

# Ministry of Education Republic of Azerbaijan

## Developing the effectiveness of indirect taxes

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We would like to thank ....

## **ABSTRACT**

Important role in the tax system, which has played an important role in the national economic development strategy, has made significant progress in improving the tax system, expanding the taxation base, bringing the tax service to modern European standards, achieving a number of successes in building tax legislation and tax administration in line with modern requirements. The purpose of the master dissertation work was to study the goals and objectives of the modern tax system of Azerbaijan, the international experience of tax burden, assessment of the effectiveness of the system of tax payments, optimization of the system of tax payments and ways of its improvement.

**Key Words:** Tax, Indirect Taxes, Developing

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# INTRODUCTION

**The actuality of the subject.** The successful implementation of the development strategy determined by our great leader as the continuation of the foreign and domestic policy pursued by independent national leader Heydar Aliyev in the independent Republic of Azerbaijan, as well as the dynamic socioeconomic development achieved by the President of the Republic of Azerbaijan Mr. Ilham Aliyev, economic integration, dynamic development of oil and non-oil sector, improvement of well-being of the population, balanced and proportional economic development.

Important role in the tax system, which has played an important role in the national economic development strategy, has made significant progress in improving the tax system, expanding the taxation base, bringing the tax service to modern European standards, achieving a number of successes in building tax legislation and tax administration in line with modern requirements.

As a continuation of these activities, the action plan adopted within the framework of the Neighborhood Policy between the European Union and Azerbaijan requires improvement in many areas, including taxation, legislation and international standards of administration.

**Dissertation goals and objectives.** The purpose of the master dissertation work was to study the goals and objectives of the modern tax system of Azerbaijan, the international experience of tax burden, assessment of the effectiveness of the system of tax payments, optimization of the system of tax payments and ways of its improvement.

The fulfillment of the following tasks is intended to achieve these goals:

- rules for determining the main features of the tax system;

- Study of international tax burden;
- Analysis of the modern tax system of Azerbaijan;
- Effective tax burden determination and assessment;
- Determining the optimal level of tax rates in enterprises.

The object and object of the research work was to determine the subject of modern tax system research in Azerbaijan, the object of tax infrastructure performance and the optimal role of taxes in the development of the national economy of Azerbaijan.

The statistical data of the Ministry of Taxes of the Republic of Azerbaijan, as well as annual reports of the Statistical Committee of the Republic of Azerbaijan as the database of the research work.

Theoretical and methodological bases of the research work are scientific works of Azerbaijan and foreign countries, taxes, classical taxation, tax policy and tax system, laws and normative acts of the Republic of Azerbaijan, government decisions and normative legal acts of the Ministry of Taxes defining the main directions of tax.

# **CHAPTER I. INDIRECT TAXES AND THEIR APPLICATION FEATURES**

Taxes are an important economic category historically associated with the emergence, existence and functioning of the state. The manner, nature and extent of the mobilization of monetary resources and their expenditure depend on the stage of economic development of the society that gave birth to the corresponding state. The smallest amount of the tax burden is determined by the amount of the state's expenses for the fulfillment of the minimum of its functions.

The legal definition of taxes and fees is given in the Tax Code of the Azerbaijan Republic: "A tax is defined as a compulsory, individually gratuitous payment levied from organizations and individuals in the form of alienation of monetary funds belonging to them on the basis of ownership, economic management or operational management for the purpose of providing financial support for the activities of the state and (or) municipalities. (Shorrocks, 1993:3)

According to Art. 8 of the Tax Code of the Azerbaijan Republic under the collection is understood as a compulsory contribution levied from organizations and individuals whose payment is one of the conditions for committing fees to state payers, local governments, other authorized bodies and officials of legally significant actions, including the granting of certain rights or issuance of permits (licenses). "

So, if taxes go to the budget fund, then the fees, as a rule, are of a targeted nature and form targeted cash funds.

The first essential sign of the tax is imperative (order to the taxpayer by the state, the requirement of compulsory tax payment). If the obligation is not complied with, appropriate sanctions are applied. In this connection, let us recall the well-known statement by the famous

American educator and statesman B. Franklin: "In this world, one can not be firmly sure, except for death and taxes."

The second sign is the change of ownership. In particular, through taxes, the share of private property (in cash) becomes state or municipal, forming a budgetary fund.

The third sign of taxes is irretrievability (tax payments are depersonalized and not returned to a particular payer) and gratuitousness (the payer does not receive any material, economic or other rights for the tax paid). This feature in a sense separates taxes and fees from duties. The payer of the latter receives the right to carry out any business transactions (for example, import or export of goods across the customs border). The state fee is charged by judicial institutions (from claims of property and non-property nature, cassation complaints, for the issuance of copies of documents); bodies of state arbitration (with lawsuits, cassation and appeal appeals, applications for recognition of organizations and individual entrepreneurs as bankrupt); notarial authorities (for registration of citizens of the Azerbaijann Republic at their place of residence); departments of visas and registrations; bodies of the registry office and other bodies.

To understand the essence of each individual tax, it is necessary to isolate its elements. The most important elements of the tax are: the subject of tax, the tax bearer, the object of tax, the tax base, the source of tax, the unit of taxation, the tax rate, the tax salary, the tax period, the tax break.

A taxable person (taxpayer) is a legal entity or an individual, to which the state is obliged to pay a tax. Under certain conditions, the taxable person may transfer the payment of tax to another entity that will be a valid tax bearer.



The tax bearer is a legal entity or an individual who pays the tax from its own income. At the same time, the tax bearer brings the last taxable person, not the state. A classic example: the subject of tax is the producer or seller of the goods, and the tax bearer is the buyer of the goods.

Object of tax-income or property that serves as a basis for taxation (this may be wages, profits, dividends, rent, real estate, securities, commodities, etc.).

Tax base - monetary, physical or other characteristics of the object of taxation.

The tax source is the income of the taxable person from which the tax is paid. It is of fundamental importance that tax is always only a part of income and therefore it is always less than income in value. In some cases, the source may coincide with the object of tax (for example, income tax (income) of organizations). (Davidson, 1997:1453)

Unit of taxation - part of the object, taken as a basis for calculating tax; for example, on income tax (in the Azerbaijan Republic, such is the tax on personal income), the ruble of income is the unit of taxation; for land tax - hectare, weaving.

Tax rate - the amount of tax from the unit of taxation. The rate can be set in absolute amounts (solid rates) or in percentages. In terms of their content, marginal rates are allocated (they are directly indicated in the regulatory act on the tax); actual (defined as the ratio of the tax paid to the tax base); Economic (calculated as the ratio of the tax paid to all income received).

Salary tax is the amount of tax calculated on the whole object of tax for a certain period to be paid to the budget fund.

The tax period is the time that determines the period of the calculation of the salary of the tax and the time frame for making the latter to the budget fund.

Tax relief-reduction in the amount of tax. A variety of benefits can be applied: the introduction of a non-taxable minimum (that is, the exemption from tax of a part of the facility); lowering of tax rates; reduction of the tax salary; the granting of a tax credit (delay in the imposition of a tax salary), etc.

Important for understanding of tax relations are also the following concepts. (Yitzhaki, 1991:480)

The tax law is a set of legal norms defining types of taxes in the given state, the order of their collection, connected with occurrence, functioning, change and the termination of tax relations. The tax law provides for special rules that establish for each tax elements that regulate the procedure for calculating, levying, canceling the tax; terms of payment; privileges; responsibility of payers; procedure for appealing the actions of tax authorities.

Taxation is a certain set of economic (financial) and organizational-legal relations, expressing compulsorily-imperious, irretrievable and gratuitous withdrawal of a part of incomes of legal and physical persons in favor of the state and local authorities.

There are three main methods for calculating taxes (taxation):

- Calculation, a fixed percentage premium to the selling price (classical examples - sales tax and sales tax);
- Calculation of tax in solid absolute amounts from a unit of the object (for example, in the Azerbaijann Republic, in accordance with Article 193 of the Tax Code, most excise rates are set in rubles from the unit of measurement of the facility);

- Calculation of tax by multiplying the interest rate on the taxable base (for example, income tax (income) of organizations).

In tax practice there were a number of ways of levying taxes. (Foster,1998:173)

1. Cadastral, that is, on the basis of a cadastre, of a register containing a list of typical objects (land, incomes) classified according to external characteristics (for example, the size of a plot of land, a gaming table in a casino, etc.); this method, which is based on the establishment of the average income to be taxed (for example, in rubles from hundred weights taking into account local conditions), is applied with a weak development of the taxation apparatus or with a view to saving and rationalizing taxation.

2. Withdrawal of the tax until the entity receives income, that is, it withdraws the income from the source of payment. A classic example is the calculation and deduction of tax by the accounting department of the legal entity that pays income (wages) to the taxable person. The advantage of this method lies in the practical impossibility of tax evasion (in modern Azerbaijan, the chief accountant bears criminal and administrative responsibility for the completeness and timeliness of withholding and paying the tax).

3. Declaration. Withdrawal of the tax after - receipt of income by the entity and submission to the latter of a declaration on all the annual incomes received. The tax authorities, on the basis of the amounts of the taxable objects specified in the declaration and the current rates, set the tax rate. This way of levying the tax has arisen with the growth of the scale and diversity of personal incomes of citizens.

