



## Significance of the Monitoring and Evaluation System in Improving the Efficiency of Tax Incentives

Asliddin Ikrom Ogli Isaev

Independent Researcher, Scientific Research Center “Scientific Bases and Problems of the Development of the Economy of Uzbekistan” under the Tashkent State University of Economics, Uzbekistan

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### **Abstract**

The article is devoted to the issues of improving the monitoring and evaluation system to raise the effectiveness of tax incentives. In reliance upon the research results, the author has formulated relevant conclusions and proposals.

**Keywords:** *Tax, Monitoring, Tax System; Evaluation System; Efficiency; Tax Incentives; Fiscal Policy; Tax Relief; Investment; Incentives*

### **Introduction**

Tax incentives play a crucial role in the country’s fiscal policy, serving as a powerful tool for encouraging certain behaviors, promoting the economic growth, and providing targeted support to individuals and businesses. However, the success of tax incentives depends on their efficient implementation and evaluation. To ensure that these incentives achieve their goals, it is necessary to improve the monitoring and evaluation system.

Tax incentives, which can be in the form of tax credits or exemptions, have been used by governments around the world to achieve various goals. These include investment incentives, job creation, research and development support, and social protection for the disadvantaged. Tax incentives, if properly designed and managed, can be a powerful tool for achieving a country’s economic and social goals.

The Republic of Uzbekistan, like many countries, uses tax incentives as a means of economic growth and development. From reduced tax rates to investment credits, tax incentives play an important role in encouraging private sector investment, entrepreneurship development and overall economic activity. Recently the government of Uzbekistan has implemented various tax incentive programs to attract local and foreign investments, encourage creation of new jobs, and develop the core sectors of industry.

While tax incentives offer a promising arena for the economic development, the effectiveness of these policies depends on a strong monitoring and evaluation system. The efficiency of the tax incentives

largely depends on the government's ability to assess their impact, identify gaps, and adjust policies accordingly. At the same time, the monitoring and evaluation system in Uzbekistan faces problems that prevent it from providing a comprehensive understanding of the results of tax incentives.

### ***Literature Review***

Currently, it is not enough to offer tax incentives alone, it is absolutely necessary to evaluate their effectiveness. This position is widely supported by the research community as well as agencies and governments of various countries (Yang, 2016). For example, the Council of Europe publishes the report "Effectiveness of tax incentives for venture capital and business angels to support investments by small and medium-sized businesses and start-ups". Performance evaluation, as a rule, consists in comparing the result of any action with the costs associated with its implementation. The consequences of giving tax incentives are comparable to budget losses (Kireenko, Orlova, 2016). In this regard, it should be said that tax incentives and tax costs should be interpreted as denominators in the efficiency evaluation equation. In the framework of this research, tax incentives and tax costs are the amount of revenue lost to the budget because certain tax incentives have been provided to certain types of activities or groups of taxpayers (Mayburov, 2013).

Rumina et al. (2015) stated that the assessment of the effectiveness of tax incentives is of particular importance to the basis of the formation of the tax mechanism. "The impact of tax measures cannot be objectively assessed because they do not provide information about behavior observed before and after the policy change" (Shah, 1995).

Klemm and Van Parys (2009) provide evidence on the effectiveness of tax holidays and investment incentives on investment using a database of 47 developing countries from 1985–2004.

According to Steshenko, Tikhonova (2018), the maximum objective and reasonable methodology for determining the efficiency of tax incentives should include the determination of an integral indicator of efficiency. This indicator should take into account several factor peculiarities at the same time.

### ***Results and Discussions***

While tax incentives hold great promise, their implementation and impact assessment are often challenging:

First, the lack of transparency in the administration of tax incentives can result in the lack of clarity about the criteria and scope of the incentives; second, it can be difficult to obtain complete and accurate data on the use and impact of tax incentives, which hinders effective evaluation; third, the complexity of the Tax Code with several provisions and frequent changes can complicate the monitoring and evaluation of the effectiveness of certain incentives; fourth, some tax incentives may suffer from regulatory loopholes that allow them to be misused or abused; fifth, many countries do not conduct rigorous evaluations of tax incentives, making it difficult to determine whether they are achieving their goals.

