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# TAXES SYSTEM AND THE WAYS OF ITS IMPROVEMENT

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## Table of Contents

<b>INTRODUCTION .....</b>	<b>3</b>
<b>1-THEORETICAL BASE OF THE TAXATION SYSTEM OF AZERBAIJAN REPUBLIC .....</b>	<b>4</b>
<i>1-1 History of taxation in Azerbaijan</i>	
<i>1-2 Legal regulation of the tax system of Azerbaijan .....</i>	<i>14</i>
<b>2-ANALYSIS OF THE FUNCTIONING OF THE TAX SYSTEM. ....</b>	<b>18</b>
2-1 PROBLEMS AND LIMITATIONS OF THE DEVELOPMENT OF THE MODERN TAX SYSTEM. ....	18
2-2 <i>Analysis of the structure and dynamics of tax revenues received in the budget system of the Azerbaijan Republic . ....</i>	<i>28</i>
<b>3-DIRECTIONS FOR IMPROVING THE TAX SYSTEM OF AZERBAIJAN REPUBLIC. ....</b>	<b>39</b>
3-1. <i>PROPOSALS AND MEASURES TO IMPROVE TAX REGULATION .....</i>	<i>39</i>
3-2. <i>PROSPECTS FOR IMPROVING THE TAX SYSTEM ACCORDING TO WORLD EXPERIENCE. ....</i>	<i>56</i>
<b>CONCLUSION .....</b>	<b>63</b>
<b>BIBLIOGRAPHY .....</b>	<b>66</b>

## **INTRODUCTION**

In the modern era of economic development, we see that tax administration is one of the main components of tax administration. The tax field is one of the most socially significant areas of government. Thus, deficiencies in tax legislation can lead to a rapid reduction in the burden of direct taxation. It increases the likelihood of tax offenses and increases social tensions. The flaws in the amendments and additions to the Tax Code make these problems even more actual.

Facts about taxation system of the Republic of Azerbaijan and information about the history of taxation in Azerbaijan in all periods until now will be discussed. In addition the forms of taxes such as maljehet, kheraj, chobanbeyi and others in those periods will be mentioned comprehensively. It will be illustrated how the taxes system of Azerbaijan is regulated. Besides that the functioning of the tax system, problems and limitations of the development of the modern tax system will be analysed and the significant progress made by developing countries against these limitations will be searched. Analysis of the structure and dynamics of tax revenues received in the budget system of the Azerbaijan republic and directions for improving the tax system of Azerbaijan republic will be elaborated. After these stages proposals and measures to improve tax regulation will be offered.

The problems arising from the application of tax legislation at the present stage of economic development and their solutions are considered as global and national problems. The impact of the application of tax legislation and the impact of centuries on the economy have been the subject of many researchers. This can be learned from researchers from different countries, such as Paul Adolph Volker, Thomas Sauvell, Arthur Laffer, and other modern economists.

The research paper will include introduction, three sections, six subsections and conclusion part.

## **1- THEORETICAL BASE OF THE TAXATION SYSTEM OF AZERBAIJAN REPUBLIC.**

### **1-1. History of taxation in Azerbaijan.**

Since tax relations are re-dividing, social progress depends on the level of development of these relationships. Reforms in the formulation of market relations in practice can not be achieved without the creation of an effective taxation system. Improving current relations is considered to be one of the most important, but also complex fields of activities of all states. Tax systems in countries such as regulating taxation, forming budget revenues, limiting price increases, acquiring the infraction, as the main carriers of state interests. The tax system provides the participants with the economic anchors, their balances and their social progress.

All of this is important for a thorough investigation of the theoretical and practical issues of the tax system. The establishment of an optimal taxation system requires a review of the methodological and methodical framework for taxation.

Taxes should not only be a tool to provide a predetermined budget, but also a strong stimulus for the development of economic growth. Taxes should be based on the improvement of economic relations, balance of interests, improvement of all forms of properties.