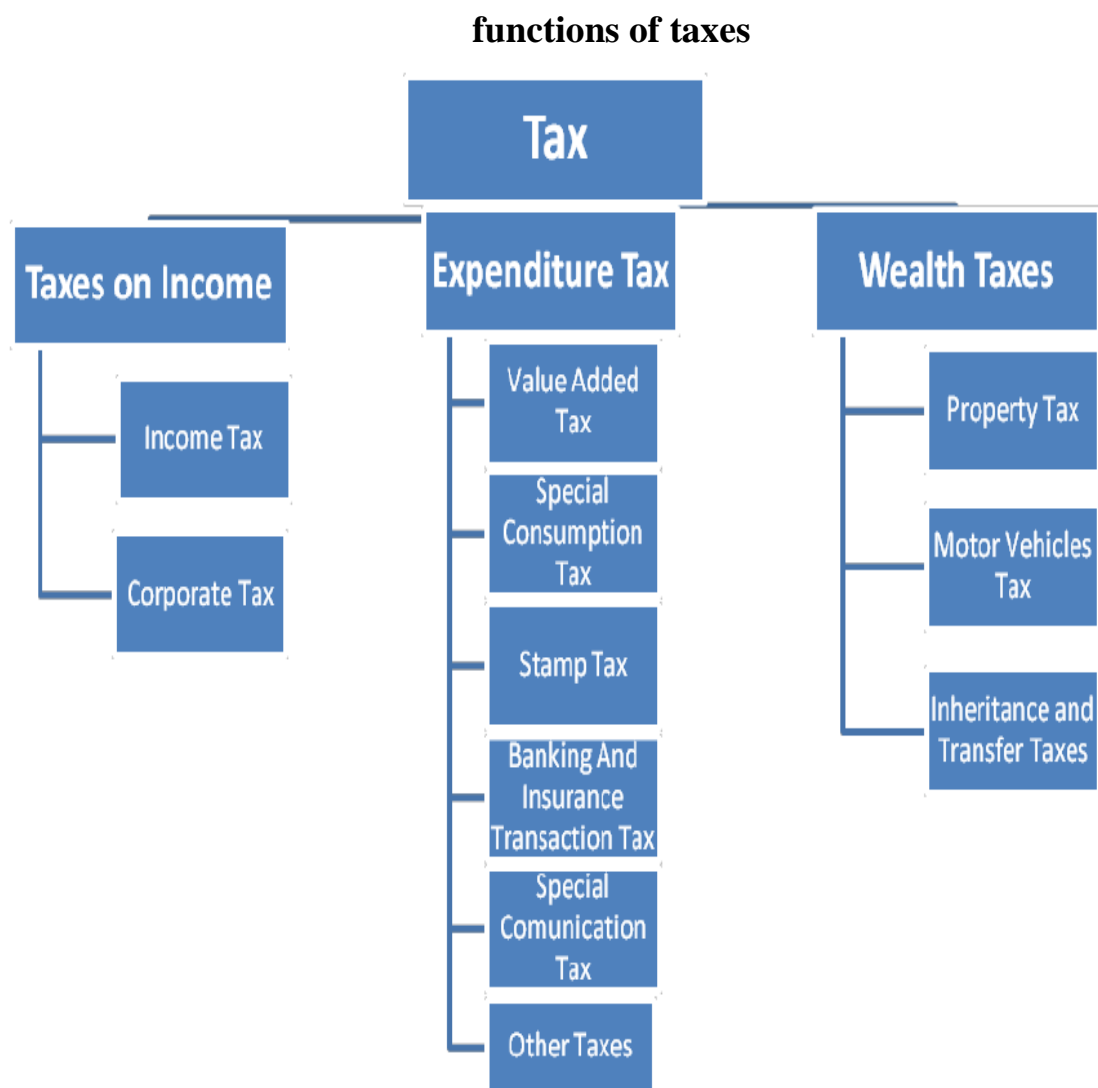
4. Withdrawal at the time of spending income when making purchases (for example, taxes such as turnover tax, sales tax, value added tax, excises are directly paid by buyers becoming tax bearers).

5. Seizure in the process of consumption (for example, road tolls from motor vehicle owners).

6. Administrative method in which the tax authorities determine the likely size of the expected income and calculate the tax payable from it (for example, the tax on imputed income of enterprises).

The essence and internal content of taxes is manifested in their functions, in the "work" that they perform.

**Fig.1.**



Between taxes and loans, a contradictory relationship is formed. Servicing of public debt from the budget will require higher taxes in the future (increase in tax rates, the introduction of new taxes). On the other

hand, the growth of the tax burden may again face insurmountable restrictions, will cause an increase in the discontent of taxpayers, which will prompt new loans to be placed. There is a danger of becoming a "financial pyramid", and therefore, a financial collapse. Our domestic experience is vividly confirmed: the excessive scale of the issue of T-bills led to the default and devaluation of the ruble in August 1998.

Control function This function creates prerequisites for observing cost proportions in the process of formation and distribution of incomes of various economic subjects. It assesses the effectiveness of each tax channel and the tax "press" in general, reveals the need for changes in the tax system and tax policy. (Slack, 2002)

## **1.1. Indirect taxes and their economic essence and functions**

Indirect taxes are taxes on goods and services: value added tax; Excises (taxes directly included in the price of the goods, tariff or services); on the inheritance; on transactions with real estate and securities and others. They are partially or completely transferred to the price of goods or services. The owner of the goods or services, upon their implementation, receives tax amounts that are transferred to the state. In this case, the relationship between the payer and the state is mediated through the object of taxation.

In the case of direct taxation, the tax amount is paid by the payer directly to the treasury. With indirect taxation, the amount of tax received by the owner (seller) of goods or services upon their sale from the buyer is transferred to the state. Consequently, formally indirect tax is paid by the owner (seller) of the goods, in fact - by his buyer. (Shoven, 1994: 1007)

The main disadvantage of indirect taxes is that they have to judge on the paying ability of payers on the basis of mediating moments, for example, on the expenditure or consumption of a person, whereas the true payment capacity does not always and not exactly correspond to such moments. Further in indirect taxation it is very difficult to implement the uniformity of taxation. When levying the same basic necessities, indirect taxes become inversely proportional to the means of payers.

But, on the other hand, indirect taxes help to implement a commonality of taxation, which at the present stock of the national economy is unattainable by means of one direct taxation of incomes and capitals; indirect taxes are relatively insensitive to payers and provide an opportunity to raise funds to cover huge modern government spending.

To the advantages of indirect taxes, some also include the fact that these taxes are paid as if voluntarily and that they, not extending to the savings shares of income, contribute to thrift. But this can not in any way relate to taxes on necessities, in which there can be no question of voluntarily paying them.

The main advantage of indirect taxes is their high fiscal quality, which explains the wide spread and strong development of these taxes.

Indirect taxes on the objects of collection are divided into: excises, fiscal monopoly, customs duties. In developed countries, excise taxes prevail - indirect taxes on goods and services, which are produced by private enterprises. Excises are imposed on goods of domestic production, in some countries excises are also taxed and imports of goods (Azerbaijan). Excises by the method of levying are divided into individual - established on separate types and groups of goods, and universal - charged from the value of the total gross turnover (VAT). (Younger, 1999: 303) Universal excises are more profitable from a fiscal

point of view (with the widening of the range of goods, the receipt of a universal excise to the budget is increasing), they are subject to all goods falling into the implementation. Initially, universal excise tax was levied at one stage (consumption) in retail trade. After the Second World War, a cascade turnover tax was introduced (that is, it was levied at all stages of production). Today it is characterized by a single taxation. A variation of the universal excise is VAT, which, unlike the turnover tax, is not collected from the entire value of the goods, but only from that part of the value that is added at a particular stage of production. The added value includes: wages, depreciation, interest for credit resources, overhead.

The second type of indirect taxes - fiscal monopoly - the state's monopoly on the production and (or) realization of certain goods, it pursues a purely fiscal goal. The rates are not established, since the state is a monopolist in the production of certain types of goods (for example, wine and vodka products) and sells the goods at a very high price, which includes the tax itself. Fiscal monopoly can be partial (or production, or implementation), or complete.

The third type of indirect taxes is taxes on foreign trade: customs duties. They are subdivided: (Grosh, 2000)

1. By type - for export, import, transit;
2. on the construction of rates - on specific (fixed in a firm amount), ad valorem (as a percentage of value) and complex (a combination of specific and ad valorem rates);
3. On the economic role - on fiscal, protection (to protect the domestic market from imported goods), anti-dumping (increased duties on goods imported at dumping prices), preferential (preferential system - preferential tariffs for one imported product, or for all imports) .

Estimation of the ratio of direct and indirect taxation is significant not only from the point of view of choosing priorities of tax policy, but also from the point of view of the possibility of using foreign experience. Undoubtedly, the introduction of international developments in this area should take into account the economic and political situation, mentality, as well as differences in national legislation on taxes and fees. As a result, reasonable use and improvement of foreign methods in Azerbaijann reality can lead to the calculation of the optimal model of the ratio of direct and indirect taxes.

Thus, in order to create an efficient and stable tax model of Azerbaijan, it is necessary to determine the optimal level of the ratio of indirect and direct taxation, namely, their equity participation. In addition, it is necessary to assess the influence and correlation of types of taxes within these two groups of taxes, that is, to arrive at their optimal value (tax burden that would be favorable both for the taxpayer and acceptable to the state).

In foreign practice, four basic models of taxation systems are distinguished, depending on their orientation to direct and indirect taxes.

The Anglo-Saxon model is oriented to direct taxes from individuals, the share of indirect taxes is insignificant. In the US, for example, personal income tax forms 44% of budget revenues. Payments of the population exceed taxes from enterprises. This model is also used in Australia, Great Britain, Canada and other countries. (Ahmad, 1997)

The Euro continental model is characterized by a high proportion of social insurance contributions, as well as a significant share of indirect taxes: revenues from direct taxes are several times lower than the revenues from indirect taxes. For example, in Germany, the share of social insurance receipts is 45% of budget revenues, of indirect taxes - 22%, and of direct taxes - only 17%. The indicators of other countries



targeting this model are similar: the Netherlands, France, Austria, Belgium. The Latin American model is focused on imposing traditional indirect taxes, which is due to the high level of inflation. Thus, the share of indirect taxes in the revenue side of the country's budget was 46% in Chile, 42% in Bolivia and 49% in Peru. A mixed model, combining features of other models, is used in many countries. States choose it in order to diversify the structure of income, avoid dependence of the budget on a particular type or group of taxes. The peculiarity is the substantial preponderance of the share of direct taxes from organizations over the share of direct taxes from individuals. The Azerbaijann tax system is a representative of the Latin American and Eurocontinental models, i.e. for it is a priority in the distribution of the tax burden of indirect taxes on business (about 70%).

In Azerbaijan, "the objective economic conditions do not allow us to focus on the Anglo-Saxon model yet, but now there are real opportunities for switching to a mixed tax burden distribution model in which direct income taxes and indirect taxes on business would be distributed roughly equally in total tax revenues to the budget and off-budget funds ".

