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IMPROVING PROVISION OF TAX INCENTIVES WITH THE AIM OF EFFICIENT STIMULATION OF INNOVATION ACTIVITIES

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Abstract: This article is devoted to the consideration of aspects of the introducing modern forms of tax incentives for innovation activities, as well as a mechanism for monitoring and evaluating the efficiency of tax incentives. Having formulated conclusions on the basis of the research results the author has developed scientific proposals and practical recommendations for improving the provision of tax incentives.

Key words: incentives, tax incentives, tax administration, monitoring, mechanism, improvement, tax credit, innovation tax credit.

Introduction. Current accelerated introduction of modern innovation technologies in the economic, social and other spheres with wide application of science and technology constitutes a significant precondition for the dynamic development of the Republic of Uzbekistan.

Rapid development of all spheres of public and state priority areas of the country require comprehensive support of the ongoing reforms on the basis of modern innovative ideas, developments and technologies that ensure a rapid and qualitative breakthrough of our country into the ranks of the leading countries of world community.

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Moreover, in order to accelerate the socio-economic development of the country currently large-scale measures are being implemented to liberalize the economy, support entrepreneurship, actively attract foreign investment, ensure free access to goods (works and services) and create a single economic environment with equal competitive conditions for all categories of economic entities.

Carried out analysis illustrated insufficient measures undertaken to ensure the innovative development of the processes of modernization, diversification, increase in production and expansion of the product range of competitive products in the domestic and foreign markets. In particular, due to the lack of many indicators and inadequate coordination of activities in this area, our country in recent years has not participated in the ranking assessment done by the Global Innovation Index, compiled by influential and authoritative international agencies. The low level of interaction of economic and social sectors with scientific institutions, lack of proper coordination of the activities of ministries and agencies, as well as local authorities in the field of innovative development do not enable to achieve the priority goals and objectives in this area (Decree, 2018).

The third priority direction of development and liberalization of the economy envisaged in the Action Strategy for five priority directions of the development of the Republic of Uzbekistan for 2017–2021 determines a number of top-target objectives such as continuing to reduce tax burden and simplify tax system, improve tax administration and expand appropriate incentive measures (Decree, 2017).

Despite the measures undertaken to implement the requirements of Presidential Decree as of July 18, 2017 №PD-5116 "On measures to radically improve tax administration, increase tax collection and other compulsory payments" (Decree, 2017a), conditions of revealing additional reserves to raise the revenues of the republican and local budgets, introduction of modern sophisticated information and communication technologies in the tax administration process, implementation of advanced achievements of tax legislation and administration applied in foreign countries remain at the unsatisfactory level (Order, 2018). All statements specified above justify the relevance of this topic.

Analysis

Developed practice of providing incentives, preferences and exclusive rights for certain economic entities creates a number of significant problems, such as (Resolution, 2018):

- creating unreasonably advantageous conditions for individual entities in a particular industry or region due to the selective provision of incentives, preferences and exclusive rights without clear criteria and transparent mechanisms for their justification;

- combination by a significant number of economic entities of the functions of public administration which leads to the use of administrative resources to obtain privileged status in the market and violation of the principles of fair competition;

- formation of dependency attitudes, lack of initiative and low business activity among economic entities enjoying individual incentives and preferences, as well as the lack of competitiveness of their products;

- lack of consistency in assessing the efficiency of incentives and preferences provided, including their real impact on the development of specific industries, regions and the economy as a whole.

It should be noted that wide-spread practice of supporting economic entities through tax and customs benefits, including individual ones, makes a negative impact on ensuring robust competition due to the lack of the efficient system for monitoring and controlling the effectiveness of benefits provided (Decree, 2018a).

Meanwhile, there are no adequate software products that provide collection of external sources for external supervision, including targeted use of tax incentives and preferences (Resolution, 2018a).

In reliance upon the statements specified above, it is proposed to introduce the mechanism for assessing and monitoring social and economic efficiency of the granted tax incentives, employees of cameral tax control of the state tax service of the Republic of Uzbekistan. Assessment and monitoring of tax incentives will be carried out on the basis of the analysis of financial indicators (Form 2), reflected in tax reports provided by economic entities. Implementation of the assessment and monitoring is proposed in the Form illustrated in Table 1, The assessment will naturally be carried out by means of an automated software product in the offices of the State Tax Committee of the Republic of Uzbekistan.

