



Ways to Use Effective Tax Mechanisms in Modernizing Industry

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Abstract:

This article presents the world experience of increasing the efficiency of the tax mechanism in the modernization of industry and in stimulating the investment activity of enterprises. The influence of tax mechanisms, in particular tax privileges in the development of industry and their orientation on the result, has been analyzed. Also, proposals are made to strengthen the efficiency and effectiveness of tax incentives in ensuring the stability of the country's economy.

Keywords: industry, modernization, tax benefits, investment tax credit, production modernization, depreciation, tax burden, tax mechanism, profit tax, GDP.

Enter

The idea of comprehensive modernization of production in the country by attracting foreign investments, re-equipment with modern equipment was first heard by the First President of the Republic of Uzbekistan I. Karimov at the joint meeting of the Legislative Chamber and the Senate of the Oliy Majlis of the Republic of Uzbekistan in 2005. Since then, the topic of modernization of the economy has been in the center of attention of the Government, and it has been considered the priority direction of economic development.

Literature review.

The theoretical and methodological aspects of the use of the tax mechanism in the modernization of industry, the problems of the assessment and management mechanisms of innovative potential have been studied in the works of many economists and political scientists.

First of all, let's talk about the concept of industrial network. Industry is the largest leading branch of material production, in which the majority of labor tools (tools), labor goods and consumer goods

are created. All types of machines and mechanisms, structural elements of buildings and constructions are produced in it, underground resources are mined, mineral, plant and animal raw materials are processed and a wide range of consumer goods are produced.

In turn, there is a need to define the content of the term modernization. Modernization is usually considered as a concept related to technique, technology. For example, in most economic dictionaries, it is defined as follows: "Modernization - renewal, improvement, improvement of an object, bringing it into line with new requirements and norms, technical conditions, quality indicators. Mainly machines, equipment, technological processes will be modernized." In our opinion, this is a narrow approach to modernization, and today its broad content is becoming more and more relevant.

Modernization is a socio-historical process that ensures the transformation of a traditional society into an advanced, industrially developed society. In understanding the meaning of modernization in a broad sense, economist R. Nureev (2005) considers modernization by neoclassicists as the strengthening of private ownership and democracy, while Keynesians understand it primarily as structural changes covering the main sectors of the economy. Technical and economic problems are put in the first place. The absence of modern economic sectors is considered as the main obstacle to development.

It can be seen from this that modernization is a very broad concept, and today it can be expressed as a set of processes of radical change and renewal of various aspects of society's life, directing progress in this regard towards existing advanced models in the world and improving them.

It would also be appropriate to clarify the meaning of the term tax mechanism. According to Mayburov (2015), the tax mechanism in a narrow sense is a set of elements related to taxation, involved in the organization of taxes. In a broad sense, the tax mechanism represents the system of legal norms and organizational measures that determine the procedure for managing the tax system in order to ensure the country's existence. The foundation of the organization of the tax mechanism is considered to be the specific entities responsible for the implementation of the functions of managing the country's tax system, the sum of taxes and other mandatory payments, the composition of the entities of tax relations and the specific rules for the implementation of this mechanism.

Stafford (1581) was one of the first to regulate the industry by means of taxes in his work "Begloe obsujdenie angliyskoy politiki" "Only export industries should be given importance. Processed products should be exported, not raw materials. It is not possible to employ all the workers of the country and provide them with wages. Industry is an important business. However, the state should act not with prohibitions, but with duties and taxes. Also, Ricardo (Mayburd, 1996) studied the problems related to the topic in his work "Nachala politicheskoy ekonomii i nalogovogo oblozheniya". Marx (Mayburd, 1996) also paid attention to the problems of taxes and their impact on production.

