Section ECONOMICS

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The Role of Budgetary Regulation in the Management of Macroeconomic Processes and Macroeconomic Problems of Increasing Tax Revenues of Regions

Abstract

The article examines the development of the national economy and the mechanisms of its effective regulation by the state. Particular attention is paid to the study of the role of budgetary regulation of macroeconomic processes. The article notes that effective budgetary regulation is, in general, the most priority issue in the system of economic management mechanism.

The normal development of the national economy largely depends on its orderly regulation by the state. Thus, even at the maximum level, liberalization of the economy does not deny the participation of the state in the management of economic processes. The presence of each state's own interests and priorities makes it necessary for the state to intervene in all spheres of public life. Modern trends in the development of the tax system, in addition to the well-known positive components, are characterized by an extremely uneven distribution of tax potential across the country and, as a consequence, by different contributions of individual territorial entities to the formation of budget revenues. As a rule, tax relations "unfold" within a specific regional economic space that has attributive features that are essential for the dynamics of fiscal efficiency: socio-economic and institutional heterogeneity, multi-vector trajectories and different rates of economic development. The current situation generates additional risks that reduce the efficiency of the tax system due to the disproportionate distribution of the tax burden, which, in turn, not only violates the principle of justice in the territorial context, but also contributes to a decrease in the stability of tax revenue formation.

Keywords. budget, state, management, taxes, economic development, region, macroeconomic process.

Introduction

The system of state regulation of the national economy, in general, should determine the level of influence of the state on economic life. Without such a regulatory system, it is impossible to effectively coordinate the areas of activity for the formation of market relations. With the formation of the economy of the republic in accordance with the principles of the market economy, the development of a diversified economy in our society, the creation of conditions for the activities of various forms of ownership on an equal basis, the privatization process has accelerated. In order to increase the effectiveness of the measures taken related to the development of the economy of the republic, the state pays special attention to the regulation of the economy and its main component. In the conditions of the transition to a market economy, the role of the state in the economic revival of the republic, in the establishment of international relations, in the total volume of imports and exports,

in the development of free enterprise is undeniable. In the modern world, in the conditions of the market orientation of the economy of the republic, a radical change in the demand for a management mechanism is necessary. The transition to market relations with a mixed economy transforms state regulation of the economy into a specific means of management. In our conditions, that is, in the period of formation of market relations by state administration bodies, mechanisms of influence on the development of the national economy must be used to the fullest extent by programming.

Methodological and practical features of budget regulation

Economic theory does not know purely financial laws that would allow forecasting the financial and economic situation for a quarter of a century. But this does not mean that there is no scientific basis and objective need for long-term forecasting. Forecasts in the budget sphere are essentially based on the connection of the budget strategy with the laws of general reproduction and economic growth. The dependence of the dynamics of budget revenues on the general dynamics of GDP and on business activity reflects the determination of the sphere on general economic patterns, which are the first methodological principle. As noted, there is an objective connection between the level of GDP, which reflects the scale of the reproduction process, and the volume of financial resources of the state that serve this process.

The second methodological principle is the dependence of economic dynamics on the typology of budget strategy and on real budget proportions. This principle is essentially of decisive importance for long-term budget forecasting. Budget strategy should not only passively reflect market processes, but on the contrary should form general economic limits. The third methodological principle is forecasting based on the internal intensity of budget relations and internal factors of the budget-tax system of budget dynamics. This means that the forecasted budget-tax potential and proportions depend on the use of internal resources of the existing budget system. The fourth methodological principle provides for socio-political accounting of forecasting. In our opinion, the following principles should form the basis of the financial system and the restructuring of budget regulation:

- creation of a stable system of financial relations;
- structuring should be comprehensive and should ensure close links between all elements (financial infrastructure, public finances, insurance organizations, pension funds and other financial institutions) of the financial system:
- limited resources make it necessary to use the principle of centralization of financial resources;
- restructuring of the financial system should be carried out mainly at the expense of internal sources. External loans and investments should play a supporting role. (*Elena A. Fedchenko, Lyubov V. Gusarova, , Margarita L. Vasyunina, Alexander S. Lozhechko and Anastasia A. Lysenko, 2022*)

In our opinion, in the context of integration, the systemic renewal of the tax mechanism in improving budgetary relations is one of the factors creating conditions for ensuring economic growth. For these purposes, it is advisable to take the following measures:

- by covering the "shadow" sector of the economy, expanding the tax base;
- reducing the tax burden for the real sector of the economy;
- standardization of tax legislation and tax reports;
- gradual reduction and differentiation of profit and VAT rates;
- differentiation of profit tax by individual sectors of the economy.

