

## THE ROLE OF THE TAX SYSTEM IN THE STATE REGULATION OF THE ECONOMY

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**Introduction.** Since ancient times, the economic category "tax" has played a special role in human life and in the regulation of the state. It is closely related to the preservation of the state, the maintenance of its structures and public spheres, the protection of certain classes of society, as well as social development.

In the modern world, the role of the state's participation is becoming more and more important in the regulation of the economy [Kirakosyan & Harutyunyan, 2014, 7]. The state is the main actor in the socio-economic life of the country, because in the conditions of any economy, each state is not only the promoter of the creation and implementation of business entities, but also regulator of economic relations. In order to achieve this goal, the state uses the tax instruments of macroeconomic regulation, through which the unity and completeness of the implemented policy is ensured by the tax system.

**Methodology.** The methodological basis for the scientific article was the analysis made on the basis of scientific articles regulating tax relations, which allowed us to study and analyze the objectives of taxation of modern state finances, to understand the meaning of taxes, and also helped to highlight their role in the implementation of state functions and financing of state expenses.

**Literature review.** At present, the forms of taxation around the world are different in developed and developing countries. In particular, developed countries, unlike developing countries, collect taxes based on their national output and they are mainly focused on income taxation, and on the contrary, the taxation system in developing countries emphasizes commercial and consumption taxes. Moreover, developed countries actually collect much higher tax revenues than developing countries, largely due to differences in the adequacy and effectiveness of tax collection mechanisms. [Esteban Ortiz-Ospina & Max Roser, 2016, 1]

The historical evolution of state revenues shows that taxes have played an important role in the development process of states. We can state that the main purpose of taxation is to increase state revenues in order to finance state expenditures. The latter

is not the only purpose of taxation. In other words, tax policy pursues certain goals that are not related to revenue generation.

**Scientific novelty.** The work refers to the study of the role of the tax system in the state regulation of the economy. The scientific article presents the objectives of modern state finance taxation, the importance of taxes from the point of view of economic justice and human rights, as well as the role of taxes in the implementation of state functions and the financing of state expenses.

**Analysis.** For the analysis of the article, let's study the objectives of modern state finance taxation, which are the following<sup>1</sup>:

- 1) economic development,
- 2) full employment,
- 3) price stability,
- 4) control of cyclic fluctuations,
- 5) reduction of balance of payments difficulties,
- 6) non-revenue purpose.

**Economic development.** The economic development of any country is largely determined by the growth of capital formation, which is the main driving force of economic development. Governments use tax revenues to increase public and private investment. Through proper tax planning, the ratio of savings to national income can be increased. The process of capital accumulation can be smoothen by raising existing tax rates or imposing new taxes.

One of the important elements of economic development is the increase in the ratio of savings to income, which can be effectively increased through tax policy. However, it is necessary to show proper caution in relation to investments. If financial resources or investments are directed to inefficient sectors of the economy, economic development may be jeopardized if the norms of the latter are increased. Thus, the tax policy should be applied in such a way that investments are made in the productive sectors of the economy.

**Full employment.** Since the level of employment depends on effective demand, a country that wants to achieve full employment must reduce the tax rate. As a result, the disposable income will increase and the demand for goods and services will increase. The latter will stimulate investments that will lead to increased income and employment through a multiplier mechanism.

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<sup>1</sup> <https://www.economicdiscussion.net/government/taxation/taxation-objectives-top-6-objectives-of-taxation-discussed/17450>

*Price stability.* Taxation can be used to ensure price stability, which is the short-term goal of taxation. Taxes are seen as an effective way to control inflation. By increasing the rate of direct taxes, private expenditure can be controlled, as a result of which the pressure on the product market decreases. But indirect taxes on goods fuel inflationary trends. On the one hand, high prices of goods hinder consumption, on the other hand, they stimulate savings. The opposite effect will occur when taxes fall during deflation.

*Control of cyclical fluctuations.* Controlling cyclical fluctuations-boom and bust periods-is another goal of taxation. During a crisis, taxes are reduced and during a boom, taxes are increased in such a way that cyclical fluctuations are mitigated.

*Reduction of balance of payments difficulties.* Taxes and customs duties are used to control imports of certain goods in order to reduce the intensity of balance of payments difficulties and stimulate domestic production of import substitution goods.

