



## Issues of Improving the Mechanisms of Taxation of Land Plots and Property of Individuals in Uzbekistan

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### ABSTRACT

This article is devoted to the analysis of the ongoing reforms in the area of taxation of land and property of individuals. In addition, the article studies peculiarities of the tax system of land and property based on the market value, as well as foundations for the introduction of real estate tax in practice. Moreover, the article provides overview of research considerations of leading economists regarding this issue. On the basis of statistical analysis, relevant conclusions and recommendations have been developed to improve the mechanism of taxation of land and property of individuals.

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### Introduction

Currently the most urgent issues are to further improve taxation of land and property belonging to citizens, introduce contemporary sophisticated methods of their assessment and accounting, enhance efficiency of land and property use, as well as further increase the independence of local public administration authorities.

The biggest reform conducted in the tax policy, which has been started this year, will be concerning the land tax. So far, amendments have been made in the relationship between the profit tax, the value added tax, and transfer prices, but no major reforms have yet been made in relation to the tax on use of water resources, land, and subsoil resources. The first of the expected changes will be related to the land and

property.

In this regard, the Decree of the President of the Republic of Uzbekistan on further improvement of resource taxes and property tax was adopted, and on the basis of this document the following criteria have been established[1]:

1. Kengashes (Councils) of people's deputies of districts and cities have the right to introduce decreasing and increasing coefficients in the amount of 0.7 to 3.0 to the rates of land tax for non-agricultural land established by the Jokargy Kenes of the Republic of Karakalpakstan and Kengashes (councils) of people's deputies of regions, and in Tashkent city - to the rates, determined by the Tax Code, in the context of the living block, massif, makhalla, streets located within their territory;
2. the amount of land tax levied on individuals (excluding individual entrepreneurs) must not exceed the amount of tax accrued in 2020 by more than 1.3 times;
3. the amount of tax on property of individuals calculated on the basis of the cadastral value determined in 2018 cannot exceed the amount of tax accrued for 2020 by more than 1.3 times;
4. it should be determined, that the implementation of the mechanism for calculating property tax and land tax based on the cadastral value, close to the market value of the real estate, is carried out in two stages:
  - 4.1. at the first stage (2021 - 2023) - for real estate objects of the housing stock (apartments, individual houses, country houses), as well as land plots occupied by these facilities;
  - 4.2. at the second stage (2022 - 2024) - for individual non-residential real estate objects, as well as land plots occupied by these facilities.
5. conducting in 2021-2022 an experiment to determine the cadastral value of real estate property based on market value, depending on the use of land plots and the purpose of capital construction in the following "pilot" regions of the republic:
  - 5.1. residential and non-residential (commercial) real estate facilities - Mirzo-Ulugbek district of Tashkent city;
  - 5.2. industrial facilities - Navoi city of Navoi region;
  - 5.3. recreational zones and facilities of specially protected areas - Bostanlyk district of Tashkent region;
  - 5.4. agricultural facilities - Romitan district of Bukhara region.

Initially, the property and land taxes in these areas will be brought closer to the market value. Currently, people living in Tashkent and Bukhara pay taxes at the same tax rate, but the value of the taxable object is different. For example, if a person's residential building in Romitan is adjusted in compliance with the market value, the difference constitutes 1.5-2 times, while in Tashkent it can be several times different. This means that people in Tashkent pay less for their housing than in the market, while the residents of Romitan pay more.

This year, more particular attention will be paid to this reform, and the market price of property will change dramatically. For example, the better the infrastructure is, the more expensive the house becomes. When prices go up, the government spends on infrastructure, and when costs increase, it comes back through the tax base. The more money is invested in that infrastructure, the wider the tax base appears.

For example, a person who owns a three-story house has to the tax in the amount of three times more.

The main aim here is to reach the market value.

If an apartment or a yard of some individuals is expensive, while the property of others is cheaper, there should be a fair difference in the payment of taxes. It should be noted, that a stable system will be created in reliance upon a market value.

In our opinion, it is recommended to implement these reforms gradually. This practice makes an impact on about 6.5-7 million taxpayers. Therefore, it is necessary to arrange proper preliminary activities and implement them through the communication with the population.

The advantage of switching to a property tax and a land tax based on a cadastral value close to the market value is a fair distribution of the tax burden among taxpayers.

The responsibilities on assessment of the real estate facilities owned by each owner (user) based on market prices in terms of quality, improving the information system to create a complete and reliable database of real estate, development of a methodology for determining the cadastral value of real estate based on market prices by January 1, 2022 are assigned to the Cadastre Agency under the State Tax Committee of the Republic of Uzbekistan.

