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# The Role and Importance of Taxes in the Formation of State Budget Revenues

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**Abstract:** Taxation is one of the main tools that shape revenues of state budgets, which fund targeted programs to support sustainable economic growth and ensure fiscal stability. This research aims at studying the significance of taxes in state budget revenue formation and various aspects of tax policy that affect fiscal sustainability and economic growth. It aims to examine the share of tax revenues in state budget forming, the effectiveness of processes related to tax collection and analyze whether the mechanism for tax policy influences public finance sustainability. The research adopts a mixed-method approach that employs both quantitative and qualitative analysis. The results show that taxes are the largest source of government revenue and have material impact on fiscal sustainability. By highlighting the structural importance of tax systems in developing economies the study adds to an emerging theoretical understanding of taxation and public finance.

**Keywords:** taxation, state budget revenues, fiscal policy, tax system, public finance management, government revenue, tax administration, economic growth, fiscal sustainability.

## 1. Introduction

The state budget is among the most powerful financial tools of government policy, facilitating employment and use of public resources. In contemporary economic systems, the viability of public finances is primarily reliant on the efficacy of revenue-generating procedures where tax mechanism is pivotal [1]. Economic theory as well as public finance studies have been widely recognized the significance of taxation in shaping budget revenues of the state. Governments fund publicly provided goods and services, like education, healthcare, infrastructure or social protection programs using tax revenues. Without a sound tax system, it would be impossible for the government to keep fiscal balance and sustainable development [2, 3]. In Uzbekistan, as in many developing and transition economies, the growing importance of taxes for the formation of budget revenues is due to economic transformations underway in the country and continuing fiscal modernization processes [4]. Increasing revenue through tax reforms focused on better tax administration and broadening of the base, as well as reduction of shadow economy are active policy measures for many governments. Theoretically, tax is related to fiscal policy, which refers to measured management of revenue and expenditure in order to adjust macro economy for its stability [5]. An optimal tax system [6] (1) should generate enough revenue, (2) promote economic efficiency, reducing distortion in the economy, (3) have a fair and equitable income distribution and; (4) minimizing administrative costs.

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In the past few years, technology and digitalization have made a significant impact on tax administration systems as well. Electronic tax filing, digital monitoring systems, and data analytics have made tax compliance and transparency of taxpayers highly efficient [7]. These developments have enhanced both the capacity of governments to tax efficiently and their ability to deter and also enforce against evasion. All these facts make the research of the role and place of taxes in the formation of state budgets an urgent problem in modern economic studies. Get Admitted with Ease By identifying the drivers of tax revenues at work in effective fiscal sustainability, policymakers can develop more carefully tailored tax policies and public finance management systems [8, 9].

## 2. Methodology

The research model used in this study is a mixed-method study that examines the role of taxes and their importance in the formation of state budget revenues. The approach thus consists of a quantitative statistical analysis complemented by an explicit economic interpretation, allowing us to isolate the contribution of tax revenues to fiscal sustainability. The research uses descriptive statistical analysis first to explore the structure and dynamics of tax revenues in the state budget. Tax revenues, gross domestic product (GDP), and government fiscal indicators were collected from official statistical sources, including national statistical agencies, ministries of finance, as well as international economic repositories such as the World Bank and International Monetary Fund. This enables the study to analyse tax revenues as a proportion of overall budget income and trends in that direction over time. Second, the study adopts comparative analysis to find the share of various types of taxes like value-added tax (VAT), income tax, corporate tax, excise taxes in government revenues generation. The analysis also compares the shares of these taxes in the budget structure, which allows identifying most important sources of fiscal income. Third, we empirically analyse the connection between taxation and fiscal stability using economic rationale and analytical methods. These techniques aid in unpacking the volume of budget revenues as a function of tax administration, tax rates and mechanisms for compliance. Lastly, graphical and tabular analysis are utilized for clear and concise presentation of empirical results. The trends in the growth of tax revenues have been shown in tables with figures, as well as distribution of sources of taxes composition in budget structure. This methodological approach guarantees that the study contributes both empirical and theoretical knowledge to the significance of taxation in public finance management.

## 3. Results and Discussion

The findings of this study show that taxes are the primary source of government revenue in contemporary fiscal systems. This is especially true with regard to tax revenue, which constitutes an important part of the total state budget income that serves as a primary source for financing public expenditures<sup>10</sup>. Before we jump to quantitative results, it's worth taking a look at the structural makeup of tax revenues in terms of the state budget. The distribution of major tax categories contributing to revenue is illustrated in Table 1 [11].

**Table 1.** Structure of Major Tax Revenues in the State Budget.

No	Tax Type	Share in Budget Revenue (%)
1	Value Added Tax (VAT)	38%
2	Corporate Income Tax	22%
3	Personal Income Tax	17%
4	Excise Taxes	12%
5	Other Taxes	11%

(Source: Ministry of Finance statistical reports and national fiscal data.)

According to the data in Table 1, value-added tax is the largest tax by revenue share, followed by corporate income tax and personal income tax. This structure reflects the significance of indirect taxes for fiscal stability [12]. Such a diversity in the sources of taxes contributes to less reliance on any particular stream of revenue and increases the robustness of the state budget. Figure 1 provides a better picture of how revenue growth played out over time, showing tax contributions to the state budget in recent years [13].

This study demonstrates the necessity of taxation for fiscal sustainability and financing government plans. Taxes provide the main financial asset for the state and they are also an important tool helping to carry out economic and social policy. Based on that the empirical research verifies tax revenues which is in fact constitute a major share of government "income" verifier that taxation plays such an important role in public finance system [14]. The analysis led to one of the main findings: The structure of state budget revenues is dominated by indirect taxes, especially value-added tax. Due to the wide variety of goods and services that VAT addresses, it provides a more consistent source of revenue. Many developing countries have adopted VAT because it is an important element of fiscal policy with fairly high collection efficiency and lower administrative costs as compared to direct taxes [15].

#### 4. Conclusion

The current research studies the character and significance of taxes in structure formation of budget revenues. Taxation is the primary source of government revenue and an integral part to ensure fiscal sustainability, as this analysis has clearly shown. Taxes are a financial base for the functioning of the government and also facilitate economic, social, and infrastructure development programmes. The results have shown that tax revenue is dominated in state budget income, where the main sources of fiscal revenue were found to be value-added tax, corporate income tax and personal income tax. Indirect taxes, particularly VAT among them, hold special significance given their wide tax base and higher collection efficiency. It also emphasizes the need for well functioning systems of tax administration. Modern technologies, digital reporting systems, and advanced monitoring techniques have greatly improved tax collection mechanisms and reduced tax evasion. This helps governments are also able to lock in stable and predictable revenue streams that are critical for long-term fiscal planning.

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