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Tax Potential Assessment in Regional Context

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Abstract: This article discusses the concept of regional tax potential, methods of assessing tax potential, and practical proposals and recommendations regarding the assessment of tax potential in the context of fiscal and budgetary policies.

Keywords: Tax potential, regional tax potential, investments, tax potential assessment, methodology.

In the current economic environment, local government authorities face the challenge of resolving issues related to filling budgets, which directly depends on tax policy. In order to calculate tax revenues, a clear revenue base must align with the region's natural, economic, and technological potential. During crises, local budgets experience negative effects due to limited financial capabilities, which leads to a decrease in revenues. It is well-known that taxes form the backbone of all types of budgets, but during periods of crisis, factors like a decline in entrepreneurial activity and payment capacity, among others, hinder the realization of expected tax revenues. In such situations, it becomes crucial to assess and forecast the potential for generating revenue for all levels of government. Assessing, forecasting, and forming the tax potential of regions must be one of the key areas in the budgetary and fiscal policies, as well as the socio-economic development policies of regions.

Numerous studies have been conducted on determining the tax potential (or tax burden) of regions, with the primary goal of optimizing budget transfers and incentivizing regions showing financial inactivity. However, these studies do not consider tax regulation as a tool for socio-economic development. Additionally, there is no unified approach in both foreign and domestic literature regarding the methodology for calculating this indicator, making it difficult to compare research results.

Currently, one of the pressing tasks in reforming fiscal relations in our country is identifying the tax potential of regions and analyzing their internal capabilities to uncover untapped potential. One of the key elements in ensuring the stability of the country's economy is the liberalization of tax policy, simplifying tax collection procedures, reducing the tax burden, and protecting the rights and freedoms of economic entities. The large-scale tax reforms being implemented in the country are aimed at increasing real incomes, modernizing production, and supporting entrepreneurial activity.

It is important to note that many regions of the country differ significantly in terms of natural-economic conditions and regional placement. Furthermore, the tax potential of regions also varies, and issues arise when trying to identify problems in the sector. Therefore, the goal of this study is to explore the content of the concept of tax potential, identify the factors determining its scope, analyze existing assessment methods, and explore the possibilities of their practical application.

Undoubtedly, when identifying tax potential, its tax base serves as the foundation. However, the true value of tax potential is not merely its value but its ability to generate revenue, which is its defining characteristic.

Traditionally, the purpose of assessing tax potential is to increase the fair distribution of taxes and improve their return rate. Tax potential plays a critical role in improving overall budgetary relations and determining the procedure for distributing transfers. If real tax capabilities are identified, this reduces the subjectivity of assessing the actual need for financial assistance, increases the

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independence of local authorities in utilizing their tax potential, and eliminates the main issue of financial assistance distribution—inequality—between central and local governments.

In our opinion, when implementing regional tax policy, regions should have the right to establish their own tax policy, such as deciding whether to use or not use certain taxes, changing rates, introducing or eliminating benefits, etc. The methodology for assessing tax potential should be simple and understandable. However, at present, this is associated with several difficulties, primarily due to the lack of official statistical data necessary for calculations. Only structural indicators exist, which provide information about the tax burden.

The most accurate method for assessing tax potential is to fully audit all economic activities in the region, including the informal economy. Of course, this task is challenging. Different methodological approaches are used to assess tax potential in foreign countries, and indicators describing the efficiency of tax collection, such as economic revenue indicators, have been identified. Though they require less time and money, they allow for a more accurate assessment of a municipality's tax potential.

To calculate tax potential, it is suggested to apply one or a combination of economic revenue indicators, taking into account the full volume of the tax base, and calculating several components to simplify the assessment process. This will require forming various indicators for tax potential assessment.

The representative method for assessing regional tax potential involves the broad use of data on the tax bases of taxes levied in each region. The essence of this method is to calculate the potential budget revenues that could be collected within the region using average tax rates and the average collection performance of taxes.

In general, when calculating regional tax potential using the representative method, the steps may include:

1. Identifying the list of income categories for which tax potential can be calculated. These categories should encompass both taxable and non-taxable incomes.
2. Defining the composition of the standard tax base for each income category.
3. Calculating the representative (regional average) tax rate by dividing the total tax payments for each category by the corresponding taxable incomes.
4. Calculating the regional tax potential by multiplying the representative tax rate for each income category by its tax base.

It is important to note that resolving issues related to enhancing regional tax potential cannot be imagined without an appropriate methodology for its assessment. Therefore, first, we must emphasize the uniqueness and complexity of the methodology for assessing regional tax potential in Uzbekistan.

We believe that the methodology for assessing tax potential in the country's regions must incorporate the following elements:

1. Analyzing the economic potential of the region and providing a forecast estimate.
2. Analyzing the dynamics of the indicators used for calculating the region's tax base.
3. Analyzing potential revenue losses or falling revenues.
4. Analyzing the activities of financial and credit institutions located in the region.
5. Analyzing and evaluating the collection of taxes and contributions by sectors of the regional economy.
6. Analyzing the dynamics of arrears in taxes and contributions in the budget system by tax types, including current, overdue, and delayed payments.
7. Analyzing the dynamics of tax arrears by sectors of the regional economy.

8. Analyzing key tax burden indicators per capita and in relation to the regional gross product.
9. Conducting a comprehensive assessment of the regional tax potential.

The first stage of the regional tax potential assessment methodology involves analyzing the economic potential of the region and forecasting its potential, requiring an in-depth analysis of data relevant to the region's overall characteristics.

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