



INTERGOVERNMENTAL TAX ALLOCATION MODELS AND THEIR EFFECTIVENESS IN DEVELOPED COUNTRIES

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ABSTRACT	KEYWORDS
<p>The article emphasises the significance of the inter-budget tax distribution system in state financial management and the importance of mitigating inter-regional disparities through financial, organisational, and institutional methods. Based on the experience of developed countries, it analyses models of inter-budget tax distribution and the division of powers between central and local budgets, as well as levels of financial independence.</p>	<p>Taxes, interbudget allocation, fiscal policy, financial resources, local budgets, transfers.</p>

Introduction

The issue of inter-budgetary tax allocation is considered one of the most important components of the financial system in developed countries. This process serves to rationally allocate financial resources between central and local budgets, reduce socio-economic disparities between regions, and ensure that public services provided to the population are stable and of high quality. Effective inter-budgetary relations are particularly important for ensuring the state-guaranteed minimum social guarantees are provided equally throughout the country, regardless of where citizens live.

In developed countries, the system for inter-budgetary tax allocation is complex and multifaceted, with a special emphasis on the balance between fiscal centralization and regional fiscal autonomy. Intergovernmental fiscal allocation is typically carried out through a system of progressive and proportional taxes, financial transfers, grants, and compensatory mechanisms. These mechanisms are aimed at equalizing the financial capacities of regions, coordinating the quality and scope of public services, and ensuring overall financial stability.

At the same time, the models for establishing and regulating intergovernmental relations vary significantly depending on a state's level of economic development, territorial structure, political system, and social priorities. As a result, the experience of developed countries serves as an important scientific and practical basis for analyzing various models of inter-budgetary tax allocation and their effectiveness.

This article examines the current models of inter-budgetary tax allocation in developed countries, their advantages and disadvantages, and the criteria for evaluating their effectiveness. Additionally, based on international experience, scientific conclusions and practical recommendations are developed to identify effective allocation mechanisms and adapt them to national conditions.

Literature Review

Local economists have extensively researched the issue of inter-budget relations and tax allocation as one of the key areas of public finance. In particular, A. Vahobov emphasizes in his research that the primary objective of inter-budget tax allocation is to enhance the financial independence of regions and ensure their socio-economic development [1]. According to the author, an effective inter-budgetary tax allocation mechanism serves to reduce interregional inequality.

N. Juraev emphasizes the need to increase the financial independence of local budgets while preserving the central budget's coordinating role in the distribution of inter-budgetary taxes [2]. In his scientific research, the coordination of mechanisms for fiscal stability and the reduction of interregional imbalances plays an important role.

In his research, Sh. Mustafakulov pays special attention to the socially oriented aspects of inter-budget tax allocation. The author demonstrates that by allocating taxes, the opportunities to finance the population's minimum social needs expand, and that this process is an important factor in the social development of regions [3].

B. Berkinov analyzes the institutional foundations of interbudgetary relations and notes that the efficiency of interbudgetary tax distribution primarily depends on the clarity and stability of the normative-legal framework [4]. He emphasizes the need to thoroughly study the experience of developed countries and adapt it to national conditions.

In his scientific works, D. Ganiev analyzes the inter-budgetary allocation system in relation to regions' economic potential, tax base, and sources of revenue [5]. The author scientifically demonstrates that the efficiency of inter-budget tax allocation can be increased by applying a differential approach.

In foreign scientific literature, the issue of inter-budgetary distribution of taxes has been studied in depth mainly within the framework of fiscal federalism theory. R. Musgrave, one of the founders of this approach, views the process of intergovernmental fiscal transfers as an important condition for the efficiency of government functions in public finance theory [6]. According to him, the redistribution of income and the maintenance of macroeconomic stability should fall under the authority of the central government.

W. Oates, developing the theory of fiscal decentralization, emphasizes that distributing taxes at the local level increases the efficiency of government services [7]. He believes that local authorities, being better informed about the needs of the population, are able to use resources more effectively.

J. Buchanan, within the framework of public choice theory, analyzes intergovernmental relations and argues for the necessity of maintaining a balance of interests in the fiscal decision-making process [8]. The author specifically highlights the influence of political and institutional factors in the distribution of taxes.

In the studies conducted by A. Shah, the mechanisms for inter-budget transfers and tax allocation are compared for developed and developing countries [9]. He emphasizes that an effective intergovernmental fiscal system must be based on transparency, accountability, and clearly defined criteria.

