



## IMPROVING TAX POLICY TO SUPPORT THE GREEN ECONOMY

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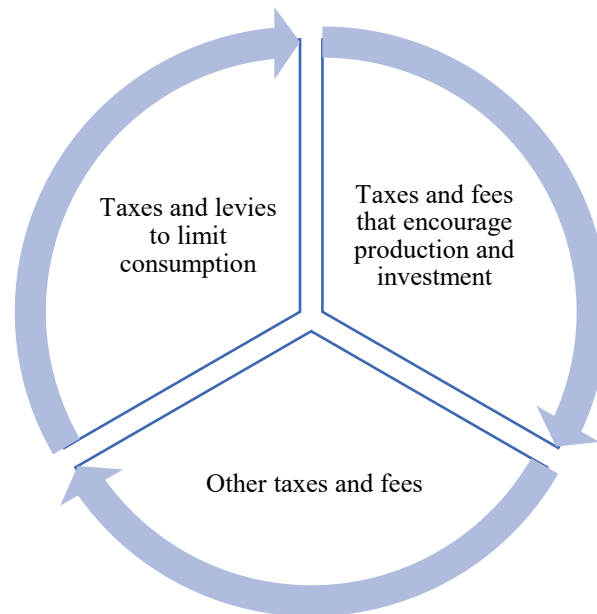
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Article history:	Abstract:
<b>Received:</b> 30 <sup>th</sup> April 2025	In the process of transition to a green economy, improving tax policy is of great importance. Properly selected fiscal instruments provide an opportunity not only to stimulate economic activity, but also to prevent processes that negatively affect the environment and ensure a stable ecological environment. In international experience, fiscal instruments such as carbon taxes, tax incentives aimed at supporting green technologies and environmentally friendly production, as well as state subsidies, are widely used to achieve these goals. At the same time, a new systematization of financial resources, including loans, allocated in order to increase the effectiveness of these instruments can serve as an important factor in ensuring green economic growth in Uzbekistan and other developing countries. Currently, many countries are effectively using various fiscal instruments in the process of adapting to a green economy. However, when choosing and implementing these instruments, each country must proceed from its national and regional political criteria. Such criteria include the country's current tax policy, the degree and duration of environmental degradation, the amount of carbon dioxide (CO <sub>2</sub> ) emissions, as well as the characteristics of economic sectors and priorities.
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In this regard, discussions and practical work on the transition to a green economy have also been launched in the Republic of Uzbekistan, and the "Transition to a Green Economy Program" designed until 2030 is recognized as one of the important initiatives in this direction. Within the framework of this program, priority areas have been identified, such as effective management of the use of alternative energy sources, improving the tax system, attracting investments in green technologies, encouraging the creation of green jobs, increasing the level of environmental awareness of the population, and

optimizing the green budget and financial expenditures. It should be especially noted that a tax policy developed on the basis of a scientifically sound and systematic approach will stimulate economic activity, increase the efficiency of taxation, and create the basis for sustainable economic growth. In this process, the effective use of fiscal instruments such as taxes, subsidies, and preferences in harmony with the interests of economic entities and the state is of great importance. At the same time, there is a need to further increase tax capacity, taking into account the financial capabilities of taxpayers



**Figure 1. Classification of green fiscal instruments<sup>1</sup>**

Fiscal instruments in promoting sustainable economic growth are mainly classified as instruments that restrict environmentally harmful production technologies and consumption or that encourage green technology and green financing (Figure 1).

U. Bakhtiyorov noted that "through the introduction of new technologies and innovations, it is possible to produce ecological products, provide quality services and open up new economic opportunities. At the same time, it is important to finance investment projects for the purpose of green development, and to encourage producers and consumers through prices, taxes and subsidies. To support enterprises with an ecological approach, it is necessary to provide financial assistance in the form of tax and administrative incentives from the state, as well as create a favorable investment climate for private investors<sup>2</sup>."

