# TAX REVENUES AND ECONOMIC EFFICIENCY

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**Abstract:** This article investigates the intricate relationship between tax revenues and economic efficiency, using Uzbekistan as a case study within a broader global context. It highlights that while taxation is a fundamental tool for public finance, the structure, transparency, and administrative quality of a tax system significantly influence its economic outcomes. Drawing on classical and modern public finance theories, as well as recent OECD and World Bank data, the study explores how broadening the tax base, minimizing distortions, and improving voluntary compliance can enhance both revenue generation and allocative efficiency. Uzbekistan's recent fiscal reforms—such as the digitalization of tax services, simplification of tax codes, and introduction of online systems—have led to notable improvements in tax collection, with an 18.4% increase between 2021 and 2023. However, challenges remain, including a large informal sector, sectoral imbalance in tax contributions, and regional disparities in compliance behavior. The discussion reveals that expanding the reach of taxation to underrepresented sectors like agriculture and informal services, while strengthening the link between tax revenues and public services, is essential for long-term fiscal sustainability. By analyzing both theoretical foundations and empirical evidence, the article concludes that efficient tax systems must focus not only on revenue maximization but also on simplicity, equity, and public trust to ensure inclusive and sustainable economic development.

**Keywords:** tax revenue, economic efficiency, fiscal policy, informal economy, public finance, tax base, tax compliance, digital taxation, Uzbekistan, public spending efficiency.

**Аннотация:** В данной статье исследуется сложная взаимосвязь между налоговыми поступлениями и экономической эффективностью на примере Узбекистана в более широком глобальном контексте. Подчеркивается, что, хотя налогообложение является основополагающим инструментом государственных финансов, структура, прозрачность и качество администрирования налоговой системы существенно влияют на её экономические результаты. Опираясь на классические и современные теории государственных финансов, а также на последние данные ОЭСР и Всемирного банка, в исследовании рассматривается, как расширение налоговой базы, минимизация искажений и улучшение добровольного соблюдения налогового законодательства могут повысить как формирование



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доходов, так и эффективность распределения. Недавние фискальные реформы в Узбекистане, такие как цифровизация налоговых услуг, упрощение налогового законодательства и внедрение онлайн-систем, привели к заметному улучшению собираемости налогов, увеличившись на 18,4% в период с 2021 по 2023 год. Однако сохраняются и другие проблемы, включая большой неформальный сектор, отраслевой дисбаланс в налоговых отчислениях и региональные различия в соблюдении налогового законодательства. В ходе обсуждения было выявлено, что расширение охвата налогообложением таких недостаточно представленных секторов, как сельское хозяйство и неформальный сектор услуг, при одновременном укреплении связи между налоговыми поступлениями и государственными услугами, имеет решающее значение для долгосрочной фискальной устойчивости. Анализируя как теоретические основы, так и эмпирические данные, авторы статьи приходят к выводу, что эффективные налоговые системы должны быть ориентированы не только на максимизацию доходов, но и на простоту, справедливость и общественное доверие для обеспечения инклюзивного и устойчивого экономического развития.

**Ключевые слова:** налоговые поступления, экономическая эффективность, фискальная политика, неформальная экономика, государственные финансы, налоговая база, соблюдение налогового законодательства, цифровое налогообложение, Узбекистан, эффективность государственных расходов.

