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THE ECONOMIC ESSENCE OF TAXES AND THEIR ROLE IN THE MODERN ECONOMY

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Abstract: This is This article examines the economic essence of taxes, their role, and functions in the modern economy, both theoretically and practically. International experience is analyzed. It presents tax reforms implemented in Uzbekistan and offers scientifically sound proposals for digitalizing the tax system, increasing its transparency, and aligning it with international standards. The article emphasizes the important role of tax policy in economic growth.
Key words: taxes, economic essence, tax functions, tax reforms, digitalization, fiscal policy.

Introduction

In the modern economy, taxes, as the state's primary source of finance, have become an important tool for stimulating economic growth, efficiently allocating resources, and ensuring social justice. The economic essence of taxes and their role in the modern economy remains relevant today, both globally and nationally. In particular, digital transformation, the transition to a green economy, and international integration are placing new demands on tax policy. The purpose of this study is to analyze the theoretical foundations of taxation and identify its practical role in Uzbekistan.

Improving the tax system in the Republic of Uzbekistan is a priority area of state policy. The "Concept for Improving the Tax Policy of the Republic of Uzbekistan," adopted by Presidential Decree No. PF-5468 of June 29, 2018, has become an important strategic document for reducing the tax burden in the country, simplifying tax administration, and increasing transparency. Legislative acts adopted in recent years, particularly in 2024-2025, are aimed at further improving tax and budget policies, and these processes are of great importance for increasing the competitiveness of the economy and improving the investment climate [1].

The scientific significance of this topic lies in the fact that an in-depth study of the economic essence of taxes not only enriches theoretical knowledge but also creates a scientific basis for the development of effective tax policy in practice. International experience and recent reforms in Uzbekistan demonstrate the potential for accelerating economic growth by digitalizing the tax system, increasing its transparency, and aligning it with international standards. At the same time, the lack of a comprehensive analysis in the national context in existing academic research further enhances the relevance of this topic.

The purpose of this article is to analyze the economic essence of taxes and their role in the modern economy from theoretical and practical perspectives, as well as to develop evidence-based proposals for the development of Uzbekistan's tax system. The results of the study are expected to be useful not only to academics but also to government agencies and practitioners.

Literature review

Many scholars have studied the economic nature of taxes and their role in the modern economy. In particular, the article by Chinese scholars Hongyan Wang, Jiandong Cheng, and Han Zhou, "Tax Administration Digitalization, Financial Regulation Strictness, and Enterprise Productivity: A Quasi-Natural Experiment Based on the Gold Tax Phase III Project", examined the impact of tax administration digitalization on the total factor productivity of enterprises. Using a stepwise DID method, the authors analyzed data on listed companies in China for 2009–2022 and demonstrated that tax administration digitalization significantly increases enterprises' TFP by reducing financial constraints and improving investment efficiency. Furthermore, they demonstrated that financial regulation plays a moderating role in this relationship and varies depending on enterprise size and ownership type [2].

In their article, "Federal Tax Policy and the Capitalization of Local Public Goods," American and Swiss scholars Brent W. Ambrose and Maxence Valentin examine the relationship between federal tax policy and the capitalization of local public goods on house prices. Using the shift-share instrumental variable approach of the Tax Reform Act of 2017 (TCJA), the authors find that regions with local tax credits experience a stronger capitalization of government spending on house prices. They argue that federal tax policy has a significant impact on the effectiveness of local taxes and the provision of public goods, and consider it necessary to consider the interaction between national and local tax policies. This work delves deeper into the economic nature of taxes and their role in the modern economy from the perspective of fiscal federalism and makes an important contribution to assessing the future of the SALT tax credit [3].

In their article called "The Impact of Tax Transparency on Consumer and Firm Behavior: Experimental Evidence", Austrian scholars Michael Rasen and Alexander Kupfer experimentally examined the impact of tax transparency on corporate tax evasion and consumer behavior. The authors found that as tax transparency increases through a new market model, the share of firms paying taxes increases from 26 to 74 percent, and consumers tend to boycott tax-evading firms. The study suggests that tax transparency reduces tax evasion through social pressure and market mechanisms and improves social welfare. This work contributes to this topic by providing experimental evidence and revealing the economic nature of taxes from a socio-behavioral perspective. However, the results need to be tested in real market conditions [4].

