The economic content of tax capacity in Uzbekistan and its role and significance in the tax system

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ABSTRACT

This article discusses the economic content of tax capacity, the laws of its formation and its strategic role in the tax system. During the study, the factors affecting tax capacity were analyzed and the importance of this indicator in stabilizing state budget revenues was substantiated. Also, ways to ensure the country's economic growth by expanding the tax base and increasing tax collection were considered. The article is intended for specialists interested in improving tax policy and optimizing the tax burden.

Keywords: tax capacity, tax system, economic content, tax base, budget revenues, tax policy, fiscal efficiency, optimization of the tax burden, tax revenues, optimization, tax incentives, tax rate.

Introduction. The concept of tax capacity is not just the amount of taxes collected, but also the maximum amount of financial resources that can be mobilized at a certain stage of economic development without placing an undue burden on taxpayers. Today, within the framework of tax reforms being implemented in our country, reducing the tax burden, simplifying tax administration, and reducing the share of the "shadow economy" are set as priority tasks. In this process, a correct assessment of tax capacity allows for accurate planning of state budget parameters and effective use of the economic potential of regions. Therefore, an in-depth study of the economic content of tax capacity and determining its place in the tax system is very relevant from a scientific and practical point of view.

Analysis of the literature on the topic. The concept of tax capacity has been studied in the economic literature based on various approaches. In revealing the content of this concept, the views of world and domestic scientists can be divided into three main directions.

Classical and neoclassical approaches Representatives of this approach associate tax capacity with the total economic resources of the country. In particular, R. Musgrave and P. Musgrave in their works "Public Finance in Theory and Practice" (1989) define tax capacity as the real income of the economy that forms the tax base. In their opinion, tax capacity is the maximum resources that the state can mobilize without harming economic growth. [1]

The relationship between tax rates and capacity was explained by A. Laffer through his famous theory of the "Laffer curve". He argues that an excessively high tax burden reduces the activity of taxpayers and, as a result, leads to a reduction in real tax capacity. [2]

Fiscal and administrative approaches Scientists from the CIS countries, including V. Panskov and I. Gorsky, associate tax capacity more with the current tax legislation. According to I. Gorsky, tax capacity is the projected amount of tax revenues that can be collected from the tax base

under the conditions of current tax rates in a particular region. This approach focuses on tax administration and collection indicators. [3]

Research by local scientists Uzbek economists have studied tax capacity from the perspective of the transformation of the national economy:

A. Jorayev in his scientific works analyzes tax capacity as a factor of regional development. In his opinion, tax potential includes not only current revenues, but also sources that have not yet been taxed, but may bring income in the future. [4]

O. Voxidov in his doctoral dissertation scientifically substantiated the need to take into account the share of the "hidden economy" when assessing tax potential. According to his views, the reason for the incomplete disclosure of tax potential is tax evasion and the ineffectiveness of tax incentives. [5]

Sh. Toshmatov pointed to the financial stability of business entities as the basis for increasing tax potential. [6]

A review of the literature shows that tax potential is a complex and multifaceted concept. If the classics viewed it as an economic opportunity, modern researchers consider it to be inextricably linked with tax administration and the institutional environment.

Analysis and results.

The concept of tax capacity is used in the tax system. From a historical and scientific perspective, the concept of tax capacity has been used in scientific literature since the second half of the 20th century. In particular, it was formed during the period of increased research on the assessment of state finance and tax policy in scientific research, and gradually, along with its transformation into a practical process in the financial sector, it began to enter science as an important category of macroeconomic and microeconomic fiscal analysis. It can be noted that the introduction of this economic category into economics as a scientific and practical concept occurred in several stages. In fact, this concept appeared in world practice in the 1950s-1970s with the emergence of the problem of forecasting the state budget and tax revenues. Because after the Second World War, countries began to feel the need to accurately assess the volume of tax revenues for planning economic development, and theoretical approaches to measuring "potential revenues" from taxes appeared during these periods.

