



THE IMPACT OF TAX INCENTIVES ON THE DEVELOPMENT OF SMALL BUSINESS

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***Abstract.** This article examines the impact of tax incentives on the development of small businesses from a scientific and analytical perspective. Today, small business is an important component of the economy, and its development is closely related to the state tax policy. According to statistical data, small businesses in Uzbekistan account for about **51–52 percent of the country's gross domestic product (GDP)** and play a significant role in economic growth. As of 2025, there are **more than 1.2 million active small business entities** operating in the country, contributing around **33 percent of industrial production, more than 75 percent of construction works, and over 80 percent of retail trade turnover**. The article analyzes the role of tax incentives in supporting small businesses, including reduced tax rates, temporary tax exemptions, and simplified taxation systems, and their impact on entrepreneurial development. In particular, the reduction of the turnover tax rate to **1 percent for certain micro-business entities** is considered an important factor in reducing the tax burden on small businesses. The study concludes that tax incentives play a significant role in increasing investment activity, creating new jobs, and strengthening the competitive environment in the economy.*

***Keywords:** small business, tax incentives, entrepreneurial activity, tax policy, economic development, investment.*



Introduction. Today, small business and private entrepreneurship play an important role in ensuring the stable development of the national economy. They are a key factor in creating new jobs, increasing population incomes, strengthening competition in the market environment, and diversifying the economy. Therefore, many countries use various economic and institutional mechanisms to support small business activities. Among these mechanisms, tax policy—particularly tax incentives—has a special significance.

Tax incentives serve to reduce the financial burden on business entities, stimulate investment activity, and support new business initiatives. In particular, easing the tax burden for small business entities is an important factor in ensuring their financial stability, expanding production capacity, and developing innovative activities. At the same time, the economic efficiency of tax incentives and their impact on the real sector remain issues that require special attention in scientific research.

In the current era of globalization, countries are striving to develop effective tax mechanisms aimed at supporting small business in order to enhance economic competitiveness. From this perspective, a deep scientific analysis of the impact of tax incentives on the performance of small businesses, their investment activity, and economic growth processes is of great scientific and practical importance.

The aim of this article is to analyze the impact of tax incentives on the development of small business from both theoretical and practical perspectives and to assess their economic effectiveness. The research examines tax policy instruments, key performance indicators of small businesses, and the interrelationship between them.

Main Part



Small business and private entrepreneurship are important components of the modern economy. They play a significant role in ensuring economic growth, increasing employment levels, and forming a competitive environment under market economy conditions. Therefore, tax policy—especially tax incentives—is widely used as one of the key tools for supporting small business activities by the state. Through tax incentives, financial relief is provided to business entities, and their economic activity is encouraged.

In economic theory, tax incentives are considered one of the mechanisms through which the state influences economic processes. Through them, the government achieves the development of specific sectors, attraction of investment, and stimulation of entrepreneurial activity. In particular, reducing the tax burden for small business entities increases their capacity to expand production and implement new projects. According to researchers, tax incentives help increase the competitiveness of business entities by increasing their financial resources [1].

In addition, tax incentives have a significant impact on the investment activity of small businesses. The reduction of tax burdens leads to the formation of additional financial resources within business entities. As a result, these funds are directed toward modernizing production, introducing new technologies, and improving service quality. This contributes to the development of innovative activity in the economy and increases product competitiveness. Some economic studies emphasize that tax incentives help strengthen the economic stability of small businesses by improving the investment climate [2].

Furthermore, tax incentives also expand the capacity of small businesses to create new jobs. The reduction of financial burdens enables business entities to expand their activities, create new production facilities, and hire additional labor. As



a result, employment increases and socio-economic stability is ensured. At the same time, the effectiveness of tax incentives is closely linked to their targeted application and economic justification. If tax incentives are not directed toward clear economic goals, they may lead to a reduction in state budget revenues. Therefore, economists emphasize the need for continuous evaluation of the economic efficiency of tax incentives when implementing them [3].

Overall, tax incentives are one of the important economic instruments supporting the development of small business. They positively influence economic growth by expanding the financial capacity of business entities, stimulating investment activity, and creating new jobs. At the same time, in order to increase the effectiveness of tax incentives, it is important to apply them in line with the priority directions of economic development.

LITERATURE REVIEW. In the development of small business, tax policy—especially tax incentives—is considered one of the key economic instruments. In economic literature, tax incentives are interpreted as a mechanism that stimulates entrepreneurial activity, increases investment activity, and supports economic growth. From this perspective, they serve to reduce the financial burden on small business entities, thereby ensuring their stable operation [4].

Scientific studies indicate that tax incentives have a direct impact on the development indicators of small businesses. In particular, simplified taxation systems, reduced tax rates, and simplified reporting procedures lead to an increase in the number of small enterprises and an expansion of their share in the economy. As a result, new jobs are created and the level of employment increases [5].

From a theoretical perspective, tax incentives are an important component of fiscal policy, performing regulatory and stimulatory functions in the economy. In



this regard, determining the optimal level of the tax burden is of great importance. According to some economic concepts, excessively high tax rates reduce economic activity, whereas appropriately designed incentives contribute to the expansion of entrepreneurship. This phenomenon is explained by theoretical approaches describing the relationship between tax rates and tax revenues [6].

At the same time, scientific sources also highlight certain negative aspects of tax incentives. In particular, excessive or improperly allocated incentives may lead to a reduction in state budget revenues and inefficient allocation of economic resources. Therefore, when introducing tax incentives, it is important to ensure their targeted application, temporariness, and effectiveness.

Overall, the analyzed literature confirms that tax incentives are an important factor in the development of small business. They serve as an effective tool for stimulating entrepreneurial activity, activating investment processes, and ensuring economic growth. At the same time, their effectiveness depends on a well-designed tax policy and an efficient management system.

CONCLUSIONS AND RECOMMENDATIONS. The results of this study show that tax incentives are an important economic tool in the development of small business. They play a significant role in reducing the financial burden on business entities, increasing investment activity, and creating new jobs. In particular, simplified taxation systems and optimized tax rates contribute to expanding the share of small business in the economy.

The analysis also shows that tax incentives may lead to a short-term decrease in state budget revenues; however, in the long term, these losses are compensated through increased economic activity. At the same time, improper or inefficient use of incentives may result in the misallocation of economic resources.



Based on the above, the following recommendations have been developed:

1. Targeted allocation of tax incentives – incentives should primarily be granted to small businesses engaged in innovative activities, export-oriented production, and high value-added creation.
2. Ensuring the temporariness of incentives – tax benefits should be limited to a specific period, and their effectiveness should be regularly evaluated.
3. Simplification of tax administration – reporting procedures for small businesses should be further simplified, and digital platforms should be widely introduced to reduce the share of the informal economy.
4. Strengthening monitoring and evaluation systems – continuous analysis based on clear criteria should be conducted to assess the economic effectiveness of tax incentives.
5. Introducing a regional differentiated approach – additional tax incentives should be implemented in less developed regions to support small business development.
6. Improving financial literacy – awareness-raising activities on tax policy and existing incentives should be strengthened among entrepreneurs to ensure effective use of available opportunities.

In general, tax incentives are an effective tool for supporting small business, and their scientifically based and systematic application has a positive impact on national economic development.

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