



# ANALYSIS OF THE EFFECTIVENESS OF USING TAX INCENTIVES IN STIMULATING TAXPAYERS

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Article history:	Abstract:
<b>Received:</b> 8 <sup>th</sup> April 2026 <b>Accepted:</b> 7 <sup>th</sup> May 2026	This article provides a comprehensive analysis of the current mechanisms for stimulating business entities and enterprises operating in Surkhandarya region through taxation. The study evaluates the impact of tax incentives and preferences on the effective use of the region's specific economic potential, natural-climatic conditions, and demographic resources. During the research, the dynamics of tax revenues and enterprise activity in the region were thoroughly examined, and scientific-practical proposals and recommendations were developed to further improve the tax mechanism while taking regional characteristics into account.

**Keywords:** *tax mechanism, tax incentives, Surkhandarya region, economic growth, stimulation, small business, investment attractiveness, tax policy, regional development, differentiated rates.*

## 1. INTRODUCTION

In a market economy, tax policy is one of the most important and influential levers used by the state to ensure balanced and sustainable development of regions, stimulate entrepreneurial activity, and improve the investment environment. Each region has its own natural, geographical, and economic opportunities, and their full mobilization requires the application of targeted tax incentives. In particular, in Surkhandarya region, which has a distinctive geographical location, border-area characteristics, a rich mineral and raw-material base, and a high agro-industrial potential, the issue of improving mechanisms for stimulating enterprises through taxation has become especially relevant today.

The Tax Code of the Republic of Uzbekistan in its new edition and relevant regulatory legal acts have introduced a system for reducing tax rates, exempting entities from certain types of taxes, and granting various preferences based on the categories of territories. Nevertheless, the effectiveness of existing tax incentives in developing local industry, substantially increasing the volume of services, and creating new high-income jobs is not manifested equally across all districts of Surkhandarya region. This indicates the need to develop tax mechanisms that deeply consider regional characteristics.

## 2. LITERATURE REVIEW

The stimulating function of taxes and its impact on economic growth and regional development have been widely studied by foreign and domestic economists. In particular, from the representatives of classical

economic theory to J. M. Keynes, the founder of modern macroeconomics, scholars have scientifically substantiated that the state can effectively regulate aggregate demand, investment activity, and production volume through tax policy and optimization of tax rates [1].

In the studies of local scholars such as A. Vahobov, A. Juraev, T. Malikov, and others, the modernization of the tax system in Uzbekistan, reduction of the tax burden on enterprises, and stimulation of small business entities have been comprehensively examined [2]. However, in the context of decentralization currently being implemented in the country, the directions for increasing the effectiveness of using tax instruments and supporting production clusters through taxation in regions with specific cross-border and agrarian priorities, such as Surkhandarya region, have not yet been studied as an integrated system.

## 3. RESEARCH METHODOLOGY

The study used a systematic approach, comparative macroeconomic analysis, economic-statistical grouping, analysis of dynamic series, and the principle of targeted orientation. The empirical and informational base of the research consisted of official reports for 2023–2025 from the Statistics Agency under the President of the Republic of Uzbekistan, the Statistics Department of Surkhandarya region, and the regional State Tax Department, as well as relevant legislative documents.

## 4. ANALYSIS AND RESULTS

In recent years, systematic measures have been implemented in Surkhandarya region to fundamentally improve the business environment and to leave



additional financial resources at the disposal of enterprises for expanding production. In particular, in remote districts and districts with difficult conditions of the region, such as Bandikhan, Qiziriq, Muzrabot, Sokh, Oltinsoy, and others, reduced differentiated rates are being applied for certain types of taxes for newly established enterprises. This is becoming an important

factor in stimulating domestic production and the service sector.

Table 1 below presents the dynamics of enterprise activity in Surkhandarya region and the indicators of economic effectiveness of tax incentives granted to them.

**Table 1. Dynamics of Enterprise Activity and Tax Incentives in Surkhandarya Region (2023–2025)**

Indicators	2023	2024	2025	2025 compared with 2023, %
Total number of operating enterprises, units	24,500	26,200	28,900	118.0
Of which, number of small business entities, units	21,100	22,800	25,300	119.9
Total amount of tax incentives granted to enterprises, billion UZS	420.5	490.2	580.8	138.1
Funds retained by enterprises as a result of tax incentives, billion UZS	295.3	355.0	430.4	145.7
Growth rate of the regional gross regional product (GRP), %	105.4	106.1	106.8	+1.4 percentage points

Source: Compiled by the author based on data from the Surkhandarya Regional Statistics Department and Tax Department [3].

