# TAX INCOME OPTIMIZATION OF LOCAL BUDGET IN KAZAKHSTAN

**Manet Nurmaganbetova, Kazakh-Russian International University**
**Niyazbayeva Aigul, K. Zhubanov Aktobe Regional University**

## ABSTRACT

*This article deals with forming tax revenues of local budgets in Kazakhstan. Local taxes and fees are significant in the tax system of Kazakhstan, since they are a stable and independent source of income for local budgets. At the same time, implement of some nationwide social tasks is impossible without local financial resources. Funds from local budgets allow stimulating and supporting entrepreneurship in the region. Local budgets also finance the costs of supporting the activities of state institutions and the implementation of budget investment projects in various areas. The author defines the economic nature and functions of local budgets. Foreign experience is studied in solving problems of strengthening local budget revenues on the example of Germany, Mexico, the United States and Russia. The activities carried out by the leadership of Kazakhstan on the development of local self-government are shown, and problems of intergovernmental relations are noted.*

**Keywords:** Budget, State Budget, Local Budget, Kazakhstan, Budget Investment Projects.

## INTRODUCTION

There are state budget, local budgets, tax and non-tax revenues of local budgets in the article. Revenues of local budgets, the structure of revenues to local budgets for 2018 are analyzed. The definition of targeted transfers is given. The main issues of formation and optimization of tax revenues of local budgets in Kazakhstan are considered: inefficient tax planning and forecasting; lack of local budgets funds. There are solutions to these problems: the use of modeling in the process of forecasting and planning taxes, the distribution of the largest taxes between state and local budgets, the introduction of a corporate model of the budget mechanism of European countries, the creation of a more efficient financial base of local budgets, and the provision of local authorities the right to accept within the law, independent decisions on the organization of the budget. The regions of Kazakhstan have significant differences in the size of the taxable base. Consequently, there are various possibilities in the formation of the revenue part of the budget. The mechanism of intergovernmental relations should work on new principles that ensure the independence of local authorities, as well as taking into account the interests of the state and the formation of human capital that meets the requirements of society modern development.

### Purpose of the Study

The aim of the study is to study the optimization of tax revenues of local budgets on the example of foreign countries.

### Research problem

1. Study of the implementation of the corporate model of the budget mechanism on the example of European countries;
2. Proposal of an optimal model for strengthening the financial base of local budgets;
3. Development of recommendations to optimize the process of formation and use of local budgets.

## LITERATURE REVIEW

The importance of local budgets, including both regional budgets, and cities of regional significance and districts, is difficult to overestimate, almost all the activity of providing public services to the population is carried out at this level (Figure 1).
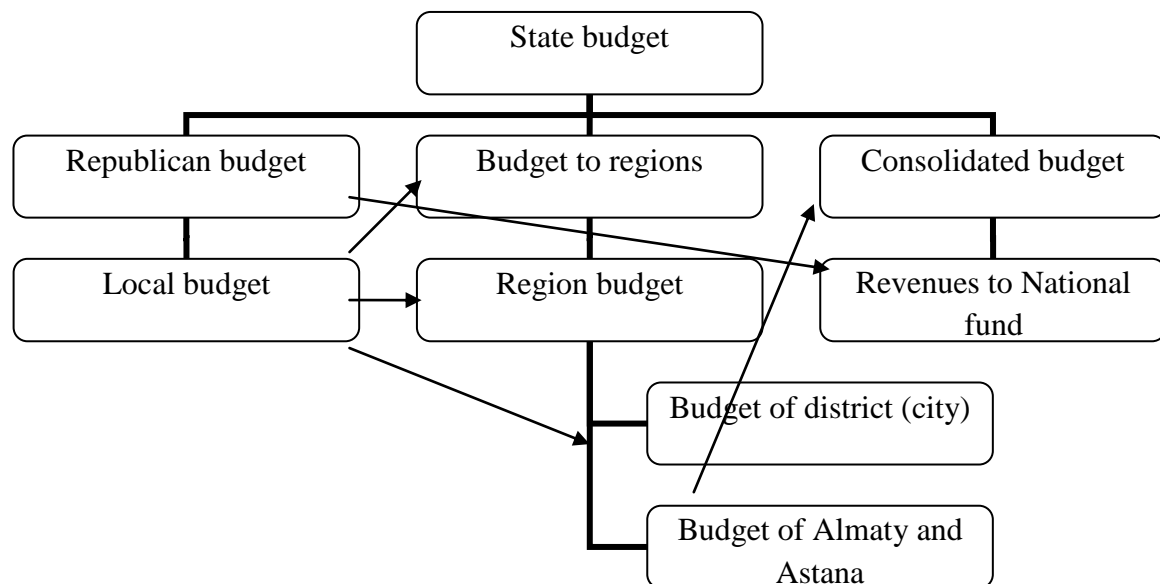


