

JAIDE

ISSN : 3032-1077

<https://doi.org/10.61796/jaide.v1i8.800>**THE IMPACT OF OPTIMAL PROFIT TAXATION ON
INVESTMENT ATTRACTION****Zarif Ahrorov**PhD, Associate Professor, Samarkand branch of Tashkent State
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Received: Jun 22, 2024; Accepted: Jul 29, 2024; Published: Aug 01, 2024;

Abstract: In the current economic conditions, most countries of the world are moving along an innovative path of development and use various financial and non-financial instruments for this. One of these financial instruments is the income tax, which in turn is the object of combining the interests of the state, enterprises and the population. Therefore, this study is aimed precisely at the analysis of the formation of a unified income tax system that contributes to the inflow of investments into the innovative development of both the state and an individual enterprise. To date, a large number of financial incentives for innovation are used, such as tax incentives, loans, state subsidies, however, practice shows that not all of them give the desired effect. The formation of a unified system of taxation of profits will create a synergistic effect from the financial mechanism for stimulating investment in innovative development.

Keywords: profit, income tax, incentives, enterprise, financial activity, investment, innovation, unification, synergy effect.

This is an open-access article under the [CC-BY 4.0](https://creativecommons.org/licenses/by/4.0/) license**Introduction**

Creating an optimal taxation system within financial relations is an important factor in creating socio-economic development, economic stability and well-being of the population in the country. How optimal taxation is depends on the market reforms and the stability of economic development. Organization and management of a perfect tax system is important to ensure the socio-economic development of the country.

In the context of innovative economic development, the profit tax should be used not only as a source of income for the state budget, but also increasingly become the most important instrument of state regulation of the economy, and also serve to increase the capital of enterprises and the inflow of investments. Therefore, the profit tax, along with other taxes, the share of which in budget revenues occupies a solid place, should be one of the main financial instruments of measures to unify the system of the taxable base of the profit tax and the procedure for calculating and deducting this tax to the revenues of budgets at all levels.

An optimal tax policy and a tax rate encouraged to serve it will also serve to increase the flow of investment into the national economy. In the coming budget phase, increasing or decreasing the tax base by using various mechanisms, and establishing new enterprises on the basis of investment, rather than using incentives, is the right solution to the problems of tax relations.

The impact of taxes on the investment activity of enterprises is obvious. The investment climate created by the government, the options available to investors and the various tax regimes

adopted in the composition of the investment portfolio have an impact. Imperfect legislation in the tax system leads to a decrease in the rate of financial and economic growth of enterprises, and this, in turn, leads to a decrease in tax revenues to the state budget. In this regard, it is important to establish optimal profit-taxation relations when attracting investments.

Literature review

Profit tax has always been a cornerstone both in the formation and distribution of enterprise profits and for the purpose of forming budget tax revenues. Therefore, since the appearance of this tax, research has been constantly conducted, both by theorists and practitioners, aimed at observing the interests of taxpayers and the state.

Both theoretical and practical scholars conduct research using different approaches. Thus, Joel Slemrod believes that income received from leisure goods and accessories should be taxed at higher rates in favor of lower taxation of goods and services intended for work (Joel Slemrod, 1990) [1], and Daveri and Tabellini (Daveri, F. & Tabellini, 2000) [2], Mankiw et al. (Mankiw, 2009) [3] note that tax-induced distortions in firms' profit functions can also have consequences for the dynamic properties of the markets involved.

Tax rates in most countries around the world are non-linear and affect the share of net profit in gross profit, becoming equal to it if the company makes a loss or becoming a part of it if the company makes a profit (Noemi Schmitt & Jan Tuinstra & Frank Westerhoff, 2017) [4]. Christian J. Bauer and Dominika Langenmayr argue that transfer prices set at market prices based on the "market value" principle systematically exceed the marginal costs of multinational corporations, which leads to lower tax payments for each unit sold. Thus, the optimal organization of firms provides a new justification for the empirically observed lower tax burden of multinational corporations [5].

In both the legislative acts of Uzbekistan and in practice, taxation of profits of commercial banks is singled out as a separate category, noting that "all entities of the financial sector are participants in the relations of a taxpayer or tax agent regulated by tax legislation" [8]. Some scientists also single out insurance organizations as a separate group of taxation by profit tax, noting that "there are problems both in the taxation of insurers and in the taxation of policyholders... The mechanism of taxation of profits is very complex, when calculating taxable profits, many problems and questions arise" [9]. Research by individual authors is devoted to the analysis of changes in the tax on the profits of organizations, according to which the rates affect the volume of formed reserves for possible losses on a loan. In particular, the influence of the tax rate on the formation of reserves for possible losses on loans was of particular interest [10, 11].

