

THE IMPACT OF TAX INCENTIVES ON THE FINANCIAL STABILITY OF SMALL BUSINESS ENTITIES

Shukurova Khayriniso Zokir qizi

*Termiz Institute of Economics and Service,
Faculty of Economics and Information Technologies,
Department of Accounting and Auditing*

Abstract: This article analyzes the impact of tax incentives provided to small business entities on their financial stability. In Uzbekistan, tax incentives play an essential role in supporting entrepreneurship and improving economic efficiency. Based on statistical data from 2020 to 2024, the article compares financial indicators of companies that benefited from tax incentives with those that did not, identifying key differences. Furthermore, the effect of tax incentives on investment activity has been studied based on a survey of small business representatives.

Keywords: small business, tax incentives, financial stability, entrepreneurship, taxation, economic efficiency.

Small business is considered the backbone of any country's economy. It plays a significant role in job creation, fostering competition, and ensuring social stability. According to the decrees and resolutions of the President of the Republic of Uzbekistan, supporting small business is one of the priorities of state policy. In this context, tax incentives granted to small business entities have become an important tool to encourage their economic activity.

Tax incentives are fiscal benefits provided by the state to business entities with the aim of reducing tax burdens, saving working capital, and increasing investment capacity. These incentives are implemented in various forms:

- Reduction of tax rates
- Exemption from taxes (for a certain period)
- Establishment of tax-privileged zones (free economic zones)
- Application of a simplified regime through a unified tax rate

From a theoretical perspective, these incentives help small businesses maintain liquidity and direct financial resources toward innovation or production activities.

During 2020–2024, the financial reports of 300 small enterprises operating in Tashkent, Samarkand, Fergana, and Khorezm regions were analyzed. The enterprises were divided into two groups:

1. Enterprises that used tax incentives
2. Enterprises operating under the standard tax regime

The analysis revealed the following key results:

Indicator	Enterprises with incentives	Standard regime enterprises
Average net profit growth	26%	9%
Financial liquidity	1.6 coefficient	1.2 coefficient
Investment activity (capital investment)	18%	7%
Growth in number of jobs	12%	4%

These differences indicate the positive impact of tax incentives on small enterprises. In particular, the significant increase in profit demonstrates that entrepreneurs were able to reinvest their earnings.

Based on interviews with 120 small business owners, the following results were obtained:

- 73% of respondents stated that tax incentives were the main support mechanism for them;
- 58% noted a reduced need for loans due to tax incentives;
- 46% achieved expansion in production;
- 31% increased their export volume.

Despite their benefits, the practical implementation of tax incentives presents several challenges:

- Incentives are not equally distributed across all regions and sectors;
- Some enterprises misuse the incentives;
- There are instances of artificially inflated financial reports;
- Financial problems arise once the incentive period ends.

To address these issues, the following proposals are made:

1. Introduce indicators to evaluate the effectiveness of tax incentives;
2. Target incentives toward specific sectors (innovative activities, green technologies);
3. Strengthen financial monitoring of enterprise reporting;
4. Implement soft support mechanisms after the incentive period ends.

Tax incentives play a vital role in enhancing the financial stability of small business entities. They contribute to increased profitability, liquidity, investment activity, and job creation. However, for the process to be effective and transparent, it is necessary to improve the monitoring system, apply a targeted approach, and increase awareness. Tax policy can play a decisive role in small business development if it is aligned with the economic reality and entrepreneurial needs.

References:

1. Tax Code of the Republic of Uzbekistan (new edition). – Tashkent: Adolat, 2020.
2. Presidential Decree No. PF-164 of August 8, 2022, "On Additional Measures to Further Improve the Business Environment and Support Entrepreneurship."
3. Karimov, I.A. "On the Path of Market Reforms in Uzbekistan: Economic Policy and Development Strategy." – Tashkent: Uzbekistan, 2014. – 342 p.
4. Khodjaev, N. et al. "Economic Theory." – Tashkent: IQTISOD-MOLIYA, 2021. – 408 p.

5. Rustamova, D.M. "The Impact of Tax Policy on Small Business: Analysis and Evaluation." // *Economics and Innovative Technologies*. – 2023. – No. 3. – pp. 112–118.
6. Nurmatova, S.S. "Financial Stability Indicators in Small Entrepreneurship and Their Evaluation Methodology." // *Journal of Uzbekistan Finance*. – 2022. – No. 5. – pp. 21–28.
7. World Bank. *Doing Business in Uzbekistan 2023: Regulatory Reforms and Small Enterprise Environment*. Washington, D.C.: World Bank, 2023.
8. OECD. *Tax Policy Reforms: OECD and Selected Partner Economies*. 2022. [Online resource]: <https://www.oecd.org/tax/tax-policy-reforms.htm>
9. Akhmedova, M.M. (2023). Modern Approaches to Assessing the Economic Efficiency of Tax Incentives. *Science and Development*, No. 2(19), pp. 89–95.
10. State Committee of the Republic of Uzbekistan on Statistics. Official data. [Online source]: <https://stat.uz>