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TAX INCENTIVES INNOVATIVE ACTIVITIES OF ENTERPRISES

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Abstract: The article is devoted to the characteristics of state support for the innovative development of enterprises in Uzbekistan from the perspective of tax incentives. The analysis of the current tax rates, as well as the innovative activity of enterprises in Uzbekistan in comparison with other developing countries. According to the authors, the existing methods of tax incentives for innovative activities of enterprises are not effective enough, and this implies the commission of further active actions by government bodies, including by attracting and stimulating private sector entities.

Keywords: innovation, tax incentives, taxes, product innovation, process innovation, financing innovation, tax mechanism.

Introduction

In modern conditions of globalization and digitalization, the development of the economy of any country is based on the active use of innovations in various aspects of the life and activities of the individual, society and the world as a whole, in order to create new consumer value, increase social and financial results, increase productivity and efficiency. All of them are necessary for the growth of the well-being of society by improving the quality of life and the level of safety, and reducing the negative impact on the environment.

It should also be noted that today the most economically growing and financially stable countries are those that use innovative development models and the latest technologies. The growing progress of such countries, their competitiveness in the world market is based not on the export of natural resources and the use of physical labor, but on innovative ideas and developments.

The taxation system is the most important factor affecting the activity of

innovation processes¹. Using the tax mechanism, the state gets the opportunity to influence the activities of economic entities, stimulating them to introduce new technologies, reducing the cost intensity of production, improving the level of competitiveness of products.

Research methodology

The paper widely used methods such as grouping, comparative and economic analysis, comparison, expert analysis, which made it possible to reveal the current tax incentive system in Uzbekistan, comparing it with individual tax incentive instruments in other countries. Fraught the process of working on the paper, the author established on current trends, legislative and regulatory support, aimed to innovative development of the country, approved by legislative and regulatory acts, used a systematic approach.

¹The innovation process has been studied by many economists: Dodgson M. & Rothwell R, 1994; Drucker P., 1985.; Freeman C. & Soete L. 1997. etc.

Literature review.

The necessity and importance of innovative development is considered by many scientists and economists, both in domestic science and in other countries. The criteria for the innovative development of territories, the features and significance of the implementation of innovative activities of economic entities are studied in research works of J. Schumpeter, (Schumpeter, J.A., 2008), N. Kondratev (Kondratev, 2002), R. Atkinson, S. Ezell (Atkinson, R. & S. Ezell, 2012.), P. Drucker (Drucker, 2013), M. Porter (Porter, 1985), S. Glazyev, (Glazyev, 1993).

The need for tax incentives for innovative activities of economic entities is analyzed in the research works of A. Laffer (Laffer et al., 2008), S. Uvarova (Uvarova, 2011).

The scientific and practical aspects of the existing problems in this area have been studied by a number of scientists-economists of the republic: J. Zaynalov (Zaynalov, 2021), A. Kadirov (Kadirov, 2011), N. Makhmudov (Makhmudov, 2016), M. Makhkamova (Makhkamova, 2006), Sh. Otazhonov (Otazhonov, 2010), A. Rasulev (Rasulev A.F., 2011), R. Rakhmanbaeva (Rakhmanbaeva, 2011) and A. Khikmatov (Khikmatov, 1991).

Analysis and results.

In the Republic of Uzbekistan in 2016-2020, significant reforms took place in the field of taxation: reducing the tax burden, simplifying the taxation mechanism and improving tax administration. In particular, the tax burden was reduced due to:

- reduction of the income tax rate from 20 to 15%;
- reduction of the social tax rate from 25 to 12%;
- reduction of the VAT rate from 20 to 15%;
- reduction of the tax rate on the property of legal entities from 5 to 2%;
- cancellation of mandatory contributions to off-budget funds, etc.

The consistent reduction of the tax burden contributed to the achievement of

many goals, including the number of economic entities created over these years increased 1.9 times and amounted to 1,185 thousand units. (Tax reform in Uzbekistan in 2016-2020) (compared to 2016 - 616.7 thousand units).

