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# MECHANISM AND DIRECTIONS OF APPLYING TAX INCENTIVES IN THE NATIONAL TAX SYSTEM

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**Abstract**
This article discusses tax incentives and preferences, which are the subject of much debate in tax affairs. The characteristics, similarities, and differences of tax benefits and preferences and their application in the tax system are comparatively analyzed.

**Keywords:** business entities, micro-firms, small enterprises, individual entrepreneurs, regression correlation, linear regression model, econometric modeling, multifactor econometric model, correlation matrix, determination coefficient.

## Introduction

The decision of the president of the Republic of Uzbekistan “on measures to implement the strategy” Uzbekistan – 2030" in 2023 in a qualitative and timely manner " was adopted. According to this document, since October 1, 2023, for tax offenses with an amount greater than 10 million rubles, financial sanctions will be applied only in judicial order if the business entity denies the violation
In World tax practice, programs are developed that are clearly defined by the government in promoting the development of the activities of business entities. As a result of the state program for the development of small business and domestic entrepreneurship and the measures implemented in the framework of this program, high results were obtained in the field in our republic.
Tax benefits are understood as advantages that are provided to certain categories of taxpayers and give them the legal opportunity to reduce their tax obligations

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to other taxpayers. Even when tax benefits are made available to all taxpayers, the purpose of defining them is to support only a certain part of the taxpayers whose relative benefits from including them are greater than others.

We will consider the main directions of State stimulation of the activities of economic entities in our country through the following drawing.

Tax benefits and preferences are widely used when stimulating the activities of small businesses and private business entities by means of taxes. As we all know, tax benefits are one of the main elements of the taxation system. Theories regarding tax relations and current concepts of taxation recognize the social and economic directions for the provision of tax benefits.

**Analysis and discussion of results.**

In the following years in our republic, various forms of tax reduction, tax incentives and preferences are widely used in order to develop the activities of small businesses and private business entities, to ensure their financial stability.

Certain categories of taxpayers are recognized as tax benefits over other taxpayers, including the benefits provided for by the Tax Act, or the ability to pay them in smaller amounts.

It is not considered a tax benefit to allow a taxpayer to delay (pay in installments) the deadline for paying taxes.

Tax credits are provided by the tax code unless otherwise provided by the tax law of the Republic of Uzbekistan.

The tax benefits offered cannot be of an individual nature.

In addition to tax on certain taxes, value added tax, excise tax on the production and (or) realisation of excise tax and land use products, the decree of the president of the Republic of Uzbekistan can be issued only in the manner of reducing the fixed tax rate, but at most 50 percent, and for a period of at most three years.

If the tax code of the Republic of Uzbekistan does not provide for a different rule, taxpayers have the right to use tax benefits for the entire period of their validity or refuse to use the tax deduction or suspend its use for one or more tax periods, except for the realization of goods (services) exempt from Value Added Tax.

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Tax exemptions can be granted on the condition that the funds released from taxation are directed to specific purposes. In the event that such funds are not used purposefully, the amount of funds used without a goal must be collected into the budget with the calculation of the pension in the prescribed manner. In connection with the granting of tax benefits, the amount of funds that have been vacated and unused during the period of validity of these benefits can be directed for the purposes established in their provision for a year after the expiration of the granted benefits. In this case, unused funds must be transferred to the budget within the specified period.

Value added tax benefits, including those that are exempt from taxation when importing (importing) goods into the territory of the Republic of Uzbekistan, cannot be granted, provided that they are directed to specific purposes.

The Central Bank of the Republic of Uzbekistan, its main departments in the Republic of Karakalpakstan, regions and Tashkent, as well as the institutions of the Central Bank of the Republic of Uzbekistan are exempt from paying taxes provided for by this code, except for Social tax and value-added tax paid when importing (importing) into the territory of the Republic of Uzbekistan.