In order to distribute direct and indirect taxes evenly, it is necessary to calculate and establish a certain balance, since certain taxes and fees should coexist productively among themselves, and the tax system as a whole with the external economic environment. It is possible to use the experience of foreign countries, but most importantly, taking into account the specifics of Azerbaijan's economic development.

# **CHAPTER II. THE MAIN FEATURES OF INDIRECT TAXATION IN THE REPUBLIC OF AZERBAIJAN**

## **2.1. The main features of the tax system of the Republic of Azerbaijan.**

The tax system is a three-tier system. Taxes are divided into:  
(Ahmad, 1990:135)

- State (mandatory for the whole country)
- taxes of the Autonomous Nakhchivan Republic
- local

The Constitution of the Republic of Azerbaijan is the main law of the state, it contains in Article 73 a general declarative norm of tax legislation proclaiming the obligation of citizens to pay taxes and fees established by law, as well as guaranteeing protection from levying taxes and fees in the absence of legal grounds and beyond the limits established by law. According to the Constitution, the authority to introduce new taxes and fees belongs exclusively to the legislative bodies of the relevant level.

The norms of the legislation on taxes in national, local normative acts, as well as in normative and legal acts of the Autonomous Republic of Nakhchivan are specified. The main such normative act is the Tax Code of the Republic of Azerbaijan. It is he who sets the list of taxes at the state and municipal levels, as well as taxes coming to the budget of the Nakhchivan Autonomous Republic. The Code regulates the general principles of legislation, establishes the rights and obligations of participants in tax legal relations, the responsibility for violation of tax

legislation, specifies in detail the procedures for tax control, the timing and procedure for appealing the actions of officials of tax authorities.

#### State taxes

personal income tax. Payers are individuals, the object is the difference between the aggregate income for the tax period and the tax deduction provided for by law. The minimum rate is 14 percent, with an income over 2500 manat - 250 manat plus 25 percent of the amount over 30,000.

on the profit of legal entities. Payers are enterprises. The object is the difference in the income and expenses of the enterprise. The rate is 20 percent. In the state budget there is no tax received from municipal enterprises.

to value added. Payers - organizations and entrepreneurs. The object of taxation is the provision of goods, works, services, imports. The tax rate is 18 percent of the cost of each operation, subject to VAT.

excises. Payers are enterprises and individuals who manufacture or import excisable products into the country. Such products include: alcohol and tobacco products, petroleum products, cars, water transport, precious metals, precious stones, jewelry. Rates for different products are different.

property tax. Payers - enterprises and individuals-owners of objects of taxation. The tax is levied on: real estate, water and air vehicles. Tax rates are different, for real estate are determined based on its area and location. For transport - depending on capacity. In the state budget there is a tax received from payers-enterprises. The tax received from citizens is transferred to local budgets. (Gibson, 1998:29)

land tax. The payers are the owners or legal owners of the plots located on the territory of the country. The tax is an annual fixed payment. The rate is 0.06 manat per 1 conventional point. The number of

points depends on the location, type of permitted use, cadastral value of the site. The tax received from individuals goes to the local budget.

road tax. Payers are non-residents-owners of transport entering the state, using this transport for various modes of transportation, as well as producers or importers of petroleum products. The object of taxation is motor vehicles of foreign states and petroleum products of local production or imported into the country. For transport, the rate depends on the engine capacity and the time it is in Azerbaijan. For petroleum products, the rate depends on its wholesale or customs value.

field tax. Payers are enterprises and individuals engaged in the extraction of minerals. The rate depends on the type of fossil, the highest - on oil (26 percent of the wholesale cost of cubic meters). The tax on construction materials of local importance goes to local budgets.

simple tax. Payers are enterprises and citizens carrying out certain types of activities, provided that the total value of operations taxable for an annual tax period is not higher than 200,000 manats. The rate for the city of Baku is 4 percent, for other cities and districts 2 percent of gross proceeds. (Ahmad, 1991: 135)

#### Taxes of the Autonomous Nakhchivan Republic

According to Article 7 of the Tax Code, all state taxes collected on its territory are received in the republic's budget.

#### Local taxes

Article 8 of the Tax Code of Azerbaijan Republic to local taxes includes: (Ahmad, 1991)

land tax from individuals

personal property tax

commercial building materials of local importance;

tax on profits of enterprises and organizations in municipal ownership.

Thus, the same taxes go to local budgets as to state budgets, their final destination depends on the identity of the payer, and in the case of the trade tax, on the taxable object. This circumstance allows replenishing the local budget without creating excessive tax burden for taxpayers.

The state regulation of economic processes should be based on the interrelationships that develop between the state and the economy. The history of development of modern states since the beginning of the 20th century. testifies to the strengthening of the role of the state in regulating the economy. It is connected with the global problems that have arisen in the economy, which include inflation, unemployment, a drop in output, and so on. A vivid example of this is the policy of the US and several European countries during the economic crisis that erupted in the 1930s.

Economics is a complex system consisting of a large number of economic entities of various forms of ownership, interconnected with each other regarding the production and sale of goods, works, services. In addition, enterprises enter into relations with the state. These relations can be both production (execution of state orders) and financial nature (targeted financing from the budget of individual industries, fulfillment of tax obligations to the state).

One of the directions of the state's activity as a political superstructure of society is economic policy. Through economic policy, the state determines the direction of the development of the economy as a whole and influences certain processes and trends occurring in it. Implementation of economic policy is carried out in the following areas:

- 1) the construction of production relations; organization and regulation of the structure of the economy;

2) organization and regulation of the financial (monetary and fiscal system) of the country.

Economic policy is a system of goals and activities that ensure the solution of the tasks facing the society in the tactical and strategic plan of economic development. It is developed on the basis of knowledge of economic laws and tendencies in the interests of society. How much economic policy is scientifically justified, i.e. as far as it corresponds to the regular development of the economy, social reproduction depends. Economic development of society contributes to the development and improvement of political, legal, spiritual and moral relations and economic policies, which are structural subdivisions of superstructure relations.

One of the most important instruments for the implementation of the state's economic policy is taxes. The tax factor is natural because taxes are the main source of revenue generation for the state,

As a result of the fact that taxes as incomes of a state are related to its costs, and the latter are constantly changing depending on political, economic, social, environmental and other situations inside and outside the country, tonal relations should be an object of state regulation. Since tax relations are taxation of economic entities with specific types of taxes, the aggregate amount of which affects their financial results, it can be said that the state has a direct impact on the economy of taxpayers' enterprises, while regulating their financial opportunities by raising tax rates, granting tax benefits, etc. (Shorrocks, 1993: 3)

In the process of taxation, the state influences the economy of enterprises, imposing tax obligations on them. The latter consist of a mandatory contribution to the state budget of a part of the payer's income (profit). At the same time, applying a certain taxation mechanism, the state regulates not only the receipt of tax revenues to the budget, but also

regulates the economy of enterprises. By maneuvering with tax rates, benefits and penalties, changing the taxation conditions, introducing one and canceling other taxes, the state creates conditions for accelerated development certain industries and industries, contributes to solving urgent problems for society. At present, one of the main tasks in the economy of Azerbaijan is the rise of agriculture and ensuring food security. In this regard, in the Azerbaijan Republic, all types of activities related directly to agriculture and the production of agricultural products are exempt from profit tax.

With the help of taxes, the state redistributes part of the profit of enterprises and entrepreneurs, incomes of citizens, directing it to the development of production and social infrastructure, to investments and capital-intensive and capital-intensive industries with long payback periods: railways and highways, extractive industries, power plants, etc. , carried out by the state through taxes, are purely social in nature. This is achieved by fixing progressive rates of taxation, allocating a large part of the budget funds to the social needs of the population, full or partial exemption from taxes of citizens who are in need of social protection.

This delineation of tax effects on economic policy is conditional, since they are all intertwined and implemented simultaneously. Taxes are inherent in both stability and mobility. Stability of the tax system does not mean that the composition of taxes, rates, benefits, sanctions can be established once and for all. Any system of taxation reflects the nature of the social system, the state of the country's economy, the stability of the socio-political situation, the degree of public confidence in the government - all at the time of its implementation. As the changes in the foregoing and other conditions occur, the tax system ceases to meet the requirements imposed on it, it contradicts the objective conditions for the development of the national economy. In this regard,

the taxation system as a whole or its individual elements (rates, benefits, etc.) are made the necessary changes. The combination of stability and dynamism, mobility of the tax system is achieved by the fact that during the year no changes are made (except for the elimination of obvious mistakes); the composition of the tax system (a list of taxes and payments) should be stable for several years.

Being an integral part of the financial policy, the formation and implementation of the tax policy of the state is one of the main conditions for the overall economic development of the country. Therefore, the use of the experience of developed countries and the formation of a perfect tax policy are the main factors in the organization of tax policy. The tax policy should be improved to such a level that it can perform its functions under normal conditions. ( Pearce, 1996)

In a market economy with the help of taxes, one can not only stimulate economic activity, but also significantly weaken it. Of course, the state is always interested in attracting a large amount of money to the budget. But this is impossible with the help of setting economically established taxes and increasing their rates. If we use only this method, then we will profit only in a certain period of time. The increase in tax rates can be effective only in the short term. But in the long term, such an approach can lead to negative consequences, such as a drop in economic growth, delays in entrepreneurial activity and, at the end, a weakening of the production process. This is due to the fact that legally and individuals, with large amounts of taxes and high rates on them, are not interested in economic activities, in increasing the quality and quantity of new products, in attracting new technologies and equipment. And this directly affects the production activity. The result is the emergence of a crisis in the economy and a decline in economic activity.



The decrease in rates and the number of taxes, on the contrary, produces a stimulating effect on the economy. After a certain period of time, the inflow of funds to the budget grows and this process continues for a long time. The income received from tax cuts is much greater than the income from its increase. Therefore, each country, when determining its economic policy, should proceed from the real situation of the economy in its country.

