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Factors Affecting the Assessment of Tax Potential

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Abstract: This article examines the concept of the tax potential of a region and the factors influencing it. The factors influencing the tax potential of a region are analyzed. Based on the conducted analysis, relevant conclusions are drawn on the factors influencing the tax potential of a region.

Key words: tax potential, local budget, tax system, tax base, tax rate, taxpayer, regional gross domestic product, investment, small business, employment, agriculture, industry.

Introduction. Today, in optimizing taxation, simplification of the taxation system, sustainable development of the economy, increasing the country's investment attractiveness, and reducing the disproportion in the tax burden of business entities are of great importance. Along with having a positive impact on economic growth in the country, increasing entrepreneurship and investment activity, and creating a healthy competitive environment for business through taxes, the implementation of effective mechanisms in tax administration, in particular, increasing the level of tax collection, ensuring full coverage of tax objects and tax payments, and ensuring the robustness of tax revenue collection in budgets at various levels, are urgent tasks.

The main task of state tax policy is to ensure a balance between budgets at all levels, based on maintaining the optimal level of the tax burden for all sectors of the country's economy. The implementation of an effective tax policy in this direction largely depends on the level of tax potential that regions have, which is capable of ensuring sustainable economic development. Tax potential is a kind of “safety cushion” for regions, and effective assessment, formation and maintenance of tax potential at an appropriate level is an important condition for the stability of the source of state budget revenues (Murzina et al., 2019).

Research methodology. Tax potential is characterized by the economic structure of regions and their provision with taxable resources, which is determined by tax bases, and tax revenues, in turn, are considered as a realized part of tax potential. A high level of tax potential of a region means the financial independence of local authorities in the field of fiscal policy and the availability of their own resources to finance the measures set out in the region's socio-economic development program. Increasing the level of tax potential of regions can reduce disparities in their socio-economic development. In addition, it is necessary to use scientifically based and effective methods of assessing tax potential when developing a forecast of tax revenue for the state budget, establishing the exact amount of transfers from higher to lower budgets, and determining the level of fiscal risks.

In the second part of the article, a review of scientific theoretical and empirical literature on the concept of the tax potential of the territory and the factors affecting it is presented.

As many economists have pointed out, by effectively assessing the tax potential of the territory, it is possible to develop an accurate forecast of tax revenues to the budget, which is an indicator that represents the amount of the existing tax revenue base of the territory, and is important in the formation of the income of budgets at different levels in the budget system, as well as in

determining the directions for the development and implementation of an effective fiscal policy. In economic literature, the concept of tax potential is defined as the maximum amount of taxes and mandatory payments that can be collected based on the tax legislation. In particular, according to Gorsky (1999), the concept of tax potential means the maximum amount of tax and compulsory payment revenues available in the country's tax system. According to Prokopenko (2007), in a broad sense, tax potential can be viewed as the total volume of taxable resources of the region, and in a narrow (practical) sense, as the maximum possible amount of tax and fee revenues. According to Pessino and Fenochietto (2010), tax potential represents the maximum amount of taxes that can be collected, taking into account the economic, social, institutional and demographic aspects of the country. Also, Evstafieva (2010) showed that assessing the tax potential of a region is a process that is carried out taking into account various approaches and influencing factors, and increasing tax potential means the constancy and stability of tax revenues.

In addition, according to Shogenov (2011), the tax potential of a region is the maximum amount of taxes and mandatory payments that can be collected to the budget within the established deadlines based on current tax legislation. Gaspar et al. (2016) defined tax potential as taxes per capita collected by local authorities from the regions of the country during the fiscal year on the basis of a unified approach to taxation. Brun, et al. (2016) also defined the category of tax potential as the maximum amount of tax revenue to the budget established on the basis of the country's tax legislation. In general, from the definitions given by economists to the concept of tax potential, two important aspects can be distinguished: the volume of taxable resources and tax revenues. Based on the above-mentioned opinions of economists on the concept of tax potential, it is possible to consider taxes from the point of view of the fiscal function of taxes. However, Murtazina et al. (2019) stated that in approaches to the concept of tax potential, it was shown that the impact of tax potential on the socio-economic development of regions was not taken into account, and the concept of tax potential was defined as follows. Tax potential is the maximum possible amount of tax revenues to the budget for a certain period in the conditions of the balance between the territory's resources and its socio-economic development. Based on the above, it can be shown that the concept of tax potential represents the maximum level of tax revenues to the budget under conditions of optimal taxation. Because optimization of taxation implies stabilization of state budget revenues by reducing the disparity in the tax burden, simplifying the taxation system and improving tax administration, as well as economic growth through taxes, increasing business and investment activity, and sustainable development of the economy by creating a healthy competitive environment.

