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Tax Policy in Times of Crisis

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Abstract. *The article analyses the specific features of tax policy in the context of economic crises and instability. It examines the key objectives of tax regulation during crises, including ensuring stable tax conditions, reducing the tax burden on businesses, and promoting investment activity. Special attention is given to differentiating approaches to corporate income taxation.*

The article proposes specific measures to improve the tax system, such as introducing tax incentives, expanding the use of investment tax credits, and simplifying tax procedures. Emphasis is placed on the need to balance the fiscal and simulative functions of taxation. The conclusion highlights the importance of shaping a tax policy that can mitigate the effects of crises and create a foundation for economic growth.

Keywords*: tax policy, tax credit, corporate income tax, tax incentives, crises, investments, dividends, R&D.*

Introduction. Tax policy plays a key role in ensuring economic stability, especially during times of crisis. During economic downturns and crises, governments face the challenge of mitigating negative impacts on businesses and populations, supporting domestic demand, and stimulating economic growth. At the same time, state budgets often face deficits, which complicates fiscal policy objectives. Thus, tax policy becomes not only a tool for revenue generation but also an essential mechanism for crisis management. Additionally, corporate taxation serves as a significant factor in ensuring the transparency of financial reporting (Toshmatov, Abdullaev & Ahrorov, Z. O., 2022).

In times of crisis, tax systems face unique challenges, including the need to enhance tax flexibility, ensure equitable distribution of the tax burden, and maintain the country's attractiveness to investors. Introducing tax incentives, deferrals, subsidies, and other fiscal measures is one of the key steps in creating favorable conditions for economic recovery.

The purpose of this article is to explore approaches to tax policy implemented during times of crisis and to identify the characteristics and effectiveness of various measures in mitigating economic shocks.

Literature Review. Tax policy in times of crisis has been the subject of numerous studies aimed at finding effective fiscal support measures and mitigating economic shocks. Over the past decades, amidst global and local crises, the role of tax policy as a tool for crisis management has been repeatedly reconsidered and updated.

One of the key aspects of tax policy is the optimization of the tax burden during economic downturns. Research by G. Blau and P. Thomas (Blau & Thomas, 2020) demonstrates that

temporary reductions in income and corporate tax rates can support economic activity by allowing businesses to allocate freed-up resources to operational expenses, investments, and job retention. The authors emphasize that this measure is particularly relevant for small and medium-sized enterprises, which are the most vulnerable to economic crises.

D. Hilton (Hilton, 2019), in his research, emphasizes the importance of tax incentives and subsidies as part of crisis management policies. He highlights that such measures not only stimulate demand and increase consumption levels but also strengthen the resilience of strategic economic sectors by supporting their investment potential and competitiveness. The studies also explore temporary tax exemptions on capital investments and property, which enable companies to reduce asset-related costs during periods of crisis.

According to research by T. Reyes (Reyes, 2018), tax deferrals and payment installments help improve the liquidity of enterprises, allowing them to allocate freed-up funds to debt repayment and maintain solvency. Reyes emphasizes that such measures help prevent widespread bankruptcies and sustain economic activity in key sectors.

Experts such as S. Chen and E. Ferguson (Chen & Ferguson, 2021) also highlight the importance of flexible tax regimes that can be adapted to the specifics of crisis situations. For example, they note that during the COVID-19 pandemic, which affected large segments of the population and business sectors, a unique tax strategy was necessary to preserve jobs, support incomes, and ensure minimal purchasing power.

Analyzing the experience of various countries, J. Mayers (Mayers, 2022) emphasizes that combining tax relief with enhanced administrative support and measures aimed at simplifying tax procedures provides a foundation for accelerated economic recovery. The author notes that such an approach helps reduce businesses' administrative costs and speeds up access to government subsidies and incentives.

Based on the review, it can be concluded that the most effective tax policy measures during crisis periods include reducing the tax burden, providing tax incentives and subsidies, introducing tax deferrals, and flexibly adapting tax legislation.

The study of Uzbekistan's tax policy in the context of crisis phenomena is becoming increasingly relevant in the scientific community of the republic, especially in light of global economic challenges and the need to maintain stability in the national economy. Uzbek scholars are actively analysing the adaptation of the country's tax system to crisis conditions and proposing measures aimed at supporting businesses, stimulating employment, and protecting vulnerable segments of the population.