Increasing the role of taxes in our country, turning them into the main way to withdraw part of the income of individuals and legal entities in the state and local budgets is evidence of the growth of the financial cumulative society. When a certain level of literacy of the population is reached, taxes are perceived by them with understanding, as a form of participation by their means in solving national problems, especially social ones. Naturally, if the tax rates reflect the balance of interests of citizens, entrepreneurs, enterprises and the state. Both world and domestic experience testify to the advantages of the tax system over any other form of withdrawal of a part of the incomes of citizens and enterprises into the state budget. One of these advantages is the legal nature of taxes. Before the tax all are equal. This does not mean that it is not possible to differentiate rates, on the contrary, it is possible and necessary, but differentiation is carried out according to economic, social, regional categories of payers, but not by individual individuals or enterprises. The tax rate may depend on the category to which the payer relates, on the social group to which the citizen belongs or the size of the enterprise, but it does not depend and in principle can not depend on who pays directly. A fixed amount of rates and their relative stability contributes to the development of entrepreneurial activity, since it facilitates the forecasting of its results. Taxes organically fit into the formation in our country of a system of economic relations based on the

action of, above all, the law of value. With various rates, taxes are a means of combining the interests of entrepreneurs, citizens and state, society as a whole. (Saposnik, 1991:147)

Taxation is managed by the state directly responsible for the implementation of the tax policy, which includes the Ministry of Taxes of the Republic of Azerbaijan. The Ministry of Taxes of the Republic of Azerbaijan and its structural subdivisions are participants in relations regulated by the legislation on taxes and fees.

Information (propaganda) - the activities of financial and tax authorities to inform taxpayers of the information they need to properly fulfill their tax obligations. In this case, we mean information about the taxes and fees in force, the procedure for calculating them and the terms of payment, etc.

Informing and educating taxpayers have a big impact on the timely receipt of taxes in the budget. According to the Tax Code of Azerbaijan, taxpayers should be informed free of charge of current taxes and fees. Information on current taxes and fees, as well as new rules adopted in the legislation should be published in the media. Taxpayers should also be aware of their rights and obligations, the powers of tax authorities and their officials. In order to implement a set of measures to intensify the propaganda and explanation of tax legislation, to bring out reliable information on the activities of tax hurricanes, to develop and implement the concept of increasing the tax literacy of the population, the Ministry of Taxes established the Telephone Service "195". This service is entrusted with the organization of works on the integrated promotion of tax legislation on the basis of a unified information policy. (Ahmad, 1994:259)

One of the main tasks of the state tax policy at the present stage is the creation of favorable conditions for active financial and economic

activity of economic entities and stimulation of economic growth by achieving the optimal combination of personal and public interests, i.e. optimal balance between the funds remaining at the disposal of the taxpayer, and the means that are redistributed through the tax and budget mechanisms.

Conventionally, there are 3 possible types of tax policy: (David and Nicholas)

1. The first type is a high level of tax policy; a policy characterized by a maximum increase in the tax burden. When choosing this path, it is inevitable that a situation arises when an increase in the level of taxation is not accompanied by an increase in revenues to budgets of various levels. Such a tax policy can lead to negative consequences:

- taxpayers have almost no financial resources after taxes, which makes it impossible to expand reproduction; the country's economy is slipping ever deeper into the abyss of the crisis, the rate of growth in production in all sectors is falling;

- a large scale is gaining mass concealment from taxation, leading to the fact that the state collects, for most taxes, slightly more than half of the funds due;

- The "shadow economy" acquires a mass character, the level of production in which, according to various estimates, reaches from 25 to 40%; the financial resources hidden from taxation do not go, as a rule, to the development of production, but are transferred to accounts in foreign banks.

All this becomes one of the main reasons for the crisis in the country's economy, the consequence of which is a changing tax policy and the strengthening of the regulatory role of the state in the

development of the economy through a more active use of market mechanisms, including taxes. (Ahmad, 1990:135)

2. The second type of tax policy is a low tax burden, when the state takes into account not only its own fiscal interests, but also the interests of taxpayers. Such a policy promotes the rapid development of the economy, especially its real sector, as it provides the most favorable tax and investment climate (the level of taxation is lower than in other countries, there is a large influx of foreign investment, including export-oriented, and, accordingly, the competitiveness of the national economy). The tax burden on business entities is substantially mitigated, but state social programs are significantly curtailed, as budget revenues are reduced. In this case, the state weakens the tax press for entrepreneurs, reduces their spending primarily on social programs. The purpose of this policy is to ensure the priority expansion of capital, stimulation of investment activity (Davidson, 1997: 1453). Such a policy is carried out at a time when there is a stagnation of the economy, threatening to go into the economic crisis. Similar methods of tax policy, called "Reaganomics", were used, in particular, in the US in the early 80s of the XX century.

3. The third type is a tax policy with a fairly substantial level of taxation, both for corporations and individuals, which is compensated for the citizens of the country by a high level of social protection, the existence of a variety of state social guarantees and programs.

Depending on the distribution of financial means of the enterprises and the formation by the state of their incomes in the form of a budgetary fund, and also depending on the redistribution of already concentrated funds on this fund for a purposeful impact on the economy, the tax policy occurs at two levels: at the microeconomic level, i.e. at the level of economic entities, and at the macroeconomic level, when the

state purposefully finances priority sectors from the budget, certain regions for the balanced development of the whole society.

The tax policy at the microlevel is carried out through the legislative establishment of various taxes, fees, duties, etc., which are paid to the state budget by enterprises and organizations without fail. This means that the state impact on the economy of enterprises is legally-compulsory. Tax obligations are extended to all enterprises and organizations regardless of the form of ownership and organizational and legal nature of activities, with the exception of those financed from the budget and those that are exempt from payment by law.

The tax policy at the macrolevel is the most important means of countercyclical development of the economy. In order to equalize the rates of economic growth, many countries use the tax mechanism to regulate the demand for investment (stimulating it during the period of depression and limiting it during the period of economic growth). Since tax revenues follow volumes and rates of production with some delay, automatic tax increases can lead to depression in production, and even to its decline. In this situation, it is necessary to reduce taxes in order to increase incentives for investment. (Banks, 1996:1227)

In order to achieve the objectives of the tax policy, the state uses various instruments, in particular such as specific types of taxes and their elements, objects, subjects, benefits, terms of payment, rates, sanctions, to eliminate the resulting disproportions in the functioning of the tax mechanism.

Specificity of the institute of tax benefits is determined by types of taxes, calculation methods, the purposes of their use and countries of their application. World practice has developed an optimal set of principles for the organization of tax regulation, which includes: (Rajemison, 2000: 106)

- the application of tax incentives is not selective;
- investment incentives are presented exclusively to payers ensuring the implementation of state investment programs and given production volumes;
- the use of benefits should not damage the state economic interests;
- The procedure for the effect of tax incentives is determined by law and is not subject to significant adjustments at the local level.

With the adoption of the Tax Code of the Republic of Azerbaijan, the application of tax incentives for certain types of taxes has become more systematic.(Ahmad, Ehtisham and Nicholas, 1997) Starting with Chapter VIII "Personal Income Tax" we see that the emphasis in Azerbaijan's tax policy was made on the application of tax incentives in national legislation. Some types of income, in particular income received directly from agricultural production, income of charitable organizations, income of state authorities are fully exempt from taxes. These benefits are used to stimulate these activities, as well as to increase their profitability.

Another important tool of state tax regulation of the economy is tax sanctions. Their role is ambivalent, because, firstly, they ensure the implementation of tax legislation (sanctions are applied for improper performance of obligations to the budget or extra-budgetary funds), and secondly, they orient economic entities to use more effective forms of management in their activities. At the same time, it should be noted that the effectiveness of sanctions depends on the effectiveness of the monitoring and punitive bodies. (Younger, 1993: 48)

Thus, economic incentives as a result of all the envisaged measures are implemented today both in the form of a reduced tax rate and exemption from tax, and in the form of targeted tax benefits.

However, the state has no guarantees that the funds released as a result of granting benefits will be used by the taxpayer for the development of production or for scientific research. As international experience shows, even respectable civilized taxpayers in such cases spend no more than one third of the released financial resources on economic development. Meanwhile, the provision of targeted tax benefits guarantees the state almost 100% of the use of financial resources pouring into the economy for the purposes it pursues by providing this or that privilege.

## **2.2. Indirect taxes and their application in the Republic of Azerbaijan**

In accordance with Article 8 of the Tax Code of the Azerbaijan Republic, "... a tax is understood as a compulsory, individually gratuitous payment levied from organizations and individuals in the form of alienation of monetary funds belonging to them on the basis of ownership, economic management or operational management for the purpose of providing financial support for the activities of the state and (or) municipal entities ".( Chu, 2000)

The following main functions of taxes are distinguished: fiscal, regulatory, social.

The fiscal function is characteristic for all states during all periods of their existence and development. With the help of its implementation, state financial resources are formed in practice and material conditions for the functioning of the state are created. The main task of implementing the fiscal function is to ensure a stable revenue base for budgets of all levels. The significance of the fiscal function of taxes during the downturn of business activity is reduced, since the

amount of tax revenues to the budget directly depends on the amount of income of payers.

The regulatory function allows you to regulate the income of various groups of the population. It is aimed at regulating the financial and economic activities of producers of goods and services, and through the solvency of individuals - in the market of supply and demand. Thus, the regulatory impact of taxes manifests itself not only in the sphere of production, but also in the sphere of exchange and consumption. In this function, the whole mechanism of economic management by the state is manifested: planning, coordination, organization, stimulation and control.

The social function of taxes is closely related to fiscal and regulating through the conditions of collection of income and property taxes. Taxes are levied in a larger amount from the well-to-do strata of the population, with a significant share of it coming to the poor in the form of social assistance. The significance of the social function of taxes increases dramatically during the period of economic crises, when a large part of the population needs social protection. In practice, in the Azerbaijan tax system, taxes do not sufficiently fulfill their social function. This primarily depends on the imperfection of tax laws.( Grosh, 2000)

The main place in the Azerbaijan tax system is occupied by indirect taxes, which include: value added tax, excises, customs duties. As part of the budget revenues, they occupy a determining place.

Taxes indirect (English indirect taxes) - taxes associated with the process of using the profit (income) of taxpayers. Their relationship to the economic potential (the ability to generate revenue) of a taxpayer is only indirect, through its costs.



