

STRATEGY FOR DIGITALIZING THE USE OF TAX INCENTIVES IN THE ECONOMY

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Abstract: *This article examines strategic directions for digitalizing the use of tax incentives in the economy. Tax incentives are commonly used to stimulate investment, innovation, exports, regional development and formalization of entrepreneurial activity. Nevertheless, their effectiveness is often limited by fragmented databases, manual verification, weak post-benefit monitoring and insufficient transparency. The article argues that digitalization should be understood as a full-cycle institutional strategy rather than as a simple transfer of paper-based procedures into electronic form. Such a strategy should combine automated eligibility assessment, taxpayer digital identity, risk-based compliance, inter-agency data exchange, performance dashboards and public reporting of tax expenditures. A conceptual model of a digital tax incentive management platform is proposed for developing economies, with particular attention to Uzbekistan's ongoing tax administration reforms, e-invoicing, automated reporting and digital public-service agenda. The results show that digitalization can reduce administrative costs, limit discretionary decision-making, prevent misuse of incentives and increase the measurable economic return of fiscal support instruments.*

Keywords: *tax incentives; digitalization; tax administration; digital economy; investment policy; risk-based compliance; fiscal transparency; Uzbekistan.*

Аннотация: *В статье рассматриваются стратегические направления цифровизации использования налоговых льгот в экономике. Налоговые льготы применяются как инструмент стимулирования инвестиций, инноваций, экспорта, регионального развития и формализации предпринимательской деятельности. Однако их эффективность часто ограничивается фрагментарностью баз данных, ручной проверкой, слабым мониторингом после предоставления льготы и недостаточной прозрачностью. В статье обосновывается, что цифровизация должна пониматься как комплексная институциональная стратегия, а не как простая электронная форма бумажных процедур. Такая стратегия должна объединять автоматизированную оценку права на льготу, цифровую идентификацию налогоплательщика, риск-ориентированный контроль, межведомственный обмен данными, панели мониторинга эффективности и публичную отчетность по налоговым расходам. Предложена концептуальная модель цифровой платформы управления налоговыми льготами для развивающихся экономик, с особым вниманием к реформам налогового администрирования, электронным счетам-фактурам, автоматизированной отчетности и цифровизации государственных услуг в Узбекистане. Результаты показывают, что*

цифровизация способна снизить административные издержки, ограничить субъективность решений, предотвратить злоупотребления и повысить измеримую экономическую отдачу налоговых льгот.

Ключевые слова: *налоговые льготы; цифровизация; налоговое администрирование; цифровая экономика; инвестиционная политика; риск-ориентированный контроль; фискальная прозрачность; Узбекистан.*

1. Introduction

Tax incentives occupy a central place in modern fiscal policy. Governments use exemptions, reduced rates, deductions, accelerated depreciation, investment allowances and tax holidays to influence the behavior of firms and households. In economic policy, these instruments are expected to reduce the cost of priority activities and redirect private resources toward investment, technological modernization, exports, employment creation and balanced territorial development.

At the same time, tax incentives are not costless instruments. Every exemption or preferential regime reduces potential budget revenue and creates an implicit public expenditure. Unlike direct budget spending, tax expenditures are often less visible, more difficult to monitor and less frequently evaluated. Therefore, the effectiveness of tax incentives depends not only on their legal design but also on the capacity of tax administrations to verify eligibility, control risks and measure outcomes.

The digital transformation of tax administration has changed the conditions under which fiscal policy is implemented. Modern tax systems increasingly rely on taxpayer portals, electronic invoicing, online cash registers, digital payments, automated reporting, digital identities, data warehouses and risk-scoring mechanisms. The OECD's work on tax administration digitalization shows that tax administrations are moving toward more seamless, data-driven and real-time interaction with taxpayers. This transformation creates a new opportunity: tax incentives can be managed not as isolated privileges, but as measurable instruments within a digital fiscal governance architecture.

For Uzbekistan, this problem is especially relevant. The country has expanded electronic tax services, strengthened the use of e-invoices and promoted the digital transformation of public administration under the "Digital Uzbekistan–2030" strategy. At the same time, Uzbekistan uses a broad set of tax and non-tax incentives to stimulate investment and achieve national development objectives. These two trends create a practical need to connect tax incentive policy with digital tax administration.

