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## The Impact of Tax Benefits on the Improvement of Special Economic Zones

Abdukakhorov Bekzod Utkir Ugli  
Tashkent Institute of Finance

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**Annotation:** *The article considers the role of tax benefits in the further improvement of the Special Economic Zones operating in the Republic of Uzbekistan, organization of the investment climate and its improvement, as well as the issues of activation of attraction of foreign direct investment to the economic sectors of the country.*

**Keywords:** *Special Economic Zone, small industrial zones, Technopark, industrial clusters, investment environment, tax benefits, foreign direct investment.*

**Introduction.** Today, ensuring active investment activities in the development of the country's economy, improving the investment climate in this regard are among the important tasks. Even if we observe the trends in the economic growth of developed countries, we can see that it is one of the main factors in the investment climate as the main factor of economic growth. It should be noted that in order to create a favorable investment climate for attracting direct investment in the economic sectors of the country, large-scale measures are being taken to liberate the economy, support entrepreneurial activity, create the infrastructure of economic regions. In this regard, the decree of the President of the Republic of Uzbekistan "On measures for cardinal improvement of investment climate in the Republic of Uzbekistan"[2] № DP-5495 of August 2, 2018 also sets out the tasks for improving the investment climate. Currently, many measures are being taken to improve the investment climate in the Republic. In particular, it is worth noting that a number of tax incentives have been introduced in Uzbekistan to create a favorable investment climate for participants of economic activity and ensure its attractiveness.

**Analysis of the relevant literature.** According to Economist Professor G.P Podshivalenko, "Investment climate is a key characteristic of the investment climate in a country, economic region, industry. It is recommended that the investor begin to assess the investment attractiveness of a particular object or investment project, taking into account only the rating of the investment environment." [4]

Scientists of the economist of our country A.Vakhabov, Sh.Khajibakiev, N.Muminov also said about the investment climate: "the investment climate is the sum of economic, political, legal and social factors that determine in advance the level of foreign capital investment and the opportunities for their effective use in the country." [5]

D.Gazibekov and T.Karaliev expressed the following points: "the investment climate is a concept that is used in a very broad sense and embodies all the problems and issues that are taken into account by the

investor. Favorable and unfavorable aspects of allocating capital to a particular country are determined by the Investor, in addition, great importance is attached to the ideology, policy, economy and culture of the country in which he wants to invest his capital”[6]

According to Sh.I.Musatafakulov’s research, the most important conditions for determining the attractiveness of the investment climate are: the natural conditions of the regions, the formed business environment, socio-economic and administrative principles, the willingness of the population to manage businesses, risk awareness, labor skills and the existence of various institutional systems and their development. [7]

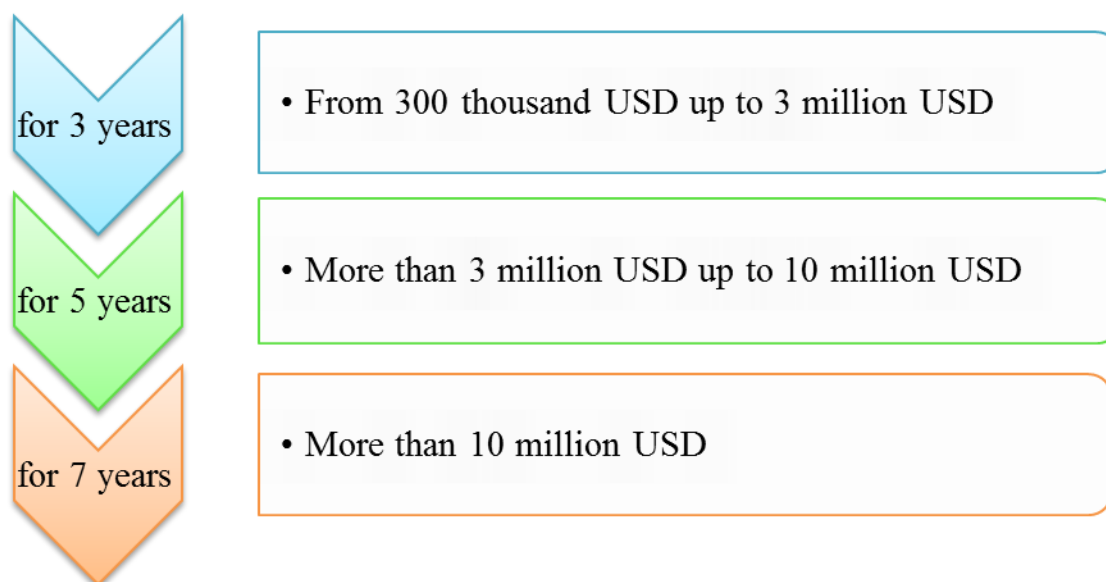
In our opinion, the investment climate is a set of factors that ensure the effectiveness of investments in the economic zone, which is provided by the economic, socio-cultural, political, environmental conditions of the country. In general, a well-developed investment climate is a combination of investment attractiveness and investment activity.

