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ANALYSIS OF TAX INCENTIVES FOR FINANCIAL SUPPORT OF ENTERPRISES

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Abstract

In the article, the problems of improving the theory and methodology of forming the financial policy of the enterprise at the current stage of economic liberalization and modernization in the Republic of Uzbekistan are studied. The advantages and specific features of improving the theory and methodology of the formation of the financial policy of the enterprise in the prospects of the socio-economic development of the country are scientifically substantiated. Possibilities of improving the theory and methodology of the formation of the company's financial policy in the corporate financial management system of the Republic of Uzbekistan were studied and recommendations were developed.

Keywords: enterprise financial policy, corporate financial management, enterprise finance, enterprise financial support, enterprise financial status, enterprise financial stability, enterprise financial security, strategic management, conservative method, differential, dominant sector, alternative, financial flexibility, competitive position.

Enter

Stimulating the financial activities of enterprises through taxes is important in supporting economic growth, investment and entrepreneurship in many countries. It can be seen from the world experience that various tax incentives are widely used in the country to create a favorable business environment, attract investments and support the development of enterprises.

Relying on international experience in stimulating the financial activities of enterprises through taxes allows to attract foreign investments to the country, support economic growth and create a more favorable tax environment. Studying and researching the best practices of foreign countries in the taxation of enterprises, in turn, allows to reduce the tax burden, optimize the tax strategy of enterprises, and increase the competitiveness and stability of the enterprise. "Tax incentives have become a popular policy tool to stimulate industrial production. They propose to



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reduce the tax burden depending on the size or growth of the costs of the enterprise engaged in production activities. The popularity of this tool is that it is very easy to use the current tax system, which means that there is little additional administrative costs for authorities and businesses."1.

The high positive impact of the main methods of stimulation should be optimized by the size of the budget deficit. However, it should be recognized that in the economic literature not enough attention has been paid to the study of the purely social impact of tax incentives for industrial production. A recent study of the impact of tax credits on research and production activities of enterprises of various sizes showed that over time the importance of research and development (at the initial stage) increases and the tax has a positive effect on the development of private research and developm2.

This conclusion confirms the need to differentiate tax incentives for industrial production depending on the size of the enterprise or the amount of expenses spent on research and development, for example, introducing limits on tax incentives granted to the taxpayer or setting different tax rates depending on the scope of the organization's activities (turnover income / profitability) based on the possibility of creating softer conditions for granting tax benefits to organizations with a high percentage of debt funds.

As a positive result of the use of tax incentives by business entities, governments expect not only an increase in the volume of production activity, which is the main goal of tax incentives, but also an increase in economic sectors and international competitiveness. The attractiveness of the country helps to attract investments and develop innovative activities. Some scientific studies analyzing the impact of industrial tax credits on the growth and development of innovation and the competitiveness of organizations have shown that the use of tax credits allows enterprises to develop and introduce new products and processes. However, there is no reliable evidence at the organizational level to demonstrate that productivity or other indicators improve as a result of an organization's use of the tax credit. This result may indicate a positive effect of industrial tax incentives on the development

¹ Tax Expenditures in OECD Countries OECD. 2010. / The official website of OECD // – Текст : электронный. – URL: <http://www.sourceoecd.org/taxation> (дата обращения: 26.10.2017).

² Rodrik, D. Industrial Policy: don't ask why, ask how / Middle East Development Journal. – 2009. – № 1(01). – P. 1–29. // – Текст : электронный. – URL: <https://www.sss.ias.edu> (дата обращения: 28.10.2017).



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of projects with low profitability, so the impact of these projects on productivity is insignificant³.

Enterprises producing high-tech products are characterized by a high share of innovation costs. Since the primary innovative product is created in a research institution, the early stages of an innovative business usually do not need tax incentives (in terms of corporate income tax or VAT) because the main costs are related to labor costs.⁴

Despite the high scientific interest in the impact of tax incentives on industrial production, the accumulated experience and knowledge in this field do not allow for an objective assessment of the effectiveness of tax incentives and, as a result, make it difficult to develop. Most of the research concerns programmatic effects only when tax breaks are introduced relatively recently in a few countries. There is insufficient information on the effects of recently implemented or modified tax credit schemes, which often show different design features than older schemes.

In order to obtain reliable information about the effectiveness of tax incentives, a comparative analysis of the experience of more countries is necessary. In addition, the results of the conducted research mainly depend on the empirical approach, and the use of a different approach could lead to different results in one country. Finally, the economic literature lacks fundamental research on the interaction between industrial tax credits and direct subsidies. A detailed analysis carried out at the level of research and research organizations allows to determine the relationship between the financial indicators of this organization and the use of funds provided within the framework of tax incentives and subsidies. This can be the basis for similar studies in the future.