In improving tax administration, there have been such changes as the development and implementation of digital tools such as electronic invoices and online cash registers, the automated "Risk Analysis" system, which allows taxpayers to be grouped according to the degree of risk and objectively select candidates for the purpose of conducting tax audits, etc. Changes in tax administration made it possible not only to ensure the transparency of the turnover of legal entities, but also to exclude unnecessary interference in the activities of bona fide taxpayers.

A number of measures were also taken to improve the quality of service for taxpayers and increase the number of taxpayers who accurately fulfil their tax obligations:

- institute of tax monitoring, which allows to implement modern forms of digital interaction with taxpayers;
- conditions have been created for the provision of 45 types of interactive and electronic services;
- tend to reduce the tax reporting form from 15 to 11, as well as their applications by 23;
- the mobile application "Soliq" was formed, which makes it easy to register and pay tax to self-employed persons.

On the territory of the Republic of Uzbekistan, taxes and other mandatory payments are in force in accordance with the Tax Code, updated in 2019 (Tax Code of the Republic of Uzbekistan, 30.12.2019), as well as the changes made to it in 2020 and 2021. (LRU-714, dated September 14, 2021). These taxes are: corporate income tax, personal income tax, value added tax, excise tax, taxes and special payments for subsoil users, tax for the use of water resources, property tax, land tax, and other mandatory payments and fees.

In accordance with this, enterprises operating in Uzbekistan, according to the general taxation system, as a rule, pay about 9

different taxes, deductions and fees (not counting some indirect taxes and other specific payments). Not a small number of subjects of the national economy (about 95% of subjects) pay taxes in accordance with the simplified taxation system (turnover tax instead of value added tax and income tax).

Recently, fiscal levers are gradually being introduced in Uzbekistan, stimulating the transition of the economy to innovative development. The provided benefits undoubtedly contribute to the activation of innovative activities in certain sectors of the economy.

In recent years, there has been a steady downward trend in the rates of taxes and fees (Table 1).

The data in the table show that for the period 2016-2021, the income tax rate increased and amounted to 15%, but this happened because, it was combined with the tax on improvement and development of social infrastructure, and in fact, together they would be 15.5% instead of the current 15%, the tax rate on property of legal entities was reduced - from 5 to 2%, and in 2022 to 1.5%, the social tax rate - from 40 to 12%. Sales tax rate lowered to 4% in 2021.

Table 1. - Dynamics of the rates of tax payments levied from legal entities of the Republic of Uzbekistan²

(%)

№	Name of tax payment	2016	2017	2018	2019	2020	2021
1	Income tax	7,5	7,5	14	12	15	15
2	Improvement and social infrastructure development tax	8	8				
3	Value added tax	20	20	20	15	15	15
4	Legal entity property tax	5	5	5	2	2	2
5	Sales tax	5	5	5	4	4	4
6	Social tax	25	25	25	12	12	12
7	Withholding dividend and interest tax	10	10	10	5	5	5

²According to the legislative acts of the Republic of Uzbekistan for 2016-2021.

The types of taxes and fees are characterized by the fact that some of them are included in the price of goods, without being a structural part of the cost of production (taxes related to indirect), while the rest are levied on profits, or are part of the costs of the enterprise.

In order to provide tax incentives for innovation, tax incentives have been introduced for certain areas. For example, in order to support innovation, income tax payers have the right to apply investment deductions for depreciable assets 10% of the cost of new technological equipment, costs of modernization, technical, technological re-equipment of production, the amount of funds allocated for the purchase of domestically produced software within the framework of investment projects to create information systems; 5% of the amount of funds allocated for the expansion of production in the form of new construction, reconstruction of buildings and structures used for production needs (Tax Code of the Republic of Uzbekistan, 30.12.2019, article 308).

When calculating VAT, exemption from value added tax is provided for turnover on the implementation of research and innovative work carried out at the expense of the budget (Tax Code of the Republic of Uzbekistan, 30.12.2019, item 9, article 243). Also exempt from land tax are plots of agricultural land and forestry fund of scientific organizations, experimental, experimental and educational-experimental farms of scientific research organizations and educational institutions of agricultural and forestry profile, used directly for scientific and educational purposes (Tax Code of the Republic of Uzbekistan, 30.12.2019, article 428).