It is important to identify and eliminate problems in the timely receipt and collection of local taxes and charges to the local budget. Definitely, a number of measures have been undertaken up to present time. However, despite the measures undertaken, there are a number of shortcomings in the mechanism of timely collection and imposing of local taxes and charges to the local budget. Eliminating the shortcomings in due time and ensuring timely execution of the local budget will ultimately serve to enhance the economic stability of the province or district.

### **Literature review.**

The issues of the theoretical and legal foundations of formation of local budget revenues, strengthening of local budget revenues and expansion of revenue sources, improving the methodology of planning and forecasting budget revenues in the medium term, raising local budget revenues by improving the mechanism of calculation of local taxes, simplification of the tax system and raising the transparency of tax administration have been reflected in the research papers of foreign and domestic scholars-economists.

It is known that the state budget revenues consist of state and local taxes and other revenues. The bulk of local budget revenues come from property and land taxes levied on individuals. The importance and specifics of local taxes (land and property taxes) levied on individuals in the formation of the local budget and its revenue side have been interpreted differently by various economists.

Professors M.V. Romanovsky, O.V. Vrublevskaya and B.M. Sabanti gave the following definition of the essence of budget revenues: “budget revenues are non-renewable and non-refundable funds at the disposal of state authorities and local public administration authorities bodies in accordance with the current budget and tax legislation of the country” [2].

In the opinion of the economist G.Kosimova [3], “Local budgets constitute an important component of the national budget and are the financial basis for the activities of local governments. The activity of local budgets enables to fully meet local needs and is closely linked with the implementation of measures undertaken by the state in a centralized manner. As local budgets are the main source of overcoming socio-economic problems in the regions and the economic basis for the activities of local governments, it is crucially important to ensure the efficiency of fiscal policy by finding additional sources of funding and ensuring efficient use of available funds. Strengthening the revenue base is

considered a factor in ensuring the sustainability of local budgets”.

Territorial authorities (transfers, the share of tax revenues that remain in the region or local taxes) require availability of their own source of funding. Governments in developed countries usually try to limit the share of tax revenues for local governments and the amount of revenue that regions have. At the same time, it maintains the right to set local tax rates or their tax base. In the case of “small” taxes (other than property taxes), which are left at the disposal of local governments, they make up a very small part of the income of local governments. The indicator accounts for 6% in Hungary, 9% in Estonia and approximately 15% in Uzbekistan [4].

In some countries, local governments have the power to collect and spend taxes according to criteria set within their territories. In Russia, for example, local governments are fiscal federal by their nature and have broad financial autonomy. The share of local government in total public expenditure varies from country to country. This figure constitutes 15 percent in Croatia, 50 percent in Russia and 58 percent in Uzbekistan

Classical scholars W. Petty, J.B. Say, and British economists D. Ricardo and J. Millar believed that the economy could be efficient and self-governing. They believe that demand creates supply, that if there are more producers, they will switch to scarce industries, and that taxes will only play a role as a source of budget revenue[5].

The development of a reasonable direction of fiscal policy and ensuring its efficient implementation first of all, depends on accurate and qualitative forecasting of budget revenues and effective expenditure planning. In this regard it would be expedient to study the following points of view:

According to the Russian economist Professor A.V. Bryzgalin, the calculation and collection of local taxes should be based on the general principles of the methodology [6]. The introduction of new local taxes by local government deputies without legal and economic justification can directly result in the increased production, entrepreneurship activity and the tax burden for taxpayers.

In particular, the professor B.Toshmurodova thinks, that “despite the reduction of tax rates, increase the value of the tax base by raising the number of objects included in the tax base and revaluing the property, annual indexation of land tax rates (at a high rate relative to inflation) are one of the ways to ensure the positive impact of taxes on economic development and to eliminate the policy of artificially expanding the tax base through the introduction of taxes on the object of taxation” [7].

Professor I.Niyazmetov [8] in his research paper devoted to the problems of ensuring the stability of the tax system by improving taxation mechanisms has developed the following conclusions:

- property taxes are considered another gap in the tax system. In international practice, property taxes play an important role in local budget revenues, but in Uzbekistan fiscal significance of such taxes is very low. The administration of these taxes is also very inefficient. In particular, the sharp differences in the property tax mechanism for legal entities and individuals have made this tax ineffective;
- introducing a real estate tax that applies equally to legal entities and individuals is required for improving the mechanism of property taxation, including the determination of the value of property on the basis of market mechanisms. The scholar supposes that in order to ensure the flexibility of the real estate tax mechanism and vertical social justice, it is necessary to introduce progressive rates of this tax and set the amount of “non-taxable value”.

In the opinion of the economist J.Yesmurzayev [9], expressed in the research paper aimed at improving

the mechanism of collection of local taxes and levies in the context of economic liberalization, the rate of property tax of individuals is applied to the re-estimated value by the public authorities, which are carrying out technical inventory of residential housing and other buildings. However, the determined property value of individuals is significantly different from their market value. It was noted that local authorities should develop coefficients to increase the value of property in relation to taxpayers located within their territory, and these rates should be taken into account when taxing.