As is known, the Laffer curve, proposed by the famous economist A. Laffer in the 1970s, served as a factor in the emergence of the need to assess tax potential, his scientific and theoretical views and scientific conclusions on the optimal relationship between tax rates and tax revenues. theoretically justified. Based on this theory, when determining the amount (volume) of taxes collected from the national economy, questions began to arise about how much tax could be collected from it, which necessitated the need to measure tax potential at different levels.

Finally, in the world economy, especially in the 1970s-1990s, the concept of "Tax Capacity" began to be transformed into economic relations with the introduction of the concept into scientific and practical dictionaries. During these periods, the categories of "tax capacity" and "tax effort" were introduced into the doctrine by some foreign economists, including R. Musgrave, H. Aaron, C. Shoup, J. Stiglitz, and others. In this regard, scientific terms such as “Tax capacity” and “Tax effort” began to be used, expressing the level of utilization of tax opportunities, categories and economic relations. These economists tried to theoretically substantiate the scientific measurement of the maximum amount of tax that can be collected based on the economic potential of the state in their scientific works. From the 80s of the last century to the 2000s, these concepts began to be used in regional financial relations, in particular, in Europe, America, Canada and the countries where the need to determine tax capacity increased when conducting a policy of mutual equalization in financial relations between regions. During this period, a number of scientific models for determining tax capacity, including the “Representative Tax System Model (RTS)”, “Fiscal Capacity Index (FCI)” and “Tax Base Approach”, were developed, and it was through these models that the concept of “tax capacity” began to emerge in practice and scientific research. Thus, today this concept has acquired a modern scientific content, and has become the

main scientific category in the scientific analysis of state budget forecasts, tax administration efficiency, shadow economy research, analysis of the financial potential of regions, the effectiveness of tax incentives, and similar processes, namely, determining, assessing tax potential, and determining indicators for the future period.

Indeed, tax capacity has gained importance in the theory of public finance, as it refers to the maximum possible tax resources that can be estimated based on the economic, institutional and social capabilities of each country, which we have already mentioned above, which has historically developed in several stages and has undergone significant evolution from the classical school of finance to modern empirical models. In military cases, the concept of tax capacity was interpreted mainly in terms of the ability to bear the tax burden to the maximum extent (mainly in early cases), in some cases, for example, as described by Josiah Stamp (1922), who defines tax capacity as the maximum amount of tax that the state can collect without harming the economy, and he evaluates this with factors such as economic stability, the minimum standard of living of the population, and the variability of spending. In fact, if we proceed from Josiah Stamp's scientific approach, tax capacity was measured more in terms of fiscal pressure during this period. However, according to another scientist and scientific approach, for example, Findlay Shirras (1944), tax capacity is the limit of taxes that can be paid without causing hardship to the national economy, which he believes is formed on the basis of factors such as the minimum consumption volume, production potential and real incomes of the population.

In the 1950s-1980s, in the development of the theory of public finance, the category of tax capacity, like other categories, began to be given greater emphasis, and one of their representatives, Musgrave (Richard Musgrave), brought a new scientific perspective to the concept of tax capacity and assessed it as the interrelationship of economic resources, the fiscal capabilities of the state, and the efficiency of the tax system. Musgrave's (Richard Musgrave) great contribution to the scientific expression of tax capacity is that, linking it with fiscal functions, he puts forward the scientific idea that it should be sought in the internal essence of the functions of distribution, stabilization and resource allocation of finance as a stable limit of the tax burden that society can pay, determined by it (fiscal pressure). When viewed and interpreted from this perspective, it can be seen that in Musgrave's (Richard Musgrave) scientific approach, tax capacity is expressed not only as an economic opportunity, but also as an institutional ability of the state.