The taxation system consists of a set of taxes, fees, duties and other charges<sup>[28]</sup>. The main elements that directly formulate the tax system of each generation are as follows:

- The system of tax authorities
- Tax legislation system
- Principles of tax policy

- Procedures for distribution of taxes by budgets

Forms and methods of tax control

- Terms and conditions of taxation proceedings

- approaches to the solution of the international double taxation problem and so on.

The economic indicators are primarily the tax burden. It should be noted that an optimally structured tax system should, on the one hand, cover the needs of the wage fund, and on the other, stimulate taxpayers' interest in entrepreneurial activity. Therefore, the tax burden is the quality of the country's tax system. It has been demonstrated that the effective tax system should not allow more than 30% of taxpayers' income to be taxed. According to the tax system of some countries, for example, in Sweden, the taxpayer is paying more than 50% of his income to the state budget.

But there is no paradox here, because in many countries, the socio-economic issues in which taxpayers are solved at their own expense is the state's own account in these countries. Thus, the balance of interests is expected.

One of the indicators characterizing the tax system is the ratio of tax revenues from domestic and foreign trade. In export-oriented high-tech countries, export duties are negligible, with major revenue incurred in the budget due to the taxation of domestic commodity. The share of revenues from foreign economic activity is high at the expense of customs duties. Tax is one of the main manifestation forms of state sovereignty of the country. Taxes are defined by the state unilaterally, ie without the consent of each individual taxpayer. The taxpayer must determine and enter the tax form for any tax.

Taxation means the adoption of a normative act that identifies the specific tax payment and allocates it to the state's existing taxation system. This means that the taxation of some kind of tax is accompanied by legislation.

Tax incentives are the adoption of a relevant normative act that establishes the condition, procedure and procedure for budgeting this or that other tax.

The key factors that lead to tax reform are:

- Increasing the efficiency of the tax system
- Elimination of tax barriers that hinder the growth rate of economic development

It is not possible for the tax authorities to oversee the flow of cash flows and control over all the commercial transactions that are within the country.

The state imposes a number of duties on taxpayers to ensure taxpayers' efficiency improvements. However, after a certain period of time, ideas about unequal distribution of tax burden between individual taxpayers begin to emerge. These include the concealment of revenues, tax evasion, All of this makes the state to carry out a new tax reform. In developed countries, every five to seven years, a substantial tax reform is carried out. The theory of auditing involves 2 groups of tax reform principles. The first group includes the classical principles of taxation.

The second group includes principles that take into account the country's specificity when tax reform is carried out in a separate country.

One of the main goals of the tax reform is to ensure the maximum balance of entrepreneurs and state interests. In the context of a socially-oriented market economy, the existence of a perfect regulatory framework for the regulation of tax-related tax relations plays an important role.

The normative-legal base of the tax system means the sum of the laws and the normative-legal acts adopted in accordance with these laws. The regulatory framework of the country's tax system should primarily refer to the constitutional right, and then to the civil, administrative, criminal and financial rights .

The legal framework of the tax system should fulfill the following functions:

- Determination of taxes
- Determining the rules for keeping and paying taxes

- Determining the rights and obligations of taxpayers and taxation service authorities with regard to taxation issues

- Determine the rules of tax liability and omissions for violation of tax legislation

Taxes are compulsory payments which are levied on the economic entities and the population within the law by the state. Taxes are important part of economic relations in the public from the day the state was founded. The existence of taxes is related to the primary public consumption. The mechanism of taxes is used for the economic impact of government to the society.

Here, the effect of the tax system of Azerbaijan and the existing tax and obligations at that time to the state treasury and the living standards of the population is analysed by considering Azerbaijan's past history.

In the first half of the III-IV century, as in all Sassanid states, in Adurland (Azerbaijan is considered) population are divided into four groups according to the class structure:

- 1) priests,
- 2) hearers,
- 3) secretaries,
- 4) taxpayers.