The following indicators are used for assessing efficiency:

Ce=Cr/Ct, where

Ce – coefficient of social and economic efficiency, Cr – sum of positive points, Ct – total number of indicators. Meanwhile, to calculate the coefficients the following factors are analyzed: the dynamics of the indicators, such as sales revenue, cost price, gross profit, gross profit profitability, payroll fund accrued to payroll employees, number of payroll employees and part-time workers, average monthly payroll of payroll employees and external part-timers.

Points are assigned to each indicator (if dynamics is positive, it is – 1, if dynamics is negative, it is – 0, and if it is a prime-cost –vise versa).

Tax incentives have positive social and economic efficiency if Ce>0,8.

Table 1

Assessment form of the social-economic efficiency of tax incentives

(Developed by the author**)**

<table>
<tr><th>Company name</th><th>TIN</th><th colspan="2">Statutory act on providing tax incentives</th><th>Term of incentive</th><th>OKONH</th></tr>
<tr><td colspan="6">Taxes accrued and subject to payment</td></tr>
<tr><td colspan="2"></td><td colspan="2">year</td><td colspan="2">year</td></tr>
<tr><td colspan="2">Profit tax</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td colspan="2">Single Tax Payment</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td colspan="2">TOTAL</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td colspan="6">Aim of allocated funds remained at the disposal of the company due to incentives</td></tr>
<tr><td>Charter capital</td><td colspan="2">Manufacturing costs</td><td>Purchase of raw materials</td><td colspan="2">Other aims</td></tr>
<tr><td colspan="6">After providing incentives in relation to the previous period</td></tr>
<tr><td colspan="2">Indicators</td><td>2017</td><td>2018</td><td>Growth or reduction in relation to the previous</td><td>Points</td></tr>
</table>

			year		
			Thousand UZS	**In percent**	
Sales revenues					
Prime-cost					
Gross profit					
Net profit					
Payroll fund					
Number of employees					
Monthly salary					
Efficiency					

(Conclusion and proposals of efficiency or inefficiency to continue the application of the tax incentives)

Incentives for innovation should be provided not only for innovation, but with certain conditions in the form of a tax credit, i.e. if there are certain achieved results or the goal of the innovation, the tax credit will conditionally be considered redeemed, otherwise at the end of the period of incentives provided the excess part of funds corresponding to the part of not achieved certain results, is returned to the budget returns with accrued penalties.

Currently tax holidays, accelerated depreciation, tax credit and innovation tax credit represent the most typical forms of tax incentives and preferences in the economies of developed and developing countries. A tax credit is a change in the deadline for tax repayment if there are certain grounds for a period of one to six months with a lump-sum or gradual payment by the taxpayer of the amount of the debt.

An innovation tax credit is such a change in the tax payment term, if there are certain grounds in which the company is provided with the opportunity to reduce its tax payments within a certain period and with a subsequent gradual payment of the loan amount and accrued interest. In spite of external linguistic similarities, these concepts have significant differences which are clearly demonstrated when comparing according to the following criteria. For convenience, the data will be compared in the form of Table 2.

Table 2

Comparative assessment of the tax credit and innovative tax credit

(Analysis of the author on the basis of the international experience.**)**

№	Criterion	Tax credit	Innovation tax credit
1	**Conditions (cases) of providing**	1) causing damage to the borrower as a result of a natural disaster, technological disaster or other force majeure circumstances; 2) delay of financing from the budget to the borrower or payment of the government order executed by this person; 3) threat of bankruptcy of the borrower in case of a single tax payment.	1) carrying out research and development works by the borrower or technical re-equipment of its own production; 2) carrying out by the borrower of innovative or implementational activities including creation of new or improvement of existing technologies applied, creation of new types of raw materials or consumables; 3) execution by the borrower of a particularly important order for the socio-economic development of the region or provision of crucially significant services to the population.
2	**Lending term**	From 3 months up to 1 year	From 1 year up to 5 years
3	**Amount of loan**	Not more than the amount of damage or delayed financing	From 30 % up to 100 % from the cost of works (property)
4	**Interest rate on loan**	From 0% up to 4,5% annually	From 4,5% up to 13% annually
5	**Types of taxes on**	All taxes and other	Profit tax and local taxes