One of the key issues is the flexibility of tax policy in the face of external shocks. In his research, Sh.X. Usmanov (Usmanov, 2020) notes that tax incentives and subsidies provided to small and medium-sized businesses during crises can significantly reduce the risk of bankruptcy and strengthen their resilience. Usmanov emphasizes that an important component of anti-crisis policy is the temporary exemption from taxes on profits and property for companies experiencing losses. He believes that such measures not only contribute to the survival of businesses but also stimulate their further development in conditions of uncertainty.

M.Yu. Kamilova (Kamilova, 2021) emphasizes the need for tax deferrals to support the liquidity of businesses facing solvency difficulties. In her opinion, tax policy should be adapted to the specific conditions of the crisis, providing opportunities for debt restructuring and tax deferrals. Kamilova notes that during the 2020 crisis, such measures helped maintain economic activity and prevented mass layoffs in the private sector.

Another important topic addressed by Uzbek scholars is tax support for strategic sectors of the economy. According to A.K. Ergashev (Ergashev, 2022), tax incentives aimed at supporting sectors such as agriculture, pharmaceuticals, and light industry can contribute to the rapid recovery of the economy and ensure food and medical security. A.K. Ergashev emphasizes that targeted tax incentives for these sectors create conditions for increasing the competitiveness of domestic products and reducing dependence on imports.

It is also worth noting the work of S.B. Kadirov (Kadirov, 2019), who emphasizes the importance of simplifying tax administration for small businesses during a crisis. Kadirov points out that excessive tax reporting and administrative barriers can significantly increase business costs in times of crisis, which only exacerbates their financial problems. The author suggests implementing digitalization of tax accounting and reporting to reduce administrative costs and speed up interaction between businesses and tax authorities.

Main part. The regulatory potential of taxes is largely tied to the scope and directions of providing tax incentives aimed at mitigating the impact of crisis phenomena. Investment incentives for businesses under this tax, despite their significant formal expansion in terms of economic influence, remain inefficient. The main issue with the incentive system lies in the principle of their provision – tax incentives are available only for direct investments and only for investments. As a result, the process of intersectoral capital flow remains highly constrained and ineffective. Even under the influence of crisis phenomena on the domestic economy, indirect support for large enterprises continues to persist, largely at the expense of relatively small businesses. This can be explained by the fact that additional incentives for the latter (investment tax incentives) cannot compensate for losses, either in terms of volume or purpose, due to the inability to broadly apply general tax incentives because of the established percentage cap on the amount of tax payment reduction.

Therefore, under current conditions, such a limitation of incentives (including investment tax incentives and other benefits), with a reduced initial tax payment amount, is only reasonable when the tax is focused on fiscal goals. This is due to the fact that such a limitation, in times of crisis, can serve as a stabilizer for the budget's revenue base, thereby preventing a significant drop in budget revenues, for example, from corporate income tax in the case of “mass” investments triggered by international crisis phenomena.

A separate issue is the tax limitation on the profitability of businesses and the constant drive to extend it to all enterprises. The widespread use of similar mechanisms has demonstrated the low effectiveness of such measures. The attempt to prevent the growth of profitability (relative to cost price) creates a tendency for increased costs, which, in the context of a crisis and resulting inflation, means its automatic spread throughout the technological chain (Avdeeva, E.A., 2021). Moreover, for businesses, the only way to regulate the volume of profit in the current conditions remains reducing cost prices, which unequivocally leads to a trend of lowering expenses. This is why, in order to prevent crisis phenomena, increasing production volumes becomes economically feasible, as it is the only way to achieve savings on current expenses and leads to an increase in the share of fixed costs in the cost price, thus supporting profit growth.

It should be noted that, in the context of an increasing role of crisis management, the current tax system limits the ability of businesses to use borrowed funds in the investment process. The mechanism for accounting and taxation does not allow for the inclusion of interest expenses on investment loans in the cost price. The payment of these interest, as well as on loans for working capital that exceed the Central Bank’s base interest rate (similarly for loans to cover the shortage of own working capital), from net profit not only reduces the attractiveness of credit resources but also

makes them inaccessible to businesses. The likelihood of using loans in the form of bonds for financing long-term investments is also low, as the interest on them is fully paid from net profit.