In the article called "Results and Prospects of Tax System Reform in Georgia in Accordance with EU Requirements", Georgian scholars David Jalagonia and Yuri Papaskua analyzed the process of harmonizing the Georgian tax system with European Union requirements. They argue that simplifying the tax system, developing e-services, and bringing it closer to European standards will help increase the country's budget revenues and develop foreign trade. The article examines the role of taxes in the modern economy from the perspective of international integration and harmonization, presenting the Georgian experience as a useful example for other developing countries [5].

In his article "The Role of Taxes in National Economic Development", Uzbek scholar Bakhtiyorjon Ortikboy oglu Madrakhimov analyzed the role of taxes in national economic development, their importance in ensuring budget revenues, maintaining economic stability, and stimulating entrepreneurship. After examining the positive results of tax reforms implemented in Uzbekistan (reducing the corporate tax rate, digital administration) and remaining problems (tax evasion, the informal economy), the author emphasizes that a fair and effective tax system is an important factor in economic growth. The work makes a practical contribution to this topic in the national context [7].

In a study by Uzbek scientists published in the journal "Green Economy and Development", Eldor Toshmamatovich Abramov and others highlight the role of tax policy in the modern economy and its importance for national economic development. The authors demonstrate the potential for ensuring sustainable development and economic growth by improving the tax system. These studies contribute to a deeper understanding of the economic essence of taxes in Uzbekistan and are important for adapting international experience to national policy [6].

Research methodology

This study utilizes a comprehensive approach to examining the economic nature of taxes and their role in the modern economy. The research is primarily theoretical and analytical in nature, employing inductive and deductive methods, comparative analysis, and a systematic approach as a general scientific and methodological framework.

Analysis and results

The economic essence of taxes is manifested primarily in their role as the primary source of government budget formation. While classical economists Adam Smith and David Ricardo viewed taxes as a means of raising public financial resources, modern economics views taxes as a multifunctional instrument. They perform fiscal, regulatory, distributional, and incentive functions.

Analysis shows that taxes influence economic growth in two ways: directly, by increasing budget revenues through investment in infrastructure, education, and healthcare, and indirectly, by optimizing tax rates, stimulating investment and entrepreneurial activity through tax incentives and digital governance.

Table 1

The main functions of taxes and their role in the modern economy.[1]

Function	Essence	Modern role	Example
Fiscal	Ensuring budget revenues	Sources of expenditure on social and infrastructure projects.	80-90% of Uzbekistan's budget
Regulator	Management of economic activity	Encourage investment and innovation.	Tax incentives
Distributor	Income redistribution	Ensuring social justice	Progressive tax rates
Stimulus	Support in specific areas	Green Economy and Digital Transformation	Environmental tax incentives

The economic essence of taxes is not limited to budget revenues; they serve as a means of regulating the economy and improving its efficiency. Digitalization and transparency will significantly improve the efficiency of the tax system. Tax reforms in Uzbekistan are yielding positive results, but expanding the tax base, reducing the informal sector, and adapting to international standards remain urgent tasks.

The results of this study demonstrate that tax policy is one of the most important factors for sustainable economic growth in the modern economy. Further improvement of the tax system will contribute to the increased competitiveness of Uzbekistan's economy.

To better understand the nature and role of taxes in the modern economy, it is important to compare the share of tax revenue in GDP across countries with different levels of development.

[1] https://books.google.co.uz/books/about/The_Theory_of_Public_Finance.html?id=jxwdAAAAIAAJ&redir_esc=y https://scientific-jl.com/tad/article/view/11666

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Figure 1 shows the dynamics of the share of tax revenue in GDP for Uzbekistan, China, Germany, and Russia from 2012 to 2024, based on World Bank data. This diagram clearly demonstrates the effectiveness of each country's tax policy and the level of the tax burden on the economy.

The graph shows that Germany, a developed country, has the highest tax revenue-to-GDP ratio28.5 percent in 2024. This suggests that in countries with strong institutions like Germany, the tax system has achieved high efficiency not only in replenishing the budget but also in providing social services, developing infrastructure, and ensuring economic stability. This high figure helps us better understand the economic essence of taxes.

In Uzbekistan, the share of tax revenue in GDP has demonstrated a steady growth trend in recent years, reaching 14.2 percent in 2024. This figure demonstrates the positive results of the country's tax reforms, such as e-administration and rate optimization.