In international practice, extensive scientific analysis is being conducted on the economic and social significance of green fiscal instruments. In particular, according to the research of C. Wang et al., "tax incentives serve as a stimulating factor for the green economy. First, tax incentives improve the net cash flow

of enterprises, and as a result, they have the opportunity to direct more funds to research and development activities, which increases the intensity of innovation processes and, in turn, the green economy. Second, through a positive signal effect, tax incentives demonstrate to financial institutions and private investors that the business enterprise has social and environmental responsibility. As a result, it is possible to attract additional social capital to manufacturing enterprises." <sup>3</sup>According to Ch. Sheng-Hsiung et al., "tax incentives increase the cash flow of enterprises, which strengthens the financial basis of research and development activities and increases the level of innovation<sup>4</sup>."

Based on the above considerations, it should be noted that the use of tax incentives is of great importance within the framework of the sustainable economic growth strategy of the Republic of Uzbekistan. In particular, the benefits provided for income tax serve as a factor stimulating the flow of investments in the field of green technologies. In the conditions of Uzbekistan, for business entities that have invested in energy-efficient equipment or renewable

<sup>1</sup>Formulated by the author based on research

<sup>2</sup> Bakhtiyorov U.K. *Prioritetnye napravleniya povysheniya nalogovogo potentsiala v usloviyax perekhoda k "green" economic*

<sup>3</sup>Wang C, Chen P, Hao Y and Dagestani AA (2022), Tax incentives and green innovation—The mediating role of financing constraints and the moderating role of subsidies. *Front. Environ. Sci.* 10:1067534. doi: 10.3389/fenvs.2022.1067534

<sup>4</sup>Sheng-Hsiung Chiu, Tzu-Yu Lin, Lu Pan, External financing sensitivities and inefficient R&D investment: Evidence from China, *Research in International Business and Finance*, Volume 70, Part A, 2024



energy technologies, an opportunity is created to increase their net profit by reducing income tax rates by up to 50 percent. Such an approach can increase the interest of production entities in the introduction of environmental innovations and accelerate the transition to a green economy.

In addition, according to research from Griffith University, "Accelerated depreciation policies have a direct incentive effect on innovation, especially for technologies aimed at increasing energy efficiency <sup>5</sup>." This means that if we implement an accelerated depreciation policy for investment assets, it will increase the efficiency of the transition to green technologies. For example, by calculating depreciation for solar panels or energy-saving equipment over 3 years, a company can reduce the amount of profit that is exempt from corporate tax in its financial statements.

According to the research of Ismihan and Ozkan, "public finances are formed mainly in two ways, namely, fiscal mechanisms: increasing taxes and fees and public debt. Therefore, it will not be enough for developing countries to rely only on public debt in the process of transition to a green economy. Therefore, the use of specially designed fiscal instruments: preferential financing, budget and economic stimulus measures will give the expected result <sup>6</sup>."

"The use of green fiscal instruments is a means of promoting the transition to a green economy, and the recommended fiscal instruments have the characteristics of encouraging the expansion of green sectors, phasing out environmentally harmful technologies, and changing consumer purchasing habits <sup>7</sup>," says Hari Bansha Dulal Rajendra Dulal Pramod Kumar Yadav. Also, as stated in the report of the international financial organization IPCC, "tax policies aimed at reducing greenhouse gas emissions help to soften the link between carbon emissions and a country's GDP <sup>8</sup>."

"According to the concept of a double dividend, governments can achieve a double benefit by reducing labor and capital taxes in exchange for the funds collected from taxes imposed for environmental damage, that is, reducing economic-fiscal burdens and

ensuring ecological-environmental regulation," <sup>9</sup>says scientist Pierce.

According to the research of scientists Perepechkina, Khasanova, and Ortskhanova, "green taxation has a positive impact on non-renewable energy efficiency and, as a result, green economic development by encouraging the rational use of natural resources, reducing pollution, investing in research and

<sup>5</sup><https://www.griffith.edu.au/sustainability/get-involved/green-impact>

<sup>6</sup> Ismihan, M & Ozkan, G., (2008). Golden Rule of Public Finance: A Panacea, Discussion Paper in Economics No. 2008/19, Department of Economics and Related Studies, University of York, York.

