



## TAX POLICY OF THE COUNTRY FOR THE DEVELOPMENT OF AGRICULTURAL CLUSTERS

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**Abstract:** This article reveals the issues of the country's tax policy for the development of agricultural clusters. For example, tax systems can incentivise farm investments by reducing taxable income through provisions for depreciation. In some countries, the tax system allows farmers to smooth income variations over time by using tax averaging. Taxes on income, property and land, and capital transfer may affect structural change, while differential tax rates on specific polluting activities, resources, or input use may affect sustainability. This chapter outlines the wide range of tax rates, as well as the diversity and frequency of concessions in agriculture found across the reviewed countries. It briefly discusses the likely effects of tax systems and concessions for agriculture on the performance of the sector. Finally, it points to the need to improve understanding of the direct and indirect effects of tax provisions on agriculture and to evaluate the impact of tax policy on agriculture on a more regular basis.

**Keywords:** agro cluster, innovations, cluster, a competition, cooperation, organizational-economic tools, an infrastructure, the approach, signs, system, an area of expertise, territory, administrative technologies, managing.

### Introduction

The President of Uzbekistan has set an ambitious goal: to increase GDP. Economic reforms are in full swing. Various sectors of the economy are developing. However, looking at open data, we can see that the share of, for example, industrial production is smaller than that of trade. In the GDP of developed countries, the sphere of real production, despite the growth of the service sector, remains significant and significant.

Let's take Germany for example. According to 2020 data, the share of the industrial production sector was 23% against the trade sector, which amounted to 16% together with transport. The service sector of any country is also affected by the growth of real production. It is impossible to provide services without real production. A simple example: the provision of information services is impossible without means of communication and electronic equipment, which is produced in plants and factories, and there are a lot of such examples.

Thus, the real production industry feeds the service sector and is still the engine of economic growth throughout the world. This issue is especially acute in Uzbekistan, since in our specific conditions it becomes practically impossible to achieve GDP growth without an increase in real production.

The tax policy of the state is a powerful tool that can stimulate the growth of real production and the involvement of capital in this area. The more the sphere of real production is stimulated by tax instruments, the more transparent the “rules of the game”, the more attractive this sphere is for international investors. The population of Uzbekistan has exceeded 35 million people, our country has a favorable geographical position within Central Asia - all this makes our country attractive both for the

development of real production and for potential investors. However, according to experts, manufacturers and a number of journalists and researchers, tax instruments to stimulate the growth of real production are not used to the full extent. There is room for improvement, and there are a number of areas that can be deepened to ease the position of producers in the area of taxation.

### Literature review

Statement of the problem in general form and its connection with important scientific and practical tasks. By according to scientists and researchers V.A. Kundius, V. P. Arashukova, E. A. Romanova [1, p. 56–57], [2, p. 198–199], [3] In the field of application of innovative tools cops in the agro-industrial complex an effective form of use competitive advantages in unstable, crisis conditions are clusters. Communication theorists define the role of clusters in the agro-industrial complex with the principles, the most important of which is territorial. [4, p. 496].

M. G. Akhmadeev, R. G. Bagautdinov associate clusters with different development of infrastructure [5, p. 38].

Approach to the formation the system of regional agro-industrial sterov is considered by A. A. Nastin [11, p. 53–57]. Theoretical and methodological provisions on the creation cluster structures can be of practical importance in the agro-industrial complex of the Nizhny Novgorod region through a local development of social economic system in the form formation of integrated systems, use high-tech fundamentals in agriculture and Clustering coverage of agricultural production private cooperatives and small forms of management.

Analysis of recent studies and publications that dealt with aspects of this problem and which the authors substantiate; highlighting previously unresolved parts of the general problem. Important the side of the cluster system is the integration economic agents based on competitive advantages. In assessing the processes of reproduction and the formation of agricultural clusters in the country, it is required to study the role of agricultural holdings, which are still not objects of statistical accounting and analysis. [13, p. 46]. There are examples of regional clusters, which are based on a sustainable system of dissemination of new technologies, knowledge, products using network management and relying on a joint scientific base. Clusters in the agro-industrial complex are a convenient tool for interacting with businesses, reducing dependence on vertically organized business groups through the diversification of the territorial economy and solutions social problems of the regions [1, p. 57]. Further should explore the cluster approach, which is based on a new theory of economic growth, where the factors of economic development are science, innovation, human capital.

