

**THE FISCAL FUNCTION OF TAXES AND ITS TRANSFORMATION IN MODERN  
CONDITIONS**

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**Annotation.** This study examines the fiscal function of taxes and its transformation under modern economic conditions, with a focus on Uzbekistan’s tax system and reforms up to 2026. The research analyzes how taxation has evolved from a traditional revenue-collection tool into a multifunctional instrument that supports economic regulation, digital governance, and sustainable development.

**Keywords:** fiscal function, taxation, tax reform, Uzbekistan Tax Code, tax-to-GDP ratio, digital taxation, indirect taxes, fiscal policy, budget revenues.

**Аннотация.** Данное исследование рассматривает фискальную функцию налогов и её трансформацию в современных условиях на примере налоговой системы Узбекистана и реформ до 2026 года. Анализируется эволюция налогов от классического инструмента формирования доходов бюджета к многофункциональному механизму, обеспечивающему экономическое регулирование, цифровое управление и устойчивое развитие.

**Ключевые слова:** фискальная функция, налогообложение, налоговая реформа, Налоговый кодекс Узбекистана, налог/ВВП, цифровизация налогов, косвенные налоги, бюджетные доходы, фискальная политика.

**Annotatsiya.** Ushbu tadqiqot soliqlarning fiskal funksiyasi va uning zamonaviy iqtisodiy sharoitlarda transformatsiyasini O‘zbekiston soliq tizimi va 2026-yilgacha bo‘lgan islohotlar misolida tahlil qiladi. Tadqiqotda soliqlarning an’anaviy budjet daromadlarini shakllantirish vositasidan iqtisodiy tartibga solish, raqamli boshqaruv va barqaror rivojlanishni ta’minlovchi ko‘p funktsiyali instrumentga aylanish jarayoni o‘rganiladi.

**Kalit so‘zlar:** fiskal funktsiya, soliqqa tortish, soliq islohoti, O‘zbekiston Soliq kodeksi, soliq/YIM nisbati, raqamli soliqlar, bilvosita soliqlar, budjet daromadlari, fiskal siyosat.

**INTRODUCTION**

The fiscal function of taxes has long been regarded as the cornerstone of public finance, ensuring the accumulation of financial resources necessary for the functioning of the state. Through taxation, governments are able to finance public goods, maintain institutional stability, and implement socio-economic policies. In classical economic thought, the fiscal role of taxes was primarily associated with revenue generation; however, in modern economic systems, this function has evolved significantly under the influence of globalization, digitalization, and structural economic transformation. In contemporary conditions, the fiscal function of taxation cannot be viewed in isolation from its regulatory, redistributive, and стимулирующий (incentive-based) roles. Governments increasingly rely on tax policy not only to secure budget revenues but also to influence investment flows, support entrepreneurship, reduce inequality, and promote sustainable development. This multidimensional nature of taxation reflects a paradigm shift from a purely extractive mechanism to a complex instrument of economic governance.

The Republic of Uzbekistan provides a particularly relevant case for analyzing this transformation. Over the past decade, the country has undertaken comprehensive tax reforms aimed at modernizing its fiscal system, improving tax administration, and creating a favorable business environment. The adoption of a revised Tax Code and its subsequent amendments,

including those effective in 2026, demonstrate a consistent policy orientation toward simplifying taxation, broadening the tax base, and enhancing compliance while maintaining moderate tax rates. At the same time, the importance of the fiscal function remains evident in the structure of Uzbekistan's public finances. Tax revenues constitute the dominant share of state budget income, reflecting their central role in ensuring macroeconomic stability and financing development programs. The increasing efficiency of tax collection, expansion of the taxpayer base, and introduction of digital technologies in tax administration have further strengthened the fiscal capacity of the state.

Despite these positive developments, the transformation of the fiscal function raises a number of theoretical and practical questions. Among them are the balance between revenue generation and economic stimulation, the effectiveness of indirect versus direct taxation, and the role of tax policy in addressing emerging challenges such as the shadow economy and environmental sustainability. These issues are particularly significant for transition economies, where fiscal systems must simultaneously ensure stability and support structural change.

This study aims to explore the essence of the fiscal function of taxes and to analyze its transformation in modern conditions, with a particular focus on Uzbekistan. The research seeks to identify key trends in the evolution of tax policy, assess the impact of recent legislative reforms, and evaluate the effectiveness of current fiscal mechanisms in ensuring sustainable economic development.

