

Assessment of Administrative Legal Mechanisms to Ensure Tax Discipline in Kyrgyzstan in The Context of Economic Security of The State

Zulfriya Mamyrbayeva ^{1 *}, Ilimbek Kubatov ², Nurlan Sheripov ³, Maksat Dzhekshen ⁴

¹ Department of Theory and History of State and Law, Jusup Balasagyn Kyrgyz National University, Bishkek, Kyrgyz Republic

² Department of Administrative, Financial and Information Law, Jusup Balasagyn Kyrgyz National University, Bishkek, Kyrgyz Republic

³ Department of Jurisprudence, Jusup Balasagyn Kyrgyz National University, Bishkek, Kyrgyz Republic

⁴ Faculty of Business Administration, International University of Central Asia, Tokmok, Kyrgyz Republic

*Corresponding author E-mail: zulfriyamamyrbayeva@gmail.com

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Abstract

Tax discipline is a major taxation problem in many countries. Its low level affects a country's tax capacity and financial independence. The purpose of this study was to examine the mechanisms of regulatory support of tax administration applied to improve financial discipline, its impact on the financial security of the country, and to identify ways to improve it. The study employs a comparative analysis of international tax systems, examining Kyrgyzstan's fiscal policies through a review of legal frameworks, tax legislation, and administrative practices, supplemented by a dialectical approach to evaluate the effectiveness of reforms. The main problems during the administration of taxation processes are identified, as well as ways to ensure tax discipline. The study covered the specific features of fiscal legislation of the Kyrgyz Republic and their impact on the level of financial security of the state. Mechanisms for ensuring the financial security of the state in the aspect of legal, structural-organisational, procedural, personnel, technological, and resource features of the tax system were proposed. The study outlined the nature and significance of the legal provision of financial security, which is aimed at creating an improved legal framework and system of control over the subjects of economic activity to identify and prevent the shadow economy. The study assessed the need to improve tax legislation, specifically, to ensure administrative legal mechanisms of tax discipline.

Keywords: Financial Independence; Fiscal System; Tax Consultant; Shadow Economy; Favourable Business Environment.

1. Introduction

The relevance of this study stems from the critical need to integrate Kyrgyzstan's business sector into the global economy, particularly in light of the increasing global competition among tax systems. The competitiveness of a country's tax structure is crucial in determining its business climate as nations work to draw in foreign investment and promote economic expansion. Improving the effectiveness of its tax system and bringing it into compliance with international norms are essential for Kyrgyzstan's economic integration into international markets. Furthermore, maintaining a stable economic environment requires an awareness of the difficulties facing Kyrgyzstan's fiscal system and an analysis of how other countries deal with comparable problems. The study's conclusions can offer insightful information for enhancing the nation's tax laws, supporting long-term economic growth and stability.

Economic security is a set of factors that can prevent the possibility of damage to the economic interests of the state. In this context, tax policy plays a pivotal role by creating prerequisites for the effective functioning of all state systems, specifically the economy. It lays the foundation for the smooth operation of fiscal mechanisms, thus ensuring a stable and resilient economic environment. The taxation system is a separate structure, which is primarily regulated by the Constitution of the Kyrgyz Republic (2021) and the Tax Code of the Kyrgyz Republic (2022). With the adoption of the new tax code in Kyrgyzstan, the tax administration system was revised. The Budget Code of the Kyrgyz Republic (2016) defined a new approach to tax legislation. The world community is interested in integrating Kyrgyzstan into economic cooperation. This is evidenced by the adoption of the E-Commerce Development Program for 2023-2026 (United Nations Development Program Kyrgyzstan, 2024) in relation to Kyrgyzstan. It is aimed at increasing budget revenues, balancing taxes to improve the business climate, and limiting the punitive function of administration towards taxpayers.

Despite the reforms implemented in the country, the tax system does not always meet the demands of the time. The division of budgets into local and national budgets requires separate approaches to tax collection. Abarbekova (2020a) reviewed the processes that accompany tax reforms in Kyrgyzstan. As a result of the new tax code, tax rates have decreased, and the tax base has increased. Such changes have a positive effect. However, there are also negative aspects, such as the shadow economy, uneven distribution of the revenue part of local budgets, inefficient functioning of tax authorities, and administration of payments. In her other paper, Abarbekova (2020b) considered the

issue of taxes from the standpoint of financial and fiscal security of the country in the conditions of economic crises. One of the principles of the new tax policy is the management of state processes through the fiscal system. The state budget is the main financial document of the state and fulfils such functions as financing of the army, law enforcement bodies, maintenance of the state apparatus, and covers social expenditures (Ketners et al., 2024). Taxes are one of the main sources of formation of revenue part of the budget. Therefore, the effective functioning of the tax system serves as a guarantor of the financial security of the state. The Budget Code of the Kyrgyz Republic (2016), the Tax Code of the Kyrgyz Republic (2022), the Code of the Kyrgyz Republic on Offenses (2021), and other legislative norms in the Kyrgyz Republic regulate administrative legal mechanisms of the tax system functioning.