**Analysis and results.** As mentioned above, in order to improve the investment climate in the country, foreign investors and enterprises with foreign investment are provided with a number of tax and customs benefits on income from sources in the country in accordance with the legislation of the Republic of Uzbekistan and the Tax Code. In particular, there are a number of benefits for enterprises operating in the following sectors of the economy, which attract foreign direct investment:

- production of radio-electronic industrial products and components for computers and computer equipment;
- light industry;
- silk industry;
- building materials industry;
- poultry and egg production;
- food industry;
- dairy and meat industry;
- chemical and pharmaceutical industry...[13]

Income tax on the main activities of these enterprises, property tax, tax on development of social infrastructure and landscaping, environmental tax, single tax for micro and small enterprises and mandatory payments to the Republican Road Fund exempt from payment.

These tax benefits are applied according to the volume of foreign direct investment as follows. (Figure 1)



**Figure 1. Tax benefits for participants of the Special Economic Zones depending on the volume of foreign direct investment [1,3]**

As can be seen from the figure above, tax incentives for companies with foreign direct investment for a period of 3 to 7 years are cited to encourage investment activities. According to this figure, attraction foreign direct investments from 300 thousand USD up to 3 million USD, gives 3 years tax benefits. If enterprises attract in the range of 3 million USD to 10 million USD, will get 5 years tax benefits. Enterprises that attract foreign direct investment in excess of 10 million USD will receive tax benefits for 7 years.

Today, there are 22 free economic zones (FEZs), 417 small industrial zones (SIZs) and 7 technoparks (TPs) and 415 industrial clusters (ICs) within the special economic zones (SEZ). According to the results of the study, we analyzed the effective impact of tax incentives on attracting foreign direct investment to the activities of the above-mentioned regional structures. (Table 1)

Table 1

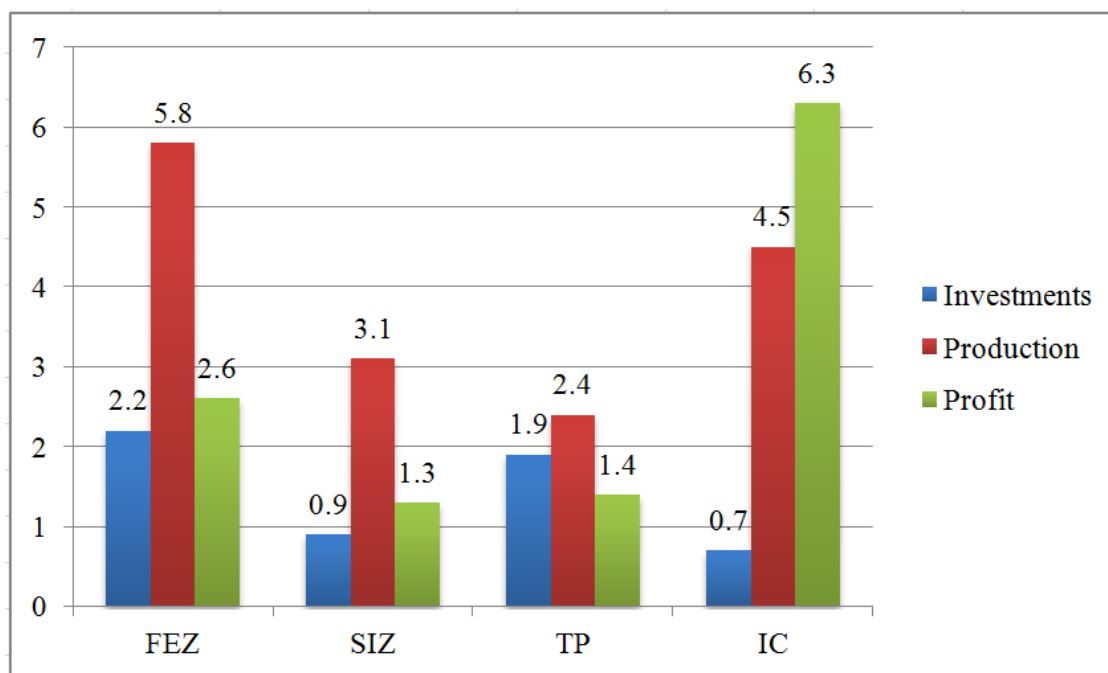
**Information on the territorial structures of production operating in the Republic of Uzbekistan [11,12]**

№	Territorial enterprises of production	Number of territorial production enterprises		Number of enterprises in the territorial structure of production	
		2019	2022	2019	2022
1.	Free economic zones	16	22	405	513
2.	Small industrial zones	63	417	1317	1869
3.	Technoparks	3	7	49	56
4.	Industrial clusters	117	415	117	425

Based on the data presented, we can see that in 2019, there were 16 free economic zones with 405 enterprises, and by 2022, there are 22 free economic zones with 513 enterprises. In terms of small industrial zones, in 2019, 63 SIZ included 1,317 enterprises, while in 2022, 417 SIZ will cover 1,869 enterprises. In 2019, the number of 3 technoparks will consist of 49 enterprises, and in 2022, the number of technoparks will increase from 56 enterprises to 7 technoparks. The number of industrial clusters in

2019 was 117, covering 117 enterprises. Currently, there are 415 industrial clusters with 425 enterprises.