The Council of people's Deputies of the Republic of Karakalpakstan and the councils of people's Deputies of the regions have the right to set reduced tax rates of property tax and land tax on land plots occupied by separate sanatorium-resort facilities located in tourist zones or to exempt them from paying taxes.

The general and main purpose of introducing tax benefits and preferences is to reduce the tax burden on taxpayer activities. However, the mechanisms for their provision differ. Tax breaks are more controlled and managed by tax authorities, as they are published separately in taxpayer tax reports, allowing specific amounts to be withdrawn and budget losses to be tracked. In addition, tax benefits are distributed using special forms in the statistical tax report. However, the advantages are not documented in such reports.

The tax relief can be interpreted as the taxpayer's right or desire to reduce (or not pay at all) the tax base or the amount of the tax.

Tax credits include social and property tax deductions on personal income tax, provided that they wish the taxpayer to receive them and submit an application to the tax authorities.

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Preference, in turn, should be considered as the duty of the taxpayer to reduce the tax base or the amount of tax. For example, a value-added tax rate of 0% on export and import transactions allows you to practically not tax export and import transactions, as well as to receive a discount for these transactions, which is not subject to VAT if these transactions are not in the taxpayer.

The modern tax system includes about 200 different benefits and preferences. It is clear that the introduction of new and numerous benefits will not change the economic situation in the country in a positive way. It is necessary to consider their appropriateness. To do this, it is necessary to assess the effectiveness of tax deductions through constant monitoring of them. Thus, in the most important area of tax policy, in the creation of favorable conditions for proposing Innovations, a vector was established, which was aimed not at creating new tax benefits, but at correcting the current tax system.

The economic efficiency of a tax deduction is the ability to influence economic entities in order to achieve the goals for which tax deductions are introduced. In other words, the economic efficiency of tax incentives is expressed in two main directions, namely:

- the economic effect of incentives must be fully achieved, incentives must affect a certain object of the economy;
- the amount of funds that fall into the budget should be compared with the economic effect of the introduction of tax incentives.

To date, the assessment of the effectiveness of tax incentives is carried out according to three main criteria, which are distinguished on the basis of the main directions of state economic policy: budgetary, economic and social.

Budget efficiency determines the impact of the tax credit on budget revenues, and is calculated by comparing the budget losses resulting from the granting of benefits to the increase in tax payments arising from its application.

Social efficiency is recognized as positive if the use of tax benefits contributes to the growth of social protection of the population of the region, the creation of new jobs, an increase in the income of citizens and the creation of favorable conditions for their life.

Finally, the economic effect of granting benefits implies an improvement in the financial and economic indicators of taxpayers who have used this benefit.

To date, all the constituent entities of tax legislation and their municipalities have adopted methods for assessing the effectiveness of tax benefits. However, they use different assessment indicators, different approaches to their calculation, some methods are aimed only at assessing economic efficiency, others only check the social effectiveness of tax benefits and only on local taxes; in many regions, these methods are available, but they do not assess the effectiveness of profit. At the same time, no method provides for a taxpayer's report on the directions for spending funds discharged as a result of granting tax benefits.

The absence of a unified and Generalized System of indicators for assessing the effectiveness of tax benefits enshrined at the legislative level complicates the use of tax benefits as a tool of the tax system, their observation and subsequent decisions on their further extension.

As part of the reform of tax-budgetary policies in the Republic, certain work was carried out on the provision of facilities for foreign investors. For example, work aimed at reducing the tax burden is a clear confirmation of this. The concept of the development strategy of the Republic of Uzbekistan until 2035 set out the tasks of creating a modern soft tax system that will stimulate the growth of investments and the revenue part of the budget of the Republic of Uzbekistan.

The country has formed a tax system that ensures the consistent reduction of the tax burden and the creation of favorable conditions for the development of entrepreneurship and attracting foreign investment.

It provides benefits on resource taxes when the volume of foreign direct private investment is as follows:

From 300 thousand US dollars to 3 million. Up to US dollars-for a period of 3 years;

3 million. More than US $ 10 million. Up to US dollars-for a period of 5 years;

10 million. When more than US dollars-for a period of 7 years.