In the research work by the scholar-economist B. Abibullayev [10], the problem of raising the role of local taxes in the formation of budget revenues in the country is not only to increase their share in the formation of budget revenues, but also to improve the mechanism of collection of local taxes. In this regard:

- it is recommended to ensure a complete determination of the inventory value of property belonging to all individuals and, accordingly, to put an end to the practice of using the “conditional value of property” in their taxation;
- there is the need to achieve a continuous re-estimation of the value of property of individuals in line with inflation and to determine their real market value.

The economist U. Pardayev [11] in his researches proposes to transfer the proceeds gained from personal income tax from the structure of general state taxes in the republican budget to the structure of appropriate revenues of the local budget. In addition, the state budget regulates the differences between the value of property (housing) of individuals in the cadastral documents and the market price, as well as in determining the forecast of property tax revenues based on the inventory value of property, setting the amount not less than the established norms and improving the methodology of tax calculation based on this normative value.

The lack of a clear methodology for determining the contingent amounts to be applied in the absence of property inventory value makes a negative impact on the accurate forecasting of tax receipts and stability of tax revenues. From the theoretical point of view it has been proven, that in order to overcome this problem, it is necessary to introduce minimum standards of property value and the practice of annual reconsideration of the conditional value in the absence of housing value in proportion to the value of the property formed on the basis of supply and demand in the market.

The economist A. Suvanov [12] in his research work on improving the efficiency of local budget execution has formulated the following scientific and practical conclusions:

- with the aim of expanding the revenue base and enhancing sustainability of local budgets, it is advisable to reduce as much as possible incentives (privileges) on property, land and resource taxes, and to retain only social benefits;
- another important source of revenue for local budgets is the proposed long-term attachment of personal income tax to local budgets.

From the statements specified above, it is obvious, that raising the level of self-financing of the regions, the role of public administration and local government in the formation of local budget revenues and expenditures, enhancing independence and responsibility, increasing the revenue base of local budgets, as well as improving property taxation are considered the issues of the top priority.

The President of the Republic of Uzbekistan Sh. Mirziyoyev, speaking about urgency of the formation of local budget revenues in the country, has noted, that “The third problem is the lack of funds from local budgets to finance sustainable socio-economic development of the regions” [13].

The introduction of a real estate tax to increase local budget revenues and simplify taxation has also been admitted by a number of scholars. In particular, Yu.D. Shmelyova and R.I.Margulis [14] have noted that the taxation of residential real estate belonging to legal entities and individuals can cause many problems, as well as the introduction of a single real estate tax. In addition, he has emphasized, that the main issue in its introduction is to determine its taxable base and set the tax rate.

Moreover, economists of the Russian Federation I.V. Gorsky and M.Yu. Beryozin [15] have noted that the introduction of a single real estate tax in practice should be based on caution and careful comprehensive calculations.

According to the Professor B. Kh. Aliyev and Kh.M.Musayeva [16], it is necessary to combine property and land taxes and gradually move to a single real estate tax within several years when citizens begin to register their property as a single tax object. The authors point out that there are a number of issues that need to be solved when introducing a real estate tax.

- determining the object of taxation and the tax base at market prices;
- introducing the state real estate cadastre;
- organizing real estate registration and cadastral activities;
- incomplete information on the real estate;
- taxation of real estate and its setting its value in the process of applying the tax rate;
- requiring financial expenditure to revalue the real estate;
- citizens are unwilling to pay real estate taxes and may become tax debtors as a result of the increased tax burden;
- unavailability of the cadastral system in the country and the lack of real estate appraisers, as well as the lack of qualified professionals;
- problems with the cadastral authorities, such as the lack of statutory acts on the valuation of real estate at market prices and the lack of a unified methodology for valuation.

The Professor B.Kh. Aliyev admits that the introduction of real estate tax will result in many advantages:

- as a result of the reduction in the number of property taxes, taxation will be simplified and unified;
- expenses related to imposing of local taxes will reduce and tax collection will increase;
- the tax base of local budget revenues will expand and the efficiency of tax administration will increase;
- local budget revenues will increase and expenditure transparency will be ensured;
- the purchase of real estate by wealthy people and the reduction in demand for real estate will cause a decrease in prices for housing.

B. Kh. Aliyev [17] thinks that in order to improve the tax culture and accountability of taxpayers, non-registration of real estate in due time and the legal liability of property owners who evade taxes (administrative and criminal cases) should be included as well.

Drojgina I.A., one of the Russian scientists in her research, has proposed introduction of a real estate tax, combining a property tax of legal entities, a property tax of individuals and a land tax [18].