From the above data, we can see that the number of manufacturing entities in our country has increased. We all know that in the economy, only the quantitative factor does not mean development. One of the key factors of development is cost-effectiveness. There is no doubt that there will be development in an efficient economic sector. If the quantity and efficiency of the participants in the economic activity are combined, the maintenance of their activity will play a special role in stabilizing the country's economy. As a proof of our words, we give the following comparative data to see the effectiveness of the existing regional production structures in our country. (Figure 2)

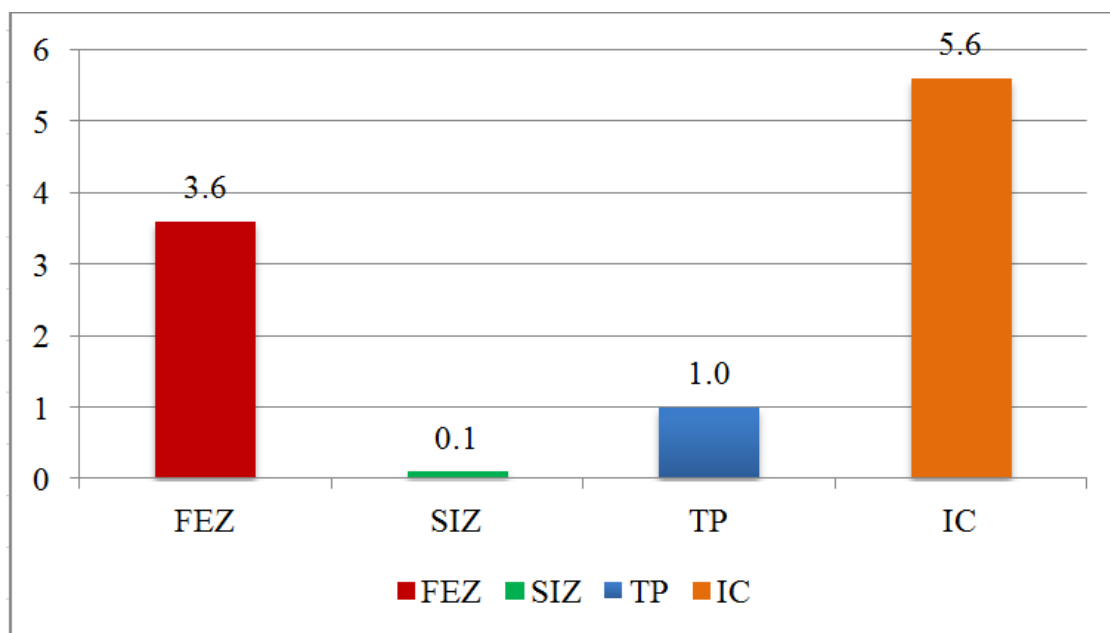


**Figure 2. Investment, production and profitability of regional production enterprises. [11,12]**

**(2021 compared to 2018)**

If we pay attention to these indicators, we can see that the investment indicators of free economic zones increased by 2.2 times, production by 5.8 times and profits by 2.6 times. The volume of investments in the small industrial zone increased by 0.9 times, production by 3.1 times and profits by 1.3 times. The volume of investments in technology parks increased by 1.9 times, production by 2.4 times and profits by 1.4 times. In industrial clusters, the volume of investments increased by 0.7 times, production by 4.5 times and profits by 6.3 times. From the data, we can see that in 2021, compared to 2018, the largest investment was in the activities of free economic zones, which increased by 2.2 times. In terms of production, free economic zones also showed a high rate of 5.8 times. The highest rate of profit was recorded in industrial clusters, which is 6.3 times higher than in 2018.

Today, these structures effectively export their products to foreign countries in the amount of 10.3 trillion soums. In particular, in the activities of free economic zones, products worth 3.6 trillion soums were exported to foreign countries. The highest rate among these structures industrial clusters exported a total of 5.6 trillion soums to foreign countries, small industrial zones exported a total of 0.1 trillion soums to foreign countries and with 1.0 trillion soums in technoparks products were exported. Currently, the activities of regional production structures are one of the emerging sectors in ensuring sustainable economic growth. Using the factor of these regions to improve the investment climate in the country's economic regions is one of the main tasks to ensure sustainable economic growth. (Figure 3)



**Figure 3. Territorial structures of production volume of foreign trade. (trln. soum)[11,12]**

It should be noted that the importance of tax incentives introduced to improve the investment climate in the country, increase investment attractiveness, create opportunities for the country to attract foreign investment, including foreign direct investment, and develop entrepreneurship. Since 2008, 539 investment projects have been successfully implemented, including that, 43,000 jobs have been created in free economic zones, small industrial zones, technoparks and industrial clusters totaling 2.9 billion USD (including 0.9 billion USD in foreign direct investments).

According to the above-mentioned cases, the tax is aimed at ensuring the sustainable development of the country's economy, establishing and strengthening international relations with developed countries, improving and actively organizing the investment climate, which is one of the key factors in achieving integration with the world community. It should be noted that we can observe that the application of the benefits, in turn, will be effective in achieving the above goals.

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