

**THE ROLE OF TAX POLICY IN ENSURING
INNOVATIVE DEVELOPMENT**

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Abstract: In the article, the role of tax policy in ensuring innovative development is considered in detail. Also, the importance of taxes in the development of innovative activities of economic entities is highlighted. Important aspects of the development of state policy measures affecting innovative development have been studied.

Key words: innovation, tax, tax benefits, innovative activity, business environment, innovative entrepreneurship, innovative infrastructure, national innovation system, tax policy, tax rate.

Introduction.

In the current era of global consumer competition, ensuring the competitiveness of the Uzbek economy depends primarily on increasing the innovative activity of local producers. Because the reason for the lack of further improvement of taxation mechanisms can be explained by the fact that innovation processes in the creation of goods and services that meet today's demands are hindered. Tax policy is a broad-based tool that the government uses to influence the economy.

The role of tax incentives in stimulating innovative activity With the declaration of 2018 by the President of the Republic of Uzbekistan as the “Year of Support for Active Entrepreneurship, Innovative Ideas and Technologies” and the adoption of a separate program dedicated to this year, major work has begun in our country to develop innovative activity. As the President of the Republic of Uzbekistan Sh. Mirziyoyev emphasized, “...innovation is the future. If we start building our great future today, we must start it on the basis of innovative ideas and innovative approaches” [1]. One of the important factors in ensuring the competitiveness of business entities in a market economy is increasing innovative activity in these entities. The experience of developed countries that have transitioned to a market economy shows that innovations serve as the basis for implementing active changes in a market economy and creating

a powerful production potential, fulfilling the tasks of increasing production efficiency. The competitiveness of manufacturing enterprises is being shaped by the introduction of new technologies, goods and services. This requires a national scientific and technical policy aimed at the effective introduction of innovations in enterprises and organizations.

Analysis of literature on the topic

One of the founders of classical economic theory, A. Smith, emphasized the importance of the transition to new technologies, that is, to an effective mechanism of competition through innovations, in ensuring economic growth [2]. If we take into account that in a market economy, enterprises become competitive by attracting investments, directing them to the creation of new equipment and technologies, strengthening their market position on the basis of innovations, and using innovations as a practical factor in the struggle to open new markets, this teaching of his has not lost its relevance even today.

According to Professor Sh. Tashmatov, tax policy is increasingly giving priority to encouraging small business entities and developing the investment activities of enterprises[3]. The above measures have led to a sharp increase in the share of small business entities in the country's GDP and an increase in the profits retained by enterprises, and have increased the funds that enterprises can direct to investment. In our opinion, while such measures are effective in increasing the investment activity of enterprises, they have not given impetus to the acceleration of innovative, scientific and research activities of economic entities. Local manufacturers are mainly using the funds saved as a result of reducing tax rates and granting tax privileges to modernize and localize production, purchase new technological equipment, raw materials, or increase working capital.

The Austrian economist J. Schumpeter, who was one of the first to pay attention to the essence of "innovation" in economics, emphasizes: "Innovation is a new look, approach to an existing process, the application of modern discoveries and developments or new production related to human activity to some known process [4]."

J. Schumpeter believes that the implementation of innovative development should be carried out in the following main stages:

- 1) introduction of new innovative products into circulation;
- 2) introduction of new production methods;
- 3) creation of new markets: provision of new innovative projects with raw materials and resources;
- 4) organization and commissioning of industrial production units [5].

If we pay attention to J. Schumpeter's stages of implementing innovative projects, he does not take into account the sources of financing of innovative projects being implemented. At the same time, the participation of the state in the organization and

implementation of production relations is not noted.

We believe that currently, especially in countries undergoing transition economies, state financial support (for example, through tax incentives and financial subsidies) is very important for the implementation of innovative projects.

Innovation economics emerged as an economic discipline in the late 1920s and early 1930s. N. Kondratiev, speaking about this process, argued that changes in technology undoubtedly have a positive impact on economic development [6]. In his opinion, one of the main conditions for this is the accumulation of an innovative “mass” in the country and the creation of economic conditions for its implementation in the economy.

If we look at the meaning of innovation more broadly, its lexical meaning is derived from the English word "innovation", which means to introduce something new, to invent [7]. The results of the study show that innovation has also been defined in official circles. Among them, the definition of innovation given by the Oslo government is particularly recognized, according to which: "Innovation is the creation of new ideas, leading to an improvement in the quality of products and services in response to market demand, while developing modern and competitive products [8]".

As we have noted, the economic definitions of “innovation” and “innovative development” are not exactly the same. For example, the Russian economist M. Gershman states: “Innovation is the creation of new products, services and processes through novelty, discovery and invention. As a result of innovative activity, novation (Latin “novation”), that is, the process of change and renewal, occurs. Innovation is a new invention, a new phenomenon, a new situation that has not been used before, and it emerges as a new way to meet social needs[9],” he says.

