

## **Some Debated Aspects of Using Tax Benefits in Small Industrial Zones**

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**Annotation:** The content and essence of tax benefits applied to small industrial zones, the current analysis of their implementation, and some debated situations observed in the practical utilization of these benefits have been examined in the article.

**Keywords:** incentives, small industrial zones, free economic zones, direct investments, tax rate, favorable business environment, taxpayers, tax base, tax incentives for attracting foreign investments and productivity growth.

### **1. Introduction**

One of the important directions for achieving sustainable economic growth in the country is actively attracting foreign investments. Particularly, the broad attraction of foreign investments contributes to the modernization of production, shaping a competitive environment, finding its place in the international market, producing goods that substitute imports and promote exports, and providing employment opportunities. As a result of the favorable investment environment created, the volume of attracted investments, especially foreign investments, is increasing day by day in our country.

The Decree No. PF-60 of the President of the Republic of Uzbekistan dated January 28, 2022, aims to further improve the investment environment in Uzbekistan, increase its attractiveness, and outline plans to attract \$120 billion, including \$70 billion of foreign investments, within the next five years. Emphasizing the strategy of "from bottom to top," the decree focuses on implementing a new system, efficient utilization of investments, and increasing export volumes by 2026 in various sectors like energy, transportation, healthcare, education, ecology, public utilities, water management, and other areas through state-private partnerships, with an allocated goal of attracting investments worth \$14 billion. The attention is directed towards implementing a direct and active investment policy to enhance investment activity in the national economy.

### **2. COMMENTARIES ON LITERATURE**

In economic literature, studies and scientific articles by J. Zhan, I. Shablinskiy, R.I. Zimenkov, K. Yeongjin explore issues related to the activities of free economic zones and small industrial zones. Additionally, some aspects and solutions to existing problems have been researched and analyzed by economists of our republic, including A. Vahabov, N. Haydarov, N. Kuziyeva, S. Mirzalieva, Sh. Khajibakiev, N. Muminov, J. Karimqulov, M.A. Raimjonova, and S. Bozarov.

According to the opinions of A. Vahabov, Sh. Khajibakiev, and N. Muminov, small industrial zones represent delimited areas that operate as specially privileged economic zones for local and foreign entrepreneurs [2].

In the economic literature created by the mentioned scholars, various definitions have been given for free economic zones. Specifically, Russian economist R.I. Zimenkov, in his book "Special Economic Zones," evaluates the establishment of small industrial zones not as a concealed subsidization method but as a means to modernize the economy and attract foreign investment capital to the country by creating opportunities for individual lobby groups and aggregated capital to exit abroad [3].

According to Alexander's view on tax benefits, a tax benefit is understood as a reduction or privilege provided to a taxpayer (subject) compared to other taxpayers in terms of the amount of tax paid [4].

A.Juraev and Sh.Toshmatov define tax benefits as various advantages given to taxpayers in terms of taxes. They can be temporary, permanent, full or partial, and in other forms [5].

Professor A.M. Basenko has presented the most comprehensive definition of the essence of small industrial zones, describing them as follows: "...having specific qualities that allow for the implementation of a preferential currency-exchange regime and tax benefits for these territorial-industrial entities" [6].

Economists have variously emphasized the preferential order in independent economic zones and managerial administration in the field.

### 3. RESEARCH METHODOLOGY

In this article, research methods such as statistical analysis, systematization, classification, and scientific abstraction have been employed. Gathering, organizing, and interpreting statistical information mentioned in the scientific article relied on data from the State Committee of the Republic of Uzbekistan on Statistics.

### 4. ANALYSIS AND RESULTS

In our country, comprehensive measures are being swiftly implemented to shape the most favorable investment environment for directly attracting foreign investments, which involves streamlining tax and customs policies for foreign investors, namely, simplifying the tax burden and mechanisms for tax compliance. Particularly, one of the macroeconomic indicators characterizing stable development is the volume of investments attracted in the country. Currently, the "Direct foreign investment flow returned to pre-pandemic levels in 2022, reaching \$1.6 trillion. The scope of cross-border transactions and international projects is notably expanding. However, in developing countries, the improvement of the investment climate remains relatively weak. Presently, the ongoing global socio-political situation, food shortages, energy crises, financial instabilities, and the ongoing COVID-19 pandemic, along with climate changes, intensify stress in the investment environment" [7].

During the period of economic reforms, studying the experiences of using the mechanism of tax rates in foreign countries to streamline the tax system and monitoring the complete and timely collection of taxes is in line with the goal of perfecting the tax system.

