



IMPROVING TAXATION OF ENTERPRISES WITH PARTICIPATION OF FOREIGN INVESTMENTS IN UZBEKISTAN

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Article history:

Received: 20th October 2024

Accepted: 11th November 2024

Abstract:

The article is devoted to the investigation of the special role of enterprises and joint ventures with participation of foreign investment in the economy of the Republic of Uzbekistan. In addition, the article analyzes some features of taxation of the activities of enterprises and joint ventures with the participation of foreign investments.

Keywords: enterprise, joint venture, investment, investment policy, tax, tax incentives

INTRODUCTION

Enterprises and joint ventures with participation of foreign investments play a particular role in the economy of the Republic of Uzbekistan. Establishing enterprises of this form is one of the main ways of attracting investments to the country.

The following considerations have been expressed at a videoconference meeting chaired by the President of the Republic of Uzbekistan Shavkat Mirziyoyev on January 18 to discuss priority objectives in the investment, export and industry sectors in 2024: Strategy "Uzbekistan - 2030" sets the goal of enhancing the country's gross domestic product up to 60 billion USD and per capita income up to 4000 USD. This result cannot be achieved only through the domestic market; the main thing is to actively attract foreign investment and increase exports. Over the past six years the Republic of Uzbekistan our country has received almost 50 billion USD in foreign investment. Last year both gross domestic product and industry grew by 6 percent.

The President of the Republic of Uzbekistan Shavkat Mirziyoyev in his speech also touched upon efficiency of investments and future plans. Over the past six years, the volume of investments attracted to the industry of the Republic of Uzbekistan has increased 7 times. Or in the last three years the equipment worth 14 billion UZS has been imported from abroad. However, industrial performance, jobs created and value added have not increased accordingly. Enterprises and equipment launched in a number of regions and sectors did not influence the export result¹.

Furthermore, the issue of attracting investments in the economy of the Republic of Uzbekistan is reflected in the Development Strategy of New Uzbekistan for 2022-2026: "To further improve the investment

climate in the country and raise its attractiveness, to undertake measures to attract 120 billion USD including 70 billion USD in the next five years. In addition, it is crucially important to establish a new system based on the "bottom-up" principle for the effective use of investments and increasing export volumes. Implementation of the strategy of attracting foreign and domestic investments until 2026. Attracting investments worth 14 billion USD in energy, transport, healthcare, education, ecology, communal services, water management and other sectors on the basis of public-private partnership.²

In his speech at the Uzbekistan-China Investment Forum, the President of the Republic of Uzbekistan emphasized the rapid growth and expansion of trade, economic and investment cooperation between the two countries. In particular, the volume of mutual trade has doubled in recent years reaching the peak of 14 billion UZS in 2023. The President of the Republic of Uzbekistan once again noted that there is an opportunity to increase this figure to 20 billion USD in the coming years, including by expanding mutual supplies of agricultural and industrial products and concluding a new intergovernmental agreement on establishing preferential trade for certain types of products. Total investment of China in Uzbekistan exceeds 14 billion UZS and the number of enterprises with Chinese investment has tripled³.

As a result of the openness and strong investment policy in Uzbekistan the economy is growing steadily. In particular, in 2024 the gross domestic product has increased by 6.5 percent and has reached 115 billion USD. Foreign investment increased by 1.6 times and

² Decree of the President of the Republic of Uzbekistan dated January 28, 2022 №-60 "On the Development Strategy of the New Uzbekistan for 2022–2026" .

³ President of Uzbekistan participated in the Uzbekistan-China Investment Forum. 25.01.2024.<https://president.uz/uz/lists/view/6994.4.03.2024>

¹President of the Republic of Uzbekistan Shavkat Mirziyoyev. Objectives in the fields of investment, export and industry have been set. 18.01.2024. <https://president.uz/uz/lists/view/6975>.



amounted to nearly 35 billion USD. 242 large and medium-sized projects with a value of 10 billion USD have been launched. It was the first time when exports reached 27 billion USD dollars⁴.