The purpose of this article is to develop a strategic framework for digitalizing the use of tax incentives in the economy. The article aims to identify the weaknesses of traditional tax incentive administration, define the principles of a digital strategy and propose a full-cycle model for the management, monitoring and evaluation of tax incentives.

2. Literature Review and Theoretical Background

The literature on tax incentives generally emphasizes their ambivalent nature. On the one hand, they can serve as tools for industrial policy, regional development, investment

attraction and innovation support. On the other hand, poorly targeted incentives may generate revenue losses, distort competition and encourage rent-seeking behavior. This dual nature explains why international organizations increasingly recommend that tax incentives be subject to systematic evaluation and transparent reporting.

The International Monetary Fund has recently stressed that the management of tax incentives in developing countries requires revenue authorities to prevent abuse and revenue leakage through risk-based compliance programs. This approach combines supportive, preventive and corrective practices. In practical terms, it means that tax incentive administration must include both service functions and control functions.

The OECD's digital transformation agenda adds another dimension to this discussion. Digital tax administration is not limited to electronic filing or electronic payment. It includes digital identity, data collection, data sharing, analytics, APIs, pre-filled information and real-time interaction. These technologies can reduce compliance burdens for taxpayers while increasing the analytical capacity of tax authorities.

The World Bank also highlights the importance of integrated taxpayer portals and direct electronic payments. Digital services reduce manual procedures, improve taxpayer convenience and strengthen the security of fiscal transactions. For tax incentives, the same logic applies: a taxpayer should not repeatedly submit paper documents already held by the state, while the tax authority should be able to verify eligibility through digital data exchange.

In the context of Uzbekistan, the issue of tax incentives is linked to the broader investment climate. OECD analysis of Uzbekistan's investment policy emphasizes the role of tax and non-tax incentives in channeling investment to specific sectors and locations. This makes it necessary to move from a fragmented incentive regime toward a transparent system in which the fiscal cost and economic effect of each incentive can be measured.

Table 1. Conceptual interpretation of tax incentives in economic policy

Analytical dimension	Meaning	Governance implication
Fiscal dimension	Tax incentives reduce actual or potential tax revenue.	They should be treated as tax expenditures and monitored as public resources.
Investment dimension	Incentives reduce the cost of capital and encourage priority activities.	Eligibility must be linked to measurable investment commitments.
Administrative dimension	Incentives create additional verification and monitoring tasks.	Digital tools are needed to reduce bureaucracy and prevent misuse.
Institutional dimension	Incentives influence relations between state agencies, investors and taxpayers.	Inter-agency data exchange and accountability are necessary.

Analytical dimension	Meaning	Governance implication
Development dimension	Incentives are expected to support innovation, exports, employment or regional growth.	Post-benefit evaluation should measure real economic outcomes.

3. Methodology

The study uses a qualitative research design based on institutional analysis, comparative policy interpretation and system modeling. The object of the research is the mechanism of tax incentive administration, while the subject is the strategy for digitalizing the use, monitoring and evaluation of tax incentives in the economy.

The article applies three methodological approaches. First, a functional approach is used to identify the economic roles of tax incentives: investment stimulation, innovation promotion, export support, formalization and regional development. Second, an institutional approach is applied to examine the legal, administrative and organizational conditions that determine whether tax incentives work effectively. Third, a digital governance approach is used to design a model in which data, platforms, algorithms and inter-agency integration become core elements of fiscal policy implementation.

The analytical base includes international policy materials on tax administration digitalization and tax incentive management, as well as publicly available information on Uzbekistan’s digitalization and tax administration reforms. The article does not conduct econometric testing; rather, it proposes a conceptual and applied model suitable for further empirical validation.

Table 2. Research design of the article

Element	Description
Research problem	Weak transparency and limited measurability of tax incentives under traditional administration.
Research purpose	To develop a strategic model for digitalizing tax incentive management.
Main methods	Institutional analysis, comparative policy analysis, system modeling and logical generalization.
Empirical context	International tax administration practice and Uzbekistan’s digital tax reforms.
Expected contribution	A full-cycle digital governance model for tax incentives.