From the managerial point of view, three types of indirect taxes are distinguished: taxes arising from property and commodity-money relations, taxes on consumption and customs duties. The first type includes, for example, value added tax. To the second - excises, taxes on the sale of petroleum products, etc. The tax authorities are responsible for property and consumer taxes, as well as taxes arising from property and commodity-money relations. The collection of the customs duty is regulated by the customs authorities.

Unlike direct taxes, indirect taxes, falling mainly on consumer goods, the use of which is not in direct accordance with the property independence of consumers, are particularly hard on the poor classes of the population and often their volume is inversely proportional to the amount of payers.

One of the most important advantages of indirect taxes is their fiscal productivity, which is largely explained by the rapid growth of consumption: with the growth of prosperity, an increase in the population, it is possible to ensure a constant increase in incomes without changing tax rates. Indirect taxes also allow regulating consumption: by changing the amount of tax on a product, and thereby changing its price, the authorities can influence the change in the size of its consumption (for example, with respect to alcoholic beverages). Indirect taxes characterize the simplicity of collection and payment to the budget. Since indirect taxes are included in the price of goods and services, they are invisible and psychologically easier to perceive payers.

The disadvantages of indirect taxes are the increase in working capital due to the growth of prices under their influence and, consequently, the diversion of capital from other industries and needs. The main shortcoming of indirect taxes is their unevenness and burdensome for poor classes. The severity of indirect taxes is inversely

proportional to the amount of income: the lower the income, the greater part of it they select. It increases with the increase in the number of family members, in which the payer for dependents turns out to be an employee. In the structure of taxes in economically developed countries there is a clear tendency to increase the share of indirect taxes, primarily due to the introduction of VAT and raising its rates.

In general, tax theories should be understood as one or another system of scientific knowledge about the nature and nature of taxes, their place, role and significance in the economic and socio-political life of society. In other words, tax theories are different models of building the tax system of the state, depending on the recognition of taxes for a particular purpose.

Among the private tax theories, one of the earliest is the theory of the relationship between direct and indirect taxation. In the early periods of the development of European civilization, the establishment of direct or indirect taxation depended on the political development of society. In the cities of the early Middle Ages, where, owing to a more even distribution of property, the democratic foundations were still preserved, the tax systems were based, basically, on direct taxation. Indirect taxes were considered more burdensome and adversely affecting the state of the people, as they increase the value of the goods. When the aristocracy gained strength to break the resistance of the masses, the priority of indirect taxation was established, and, as a rule, on basic necessities (for example, salt tax). Thus, according to the first position, indirect taxes are harmful, since they worsen the situation of the people. (Bourguignon, 2002)

The second position, which appeared at the end of the Middle Ages, on the contrary, justified the need for an indirect taxation. By means of indirect taxes, it was proposed to establish uniform taxation.

The nobility through various privileges and redemption was not burdened by direct taxes. Therefore, advocates of the idea of indirect taxation sought to force pay privileged classes by imposing a tax on their expenses. Thus, indirect taxes were considered as a means to establish equality in taxation.

The supporters of indirect taxation were also A. Smith and D. Ricardo, who substantiated it through the idea of voluntariness. This idea is based on the assertion that indirect taxes are less burdensome than direct taxes, because they are easily avoided without buying a taxable product.

However, at the end of the XIX century. all disputes on this issue came to the conclusion that it is necessary to maintain a balance between direct and indirect taxation, assuming that direct taxation is intended for equalizing purposes, and indirect - for the effective receipt of revenues. Some experts even consider the idea of a "reasonable combination of direct and indirect taxes" as one of the principles of the tax system.

As early as 1861, Lord Gladstone, speaking in the House of Commons of the British Parliament, stated: "I never think about direct and indirect taxation, except by representing them as two attractive sisters ... different only in the way sisters can differ. I do not see any reason for the evil rivalry between their fans. I have always thought that it is not only possible, but also necessary, to show them both respects".(Davidson, 1997:1453)

From the point of view of problems of macroeconomic regulation, the role of direct and indirect taxes varies significantly. Thus, direct taxes can be used as built-in stabilizers, they are sensitive enough to change the phases of the economic conjuncture and, thus, represent a cyclically unstable source of tax revenues. In contrast, indirect taxes, on the whole, also following the phases of the business cycle, are

nevertheless more resistant to fluctuations in the business environment. In the phases of the economic downturn, the volume of profit decreases very substantially (down to zero), while the turnover, which can also decrease, never reaches zero.

In addition, indirect taxes have the property of direct indexing on the rate of inflation. The rate of inflation is automatically transferred to the volume of indirect tax revenues in the revenues of the budget system. The dynamics of direct taxes are not directly related to the rate of inflation - the income tax and income tax can both lag behind the inflation rate and outstrip them depending on the dynamics of the objects of taxation and the nature of the established rates (progressive or proportional taxation).

It should also be noted that the dominance of certain types of taxation (primarily this applies to the role of direct and indirect taxes) reflects the overall political orientation of the state. It is generally believed that the higher the level of democracy of a state, the higher the role of direct taxes in the formation of revenues of the budgetary system. Increasing the role of indirect taxes to the detriment of direct taxes indicates a decline in the level of democracy in society. This circumstance reflects the fact that in the case of direct taxes, citizens directly interact with the state (represented by tax services) when paying taxes. At the same time, their more active position is being formed regarding the control over the state over the use of the funds received by them. When the receipt of taxes is impersonal (as in the case of indirect taxes) and citizens are more indifferent in matters of using budgetary funds, state officials, feeling uncontrolled by society, behave more irresponsibly.

Within the Azerbaijan tax system as a whole, although there is no clear dominance of indirect taxes, nevertheless their role is very great.

And the main role in the formation of federal budget revenues is indirect taxes. This circumstance, on the one hand, leads to a relative stabilization of the revenues of the budgetary system (and the federal budget in the first place), and on the other, objectively lowers the level of control over the use of these funds by society as a whole and its individual citizens. (Saposnik, 1991:147)

Thus, within the Azerbaijan tax system, indirect taxes (VAT, excises and customs duties), as well as a group of direct taxes (on profits, income tax from individuals, property taxes) are actively used as the main known world practices. At the same time, indirect taxes play the main role in the formation of the federal budget, while direct budgets in the formation of the budgets of the subjects of the Republic and local budgets . (Shoven, 1994: 1007)

# **CHAPTER III. KEY FEATURES OF INDIRECT TAXATION IN SOME DEVELOPED COUNTRIES (EG GERMANY AND UK)**

## **3.1. Indirect taxes in Germany and their application features**

With the formation of the German Empire in 1871, the establishment of all the main direct taxes remained the prerogative of the states (the present-day lands) in it. The Empire was given the right to establish only customs duties and general imperial taxes on consumer goods: tobacco, beer, vodka, sugar, salt. The consolidation of the right to collect customs duties and excises laid the foundation for the creation of a common economic space. But, of course, it was not enough to finance the general expenses. The source of funds were revenues from the postal and telegraph offices and matrix contributions of individual lands, which had the nature of a per capita tax. To cover emergency needs, it was possible to resort to loans.

The regular contributions of individual states put the empire in a serious dependence on them. This determined the ways of development of the German tax system. In the nineties of the last century stamp duties on securities, bills of exchange, playing cards were introduced, in 1906 - tax from inheritance, in 1913 - property tax and at the same time a tax on the increase of property. Since 1916 Germany has already actively used the possibilities of direct taxation. Indirect taxation also developed, because duties and excises were not enough to cover the costs associated with military defeat. In July 1918, Germany introduced a turnover tax first at a rate of 0.5%. It existed before the transition to taxation added,

or newly created, property, which happened only in the sixties. (Gibson, 1998: 29)

In December 1919, with the approval of the Imperial rules of taxation, developed by the Minister of Finance Erzberger, the largest tax reform began. The enormous financial difficulties that arose as a result of the economic and social consequences of the First World War led to a strengthening of centralization in the field of taxation. As a result, the Weimar Republic created a unified financial administration that controls the receipt of all types of taxes, regardless of their subsequent distribution. This financial department functioned until May 1945.

In postwar Germany it was legislatively established that state tasks should be distributed between the Republic and the lands that make up its membership. For this, Republics and lands separately bear the costs that arise when they perform their functions; The Republics and the land are independent in their budgetary arrangements.

Along with the federal state and the lands, the bearers of certain social and social functions are the communities that have local budgets. Key positions in the tax legislation belong to the Republic. At the same time, to ensure the financing of all three levels of management, the German tax system is structured in such a way that the largest sources form three or two budgets at once. Thus, personal income tax is distributed as follows: 42.5% of the proceeds go to the federal budget, 42.5% to the budget of the corresponding land and 15% to the local budget. The corporate tax is divided in the proportion of 50% to 50% between the federal and land budgets. The entrepreneurial tax is levied by local governments, but they remain half, and the second half is transferred to the federal and land budgets. Value added tax is also allocated to three budgets. The ratios of the distribution of this tax can be

very different and vary over time, as it serves as a regulating source of income. (Younger, 1999: 303)

In any country with a federal structure, the central problem is the delineation of the powers of the central government and the subjects of the Republic. This issue in Germany is also resolved. So, as a result of the largest tax reform in December 1919, the financial sovereignty of the lands was liquidated. The state received the exclusive right to collect taxes and manage them. The turnover tax was raised, the taxation of luxury goods was introduced, and the owners of large fortunes paid extra tax. The 26 land laws on income tax in force were replaced by an imperial income tax with a differentiated scale and a maximum tax rate of 60%. These and other measures allowed five-fold increase in the state's spending on social needs.

The tax reform was initiated by the Federal Minister of Finance Hans Eichel. A few days after the government statement, the Bundestag approved it by a majority of the votes of the SPD (the Social Democratic Party of Germany-the ruling party of Schroeder) and the Green Party (in a coalition with the SPD).

The reform, which will take place in three stages, provides for a gradual reduction of the income tax by 2005, with the initial rate to be reduced from 22.9% to 15%, and the maximum rate from 51% to 45%. In addition, up to 25% should be reduced corporate income tax (corporate tax).

The task of tax reform is to raise the purchasing power of the population and make Germany even more attractive to investors. Next year, for citizens and businesses, the tax burden will be reduced by 36 billion euros.

