

Improving The Mechanism Of Real Estate Taxation In Expanding The Revenue Base Of Local Budgets

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ABSTRACT

This article analyzes the issues of improving the property taxation mechanism in expanding the revenue base of local budgets. The study examines existing problems in the current taxation system, including shortcomings in property registration, valuation methods, and tax administration. It also highlights the role of property taxes in ensuring the financial sustainability of local budgets. Based on the research findings, scientifically grounded recommendations are proposed to expand the tax base, implement digital technologies, develop market-based valuation approaches, and improve tax administration mechanisms.

Keywords:

Local budget, revenue base, real estate, property tax, tax administration, cadastre, valuation system, digitalization, tax policy, financial sustainability

Introduction.

Ensuring the financial stability and independence of local budgets is one of the key tasks of any public financial system. Particularly, the availability of sufficient and stable sources of revenue for local budgets plays a crucial role in ensuring socio-economic development at the regional level. From this perspective, expanding the revenue base of local budgets is of great scientific and practical importance.

Real estate taxes are one of the main sources of local budget revenues. They are considered economically stable, predictable, and territorially bound sources of income. At the same time, this type of tax serves as an important instrument for ensuring the financial independence of local authorities.

However, in practice, the effectiveness of the real estate taxation mechanism remains insufficient. Issues such as incomplete coverage of the tax base, imperfect valuation systems, and problems in tax administration hinder the full utilization of opportunities to increase local budget revenues.

In this regard, the purpose of this study is to examine the theoretical and practical aspects of improving the mechanism of real estate taxation in expanding the revenue base of local budgets and to develop relevant proposals and recommendations.

Review of Literature Related to the Topic.

Issues of real estate taxation and the formation of local budget revenues have been widely studied by both foreign and domestic economists. Within the framework of fiscal federalism theory, the role of property taxes in ensuring the independence of local budgets has been emphasized.

Among foreign researchers, Wallace Oates substantiated that granting tax authority to local governments increases economic efficiency. According to him, real estate taxes are among the most effectively managed taxes at the local level. Richard Musgrave, in his theory of public finance, highlighted the importance of property taxes through the distribution and functions of taxation.

Research by William McCluskey is particularly significant in improving valuation and taxation

mechanisms, emphasizing the advantages of cadastre-based taxation systems. Reports by the World Bank and OECD also identify real estate taxes as a key source for ensuring the stability of local budgets.

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.

At the same time, some research identifies factors affecting the effectiveness of real estate taxation, such as the underdevelopment of information systems, shortcomings in tax administration, and the need to improve the legal framework.

In general, the analysis of existing scientific literature shows that effective taxation of real estate is an important factor in increasing local budget revenues. However, there is still a need for deeper research in this field and for improving mechanisms while taking into account national characteristics.

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

To increase local budget revenues and simplify taxation, the introduction of a unified real estate tax has been proposed by several scholars. Researchers such as Yu.D. Shmeleva and R.I. Margulis emphasize that determining the tax base and tax rates is a key challenge in implementing such a tax.

Other scholars highlight the need for a cautious and well-calculated transition toward a unified real estate tax system. Economists from the Russian Federation, such as I.V.Gorskiy and M.Yu.Beryozin, have also emphasized that the introduction of a unified real estate tax should be carried out cautiously and based on thorough calculations.

According to Professors B.X.Aliev and X.M.Musaeva, property and land taxes should be merged and gradually replaced with a unified real estate tax over several years. The authors note that, when introducing a real estate tax, the following issues need to be addressed:

- determining the tax object and tax base at market value;
- introducing a state real estate cadastre;
- organizing the registration of real estate and cadastral activities;
- creating a comprehensive database of real estate information;
- establishing property valuation methods for taxation and applying appropriate tax rates;
- addressing the population's lack of readiness to pay real estate taxes and the high risk of tax arrears due to increased tax burden;
- resolving the absence of regulatory and legal frameworks for market-based valuation of real estate by cadastral authorities, as well as the lack of a unified valuation methodology.

Positive aspects of introducing a real estate tax include simplification of the tax system, reduction of administrative costs, increased tax collection efficiency, and expansion of the tax base.

According to Professor B.X. Aliev, the introduction of a real estate tax also has a number of positive aspects:

- the reduction in the number of property taxes simplifies and unifies the taxation system;

- the costs of collecting local taxes decrease, while tax collection efficiency increases;
 - the tax base of local budget revenues expands and the efficiency of tax administration improves.

