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## Mechanism of Application of Tax Benefits and Preferences in the Tax Administration

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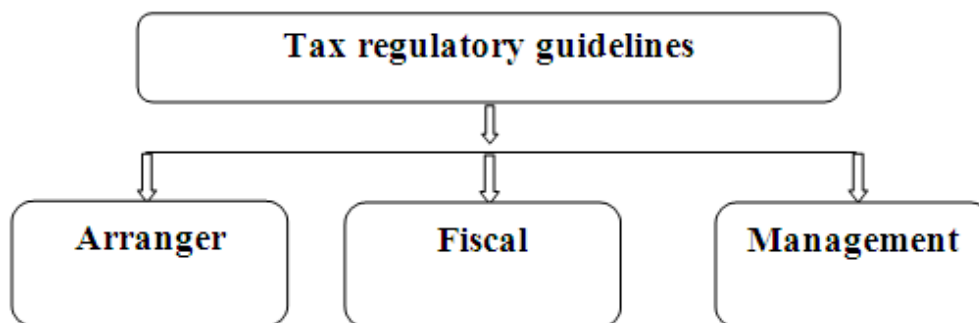
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**Abstract.** This article discusses tax incentives and preferences, which are the subject of much debate in tax affairs. The characteristics, similarities, and differences of tax benefits and preferences and their application in the tax system are comparatively analyzed.

**Key words:** Tax system, tax policy, tax incentives, tax preferences, individual incentives, tax regime, fiscal regulation.

As we all know, the methods of state regulation of the economy are implemented through various means. Financial instruments are a set of methods of influence on economic processes carried out by eliminating imbalances in the country's economic development, activating and stimulating economic activity in certain sectors of the economy, gathering financial resources in certain sectors of the economy and limiting their growth, aimed at maintaining social stability. Financial instruments are implemented mainly by regulating tax and budget relations, that is, by setting various tax incentives and changing the composition of state budget expenditures.

Tax regulation, the concept derived from the category "tax" can be considered from the point of view of various disciplines: economic theory, as an integral part of economic regulation, from the point of view of management as part of the management process aimed at the implementation of legally defined fiscal goals, etc. Thus, tax regulation can be considered within three approaches: regulatory, fiscal and management.



**Figure 1. Tax regulatory guidelines.<sup>1</sup>**

<sup>1</sup> Author development.

In the framework of the first of them, tax regulation is presented as a set of measures in the field of taxation, which allows the state to influence economic and social processes in the country. In this case, attention is drawn to the fact that tax regulation is a means of interfering with the activities of economic entities. The appropriate approach-management-considers tax regulation as an integral part of the process of managing the economic system, which, in our opinion, allows us to consider taxation with wider functions and spheres of influence compared to the regulatory approach. The fiscal approach considers tax regulation unilaterally, that is, a system of economic measures of operational intervention in the process of fulfilling tax obligations. In our opinion, when considering tax credits and preferences, it is necessary to rely on a management approach that allows us to take into account many economic relationships in their application. The relationship between taxes and tax regulation can be considered using this figure.

