

PROMOTING INVESTMENT ACTIVITY OF LARGE TAXPAYERS THROUGH TAX INCENTIVES

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A B S T R A C T	K E Y W O R D S
The article is devoted to consideration of the efficient ways to promote investment activity of large taxpayers in our country. In addition, the article reveals the economic significance of the “tax incentive” concept. Relevant conclusions have been developed based on the analytical data on the tax incentives applied in our country by types of taxes.	tax, tax incentive, investment, investment policy, investment operations, investment activity.

Introduction:

One of the effective ways to promote the investment activity of large taxpayers is to provide tax incentives. Before interpreting the issues of promoting the investment activity of large taxpayers through tax incentives in terms of science, we need to study the economic essence of the “tax incentives” concept. Therefore, we will analyze the definitions of “tax incentives” concept by foreign and domestic economists.

In Article 75 of the Tax Code of the Republic of Uzbekistan, tax and levy incentives are defined as follows:

“Tax incentives are the advantages provided by the tax legislation for certain categories of taxpayers compared to other taxpayers, including the possibility of not paying taxes or paying them in smaller amounts” [1].

According to the Law of the Republic of Uzbekistan №LRU-812 dated December 30, 2022 parts 5 and 6 of Article 75 of the Tax Code are provided in the following wording:

Tax incentives for certain taxes, with the exception of value added tax, excise tax in the production and (or) sale of excisable products of the tax for the use of subsoil and the special rent tax on the extraction of minerals, subject to the provisions of part six of this article, may be provided by decisions of the President of the Republic of Uzbekistan only in the form of a reduction in the established tax rate, but not more than by 50 percent and for a period of not more than three years [2].

2. Literature Review

The economic literary sources provide different opinions and controversial issues regarding stimulation of investment activity of large taxpayers through tax incentives.

A.A. Kozlova and E.N. Kharlamova admitted two forms of state support for the investment activity of economic entities: direct encouragement, which is the allocation of funds from the state budget, and indirect encouragement, which means encouragement through taxes [3].

In the opinion of V.M.Avdeeva, promotion of investment operations on the basis of foreign experience includes the following aspects:

1. Providing tax incentives on profit tax.
2. That there is the need to review and change the procedure and conditions for issuing investment tax credits.
3. Making additions and amendments to the tax legislation in terms of developing, approving and introducing additional norms for the promotion of investments in the activities of organizations engaged in innovative and high-tech activities, etc.[4].

According to N.V. Balabanova and T.R. Valinurov, tax incentives represent one of the ways to regulate indirect taxes and create more favorable business conditions for their recipients [5].

B.A. Fedosimov stated the following in this regard: “Tax incentives are a type of legal benefits, because they are aimed at the reduction or non-payment of taxes and fees by the taxpayer in order to ensure the interests of the subjects of economic relations within the relevant process” [6].

N.R. Koziyeva in her research papers made a number of proposals to further encourage the attraction of foreign investments to the free economic zones operating in the Republic of Uzbekistan and to further improve the mechanism of effective implementation of tax and customs benefits to enterprises with foreign investments [7].

F. Rakhmatullaeva defined the tax incentive as a category as follows: “incentives are a set of ways, rights and obligations to fully or partially reduce the taxpayer’s tax obligations in the form established by law in order to regulate the economy by the state and solve social tasks” [8].

From the point of view of O.T.Yuldashev, “In order to reduce the weight of the tax burden and to encourage more efficient activities of taxpayers, the legality of its imposition on certain categories of taxpayers compared to other taxpayers, non-individual and discriminatory character, discretionary and indefinite application, as well as creation of tax advantages (conveniences), tax incentives that reduce tax obligations are called incentives” [9].

In order to reveal the essence of tax incentives Z.Kurbanov and F.Akramov theoretically divided it into three groups:

- full or partial exemption from paying taxes;
- tax deductions;
- tax credits (long-term deferred liabilities for taxes and compulsory payments) [10].

According to J.J.Urmonov, “Based on the Tax Code and other statutory acts tax incentive is possibility to reduce the tax liability of taxpayers, to decrease the tax rate and tax base, not to pay taxes and other compulsory payments or to pay them in smaller amounts” [11].

I.Niyazmetov proposed to cancel all the tax incentives provided beyond the Tax Code and recognized the expediency of considering innovation-based tax credits and tax holidays tested in international practice instead of them [12].

From the point of view of F.I.Isaev, “tax incentives are the opportunities given to partially or completely exempt certain categories of legal entities from paying taxes, or to pay taxes in smaller amounts” [13].

U.Kh. Normurzaev thinks that “Tax incentives are the advantages provided by tax legislation for certain categories of taxpayers compared to other taxpayers, including the possibility of not paying taxes or

paying them in smaller amounts”. In addition, in his opinion, “it is required that accounting of tax incentives should be carried out by tax authorities using information systems and assigning a special identification code to each type of tax incentives” [14].