LITERATURE REVIEW

It should be noted that the issues of investment, investment policy, preferential taxation of foreign investments are interpreted in different ways in the economic literature.

In the Republic of Uzbekistan investments are regulated by the Law of the Republic of Uzbekistan №LRU - 598 "On Investments and investment activities", approved on December 25, 2019. This law provides definitions of key concepts related to investments and investment activities. In particular, "investment policy is a set of interrelated measures aimed at ensuring the necessary level and structure of investments in the economy of the Republic of Uzbekistan and its individual sectors, increasing the investment activity of investment entities, aimed at finding investment sources and identifying priority sectors for their use" (2019).

The scholar-economist Sh.I. Mustafakulov has analyzed the factors affecting investment activity, investment potential and investment attractiveness in his research. "One of the most essential and necessary issues in regulating investment activities is the optimal distribution of enterprises with foreign investment across the regions. Such factors as the natural conditions of the regions, the business environment created there, social, political, organizational and administrative principles are fairly established, the population's passion for doing business and entrepreneurship, risk propensity and the skills of labor resources, the existence of various institutional structures, as well as their development is one of the important conditions that demonstrate investment attractiveness" (Mustafakulov, 2017).

N.R.Kuzieva in her research paper made a number of proposals to further encourage the attraction of foreign investments to the free economic zones operating in the Republic of Uzbekistan and to further improve the mechanism of efficient implementation of tax and customs incentives provided to enterprises with foreign investments (Kuzieva, 2017).

According to B.K. Tukhliev, in order to expand the flow of foreign direct investments it is appropriate to apply all kinds of taxes, customs fees, and preferences to foreign investors until they fully utilize their production

capacity. It is preferable to implement foreign direct investments after the full utilization of production capacities with the special application of the preferential taxation procedure (Tukhliev, 2021).

A.A. Kozlova and E.N. Kharlamova recognized two forms of *эпу пщмукъу* support for the investment activity of economic entities: direct stimulation, which represents the allocation of funds from the state budget, and indirect stimulation, which is encouragement through taxes (Kozlov et al., 2018).

V.M. Avdeeva stated that the promotion of investment activity on the basis of foreign experience is as follows:

1. Provision of tax incentives on profit tax.
2. There is a necessity to review and change the procedure and conditions for issuing investment tax credits.
3. Introduction of additions and amendments to tax legislation from the point of view of developing, approving and introducing additional norms for encouraging investments in the activities of the entities engaged in innovation-based and high-tech activities, etc. (Avdeev, 2021).

M.Yu. Lev, A.I. Bolonin, and Yu.G. Leshenko explain the incentive aim of the tax administration as follows: "Recently particular attention has been paid to "incentive taxation." It includes numerous initiatives aimed at providing incentives for business income and establishing rewards and penalties to stimulate production. The purpose of the preferential regime is to encourage the required flow of investment activity in the necessary area. Several types of incentives are provided to encourage investment activities as part of incentive taxation (Lev, et al., 2022).

RESEARCH METHODOLOGY

The methodology of this research is economic relations related to the specific features of taxation of enterprises and joint ventures with participation of foreign investment. Such methods as comparison and grouping of practical materials have been widely used in the research process.

RESULTS AND DISCUSSION

There are several specific features of taxation of enterprises and joint ventures with participation of foreign investments. Among the incentives and preferences used for the government support of investments and investment activities, tax and payment concessions are of significant economic importance.

Year by year the number of enterprises operating with the participation of foreign capital is increasing in the Republic of Uzbekistan (Table 1).

⁴ President of the Republic of Uzbekistan Shavkat Mirziyoyev. Main tasks for investment and export have been set. January 16, 2025. <https://president.uz/uz/lists/view/7825>.



Table 1

Number of enterprises operating with foreign capital in the Republic of Uzbekistan over the years⁵

Enterprises with participation of foreign capital	As of January 1, 2019	As of January 1, 2021	As of January 1, 2022	As of January 1, 2023	As of January 1, 2024
Joint ventures	4 006	5 672	5 988	6 419	4 657
Foreign enterprises	3 554	6 109	7 301	9 382	9 396
Total:	7 560	11 781	13 289	15 801	14 053

⁵ The table has been developed by the author.

