



The applying of tax benefits in the free economic zones on attracting foreign and domestic investments

Azizbek RAHMATOV¹

Ministry of Justice Republic of Uzbekistan

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ABSTRACT

Free economic zones (FEZs) have been used by many developing countries as a policy tool to promote industrialization and economic transformation. The free economic zones represents a new unilateral compromise between the state and market, while still contributing to economic globalization, by presenting itself as a complementary or as an alternative approach to integrate with the global market in addition to the international economic law instruments.

This article considers general information and importance of tax benefits in the free economic zones in Uzbekistan which are becoming one of the most effective and promising forms of attracting investment for development of economic and scientific potential. Also, foreign experience on attracting investments and some proposals are given in this article.

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Erkin iqtisodiyot zonalarida xorijiy va ichki investitsiyalarni jalb etish bo'yicha soliq foydalarini qo'llash

ANNOTATSIYA

Kalit so'zlar:

solliq,
bojxona,
investitsiyalar,
imtiyozlar.

Erkin iqtisodiy zonalar (EIZ) ko'plab rivojlanayotgan mamlakatlar tomonidan sanoatlashtirish va iqtisodiy o'zgarishlarni rag'batlantirish siyosati vositasi sifatida foydalanilgan. Erkin iqtisodiy zonalar davlat va bozor o'rtasidagi yangi bir tomonlama kelishuvni ifodalaydi, shu bilan birga, iqtisodiy globallashtirishga hissa qo'shib, xalqaro iqtisodiy huquq vositalaridan tashqari, jahon bozori bilan integratsiyalashuv uchun o'zini to'ldiruvchi yoki muqobil yondashuv sifatida ko'rsatadi.

¹ General counsel, Ministry of Justice Republic of Uzbekistan. Tashkent, Uzbekistan. E-mail: rahmatov-azizbek95@mail.ru

Ushbu maqolada iqtisodiy va ilmiy salohiyatni rivojlantirish uchun investitsiyalarni jalb etishning eng samarali va istiqbolli shakllaridan biriga aylanib borayotgan O'zbekistondagi erkin iqtisodiy zonalarda soliq imtiyozlarining umumiy ma'lumotlari va ahamiyati ko'rib chiqiladi. Shuningdek, ushbu maqolada investitsiyalarni jalb qilish bo'yicha xorijiy tajriba va ba'zi takliflar keltirilgan.

Применение налоговых льгот в свободных экономических зонах по привлечению иностранных и отечественных инвестиций

АННОТАЦИЯ

Ключевые слова:

налоги,
таможня,
инвестиции,
льготы

Свободные экономические зоны (СЭЗ) используются многими развивающимися странами в качестве политического инструмента содействия индустриализации и экономическим преобразованиям. Свободные экономические зоны представляют собой новый односторонний компромисс между государством и рынком, в то же время, способствуя экономической глобализации. Это представляет собой, рычаг дополнительного или альтернативного подхода к интеграции с мировым рынком, в особенности в дополнении к инструментам международного экономического права.

В данной статье, рассматривается общая информация и важность налоговых льгот в свободных экономических зонах Узбекистана. Которые, становятся одной из наиболее эффективных и перспективных форм привлечения инвестиций для развития экономического и научного потенциала. Также в данной статье приведен зарубежный опыт привлечения инвестиций и некоторые предложения

SEZ is an important institute of the world economy, a special form of international economic integration. Typically, it is a region, part of the national territory with special privileged foreign, customs, investment, monetary and financial, and taxation regimes supporting the economic production (commercial, entrepreneurial) activities of foreign participants, attraction of the foreign investments and advanced foreign technologies. The United Nations Organization gives its own definition. SEZ is a part of the territory of one state where the imported goods are considered to be outside the borders of the customs territory in relation to the import law and the corresponding taxes and are not subjects of customs control [11].

The tax and customs regime of free economic zones is a set of privileges and preferences aimed at creating a favorable investment environment and developing entrepreneurship, which is carried out using a set of legal means of influence of the state for non-legal entities characterized by a special combination of permits, prohibitions and obligations interacting with each other.

World practice shows that today many countries are taking measures to improve the legal regimes of the FEZ, including tax and customs regimes. Because the legal regime of the FEZ is considered a major factor in the development of the FEZ.

Recently, in the Republic of Uzbekistan, special attention has been paid to improving the legal regime of the FEZ. A number of legal acts were adopted. To date, these zones have a favorable tax and customs regime.

