



## **PRACTICAL ASPECTS OF STIMULATING THE ACTIVITIES OF BUSINESS ENTITIES IN FOREIGN COUNTRIES THROUGH TAX MECHANISMS**

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<b>ABSTRACT</b>	<b>KEYWORDS</b>
The article examines the essence of taxation of business entities, the importance of taxes levied on business entities in the formation of the state budget. It also analyzes the state of taxation of business entities in foreign countries, and develops recommendations for the application of best practices in stimulating the activities of business entities in foreign countries through tax mechanisms in the practice of Uzbekistan.	Business entities, tax incentives, tax burden, state budget revenues, stimulating.

### **Introduction**

In foreign countries, tax incentives for business entities have been used as an effective measure to reduce the share of the hidden economy and curb inflation. As a result of this mechanism, which stimulates the activities of business entities, it becomes possible to achieve financial stability of the state budget. Further reduction of the tax burden, including the differentiated collection of profit tax rates for legal entities, is of great importance for the development of the country.

In foreign countries, a number of works are being carried out to implement reforms aimed at stimulating the activities of business entities through tax mechanisms into the practice of nationalism. In particular, it is stipulated in the Decree of the President of the Republic of Uzbekistan No. 60 “On the Development Strategy of New Uzbekistan for 2022-2026”, adopted on January 28, 2022, according to which “by 2026, the tax burden on business entities should be reduced from 27.5 percent to 25 percent of gross domestic product” [1].

The deepening of reforms aimed at ensuring the liberalization of the economy in the Republic of Uzbekistan requires the systematic improvement of the budget and tax system. Budget and tax policy is one of the important areas of measures implemented in the financial system to stimulate the activities of business entities. The fact that our country has been experiencing a state budget deficit in recent years creates a number of problems in conducting budget and tax policy in the process of regulating the economy and ensuring its stability.

### **Literature Review**

The need to provide the country with financial resources for the effective implementation of its socio-economic tasks to the population is one of the pressing issues of the financial system. The main source

of this is the state budget revenues, and their formation involves financial relations between various entities. In particular, state budget revenues are formed at the expense of the population's income, property, land, value added, as well as profits of business entities, land, property, water resources and other taxes. In this regard, effective conduct of state financial policy, soundness, stability of state budget revenues, ensuring an optimal balance of sources of their formation are of great importance at the current stage of reforms in the budget and tax system being implemented in the Republic of Uzbekistan.

The great classical economist Adam Smith studied taxes only as a source of budget revenues. In his opinion, taxes should be enough to cover the costs of maintaining the government. Therefore, A. Smith focused all his attention on the fiscal function of taxes. In addition, A. Smith proposed to impose taxes on consumer goods, which would affect the growth of prices of goods and the variability of demand for goods [2].

Another classical economist, D. Ricardo, put forward ideas that complemented A. Smith's theory of taxes. Unlike other economists, D. Ricardo created a new principle of taxation. According to this principle, all taxes, unless they are imposed on the basis of increasing production or reducing non-productive consumption, hinder the accumulation of capital [3].

M. Sharifkhodjaev and A. Olmasov tried to describe taxes as a means of distributing national income: "Taxes are a form of taking a part of national income into the state's hands in the process of its distribution and redistribution" [4].

According to economist O. Olimjonov, "Taxes are payments that are collected from the population and business entities at the state's discretion in the amount and within the established period established by law in order to meet the needs of the state and society for monetary funds" [5]. In our opinion, this definition of taxes more broadly reveals their essence.

Studying the experience of different countries provides an opportunity to develop directions for improving tax policy in terms of providing tax incentives. In connection with the above, it seems relevant to study foreign experience in solving issues related to the problems of providing tax incentives [6].

## **Research Methodology**

This article uses research methods such as induction and deduction, systematic and comparative analysis, economic and statistical methods to implement scientific conclusions and proposals on supporting the activities of business entities in foreign countries through tax incentives in our country's practice.

## **Analysis and Results**

The totality of taxes, fees, duties and other mandatory payments collected from legal entities and individuals, as well as the principles, methods of their structure, and tax control, constitutes the tax system. This definition is a broad understanding of the tax system. In tax legislation, the tax system is interpreted in a narrow sense, and the totality of taxes, fees, duties and other mandatory payments that have the same essence and form a centralized monetary fund is called the tax system. It is worth noting that such an approach to the tax system is also presented in some literature. The above definition indicates that taxes and fees have a single essence, that is, a "relationship of a mandatory nature" and their interrelationship and, ultimately, their fall into the budget.

In general, the tax system can be divided into the principles of taxation, tax policy, taxation system, tax mechanism, etc. These elements directly determine the composition of taxes in force in the country. Currently, the bulk of state budget revenues in the Republic of Uzbekistan are formed using 9 types of taxes.

The relevance of the analysis of foreign experience in the application of tax incentives as one of the effective instruments of tax policy is due to the important role that tax incentives play in the system of state financial support for economic agents. The development of the national tax system should be based, among other things, on the study of foreign experience [7]. All tax incentives can be conditionally divided into two large groups:

- social benefits;
- incentive benefits.