M.Yu.Lev, A.I.Bolonin and Yu.G.Leshenko explain the incentive goal of the tax administration as follows: “In recent years, particular attention has been paid to “incentive taxation”. It includes many initiatives aimed at providing incentives for business income and setting rewards and penalties to encourage production. The aim of the preferential regime is to encourage the necessary flow of investment activity in required direction. As part of incentive taxation, several types of incentives are provided to encourage investment activities [15].

Summarizing the definitions specified above, we can conclude that tax incentives are partial tax exemptions, lower tax payments, and tax credits extended for the purpose of providing financial incentives for taxpayers.

3.Research Methodology.

The methodology of our research paper is the economic relations aimed at promoting investment activity of large taxpayers through tax incentives. Such methods as comparison and grouping of practical materials were used, and conclusions and proposals were developed have been used during the research.

4.Analysis and Results:

The most complicated process in the mechanism of granting tax incentives is that it is necessary to determine the criteria for determining tax incentives based on the principle of fairness and transparency. However, it should be noted that the determination of tax incentives in world practice is made in reliance upon the essence of the economic policy of each country, and in this respect, it is calculated differently in different countries.

Article 30 of the Law №-598 of the Republic of Uzbekistan dated December 25, 2019 “**On Investments and Investment Activities**” specifies the goals and methods of the state support for investments and investment activities.

In compliance with the law, the state support for investments and investment activities, creating a favorable investment environment, encouraging investments in the organization of new competitive and innovative, export-oriented and (or) import-substituting productions, existing productions using modern technologies and introducing the latest management experience is carried out for the purpose of expansion and renewal. The state support for investments and investment activities is implemented in the following ways:

application of incentives and preferences;

allocation of centralized investments for joint financing of the investment projects;

financial, advisory and informational support [16].

Article 34 of this law envisages giving incentives and preferences for state support of investments and investment activities.

In reliance upon this article incentives and preferences used for state support of investments and investment activities may include the following:

transfer of state-owned objects or property rights thereto to an investor at a preferential or zero purchase price;

providing incentives on taxes and payments;

subsidizing interest rates on loans taken by the investor for the implementation of the investment project.

Incentives and preferences are given according to the following:

investment volume;

the conditions of the place where the investment project will be implemented;

expected socio-economic effect and creation of new jobs;

areas and sectors of investment project implementation.

Incentives on taxes and payments are provided in accordance with the law.

All developed and developing countries throughout the world are using various methods of attracting investments in the field of global competition. The activity of investments directly depends on how effectively the tax system is organized.

Tax incentives are one of the most essential methods in the tax mechanism, it is the method of implementing economic processes, determining the direction of business development, as well as regulating the social structure of society.

Today the following types of tax incentives are widely applied in world practice:

- withdrawal;
- discounts;
- tax rate reduction;
- tax exemptions;
- change the term of tax payment;
- restructuring of debts due to taxes and fines.

Withdrawal is a tax incentive that allows the taxpayer to exclude a certain part from the taxable base.

Discount - gives the taxpayer the right to reduce the taxable base by a certain amount.

Tax rate reduction – decrease of the tax rate as an incentive enables to pay taxes and fees at lower rates than the definitions established in the general procedure.

Tax exemption - change the tax payment periods, allowing to pay taxes and fees in a later period.

Changing the tax payment term – this incentive enables to pay taxes and fees in a later period.

Restructuring of debts on taxes and fines - allows taxpayers to extend the time period for fulfilling the obligation to pay debts, fines and other payments for violations of the laws on tax and duty payments.

In reliance on the opinions of the scholars mentioned above, we think that the specific features of tax incentives can be described as follows:

- opportunity is limited. Each of the tax incentives is strictly linked to the relevant tax and its application is limited only to the tax or charge levied;

- encouragement. Tax incentives, unlike other instruments, aim to encourage or support taxpayers by reducing their tax liability or creating other tax treatment conditions that are more favorable to other taxpayers;

- by special regions. Unlike special territorial tax regimes, there are no special restrictions on the use of incentives on a territorial basis. They work in the areas where appropriate taxes are collected (in the entire state territory - for state taxes and fees or for administrative-territorial units - for local taxes and fees);

- mobility peculiarity. Tax incentives enable very quick changes in tax incentives to effectively implement the regulatory function of taxes. They can be considered as a regulatory tax mechanism of a tactical nature.

According to R.R. Ergashev, it is necessary to introduce comprehensive incentives and incentives given to foreign direct investments to domestic investments as well. As a result of this, cash funds in the form of savings in the hands of the population also enter into circulation and result in the further development of business. In Sweden, for example, there is almost no difference between domestic and foreign (external) investments [17].

