

COPY RIGHT



ELSEVIER
SSRN

2021 IJIEMR. Personal use of this material is permitted. Permission from IJIEMR must be obtained for all other uses, in any current or future media, including reprinting/republishing this material for advertising or promotional purposes, creating new collective works, for resale or redistribution to servers or lists, or reuse of any copyrighted component of this work in other works. No Reprint should be done to this paper, all copy right is authenticated to Paper Authors

IJIEMR Transactions, online available on 18 th June 2021.

Link: <https://ijiemr.org/downloads/Volume-10/ISSUE-6>

DOI: 10.48047/IJIEMR/V10/I06/11

Title: **ISSUES OF INCOME FORMATION IN INCREASING THE INDEPENDENCE OF LOCAL BUDGETS**

Volume 10, Issue 06, Pages: 52-56

Paper Authors: **Khayriddinov Azamat Botirovich¹, Khayriddinov Shukhrat Batirovich², Rakhmonova Mahliyo Khamro qizi³**



USE THIS BARCODE TO ACCESS YOUR ONLINE PAPER

To Secure Your Paper As Per **UGC Guidelines** We Are Providing A Electronic Bar Code

ISSUES OF INCOME FORMATION IN INCREASING THE INDEPENDENCE OF LOCAL BUDGETS

Khayriddinov Azamat Botirovich¹, Khayriddinov Shukhrat Batirovich², Rakhmonova Mahliyo Khamro qizi³

Associate Professor of "Finance" Karshi Engineering Economics Institute¹,
Assistant of the Department of "Economics and Service" Karshi State University²,
KEEI, 1st year student of master degree³

Abstract: The article raises issues related to the independence of local budgets. In particular, the orders and decisions adopted in this regard are given.

Keywords: local budgets, independence of local budgets, revenues, expenditures, centralization and decentralization of the state budget, etc.

Introduction

It is known that the main part of the state budget is local budgets. Almost all industries are financed by the local budget. The right to approve and change the income and expenses of these funded enterprises is vested in the local authorities in these areas. Businesses and organizations that do not have their own income and are funded by the budget are called budget organizations. Their costs are determined on the basis of special estimates. In addition, a number of self-employed enterprises, whose income does not cover their expenses, such as culture and art, physical culture and sports, and some utilities, are financed by the state budget. The main expenses for the population are covered by local budgets. Local budgets spend a lot of money, but their revenues are mainly divided into two:

- *Direct in come;*
- *Income as a deduction from a higher organization*

Local budgets, as the main part of the budget system of the Republic of Uzbekistan, include 14 independent budgets. Local budgets account for 30-40% of their revenues in cities, 10-20% in rural areas, and the rest of the revenues. The higher the revenue of local budgets, the more stable its potential. In recent years, attention to local budgets has grown significantly. We are trying to support them. But at the same time, there are many problems in local budgets, and studying them is a

requirement of today. Socio-economic development of the regions is financed through local budgets. The President of the Republic of Uzbekistan noted this direction in the formation of local budget revenues: *"It is necessary to allocate a large part of state budget revenues to localities, to strengthen local budgets. This will increase the independence of the regions, increase their initiative, interest in the implementation of the budget and their responsibility in this regard. In addition, it will encourage local budgets to look for new sources of revenue and strengthen local budget discipline."*

Modern economists associate the formation of local budgets and the efficiency of their execution with its decentralization. *The decentralization of budgets* in the budget system is associated with the implementation of a number of measures aimed at ensuring a balance between the different levels of government in terms of budget revenue powers and budget expenditure obligations. This implies that these powers and responsibilities cover specific sources of funding for social, economic expenditures and the implementation of local development programs. At the discretion of local governments in the context of decentralization of budgets, to a certain extent, the powers to determine the base of local taxes, the establishment of rates of individual taxes and levies, the establishment of tax benefits in certain areas that determine the development of certain regions requires the establishment of input rights.

