to strengthen the financial independence of local budgets. In some countries, the share of local taxes has been increased, while in others, budget sustainability is ensured through non-tax revenues and intergovernmental transfers. From this perspective, analyzing the advanced experience of foreign countries and adapting it to national practice is of particular relevance.

In developed countries, there are general similarities between the mechanisms of local tax collection and the current state of the economy of our Republic. In both cases, taxes and non-tax payments constitute the primary sources of financial resources for regions. However, each country also has its own specific features in the formation of centralized and regional financial resources.

## Review of Literature Related to the Topic.

Local budgets and issues of fiscal decentralization have been widely studied by both foreign and domestic economists.



The founders of the theory of fiscal federalism — Richard Musgrave and Wallace Oates — scientifically substantiated that the distribution of public finance responsibilities between central and local levels increases overall efficiency. In addition, according to the public choice theory developed by James Buchanan, the financial independence of local authorities expands opportunities for the efficient use of resources.

In contemporary research, particular attention is paid to the digitalization of tax administration, improvement of property tax valuation systems, and optimization of intergovernmental transfer mechanisms in the formation of local budget revenues.

In the scientific works of local scholars I. Niyazmetov, S. Voronin, B. Koraboev, and D. Ugay, the necessity of modernizing property and land taxation in Uzbekistan based on a unified approach is emphasized. They propose aligning the tax base more closely with market values, introducing an annual revaluation system, and differentiating tax rates. Koraboev also highlights the importance of regulating tax incentives, establishing effective appeals mechanisms, and ensuring openness and transparency. It is further noted that these proposals should be tested through pilot projects based on practical experience.

### **Research Methodology**

The article widely employs methods such as logical abstraction, systemic analysis, induction and deduction, and statistical analysis. The reliability of the theoretical and statistical materials used in the research is ensured by the fact that they are confirmed by authorized institutions.

Through the study of foreign practices, mechanisms for forming local budget revenues were comparatively analyzed. Furthermore, institutional, legal, and economic factors were taken into account in adapting the analytical results to national conditions.

### **Analysis and Discussion of Results**

The local budget constitutes an important component of the budget system of the Republic of Uzbekistan. It forms a specific financial base at the disposal of each local government authority to carry out its functions. The local budget system makes it possible to more fully consider local needs and to coordinate them effectively with centrally implemented state measures.

As the revenue base of local budgets increases, the economies of the respective regions become more stable and develop progressively.

The gradual adaptation of foreign experience to national conditions contributes to ensuring the financial sustainability of local budgets.

The local budget system in the Russia is characterized by a high degree of tax centralization, whereby tax authorities are granted powers to collect and allocate revenues. This is an integral feature of fiscal federalism, which involves the differentiation of financial powers, primarily related to the exercise of tax competence and the expansion of authority in public budget construction.

In the practice of federalism in Russia, certain regularities can be identified. In many developing countries, tax systems tend to be more centralized, as central governments are often reluctant to relinquish revenue sources and face administrative difficulties in managing local taxation. Although Russia is formally a federal state, it is characterized by a significant centralization of fiscal powers, a feature typical of many transition economies.



In advanced international practice, specialized agencies may perform a wide range of functions: maintaining a national real estate cadastre (as in France), monitoring compliance with minimum wage legislation (as in United Kingdom), collecting various types of debts and representing state interests in bankruptcy proceedings (as in Sweden), overseeing mortgage and other loan repayments (including student loans in the United Kingdom), exercising financial control over enterprises with significant state ownership (as in Germany and the United States), and administering social benefit payments. In essence, such generalizations reflect the most advanced global trends and outline the features of an ideal tax system.

The tax system of the United States is structurally similar, in federal terms, to that of the Republic of Uzbekistan. In the United States, taxes are divided into three levels according to budget allocation: federal, state, and municipal budgets.

Its characteristic features include:

- Federal taxes are generally progressive, meaning that tax rates increase as the taxable base grows, while many local taxes may be calculated using regressive rates.
- Although the U.S. tax system consists of three levels, legislation does not always strictly separate taxes into federal, state, and local categories; each state has the authority to establish its own taxes.
- Federal, state, and local governments may simultaneously impose similar types of taxes. For example, individuals may pay income and property taxes at different budget levels, while corporations pay corporate income tax at the federal level.
- The U.S. tax system primarily relies on direct taxation. There is no value-added tax (VAT) at the federal level; however, nearly every state levies a sales tax.
- Unlike in Uzbekistan, social security contributions are paid not only by employers but also by employees themselves.
- A significant portion of tax revenues—approximately 70 percent—accrues to the federal budget, while about 30 percent goes to state and municipal budgets.

