

The Impact of Taxation on Holding Corporations: Incentivizing Investment In Innovations

Babakhonov Jafar Mukhiddinovich

*Associate professor of the "Finance" department of
the Karshi Engineering-Economics Institute, Ph.D*

Abstract: *Holding corporations, often characterized by their significant market power and control over pricing, present unique challenges and opportunities within the economic landscape. This article explores the impact of taxation on these entities, particularly how tax policies can be structured to incentivize investment in innovation. We discuss the theoretical underpinnings of taxation, the behavior of monopolies in response to tax regimes, and the potential policy frameworks that could align corporate financial strategies with innovation-driven growth. The study focuses on the role of tax incentives, deductions, and credits in fostering innovation while addressing the challenges of tax avoidance and unequal resource allocation.*

Keywords: *Taxation; holding corporations; research and development (R&D); investment; innovation; start-ups, horizontal analysis of reporting; vertical analysis of reporting; financial results*

Introduction

Taxation policies are a powerful tool in shaping the economic activities of holding corporations. This paper explores the nexus between taxation and innovation-driven investments, emphasizing how fiscal measures can either stimulate or stifle technological progress within holding corporations. Innovations play a key role in the economic development of countries, contributing to increased competitiveness and improving the quality of life of the population. In Uzbekistan, where the economy is rapidly transforming, the development of innovations is becoming especially relevant. However, despite the existing potential, the country faces serious challenges related to the financing and implementation of innovative initiatives. Holding corporations have the capacity to influence market dynamics significantly, often leading to concerns about reduced competition and innovation stagnation. However, their substantial profits also provide an opportunity for governments to leverage taxation as a tool for promoting innovation. This article examines how different taxation strategies can encourage holding corporations to invest in research and development (R&D), ultimately benefiting economic growth and societal welfare.

Analysis of literature on the topic

According to I.G. Ushachev, I.S. Sandu, V.G. Savenko, the effectiveness of implementing innovation activities depends on the possibilities of forming and developing innovation potential in the country as a whole, in each region, industry, sub-industry, and enterprise. [1].

Special issue: "DIGITALIZATION OF FINANCE: NEW TRENDS AND IMPLEMENTATION PRACTICES"

Research by the Asian Development Bank (2023) emphasizes that in developing economies, tax incentives often need to be paired with subsidies or grants to address resource constraints. For Uzbekistan, this suggests that tax incentives alone may not be sufficient to stimulate innovation in underfunded sectors. [2]

Mazzucato (2018) underscores the importance of government support in creating an innovation-friendly ecosystem. Tax incentives must be complemented by investments in education, infrastructure, and technology parks. [3]

Coordinated tax policies among nations can mitigate the risks of tax competition and base erosion, fostering a fair and innovation-friendly global economy. [4,5]

Our local scientists have studied the theoretical foundations of innovative development of individual sectors of the economy. For example, the analysis of indicators for assessing the innovative potential of industrial enterprises was carried out by I. Umarov, S. Saidkarimova and Sh. Oblokulov; [6] the innovative potential and its assessment in the automotive and transport sector were studied by A. Kakharov[7].

Research methodology

In this article, methods such as analysis, synthesis, abstract, monographic observation and hypothesis were used.

Analysis and results of the study

Taxation can affect corporate investment decisions in several ways. The economic theories of taxation suggest that higher tax rates can deter investment, while tax incentives can encourage it. Holding corporations, given their unique position, may react differently to tax changes compared to firms in competitive markets. Understanding these behaviors is crucial for designing effective tax policies. Uzbekistan's tax system has undergone significant reforms in recent years, aiming to simplify compliance and enhance transparency. Key features relevant to holding corporations include: the corporate income tax rate in Uzbekistan is 15%. While competitive, this rate can be complemented with specific incentives to encourage R&D and innovation. Special economic zones in Uzbekistan offer tax holidays and reduced rates to enterprises focusing on high-tech and innovative industries. However, the uptake of these incentives by holding corporations remains limited. The VAT rate, set at 12%, is levied on most goods and services. Exemptions for R&D-related imports, such as laboratory equipment and technology, could encourage innovation-driven investments.