In Germany, the value of the realized gross national income is distributed first among those who are engaged in its education. They are



owners of means of production - entrepreneurs or legal entities that receive their part in the form of profits, and employees and employees who are paid wages. The state receives its revenues mainly in the process of redistribution of the gross national product through the taxation of primary and secondary incomes, clearly determines the level of taxation. The taxation system is open and understandable. In general, with such an option for generating budget revenues, the main objects of taxation are the income of the population (wages, personal incomes of entrepreneurs). This is not an advantage or a disadvantage, it is an objective property of an economic system with a given distribution of the gross national product.

In general, the tax system in Germany is very complicated. Often, it is subjected to harsh criticism in the country, primarily because of the relatively large tax rates of firms. However, these really high rates allow the state to solve the most difficult tasks of social market economy and to transform new federal lands in the east. And even in these cases, there is a search for opportunities to reduce taxes, which adversely affect the position of Germany in the competition of territories for investment of capital. Regarding Ukraine, the most useful thing that can be obtained from the experience of the German tax system is a clear distribution of competencies between various levels of state power and a clear study of all the mechanisms of taxation. (Chen, 2001)

The main taxes in Germany are the following taxes:

Income tax on individuals;

Corporate tax;

Value added tax;

Fishing tax;

Property tax;

Land tax;

The tax payable upon the purchase of a land plot;  
Insurance premiums;  
Inheritance tax and donations;  
Car tax;  
Tax on the maintenance of fire protection;  
Excises for coffee, sugar, mineral oils, wine and tobacco products;  
Customs duties;  
Fees for the development of oil production in Germany.

The total amount of tax revenue is divided approximately into the following parts: the Republic - 48%, the land - 34%, the community - 13% (the balance goes to the Equalization Fund and the EU share). In addition, there is still a church tax, which is not indicated by financial statistics together with state taxes. The customs duty is considered as one of the types of taxes.

General rules that apply to all types of taxes are found in the Regulation on deductions as a so-called general tax legal document. This document defines the concept of taxes, establishes who belongs to taxpayers, fixes the principle of keeping financial secrets about tax information and the principle of uniformity of taxation.

Under the jurisdiction of levying taxes are divided into federal, land, community, joint and church.

For taxation purposes, three main groups of taxes are divided: ownership taxes, taxes on transactions in the sphere of circulation, taxes on consumption (excises). (Saposnik, 1991:147)

#### Property taxes

This group of taxes includes taxes on income (income tax, corporate tax) and property taxes (for example, property tax,

inheritance). Such taxes, like fishing and church taxes, are in part property taxes.

Taxes on ownership are of the nature of direct taxes. Their share in total tax revenues is more than 55%.

Income tax is levied on individuals (and if they permanently reside in the FRG, they pay this tax on income received in other countries, if they have not yet been taxed). This is the most important type of taxes: it gives a little less than 40% of all tax revenues. Its varieties (with a special way of levying - by subtraction) are the tax on wages and the tax on income from capital. Income tax is imposed on all incomes of industrial and agricultural activities, independent and dependent labor, possession of capital, the surrender of housing, the leasing of any property, etc., up to income from speculative agreements.

A number of categories of citizens (wage workers, disabled, blind) have additional tax benefits that are fixed or limited to the upper level. With incomes without restrictions, only the costs of tax advisers and church tax are deducted.

At present, the tax-free minimum for income tax is 5616 Euro for single and 11232 Euro for married couples in a year. For incomes that do not exceed for single 8153 Euros and 16307 Euros for spouses, there is a proportional taxation with a rate of 22.9%. Further, the tax is levied on a progressive scale to the volume of income of 1,001,441 euros for single persons and 24,0083 euros for those who are married. Incomes that exceed this level are taxed at a maximum rate of 51%. There are tax breaks for children, age benefits, benefits for emergency (illness, accident). For example, for people who have reached the age of 64, the non-taxable minimum rises to 3,700 Euros. For persons who have a land plot, the income tax is not charged from 4750 Euros.

It is characteristic that the income tax, which gives the capital (that is, dividends) is in the total result of all tax revenues only 1.6-1.7%.

The basis for the payroll tax is the salary tax card, which is issued by the communities at the beginning of each year to each employee. The card indicates the tax class (there are only 6 of them), the number of non-taxable amounts due to the presence of children, membership in the confession (for church tax), and benefits for the disabled. All other benefits and discounts are paid into the card by the local financial department at the request of the taxpayer.

A few years ago, a so-called solidarity bonus (Solidaritätszuschlag) was introduced. The taxpayer finances part of his income the economic revival of new lands that emerged after the reunification of Germany. At this time, this premium is 7.5% of income tax. This allowance is slightly reduced if the taxpayer has children.

It is necessary to highlight the so-called church tax. It is paid only by those who call themselves a member of the church. This tax is calculated on the basis of the annual income tax and is 8-9% of its amount.

### **3.2. Indirect taxes and their application features in Britain**

The main sources of government revenues are taxes, in particular: taxes on income (including profits), which include personal income tax, corporate tax (standard rate - 33%) and petitions for oil revenue; a capital tax that includes inheritance tax, capital gains tax, consular fees and import duties; indirect taxes -. VAT, excises and customs payments; payments on state insurance, which give the right to receive benefits. The basic principles underlying the modern tax policy

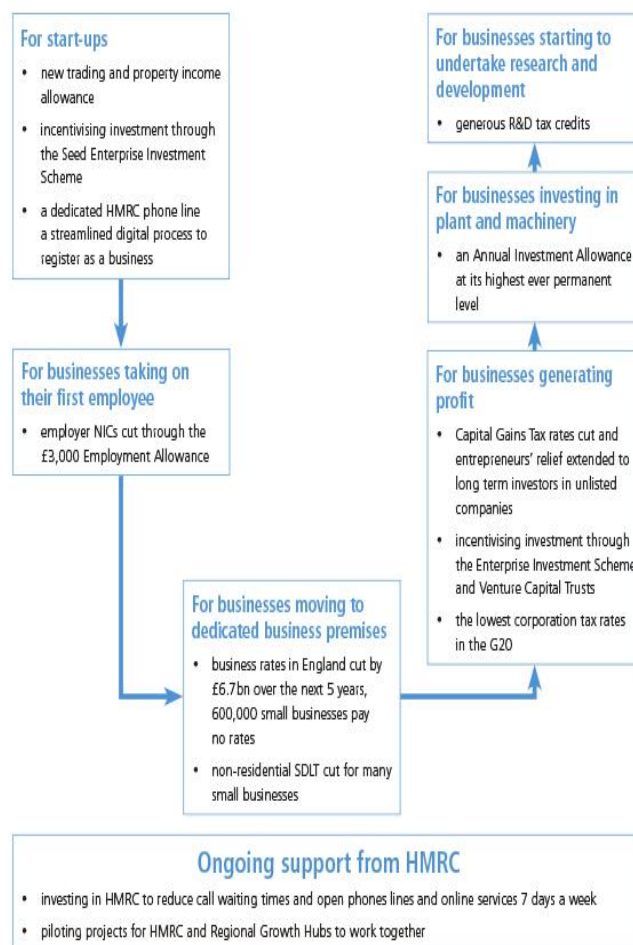
of the government. Great Britain, consist in the fact that the tax system: for hunters employment and encourage everyone to work, to promote accumulation and long-term investments, to be just.

Features of the tax system. Great Britain. Taxes play a major role (about 90%) in the formation of the revenue side of the English state budget of their rates are given in Table 1.

**Table 2.**

**Basic tax rates in. Great Britain**

Figure 2: How the government is using the tax system to support businesses as they grow



The share of income tax from the population accounts for 64% of the proceeds in the form of direct taxes to the state budget. Great Britain, and on a share of taxes from incomes of the companies - 19%

The government, with the help of the Treasury (the Ministry of Finance), manages and regulates the country's tax system. This activity is controlled by the Parliament (Ahmad, 1990: 159)

. Organization of the tax service. Great Britain. The organization of the tax service is entrusted mainly to two government departments :. Management of tax collections (UP3) and. Administration of customs duties and excises (UMP). The PI directly controls the collection of taxes from legal entities and individuals. In the competence. The administration of the duty and excises is the entire system of indirect taxation.

The administration of tax collections collects direct taxes, such as: income tax, corporation income tax, capital gains tax, oil and gas extraction tax, inheritance tax, the official registration fee (registration fee). Also in the system of this control is. The Social Insurance Administration, which collects contributions for social insurance.

The Office of Customs Duties and Excise Taxes collects the following types of tax revenues: Value Added Tax, excise taxes on gasoline, tobacco and alcohol products, gambling, customs duty, air transportation duty, insurance premium tax, waste disposal tax and business tax, which threatens climate change. However, some taxes are collected by other ministries (for example, the road tax is collected by the Ministry of Transport).

Tax authorities, such as (Banks, 1996: 1227)

I. The main body. Administration of tax collections. He is subordinated to:

- 15 tax districts;
- 600 tax plots;
- 135 tax collection centers;

II. Tax collectors and tax inspectors. And tax collectors only ensure the receipt of taxes accrued by inspectors

Tax inspectors perform the following functions:

- send payers tax returns;
- carry out registration and enforcement of corrections made in the assessed amounts of taxes, etc.

III. General and special commissioners. They are appointed by the Lord Chancellor (Prime Minister), their decisions are binding on payers and tax inspectors

General commissioners are authoritative in the country people who on a voluntary basis protect the rights of taxpayers, including in courts

Special commissioners are state-paid tax specialists who resolve conflicts between the tax service and taxpayers

IV. A clerical court that accepts those cases where the decisions of the commissioners are questionable

V. The Court of Appeal, which decides cases in the event of non-payment of large amounts of taxes or incorrectly charged large fines (rarely - even, the House of Lords)

. Taxation of individuals. Personal income tax is paid by the entire population. Great Britain - residents and non-residents. Income of the resident. Great Britain is subject to taxation regardless of the source of their origin, the donor pays taxes only on income earned in the territory of that country.

The personal income tax is levied on the aggregate income, and the part on the Schedul (Table 76), depending on the income, three rates are used: 20, 25, 40%, the non-taxable minimum in 2005 was 7000 ff. Art.