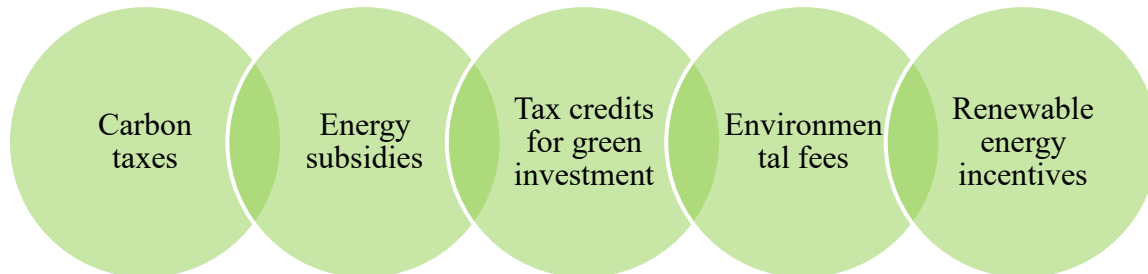
<sup>7</sup> Hari Bansha Dulal, Rajendra Dulal, Pramod Kumar Yadav, Delivering Green Economy in Asia: The Role of Fiscal Instruments, Futures

<https://dx.doi.org/10.1016/j.futures.2015.08.002>

<sup>8</sup> IPCC, 2014: Summary for Policymakers, In: Climate Change 2014, Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Stechow, T. Zwickel and JC Minx (eds.]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

<sup>9</sup>Pearce, D. The role of carbon taxes in adjusting to global warming. *Econ J* 1991, 101, 938–948. <https://doi.org/10.2307/2233865>

development, and introducing green innovative technologies<sup>10</sup>. "



**Figure 2. Fiscal instruments to stimulate the transition to a green economy<sup>11</sup>**

As shown in Figure 2 above, fiscal measures play a significant role in the transition to a green economy. In particular, the OECD report notes that "the introduction of a properly designed carbon tax in line with a country's policy can accelerate the transition to a sustainable economy and the use of green technologies, but unilateral implementation can lead to increased energy prices and reduce the competitiveness of fossil fuel-intensive industries<sup>12</sup>. "

"The goal of energy subsidies is to increase access to energy, but the effectiveness of this goal depends on a properly designed institutional framework<sup>13</sup>," say scholars Shittu, Saqib, Abdul Latiff, and Baharudin.

Another tool that can increase the efficiency of the transition to a green economy is tax credits for green investments, i.e., companies receive tax benefits for a certain amount of investment in green technologies. "These tools will not produce the expected effect if they are not used in harmony with

countries' national economic strategies and additional support mechanisms<sup>14</sup>," concludes foreign literature. In addition, Zeng notes that "the combination of environmental levies and green investment tax credits can significantly reduce greenhouse gas emissions , promote climate change mitigation and economic sustainability<sup>15</sup>. "

The OECD report notes that "promotion of renewable energy sources through subsidies is of significant importance for the growth of renewable energy sources, including solar and wind power capacity, which create stable conditions for investors in the form of subsidies, preferential tax rates, feed-in tariffs and auction systems and help attract investment in the renewable energy sector<sup>16</sup>. "

As evidence for the theories in the cited literature, I can cite Sweden's high carbon tax, Germany's energy subsidies, and Canada's use of green investment tax credits<sup>17</sup>.

<sup>10</sup> Elena Perepechkina , Satsita Khasanova, Maryam Ortskhanova . Tax Regulation And The Transition To A Green Economy: Integrating Sustainable Development Into Fiscal Policy.