Also, enterprises established in our country at the expense of foreign investment in free economic zones are also exempt from resource taxes.

These benefits range from 3 to 10 years, depending on the size of the investments made, including:

From 300 thousand US dollars to 3 million. Investments in the amount of up to US dollars-for a period of 3 years;

3 million. Us $ 5 million. Investments in the amount of up to US dollars-for a period of 5 years;
5 million. US $ 10 million. Investments in the amount of up to US dollars – for a period of 7 years (PF4853).
In the law of the Republic of Uzbekistan"on investments and investment activities", in order to support investors, they are given an investment tax credit and the opportunity to reduce the tax payments, loan amounts and accrued interest that they have to pay on this loan, in accordance with the tax code, with which they subsequently paid in stages.
In its place, it recognizes that among the world community and Central Asian countries, the Republic of Uzbekistan is interested in attracting foreign investment.
Due to the creation of conditions for increasing the competitiveness of small businesses, the number of value-added tax payers reached 82.4 thousand or increased by 12.2 times compared to the beginning of tax reform.
Currently, enterprises with a large number of foreign investments are being created in our country and they operate in various industries. The growing number of enterprises with foreign investment is explained, first of all, by the fact that the legal basis of political stability and investment activities in the country is improving.
Taxpayers took advantage of 16 trillion soums of tax credits by the date of September 1, 2024. In January-August 2024, 138,661 organizations used tax breaks of Rs 16 trillion.
At the same time:
▫2 927 enterprises carried out non-VAT operations on financial services for 13.1 trillion soums;
▫7 185 enterprises applied VAT" zero " rate of 22.5 trillion soums.
Tax benefit amounts used in the cross section of tax types:
▫Value-Added Tax-8 trillion soums;
▫profit tax-2.3 trillion soums;
▫land tax-1.9 trillion soums;
▫social tax-1.9 trillion soums;
▫Income tax-884.7 billion soums;

▫property tax-801.6 billion soums;
▫Turnover tax-139 billion soums;
▫tax for the use of Water Resources – 19.9 billion soums.
Based on the conclusion of international experts, financial services and zero-rate accounting for VAT are kept separately.

**Summary and Recommendations**

Since January 1, 2024, the following changes have been made in the tax system of the Republic of Uzbekistan:

The Centers for "research and development" (R&D) will pay the social tax rate of 1% for property, land taxes and employees within 3 years from the date of establishment;

the system for the full return of VAT to individuals and legal entities is expanded at the expense of:

for foreign tourists – products purchased on the territory of Uzbekistan at international airports of Uzbekistan and formalized under the Tax free system;

tour-to operators-for export services provided in the framework of contracts with foreign conductors.

The "neighborhood budget" system will be implemented in stages in cities and districts.

In this case, part of the tax revenues that fall on the district and city budget are directed to funds for solving the socio-economic problems of neighborhoods.

It was also established to draft a bill for the exemption of citizens whose income does not exceed 1 million rubles from income tax. About 1.3 million citizens will have an average of 84 billion soums in one month and about 1 trillion soums in one year after the implementation of this document.

The law of the Republic of Uzbekistan No. 1063 of May 16, 2025 made amendments and additions to certain legislation. According to this document:

- Until January 1, 2030, entrepreneurs producing poultry products are exempt from paying the land tax levied on legal entities.

In addition, inpatient children's wellness camps in the Federation of Trade Unions system will be exempt from paying the following taxes until January 1, 2027:

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on income from renting out buildings and structures, plots of land – profit tax; in terms of leased facilities and the land plots they occupy – property tax and land tax.

Fees are paid for the right to retail trade in beer and beer soft drinks, tobacco products.

In this case, the legal entity is the payers of these fees when it has a confirmation that the authorized state body has been notified of the start of retail sales of beer and beer liquors and tobacco products, individual entrepreneurs with tobacco products.

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