Taxation is an important part of economic integration. The European Union is interested in tax harmonisation as it should facilitate mutual trade and cooperation in the economic sphere. Stabilisation of the tax system plays a significant role in the country's integration into the international community (Petersone et al., 2016). The development of a common financial market is impossible without the consolidation of tax systems into a single economic space. Krasnov et al. (2020) investigated the principal areas of development of the taxation system in the countries of the Eurasian Economic Union (EAEU). First of all, it is the creation of an identification system for operators of foreign economic activity (FEA), improvement of online services and automation of information exchange between tax and customs authorities, introduction of new tax administration mechanisms, and digital commerce. However, some challenges hinder such integration. These include tax administration, non-tariff regulation, different approaches to taxation, customs duties, and taxes on foreign trade.

The need to harmonise tax legislation stems from the need to form a unified tax regime within an integrated system of interstate economic relations (Bekov et al., 2023; Uzenbaev et al., 2019). Karypov (2018) investigated the situation in the Republic of Kyrgyzstan regarding the reform. The researcher formulated priority areas of development of legislative norms, which should facilitate free movement of goods and services, financial and labour resources between countries, such as introduction of identical taxes by their names and rates; unified norms in the codes of administrative offences, criminal codes on the procedure of bringing guilty persons to responsibility for violation of tax law norms; norms on cooperation, prevention of double taxation, and tax evasion.

The functioning of the tax system depends not only on the existence of a relevant legal framework. A prominent place in the fiscal system should be given to the tax discipline of taxpayers. Atakhodzhaev (2015) conducted a comparative analysis of tax legislation of the Kyrgyz Republic and foreign countries such as Germany, Great Britain, France, Italy, Norway, and Sweden. The researcher expressed the opinion that in the world practice, there are incentives and disincentives in the system of tax administration. Such measures have proven effective in the sectors of unemployment control, small business development, tourism, and individual construction.

Violations of laws on the part of tax officials and official inaction prevent the formation of orderliness and coordination of interaction between the subjects of state power and taxpayers (Miliienko, 2023). Rakhmetollov et al. (2020) considered the problem of ensuring the protection of the rights of entrepreneurs. The reaction of state bodies and organisations to violations of the rights of entrepreneurs serves as an indicator of assessment in the system of democratic values, where every subject of legal relations can count on adequate legal protection. Thus, the Code of Administrative Offences of the Republic of Kazakhstan mandates the liability of officials for administrative offences committed in the performance of their official duties. Criminal liability is prescribed for certain offences, such as unlawful interference in entrepreneurial activity, corporate malfeasance, and raiding.

State structures draft laws, and they control their implementation, which leads to corruption schemes. Baimyrzaeva (2011) tried to capture the essence of the reforms that have taken place in the public sector in Kyrgyzstan since it became an independent country. Many authorisation documents of tax authorities do not follow the current legislation. Corruption and inefficiency of the state in Kyrgyzstan, abuse of power by officials, undermine business confidence and lead to shadow economic activity. Polese et al. (2022) investigated the origins of shadow economic activity in Kyrgyzstan. In their opinion, distrust in the authorities and state structures is the main reason for tax evasion. By paying taxes, taxpayers legitimately expect the state to raise social standards, improve public services, and infrastructure. The issue of tax payment directly depends on the effective activity of the state and its structures. Nyasulu et al. (2023) studied the reasons for the loss of tax revenue of the country. The National Development Strategy of the Kyrgyz Republic for 2018-2040 (2018) and the National Development Program of the Kyrgyz Republic until 2026 (2021) set out the need to develop a set of measures to transform and legalise the shadow sector of the economy and create conditions for legal business. The UN General Assembly adopted Resolution of the General Assembly of the United Nations No. 69/313 "Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)" (2015), which prioritises the reduction of illicit financial flows.

Based on the general problems of the Kyrgyz tax system, the purpose of this study was to examine ways to increase the tax capacity of the population, starting with tax administration and ending with policy decisions at the state level. The challenge is the need to reduce the shadow economy and improve the country's investment climate.