Note: Authors' Compilation

**FIGURE 1**
**TYPES AND LEVELS OF BUDGETS IN REPUBLIC OF KAZAKHSTAN**

A separate category of budgets as centralized monetary fund's compiled for use as analytical information are the state and consolidated budgets, the regional budget. These budgets are needed to improve the management of public financial flows, planning and analysis of key indicators and proportions of the budget system, as well as in the preparation of reports on budget execution. They are a kind of set of budgets of the corresponding levels of the budget system without taking into account mutually repayable operations between them. These budgets are not approved by any legislative (representative) authority; therefore they are not a legal document, performing the function of combining budgetary indicators for individual territories or the country as a whole (Bulash, 2013). Local budgets are one of the main indicators of the country's economy, which in many respects provide the level of the population consumption, centrally directing financial resources to solving strategic problems, developing priority industries in the region, agriculture and the social sphere. Budgetary and property rights granted to these bodies enable them to formulate, review, approve and execute their budgets, manage enterprises transferred to them and receive revenues from them. In the context of the financial crisis, the most topical issues are the formation and use of local budget funds, on which budget financing depends (Godin & Podporin, 2009). Economic essence of local budgets is manifested in their appointment. They perform the following functions:

1. Formation of monetary funds that are the financial support of local authority's activities;
2. Distribution and use of these funds among sectors of the national economy;
3. Control over the financial and economic activities of enterprises, organizations and institutions subordinated to these authorities (Apendiyev et al., 2019).

Budgets are the financial base of local governments. The basis of the state's financial system is decentralized finance, since it is in this area that the predominant share of the state's financial resources is formed. At the same time, a significant part of the funds is subsequently used to finance

budgetary organizations; commercial organizations in the form of grants, subsidies, and also returns to the population in the form of social transfers (pensions, allowances, scholarships, etc.) (Ganevich, 2009). Theoretical studies define budget decentralization as the transfer of management functions from central authorities to regional and local authorities (that is, the empowerment of lower-level budgets by reducing the powers of the federal budget) (Shvetsov, 2005). Real budgets decentralization of all levels is determined by the availability of own revenue sources and budgetary powers of local executive bodies. Decentralization makes it possible to increase the efficiency of management by bringing the authorities closer to the voters, and consequently, it makes it possible to more fully take into account the territorial characteristics and preferences of the population of each territory of the country. Local budgets are the main indicator of the effectiveness of the regional economy, they provide, in many respects, the level of consumption of the population of the region, as of them the development of the branches of the local and food industry and public utilities is financed (Istomina, 2012). Since local budgets provide for the development of the region, and the regions of Kazakhstan differ significantly from each other (in terms of climate, population, industrial development, natural resources, etc.), the financing of regional budgets should be different and take into account the specifics of the region. Among the regions of the republic, a significant difference in economic development is associated with a number of factors. It is known that the social and economic situation in the regions is associated with the presence of large enterprises, the number of people living, its age structure, etc. These factors determine the capacity of local executive bodies in the formation of revenues and the planning of local budget expenditures (Akberdina, 2015). Current situation of uneven economic development of the regions of Kazakhstan urgently requires the development of tools to assess the level and quality of life of the population as a criterion of management efficiency in the regions of Kazakhstan. Regional regulation policy should be aimed at reducing the scale of inter-regional disparities in the level of socio-economic development (Kim & Em, 2013). Raising local budget revenues depends on proper tax planning and forecasting of local governments, effective use of communal property.