If we pay attention to the general information about tax incentives in Uzbekistan, we should pay particular attention to the main categories with the account of the features of their presentation (Figure 1).



Figure 1. The basic categories of tax incentives in Uzbekistan [1]

Now if we look at the categories in the picture one by one, then the following properties will be disclosed:

#### 1. Investment Tax Incentives

Uzbekistan offers reduced corporate profit tax rates for eligible investment projects, with specific rates varying depending on factors such as the sector, location and investment amount.

Some investments may be eligible for tax holidays, during which companies are exempted from paying corporate tax for a period of time, which promotes domestic and foreign investment.

#### 2. Industry-Related Incentives

Special economic zones have been established in Uzbekistan and the companies, operating in these zones, can use tax rates, simplified customs procedures and other incentives to encourage investment in certain sectors.

The government can provide targeted incentives for strategically important sectors such as agriculture, manufacturing and technology.

#### 3. Regional Development Promotion

To promote balanced regional development, Uzbekistan may offer various benefits such as tax incentives or subsidies to enterprises investing in less developed regions.

#### 4. Encouraging Innovations and Technologies

It is possible to provide incentives to businesses engaged in research and development that support innovation and technological advancement.

Technological parks or clusters can be established with special tax incentives to promote the growth of technology-based industries in Uzbekistan.

#### 5. Employment Promotion

Employers can use social tax credits or reductions to encourage job creation and reduce overall employment costs.

#### 6. Export Promotion

Incentives are aimed at supporting and promoting exports, including export loans, VAT incentives and other measures aimed at enhancing competitiveness of Uzbek products in the world market.

#### 7. Benefits on Customs and Import Duties

In some cases, customs duties may be reduced or exempted for the import of machinery, equipment and raw materials required for certain industries or projects.

#### 8. Promotion of Small and Medium Enterprises

Tax incentives for SMEs include special tax regimes and preferences, which can be introduced to support the development of SMEs in recognition of their role in economic growth and job creation.

#### 9. Promoting Environmental Protection

Uzbekistan can introduce incentives to promote environmentally friendly practices and investments in line with global trends towards sustainable development.

#### 10. Programs Supported by the Government

In addition to tax incentives, the government may provide financial assistance, grants or subsidies to qualified businesses, especially in priority sectors.

Although Uzbekistan has undertaken the measures to attract investment through tax incentives, these may include problems such as ensuring effective implementation of policies, removing bureaucratic obstacles, and periodically reviewing and changing incentives to align with economic goals.

The efficiency of tax incentives in Uzbekistan faces a number of problems arising from various economic, administrative and structural factors. Some of the core problems that hinder the efficiency of tax incentives are presented in Table 1:

Table 1. Core problems that hinder the efficiency of tax incentives in the country [2]

Obstacles	Impact
<b>Bureaucratic barriers and administrative complexity</b>	
Burdensome red tape and administrative complexity can create obstacles for businesses seeking to take advantage of tax incentives, resulting in delays and inefficiencies.	This can prevent businesses from taking advantage of existing incentives and hinder the implementation of projects on time.
<b>Transparency and unpredictability</b>	
Inadequate transparency in the process of applying and approving tax incentives, unpredictability of policy changes can create uncertainty for business.	Businesses may hesitate to make long-term investment decisions, which affects the overall effectiveness of incentives.