	which lending is implemented	compulsory payments	
6	**Possibility of pre-schedule loan repayment (tax credit)**	Available, interest-free. Tax credit is possible due to overpayment (for example, by the export VAT)	Available, interest-free.
7	**Lender's status**	Territorial bodies of the state tax authorities	Territorial bodies of the state tax authorities with participation of the local public administration authorities, a well as finance agencies
8	**Borrower's status**	Taxpayer	Taxpayer
9	**Surety commitment**	Mostly available	Mostly available
10	**General requirements to the borrowers**	**Absence of:** - initiated criminal case on taxes and other compulsory payments; - administrative proceedings on taxes and other compulsory payments; - reason to believe that the loan is received for the purpose of tax evasion; - **no arrears on taxes** and other compulsory payments; - **availability of grounds** for the right to receive a loan	

An innovation tax credit can be provided for a company's profit tax, as well as for local taxes usually for a period of 1 up to 5 years, in some cases up to 10 years. A company that receives an innovation tax credit ha the right to reduce its payments on the relevant tax during the term of the innovation tax credit agreement.

The reduction is made for each payment of the corresponding tax for which an innovation tax credit is provided, for each reporting period until the amount not paid by the company as a result of all such reductions (accumulated loan amount) becomes equal to the loan amount stipulated in the relevant agreement. The specific procedure for reducing tax payments is determined in the example below of the innovation tax credit agreement.

If a company has concluded more than one innovation tax credit agreement, the validity of which has not expired by the time of the next tax payment, the accumulated loan amount is determined separately for each of these agreements. At the same time, the accumulated loan amount is increased initially in relation to the first contractual term, and when this accumulated loan amount reaches the amount specified in this agreement, the company can increase the accumulated loan amount under the next agreement.

In each reporting period (regardless of the number of innovation tax credit agreements), the amounts by which tax payments are reduced cannot exceed 50 percent of the respective tax payments determined by the general rules without taking into consideration existence of innovation tax credit agreements. Meanwhile, the loan amount accumulated during the tax period may not exceed 50 percent of the amount of tax payable by the company for this tax period. If the accumulated loan amount exceeds the limits on which tax reduction is allowed for such a reporting period, the difference between this amount and the maximum allowable amount is transferred to the next reporting period.

If the company incurred losses according to the results of individual reporting periods during the tax period or losses arisen from the results of the entire tax period, the excess amount of loan accumulated during the tax period is transferred to the next tax period and admitted as the accumulated loan amount in the first reporting period of the new tax period.

The grounds for receiving an innovation tax credit must be formalized by the company concerned. An innovation tax credit is provided on the basis of the application of the company and is formalized in the from of the agreement concluded between the relevant authorities and this company. According to this application the company undertakes responsibility to pay interest accrued on the amount owed.

The form of an innovation tax credit agreement is established by the relevant authority that makes decisions on the provision of an innovation tax credit. The decision to provide an innovation tax credit to the company is made by the relevant authority in coordination with finance authorities within 30 days from the date of receiving the application. The fact that the company has one or more innovation tax credit agreements cannot be an obstacle to concluding another innovative tax credit agreement with this company for other reasons.

The innovation tax credit agreement must stipulate the procedure for reducing payments on the relevant tax, the loan amount (indicating the tax for which the company received the innovation tax credit), the agreement validity period, interest accrued on the loan amount, procedure for repaying the loan amount within a period not exceeding the term for which innovation tax credit is provided in accordance with the agreement, the procedure and maturity of accrued interest, an indication of the method of securing obligations, as well a responibility of parties. If an innovation tax credit is provided under the property collateral, there is concluded an agreement on the property collateral.

An innovation tax credit agreement must contain provisions which during its validity period do not allow the transfer or possession of equipment or other property which purcahe by the company constituted the condition for providing innovation tax credit, or determines conditions of such implementation.