These groups differ from each other by the main criterion - economic effect. Social benefits do not imply any additional benefit, but are provided to maintain social balance. Social tax benefits can be divided into:

- benefits for individuals;
- benefits for legal entities operating in the social sphere

For example, in Germany, certain categories of citizens (blind hired workers, disabled people) are provided with additional tax benefits that have a fixed amount or are limited to a certain upper limit. This country also provides tax benefits for children, age benefits, as well as benefits for emergency circumstances such as illness, accident [8]. In Germany, tax benefits (rate reduction) are provided for property in agriculture and forestry.

In Spain, social tax benefits for various personal and family circumstances are provided mainly in the form of deductions from taxable income. Such benefits are available only to resident taxpayers.

In many foreign countries, including the USA, benefits are provided to enterprises that employ disabled people. Social benefits are also used (for example, for contributions to charitable foundations). Incentive (motivational) benefits are introduced to create favorable conditions for the development of individual industries or types of activity and are usually manifested in all three types of effects (social, budgetary and economic), but the emphasis is placed on the budgetary and economic effect, the social effect is related, but not the main one. For example, in the USA, a large number of tax benefits on profit tax for enterprises are provided. First of all, benefits are established for companies investing their financial resources in a certain territory. Significant tax discounts are provided for companies whose activities are valuable within the framework of the state tax policy. In addition, tax benefits are provided to stimulate enterprises to use alternative energy sources [9].

Accordingly, the corporate income tax in the United States is not so much a fiscal lever of tax policy as an instrument of influence of the state government on the economic situation of a given territory, the development of the most profitable directions of production of goods and services for the state.

The tax policy in force in Sweden can be recognized as one of the most important instruments aimed at increasing the country's energy efficiency. Despite the fact that high tax rates are set, they vary depending on the energy consumer.

In France, tax breaks are traditionally used for everything related to culture. Almost all foreign countries have established tax breaks in the field of export activities, for the creation of new jobs, increasing investment activity in certain industries, for enterprises that are formed and operate in relatively less developed regions, etc. Many countries use the following types of tax breaks - complete

exemption from taxes or deferment of their payment. For example, in Italy, newly created enterprises in certain less developed regions are subject to exemption from income tax for a certain period. In Belgium, small venture companies are exempted from paying taxes for 10 years in order to stimulate their activities. In addition, a six-year tax exemption is provided for enterprises that demonstrate an increase in labor productivity simultaneously with an increase in employment and an improvement in the use of production capacities.

In developed countries, the priority principle for introducing tax incentives is their targeted nature. That is, tax policy in terms of providing tax incentives is initially formed based on specific state goals that must be achieved, for example, by stimulating certain manufacturers. It is especially necessary to focus on the fact that today one of the most important areas of tax policy in many countries is tax regulation of the state of the environment, based on achieving the goal of improving the environmental situation.

In developed countries, close attention is paid to the environmental and social aspects of tax policy due to the fact that only achieving a certain level of economic development and stability enables the state to strengthen the centralization of financial resources to solve social and other problems of national importance. The practice of establishing tax incentives for environmental taxes can be illustrated by the example of such developed countries as Sweden, Germany, Great Britain, and the USA. In these countries, incentives are established that allow the fullest possible take into account the amount of damage from environmental pollution.

Thus, in Germany, incentives are provided for enterprises that use cogeneration units. The incentives for these companies are provided by setting reduced rates, as well as a complete exemption from energy tax under certain conditions. In Sweden, an environmental tax is levied only on large producers of electricity and heat. In the UK, a preferential tariff is applied to companies that meet certain conditions, as well as increased rates for certain emissions. Reduced rates for electricity obtained from renewable sources are applied in Germany. Foreign countries have also established incentives that are intended to stimulate a reduction in the negative impact on the environment. For example, the rates for the hydrocarbon tax, which is applied in EU countries, are differentiated.

The motor vehicle tax often depends on the environmental class of the vehicle, the period of its use or the type and class of fuel used. For example, in the USA, owners of cars with an electric engine are exempt from paying the tax. In Germany, incentives are used to purchase a light-weight passenger car with an electric engine. In Sweden, benefits are provided to those who use more environmentally friendly chemicals to reduce the use of harmful fertilizers.

Airlines with a more environmentally friendly fleet also enjoy a preferential air traffic tax rate. And in order to reduce the leakage of harmful substances from batteries, a fee is established for the use of batteries with a certain content. By using tax incentives in developed countries, policy is aimed not only at reducing the volume of negative impact on the environment, but also at reducing dependence on natural resources. In developed countries, preferences are also established that are designed to take into account the interests of different groups of taxpayers. Usually, they are aimed at maintaining the competitiveness of low-profit economic sectors (for example, agriculture) [10].

full exemption from taxes;  
 granting incentives to newly established enterprises;  
 temporary exemption from paying taxes;  
 reducing the taxable base;  
 partial exemption from taxes;  
 granting incentives for foreign investments;  
 granting incentives for exports, etc.

