



ENHANCING THE EFFECTIVENESS OF THE TAX ON THE USE OF WATER RESOURCES

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Annotation *The article highlights the economic essence and significance of the tax on the use of water resources, the existing problems within its mechanism, and potential solutions. The author presents proposals and recommendations aimed at enhancing the effectiveness of this tax in ensuring the efficient and rational use of water resources.*

Key words: *efficient use of water resources, modern water-saving technologies, tax on the use of water resources, tax rates.*

Аннотация *В статье рассмотрены экономическая сущность и значение налога за пользование водными ресурсами, проблемы данного налогового механизма и пути их решения. Автор описал свои предложения и рекомендации по повышению влияния налога за пользование водными ресурсами в обеспечении эффективного и рационального использования водных ресурсов.*

Ключевые слова: *эффективное использование водных ресурсов, современные водосберегающие технологии, налог за пользование водными ресурсами, налоговые ставки.*

Today, the shortage of water resources — especially clean drinking water — is becoming a global issue in many countries around the world. In particular, due to global climate change, population growth, and the increasing demand for water year after year, the scarcity of water resources is intensifying. Water reserves make up only one-thousandth of the Earth's total mass. Of this, 97.5% consists of saline ocean

water, and only 2.5% is fresh water. While the total amount of global water resources remains unchanged, the world population continues to grow each year. As a result, the issue of supplying the growing population with fresh water is becoming increasingly urgent. These factors clearly highlight the necessity for efficient and rational use of water resources.

Under such circumstances, it is essential to prioritize the economical use of water resources. In this regard, as emphasized by the President of the Republic of Uzbekistan, Shavkat Mirziyoyev: *“In today’s global environment, especially in our region, it is imperative to take urgent measures to ensure the rational and efficient use of water resources, which are decreasing year by year.”*

Over the next five years, it is necessary to introduce drip, sprinkler, and other water-saving irrigation technologies on at least 30 percent of irrigated lands. In addition, a system for water accounting should be implemented, and a consistent water balance should be maintained [1]. Based on these tasks, it is currently crucial to systematically regulate the use of water resources in our country and to strengthen the economic mechanisms involved. According to legislation: *“Water is the state property of the Republic of Uzbekistan — a national wealth. It must be used rationally and is protected by the state”* [2]. Therefore, water resources must be regarded as state property and used efficiently and wisely as a national asset.

One of the key conditions for the efficient use of water resources is the introduction of modern water-saving technologies. In our country, the main share of water consumption — 45.9 billion m³ or 90% — is used in agriculture. Meanwhile, 2.3 billion m³ or 4.5% is used in public utilities, 2.2 billion m³ or 4.3% in industry and energy, and 0.6 billion m³ or 1.2% in the fisheries sector [3]. Since the majority of water consumption is allocated to agriculture, it is of utmost importance to develop and implement mechanisms for efficient water use in this sector. In global practice, drip irrigation technology is widely used to increase efficiency in agricultural water usage. For example, the share of drip irrigation systems in total

irrigated areas is 5% in Spain, 6% in India, 7.3% in the USA, 9.7% in China, 17% in Saudi Arabia and Turkey, and 74% in Israel. In Uzbekistan, this figure stands at only 7.1% [3]. Therefore, it is necessary to widely implement drip irrigation systems, reduce water wastage, and carry out these measures systematically to ensure efficient use of water resources in our country.

The main principle of economically regulating the rational use, restoration, and protection of water resources is to introduce a paid system of water usage. In this regard, the water tax collected from water users plays an important role in implementing fiscal policy.

As is well known, the primary function of taxes is fiscal — forming state budget revenues. However, in addition to their fiscal role, taxes also serve as a powerful mechanism for regulating and stimulating economic processes. Accordingly, taxes perform both regulatory and incentive functions. The tax on the use of water resources has been introduced precisely for this purpose. While it holds fiscal significance, its role in encouraging efficient water usage further enhances its importance. From this perspective, increasing the effectiveness of this tax has become a matter of current urgency.

In recent years, although a number of changes have been made to the mechanism of the tax on the use of water resources, in practice, it cannot be said that this tax is fully fulfilling its intended functions. Therefore, it is necessary to critically examine the current state of this tax and implement targeted measures to eliminate the emerging issues — this is a pressing requirement of the time.

Although both foreign and local scholars have conducted research on taxing water users, the tax on the use of water resources remains one of the relatively less-studied topics.

Economist M. Baldayeva, in her research on financial relations in the process of water use, emphasizes that *"the mandatory nature of payment for water by all users should be considered a fundamental principle. Providing exemptions to*

certain users creates an additional burden for others. Exemption from payment does not encourage the efficient and rational use of water resources" [4]. Although the obligation to pay the tax has been introduced for all business entities, the relatively low tax rate does not allow the tax to achieve its objectives effectively.

Economist D. Qurbanov, who has studied the water use tax in Uzbekistan, explored the mechanisms of calculating and collecting this tax in his research [5]. In his research, A. Musagaliev examined the water use tax as a source of income for local budgets [6]. Although the water use tax has been relatively less studied by both domestic and foreign scholars, in recent years this area has been receiving increased attention.

Economist G. Safarov, in his studies of the water use tax, states that *"the current mechanism of the tax on the use of water resources does not sufficiently encourage business entities to use water efficiently and rationally; under current conditions, the effectiveness and impact of this tax are insufficient"* [7]. Based on this, he proposed his own recommendations to improve the efficiency of the tax.

In conclusion, research shows that the scientific and theoretical study of the tax on the use of water resources, as well as a deep analysis of its current mechanism to identify and address existing problems, is one of the most urgent issues on the current agenda.