Some researchers in their studies paid attention to the analysis of profit taxation from the aspect of the process of formation and distribution of profits, and, at the same time, the combination of the interests of enterprises, the state and employees of the enterprise [12, 13].

The multifaceted approach to profit taxation, and at the same time the general interest in studying this issue, suggests that serious research in this area will continue, since there are still many unresolved fundamental problems

Methods

The article examines and defines the impact of income tax on investment attraction as a guarantee of increasing the country's economy. Economic, comparative and statistical methods of analysis were used to determine the relationship between investment and income tax

Result and Discussion

In our opinion, the most important thing for ensuring the development of enterprises in the future should be a state guarantee in the context of implementing the principle of self-regulation and self-financing using tax instruments in order to ensure, on the one hand, the growth of innovative activities of enterprises, and on the other hand, the growth of profits remaining at their disposal. The

latter is an important factor in improving finances, ensuring the break-even point of enterprises, and creating additional jobs with high wages. The nature of the income tax is such that individual enterprises, using its existing mechanisms, immediately work for profit, and some in order to receive it later. At the same time, a rational system of taxation of enterprise profits should not be subject to any discrimination, but should treat everyone from the standpoint of efficiency and compliance with the principle of fairness [14], providing for a symmetrical status of positive and negative obligations to pay income tax. In our opinion, this should also assume that profitable enterprises should cover their income tax obligations constantly, and not only in the current period, and unprofitable enterprises, due to objective reasons, should have temporary tax deferrals (see: Table 1). The implementation of this principle, taking into account the development prospects of enterprises, can be carried out in various ways.

Table 1. Indicators that could determine temporary deferrals for enterprises*

#	Enter prise No.	Volume of sold products, million soums	Profit, million soums	Profita bility level, (in %)	Possible options for provision			
					deferrals: + yes, - no	exemption from income tax: - no; + yes	provision of tax relief: + yes; - no	Providing benefits to enterprises under state guarantee: + yes; - no
1	№1	1000,0	80,0	8,0	+	+	+	+
2	№2	1500,0	150,0	10,0	+	+	+	+
3	№3	2000,0	140,0	7,0	+	+	+	+
4	№4	2500,0	500,0	20,0	-	-	+	±
5	№5	3000,0	750,0	25,0	-	±	±	±
6	№6	3500,0	280,0	8,0	+	+	+	+
7	№7	4000,0	1200,0	30,0	-	-	-	-
8	№8	4500,0	1575,0	35,0	-	-	-	-
9	№9	5000,0	2000,0	40,0	-	-	-	-
10	№10	5500,0	495,0	9,0	+	+	+	+

* The table was compiled by the author using conventional figures.

As follows from Table 1, out of 10 inspected enterprises, only 5 enterprises need a deferment of profit tax payment, but they will also need other preferential business conditions. Only enterprises that have ensured a profitability level of 30% or more will not need preferential business conditions. Although, in practice, such enterprises, to the extent possible, are granted benefits or favorable economic conditions for business are created for them, which ultimately leads to the monopolization of product sales both on the domestic and foreign markets. Of course, such conditions are valued slightly higher than tax benefits.

Most of the surveyed specialists from manufacturing enterprises clearly expressed their opinion: it is better to create conditions for normal business management and access to sales of products outside the region or republic (90% of the total number of respondents).

Such a ratio confirms the low efficiency of enterprises. They, relying on the demand of the domestic market, only exist, but do not develop. In the long term, with low financial indicators, they will not be able to modernize enterprises, and this requires an immediate response from government authorities so that they, to the extent possible, implement measures that are essentially aimed at providing them with financial and credit support.

Deferral of payments, exemption from income tax and all other existing types of benefits.

Long terms within the framework of deferral of payment, benefits, etc. and insufficient activity of financial institutions providing (or establishing) such benefits are in themselves a serious

obstacle to influencing their financial activities, especially with the preservation of a high level of inflation (see: Fig. 1).

