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# THE INFLUENCE OF TAX INCENTIVES ON INNOVATION IN INDUSTRIAL ENTERPRISES



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**Abstract:** This article analyzes the role of tax policy in the financial stimulation of innovative activity at industrial enterprises, as well as the impact of tax incentives and preferences on investment activity. In addition, the influence of tax mechanisms on innovative development is assessed based on statistical and theoretical data. The article presents two tables, on the basis of which analytical conclusions are drawn.

**Key words:** innovation, industrial enterprise, tax incentives, investment, financial stimulation, digital economy, technologies.

**Annotatsiya:** Mazkur maqolada sanoat korxonalarida innovatsion faoliyatni moliyaviy rag'batlantirishda soliq siyosatining o'rni, shuningdek, soliq imtiyozlari va preferensiyalarining investitsion faollikka ta'siri tahlil qilinadi. Bundan tashqari, soliq mexanizmlarining innovatsion rivojlanishga ta'siri statistik va nazariy ma'lumotlar asosida baholanadi. Maqolada ikki ta jadval keltirilgan bo'lib, ular asosida analitik xulosalar chiqarilgan.

**Kalit so'zlar:** innovatsiya, sanoat korxonasi, soliq imtiyozlari, investitsiya, moliyaviy rag'batlantirish, raqamli iqtisodiyot, texnologiyalar.

**Аннотация:** В данной статье анализируется роль налоговой политики в финансовом стимулировании инновационной деятельности на промышленных предприятиях, а также влияние налоговых льгот и преференций на инвестиционную активность. Кроме того, на основе статистических и теоретических данных оценивается воздействие налоговых механизмов на инновационное развитие. В статье представлены две таблицы, на основе которых сделаны аналитические выводы.

**Ключевые слова:** инновации, промышленное предприятие, налоговые льготы, инвестиции, финансовое стимулирование, цифровая экономика, технологии.

## INTRODUCTION

In the current conditions of globalization, the competitiveness of industrial enterprises largely depends on their innovative activity. The introduction of innovations requires significant financial resources. Therefore, incentives provided by the state through tax mechanisms are of great importance. Tax benefits, preferences, and subsidies encourage enterprises to invest more in research and development activities.

In the Republic of Uzbekistan, tax policy is also being improved in order to modernize industry and expand the production of high value-added products. The purpose of this article is to analyze the role of taxes in stimulating innovative activity from both theoretical and practical perspectives.

## REVIEW OF LITERATURE ON THE SUBJECT

The issue of stimulating innovation in industrial enterprises through fiscal mechanisms has been widely examined in the context of industrial economics, innovation theory, and public finance. Classical foundations for understanding the economic nature of innovation were laid by Freeman (2019) in *The Economics of Industrial Innovation*. Freeman conceptualizes innovation as a systemic and cumulative process shaped by institutional structures, technological trajectories, and government policies. Within this framework, fiscal instruments—particularly tax incentives—are regarded as indirect but powerful tools that influence firms' investment behavior in research and development (R&D). He argues that innovation performance depends not only on market competition but also on coordinated policy measures that reduce uncertainty and financial risk for enterprises.

A substantial body of empirical research evaluates the effectiveness of fiscal incentives in promoting R&D activities. Hall and Van Reenen (2020) provide a comprehensive analysis of tax-based R&D incentives, concluding that fiscal measures generally have a positive impact on private R&D expenditure. Their findings suggest that tax credits and allowances can stimulate additional R&D investment, although the magnitude of the effect depends on design features such as refundability, stability, and administrative simplicity. They emphasize that well-targeted tax policies reduce the user cost of R&D capital and enhance firms' innovation intensity, especially in industrial sectors characterized by high technological risk.

In the context of developing and transition economies, the relationship between taxation and innovation has specific institutional dimensions. Bahriddinov (2021) examines the principles of accelerating innovative activity in Uzbekistan through tax incentives. The author highlights that tax preferences—such as reduced profit tax rates, exemptions for reinvested earnings, and accelerated depreciation—serve as mechanisms to increase internal financing capacity for innovation projects. The study stresses that fiscal stimulation should be aligned with national innovation strategies and industrial modernization goals to ensure sustainable technological upgrading.