<sup>11</sup> Formulated by the author based on research

<sup>12</sup> Ekins, P. European environmental taxes and charges: Recent experience, issues and trends. *Ecol Econ* **1999** , *31* , 39–62. [https://doi.org/10.1016/S0921-8009\(99\)00051-8](https://doi.org/10.1016/S0921-8009(99)00051-8). AND Böhringer , C.; Bye, B.; Faehn, T.; Rosendahl, KE Targeted Carbon Tariffs – Carbon Leakage and Welfare Effects. *ZenTra Work. Pap Transnatl Stud* **2015** , *51* . doi:10.2139/ssrn.2595049.

<sup>13</sup> Shittu, I.; Sakib, A.; Abdul Latiff, AR; Baharudin, SA Energy Subsidies and Energy Access in Developing Countries: Does Institutional Quality Matter? *Sage Open* **2024** , *14* . doi:10.1177/21582440241271118

<sup>14</sup> Czarnitzki , D.; Hanel, P.; Rosa, JM Evaluating the Impact of R&D Tax Credits on Innovation: A Microeconomic

Study on Canadian Firms. *Res. Policy* **2011** , *40* , 217–229. doi:10.1016/j.respol.2010.09.0 . AND Wang, C.; Chen, P.; Hao, Y.; Dagestani, AA Tax Incentives and Green Innovation—The Mediating Role of Financing Constraints and the Moderating Role of Subsidies. *Front. Environ. Sci.* **2022** , *10* , 1067534. doi:10.3389/fenvs.2022.1067534.

<sup>15</sup> Zheng, Q.; Lee, J.; Duan, X. The Impact of Environmental Tax and R&D Tax Incentives on Green Innovation. *Sustainability* **2023** , *15* , 7303. doi:10.3390/su15097303

<sup>16</sup> OECD. *Effective Carbon Rates 2023: Pricing Greenhouse Gas Emissions through Taxes and Emissions Trading* ; OECD Series on Carbon Pricing and Energy Taxation; OECD Publishing: Paris, 2023. doi:10.1787/b84d5b36-en.

<sup>17</sup> Ivana Ljubičić. Tax Instruments as a Key Driver of the Green Transition: The Role of Fiscal Policy in Sustainable Development. *Agron Technol Eng Manag* **2025** , *8(1)* , 1347-1354. <https://doi.org/10.55817/GZOG5027>.



Environmental or green taxes have also been noted in several literatures as being regressive. For example, Western scholars Bento and Wierlar note that "environmental taxation can exacerbate inequality in developing countries, as poor households spend more on polluting goods than relatively well-off households. Researcher Engel argues that environmental tax revenues can be progressive if they are reused<sup>18</sup>."

Ecological or green taxes have also been noted in a number of literatures as having a regressive significance. Therefore, in the conditions of Uzbekistan, the prevention and mitigation of regressive significance of these ecological taxes and their implementation play a special role in supporting the transition to a green economy. Ecological taxes, i.e., by taxing environmentally harmful activities, are becoming an important instrument of socio-economic policy, creating an additional source of revenue for the state budget, stimulating sustainable consumption and production.

The success of tax reforms depends largely on how the additional revenues are targeted. If these revenues are directed towards ensuring fiscal sustainability, then the distributional impact of tax reform will not change significantly. However, if they are redirected into the economy through targeted redistribution, this can lead to positive environmental and economic outcomes.

The implementation of this theoretical approach in practice in the conditions of Uzbekistan is one of the important scientific and practical issues. Despite the existence of environmental taxes in the republic, their fiscal and social impact is currently limited. Therefore, when introducing the concept of "double dividend", it is necessary to take into account not only efficiency, but also the principles of social justice. In particular, the following mechanisms may be prioritized in the redistribution of additional tax revenues:

- reducing income tax rates for low-income groups or increasing their tax exemption threshold;
- covering the environmental tax burden through targeted social assistance programs;

- to the population one kind in quantity compensatory provide lump - sum transfers to grow ;
- income to the level looking at decreasing tax tax credits system current to be

This mechanisms , one from the side , ecological taxes regressive ( population less provided to the layers relatively more burdensome ) impact softens , second from the side and the population by this to reforms was social reception to increase service does .

