

THE ECONOMIC ESSENCE OF LAND TAX AND WAYS TO IMPROVE IT

Mauzerov Jaxongir Ulug'bek ugli

Tashkent State University of Economics

Deputy Dean for Academic Affairs,

Faculty of Taxes and Budget Accounting

Bahronova Umida Sanjar kizi

Student, Group ST-55/24

Taxation and Tax Administration Program

Abstract: This scientific article analyzes the economic essence of land tax, its role in forming state budget revenues, its importance in ensuring rational use of land resources, and issues of improving the tax mechanism. Additionally, foreign experience with land taxation is studied, and priority directions for reforming land tax in the Republic of Uzbekistan are substantiated.

Keywords: land tax, tax system, land resources, fiscal policy, tax base, cadastral value, local budget.

INTRODUCTION

In market economy conditions, the tax system is one of the important tools for implementing the state's economic policy. Land tax, in particular, has special significance as a stable revenue source for local budgets. Since land resources are limited and non-renewable wealth, encouraging their efficient use is one of the priority directions of state policy.

Through land tax, the state regulates ownership and use relations related to land, encourages rational use of land resources, and limits speculative land ownership. Therefore, in-depth study of the scientific foundations of land tax and its improvement has important theoretical and practical significance.

RESEARCH METHODOLOGY

This scientific research is aimed at revealing the economic essence of land tax, determining its role in forming budget revenues, and scientifically substantiating ways to improve the land tax mechanism. During the research process, theoretical and empirical research methods widely used in economic sciences were applied in a comprehensive manner.

The land tax system currently applied in the Republic of Uzbekistan was selected as the research object. The research subject is the complex of economic, financial, and legal relations that arise in the process of land tax collection.

In market economy conditions, the tax system plays an important role in ensuring state financial stability. Land tax, one of the main components of the tax system, has special significance from the perspective of state and societal interests. Land resources are limited and non-renewable economic wealth, and the issue of their efficient and rational use is one of the strategic tasks of

every state. In this regard, land tax manifests itself as an important fiscal and economic tool regulating land ownership and use relations.

Land tax, first of all, serves as a stable source in forming local budget revenues. Since this type of tax is relatively less sensitive to changes in economic conjuncture, it ensures budget revenue stability. At the same time, through land tax, opportunities are created to increase the efficiency of land resource use, reduce land idleness, and limit speculative activities in the land market.

In the conditions of modern economic relations, in-depth study of the economic essence of land tax, improvement of mechanisms for determining its tax base, and fair establishment of tax rates is one of the urgent issues. In particular, issues of implementing digital cadastre systems, accurately assessing the economic value of land plots, and rational distribution of the tax burden require scientific research.

Within the framework of tax reforms being implemented in the Republic of Uzbekistan, special attention is paid to modernizing the land tax system, simplifying tax administration, and encouraging efficient use of land resources. Therefore, analyzing the theoretical foundations of land tax, evaluating its current mechanism, and developing ways to improve it determines the relevance of this research.

The purpose of this scientific article is to reveal the economic essence of land tax, analyze its role in forming budget revenues, and develop scientific-practical proposals for improving the land tax mechanism.

I. THEORETICAL FOUNDATIONS OF LAND TAX

1.1. Economic Essence of Land Tax

Land tax is a mandatory payment collected in favor of the state as a result of owning or using land plots. Its main economic essence consists of directing part of land rent to the state budget.

Classical economists, including D. Ricardo, explained land rent through differences in land productivity. Land tax is viewed as a means of redistributing this differential rent in favor of the state.

1.2. Functions of Land Tax

Land tax performs the following main functions:

- Fiscal function – providing state and local budgets with revenue;
- Incentive function – encouraging efficient use of land resources;
- Regulatory function – balancing relations in the land market;
- Social function – mitigating inequality in land ownership.

Advantages of Applying Land Tax to the Population

Applying land tax to the population has several positive aspects, which include:

1. Encourages Efficient Use of Land Resources

Land tax reduces land plot idleness and encourages the population to use land rationally and purposefully.

2. Strengthens Local Budgets

Land tax collected from the population serves as a stable revenue source for local budgets and contributes to developing regional infrastructure.

3. Helps Ensure Social Justice

Since land tax is collected according to the level of land ownership, persons with more land pay more tax.

4. Strengthens Discipline in the Land Market

Speculative land holding is prevented and land turnover accelerates.

5. Stimulates Development of the Land Cadastre System

The need for accurate cadastral data to correctly calculate land tax accelerates digitalization processes.

Disadvantages of Applying Land Tax to the Population

At the same time, there are certain problems and negative aspects in applying land tax to the population:

1. May Be a Tax Burden for Low-Income Population

There is a possibility that land tax creates financial difficulties for population groups with low income but owning land plots.