**Annotatsiya:** Ushbu maqola soliq tushumlari va iqtisodiy ko'rsatkichlar o'rtasidagi murakkab bog'liqlikni O'zbekiston misolidan foydalanib va uni kengroq global kontekstga joylashtirish orqali o'rganadi. Unda ta'kidlanishicha, soliqqa tortish davlat moliyasining asosiy vositasi bo'lsa-da, soliq tizimining dizayni, shaffofligi va boshqaruv sifati uning iqtisodiy ko'rsatkichlariga sezilarli ta'sir ko'rsatadi. Klassik va zamonaviy davlat moliyasi nazariyalariga, shuningdek, OECD va Jahon bankining so'nggi dalillariga tayangan holda tadqiqot soliq bazasini kengaytirish, buzilishlarni minimallashtirish va ixtiyoriy rioya qilishni yaxshilash daromadlarni shakllantirish va taqsimlash samaradorligini qanday oshirishi mumkinligini o'rganadi. O‘zbekistonda soliq xizmatlarini raqamlashtirish, soliq qonunchiligini soddalashtirish va onlayn tizimlarni joriy etish kabi so‘nggi fiskal islohotlar 2021-2023 yillar oralig‘ida 18,4 foizga oshgan soliq yig‘ishning sezilarli yaxshilanishiga olib keldi. Biroq, boshqa muammolar, jumladan, yirik norasmiy sektor, tarmoqlararo nomutanosiblik, soliq to‘lovlaridagi tafovut va mintaqaviy soliq to‘lovlaridagi farqlar saqlanib qolmoqda. Muhokama shuni ko‘rsatdiki, qishloq xo‘jaligi va norasmiy xizmatlar kabi kam ta’minlangan tarmoqlarga soliq qamrovini kengaytirish, shu bilan birga soliq tushumlari va davlat xizmatlari



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o‘rtasidagi aloqani mustahkamlash uzoq muddatli fiskal barqarorlik uchun muhim ahamiyatga ega. Ham nazariy asoslarni, ham empirik dalillarni tahlil qilib, mualliflar samarali soliq tizimlari nafaqat daromadlarni maksimal darajada oshirishga, balki iqtisodiy rivojlanishning inklyuziv va barqaror rivojlanishini ta’minlash uchun soddaligi, adolatliligi va xalq ishonchiga ham e’tibor qaratish lozim, degan xulosaga keladi.

**Kalit so'zlar:** soliq tushumlari, iqtisodiy samaradorlik, fiskal siyosat, norasmiy iqtisodiyot, davlat moliyasi, soliq bazasi, soliq qonunchiligi, raqamli soliqqa tortish, O'zbekiston, davlat xarajatlari samaradorligi.

**Introduction**

Tax revenues are the lifeblood of modern governments, serving as the primary source of funding for public goods, infrastructure development, social welfare, and long-term economic planning. The ability of a state to generate sufficient and sustainable tax income is not only a matter of fiscal policy but also a fundamental determinant of its economic efficiency and institutional capacity. Without adequate tax revenues, governments are limited in their ability to invest in human capital, maintain macroeconomic stability, and respond effectively to internal and external shocks.

Globally, countries vary widely in their tax-to-GDP ratios, which reflects both their economic structures and the efficiency of their tax systems. According to the OECD (2023), the average tax-to-GDP ratio among its member states is around 34.0%, while in many developing economies this figure remains below 20%. In Uzbekistan, for instance, the tax-to-GDP ratio was reported at 25.1% in 2022, showing moderate improvement compared to previous years, but still reflecting the need for reforms to widen the tax base and enhance revenue administration. The relationship between tax revenues and economic efficiency is complex and often contested. On one hand, a well-designed tax system can promote efficiency by minimizing distortions, encouraging productive investments, and ensuring fair income redistribution. On the other hand, excessive or poorly structured taxation can lead to tax evasion, capital flight, reduced labor incentives, and a larger informal sector. Therefore, striking the right balance between revenue generation and economic incentives is a persistent challenge for policymakers. Economists such as Arthur Laffer have long debated the “optimal” level of taxation, proposing that beyond a certain point, increasing tax rates actually reduce total revenues due to behavioral responses from taxpayers. Similarly, modern public finance theories emphasize the importance of equity, simplicity, and transparency in tax design to improve compliance and economic performance.