The economist Mikhina Ye.V. has analyzed the impact of introducing real estate tax on the local budget revenue base and has developed relevant recommendations [19].

In the opinion of the researcher Loginova T.A., introduction of real estate and its implementation should take into account social layers of the population [20].

The economist-scholar I.M.Niyazmetov [8] has worked out the proposal that in order to expand financial capacity of local budgets in Uzbekistan, to formulate their regular and reliable tax base, to raise efficiency of tax administration and to further simplify the general tax regime it is recommended to gradually shift to the real estate tax by unifying a property tax and a land tax.

In our opinion, the real estate tax should be gradually introduced in Uzbekistan. To do this, it is necessary to calculate the amount closer to the market value of the cadastral value of the property and experimentally test it on the example of a particular district or city.

### Research methodology.

The methods of logical observation, critical study of the literature, analysis and synthesis, induction and deduction, comparison, classification on the basis of certain characteristics, economic analysis have been widely applied in the processing of data obtained during the research.

### Analysis and Discussion.

In 2020 the property tax rates for individuals were indexed at 1.15 times. This is justified by the fact that the right for real estate of objects of taxation for individuals is maintained at the amount of cadastral value determined by the state registration authority in 2018 (Table 1).

**Table 1**

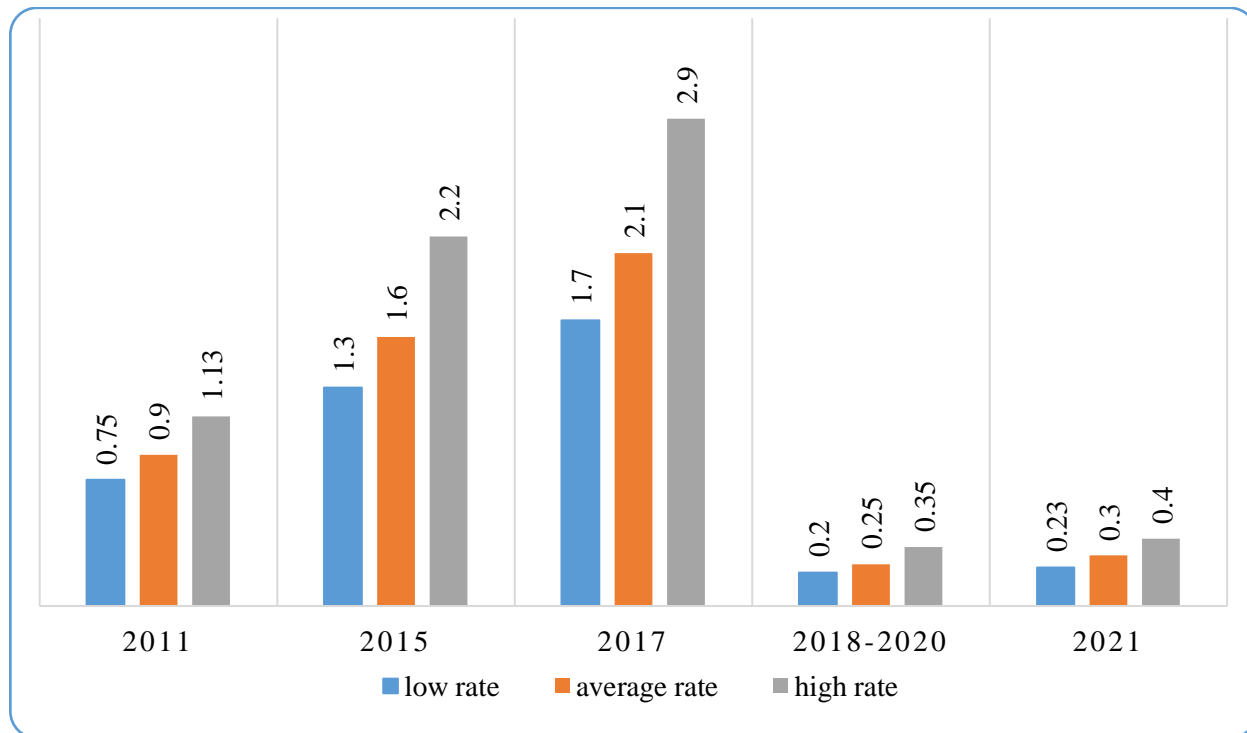
**Comparative rates of the property tax paid by individuals in 2020-2021 [22]**

№	Names of objects subject to taxation	Tax rate in relation to the cadastral value of the property, in %	
		2020	2021
1.	Houses and apartments, country houses (except for those with a total area of over 200 square meters), car parks, as well as other buildings, structures and constructions that constitute an integral part to apartment buildings	0,2	0,23
2.	Houses and apartments located in cities, total area:		
	With the area from 200sq.m up to 500 sq.m.	0,25	0,3
	With the area of 500 sq.m.	0,35	0,4
3.	Houses and apartments, country houses with a total area of more than 200 sq.m., located in other settlements	0,25	0,3
4.	Objects of taxation used by a legal entity or an individual entrepreneur for business activities or leasing, as well as real estate facilities intended for the entrepreneurial activity or getting income, but not designed for residential purposes	2	2

The tax base is the cadastral value of taxable items determined by the state registration of rights for the real estate facilities. With the aim of calculating the tax, a tax base should not be less than **42 mln. UZS**.