B.X. Aliev also emphasizes that, in order to increase tax responsibility and improve taxpayers' tax culture and accountability, it is necessary to introduce legal liability (administrative and criminal) for property owners who fail to register real estate within the установлен deadlines or evade tax payments.

Among Russian scholars, I.A. Drojjina in her research proposed merging taxes on property, land, and assets of enterprises and organizations into a unified real estate tax.

Ye.V.Mikhina analyzed the impact of introducing a real estate tax on the revenue base of local budgets and provided relevant recommendations.

T.A.Loginova, in her scientific views, noted that when introducing and implementing a real estate tax in practice, it is necessary to take into account the social strata of the population.

Economist I.M.Niyazmetov proposed, in the context of Uzbekistan, to expand the financial capacity of local budgets, establish a stable and reliable tax base, improve tax administration efficiency, and further streamline the general taxation regime by gradually merging property and land taxes into a unified real estate tax.

In the context of Uzbekistan, the formation of local budget revenues is ensured through a diversified system of taxation, reflecting a combination of national fiscal policy and decentralized financial management mechanisms. Empirical statistical data indicate

a consistent upward trend in both total state budget revenues and local budget revenues over the analyzed period, which can be interpreted as evidence of macroeconomic growth, improved tax administration, and enhanced fiscal capacity.

Specifically, total state budget revenues increased from 132,938 billion UZS in 2020 to 270,703 billion UZS in 2024, demonstrating a significant expansion of fiscal inflows at the national level. In parallel, local budget revenues also exhibited substantial growth, rising from 27,702 billion UZS to 58,060 billion UZS during the same period.

This parallel increase suggests that local fiscal systems are not only benefiting from overall economic development but are also experiencing improvements in their own revenue-generating mechanisms. Such growth may be attributed to factors including the expansion of the tax base, enhancements in tax collection efficiency, reforms in intergovernmental fiscal relations, and the increasing role of local budgets in financing region-specific development and social programs.

Overall, these dynamics reflect a strengthening of fiscal decentralization processes and indicate a gradual increase in the financial autonomy and sustainability of local government budgets in Uzbekistan.

In our country, it is necessary to adapt the regional tax system to the needs of economic development. In this regard, existing problems and issues related to the local budget system need to be addressed.

Table 1
State and Local Budget Revenues and Expenditures (billion UZS)

Indicator	Years (billion UZS)				
	2020	2021	2022	2023	2024
State budget revenues	132 938	164 799	201 864	231 721	270 703
State budget expenditures	144 143	188 257	236 692	281 097	312 921
Republic budget revenues	105 236	129 626	154 473	176 182	212 643
Republic budget expenditures	96 952	122 723	147 905	179 356	238 024
Local budget revenues	27 702	35 173	47 390	55 539	58 060

Share (%)	26,3%	27,1%	30,7%	31,5%	27,3%
Local budget expenditures	47 191	65 534	88 787	101 741	74 897
Share (%)	48,7%	53,4%	60,0%	56,7%	31,5%
Subventions (transfert)	10 171	10 443	14 116	24 281	16 837
Share (%)	10,5%	8,5%	9,5%	13,5%	7,1%

According to the table data, in 2020 the state budget revenues amounted to 132,938 billion UZS, and by 2024 this figure had doubled, reaching 270,703 billion UZS. Local budget revenues have also shown a growth trend, increasing from 27,702 billion soums in 2020 to 58,060 billion UZS in 2024, which represents a 2.1-fold increase.

The volume of subsidies (transfers) allocated from the higher-level budget to local budgets accounted for 10.5 percent of total budget revenues in 2020. This indicator reached its highest level in 2023 at 13.5 percent, but decreased to 7.1 percent in 2024. In absolute terms, the highest level of transfers was recorded in 2023, amounting to 24,281 billion UZS (2.4 times higher than in 2020). However, in 2024 the volume of transfers amounted to 16,837 billion UZS, which is 30 percent lower compared to the previous year.

