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METHODOLOGICAL BASIS OF THE FINANCIAL MECHANISM OF INNOVATIVE ACTIVITY

Ruzibayeva Nargiza Khakimovna
Samarkand Institute of Economics and Service, Associate Professor of the Department of Investment and Innovations, PhD

Abstract.

This article examines the methodological foundations of developing components of a financial mechanism for innovative activities. It also highlights that financing through venture capital is one of the most effective ways to finance innovative activities and that the maximum multiplier effect of innovation can be achieved through venture capital.

Key words:

innovation, financial mechanism, venture financing, innovation activity, tax credit.

The current financial mechanism for enterprise innovation is plagued by limited sources of funding for innovation, as well as by the inconsistency between the financial methods and instruments used and the actual needs of economic entities. Venture financing offers a solution to these challenges. The absolute necessity of this method is determined by the systemic impact it has on innovation. Venture financing encompasses the entire innovation system: production, financial, and investment, which is unachievable with all other methods. Furthermore, venture financing enables the maximum multiplier effect of innovation to be achieved.

As is well known, the primary objective of venture financing is to facilitate business growth by providing a certain amount of cash in exchange for a share in the authorized capital or a certain block of shares. Venture investments can also be provided in the form of an investment loan, typically for a term of 3 to 7 years.

In practice, a combined form of venture financing is most common. Under this form, part of the funds is contributed as equity capital, while the rest is provided as an investment loan. The managers of the venture fund company do not invest their own funds in the projects invested by the fund. The management company acts as an intermediary between the collective investors and the recipient enterprise. On the one hand, the management of the fund's management company itself decides on the choice of a particular investment object, participates in the work of the board of directors, and promotes the growth and expansion of the given company's business. On the other hand, the final decision on investment is made by the investment committee, representing the interests of the investors. Ultimately, the profits earned belong solely to the investors; the managers of the management company are entitled to only a portion of the profits. The venture fund's profit arises only when, 5-7 years after the start of investment, the recipient company, or a block of shares in this company, is sold at a price several times higher than the initial investment [1].

There are two main forms of venture capital funds. In the first case, the venture fund is a structural division of banks or corporations, does not have legal entity status and does not enjoy any tax benefits. In the second case, the venture fund exists as an independent organization and enjoys a significant range of tax benefits. An independent venture fund must begin its operations by accumulating the necessary financial resources. It is also necessary to convince potential

investors that the fund being created can provide an attractive return on invested capital of 35-40% per year. The experience of economically developed countries shows that the main institutional investors are pension funds, banks, and insurance companies. Market economies are characterized by government regulatory influence on the formation and operation of the financial mechanism for innovation. The development of market relations introduces new elements into the range of structures of the financial mechanism for innovation. Below, we consider the experience of economically developed countries in making decisions regarding the methodology for forming and improving the financial mechanism for innovation.

For example, in Japan and the Netherlands, when implementing a strategy of active intervention, the state considers innovation to be the main factor in the economic growth of the national economy. This strategy provides for significant changes in legislation and the foreign policy of the state. At the same time, the state not only performs guiding functions, but also plays an active role in creating the conditions for financing many important programs and projects, the implementation of which makes a significant contribution to the development of the national economy. In the USA and the UK, a strategy of decentralized regulation is being implemented, which is a complex mechanism of state participation in innovation. This strategy does not have the rigid connections that are characteristic of the active intervention strategy discussed above. The state, while maintaining an important role, strives to create favorable conditions for the implementation of innovation, but in this strategy, business entities come first. A mixed strategy prevails in those countries where the public sector constitutes a large part of the economy, and the state maintains a high export potential of this sector. With this strategy, the state uses a strategy of active intervention in relation to state-owned enterprises, and uses a strategy of decentralized regulation in relation to others. This strategy is widely used in Sweden [2].

In our country, when deciding on a particular strategy for building a financial mechanism for stimulating innovation, it is necessary to consider a number of factors, such as the level of centralization and the free market; and the specifics of economic governance structures. The chosen strategy should be directly focused on the motivational factors of production, as they determine the speed of innovation commercialization. Therefore, the external financial mechanism should primarily define and justify the parameters of those financial instruments and methods that have the ability to most comprehensively influence the use of all other methods and tools of the financial mechanism for innovation. Tax policy is one of the financial instruments that influences all aspects of innovation. Differentiating tax conditions influences the financial strategy of an economic entity, determines the structure and cost of financial resources, and also impacts the timing of innovation. Therefore, to improve the financial mechanism for innovation, it is necessary to change the scope and nature of tax regulations, that is, tax incentives and tax penalties.

Tax incentives should be innovative and investment-oriented. It's necessary to introduce not general tax breaks, but special ones targeted at specific groups of taxpayers – that is, innovators and investors associated with them. The country's tax legislation should provide for investment and innovation tax credits, the exemption from taxation of investment expenses on innovations carried out by the taxpayer, and the exemption from taxation of investment and innovation-related reinvested income.