In subsequent periods, it can be seen that priority was given to the empirical assessment of tax capacity, this period mainly falls on the 1980s-2000s, during which approaches to assessing tax capacity through economic models began to be formed at the end of the 20th century, in which special attention was paid to the assessment of taxes in relation to gross domestic product in the criteria for assessment and determination, and to its assessment through correlation models and institutional indicators. According to other scientific approaches of this period, including Bird, Gordon, and Tanzi, major representatives of public finance and tax theory, put forward the scientific idea that when determining tax capacity, it should be determined in relation to the state of GDP growth, the share of the hidden economy, the efficiency of tax administration, the volume of the country's foreign trade, and indices reflecting the quality of public administration (for example, the stability of macroeconomic indicators, etc.). Based on this, according to this scientific approach, the scientific content follows that the level, volume, and quantitative mass of tax capacity are related to the macroeconomic indicators of the national economy.

It should be noted that in assessing tax potential and understanding its essence, scientific and practical approaches have been developed not only by academic schools, but also by institutions that are large financial and scientific institutions of the world. We usually call these modern approaches, in which institutional and macroeconomic categories are at the heart of the scientific and practical approach. These

include the approaches of the World Bank and the International Monetary Fund (IMF), which prioritize the assessment of tax potential by calculating tax revenues, which mainly reflects scientific approaches since 2000.

If we look at the World Bank and IMF models of the tax capacity approach, it is recommended to consider the efficiency of tax administration, GDP (nominal and real), the level of resources, important indicators such as trade openness index, governance index (WGI), population size, and other similar criteria as the main criteria. The World Bank and IMF models involve assessing the differences between tax capacity and actual tax revenues for each country, and based on this, determining the "Tax Gap". As is known, the "Tax Gap" is essentially a tax indicator that represents the difference between the tax revenues that should be collected in practice and the tax revenues that are actually collected, and in essence it also expresses the objectivity of the assessment of tax capacity, that is, here it requires calculating the differences between how much taxes should be determined in accordance with the state tax legislation - "potential tax" "liability", but how much the "tax gap" is due to unpaid, hidden or delayed taxes by entrepreneurs or the population. Of course, when it comes to tax capacity, it is scientifically correct to study the "tax gap" indicator and reveal the essence of tax capacity. In this regard, the "tax gap" usually consists of three main parts. The first is the "Compliance Gap", which is essentially defined as the gap in tax compliance, typically occurring in the form of taxpayer underreporting, underreporting of income, and the shadow economy. In contrast, the "Filing Gap" refers to taxpayers' failure to file tax returns, which can occur when tax returns are filed late or not filed at all. The "Payment Gap" refers to tax evasion or non-payment, resulting in an increase in tax debt and failure to make scheduled tax payments. In fact, the importance of the "tax gap" in assessing tax capacity is that, firstly, it indicates large losses for the state budget, since budget losses, i.e., a decrease in tax revenues, in fact, indicate a low level of tax capacity; secondly, it helps to assess the efficiency of tax administration, since this efficiency affects tax collection, since an increase in collection indicates an increase in the tax capacity of a certain type of tax or sector and individual taxpayers; thirdly, it indicates the share of the hidden economy, which means that the higher the hidden economy, the lower the tax revenues, and a decrease in tax revenues leads to a proportional decrease in tax capacity. Of course, there is a functional relationship between tax capacity and the hidden economy, since the hidden economy affects the size of the tax capacity. That is, it reduces the tax base, which leads to a decrease in tax revenues due to unaccounted income, and on the other hand, it increases tax losses, that is, excessive tax benefits, accounting evasion, and cash flow irregularities lead to a decrease in tax capacity in the country, and also leads to an artificial increase in tax rates, which ultimately leads to an increase in the tax burden to replenish the state budget, which in turn stimulates the shadow economy.

By its very nature, the shadow economy increases the risk for investors, since in countries with a high shadow economy, institutional trust is low, which indicates an inverse relationship between tax capacity and the shadow economy, since as the shadow economy increases, tax capacity decreases. When describing this with a mathematical expression:

Real tax capacity = total tax capacity - tax losses due to the shadow economy (1).