Limited access to information	
Lack of convenient and comprehensive information on eligibility criteria, application procedures and benefits of tax incentives can prevent businesses from taking advantage of these opportunities.	Small and medium-sized enterprises can especially struggle to navigate the incentive landscape, which can lead to inadequate utilization.
Inconsistent execution and enforcement	
Inconsistencies in the application and implementation of tax incentives policies may lead to disparities in their application across regions or sectors.	This can cause inequitable distribution of benefits, hindering the intended effect on regional development and industrial growth.
High costs of compliance	
Complying with tax exemption requirements can be costly, especially for small businesses that may not have the resources for complex reporting and documentation.	High compliance burdens can offset the benefits of incentives, especially for small businesses, limiting their efficiency.
Limited evaluation and monitoring mechanisms	
Inadequate monitoring and evaluation mechanisms make it difficult to assess the actual impact of tax incentives on key economic indicators.	Without strict evaluation, policymakers may struggle to make informed decisions about whether to continue or modify incentive-promoting programs.
Macroeconomic instability	
Economic uncertainties, changes in currency values and other macroeconomic factors can reduce the efficiency of tax incentives.	During periods of economic instability, businesses may be less inclined to invest or expand, reducing the overall impact of incentive-promoting programs.
Inadequate compliance with specific areas	
Tax incentive programs may not be tailored to the specific needs and challenges of specific industries or sectors.	Lack of alignment may limit the effectiveness of incentives in promoting growth in targeted areas.
Policy inertia and slow adjustments	
Delays in adjusting tax incentive policies based on evaluation results or changing economic conditions can lead to policy inertia.	Outdated or ineffective incentives may remain, preventing adaptation of the tax incentive system.
Limited attention to long-term effects	
In Uzbekistan, the problem of limited attention to the long-term effects of tax incentives is a serious obstacle to achieving stable and sustainable economic development.	Emphasis on short-term gains can lead to unsustainable economic growth while missing opportunities to build a foundation for sustainable development.

Solving these challenges requires a comprehensive approach that includes policy reforms, improved administrative processes, increased transparency, and a commitment to regularly evaluate and adjust incentive programs based on their results.

In order to improve the efficiency of tax incentives, it is crucially important to solve these problems by improving the monitoring and evaluation system. To achieve this, it is required to undertake the following actions:

Clear and transparent guidelines—ensure that tax incentive programs are well documented with clear eligibility criteria and objectives because it raises transparency and simplifies the management process.

Data collection—effective data collection and analysis requires investment in systems and technology. This is because comprehensive databases tracking the use of tax incentives by individuals and businesses are considered essential.

Constant impact assessment—a systematic system of regular impact assessments of tax incentives should be put in place to assess whether the incentives are achieving their targeted objectives and recommend adjustments where necessary.

Stakeholder engagement—relevant stakeholders, including businesses, taxpayers and experts, should be involved in the assessment process to gain valuable insights and ensure a fair and balanced assessment.

Regulatory supervision—regulatory controls will need to be strengthened to prevent misuse or abuse of tax incentives. This may involve revising existing rules or introducing new ones to address any gaps.

Simplifying the tax code—consideration should be given to streamlining the tax code to reduce complexity and make it easier to administer and assess tax benefits because any incentive is regulated by the Tax Code.

Informing the population—awareness-raising activities should be carried out among the population in order to educate taxpayers and business entities about the available tax incentives, in which qualified persons can take advantage of them.

Based on the considerations specified above, tax incentives are a powerful tool for governments to achieve economic and social goals, but their success depends on effective monitoring and evaluation.

Countries can improve the effectiveness of their tax incentive programs by implementing strategies such as transparency, data collection and complexity, and regular impact assessments, regulatory oversight and public awareness campaigns. This not only helps to achieve the stated policy objectives but also ensures a fair tax system that benefits both individuals and businesses.

### ***Conclusion and Proposals***

Providing tax incentives in Uzbekistan offers a promising path for economic development and growth. However, the effectiveness of these incentives is hampered by a number of challenges, from administrative complexity to a lack of focus on long-term effects. As Uzbekistan moves towards becoming a more competitive and dynamic economy, addressing these challenges is critical to unlocking the full potential of tax incentive programs.

As Uzbekistan moves forward, adopting these recommendations and proactively addressing the identified challenges can pave the way for a more robust, competitive and sustainable economic future. By creating an environment that effectively manages tax incentives, communicates them transparently, and is strategically aligned with long-term development goals, Uzbekistan can position itself as an attractive destination for both domestic and foreign investment, ensuring inclusive economic growth in the upcoming years.

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