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CHANGING THE TAX SYSTEM TO INCREASE THE EFFICIENCY OF THE ACTIVITIES OF NATIONAL ECONOMIC ENTITIES

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Abstract: This article explores the impact of tax system reforms on enhancing the efficiency of national economic entities. It emphasizes the introduction of a capital-based taxation model and local tax incentives as key mechanisms to stimulate investment, production renewal, and innovation. The study proposes an analytical model that examines the relationship between taxation, profit distribution, and investment decisions of enterprises. Findings indicate that simplifying the tax system reduces administrative burdens, encourages reinvestment, and strengthens the competitiveness of enterprises. Additionally, the paper highlights that systematic and balanced implementation of tax reforms—supported by institutional improvements—can generate long-term economic benefits despite short-term fiscal adjustments. The research underscores the necessity of aligning taxation policy with the strategic goals of economic modernization and sustainable development.

Keywords: tax reform, capital tax, investment incentives, production renewal, economic efficiency, profit distribution, innovation, sustainable development, Uzbekistan, fiscal policy

Introduction

In the context of dynamic global economic transformations, the effectiveness of a nation's tax system plays a pivotal role in ensuring sustainable growth, stimulating investments, and enhancing the competitiveness of domestic enterprises. The tax policy of a country not only determines the level of fiscal stability but also serves as a strategic tool for regulating entrepreneurial activity, innovation, and capital formation. In recent years, the focus of many economies, including Uzbekistan, has shifted toward reforming taxation systems to encourage production renewal, investment expansion, and modernization of enterprises.

The modernization of the tax framework—particularly through the introduction of capital-based taxation and local tax incentives—represents a crucial step toward fostering an investment-friendly environment. Rather than simply aiming to reduce the tax burden, such reforms seek to improve the structure of profit distribution and reinvestment by excluding certain categories of investments from the tax base. In doing so, the system promotes productivity growth and stimulates the use of advanced technologies.

However, the transition to a more investment-oriented tax model requires a careful balance between fiscal revenues and business incentives. International experience shows that while initial stages of reform may lead to temporary declines in tax revenues, the long-term benefits often include increased innovation, industrial renewal, and enhanced economic efficiency. Therefore, the development of an optimal taxation model—one that supports reinvestment, minimizes administrative barriers, and ensures fairness across enterprises of different sizes—is essential.

This study examines the conceptual and practical aspects of changing the tax system to increase the efficiency of national economic entities. It focuses on modeling the relationship between

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taxation, profit distribution, and investment behavior of enterprises. The proposed analytical framework aims to identify how different tax mechanisms—such as profit taxes, capital withholding taxes, and local incentives—affect production renewal, innovative activity, and overall economic growth. Ultimately, this research underscores the necessity of comprehensive, systematic tax reforms that align fiscal policy with the strategic priorities of sustainable development and economic modernization.

Main part

The change of the taxation system, in particular, along with the introduction of local tax incentives, promotes an approach aimed at encouraging entrepreneurs to invest, in particular, to renew production. The purpose of applying this approach is not to reduce the tax burden on profits, but to stimulate the renewal of production by removing investments from the tax base.

The basis of this method is expressed in the following:

1. Simplification of the tax system. The complexity and high administrative costs of the existing taxation system are taken into account. Changing this system reduces administrative costs for entrepreneurs, reduces bureaucracy and subjectivity in the tax sphere.

2. Stimulation of investments. By introducing a tax on capital, the tax system stimulates the renewal of production, thereby making it possible to modernize the economy.

The introduction of a tax on capital stimulates investments by not taxing undistributed profits. In this case, increased investment is stimulated by not taxing retained earnings. Simplification of taxation and reduction of tax administration costs are beneficial for entrepreneurs. The complexity of the introduction of financial reporting and the need for highly qualified personnel in tax authorities are shown.

International and national experience shows that there are several successful mechanisms for implementing internal control rules. At the same time, tax reforms carried out in other countries show the following trends:

- reduction in tax revenues. In the initial stages, tax revenues may decrease. Therefore, mechanisms should be in place to compensate for this decrease. However, if this mechanism does not work effectively, the investment climate may deteriorate.

2. Replacement of public-private partnerships. States prefer to replace mutual partnerships with military corporations, since this plays an important role in creating a new economic structure.

3. Systematic reforms: The implementation of military corporations should be systematic and not seen as a temporary measure. It is also important that it be implemented in conjunction with other economic reforms.

The difficulties in introducing a capital tax are generally manifested in the following:

Uncertainty in measuring economic impacts. When accounting for non-taxable investments, it is necessary to take into account the growth of production, labor productivity and value added due to moral and physical renewal. Thus, extrapolation methods may not give good results in assessing the effectiveness of investments.

Multiplier effect. New investments create a multiplier effect in the economy, that is, through them additional income and economic growth are interconnected, and economic indicators are the result of more positive development.