The tax is paid during the year by four equal shares at the end of the tax year (from April 6 to April 5 of the next calendar year), when the exact amount of remuneration is determined, the final calculation of the income tax is made. Citizens who have no other income other than wages fill out the tax return every five years. On the part of the taxpayer, no documents are required, their employers deduct taxes in accordance with the coded information that they receive in the form of tax tables by tax authorities. (Banks, 1996: 1241)

. The tax from the inheritance. This tax is also not imposed on most of the types of gifts carried out during the life of the owner, if he remains after that alive for the past seven years. At the time of the transfer of assets on a gift, no tax is levied, but if the owner dies within the last seven years, then the donation transaction is taxable. The tax rate is set at 40% of the property amount of more than 150 000 p.

. Value added tax. This type of tax was introduced on April 1, 1973. Its main rate is 17.5%. It makes 17-19% of all tax revenues of the budget. Not subject to taxation. VAT food products, books, medicines, basic fuels and energy for home consumption and other goods that are basic to ensure the normal existence of people.

. Stamp duty. This tax is levied upon registration by persons of document legal transactions. Commercial and legal documents must have a special stamp confirming the payment of this tax. In some cases, the rates of the gross fees are fixed in firm amounts (from 25 pence to 1-2 pts), in others - stamp duty is collected as a certain percentage of the value of transactions.

. Taxation of companies. Corporate tax is applied to all profits of resident companies received by them during a tax year. A resident body is considered to be a corporate body if its activities are enforced and



controlled in that country, that is, the country's governing body is located in this country.

. A non-resident company is a company engaged in trade in. UK through the branch and is subject to corporate tax with:

- income from trade;
- income from property or property rights, which uses this enterprise (branch);
- capital gains from assets used by this branch

The taxable income of the company is calculated by subtracting from the gross income of companies all the expenses allowed by the law, deductions made in the reporting tax year from gross income are subject to:

- current expenses of a business nature (rent, repair, modernization of the premises);
- compensation payments for the dismissal of workers and employees;
- expenses for legal advice on the company's finances;
- hospitality;
- Contributions to various funds (charitable);
- overdue debts

A special tax debt is established for companies that extract oil in. The North Sea. These companies are not exempt from corporate tax and pay an oil corporate tax at a rate of 75%.

Company. Great Britain is also subject to capital gains taxes for non-resident companies that do not pay this tax

. Local taxes The UK has a long tradition of direct elections to local authorities that have the right to collect certain taxes and are required to provide a range of public services in such areas as education, housing, social assistance, and fire safety. Local authorities spend about

25% of all public funds (2001 - 97 billion pounds), 80% of this amount (78 billion pounds) comes in the form of a mountain of subsidies from the central government and 20% falls to the share of local tax - on residential property.

The amount of tax is set by local authorities and depends on the estimated value of the house or apartment, which belongs to one of the eight categories. Those whose property falls into the lower category, pay two-thirds of what is paid for the middle category, and those whose property belongs to the highest category, pay three times more than pay for property, belongs to the lowest. If one person lives in the house (apartment), then she receives a 25% discount regardless of the amount of his income. Discounts and refunds paid in the form of this tax (up to 100%), provided for the unemployed, studios and some other categories of the population.

There is another tax paid by local authorities and transferred to the state budget - entrepreneurial tax. Until 1990, this tax was entirely local, but now it has a regulated character - the taxes collected for this tax are redistributed from the state budget by regions in proportion to the population. (Ahmad, 1994: 298)

V. Scotland and. North. Ireland's business taxes are levied on all property, except for agricultural plots and buildings owned by non-residents and used for business purposes. Tax rates change annually depending on the need of the local tax.

The payment for the use of motor roads on the principle of "pay, how much you can go" can be entered into. Great Britain in the coming years. With this proposal, the Minister of Transport spoke. B. Darling. Responding to the government's plans for five years on a separate highway to operate a trial scheme, if successful, from 2015 to 2020, toll roads cover almost the entire territory. Great Britain. In those countries

where such schemes already exist, drivers pay a fixed amount for a certain section of the road. London suggests varying the fare of each site at a specific time. In addition, revolutionary technology of charging is also offered: in other countries this procedure is carried out with the help of special cameras or at special points equipped with barriers. The British authorities, on the other hand, propose to equip all satellites with satellite navigation, to track their movements, and to transplant them.

### **3.3. Similar and distinctive features of indirect taxation in the Republic of Azerbaijan and in some developed countries**

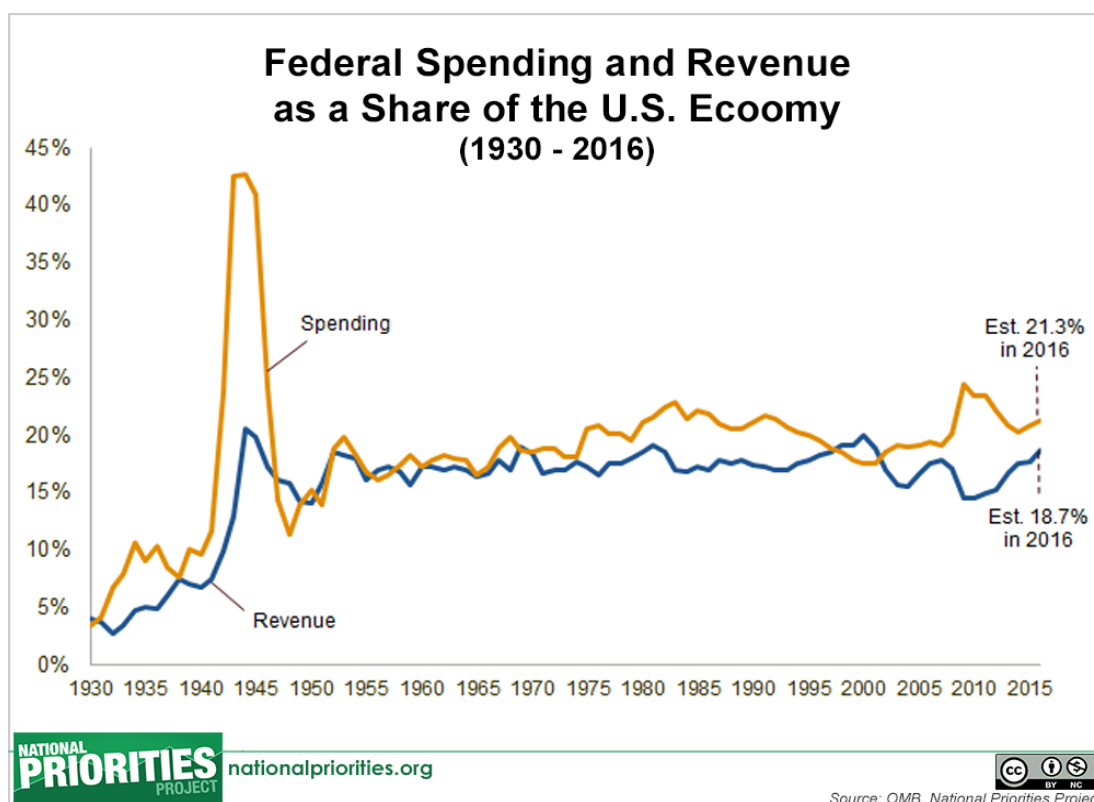
Unlike Azerbaijan, many developed foreign states have a continuous experience of indirect taxation. Most of the indirect taxes (except VAT), as in Azerbaijan, were established in ancient times. In the ancient Roman state, for example, a turnover tax was levied, usually at a rate of 1%, as well as a special turnover tax on slave trade at a rate of 4%, the gate fees that were paid at the gates of the city. At that time excises were known for certain types of goods.

To date, indirect taxation has passed a significant evolutionary path. Thus, the ratio of budget revenues from direct and indirect taxes in European countries in 1890, 1985 and 2000 was as follows (Table 2).

It can be seen from the table that over the past hundred years the importance of direct and indirect taxes in the formation of the revenues of the budgets of European countries has changed radically, and now direct taxes are the main sources of government revenues.

**Table 2.**

**Budget revenues from direct and indirect taxes in European countries in 1890, 1985 and 2015**



It should be noted that at present indirect taxation plays an important role in the economy of many countries. Among indirect taxes, especially in the EU countries, the leading position belongs to the VAT, on the second place there are excises. At the same time, VAT rates in the EU countries are quite high. The presence of VAT is a prerequisite for membership in this organization. In Germany, for example, the basic VAT rate is 16%, the lowered rate is 7%. In some EU countries, for example, in Sweden, Finland, Denmark, these rates even exceed the maximum rates recommended by EU governing bodies (14-20% for major groups of goods). Revenues from VAT are an average of 0.4% of GDP per 1 percent of the tax rate, while the revenues of the budgets are directly dependent on the VAT rate.

The large amount of VAT rates in the EU countries is most obvious when compared with countries that restrict the use of indirect taxes in general and VAT in particular. So, in the US, VAT is not used at all, although there is a related sales tax, the rate of which varies, depending on the state, from 3 to 12%. In Canada, the rate of similar tax is 7.5 - 8%. In Japan, VAT is charged at a rate of 3%.

The practice of applying indirect taxes and, in particular, VAT, in such economically developed countries as France, Germany, Great Britain, Sweden, USA and Japan deserves to be studied.

Group of European countries. Special attention, according to the author, should be given to France - the first country to introduce VAT into its tax practice in its modern form. The current tax system in France was formed in the period 1930-1965, when the process of unification and unification of many taxes was in progress.

The value added tax was introduced gradually, beginning in 1954, for individual industries, and in 1968 it was extended to retail trade. Currently, France has a standard VAT rate of 18.6% and preferential rates of 2.2 and 5.5%.

Thus, a preferential VAT rate of 5.5% is set for essential goods. For medicines and medical products, the rate is 2.2%.

A normal rate of 18.6% applies to all goods not taxed at a reduced rate. At this rate, alcohol and tobacco products, oil products and some other goods are taxed.

Not included in the scope of VAT in France, health care, associations that do not receive profit (socio-cultural and sports sector, acting on an amateur basis).