Keynes (Toshmatov, 2016) was considered an active researcher on the problems of regulating the economy through taxes and the impact of taxes on the investment process. Based on the developments of Keynes and his followers, the Keynesian theory was founded at the beginning of the 20th century. The central idea of this theory was that taxes are the only means of regulating the economy and are one of the components of its successful development. In his opinion, according to the Keynesian theory, the relations of the market economy are not considered to be a perfected and self-regulating system. Only government intervention in the economy can maximize employment and ensure economic growth.

This theory proves that it is necessary to create "effective demand" in order to ensure the sale of the produced product, that is, to stimulate the production that ensures the economic growth of the country. He suggested managing the dynamics of aggregate demand through active state

intervention. Keynes believed that the state should not only influence the promotion of consumption by means of an appropriate system of taxes through fiscal policy, but also through credit and money.

Laffer (Niyazmetov, 2016) developed a theory about the taxation rate and concluded that, in his opinion, the increase of tax rates up to a certain amount serves to increase the budget revenues, but if the tax rates exceed the norm, the budget revenues will decrease on the contrary.

Neoclassical theory (Toshmatov, 2016) is based on the priority of free competition and naturalness, stability of economic, especially production processes. Marshall is one of the founders of this theory. The difference of this theory from the Keynesian concept is a different approach to the methods of state regulation. If the Keynesian school believes that dynamic equality is unstable and therefore direct state intervention in economic processes is necessary, then according to the neoclassical approach, external corrective measures should be directed only to the elimination of obstacles that interfere with the effects of the laws of free competition, and state intervention will lead to economic equality without any help from the outside. should not constrain the market along with the natural self-regulatory laws that are capable of coming.

Representatives of the theory of supply economy, which is the direction of neoclassical theory, are supporters of the ideas of economic liberalism. From a theoretical point of view, the concept is defined by the application of the principles of the macroeconomic approach to the analysis of macroeconomic problems, such as the accumulation of capital and public finances. In this, the main attention is paid to the impact of taxes and tax policy on economic activity, correction of the regulatory system, replacement of economic policy goals and priorities, modification of methods of achieving these goals.

Research methodology.

The article used scientific observation, abstract-logical thinking, comparative and dynamic study, descriptive statistics, induction and deduction evaluation methods.

Analysis and discussion of results.

Usually, two important instruments of the tax system are used more in regulation through taxes: rates and benefits. To date, the first instrument, that is, the rate reduction instrument, has been sufficiently used. For example, the profit tax rate was reduced from 38 percent in 1995 to 15 percent in 2023, or more than 2.5 times over 28 years.

The second instrument of regulation through taxes is a concession. One of the most widely used instruments in the restructuring of the economy of Uzbekistan is the promotion of development by giving tax incentives to certain sectors of the economy and types of production. In accordance with the generally recognized world classification, the following types of tax benefits are widespread in Uzbekistan:

- ✓ exemption of enterprises from one or more taxes for a certain period;
- ✓ reduction of rates on proper taxes;
- ✓ exempting certain types of export-import operations from customs fees;
- ✓ introduction of accelerated depreciation to stimulate the processes of modernization of production facilities;
- ✓ reduction from the tax base by types of taxes depending on the type of activity;
- ✓ exemption from paying taxes on the profit in order to encourage the development and expansion of production;
- ✓ providing targeted benefits aimed at the development of social and production infrastructure.

However, as shown in Figure 1 below, in 2018-2023, the average tax burden in the economy was 21.8 percent, while the lowest rate of tax burden in industry was almost twice as high.