Conclusion as in other words , in Uzbekistan green tax reforms done in increasing fiscal sustainability , environmental efficiency and social equality such as three main factor each other coordinated without seeing exit necessary . Only then ecological taxes potential complete to come true their release , positive social and economic results and wide on a scale manifestation to be possible .

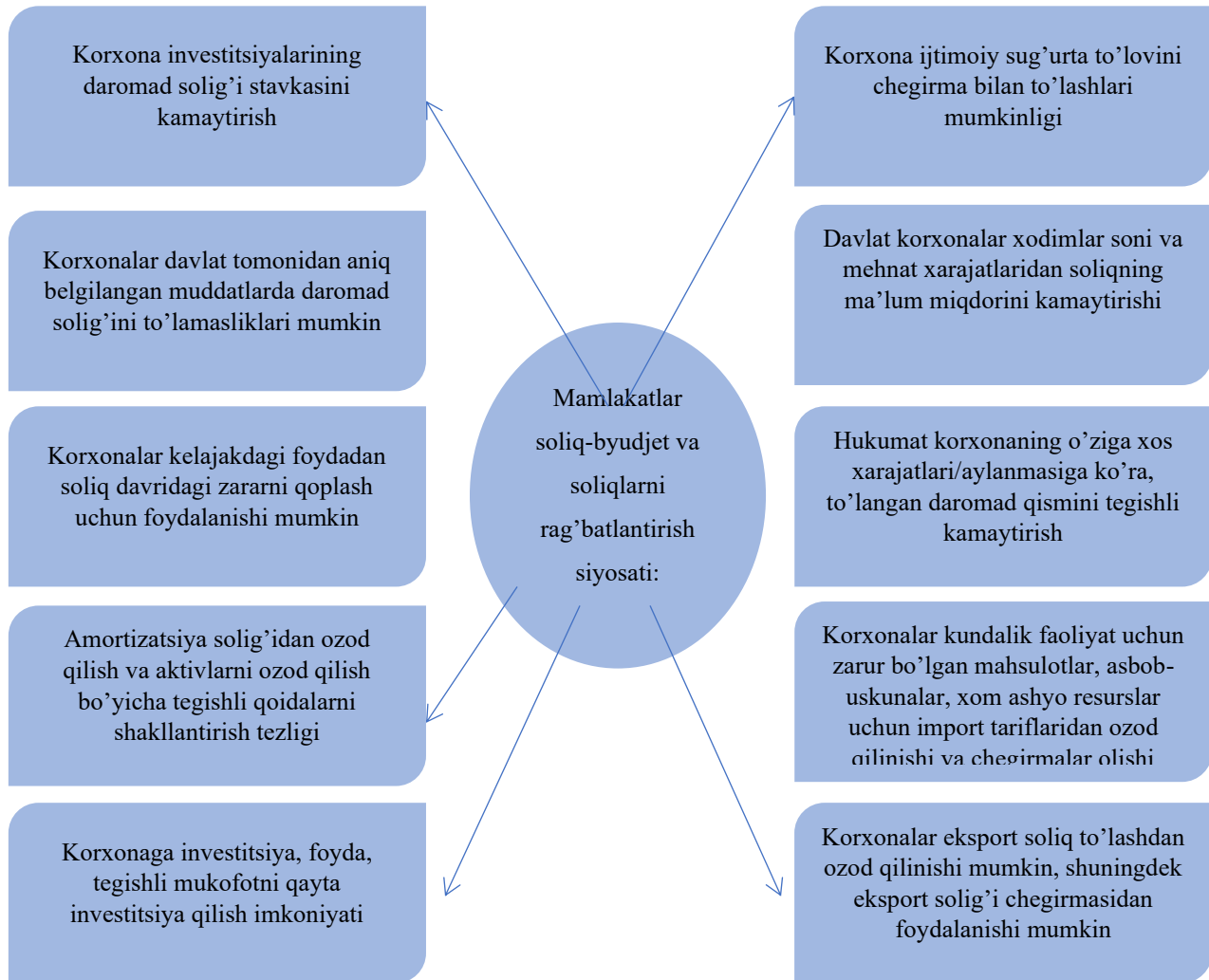
Considering the above, subsidies and tax privileges working issuer enterprises for equal importance lack of witness Especially the tax privileges financial to restrictions face arrived to enterprises relatively more efficient to be , their financial resources in distribution difficulties eliminate to reach service However , some in cases state subsidies tax to the benefits than green economy and technologies in encouragement higher to efficiency has to be possible .

