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LEGAL FOUNDATIONS OF TAXING GREEN FINANCE INSTRUMENTS IN THE SERVICE SECTOR

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Abstract

This study examines the legal and fiscal foundations of taxing green finance instruments in the service sector, with a particular focus on developing and developed economies. The research analyzes how Green Finance instruments such as green bonds, sustainability-linked loans, and eco-investments are regulated and taxed under different legal frameworks. Using comparative legal analysis and policy evaluation methods, the study identifies significant disparities in tax treatment between countries with advanced sustainability frameworks and those in early transition stages. The findings reveal that countries with structured tax policies supported by clear legal definitions and classification systems, particularly within the European Union, demonstrate higher efficiency in promoting green investments in the service sector. In contrast, developing economies face challenges such as unclear legal definitions, weak institutional capacity, and limited fiscal incentives. The study concludes that effective taxation of green finance instruments requires harmonized legal frameworks, targeted tax incentives, and improved regulatory coordination. Policy recommendations are provided to enhance the integration of green finance into national tax systems, particularly in service-oriented industries.

Introduction

The growing global emphasis on environmental sustainability has significantly transformed the structure of modern financial systems. In particular, the emergence of Green Finance has introduced new mechanisms for financing environmentally responsible projects across various sectors of the economy, including the service sector. Green finance instruments such as green bonds, sustainability-linked loans, and environmental investment funds are increasingly being used to support low-carbon development and climate-resilient economic growth. At the same time, the role of tax policy in regulating and incentivizing green finance has become a critical area of public finance research [1]. Tax Policy plays a decisive role in shaping investment behavior by either encouraging or discouraging participation in environmentally sustainable activities. However, despite rapid global developments, the legal frameworks governing the taxation of green finance instruments remain fragmented and inconsistent across countries.

The service sector, which includes tourism, hospitality, transport, and financial services, represents a particularly important area for green transformation. Unlike industrial sectors, service industries rely heavily on regulatory incentives rather than technological transformation alone [2]. Therefore, understanding the legal foundations of taxing green finance instruments in this sector is essential for designing effective fiscal policies that support sustainability goals. This study aims to analyze the legal and fiscal frameworks governing the taxation of green finance instruments in the service sector, compare international practices, and propose policy recommendations for improving regulatory efficiency in developing economies [3].

Literature Review

The theoretical foundations of green finance taxation are grounded in environmental economics and public finance theory. Early contributions by Pigouvian taxation theory emphasize the importance of correcting environmental externalities through fiscal instruments. More recent studies have expanded this framework to include sustainable investment mechanisms. According to the European Commission and OECD research, green finance has become a central pillar of sustainable development strategies, particularly in the context of climate change mitigation policies [4]. The OECD highlights that effective tax incentives significantly increase private sector participation in green investments, especially when combined with clear regulatory standards and transparency mechanisms [5], [6]. The World Bank further emphasizes that developing countries face structural challenges in implementing green taxation systems due to limited institutional capacity and weak legal definitions of green assets. Similarly, the European Union has developed a comprehensive EU Taxonomy for Sustainable Activities, which provides a standardized classification system for green investments and serves as a global benchmark [7].

In the service sector, empirical studies show that tax incentives are particularly effective in promoting eco-friendly tourism and sustainable hospitality services. However, researchers also highlight the difficulty of measuring environmental impact in service-based activities, which complicates the design of targeted tax policies [8]. Despite growing academic interest, there remains a research gap in understanding how legal frameworks specifically govern the taxation of green finance instruments in the service sector, particularly in developing economies. This study addresses this gap by combining comparative legal analysis with fiscal policy evaluation [9].

Methodology

This research adopts a qualitative–comparative legal research design combined with policy analysis to examine the taxation of green finance instruments in the service sector.

1. **Research Design:** The study is based on a comparative legal analysis approach, focusing on the examination of tax laws, fiscal regulations, and sustainability frameworks across selected jurisdictions. The primary objective is to identify differences in legal treatment of green finance instruments.

2. Data Sources

Data were collected from: International organizations such as the OECD, Reports of the World Bank, EU sustainability and tax policy documents, National tax legislation and policy frameworks

3. Analytical Methods

The study applies the following methods: Normative legal analysis (interpretation of tax laws and regulations), Comparative analysis (cross-country evaluation of tax systems), Document analysis (policy papers, international reports), Thematic analysis (identification of recurring legal and fiscal patterns)

4. Scope of Analysis

The research focuses on: Green finance instruments (green bonds, green loans, ESG funds), Tax incentives and legal frameworks, Service sector industries (tourism, hospitality, transport services)

The study is limited by the availability of harmonized global data on green finance taxation and differences in national reporting standards.