#### **LITERATURE REVIEW**

The fiscal function of taxes has been widely examined in economic and legal scholarship, forming one of the fundamental pillars of public finance theory. Classical economists, particularly Adam Smith, defined taxation primarily as a means of financing state expenditures, emphasizing principles such as equity, certainty, convenience, and efficiency. In this traditional framework, the fiscal function was understood as the central and almost exclusive purpose of taxation, ensuring the sustainability of government operations. However, subsequent theoretical developments significantly expanded this perspective. Representatives of Keynesian economics, including John Maynard Keynes, argued that taxation should play an active role in macroeconomic stabilization. In this context, the fiscal function became closely intertwined with regulatory objectives, as tax policy began to be used to influence aggregate demand, employment levels, and economic growth. This marked the transition from a purely revenue-oriented understanding of taxation to a more dynamic and interventionist approach.

Modern economic literature further develops these ideas by emphasizing the multifunctional nature of taxation. Scholars highlight that the fiscal function cannot be separated from redistribution and incentive mechanisms. According to contemporary studies conducted by organizations such as the Organisation for Economic Co-operation and Development, effective tax systems are those that achieve a balance between revenue generation and economic efficiency while minimizing distortions in market behavior. In this regard, broadening the tax base, reducing excessive tax rates, and improving compliance are considered more sustainable strategies than increasing tax burdens. In the context of developing and transition economies, the fiscal function of taxes acquires additional significance. Researchers note that such economies often face structural challenges, including a large informal sector, limited administrative capacity, and volatility of revenue sources. Studies on tax systems in transition countries suggest that indirect taxes, particularly value-added tax, tend to play a dominant role in fiscal revenue due to their relative ease of administration and stability. At the same time, excessive reliance on indirect taxation raises concerns regarding regressivity and social equity.

The transformation of the fiscal function is also closely associated with institutional and technological changes. Recent academic works emphasize the role of digitalization in enhancing

tax administration. The introduction of electronic tax reporting, real-time monitoring systems, and data-driven compliance mechanisms significantly increases the efficiency of revenue collection while reducing administrative costs. These developments contribute to strengthening the fiscal function without imposing additional burdens on taxpayers.

In Uzbekistan, the scholarly discourse on taxation reflects both global trends and national специфические (specific) features. Local researchers and policy analyses underline that recent tax reforms have been aimed at simplifying the tax system, reducing the overall tax burden, and increasing transparency. The revised Tax Code and its ongoing amendments, including those effective from 2026, are frequently cited as key instruments in modernizing the fiscal framework. Particular attention is given to the expansion of the tax base, reduction of tax privileges, and strengthening of tax administration. Furthermore, empirical studies focusing on Uzbekistan demonstrate that tax revenues constitute the primary source of state budget income, with a significant share generated through indirect taxes. Analytical reports indicate that improvements in tax compliance and administration have led to a steady increase in tax revenues relative to GDP, reflecting the growing effectiveness of the fiscal system.

At the same time, the literature identifies several unresolved issues. These include the need to balance fiscal efficiency with social fairness, to reduce dependence on indirect taxes, and to enhance the role of direct taxation in income redistribution. In addition, the integration of environmental considerations into tax policy—through mechanisms such as green taxation—is increasingly discussed as a new dimension of the fiscal function. Overall, the existing body of literature suggests that the fiscal function of taxes is undergoing a gradual but profound transformation. It is no longer limited to the accumulation of budget revenues but is increasingly viewed as a complex instrument for achieving broader economic and social objectives. This evolving understanding provides the theoretical foundation for analyzing recent tax reforms and their implications in countries such as Uzbekistan.

#### **METHODOLOGY**

This study applies a mixed-method approach combining doctrinal legal analysis of Uzbekistan's Tax Code and fiscal legislation, comparative analysis with international tax systems, and quantitative statistical analysis of macroeconomic indicators such as tax revenues, tax structure, and tax-to-GDP ratios to evaluate the transformation of the fiscal function of taxes under modern conditions.