2. Problems Related to Cadastral Value Accuracy

If the cadastral value of land does not correspond to market value, it leads to unfair distribution of tax burden.

3. Unevenness Across Regions

The same size land plots in different regions having different tax rates may cause population dissatisfaction.

4. Low Tax Payment Discipline

In some cases, insufficient development of tax culture among the population reduces land tax revenues.

5. Insufficiency of Social Protection Mechanisms

If the benefits system is not sufficiently developed, negative consequences arise for disabled persons, pensioners, and socially vulnerable groups.

General Conclusion

While applying land tax to the population has important economic and fiscal significance, it is necessary to strictly adhere to social justice principles in its implementation. By differentiating tax rates, improving the benefits system, and ensuring transparency of cadastral assessment, the negative aspects of land tax can be reduced.

II. LEGAL AND ORGANIZATIONAL FOUNDATIONS OF LAND TAX

2.1. *Land Tax's Place in the Tax System*

Land tax is part of local taxes in many states. This situation serves to increase the financial independence of local government bodies. In the Republic of Uzbekistan, land tax is also an important revenue source for local budgets.

2.2. *Land Tax Elements*

The main elements of land tax include:

- Tax payers;
- Tax object;
- Tax base;
- Tax rate;
- Tax benefits;
- Tax payment procedure.

These are tax elements that are the same for all taxes. The tax base is mainly determined depending on the cadastral value or area of the land plot.

III. ECONOMIC ANALYSIS OF LAND TAX

3.1. *Land Tax's Share in Budget Revenues*

Practical analyses show that land tax is a stable and predictable revenue source. Even in economic crisis conditions, this type of tax ensures relative stability of budget revenues.

3.2. *Land Tax's Impact on Land Resource Use*

Proper establishment of land tax:

- Reduces land idleness;
- Encourages intensive use;
- Serves to maintain ecological balance.

Land Tax Rates (by Years) – Uzbekistan Example [2024–2026 Years]

(2024) The land tax rate for agricultural lands was set at 0.95% (calculated from the normative value of land) – this is the practical tax rate, which may have small differences in various regions.

(2025) For 2025, the land tax rate for agricultural lands remains at 0.95%. Additionally, there is a plan to index the land tax (for example, 7% indexation starting from 2026), aimed at adapting the tax burden to market conditions.

(2026 Plans) In 2026, the main tax rates (including land tax) in Uzbekistan's tax policy are expected to remain largely unchanged. The tax rate for agricultural lands is expected to remain at 0.95%, but the tax base and minimum base value may be indexed.

Permitted Changes and Trends

1. Differentiation by Various Regions and Land Types

The land tax rate is shown on a percentage basis only for agricultural lands (0.95%). In urban and commercial lands, the tax rate differs depending on the normative value of land and regional coefficients (for example, it may not be the same percentage in metropolitan centers and district territories).

2. Innovations in the Tax System

In 2024, the double rate for agricultural lands within city boundaries was abolished – that is, if previously a double tax rate was established, now a single 0.95% general rate has been implemented. This was a decision aimed at easing the tax burden and administrative simplification.

DEVELOPMENT STAGES OF LAND TAX RATES AND THEIR ANALYSIS

The development of land tax rates is closely related to economic reforms conducted in the country, changes in attitudes toward land, and the policy of simplifying the tax system. The development of land tax rates in the Republic of Uzbekistan can be conditionally divided into several main stages.

Stage 1: Area-Based Rates Period (Late 1990s – Until 2018)

During this period, land tax was established based on the area of land plots (hectares, sotixes). The economic value of land, its location, and infrastructure level were not sufficiently taken into account.

Characteristics:

- Tax rates were strict and normative in nature;
- Lands of the same area paid almost the same tax;
- Inflation and market factors were not considered.

Disadvantage:

- Tax justice was violated;

- There was no difference between efficiently used land and idle land.

This stage is considered the most economically inefficient stage.

Stage 2: Transition to Normative Value Period (2019–2020)

This period was a turning point in the land tax system. The normative (cadastral) value of land began to be used as the basis for calculating land tax.

Characteristics:

- Tax rates began to be set in percentage form;
- Land location and quality were taken into account;
- Regional coefficients were introduced.

Result:

- Relatively fair distribution of tax burden was ensured;
- Local budget revenues stabilized.

This stage is considered a transitional (transformational) period.

Stage 3: Tax Rate Optimization and Stabilization Period (2021–2023)

During this stage, land tax rates were not sharply increased; instead, a stabilization and simplification policy was implemented.

Characteristics:

- Tax rates were not drastically changed year by year;
- Main attention was directed to clarifying the tax base;
- The cadastre system was digitalized.

Advantage:

- Predictability of tax burden for population and entrepreneurs was ensured;
- Tax administration was simplified.

Stage 4: Indexation and Flexible Rates Period (From 2024 to Present)

In this stage, while land tax rates remained stable, a mechanism for indexing the tax base to inflation was introduced.