About 73.4% (26,346 enterprises) of the enterprises using tax incentives in our country belong to small business entities and 26.6% (8,442 enterprises) to large enterprises [18].

Tax incentives are also provided by the Decree of the President of the Republic of Uzbekistan dated August 31, 2022 №PD-213 **“On additional measures to enhance the welfare of the population through the rapid development of entrepreneurship, innovative technologies and infrastructures in the Republic of Karakalpakstan”**: Within the framework of the focus area of improving the investment and business environment of the region, ensuring the youth employment in the Republic of Karakalpakstan:

a) In the period from January 1, 2023 till January 1, 2028 for business entities located in all districts of the Republic of Karakalpakstan and operating in this area:

with a 50 percent reduction in tax rates for profit tax, turnover tax, property tax levied on legal entities and land tax levied on legal entities;

at a tax rate of 1 percent with the reduction of the social tax;

the social tax paid by individual entrepreneurs should be reduced by 12 times for those operating in urban areas, and by 6 times for those operating in districts, and set at one time of the basic calculation unit per year [19]. The Decree of the President of the Republic of Uzbekistan dated September 7, 2022 №PD-215 **“On measures to improve the activities of the direct investment fund of the Republic of Uzbekistan”** was adopted to support investors in our country. In order to further raise attractiveness of the investment environment in the country, to support the development of entrepreneurship in the regions, and to improve the system of financing new initiatives and projects:

it is required to transform the joint-stock company “Management Company of the Direct Investment Fund of the Republic of Uzbekistan” into an investment company in the form of a limited liability company “Direct Investment Fund of the Republic of Uzbekistan” (hereinafter referred to as the Investment Company) with an initial authorized capital in the equivalent of 100 million USD formulated at the expense of the Fund reconstruction and development of the Republic of Uzbekistan. At the same time, within the framework of ongoing projects in 2022-2023, the Investment Company will be tasked with attracting additional investments in the amount of USD 200 million USD from partner investors [20].

It should be noted that free economic zones are crucially important in attracting foreign investments in our country. Currently the development and growth of free economic zones and small economic zones, which are being established in our country is greatly influenced by the many incentives and preferences given by the state in terms of taxes.

Table 1 below provides the analysis of tax incentives applied by tax types in 2018-2022. In 2018 a total of 59792 entities received incentives in the amount of 22707.56 billion UZS, in 2019 68113 entities received incentives in the amount 29136.0 billion UZS, in 2020 93871 entities obtained incentives in

the amount 31065.6 billion UZS and in 2021 incentives worth 43479.3 billion UZS were applied to 109363 entities, and incentives worth 72963.7 billion UZS were applied to 195884 entities in 2022.

If we consider types of taxes separately, the amount of VAT incentives extended to 2322 entities amounted to 14989.50 billion UZS and it is obvious that it has been converted into the type of tax with the greatest incentive. We can see that in 2022 this amount constituted 64107.9 billion UZS for 28214 entities and possesses the major tax incentives.

The biggest part of the tax incentives provided to taxpayers falls on the share of large taxpayers (Table 2).

In 2022, the total amount of tax incentives amounted to 72963.7 billion UZS (see Table 1), while the amount of incentives given to large taxpayers constituted 46348.7 billion UZS, or 63.52 percent of the total incentives. This ratio is the same for individual tax types. For example, total amount of tax incentives extended by VAT accounted for 64,107.9 billion UZS, of which 43373.4 billion UZS or 67.66 percent are tax incentives extended to large taxpayers. 93.6 percent of the tax incentives provided to large taxpayers corresponded to VAT, and 4.5 percent fall on the share of profit tax. 51.6 percent or 23929.4 billion UZS of the tax incentives extended by VAT are zero rate benefits.

Table 1

Analysis of tax incentives applied by types of taxes in 2018-2022¹, in billion UZS

№	Types of taxes	2018		2019		2020		2021		2022	
		number	amount	number	amount	number	amount	number	amount	number	amount
	Total	59 792	22707.56	68113	29 136.0	93871	31 065.6	109363	43 479.3	195884	72 963.7
1	VAT	2 322	14989.50	11380	23 073.8	7 031	24 643.3	15 508	36 766.3	28 214	64 107.9
2	Profit tax	291	1 832.02	763	2 785.4	3 335	2 930.0	2 709	2 219.5	25 015	4 641.3
3	Land tax	5 499	1 183.69	6 736	880.1	4 531	1 313.2	11 743	2 575.9	6 204	931.8
4	Individual income tax	8 321	393.06	33866	789.0	44093	917.9	56 165	1 073.8	41 580	1 028.3
5	Tax for use of water resources	7	797.97	31	469.3	673	443.7	1 376	39.1	685	12.3
6	Social tax	30 258	495.80	3 993	340.9	6 230	346.5	11 247	386.3	52 616	1 187.4
7	Property tax	220	897.27	382	583.2	4 813	274.0	2 195	306.1	7 809	933.0
8	Turnover tax	12 530	1 325.66	10962	214.3	23165	196.9	8 420	112.3	32 921	97.2

¹ Developed by the author based on the data of the Tax Committee under the Ministry of Economy and Finance.