“Innovation is a set of innovations, inventions, discoveries, ideas and new approaches in the form of intellectual property, created on the basis of human intelligence and production experience, applied in production, and at the same time bringing economic and social benefits[10]”. If an innovative idea is created but not applied in production, if it does not prove its economic viability, it is not considered an innovation. The innovations created can be considered innovations only when they are commercialized, put into practice and bring economic and social benefits.

In our opinion, "Innovation is the newly obtained tangible and intangible benefits as a result of investing capital in new equipment, technology, production, new organization of labor, management, and service provision."

In the explanatory dictionary of the Uzbek language, the term "innovation" is defined literally as a novelty, invention, and in a broader sense as funds spent on the economy in order to introduce new types (generations) of equipment and technologies, (2) innovations in advanced equipment and technologies, management and other areas and their application in various fields, (3) new phenomena (linguistic units) that have

appeared in a particular language, mainly in the field of its morphology, in recent times [11].

In our opinion, at the heart of any innovative activity lies the economic interest of people, and then it gives people the opportunity to make their lives more convenient and better. This opportunity is aimed at satisfying people's Unlimited needs and interests, and secondly, it provides an opportunity to use Limited economic resources effectively and efficiently.

Research methodology

In this article, economic literature and scientific articles on innovation, taxes and taxation, as well as scientific works of foreign and domestic economists on its importance in the development of the economy, are studied as a scientific-theoretical basis. During the study of the topic, the methods of comparative literature analysis, logical and structural analysis, grouping and comparative comparison were used.

Analysis and results

According to international standards, innovation is defined as the final result of innovative activity, embodied in the form of a new or improved product introduced to the market, a new or improved technological process used in practical activities, or a new approach to social services.

Innovations in the service sector are new in the sector itself, in its production, provision and consumption, and in the actions of employees. Innovations are not always based on inventions and discoveries. There are also innovations based on ideas.

Innovation incentives used in global practice can be divided into two categories:

- direct financing;
- tax benefits.

The second category, in turn, includes:

- a) tax credit - deduction of part of the costs of research and development from the amount of income tax (the amount is determined by the tax credit rate);
- b) additional tax credit - deduction from the amount of income tax for an increase in research and development costs compared to the base period;
- c) additional tax credit - deduction from the amount of income tax for an increase in research and development costs compared to the base period;
- d) wage tax credit - reduction in taxes on the amount of salaries of scientific workers;
- e) accelerated depreciation of fixed assets related to research and development work
- f) investment tax credit - write-off of a significant part of the cost of equipment in the first years of its operation.

In our opinion, only an active entrepreneur who constantly introduces innovations into his activities, that is, novelties, inventions, new technologies, techniques, modern

systems of management and labor organization, and implements them in practice, will be free from the risk of falling into the trap of crisis and bankruptcy. As P. Drucker emphasizes, “entrepreneurs are distinguished by innovative thinking. Having innovation is the main tool of entrepreneurship” [12].

Innovative entrepreneurship is the process of introducing new ideas into existing socio-economic relations based on research and development[13]. It is clear that in the economy, subjects of innovative relations are given great intellectual responsibility and risk, and the business environment in the country plays an important role in ensuring the effectiveness of this responsibility and risk.

The enterprise organizes innovative activities that rationally use the existing business environment, the enterprise develops its future strategy based on the strategic opportunities of the business environment, and on the basis of the strategy, the enterprise receives additional benefits from the implementation of its economic and intellectual ideas.

Based on the above-mentioned circumstances, the business environment in the country provides a number of opportunities for innovative entrepreneurship, such as:

- introducing innovative processes at the enterprise and using existing resources;
- concluding agreements with internal and external partners on the implementation of innovative ideas at the enterprise and the production of modern products;
- finding financial partners and using venture funds to implement innovative ideas and produce modern products.

In this regard, the definition of the concepts of “active entrepreneurship” and “active entrepreneur” by the President of the Republic of Uzbekistan Sh.M. Mirziyoyev is noteworthy. Sh.M. Mirziyoyev emphasized that “Active entrepreneurship is an economic activity that organizes business activities on the basis of innovative, that is, modern approaches, advanced technologies and management methods. By active entrepreneurs, we mean enterprising people who are capable of producing competitive products and, most importantly, creating new jobs, providing not only for themselves and their families, but also for the benefit of society as a whole” [14].

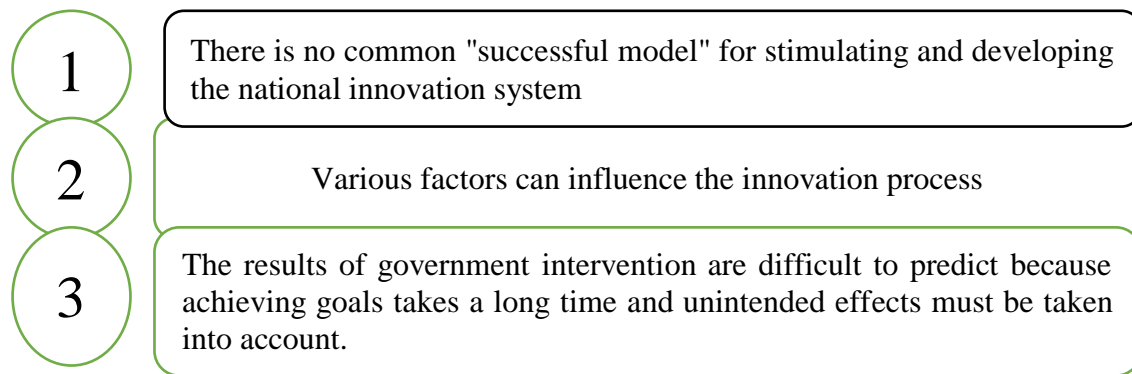


Figure 2. Problems in developing state policy measures affecting innovative development [15, 16]