In the absence of the value of the object of taxation determined by the competent authority for evaluating the property of individuals, the conditional value of the property in Tashkent and Nukus cities, as well as in regional centers in the amount of **210 mln. UZS**, and in other cities and rural areas in the amount of **84 mln. UZS** are considered the tax base.

In 2021, the amount of tax calculated on the basis of the cadastral value set for 2018 for individuals cannot be increased by more than **30 percent** compared to the amount of tax calculated in 2020.



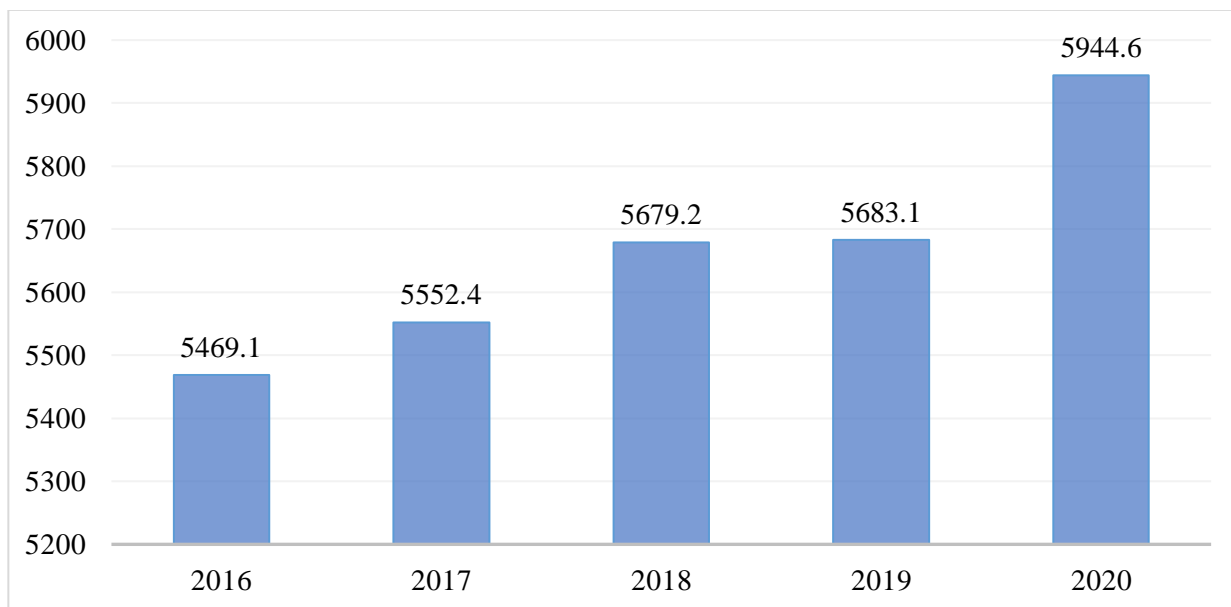
**Figure 1. Tendency of changing the rate of the property tax levied from individuals (in %) [22].**

It should be noted, that calculation of the tax is based on the inventory value of the property tax base used until 2018, according to the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan № 1043 dated December 30, 2017 [21], starting from 2018, the tax rate will be applied to the cadastral value of real estate and housing owned by individuals for tax purposes. As a result, the tax rate is gradually indexed to adjust the value of real estate in compliance with the market value (Figure 1). We believe that the continuation of these measures will help citizens to use their property more efficiently.

Individuals who own land plots on the basis of property rights, possession rights, right of use or lease rights, as well as farms established or not established in the form of a legal entity, are considered payers of the land tax of individuals.