Taxpayers include all the working population - farmers, craftsmen, also people engaged in trade.

Among the taxes and duties, the most important ones were gasidag, maraq and xarq. After the tax reform by 1 Khosrow, the term gasidag was developed in the sense of "life tax". During the time of Khosrow, taxable lands were listed.

There were cizye (taxes of living) which was paid by non-Muslims population and xaraq which was also taxes of living but it was levied on Muslim people.

In addition to tax, land tax and the lives taken of the following taxes:

*Khums* -a tax that is equal to 1/5 of income from property and *Zakat* is the tax at the expense of wealthy Muslims *for the* benefit of the poor people; *sadaga* - donation to the poor; ushr is a tax that is equal to 1/10 of the product.

In addition to those in Shirvan (Baku), oil and salt sources were also taxed.

With the creation of the Great Seljuks empire, land ownership and tax system are serious have changed.

In addition to traditional taxes from the population, mal-us-silah, sharab bahası, nal bahası were paid for weapons and wine supplies for Seljuk fighters to pay for their horses, and share by city artists from the art products they had prepared

In general, at the beginning of XI-XIII centuries various layers of the population paid kharac, ushr, cizye, haqq, alaf, nuzl, avariz, qismat, teyyaret.

In the XIII-XIV centuries, a large part of the Azerbaijani lands were dominated by the Mongols. The people under the Mongol persecution gave 40 taxes and duties to the state and feudal lords. The tax of living was called "qopchur". Residents pay this tax up to 1-7 dinars, and the nomads gaven cattle. Special tax –Tacar was levied to keep Mongolian troops .

In the 15th century there was one of the states of Aggoyunlu and Garagoyunlu in Azerbaijan and there were more than thirty taxes and duties in the period, and this heavy taxation system made people suffered. Maljahat (or yield) has been a major tax. According to the Uzun Hesen's Law malcehet was equal to 1/5 of the product. Peasants were paying Maljahat on the water used by villagers. The taxes collected for the benefit of individuals such as military, civilian and spiritual positions were called as exports. The taxes collected illegally were called shiltagat. The chobanbeyi was levied on the herd.

In the XVI-XVII centuries the Azerbaijani peasants had paid the following taxes and duties: land and income tax - malcahat, kharac- 1/5, 1/3 of the total product. This tax was distributed between the entrepreneur and the state. To the first one was 1/10, and the second was 2/10. Bagbasi - equal to 1/10 of



the product. Chobanbeyi - the money was taken to graze the animals in the bush. Cüftbaşı - were taken to cultivate the soil from those who had a pair of trailers. Dezgahbashi - the tax on the product made by the each weaving machine. Exports - total and different taxes in the XVI century in the meaning of the word "government": state officials, military servicemen, and officials to meet their needs. Ot-alapha was taken for cattle and horses. Ulafa (food) –tax for the living of one person (soldier, soldier and so on). These two taxes were sometimes taken with money. Konalga - The lawyer had the right to camp in the villager's house. The duty was tax for the state and the clergy. Destendaz-taxes for the services of low-level government executives. Başpulu was taken from persons belonging to mature men. Otaqxerci (and also a dormitory) - was a tax on every home, every family. Jizyah was taken from Christians. Biyar was a forced labor of the villager for the feudal or state. All family members had to go from 2 days to 6 days in the queue. Other than that , tustu pulu, alachik pulu, and so on were taken.

In the 17th century, the number of taxes and duties had reached 35. Commodity and money relations developed in the country. Due to the bankruptcy of the state treasury, the amount of taxes is sharply increased.

A new census was made in 1699-1702. This census time taxes increased 3 times.

In the first half of the eighteenth century, the weight of taxes and duties was on the neck of the peasants. The taxes levied in Iran were also applied in Azerbaijan: land tax ( maljahat, uşr, çobanbeyi ), the tax on the per person ( sershomari, jizya ), to keep the troops ( ulufa, sursat ), military service ( charik ), work to be done for state and feudal lords ( bikar and evazir ), land tax ( rahdari ) and so on.