The principal taxes in the United States include:

- Personal income tax, which serves as the main source of federal budget revenue and is paid by individuals, including sole proprietors;
- Property tax imposed on individuals and companies;
- Corporate income tax;
- Excise taxes (indirect taxes);
- Sales tax (indirect tax);
- Payroll taxes (social insurance contributions);
- Unemployment taxes.

Overall, the U.S. tax system generates around 30 percent of the country's gross domestic product, and the overall tax burden is considered one of the lowest among industrialized nations.

The tax system of Germany is regarded as complex, particularly for foreign taxpayers. This complexity stems from the extensive regulatory framework that applies uniformly across the country. Economic experts attribute this feature to the German government's approach to domestic taxation, viewing a relatively high tax burden as a principal guarantor of public



revenues. Since taxation constitutes a core element of the country's overall economic system, significant attention is paid to strict supervision over tax collection.

Due to the breadth of tax legislation, many residents rely on private specialists—tax and financial advisors, lawyers, and auditors—for assistance. The primary law governing taxation in Germany is the “Fiscal Code” (Abgabenordnung), often referred to as the tax “Constitution.”

German taxes are generally divided into three groups:

1. **Income taxes:** personal income tax and trade tax for legal entities;
2. **Property taxes:** land tax, inheritance tax, and gift tax;
3. **Transaction and consumption taxes:** real estate transfer tax and value-added tax (VAT).

As in many other countries, personal income tax is the principal source of tax revenue for the budget of Germany, accounting for around 40% of total tax receipts, and it is calculated on a progressive scale. The minimum rate is 19%, while the maximum rate reaches 53%. Corporate income is taxed at relatively high uniform rates—up to 45% of profits. As a result, German taxes ensure the stability of approximately 80% of total budget revenues.

Germany has a consolidated budget system divided into three levels:

- **Federal (central) budget** – receives up to 50% of total tax revenues;
- **Federal states (Länder)** – receive about one-third of all tax payments;
- **Municipal budgets (cities and rural communities)** – receive approximately 10% of collected taxes.

Similar to Germany, Italy has adopted a broad and complex tax system. Its legal framework includes more than 350 federal laws, and the main principles of taxation are established by the Italian Constitution. Italy is characterized by a relatively high tax burden. Direct taxes account for about 40% of total tax revenues, while indirect taxes generate approximately 25%. Overall, taxes and duties guarantee more than half of total state revenues.

Italy's tax system has a two-tier structure: state (national) and local levels, encompassing around 40 different types of taxes and charges.

The principal national taxes include:

- Personal income tax;
- Value-added tax (VAT);
- Corporate income tax.

These state-level taxes account for nearly 80% of total tax revenues. Other national taxes include excise duties, social security contributions, gambling tax, registration, mortgage and cadastre fees, lottery tax, and inheritance and gift taxes.

Local taxation includes:

- Tax on productive activities;
- Property tax;
- Waste disposal charges;
- Vehicle registration and motor liability insurance fees;
- Additional excise on electricity;
- Supplementary municipal taxes and others.

Unlike the tax system of Uzbekistan, public institutions in Italy do not transfer taxes directly to the budget; their activities are financed without accounting for assessed taxes.

The tax system of the United Kingdom operates at two levels:

- Central (state) government level;



- Local government level.

Central government revenues include income tax, VAT, excise duties on tobacco, alcohol and fuel, corporate tax, stamp duties, and social insurance contributions.

Local taxes include business rates (commercial property tax), parking charges, government grants, and others.

As in many European countries, the main source of revenue in the UK is income tax. Rates are progressive and depend on the type of income (bank interest, dividends, wages, etc.), reaching up to 40%. A distinctive feature is the division of taxpayers into residents and non-residents. Residents pay tax on worldwide income, whereas non-residents pay tax only on income earned within the UK.

Another unique feature is that the UK tax year begins not on January 1 but on April 6 and ends on April 5 of the following year. This dates back to the transition from the Julian to the Gregorian calendar, which created an 11-day discrepancy; the adjustment remains in force today.

Corporate tax applies to company profits. A two-tier system has operated since 2006: companies earning £1.5 million or more are taxed at 30%, while those earning less are taxed at 19%. Stamp duty of 0.5% applies to securities transactions, and real estate purchases are taxed at progressive rates not exceeding 7%.

The tax systems of East Asian countries have long attracted the attention of economists due to their distinctive development paths.