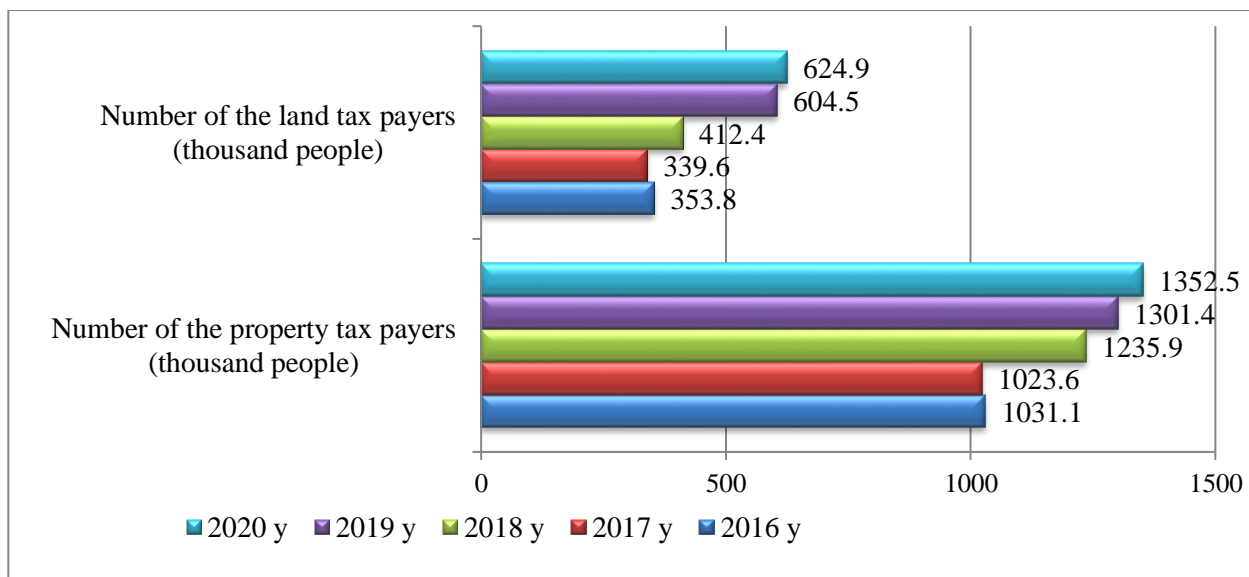
Our next task is to analyze how the number of taxpayers of the property and land tax changes over the years.





**Figure 2. Information on the individuals - taxpayers of the property tax and land tax in the republic at the same time [22]**

Analyzing the data in Figure 2, it is obvious, that the total number of individuals registered as property and land tax payers in 2015 constituted 5402.4 thousand people, and as of 2020 this indicator amounted to 5944.6 thousand people. This is an increase by 542.2 thousand people compared to 2015 and an increase of 261.5 thousand people or 4.5 percent compared to the same period of the last year.

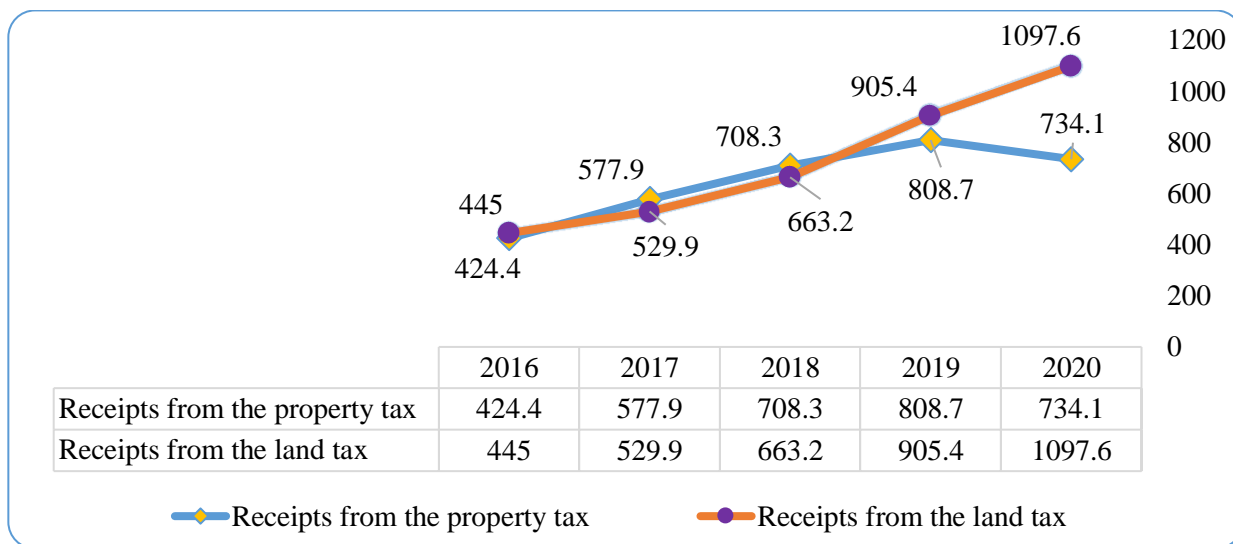


**Figure 3. Dynamics of changes in the number of individuals- payers of property and land taxes separately [22]**

Analyzing the data presented in Figure 3 above, the number of individuals paying property tax in 2015 constituted 1026.1 thousand people, while in 2019 it accounted for 1301.4 thousand people and in 2020 this indicator amounted to 1352.5 thousand people, having increased by 326.4 thousand people compared to 2015.

