

THE ROLE AND IMPORTANCE OF TAXES IN SHAPING STATE BUDGET
REVENUES

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Abstract: Taxes play a fundamental role in forming state budget revenues, providing the primary financial resources for public expenditures and socio-economic development. This study examines the contribution of direct and indirect taxes in Uzbekistan, analyzing official statistical data, the 2026 Tax Code, and fiscal policy documents. The study highlights the dual function of taxation as a revenue generator and an economic regulator, supporting sustainable fiscal policy and equitable wealth distribution.

Keywords: state budget, taxes, revenue mobilization, Uzbekistan, tax policy, fiscal sustainability

Annotatsiya: Soliqlar davlat budjeti daromadlarini shakllantirishda muhim ahamiyatga ega bo‘lib, davlat xarajatlarini moliyalashtirish va ijtimoiy-iqtisodiy rivojlanishni ta’minlash uchun asosiy moliyaviy resurslarni yaratadi. Ushbu tadqiqot O‘zbekistonda bevosita va bilvosita soliqlarning hissasini tahlil qiladi, rasmiy statistik ma’lumotlar, 2026-yilgi Soliq Kodeksi va moliya siyosati hujjatlari asosida o‘rganadi. Tadqiqot soliqlarni nafaqat daromad manbai, balki iqtisodiy regulyator sifatida ham muhim ekanligini ko‘rsatadi.

Kalit so‘zlar: davlat budjeti, soliqlar, daromadlarni shakllantirish, O‘zbekiston, soliq siyosati, moliyaviy barqarorlik

Аннотация: Налоги играют ключевую роль в формировании доходов государственного бюджета, обеспечивая основные финансовые ресурсы для государственных расходов и социально-экономического развития. В данном исследовании рассматривается вклад прямых и косвенных налогов в Узбекистане, анализируются официальные статистические данные, Налоговый кодекс 2026 года и документы фискальной политики. Исследование подчеркивает двойную функцию налогообложения как источника дохода и инструмента регулирования экономики, поддерживающего устойчивую фискальную политику и справедливое распределение богатства.

Ключевые слова: государственный бюджет, налоги, мобилизация доходов, Узбекистан, налоговая политика, финансовая устойчивость

INTRODUCTION

The formation of state budget revenues is a critical instrument of fiscal policy, directly influencing the capacity of the government to provide public services, ensure socio-economic stability, and implement development programs. In the Republic of Uzbekistan, a transitional economy experiencing rapid structural reforms, the efficient mobilization of resources through taxation has become a central mechanism for financing public expenditures and supporting sustainable growth. Taxes serve as a primary source of state revenue, accounting for the majority of total budget inflows, and their structure, collection efficiency, and administration directly affect the overall fiscal health of the country.

The 2026 Tax Code of Uzbekistan, building on the reforms of previous years, outlines a comprehensive system encompassing direct taxes—such as corporate profit tax and personal

income tax—and indirect taxes, including value-added tax (VAT), excise duties, and customs duties. In addition, property and resource taxes contribute to the diversification of revenue sources. The government’s fiscal strategy emphasizes the importance of maintaining stable tax rates, expanding the tax base, and improving transparency and compliance mechanisms to ensure predictable revenue flows.

Economic statistics over the past five years demonstrate a steady increase in tax revenues, reflecting both growth in the national economy and enhanced effectiveness of tax administration. For instance, VAT and corporate profit tax remain the largest contributors, highlighting the dual role of taxation in generating revenue and regulating economic behavior. Simultaneously, reforms aimed at improving taxpayer services and digitalizing tax collection processes have strengthened compliance and reduced administrative inefficiencies.

Given the pivotal role of taxes in state budget formation, analyzing their contribution, effectiveness, and policy orientation is essential for understanding Uzbekistan’s fiscal sustainability. This study seeks to examine the role and significance of taxes in forming state budget revenues, assess recent trends and projections for 2026, and evaluate the effectiveness of current tax policies in achieving economic stability and public service financing. The analysis relies on official government reports, statistical data, and legal frameworks provided by the 2026 Tax Code, offering a comprehensive perspective on the fiscal landscape of Uzbekistan.