4. Results and Discussion

4.1. Why Traditional Tax Incentive Management Is Inefficient

Traditional administration of tax incentives often relies on separate paper applications, manual approval procedures and fragmented databases. In such a model, the state may

formally grant a tax benefit but may not have sufficient real-time information about whether the beneficiary continues to meet the conditions of the incentive.

Several governance problems arise from this situation. First, the eligibility decision may depend excessively on subjective administrative interpretation. Second, taxpayers may be required to submit the same documents to different agencies. Third, the fiscal cost of incentives may remain unclear because information is dispersed across institutions. Fourth, performance monitoring may occur only after a long delay, when corrective action becomes difficult.

A digital strategy must therefore address the full life cycle of tax incentives: registration, application, eligibility assessment, approval, use, monitoring, audit, evaluation and termination. If only the application form is digitalized, the deeper institutional problem remains unresolved.

Table 3. Weaknesses of non-digital tax incentive administration

Problem	Risk for the state	Risk for business	Digital solution
Manual applications	Slow processing and higher administrative costs.	Time loss and repeated document submission.	Single online portal with standardized fields.
Fragmented databases	Incomplete view of taxpayer activity.	Unclear requirements and inconsistent decisions.	Inter-agency data exchange and unified taxpayer profile.
Weak eligibility verification	Misuse of incentives and revenue leakage.	Unequal competitive conditions.	Automated matching with legal criteria.
Limited post-benefit monitoring	No evidence of economic results.	Uncertainty about obligations after approval.	Digital performance dashboard and periodic reporting.
Low transparency of tax expenditures	Difficult budget planning and weak accountability.	Low trust in policy stability.	Annual public reporting in aggregated form.

4.2. Principles of a Digital Tax Incentive Strategy

A strategy for digitalizing tax incentives should be based on several principles. The first principle is legality: all digital procedures must follow the Tax Code and relevant regulations. Algorithms cannot replace law; they can only operationalize legal criteria in a transparent and auditable way.

The second principle is transparency. Taxpayers should clearly understand eligibility criteria, required documents, deadlines, obligations and reasons for approval or refusal. Public authorities should also disclose aggregated information about the fiscal cost and economic impact of incentives.

The third principle is data integration. Tax incentives are rarely based only on tax information. Investment volume, sector classification, export activity, employment,

customs operations and project location may all be relevant. Therefore, the platform should connect tax, customs, statistics, investment and business registry databases.

The fourth principle is risk-based control. Not all beneficiaries require the same level of administrative attention. Low-risk taxpayers should receive simplified service, while high-risk cases should be subject to deeper verification. Such differentiation reduces administrative burden and improves the efficiency of control.

The fifth principle is outcome orientation. A tax incentive should not be evaluated only by the number of beneficiaries. It should be evaluated by fiscal cost, investment generated, jobs created, export growth, innovation output and compliance with obligations.

Table 4. Principles of digitalizing tax incentive use

Principle	Strategic meaning	Practical mechanism
Legality	Digital decisions must be based on clearly defined legal criteria.	Legal criteria are translated into machine-readable rules.
Transparency	Taxpayers and policymakers should understand how incentives are granted and evaluated.	Clear online rules, decision logs and public tax expenditure reporting.
Data integration	Relevant information should be verified without repeated paper submission.	APIs between tax, customs, investment and statistics databases.
Risk-based control	Administrative resources should focus on high-risk cases.	Risk-scoring system and targeted audits.
Outcome orientation	Incentives should generate measurable development results.	Performance indicators and post-benefit monitoring.

4.3. Proposed Full-Cycle Digital Platform

The proposed solution is a unified digital platform for tax incentive management. The platform should not duplicate existing tax services; instead, it should connect them into a single life-cycle management system for incentives. The platform would begin with taxpayer authentication and end with evaluation of the achieved result.

The application module should allow taxpayers to submit requests for incentives through a single portal. The eligibility module should automatically compare the applicant's data with legal requirements. The approval module should record decisions and create a digital audit trail. The monitoring module should track whether the taxpayer fulfills the conditions of the incentive. The risk module should identify inconsistencies, suspicious claims and potential misuse. Finally, the evaluation module should compare the fiscal cost of the incentive with its economic effect.

Such a platform would also support policy learning. If a certain incentive produces low investment, weak employment effects or high misuse risk, policymakers would have

evidence to redesign or terminate it. Conversely, incentives that demonstrate strong development impact could be improved and expanded.