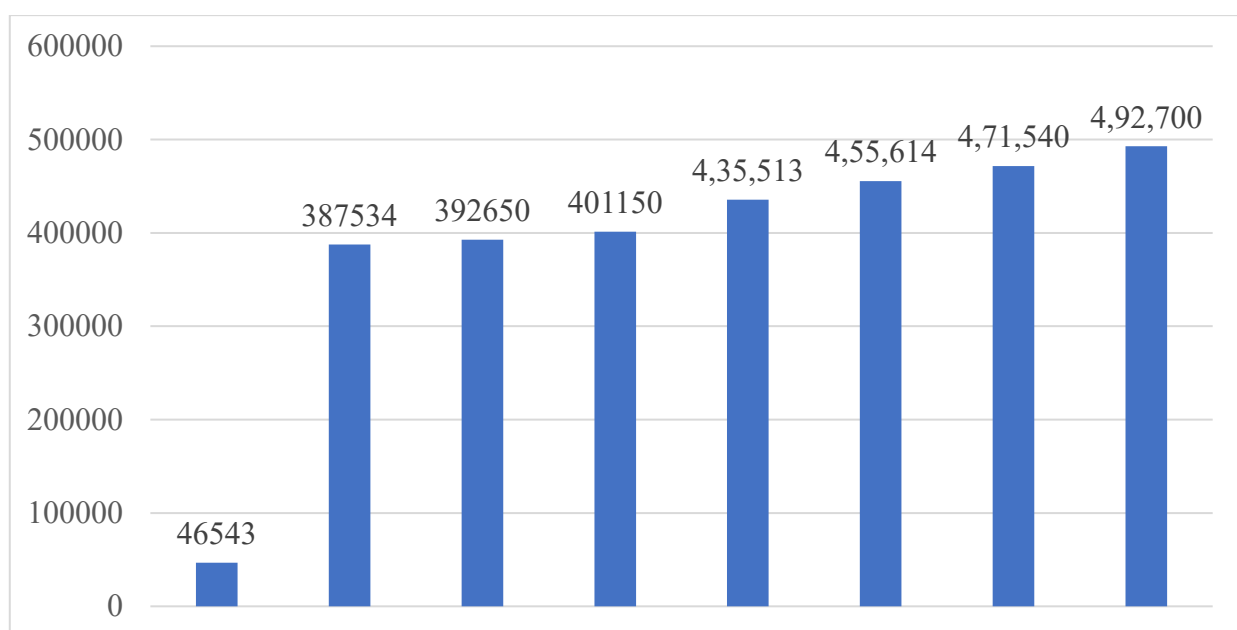
This situation can be more comprehensively explained by the steady increase in the expenditure obligations of regional and local

budgets, coupled with their limited fiscal capacity to fully cover these growing costs. In many cases, revenue streams at the subnational level are insufficient to keep pace with rising expenditure demands, which creates structural imbalances within the budget system.

In addition, a significant portion of budgetary resources is mandatorily allocated to priority and targeted social expenditures. These include, in particular, the financing of wages for public sector employees, the payment of various social benefits, and other forms of social support. Such expenditures are typically rigid in nature and constitute a substantial and non-discretionary share of total budget spending.

As a result, the combination of increasing expenditure pressures and the predominance of obligatory social commitments limits the flexibility of local authorities in budget management and further constrains their ability to fully finance all required expenditures from available revenues.

Figure 1
Dynamics of the value of real estate for taxation purposes (in billion UZS)



Based on the above analytical data, it can be inferred that during the period 2017–2024, although total budget revenues demonstrated a consistent upward trajectory, the relative share of tax revenues within the overall revenue structure experienced a noticeable decline. This trend suggests a structural transformation in the composition of budget revenues, potentially driven by the increasing role of non-tax revenues, changes in fiscal policy priorities, or the reallocation of revenue sources across different levels of government.

At the same time, the value of real estate subject to taxation shows a pronounced and steady increase over the same period. In particular, the taxable value of real estate amounted to 46.5 billion UZS in 2017, followed by a significant rise to 387.5 billion UZS in 2018. This upward trend continued, reaching 401.2 billion UZS in 2020, 455.6 billion UZS in 2022, and ultimately 492.7 billion UZS in 2024.

This consistent growth in the taxable value of real estate reflects the expansion of the property tax base, which may be associated with market value appreciation, improvements in cadastral valuation systems, enhanced property registration processes, and overall economic development. However, the simultaneous decline in the share of taxes within total budget revenues indicates that the growth of tax-related inflows has not kept pace proportionally with the expansion of other revenue components, thereby altering the fiscal structure.

Such developments highlight the need for further analysis of the efficiency and balance of revenue sources, particularly in the context of strengthening the role of real estate taxation as a stable and reliable component of local budget revenues.