In addition, the number of individuals paying the land tax in 2015 amounted to 362.1 thousand people, in 2019 this indicator constituted 604.5 thousand people, in 2020 - 624.9 thousand people, which implies an increase by 262.8 thousand people in relation 2015. This can be justified by the fact that the number of taxpayers in our country has increased as a result of the population growth. Moreover, the number of taxpayers in the last three years has been affected by the construction of apartment buildings and the allocation of land for housing. This has definitely resulted in the expansion of the tax base.

Our next task is to analyze the changes in revenues coming from property and land taxes paid by individuals over the years.



**Figure 4. Dynamics of change of the receipts coming from the property tax and the land tax paid by individuals (billion UZS) [22].**

From the data presented in Figure 4 above, it is obvious that the receipts coming from property tax paid by individuals in 2015 amounted to 278.8 billion UZS, and in 2019 this indicator constituted 708.3 billion UZS, which demonstrates three times increase (by 429.5 billion UZS) in 2015. In addition, receipts coming from the imposed on individuals in 2015 amounted to 267.1 billion UZS and in 2019 it increased by 396.1 billion UZS compared to 2015 and equaled to 663.2 billion UZS.

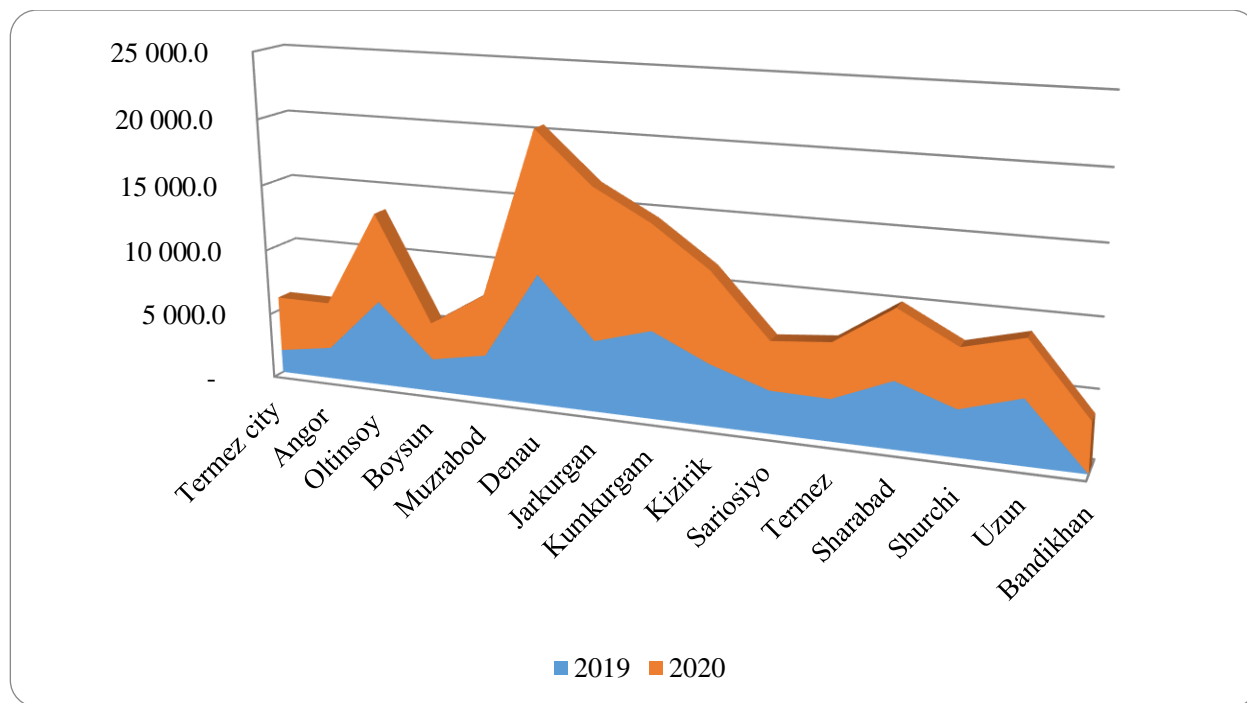
Each region of our country is unique. The possibilities for districts within each region are not the same. The President of Uzbekistan pays particular attention to the relevance and practical aspects of the scheduled measures. It should be noted, that taxes paid by taxpayers, including citizens, play a major role in improving the socio-economic situation in the country and ensuring the stability of budget revenues. Therefore, it is important to study the potential of the regions in the country, to analyze the structure of applicable taxes and to investigate existing problems, as well as to develop scientific proposals and recommendations.