Problems of state regulation of the national economy with the help of the state budget

Budget regulation, in general, is the most priority issue in the system of economic management mechanism of the economy. As we know, the budget system, being an important management mechanism in the conditions of a market economy, is formed on the basis of state principles. Budget regulation is generally used to organize the activities of the economic system, stimulate production and improve the principles of division. Scientific substantiation of its limits, analysis and management

of factors and results should be based on a number of methodological and practical features. Budget regulation has features inherent in each country. In the conditions of a market economy, the tasks of managing the state budget, income and expenditure have become even more complicated, and as a result have encountered serious socio-economic problems. And therefore, the strategy of revenue and expenditure management should be developed and assessed from the prism of the most important economic and production problems. It is this approach that can provide an opportunity to create an even clearer idea of the complex nature and content of revenues and expenditures of the state budget, the state budget as a whole. The budget system is formed in accordance with the economic system and political organization of each country. In general, traditional, implemented and program budget systems are distinguished. Traditional budget systems mainly ensure control over the implementation of expenditures provided for by law. In other words, the control function plays a leading role in this system. Support of economic activity is one of the pressing issues in the transition period. And from this point of view, it is advisable to study the implemented budget system. It is also called the implemented budget system. This budget system is compiled as a work program.

The program or planned-program budget system, in contrast to the previously noted budget systems, also ensures the use of the budget as a strategic program. Here, it is possible to analyze alternative service programs and select the best ones from a macroeconomic point of view. The basis of this budget system is system analysis. In other words, if the feasibility of services for achieving certain goals in the public sector is known, if attention is paid to alternatives to help achieve goals, if the goals are long-term and if the activities of existing service programs are adequately assessed, decisions related to the distribution of sources of funds will be made in a more optimal form. In general, the budget system expresses the totality of all types of budgets, united in the budget of each country. The creation of a budget system and the organization of relationships between its individual links expresses budget construction. Budget construction reflects the mechanism by which the budget system is built.

With traditional budget policy, it is very important to constantly maintain the budget balance of the state. If the state wants to influence national income, it must bring the demand and supply of labor to a level capable of changing aggregate production. Due to the fact that it is impossible to achieve technical progress that affects the growth of aggregate production and population growth through budget policy that fulfills traditional tasks and provides for the financing of these services in taxes at a level that does not affect economic activity, a small but balanced budget policy meets the requirements of traditional budget policy and theory. The issues of improving budget planning should be implemented in conjunction with issues of public administration. The main condition for the successful implementation of the program-target approach is the implementation of financial discipline in the implementation of adopted budgets. The main problem for the successful application of budgeting based on results is the difficulty of determining the socio-economic results of the activities of state enterprises, the lack of development of a unified system of goals and indicators, and the imperfection of the accounting system and information support. As we know, fiscal policy is a system of regulation associated with government spending and taxes. Speaking about government spending, we mean spending on maintaining the institution of statehood, as well as on purchasing certain goods and services by the state. These can be different types of orders, for example, construction of schools, healthcare facilities and cultural facilities at the expense of the state budget, and the purchase of imported goods and military equipment. The main distinguishing feature of all these orders is that the state itself is their consumer.

Budget regulation is one of the main tools influencing macroeconomic processes. Stability of budget revenues, increasing regional tax potential and ensuring fiscal sustainability are strategic goals of state policy. The data in the diagram show that both revenues and expenditures have growth dynamics. Since expenditures are higher than revenues, the budget deficit is persistent.

Based on the table below, a macroeconomic analysis of GDP growth, inflation, budget revenues and budget expenditures for the period 2020–2024 is presented.

