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Prospects for Increasing the Income of Local Budgets Based on Foreign Experience

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Abstract:

The article describes the procedures for the formation of revenues of local budgets in the countries of the world, the scientific and practical basis of regulating the revenues of local budgets based on the experience of foreign countries. In the practice of foreign countries, the role of the state and local government authorities in solving the financial problems of local governments is thoroughly analyzed, the features of local government models are revealed, and the prospects for increasing the stability of local budgets' incomes and the possibilities of ensuring the stability of local budgets' incomes are based. On the basis of foreign experience, practical recommendations have been developed to achieve stability of local budget revenues.

Keywords: attached revenues, local government models, local budget, local budget revenues, local authorities, local taxes, foreign experience, regions, regional economy.

In the contemporary period, in foreign and local practice, solving the financial problems of local authorities is one of the urgent tasks of the state and local government authorities.

Actions to ensure the financial and budgetary solvency of local authorities by the state government and local self-government bodies should be focused on creating mechanisms to stimulate the development of the revenue potential of regions.

Currently, improving the efficiency of local budgets and using their potential requires solving some interrelated problems. Including:

- to search for effective ways of increasing the financial resources of local budgets and to develop a mechanism for strengthening their income bases on a scientific basis;

- encourage local budgets to consistently strengthen their income and increase it;
- ensure the unity of the budget and tax policy and achieve this consistency in the planning of revenues and expenses of local budgets;
- improvement of relations between budget units in order to increase their interest, when the rights and obligations of local budgets are given wide opportunities.

Another way to strengthen the income base of local budgets is to improve the criteria for the distribution of income sources between the republic budget and local budgets.

It is known that local government organization models are developed based on the development strategy of each country and are widely used in practice.

Table 1. Models of local government[1]

Local management model	Countries	Strengthening of power	Centralization of power	Decentralization of power
Anglo-Saxon economy is typical of developed countries	Great Britain, Canada, USA, Australia, New Zealand	Lack of constitutional status is, as a rule, regulated by relevant legal acts	Permission to local authorities within the given powers	High formal autonomy, absence of authorized representatives in the field, autonomous within the scope of powers
It is typical for countries in a continental, crisis economy	France, Italy, Spain, Belgium and Latin American countries, the Middle East, French-speaking African countries	Special laws on local government	The presence of a special representative of the central authority authorized to exercise state control over the activities of local state authorities at the local level.	A certain hierarchy of the local self-government system, the subordination of lower levels to higher ones.
Mix	Germany, Austria, Japan, some post-socialist and developing countries.	It is regulated by the Constitution and special laws	State administration at the higher territorial level of local self-government	Autonomous local government at the local level
Governing council	China, Cuba, Korea, Belarus		Autocracy from top to bottom, strict centralization of the system of representative and executive bodies, hierarchical subordination of all its links.	

The experience of developed countries shows that in the conditions of a stable market economy, inter-budgetary relations help to form sufficiently independent local budgets, taking into account the needs of local regions.

[1] Морунова Г.В. Муниципальные финансы в трансформационной экономике. Диссертация на соискание ученой степени доктора экономических наук. Санкт-Петербург-2019.стр-40

Until now, there is no optimal ratio of equalization of budget support aimed at strengthening and balancing of local budgets by redistributing the powers of income and expenses of various levels of state authorities and providing incentives for the development of the revenue potential of local authorities.

The financial independence of local budgets is based on the distribution of state resources between the links of the budget system.

Currently, the formation of an effective mechanism for regulating the socio-economic development of the regions by the state is gaining urgent importance. In the practice of developed countries, one of the important tools in this process is regulation through taxes. The mechanism of regulating the development of regions by means of taxes can be defined differently in different periods. In most countries of the world, local budget revenues are formed from the revenues of two groups.

The first group is the local authorities' own income, including taxes and fees assigned to local budgets, fines, deductions from republican taxes, income from property management and other economic activities, voluntary donations, etc. (internal sources). In some countries, this also includes loans and bonds from local governments.

The second group includes financial support in the form of transfers from higher budgets.

As a result of the state's emphasis on taxes in the regulation of the economy in the conditions of a free market economy, the direct intervention of the state in the economy is sharply reduced. As a result, the development of economic entities is largely dependent on the tax policy formed in the country. In fact, in the conditions where taxes constitute the share of the state in the income of taxpayers, if their presence at the standard level serves the development of the economy, the hidden economy begins to develop due to the heavy tax burden. It is known that no businessman does business because he wants to pay taxes. Therefore, taxes should be fair and reasonable.