Discussion. The concept of tax potential is considered a macroeconomic category, and the level of tax potential and its full realization depend on the level and quality of social welfare provision in the region. Therefore, developing an effective method for assessing tax potential based on common approaches and identifying the composition of factors affecting tax potential are urgent issues (Belogorskaya, 2014). In particular, according to Gupta (2007), structural factors such as gross domestic product (GDP) per capita, the share of agriculture in GDP, trade openness, and foreign aid have a significant impact on tax potential. Economists Igonina and Kusrayeva (2010) argue that the factors that shape tax potential are of economic and institutional types, and the factors are divided into external and internal factors. Roshchupkina (2010) stated that regulatory documents in the field of taxation, main production factors, structural structure, and infrastructure can be cited as factors affecting tax potential. Mironov (2011) showed that the territory's tax potential is affected by a large number of internal and external factors, and internal factors are endogenous and external factors are shown as exogenous factors, and the composition of external factors is divided into objective and subjective, historical and acquired, primary and secondary groups. According to Vlasova (2012), the structure and size of the tax potential is influenced by the scale of economic sectors and industries and the structure of the economy. Shabashev and Malikaidarov (2015) stated that the factors affecting the structure and level of tax potential of the territory include geographical, network, economic, financial, tax administration, legislation and

administrative-management, political, social demographic, socio-psychological, infrastructural, innovative, informational, institutional factors.

Gorshkova and Shamaninlar (2016) have shown that various specific indicators, including income per capita, tax rate, tax base, regional gross domestic product, etc., are taken into account as influencing factors in the assessment of tax potential. Evstafieva (2016) conducted a regression analysis using gross regional product, per capita income, investments in fixed capital, volume of goods (works, services) sold by own efforts, housing sold, average monthly wage, gross agricultural product, real cash income of the population, imported and exported goods, and population as factors affecting tax potential. As a result, it was found that gross regional product, investments in fixed capital, volume of goods (works, services) sold by own efforts, population, and real cash income of the population have a high impact. Tax potential is affected by factors such as further improving the investment and business climate, increasing the share of medium-sized businesses in the economy, developing the securities and financial market, encouraging innovative product manufacturers within the national economy, and reducing tax benefits (Meyliyev, 2019). Abdullaev (2019) noted that the impact of regional GDP on tax potential was statistically significant, while tax debt of investments in fixed capital and taxpayers were not statistically significant. In the empirical analysis, the statistical insignificance of the impact of factors other than regional GDP was explained by the specific characteristics of the taxation system.

The article reviews the scientific theoretical and empirical literature on the concept of regional tax potential and factors affecting tax potential. Based on the reviewed scientific literature, official data from the Ministry of Economy and Finance of the Republic of Uzbekistan and the Statistical Agency were used to analyze the factors affecting the tax potential of the region. In the regression assessment of factors affecting the tax potential of the region based on panel data, the tax revenue of the local budgets of the Republic of Karakalpakstan, regions and Tashkent city was taken as the tax potential of the region, and the influencing factors were the volume of regional gross domestic product, the volume of investments in fixed capital, the number of small business entities (except for peasants and farms), the volume of gross agricultural output, the volume of gross industrial output, the number of people employed in the economy, and the total income per capita.

Also, in the article, changes related to taxation in the republic, the impact of reforms in the tax sphere on increasing tax potential were considered in the assessment of factors affecting the tax potential of the region, and analyses were carried out based on statistical data.

The methods of scientific abstraction, analysis and synthesis, induction and deduction, comparative analysis, and regression analysis were used to analyze the factors affecting the tax potential of the region.

In general, although the amount of taxes and mandatory payments paid by business entities and individuals has increased in recent years, different trends can be observed in their share in state budget revenues (Table 1). In particular, compared to previous periods, the share of direct taxes in total tax revenues has increased from 20.2% to 31.5%, while the share of indirect taxes has decreased from 53.2% to 36.0%, and the share of resource and property taxes has decreased from 16.3% to 12.1%.

Analysis of state budget tax revenues, bln. soum

	Indicators	**2018й.**	**2019 й.**	**2020 й.**	**2021 й.**	**2022 й.**	**2023 й.**
I	Total revenue	77571,1	112165,4	132938,0	164799,4	201863,7	231721,3
	including:						
1	Direct taxes	15656,2	31676,8	45206,9	58930,4	64447,1	73103,6
	income tax	3502,2	16360,6	28712,2	38363,3	37649,9	40778,9
2	Indirect taxes	41280,4	46427,2	46428,4	56290,4	71390,2	83325,8
	VAT	27876,5	33809,8	31177,4	38439,0	52189,4	57885,3
3	Resource and property taxes	12663,4	19680,7	21257,0	23036,4	23912,8	28079,5

	property tax	2606,1	2360,2	1974,3	2457,3	4015,4	5097,7
	land tax	1504,2	2313,2	2386,7	4082,8	5305,9	6890,1
II	Share of total tax revenues (in %)						
1	Direct taxes	20,2	28,2	34,0	35,8	31,9	31,5
	income tax	4,5	14,6	21,6	23,3	18,7	17,6
2	Indirect taxes	53,2	41,4	34,9	34,2	35,4	36,0
	VAT	35,9	30,1	23,5	23,3	25,9	25,0
3	Resource and property taxes	16,3	17,5	16,0	14,0	11,8	12,1
	property tax	3,4	2,1	1,5	1,5	2,0	2,2
	land tax	1,9	2,1	1,8	2,5	2,6	3,0

Source: Prepared based on the information of the Ministry of Economy and Finance.