Year	GDP growth rate (%)	Annual inflation (%)	State budget revenues (billion AZN)	State expenditures (billion AZN)
2020	–4.3	2.8	24.7	26.4
2021	5.6	6.7	26.4	28.0
2022	4.9	13.9	30.6	32.1
2023	1.5	5.4	33.2	36.3
2024	2.1	3.2	35.0	37.8

Table 1. Selected macroeconomic indicators for Azerbaijan (2020–2024)
Sources: Presentation of the Draft Consolidated and State Budgets of the Republic of Azerbaijan for 2025, Baku 2024

When analyzing the GDP growth rate, 3 main stages can be distinguished: the first stage, the 2020 pandemic shock - characterized by negative growth. Thus, GDP decreased by -4.3%. The reasons can be cited as quarantine restrictions, a decline in the service sector, and instability in the energy market. The second stage, 2021–2022, was accompanied by rapid recovery and economic revival, which can be attributed to rising oil prices, expanding exports, increasing public investments, and strengthening post-pandemic recovery policies. In the third stage, i.e., 2023–2024, a weakening of the growth rate is observed, which is due to the global economic slowdown, restrictions on oil production and gas exports, and the longer-term nature of public investment projects. When analyzing budget revenues, it is seen that the growth trend continues throughout the period. The reasons for this increase are: increased revenues from the oil sector, high energy prices in 2021–2022, and transfers from the state oil fund. At the same time, the reasons for the increase include the strengthening of non-oil revenues, the digitalization of tax administration, and the reduction of the shadow economy.

In turn, budget expenditures are also growing faster than revenues. The main reasons for the increase are social projects, pension and salary increases, the restoration of Karabakh and regional investments, increased defense and security expenditures, and infrastructure - road, water, energy, and urban development projects (Muradov & Hajiyeva, 2024)

The budget deficit remains structural, that is, each year expenditures exceed revenues → persistent deficit. Government spending plays an important role in the socio-economic development of society. Therefore, the issues of increasing the efficiency of government spending, their regulatory role in ensuring socio-economic development, and the formation of a new quality of economic growth are very relevant. Much has been said about the need to carry out systemic transformations in the budget process. However, due to various reasons, this problem remains unresolved. At the same time, it can be said that certain steps have been taken in the area of restructuring the budget sector. The essence of the new approach to the budget process is simple and clear: spending not for the sake of spending, but spending to achieve specific results. In order to achieve this goal, we consider it necessary to solve the following problems:

- optimization of the network of budgetary organizations. This is the restructuring and implementation of new forms of financing budgetary organizations. The solution to this problem is certainly more complex and requires the implementation of certain innovations in the current budget legislation.

- development and use of result-oriented financing methods. The decline in GDP in the economy of newly independent states, the breakdown of the national reproduction process, the breakdown of ties between production and financial systems, the deterioration of the socio-economic

situation of the population are explained by these reasons.

Year	Budget deficit (billion AZN)	Public debt (billion AZN)	Debt to GDP ratio (%)
2020	1.7	17.8	20.7
2021	1.6	17.3	18.0
2022	1.5	16.9	14.9
2023	3.1	17.4	15.2
2024	2.8	18.1	15.0

Table 2. Budget deficit and debt dynamics
*Sources: Presentation of the Draft Consolidated and State Budgets of the
Republic of Azerbaijan for 2025, Baku 2024*

The table data shows that the dynamics of the budget deficit has shown a downward trend (2020–2022). Thus, in 2020–2022, the budget deficit decreased from 1.7 billion AZN to 1.5 billion AZN. This decrease can be explained by the following factors: restoration of economic activity after the pandemic, stabilization of oil prices, fiscal discipline and control over state expenditures, increase in tax revenues, etc. In 2023, the deficit increased to 3.1 billion AZN. The increase was mainly due to the expansion of social packages, pension and salary increases, increased defense and security expenditures, and the activation of infrastructure projects. The relative decrease, i.e., in 2024, the deficit decreased to 2.8 billion AZN. This is due to the strengthening of fiscal collection and optimization of expenditures.

Looking at the dynamics of public debt, a period of slight decline covers the years (2020–2022) (17.8 billion AZN → 16.9 billion AZN). The reasons for this decline include timely execution of external debt payments, limitation of new borrowing, and reduction of budget pressure by transfers from the State Oil Fund. An increase in debt is observed in 2023 and 2024, the reasons for which include financing of infrastructure projects, partial coverage of the budget deficit with borrowing, and expansion of regional development programs.