In other words, participants in free economic zones are exempt from paying:

land tax, income tax, property tax of legal entities, single tax payment for microfirms and small enterprises, as well as mandatory contributions to the Republican road fund and extrabudgetary Fund for the development of the material and technical base of educational and medical institutions under the Ministry of Finance of the Republic of Uzbekistan.

In addition, business entities of the FEZ are also exempt from paying customs duties (except for customs formalize fees) for equipment, raw materials, materials and components imported for own production needs;

customs payments (except for customs formalize fees) for construction materials not produced in the Republic and imported as part of projects, according to lists approved by the Cabinet of Ministers of the Republic of Uzbekistan.

Benefits above mentioned are provided for a period of 3 to 10 years depending on the amount of investments made, including the equivalent:

- from 300 thousand US dollars to 3 million US dollars – for a period of 3 years;
- from \$ 3 million to \$ 5 million - for a period of 5 years;
- from \$ 5 million to \$ 10 million - for a period of 7 years;
- from 10 million US dollars and higher - for a period of 10 years, with the use of the profit tax rate and the single tax payment in the amount of 50 percent below the current rates for the next 5 years [6].

Enterprises registered in FIEZ “Navoi” are exempt from the payment of customs duties (except for customs clearance) for imported equipment and raw materials and components for the production of exports for the whole period of operation of the free industrial and economic zone.

In order to manufacture products intended for sale in the domestic market of Uzbekistan, customs duties for goods imported into the country raw materials and component products, if legal documents are not provided other benefits, are charged at the rate of 50 % of the rates (except for customs clearance), with this time of payment may be extended to 180 days.

Special industrial zone (SIZ) “Angren” and “Djizak” organized by the decree of the President of the Republic of Uzbekistan № 4436 of 13.04.2012 in the city of Tashkent region [3] and the presidential decree № 4516 of 18.03.2013 [4], the Djizak in the field, along with the branch of the district Syrdarya region, respectively. The main tasks and activities of these zones is considered to be:

- Creating an enabling environment to attract investments, especially direct, for establishment and effective operation of modern high-tech productions for competitive on the domestic and global markets products with high added value;

- Providing integrated and effective use of production and resource potential of the region included in the special industrial zone, the creation of new enterprises to more advanced processing of mineral resources;

- Deepening the processes of localization of production of high-tech products based on local raw materials and on the basis of establishing close cooperative ties and development of industrial cooperation between enterprises of special industrial zones and the whole country;

- Provision of advanced development and efficient use of the transport, engineering, communications and social infrastructure, further development and widespread use of the potential of the logistics center “Angren” created a system of roads and container cargo.

Place participant in these special industrial zones defined by the Governing Body of SIZ “Angren” and “Djizak”.

During the period of implementation of actions on the territory of special industrial zones are special tax regime and customs privileges. Tax incentives and preferences of residents SIZ “Angren” and “Djizak”:

- Income tax, property tax of legal entities, the tax for the improvement and development of social infrastructure, the single tax for small businesses, as well as mandatory contributions to the Republican Road Fund;

- Customs duties (except customs duty) on the equipment, components and materials that are not produced in the country, imported into the territory of SIZ “Angren” and “Djizak” in the implementation of projects on the lists approved by the Cabinet of Ministers.

In Uzbekistan, the organization of free economic zones and attitudes regarding their activities are regulated by the Law of the Republic of Uzbekistan “On free economic zones”, adopted on 25 April 1996. In addition, taking into account established in the territory of the free economic zone of a special legal regime, as well as reflected in the specific list provided at the time of the economic activities of privileges and preferences to the current law introduced the possibility of reflecting the decree on the organization of free economic zones of additional guarantees and benefits.

So, if our law gives such kinds of benefits and privileges, what kind of problems stand in the way of attracting foreign investments?

As we know, successful attraction of foreign investments will depend on three factors. First, the existence of investment capacity. It consists of natural, labor resources, as well as production, consumption, financial, innovation, institutional and infrastructural capacities. Second, the current investment climate is crucial. These include: economic, market regulatory, information, environmental, social, ethnographic and socio-cultural conditions. Third, the risk of investment. They are in contrast to the responsibilities of foreign investors to take advantage of investment capabilities and advantages.

These all groups are closely interconnected. For example, insufficient attractive investment conditions can even reduce the capacity to implement high-capacity investment projects.

Investors generally tend to adopt a two-stage process when evaluating FDI locations. In the first stage they examine countries and regions based on their fundamental determinants like market size, access to raw materials, availability of skilled labor, etc. Only those areas that satisfy these criteria go on to the next stage of evaluation where tax rates, grants and other incentives become important. However, government can quickly and easily change the range and extent of tax incentives they offer, whereas changing other location factors mentioned above may be difficult and time-consuming, or even beyond government control (UNCTAD 2000).