Main part

Researchers in the field of decentralization acknowledge that clear models need to be developed to address these issues. Therefore, large-scale budget reforms in Uzbekistan show the need for consistent research in this area. In the world experience, different models are used in the practice of centralized and decentralized types of budgets at different levels. On this basis, the structure of states is of paramount importance: first of all, centralized or federal statehood is one of the decisive factors. However, even in centralized countries, the level of centralization of state budget revenues and expenditures varies. In this regard, the following is an example of the observations of J. Wallis, W. Oates: the larger the state's territory, the greater its "decentralization"; the larger the country's population, the wider its "decentralization"; the density of the population, that is, the greater the proportion of the population living in cities, the greater its "decentralization"; the higher the standard of living of the population, the greater its "level of centralization", that is, the greater the responsibilities of the state for the redistribution of budget revenues; the diversity of public services, the diversity of regions, and the high level of decentralization of the budget.

In contrast to this approach, there are also studies that the degree of decentralization depends on the level of development of the state. According to a study by John Miksey and Mark Sandbey, central government spending accounted for 65% in 20 developed countries and 89% in 23 developing countries. In conclusion, it is incorrect to say that increasing the level of fiscal decentralization will in itself increase the pace of economic development. In fact, the degree of decentralization of public finance is assessed as the result, not the cause, of economic development. The implementation of the policy of *centralization or decentralization of the state budget* must take into account many factors that affect economic development. Of particular note are the features of the political system of the state, its historically formed links between different levels of government. The development of financial independence of local governments is one of the important issues in the

decentralization of public finances. Decentralization of the state budget, along with a number of advantages, is not without its shortcomings. These are determined by the simplest approach to the assessment of rationality - the increase or reduction of social expenses. Decentralization of the budget focuses on two main issues: *the allocation of funds and increasing the creative efficiency of the budget system*. As a result of decentralization, community services will be organized and provided in such a way that they fully meet the needs of the local population. In this case, the distribution of available resources of society is aimed at improving the quality of their use. At the same time, decentralization depends on the efficiency of the budget system, the fact that local governments fully fulfill their responsibilities to the local people elected by them, and in some cases to avoid negotiations with "higher organizations", obtaining permits and other mandatory work. Savings and efficiency are achieved. At the same time, their powers expand in accordance with their obligations. They become more productive as they become more aware of their local conditions, situations, and current issues.

The principle of efficiency in the use of budget funds of the budget system is set out in Article 14 of "the Budget Code" of the Republic of Uzbekistan. According to this article, the participants in the budget process are obliged to achieve results using a certain amount of budget funds within the powers vested in them in the preparation and execution of budgets of the budget system. Thus, in the broadest sense, decentralization of the state budget is intended to give local governments more power in the formation of their revenues and expenditures, as well as to increase their responsibility in fulfilling their obligations. The proximity of local governments to the population serves to strengthen their civic responsibility, ensure transparency in their actions, and increase their level of public scrutiny. Decentralization of the budget means an increase in the attraction of funds to the budgets of any local government. It is appropriate to assess this situation as one of the processes associated with the transition of the

national economy from a command-and-control system to a civil society. Thus, the effectiveness of decentralization of the state budget implies that there is a certain correlation between the share of state centralized budget revenues and the formation of local budget revenues, and that local governments have powers according to their revenues.

The fact that public services are provided only by the central government increases their value and costs. The same service for all regions leads to an oversupply in some areas and a shortage in others. The centralization of public services at the expense of the state budget, as a result of the proximity of local governments to the people, ensures the smooth flow of relations, the regular expression of the wishes of the population. By itself, the population's need to access various government central electronic portals is declining. The development of a decentralized budget system serves to ensure the stability of socio-economic processes. Practical budget decentralization helps prevent budget deficits by ensuring tight fiscal constraints. Decentralized budgets encourage the coordination of local markets. Finally, decentralized budget decisions allow multiple options to be explored and decisions made to best suit local conditions.