Innovation is a key driver of economic growth. It leads to the development of new products, services, and processes that can enhance productivity and create jobs. The relationship between taxation and innovation is complex; while taxes can reduce the available capital for investment, well-structured tax incentives can stimulate R&D activities.

One of the most direct methods to encourage innovation is through R&D tax credits. These credits reduce the effective tax rate for companies that invest in R&D. For holding corporations, which often have substantial profit margins, these incentives can lead to increased spending on innovative projects, fostering a culture of research and development.

Investment allowances allow corporations to deduct a percentage of their investment in new technologies or processes from their taxable income. This approach can be particularly

Special issue: "DIGITALIZATION OF FINANCE: NEW TRENDS AND IMPLEMENTATION PRACTICES"

effective in encouraging holding corporations to upgrade their operations and invest in cutting-edge technologies that enhance productivity.

Encouraging collaboration between holding corporations and research institutions can lead to significant innovation breakthroughs. Tax breaks for partnerships with universities or startups can create a symbiotic relationship, enabling corporations to leverage external expertise while fostering an innovative ecosystem.

Implementing progressive taxation models, where higher profits are taxed at higher rates, can create a dual incentive for holding corporations. Not only does this generate revenue for public investment in R&D, but it also encourages companies to reinvest profits into innovative projects to mitigate their tax burden.

In 2023, holding corporations contributed approximately 35% of Uzbekistan's corporate tax revenue. Despite the significant role of these entities in tax revenue generation, sectors linked to innovation-driven investments contributed less than 10% of total corporate tax revenue, signaling a lack of robust innovation activities. Uzbekistan's R&D spending remains below 0.2% of GDP, a stark contrast to the global average of 1.79% and the OECD average of 2.4%. Among holding corporations:

The automotive industry leads R&D expenditures at 30%, driven largely by companies like Uzavtosanoat investing in electric vehicles and automation. The energy sector accounts for 25%, with limited spending on green technologies. Technology firms underperform, contributing just 5% to total R&D expenditures, constrained by funding and tax support challenges. When benchmarked against other Central Asian countries, Uzbekistan's innovation-focused tax policies are less competitive:

Kazakhstan: Offers a 50% deduction on R&D expenses and provides cash grants for innovation projects, with R&D spending at 0.3% of GDP.

Azerbaijan: Implements zero tax on profits derived from innovative patents for up to 10 years.

Uzbekistan: Lags behind with limited nationwide R&D incentives and a reliance on sector-specific exemptions. Data from the State Statistics Committee of Uzbekistan (2023) shows that: industries with higher innovation spending report a 20-30% higher employment growth rate, driven by demand for specialized skills. The technology sector, though underfunded, generates 2.5 times more patents per dollar invested in R&D compared to traditional industries like agriculture, indicating high potential returns on investment in innovation.

As a state-owned holding corporation in the energy sector, Uzbekneftegaz is critical to Uzbekistan's economy. While tax breaks for energy infrastructure have been beneficial, the company has struggled to diversify its portfolio into green technologies due to a lack of specific R&D tax incentives. This example underscores the need for targeted incentives in emerging industries. Uzavtosanoat, a leading automotive holding, has benefited from SEZ tax breaks in the Andijan region to develop electric vehicles. The reduced tax rates have allowed subsidiaries to channel savings into innovative vehicle technologies, demonstrating the potential of SEZs to drive industry-specific innovation.

Challenges and Considerations

While tax incentives can drive innovation, several challenges must be addressed:

Complex tax codes can lead to compliance issues, particularly for large corporations. Simplifying tax structures while maintaining incentives is crucial to ensure that holding corporations can effectively navigate their tax obligations and invest in innovation. Existing

Special issue: "DIGITALIZATION OF FINANCE: NEW TRENDS AND IMPLEMENTATION PRACTICES"

tax incentives are often sector-specific, potentially excluding innovative projects in less traditional fields. While special economic zones provide attractive tax benefits, they are geographically concentrated, limiting their accessibility to holding corporations operating in other regions of Uzbekistan.