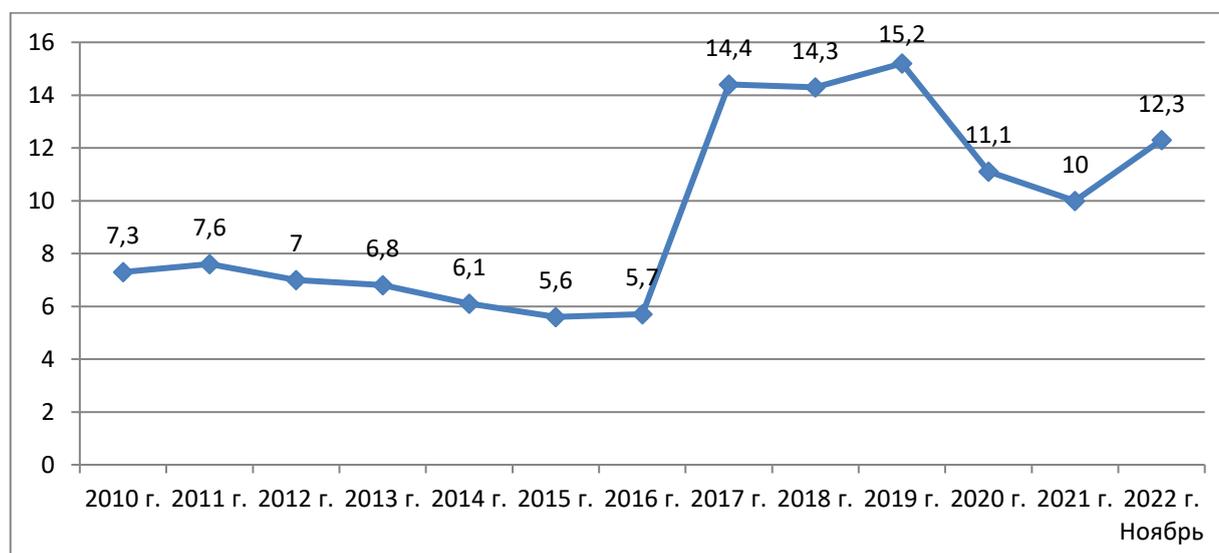


Fig. 1. Dynamics of changes in the inflation rate for 2010-2021 [15]

As follows from Fig. 1, in recent years it has not been possible to keep inflation at 10% or less. The consequences of the coronavirus pandemic, as well as the sanctions measures of various countries that have taken place in the last year, are becoming an obstacle. Although the state has decisively begun to develop measures to maintain the inflation rate to 10%, and in 2025 to reduce it to 6-7%.

An equally serious obstacle is associated with the distorted role of credit and the provision of credit benefits, which play an important role on the basis of which the financial policy of enterprises, their competitiveness and well-being are based.

In an economy with a predominance of various forms of ownership, in addition to state ownership, and competition, the possibility or impossibility of obtaining an additional loan or benefit in full, on time and at the right time and their conditions are the main factors determining the growth or freezing of investments, and, therefore, directly affect not only the growth of production, but also the modernization of its structure. Enterprises with a competitive advantage, whose existence and well-being depend on the possibility of obtaining and effectively using all preferential conditions provided by the state in accordance with the legislation, direct them to new investments, development of new production niches, attraction of the latest technologies in search of maximum profitability, which enables them, by determining the volume of production (including the volume of exports), to influence the level of economic activity of innovatively developing enterprises as a whole, as well as the growth of profits. The latter can contribute to the growth of budget revenues in the amount of profit tax. However, in the conditions of crises with the prevalence of high efficiency and in the conditions of almost complete liberalization of prices and the resulting high inflation of costs, the possibility of obtaining additional profits does not have the proper effect on the growth of investment in the activities of enterprises.

In modern economic conditions, the provision of various benefits (including subsidies) most often contributes to the conservation of the outdated production structure, since the planned unprofitability of many enterprises, the low nominal rate, in particular, on preferential loans, which turns into a negative real rate in the conditions of inflation, and the optionality of the return of the subsidy or loan in the long term cannot stimulate either modernization, or the introduction of new technology, or cost reduction, or the desire for innovation and profitability. And the latter determines the losses.

Loans received by enterprises are spent mainly on increasing wages and consumption. The

very receipt of the loan at the disposal of enterprises (according to the business plan of the enterprises) is actually predetermined by the increase in prices by enterprises. This means that the loan, in fact, like other benefits, does not have an active influence on economic processes, as a result of which financial authorities do not have the opportunity to use them as an effective tool for regulating the receipt of income tax (see: Table 2).

Table 2. Budget revenues from income tax from preferential enterprises [16]

#	Name of enterprises	Types of benefits				Increase in profit compared to the reporting year						
		on income tax	on credit	Subsidies	Grants	2018	2019	2020	2021	2021 change in relation to:		
										2018	2019	2020
1	№1	+	-	-	-	12,4	11,1	10,7	9,2	-3,2	-1,9	-0,5
2	№2	+	+	-	-	9,7	9,4	9,1	8,4	-1,3	-0,9	-0,7
3	№3	+	-	+	-	6,3	6,8	7,9	7,4	+1,0	+0,6	+0,2
4	№4	+	-	-	-	7,2	7,6	8,3	8,4	+1,2	+0,8	+0,1
5	№5	+	+	-	-	11,7	10,8	10,2	10,5	-1,2	-0,3	+0,3
6	№6	+	+	-	-	16,4	15,3	14,4	12,1	-4,3	-3,2	-2,2
7	№7	+	-	-	+	15,2	15,8	16,4	16,5	+1,3	+0,7	+0,1
8	№8	+	-	-	-	8,4	9,5	9,7	10,3	+1,9	+0,8	+0,6
The share of benefits to the total number (in %)		100,0	38,4	12,2	12,2	-	-	-	-	-	-	-