In studies conducted by R. Boadway and F. Flatters, the theoretical and practical aspects of fiscal equalization mechanisms were analyzed, the scientific basis has been established for the inter-budgetary tax allocation system to ensure inter-regional equity in the quality of public services provided to the population by balancing the financial capacities of regions [10].

Moreover, reports published by the OECD and IMF assess intergovernmental tax sharing in developed countries as a key instrument for ensuring fiscal stability, enhancing regional equity, and improving the quality of public services [11, 12].

A review of the literature shows that although the issue of inter-budget tax allocation models and their efficiency has been extensively covered in scientific research, the need to adapt these models to the national characteristics of each country remains.

Research Methodology

In preparing this article, deductive and inductive methods, as well as logical and comparative analysis, the historical approach, statistical methods, and systematic analysis techniques were widely used.

Analysis and Results

The inter-budgetary tax allocation system plays a crucial role in public financial management, with its primary objective being to ensure the fair and efficient distribution of financial resources among regions. This system arises from the need to mitigate disparities in the economic development levels of regions, to establish stable revenue sources for local budgets, and to ensure the equitable delivery of state-guaranteed social services across the country. Therefore, the inter-budgetary distribution of taxes is an important financial mechanism for implementing the state's social and economic policy.

The existence of inter-budget tax allocations, in addition to increasing the financial independence of regions, serves to reduce their excessive dependence on the state budget. Through the use of fiscal equalization and transfer mechanisms, the financial capacities of economically less developed regions are expanded. As a result, the effective distribution of taxes strengthens the social orientation of government spending. Rational and transparent mechanisms for inter-budgetary tax allocation strengthen the stability of the public financial system and create the necessary conditions for long-term socio-economic development. In this regard, this system is not only a tool for redistributing financial resources but also a strategic instrument for ensuring regional development and social justice.

Establishing effective inter-budgetary relations makes it possible to ensure the state-prescribed minimum level of social guarantees throughout the entire country, regardless of citizens' place of residence. This primarily serves to guarantee equal and stable access to state-provided social services for the population. At the same time, effective inter-budgetary relations are an important condition for mitigating socio-economic disparities between regions, the rational use of state financial resources, and improving the quality of public services. Various financial, organizational, and institutional methods are used to achieve these goals (Figure 1).

Financial mechanisms are aimed at balancing the financial provision of regions through inter-budget transfers, fiscal equalization mechanisms, and the normative distribution of tax revenues. These mechanisms expand the budgetary capacities of economically less developed regions and ensure the stable financing of state-guaranteed social services.

Organizational and institutional methods, in turn, establish the management and legal foundations that ensure the effective functioning of inter-budgetary relations. In particular, clearly defining the distribution of powers among levels of government, enhancing transparency and accountability in the budget process, and improving the regulatory and legal framework increase the stability of inter-budget tax allocations. This combination of methods creates the opportunity to reduce socio-economic disparities between regions and ensure the long-term stability of the state's financial system.

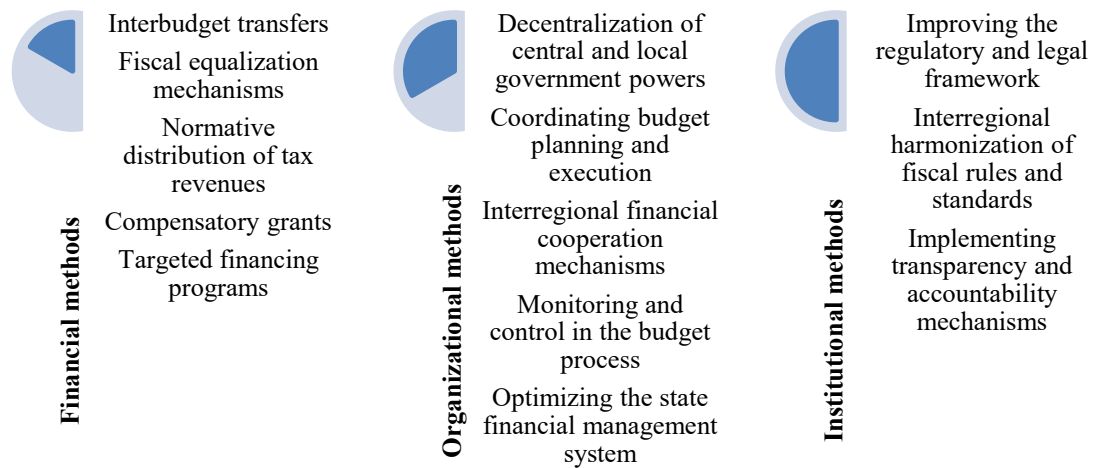


Figure 1. Methods used for inter-budgetary distribution of taxes

Depending on the specific characteristics of these methods, countries differ in their models for establishing and regulating intergovernmental fiscal relations. The effectiveness of intergovernmental relations largely depends on the clarity of the division of powers between central and regional authorities and on the proper identification of their funding sources.

