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## **WAYS TO IMPROVE THE PROCEDURE FOR ASSESSING THE EFFECTIVENESS OF TAX INCENTIVES IN UZBEKISTAN**

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### **Abstract:**

The efficiency tax exemptions, the dynamic of tax preferences, and the role of tax expenditures in economic growth are given in this article. Also the lack of unique approach of estimating efficiency of tax preferences and disproportion of economic competition equilibrium in the result of tax exemptions are described. Based on international experiences and analysis in this sphere scientific-practical conclusions and proposals were developed.

**Key words:** tax policy, tax exemptions, register of tax exemptions, efficiency of tax exemptions, initiator-organization, stimulating exemptions, system exemptions, social exemptions, budget efficiency, economic efficiency, social efficiency.

### **Introduction**

The formation of state budget revenues is one of the most powerful instruments in economic policy. Especially in developing countries, due to the low level of total savings, the state budget is the main fund, and the allocation of costs in the form of a “tax burden” to economic entities in its formation is of great importance for economic growth.

The need for scientific and theoretical approaches to replenishing the state treasury and the importance of following them can be explained by the following:

- Globalization in the 21st century, the development of technology and equipment are the basis for the transition from classical to neoclassical management of the economy. As a result, the state's tax and customs policy should be carried out in harmony with the management of aggregate demand;



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- The stages of production, the distribution of the tax burden between the consumer, the owner of capital, and labor resources also have different scientific and theoretical approaches.

### Analysis and discussion of results

In order to create equal competitive conditions for all business entities within the framework of tax reforms, tax authorities have carried out a number of works on the abolition of tax privileges, their accounting and regulation of the process of their use.

Today, scientific research is being conducted in the world to optimize the tax burden by unifying tax types and rates, abolish ineffective tax privileges, effectively regulate the economy through taxes, rationally use the incentive function of taxes, increase the effectiveness of tax privileges in stimulating innovative and investment activities in mining enterprises, and strengthen the role of taxes in increasing the financial and economic activity of enterprises.

The reduction of tax incentives leads to the distortion of healthy competition. Of course, tax incentives have their place in economic development, but they negatively affect economic efficiency by creating inequality between market participants. For example, analyses by the Institute for Strategy and Business Economics in Zurich confirm that value-added tax incentives reduce economic efficiency.<sup>1</sup>

**Table 1 Dynamics of tax benefits<sup>2</sup>**

№	2018	2019	2020	2021	2022	2023
Tax incentives, trillion soums	21,8	26,5	33,2	36,0	38,2	41,1
As a percentage of GDP	6,1	5,2	4,7	4,5	4,3	3,9

During this period, tax incentives decreased by 1.8 percentage points relative to GDP, from 6.1 percent in 2018 to 3.9 percent in 2023 (see Table 3).

<sup>1</sup> <http://ssrn.com/abstract=1683595>

<sup>2</sup> Compiled by the author.

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The presence of incentives also affects tax revenues. In particular, entities that pay taxes to the budget in order to use this incentive also try to evade taxes in various ways.

The decrease in incentives indicates that the financial situation of taxpayers is strengthening. For example, if tax incentives were supposed to be provided to entities starting production or manufacturers making large investments to expand the tax base, in practice, only those who managed to get incentives received them, and in addition, tax incentives increased due to a one-sided approach to policy.

The Council shall determine separate weights for each of the available benefits.

1. Efficiency indicators shall be determined by the following formulas:

Calculation of budget efficiency indicators

Republican budget revenue losses

$$EL_1 = \frac{SL_1}{TR_1} * (-1) \quad (1)$$

$EL_1$  - efficiency in terms of losses of republican budget revenues

$SL_1$  - losses of republican budget revenues

$TR_1$  - total revenues of the republican budget

Budget revenue losses of the Republic of Karakalpakstan, regions and the city of Tashkent

$$EL_2 = \frac{SL_2}{TR_2} * (-1) \quad (2)$$

$EL_2$  - Efficiency in terms of revenue losses of the budgets of the Republic of Karakalpakstan, regions and the city of Tashkent

$SL_2$  - Revenue losses of the budgets of the Republic of Karakalpakstan, regions and the city of Tashkent

$TR_2$  - Total revenue of the budgets of the Republic of Karakalpakstan, regions and the city of Tashkent

Losses of district (city) budget revenues

$$EL_3 = \frac{SL_3}{TR_3} * (-1) \quad (3)$$

$EL_3$  - efficiency in terms of revenue losses of the district (city) budget

$SL_3$  - revenue losses of the district (city) budget

$TR_3$  - total revenue of the district (city) budgets

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### Pension fund income losses

$$EL_4 = \frac{SL_4}{TR_4} * (-1) \quad (4)$$

$EL_4$  - Efficiency in terms of pension fund revenue losses

$SL_4$  - Pension fund budget revenue losses

$TR_4$  - Total pension fund budget revenues

### Calculation of economic efficiency indicators

#### Change in the volume of production of products (works, services)

$$EE_1 = \left( \sum_{i=1}^n \frac{\text{Min}(0; (T_{ti} - T_{ti-1}) * \text{Max}(T_{ti-1}; 1))}{\text{Max}(T_{ti-1}; 1)} - 1 \right) * \frac{1}{n} \quad (5)$$

$EE_1$  - efficiency in terms of change in the volume of production of products (works, services)

$i$  - serial number of those who used the privilege

$n$  - total number of those who used the privilege

$T_{ti}$  - net revenue from the sale of products (works, services) of the  $i$ -entity that used the privilege in the reporting period

$T_{ti-1}$  - net revenue from the sale of products (works, services) of the  $i$ -entity that used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted

#### Change in profitability level

$$EE_2 = \left( \sum_{i=1}^n \text{Min}(0; (P_{ti} - P_{ti-1}) * \text{Max}(P_{ti-1}; 1)) - 1 \right) * \frac{1}{n} \quad (6)$$

$EE_2$  - efficiency in terms of change in profitability

$i$  - serial number of those who used the privilege

$n$  - total number of those who used the privilege

$P_{ti}$  - profitability of the  $i$ -entity that used the privilege in the reporting period

$P_{ti-1}$  - profitability of the  $i$ -entity that used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted

#### Changes in the value of fixed assets and intangible assets

$$EE_3 = \left( \sum_{i=1}^n \frac{\text{Min}(0; (Ass_{ti} - Ass_{ti-1}) * \text{Max}(Ass_{ti-1}; 1))}{\text{Max}(Ass_{ti-1}; 1)} - 1 \right) * \frac{1}{n} \quad (7)$$

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- $EE_3$  - efficiency in terms of changes in the value of fixed assets and intangible assets
- $i$  - serial number of those who used the privilege
- $n$  -  $n$  - total number of those who used the privilege
- $Ass_{ti}$  - value of fixed assets and intangible assets of the  $i$ -entity that used the privilege at the end of the reporting period
- $Ass_{ti-1}$  - value of fixed assets and intangible assets of the  $i$ -entity that used the privilege at the beginning of the reporting period - if there is no full annual data, then "0" is accepted

Change in solvency ratio

$$EE_4 = (\sum_{i=1}^n \text{Min}(0; (\text{Pay}_{ti} - \text{Pay}_{ti-1}) * \text{Max}(\text{Pay}_{ti-1}; 1)) - 1) * \frac{1}{n} \quad (8)$$

- $EE_4$  - efficiency in terms of changes in the level of solvency
- $I$  - serial number of those who used the privilege
- $n$  - total number of those who used the privilege
- $\text{Pay}_{ti}$  - solvency ratio of the  $i$ -subject who used the privilege in the reporting period
- $\text{Pay}_{ti-1}$  - solvency ratio of the  $i$ -subject who used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted

Change in liquidity ratio

$$EE_5 = (\sum_{i=1}^n \text{Min}(0; (L_{ti} - L_{ti-1}) * \text{Max}(L_{ti-1}; 1)) - 1) * \frac{1}{n} \quad (9)$$

- $EE_5$  - efficiency in terms of changes in the level of liquidity
- $I$  - serial number of those who used the privilege
- $n$  - total number of those who used the privilege
- $L_{ti}$  - liquidity ratio of the  $i$ -entity that used the privilege in the reporting period
- $L_{ti-1}$  - liquidity ratio of the  $i$ -entity that used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted

Change in investment volume

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$$EE_6 = \left( \sum_{i=1}^n \frac{\text{Min}(0; (\text{In}_{ti} - \text{In}_{ti-1}) * \text{Max}(\text{In}_{ti-1}; 1))}{\text{Max}(\text{In}_{ti-1}; 1)} - 1 \right) * \frac{1}{n} \quad (10)$$

- $EE_6$  - efficiency in terms of change in investment volume
- $I$  - serial number of those who used the privilege
- $n$  - total number of those who used the privilege
- $\text{In}_{ti}$  - amount of investments of the  $i$ -entity that used the privilege in the reporting period
- $\text{In}_{ti-1}$  - amount of investments of the  $i$ -entity that used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted

Change in import volume

$$EE_7 = \left( \sum_{i=1}^n \frac{\text{Min}(0; (\text{Im}_{ti} - \text{Im}_{ti-1}) * \text{Max}(\text{Im}_{ti-1}; 1))}{\text{Max}(\text{Im}_{ti-1}; 1)} - 1 \right) * \frac{1}{n} \quad (11)$$

- $EE_7$  - efficiency in terms of change in import volume
- $I$  - serial number of those who used the privilege
- $n$  - total number of those who used the privilege
- $\text{Im}_{ti}$  - import volume of the  $i$ -subject who used the privilege in the reporting period
- $\text{Im}_{ti-1}$  - import volume of the  $i$ -subject who used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted

Changes in the volume of energy resource use

$$EE_8 = \left( \sum_{i=1}^n \frac{\text{Min}(0; (\text{ER}_{ti} - \text{ER}_{ti-1}) * \text{Max}(\text{ER}_{ti-1}; 1))}{\text{Max}(\text{ER}_{ti-1}; 1)} - 1 \right) * \frac{1}{n} \quad (12)$$

- $EE_8$  - efficiency in terms of changes in the volume of energy use
- $I$  -  $I$  - serial number of those who used the privilege
- $n$  -  $n$  - total number of those who used the privilege
- $\text{ER}_{ti}$  - volume of energy resources used by the  $i$ -subject who used the privilege in the reporting period
- $\text{ER}_{ti-1}$  - volume of energy resources used by the  $i$ -subject who used the privilege in the year preceding the reporting period - if there is no full annual data, then "0" is accepted



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### Conclusions and proposals

Based on the above, we believe that the following work should be carried out to assess the effectiveness of tax and customs privileges:

1. Launch a single platform at the Ministry of Economy and Finance based on data from tax and customs offices (automation of business processes, automated decision-making based on modern technologies, work with big data (Big Data), launch of the “Business Intelligence” analytical system);
2. Re-register all existing privileges, assess their effectiveness based on the above-mentioned procedure, and publish conclusions;
3. Conduct analyses of distortions of economic competition based on socio-economic analyses of privileges whose effectiveness has been determined;
4. Introduce a financial expertise procedure that obliges all newly introduced privileges and other preferences to determine their effectiveness based on this procedure.

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