Taxes were the only source that filled the state treasury. The Shah government has listed all the men who have reached the age of 15, so that to avoid tax evasion.

In the second half of the XVIII century, the main tax in Azerbaijan during the khanates was maljahat (this was called behre in Nakhchivan and Shirvan khanates). In different khanates, it changed about 1/10 to 1/3. Feodals levied taxes for the usage of pastures by peasants, which was called chopbashi. The tax collected from peasant gardens was called baghbashi and was equal to 1/10 of the product. The toypulu was also taken from the villagers.

The villager had to give barley for horses. This tax was called barley of horse. In the middle of the nineteenth century, the state villagers paid a lot of taxes and duties to the treasury. The taxes system had been set up a little: countless small taxes were combined in one or two taxes were.

In most states, state taxes are not levied on villagers but, according to the fields. The most significant change in the tax system was carried out in 1819 in the Shaki province. Instead of natural taxes, monetary taxes were imposed. The tax collected in food was the main one.

The tax separation system and the method of collecting differed from each other. For example, in the province of Shirvan, taxes are levied on every village, every villager in Garabagh province, the districts Lankaran and in the provinces. The Char government made changes and additions in the previous tax system as well. Natural taxes began to be substituted by monetary units. The share of cash rent in Talysh and Karabakh provinces increased. Food tax is preferred in Guba province. In the state of Baku, the villagers' taxes have also increased dramatically.

In the beginning of the XIX century, the tax authorities of North Azerbaijan and the number of responsibilities reached 35.

The most widespread tax forms were maljahat, salyana, dargalig, horse barley and so on. All these duties were in the natural form.

The Maljahat was part of agricultural crop which was for the benefit of the landlord. It was usually 1/10 of the crop of cereals while 1/5 of cotton and silk products.

The size of the dargalig often increased to 20% of the product.

The villagers' obligations to the state were determined in all categories with the new Land Law, which came into force in 1901.

According to this law, the state peasants paid state toyjusu for the usage of their land which was 10-12% of income instead of heyetbashi (smoke), land tax according to other lands, Zemski's duty to all land.

Zemski's duty is to cover the expenses of the population for education, health, veterinary and others. But it was basically spent on police custody.

Under the new law, the taxes were grouped into two groups:

1. Land tax for land in the usage of peasants, as well as gentlemen and landlords.
2. Zemski's duty for the whole land (tax).

Azerbaijani men were taken military tax by the state when they were not called to military service.

At the beginning of the twentieth century, taxes were determined in three ways: direct taxes, indirect taxes and duties. Among them were mining tax, land tax, property tax and they were the most parts of budget revenues.

Almost half of the indirect taxes were made up of customs duties and excises. In the first years of the Republic of Azerbaijan, the financial situation of the state was very heavy. The government made a package of laws for political instability, unemployment, and the drop in purchasing power of manat as well as to help shape the state tax policy. First time corrections and additions to the relevant Russian Empire laws were made, after separate laws on various taxes were applied. At that time the parliament was mainly using the traditional tax system and taxes on monies - monopolies, customs duties and excises played an important role. When taxes are heavy, political parties ("Musavat") wanted to terminate indirect taxes and to apply progressive income tax. However, the state kept indirect taxes with purpose of attracting additional funds to the budget. At the beginning of 1919, the state revenue was 600 million manat and 400 million manats fell on tax, especially oil products.

In April 1919, the most important law was included by the Ministry of Finance and played a key role in formulating the state tax policy. Although the law included only 2 parts, it had great importance, because for the first time the law the definite time and tariff rate of capital taxes were determined.

The law took effect on March 15, and on 23 July the parliament increased the part of the minimum living wage which was not subjected to the state tax law from 5,000 to 1000 rubles.