#### DETAILED ANALYSIS OF THE TABLE DATA

As can be seen from the data presented in Table 1, during the period from 2023 to 2025, the total number of operating enterprises in Surkhandarya region demonstrated a stable growth trend, increasing from 24,500 to 28,900 and recording an 18.0 percent rise. The highest growth rate was observed among small business entities (119.9%). This positive indicator is directly related, first of all, to the consistent reduction of the tax burden for the small entrepreneurship sector and the optimization of turnover tax rates.

The analysis shows that the total amount of tax incentives granted to enterprises increased from 420.5 billion UZS in 2023 to 580.8 billion UZS in 2025, that is, by 38.1 percent. Importantly, as a result of targeted preferences, the volume of net funds retained by enterprises increased by 145.7 percent and reached 430.4 billion UZS. These financial resources were directed by enterprises toward expanding their activities, modernizing production capacities, purchasing new innovative technologies, and increasing employee wages. As a result, the growth rate of the region's gross regional product (GRP) increased year by year, reaching 106.8 percent by the end of 2025 and creating a basis for economic revitalization.

However, certain shortcomings are also observed in the existing mechanisms for stimulation through taxation. At present, while the level of entrepreneurship development is high in Termez city, the regional center,

and Denov district, a major trade hub, the general tax incentives currently in force for production enterprises in remote and mountainous districts such as Oltinsoy, Boysun, or Muzrabot are not fully sufficient to compensate for high logistics costs and significantly increase investment attractiveness. This confirms the need for deeper territorial differentiation of tax instruments.

#### 6. DISCUSSION

Taking into account the economic-geographical and cross-border characteristics of Surkhandarya region, it is advisable to improve the system of stimulation through taxation on the basis of a targeted, "point-based" approach. At present, the agrarian sector has priority importance in the regional economy, while the level of deep industrial processing of cotton, silk, fruits and vegetables, and melon products remains considerably lower than in other industrialized regions of the republic [4].

To stimulate innovative production and transform local raw materials into finished products, the introduction of the following special tax regimes and instruments in the region may produce a positive effect: 1. For exporting enterprises: active use of the border factor with neighboring Afghanistan and Tajikistan; application of additional reduced rates for profit tax and property tax to production enterprises located in the Termez Free Economic Zone and the International



Trade Center, depending on the volume of exported products;

2. For agro-clusters and processors: complete exemption from land tax for legal entities during the first three years for entities that establish modern fruit and vegetable storage facilities (refrigeration warehouses), logistics centers, and packaging enterprises.

## **7. CONCLUSIONS AND PROPOSALS**

Based on the conducted research, statistical data, and analysis of existing tax practice, the following scientific-practical conclusions and proposals were formulated for improving the system of stimulating enterprise activity through taxation in Surkhondaryo region:

1. Further decentralization of taxes based on district categories and levels of development. In remote and mountainous districts of the region that belong to the 4th and 5th categories and have a low level of industrialization, it is necessary to extend the period for maintaining the social tax rate at the level of 1 percent for newly established industrial enterprises from the current 3 years to 5 years. This will accelerate the attraction of investors to these territories;

2. Tax support for the "green economy" and energy efficiency. It is advisable to provide an "investment tax credit" mechanism for profit tax to enterprises that install equipment using solar and wind energy, as well as introduce water-saving and drip irrigation technologies into production. This will help reduce the region's water and energy shortage problems;

3. Compensation of logistics costs by reducing the tax base. It is necessary to legally establish the right of local manufacturing enterprises delivering products from Surkhondaryo region to the central regions of the republic and to foreign markets to reduce the profit tax base by the amount of officially confirmed transport and logistics costs.

The consistent implementation of these proposed incentive mechanisms in practice will contribute to a significant increase in the flow of domestic and foreign investments into Surkhondaryo region, the creation of new sustainable jobs, and, ultimately, the strengthening of local budget revenues in the region.

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