2. Materials and Methods

To achieve the objective of the study, basic international legal instruments such as the Guiding Principles on Business and Human Rights (United Nations, 2011), Resolution No. 48/134 Principles Relating to the Status of National Institutions (The Paris Principles) (United Nations Human Rights Office..., 1993), Edinburgh Declaration (International Co-ordinating Committee..., 2010). The study considered Kyrgyzstan's involvement in various programmes put forward by the United Nations, such as Resolution of the General Assembly of the United Nations No. 69/313 "Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)" (2015), United Nations Development Program Kyrgyzstan (2024), in plans developed at the country level: National Development Strategy of the Kyrgyz Republic for 2018-2040 (2018), and National Development Program of the Kyrgyz Republic until 2026 (2021).

The study examined the national legislation of the Republic of Kyrgyzstan, which regulates internal and external economic relations, as well as the functioning of the tax system and tax administration. First of all, it is the Constitution of the Kyrgyz Republic (2021), which stipulates that everyone is obliged to pay taxes and fees in the manner and cases stipulated by law. The Tax Code of the Kyrgyz Republic (2022), which reflects the policy of tax regulation of the state and is responsible for the formation of market relations, development of entrepreneurial activity, as well as the Budget Code of the Kyrgyz Republic (2016), the Code of the Kyrgyz Republic on Offenses (2021), the Law of the Kyrgyz Republic No. 73 "On State Support for Small Businesses" (2007), the Law of the Kyrgyz Republic No. 55 "On Optimisation of the Regulatory Legal Framework for Regulating Business Activities" (2008), the Law of Kyrgyzstan No. 195 "On the Licensing and Permitting System in the Kyrgyz Republic" (2013), the Law of the Kyrgyz Republic No. 37 "On Tax Consultants" (1999). The dialectical method was employed to analyse the approaches of optimised taxation from the standpoint of efficient administration, and innovative taxation mechanisms were studied from the perspective of global economic processes. Analysing the tax system of the Republic of Kyrgyzstan, the mechanisms that are applied in the country are based on its historical past. The study noted the significance of reforming

tax administration, considering the incentives for compliance with tax discipline. The principal effective measures that are applied in developed countries, creating a favourable environment for doing business and injecting investment into different sectors of the economy, were highlighted. Through synthesis, the study explored the basic principles of efficient taxation as applied in developed countries. By the induction method, a general conclusion was made about the need to consolidate tax legislation according to international law and the rules of international economic activity. Using the method of analogy, the practice of application of tax legislation in different countries with regard to incentive measures for taxpayers was investigated.

3. Results

The revenues that the state receives from taxation are the main source of filling state budgets and various funds. Tax policy fulfils the function of redistributing national income according to public needs and priorities. It should help to stimulate and develop the economy. The reform of the tax system became a feature of the economic transition to market relations. Transition countries need institutional change in the fiscal service. A variety of tax reform experiences are flawed in terms of tax administration and enforcement (Martinez-Vazquez and McNab, 2000). The experience of countries with an established taxation system has determined the basic principles in tax reform. The main objective of the ongoing reforms is to make them politically acceptable and to systematise taxes so that their collection and distribution would consider all social interests. The parameters of a tax system with low marginal rates should be considered as starting principles for tax reform. Essential points in the reform should be the preventive nature of tax reforms through explanatory methodological work among taxpayers, efficiency in achieving the goal, and foreseeability of results (Moshenets et al., 2025).

Studying best practices in tax administration in developing and developed countries is necessary to improve the efficiency and productivity of revenue collection and ensure tax discipline. The digitalisation of all processes has brought new trends in tax administration (Hajiyev et al., 2025). Advanced initiatives address key challenges faced by tax authorities to improve tax compliance. This is primarily the effective application of the law through the administration system as well as the initiative of taxpayers themselves to follow tax requirements (Martinez-Vázquez et al., 2023). Ultimately, the effectiveness of any reform will depend on the existence of a broad socio-political consensus on the need to increase tax levies, as well as on the financial sufficiency and managerial efficiency of the relevant tax authority.

Considering the significance of a country's financial security, every government should clearly understand what tools are needed to generate revenue. The main criteria for assessing revenue performance are: cost effectiveness, equity, fairness, adequacy, feasibility, and transparency (Afonso, 2023). In this context, it is important to realise that there is no perfect form of taxation. The mechanism of administration directly affects the level and quality of revenue collection.