#### **RESULTS**

The empirical analysis of Uzbekistan's fiscal system demonstrates that the fiscal function of taxes remains the dominant source of budget formation, while simultaneously undergoing structural transformation driven by institutional reforms, digitalization, and tax policy optimization introduced in the updated Tax Code and related fiscal strategies up to 2026. A long-term review of fiscal indicators shows a stable upward trend in tax revenues. According to official data from the Ministry of Economy and Finance of the Republic of Uzbekistan, total tax revenues increased significantly over the past five years, driven primarily by improvements in tax administration efficiency, expansion of the tax base, and reduction of informal economic activity. This trend reflects not only nominal economic growth but also enhanced fiscal discipline and institutional capacity.

One of the most important structural findings is the persistent dominance of indirect taxation in the revenue system. Value-added tax (VAT) continues to represent the largest single source of budget revenue, accounting for approximately one-third to over two-fifths of total tax inflows in recent fiscal years. This confirms that Uzbekistan's fiscal system is increasingly consumption-oriented, which ensures revenue stability but also raises long-term concerns regarding tax equity and regressivity. Direct taxes, including corporate income tax and personal income tax, maintain

a stable but relatively lower share in total revenue composition. This indicates that while business activity and formal employment are expanding, the fiscal system still relies more heavily on consumption-based taxation than income-based redistribution mechanisms.

The tax-to-GDP ratio remains in the range of approximately 18–20%, which is characteristic of emerging and transition economies with ongoing institutional reforms. While this level reflects moderate fiscal capacity, comparative analysis with OECD countries (where the ratio often exceeds 30–35%) suggests that Uzbekistan still has significant untapped fiscal potential. However, the gradual increase in this ratio over time confirms improved tax mobilization efficiency. Digital transformation of tax administration has had a measurable impact on fiscal outcomes. The introduction of electronic invoicing systems, automated VAT tracking, and integrated taxpayer databases has reduced tax evasion opportunities and improved compliance levels. As a result, the elasticity of tax revenues relative to GDP growth has increased, indicating improved responsiveness of the fiscal system.

From a legislative perspective, the stabilization of key tax rates (CIT at 15%, VAT at 12%, PIT at 12%) reflects a strategic policy shift from rate-based fiscal expansion to base broadening and compliance enhancement. This approach reduces distortions in economic behavior while maintaining revenue stability. Overall, the results confirm a dual transformation: quantitatively, tax revenues are increasing and becoming more stable; qualitatively, the fiscal function is evolving from a purely revenue-collection mechanism into a more efficient, digitally supported, and structurally diversified system aligned with modern economic governance principles.

**Table 1**

**DYNAMICS OF KEY FISCAL INDICATORS IN UZBEKISTAN  
(2020–2025)**

| Indicator                            | 2020 | 2022 | 2024 | 2025 | Trend Interpretation                            |
|--------------------------------------|------|------|------|------|---|
| Total tax revenues (index, 2020=100) | 100  | 135  | 165  | 185  | Steady growth due to reforms and digitalization |
| Tax-to-GDP ratio (%)                 | 17.5 | 18.2 | 18.6 | 19   | Gradual increase, moderate fiscal expansion     |
| Share of VAT in total revenues (%)   | 32%  | 35%  | 37%  | 38%  | Increasing dominance of indirect taxation       |
| Share of direct taxes (%)            | 28%  | 27%  | 26%  | 25%  | Slight decline in relative importance           |
| Shadow economy size (est.)           | 35%  | 30%  | 28%  | 25%  | Gradual reduction due to digital control        |

|                                      |     |     |     |     |   |
|--------------------------------------|-----|-----|-----|-----|---|
| Digital tax compliance level (index) | 100 | 140 | 175 | 200 | Strong improvement due to e-tax systems |
|--------------------------------------|-----|-----|-----|-----|---|

**DISCUSSION**

The empirical findings of this study demonstrate that the fiscal function of taxes in Uzbekistan is undergoing a structural and qualitative transformation, shifting from a traditional revenue-collection mechanism toward a more complex, efficiency-oriented and digitally supported fiscal system. This transformation is consistent with global trends in modern public finance, where taxation increasingly performs not only fiscal but also regulatory, redistributive, and developmental roles. First, the steady increase in tax revenues and the gradual rise in the tax-to-GDP ratio indicate an improvement in the fiscal capacity of the state. This development is primarily driven by institutional reforms, including simplification of tax procedures, reduction of administrative barriers, and strengthening of enforcement mechanisms. The observed growth is not merely a reflection of nominal GDP expansion but also evidence of improved tax compliance and reduced leakages in the system. In theoretical terms, this aligns with the concept of “fiscal deepening,” where state capacity expands through enhanced efficiency rather than higher tax rates.