## RESEARCH METHODS

We used a set of economic research methods in processing, studying and analyzing materials, united by a systematic approach to the study of this problem. At different stages of the work, analytical, graphical, economic and statistical, abstract logical, comparative research methods were used, with their various methods and techniques.

## RESULTS AND DISCUSSION

According to the Budget Code of Kazakhstan, revenues of local budgets are generated from taxes and non-tax revenues, transfers from the republican budget, revenues from the sale of fixed capital and revenues from financial assets. Each region and Almaty and Astana approves their own budget by decision of the respective maslikhat. In January 2018, there was a decrease in local budget revenues. So, for January in the budget of 264.1 billion tenge, against 284.6 billion tenge in the same period of 2017. This is 7.2% or 20.5 billion tenge less than a year earlier. Against the background of the reduction on the whole of Kazakhstan, in the plus - 6 regions. The highest growth was recorded in Mangistau (+17.2% yoy), Almaty (+16.1%) and Kyzylorda (+12.5%) regions. The largest reduction in revenues to the local budget - immediately by 27.6% per year - is observed in Astana. The capital budget received only 17.8 billion tenge, against 24.5 billion tenge a year earlier (Table 1) (Islam & Zayed, 2018).

| Table 1 INCOMES OF LOCAL BUDGETS, JANUARY 2018 (BILLION TENGE) | | | |
|---|---|---|---|
| | **2018** | **2017** | **Growth** |
| Kazakhstan | 264.1 | 284.6 | -7.2% |
| Mangistau region | 9.8 | 8.4 | 17.2% |
| Alma-Ata's region | 32.2 | 27.7 | 16.1% |
| Kyzylorda Region | 13.7 | 12.2 | 12.5% |
| North-Kazakhstan region | 9.8 | 9.0 | 9.7% |
| West-Kazakhstan region | 12.3 | 11.4 | 7.8% |
| Akmola region | 9.7 | 9.3 | 4.7% |
| Karaganda region | 21.2 | 21.9 | -3.4% |
| South Kazakhstan region | 28.9 | 30.1 | -4.1% |
| Pavlodar region | 11.5 | 12.3 | -6.3% |
| Kostanay region | 16.1 | 17.9 | -10.5% |
| Atyrau region | 17.4 | 19.8 | -11.7% |
| Almaty city | 30.6 | 36.8 | -17.0% |
| Jambyl Region | 12.3 | 15.6 | -21.4% |
| Aktobe region | 7.1 | 9.1 | -22.1% |
| East Kazakhstan region | 13.7 | 18.5 | -26.0% |
| Astana | 17.8 | 24.5 | -27.6% |

Note: In the calculations, data of the Ministry of Finance of Kazakhstan were used.