It can be seen that increasing tax capacity reduces the shadow economy, and if the efficiency of tax administration increases, its scope is positively improved, and the tax burden is fairly distributed, this will result in increased transparency in the economy, an opportunity to stabilize public finances, an increase in incentives to transition to formal activities in the economy, and a reduction in illegal cash circulation in the national economy, which will ultimately increase the total and real tax capacity. If we consider the opinions of some economists, in international studies on the interaction of tax capacity and the shadow economy, there are ideas that the scale of the shadow economy is directly related to tax rates and the level of administrative bureaucracy (for

example, the English economist F. Schneider), in countries with low tax discipline, when the shadow economy reaches 40%, tax capacity decreases in parallel (for example, Tanzi), the shadow economy is directly related to tax capacity, corruption and administrative obstacles are the main factors of the shadow economy, and as a result, they directly cause confusion in the economy, as described by American scientists M. Olken and R. Panander.

In order to prove the importance of such theories, some indicators characterizing the relationship between the hidden economy and tax potential in countries around the world can be cited. According to them, in the countries of Economic Development and Cooperation, the hidden economy is 8-15%, which is generally considered a high tax potential, while in developing countries, the hidden economy is 30-60%, which is considered a low tax potential. In turn, in the countries of Central Asia, due to the strong influence of illegal cash circulation and unregistered business, it is difficult for the tax potential to reflect the real situation, that is, the definition of the hidden economy itself is not objective enough.

Table 1.

Evolutionary development of the emergence of tax capacity in the economy[1]

№	Periods	Scientific approach	Important features
1	1920–1940	Classical fiscal pressure	Tax burden limit, social minimum consumption
2	1950–1980	School of public finance	Institutional capacity, fiscal functions
3	1980–2000	Macroeconomic models	Tax capacity, hidden economy
4	2000–2024	Empirical-economic models	“Tax Capacity”, “Tax Effort”, “Tax Gap”

From the data in Table 1 above, it can be seen that tax capacity was initially interpreted as a fiscal burden limit, and its evolutionary development later turned into an institutional and macroeconomic category. Subsequently, tax capacity is not only an economic opportunity in a modern economy, but can also be assessed at the level of the quality of state governance. In this regard, tax capacity has become the main fiscal indicator in economic policy planning, and the difference between tax capacity and tax effort is also an economic indicator that indicates the quality of state tax administration. It can be seen that the evolution of tax capacity reflects conceptual changes in the state tax system, if initially this concept meant the maximum level of tax burden, then it has come to represent a wide range of indicators such as socio-economic stability, economic opportunities, institutional quality of economic life of society, fiscal efficiency in state finances, and tax administration in the tax system. In general, in the current global economy, fiscal stability and consistent growth of state budget revenues are directly dependent on the state's tax capacity, which means the maximum amount of tax resources that a country can collect, based on its economic, institutional and social capabilities. Because, starting from determining the threshold of the tax burden, indicators such as "tax capacity" and "tax effort" calculated through macroeconomic models have emerged, which are aimed at a number of strategically important goals: ensuring the state's fiscal stability, determining the share of the hidden economy, assessing the effectiveness of tax administration, properly planning the state budget and properly managing tax policy.

Table 2.

[1] Илмий адабиётларни таҳлил қилиш асосида муаллиф томонидан тузилган.

Scientific definitions of tax capacity by scientists [2]