Formation of the goals of the article (setting the task) development of theoretical and methodological approaches to the introduction of an innovative organizational and economic mechanism of the cluster in our country.

## Methods and results

Tax policy affects agricultural competitiveness through its impact on farm income levels and variability, investment in land and technology, labour and other input use, and the adoption of farm practices. For example, tax systems can incentivise farm investments by reducing taxable income through provisions for depreciation. In some countries, the tax system allows farmers to smooth income variations over time by using tax averaging. Taxes on income, property and land, and capital transfer may affect structural change, while differential tax rates on specific polluting activities, resources, or input use may affect sustainability.

This new review of taxation in agriculture in 35 OECD countries and emerging economies outlines the diversity of tax provisions affecting agriculture, provides an overview of cross-country differences in tax policy, and confirms the widespread use of tax concessions specifically for agriculture, although their importance and modalities differ across tax areas and countries. Common concessions include exempting small farmers from paying taxes, allowing cash-based accounting, providing estimates of taxable income thereby eliminating the need to keep accounts, reducing annual land and property taxes, reducing the taxes associated with the transfer of land between generations, exempting farmers from being registered for value added taxes and providing tax concessions for fuel used in agricultural production.

These concessions were often established long ago and have not since been revisited. Some countries have, however, increased agricultural tax concessions, often in response to the deterioration of the economic situation of farm households, while others have simplified the taxation systems to limit concessions to agricultural land and basic food products. Additionally, some countries have made changes to tax system provisions in order to help smooth income variability. Finally, the use of taxation to improve environmental performance has become more widespread, as has the reliance on tax rebates to support R&D investment.

The review of the literature suggests that tax policy is often used as a lever through which to affect behaviour in the agricultural sector, impacting producer income, farmland transfer, investment, innovation, and sustainability outcomes. In some cases, the tax system is used to complement other policies in achieving larger goals. In other cases, taxes or tax concessions in one area provide incentives that are contrary to the achievement of policy goals in other areas.

There is evidence that in many countries, tax provisions supported farm income, facilitated innovation and investment, thus allowing farm expansion. The economic position improved for farm households compared to non-farm households when after-tax income was considered. At the same time, income taxation generally reduces the frequency of low incomes among farm households. Another general finding is that tax instruments have limited capacity to improve sectoral productivity and sustainability when inefficient farms are largely exempted from taxation. There is growing evidence that environmental taxation can be an effective tool to curb pollution, but careful design and communication on objectives are needed.

Although many countries include provisions in their tax codes designed to influence the agricultural sector, for most of the topic areas explored in this review,

there remains only scant sector-specific analysis that can inform future policymaking efforts. The exception to this has been in the area of sustainability, where new tax policies have been implemented alongside monitoring programmes, and periodic analyses of ex post effectiveness have been published and often lead to policy changes to improve effectiveness or repeal inefficient taxes. But the impact of other kinds of taxes on natural resource use is not documented.

Further investigation is needed in nearly all areas covered here in order to make more definitive determinations on whether or not tax provisions have achieved their aims (and if so, under what conditions), how they have contributed to improving farm productivity and sustainability, what secondary effects these tax policies have had on production and investment decisions in the sector, and how they affect competition, within and across countries.

In Uzbekistan, the calculation of value added tax is complicated, and it is required to separate it from income tax - this creates a burden on accountants. The value added tax should, figuratively speaking, "live its own life". It is required to simplify the collection of VAT. The complexity of VAT calculation and VAT administration creates problems for entrepreneurs.