The globalisation of economic processes has posed a challenge to the tax systems of all countries. The mobilisation of domestic tax resources has become a key issue for developing countries. The problem of dependence on foreign aid substantially reduces the competitiveness of such states in the international market (Godin and Hindriks, 2015). Globalisation has made corporations increasingly mobile across jurisdictions. Increasingly, economic systems are taking the form of open economies. A feature of mobility is that firms move from one country to another, whereby the headquarters may be in one country and the enterprise in another (Dohadailo et al., 2021). A discrete choice of tax rate is assumed. It considers the nature of the tax system of the country where the enterprise is located and makes a compromise between the efficiency of production and the efficiency of tax collection. Improving the tax system is necessary for economic independence and security in the long term. Despite different approaches to taxation, tax reforms have failed to increase taxpayer confidence and empower tax authorities (Hasan et al., 2024). A system of trust is established gradually, considering the different aspects of the relationship. First of all, it is trust in the government, the reforms of the state, and the tax system overall. An essential point is the training of system employees and taxpayers, transparency in accountability and activities of tax authorities and tax system, and minimisation of corruption (Chanysheva et al., 2019). Developing the capabilities of tax authorities requires modernising outdated technology, systems, and processes; implementing management and organisational reforms; introducing an oversight board; and recruiting and training qualified professionals (Yushko, 2022).

The tax systems of countries with post-socialist economies differ substantially from those of countries with well-developed tax systems. The former ones often face challenges related to the transition from centrally planned economies to market-oriented systems. Compared to the tax systems of well-developed nations, these nations typically have less established tax infrastructures, have less effective tax collecting and enforcement systems, and frequently face problems like corruption and tax evasion. With established procedures for international collaboration and the taxation of multinational corporations, the well-developed ones are also more seamlessly incorporated into the global economic structure. As a result, post-socialist economies frequently undergo reform in order to enhance tax administration, conform to global norms, and promote increased economic stability. The creation of a new tax system envisaged the introduction of a profit tax (Kuzmina et al., 2023). However, with the onset of the transition to a market economy, tax administration reforms have lagged behind general tax reforms. The question of tax efficiency in terms of the potential of the tax system has arisen. In economies where administrative capacity is stronger, debt is tolerated less frequently (Schaffer and Turley, 2002). One of the reasons for inefficiency of tax administration is phenomena such as corruption and bribery in state bodies. Countries with tax collection problems should broaden the tax base, reduce preferential taxation, and revise tax rates (Table 1).

Table 1: Measures to strengthen tax administration

Measures	Explanation
Tax administration authorities	Accrual of taxes, collection, and enforcement
Organisation of staff work	Provision of qualified personnel
Strengthening the technical base	Introduction of a unified codification of legal documents, reporting documents, systematisation of data on taxpayers, and simplification of registration.
Strengthening financial discipline	Introduction of penalties for non-compliance with tax discipline

Source: compiled by the authors based on Schaffer and Turley (2002).

The degree of government control determines the efficiency of the tax system, which is measured by comparing tax rates with effective tax yields.

Many developing countries have experience in establishing special economic zones (SEZs). The establishment of such zones has proven to be effective. Through SEZs, economies develop key industries, expand transport activities, introduce innovative technologies, reduce dependence on imports, create conditions for exports and reduce the level of imports of goods and services, and attract foreign investors. Overall, the functioning of such zones favours the development of regions, improving the living conditions of the population. To stimulate the development of such zones, incentives in the form of subsidies and compensatory measures are provided (Table 2).

Table 2: Key preferences for SEZ residents

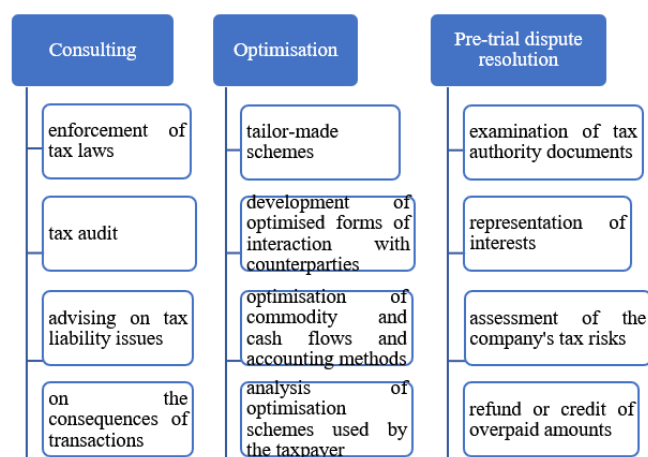
Measures	Explanation
Special administrative regime	Minimising bureaucratic procedures during the establishment and operation of SEZs
Guarantees of protection of investors' rights	At the legislative level and at the level of access to the courts
Special tax regime	Exemption from duties and taxes on goods exported from special economic zones
Special customs regime	Absence or reimbursement of VAT and duty on imported equipment and components

Source: compiled by the authors based on Creskoff and Walkenhorst (2016).