**Table 2 Analysis of the tax incentives applied by large taxpayers in 2022 by types of taxes²
billion UZS**

№	Type of tax	Tax incentives applied		Share %
		Number of cases	Amount	
Total		14939	46348.7	100%
1	Value Added Tax	9056	43373.4	93.6%
	By zero rate	2830	23929.4	51.6%
	Financial and insurance services	3028	14251.4	30.7%
	VAT excluded	3198	5192.6	11.2%
2	Excise tax	7	1.8	0.004%
3	Profit tax	178	2106.3	4.5%
4	Land tax levied on legal entities	1553	346.8	0.7%
5	Property tax levied on legal entities	1512	113.6	0.2%
6	Individual income tax	2446	206.6	0.4%
7	Tax for use of water resources	16	4.3	0.01%
8	Social tax	171	195.9	0.4%

The main part of the investments made in our country is included in economic entities operating in Free Economic Zones. When analyzing free economic zones and their participants in Table 3, the number of FEZ in 2016 constituted 2, and the number of participants accounted for 248. Their turnover was 2159.9 billion UZS, the number of employees amounted to 7519, the export volume made 168.0 billion UZS and the amount of tax incentives constituted 17.9 billion UZS. In 2018 the number of free economic zones was 15, and the number of participants amounted to 526. Their turnover was 6741.3 billion UZS, the number of employees amounted to 14131, the export volume made 674,3 billion UZS and the amount of tax incentives constituted 203.0 billion UZS. In 2021 the number of free economic zones accounted for 23, and the number of participants amounted to 755. Their turnover was 10848 billion UZS, the number of employees amounted to 34170, the export volume made 1930.9 billion UZS and the amount of tax incentives constituted 2157.5 billion UZS.

According to our analysis, by the end of 2020, 202 participants of free economic zones made a profit, 133 of them (66%) used the incentives worth 26 billion UZS and 69 of them paid 2.9 billion UZs of profit tax to the budget. At the same time, 263 participants of free economic zones did not have taxable profits.

² Developed by the author based on the publicly available data of the Tax Committee.

Table 3
Free Economic Zones in the Republic of Uzbekistan in 2016 – 2021
and analysis of their main results (billion UZS)³

№	Indicators	Years					
		2016	2017	2018	2019	2020	2021
	Number of FEZ	2	11	15	19	23	23
	Number of participants	248	376	526	654	721	755
1.	Turnover	2159.9	4194.4	6741.3	9239.0	12859.1	10848
2.	Number of employees	7 519	12687	14131	28 047	32246	34170
3.	Payroll fund	78.7	113.0	176.0	408.9	583.6	476.6
4.	Export volume	168.0	469.3	674.3	1221.9	1579.4	1930.9
5.	Taxpayers	91.8	135.2	142.9	381.1	451.0	440.3
6.	Tax incentives	17.9	35.6	203.0	127.4	148.3	157.5

Moreover, in reliance upon the investment volume, 27.7 million UZS of incentives were applied unjustifiably by 18 participants whose tax incentive period has expired. Taxes of in the amount worth 64.5 million UZS were calculated by 6 participants, whose activities ended with profit. Similar situations can be witnessed in the 1st quarter of 2021. In particular, during this period, 187 FEZ participants made a profit, 67 of them (80.1%) received incentives worth 39.4 billion UZS, and 120 of them paid a profit tax in the amount of 8.6 billion UZS to the budget. At the same time, 271 FEZ participants did not have taxable profits. Proceeding from the investment volume, incentives in the amount of 644.5 million UZS were unjustifiably used by 16 participants whose tax incentive period expired, and 16 participants were taxed in the amount of 215.3 million UZS without using any incentives

5. Conclusions and proposals:

According to the Regulation of the Ministry of Justice of the Republic of Uzbekistan dated January 10, 2020 № 3172-1 “On establishing the criteria for the inclusion of legal entities in the category of large taxpayers”, economic entities that comply with the following criteria for the inclusion of legal entities in the category of large taxpayers are considered large taxpayers:

Large business entities include business entities with a total income of 100 billion UZS and more during the calendar year.

Year by year, the share of large tax payers in the budget revenue is increasing. In 2018, its share constituted 52.0 percent, and in 2022 this indicator was 63.8 percent.

It should be noted that one of the efficient ways to promote the investment activity of large taxpayers is to provide tax incentives.

³ The table has been compiled by the author based on the data of the Tax Committee.

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