The most important macro indicator, the debt-to-GDP ratio, decreased significantly in 2020–2022 (20.7% → 14.9%), which indicates that the debt is easing due to real economic growth. Although the debt increased slightly in 2023–2024, the ratio stabilized around 15% as a result of GDP expansion. This indicates that Azerbaijan's debt burden is at a low-risk level (below 30% is considered safe by international organizations), that the increase in debt does not pose a risk to macroeconomic stability, and that the conservative strategy in public debt management continues.

Sometimes the regulatory role of the state in the economy is associated with its role in production and the level of the share of state property. Such an assessment from the point of view of the role of the state in the monetary system and the effective use of public finances is incorrect. Because the role of the state in the economy is not adequate to the level of state ownership of the means of production. The main thing here is the level of nationalization of national income in the form of public finances. Analysis shows that in developed countries the share of public expenditures in GDP does not decrease, but develops at an increasing rate. This indicator is 30% in the USA, 60% in Denmark, 54.6% in France, 53.7% in Belgium.

In developing market economies there is no alternative to reducing government spending in

GDP and a savings strategy. The policy of reducing those same government spending should turn into a general reduction in all spending, including vital items of spending. It is clear that a reduction in government capital investment in high-tech projects, budget allocations for the maintenance of infrastructure providing fixed assets will lead to a deterioration in the prospects for economic development. At the same time, a reduction in real wages of those working in the public sector will cause a decrease in labor productivity of workers in this sector and the emergence of social conflicts. It should be taken into account that it is difficult to assess and measure most budget expenditures at market prices. Manufactured products cannot be sold quickly. In general, non-production government spending can be expensive for the country's economy. In modern conditions, new elements are constantly being added to the state financial mechanism, requiring corresponding instruments of regulation and control. At this stage, state finances must again be transformed from the category of division into the category of reproduction. State finances do not simply perform the function of state provision. They are also an effective element of the reproduction processes.

Integration into the global financial market requires the development of both an adaptation mechanism and mechanisms for protecting national interests in the area of public finance. Long-term definition of the concept of budget strategy is a very complex issue. Long-term financial forecasts are not found in world practice. There are a number of objective reasons related to the nature of financial and budgetary processes.

Macroeconomic problems of increasing tax revenues of regions

As is known, the foundation of the functioning of the tax system is made up of factors of macroeconomic dynamics, aggregated identified through GDP volumes, which are the object of secondary redistribution through tax mechanisms legitimized by society in the form of laws, which, in turn, are determined by the "quality" of the institutional environment. The study of the regional projection of the above-mentioned determinants gives grounds to state their multi-vector movement. Thus, the relative unification of tax legislation and the limitation of the powers of subnational entities in the sphere of taxation are accompanied by an unprecedented differentiation of macroeconomic indicators, initiating, among other things, institutional differences between regions. In this case, the requirement to ensure the unity of tax policy on the territory of the state comes into conflict with the objective resource-reproductive diversity of the regional economy.

It is obvious that the reasons for such a situation were laid much earlier than the period of building market relations, and, in fact, the differentiation of fiscal performance at the meso level is only one of the consequences of the specifics of the distribution of productive forces on the territory of the country during the period of the administrative-command economy. However, these negative trends were especially evident during the period of market transformation, when the intensive development of the resource-extracting sector was accompanied by the deindustrialization of a number of regions based on the replacement of industries with the service sector and trade, as well as the expansion of the sphere of shadow entrepreneurship. As a result, macroeconomic inequality acquired a new quality in the fiscal sphere, consolidating the tendency of territorial "stratification" in terms of tax burden and revenues. In most cases, the above-mentioned problems are identified through the phenomenon of vertical imbalance of the tax system, describing the situation of dominance of the interests of the center as the "recipient" of tax revenues, which leads to fiscal "bleeding" of the regions and reduces incentives for the development of their own tax base.

Thus, the vertical imbalance of the tax system is caused not so much by the unfair redistribution of financial flows, but by the narrowness of the tax base of most regions of the country, which, in a situation where more than 70% of tax revenues of the consolidated budget are formed by several well-known "locomotive" cities, automatically distorts the vertical and horizontal proportions of the budget system and determines the feasibility of using macroeconomic determinants to increase tax revenues.

