

## Tax Policy to Optimize Tax Incentives

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### *Abstract*

*This article describes the main directions of tax policy and its conditions in the context of economic reform, directions of tax policy development, tax policy aimed at optimizing tax incentives, current issues of tax policy modernization and the procedure for ensuring financial stability of small business and private entrepreneurship.*

**Keywords:** *tax, tax policy, tax incentives, small business, private entrepreneurship.*

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## **INTRODUCTION**

In the current context of deepening economic reforms, the current tax policy in the Republic of Uzbekistan is aimed at maintaining a relatively acceptable budget revenue base, on the one hand, and on the other hand, a more controversial and always controversial tax regime for small businesses that has a significant impact on GDP growth. is formed after unconnected measures. This makes it necessary to consider tax policy in two ways: firstly, in terms of the fact that it is truly unique and continuous in achieving the goals of economic reform in the broadest sense, and in terms of the impact of tax policy at the current stage of deepening economic reforms.

## **DISCUSSION**

The current system of limiting the sum of incentives for all types of capital investments in the form of half of the initial amount of tax payment (including on the costs of enterprises) is appropriate when this tax is directed only to fiscal purposes. This is due to the fact that these restrictions serve as a stabilizer in the revenue base of the budget, and thus prevent a significant reduction in income tax revenues to the budget in the case of "over-investment".

Restricting the level of profitability of monopoly enterprises with taxes and the constant desire to apply it to all enterprises is also a problem. The widespread use of similar mechanisms in 1992-1997 showed that the effectiveness of such measures was low [1]. Attempts to prevent the growth of profitability tend to increase costs, which means that under inflationary conditions it will spread spontaneously in the technological chain. Moreover, for monopolistic enterprises, the only way to regulate the amount of income in such conditions remains to increase costs, which means an increase in costs at a high level of industrial monopoly. That is why the reduction of production volumes is economically advantageous for a particular enterprise, because it only saves on current costs and supports the volume of income, while leading to an increase in its share of fixed costs and cost.

The current tax system limits the ability of small businesses and private entrepreneurs to use borrowed funds in the investment process [2]. The existing mechanism of accounting and taxation does not allow the inclusion of costs in the cost of interest on investment loans. Paying such interest (as well as working capital loans) from net income in excess of their own income shortages not only reduces the attractiveness of credit resources, but also makes them inaccessible to most small businesses and private entrepreneurs. The possibility of using loans in the form of bonds to finance long-term investments is also small, as interest on them is paid from net income.

The lack of tax incentives for portfolio investments not only slows down the development of the stock market, but also hinders capital inflows into productive industries, especially science-based industries [3]. Gains from the increase in the value of assets (including securities) are taxed at an adjusted rate. Under current law, these revenues only protect against inflation (mostly on paper), but there are no tax incentives for them, which makes it difficult to finance science projects, making any portfolio investment in fast-growing financial assets unprofitable.

As property taxes apply to small businesses and private entrepreneurs, the situation with portfolio investments becomes more complicated. As long as the financial market in the country is not developed, it will not feel very strong, but the development of the process of privatization and corporatization will undoubtedly bring this problem to the forefront. The tax regime leads to a large number of dividend deductions, i.e.: as part of the income of the entity paying it; at the

source of payment to the shareholder; as part of the funds on the shareholder's account; when taxing the carrying amount of shares or bonds.

With the exception of investment funds, which are not subject to property tax, portfolio investments become extremely unprofitable for all businesses. For example, they are most unprofitable for real investors who stay in the stock market for long periods of time. This should be taken into account now, otherwise the slight incentive for portfolio investment as a form of inter-sectoral capital flow will be further reduced.

It is advisable to initiate a legal processing of the issue on the mechanism of incentives for portfolio investments, which includes taxation based on income and property. Therefore, the need to introduce investment tax credit is a step forward in creating a tax system adapted to market mechanisms [4]. But this type of tax incentive is unlikely to become widespread in the current context of economic modernization. There are investment areas where tax credit can be given (import substitution, scientific and environmental protection equipment, rates and industrial robots, etc.). In this case, the restriction of the loan amount from the amount of the cost of equipment may be supplemented by a limit on the amount of tax reduction. The experience of developed countries, including the Russian Federation, shows that giving tax inspectorates the power to set the desired rate on tax credit (not exceeding the complex level of inflation) is a serious limitation to investment tax credit [5]. At the same time, in the world experience, the mechanism of investment tax credit has shown itself as a means of supporting and implementing large-scale capital investments.

The low attractiveness of manufacturing activities and inflation make it difficult for small businesses to deposit temporarily vacant funds in microeconomic terms. As a result, there is a transition of financial resources from the sphere of production to the sphere of circulation, because in practice, the transaction today remains the only consumer of credit resources below the real market percentage.

One of the main shortcomings of the current tax system is the lack of an active depreciation policy as a strong support for production support [6]. Legislation on these issues is still in its infancy.

The above-mentioned topical aspects of the modernization of the tax system, in our opinion, allow us to show some directions of modernization of the tax system. First of all, in accordance with the goals and objectives set out in the Tax Code of Republic of Uzbekistan, it is advisable to expand the income tax incentives for foreign direct investment. This is especially true for farms and firms specializing in the processing of agricultural products. In addition to severely limiting the returns of real investors, portfolio investments also need incentives.

To this end, if the securities remain on the balance sheets of small businesses and private entrepreneurship for more than a year, it is advisable to introduce a 50 percent reduced tax rate on income from the increase in their value. In particular, a similar benefit should be established for individual investors on the basis of a tax return. At the same time, the declaration of individual income is also encouraged.

Taxes and the mechanism of taxation and related regulations are reflected in the tax doctrine. The tax doctrine is expressed in the form of a generalized expression of the basic principles, norms and rules that serve as a common basis in the framework of fiscal policy adopted by the state and remain in force in all current changes in tax legislation.

The tax doctrine is reflected in the views maintained by the government in a stable and long-term manner, and allows for a positive solution to the following key issues:

- The role and importance of taxes in the country's system;
- The share of taxes in GDP and budget revenues;
- the ratio of direct and indirect taxes, the establishment of the most appropriate levels of tax collection for certain industries and sectors, for certain segments of the population;
- progressiveness (regression) of taxation;
- tax procedures in the promotion of funds and investments, forms of control over the activities of taxpayers by the tax authorities, etc.

Tax policy is formed on the basis of the state tax doctrine. Although the adopted policy is subject to the requirements of a certain period of the tax doctrine, in some cases it may even deviate significantly from the planned doctrine. But in the future it should always be in line with the published doctrine (or change the tax doctrine accordingly).

### **CONCLUSION**

Differences in the process of taxation of small businesses and private entrepreneurship currently place them in unequal financial and tax conditions, their competitive positions, distort the assessment of the effectiveness of investments in various assets and, in general, increase the cost of banking and insurance services. There are two procedures for taxation of insurance companies: income tax on insurance activities, income taxation. This makes it difficult to calculate taxes.

The main corrective tasks of the existing tax system are: ensuring the stability of tax conditions for all business entities; increase the level of authority of tax service employees; different understanding of tax legislation and improvement of tax guidelines to ensure that they do not conflict with the Tax Code. Conducting a single, stabilized policy will allow us to identify fundamentally new directions in tax policy.

Accounting for industry differences in taxation should focus on depreciation policy. At the same time, it is preferable to link income tax incentives with the scale of property taxation, while tax support for small businesses and private entrepreneurship requires the introduction of a minimum of non-taxable income.

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