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## FOREIGN EXPERIENCE IN TAX INCENTIVES FOR INNOVATIVE ACTIVITIES

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**Abstract:** The article examines and analyzes the foreign experience of taxation of innovative activities. Currently, the leading industrial countries apply various types of tax incentives to stimulate innovation. The main principle of the Western system is that tax incentives are provided not to scientific organizations, but to enterprises and investors. Foreign experience in tax support for innovation provides Uzbekistan with guidelines that can and should be used in the formation of a system of tax incentives for the scientific and innovative sphere.

**Keywords:** innovative activity, tax incentives, incentives.

### Introduction

The most important condition for the scientific and technological development of any state is state stimulation of the innovation market [1].

In the last years, researchers have been interested in the problems of the state's role in stimulating innovation. An important place in this policy is given to the tax measure. The introduction of tax incentives in most developed countries was prompted

by governments seeking to induce private businesses to become more involved in funding national research and development (R&D) projects.

In developed countries, the system of tax privileges and incentives has existed for a long time. In the post-World War II United States, tax legislation enacted rules aimed at creating a favourable environment for the development of R&D and innovation activities of firms. So, since 1954, there was a procedure for deducting from the taxable amount of expenditures for research and experiments in the current year or amortization of these expenses for a period of up to 5 years. In addition, additional tax privileges have been provided for educational and research expenditures in the public interest. Since 1981, the main method of tax incentives has been a tax credit for R&D (ie, exemption from taxation of a certain amount of R&D expenditures).

### **The Main Findings and Results**

In Canada, tax incentives for innovation have been in place since the early 1960s. XX century, and since 1967, the country introduced a special system of grants to stimulate innovation in firms.

Japan has extensive experience in tax incentives for innovation. The country practices six different approaches to stimulate innovation:

- system of accelerated depreciation for scientific education (since 1954);
- tax discounts on development costs (since 1966);
- special benefits on the cost of purchasing foreign technology (since 1956);
- tax discounts on amounts paid for the use of foreign technology (since 1953);
- special tax rebates for the purchase of new imported equipment (since 1951);

-Tax relief on research expenditures (preferential rate is 20% of the amount of the increase in R&D expenditures compared to the highest amount spent for the specified purposes in any year after 1966).

In Sweden, the tax exemption for innovation has been in place since 1973. The tax-exempt amounts are equal to 10% of the firm's R&D costs, and there is a special 20% discount on the increase in research costs in a given year over the previous year.

In France, the system for stimulating innovation has been in effect since 1983 [2].

Currently, leading industrial countries apply various types of tax incentives that stimulate innovation, from research and investment tax credits, targeted investment and innovative tax incentives allocated for the execution of important orders, to programs and projects for the creation, implementation and use of R&D results for reconstruction of production [3].

All tax incentives can be subdivided into volumetric ones, i.e. proportional to the amount of costs incurred, and incremental, calculated depending on the increase in R&D costs in comparison with the base year or the average level for a certain period [4].

In the Netherlands, the volume discount applies only to the amount of the salaries of scientists and engineers engaged in R&D.

The incremental discount is based on the increase in R&D costs achieved by the company over the base year or period average.

France, Canada, the United States, and Taiwan use incremental tax incentives. The maximum incremental rate is 50% in France. In Canada, USA, Japan and Taiwan it is 20%.

A key element of any national incentive model is a reduction in corporate income tax.

The most universal profit tax benefit is the write-off of current accumulated R&D costs when determining the tax base, as well as accelerated depreciation of equipment used for R&D. Thus, enterprises operating with profit can reduce their taxable base by the amount of qualified R&D expenses incurred in the current year. In addition, a number of countries have rules that allow companies to deduct more funds from the tax base than spent on R&D.

The most typical types of tax benefits implemented in recent years by industrialized and newly industrialized countries include the following: tax credit; write-offs from the taxable base; deferred taxation (tax relief for depreciation and temporary discounts); deduction of R&D expenses incurred during the year from the annual corporate income [5].

The tax credit allows industrial firms to reduce the already accrued income tax by an amount equal to a certain percentage of the qualified R&D costs incurred.

As for the deferral of taxation, this type of tax incentives is intended to resolve problems that arise for enterprises that spend funds on R&D and purchase the equipment necessary for this, but have not yet received sufficient profit to use “their tax benefits” in full. [6].

An increase in the share of benefits that ensure a favourable innovative climate is a general trend. In the United States, there are more than a hundred benefits that enhance scientific and technological progress (STP). The main advantage of tax support is that incentives are not provided in advance, but as a reward for real innovation.

The main principle of the Western system is that tax incentives are provided not to scientific organizations, but to enterprises and investors. Incentives plus competition provide a strong demand for research and innovation. Regular monitoring of benefits

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allows the state to purposefully stimulate innovative activity in priority sectors, to influence not only the structure and number of scientific and innovative organizations, but most importantly, the structure of production [7].

Each country implements its own set of benefits, the combination of which depends both on the goals and objects of incentives and on a number of factors and restrictions of a more general nature.

## Conclusion

All this testifies to the fact that despite the widespread use of tax incentives by industrialized and newly industrialized countries, there are no standard "recipes" that include certain combinations and guarantee a positive effect today. National systems of tax incentives for science and technology are formed gradually, taking into account not only the accumulated world experience, but specific factors, conditions and restrictions, individual for each country. In this sense, the foreign experience of tax support for innovation activity represents only certain benchmarks for Uzbekistan, which can and should be used to form a system of tax incentives for the scientific and innovative sphere, adequate to the specific historical conditions and restrictions of Uzbekistan.

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