The reasons for the differentiation of the sectoral tax burden have been repeatedly discussed in special studies, and the main components of an objective nature include the heterogeneity of the cost

structure and different levels of profitability of activities, as well as the presence of unequal opportunities for legal minimization and illegal tax evasion. Thus, the heterogeneous distribution of sectors of the national economy in the territory of individual regions, together with sectoral differences in the actual tax burden, initiates the multiplication of inequality in the fiscal productivity of regions.

The most classic form of the fiscal multiplier is as follows:

$$Multiplier = 1/(1-MPC)$$

Where,

MPC is the marginal propensity to consume.

Example: if MPC = 0.75, then multiplier = 1/(1 − 0.75) = 4. This indicates that a 1 azn increase in government spending (or a reduction in taxes → an increase in spending) results in a 4 azn increase in national income. This formula is fundamental in assessing the macroeconomic impact of government spending and taxes — it allows us to analyze the effectiveness of budget policy.

Before building simple macro model formulas for tax revenues, let's define the variables used:

Variable Explanation:

T_{ri} -Tax revenues of region i

GDP_I - GDP of region i

t_I - Effective tax rate of region i

C_i - Consumption level by region

I_i - Investments by region

U_I - Unemployment rate (%)

$\alpha, \beta, \gamma, \delta$ - Model coefficients

B_i - Regional budget balance

R_I - Regional real tax potential

We can express regional tax revenues in a generalized way as follows:

$$TR_i = t_i * GDP_i * (1 - \theta * U_i) + \phi * I_i iTR\_$$

Here,

θ — coefficient indicating the negative effect of unemployment on tax revenues;

ϕ — coefficient indicating the additional effect of investments on tax revenues.

This formula shows that the tax revenues of the region depend on GDP, but unemployment reduces it, and investments increase it. For a descriptive characteristic of the above trends, which are already taking the form of a short-term trend, the following economic and institutional determinants should be taken into account:

- production growth, as a rule, leads to a change in its structural components, which, in turn, directly contributes to an increase in the potential for fiscal deductions for profit tax and personal income tax, and indirectly initiates an increase in spending on current consumption and, therefore, expands the potential for indirect taxation; - higher values of production per capita contribute to the reduction of contradictions in tax relations due to more complete collection of taxes and loyalty of economic entities in the area of enforcement of tax legislation.

Indirect confirmation of the significant impact of labor on the fiscal performance of socio-economic regions is the fact that measures to stimulate employment have ensured stable revenues from personal income tax. At the same time, the state policy of stimulating "self-employment" by providing financial assistance and subsidizing loans to individuals starting small business also has a predominantly tactical fiscal effect, due to the lower burden of special tax regimes, as well as the presence of significant opportunities for "shadow" entrepreneurship.

In general, the results of modeling allow us to scientifically substantiate the priorities of economic policy to increase the tax "return" of regions. It is obvious that increasing investment activity in depressed regions is a very complex independent task of economic policy, the effective

implementation of which should involve taking into account the factor and potential of the fiscal productivity of territories.

Modeling of tax revenues of regions

Crisis phenomena in the economy, accompanied by sporadic fiscal imbalances in the budget system, actualize the problem of adequate planning of tax revenues in order to form realistic budget projections. A study of literary sources allows us to identify several conceptual approaches to planning tax revenues based on programs for the socio-economic development of the territory, forecasts of macroeconomic indicators, changes in tax and budget legislation, and a long-term financial plan developed within the framework of the previous budget cycle. At the same time, these approaches are practically not used in the practice of tax authorities as an instrumental and methodological basis for analyzing and planning tax revenues.

Characterizing the current state of the tax planning system at the macro level, it is necessary to highlight a number of methodological shortcomings that lead to a decrease in the accuracy and validity of forecasts and planned calculations:

- the use of predominantly deterministic models that characterize the processes of forming tax revenues exclusively taking into account the positions of tax legislation;

- widespread use of methods for indexing tax revenues using planned macroeconomic deflator indices of socio-economic development, which are, in fact, planning methods "from what has been achieved";

- overly optimistic nature of planning, which does not take into account the probability of a bifurcation change in the inertial time trend of macroeconomic indicators *(Rui Cao, 2023)*.