The main task of establishing inter-budgetary relations is to apply the most effective model of cooperation between levels of government, for which a clear distribution of spending responsibilities, It is also necessary to strengthen funding sources corresponding to these authorities. This approach plays a crucial role in ensuring the stability of the public financial system and enhancing the effectiveness of budget policy.

To date, various models of inter-budget cooperation have been studied in depth by experts. Based on the similarity of approaches to regulating inter-budget relations and the characteristics of budget federalism, the experiences of 19 developed countries have been conditionally divided into four main groups (Table 1).

Table 1 Models and characteristics of inter-budget relations in developed countries

Group	Countries	Features
1	Australia, Canada, the United States, the United Kingdom, Japan	Federal and unitary states; regional and local authorities have relatively high financial autonomy.
2	Denmark, Norway, Finland, Sweden	The share of social sector funding in budget expenditures is high; strong fiscal equalization mechanisms are in place.
3	Austria, Germany, Switzerland	Federal states; relatively independent budgets exist at all levels of government; fiscal powers are clearly divided.
4	Belgium, Greece, Spain, Italy, the Netherlands, Portugal, France	Regional budgets are financially highly dependent on the state budget; a centralized budget policy takes precedence.

In developed countries, the system of intergovernmental relations and approaches to tax allocation vary depending on the form of state structure, the level of fiscal powers, and the system of social expenditures. The first group includes federal states such as Australia, Canada, and the USA, as well as unitary states such as the United Kingdom and Japan, regional and local authorities enjoy a relatively high degree of financial autonomy, with regions having significant authority to shape their own fiscal policies and collect taxes. In these countries, the mechanism of taxes and transfers between the central and subnational budgets is regulated based on the principles of complex fiscal federalism. The second group consists of Northern European countries such as Denmark, Norway, Finland, and Sweden. In this model, the share of expenditures related to financing social services is high, and strong fiscal equalization mechanisms are employed. At the same time, in these countries tax revenues relative to GDP are high, and their capacity to finance public services is also substantial. For example, according to OECD data, total tax revenues in Denmark and Sweden constitute a large share of the economy, which allows for an expansion of public services.

In the third group of Western European federal states—such as Austria, Germany, and Switzerland—there is an independent budget at every level of the budgetary system, and fiscal powers are clearly divided. In these countries, clear norms govern both the level of taxes and the regulation of budget expenditures between federal and subnational authorities. On this basis, the tax system and interbudgetary allocations also serve to ensure economic stability.

In the fourth group of Southern and Western European countries—Belgium, Greece, Spain, Italy, the Netherlands, Portugal, and France—regional budgets are highly financially dependent on the central budget, and a centralized budget policy takes precedence. In these countries, taxes and fiscal transfers are strictly controlled by the central government, and subnational budgets rely primarily on transfers from the center. As a result, the system for allocating taxes among budgets is determined by a centralized fiscal policy.

This classification is of significant scientific and practical importance for conducting an in-depth analysis of inter-budget relations models in developed countries and their effectiveness. In particular, it enables the identification, generalization, and adaptation of advanced international experiences in the process of improving national budget policy. This classification of inter-budgetary relations serves as a methodological basis for assessing fiscal centralization, the distribution of financial resources among regions, and the efficiency of public service delivery.

Among the 38 OECD member countries, in 28 countries, the centralization of primary fiscal revenues in the central, i.e., state budget, is considered a priority. Therefore, when analyzing the inter-budget allocation of taxes, special attention is paid to the experience of countries with large economic potential, complex fiscal systems, and well-developed institutions. This approach allows for a comprehensive analysis of the main models of inter-budget tax allocation, the degrees of fiscal centralization and decentralization, and their economic efficiency.

Table 2 below presents statistical data on the inter-budgetary distribution of taxes in developed countries. Based on these, one can identify the characteristics of the distribution of financial resources between state and local budgets and their changing trends over time.