Characteristics:

- Rates do not change sharply;
- The tax base is adapted to economic conditions;

- Benefits for socially vulnerable groups are maintained.

This stage represents a modern and balanced approach.

Logical Connection Between Stages

The development of land tax rates was shaped based on the following logical chain:

Area → Normative Value → Stable Rate → Indexation

This sequence gradually strengthened land tax's:

- fiscal efficiency;
- social fairness;
- economic incentive role.

Which Option Is Most Optimal? (Scientific Conclusion)

Based on scientific analyses, it can be said that the most optimal option is the Stage 4 model, namely:

✓ Stable percentage rate + normative (cadastral) value + indexation mechanism

Reasons:

- Does not allow sharp increases in tax burden;
- Protects budget revenues from inflation;
- Understandable and predictable for population and business;
- Corresponds to the principle of social justice.

Years	Rate approach	Main Content	Assessment	Stage
1995-2018	Area-based	Fixed rate according to land area	Low efficiency	Stage 1
1919-2020	Norm active value	Transition to cadastral value	Transition Period	Stage 2
2021-2023	Stable percentage	Rates without sharp change	Good	Stage 3
2024-present	Index action+ percentage	Tax base adapted to inflation	Most optimal	Stage 4,,+

The table shows that the development of land tax rates has transitioned from a simple area-based approach to a modern mechanism based on normative value and indexation. Analyses show that the stable percentage rate and indexation mechanism applied from 2024 is the most optimal option from the perspective of fiscal efficiency and social justice.

IV. FOREIGN COUNTRIES' EXPERIENCE

In developed countries, land tax is mainly collected based on market value. For example:

- In the USA, land and real estate tax is the main source of local budgets;
- In Germany, land tax depends on land location and infrastructure development;
- In Japan, land tax is used as a means of limiting speculative land ownership.

Example of Land Tax in Estonia and Comparison with Uzbekistan

Estonia – Land Value Tax

Estonia calls land tax the "Land Value Tax," which is imposed only on the value of land, not on buildings or structures on the land. This serves as a source for financing local budgets as one of the tax types. 100% of revenues go to local authorities.

Main characteristics:

- Widely applied: A tax based on land value, paid based on the economic value of land
- Rate range: Can be set from 0.1% to 2.5% – at the level of regional authorities
- Simple and transparent: Buildings and structures are exempt from tax; this provides an incentive for rational use of land resources
- Impact: This type of tax has also contributed to the high level of home ownership in Estonia (for example, ~90% home ownership)

Uzbekistan – Land Tax Mechanism

In the Republic of Uzbekistan, land tax is collected depending on the normative (cadastral) value and location of the territory. The tax rate is based on regional norms and land type. For example, the amount of land tax differs by region and depends on the cadastral value for the taxpayer.

Main aspects:

- Based on normative value: Tax is calculated not according to market value of land, but according to cadastral value
- Rates differ: Tax rates differ for different regions and land types
- Payment period: Taxes are required to be paid during established periods throughout the year (divided into two parts)
- Benefits: In some cases, benefits may be provided for land tax for foreign investments

Which System Is More Effective?

Estonia Model – Efficiency Characteristics

Land Value Tax applies tax only to land value, so:

When land is idle, the tax burden is higher, which provides an incentive for efficient use of land

Buildings and structures are exempt from tax, which encourages investment in land

Revenues to local budgets are stable because land value is stable in the long term

This model is evaluated by many economists as effective in reducing speculation in the land market and encouraging urban development.

Uzbekistan Model – Current Situation

Uzbekistan experience:

Calculating tax through normative value can be fair because market value is not always easy to accurately determine

The benefits system encourages local investments

However:

✗ Not taking market value into account may poorly incentivize the efficiency of idle areas

Scientific Conclusion

The Estonian land tax model (Land Value Tax) is generally considered more effective by most economists because it is based on the market value of land and:

- encourages active use of vacant land,
- reduces speculation,
- stabilizes local budget revenues.

The Uzbekistan model, since it is currently based on normative value, unlike leading tax systems, does not fully reflect market mechanisms and the real dynamics of land value, which may limit the opportunity to increase land use efficiency.

V. WAYS TO IMPROVE LAND TAX IN UZBEKISTAN

5.1. Developing the Cadastre System

The effectiveness of land tax directly depends on the accuracy and transparency of the cadastre system. Implementation of modern GIS technologies is of great importance in this regard.

5.2. Differentiating Tax Rates

Stratifying tax rates according to land location, productivity, and infrastructure level increases the fairness of land tax.

CONCLUSION

Land tax occupies an important place in the state financial system and is an effective economic tool in ensuring rational use of land resources. Through its improvement, the stability of local budgets increases, balance in the land market is ensured, and sustainable economic development is achieved.

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