Therefore , tax privileges green innovations in encouragement to subsidies relatively more efficient to be This is possible . especially financial limited small farm driver in factories obvious manifestation will be .

Taking the above into account, subsidies targeted and systematic accordingly redirect through ecological stability with together social justice also ensure the principles This is possible . tools infrastructural development economic efficiency and ecological balance combined in case when used , they not only energy saver housing construction encourages , but social PCB also serves to increase Therefore , developing countries under the circumstances subsidy policy socio-economic and ecological goals integration based on working exit strategic importance profession will reach .

<sup>18</sup>We are only concerned with the (intra-generational) distribution between different households at a given point in time, since increased intra-generational inequality is one of the most commonly used arguments against environmental

policy (Combet et al., 2010; Ekins, 1999). For an article that considers both intra- and inter-generational distributional effects of environmental taxation see Jacobs and van der Ploeg (2010).



**Figure 3. Countries tax-budget and taxes encouragement policy<sup>19</sup>**

As we can see from Figure 3 above, maybe the state by given fiscal and tax benefits, usually economic activity and actions – including consumption, production release and investment to encourage activity aimed at main from mechanisms one. These benefits are often working release to the activity directed to be wide application to the circle has.

General internal working release to the benefits new enterprises for known to the period from tax free to make, income hold to stay encouragement and investments encouragement for the purpose accelerated depreciation policies. Special working release privileges and strategic importance has was networks and economic in development separately.

demanding to the regions relatively. This type of benefits, especially national economy for important was new developing industries for special tax reliefs in the form of manifestation. External trade privileges and export activity and edge hand investments to encourage aimed at to be foreign capital attraction to grow and product export support tool is considered.

Green technologies develop point from the point of view of customs duty privileges progressive technologies and import of equipment with related expenses in reduction important importance profession. For example, if businesses sun panels or wind when importing turbines customs from fees free if done, their capital expenses noticeable at the level. This is the same.

<sup>19</sup>Shi Y, Ge J. The role of government fiscal and tax incentives in green technology innovation and enterprise development: implications for human health and hygiene. *Front Public Health*. 2025 Jan 8;12:1502856. doi: 10.3389/fpubh.2024.1502856. PMID: 39845682; PMCID: PMC11750868.



as the in turn , to enterprises own resources research to the activity direction opportunity gives and green innovations faster current to reach service does .

Also , accelerated depreciation policy green technologies with practitioner enterprises for useful tool Energy efficient to equipment investment did enterprises this assets fast depreciation to do through initial in years tax insertable their income reductions As a result , not only money flow will improve , maybe stable to technologies again investment to do motivation is created .

The state innovative activity to encourage directed tax policy tax rates reduction , fiscal incentives and other additional benefits to give such as measures own inside The government by investment enterprises known one term during income tax free These benefits are export share , product size and employment to the level looking at If the enterprise to the economy high contribution additional , additional discounts are also available is being done .