Income tax also creates certain difficulties. Income tax does not meet modern realities and also "scares" accountants. It is required to work out the reporting forms, standards, approve the forms of accounts. Preparatory work for the introduction of new forms of taxation is insufficient. The property tax for producers also creates certain difficulties. For start-up producers, the property tax is a complication in the form in which it exists today. Property tax is not fair. Turnover tax requires monthly rather than quarterly reporting, which also creates difficulties for manufacturers. Administration is complicated, which creates difficulties for accountants.

Modern progress of market attitudes in agrarian and industrial complex forces to look for innovative approaches to organizational-economic mechanisms of management of technological processes in agrarian and industrial complex. The effective form in unstable, crisis conditions can become cluster integration structures. Cluster is a network of economically independent industrial or service firms, founders of technologies and a know-how connecting a market infrastructure, the consumers cooperating with each other within the limits of a uniform chain of creation of consumer costs and having geographical proximity. The cluster approach becomes one of base methods of realization of the state economic policy. Cluster in economic systems is the most effective both adequate organizational-economic mechanism and the tool of support of national agro business in a global competition. Cluster strategies have received the big propagation in industrialized countries of the Europe, Asia, and America. Agro cluster not being the organizational-legal form of the enterprise, assumes creation in the limited territory on principles of partnership, cooperation and an area of expertise of the associations which are equal in rights-managing agro firms, agricultural industrial cooperations and other enterprises with conservation of economic and legal independence where as motive power of innovative progress the competition acts. At construction of architecture agro cluster pays attention to principles of its creation. The complex and statistical analysis of

facilities of agrarian and industrial complex and economic activities of Uzbekistan area has allowed to generate idea about introduction of the innovative form of managing agro cluster in territory of the Uzbekistan area. Results of the SWOT-analysis have allowed defining strategic directions of clusterization of the rural area providing progress of territory through cooperation, integration on the basis of the scientifically-methodical approach. The major principles which are

providing the foundation for innovative cooperation are: division of expenses, reception of technological knowledge, mutual aid in development of a new product, technologies, branch standards, a gain of the additional markets and others. Motivational components clusters consider a survival and stability of progress of small and average agro business through possibilities: receptions of credits under guarantees of the company; uses of objects of an integration infrastructure; participation in investment programs and projects with objective of attraction of investments; achievement of the high quality standards of technological processes and production; savings in purchases due to teamwork with suppliers; a collective brand, joint a distributive network.

Thus, the creation of agricultural clusters in district will increase the synergistic effect from the presence of similar enterprises in it, not only technological process, but also serving organizations of the main enterprises. Thanks to agricultural clusters, an innovative inter-sectoral system will appear, which will be aimed at the production of a limited, differentiated number of products with guaranteed sales within and outside the agrocluster. To approach the real model of the agrocluster, you need:

- decentralization of management of the agro-complex;
  - transformation of potential cluster members into independent legal entities, real owners;
  - creation of a system of economic interests of mutually beneficial cooperation within the cluster;
  - the use of existing elements of clusters, for example, the involvement of universities in the agrocluster, which could compensate for the lack of a scientific center and surpass it in many ways;
  - the use of bioenergy installations, as well as other innovative technologies to transform agrocluster into an ecologically closed system; - Establishing informal relationships cluster members;
  - creation of a collegial cluster management body – the Cluster Council;
  - development of a unified cluster development strategy;
- The activities of the cluster in Uzbekistan may affect important sectors of the economy:
- development of leading branches of agriculture with the purpose of obtaining agricultural raw materials and healthy food products.

Previous OECD work in this area concluded that, while tax policies as they relate to agriculture can take different forms depending upon the country, they can generally be classified according to the following typology: taxes on income, profits and capital gains; social security contributions<sup>1</sup> (which are a mixture of tax, duty and insurance); taxes on payroll and workforce which concern farm operators as

employers; taxes on property (including taxes on property transfer); and taxes on goods and services (including sales tax and VAT) (OECD, 2005[1]). While the sector is certainly affected by the levying of different tax provisions in these areas, it also benefits relative to other sectors through the granting of tax concessions. A given tax measure is considered to be a “tax concession” to agriculture if it results in differential treatment to the sector in such a way that agriculture is