The proposed models take into account the factor of increasing the productivity of funds and the multiplier effect. Each model is developed on the basis of its own details and general principles, but all proposals provide for variables that indicate the profitability of investments and overall

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economic growth.
Efficiency of the capital tax. If the tax system is clear and simplified, investment promotion and management of innovative activity will be more effective.
Freedom of choice for entrepreneurs. Through the tax system, entrepreneurs have the freedom to choose the most profitable investment areas for themselves, which. helps to diversify the market.
By introducing a capital tax and providing local tax incentives, the efficiency of the tax system can be increased. This not only stimulates investment, but also serves to renew production and develop innovative activity. However, when applying this approach, it is necessary to deeply analyze its positive and negative effects, since certain systematic and comprehensive reforms are necessary to achieve full efficiency.
Using the given formulas and parameters, it is possible to model the tax impact on profit distribution and investment for an enterprise. Using the following terms and their interrelationships, it is possible to analyze what decisions a company makes over time and how it responds to the impact of the tax system:
ti – moment i of time;
ri = r(ti) – enterprise profit at moment i of time;
α – share of profit going to dividends;
1- α – share of profit directed to investments in production;
a – coefficient of increase in income;
τ – tax burden (on profit or dividends, depending on the type of taxation);
di =d(ti) – dividends at moment i of time before taxation;
b_i^p=b^p (t_i) – tax deductions (budget revenues) at moment i of time after taxation on income tax, including,
b_i^pd=b^pd (t_i) – tax deductions from dividends at moment i of time after taxation on income tax;
b_i^pg=b^pg (t_i) – tax benefits on investments in production at the same time after taxation on income tax;
d_i^p=d^p (t_i) – dividends at the i-th moment of time after income tax is paid;
d_i^d=d^d (t_i) – dividends at the i-th moment of time after taxation on withheld capital tax;
θ_i^d=θ^d (t_i) – tax deductions from dividends at the i-th moment after taxation on withheld capital tax (budget revenues);
gi = g(ti) – investments in production at the i-th moment of time before taxation;
g_i^p=g^p (t_i) – investments in production at time i after taxation on profit tax;
g_i^d=g^d (t_i) – investments in production at time i after taxation on capital withholding tax;
θ_i^g=θ^g (t_i) – tax benefits (budget revenues) on investments in production at time i after taxation on profit tax;
For economic reasons, we assume that $0< \tau <1$, $0\leq \alpha \leq 1$, $\alpha >1$, that is, there is a tax burden, but it is clear that it is not 100%, and funds for dividends and investments can be distributed without restrictions within the profit. At each step, the funds directed to production will certainly allow growth.
This model helps to determine the optimal profit distribution and investment strategy for the enterprise through the tax system and investment incentives. Also, the tax burden and the share of profits in dividends play a large role in the decisions of the enterprise, which affects the growth rate and profitability of the company.

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In fact, this is logical - we propose to use a tax on the capital invested in order to renew production and increase its efficiency. However, after production reaches a sufficient level of productivity, the need for a tax on the capital invested in it disappears. As can be seen from Figure 1 below, there is a limited zone, which expands with increasing tax burden, within which it is financially more profitable to apply income tax. As the value of the multiplier increases, this zone expands: it begins for a smaller share of investment in production and continues for a larger tax burden.