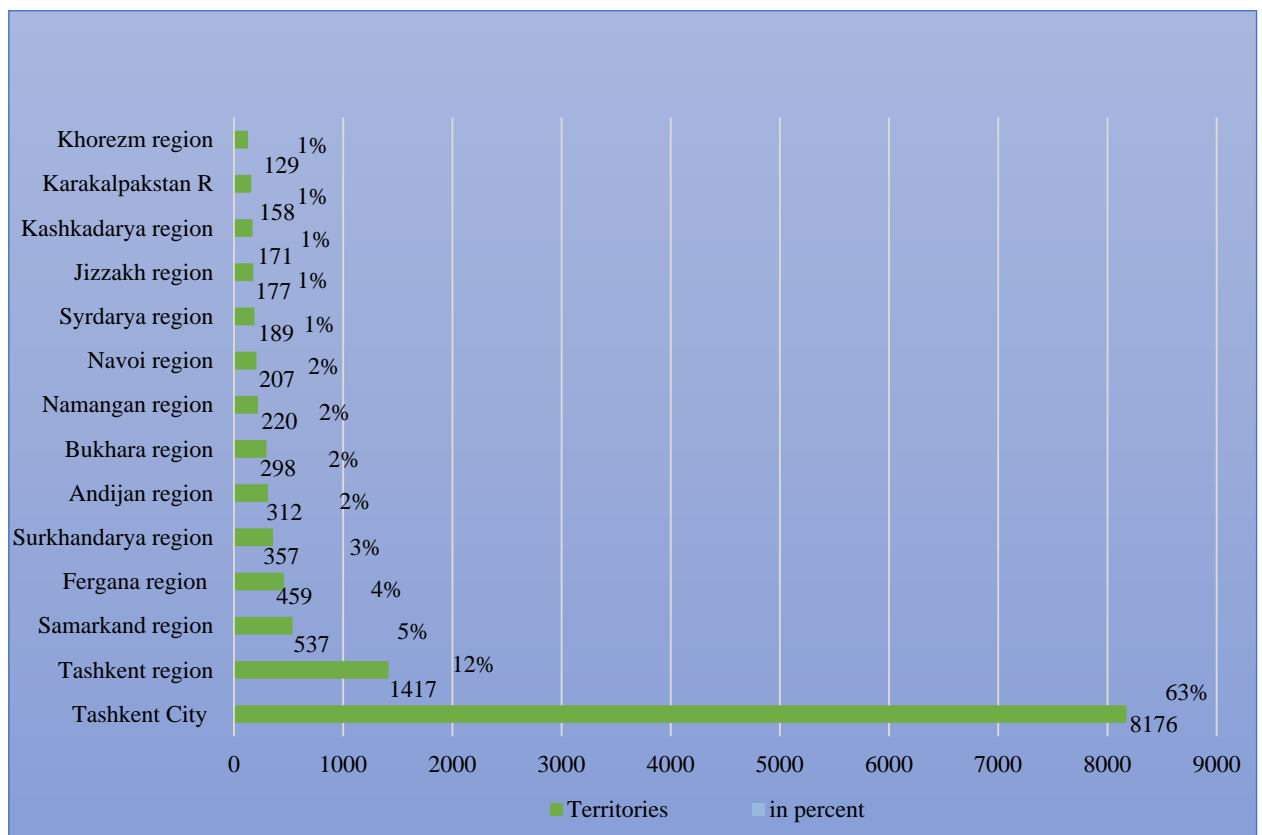
#### 1-image. Enterprises and organizations operating with foreign state capital in our republic.

Foreign Countries	Total Number of Enterprises	Percentage
<b>Russia</b>	2849	30,1
<b>China</b>	1929	20,4
<b>Turkey</b>	1719	18,2
<b>Kazakhstan</b>	949	10,0
<b>South Korea</b>	696	7,3
<b>USA</b>	296	3,1
<b>Tajikistan</b>	250	2,6

<b>Kyrgyzstan</b>	245	2,6
<b>Azerbaijan</b>	207	2,2
<b>Germany</b>	200	2,1
<b>Turkmenistan</b>	130	1,4

According to the current year's situation in Uzbekistan, the number of companies with foreign state capital amounted to 12,750. According to data from the Statistical Agency, in terms of the number of companies with foreign capital participation, the leadership position is held by the Russian Federation with 2,884 companies, followed by China with 1,823 companies and Turkey with 1,771 companies, positioning itself at the lowest end after these rankings. Analyses indicate that companies with foreign capital involvement are considered the most efficient and active entities among industrial subjects.