Thus, under the current mechanism, for example, the corporate income tax, businesses are unable to accumulate any funds for investment before taxation. And when using accumulated funds from net profit in the following tax period, they are unable to make the corresponding tax offset. As a result, the investment opportunities for businesses are initially limited by the annual volume of profit (more precisely, half of it) and the amount of accumulated depreciation deductions.

At the same time, limiting tax incentives for portfolio investments not only restrains the development of the stock market but also hinders the flow of capital into efficient, especially high-tech sectors of the economy. Income from the growth in asset value (including securities) is taxed at a rate no lower than the corporate income tax rate. Under current legislation, this income is only protected from inflation (and mostly on paper), but there are no tax incentives for its taxation, which makes it difficult to finance high-tech projects. Any portfolio investments in rapidly growing financial assets become unprofitable.

The situation with portfolio investments is exacerbated by the property tax on businesses, which includes securities as taxable property. While the financial market in the country is not well developed, this issue is not yet keenly felt, but the process of privatization and corporatization will inevitably bring this problem to the forefront. The taxation regime leads to multiple taxation of dividends: once as part of the profits of the distributing company, and again at the source of the payment to the shareholder.

As a result, portfolio investments become extremely unprofitable for economic entities, except for investment funds, for which property tax is not applied. They are particularly disadvantageous for real investors, on whose balance sheets securities remain for extended periods, and to a lesser extent for stock market speculators. This issue needs to be addressed today in order not to undermine the already limited incentives for portfolio investments, including in the form of intersectoral capital flow.

In fact, the property tax rate on businesses establishes a minimum return threshold for securities and may soon trigger a "dumping" of securities by their owners, further worsening the situation on the financial market. This is particularly dangerous in light of the mass corporatization of large enterprises, which are likely unable to immediately provide dividend payouts at the minimum return level for their shareholders, considering the corporate taxation. This issue could significantly adjust the projected outcomes of privatization.

Legislative work should begin with the issue of the mechanism for tax incentives for portfolio investments as a unified process, which includes both income (profit) and property taxation.

Undoubtedly, the introduction of an investment tax credit could help create a tax system adapted to market mechanisms. However, this type of tax incentive has not yet become widespread. The areas of investment for which a tax credit may be granted (such as import substitution, equipment for R&D and environmental protection, machinery, industrial work, etc.) should be aligned with the capabilities of the recipients of this credit – enterprises with fewer than 100 employees. At the same time, the limitation on the credit amount – 10% of the equipment value – should be complemented by a limit on the reduction of tax payments, which should not exceed half of the total tax payment.

The most significant limitation for the investment tax credit should be granting tax authorities the right to set any interest rate on the tax credit (not exceeding the compound inflation rate). Therefore, substantial support for the financing of investments and R&D could help mitigate the impact of financial-economic reserves on the development of enterprises. At the same time, the

investment tax credit mechanism has proven effective in global practice as a tool for supporting and implementing innovation processes.

Crisis phenomena confirm that high inflation rates and the low attractiveness of production activities may lead to temporarily idle funds being placed in deposits, making this one of the most effective microeconomic strategies for entrepreneurial entities. As a result, financial resources are transferred from the production sector to the circulation sector, as the latter today is virtually the only real consumer of credit resources at the prevailing market interest rate.

One of the main drawbacks of the domestic tax system and its associated mechanisms is the lack of an active depreciation policy as a powerful lever of support for businesses, especially in times of high inflation. It is unlikely that market legislation on these issues will be developed. However, the revaluation of fixed assets may only expand the financial opportunities for investment at enterprises through depreciation deductions, but this measure may have a short-term effect. High inflation rates can significantly reduce its effectiveness. Moreover, the revaluation of fixed assets will only result in new price surges and spikes in insolvency among a significant number of businesses, which are not related to the real crisis situation.