**Picture 1. Forms of tax incentives for business entities in foreign countries**

As a measure of tax policy in Uzbekistan in this area, which will act as a factor in compensating for damage to health, the establishment of a regional environmental deduction for income tax for individuals and legal entities can be used, the amount of which should depend on the degree of pollution of the territory. Such use of tax revenues to compensate households and enterprises is also proposed in foreign literature, it is noted that compensation can take the form of a reduction in income tax or tax credits aimed at specific groups. Incentives for business entities in foreign countries through tax incentives can be expressed in the following forms (picture 1).

**Table 1 Dynamics of changes in state budget revenues of the Republic of Uzbekistan in 2021-2023 (billion soums) [11]**

Indicators	Years	2021	2022	2023
<b>Income (excluding earmarked funds) - total</b>		<b>164,7</b>	<b>201,9</b>	<b>231,7</b>
<b>1. Direct taxes</b>		<b>58,9</b>	<b>64,4</b>	<b>73,1</b>
1.1 Corporate profit tax		38,4	37,6	40,8
1.2 Turnover tax		1,6	2,5	2,4
1.3 Personal income tax		18,9	24,3	29,9
<b>2. Indirect taxes</b>		<b>56,3</b>	<b>71,4</b>	<b>83,3</b>
2.1 Value added tax		38,4	52,2	57,9
2.2 Excise tax		13,1	13,5	15,8
2.3 Customs duty		4,8	5,7	9,6
<b>3. Resource fees and property tax</b>		<b>23,0</b>	<b>23,9</b>	<b>28,1</b>
3.1 Property tax		2,5	4	5,1
3.2 Land tax		4,1	5,3	6,9
3.3 Subsoil use tax		15,8	13,9	15,3
3.4 Water use tax		0,7	0,7	0,8
<b>4. Other income</b>		<b>26,4</b>	<b>42,2</b>	<b>47,2</b>

Taxes are allocated for the purpose of providing the state budget with revenues, assessing the effectiveness of state functions and tasks, as well as for the scientific and theoretical study and analysis of stimulating the activities of business entities. From the data in Table 1, we can see that the revenues of the State Budget of the Republic of Uzbekistan increased by 22.6% in 2022 compared to 2021 and



by 14.7% in 2023 compared to 2022, slowing down by 7.9% compared to the previous year. While the bulk of the state budget revenues were formed at the expense of direct taxes in 2021-2022, by 2023 the volume of indirect taxes amounted to 35.9% of total revenues. In 2023, the volume of direct taxes increased by 24.1% compared to 2021. The volume of indirect taxes has increased significantly compared to direct taxes, reaching 83.3 bln. soums from 56.3 bln. soums.

The introduction of tax incentives into the activities of business entities creates conditions for eliminating the imbalance that has arisen in the process of reproduction. In other words, the rates for certain taxes can be divided into several groups (types) in terms of the tax subject, tax object, tax collection means, and deadlines for the production and service sectors.

In the Republic of Uzbekistan, special attention is paid to increasing state budget revenues by stimulating business entities through taxes. The implementation of these measures will make a positive contribution to stimulating the activities of entrepreneurs. The presence of a number of incentives in the tax system of our republic aimed at encouraging export activities is a key factor encouraging national producers to export their products.

## **Conclusion and Suggestions**

One of the main and integral parts of the global tax system is tax incentives. One of the main tools for any state, regardless of its economic system, to provide the state budget with revenues is taxes and non-tax payments. However, the introduced taxes cannot be established in a purely fiscal form. Because the implementation of taxes established solely from the point of view of budgetary interests does not last long. Therefore, a certain level of use of tax incentives is required. Having analyzed all of the above, we can conclude that each country, taking into account its cultural characteristics, natural resources, scientific and technical equipment, must choose its own path to a modern sustainable tax system. Today, the Russian authorities are looking for additional sources of budget replenishment. In order to avoid an increase in the tax burden, officials are beginning to focus on alternative aspects of fiscal policy, for example, improving tax administration. Improving tax administration means not so much improving the work of tax services as reducing tax benefits. Based on the assessment of the legislation on taxes and fees of the Republic of Uzbekistan at the current moment, it can be concluded that the system of tax benefits meets the requirements only partially:

the purpose of establishing tax privileges is often not supported by the conditions and restrictions set out in the provisions of the legislation on taxes and fees;

the assessment of the effectiveness of tax benefits is present episodically.

In order to effectively conduct tax reforms in a market economy, measures are taken to influence taxes, apply incentives to them, and ensure the uniform development of various sectors of the economy. By applying tax incentives, the state has a different impact on different sectors of the economy, that is, the problem of ensuring a balance between some profitable and unprofitable sectors arises.

This, in turn, gives the right to conclude that the target component of a particular tax benefit is mandatory. The state must have guarantees that the benefits received by taxpayers will be used for specific purposes, and this is possible only if the law establishes a system of guarantees for the use by the taxpayer of additionally received financial resources for the purposes for which this tax preference is aimed. Based on all of the above, it can be concluded that, based on the inventory of tax benefits and preferences provided by tax legislation, it is necessary to systematize them in order to improve their effectiveness.

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