**2-image. The number of companies operating with foreign capital participation in the regional sector [9].**



According to the current year's situation, the number of companies operating with foreign capital in the regional sectors of the Republic reached 12,807. The highest number of companies operating with foreign capital was notably recorded in Tashkent city with 8,176, followed by Tashkent region with 1,417, Samarqand region with 537, and the lowest proportion was observed in Khorezm region.

Various methods are employed to stimulate investment activity in the market economy. Resolving these issues can be achieved not only by implementing state foreign investments but also by developing mechanisms aimed at leveraging the country's economic growth points through tax instruments. Taxes play a significant role as a means of influencing the economy for the state.

The main objectives of establishing and utilizing tax incentives are as follows:

- Tax incentives are designated to stimulate certain important areas in society or the activities of taxpayers. This means that state tax incentives enable efficient and convenient

management or organization of the economy, demonstrating that tax incentives serve as an important lever for the state in carrying out its functions and tasks.

- Providing incentives ensures that financial resources necessary for the budget are indirectly allocated to taxpayers without being directly allocated to the budget. The advantage of this approach lies in simplifying the process of collecting taxes for the budget and redistributing them.
- Tax incentives are divided into three types and are defined as follows: [8]
- Complete exemption from taxes (where certain legal and physical entities, their incomes, property, land, and other objects subject to taxation are completely exempt from tax payments);
- Temporary or partial exemption from taxes (where certain types of activities or specific entities, their incomes, or other objects subject to taxation are temporarily or partially exempt from tax payments);
- Given in the form of reducing the tax base (where the amount that can be subjected to tax for certain legal and physical entities is reduced for a specific purpose, such as purchasing new manufacturing equipment or paying tuition fees for education).

Solely for assessing and offering incentives, the state determines clear requirements and conditions, which must be explicitly defined beforehand by the beneficiaries before being provided. This aims to monitor the achievement of specific indicators set for the purpose.

As a result, responsible economic entities are required to enhance the efficient and effective utilization of incentives, contributing to the increased investment activity of economic entities.

In the United Kingdom, the evaluation of incentives effectiveness is carried out by the Treasury, Her Majesty's Revenue and Customs (HMRC), and the Office of Tax Simplification (OTS). They execute assessments based on a methodology evaluating incentives' effectiveness, preparing reports based on the results. These reports are submitted for review and considered in budget planning for the upcoming year.

The evaluation of incentives effectiveness employs the following criteria:

- the political basis and consequences of the necessity for incentives;
- the probable consequences of altering or canceling existing incentives;
- the level of awareness and involvement of taxpayers;
- costs and administrative expenses associated with obtaining incentives;
- The impact of existing incentives on the taxpayer's behavior.

In the UK, the process of evaluating officially published tax incentives reports has been successfully utilized. Specifically, 108 tax incentives are registered in the list of tax incentives along with the outcomes of their effectiveness assessment.

In Germany, based on the directive of the Federal Ministry of Finance, a selection process involving three research groups evaluates the 20 most important tax incentives. Participants in this evaluation include the University of Cologne, the consulting firm "Copenhagen Economics ApS" from Denmark, and the European Center for Economic Research located in Mannheim. Each center conducts assessments and evaluations of specific tax incentives.

The Ministry of Finance has developed a mechanism for evaluating the effectiveness of incentives. The assessment report consists of three parts:

1. Recommendations from experts regarding maintaining, altering, or canceling incentives, along with a summary of the evaluation results.

2. A comprehensive report encompassing the evaluation outcomes for each incentive.
3. Reports focusing on the impact of incentives on the budget.

Finding ways to effectively utilize tax incentives, using them in necessary and appropriate situations, is currently among the tasks aimed at advancing tax compliance. The incentives provided to economic entities undoubtedly contribute directly to budget revenues.

## 5. Summary:

Several extensive reforms are underway in Uzbekistan to enhance the tax system. Observations in the areas of taxes, tax collection issues, and the further development of corporate activities reveal that the implementation of the following recommendations in Uzbekistan's policy on these matters could be beneficial:

- conducting a thorough analysis to deeply examine the negative impact of incentives and preferences on the economy and a healthy competitive environment, revisiting them in accordance with legal documents, excluding them from the inventory;
- establishing a mechanism to precisely define the indicators that must be achieved by beneficiaries to adhere to the state's requirements and conditions for providing incentives and preferences;
- explicitly stating the definition, types, and forms of incentives and preferences in legal documents;
- clearly defining the sectors and industries within which state-provided incentives and preferences will be offered;
- Monitoring and assessing the effectiveness of using incentives and preferences, establishing a mandatory refund system for improperly utilized incentive amounts back to the budget, and designating a competent body to implement these tasks.

## 6. USED SOURCES AND LITERATURE LIST

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