As revenues from taxes and fees attached to local budgets cover a small part of local budgets' expenses, the main part of local budgets' income is formed by means of inter-budget regulation, by allocating allocations from regulatory taxes according to regulations.

Table 2. The share of tax revenues between the budgets of the budget system [2], *As a percentage of GDP*

№	States	Central budget	Regional budget	Local budget
1.	Australia	22,4	4,3	1,0
2.	Austria	27,6	0,9	1,3
3.	Belgium	21,7	4,5	2,1
4.	Canada	14,1	13,4	3,3
5.	Germany	11,3	9,2	3,3
6.	Switzerland	9,8	6,8	4,3
7.	USA	10,0	5,2	3,7
8.	Czechia	18,9	-	1,7
9.	Denmark	34,5	-	12,0
10.	Finland	20,6	-	9,6
11.	France	14,6	-	6,1
12.	Greece	26,1	-	1,0
13.	Italy	24,2	-	4,8
14.	Japan	11,1	-	7,4
15.	Korea	15,3	-	4,7
16.	Norway	33,7	-	6,2

[2] https://read.oecd-ilibrary.org/taxation/revenue-statistics

17.	Sweden	22,2	-	15,2
18.	Great Britain	24,4	-	1,7

In the countries of the world, a number of measures are being implemented to increase the share of taxes in budget revenues, which are considered the main income of local budgets, and to ensure the financial stability of local budgets. In particular, there are significant differences in the share of tax revenues of local budgets in GDP in the member states of the Organization for Economic Cooperation and Development (OECD) in recent ears, including 15.2 percent in Sweden, 12.0 percent in Denmark, 9.6 percent in Finland, 7.4 percent in Japan, percent that it has a high proportion, 2.1 percent in Belgium, 1.7 percent in the Czech Republic, 1.3 percent in Austria, and 1.0 percent in Greece, percent that it has a bit low proportion[3].

Table 3. Distribution of total tax revenue in unitary countries[4], *(in percent)*

№	States	Central budget	Local budget	Social insurance funds
1.	Czechia	54,6	1,0	44,4
2.	Denmark	74,3	25,7	0
3.	Finland	49,3	22,8	27,9
4.	France	32,9	13,7	53,4
5.	Greece	66,2	2,4	30,9
6.	Hungary	62,7	5,8	31,2
7.	Italy	57,0	11,4	31,2
8.	Japan	35,5	23,5	41,1
9.	Korea	56,0	17,3	26,7
10.	Netherlands	67,6	4,8	26,9
11.	Norway	84,5	15,5	0
12.	Sweden	51,9	35,5	12,3
13.	Great Britain	74,6	5,2	19,7

In unitary countries, the share of total tax revenues in local budgets was 35.5% in Sweden, 25.7% in Denmark, 22.8% in Finland, 23.5% in Japan, 17.3% in Korea[5]. Also, the Czech Republic had 1.0 percent, Greece 2.4 percent, and the Netherlands 4.8 percent and had the lowest share.

In Italy, local taxation is directly at the discretion of the owner, and the amount of taxes on the devices he uses is determined on the basis of special rates similar to land rates. The amount of taxes on leased buildings is formed based on the annual rent[6].

When calculating the amount of income from buildings, houses in the city, country yards, workshops and other buildings that the owners use for living or renting are taken into account. Such practice is not applied to agricultural buildings (cattle houses, storage warehouses for agricultural products, etc.), as well as to various additional buildings of trade enterprises. Local income tax is the source of local self-funding. According to the tax reform, it is collected by the central government and transferred in full to the respective local governments.

Local income tax payers can be both private individuals and corporations. However, the object of taxation will not be all incomes that are taken into account when calculating basic income taxes. In particular, there are significant differences in personal income taxes. For example, income from employment, interest on securities and savings, if the basic income tax has been deducted from them at source, income received outside the country is not taxable. In other words, private individuals pay this tax from the revaluation of real estate, profit from speculative transactions with

[3] https://read.oecd-ilibrary.org/taxation/revenue-statistics-2021_6e87f932-en#page32
[4] Tax revenues by subsectors of general government | READ online (oecd-ilibrary.org)
[5] Tax revenues by subsectors of general government | READ online (oecd-ilibrary.org)
[6] https://europa.eu/youreurope/citizens/work/taxes/income-taxes-abroad/italy/index_en.htm.

securities, income from business, as well as. they pay from wages received from free professions. In practice, this means that the local income tax does not cover a wide range of workers.