METHODOLOGY

This study employs a mixed-method approach combining quantitative analysis of fiscal data with qualitative assessment of tax policy frameworks. The primary aim is to evaluate the contribution of various tax types to state budget revenues in Uzbekistan and to analyze policy measures implemented under the 2026 Tax Code.

Analytical Framework:

- **Quantitative Analysis:** Tax revenue data were categorized into direct taxes (corporate profit tax, personal income tax), indirect taxes (VAT, excise duties, customs duties), and other taxes (property, resource-based). The contribution of each category to total state budget revenues was calculated for the period 2020–2025 and compared against projections for 2026. Growth rates and relative shares were analyzed to identify trends and structural shifts in revenue composition.
- **Qualitative Analysis:** Policy documents and legislative frameworks were examined to assess changes in tax rates, the introduction of compliance measures, and reforms in tax administration. The study evaluates the alignment of tax policy with fiscal sustainability objectives, economic growth, and social equity considerations.
- **Comparative Context:** Where applicable, Uzbekistan’s tax revenue trends were compared with global best practices in emerging economies to evaluate the effectiveness and efficiency of revenue mobilization strategies.

This methodology ensures a comprehensive understanding of both the numerical contribution of taxes to the state budget and the policy mechanisms that shape these outcomes, allowing for an integrated assessment of fiscal performance and sustainability.

RESULTS

The empirical evidence clearly demonstrates that taxation remains the dominant and most stable source of state budget revenues in Uzbekistan, reflecting both the structural characteristics of the economy and the effectiveness of recent fiscal policies. Official fiscal data show a pronounced increase in total budget revenues over recent years, with tax receipts forming the core component of these resources. In 2024, state budget revenues grew notably compared to previous years, reaching approximately 274.4 trillion Uzbekistani soums, representing a substantial increase over 2023 figures. Taxation constituted the majority share of these revenues, underscoring its foundational role in financing public expenditures.

Within this framework, value-added tax (VAT) emerged as the single largest tax contributor, supported by robust consumption and improved compliance mechanisms, with reported collections at around 59.3 trillion soums in 2024. Corporate profit tax also maintained a strong performance, yielding roughly 52.6 trillion soums, while personal income tax contributed approximately 35.4 trillion soums, reflecting deeper formalisation of employment and expansion of the tax base. Supplementary revenue streams, including excise duties and customs duties, further enhanced fiscal inflows, with excise collections exceeding 19 trillion soums and customs duties contributing over 10 trillion soums. Resource-linked taxes such as subsoil use and land taxes played a significant role in diversifying revenue sources.

The trend of robust revenue performance continued into 2025. Data for the first half of 2025 indicate that tax collections surged by about 20 percent, amounting to over 102 trillion soums, with VAT, corporate profit tax, and personal income tax showing strong upward momentum. The highest growth was observed in subsoil use tax, indicating dynamic activity in resource-intensive sectors, while regional variations highlighted differential contributions across oblasts.

Quarterly reports further corroborate this trend, showing that state budget revenues in the first quarter of 2025 expanded by more than 20 percent compared to the same period in the previous year, driven by significant increases in VAT and other major taxes. This demonstrates not only cyclical revenue growth but also the strengthening of the tax administration's capacity to mobilise resources efficiently.

These statistics illustrate that taxation has consistently been a central pillar of budgetary financing, contributing across multiple categories and responding effectively to macroeconomic developments. The sustained expansion of tax revenues over multiple years underscores the enhanced efficiency of tax collection mechanisms and the broadening of the tax base, reflecting both economic growth and administrative reforms.

The analysis of Uzbekistan's state budget revenues reveals that taxes are the primary and most stable source of fiscal income, forming the backbone of government financing. Direct taxes, including corporate profit tax and personal income tax, demonstrate a strong correlation with economic growth and formalization of business activity. Corporate profit tax consistently provides a substantial portion of budget revenues, reflecting the expansion of profitable enterprises and effective tax compliance mechanisms. Personal income tax similarly shows a growing contribution, highlighting both wage growth in the formal sector and the increasing integration of citizens into the official tax system. Together, these direct taxes ensure progressive revenue collection that aligns with equity and social justice objectives.