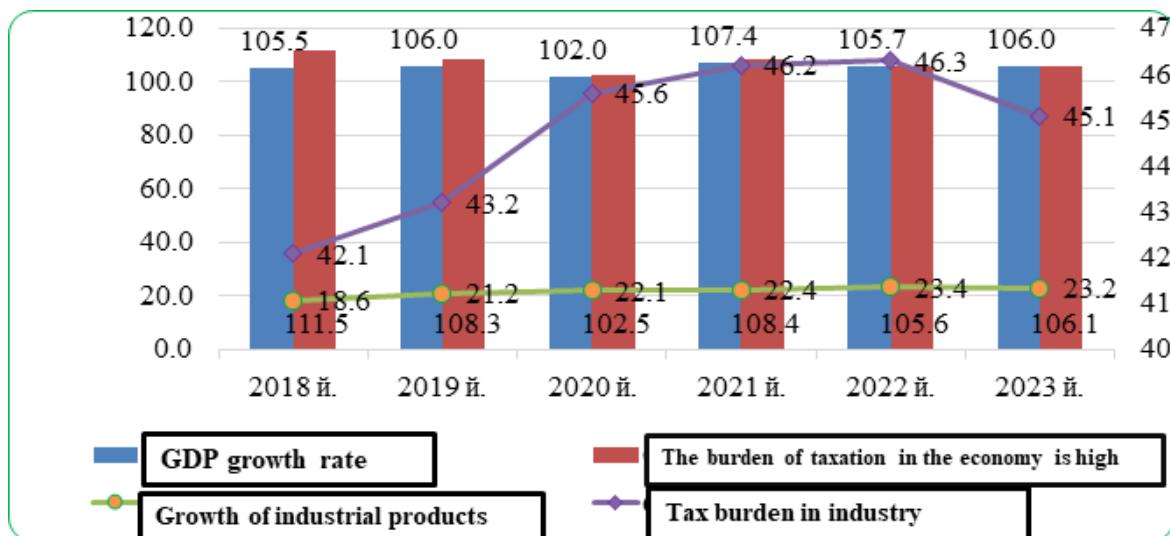


Figure 1. GDP and industrial production growth and analysis of tax burden in economy and industry¹

In order to create an effective incentive system aimed at regular modernization of production by economic entities, technical and technological re-equipment, providing it with advanced modern equipment that allows to increase the production of high-quality, competitive, export-oriented products, a number of tax incentives have been provided to enterprises.

As a result of all-round support for modernization processes, the amount of investments attracted to the economy and the rapid growth of production were achieved.

During 2018-2022, the volume of capital investments was 1036.1 trillion soms or 129.5 billion dollars. During this period, the volume of investments increased by an average of 15 percent per year. However, the volume of the country's GDP and industrial production decreased by an average of 5.5% per year, and the share of industry in GDP decreased from 107.9% to 105.4%. These can be explained by the situation in the world (Figure 2).

¹ It was prepared by the authors based on the information and reports on the official websites of the Ministry of Economy and Finance of the Republic of Uzbekistan, the Tax Committee and the State Statistics Committee.