Taking into account the relative stability of the economy and tax legislation since the 2000s, and the accumulation of a sufficient array of empirical data on the functioning of the tax system in the specified period, we consider it possible to actively implicate the methods of economic and statistical modeling in the tools of state tax planning. (*Ulloa-Suarez, C*., 2022) This will not only improve the quality of the budget process, but also form a scientific basis for the modernization of the regional economy, including taking into account the target guidelines for increasing its tax capacity. The following formula can be used to express the budget balance by region:

$$B_i = TR_i - G_i$$

• G_i — the region's expenditures (for example, social programs, infrastructure expenditures).
• If $B_i > 0$, it indicates a budget surplus;
 if $B_i < 0$, it indicates a budget deficit.

As for institutional factors, which have recently been actively included by researchers in the field of economic analysis, their effective implication is not yet possible due to the lack of adequate and statistically accessible indicators of the development of the institutional environment in the regions. It is also worth noting the negative experience of foreign scientists in the field of econometric modeling of the influence of institutional factors on the dynamics of tax revenues. In particular, in the works of economists at the World Bank, attempts have been made to use indicators of the shadow economy, corruption, and the level of government regulation as explanatory variables. However, any combination of the above factors with traditional indicators of the tax base resulted in statistical insignificance of institutional variables, which is associated with the weak effect of the latter on the processes of tax revenue formation or with the inadequacy of the information base. Modern conditions of the need to preserve and strengthen the territorial integrity of the country, overcome the economic crisis dictate the need to create a tax system that would allow for effective management of the economy, take into account the interests of the state, economic entities, and the population. When developing tax policy, it is necessary to take into account international experience, as well as national characteristics of the country's development. One of the main elements of the tax system is taxes. Through the redistribution of financial resources, the development of priority areas of the economy

is stimulated, social support is provided to certain categories of the population. By implementing a competent tax policy of the state, it is possible to achieve positive results in the financial and socio-economic sphere.

Tax policy as a set of scientifically substantiated and economically feasible legal actions of government and management bodies is capable of ensuring the needs of reproduction and the growth of public welfare. (*Yossinomita, Y., 2025*)When implementing an effective tax policy, not only the legal order is ensured, i.e. taxpayers pay taxes and financial sanctions, but also a comprehensive assessment of economic relations that develop under the influence of taxation.

Consequently, tax policy is not an automatic implementation of the provisions of tax legislation, but their constant improvement in accordance with the development of society and the state.

When forming a tax policy during an unstable economic and political situation, it is necessary to take into account the following factors:
- political relations of the state,
- international economic relations,
- internal factors.

Internal factors include: priority areas of economic development of the state and the formation of society, determined by the Government of the country, the tax culture of society and economic entities, the legal implementation of tax relations, the need to support and develop business entities, create jobs and other factors.

Recently, special attention has been paid to the harmonization of tax relations. When considering issues of harmonizing tax relations between taxpayers and tax authorities, the starting point is the very essence of taxes, their purpose. On the one hand, state policy in the field of taxation and finance should be aimed at fulfilling their main fiscal function, that is, timely and full receipt of tax payments in the revenue part of budgets at all levels.

Since one of the goals of doing business is to make a profit, economic entities try to optimize the taxation of organizations. Optimization often borders on tax evasion. Attempts by taxpayers to avoid paying taxes are one of the serious problems in the taxation system. Tax evasion is a method of reducing tax payments, in which the taxpayer deliberately avoids paying taxes or reduces the amount of their tax liabilities in violation of current legislation. Tax evasion should be distinguished from tax optimization, tax planning, which are activities to reduce the amount of tax liabilities through targeted systematic actions of the taxpayer, which include the use of all benefits, techniques and mechanisms provided by law, as well as actions aimed at legally evading taxes.(*Zárate C.V., 2025*) Such actions do not constitute a crime, do not entail adverse consequences in the form of criminal and administrative liability and are allowed in the implementation of financial and economic activities of an economic entity.