The task of SEZs is to implement regional and national strategies, contributing to economic growth and integration into the global economy. Kyrgyzstan, as a country that has chosen a democratic path of development, promotes the implementation of programmes and initiatives adopted at the international level. To optimise the tax legislation in Kyrgyzstan, the United Nations has approved the E-Commerce Development Program for 2023-2026 (United Nations Development Program Kyrgyzstan, 2024), which should help improve the country's entrepreneurial and investment climate. It includes broadening the tax base, optimising the income tax scale, environmental payments, increasing excise rates on alcohol and tobacco products, vehicle owners' tax rates, water tax, and introducing a property tax. To implement the programmes, the state adopted legislative acts that contribute to balancing the rights and obligations of taxpayers and tax authorities: the Law of the Kyrgyz Republic No. 73 "On State Support for Small Businesses" (2007), the Law of the Kyrgyz Republic No. 55 "On Optimisation of the Regulatory Legal Framework for Regulating Business Activities" (2008), the Law of Kyrgyzstan No. 195 "On the Licensing and Permitting System in the Kyrgyz Republic" (2013). Such reforms of the system are aimed at balancing the tax system and include systematisation of regulations, simplification of the state system of registration of legal entities, optimisation of licensed activities, and reduction of the number and duration of tax audits. There is also a system of legal liability for violations of tax legislation. It includes tax, administrative, and criminal liability. The list of administrative offences is defined by the Code of the Kyrgyz Republic on Offenses (2021).

The Guiding Principles on Business and Human Rights (United Nations, 2011) in business is the first authoritative framework that applies both to individuals who engage in business activities and to all enterprises or companies, regardless of ownership. Even though they are of a recommendatory nature, they contain basic principles that should be applied to ensure responsible business behaviour, as legal documents of state authorities do not include incentive measures to regulate relations between tax authorities and taxpayers.

Proceeding from the principle that the activities of tax authorities should be preventive rather than punitive, based on the presumption of taxpayers' good faith, a new type of professional activity has emerged, such as tax counselling (Drljača and Muminović, 2021). A tax consultant is a profession in demand on the labour market, as it helps businesses to perform their obligations under the law to pay taxes, avoiding financial losses and legal claims. In Kyrgyzstan, the functioning of a tax consultant is regulated by the Law of the Kyrgyz Republic No. 37 "On Tax Consultants" (1999) (Figure 1).

**Fig. 1:** Tax consulting services

Source: compiled by the authors of this study based on the Law of the Kyrgyz Republic No. 37 "On Tax Consultants" (1999).

The key principles governing tax consultancy are the ethical and professional standards of a tax consultant and liability for breach of these standards.

A prominent role in tax administration is played by the transparency of the activities of tax authorities (Kurmanbaeva et al., 2023). Every democratic state is obliged to provide mechanisms to which every citizen can appeal in case of violations of their rights, including those related to business activities. According to the legislation of the Kyrgyz Republic, every citizen is entitled to address personally or through their representative to state authorities, local self-government bodies, and their officials with their complaints and proposals. Such avenues of recourse avoid the costs of pursuing complaints in the courts; preserve the reputation of both parties to the incident; and voluntarily make amends or correct mistakes. At the international level, the basic principles of institutions established to protect human rights, including in the business sphere, are prescribed in the Resolution No. 48/134 Principles Relating to the Status of National Institutions (The Paris Principles) (United Nations Human Rights Office..., 1993), and also reflected in the Edinburgh Declaration (International Co-ordinating Committee..., 2010). The Kyrgyz Republic also has an Authorised Person for the Protection of the Rights of Entrepreneurs (Business Ombudsman). This position was created to combat unfair treatment by law enforcement and government agencies, as well as to defend the rights of businesses. It was established in 2019 and handles complaints about arbitrary penalties, unfair inspections, and abuses of property rights. The Ombudsman guarantees a fair and transparent legal framework by promoting communication between governmental agencies and enterprises. This enhances the investment climate, lowers corruption, and eventually promotes sustainable economic growth. Although the opinions of such services are only advisory in nature, they offer alternative ways to resolve disputes and make amendments for incorporation into legal norms.