The modern tax system of China emerged in the early 1980s, when the government initiated global reforms and adopted an “open-door” policy. Initially, the main objective was to attract foreign capital investment. By the 1990s, positive economic transformations had laid the foundation for rapid growth.

Currently, China has about 25 approved taxes grouped into eight categories, including turnover (indirect) taxes such as VAT, business tax, and consumption tax; income taxes; resource taxes; special-purpose taxes; property taxes; transaction taxes; agricultural taxes; and customs duties. China’s tax burden is relatively high. Corporate profits are generally taxed at 33%, with reduced rates of 18% and 27% for lower-income enterprises. Personal income tax follows a progressive scale ranging from 15% (for incomes between 2,001 and 5,000 yuan) up to 45% (for incomes exceeding 100,000 yuan). Consumption tax applies to goods such as tobacco, alcohol, cosmetics, jewelry, fuel, and vehicles, with rates reaching 30% in certain sectors.

The tax system of Japan also has distinctive features. As a unitary state divided into 47 prefectures and nearly 2,000 municipalities, Japan grants substantial fiscal autonomy to local governments. This autonomy is закрепed in the 1947 Constitution.

Japan has a two-tier tax structure: national and local taxes.

At the national level, the main taxes include:

- Income tax;
- Corporate income tax;
- Inheritance and gift tax;
- Consumption tax;
- Excise duties;
- State duties and others.



Personal income tax is progressive, ranging from 5% to 40%. Corporate income tax rates vary between 22% and 30%, increasing with profit levels. Additional capital gains taxes range from 5% to 10%. Consumption tax (similar to VAT) is levied on goods and services at a rate of 5%. Prefectural taxes include residence tax, local consumption tax, real estate acquisition tax, excise duties, and vehicle tax. Municipal taxes include residential tax, excise tax, property and land tax, and fuel tax.

In many countries worldwide, real estate taxation constitutes the main source of local budget revenue. For example, in Canada property taxes account for about 40% of municipal budget revenues, while in the United Kingdom they account for around 30%. Taxation of real estate is therefore regarded as a priority instrument in advanced economies.

Share of Local Taxes and Property Tax in Local Budget Revenues of Foreign Countries  
(2023, %)

Country	Share of Local Taxes	Share of Property Tax
USA	71 %	56%
United Kingdom	42 %	42 %
France	56 %	33 %
Germany	50 %	22 %

If we analyze the local budget system of economically developed countries in more depth, the data in the above table is sufficient. From the table, it can be seen that in 2023, the share of taxes in local budget revenues was 71% in the United States, 42% in the United Kingdom, 56% in France, and 50% in Germany. In particular, in 2023, the share of property tax in local budget revenues was 56% in the United States, 42% in the United Kingdom, 33% in France, and 22% in Germany, occupying a leading position.

Based on foreign experience, it is clear that the share of property tax in local budget revenues is relatively high. Therefore, it indicates that the time has come to reform the property tax system in our country as well.

It is urgent to apply directions for improving local tax administration entities. Indeed, in the world, there are many models of local governance and its relationship with local self-government bodies. When it comes to organizing tax administration at the local level, its establishment depends on several factors. First of all, it is necessary to improve the nation's tax culture based on constitutional laws, regulations, and the specific characteristics of local taxes. Analysis of this issue shows that the model of local tax administration depends on the level of economic development of the country.

The problems of local tax administration are insufficiently studied. Moreover, in countries with transitional economies, tax reforms have not been fully implemented, and the legal status of land and property taxes is still being discussed, making these issues particularly relevant.

In Western European countries, the tax system of local taxes and fees is structured as follows:

- In Belgium, more than 100; in Italy, more than 70; and in France, more than 50 local taxes and fees have been introduced.

- Taxes are paid according to income levels. For example, in the United States, a four-person family with an annual income of \$50,000 pays an average of \$4,400 in all local taxes, which accounts for 8.9% of their income. In general, in various average states, this figure is at least 3.5%.

- As income levels increase, the share of local taxes and fees in total income decreases. At the same time, in Finland, Norway, Spain, Sweden, and Switzerland, progressive tax rates are applied to individuals' personal property in practice.

Foreign economists consider property tax one of the most impartial and fair sources for filling local budgets. Property owners benefiting from relevant municipal privileges contribute to infrastructure development through tax payments, making tax evasion difficult.

In Sweden, property tax serves as a source of local budget revenue. In addition, in various countries, property tax is divided between two levels of the budget system:

- Local and federal: Belgium, France, South Korea, Norway;
- Local and regional: Australia, Austria, Canada, Mexico, Switzerland, and the United States.