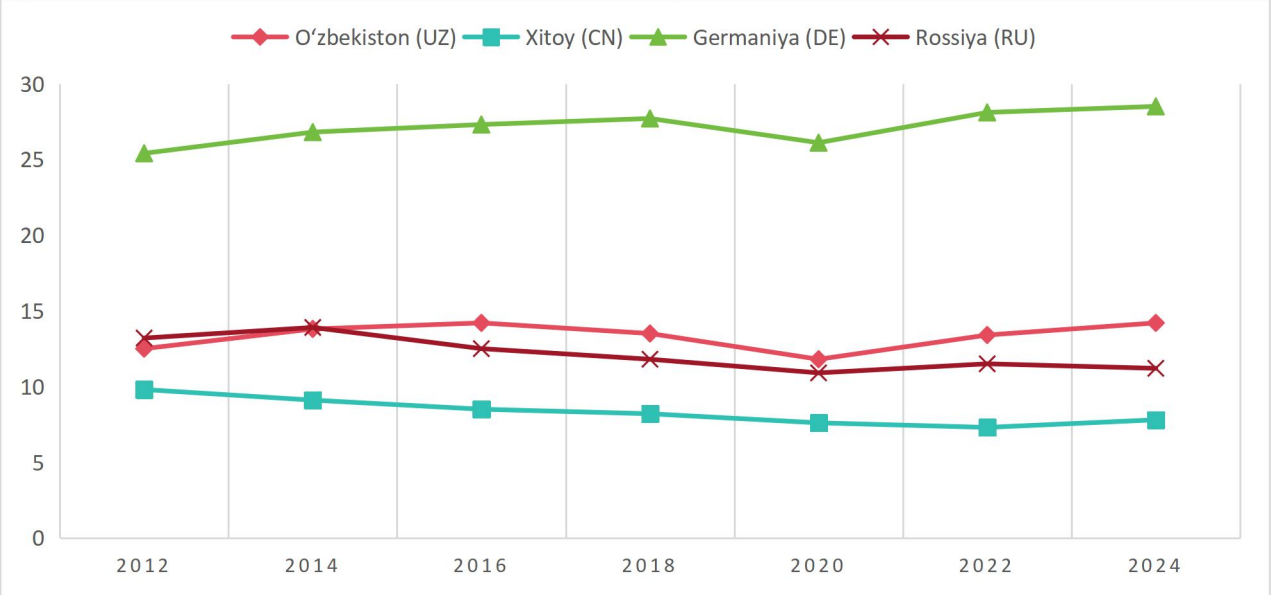


Figure 1. Tax revenue as a percentage of GDP in some countries (%).[2]

However, as a developing country, Uzbekistan naturally has a lower figure than Germany, and there is potential to increase this share by further expanding the tax base and reducing the informal economy.

Compared to China and Russia, Uzbekistan's score is significantly higher than China's, but only slightly higher than Russia's. This indicates that Uzbekistan's tax policy is average and promising among developing countries. Overall, the data presented in the chart confirm the role of taxes in the modern economy not only as a source of revenue but also as an important instrument of economic growth and national stability.

The proposed strategic framework (Figure 2) for developing Uzbekistan's tax system in line with modern requirements reflects areas for comprehensive and systematic improvement of tax policy. The central one is the "Modern Tax System", from which five key strategic directions flow.

[2]Tax revenues (% of GDP) - Uzbekistan, China, Germany, Russian Federation Yearbook and data files on government financial statistics, International Monetary Fund (IMF) https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?end=2024&locations=UZ-CN-DE-RU&most_recent_year_desc=false&start=2012&view=chart

This framework envisions the development of the tax system in closely related areas and serves the sustainable development of Uzbekistan's economy.

The first key aspect of this plan is digitalization, transparency, and expansion of the tax base. Thanks to digitalization, the implementation of advanced systems such as the “Golden Tax”, artificial intelligence, and big data technologies will improve the efficiency of tax administration and reduce tax evasion. At the same time, reducing and legalizing the informal economy will expand the tax base and ensure sustainable growth in budget revenues.