Further expanding on financial mechanisms of innovation support, Bahriddinov (2026) analyzes investment-based financial stimulation of innovative activities. The research underscores the complementary role of tax incentives and investment instruments in strengthening industrial enterprises' innovation potential. It argues that fiscal measures not only directly reduce tax burdens but also indirectly improve enterprises' investment attractiveness and creditworthiness. According to the author, an integrated financial approach combining tax benefits, targeted investments, and institutional support enhances innovation efficiency and long-term competitiveness.

Overall, the literature demonstrates a consensus that tax incentives function as an important policy instrument influencing innovation behavior in industrial enterprises. While theoretical perspectives emphasize the systemic role of the state in shaping innovation ecosystems, empirical studies confirm that properly designed fiscal measures can generate additional R&D activity and technological modernization. At the same time, researchers note that the effectiveness of tax incentives depends on institutional quality, transparency, and coordination with broader industrial and innovation policies.

## RESEARCH METHODOLOGY

In the article, scientific and theoretical approaches relevant to the topic were studied and analyzed. To achieve the objectives of the research, an appropriate research direction was selected. A research strategy was developed to deeply study and substantiate primary and secondary data sources.

## ANALYSIS AND RESULTS

Tax incentives are benefits introduced by the state to support certain types of activities, which reduce the tax burden and allow enterprises to retain additional funds. In the field of innovative activity, such incentives mainly encourage an increase in expenditures on research and development.

For example, the possibility of fully or partially deducting R&D expenses from the corporate income tax base expands the financial opportunities of enterprises to develop and implement new technologies. Accelerated depreciation speeds up the renewal of fixed assets and increases the technological level of production capacities (Figure 1).

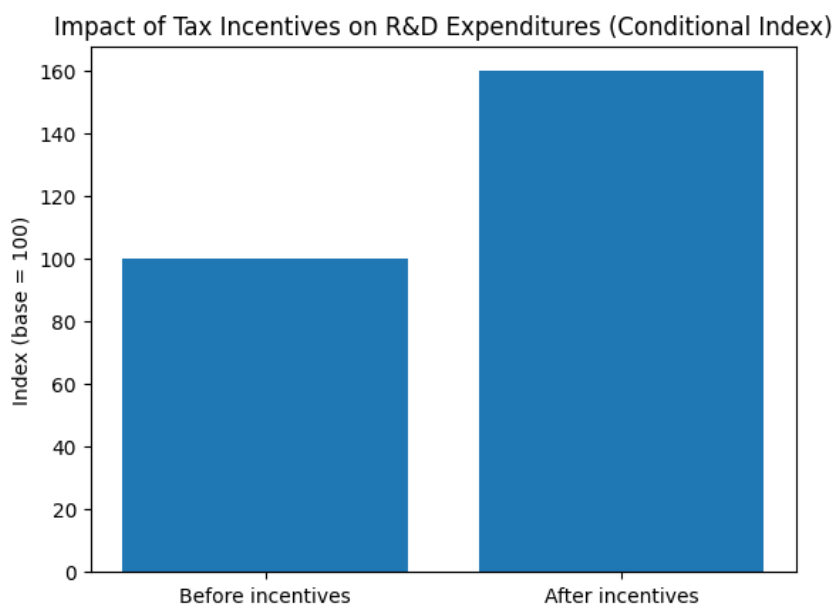


Figure 1. Impact of Tax Incentives on Research and Development (R&D) Expenditures (Conditional Index)<sup>1</sup>

The diagram compares R&D expenditures of industrial enterprises before and after the introduction of tax incentives in the form of a conditional index. The base level before incentives is taken as 100 units. The results show that after the application of tax incentives, expenditures on innovative activity increase significantly (by approximately 60%). This indicates that tax incentives reduce the financial burden on enterprises and encourage them to invest more in research and technological modernization. In the long term, such incentive mechanisms contribute to increasing production efficiency and competitiveness.