### 1. Forms of tax incentives for green technologies and their effectiveness

<b>Tax privilege shape</b>	<b>Efficiency</b>	<b>Sample</b>
Income tax reduce	Investment expenses reduces and technological update encourages	Energy efficient imported equipment enterprise 50% profit for tax rate to be given
Accelerated depreciation	Investment funds faster return opportunity creates	Sun panels for 3 years inside depreciation calculation
Customs duties and VAT exempt to do	Import costs reduces and progressive technologies current to reach accelerates	Wind turbines or energy monitoring devices in import customs from fees free to do
Export tax according to benefits	External to the markets exit facilitates	Ecological clean products in export tax tax rebate
Social insurance contributions reduce	Labor market participants for expenses reduces	Stable operation release in the field activity driver 30% discount for businesses

In our opinion, one of the most important measures taken by the government of Uzbekistan to implement sustainable development goals and promote a green economy is tax incentives. In particular, income tax incentives play an important role in encouraging investment in green technologies. In the conditions of Uzbekistan, it is possible to increase net profits by reducing income tax rates for enterprises that invest in energy-efficient equipment or renewable energy technologies by up to 50%. This will increase the interest of manufacturing organizations in environmental innovations. Because, according to Pan, tax incentives increase the cash flow of enterprises, which, in turn, strengthens the financial basis of

research and development activities and increases the level of innovation <sup>20</sup>.

In addition, according to Griffith's research, "Depreciation policies have a direct incentive effect on innovation, especially for technologies aimed at improving energy efficiency <sup>21</sup>." Accelerated depreciation policies on investment assets can help to accelerate the introduction of green technologies. For example, by calculating depreciation for solar panels or energy-saving equipment over 3 years, a company can reduce the amount of profit that is exempt from corporate income tax in its financial statements.

A carbon tax is a fiscal instrument that serves to establish the economic value of carbon dioxide (CO<sub>2</sub>) and other greenhouse gases emitted into the

<sup>20</sup>Sheng-Hsiung Chiu, Tzu-Yu Lin, Lu Pan, External financing sensitivities and inefficient R&D investment: Evidence from China, Research in International Business and Finance, Volume 70, Part A, 2024

<sup>21</sup><https://www.griffith.edu.au/sustainability/get-involved/green-impact>



atmosphere, and aims to include the costs of environmental damage in domestic prices. The experience of European Union countries shows that carbon taxes are not only an important element of environmental policy, but also an effective source of generating budget revenues and stimulating green investments.

According to 2022 data, the highest carbon tax rate was recorded in Sweden (introduced in 1991), which is 108.8 euros/tonne CO<sub>2</sub>. It is followed by Finland – 62.2 euros/tonne, France – 44.8 euros/tonne and Ireland – 25.6 euros/tonne. While in most countries the carbon tax is applied to the transport and heating sectors, some countries have extended it to the industry and waste management sectors. The share of greenhouse gases covered by the carbon tax varies significantly across countries. For example, in Ireland this share is 49%, while in Estonia and Poland it is only 3%. This shows that the effectiveness of the carbon tax is directly related to its scope.

Based on the experiences of these countries, it is permissible for Uzbekistan to implement the following proposals:

- First, the gradual introduction of a carbon tax requires technical and institutional preparation. Therefore, first, the transport and heating from the fields start to the goal appropriate It will be .
- Tax rate economic to the conditions suitable in a way to be determined necessary and step stage current to be done recommendation This is 10–20 euros / ton . range realistic elementary degree to be possible .
- Most importantly, collected income of course again recovering energy and energy economical technologies to develop orientation It is necessary . social acceptance to be done increases and carbon tax as a " transformative " rather than a " punitive " mechanism turns .

Uzbekistan economic, energetic and social features in consideration received without recommendation to be done step by step carbon tax model as follows is illuminated. This model climate policy financial justification, carbon-intensive industries transformation and green the economy financing important mechanism as service does .

#### **i. Tax rates step by step current to be**

Offer done in the model carbon tax rates current to be done from time to time in 3 stages starting from current to be is planned. Initial In the first stage (2025–2026), the tax is 25,000 soums / ton of CO<sub>2</sub> (~2 US dollars) is marked, this is a low stage to be

economic to the system soft adaptation opportunity gives. The second In the second stage (2027–2028), the rate will be increased to 75,000 soums (~6 USD), and the tax coverage is expanded. Third in stages and (starting in 2029) at the level of 150,000 soums (~12 USD) stable tax rate current This is rates to be relatively low despite their step by step increase social resistance reduce, work issuers technological adaptation provision and fiscal stability in storage important importance has .