At the same time, the most important thing is to delegate the powers to the level of the budget, so that it can fully exercise its powers and benefit the most from these results. It is important to have clear information about the structure of the regional economy and financial flows in the decision to decentralize budgets, an analysis of how the decision to decentralize affects the interests of the state and the needs of the local population. In other words, there should also be clear analytical data on regional and central revenue streams, bottom-up as well as top-down financial flows, their efficiency and effectiveness, and how their change will affect efficiency and effectiveness. Such data clearly show how much each region is able to meet its needs and ensure its own development. Only after such an analysis can a decision be made as to whether or not each region should receive financial assistance. As a result, independent

local governments, on the one hand, seek to increase their revenue base within the limits of their authority, and cannot go beyond a certain limit in the accumulation of funds in an open economy. At the same time, it is necessary to use the funds as wisely as possible, as they cannot over-back high budgets and increase their accountability to taxpayers in an open environment. They seek to identify local needs in detail and make full use of all available infrastructure resources. In general, decentralization of local budgets can be introduced only if they have sufficient authority to make decentralized decisions, identify the most pressing local needs, and increase the efficiency of the use of budget funds. Decentralization of the budget is primarily due to the implementation of the principle of budget independence. The principle of independence of the budgets of the budget system is set out in Article 13 of the Budget Code of the Republic of Uzbekistan: "The decisive factor in ensuring the independence of the budgets of the budget system is the allocation of revenues (primarily tax revenues) in proportion to the expenditures of each level of budgets."

In world practice, there are three types of tax revenue consolidation.

According to the first, local governments will be assigned tax revenues from all their territories. A portion of this revenue will be transferred to the higher levels of the budget system. These funds will be used to cover government expenditures. The disadvantage of this approach is the reduced ability to transfer revenues between regions and the lack of financial stability at the national level. In addition, the willingness of local governments to finance public spending is declining.

The second type of distribution of tax revenues, unlike the first, implies that all revenues go to the central government. Revenues are then redistributed to local governments in the form of grants, funding for various programs, or other transfers. Also, in this method, funds can be reallocated from all revenues according to clearly defined transfer criteria. This method also has some drawbacks. Most importantly, the level of correlation between spending authorities and tax-exempt areas will be weak. This prevents the

formation of effective inter-budgetary relations. In the absence of such a link, local budgets or over-funding, or, conversely, can lead to an unjustified reduction in transfers to local budgets. Both cases hinder the establishment of stability in the formation and expenditure of budget funds, and do not ensure the proper financing of public (community) services at the local and regional levels.

The third method of distribution of powers in the formation of revenues involves the allocation of certain types of revenues to local budgets. Where necessary, co-ordinating taxes or transfers to local budgets are used to coordinate missing revenues. This method is a method between the first two types and has the ability to overcome their shortcomings. At the same time, the authority to collect taxes is attached to the lower governing bodies, which is aimed at ensuring consistency between decisions on the tax burden and expenditures. In making decisions, local governments have the ability to coordinate the decisions they make between expenses and benefits. The result is not only economic efficiency, but also social gains in spending. This type of income distribution requires careful consideration and concerted decision-making on the types of taxes that are imposed on local authorities. Due to the sharp differences in the conditions of income of the regions and districts in Uzbekistan, it is very difficult to reach such an agreement, with many different coefficients, the amount of transfers.

In accordance with the Action Strategy for the Development of the Republic of Uzbekistan for 2017-2021, this decree is aimed at radically strengthening the revenue base of local budgets, reducing dependence on higher budget allocations, modernization and technical renewal of housing and communal services, transport and communications and social infrastructure, increasing the independent work and responsibility of local public authorities to ensure the implementation of important investment projects. According to the decree, the main tasks of the country's budget policy are to ensure sustainable financing of integrated development of regions in order to increase real incomes, living standards and quality of life, sharply

reduce dependence on the central budget, independent reform of inter-budgetary relations.

In addition, in order to expand the budgetary powers of local authorities and increase their responsibility for the formation of local budget revenues, the President of the Republic of Uzbekistan on June 7, 2017, № 3042 “On expanding the budgetary powers of local authorities and increasing their responsibility for the formation of local budget revenues” resolution was adopted. The purpose of it is to introduce modern mechanisms for defining the budgetary powers and responsibilities of local public authorities, which will expand the revenue base of local budgets and increase their interest in optimizing expenditures. According to the Resolution: from July 1, 2017, the formation of reserve funds of district departments in the amount of 1% of the total budgets of districts of Tashkent, as well as the formation of working capital of Tashkent city and district department in the amount of 8% of district budgets by the end of the year. Temporary cash disruptions during the fiscal year between revenues and expenditures that may occur in lower local budgets as a result of non-compliance with approved revenue parameters are offset by the attraction of working capital and short-term interest-free budget loans from the upper budget. Cash outflows for more than one fiscal year are offset by a 2% annual budget loan from the upper budget for up to 2 years.