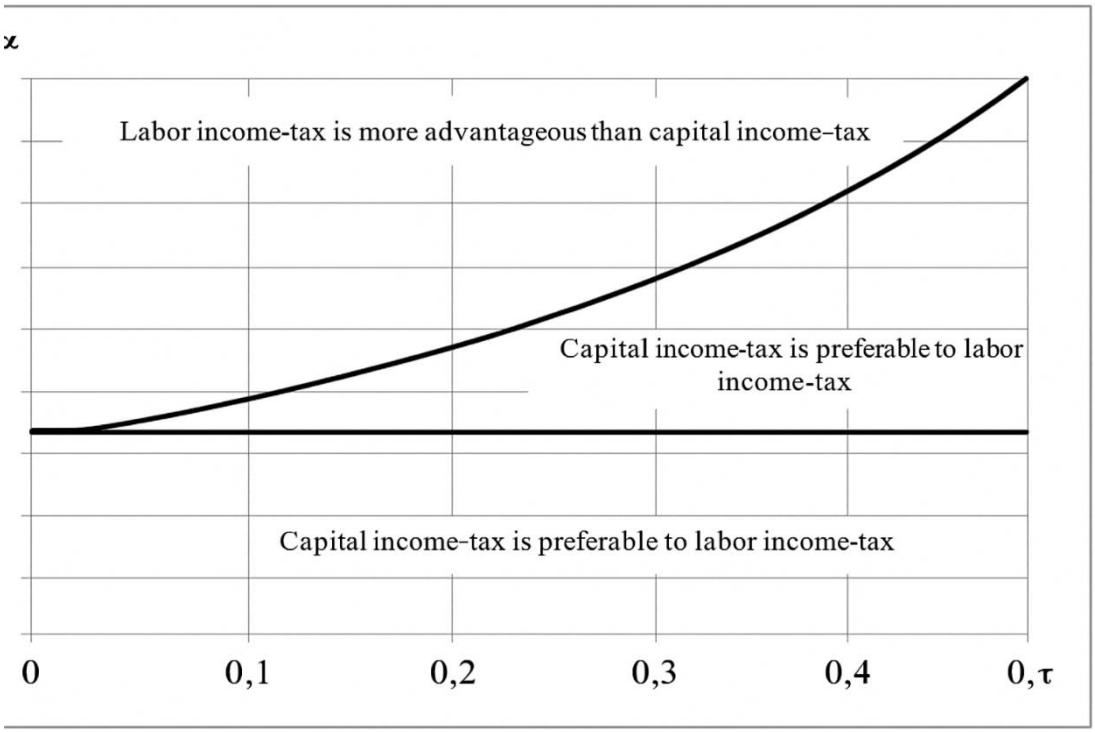

Figure 1. Priority zones for the application of income tax and withholding tax (for a multiplier of 2).

According to the above analysis, it is necessary to consider important aspects related to the tax system of production and investment activities.

Profit tax and dividend distribution. If an enterprise focuses on dividend distribution and abandons reinvestment, profit tax will bring more profit. This situation, in fact, forces the enterprise to make a decision between limited profit and investment.

At the same time, the introduction of a tax on withdrawn capital will help to change the redistribution of profit in favor of investment. In this case, if the enterprise seeks to renew funds, that is, to direct them to investments, the capital tax system can be effective, since this tax will stimulate investment and allow the use of new technologies.

Changing the tax system for the renewal of the capital base. The study emphasizes that the taxation system in Uzbekistan should be changed in relation to large enterprises. Such changes should be implemented, in particular, in order to renew production and increase its efficiency.

Large enterprises, as a rule, have large fixed assets, which are able to attract more investments. Small enterprises, on the other hand, operate with more working capital and may benefit less from this type of tax mechanism.

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Categories of enterprises and profitability. Enterprises can be divided into different categories, for example, depending on their size and level of profitability. The difference between large and small enterprises is more related to interests, which determines how to structure taxation mechanisms.
The profitability indicators of the enterprise determine how to allocate investments. Highly profitable enterprises require support for efficient and innovative technologies. Low-profit enterprises, on the other hand, require additional investments, but changes in the tax system are important to optimize investments and their effective use.
Investment allocation. There are the following approaches to the allocation of investments for different categories of enterprises:
Low-profit investments. To encourage these investments, it is necessary to optimize the tax on profits.
High-profit investments. This type of investment increases the level of profitability of production and brings high income to the economy.
Innovative investments. Innovations, by bringing high profitability, contribute to the application of new technologies in production and the development of industry.
Investment and profitability compatibility. High-yield investments help to make the production process more efficient, that is, investments that lead to high profitability. However, some investments may have low profitability, since they may be profitable at the moment, but are less effective in the long run.

New tax mechanisms and incentives of the model. The proposed model emphasizes the need to change the taxation system for large enterprises in order to stimulate the renewal of the capital base. This system will stimulate the use of new technologies and increase production efficiency.

At the same time, a general system of stimulating the investment activities of enterprises can be formed through the use of financial and tax instruments. This will also help to combine investments with foreign direct investment.

The grouping of tax instruments presented above and their association with the corresponding enterprise and investment groups is quite logical and helps to deepen economic analysis. Let's take a closer look at the characteristics of each instrument group and which businesses or investment groups they are suitable for.

Conclusion

In summary, transforming the tax system to enhance the efficiency of national economic entities is a crucial step toward fostering sustainable economic growth and modernization. The analysis demonstrates that the introduction of capital-based taxation and local tax incentives can create powerful stimuli for enterprises to reinvest profits, renew production capacity, and adopt innovative technologies. This approach shifts the focus of fiscal policy from mere revenue collection to strategic investment promotion and productivity enhancement.

The proposed model highlights the importance of balancing taxation with investment incentives to ensure that both large and small enterprises can benefit from the reform. While large

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enterprises may experience greater advantages due to their substantial capital base, smaller firms also gain from reduced administrative burdens and simplified tax procedures. In both cases, efficiency and innovation are strengthened through clearer, more transparent fiscal mechanisms.

At the same time, the transition toward a capital-oriented tax system should be implemented systematically, accompanied by parallel reforms in financial reporting, regulatory frameworks, and institutional capacity-building. International experience suggests that such comprehensive reforms—when well-coordinated—can minimize short-term fiscal losses and generate long-term gains through increased productivity, technological advancement, and improved investment climate.

Ultimately, the reformation of the tax system is not solely a fiscal adjustment but a structural transformation aimed at aligning taxation with national economic priorities. By promoting reinvestment and supporting innovation, the new system can significantly contribute to building a more resilient, diversified, and competitive economy—one capable of sustaining growth and prosperity in an increasingly complex global environment.

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