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In recent years, Uzbekistan has undertaken a series of ambitious tax reforms aimed at increasing transparency, digitalizing tax collection, simplifying procedures for small businesses, and shifting the burden from direct to indirect taxation. The introduction of an online tax reporting system (my.soliq.uz), reduction in the number of tax types, and unification of turnover tax are notable steps toward modernizing fiscal administration. As a result, State Tax Committee data (2023) shows that overall tax collection increased by 18.4% compared to 2021, with corporate tax, VAT, and personal income tax as the primary contributors. However, challenges remain: the informal economy still accounts for a significant share of total output, tax compliance is uneven across regions, and administrative capacity needs further strengthening. Moreover, the link between tax collection and efficient public spending is not always evident, which can undermine public trust and voluntary compliance. This article aims to analyze the interrelation between tax revenues and economic efficiency, with a focus on both theoretical foundations and empirical evidence from Uzbekistan and international contexts. Special attention will be paid to tax structure, revenue productivity, compliance behavior, and the efficiency of public spending. By identifying best practices and bottlenecks, the study seeks to offer policy recommendations that support sustainable revenue mobilization while fostering economic efficiency and social equity.

**Literature Review.** The relationship between tax revenues and economic efficiency has been a central topic in public finance for decades. Early classical economists, such as Adam Smith in The Wealth of Nations (1776), outlined the core principles of taxation: equity, certainty, convenience, and efficiency. These principles continue to inform modern tax policy design, particularly in the context of minimizing deadweight losses and ensuring fair distribution of the tax burden. Modern literature has built on these foundations. Arthur Laffer (1981) famously introduced the Laffer Curve, which posits that there exists an optimal tax rate that maximizes government revenue without discouraging productivity. As shown in Figure 1, both excessively low and excessively high tax rates can lead to reduced revenue, albeit through different mechanisms— lack of base versus behavioral avoidance

Beyond theoretical models, empirical studies offer evidence from various regions. According to OECD(2023) reports, countries with streamlined, transparent, and well-enforced tax systems not only mobilize more revenue but also achieve higher public trust and compliance. For instance, Scandinavian countries maintain high tax-to-GDP ratios (above 40%) while also exhibiting high levels of economic efficiency, welfare, and public service quality. In contrast, many developing economies, including those in Central Asia, face challenges related to



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low tax morale, widespread informality, and administrative inefficiencies. Bird and Zolt (2005) argue that tax policy in low-income countries should prioritize administrative feasibility and broad-based consumption taxes over complex direct taxation, which is more prone to evasion and corruption. Studies focused on transition economies, such as those by Tanzi and Zee (2000), emphasize the critical need for simplifying tax codes and strengthening institutions. They also note that tax incentives, if not properly designed, often erode the tax base and create inefficiencies rather than stimulate investment. In the Uzbek context, tax reforms since 2018 have been directed at improving revenue collection without overburdening small businesses and individual entrepreneurs. Karimova (2022) points out that digitalization of tax services (such as My.Soliq.uz) has improved compliance rates and transparency. Meanwhile, the World Bank's Uzbekistan Public Expenditure Review (2021) finds that while tax revenues have increased, the economic efficiency of public spending remains uneven, especially in infrastructure and regional development programs. To illustrate regional differences, the diagram below shows tax revenue collection by sector in Uzbekistan (2023): Figure 2. Tax Revenue by Sector in Uzbekistan, 2023\

| Sektor | Share (%) |
|---|---|
| Industry | 34.2 |
| Services | 28.5 |
| Construction | 14.8 |
| Agriculture | 7.1 |
| Other (transport,etc. ) | 15.4 |

This data highlights that tax revenue is heavily dependent on a few high-performing sectors, while agriculture and informal services remain underrepresented in the tax base. In conclusion, literature suggests that economic efficiency in taxation requires not only smart rate-setting but also effective enforcement, fairness, administrative simplicity, and productive allocation of tax funds. For countries like Uzbekistan, aligning tax policy with economic development goals— such as digital transformation, industrial growth, and regional equity—will be key to maximizing the dual objective of revenue generation and efficiency. Discussion. The interplay between tax revenues and economic efficiency presents a fundamental challenge for policymakers in both developed and developing economies. While taxation is essential for funding public services and ensuring macroeconomic stability, excessive or poorly structured taxes can hinder investment, reduce productivity, and fuel the growth of informal economies. Thus, the goal is not merely to increase tax revenues, but to do so in a way that minimizes distortions and maximizes allocative efficiency. In the case of