favoured, resulting in some foregone tax revenue, or “tax expenditure”. Furthermore, any given tax measure is only considered as an agricultural tax concession in the OECD framework to measure agricultural support if the policy mainly benefits the agricultural sector and not other sectors to which they may also apply [e.g. fisheries, small and medium-sized enterprises (SMEs)]. Some commonly utilised concessions include special tax rates applied to farmer income; allowing income tax averaging to smooth income across years given that income from agriculture is more volatile than income in most other sectors; special treatment for depreciation (in particular through accelerated write-offs) to encourage investment; preferential treatment on property taxes applied at transfer by sale, gift or death to facilitate farm transition with minimal disruption to producing activities; and preferential treatment on taxes on inputs, outputs, or VAT (including fuel tax exemptions).<sup>2</sup> Previous OECD work on taxation in agriculture emphasised that tax concessions are used as a vehicle to achieve a wide variety of objectives in the sector (OECD, 2005[1]). However, a comparative analysis of these regimes is complicated by the fact that some of the observed measures are not viewed as agricultural concessions in some countries, as the same treatment is available for non-farm households.

Given the ubiquity of agricultural tax concessions, it would be rational to anticipate that a substantial body of scholarship would have analysed the effects of these concessions. Instead, only a handful of studies devoted to these mechanisms within the sector were identified, with much of the evidence base covered in this review drawn from more generic, economy-wide analyses. This gap is a consequence of various factors, including the lack of uniformity in national tax structures that complicates cross-country analysis efforts; the reduced public scrutiny on these policies since they result in foregone revenue rather than direct budget outlays; the necessity of sifting through multiple layers of tax regulation (national, regional, local) in any comprehensive analytical framework; and the political sensitivity of analysing agricultural taxation provisions (OECD, 2005[1]; Hill and Blandford, 2007[2]). Nevertheless, tax provisions, whether concessional or not, can have substantial repercussions for farm income, input use, transfer arrangements, and investment decisions.

## Conclusion

Over the next five years, it is planned to increase productivity by at least 2 times, ensure deep processing of raw materials, and increase exports to \$7 billion.

The cluster system in a short time created the basis for big changes. So, in cotton growing alone, fiber processing increased 2.5 times and reached 100%. The head of state stressed the need to continue this work and expand the capabilities of clusters.

“The main problem is the outdated method of financing,” the President said. - It does not meet the requirements of the industry development. Cotton-textile clusters are asking for longer loan terms and increased amounts. This old system will now be completely changed.

Now the financing of cotton harvesting will begin with the beginning of arable land, that is, in October. Cluster loans will be issued for a period of 24 months, and their grace period will be increased from 11 to 18 months.

The cluster will repay the loan received after the raw material has been converted into finished products - not earlier than it is processed into yarn or fabric. 10 trillion soums will be

allocated from the budget for the implementation of this system. To this end, an additional \$100 million will be allocated to the Agricultural Support Fund by the end of the year.

It is planned to increase the level of yarn processing in the clusters from the current 50 to 70% in the next two years. In this regard, new mechanisms for supporting clusters have been announced. Thus, financial grants from the state are provided for the purchase of equipment for dyeing fabrics and the production of mixed fabrics, depending on the capacity of the enterprise. Another \$150 million will be allocated for lending to such projects.

Starting next year, clusters will be given the opportunity to take loans secured by raw cotton and fiber.

At the meeting, instructions were given to further strengthen the legal guarantees for the activities of clusters.

Starting next year, a competition will be held among insurance companies to insure crops against weather risks. For clusters and farmers with export contracts, 50% of the insurance premium will be covered by the state.

The Ministry of Agriculture was instructed to provide infrastructure for fruit and vegetable clusters and processing enterprises, as well as to create agro-logistics centers based on PPP.

To support farmers and clusters, from next year payments on loans for the purchase of equipment in excess of 10% will be covered by the state. In addition, imported equipment, components and spare parts will be exempt from customs payments for a period of 3 years.

It also provides for the provision of benefits for laser leveling, planting new disease-resistant varieties of crops, the development of seed production, and the use of water-saving technologies.

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