Table 2 Intergovernmental distribution of taxes in developed countries (million US dollars) [13]

Country	Year	State budget	Local budgets
Austria	1995	47 103	1 294
	2005	87 416	2 048
	2015	110 388	2 521
	2023	142 835	4 210
Belgium	1995	54 377	1 659
	2005	98 277	8 520
	2015	110 364	15 507
	2023	141 695	26 644
Canada	1995	82 720	78 447
	2005	171 295	146 225
	2015	209 827	200 775
	2023	326 601	286 867
Germany	1995	216 240	148 902
	2005	303 278	219 623
	2015	404 317	286 509
	2023	483 596	403 808
Australia	1995	85 584	21 018
	2005	186 085	33 840
	2015	274 114	58 968
	2023	425 526	86 119
Spain	1995	73 666	7 194
	2005	182 661	58 114
	2015	171 638	56 879
	2023	244 834	93 570
Switzerland	1995	25 431	19 442
	2005	38 026	27 570
	2015	64 023	44 979
	2023	58 135	44 869
United States	1995	840 645	406 511
	2005	1 392 812	682 331
	2015	2 045 901	921 083
	2023	2 951 123	1 456 983

This table shows the distribution of taxes and revenues at the national and local budget levels in developed countries for the period 1995–2023. The table's data show that in all countries, the size of the state and local budgets has exhibited a steady growth trend over time. This indicates economic development, an expanding tax base, and growing fiscal capacity of the government. In particular, in large economies such as the US, Germany, and Canada, the absolute size of central government revenues is high, indicating that fiscal policy in these countries is institutionally robust.

At the same time, the table shows that in federal states the share of local budgets is relatively high. For example, in Canada, Germany, the United States, and Sweden, local budget revenues are close to or represent a significant portion of the national budget. This indicates that the degree of fiscal decentralization in these countries is high, meaning that regional and local authorities have a certain

degree of financial autonomy in collecting and using taxes. Such a system allows for more efficient delivery of public services while taking into account the needs of the regions.

In developed countries, the inter-budget allocation of taxes is considered an important tool for ensuring the country's fiscal policy and regional development. This process aims to allocate financial resources between central and local budgets, reduce economic disparities between regions, and ensure the stable and efficient delivery of public services. The table data shows that in federal states, local government revenues constitute a significant share, indicating the fiscal independence of regional authorities. In contrast, in countries such as Belgium, Austria, and Spain, local budgets are relatively small compared to the national budget, reflecting the primacy of a centralized budget policy. At the same time, the size of local budgets in these countries has been increasing over the years, indicating a gradual expansion of regional financial capabilities.

International experience shows that the effectiveness of inter-budgetary tax allocation is closely linked to a country's institutional characteristics, the degree of fiscal centralization and decentralization, as well as economic conditions. In developed countries, countercyclical fiscal measures are widely used to mitigate the negative effects of economic cycles: demand is stimulated during economic downturns by increasing government spending and reducing the tax burden, while stability is maintained during periods of economic growth through fiscal consolidation. In this way, inter-budget allocation models and countercyclical fiscal mechanisms, being organically linked, serve to ensure the high-quality and uninterrupted provision of public services.

Conclusion

An analysis of the experience of developed countries shows that the effectiveness of the inter-budgetary tax allocation system is determined, first and foremost, by the clear distribution of fiscal powers and the stability of revenue sources. In the countries studied, the process of distributing taxes between central and local budgets is carried out based on the regions' tax base, population size, and social spending needs. As a result, while the financial independence of regions increases, the equality of government services across regions is ensured.

The analyses conducted show that the existence of inter-budget transfers and fiscal equalization mechanisms significantly increases the efficiency of tax allocation. In particular, the budgetary support for economically less developed regions is strengthened through progressive taxes and compensatory grants. This contributes to reducing socioeconomic disparities between regions and ensures the stable financing of key sectors such as healthcare, education, and social protection.

Research findings indicate that the most effective models for inter-budgetary tax allocation are those based on the principles of fiscal transparency, clear norms, and accountability. Such systems enable the prudent use of state financial resources and ensure long-term financial stability. At the same time, the analysis results indicate the need to improve inter-budgetary relations by adapting the experience of developed countries to national conditions.

In Uzbekistan's practice, it is appropriate to use the experience of developed countries to improve the inter-budgetary tax allocation system. In particular, balancing their levels of fiscal centralization and decentralization, increasing the financial autonomy of local budgets, Their advanced experience in balancing levels of fiscal centralization and decentralization, increasing the financial independence of local budgets, thereby optimizing the allocation of resources at the local level, ensuring high-quality and stable public services, as well as reducing socio-economic disparities between regions and applying

countercyclical fiscal measures, can be effectively applied in the context of Uzbekistan. This creates an opportunity for the optimal allocation of resources at the local level, the high-quality and stable provision of public services, as well as the mitigation of the negative consequences of economic cycles. Overall, the positive experiences of developed countries contribute to making Uzbekistan's fiscal policy more effective, equitable between regions, and socially stable.

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