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Uzbekistan, recent reforms have shown promising results. As noted earlier, the country has experienced an 18.4% increase in total tax revenue between 2021 and 2023, largely attributed to digitalization of tax services, simplification of the tax structure, and improved compliance efforts. The pie chart in Figure 2 illustrated that the industrial and service sectors contribute more than 62% of total tax revenue, indicating a relatively narrow tax base concentrated in a few sectors. This raises concerns about long-term stability and fairness, especially as agriculture and small informal enterprises remain under-taxed or unregistered. One of the key drivers of economic efficiency in taxation is broadening the tax base while keeping rates moderate. A broad tax base allows for lower marginal tax rates, which in turn reduces disincentives to work, invest, or innovate. According to Tanzi and Zee (2000), developing countries often rely too heavily on a few large taxpayers or foreign investors, which exposes them to external shocks and revenue volatility. Uzbekistan is no exception—its dependence on industry and large service firms makes the system vulnerable to sector-specific downturns. Another aspect influencing efficiency is compliance behavior, which is closely tied to public trust in institutions. When taxpayers believe that taxes are fairly assessed and efficiently spent, voluntary compliance tends to rise. However, if citizens perceive public services as poor or tax systems as corrupt, evasion becomes widespread. In this context, Uzbekistan's move to online platforms like my.soliq.uz is a significant step forward, promoting transparency and reducing opportunities for informal payments. Yet, awareness campaigns and taxpayer education remain limited, especially in rural areas. Furthermore, the informal sector, which comprises nearly 45% of Uzbekistan's economy, represents a dual problem: it limits the tax base and undermines formal sector competitiveness. Informal businesses can undercut formal enterprises on price by avoiding taxes and regulations. To address this, tax incentives for formalization, such as simplified reporting, lower entry-level rates, and access to credit, can be instrumental. From an international perspective, countries with successful tax systems balance equity and efficiency through strategies like:

- reducing reliance on corporate income taxes (which are highly mobile),
- expanding value-added tax (VAT) with exemptions for basic goods,
- introducing environmental or digital services taxes that reflect modern economic activities. For instance, Chile has effectively used VAT to support long-term infrastructure development, while Estonia is widely recognized for its efficient and transparent e-taxation system. Scandinavian countries maintain high tax rates but enjoy strong public trust due to quality public services and redistribution mechanisms. In Uzbekistan's context, there is also a need to ensure that tax



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revenues translate into visible public benefits, such as infrastructure, healthcare, education, and digital public services. The current gap between tax collection and spending efficiency weakens trust and limits the system's effectiveness. According to the World Bank (2021), the country still lacks robust public financial management systems to monitor the cost-effectiveness of its expenditures. In conclusion, while Uzbekistan's tax reforms have laid the foundation for better revenue mobilization, achieving true economic efficiency requires:

- expanding the tax base across all sectors,
- simplifying compliance for small businesses,
- enhancing administrative transparency,
- andimproving the efficiency of public spending. A well-calibrated tax system can not only support sustainable development but also foster economic inclusiveness, innovation, and long-term stability.

**Conclusion.** This study examined the complex relationship between tax revenues and economic efficiency, with a focus on Uzbekistan's evolving fiscal landscape. It found that while recent reforms—particularly digitalization, simplification, and better compliance mechanisms—have led to increased tax collection, deeper structural issues still limit overall efficiency. The persistence of a large informal economy, uneven tax contributions across sectors, and gaps in tax compliance behavior suggest that more comprehensive and inclusive policies are needed. To improve economic efficiency, Uzbekistan must continue to broaden its tax base by encouraging formalization of businesses, simplifying compliance procedures for small enterprises, and improving access to taxpayer education. Moreover, strengthening the institutional capacity of the tax administration and linking tax collection to visible improvements in public services will be essential to boost taxpayer trust and voluntary compliance. International experience also shows that transparent, equitable, and simple tax systems are not only more efficient but also more resilient. Uzbekistan can benefit from best practices such as digital service taxation, targeted VAT exemptions, and performance-based public spending. Ultimately, a well-calibrated tax policy aligned with national development goals can serve as a powerful instrument for inclusive growth, macroeconomic stability, and long-term prosperity.

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