Results

The analysis of the legal and fiscal framework governing the taxation of green finance instruments in the service sector reveals several important trends and structural patterns [10], [11]. Across both developed and developing economies, the integration of Green Finance mechanisms into national tax systems remains uneven, particularly in service-oriented industries such as tourism, hospitality, and transport. The findings indicate that countries adopting comprehensive sustainability frameworks—especially within the European Union—have implemented more structured and coherent tax incentive systems. These include reduced corporate tax rates for environmentally certified enterprises, VAT exemptions for green services, and preferential tax treatment for green bonds. In contrast, many developing countries, including Uzbekistan, are still in the early stages of integrating green finance into their tax systems [12].

Table 1. Comparative Tax Incentives for Green Finance Instruments in the Service Sector¹

| No. | Country | Green Instrument | Tax Incentive Type | Service Sector Application |
|-----|------------|------------------------|---------------------------|-------------------------------------|
| 1 | Germany | Green Bonds | Tax exemption on interest | Sustainable tourism projects |
| 2 | China | Green Loans | Subsidized interest rates | Green transport infrastructure |
| 3 | Uzbekistan | Green Investments | Limited tax relief | Emerging eco-tourism sector |
| 4 | France | ESG Funds | Reduced corporate tax | Hospitality and urban services |
| 5 | Kazakhstan | Environmental Projects | VAT reduction | Energy-efficient service activities |

Table 1 presents a comparative overview of how selected countries apply tax incentives to green finance instruments within the service sector. The data illustrate that developed economies tend to employ more diversified and targeted fiscal tools, including tax exemptions, reduced tax rates, and subsidies [13]. These measures are designed not only to encourage investment in environmentally sustainable projects but also to support the transition of service industries toward low-carbon operations. In contrast, developing economies demonstrate a more limited application of such incentives. Uzbekistan, for example, has initiated

¹ Compiled by the author based on reports from OECD (2025), World Bank (2024), and national policy documents
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certain policy measures aimed at supporting green investments; however, the absence of a unified legal framework and clear tax classification for green finance instruments constrains their effectiveness. This suggests a need for further legislative development and institutional coordination.

The study identifies several critical challenges in the taxation of green finance instruments in the service sector:

Lack of legal clarity: There is no universally accepted definition of green finance instruments within national tax codes, leading to inconsistencies in application.

Administrative complexity: Businesses face difficulties in complying with certification and reporting requirements necessary to qualify for tax incentives [14].

Sector-specific limitations: Service industries often lack measurable environmental indicators, complicating eligibility for green tax benefits.

Insufficient incentives: In many developing economies, tax benefits are not substantial enough to significantly influence investment decisions.

Discussion

The results confirm that the effectiveness of taxing green finance instruments depends not only on tax rates but also on the broader institutional and legal environment. Countries with integrated sustainability policies—supported by clear legal definitions and transparent certification systems—achieve higher levels of compliance and investment in green projects [15].

Furthermore, the findings suggest that the service sector requires a tailored approach. Unlike manufacturing, where emissions and environmental impact can be directly measured, service industries rely on indirect indicators such as energy efficiency, waste management, and digitalization. Therefore, tax policy must be adapted to reflect these characteristics. In the context of Uzbekistan, the ongoing economic reforms provide a favorable opportunity to incorporate green finance principles into the tax system. Aligning national legislation with international standards and adopting best practices from leading economies could significantly enhance the role of taxation as a tool for promoting sustainable development.

Conclusion

The study examined the legal foundations of taxing green finance instruments in the service sector with a focus on international comparative practices and policy implications for developing economies. The findings demonstrate that countries with well-developed sustainability frameworks, such as those within the European Union, have established more effective and structured tax incentive systems for green finance instruments. These systems include tax exemptions, reduced corporate tax rates, and preferential treatment for environmentally certified investments. In contrast, developing economies are still in the early stages of establishing coherent legal frameworks for green taxation.

The analysis confirms that the effectiveness of green finance taxation depends not only on fiscal incentives but also on the clarity of legal definitions, institutional capacity, and the presence of standardized classification systems. The service sector, due to its intangible and heterogeneous nature, requires a more flexible and adaptive tax policy approach compared to industrial sectors. In the context of developing countries, including Uzbekistan, the integration of green finance into tax legislation presents both opportunities and challenges. While policy initiatives are emerging, there is still a need for comprehensive legal frameworks that clearly define green financial instruments and establish consistent tax treatment mechanisms. Overall, the study concludes that strengthening the legal and fiscal architecture of green finance taxation is essential for promoting sustainable development in the service sector. Future policy efforts should focus on harmonizing national regulations with international standards, improving institutional coordination, and enhancing the effectiveness of tax incentives for green investments.

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