Indirect taxes, with value-added tax at the forefront, constitute the largest single contributor to total tax revenue. VAT's dominance underscores its dual role as a reliable revenue source and as an instrument of economic regulation that influences consumption patterns. Excise duties and customs revenues complement VAT by targeting specific sectors and imports, generating revenue while encouraging domestic production and regulating consumption. The combined effect of indirect taxes provides a stable revenue stream that is less sensitive to fluctuations in profit margins or individual income levels, thereby reinforcing fiscal predictability.

Other sources of tax revenue, including property and resource-based taxes, while smaller in magnitude, serve to diversify fiscal inflows and reduce over-reliance on a limited number of revenue channels. These taxes also have potential policy implications, as they can guide investment in real estate, natural resources, and environmental management.

Projections for 2026, based on the draft state budget and the 2026 Tax Code, indicate that tax revenues will continue to dominate total state budget income. Maintaining stable rates for corporate profit tax, VAT, and personal income tax ensures continuity in revenue inflows, supporting both economic planning and long-term fiscal sustainability. Administrative reforms,

particularly digitalization of tax reporting, enhanced monitoring, and transparency initiatives, are expected to improve compliance and collection efficiency further. This structural strengthening demonstrates the effectiveness of combining policy stability with technological and procedural modernization to enhance the robustness of the tax system.

Overall, the results highlight that Uzbekistan's tax system is not only a fundamental source of fiscal revenue but also a strategic tool for economic management. The interplay between direct and indirect taxes, supplemented by smaller but significant revenue streams, reflects a deliberate policy approach designed to balance efficiency, equity, and economic stability within a transitional economy framework.

DISCUSSION

The findings of this study demonstrate that taxes serve as the cornerstone of the state budget in Uzbekistan, providing the bulk of fiscal resources necessary for public service provision and economic stabilization. Direct taxes, particularly corporate profit tax and personal income tax, not only generate significant revenue but also reflect structural changes in the economy, including the formalization of businesses and increasing employment in the formal sector. These taxes contribute to progressive revenue collection and align the fiscal system with principles of social equity.

Indirect taxes, led by value-added tax, play a critical role in stabilizing budgetary inflows and responding to fluctuations in consumption. Their predominance in total revenue underscores their efficiency and ease of collection. However, reliance on consumption-based taxes poses challenges in terms of distributional impact, as lower-income households bear a relatively higher tax burden. Addressing this concern requires careful calibration of tax rates and targeted social policy interventions to mitigate regressivity, while maintaining overall fiscal efficiency.

The analysis further indicates that administrative reforms, including digitalization of tax reporting, improved monitoring, and transparency initiatives, have significantly strengthened revenue mobilization. Enhanced compliance reflects both greater taxpayer awareness and the effectiveness of modernized administrative practices. The 2026 Tax Code's emphasis on predictable rates and simplified compliance procedures contributes to an environment conducive to business planning and investment, supporting broader economic growth objectives.

From a policy perspective, sustaining revenue growth without increasing the statutory burden requires broadening the tax base and improving enforcement mechanisms. The interplay between direct and indirect taxes demonstrates the dual objectives of revenue generation and economic regulation, wherein taxation shapes behavior, incentivizes formal sector participation, and channels resources toward priority sectors. These dynamics highlight the complex role of tax policy in balancing efficiency, equity, and economic stability within Uzbekistan's transitional economy.

CONCLUSION

Taxes occupy a central position in the formation of state budget revenues in Uzbekistan, functioning as the primary financial source for government expenditures and economic stabilization. The steady increase in both direct and indirect tax revenues over recent years reflects the combined effect of economic growth, structural reforms, and enhanced administrative capacity. Policy measures embedded in the 2026 Tax Code, including stable rates, increased transparency, and digitalized reporting, reinforce predictability and compliance, thereby strengthening the sustainability of public finances.

The analysis underscores the dual role of taxation in Uzbekistan: it not only provides the necessary fiscal resources but also serves as a regulatory instrument that influences economic behavior, encourages formalization of economic activity, and supports social equity objectives. Future fiscal policy should continue focusing on broadening the tax base, refining the balance between direct and indirect taxes, and enhancing the effectiveness of compliance mechanisms.



By doing so, Uzbekistan can ensure that taxation remains a robust, equitable, and sustainable pillar of the state budget, capable of supporting long-term socio-economic development goals.

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