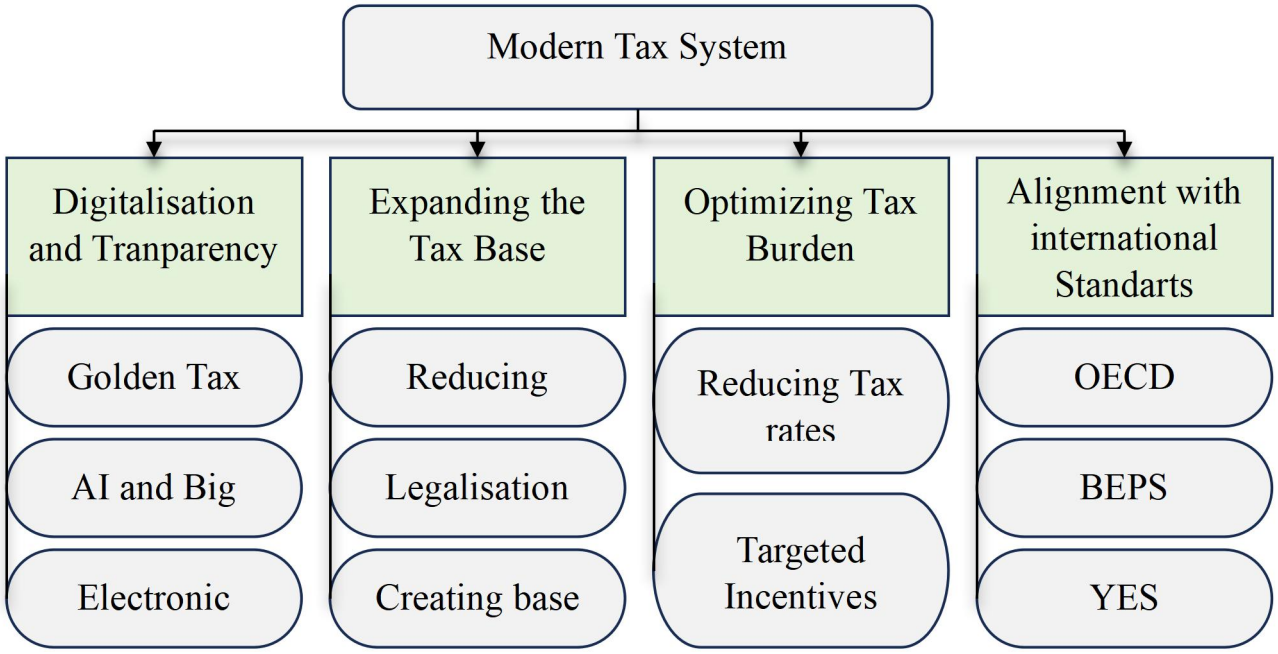


Figure 2. Strategy for the development of the tax system in Uzbekistan.

The second important area is optimizing the tax burden, supporting the green and digital economy, and adapting to international standards. Improving the investment climate by optimizing rates and targeted incentives, encouraging environmental and digital projects with tax breaks, and adapting to EU, OECD, and BEPS standards will bring Uzbekistan’s tax system into line with international requirements. This comprehensive approach will shape the tax system not only as a source of revenue but also as a key catalyst for economic growth.

Conclusion and suggestions

Taxes are the fundamental financial institution of any country's economy, and their economic essence is manifested not only in the formation of the state budget but also in stimulating economic growth, allocating resources, and ensuring social justice. In the modern economy, taxes, in addition to their fiscal function, also perform regulatory, distributive, and incentive functions. Uzbekistan's experience and international research demonstrate that an effective tax system is a key factor in ensuring economic stability and high growth rates.

The results of the study and an analysis of international experience showed that the efficiency of businesses and investment activities can be significantly improved through the digitalization of tax administration, increased tax transparency, and tax burden optimization. Although the tax reforms implemented in Uzbekistan have yielded positive results, problems such as the informal economy, tax evasion, and incomplete compliance with international standards remain.

Overall, the role of taxes in the modern economy is becoming increasingly important. They have become not only a means of generating budget revenues but also an important mechanism for stimulating innovation, the green economy, and digital transformation. Therefore, improving the tax system is of strategic importance for the country's long-term economic development.

As a result of the research, the following four proposals were developed:

First, tax administration must be fully digitized. A unified automated tax system based on artificial intelligence and big data technologies must be implemented, and tax reporting must be fully electronic.

Secondly, the tax burden must be optimized. The corporate income tax rate should be gradually optimized, and targeted tax incentives for innovative, environmentally friendly, and export-oriented companies should be expanded.

Third, it is crucial to adapt to international standards. It is essential to fully implement the requirements of the OECD Base Erosion and Profit Shifting project, strengthen close cooperation with the European Union on tax policy, and improve mechanisms for preventing double taxation.

Fourth, it is necessary to improve tax culture and reduce the informal economy. Large-scale programs to improve tax literacy among the population and entrepreneurs should be implemented, and the legalization of the informal sector should be encouraged through tax incentives.

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