The following problems exist in the real estate taxation system:

- **Mismatch between cadastral and market values:** According to a decision adopted in 2020, starting from 2021, it was that the cadastral value of real estate objects should be brought closer to their market value.
- **Incomplete database:** Although there is

a state register of rights to real estate objects, issues related to the completeness and accuracy of data still remain.

- **Insufficient use of electronic technologies in tax administration:** Although the automatic generation of reports on property and land taxes by tax authorities has been introduced since 2024, there is still a need for full automation of this process.

Real estate taxation can be improved through the application of modern approaches and technologies in tax administration:

- **Creation and integration of electronic databases:** Updating the state register of real estate rights and integrating it with databases of other government agencies can ensure data accuracy and completeness.
- **Use of Geographic Information Systems (GIS):** GIS can help determine the location and size of real estate objects, as well as improve efficiency in calculating their cadastral value.
- **Graduation of tax rates:** Differentiating tax rates based on the type and value of real estate can increase tax revenues.

To improve the valuation system for real estate taxation and bring cadastral values closer to market values, the following measures are necessary:

- **Development of market valuation methodology:** Studying advanced foreign experience and introducing methodologies for determining market value.
- **Updating cadastral values:** Regular revision of existing cadastral values to align them with market values.
- **Optimization of tax burden:** Introducing mechanisms for gradual adjustment (increase or decrease) of tax rates to prevent a sharp rise in the tax burden.
- **International experience and its adaptation to Uzbekistan:**
- **USA and European countries:** Use of

automated valuation models for determining the market value of real estate.

- **Singapore:** Use of e-government systems in real estate taxation to simplify tax administration and ensure transparency.

Proposals and recommendations:

- **Introduction of digital technologies:** Expanding the use of digital tools in real estate taxation, creating and integrating electronic databases.
- **Taxpayer awareness:** Informing taxpayers about real estate taxation procedures and their obligations.

Currently, in Uzbekistan, there is no authorized state body with the полномочие to determine cadastral values of property based on market prices, and the concept of cadastral value is not clearly defined in existing нормативно-правовые documents. Therefore, it is advisable to designate a competent regulatory authority in the field of real estate market and cadastral valuation and to align existing cadastral values with current market conditions.

It is also established that for the purpose of calculating property tax for individuals, the tax base cannot be less than 42 million soums. If the property value is lower than this threshold, the tax is calculated based on 42 million soums.

In order to ensure efficient land use, proper accounting, valuation, and the application of modern information technologies, as well as to strengthen the stability of regional budgets, the Decree of the President of the Republic of Uzbekistan dated December 3, 2020 (No. PF-6121) "On further improvement of resource taxes and property tax" established the following:

- gradual transition to a system of calculating property and land taxes based on cadastral values close to market value;
- implementation of this system in two stages:
- **First stage (2021–2023):** residential real estate (apartments, individual houses, country houses) and the land plots they occupy;

- **Second stage (2022–2024):** non-residential real estate and the land plots they occupy.

It is known that the global crisis and the pandemic have affected the financial activities of businesses and the real incomes of the population. Therefore, tax incentives were provided to support entrepreneurs, including the possibility of paying taxes at more convenient сроки.

For example, according to Article 99 of the Tax Code of Uzbekistan, local government authorities, in accordance with procedures established by the Cabinet of Ministers, may grant deferrals or installment payments (up to two years) for taxes such as turnover tax, water resource tax, property tax, and land tax.

According to Article 437 of the Tax Code, increased land tax rates are applied to individuals who use land beyond the limits specified in documents, without proper documentation, or fail to use allocated household plots effectively, including cases of neglect or failure to cultivate agricultural crops. Currently, taxation of property inherited or received as a gift is carried out in accordance with the Tax Code and other regulatory legal acts. Mechanisms for inheritance and gift taxation have been established, including integration of databases of ministries and agencies into the unified information system of the State Tax Committee to improve monitoring, identify additional revenue sources, and prevent tax evasion.

Authorities responsible for registering business entities are required to submit relevant information (including extracts from state registers, information about managers, personal identification numbers, and passport or ID details) to tax authorities within ten days of registration, and to notify any changes within three days.

In conclusion, the introduction and application of reduced land tax rates for specific categories of land utilized by legal entities—such as areas occupied by power transmission lines, electrical substations, main oil and gas pipelines, public railway infrastructure, airport runways, as well as conserved or restricted-use land plots - have had a positive impact on the overall revenue

performance of the budget.