Main part of local budget revenues was tax revenues - 55.2%. Another 37.7% provided transfers. The smallest share of non-tax revenues and proceeds from the sale of fixed capital is 4.6% and 2.5%, respectively (Figure 2).
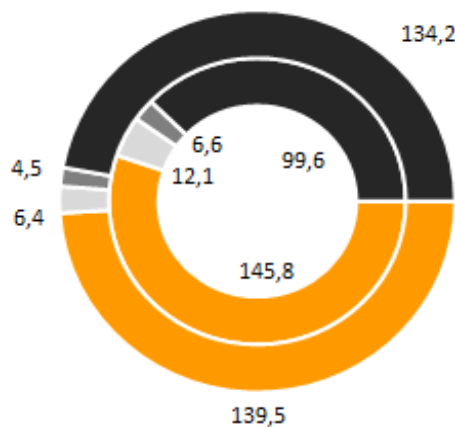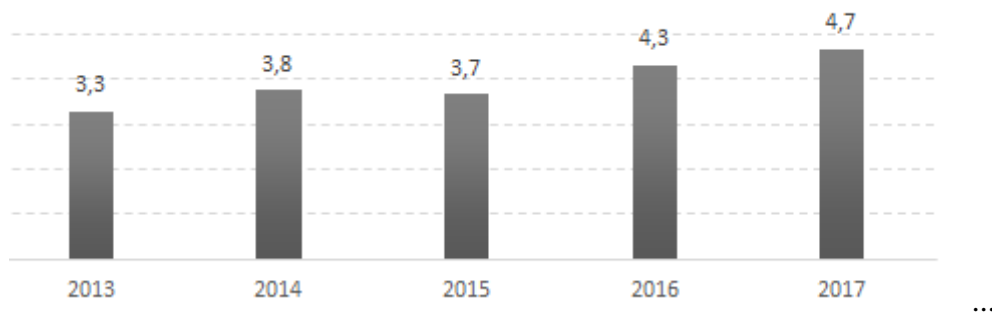


Note: In the calculations, data of the Ministry of Finance of Kazakhstan were used.

**FIGURE 2**
**TOTAL REVENUES OF LOCAL BUDGETS, JANUARY 2018 (BILLION TENGE)**
**INNER CIRCLE IS 2018, OUTER IS 2017**

The largest reduction in local budgets compared to the same period in 2017 was due to a decrease in transfers - immediately minus 25.8%, or 34.6 billion tenge, to 99.6 billion tenge, against 134.2 billion tenge a year earlier. Transfers are non-repayable, irrevocable, non-binding receipts. They appear in the form of subventions, donations, reparations and are irregular, one-time and voluntary (Nassimov et al., 2019). At the same time, in general, by the end of 2017, local budgets were replenished by 4.7 trillion tenge, which is 9.3% (400 billion tenge) more than a year earlier. For comparison, in 2016, local budgets collected 4.3 trillion tenge. In the long-term dynamics, the

positive trend has been preserved since 2016. Earlier, in the crisis year of 2015, on the contrary, there was a decrease in revenues in the sector (Figure 3).



Note: In the calculations, data of the Ministry of Finance of Kazakhstan were used.

**FIGURE 3**
**AGGREGATE REVENUES OF LOCAL BUDGETS**

Consider the indicators of revenues of local budgets for the seven months of 2018. Revenues to local budgets for the seven months of 2018 remained almost unchanged compared to the same period of 2017 and amounted to 2.7 trillion tenge (-1%). In the dynamics of the last five years, revenues of local budgets in the corresponding period increased by 779.7 billion tenge, or 41.6% (Figure 4) (Report of the Minister of Finance of the Republic of Kazakhstan B. Sultanov at a meeting of the Government on the results of the implementation of the state budget for the 7 months of 2018, 2018).



☐ - Rate of growth (%) ☐ - Revenue
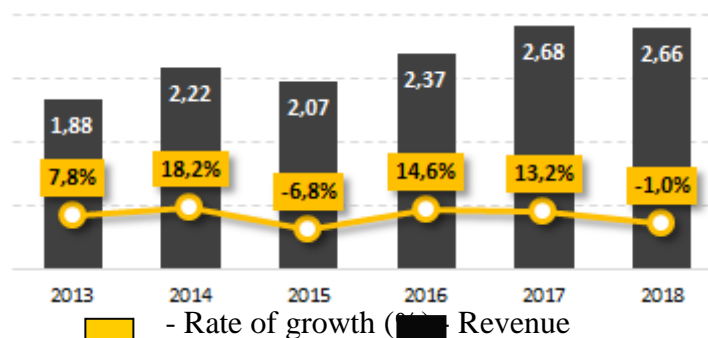
Note: In the calculations, data of the Ministry of Finance of the Republic of Kazakhstan were used.