In the above countries, some taxes, such as inheritance and gift tax or net wealth tax, are also related to real estate. Therefore, it is necessary to analyze revenues more broadly, considering other property-related taxes alongside property tax. In these countries, low property tax revenues are often compensated by other tax revenues.

For example, in Luxembourg and Switzerland, the lowest share of property tax on real estate is compensated through net wealth tax.

Thus, when analyzing the volume of property tax revenues in European countries, the following features are important to note:

- Revenues from property tax are stable relative to total tax revenues as a percentage of GDP.
- When foreign economic organizations invest, property tax revenues go to the local budget.
- Based on advanced foreign experience and considering the high level of property tax revenues, it is advisable to introduce tiered property tax rates.

According to L.V. Polezharova, the functions and policies of local authorities in European countries, and their influence on local financial policy, vary significantly. Analysis of foreign literature shows that European scholars pay attention to incentives that compel taxpayers to comply with tax legislation. From the perspective of improving the efficiency of tax administration, ways to enhance responsibility and optimize the actions of local authorities have been discussed to ensure proportionality in the tax burden of individual and legal entities. Comparing tax systems across countries, it is clear that each has developed in its own way. Each country has its history, foundations, and centuries-old traditions. Therefore, their economic systems have generally developed under different conditions, leaving an imprint on the principles of tax system construction and the relationship between state authorities and taxpayers.

In Sweden, municipal income tax is a primary source of local budget revenue. In the United Kingdom, local authorities are financed from central government taxes. In Germany, tax legislation is a federal matter, but management and accountability are carried out at the local level.

East Asian countries use their own specific approaches to taxation. European countries are stricter in taxing citizens' incomes. Income tax rates for individuals and legal entities may reach



40–50% on a progressive scale. European tax systems are characterized by high tax burdens, which is why many European manufacturers prefer to locate production in regions with more flexible tax systems. These zones allow companies to optimize taxation, reduce tax burdens, and simplify internal tax accounting.

Tax systems in European countries are often complex, networked, and supported by cumbersome regulatory frameworks. Therefore, tax consultancy and legal services are highly developed, as taxpayers cannot independently understand the diversity of tax regulations. In contrast, tax systems in China and Japan are more adaptable to unstable economic conditions. In Uzbekistan and the United States, the tax burden is lower—between 30 and 35% of GDP. However, unlike the US, European countries, and Asia, our country applies a single tax rate regardless of the volume of the tax base, even though the rates for personal income and corporate profit are not progressive.

When comparing tax systems across countries, some similarities can be identified. Many countries have two-, three-, or four-tiered tax systems. In modern states, this reflects a federal structure, with regions divided into several provinces, cities, districts, and other territorial units. Consequently, taxation has multiple levels: federal (central), regional, and local (or municipal). Taxes are often distributed across different levels of the national budget, and regional authorities usually have the right to set their own taxes while complying with federal laws. The multi-tiered tax system primarily performs a distribution function.

- First, it ensures regional budgets and provides some autonomy in solving internal issues.
- Second, a broad nationwide tax authority system allows better control over tax collection and more efficient filling of the state budget.

In Kazakhstan, from 2023, several types of taxes are planned to be transferred to local budgets, with tasks for reforming local budget relations. To form local budget revenues, Kazakhstan introduced fees for the use of wildlife, protected areas of national significance, and motor vehicles. In this country, taxes play an important role in forming local budget revenues, ranking second after transfers. In 2023, local taxes accounted for 44.3% of local budget revenues, an increase of 0.4% compared to 2022.

In general, the mechanism of forming local budget revenues in our country's tax system has similarities with economically developed countries, particularly the US and Western Europe. These similarities include the formation of federal and regional budget revenues from taxes and non-tax payments, allocation of subsidies and grants from national taxes to regions, and inter-budgetary settlements.

### **Conclusion:**

It should be emphasized that no tax system can be simply classified as good or bad, despite its positive and negative aspects. Each system is uniquely beneficial for its country. Many countries' tax systems have developed over centuries and are adapted to territorial features, internal policies, and population mentality. Replacing one tax system with another is impossible unless the principles of taxation are aligned with the country's economic conditions. Moreover, based on advanced foreign experience, it is advisable to establish local entities with foreign participation under the initiative of local authorities, ensuring that all taxes and



payments remain in the local budget. This would improve forecasting of local budget revenues and financing of expenditures, increasing local authorities' responsibility for tax collection.

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