Table 5. Functional architecture of a digital tax incentive platform

Platform module	Key function	Data required	Expected result
Digital identity and taxpayer profile	Authenticates the taxpayer and consolidates basic information.	TIN, registration data, ownership, compliance history.	Reliable identification and reduced fraud risk.
Application module	Receives applications and supporting information.	Electronic forms and uploaded or pre-filled data.	Lower administrative burden.
Eligibility module	Checks legal criteria automatically.	Sector, location, investment amount, employment, export status.	Faster and more consistent decisions.
Risk-scoring module	Classifies beneficiaries by compliance risk.	Past violations, invoice patterns, VAT behavior, discrepancies.	Targeted control and fewer unnecessary audits.
Monitoring module	Tracks the fulfillment of obligations.	Investment reports, e-invoices, customs records, payroll data.	Early detection of non-compliance.
Evaluation module	Measures fiscal cost and economic return.	Tax expenditure data, output, jobs, exports, innovation indicators.	Evidence-based fiscal policy.

4.4. Uzbekistan’s Practical Context

Uzbekistan has several preconditions for the digitalization of tax incentives. The “Digital Uzbekistan–2030” strategy establishes a broad national direction for digital transformation of the economy and public administration. In tax administration, electronic invoices, online cash registers and automated tax reporting already provide a large volume of structured data that can be used for compliance monitoring.

The Ministry of Investment, Industry and Trade indicates that certain tax benefits are provided to legal entities created with foreign direct investment, including exemptions from land tax, property tax and water use tax under the conditions established by legislation. This demonstrates that incentives are directly connected with investment policy and should therefore be evaluated not only by legal approval but also by achieved economic results.

Publicly reported data also show that Uzbekistan's digital tax infrastructure is expanding. In 2024, all invoices and receipts were reported as electronic, VAT reporting was 93 percent automated, and e-invoice turnover increased significantly. These indicators suggest that the state already has a digital foundation for more advanced incentive monitoring.

However, the existence of digital tax instruments does not automatically mean that tax incentives are managed digitally. A separate institutional mechanism is needed to connect incentive decisions with data from e-invoices, customs, investment projects, business registries and statistical reporting. The proposed platform could become such a mechanism.

Policy Recommendations

Create a unified digital registry of tax incentives. All incentives should be recorded in one system with information on legal basis, duration, beneficiary category, fiscal cost and expected development effect.

Introduce automated eligibility verification. The tax authority should use data from business registration, customs, statistics and investment agencies to verify whether the taxpayer meets legal criteria.

Develop risk-based monitoring of beneficiaries. Beneficiaries should be classified by risk level using compliance history, transaction patterns and inconsistencies between reported and observed data.

Integrate incentive monitoring with e-invoices and online cash registers. Real transaction data can help determine whether the beneficiary is actually conducting the activity for which the incentive was granted.

Publish annual tax expenditure reports. Aggregated information about the cost and effectiveness of incentives should be disclosed to increase accountability and improve fiscal planning.

Use artificial intelligence carefully and transparently. AI may support risk detection and forecasting, but decisions must remain legally explainable and subject to administrative review.

Conclusion: The digitalization of tax incentives is a necessary stage in the modernization of fiscal policy. In a digital economy, tax incentives cannot remain dependent on manual procedures, fragmented data and weak post-benefit control. They must become transparent, measurable and integrated into the broader architecture of digital tax administration.

The article has shown that tax incentives should be managed through a full-cycle digital system. Such a system should include taxpayer identification, online application, automated eligibility assessment, risk-based control, inter-agency data exchange, performance monitoring and annual evaluation. This approach can reduce administrative costs, limit corruption risks, prevent misuse and increase the economic return of fiscal support.

For Uzbekistan, the proposed strategy is timely because the country already has important digital preconditions: electronic invoices, online receipts, automated tax

reporting and a national digital transformation agenda. The next step is to connect these instruments with the management of tax incentives. As a result, every incentive should be legally justified, digitally traceable and economically accountable.

The broader conclusion is that the success of tax incentives in the twenty-first century depends not only on how generous they are, but also on how intelligently they are administered. Digitalization makes it possible to transform tax incentives from opaque fiscal privileges into evidence-based instruments of inclusive and sustainable economic development.

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