At the same time, the effectiveness of tax incentives depends on their clear targeting and transparent implementation mechanisms. If incentives are misdirected or control mechanisms are insufficient, they may lead to a reduction in budget revenues without producing the expected innovative results.

Innovative activity is the process of creating and implementing new or improved products, technologies, and management methods. Its financing relies on internal funds of enterprises, bank loans, state grants, and tax incentives. Through tax mechanisms, the state can create a favorable environment for innovative projects. In particular, corporate income tax deductions, accelerated depreciation policies, and the exclusion of R&D expenses from the tax base increase investment activity of enterprises (Table 1).

Table 1. Sources of Financing Innovative Activity and Their Characteristics<sup>2</sup>

Source	Main advantage	Limitation	Note
Internal funds	independence and flexibility	limited volume	financed from enterprise profits
Bank loans	possibility to attract large volumes	high interest costs	collateral is required
State grants	non-repayable	awarded on a competitive basis	high competition
Tax incentives	reduce costs	may be temporary	depends on state policy.

As shown in Table 1, tax incentives occupy a special place among the sources of financing innovative activity. Although they do not directly provide financial resources, they increase the amount of free funds by reducing the tax burden of enterprises, thus creating opportunities to invest additional resources in innovative projects.

The experience of developed countries shows that stimulating innovative activity through tax instruments has a significant impact on economic growth. For example, in the USA, European Union countries, and Japan, tax credits for R&D and tax incentives combined with grants are widely used. In these countries, tax incentives are granted based on clear criteria and the measurement of innovative outcomes is ensured. As a result, state support truly contributes to the creation of high value-added products.

<sup>1</sup> Made by the author.

<sup>2</sup> Developed by the author.

In national practice, taking into account this experience, it is important to improve tax policy and introduce clear and transparent mechanisms for supporting innovative activity. This will accelerate the technological modernization of industrial enterprises and increase their competitiveness in international markets (Table 2).

**Table 2. Impact of Tax Incentives on Innovative Activity (Conditional Assessment)<sup>3</sup>**

Indicators	Before incentives	After incentives	Change, %
Number of innovative projects	10	16	60%
Investment volume (billion soums)	50	80	60%
Number of new product types	5	9	80%
Share of R&D expenditures	3%	5%	+2 percentage points

The data in Table 2 show that after the introduction of tax incentives, innovative activity increased significantly. In particular, the number of innovative projects and the volume of investments increased by 60%, and the number of new product types increased by 80%. This confirms the practical effectiveness of tax incentives.

To improve tax incentives, it is necessary, first of all, to introduce a system for evaluating their effectiveness. The economic results of each incentive—such as additional value added, new jobs, and export growth—should be regularly assessed. In addition, simplifying tax procedures for innovative entities, digitalizing reporting processes, and reducing bureaucratic barriers are of great importance. This will allow enterprises to direct their resources directly to innovative projects.

Furthermore, combining tax incentives with other support instruments such as grants, subsidies, and venture financing will help strengthen the innovation ecosystem.

## CONCLUSIONS AND SUGGESTIONS

In conclusion, tax mechanisms play an indispensable role in the development of innovative activity in industrial enterprises. A well-directed tax policy increases investment activity of enterprises, strengthens competitiveness, and contributes to economic growth. Therefore, it is advisable to continue improving tax incentives that support innovation.

In addition, the effective application of tax mechanisms will help involve not only large industrial enterprises but also small and medium-sized businesses in innovative processes. However, the effectiveness of these mechanisms depends on their clear targeting, transparency, and the existence of a results-based evaluation system. Therefore, it is necessary to continuously improve tax policy, take into account foreign experience, and adapt it to national economic conditions. A transparent and stable system of tax incentives will improve the business environment and increase investment in research and development, thereby accelerating technological modernization of industrial sectors and ensuring long-term sustainable development of the national economy.

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<sup>3</sup> Author's own development.

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