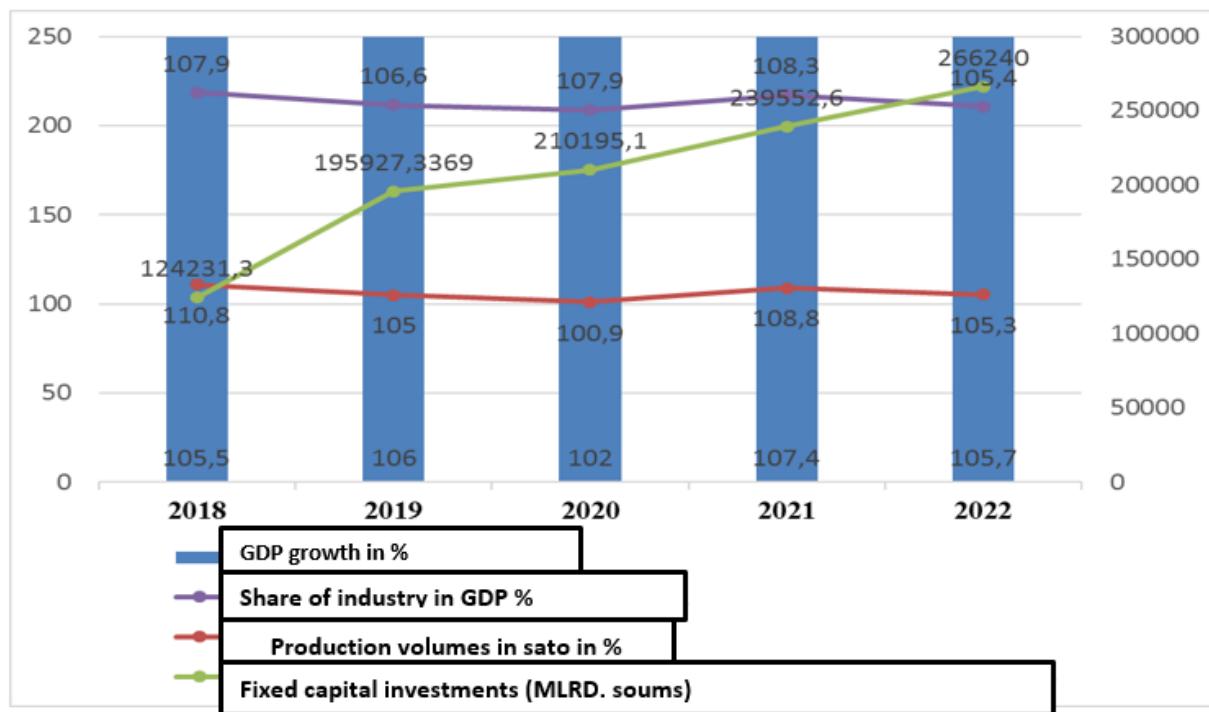


Figure 2. 2018-2022 of the Republic of Uzbekistan Analysis of GDP, industry and investment indicators²

Before 2016, there were a number of problems in our country that reduced the effectiveness of fiscal incentives for the development of production modernization processes. In particular, the growth rate of tax benefits was ahead of the growth rate of industrial products. Based on today's reforms, tax benefits of general order are given without giving up individual tax benefits. In particular, in 2018-2022, the rate of growth of the volume of tax benefits provided to enterprises in the industry was 10 percent on average, while the growth rate of the volume of products in the industry was 60 percent on average.

By individual years, in 2018, the growth rate of the volume of tax benefits in industry was 9.6 percent, while the growth rate of the volume of products in industry was 55.2 percent. In 2022, the volume of tax incentives in the industry increased by 13.2 percent, while the growth rate of the volume of products in the industry was 61.7 percent, which, in turn, indicates the high efficiency of using tax incentives. (Table 1)

Table 1. Analysis of tax incentives in industry³

	2018	2019	2020	2021	2022
The tax burden on the economy (the ratio of tax and customs payments to GDP in %)	18,6	21,2	22,1	22,4	23,4
Tax benefits (in % of GDP)	5,3	5,5	5,1	5,9	8,1
Tax benefits (in % of total tax payments)	4,7	26	23,4	26,4	36,1
Tax credits in tax (in %)	9,6	9,03	8,4	9,5	13,2
Share of industry in GDP (% of	55,2	60,5	60,9	61,8	61,7

² It was prepared by the authors based on the information and reports on the official websites of the Ministry of Economy and Finance of the Republic of Uzbekistan, the Tax Committee and the State Statistics Committee.

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GDP)					
Production volume of industrial products (billion soums)	235340,7	322535,8	368740,2	456056,1	553265,0

Also, when we look at the trend of the total benefits used for every 5 years during the period 2018-2022 through Figure 3, we can see that the benefits given are on average 6 percent compared to the gross domestic product, and on average 23.3 percent compared to tax revenues.