Levying and collecting a tax for the use of water resources plays a crucial role in ensuring their efficient and rational utilization. In Uzbekistan, based on the need to regulate relations concerning water resources, ensure their rational use for the population and the economy, and improve the condition of water bodies, the Law of the Republic of Uzbekistan "On Water and Water Use" was adopted on May 6, 1993 [2]. Taking into account the country's water scarcity and in order to promote the economical and rational use of water resources, a water use tax was introduced in 1995.

While the introduction of this tax for water users has fiscal significance, it also serves as an economic tool to promote the efficient and rational use of water resources.

The implementation of an optimal taxation system for the use of water resources is justified, firstly, by the necessity of ensuring their efficient and rational use, and secondly, by the need to finance government expenditures aimed at improving the quality of these resources.

The essence of the tax on the use of water resources is directly derived from the economic nature of taxation. If we consider its characteristics, we can clearly see that it bears the full features of a resource tax. The tax is determined proportionally to the amount of water used by business entities and is calculated based on the volume of water consumed and the applicable tax rate. Tax liabilities of business entities are not dependent on their turnover or profit but rather on the volume of water they consume. As is known, the tax base for the use of water resources is the volume of water used

Table 1

The Significance of the Tax on the Use of Water Resources in

Budget Revenues [8]

Indicators	Years					
	2019	2020	2021	2022	2023	2024
State Budget Revenues, billion UZS	112165,4	132938,0	164680,3	201863,7	231 720,7	274 423
Tax on the Use of Water Resources, billion UZS	314,5	478,8	684,4	704,1	791,4	1 173
Share in State Budget Revenues, %	0,28	0,36	0,42	0,35	0,34	0,43

During the period analyzed from 2019 to 2024, the share of the tax on the use of water resources in state budget revenues averaged only 0.36%, making it the tax with the smallest contribution. From this perspective, it becomes evident that this tax provides limited capacity for financing state budget expenditures aimed at improving the quality of water resources. For example, in Uzbekistan, the amount of this tax covered only 10.3% of water management operational expenses in 2021, 9.9% in 2022, 8.9% in 2023, and 10.4% in 2024 [8]. Therefore, the tax on the use of water resources is not adequately fulfilling its fiscal function.

It is well known that the adoption of the Concept for Improving the Tax Policy of the Republic of Uzbekistan led to a significant turning point in the taxation of natural resources and property. The introduction of property tax, land tax, and the tax on the use of water resources for all business entities has created an economic mechanism to encourage the efficient and rational use of such resources. However, due to the long-standing implementation of the simplified tax system in the national tax structure, many water-using business entities have been exempted from paying this tax, resulting in a significant portion of the water used in the country not being taxed. This, in turn, negatively affects the efficient and rational use of water resources.

Therefore, it remains urgent to critically analyze the mechanism of the tax on the use of water resources and to study how it impacts the efficiency of water use by business entities.

Analysis shows that the current mechanism of this tax is not sufficiently fulfilling its intended purposes. The efficiency of the tax largely depends on the tax base and applicable tax rates.

Modern methods are not sufficiently used in determining the actual volume of water used by business entities and in exercising tax authority control over them. Currently, tax authorities obtain data only after tax calculations are submitted by taxpayers, and only then can they monitor whether the tax has been paid on time.

However, with these outdated methods, it is no longer possible to achieve effective outcomes from the water use tax.

Therefore, it is necessary to digitize the sector, automate the processes of managing water infrastructure, and implement real-time accounting systems for water use. This will allow authorities to obtain daily data on the volume of water used by taxpayers and to establish a system of continuous monitoring to ensure complete and accurate tracking of taxable water usage.

Such measures cannot be implemented by the state tax service alone. Coordinated efforts among all authorized bodies involved in the sector are required.

Between 2019 and 2024, the share of the tax on the use of water resources in Uzbekistan's state budget revenues averaged just 0.36%, making it one of the least significant sources of tax income. This underscores the tax's limited role in financing state budget expenditures aimed at improving the quality and management of water resources. For instance, this tax covered only 10.3% of water management operational expenses in 2021, 9.9% in 2022, 8.9% in 2023, and 10.4% in 2024 [8]. Thus, the water use tax has not been effective in fulfilling its fiscal function.

The adoption of the *Concept for Improving the Tax Policy of the Republic of Uzbekistan* marked a turning point in the taxation of natural resources and property. The introduction of property, land, and water use taxes for all business entities established an economic mechanism to promote the efficient and rational use of such resources. However, due to the prolonged use of a simplified taxation system, many water-consuming businesses were exempt from paying this tax. As a result, a significant portion of the water used nationwide remains untaxed—undermining incentives for sustainable and efficient water usage.

This highlights the pressing need to critically assess the current water use tax mechanism and evaluate its impact on encouraging efficiency among business entities.

Analysis shows that the existing tax mechanism is not effectively achieving its intended goals. The effectiveness of the water use tax is largely dependent on the scope of the tax base and the rates applied.

Currently, modern tools are not widely used to measure the actual volume of water consumed by business entities or to enable adequate oversight by tax authorities. Tax authorities typically receive information only after taxpayers have submitted their declarations, at which point they can assess whether the tax was paid on time. This reactive approach is insufficient for managing the tax effectively.

To address this, the sector must be digitized. This includes automating the management of water infrastructure, implementing real-time water usage monitoring, and ensuring that tax authorities have access to up-to-date information on daily consumption. Such measures would support a comprehensive and timely tax base and enable systematic monitoring.

Importantly, these efforts cannot be carried out by the State Tax Committee alone. Coordinated action among all relevant and authorized institutions is essential to achieving meaningful results.

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