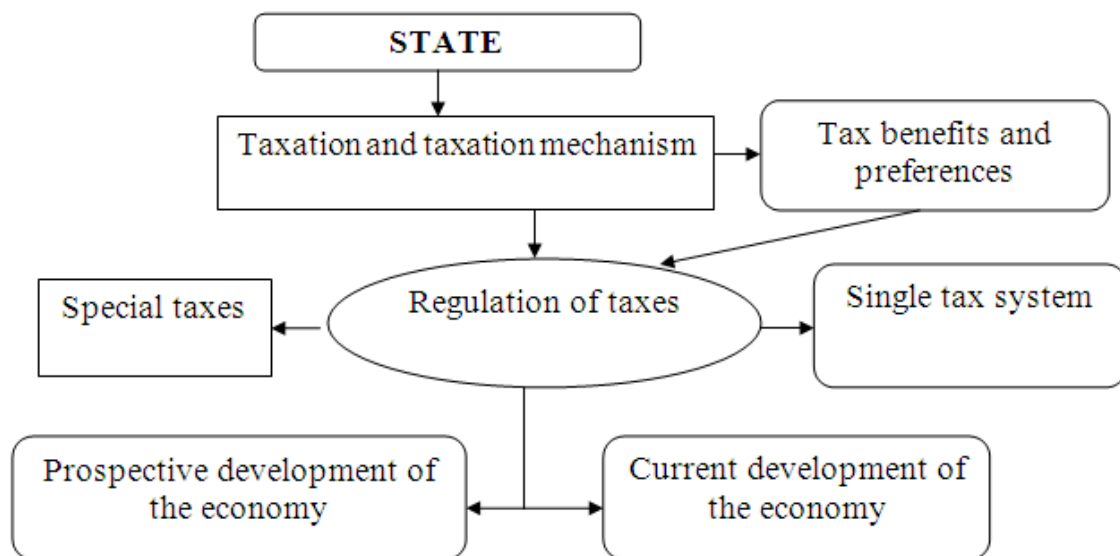


Figure 2. The relationship between taxes and tax regulation <sup>2</sup>

Figure 2 above shows the theoretical basis of the relationship between taxes and tax regulation, in which tax regulation is a part of the essence of taxes, they are closely related to each other and form a whole. Tax regulation has a guiding effect on the economy and its development. It is indirect in nature and therefore the change in taxation parameters is achieved after a certain period of time. This complicates the process of assessing the impact of tax instruments and, in particular, the effectiveness of tax incentives.

Existing tax credits in the national tax system are one of the main means of implementing the economic regulation function of taxes. Its essence is to multiply the state as an active participant in redistribution processes, stimulate or limit the speed of processes, strengthen or weaken capital accumulation, and have a serious effect on expanding or reducing the effective demand of the population.

Tax incentives are recognized as the most important means of state regulation of real incomes of large business entities, small and medium-sized businesses, private entrepreneurs and individuals operating in economic sectors. The main element of the tax policy implemented by the state, tax incentives can affect the development of production, the improvement of its networks and territorial structure, the creation of necessary infrastructure facilities, etc. With their help, important social tasks are solved: population groups with different incomes, people below the poverty line are exempted from taxes, demographic policy requirements are taken

<sup>2</sup> Author development.

into account. In the foreign economic sphere, tax incentives are most widely used to encourage foreign investments [9].

Despite the frequent use of the concepts of tax credits and preferences in economic literature, there is no clear understanding of the essence of these concepts and the differences between them. In many scientific publications, the concepts of tax credit and tax preference are treated as synonyms. In our opinion, these two concepts differ from each other in terms of their economic content. According to Article 75 of the Tax Code of the Republic of Uzbekistan, tax benefits are advantages provided by tax legislation for certain categories of taxpayers compared to other taxpayers, including the possibility of not paying taxes or paying them in smaller amounts [1]. However, the current tax code of the Republic of Uzbekistan does not provide an explanation of tax preference. At the same time, Article 75 of the Tax Code states that tax benefits cannot be of an individual nature.

In the Concept of Administrative Reforms of the Republic of Uzbekistan, it is specified to set measures to limit the creation of commercial organizations with state participation in the areas where the private sector is effectively operating, and to reorganize existing enterprises, as well as to abandon the practice of granting exclusive rights, individual benefits and preferences to individual business entities that limit the development of a healthy competitive environment [2].

In particular, in 2021, a total of 316.2 billion soums of tax relief was applied to 15 documents with individual features, and in the first 6 months of 2022, a total of 144.8 billion soums was applied to 10 documents [3].

In recent years, the State Tax Service authorities have been consistently working on improving the efficiency of using tax benefits and continuously analyzing them.

The E-privilege automated information system has been launched, which allows you to keep track of each tax credit and monitor its terms. Benefits automatically used by identification codes (more than 50 thousand) are analyzed for the enterprise, reflected in the electronic invoice for value added tax and in the formation of online control cash register checks.

Preference (in Latin *praeferentis*-advantage) - privileges given to certain categories of organizations and individuals to support certain types of activities. Privileges are implemented in the form of tax credits, discounts on customs duties, exemption from fees and granting of beneficial loans [9].

Tax credits are often not included in the tax regulatory system [8] or are not confused with tax credits, but, in our opinion, with a general similarity, these are different concepts with specific characteristics.

Privileges and preferences have a common goal of reducing the final tax burden of the taxpayer and, as a result, encourage the development of certain types of activity, but their mechanism of action is different. Comparative characteristics of these concepts are presented in Table 1.