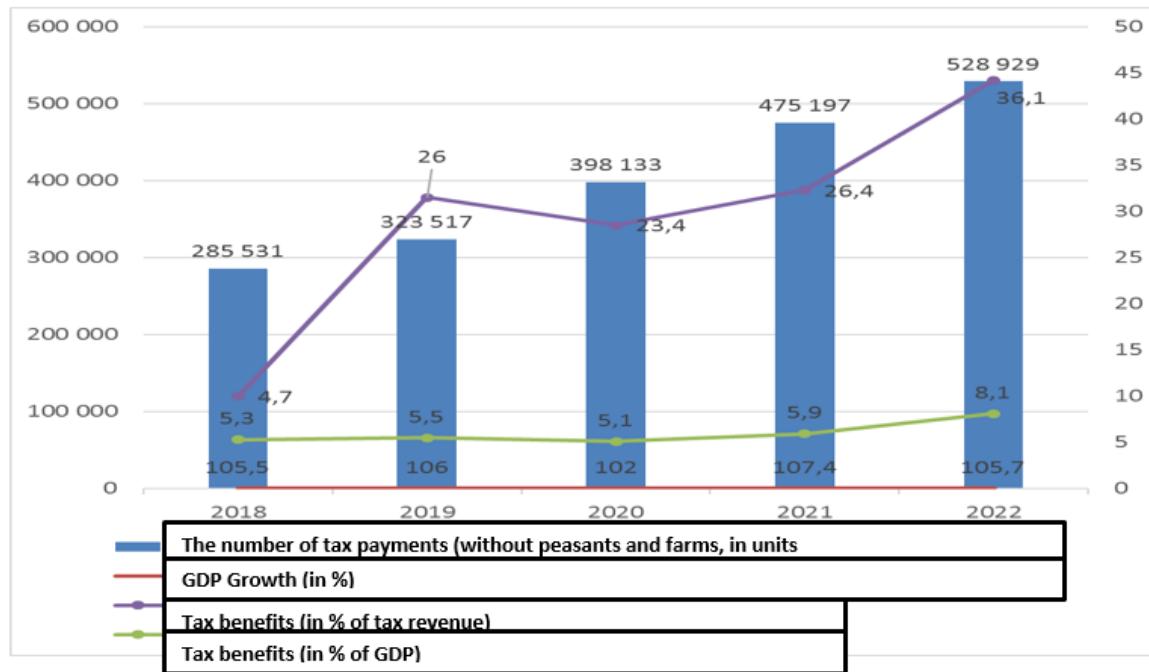


Figure 3. Tax benefits for 2018-2022, number of taxpayers and GDP growth trend⁴

At the same time, there is no system for monitoring the use of benefits in production modernization projects. Tax and customs benefits are provided regardless of the achieved results: cost reduction, labor productivity growth, profit growth, employment, production capacity, production volume growth, energy saving, export volume growth, etc., i.e. "benefits - modernization - results" is not used in principle. This situation makes it difficult to assess the impact of tax and customs benefits on the development of industries.

The condition for the use of the privilege, that is, if the calculated depreciation amount is higher than the amount of funds directed to modernization, it cannot be reduced from the taxable profit, reduces the importance of this privilege in the use of economic entities for the purpose of modernization of production. In addition, despite large-scale investments, the level of obsolescence of fixed assets in industrial sectors is increasing or remains high. Including

In most cases, one or another tax concession is assessed only at the stage of its introduction, then the amount of corresponding losses in budget revenues is insufficiently or partially assessed, and the effectiveness of the goal to be achieved due to the given concession is not analyzed.

Sultanov G.S. and others (2015) when we studied the best practices of developed countries in this regard (Germany, France, Japan and Russia), the presence of an investment tax credit, in which the economic entity receives a benefit under certain conditions, that is, as a result of the benefit, the profitability of the enterprise increases, a new job is created. production of competitive and export-

⁴ It was prepared by the authors based on the information and reports from the official websites of the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan and the State Statistics Committee.

oriented products (performance of works and services), development of regional infrastructure, energy saving and positive changes in indicators of other necessary criteria, such as write-off, partial refund or full refund with a percentage of taxes and other mandatory payments will be effective has been giving.