№	Name of scientists	Scientific definition of scientists	Source
1	Yu. Balasky (Yu.V. Baladsky, Russia)	Tax potential is a complex category that assesses tax resources across regions and sectors.	Balasky Yu.V. Nalogovыy potential regionov. M., 2002.
2	A. Atamanchuk (Russia)	Tax potential is a set of economic, administrative and legal factors that ensure tax collection	Atamanchuk G.V. Fiscal potential regionov Rossii. M., 2009.
3	R. Musgrave (R. Musgrave)	Tax potential is the maximum tax revenue that can be collected from the state's economic resources, determined by the functional capabilities of the tax system.	Musgrave R., Musgrave P. Public Finance in Theory and Practice. McGraw-Hill, 1989.
4	V. Tanzi (V. Tanzi)	Tax capacity is the set of taxes that a state can collect from the economy, based on its institutional and administrative capabilities.	Tanzi V. *Taxation in an Integrating World*. Brookings Institution, 1995.
5	F. Shnayder (F. Schneider)	Tax capacity is the state's ability to collect taxes, depending on the tax burden, tax administration, and the size of the shadow economy.	Schneider F. *The Shadow Economy and Tax Evasion: What Do We (Not) Know?* Journal of Economic Literature, 2015.
6	Ch. Tibou (C. Thibout)	Tax capacity is a category that determines budget opportunities by assessing the actual and potential size of the tax base.	Tiebout C.M. *A Pure Theory of Local Expenditures*. Journal of Political Economy, 1956.
7	A. Laffer (A. Laffer)	Tax capacity is the potential opportunity to have a maximum tax collection point, based on the relationship between tax rates and tax revenues.	Laffer A. *The Laffer Curve: Past, Present, and Future*. The Heritage Foundation, 2004.
8	D. Stiglis (J. Stiglitz)	Tax capacity is the objective amount of taxes that the government can collect, based on the composition of the economy, gross domestic product, and income growth..	Stiglitz J. *Economics of the Public Sector*. W.W. Norton, 2010.
9	M. Lerner (M. Lerner)	Tax capacity is the maximum level of tax revenues, depending on the economic situation and the dynamics of the tax base.	Lerner M. *Fiscal Capacity and Economic Growth*. Fiscal Studies, 2007.
10	P. Samuelson (P. Samuelson)	Tax capacity is the amount of tax resources that a state can generate from economic activity and income, which determines its financial capacity.	Samuelson P. *Foundations of Economic Analysis*. Harvard University Press, 1983.

[2] Илмий адабиётлар таҳлил қилиш асосида муаллиф томонидан тузилган.

In modern conditions, with greater emphasis on tax capacity worldwide, the document adopted by the UN (Third International Conference on Financing for Development) establishes the responsibility of all countries to mobilize domestic revenue, that is, to increase the financial resources of countries through tax revenues, and recommends paying greater attention to tax capacity. Based on this, according to this UN document and other local documents, tax capacity is defined as a concept that expresses the ability of a state to effectively collect financial resources through its tax system and perform social and economic functions with these resources. In Russia, the concept of tax capacity is often seen in the context of "Regional Tax Capacity" (Nalogovy potential region). The Russian Ministry of Finance uses the tax capacity indicator when allocating subsidies and transfers from the federal budget to regions. Purpose: To reduce the gap between rich regions (for example, Moscow, Tatarstan, Tyumen) and regions in need of subsidies. Assessment method: The amount of taxes that the region can collect based on its economic resources, rather than the actual taxes collected, is taken into account.

Conclusions and suggestions.

As a result of the research, the following conclusions were made on the economic content of tax capacity and its role in the country's financial stability:

Tax capacity is a dynamic category. It is not just the amount of taxes collected today, but the maximum fiscal capacity that can be formed based on the available resources of the economy (natural, financial, human). Tax capacity serves as a "unit of measurement" in planning the state budget. Its incorrect assessment leads to an unjustified increase in the tax burden or budget deficit. The experience of China and South Korea shows that the most effective way to increase tax capacity is not only punitive measures, but also digital transparency and open dialogue with the population (incentive system). In the conditions of Uzbekistan, the main factor preventing the full development of tax capacity is the informal sector of the economy and ineffective tax incentives in some sectors.

In order to effectively use and expand the tax potential of the tax system of the Republic of Uzbekistan, the following measures are proposed:

1. Digitalization of tax administration based on the "Korean model". To attract consumers to tax control, stratify the amount of cashback for cash receipts (Cash Receipt) and further simplify the system, as in South Korea. This will automatically include "hidden" turnover in the tax base.
2. Strengthening fiscal decentralization (the experience of China and Kazakhstan). Increasing the interest of regional authorities in increasing their tax potential. To do this, expand the mechanism for leaving a certain part (for example, 30-50%) of corporate taxes from entrepreneurial activities directly in the local budget.
3. Formation of tax culture from a young age. Using the experience of South Korea, introduce "Tax Literacy" lessons into the curricula of secondary schools. To instill in the population the idea that paying taxes is the purchase of government services (education, healthcare, security).

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