The relationship between taxpayers and fee payers with tax authorities is currently enshrined in the first part of the Tax Code in the form of rights and obligations of both parties. It should be noted that within the framework of harmonization of tax relations, harmonization of the rights and obligations of taxpayers and tax authorities is carried out. Harmonization of tax relations will contribute to the improvement of tax culture and the setting of "correct" priorities in doing business, the desire to comply with the criteria for optimizing the taxation of the subject established by law. With the help of tax policy, tax harmonization is carried out in all its directions. First of all, in order to build an effective tax system, a balanced tax policy of the state is carried out, which in the long term should orient the tax system to establish an optimal level of the real tax burden on economic entities while simultaneously observing the fiscal interests of the state. In addition, tax policy in this direction of harmonization of tax relations should be focused on eliminating the heterogeneity of the economic development of individual industries and types of economic activity in terms of the income they receive. Ensuring equality of rights, obligations and responsibilities of taxpayers and the state is achieved by pursuing a tax policy aimed at observing the mandatory relationship between the legislatively established powers and obligations of tax parties, as well as generally accepted principles

of taxation. Also, one of the areas of the tax policy activities is to reduce the tax burden in order to stimulate the development of the real sector of the economy. Tax classification is of great importance in the implementation of these tasks, since it allows us to predict situations with changes introduced in a particular group of tax payments.

When establishing the ratio of direct and indirect taxes in the tax system, a scientific approach should be used, and the principle of fairness should be implemented to a greater extent. As the practice of foreign taxation experience and research in this area shows, the value of this indicator in different countries depends on their level of economic development. In highly developed countries, tax systems have been formed in which direct taxes are of the greatest importance. In countries with an unstable economy, indirect taxes occupy a leading position. One of the areas of support for economic entities within the framework of tax policy may be the provision of benefits or the removal of real estate from taxation. These measures will reduce the tax burden and direct the released financial resources to reinvest in the development of production and the competitiveness of goods.

Changes in the tax system directly affect the financial resources of the state, namely the formation of tax revenues of budgets at all levels. In order to plan state revenues and expenditures, budgets for the planning period are approved at all levels of the budget system.

Activities in the field of tax policy include both direct reduction of the tax burden and the use of indirect mechanisms of the regulatory function of taxation. The main areas of tax policy can be identified:

- implementation of measures to ensure the growth of tax returns from economic entities of the region and the completeness of accounting of taxable items;

- continuation of the practice of coordinated actions of state authorities of the region with federal government bodies in terms of monitoring compliance with tax legislation, strengthening payment discipline and reducing arrears in payments to the budget;

- improvement of tax administration, updating of databases, reduction of arrears in regional and local taxes.

Effective implementation of the state tax policy should take into account all factors of the political and socio-economic sphere. The main areas of tax policy for the planning period are the priority area is further improving the efficiency of the tax system. All efforts should be made to generate revenues for the budget system in the context of falling prices for natural resources on the international market. In these conditions, a more detailed analysis of the formation of tax revenues for the country's budget system will contribute to solving the tasks set.

Increasing the efficiency of using the territory's tax potential

The level of the region's and municipalities' tax potential is influenced by many different factors. The article shows the need for a new approach to organizing budget expenditures, the inevitability of decentralization, the need for a radical reform of the tax system, without which a further increase in expenditures will lead to an increase in the tax burden and a decrease in economic activity. Interest in the problems of increasing the efficiency of using the tax potential by subjects and municipalities is due to the practical task of forecasting the receipt of financial resources, with the help of which the expenditure obligations of the budgets of the corresponding levels of administrative authority will be ensured. On the other hand, it is important to take into account that fiscal policy has a direct impact on the activity of the economic development process. In this regard, the problem of developing such solutions becomes obvious, which, on the one hand, will allow the budget to be filled as efficiently as possible, and on the other hand, will help stimulate economic activity.

We can express the modeling of tax potential by regions (real tax collection capacity) as follows:

$$R_i = \alpha \cdot GDP_i + \beta \cdot I_i + \gamma \cdot (1 - U_i) \cdot C_i$$

• α — GDP impact coefficient on tax potential
• β — impact of investments on tax potential
• γ — impact of employment and consumption on tax potential

Then, tax revenues can be predicted by adjusting the region's real tax rate (t_i):

$$TR_i = t_i \cdot R_i$$

This model shows that by adjusting tax rates, it is possible to both increase tax revenues and maintain socio-economic stability.