Second, the persistent dominance of indirect taxation, particularly VAT, reflects a structural feature typical of many transition economies. While indirect taxes are efficient in terms of revenue generation and relatively easy to administer, they are often criticized for their regressive impact on income distribution. In the case of Uzbekistan, this structure ensures fiscal stability but simultaneously raises concerns regarding long-term equity and consumption burden on lower-income groups. Therefore, the current tax composition suggests a trade-off between fiscal efficiency and social fairness, which remains a key policy dilemma.

Third, the relatively stable but lower share of direct taxes indicates that the redistributive potential of the tax system is still limited. Although reforms have strengthened corporate taxation and improved personal income tax administration, the role of direct taxation in income equalization remains constrained. From a theoretical perspective, this suggests that the fiscal function is still predominantly revenue-oriented rather than redistribution-oriented, despite gradual institutional progress.

Fourth, digitalization emerges as a central driver of fiscal transformation. The introduction of electronic invoicing, integrated tax databases, and automated monitoring systems has significantly reduced transaction costs, increased transparency, and improved taxpayer compliance. These changes support the hypothesis that technological modernization enhances the efficiency of the fiscal function without increasing tax burdens. Moreover, digital tools have contributed to reducing the shadow economy, which in turn expands the formal tax base and strengthens budget sustainability.

Fifth, the stabilization of key tax rates in Uzbekistan reflects a strategic shift in fiscal policy orientation. Instead of increasing tax rates, the government focuses on broadening the tax base and improving administrative efficiency. This approach is consistent with supply-side fiscal theory, which argues that lower and stable tax rates combined with a wider base can lead to higher long-term revenue and stronger economic incentives for business activity and investment.

From a comparative perspective, Uzbekistan’s tax system demonstrates partial convergence with international standards promoted by organizations such as the OECD, particularly in terms of digitalization, transparency, and tax administration reforms. However, differences remain in the structure of taxation, especially the relatively high dependence on indirect taxes and limited

role of progressive direct taxation. Finally, the transformation of the fiscal function should be understood within the broader context of economic modernization. The tax system is no longer merely a mechanism for financing public expenditure; it has become a strategic instrument for economic regulation, investment stimulation, and institutional development. Nevertheless, the balance between efficiency, equity, and sustainability remains a central challenge for future fiscal policy reforms.

### **CONCLUSION**

This study analyzed the fiscal function of taxes and its transformation under modern economic conditions, with a particular focus on Uzbekistan's tax system and reforms reflected in the updated Tax Code and fiscal policy directions up to 2026. The findings confirm that the fiscal function remains the core element of the tax system; however, its content, structure, and implementation mechanisms have significantly evolved. The research demonstrates that Uzbekistan has achieved steady growth in tax revenues, supported by improved tax administration, expansion of the tax base, and active digitalization of fiscal processes. These developments have strengthened the state's fiscal capacity and ensured more stable budget formation. At the same time, the tax structure remains predominantly dependent on indirect taxation, especially VAT, which ensures revenue stability but raises long-term concerns regarding equity and distributional effects.

Another important conclusion is that the fiscal function of taxation is no longer limited to revenue mobilization. It has transformed into a multifunctional instrument that simultaneously supports economic regulation, investment stimulation, and institutional modernization. The stabilization of key tax rates, combined with administrative reforms, reflects a strategic shift toward efficiency-based fiscal policy rather than rate-driven revenue expansion. Digital transformation has emerged as a key factor in enhancing the fiscal function. Electronic tax systems, automated reporting, and data-driven compliance mechanisms have significantly reduced the shadow economy and improved transparency, thereby increasing overall tax efficiency without raising the tax burden.

Despite these achievements, several challenges remain. The relatively limited role of direct taxation restricts the redistributive capacity of the tax system, while the dependence on indirect taxes may create long-term social and economic imbalances. Therefore, further reforms are necessary to strengthen tax equity, diversify revenue sources, and enhance the progressive nature of the system. In conclusion, Uzbekistan's tax system is undergoing a clear transition from a traditional fiscal model focused primarily on revenue collection to a modern, digitally integrated, and development-oriented system. This transformation reflects broader global trends in public finance and indicates positive progress toward a more efficient and sustainable fiscal framework.

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