The above information indicates that the Tax Code provides for insufficient tax incentives to stimulate the introduction of innovations, research and development work. However, in order to enhance modernization and innovative processes, tax incentives are

provided by Decrees and Resolutions of the President of the Republic of Uzbekistan.

An essential aspect of state support for innovative activities is the Resolution of the President of the Republic of Uzbekistan "On additional measures for the development of fundamental and applied research, as well as innovative work in the field of genomics and bioinformatics" dated February 10, 2017, according to which the value of property donated to the Genomics Center and bioinformatics, as well as funds received for targeted purposes, are not taxed, in accordance with the legislation (RP-916 of 15.07.2008).

Also, the management and residents of the Yashnabad Techno park for on-going innovative projects for the entire period of the Yashnabad Techno park's operation are exempt from paying: land tax and property tax from legal entities; customs payments (except for value added tax and customs duties) for equipment, raw materials, materials, reagents, components and construction materials not produced in the Republic of Uzbekistan, imported for their own production needs as part of the implementation of innovative projects, according to the approved lists (DP-5068 dated 05.06.2017).

To release, for a period until January 1, 2028, the residents of the Technopark of software products and information technologies from (DP-5099 dated June 30, 2017):

- payment of all types of taxes and mandatory contributions to state trust funds, as well as social tax;

- payment of customs duties (with the exception of customs duties) for equipment imported for own needs, component parts, parts, assemblies, technological documentation, software not produced in the Republic of Uzbekistan.

The Fund for Financing Science and Supporting Innovation, intended to finance funds allocated from the State Budget of the Republic of Uzbekistan for state programs for

scientific activities, is exempt from all types of taxes and payments, except for social tax (RP-3416, dated 11.30.2017).

With the aim of creating favourable legal and organizational conditions for the functioning of the innovation market, promoting local and foreign innovative developments in the real sector of the economy, it was decided to create Centres for innovative ideas, developments and technologies in joint-stock and other organizational and legal forms that develop, test and master innovative start-up projects, transfer and commercialization of the results of innovative activities. The centres operate on a commercial basis and from the moment of their creation are exempted for a period of five years from all types of taxes (RP-3697, dated 05.05.2018).

As a result of the adoption of these legislative and regulatory acts, the development of innovative activity is stimulated from a tax point of view, however, at the same time, the result of the development of innovative activity in the republic leaves

	Central Asia and Europe	Lower middle income countries	Uzbekistan
R&D expenditure	25,1	17,1	34,8
Implementation of product innovations	28,6	36	23,2
Implementation of process innovation	19,7	35,4	14,4

Meanwhile, in the world practice, a wide range of mechanisms of state support for innovation has been developed, focused on various categories of subjects of innovation, including educational institutions, research institutes and laboratories, large national corporations, and small businesses. Mechanisms for stimulating innovation can be classified as follows:

- direct and indirect allocation of budgetary funds to research organizations and educational institutions in the form of estimated financing of operating costs, as well as the provision of grants and placement of government orders for the implementation of research projects (Japan and EU countries);

much to be desired: in developing countries with incomes below the average, 36% of firms introduced innovative products, which are the development and the sale on the market of a new product or service, or a significant improvement of existing goods and services, 35% – process innovation – the introduction of a new or significantly improved production method, method of ordering, delivery or after-sales service of products, including significant changes in the equipment used and (or) software. In the countries of Eastern Europe and Central Asia, these figures were 29% and 20%, respectively (see: Table 2)

Table 2 - Characteristics of the innovative activity of developing countries, % (Khamidov B., 2021)

- provision of various tax incentives to enterprises carrying out research and development;

- investing budget funds in the capital of venture funds and other specialized financial institutions involved in the implementation of innovative projects;

- allocation of preferential state loans and credit guarantees (insurance) to the subjects of innovative activity;

- implementation of targeted government procurement of innovative products and services;

- financing the creation of business incubators, techno parks and other infrastructure facilities for innovation activities.