In the context of crisis management, there is an urgent need to develop an active and differentiated depreciation policy, effective legislation on accelerated depreciation, alongside a revision of the accounting system. This is necessary to more fully and realistically reflect wear and tear and the size of enterprises' working capital (from the perspective of capital reproduction, rather than just physical reproduction). Such solutions could support businesses, help them accumulate depreciation funds, while making it more difficult for these funds to be diverted for wages. At the same time, the inflow of funds into commercial bank deposits would increase, helping banks facing significant challenges with passive operations during crisis conditions, which would also contribute to the stabilization of the credit market. However, the issue of the legal framework for the use of accelerated depreciation write-offs in the context of crisis management remains unresolved.

These circumstances allow for the formulation of some key areas, in our view, for improving the tax system. First and foremost, it would be advisable to expand tax incentives for direct investments in enterprise modernization, in line with the already established goals and priorities in tax legislation. This primarily applies to investments in product processing enterprises. Tax incentives for portfolio investments are also needed, with a clear distinction between the incomes of real investors and speculators. To this end, a 50% reduced tax rate could be introduced on income from the appreciation of securities, provided they have been on the company's balance sheet for more than a year. A similar incentive should be established for individual investors based solely on tax returns. This would stimulate the declaration of individual income.

To support small entrepreneurship and private businesses, it is advisable to introduce a taxable minimum profit (income), indexed to inflation rates. Setting the minimum at least 50% of the first income tax bracket for individuals will protect small businesses from rising inflation.

Current tax legislation provides a regime for ensuring the financial stability of enterprises – the offset of past losses. This regime should be accompanied by limitations that neutralize its impact. Firstly, the offset of losses should be limited to 50% of the reduction in the tax payment amounts. Secondly, there should be a mandatory uniformity in the loss write-off over five years. Given the current inflation rates, this means that the benefit is provided only for one-fifth of the loss amount, which will be offset in the first year, while the remaining portion of the loss will effectively be "eaten up" by inflation. Additionally, there is a regime for subsequent loss offset. In a number of countries, businesses have the right to spread losses at their discretion across prior and subsequent years (Zaynalov & Alieva, 2019). This allows for more efficient mitigation of fluctuations in profit

levels without significantly impacting budget revenues. In the context of crisis conditions and the potential budget deficit in our country, it is difficult to implement such an approach, but its future use cannot be entirely ruled out.

In addition to the incentives provided to businesses on profit tax, which can potentially lead to a reduction in the effective tax rate, our tax system includes two elements that increase the effective tax rate. These are penalties for exceeding the regulated expenditure limits for production costs and penalties for exceeding the maximum profitability thresholds.

Conclusion. Today, attempts to implement an independent tax policy for banks and insurance companies begin with their classification as separate categories of taxpayers. The payment of income tax at current rates (on income from insurance activities) by these institutions primarily carries a fiscal burden, as it ensures relatively greater stability of revenue inflows for this category of taxpayers and, in some cases, significantly increases the effective corporate income tax rate to 60% or more.

Differences in the taxation procedure for these entities place them in unequal financial and tax conditions, distort their competitive positions, skew investment efficiency evaluations in various assets, and generally increase the cost of banking and insurance services. This complicates the tax calculation process and creates opportunities for tax manoeuvring.

Thus, in the context of crisis phenomena, the main tasks for adjusting the current tax system are: ensuring the stability of tax conditions for all business entities; improving the competence of tax service employees; revising tax instructions to eliminate various interpretations and contradictions with the legislation. Implementing a unified and balanced industrial policy implies the identification of fundamentally different priorities in tax policy. In this regard, it is advisable to strengthen the stimulating role of taxation, primarily within the framework of direct taxation, by expanding investment-related tax benefits, which should cover not only investments in domestic production but also portfolio and equity investments. Benefits for production investments should also be extended to individuals – individual investors. Taxation should account for industry-specific differences, particularly in the area of depreciation policy. For example, benefits under corporate income tax should be linked to the scale of property taxation, and tax support for small businesses should include the introduction of a minimum threshold exempt from income tax.

At the same time, the tax system may focus on indirect taxation, particularly value added tax and excise taxes. It is advisable to avoid further complicating the value added tax payment mechanism, prevent the formation of a fiscal tax system, revert the tax system to a fiscal regime, and practically exempt purely financial flows from value added tax.

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