For example, in France, an investment tax credit is used, which allows to finance a certain part of the new investments of the enterprise by directly deducting the amount of profit tax from the calculation of tax payments (L. Popova, 2007).

Also, in Russia, the investment tax credit has been introduced, which is provided to enterprises for profit tax and other mandatory deductions from 1 to 5 years, and in special cases up to 10 years. The relevant agreement on investment tax credit is drawn up by the authorized state body based on the enterprise's application.

Investment tax credit is a change in the payment period of the tax in such a way that the organization, if there are certain grounds, reduces its tax payments in a certain period and norms, with the condition of later paying the credit and accrued interest amounts in stages.

The agreement specifies a specific period, certain conditions and types of taxes for which the payment period is extended. An enterprise that has received an investment tax credit will have the right to make separate reductions for each type of tax in each reporting period during the period stipulated in the contract. Reductions are carried out until the amount of tax collected as a result of reductions is equal to the amount of the investment tax credit provided for in the contract.

The investment tax credit is provided by reducing the payment amount for the relevant tax type from the income portion to be transferred to the budget, not exceeding 50 percent of the tax payment amount calculated in each reporting period. In this case, the amount of credit accumulated during the tax period should not exceed 50% of the amount of tax paid by the organization in this tax period. The interest rate of the investment tax credit is set at an amount not less than $\frac{1}{2}$ percent and not more than $\frac{3}{4}$ percent of the refinancing rate of the Central Bank of the Russian Federation (Tax Code of the Russian Federation, 2016).

A.L. According to Griffiths, K. Nerenberg and, D. Wals (2010), the introduction of investment tax credits or investment tax credits in developed countries is intended to encourage entrepreneurs to expand their equipment park or invest in re-equipment of obsolete equipment. In the USA, the highest rate at the time of introduction of this benefit was 7% of the total value of funds invested in machinery and equipment with a service life of at least 8 years, and the lowest rate was 2.33% for assets with a service life of 4-6 years.

Based on the experience of developed and developing countries, the implementation of the investment tax credit as the main form of benefits provided on the profit tax helps to reduce the tax burden on enterprises and activate investment processes.

Conclusions and suggestions

The following conclusions were formed based on the conducted research on the topic and advanced foreign experience:

1. The lack of a mechanism for monitoring the impact of tax incentives on the economy is a factor that prevents the improvement of the effectiveness of tax incentives. This does not allow to set clear criteria for providing tax benefits based on the economic consequences for the economy and the budget, and makes it difficult to create clarity, openness and transparency of the mechanism for providing benefits.
2. One of the main reasons for the low effectiveness of modernization incentives is that tax and customs incentives are given without any conditions and cannot be withdrawn. The enterprise

using the benefits does not accept any obligation to increase the quality of the manufactured products, increase the volume or increase the export volume.

3. Fiscal stimulation of modernization processes allows the expected result to be more effective if measures are carried out together with monetary, currency and industrial policies. It is also important to improve public administration institutions responsible for the implementation of these reforms.

Based on the above, the following suggestions are recommended:

tax benefits are due to positive changes in criteria such as the reduction of the separately provided benefits in the form of full tax exemption, the orientation of the provided tax benefits to the result, i.e., as a result of the benefits, the company's profitability increases, new jobs are created, the production of competitive and exportable products, and energy saving to be presented as output;

development of a methodology for conducting improved fiscal and economic monitoring based on the models of developed countries, which accurately assesses the amount of relevant losses in budget revenues of the provided tax incentives, and analyzes the effectiveness of the goals to be achieved at the expense of the given incentives.

We hope that the practical application of the developed scientific proposals and practical recommendations will lead to significant results in the modernization of the industry, increasing the investment activity of enterprises, further expanding production, targeting the funds available to enterprises due to benefits, and increasing tax revenues.

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