The level of tax potential of a region and municipal entities is influenced by many different factors. The most important is the production potential of the territory, expressed by the results of economic activity of business entities and prospects for their increase. (*Onofrei, M., Oprea, F.,2022*) It is this factor that ultimately directly and indirectly determines many other factors that influence the tax potential of the territory: the amount of taxable profit, the volume of income of individuals, the added value created in the production process, the value of property, the use of certain natural resources, etc. (*Kamasa, K., 2025*) The concentration of tax potential largely occurs at the municipal level - in the largest municipal entities (cities and urban districts). This is explained by the fact that it is in cities that the bulk of sources of taxes and fees are located. Consequently, the level of socio-economic development of the territory directly affects the level of tax potential, from which it can be concluded that at present we can expect a significant differentiation of various parts of the single economic space of the country in the level of tax potential. Meanwhile, it is important to note that the steps taken to change the tax policy must have a serious economic justification. They must pursue not only political aspects, but also simultaneously stimulate both the overall development of a single economic space of the country and the strengthening of the competitiveness of individual regions and municipalities, ensuring the implementation of a comprehensive policy of economic modernization. It is important to understand that different taxes have different effects on economic development. For example, taxes on wages, value added, and profit suppress economic activity to a much greater extent than taxes on natural resources, excess real estate, luxury goods, overconsumption, and consumption of harmful products.

The transfer of tax powers to the regional and local levels should contribute to the launch of real changes in state fiscal policy. In particular, these are changes in the principles of redistribution of state budget revenues in favor of lagging regions and the reduction of subsidies - an ineffective mechanism that does not have a real impact on stimulating the economic development of regions and municipalities. Thus, a number of facts are now becoming obvious:

- the inevitability of decentralization;
- the need for a radical reform of the tax system, without which a further increase in expenditure will lead to an increase in the tax burden and a decrease in economic activity;
- the need to implement new approaches to organizing budget expenditures.

Currently, there are no effective incentives for growth of regional budget revenues, which leads to the emergence of a large number of chronically subsidized territories. Budget equalization through subsidies and grants creates a dependent mood in regional authorities and does not contribute to the development of their economic initiative. In essence, the principle of functioning of financial circulations within the budget, their objective connection with the sphere of production of goods and services is ignored. Therefore, there is a need to study the mechanism of formation of tax revenues of regional budgets in order to identify opportunities to increase the level of own revenues of regions.

Conclusion

The implementation of the correct budget policy can lead to an increase in budget revenues and a decrease in budget expenditures. To achieve a positive balance, a number of reforms and programs should be prepared within the links of the budget system. Macroeconomic indicators guiding budget policy reflect the achievement of faster economic growth, the identification of additional sources of budget revenues, an increase in the direct participation and influence of the budget, strengthening financial discipline and ensuring transparency, reducing poverty, improving the use of targeted social assistance and creating financial conditions for the development of entrepreneurship and regions. One of the main goals in budget policy is to improve the material well-being of the population, increase

income and employment, transform the state budget into the main financial source and economic instrument for managing the economy and stimulating its dynamic development.

One of the primary steps taken to increase the budget volume and improve the budget process in general is to strengthen control over budget expenditures. Because the lack of proper control over budget expenditures can cause an increase in corruption opportunities, the legalization of a large volume of unearned income, and even greater monopolization. As a result, the revenues of the state budget will decrease, and in general the economic entity called the budget process will begin to have a formal character. Thus, in order to achieve progressive movements in the development of our economy, the development of effective mechanisms for the implementation of the listed tasks in the field of fiscal management is of strategic importance. Carrying out the specified control will lead to the concentration of state revenues in the state budget, and this in turn will lead to a reduction in poverty, continuation of structural reforms in the economy, an increase in budget revenues, ensuring the social and investment focus of budget expenditures, transparency and effective management of expenditures. And in the future, the implementation of a successful budget policy will ultimately have a significant positive effect on the development of the state from an economic point of view.

Finally, we have the following recommendations:
- Forecasting should be strengthened with regional tax capacity models.
- Strict limits on the budget deficit should be applied.
- Result-oriented measurement indicators for expenditures should be developed.
- Dynamic models should be applied to optimize tax rates

In conclusion, mathematical models show that fiscal multipliers have a significant impact on economic growth. Also, the application of multi-factor models is required to calculate regional tax potential. At the same time, international experience confirms that strict fiscal rules increase resilience.

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