The main objective of the tax authorities is to provide systematic revenue to the state treasury (Nyanumba, 2023). Fiscal administrations are obliged to adhere to progress to ensure that their function is respected. The substantial number of business activities and organisational forms of doing business has presented tax systems with a challenge for efficient administration. Tax administrations will be able to change their approach to taxpayers, transforming from a control and punitive body to a partnership body (Liubchak, 2023). The work of the authorities should be aimed at meeting the needs of taxpayers by applying design thinking methods. By changing the way of interaction with customers, one needs to automate and simplify all revenue management processes as much as possible using big data and analytics. This approach can transform tax administration by identifying new sources of revenue and responding quickly to market dynamics.

The world is changing towards digitalisation and technology development, which can greatly improve the work of tax administration (Petersone et al., 2017). Digitalisation increases the speed and accuracy of tax filing and processing by streamlining procedures and decreasing human error and manual data entry. It makes it possible to follow payments and compliance in real time, and tax authorities may more efficiently spot trends of tax evasion and automate audits with the use of technology like artificial intelligence. Online platforms increase efficiency and transparency by making it simpler for taxpayers to file and monitor their taxes. Additionally, this change improves cross-border collaboration, preventing tax evasion and guaranteeing that tax structures continue to be strong and efficient in a world economy that is changing quickly.

The globalisation in the world economy has led to the emergence of multinational enterprises (MNEs) (Rossing et al., 2024). They organise their production strategy by setting up companies in different countries, taking advantage of cheap labour, a more favourable regulatory environment, workers with higher skills, access to markets, and tax advantages. The economic activities of MNEs have a global impact on macroeconomic performance in all countries (Spytska, 2023). However, the operation of such enterprises gives rise to tax risks as their activities often fall outside the scope of the current national tax system. In this regard, tax specialists should have not only technical knowledge, but also interpersonal skills to build business relationships with business managers of companies. Such skills include communication, negotiation, and problem-solving, which are essential when dealing with MNEs whose activities may fall outside the scope of the tax system, helping to ensure compliance and address complex tax issues.

An essential aspect of international taxation is transfer pricing (TP) (Klimova et al., 2023). It has become relevant in the context of globalisation and increasing international trade. To prevent tax evasion and ensure fair taxation, the TP principles were developed to create common rules for the allocation of profits and tax liabilities across jurisdictions. Countries around the world have recognised the significance of transfer pricing regulation. It helps prevent profit shifting to countries with lower tax rates and avoid taxation overall (Tyukhtenko et al., 2024). TP is a technically complex system that requires legislative regulation.

Post-Soviet Central Asian countries have comparable economic development rates and taxation standards since independence (Polese et al., 2022). According to a report by the International Labour Organization (ILO) (Kuhn et al., 2018), these countries have prominent levels of employment in the informal economy, which affects government revenues, discourages investment and impedes the availability of credit. Accordingly, national governments and international organisations such as the World Bank propose measures to curb the shadow economy and reduce informal employment, tax fraud.

The tax legislation of Kyrgyzstan, despite its shortcomings, is attractive for business development and foreign investment as it has low tax rates on major taxes, simplified tax regimes, and preferences for special economic zones. The introduction of modern forms of administration testifies to the government's interest in improving the efficiency of the tax system, fighting tax evasion, and attracting foreign business to the country.

4. Discussion

For the proper functioning of the state, finances are needed, which are collected from taxes. For the tax system to be effective, the legal framework alone is not enough; it must be managed. Tax authorities must respond flexibly to all changes in the state, economy, and business sphere. Strict sanctions do not always lead to increased discipline in business entities. Some activities are very vulnerable to several types of fines. Their irrational application leads to unbalanced tax payments. Allen and Koshima (2018) investigated sanctions regimes and rates of reimbursement in 26 countries around the world. The analysis of the study showed that the use of harsh sanctions does not affect the level of compliance with financial discipline. The structure of the sanction regime should include balanced measures proportional to the gravity of the financial violations. In their study, the researchers identified three main principles of the authorisation system: impartiality, proportionality, and transparency. They also described the most commonly used institutional models of corporatisation, such as financial police, risk-based, and sanctions coordinator. The model with an individual approach to the taxpayer showed the highest efficiency. Agreeing with the researchers, it is important to note the need to develop a regime of fines and sanctions that will maximise compliance with the laws and rules of financial discipline.

The existence of Special Economic Zones (SEZs) should be considered in shaping the tax legislative framework. Chaisse and Ji (2020) described the problems that arise in the interaction between SEZs and international tax legislation, specifically on Base Erosion and Profit Shifting (BEPS) of the World Trade Organisation (WTO), as some incentives used by SEZs may be incompatible with WTO rules. Furthermore, tax incentives applied in SEZs may lead to tax evasion. Considering the globalisation of economic processes, it can be noted that despite some disadvantages that arise when creating SEZs, many developed countries successfully use this approach to conduct economic activity. The methods applied to SEZs taxpayers provide impetus for application in international and national tax systems.