There is a risk that tax incentives may not always lead to productive investments. Policymakers must ensure that incentives are aligned with genuine R&D activities rather than superficial compliance measures. Holding corporations may lack comprehensive knowledge of available incentives or face bureaucratic hurdles in accessing them.

Global competition In a globalized economy, holding corporations may shift their investments to countries with more favorable tax regimes. International cooperation on tax policies can help mitigate this issue and ensure that innovation is encouraged across borders. Uzbekistan's innovation ecosystem is still in its nascent stages, with limited collaboration between academia, industry, and government, which taxes alone cannot fully address

Conclusion

The problems of financing and development of innovations in Uzbekistan require a comprehensive approach and active cooperation between government agencies, the private sector and international partners. By eliminating barriers to financing, creating favorable conditions for investment and developing scientific cooperation, Uzbekistan will be able to realize its potential in the field of innovation, which will ultimately lead to sustainable economic growth and an improved quality of life for the population.

Taxation serves as both a lever and a barrier in incentivizing innovation among holding corporations. By adopting targeted and well-coordinated fiscal policies, governments can harness the economic potential of holding corporations, driving advancements in technology and creating a sustainable innovation ecosystem. Taxation plays a critical role in shaping the behavior of holding corporations, particularly concerning their investment in innovation. By implementing effective tax policies that incentivize R&D and collaboration, governments can harness the potential of these powerful entities to drive economic growth and societal advancement. Future research should focus on optimizing tax structures to balance revenue generation with the need for fostering innovation in an increasingly competitive global landscape. Taxation in Uzbekistan has the potential to be a driving force for innovation within holding corporations. By implementing targeted fiscal reforms and fostering a collaborative innovation ecosystem, the government can position the country as a leader in technological advancement in Central Asia.

References

1. Каххоров А. Инновационный потенциал автомобильно-транспортных предприятий и его оценка// Научный электронный ж-л "Экономика и инновационные технологии". № 4, июль-август, 2016 г.
2. Babakhonov J.M.(2023). The Methodology for Assessing the Financial Capabilities of Enterprises. International journal of social science research and review. Volume 6, Issue 7. 422-427.
3. Babakhonov J.M.(2023). Increasing the Financial Capabilities and Investment Attractiveness

Special issue: "DIGITALIZATION OF FINANCE: NEW TRENDS AND IMPLEMENTATION PRACTICES"