Result. The increase in direct taxes in state budget revenues was mainly due to the contribution of income tax, which, in turn, is due to an increase in its rate, the abolition of tax privileges as a result of tax reforms implemented in the tax system and the adoption of a new edition of the Tax Code, and an increase in the number of taxpayers. In particular, in 2020, the general tax rate on income tax was increased from 12 percent to 15 percent. In addition, as of January 1, 2018, the number of income tax payers was 6,723, while as of January 1, 2020, it reached 53,051, as of January 1, 2021, 112,336, as of January 1, 2021, 145,434, as of January 1, 2021, 164,449, and as of January 1, 2024, it reached 183,488, or an increase of 27.3 times compared to 2018. Also, the number of value-added tax payers has a sharp growth trend, and the number of VAT payers has increased by 27.1 times compared to 2018. However, despite the increase in the number of VAT payers, the reduction in the tax rate from 20 percent to 12 percent led to a decrease in the share of tax revenue. It is worth noting that in 2023, 6,701 business entities were refunded 21,646.0 billion soums under VAT to compensate for the negative amount of VAT (which amounted to 27.2% of VAT revenue). For comparison, in 2022, taxpayers were refunded 1,911.7 billion soums, while in 2021 the amount of tax refunded was 14,417.0 billion soums.

If we consider the share of resource and property taxes, despite the introduction of tax, land and property taxes to all categories of business entities for the use of water resources, it can be pointed out that the tax base and the tax rate will decrease in the income of legal entities' property tax. If we analyze the share of revenue in the composition of resource and property taxes in the last 2 years, then if we analyze the growth by 2023 compared to 2022, then property tax will increase by 27.0%, land tax by 29.9%, land use tax by 10.2%, and water resource use tax by 12.4%. increased by percent. In particular, the following main factors influenced the growth of the property tax revenues of legal entities: an increase in the reduced property tax rate applied to certain types of real estate from 0.5% to 0.6%; an increase in the number of taxable objects based on the minimum value by more than 4,000; collection of tax debts. Also, in 2023, the revision of the reduction coefficients (from 0.5 to 0.9) applied to the minimum value of buildings and structures for property tax calculation by local government authorities in some regions also affected tax revenues (Ministry of Economy and Finance, 2023).

In general, despite the expansion of the local tax base, which is considered to be the internal tax source of the regions, in the formation of local budget revenues, it can be observed that the amount of transfers from the upper budget to most local budgets is increasing. This makes it important to assess the factors affecting the tax potential of the region when developing fiscal measures to expand the local budget revenue base. According to the results of various empirical analyses conducted on the basis of panel data on the assessment of factors affecting tax potential, the main factors affecting budget tax revenues include GDP per capita, the share of agriculture in GDP, economic openness, foreign funds, corruption, political and economic stability, and specific sources of tax revenue.

Based on the results of the regression analysis, it can be shown that the volume of regional gross domestic product, the number of employed people, and the growth of incomes of the population are important factors in increasing the level of tax potential. Other factors considered in the

analysis, such as small business, fixed capital investments, agriculture, and industrial sectors, have a significant impact on the regional tax potential. In particular, an increase in the volume of fixed capital investments in the social sphere, in turn, leads to a decrease in the statistical significance of the impact of investments on the regional tax potential.

The main task of tax policy is to ensure a balance between budgets at all levels, based on maintaining the optimal level of the tax burden for all sectors of the country's economy. The implementation of an effective tax policy in this direction largely depends on the level of tax potential that regions are able to ensure sustainable economic development.

The concept of tax potential is one of the macroeconomic categories, and the level of tax potential and its full realization depend on the level and quality of social welfare provision in the region.

Tax potential is characterized by the economic structure of the regions and their provision with taxable resources, which is determined by the tax base, and tax revenues, in turn, are considered as a realized part of tax potential.

Tax potential is the maximum possible amount of tax revenues to the budget for a certain period under the conditions of balance between the resources of the region and its socio-economic development. Based on the above, it can be noted that the concept of tax potential represents the maximum amount of tax revenues to the budget under optimal taxation conditions.

Conclusion. As a result of the regression analysis, it was found that the volume of regional gross domestic product, the volume of investments in fixed capital, the number of small businesses, the volume of gross industrial production, the number of people employed in the economy, and the total amount of income per capita have a positive effect on the increase in the tax potential of the region. In particular, it was found that the impact of the increase in the volume of regional gross domestic product and the number of employed people in the economy on the growth of the level of regional tax potential is statistically significant.

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