**FIGURE 4**
**REVENUES TO THE LOCAL BUDGET, JANUARY-JULY 2018**

In the structure of revenues to the local budget, the main sources of income are transfers - 1.4 billion tenge (a year earlier - 1.5 billion tenge) and tax revenues - 1.2 billion tenge (a year earlier - 1.1 billion tenge). The total share of the two sources of income is 96.4% of all revenues (Table 2).

| Table 2 STRUCTURE OF REVENUES TO THE LOCAL BUDGET, JANUARY-JULY (BILLION TENGE) | | | | |
|---|---|---|---|---|
| | **2018** | **2017** | **Growth** | **Share** |
| In total | 2 655.8 | 2 682.5 | -1.0% | 100% |
| Receipts transfers | 1 357. 5 | 1 489.7 | -8.9% | 51.1% |
| Tax revenues | 1 203.1 | 1 084.7 | 10.9% | 45.3% |
| Proceeds from the sale of fixed capital | 51.8 | 30.3 | 70.8% | 1.9% |
| Non-tax receipts | 43.4 | 77.8 | -44.2% | 1.6% |

Note: In the calculations, the data of the Ministry of Finance

The share of income from the sale of fixed capital and non-tax revenues is only 3.6%, or 95.2 billion tenge. Among the regions, the most revenue in January-July 2018 to the local budget was recorded in South Kazakhstan region - 342 billion tenge (a year earlier - 328.2 billion tenge). Then Almaty - 285.4 billion tenge, against 321.6 billion tenge a year earlier. The Almaty region closes the top three, with a budget of 231.4 billion tenge, a year earlier - 223.7 billion tenge (Table 3).

| Table 3 REVENUES TO THE LOCAL BUDGET, JANUARY-JULY 2018 (BILLION TENGE) | | | |
|---|---|---|---|
| | **2018** | **2017** | **Growth** |
| Kazakhstan | 2 655.8 | 2 682.5 | - 1% |
| South Kazakhstan region | 342.0 | 328.2 | 4.2% |
| Almaty city | 285.4 | 321.6 | -11.3% |
| Alma-Ata's region | 231.4 | 223.7 | 3.4% |
| Astana | 212.1 | 284.0 | -25.3% |
| Karaganda region | 174.8 | 174.2 | 0.3% |
| East Kazakhstan region | 169.6 | 173.6 | -2.3% |
| Atyrau region | 156.4 | 147.0 | 6.4% |
| Jambyl Region | 146.6 | 139.7 | 4.9% |
| Kyzylorda Region | 145.8 | 129.5 | 12.5% |
| Kostanay region | 135.6 | 135.7 | 0.0% |
| Aktobe region | 123.9 | 108.6 | 14.1% |
| Pavlodar region | 122.0 | 116.5 | 4.8% |
| Akmola region | 116.1 | 120.1 | -3.4% |
| North-Kazakhstan region | 104.5 | 103.5 | 0.9% |
| Mangistau region | 96.3 | 83.0 | 16.0% |
| West-Kazakhstan region | 93.3 | 93.5 | -0.3% |

Note: In the calculations, data of the Ministry of Finance of Kazakhstan were used.