Due to the change in the thematic structure of production and technological processes, the additional share of the product is given lower priority. However, tax incentives may also be used to achieve such policy objectives. In addition to this classical logic, there are other political reasons for state support of industry. Tax incentives are often an important investment in long-term growth and national competitiveness. However, investment results are uncertain and difficult to assess

³ Financing SMEs and entrepreneurs // OECD Scoreboard. OECD Publishing, Paris.-2016.--Текст:электронный.– URL: <https://www.oecd.org/cfe/smes/Highlights-Financing-SMEs-and-Entrepreneurs-2018.pdf> (: 26.06.2017 й).

⁴ Горшкова, Н.В. AI-прогнозирование выполнения региональных инвестиционных проектов / Н.В. Горшкова // Наука Красноярья. – 2018. – С. 90–98



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by financial institutions due to financial asymmetries. As a result, it may be difficult to obtain foreign bank funds, and production enterprises may be limited by credit. Market failure arguments are widely used to justify government intervention. However, they are unable to explain the government's reasons for using specific instruments. Thus, Bozeman and Diez argue that public intervention is justified by three paradigms: the market failure paradigm, the mission-oriented paradigm, and the collaborative paradigm⁵.

Focusing on the evidence of market failure, many analysts overlook the critical importance of the mission paradigm. Governments advocate for a range of missions, such as defense and security, communications, or healthcare. Each of these missions requires products, services, and systems that are supported by research and development. That is, tax incentives are often designed to encourage R&D and innovation by industrial companies. In the United States, mission-oriented research accounts for nine-tenths of all direct federal R&D spending (and three-quarters after tax incentives). After World War II, many public research organizations, including those in construction, transportation, and telecommunications, were gradually formed by the merger of defense institutions into similar structures. More recently, these organizations have been privatized in many countries, as have other public utilities (water, energy, telecommunications). However, the time required to develop a new product and system is beyond the typical research time for many private firms. Thus, to overcome this “temporary failure”, many mechanisms have been put in place, from the most classic (government programs) to favorable pricing mechanisms (in the pharmaceutical industry). Temporary tax breaks have been used to solve these problems. The collaborative paradigm is consistent with a new understanding of innovation processes.⁶

The policy supports cooperation by strengthening links between industry and public research in various ways, mainly by forcing universities to use and transfer their knowledge (through technology transfer organizations) and by creating an enabling environment for spin-offs and start-ups (incubators, through scientific parks) and others)) etc. On the other hand, subsidies are often used for R&D and research institutes that bring together scientists and academic researchers.

⁵Aghion, P. *The Economics of Growth* / P. Aghion // Cambridge, MA: MIT Press, 2009. – p. 129–148.

⁶Adam, A. *The effect of globalization on capital taxation: What have we learned after 20 years of empirical studies?* / A. Adam // *Journal of Macroeconomics*. – 2013. – № 35(1). – p. 199–209.



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According to research by an independent research institution in the United States on tax policy, reductions in tax rates are the main factor in improving the gross domestic product and other economic indicators. It can be concluded that tax reforms in the republic remain one of the driving factors in the development of the national economy. Many changes have taken place in the period under analysis in terms of value added tax. In particular, the obligation to pay this tax was introduced for entities with an annual turnover exceeding 1 billion soums, and the benefits were canceled.

The availability of benefits does not affect tax revenues. In particular, entities that have been paying taxes to the budget in order to use this benefit try to avoid taxes in various ways.

The decrease in benefits indicates that the financial situation of taxpayers is getting stronger. For example, in order to expand the tax base, tax incentives should be given to entities starting production or manufacturers making large investments, but in practice, whoever managed to get the incentives, and besides, tax incentives increased due to the policy's one-sided approach.

Conclusions and suggestions.

The international experience of stimulating the financial activities of enterprises with the help of taxes includes various tax policies and measures aimed at stimulating business, attracting investments and stimulating economic growth. It requires the effective use of various tax policies and measures aimed at the development of entrepreneurship, attraction of investments and stimulation of economic growth, in order to study the best international practices of stimulating the financial activity of enterprises through taxes, and to apply them to Uzbekistan, in particular:

1. Further improvement of the profit tax collection mechanism. Many countries are lowering their corporate tax rates to make business more attractive to investors and entrepreneurs. Low corporate income tax rates help companies grow their net income and attract more foreign investment.
2. Providing effective and optimal tax benefits and preferences. It is considered appropriate for the government to provide tax breaks and preferences for certain types of business entities, those who have attracted foreign investments, those who are engaged in scientific research and experimental construction activities, those who have invested in modern technologies, and those who have created new jobs.



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3. Introduction of the territorial taxation procedure. Some countries have a territorial taxation system in which profits earned and reinvested outside the country are exempt from taxation. This can encourage enterprises to expand their activities internationally.

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