The state should establish a special system of incentives, stimulating the concentration of production and capital in innovation-oriented companies. It would be appropriate to reduce taxes when large innovative companies acquire small, unprofitable, or loss-making enterprises. For example, companies acquiring unprofitable innovative companies would write off their losses over a number of years against their profits. A similar practice exists in the United States,

Germany, and France. To accelerate capital accumulation for investing in key innovations using profits and deductions from company payrolls, it is necessary to consider the experience of several countries (Germany, France, Sweden) and establish special investment funds for financing innovations, exempt from taxes.

A preferential tax regime for investment and innovation impacts the industrial structure of the entire economy. Tax incentives can also be used to implement regional innovation and investment policies. For example, a government pursuing reindustrialization in economically underdeveloped regions would halve the profit tax in these areas over 8-10 years. By providing tax incentives to enterprises, the government would encourage them to implement state innovation and investment programs and projects. A special contractual system could be implemented, whereby companies, in exchange for tax incentives, would be obligated to facilitate the implementation of state innovation and investment programs. By preferentially taxing profits from foreign investment in domestic production innovations, the state would accelerate the attraction of foreign capital. The primary tax incentives should be granted to large innovative investors. The budget and tax legislation should define “tax expenditure” as a loss of revenue arising from a tax law that specifically provides for its exclusion from taxation, a reduction in overall revenue, the creation of a special tax credit or the application of a preferential tax rate, or a general reduction in tax liability.

The share of “tax expenditures” in relation to the gross national product should not exceed 6-7%. Budget revenues should be formed and executed taking into account special investment and innovation programs of “tax expenditures”. This method of analyzing tax incentives should be widely implemented. It has been used in Germany (since 1966), the United Kingdom and Canada (since 1979), France (since 1980), and several other countries. In the United Kingdom, “tax expenditures” are reflected in five-year government spending plans and are classified under the heading “Direct Tax Allowances and Reliefs”. In Japan, they are classified as “Special Taxation Measures” [3].

One method of tax exemptions could be tax certificates, which are official written documents issued by the Ministry of Finance or another relevant government agency to innovative enterprises or corporations. These certificates would indicate a partial or full exemption from taxes for a certain period of time, and this would allow for a more efficient distribution of temporary tax exemptions between innovators and investors in the innovation sector.

Within scientific and industrial parks, business incubators, and technopolises, special tax zones could be created in the form of tax havens. These are small territories that would implement policies to attract capital to finance innovative investments from abroad by providing extensive tax incentives. To this end, it is necessary to establish a regime for foreign citizens, companies, and banks that significantly reduces the taxation of their income and capital in the innovation and investment sectors, compared to those in industrialized countries. When considering all types of tax incentives, special attention should be paid to tax credits, as they can increase tax payments to the budget over a certain period by stimulating business activity in the innovation and investment sector. When providing an investment tax credit, it is advisable to flexibly choose one or another form of tax credit: tax rate reduction, a combination of a tax credit with a tax holiday, a deferral or installment plan for tax payment, a refund of previously paid tax, a credit for previously paid tax, or replacing tax payment with in-kind performance within the framework of a targeted tax credit for innovation, investment, and social purposes.

A financial audit should confirm the effective use of the tax credit. This can serve as the basis for the authorized government body's decision to grant the enterprise a new tax credit.

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Enterprises operating in various business sectors may simultaneously benefit from multiple tax credits. The authorized body should limit its decision-making period to granting such a credit to one month from the date of receipt of the enterprise's application, which includes an application for a tax credit accompanied by audit reports, a business plan, an investment project, a balance sheet, etc. [4].

Thus, venture capital financing has proven itself to be a highly effective method of supporting the innovative activities of economic entities worldwide.

The problem of finding funding sources for an innovative project, starting from the implementation stage, becomes less pressing. The main costs have already been covered, and production profitability continues to improve, offsetting most of the current expenses. As mentioned earlier, financing from business angels and venture capital funds ceases. During the implementation stage, bank loans, equipment leases, and venture financing and bond issuance become possible. However, these sources are best used only if the project is highly effective. Project revenues must exceed the cost of raising funds, and these sources are far from cheap. If the risk level is low and the project is highly effective at this stage, it makes sense to raise funds by issuing additional shares.

Thus, the mechanism for financing innovation involves the accumulation and redistribution of funds from one source to another with the goal of achieving a specific result, expressed in the creation and implementation of cutting-edge technologies, profit generation, and improved efficiency of Russian enterprises and entire industries. The application of financing mechanisms should take into account the specifics of the innovation financing process, such as the scope of the innovative company, the stages of implementation of the innovative project, and the required amount of financing.

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