Targeted developmental transfers to lower-level budgets are allocated when achieving direct and final results defined in the agreements on the results of targeted developmental transfers allocated to the previous fiscal year. In case of failure to achieve such results, target transfer for development in the next financial year is not provided. Targeted developmental transfers to lower-level budgets are allocated when achieving direct and final results defined in the agreements on the results of targeted developmental transfers allocated to the previous fiscal year. In case of failure to achieve such results, target transfer for development in the next financial year is not provided. An integral component of the Mexican federal system is the tendency to reduce the concentration of functions in a single management order. That is, the breakdown of responsibilities between the three state orders. In particular, fiscal decentralization implies that states and municipalities have more financial resources, regardless of whether they received them on their own or by means of transfers from the federal government. In Mexico, in order to avoid multiply taxation and to ensure the efficiency of the tax system, it was necessary to develop a legal and administrative mechanism to regulate relations between the central government and states in the tax sphere. To compensate for the effects of unequal distribution of wealth between regions of the country, the state can reallocate public funds. In particular, in federal countries, central governments transfer large amounts of resources between regions. These translations are regularly carried out and regulated by institutions created specifically for this purpose. Solving the problems of financial independence of the regions of Kazakhstan should be aimed at stimulating the development of its own tax base, creating incentives for local authorities to strengthen their own sources for the formation of local budgets. In this regard, the financial equalization model based on the provision of transfers from the republican budget should be supplemented with accompanying levers. In particular, you can use the corporate model of the budget mechanism of European countries and use: wide participation of regional authorities in the redistribution of national income, availability of own and regulatory taxes and incomes for each level of the budget system (Sklyar & Zverkovich, 2013). The stages of local

government development are defined in the Concept of Local Government Development until 2020 approved by the Head of State. The introduction of an independent budget allowed expanding the financial capabilities of rural districts and strengthening local self-government role in resolving issues of local significance by receiving taxes directly to their budget (Niaz et al., 2015). 7 types of tax revenues and other non-tax revenues, as well as 19 areas of expenditures were transferred to the budget of the rural district. For the purpose of qualitative practical implementation of the Law, an Action Plan for the implementation of an independent budget and municipal property of the local government was approved. Most of the activities were performed. In the second half of this year, the Ministry of national economy of Kazakhstan will continue to train akims of rural districts and their staff in regions where IV level of the budget has been implemented. During the period of the implementation of the Action Plan, the number of unregistered real estate items decreased from 88.2 thousand to 13.6 thousand. The presence of unregistered real estate objects can lead to a lack of taxes in the budgets of rural districts. In this regard, the importance of strengthening akims' work together with the judicial authorities to clarify the requirements of the legislation among the population about the need to apply for state registration of rights is indicated. In addition, in the course of systematic work, the number of incomplete information and errors in databases decreased from 2.3 million to 294 thousand. The Ministry of Finance in Republic of Kazakhstan is preparing for the integration of the following databases and information systems: the Real Estate Register of the Ministry of Justice and the Register of Taxpayers and Taxable Items of the Ministry of Finance; *"Service Center"* of the Ministry of Internal Affairs and the Ministry of Justice System *"Individuals"* and *"Legal Entities"; "Land Cadastre"* of the Ministry of Agriculture and the *"Register of Taxpayers"* of the Ministry of Finance (Ospanov et al., 2019). Currently, an analysis of the implementation of a new level of budget and communal property in rural districts is underway. Measures are being taken to address emerging issues, further measures are being determined to develop independent local government institute, including the transfer of additional tax and other revenues to effectively and independently resolve issues of local importance. In general, over-fulfillment of revenues was achieved for all budgets of level IV. According to the Ministry of Finance, in the first quarter of this year, actual revenues amounted to 27.7 billion tenge. Of these, tax revenues - in connection with the over fulfillment of the plan for the reporting period by 118.5% amounted to 5.2 billion tenge. Non-tax revenues - 3.1 billion tenge, including 3 billion tenge - last year's balances on accounts. Actual expenses in the total amount amounted to 21.9 billion tenge or 98% of the plan for the reporting period. The main types of expenses are: pre-school education and training and organization of medical care in organizations; street lighting in settlements; support of cultural and leisure work, etc. The plan for targeted current transfers amounted to 1.2 billion tenge. Actual balances in the total amount amounted to 5.7 billion tenge. The Ministry of National Economy is permanently instructed to monitor and analyze the development of local self-government. In practice, local self-government in Kazakhstan works ineffectively for several reasons:

1. Lack of a coherent system of state territorial administration at its low levels;
2. Insufficient understanding of the essence of local government and its capabilities among government representatives;
3. Opposition to the strengthening of local authorities by regional elites in connection with competition in the allocation of resources and powers;
4. Weak economic and financial base of local authorities;
5. In some cases there may be inconsistency and insufficient elaboration of the legislation;
6. Insufficient training of personnel due to the difference in the level of training in Kazakhstan;
7. Insufficient level of scientific, methodological and informational support of the place and role of local authorities in solving state tasks;
8. Suboptimal management structures;
9. The lack of development and inefficiency of mechanisms for monitoring the activities of local government, not so much from the state, but also from the public and the public (Asanov, 2010).