As can be seen from the data in Table 2, for 2018-2021, profit growth occurred at enterprises No. 3; No. 4; No. 7 and No. 8. In addition, partial growth compared to 2020 was observed at enterprises No. 3, No. 4, No. 5. In other cases, no growth was observed, since no synergistic growth was observed. This just confirms that those who use benefits are not able to maintain the growth rate in relation to the reporting year. This, of course, indicates a loss of profit and the receipt of income tax in the budget. Only by studying the state of enterprises that are payers of income tax can one make the right decision. In our example, more than 61.6% of enterprises without any benefits were able to maintain the growth that they had in the reporting year compared to the previous one. In addition, as follows from the data in Table 2, most enterprises even provided an increase in profit compared to the previous year, but the levels of increase were insignificant. This once again confirms the need to unify the system of benefits provided to enterprises that are payers of income tax. From this we can conclude that today benefits do not play a special role in the activities of enterprises, other than that assumed by the scheme for regulating the activities of enterprises, according to current legislation.

In this regard, in the long term, the main focus should be on improving the system of taxation of profits rather than on providing benefits that do not bring a synergistic effect. The taxable base and those benefits that can have a positive impact on the financial activities of enterprises should be re-proposed and unified.

It follows that the current system of taxation of profits provides for a wide range of benefits for profit tax depending on different segments of the activities of enterprises: from the strategic importance of enterprises, specialization of enterprises, restructuring of capital of enterprises, location of enterprises, etc.

Consequently, as the market environment improves, the presence of many benefits not only

complicates the calculation of the profit tax itself, but also gives rise to certain methodological inaccuracies that need to be unified in the long term, difficulties in ensuring the principle of fairness for the payer of the profit tax, as well as conditions for evading the payment of the profit tax. In the long term, benefits in the form of exemption from profit tax should not be extended to strategically important capital-intensive or innovatively non-developing enterprises that are initially unable to recoup their costs within the established short preferential periods, and, therefore, have synergistic profit to ensure the development of innovative activities of enterprises exempt from taxation, in particular, profit. Therefore, for this category of enterprises, new conditions for the provision of benefits should be established in the long term. The experience of market-developed countries shows that there is experience of covering previous losses with profits of recent periods. There is even a permit for a limited carryover of losses to previous periods. Moreover, tax losses of the current year should not exceed the amount of taxes previously paid. At the same time, the return of taxes paid is also practiced. The opposite, for example, covering losses of the reporting period with profits of previous years took place in market-developed countries such as the USA, Great Britain and Turkey, during the liquidation of enterprises that are payers of such a tax.

Conclusion

In our opinion, now, when the taxation system is being improved, according to the Concept adopted in 2018, it would be fair to replace simple, in the broad sense of the word, exemption from income tax with a loss carryover mechanism. The latter seems more unified and more logical and fair.

It follows that in the future, enterprises that have made a profit can evade tax payments to the budget. With this approach, profitable enterprises can automatically become income tax payers, and unprofitable enterprises, reducing the tax base for subsequent periods by deducting losses from previous years from the actual base, can receive tax relief in the future. This can create in the future the full implementation of the principle of compliance with tax justice in the life of enterprises more accurately for profitable and unprofitable (loss-making) enterprises. Consequently, the introduction in the future of a loss carryover mechanism at profitable enterprises can contribute to the functioning of uniform tax benefits and a more rational provision of income tax benefits. It is the creation of such conditions that can provide enterprises that are payers of the profit tax with a synergistic effect.

The main parameters of this mechanism are the following: the predominance of profitable and competitive enterprises, the presence of a labor market, material resources and finished products for the population or domestic and foreign markets; the obligation to pay the profit tax to the budget on time, the operation of the loss-making (unprofitability) mechanism, a developed payment system, in which the profit tax, entering the budget revenues, is converted with the help of banks into money supply within a few days, and not months, as is the case in the current conditions. Only under these conditions, planning the volume of profit tax receipts to the budget revenues (and fixing the parameters of other tax regulation instruments), the state will simultaneously be able to assess with a sufficient degree of accuracy what the resulting growth in tax revenues will be, simultaneously with a decrease in the rate of inflation and the activation of enterprise activity.

At the same time, the classic task of financial management bodies and the main criterion of efficiency is to ensure a healthy, non-inflationary economic climate and the resulting value of enterprises. In the long term, this will allow the implementation of a unified taxation system, which will help attract investment based on our own financial resources

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