It is necessary to pay attention to some peculiarities of VAT application in France. VAT does not adversely affect capital investments, as they are exempt from tax at all stages. The developer in

the tax return minus the amount of tax, calculated from the cost of the building, which was previously paid to the contractor. At the same time, we note that the system of reimbursement of excessively paid VAT was introduced in France in 1972. Prior to this, VAT offset was applied in the implementation of capital investments due to non-payment of payments in the subsequent period. Thus, since 1972, the previously paid VAT is refunded to businessmen immediately, rather than being included in the reduction of forthcoming payments, which is very relevant for Azerbaijan practice. (Chen, 2001)

In France, there is a system of compensatory VAT rates, which is applied if an enterprise produces goods (performs work, renders a service), which is taxed at a lower VAT rate than the materials, raw materials and components spent for its production. This situation can lead to the fact that the company can not compensate for itself the amount of the previously paid VAT. In this case, after checking the composition of the manufacturer's costs, he is allowed to sell his products at a VAT rate that would allow him to compensate his costs (cost price and VAT paid earlier to suppliers) and make a profit.

Separate rules for the imposition of value added tax are valid in France for producers of agricultural products, which are divided into three categories. The first category of manufacturers include those who have an annual income of more than 50 thousand euros or who have their own distribution network or a large number of livestock. They pay VAT without fail. The second category is producers who voluntarily pay VAT to be able to compensate themselves for the amounts of VAT paid to suppliers for purchased fertilizers, materials, agricultural machinery and equipment. The third category is those who do not pay VAT.

Manufacturers of agricultural products of the first two categories pay VAT on general terms, and for the third voluntarily agreed

compensation from the budget amounts of VAT previously paid when they purchase raw materials, equipment, equipment.

This system is attractive enough and fair. But, in the author's opinion, its application in Azerbaijan is ineffective, since control over these producers is difficult, and the difficulties encountered in accounting will lead to an increase in administration costs. (Grosh, 2000)

We also note that in France, an entrepreneur keeps a record of fixed assets without including VAT in their cost, that is, depreciation is not charged for VAT in this case.

Let us now turn to the excise tax in France. In the budget revenues, the amount of excises is currently around 10% of all taxes. However, recently there is a tendency to reduce the use of this type of indirect taxes, but their amount in budget revenues is still high. Excise rates are set by the parliament. All excises go to the central budget and between it and subordinate budgets are not redistributed.

In France, there are four main types of excisable goods. These include alcoholic beverages (mainly cognac), petroleum products, gasoline, diesel fuel.

The effect of VAT in Germany, which was introduced in 1973, is of interest, and is currently the second largest tax revenue after the income tax. Its share in the budget revenue is approximately 28%. The inclusion of VAT in the German tax system pursued two main objectives: first, to increase government revenues through consumption taxes, and secondly, to fulfill the condition of accession to the European Union, providing for the existence of a current system of value-added tax in the country.

Currently, the main VAT rate in Germany is 16% and is always taken into account if the product or service is not subject to tax at a lower rate of 7%.

The lowered rate is applied to food products (except for alcoholic drinks and turnover of cafes, restaurants, hotels); for the mass media; for urban and suburban public transport; for health, charitable, church organizations; for works of art; for dental services; for animal and plant growing; for the assignment of copyrights, etc.

From the payment of tax export deliveries, turnover of sea navigation, civil aviation, credit operations, operations with securities, etc. are exempted.

A feature of Germany's VAT legislation is that it separately specifies the imposition of VAT on the withdrawal by an entrepreneur of goods and items for personal consumption without payment. The right to offset VAT on goods seized for own consumption is owned only by the entrepreneur, whose daily withdrawal, more precisely, the total amount for own consumption, is set by the financial authorities. The so-called "seizure of things" takes into account the marital status of the entrepreneur, the availability of dependent children.

Personal use of branded vehicles is also considered as personal consumption and should be noted in the annual VAT declaration. Prove the use of corporate vehicles for personal purposes is very difficult, so the financial authorities have determined the amount of such costs in the amount of 25-30% of the total transport costs. If the cost of personal transport is below the established size, the entrepreneur must produce a so-called "travel book", which he kept for 12 months.

The British system of indirect taxation includes value added tax, excises and stamp duty.

Value added tax is levied at a fixed rate (currently the base rate is set at 17.5%) from the supply of goods and services in the UK, carried out by taxable persons who are required by law to be registered for VAT purposes. (Ahmad, 1994 : 267)



Delivery of a number of goods and services, including insurance, postal services, education and health services, is exempt from VAT. The tax is not collected from the specified types of supplies. The person who carries them out will also not be registered as a taxable person (if it does not perform any other taxable or tax-free supplies) and thus will not have the right to claim the VAT paid on the proceeds

Excise duties in the UK for individual goods vary considerably in size. Excise on alcoholic beverages, for example, depends on the content of alcohol and capacity, on tobacco products - on weight. Currently, excise taxes on some products are: strong spirits - 5.54 f.st. for a bottle, gasoline - 3.94 pence for 1 liter, cigarettes-1.97 lb. per pack.

In Sweden, value added tax is levied on January 1, 1969. Initially, only goods and special types of services were subject to taxation, but in 1991 there was an expansion of the object of taxation, which included all goods and services, except for a special list of non-taxable goods and services. Significant changes in the taxation of VAT occurred when Sweden joined the EU on January 1, 1995.

Compared to other EU countries in Sweden, the highest total level of VAT taxation on basic goods and services is 25%, including drinking water, alcoholic beverages, wine, beer, tobacco.

## **RESULT**

A tax rate of 12% applies to food and food additives, hotel services and camping.

This VAT rate also covers the following services:

- Leasing premises for storing goods, celebrations and conferences;
- provision of parking spaces;
- communication and pay-TV services;
- Provision of electricity, as well as a swimming pool and a sauna.

The tax rate equal to 6% applies to newspapers, cultural and sporting events, passenger transport services.

Non-taxable goods (services) are mainly goods (services) of the social sector (medicines and medicines, health and education services), banking and insurance services, as well as purchase and sale of real estate and rental (lease) of residential and office space (total 25 paragraphs of the Law on Full Exemption from VAT).

There are two principles in the country for determining the country of VAT taxation when exporting goods - the principle of origin and the principle of appointment. According to the first principle, taxation is performed in the country where the seller conducts his business (the principle of origin), and in accordance with the second - taxation is carried out in the country of the buyer's location (the principle of appointment).

In Sweden, when determining the country of VAT taxation when exporting goods to both EU countries and other countries, the principle of destination applies (for exported goods, the input VAT is compensated). At the same time, in the long term, it is planned to make a transition to the principle of origin as the principle of determining the

country of taxation on exported goods, for which it is necessary to apply the same VAT rates in all EU countries. However, in Sweden they still can not and do not want to reduce VAT rates to 20%.

The analysis of the indirect taxation systems of the European member states of the EU has shown the following.

In the countries examined, VAT, excises and various charges, as well as customs duties, are levied on goods imported from third countries. Sales tax is not charged. The list of excisable goods in these countries is approximately the same, although each has its own peculiarities. Customs duties are levied unified in accordance with EU directives.

Income to the budget from indirect taxes in these countries is 25-30%.

The leading place in the system of indirect taxation of EU member states belongs to VAT - up to 30% of all indirect taxes - which is a compulsory tax for EU member states. In the author's opinion, the advantage of operating VAT systems is a limited list of goods taxed at a zero rate. This contributes to a more efficient distribution of income among different segments of the population, as evidenced by studies conducted by EU experts. According to the results of studies conducted in European countries, the withdrawal from the VAT of food products of the nomenclature of the mandatory minimum is not an effective means of providing assistance to the poor. Although low-income categories of the population spend most of their income on food, however, in absolute terms, the rich spend significantly more, and therefore they benefit primarily from the VAT exemption. In this regard, the list of essential goods that are exempt from taxation is limited in these countries and a more effective, in terms of income redistribution, targeted spending of funds received from the budget on taxes to support the poor.

The author considers it necessary to note the excessive differentiation of VAT rates in some of the countries examined. This differentiation makes it difficult to administer the tax, although it to some extent stimulates the development of individual branches of the economy.

Indirect taxation in the US and Japan. Separately, according to the author, it is necessary to consider the system of indirect taxation in the United States and Japan, since in these countries there were rather intense disputes around the issue of introducing VAT. Supporters of the taxation motivated their position by the fact that VAT is an effective means of solving the acute financial and budget problems of the country. However, in the United States, the opponents of the introduction of VAT won, the main argument of which was that this tax would lead to a faster growth in prices and, consequently, a reduction in effective demand from the bulk of the population and a consequent drop in the rates of economic growth.

Excises in the US are not very popular, because, as a rule, their burden falls on the consumer. In addition, they are unfair because of their differences in the taxation of taxpayers with different patterns of consumption. The Excise Tax Reduction Act of 1965 abolished most of the federal excise taxes, with the exception of certain regulatory and road excises, which financed socially important infrastructure facilities. In general, federal taxes on consumption account for only 1.1% of GDP (the federal budget revenues total 20.5% of GDP).

Since the introduction of VAT everywhere leads to higher prices and, accordingly, to a decrease in effective demand, in Japan, the introduction of this tax has been strongly resisted, based on broad public support. As a result, the introduction of VAT in Japan significantly undermined the authority of the ruling liberal-democratic party.

Particular attention, according to the author, should be given to indirect taxation in Japan, since this country has the youngest among the developed countries tax system.

The tax system of Japan was formed in 1950 on the basis of the recommendations of the American professor Karl Shoup.

Its distinctive feature was the emphasis on direct taxes, primarily income - individual and corporate profits. It is important to note that at the same time, Japan raised the question of imposing a value-added tax, but this idea was not given any support.

The need for a tax reform in 1989 was due to the transition of Japan at the turn of the 1970s to the 1980s to a new model of economic growth, the transformation of the society producing goods into a consumer society in the broadest sense of the word, as well as the budget deficit problem.

Prior to the 1989 reform, Japan had the following state consumer taxes: wine and vodka products, gasoline, oil gas, aviation fuel, oil, tobacco, sugar, playing cards, entrance tickets, commodity and transport taxes, local roads, customs Taxes and taxes on monopolistically high profits.

Local consumer taxes are prefectural and municipal excise taxes on tobacco, tax on entertainment, consumer tax in hotels and restaurants, tax on the delivery of diesel fuel, electricity, gas, beaches.

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