Regarding corporate differences, the differences in the calculation of taxable income for basic and local taxes are not significant. It is allowed to deduct income from foreign branches from the company's total income. Local income tax news mainly consists of increasing the preferential deductions from the taxable amount. Craftsmen and artisans, as well as businesses engaged in retail trade, food and beverage deliveries to public institutions or canteens, can reduce their declared income by another 30 percent. In addition, the local tax exemption is used by the state as a means of encouraging capital investment in the economically backward southern districts of the country.

In Switzerland, the cantons have the right to levy any taxes not under the exclusive jurisdiction of the Confederation. Municipalities can only collect taxes that cantons authorize them (declared fiscal jurisdiction). Municipal taxes on income and net assets are in most cases set as a percentage or a component of the basic cantonal tax rate.

All cantons levy an annual tax on vehicles and any trailers. All cars and trailers in Switzerland must have Swiss number plates. Issuance of vehicle licensing and registration documents is carried out in the cantons. Generally, cars registered in the name of the Confederation, cantons, municipalities or representative offices of foreign companies are not taxed. The tax is collected from the person who is the owner of the car and has the car's documents and number plates in his name. The amount of tax varies depending on the type of car.

The main source of income tax revenue for UK local budgets is property tax. This tax is collected from owners or lessors of real estate - land, residences, shops, institutions, factories and factories. These taxpayers include persons who rent housing and pay rent for an apartment. At the same time, the tax authorities also tax the owners of vacant real estate. Agricultural lands and buildings on them (including residential buildings), as well as churches, are not taxed. The tax base is the annual net value of the property. Revaluation of the property is carried out every 10 ears to bring it closer to the amount that can be obtained when renting the property.

The rate of property tax is set by the municipality based on the need for financial resources, so it varies between counties and cities in the UK. The tax is collected every six months, once every quarter or ten times in equal shares. The legislation provides for some local tax benefits (tax deductions, 50% rate reduction) for the poor.

The amount of municipal tax is determined based on the value of the property, and for this a scale of the ratio of the specific housing value and the amount of tax is created. In this case, the calculation is carried out in such a way that two people live in each house or apartment. If there are more residents, this is not included in the account, provided that there is only one person, a discount of 25 percent will be given to him. Property is classified in one of eight assessment categories and taxed at tiered tax rates[7].

Local taxes play an important role in the French tax system. Local bodies provide about 80,000 independent budgets (communes, departments, regions, etc.). The total part of local budgets makes up to 60 percent of the country's state budget. Their dynamics is characterized by high growth rates.

In our republic, taxes are one of the important means of regulating the economy by the state, but in practice, the existence of a number of problems in this regard does not allow the effective functioning of the mechanism of regulation by means of taxes. Although current taxes are involved in the process of regulating the economy to a certain extent, they are fiscally high. Therefore, taxes have not become the main tool in the relationship between entrepreneurs and the state. In addition to taxes, entrepreneurs are strongly influenced by the state authorities, including local authorities, and

[7] Gediminas Davulis.Analysis of a situation on local taxes in Lithuania. https://www.mruni.eu/upload/iblock/648.

the possibility for entrepreneurs to negotiate with officials on lighter terms than tax legislation creates ample conditions for the further expansion of the activities of entities operating secretly in the country. This situation does not allow the government to implement the mechanism of regulation of the economy through taxes at the level envisaged and has a negative impact on the development of the regions.

In our opinion, without denying the problems in the tax system formed in practice, the high level of influence of the state on the economy by administrative means limits the possibilities of economic development. Especially in the conditions of sharp differences in the level of development of the regions of the country, if taxes do not become the main means of regulation, it can lead to increasing problems in this regard. Because newly created value (or profit) should be distributed between property owners and the state. This does not allow the full implementation of state policy in the presence of "other owners" of income. At the same time, artificial obstacles for business activity begin to appear. All this ultimately has a negative impact on the development of the country and regions.

In the practice of developed countries, the following directions are widely used in regulating the economy by means of taxes:

- making changes in the composition and structure of the tax system;
- changing tax rates and benefits;
- establishment of free economic and offshore areas.

There are a number of factors such as the uneven distribution of resources in the regions of the country, the lack of development of the market infrastructure under equal conditions, and the different level of development of the industry, which does not allow for the uniform development of the regions. Therefore, it is necessary to take into account their level of development when the state regulates the economy, including the economy of regions.

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