

**THEORETICAL FOUNDATIONS OF TAX POLICY IN THE DEVELOPMENT OF
ENTREPRENEURIAL ACTIVITY**

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Abstract: This article extensively covers the theoretical foundations of tax policy. In our study, the influence of the tax burden on entrepreneurial activity, the volume of investments, and innovation processes was analyzed based on economic theories. Stimulating and restrictive mechanisms of tax policy are also considered within the framework of classical, neoclassical, and institutional approaches. As a result, this mechanism serves as a theoretical basis for the formation of an effective tax policy.

Keywords: entrepreneurship, tax, policy, development, incentives, investment, efficiency

In a market economy, entrepreneurial activity is one of the important driving forces of economic growth. Through entrepreneurship, new jobs are created, a competitive environment is formed, innovations are introduced, and the well-being of society increases. The sustainable development of these processes directly depends on the economic policy pursued by the state, in particular, on tax policy.

Tax policy is one of the most important financial instruments of state regulation of the economy, through which it is possible to directly influence the activities of business entities. The level of tax burden, tax rates, benefits and preferences determine the investment decisions of entrepreneurs, their attitude towards risk, and opportunities for business expansion. Therefore, a deep study of the theoretical foundations of tax policy in the development of entrepreneurship is of current scientific and practical significance (University of Trier and Block, 2016).

This article analyzes the impact of tax policy on entrepreneurial activity within the framework of classical, neoclassical, and institutional economic theories and highlights the stimulating and limiting aspects of tax mechanisms.

In economic literature, entrepreneurial activity is interpreted as independent economic activity carried out with the assumption of risk in order to obtain profit. Classical economists, in particular A. Smith and J. B. Say, considered the entrepreneur as a subject that combines factors of production and ensures market equilibrium (Ufa Federal Research Centre of the Russian Academy of Sciences, Ufa, Russian Federation and Gafarova, 2025).

In modern economic approaches, entrepreneurship is not limited to profit, but is considered a factor in the introduction of innovations, the development of new markets, and the acceleration of technological progress. According to J. Schumpeter's theory, entrepreneurship is the main source of economic development, which replaces old structures with new ones through the process of "creative destruction."

From this point of view, the development of entrepreneurial activity should be one of the priorities of state economic policy. Tax policy plays an important role in this process, as it directly affects the financial stability and development prospects of business entities (Snarr and Friesner, 2021).

Tax policy represents the state's activity aimed at forming the tax system, introducing taxes, setting their rates, and improving the mechanisms for collecting them. Taxes, while being the main source of revenue for the state budget, also serve as a means of regulating the economy (Bruce et al., 2019).

In economic theory, the following main tasks of tax policy are distinguished:

- fiscal function - formation of the state budget;
- regulatory function - influence on economic processes;
- incentive function - support for certain types of activities;
- social function - mitigating income inequality.

From the point of view of the development of entrepreneurial activity, it is the stimulating and regulating functions of tax policy that are of particular importance.

Representatives of classical economic theory approached taxes with caution. The "Four Principles of Taxation," put forward by Adam Smith - fairness, accuracy, convenience, and economy - have not lost their relevance even today.

According to the classical approach, high tax burdens limit entrepreneurial activity, as they reduce the amount of profit and weaken investment incentives. Therefore, taxes should be as low and stable as possible. In this approach, state intervention in the economy is considered minimal (Cullen and Gordon, 2007; Fossen et al., 2024).

In classical theory, there is a cautious attitude towards tax incentives, which can disrupt market mechanisms. However, in modern conditions, this approach has been revised to a certain extent.

Neoclassical economic theory analyzes the impact of tax policy on entrepreneurship in terms of resource allocation and efficiency. According to this approach, taxes can disrupt market equilibrium and lead to losses in efficiency (Bruce et al., 2020).

In the neoclassical model, an increase in the tax burden increases entrepreneurial risks, slows down capital accumulation, and reduces production volumes. Therefore, for the development of entrepreneurship, it is important to reduce the tax burden, expand the tax base, and simplify tax administration.

However, in the neoclassical approach, tax benefits are also considered as a means of eliminating certain market shortcomings. For example, since innovative activity is associated with high risk, it is possible to partially compensate for these risks through tax benefits.

Institutional economics evaluates tax policy not only through rates and burdens but also through institutions, rules, and levels of trust. According to this approach, the impact of tax policy on entrepreneurial activity depends on its transparency, stability, and fairness (Shettigar et al., 2024).

If the tax system is complex, frequently changing, and ambiguous, even low tax rates will not give the expected result in the development of entrepreneurship. On the contrary, a stable and predictable tax policy creates a favorable environment for long-term investment plans of entrepreneurs.

In the institutional approach, tax benefits are also important, and it is emphasized that they should be targeted and temporary.

The tax burden is one of the main limiting factors of entrepreneurial activity. High tax burdens lead to a decrease in profit, which reduces entrepreneurs' desire to undertake new projects. The weight of the tax burden has a particularly significant impact on small and medium-sized businesses.

Empirical studies show that reducing the tax burden leads to an increase in the number of business entities, a decrease in the informal economy, and an increase in the volume of investments. At the same time, a sharp reduction in the tax burden can negatively affect budget stability, which requires a balanced approach (Rachevski and Shami, 2025).

Incentive mechanism for tax benefits

Tax incentives are one of the most commonly used incentives for business development. Through them, the state supports certain sectors, regions, or types of activities.

Theoretically, tax benefits have a positive impact in the following areas:

- increases the volume of investments;
- encourages innovative activity;
- serves the creation of new jobs;
- reduces territorial development differences.

However, the effectiveness of tax benefits depends on their targeted and temporary nature. Constant and uncontrolled privileges can lead to inequality and inefficiency in the market.

Tax policy and innovative entrepreneurship

Since innovative entrepreneurship is associated with high risk and large initial costs, tax policy acquires special significance in this area. According to theoretical models, tax benefits for research and development work significantly stimulate innovation activity.

Also, depreciation policy, profit tax rates, and investment tax credits are important instruments for the development of innovative entrepreneurship. Through these mechanisms, the state partially assumes entrepreneurial risks.

Conclusion

Analysis shows that tax policy has important theoretical and practical significance in the development of entrepreneurial activity. Although classical, neoclassical, and institutional approaches illuminate various aspects of tax policy, their general conclusion confirms that the tax burden has a significant impact on entrepreneurial activity.

Effective tax policy should stimulate entrepreneurship, be stable and transparent, and tax benefits should be targeted and temporary. These theoretical conclusions serve as an important scientific basis for improving tax policy aimed at developing entrepreneurship.

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