Interest on the loan amount is fixed at a rate less than ½ and higher than ¾ of the Central Bank refinancing rate. A copy of the agreement is submitted by the company to the relevant tax authority at the place of its registration within 5 days from the date of concluding this agreement. If a company that receives an innovation tax credit violates its obligations, in connection with the execution of which an innovative tax credit was received within the period specified in the agreement, then not later than 3 months upon the date of the agreement termination it is obliged to repay the full amount of unpaid tax and interest on this amount that is accrued for each calendar day of the agreement validity proceeding from the rate equal to the refinancing rate established by the Central Bank.

Table 3

Conditional calculation of the innovation tax credit

(Conditional calculations by the author**)**

Indicators	**Amount**
Amount of innovation tax credit	100 000,0 thousand UZS
Term of innovation tax credit	24 months
Profit tax paid to the state budget for a reporting period	8 333,4 thousand UZS
The reduced amount of the profit tax for each reporting period until the accumulation of the total amount of the innovation tax credit (not more than 50% of the amount of the profit tax paid in the reporting period, i.e., 8333.4 * 50%)	4 166,7 thousand UZS
Interest rate of innovation tax credit (½ of the refinancing rate, i.e. 9*0,5%)	4,5% annually
Interest accrued to the loan amount (100 000,0*4,5%)=9000,0/24	187,5 thousand UZS
The total loan amount to be repaid in each reporting period after the accumulation of the total loan amount (4166,7 + 187,5)	4 354,2 thousand UZS

Table 3 given above shows an example of providing an innovation tax credit which is repaid within 2 years on the basis of a corresponding schedule(monthly or quarterly), after the accumulation of the total loan amount, i.e. the total of all reductions for each reporting period for profit will be equal to the total amount of the loan.

Table 4

Schedule for innovation tax credit repayment

(Conditional calculations by the author**)**

Indicators	**Amount**	**Months (thousand UZS)**							
		1	**2**	**3**	**4**	**5**	**6**	**7**	**…. and so on**

Loan amount	50000,0	4166,7	4166,7	4166,7	4166,7	4166,7	4166,7	4166,7	4166,7
Interest (9%*0,5)=4,5 %	2250,0	187,5	187,5	187,5	187,5	187,5	187,5	187,5	187,5
Total amount of loan	52250,0	4354,2	4354,2	4354,2	4354,2	4354,2	4354,2	4354,2	4354,2

The repayment schedule is developed and agreed upon before concluding agreement by the relevant finance authorities (or State Tax Committee agencies) and can be adjusted after the full accumulation of the total amount of the innovation tax credit. Interest is paid on the basis of the corresponding agreed schedule every month after the loan is fully received (Table 4).

Conclusions and proposals

The budgetary effect of providing any tax incentive is frequently assessed only at the stage of its introduction, subsequently the value of the corresponding loss of budget revenues is not monitored, and the efficiency of achieving the goal for which the incentive was provided, is not properly analyzed.

A lack of a mechanism for monitoring the impact of tax incentives on the economy, in particular on increasing volumes of sales, including exports, raising labor productivity and product quality, etc., represents a constraining factor towards improving the efficiency of tax incentives. The lack of efficient monitoring makes it impossible to establish clear criteria for providing incentives based on the ratio of economic consequences for the economy and for the budget, which makes it difficult to create a clear, open and transparent mechanism for providing relevant incentives.

The development of criteria for providing tax incentives based on the expected financial and economic results and the amount of incentives provided will ensure transparency and uniformity in providing incentives. For this purpose it is required to develop guidelines for conducting fiscal-economic monitoring of the results of incentives provided.

Tax incentives are provided regardless of the achievement of results, i.e. the principle of "incentives - innovation - results" is not applied (cost reduction, productivity growth, profit growth, employment, capacity utilization, output growth, energy saving, export growth, and others). This situation complicates assessment of the impact of tax incentives on the development of priority sectors of the economy.

The introduction of result-oriented innovation tax credits into practice instead of tax exemptions provided by certain statutory acts in the form of complete exemption for an indefinite period will provide an opportunity to achieve significant results in improving the performance of tax incentives, creating a robust competitive environment, ensuring the efficiency of encouraging innovative activities, as well as an accurate forecast and prevention of non-expected losses in the budget revenues due to tax incentives.

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