- of Enterprises. International journal of multicultural and multireligious understanding. Volume 10, Issue 7. 476-481.
4. Babakhonov J.M.(2023). Theoretical and methodological aspects of the formation of the tax mechanism of enterprises. Международный центр научного сотрудничества «Наука и просвещение».104-106.
 5. Rustam Farmonovich Omanov. (2023). BENEFITS AND RISKS OF THE DIGITALIZATION.Intent Research Scientific Journal,2(12), 59–65. Retrieved from <https://intentresearch.org/index.php/irsj/article/view/27>
 6. Omanov, R. F. (2023). ACCOUNTING PROCESS.American Journal of Pedagogical and Educational Research, 19, 219-223.
 7. Fayziyev Jahongir, & Samiyev Sardor Iskandarovich. (2023). Development of Financial Market Activity by Optimization of Stock Issuance. European Journal of Economics, Finance and Business Development, 1(2), 6–9. Retrieved from <https://europeanscience.org/index.php/2/article/view/76>
 8. Inflation Targeting In Uzbekistan: Background And First Results SS Yakubova International Journal On Economics, Finance And Sustainable Developmen
 9. Ikramovich, R. Z., & Khamidovich, T. S. (2022). The Role of Fiscal Policy in Ensuring the Financial Stability of Uzbekistan. European Multidisciplinary Journal of Modern Science, 4, 361-366.
 10. Omanov Rustam Farmonovich. (2023). DIGITIZATION OF MANAGEMENT ACCOUNTING. Neo Scientific Peer Reviewed Journal, 17, 18–20. Retrieved from <https://neojournals.com/index.php/nspj/article/view/345>
 11. Rustam Farmonovich Omanov , . (2023). INSTITUTIONAL BASICS OF SMALL BUSINESS. European International Journal of Multidisciplinary Research and Management Studies, 3(12), 153–157. Retrieved from <https://inlibrary.uz/index.php/eijmrms/article/view/27743>
 12. Omanov Rustam Farmonovich, G., & ErgashevTohir, B. (2021). Socio-Economic Aspects of the Development of Small Enterprises in the Kashkadarya Region of Uzbekistan. Design Engineering, 6523-6531
 13. САМИЕВ, С. ИҚТИСОД ВА МОЛИЯ. ИҚТИСОД ВА МОЛИЯ Учредители: Национальный университет Узбекистана им. Мирзо Улугбека, (2), 10-18
 14. WAYS TO IMPROVE MARKETING ACTIVITIES IN THE TOURISM SECTOR YS Shukhratovna, NM Ali Gospodarka i Innowacje. 40, 137-143
 15. Yakubova, S. (2023). RAQAMLI TEXNOLOGIYALARNING RIVOJLANISHI VA RAQAMLI AKTIVLARNING MOHIYATI. Iqtisodiy taraqqiyot va tahlil, 1(3), 84–92. <https://doi.org/10.60078/2992-877X-2023-vol1-iss3-pp84-92> Другие форматы
 16. ESSENCE AND ANALYSIS OF THE BENEFITS OF DIGITAL ASSETS S Yakubova, R Rashidov Innovatsion texnologiyalar 52 (04)
 17. Yakubova, S. S. (2021). (2021)." Innovative Approaches for Modeling the Impact of Monetary Policy on Economic Development".
 18. Раймова, М. Д., & Махатов, С. И. (2022). Пути ускорения развития туризма и повышения