Independence of local budgets should be ensured by effective public administration. At the same time, in order to ensure compliance of income powers with expenditure and create conditions for the development of local self-government in Kazakhstan, it is necessary to create a more efficient financial base of local budgets. As world experience shows, there is no single ideal model of intergovernmental relations suitable for all countries. On the contrary, this sphere is characterized by a huge variety of national systems, which often contradict the standard theory of the optimal model. Such systems can be characterized by both expanded and limited powers of local authorities in the processes of local budgeting. In Kazakhstan, it is advisable to ensure the right of local authorities to make, within the law, independent decisions on the organization of the budget process. We consider it expedient to use the methods of equalizing selective regional policy, which is manifested in stimulating the inflow of investments to backward regions and providing the latter with financial assistance. As is known, the development of Astana and Almaty is of priority importance in Kazakhstan. This could serve as an impetus for the involvement of other regions through cooperation to their development in the direction of a highly organized urban environment of the majority of the country's population. At the same time, it is necessary to preserve the compensating regional policy with regard to backward regions by providing them with guaranteed services, leveling the provision of infrastructure. The compensating regional economy in Kazakhstan should be based on the fact that local taxes play a significant role in it, being a stimulus in the development of a certain region of Kazakhstan. Thus, it is necessary to strengthen the role of local taxes. For this, it is necessary to revise the rates and benefits, or part of the taxes to be paid into the republican budget, to be left in the local budgets according to certain standards. Thus, with regard to property taxes, the main attention should be paid to the establishment of information exchange between the registering bodies of the Ministry of Internal Affairs of Kazakhstan and the State Revenue Committee of the Ministry of Finance of Kazakhstan. In addition to improving tax administration, changes in the types of taxes received by local budgets, it is necessary to change the state asset management system. Effective management of state assets, based on clarifying types of assets, determining strategic types of state assets and prioritizing the right to purchase, personifying responsibility for asset utilization efficiency, will have a positive effect and increase local budget revenues. Among the activities contributing to the strengthening of their own financial base of local budgets, we can also highlight the following. Focusing on the experience of Russia, it can be noted that it is necessary to make a transition to real estate taxation, instead of existing taxes: *"on individuals' property", "land tax" and "corporate property tax"*, subject to market valuation of real estate and crediting of this tax according to the standard 100% in local budget revenues. It is also advisable to differentiate the property tax into the following categories: tax on built-up areas, housing tax, and tax on industrial buildings, tax on forested areas, and tax on agricultural land. The rates of these taxes should be determined by local authorities when forming the budget for the next year. It is necessary to create conditions for the effective use of self-taxation system as an additional source of income for local budgets. In modern conditions of garden suburb development and Horticultural Society in almost all regions of the country, local governments are obliged to assume the authority for socio-cultural improvement of territories built in this way, the construction of necessary communications, and the solution of inevitable environmental problems (garbage removal, landscaping, roadside improvement lanes, etc.). Local budget formation in Kazakhstan can be improved by using the measures presented in Figure 5.