As of January 1, 2019, the number of such enterprises was 7560 and as of January 1, 2024 this indicator accounted for 14053, of which 4657 were joint ventures and 9396 were foreign enterprises.

In 2023, the volume of direct investments in Uzbekistan decreased by 16 percent, i.e. from 2.6 billion UZS to 2.2 billion UZS. The ratio of the current account deficit to GDP reached a historical maximum - 8.6 percent (7.8 billion USD).

At the end of 2023, the volume of direct investments in Uzbekistan was less than in the previous two years, according to balance of payments data published by the Central Bank.

In 2021 the net inflow of direct investment into the country amounted to 2.3 billion USD and in 2022 the figure increased up to 2.6 billion USD, but by

the end of 2023 it decreased by 425 million USD and accounted for 2.2 billion USD (-16 percent) (Figure 1).

Over the past five years, only in 2020, when the world challenged the coronavirus pandemic, was there a decline in direct investment flows. At that time, the economic growth rate of Uzbekistan slowed to 2 percent.

In 2023 the volume of portfolio investments amounted to almost 1 billion USD. This figure is justified by the issuance of 4.25 trillion UZS of "green" sovereign international bonds in October and 660 million USD in international bonds. In 2023 the volume of investments in fixed assets in the Republic of Uzbekistan amounted to 352.1 trillion UZS.