**Table 1. Comparative characteristics of tax benefits and preferences<sup>3</sup>**

Indicators	Tax	
	Preferences	Privileges
A tactical goal in passing	Reducing the tax burden for a certain category of taxpayers	
Strategic goal of implementation	Implementation of the economic policy of the state	
Implementation (time)	The same rules apply as for the introduction of taxes and fees	At any time
Possibility to suspend the application for several tax periods	It is possible	It is not possible
Explanation of the procedure of application by the state	Obligation of the competent authorities to provide an explanation	That the competent authorities are not obliged to give an explanation
Penalties for non-use	defined	not specified
Cancellation	Not earlier than the beginning of the next tax period	From the moment of entry, if it does not comply with the Tax Code, with the amount of additional tax or fee.

Penalties are imposed for non-use and misuse of privileges, but non-use of privileges is not penalized. When using this or that benefit, the taxpayer must submit documents confirming the legality of the use of the benefit during the tax control process. If the taxpayer refuses to use the exemption, as a rule, he is not obliged to report it to the tax authorities (although sometimes such an obligation is provided).

Based on all of the above, it can be concluded that the term "tax preferences" covers a wider range of relations than the concept of "tax benefits". Usually, this is understood as a reduction in the amount of tax liabilities for a certain category of taxpayers.

Thus, a tax credit can be defined as a mandatory action of the state, resulting in the reduction of the tax burden for a certain category of taxpayers in order to achieve certain goals of the state. Whereas tax credits are one of the methods of regulating indirect taxes, they create more favorable business conditions for recipients.

The question of the classification of tax benefits has long been controversial, both theoretically and practically. Different economists in the field of economics and taxation in their scientific studies allocate tax credits according to different classification criteria. There is no complete classification of tax credits and tax preferences in the tax legislation of our country. In our opinion, the main features in the study of benefits and preferences are the elements of taxation to which the benefit or preference applies and the mechanism of their enforcement. The species within these classification features are considered in sufficient detail in the indicated source.

Today, the tax system of our country has more than 100 different benefits and preferences based on the Tax Code, decrees and decisions of the President of the Republic of Uzbekistan, and decisions of the Cabinet of Ministers. However, the effectiveness of these benefits is one of the most highly debated issues.

<sup>3</sup> Author development.

These issues are also the cause of great discussions in international tax relations. The well-known Russian financier V. Panskov suggests removing the concept of "tax benefits" from the tax code of the Russian Federation, introducing the term "tax subsidies" into the budget code of the Russian Federation and approving them as part of the budget in the appropriate sections of the budget. It is proposed to transfer control over each type of tax subsidy to the appropriate authority. For example, the Ministry of Agriculture should be responsible for monitoring tax subsidies to taxpayers engaged in the production and processing of agricultural products, the Ministry of Economic Development should analyze the effectiveness of tax mechanisms that encourage the development of small and medium-sized businesses [7]. Also, I. Gorsky believes that there are no grounds for "fixing" economic laws with tax intervention [5].

In our opinion, the mechanism of tax relief in tax relations has already been developed, and tax relief has proven itself as one of the important tools of tax regulation. This means that tax benefits and preferences will become important in the tax policy in the near future and will help in conducting the state's economic policy. Despite the complexity of the process of evaluating the economic effect of the use of benefits, we can first of all talk about their motivational function. Other things being equal, economic subjects who have the opportunity to choose the type of activity are encouraged to engage in work that has an advantage over others in the form of tax breaks and preferences.

In addition, the economic calculations we carried out earlier confirm that setting a range of tax rates for different enterprises allows the development of a certain area of the state's economic interests or, on the contrary, has an adverse effect on the attractiveness of the sector. Although the correct modeling of tax relations has a number of simplifications, in general it allows monitoring the effectiveness of tax incentives and preferences.

To sum up, in the system of new regulatory necessity, a tool such as benefits and preferences takes an important place and ensures the correction of the actions of economic entities taking into account the time delay.

Thus, tax incentives can stimulate the activities and investment activities of business entities in various sectors of the economy. Relative reduction of taxes, differentiation of tax coefficients, using tax incentives, the state supports economic growth, development of necessary production sectors, as well as development of regions and districts lagging behind in development. Encourages expansion of the investment network in the regions, modernization of production and small business.

The system of tax incentives and preferences should be developed in accordance with the goals of the state policy and the requirements of the changing economic system. It is necessary to legislate a unified list of tax benefits, as well as more active use of tax benefits as an indirect tool that meets the needs of the market economy and its subjects.

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