Forecasting local budget revenues needs to be improved through modeling. This method involves theoretical analysis and practical actions aimed at the development and use of models. The value of income is represented as a function of its constituent factors. The forecast value of each element of income is calculated by this dependence on the predicted values of the factors. Modeling is actively used at the republican level, but is much less commonly used to forecast local budget revenues, so it must be used in the course of forecasting local budget funds.
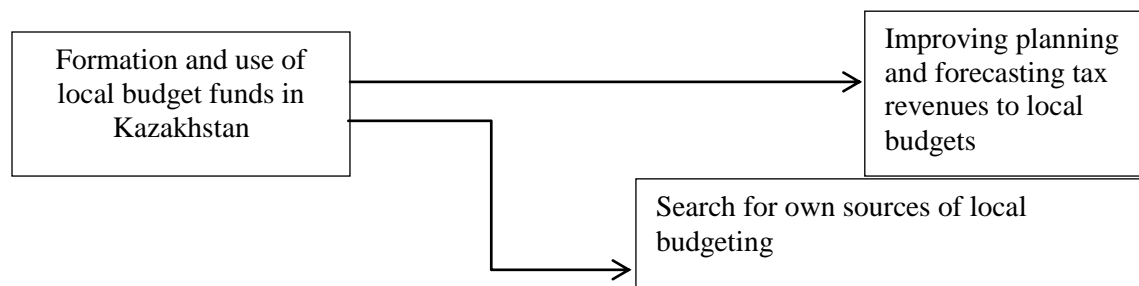
Note: Authors' Compilation

**FIGURE 5**
**MEASURES TO IMPROVE THE FORMATION AND USE OF LOCAL BUDGET FUNDS**

A significant impact on the actual receipt of taxes in the budget largely depends on the quality of work of tax authorities to settle debts, as well as on the development of tax authorities and local governments effective measures to increase the level of tax collection. Therefore, when making forecasts, it is necessary to adjust the accrued amount of tax on the correction factors: the coefficient of collection, the coefficient of tax benefits, the coefficient of arrears (Naidenova & Shvetsova, 2014). The method of calculating tax revenues of the budget has not yet been completely worked out; the database is not sufficient, which is necessary for reliable modeling of various factors influence on the amount of tax revenues. Due to the objective uncertainty of the projections of tax revenues, differences between planned and actual volumes of mobilization are inevitable. However, the fulfillment of the planned figures depends not only on the efforts of the authorized bodies, economy state and the performance indicators of taxpayer companies, but also on how realistic and feasible the plan positions are, how accurate the calculations and forecasts used in its design were. The basis for accurate planning of tax revenues should be a comprehensive analysis of socio-economic indicators in conjunction with the assessment of tax revenues in previous periods; creating favorable conditions for taxpayer companies to reduce economical indicators limit amplitude in their economic performance.

It can also be noted that Kazakhstan's regions have significant differences in taxable base size. Consequently, there are various possibilities in the formation of the budget revenue. In the budgets of some oblasts, transfers account for 60 to 80 percent of the regional budget, since their own tax and other revenues are not enough to achieve an acceptable level of funding for socio-economic needs. Regulation mechanism of intergovernmental relations should work on new principles that ensure the independence of local authorities, as well as taking into account the interests of the state and human capital creation that meets the requirements of the modern development of society (Zazulina et al., 2021). In order to use the reserves for increasing the taxable base, in our opinion, it is necessary to create a legal base. For example, there are significant reserves for property tax on legal entities and individual entrepreneurs. There are also problems with transfers of the republican budget. Their big drawback is inflexibility, which does not take into account the perspective development of regions. Three-year forecasts do not take into account the introduction of new social facilities. The amount of funds allocated to the development budget is insufficient to cover population' social needs. It is necessary to introduce the principle of a result-oriented budget. The focus should be on achieving outcomes.

**CONCLUSION**

Thus, this articles covered the main problems of the formation and optimization of tax revenues of local budgets in Kazakhstan. These problems is inefficient tax planning and forecasting, lack of own funds of local budgets. Proposed solutions to these problems is the use of modeling in the process of forecasting and planning taxes; the distribution of the largest taxes between state and local budgets; the introduction of a corporate model of the budget mechanism of European

countries; the creation of a more efficient financial base of local budgets, and the provision of local authorities the right to accept within the law, independent decisions on budget organization.

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