Revenues and expenditures of the budget of the Republic of Karakalpakstan for 2020, local budgets of the regions and the city of Tashkent FORECASTS

| | | | Billion soum |
|-----------------|--------------------------------|-----------------|-------------------------|
| S/ n | Name of regions | Revenues | Expenses |
| 1. | The Republic of Karakalpakstan | 2 833,3 | 2 833,3 |
| 2. | Andijan region | 2 187,4 | 2 803,6 |
| 3. | Bukhara region | 2 142,3 | 142,3 |

| | | | |
|----|--------------------|-------|----------|
| 4. | Jizzakhregion | 1 | 1 499,0 |
| | | | 050,8 |
| 5. | Kashkadaryaregion | 2 | 3 693,8 |
| | | | 935,7 |
| 6. | Navoiregion | 1 | 1 353,6 |
| | | | 353,6 |
| 7. | Namanganregion | 2 | 2 994,2 |
| | | | 016,5 |
| 8 | Samarkandregion | 2 | 3 036,6 |
| | | | 714,8 |
| 9. | Surkhandaryaregion | 1 | 2 580,7 |
| | | | 741,6 |
| 1 | Syrdaryaregion | 751,1 | 1 095,0 |
| 0. | | | |
| 1 | Tashkentregion | 2 | 2 582,9 |
| 1. | | | 582,9 |
| 1 | Ferganaregion | 3 | 3 357,5 |
| 2. | | | 005,6 |
| 1 | Khorezmregion | 1 | 1 859,2 |
| 3. | | | 402,2 |
| 1 | Tashkentcity | 3 | 3 556,1 |
| 4. | | | 556,1 |
| | Total | 30 | 35 387,8 |
| | | | 273,9 |

Conclusion

According to statistics, revenues and expenditures of the budget of the Republic of Karakalpakstan, regional and local budgets of Tashkent for 2020 were forecasted. This year, the state budget expenditures for 2020 were reported, and last year the state budget expenditures were set at 131.1 trillion soums. Of this, 95.7 trillion soums, or 73%, are expenditures of the national budget, the remaining 37% - 35.4 trillion soums - from local budgets. In general, most of the expenditures from local budgets were spent by the city of Tashkent. However, it also has the highest income. From the table above, we can see that the expenses are a bit higher rather than revenues. In response, we can say that the measures taken by local budgets in the pilot situation have led to more expenditures than revenues. It should be noted that the most important factor in increasing the independence of local budgets is that they have their own revenue base. To do this, we hope that the above-mentioned 3 methods will be more effective.

References:

1. Budget Code of the Republic of Uzbekistan. // Collection of Legislation of the Republic of Uzbekistan, 2013, № 52-1; 2014, №36, Article 14,13.
2. Decree of the President of the Republic of Uzbekistan №5075 of June 7, 2017 "On measures to expand the powers of local authorities in the formation of local budgets." // Collection of Legislation of the Republic of Uzbekistan,.
3. Resolution of the President of the Republic of Uzbekistan dated June 7, 2017 №3042 "On expanding the budgetary powers of local government and increasing the responsibility of local budget revenues." // Collection of Legislation of the Republic of Uzbekistan, 2017, № 24
4. Decree of the President of the Republic of Uzbekistan №4947 of February 7, 2017 "On the Action Strategy for the further development of the Republic of Uzbekistan." // Collection of Legislation of the Republic of Uzbekistan,
5. ДовгелЕ.С. ЭкономическиепроблемивстранахСНГипутиихрешений.хттп:// довгел.ком/хтм/конз/к-р.хтм
6. Wallis J., Oates W. Decentralization in the Public Sector: An Empirical Study of State and Local Government // Fiscal Federalism: Quantitative Studies / Ed. by H. Rosen. Chicago: UniversityofChicagoPress, 1988. P. 13-15.