With all the variety of state support for innovative activities of enterprises, tax mechanisms are one of the most relevant mechanisms of state support for innovation. The expansion of the practice of using tax methods to support research and development is primarily due to their generally accessible and effective nature. One of the reasons for this in the context of globalization of world markets for goods and services, the innovation-oriented tax policy of the state is becoming an important factor in attracting foreign direct investment in high-tech sectors of the national economy.

In world practice, the following main forms of tax support for companies carrying out research and development are used:

- tax credits, which are a deferral in the payment of certain types of taxes for a certain period, which can be up to several years;
- accelerated depreciation of equipment, computers and other fixed assets acquired for the implementation of innovative projects;
- increasing coefficients (IC) on average 1.5 to current R&D expenditures, allowing to reduce the base for calculating corporate income tax;
- tax exemption, which allows companies not to pay at all or pay a lower amount of certain taxes, mainly social.

Table 3 - Stimulating innovative development in developed countries

The name of the country	Types of tax mechanisms
USA	An annual tax credit in the amount of 20% of an increase in certain types of research and development expenditures, provided that they exceed the level of the base period by at least one and a half times
Japan	Annual tax credit (TC) in the amount of 10% of current and capital R&D expenses. Additional tax credit in the amount of 5% increase in R&D expenditures compared to their average volume in the previous three years
Great Britain	IC 1,75 – for small business, 1,3 – for large ones, when writing off current R&D expenses to reduce the taxable base for corporation tax
France	An annual tax credit of 30% of R&D expenses from the first €100 million invested and 5% from the rest. 1st appeal - 50% of research expenses, 2nd appeal - 40%
Italy	tax credit in the amount of 40% of R&D expenses, but not more than 50 million euros for the company
Spain	tax credit in the amount of 25% of current and 8% of capital expenditures for research and development. Reduction of corporate tax in the amount of up to 40% by the amount of social tax paid for employees engaged in research and development
China	IC when writing off current expenses for research and development to reduce the taxable base for income tax
India	IC 1,5 when writing off current expenses for research and development to reduce the taxable base for income tax
Brazil	IC 1,6 when writing off current R&D expenses to reduce the taxable base for corporation tax. (can be increased to 1.8 with a significant number of workers engaged in research and development)

Mexico

Tax credit or cash refund in case of negative financial result in the amount of 30% of R&D expenses

Some countries have a special tax regime with reduced rates for small innovative companies. An example would be the French tax system, according to which such businesses are exempt from paying most taxes for the first three years from the date of obtaining the relevant status, and in the fourth and fifth years they can pay them in the amount of 50% of the base.

In some countries, in particular France, Belgium and Canada, there are tax schemes that encourage citizens to invest in venture capital funds. In Ireland, partial tax refunds paid in previous years are available to entrepreneurs and their relatives and friends who start innovative firms.

The use of tax mechanisms stimulates the innovative activity of not only companies, but also individual citizens. For example, in the United States, individuals investing in venture capital ventures with a capital of less than \$ 1 million are eligible to take losses from such investments into account when calculating income tax. Individual investors investing in R&D can receive tax refunds on their account, innovative companies can also include losses from investments in the calculation of income tax and capital gains tax reductions (UK).

Conclusion

One way or another, in almost all countries, it is the state that initiates and directly participates in stimulating and supporting innovative activities of enterprises. At the same time, tax mechanisms for supporting innovation play a special significant role, which should be strengthened and developed.

Further development of tax incentives for innovation in Uzbekistan should be based on assessing the effectiveness of already implemented instruments, pay attention to the mechanisms that are most widespread and have a positive result in the practice of developed foreign countries, and the use of

new effective tax incentive instruments. At the same time, the provided incentive services must be combined with the control of the targeted use of tax incentives by business entities, aimed at preventing the use of tax incentives only to release funds without an innovative component. To do this, it is necessary to give transparent concretized characteristics of innovative products and innovative processes, criteria for attributing costs to them in legislative acts.

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