In this study the incentive effects of various tax concessions on firms' investment decisions can be compared on the basis of the net present value model. Such a theoretical approach is accompanied by a model simulation based on selected parameters. Without taxation, net present value (NPV) is equal to present value of future gross return, discounted at an appropriate interest rate less the cost of investment. An investment project is therefore considered to be profitable when NPV is positive. After introducing corporate income tax, the present value of the asset generated from an investment amounts to the sum of present value of net return (gross return less taxes) and tax savings led by an incentive depreciation provision. If the investment is self-financed, the interest rate directly corresponds to the investor's opportunity cost. Under the assumption of a perfect competitive market structure, there is only one interest rate in the financial market [7].

In addition, anticipated effects of inflation on firms' investment decisions are examined in the context of corporate income taxation. The central issue is that the so-called historical cost accounting method, which is applied in practice when calculating the (corporate or income) tax base, causes fictitious profits in inflationary phases that are also subject to tax. This type of increased tax burden is generally referred to as inflation loss (Kay 1977; Feldstein 1979; King and Fullerton 1984; Gonedes 1984; OECD 2001; Devereux, Griffith and Klemm 2002). Therefore, in periods with inflation generous tax concession measures do not adequately promote private investment in the FEZ, as intended, but only (or partly) compensate for the losses caused by inflation [9].

In western countries, the government seeks to use a more flexible approach to coordinating foreign investment (tax, depreciation, fiscal and lending policy) in the strategy of capital intensification. Over the last decade, the responsibility and role of local communities has increased in the decision-making and implementation of investment decisions in the West. In many countries (United States, Great Britain, France, Germany), local authorities have sufficient independence to coordinate foreign investment and investor activities. In this case income tax is used as the main tool for coordination of the investment market. Changes in this tax rate have a direct impact on the investment activities of firms and companies.

It is crucial to pursue a regional investment policy in developed countries. The government regularly carries out an investment policy, taking into account the economic potential and development level of each region. At the federal level, there are no special programs to encourage foreign investment in the United States. All benefits and incentives for foreign investments are at the state level. This, in turn, creates a free competition between states to attract foreign investment. Each state has its own specially developed program for attracting national and foreign investments.

In the United States, privileges for foreign investors are tax incentives, financial assistance, infrastructure development, training, recruitment, reductions in rent, and direct financial resources for low interest loans [8].

The central government in China determines which sector to invest in the investment policy. Local authorities will simultaneously develop programs to encourage investment. Various forms of incentives such as "tax breaks" and conveniences for imports of foreign investments and liquidity on imports have been developed [10].

Nowadays, the following factors are causing the need for a large-scale involvement of foreign investment into the economy:

– Physical and spiritual depreciation of fixed assets in the economy, excessive material base in industry;

– The richness of Uzbekistan’s raw materials and natural resources, the ability to start and operate many processing industries;

– The relatively low export potential of the republic, the essential contribution of raw materials in exports, the need to develop ready products through the introduction of advanced technology and the need to change the volume and structure of exports.

The result of the analysis shows that large investors are slowly investing in the following reasons: lack of telecommunication services, the volatility of the national currency’s exchange rate against the foreign currency, the inflation level, the incompleteness of the secondary market in the market of securities and the direct the lack of investment banks, which guarantees a large volume of capital from diverse risks.

In order to further improve the investment climate in Uzbekistan it is advisable to implement the following measures: raising the value of the sum and stabilizing the interest rates on the basis of it; scientifically-based improvement of the tax system, taking into account the gradual implementation of reforms; the elimination of administrative barriers and the development of social psychology and thinking towards foreign investors; increasing the stock market’s prestige and liquidity and developing the securities market.

With the help of foreign experience in lending to enterprises with foreign investments, the involvement of large financial and credit systems or state-guaranteed loans in the crediting of these enterprises and the expansion of lending in these freely convertible businesses, as well as long-term credit while maintaining international leasing relations and encouraging the state to maintain this relationship is also crucial.

The following measures should be taken in the process of utilizing the methods used in the world practice in the development of investment projects and their effectiveness, taking into account the transition of Uzbekistan to the market economy, development of various forms of ownership and internationalization of production:

– Conducting wide range of marketing research in the project system, studying the main competitors of internal and external markets, pricing, future product prospects;

– The assessment of the effectiveness of the project, its socio-ecological consequences by taking into account the investment risks and inflation levels and the estimation of the impact of inflation on perspective prices and a range of costs and prices.

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