The benefits of establishing an SEZ include economic growth, expansion of trade area, efficient dispute resolution process, standardisation of fiscal incentives internationally (Bekturova et al., 2017). Incentives associated with special economic zones include reduced or eliminated corporate tax for enterprises located in SEZs, duty-free and tax-free raw materials and other resources, equipment, no restrictions on repatriation of capital and profits, duties, and taxes on exports, exemption from exchange controls, local and indirect taxes (Babenko et al., 2023; Ismayilov et al., 2024). Creskoff and Walkenhorst (2016) grouped SEZ benefits into three categories. The first is measures following the requirements of the World Trade Organisation (exemption from duties and taxes on goods exported from special economic zones). The second are measures prohibited or subject to challenge under World Trade Organisation legislation (export subsidies and import substitution or internal maintenance subsidies). And the third measure, where the World Trade Organisation's sequence of actions depends on the situation.

Proceeding from the situation that has developed in the international arena in the economic sphere, it is necessary to note the significance of interaction with the World Trade Organisation, on the effective cooperation with which will depend the development of international cooperation in the field of trade and increase the importance of the state in the international market.

Studying the issue of establishing SEZs, one can note the importance of their functioning in each country. The practice of creation in developed countries shows their economic efficiency. International economic relations require reform of legislation to achieve all WTO

requirements, specifically allowing exports and imports of goods produced in SEZs without restrictions other than import duties and taxes (Derkenbaeva et al., 2024; Ketners et al., 2025). The taxation system, which includes local and central government taxation, has its advantages and disadvantages. Fjeldstad et al. (2019) highlighted barriers that hinder institutional trust and reforms in the tax system. Often, these obstacles include a lack of cooperation between local and central government tax authorities, administrative constraints such as poor training, outdated technical facilities, a lack of regulatory framework, and a lack of mutual trust. One of the principles of economic security is to build a tax-obedient society. Developing countries are not only faced with a lack of legislative frameworks. Latif (2019) traced the issue of the relationship between economic crimes and the shortcomings of the state's tax model in Afghanistan. As a result of the country's historical past, the hierarchisation of Afghan tribal society, a monopoly on tax collection by local tribal chiefs emerged. Competition between the state and tribal governments has led to smuggling, drug trafficking, money laundering, and corruption. All these factors together hinder the development of a legal tax system.

Environmental stability is a principal factor in the economic security of every country (Akhatov et al., 2018; Shahini et al., 2023). Waste management, the introduction of green technologies, and environmental fiscal policy are the goals of sustainable development of the European Union. Imran et al. (2024) investigated climate change adaptation strategies by the quantum regression method, considering different patterns of resource consumption and capabilities of individual states. The results showed the willingness of EU states to implement environmental sustainability mechanisms. The significance of environmental issues is so global that it cannot be ignored in the aspect of taxation, as business, first of all, should be responsible for the preservation of the external environment (Kovach et al., 2024). It is becoming necessary to manage industrial emissions and efficient waste management, as they have the most negative impact on the environment.

One of the key problems of taxation is tax evasion. Ngah et al. (2020) examined the tax audit data of small and medium enterprises (SMEs) in Malaysia. The audits uncovered fraud in the filing of financial statements among small and medium-sized businesses. Some relationship was found between company ownership structure, company size, and the frequency of tax audits and how they relate to tax evasion practices among SMEs in Malaysia. Notably, the frequency of audits does not incentivise taxpayers to follow financial discipline. In carrying out such audits, the tax authorities should primarily focus on information that will improve their decisions regarding the efficiency of tax collection and the generation of additional revenue for the country.

With the introduction of new business practices, situations arise that are resolved through tax treaties. Ismer and Ruß (2020) described the concept of double taxation. Considering the cross-border nature of trade relations, the problem of international double taxation has arisen. Avoiding it requires the application of new rules, which are governed by international treaties and the European Taxation Directive. Considering the function of the tax authorities, it should be understood as a certain deficiency in administration. In resolving this kind of problem, it should be noted once again that the need to apply flexible mechanisms during the collection of taxes should be considered, considering all the circumstances and characteristics of the taxpayer.