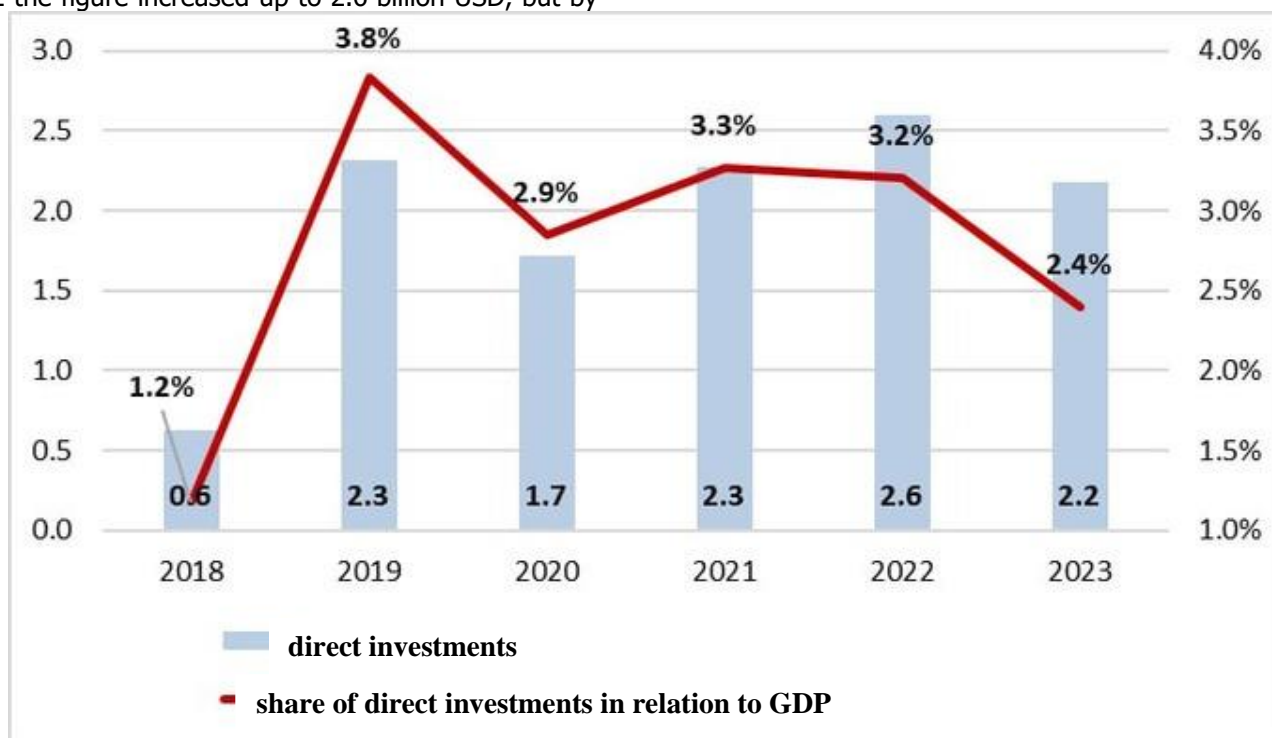


Figure 1. Amount of direct investments and their share in GDP in the Republic of Uzbekistan in 2018-2023

According to the preliminary data of the Statistics Agency, the share of total foreign investment and loans made in the fixed capital reached 53.4 percent.

China is leading among investor countries with the highest share in the total volume of foreign investments and loans made - 25.6 percent⁶.

⁶ The country with the highest share in the volume of foreign investment in Uzbekistan has been revealed. <https://kun.uz/kr/news/2024/02/24/ozbekistonda-ozlashtirilayotgan-xorijiy-investitsiya-hajmida-ulushi-yuqori-davlat-malum-boldi>.

Tax incentives are provided to support enterprises with foreign capital operating in Uzbekistan. Specific features of the application of certain tax incentives are provided for legal entities that are established with the attraction of direct private foreign investment and specialize in the production of goods according to the list approved by the law.

Tax incentives are provided in the form of exemption from paying land tax, property tax and tax for using water resources depending on the amount of private foreign direct investments made to these entities for a specified period.



One of the conditions for the application of these tax incentives is to reinvest minimum 50 percent of the income received during the period of their

Table 2 demonstrates that the majority of taxpayers spent the funds generated as a result of the used tax incentives to attract investments for the purpose of developing their activities.

Table 2

Amount of tax incentives and investments attracted by large taxpayers in 2022, billion UZS²⁸

№	Company	Total tax incentives used by companies	Investments attracted
1.	"Navoi Mining and Metallurgical Combine" JSC	8482,4	1467,4
2.	"Uzbekistan Airways" JSC	1770,6	122,2
3.	"Uz-Kor Gas Chemical" JSC	1249,4	225,6
4.	"UzAuto Motors" JSC	785,8	1048,4
5.	"SANOAT ENERGETIKA GURUHI" LLC	619,9	372,9
6.	"Navoiyuran" Public Enterprise	556,3	277,2
7.	"Navoiyazot" JSC	518,7	5093,3
8.	"UzAssets investment company" JSC	497,4	112,9
9.	"Uzbekneftgaz" JSC	74,8	7609,2
10.	"JIZZAKH TEXTILE" LLC	38,5	11,9

For example, in 2022 "Navoi Mining and Metallurgical Combine" JSC ranked first in Uzbekistan in terms of tax incentives used across all types of taxes, with funds generated in the amount of 8482.4 billion UZS. The total amount of funds allocated to the enterprise for new technologies, construction and renovation of buildings and structures amounted to

application as a result of providing tax incentives for further development of production.

1467.4 billion UZS. It is obvious that "Uzbekistan Airways" JSC used tax incentives totaling 1,770.6 billion UZS last year and directed investments of 122.2 billion UZS to expand its operations.

CONCLUSION AND PROPOSALS

Enterprises and joint ventures with participation of foreign investments play a particular role in the economy of the Republic of Uzbekistan. Establishing enterprises of this form is one of the main ways of attracting investments to the country.

There are several specific features of taxation of enterprises and joint ventures with participation of foreign investments. Among the incentives and preferences used for the government support of investments and investment activities, tax and payment concessions are of significant economic importance.

As a result of the conditions created to support enterprises and joint ventures with foreign investments, their number is increasing year by year. As a result, the volume of investments is also increasing.

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²⁸ Developed by the author based on the data of the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan



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