This policy approach has contributed to improving the efficiency of land resource utilization while simultaneously ensuring a more balanced and economically justified taxation framework. By differentiating tax rates according to the functional purpose and economic significance of land plots, the fiscal system is able to maintain a reasonable tax burden on strategically important infrastructure while still securing a stable inflow of revenues.

Furthermore, such targeted tax incentives encourage the sustainable development and maintenance of essential infrastructure assets, which, in turn, supports broader economic activity and indirectly enhances the revenue-generating capacity of the budget over the medium and long term.

Research shows that in developed countries, real estate taxation is based on land, buildings, or both, with tax bases determined by market value. However, a key challenge of this system is the high cost of valuation and data updates. Therefore, the effectiveness of real estate taxation depends on the frequency of reassessment, which should be relatively short. In European countries, reassessment periods range from three to ten years.

In the studied foreign countries, property tax for individuals is calculated based on the fair market value of real estate or its approximate value. Determining market value involves using more than a hundred criteria, including detailed information about the object, its location, and other relevant factors.

To increase state and regional budget revenues, it is necessary to further expand cooperation with relevant ministries, agencies, and local authorities to identify additional reserves.

It is also recommended to progressively implement a system for calculating property and land taxes based on cadastral valuations that more closely reflect prevailing market prices. Such an approach would enhance the accuracy and fairness of the tax assessment process by ensuring that the taxable value of assets corresponds more realistically to their economic worth.

The gradual transition to market-oriented

cadastral valuation can contribute to increasing the fiscal capacity of local budgets by expanding the tax base in a more transparent and equitable manner. At the same time, a phased implementation would allow taxpayers and administrative bodies to adapt to the new valuation methodology, thereby minimizing potential economic and social disruptions.

Furthermore, aligning cadastral values with market conditions would improve the efficiency of tax policy, strengthen the link between asset value and tax liability, and enhance overall confidence in the fairness and consistency of the taxation system.

Conclusion and Recommendations

The conducted analysis indicates that the taxation of real estate constitutes a significant and reliable instrument for broadening the revenue base of local budgets. This form of taxation is characterized by a strong linkage to regional socio-economic and territorial specificities, which ensures that tax revenues are closely aligned with the economic potential and development level of a given locality.

Moreover, real estate taxation demonstrates a relatively high degree of stability and predictability in revenue generation, as property assets are immovable and less susceptible to rapid fluctuations compared to other tax bases. This inherent stability enhances the fiscal sustainability of local budgets and supports medium- to long-term financial planning at the subnational level.

Another important feature of real estate taxation is the considerable extent to which it can be administered and regulated by local government authorities. Local administrations possess the ability to influence tax rates, assessment procedures, and collection mechanisms within the framework of existing legislation, thereby increasing the efficiency and responsiveness of tax policy implementation at the local level.

At the same time, a number of problems exist in the current real estate taxation system. In particular, incomplete registration of real estate objects, shortcomings in valuation mechanisms, economically unjustified tax rates, and low efficiency of tax administration limit the potential for increasing local budget revenues.

In addition, insufficient implementation of digitalization processes and the lack of integration among information databases hinder the full collection of tax revenues. This, in turn, negatively affects the financial independence of local budgets.

Overall, establishing an effective mechanism for real estate taxation plays a crucial role in ensuring the stability of local budgets, promoting regional socio-economic development, and improving the efficiency of the public financial system.

Based on the above conclusions, the following proposals and recommendations are suggested:

- Comprehensive inventory of real estate objects: It is necessary to identify all real estate objects and create a unified electronic cadastral database in order to expand the tax base;
- Introduction of market-based valuation: Gradually aligning cadastral values with market values will ensure fairness in taxation;
- Optimization of tax rates: Introducing differentiated tax rates based on the type, location, and value of property will help distribute the tax burden more proportionally;
- Improvement of tax administration: Strengthening control mechanisms for tax collection and increasing efficiency through the introduction of digital technologies and automated systems;
- Integration of information systems: Ensuring data accuracy and transparency by integrating databases of cadastral, tax, and other relevant authorities;
- Revision of benefits and preferences: Reducing ineffective and economically unjustified tax exemptions to increase budget revenues;
- Enhancing public participation: Increasing transparency in tax policy and strengthening public awareness efforts to improve tax discipline;
- Adoption of international experience: Studying the practices of developed countries and adapting them to national

conditions.

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