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Mechanism Of Regulating Investment Activity

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Abstract: This article provides information on state regulation of investment activity, organization of the investment process, ensuring a stable environment, and the stages of production processes involving material and non-material resources among investment participants. It also discusses the essence and characteristics of investment relations.

Keywords: Investment activity, investment process, stable environment, material resources, investment relations.

Introduction: The development of a country's economy, the promotion of its stable growth through economic mechanisms, and the attraction of investment capital and overall investment appeal play an essential role in achieving sustainable progress.

The formation of the national economy requires the rapid improvement of several macroeconomic factors that ensure economic growth. The changes occurring in this field are characterized by their dynamic and transformative nature. Legislative frameworks on investment processes aim to organize the investment process, ensure a stable environment, and regulate the stages of production involving material and non-material resources, as well as the formation of economic and social relations between the investing parties. Similar to foreign countries, the participants in such relations are considered investment entities — including the State, legal and physical entities, foreign investors, and foreign legal and physical persons. From a legal perspective, the regulation of investment activity expresses the economic and legal relations arising when foreign investors own, manage, and use capital within another country's territory. The main goal is to gain profit, which is often associated with a high probability of facing economic risks.

Legislative norms express the essence and characteristics of investment relations. These norms create specific methods of regulation, reflecting both individual and socially necessary features of investment relations. Consequently, there arises a need to regulate investment relations that represent the essential conditions for economic development.

Review of Literature

The gradual implementation of reform consistency and its feasibility, as well as the study of foreign experiences in this regard, have been explored in the scientific works and articles of scholars such as M.M. Novikov, A.S. Neshitoy, O.S. Sukharev, K.V. Shvandar, A.V. Sisoev, V.S. Shapran, L.V. Shkvarya, O.V. Khmiz, and Ye.D. Khalevinskaya.

The mechanisms of improving foreign investment attraction, the structure of the investment environment, the importance of increasing the efficiency of foreign investment activities, and the significance of state support have been analyzed in the monographs, textbooks, and scientific-methodological works of A.V. Vakhabov, Sh.X. Khajibakiyev, N.G. Muminov, K. Djurayeva, N.Gʻ. Karimov, R. Khodjayev, N. Qoʻziyeva, and L.R. Shayusupova.

METHODOLOGY

In this study, methods of analysis and synthesis, as well as systemic and comprehensive approaches, were used.

RESULTS

In Uzbekistan, the regulation of investment relations is governed by several legislative acts, including: the Law “On Foreign Investments” (April 30, 1998); the Law “On Guarantees and Measures for the Protection of the Rights of Foreign Investors”; the Law “On Investment Activity” (December 25, 2019); presidential Decree PQ-3182 (August 8, 2017) “On Priority Measures to Ensure the Accelerated Socio-Economic Development of the Regions”; Presidential Decree PF-60 (January 28, 2022) “On the Development Strategy of New Uzbekistan for 2022–2026”; the Law “On Special Economic Zones” (February 17, 2020);Presidential Decree PF-6003 (October 10, 2020) “On Measures to Accelerate the Reform of State-Owned Enterprises and Privatization of State Assets”; the Law “On Public-Private Partnership” (January 22, 2021) and other related legal regulations.

The adopted and currently active laws and normative documents aim to ensure economic freedom, protect private property, and limit the interference of government bodies in economic activities. Foreign investors are provided with a system of guarantees and favorable conditions for the free use of their financial resources.

The implementation of state investment policy primarily involves determining and executing essential strategic measures. The main priorities in implementing state investment programs include:

-forming positive public and private sector perceptions;

-creating equal legal and economic guarantees for investors;

-optimizing the tax system — defining taxpayer status, streamlining the tax base and rates, and ensuring fair tax preferences;

-improving mechanisms for implementing investment projects;

-eliminating deficiencies in consulting services and legal requirements related to foreign economic relations.

The modernization of the economy, legal regulation of investment processes, and redirection of foreign capital to new projects are necessary. Taking into account the specific characteristics of each region, it is crucial to promote investments in underdeveloped areas by introducing simplified tax regimes.

Regulating investment processes requires not only nationwide legal and normative frameworks but also region-specific approaches based on local economic potential. In economically lagging regions, the state can implement a differentiated investment policy aimed at improving the business environment.

In the context of economic modernization and diversification of industry sectors, it is important to study the experiences of other countries regarding the positive and negative impacts of taxes on investment activities.

Applying tax incentives fairly is a complex process. The introduction and implementation of tax benefits differ among countries and depend on macroeconomic conditions. In Uzbekistan’s tax legislation, the introduction of tax privileges is based on specific criteria — including taxpayers’ social status, the priority of sectoral development, domestic production of import-substituting goods, export activity, and bilateral taxation relations.

Clearly and transparently defining the criteria for tax benefits ensures an objective taxation process. Although the use of tax benefits is primarily aimed at promoting macroeconomic development, they are also directed toward supporting the interests of economic entities. These include reducing tax rates, extending payment deadlines, providing tax deductions, applying financial sanctions, and introducing tax holidays.

In most developed countries, the fiscal function of taxes is used widely to encourage and regulate investment activity. One of the main tax benefits that promotes socio-economic progress is the investment tax credit. For example, in the United States, this type of benefit was applied between 1962 and 1986. Industrial enterprises in developed countries could reduce profit tax by up to 7% for equipment with a service life of eight years or more, with smaller reductions for short-term equipment.

Similarly, tax credits can be applied to research and innovation-related expenditures. In developed countries, companies can deduct a portion of their research and innovation expenses exceeding the average level of previous business periods. These deductions amount to 20% in the U.S., 50% in France, and 20% in Japan.

Such tax benefits create opportunities for expanded reproduction, technical renewal, overhaul, reconstruction, and modernization.

Tax incentives can take various practical forms:

-tax credits in the form of deductions from profit tax;

-complete or partial exemption from taxes, or application of reduced rates;

-accelerated depreciation, where tax rates remain unchanged, but the taxable profit base is reduced (certain expenses are excluded from taxation).

CONCLUSION

Some representatives of economic schools express negative views on introducing tax benefits, arguing that they lead to inefficiency in economic distribution, imbalances, and complications in tax administration. However, in our opinion, tax incentives serve as an effective economic stimulus granted by the state to support investment activities. Unlike in developed countries, where financial resources are abundant, developing countries face a greater need for capital and often lack sufficient internal funding sources. Economic literature also notes that tax benefits, alongside the reduction of average and maximum tax rates, support the fiscal functions of taxes.

When accepting foreign capital, creditors often design their tax policies to create favorable conditions for directing investments while considering the interests of the investing side. In Uzbekistan, various forms of tax benefits — including reduced tax rates, tax deductions, and partial or full tax exemptions — are already being effectively implemented.

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