*Non-revenue purpose.* Another purpose of additional or non-revenue taxation is to reduce income and wealth inequality. It can be implemented by taxing the rich at a higher rate than the poor or by introducing a progressive taxation system.

Summarizing the purposes of taxation, we can come to the conclusion that taxation has always been and remains the main tool of economic policy in the modern world, because it is one of the main types of activity of all states and is a necessary condition for everything that states do<sup>1</sup>.

Thus, governments collect taxes and fees from their citizens and businesses as a means of increasing revenue, which is then used to meet their budgetary needs. It includes the financing of state and public projects and the creation of a favorable business environment for economic growth in the country<sup>2</sup>.

Taxes play a vital role in financing public expenditure on basic social services such as education, health and social security. Effective public expenditure that meets the needs of the people requires the collection of sufficient tax revenues. Experience has shown that tax structures, no matter how brilliant they may be in theory, may have limited effectiveness if they carry out their activities inefficiently or corruptly.

Studying and analyzing the role of the tax system in the state regulation of the economy, we can come to the conclusion that without taxes governments would not be able to meet the demands of their societies. Taxes are very important because governments collect this money and use it to finance social projects. In particular:

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<sup>1</sup> <https://www.annualreviews.org/doi/10.1146/annurev-polisci-052615-025442>

<sup>2</sup> <https://richardklein CPA.com/importance-of-taxes/>

➤ Without taxes, government investments in the healthcare sector would not be possible. Taxes are used to finance medical services such as social health care, medical research, social security, etc.

➤ Governments attach great importance to the development of human capital, and education occupies a central place in this process. The money from the taxes is directed to the financing, supply and maintenance of the state education system.

➤ Governance is the most important component of smooth management of country's affairs. Good governance ensures that the collected revenue is used in a way that benefits the citizens of the country. These amounts are also used for paying the salaries of civil servants, police officers and others.

Other important sectors are infrastructure development, transport, housing construction, etc. In addition to social projects, governments also use the money collected from taxes to fund areas that are important to the well-being of their citizens, such as security, scientific research, environmental protection, etc. Part of the revenue is used to finance projects such as pensions, unemployment benefits, child care benefits, etc.

At the same time, taxes can affect the economic growth of the country. Taxes mainly contribute to the country's gross domestic product. Thanks to this investment, taxes help stimulate economic growth, which in turn has an impact on living standards, job creation, and other factors.

The government also uses taxes as a deterrent to undesirable activities such as alcohol consumption, tobacco use, etc. To achieve this goal, the latter impose high excise taxes on these products and raise the price of these products so that people buy or sell less of them.

To flourish the business, there also must be good infrastructure in the country, such as roads, electricity, etc. The latter are created by governments or with their close participation. Governments direct part of the tax revenues to the development of these infrastructures and in turn contribute to the economic activity of the country.

As a result, we can note that the main types of public expenditures are: financing of public administration bodies, implementation of purchases in the private sector of the economy, providing support to individual sectors and branches of the economy, financing of social insurance and social assistance programs, public debt service [Bostanjyan, 2017, 85].

**Conclusion.** In other words, we can say that taxes help to raise the standard of living in the country. The higher the standard of living, the higher the level of consumption. Businesses thrive when there is a market for their products and services. With a higher standard of living, business will also be supported by a higher level of

domestic consumption. It is therefore important that citizens strive to pay taxes and realize that it is more than just paying money to the government.

Thus, we can conclude that the collection of taxes and duties is the main means of obtaining public revenue for countries, which allows to finance investments in human capital, infrastructure and provide services to citizens and businesses.

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### **The role of the tax system in the state regulation of the economy**

*Key words: tax revenue, taxation objectives, tax policy, source of financing, public expenditure.*

The article is devoted to the study of the role of the tax system in the state regulation of the economy. The goals of taxation of modern state finances, the importance of taxes from the point of view of economic justice and human rights were studied and analyzed, as well as their role in the implementation of state functions and the financing of public expenditures was highlighted. As a result of the analysis in the article, we came to the conclusion that without taxes, governments would not be able to meet the demands of their societies, because they collect taxes and direct them to finance state and public projects and create a favorable business environment for economic growth in the country. At the same time, we can note that the collection of taxes and duties is the main means of obtaining public revenue for countries, which allows to finance investments in human capital, infrastructure and provide services to citizens and enterprises.