At the same time, the centers of innovative ideas, developments and technologies are tasked with developing innovative cooperation with manufacturing enterprises, research and educational institutions, startups and other partners in priority sectors of industry and agriculture in order to implement joint innovative projects. It should be emphasized that when studying the issues of tax incentives for innovative processes, scientists note three common problems, presented in Figure 1, that developers of certain state policy measures face in trying to influence innovative development.

Taxation and tax reform are the most effective means of achieving sustainable economic growth based on the formation of innovative activity, the development of entrepreneurship and production. During the years of independence, large-scale tax reforms were carried out in our country. As a result, a modern tax system was created that meets the requirements of a market economy, ensures the replenishment of the state budget and financing of necessary state expenditures, and also stimulates the growth of population incomes, modernization of the economy, its new sectors, the development of small business and private entrepreneurship.

In our opinion, the tax policy pursued in the country is one of the main economic levers that directly affects not only innovative development, but also the socio-economic development of society. Tax rates and tax burdens in the national economy are important factors that quickly affect the activities of domestic producers of goods, entrepreneurs and foreign investors. If tax rates in the economy are low and the tax burden is gradually decreasing, then in such conditions, a wide path is opened for entrepreneurship, the material interests of producers of goods and services increase, and these factors create the necessary conditions for economic activity and rapid development in the country. The rational macroeconomic policy pursued in our country and its most influential and important direction, taxation, also prioritizes the interests of producers of goods and services and business entities. Analyzing the positive

changes in tax rates in recent years, we note the following (Table 1).

Table 1
Changes in tax payment rates in Uzbekistan from 1992 to 2023.¹

Types of taxes	Highest tax rates from 1992-2009	Rates set in 2010	Rates set in 2021	Rates set in 2023	Decline
Value added tax	30 percent	20 percent	15 percent	12 percent	2.5 times
Income (profit) tax of legal entities	45 percent	9 percent	15 percent	15 percent	3 times
Property tax for legal entities	5 percent	3.5 percent	2 percent	2 percent	2.5 times
Single tax payment for KiChik enterprises	15.2 percent	7.0 percent	4 percent	4 percent	3.8 times
Income tax of individuals	Up to 60 percent	Up to 22 percent	12 percent	12 percent	5.0 times
Single social payment	40 percent	25 percent	12 percent	12 percent	3.3 times

The table shows that in order to stimulate consumer demand and the expansion of production of goods (works, services) during the periods taken for analysis, the value-added tax rate was reduced from 30% to 20% and was reduced by 1.5 times. The single tax payment rate for small enterprises was reduced from 15.2% of gross revenue in 2005 to 3.5%, and to 4% in 2023 and was reduced by 3.8 times. The reduction in the income tax rate for legal entities during the years of independence will positively contribute to replenishing the turnover of enterprises and organizations and strengthening their material and technical base.

A reduction in the rate of a certain type of tax is of special socio-economic importance. For example, a single social payment, a reduction in personal income tax rates will have a positive effect on the continuous increase in the incomes of working people and the population, and will serve to strengthen their social protection. As a result of such an effective tax policy, the funds that must be paid at the disposal of economic entities are a clear manifestation of the state's care and support for them.

Conclusions and suggestions

The importance of tax policy in ensuring innovative development is considered high. Based on the above considerations, the following conclusions and proposals were formulated:

1. Scientific research carried out in important priority areas financed by the state

¹ Calculated based on data from the State Statistics Agency.

budget, namely fundamental and applied research, the real sector of production, experimental and design work in the field of defense, environmental protection and ecology, should be exempted from all types of taxes and fees. It is necessary to apply a system of incentives for investments attracted to the sector with the help of taxes for innovative activities carried out in priority areas of the social sphere. Exemption from value added tax, customs payments or reduction of duties on imported equipment, tools, materials, licenses, know-how for the implementation of highly effective investment projects that have passed the examination will serve as an important tool in ensuring innovative development.

2. The following aspects of the mechanism for ensuring sustainable economic growth based on innovative development should be considered:

- It is necessary to urgently adapt the tax, customs and tariff, financial and credit system of state regulation of the economy to the requirements and development rates of the innovative development model;
- It is necessary to develop a system of special incentives for foreign investors, national producers of goods, entrepreneurs and state organizations in taxation, application of customs policy, and lending to entities producing innovative products.

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