The problem with paying taxes mostly arises due to the existence of shadow economy mechanisms (Mamasdykov et al., 2019). In Kyrgyzstan, it occupies a prominent place in the economic sector. Laws and Rinnert (2022) examined the principal reasons for the functioning of the informal sector in the country. In their opinion, companies try to avoid or reduce the tax burden by adopting a simplified (patent) form of tax payment. The reason for the persistence of informality is also the high rate of contributions to the National Social Fund. The Support to the Jogorku Kenesh (S2JK) programme, while developing policy solutions to economic problems, has considered the existence of tax avoidance by enterprises and private businesses. By selling products abroad and improving the investment climate, it is possible to increase company finances and improve conditions for employees, thereby improving tax revenues for the state (Shkvarchuk and Slav'yuk, 2024). Undoubtedly, changing the tax regime requires political decisions, which means that government officials have a direct interest in it. By investing in industry, economic growth is stimulated, which will increase the tax base and reduce poverty for the population (Ketners, 2024; Romero-Carazas et al., 2023).

The market reforms underway in Kyrgyzstan have not had the expected effect. Key priority sectors such as agriculture, energy, mining, garments, and agro-processing were stimulated through internal economic policies. However, the country's enterprises attract few foreign investors, which hinders further economic development. According to Lee and Mah (2020) a new strategy is needed to attract industry-oriented investors. The tax system can be strengthened through the development of value-added industries. Agreeing with the researchers, it can be added that for attracting capital into the economy, strengthening the infrastructure of production and the human factor is crucial. Any government reform needs financial support. Hawkins et al. (2020) considered the issue of reforming the budget sphere in the context of reforming medicine in Kyrgyzstan. The health sector is one of the most sensitive to public funding. According to the country's budget code, a balanced budget is the main indicator of the efficiency of the state as a whole, and the State Annual Budget, which is adopted by Parliament each year, determines the allocation of expenditure between programmes. Budgetary pressures and the efficiency of the tax system are inextricably linked, because without filling the treasury, it is impossible to finance the vital functions of the state (Ilychok et al., 2024).

Based on the above, the success of tax administration is assessed based on fiscal efficiency. Thus, its improvement will directly contribute to the increase of revenues to the budget, thereby strengthening the economic security of the tax system of the state. To create a favourable tax environment, it is necessary to introduce a unified tax policy in the context of the macroeconomic development of the country. Policy implementation should also focus on the design of major taxes such as personal income tax, corporate income tax, value-added tax, excise taxes, and import duties. Tax administration plays a vital role in the implementation of the policy of reforming the tax system. Lack of adequate administration hinders the reform process.

5. Conclusions

In modern conditions, ensuring economic security serves as the crucial condition for the existence and development of the state. Fiscal authorities fulfil an important function of control over compliance with the legislation on taxes and fees, over the correctness of calculation, completeness, and promptness of payment. Due to the rapid globalisation of economic relations, established tax systems require rapid reform. International practice has shown that reforms in tax authorities positively affect the economic development of countries, especially developing countries. This has an impact on reducing poverty, increasing social standards, and well-being among the population. Modernisation of the taxation system can improve financial discipline among taxpayers.

Tax legal relations in the country are regulated by the norms of national legislation and the norms of international law. In this system, international treaties and agreements are of great practical importance. It was found that the effective functioning of the tax system is possible in the presence of relevant fiscal policy based on legislative norms. The state budget of the Kyrgyz Republic consists of the republican and local budgets; accordingly, taxes are divided into national taxes and local taxes. Due to the uneven development of the regions, the budget cannot always be balanced. To avoid budget deficits, it is necessary to focus on reforming the tax system, specifically

its administration. The study found that tax discipline is an essential part of the financial stability and economic security of the state. Attention is paid to innovative approaches to promoting tax discipline of taxpayers, such as tax counselling. The National Development Programme of the Kyrgyz Republic until 2026 analyzes the situation in the economic infrastructure of the Kyrgyz Republic. Of particular concern is the elevated level of corruption in public authorities.

A legislative framework at the state level is necessary for the full implementation of the budget process. The overall objective of this process is to ensure a fair distribution of profits and taxation between related legal entities, accommodating the economic reality and market conditions. The shortcomings of the current tax system of the Kyrgyz Republic are explained by the fact that it was formed under conditions of acute economic crisis. The decline in production and inflation has created other problems that require attention from the state. The introduction of new mechanisms contributes to the prevention of tax disputes and creates conditions for stable and transparent international trade. A vital task is to improve the level of financial security of the state and integration of the state into the international financial and economic space, which will contribute to its economic independence.

The study's prospects for future research include investigating stronger tactics for improving tax adherence and diminishing Kyrgyzstan's shadow economy. The integration of cutting-edge digital tools and global best practices to fortify the tax administration system could be the subject of future studies. Policymakers would also benefit from looking at how tax reforms affect financial independence and economic stability over the long run.

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