#### **ii. Tax coverage and sectoral phasing**

Carbon tax initially CO<sub>2</sub> emissions were highest was to networks — thermoelectric stations (TES), large industry (petroleum, chemistry, metallurgy) and transportation to fuels relatively import at the level implementation This is approach carbon tax load in the economy relatively stable and financial to opportunities has subjects on behalf of loading provides. Next utilities, commerce in stages transport and to logistics Finally, the last from the year starting whole fuel consumers, that including household sector and village on the farm also cover This sectoral phasing social effects soften and fiscal to politics step by step adaptation to provide service does .

#### **iii. Tax of proceeds targeted orientation**

Carbon tax income clear directions based on is distributed. In this case:

- ❖ **50% to the Green Fund** This fund is directed to again recovering energy, energy efficiency projects (pumps, electric engines), environment monitoring such as to the sectors subsidy is separated .
- ❖ **30% social to compensation** is directed. Underprivileged layers protection to do and climate of the policy equality on the principle adaptation for energy subsidies and compensation mechanisms current is being done .
- ❖ **20% state to the budget** to the climate suitable infrastructure - electricity, transport, water saver technologies — development for is redirected .

Such a distribution fiscal of the tool income orientation ecological and social stability with It awakens .

#### **iv. Assistant political measures**

Carbon tax model efficiency increase for row assistant fiscal and institutional measures emerald "Green tax" from Jumala "privileges" system through ecological clean technologies carbon tax free "Pollutant



" " pays " principle energy and industry to the policy integration and local working issuers carbon trace to reduce financial and technician incentives through support system is created .

Offer being done carbon tax model Uzbekistan for ecological politics , fiscal stability and social PCB combined complex This is an approach . the model current to grow through greenhouse gases waste reduced , energy efficiency increased , green the economy financing for stable resource source will be created and population weak layers protector compensatory mechanisms through social justice is provided .

Last in years tax policy countries by socio-economic to behavior impact show , especially ecological stability provider investments encouragement tool as wide However , international experience this shows that the current tax privileges often ecological to the interests contrary was The World Bank also supports activities . by structured new income tax privileges global information on base based on held The analysis is clear. is an example . In 2009–2020, 40 developed and developing countries – for example take visited analysis this showed that the income tax of privileges only 2.6% green sector ( e.g. electricity ) cars for battery working for output ) , 3.4% green technological processes ( e.g. waste again work ) and 9.5% income tax privileges to the environment damage delivery person activities ( e.g. , mining) fuel working for output ) separated <sup>22</sup>.

These indicators stable to develop aspiring politics and practical fiscal mechanisms in the middle serious difference the existence Especially in developing countries in countries pollutant to activities being given benefits share high , averaging 10.5 % will ( developed) in the countries this indicator is 5.1 %). Another attention owner situation that is , most countries green and pollutant benefits one of time in the room is using . Analyzed of countries only 10% (4) only green benefits presented polluting activities not encouraged .

Above cited from thoughts come out in Uzbekistan there is income tax of privileges ecological the impact appraiser mechanism working exit the necessity our emphasis possible . Each privilege socio-economic from efficiency outside ecological also based on criteria without seeing exit necessary . From now on outside , state policy again recovering energy , waste-free technologies and resource economical to equipment tax discounts through investments attraction

to reach focus need . With that together , ecological harmful sectors for there is benefits step by step void to be done Energy , transport and industry " polluting " networks more " pays " principle based on to tax pull system current ripe , green technologies current reached to subjects tax reliefs to be given Tax of the policy ecological effectiveness assessment for national at the level income tax of privileges quantity , scope and to the environment impact according to open statistical monitoring system creation necessary .

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