In reliance upon the analysis of Surkhandarya region on the improving the practice of taxation of individuals, we have conducted scientific and practical research in all districts of the region. As a result, we have identified many problems in the application of the tax regime to individuals in Surkhandarya region, and have elaborated proposals and considerations on their solution.

1. In the districts it has been revealed that the local communities of citizens (makhalla) do not have financial independence and additional sources of income, and the tax arrears on local taxes (property and land taxes) are rather high.

**For reference:** Most of the local communities of citizens (makhalla) in the districts surveyed in the region do not have a building or structure with their own balance. In particular, 38 out of 98 local communities of citizens in Denau district, 19 out of 44 local communities of citizens in Uzun district, 19 out of 66 local communities of citizens in Jarkurgan district, 18 out of 66 local communities of citizens in Shurchi district, 5 out of 22 local communities of citizens in Bandikhan district, 17 out of 36 local communities of citizens in Angor district and 16 out of 61 local communities of citizens in Kumkurgan district are performing on the basis of rent.

The number of individuals, who have local tax arrears in the region, constitutes 293750, and the amount of tax arrears to be paid in 2020 accounts for 83627.9 million UZS or 21351.6 million UZS more (+ 34%) compared to 2019 (Figure 5).



**Figure 5. The situation with the tax arrears by local taxes paid by individuals in Surkhandarya region (million UZS) [23].**

Tax arrears tend to increase due to the physical inability to collect taxes in due time by the officers of the State Tax Service. There are 76 state tax offices in the region which collect local taxes (land and property taxes). There are 721 local communities of citizens in the region with 3 full-time staff members, for a total of 2163 people. The total number of local taxpayers accounts for 532744 people, with 7009 taxpayers per tax inspector collecting local taxes and 246 taxpayers per one employee of local community of citizens. Revenues coming from local taxes in the region amounted to 132.1 billion UZS and an average amount of 183.0 million UZS a year is distributed to each local community of citizens.

2. When studying the status of legal registration and taxation of land plots owned by the population, complaints against non-registration of cadastral documents for land plots owned by individuals, which have to pay three times of the amount determined by the tax authorities, have caused disagreements of the population and a sharp increase in tax arrears.

**For reference:** According to Article 437 of the Tax Code, the land tax is paid three times for non-

registration of cadastral documents of land plots owned by individuals. In the districts under analysis, in particular, in Shurchi district, the total number of land and property tax payers constituted 39710, out of which 14057 have formalized their cadastral documents, and even though the remaining 25653 objects have been included in the cadastral database, no cadastral document has been formalized by the citizens. In Kumkurgan district, the total number of land and property tax payers accounted for 46989, out of which 16375 have formalized their cadastral documents, and the remaining 30614 objects have been included in the cadastral database, no cadastral document has been formalized by the citizens.

Cadastral agencies, including 25653 economic entities in Shurchi district and 30614 economic entities in Kumkurgan district do not have enough staff and material and technical base to complete cadastral documents. There are similar cases in other districts of Surkhandarya region as well.

### **Conclusion and proposals:**

1. It should be noted that tax incentives provided by the government to business entities constitute the basis for the development of our economy. In this regard, the issues of their indemnifying, providing full coverage of their tax base, studying foreign experience of advanced countries in this area, as well as developing the directions for their application in the republic are considered of top priority for the public administration authorities.

2. Comprehensive introduction of cutting-edge ICT and advanced automated technique of analysis in the process of tax administration will make a positive impact on improving the mechanism of full accounting and calculation of objects of taxation on local taxes. This will decrease expenses, reduce the amount of time spent, prevent corruption, and achieve many other positive results.

3. Determining the cadastral value of real estate objects based on their market value, development of the methodology for quality assessment of real estate based on their market value will serve to implement the ongoing reforms.

4. It is required to further expand cooperation with the financial authorities, relevant ministries, agencies and departments, as well as local public administration authorities on tax issues, including through the identification of additional reserves to raise revenues of the national and local budgets.

5. Based on the considerations specified above, to apply advanced experience of the developed foreign countries to formulate the budget of the local communities of citizens (makhalla) due to local taxes and charge these local communities of citizens (makhalla) with the task of collecting local taxes.

6. Taking into consideration the fact that currently the population has been challenging the pandemic, with the aim of further improving their social protection it is recommended to extend the period of registration for economic entities that do not possess any cadastral document for minimum 3 years and not impose any penalties during this period. In this regard it is necessary to make relevant amendments in article 437 of the Tax Code of the Republic of Uzbekistan.

7. It is recommended to shift gradually to the real estate tax by expanding financial capacity of local budgets, formulating their regular and reliable tax base, raising efficiency, as well as of with the aim of simplifying taxation, to bring the value of real estate closer to market value by unifying property and land taxes through gradual indexation of the tax rate. In this regard it is advisable to make amendments and additions in the tax legislation on the implementation of the real estate tax in practice.

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