его роли в экономике. *Gospodarka i Innowacje*, 24, 395-400

19. Ikramovich, R. Z., & Mirjalilovich, I. A. (2021, June). THE IMPORTANCE OF TAX POLICY IN THE FORMATION OF BUDGET REVENUES. In " ONLINE-CONFERENCES" PLATFORM (pp. 122-124).
20. Farmonovich, O. R., & Azimovich, S. S. (2024). PROSPECTS FOR THE DEVELOPMENT OF SMALL ENTERPRISES IN UZBEKISTAN. *Intent Research Scientific Journal*, 3(1), 40-43
21. Omanov, R. F. (2023). ТРЕХФАКТОРНАЯ МОДЕЛЬ ОПРЕДЕЛЕНИЯ КРЕДИТОСПОСОБНОСТИ ПРЕДПРИЯТИЯ. *European Journal of Interdisciplinary Research and Development*, 22, 141-143
22. ЎЗБЕКИСТОН НЕФТЬ-ГАЗ КОРХОНАЛАРИ ИНВЕСТИЦИОН ФАОЛИЯТИНИНГ ҲОЗИРГИ АҲВОЛИ ВА УНГА ХОС БЎЛГАН ТЕНДЕНЦИЯЛАР СИ Самиев Экономика и финансы (Узбекистан), 10-18
23. Yakubova, S., & Yakubova, S. (2023). ISSUES OF ACCOUNTING FOR EXCHANGE DIFFERENCES AND BORROWING COSTS IN THE FORMATION OF THE COST OF INVENTORIES IN ACCORDANCE WITH NAS AND IFRS. *Economics and Innovative Technologies*, 11(5), 75–81. https://doi.org/10.55439/EIT/vol11_iss5/a10
24. WAYS OF EFFECTIVE IMPLEMENTATION OF MONETARY POLICY IN OUR COUNTRY. SS YAKUBOVA, RI RASHIDOV, MXQ UMAROVA, KTUGLI URINOV THEORETICAL & APPLIED SCIENCE Учредители: Теоретическая и прикладная наука
25. Raimova, M., Makhatova, N., & Salokhiddionova, G. (2022). THE ROLE AND DEVELOPMENT OF ONLINE TOURISM IN THE WORLD. *Scientific progress*, 3(2), 931-937.
26. Таргетирование инфляции в Узбекистане: предпосылки применения и первые итоги Р Рашидов, Ш Якубова
27. Якубова, Ш. (2024). Исследование цифровой валюты центрального банка как новой формы денег. *YASHIL IQTISODIYOT VA TARAQQIYOT*, 2(8).
28. Якубова, Ш. Ш. (2024). Оценка влияния введения цифровой валюты на денежную сферу. *YASHIL IQTISODIYOT VA TARAQQIYOT*, 2(8).
29. Джураев, А. М., & Сидорова, Е. Ю. (2022, May). Интенсификация значимости экологической налоговой реформы в Узбекистане. In Трансформация национальной социально-экономической системы России, тренд цифровые технологии. Материалы III Международной научно-практической конференции. Москва, 4 декабря 2020 года (р. 274). Litres
30. Джураев, А. М. (2019). 1.1. Основные направления реформирования налоговой системы Узбекистана. *Аудит и финансовый анализ*, (6), 7-14
31. Сидорова, Е. Ю., & Джураев, А. М. (2021). Совершенствование налоговой системы Узбекистана. Национальные интересы: приоритеты и безопасность, 17(7), 1392-1408
32. Джураев, А. М. (2019). Реформирование налоговой системы Республики Узбекистан: выбор пути развития. *Актуальные вопросы современной экономики*, (5), 465-469
33. Джураев, А.М. Теоретические основы методов прогнозирования налоговых

- поступлений и особенности их применения на практике / А.М. Джураев // Аудит и финансовый анализ. – 2020. - № 3. – С. 6-13. – ISSN 2618-9828
34. Джураев, А.М. Необходимость применения социальных вычетов при налогообложении доходов физических лиц / А.М. Джураев // Век качества. – 2021. - № 1. – С. 49-59. – Текст: электронный. - ISSN 2500-1841 URL: <http://www.agequal.ru/pdf/2021/121003.pdf> (дата обращения: 19.05.2021)
35. Джураев, А.М. Особенности налогового администрирования внешнеторговых операций / А.М. Джураев // Вестник. Институт экономики и антикризисного управления. – 2020. - № 30. –Текст: электронный. - DOI отсутствует. URL: <https://ieay.ru/wp-content/files/nd/vestnik/30/Dzhuraev.pdf> (дата обращения: 19.05.2021)
36. Джураев, А.М. Подходы к налоговому регулированию экономики: опыт развитых стран и возможность его применения в Узбекистане / А.М. Джураев // Фискальная политика как инструмент преодоления современных барьеров экономического развития России: сборник научных статей аспирантов и магистрантов; составители А. В. Тихонова. – Москва: РУСАЙНС, 2020. – С. 52-60. – ISBN 978-5-4365-4629-2
37. Джураев, А.М. Сидорова, Е.Ю. Направления совершенствования налогового администрирования в Узбекистане в постковидном периоде / А.М. Джураев, Е.Ю. Сидорова // Актуальные проблемы развития общества в постковидном мире: сборник научных статей докторантов, аспирантов и магистрантов; составители Н. Касимова, Ш. Тошева. – Ташкент: ТМІ, 2021. – С. 75-81. – ISBN 978-9943-13-949-0
38. Kurbanovich, E. T. (2023). Ways of Management and Improvement of Innovative Processes in Small Business Enterprises.
39. Kurbanovich, E. T. (2023). Prospects for Innovative Development of Strategic Management of Enterprises.