In addition to these laws, the parliament repeatedly attempted to increase land tax, excises on alcoholic drinks, agricultural products, oil products, property tax and other tariffs according to the government's request . But the application of indirect taxes led to a contradictory conclusion. Domestic market prices rose, inflation has increased and ultimately influenced the living standards of the population.

Since 1805 the existing income tax in modern form had been applied in England, France, Germany, then Russia and Azerbaijan. At that time this tax was calculated based on the aggregate annual income and the specific features of each country were taken into account. Over the years, this tax was progressive. Previously it was 5-10% of general income, and then increased to 15-50%. Increase in income tax made direct taxes more important.

The experience of the 1920s showed that taxation depended on relationship between forms of property. Proper organization of taxation had to regulate the flow of capital between areas and businesses, form the capital market.

At that time there were the following types of taxes: agricultural tax, mining tax, income tax, heritage duty, excises, customs duties and so on.

There were several taxes in Azerbaijan during the Soviet era:

income tax from the population (1943), taxes from single people, and small families (1944), agricultural tax (1953), tax on construction, land tax, taxes on vehicle , single-time duties on collective farms, customs and state duty and so on.

The taxes levied on the population after the war were relatively low. Military tax (1946) was canceled and the tax on single people was reduced.

The XXI Congress of the CPSU (1959) played a key role in expanding the minimum income that is not subjected to the state and taxes discounts. In Azerbaijan since 1975 there was no tax on the workers and employees who were paid 70 manat as monthly income .

The tax levied on the workers and servants who got Monthly salary 71-90 manat was reduced by more than one third.

The following taxes have been included in the state budget since 1979: circulation tax, profit tax from state enterprises, payments on fixed assets and circulation funds, rent payments, taxes on the income of movie reviews, forest tax, other taxes and duties.

Since the Republic of Azerbaijan has been independent in 1991, the state began to conduct its own budget and tax policy. During this period, many laws have been adopted, types and rates of taxes, state duties have been identified. With regard to market economy relations amendments have been made to the law and, finally, the "Tax Code" has been adopted.

## **1-2. Legal regulation of the tax system of Azerbaijan**

In the tax system inherited from the Soviet era, income tax, which is the main source of budget revenues, did not meet the requirements of the market economy at that time. This tax was related to production, and did not take into account market operations (price, demand, offer, competition, etc.). Therefore, there is a need to replace the income tax with other taxes - value-added tax, excises. On November 9, 1991, the first tax laws of the Republic of Azerbaijan "On the Value Added Tax" and "On Excise" were adopted in "On Taxes of Legal Entities and Separate Types of Income", December 31, 1991. Work on the legal basis of the tax system continued with the adoption of laws, a number of normative acts. The law "On Income Tax of Physical Persons in the Republic

of Azerbaijan" (24 June 1992), which plays an important role in the tax system, was adopted. These laws were of great importance not only in determining the tax rate, but also in establishing tax thinking and providing economic knowledge of taxes. In the first tax laws, the tax rates for different types of tax were determined as follows: income tax from individuals - 12-55%, value added tax - 28%, income tax - 35%. Regulation of tax relations, one of the most important conditions for transition to market economy, formation of tax system in line with international standards, flexible taxation policy was an integral part of the national economic strategy. "We have to regulate the market economy through taxation," said the national leader Heydar Aliyev, adding that the tax system was improved, its uniform legal framework was created, tax rates were lowered, taxation base expansion, stimulating investment in the economy, favorable for small and medium entrepreneurship to pay special attention to the creation of a tax environment, as well as the purposeful work to increase the effectiveness of tax services. At the same time, as economic reforms deepened in the country, there was a need to improve the legislative and methodological framework of taxation. A number of gaps existing in the tax legislation caused justifiable dissatisfaction both in the taxpayer's and in the tax authorities. Under such conditions, the reorganization of the tax system of the Republic of Azerbaijan was started with the leadership and attention of national leader Heydar Aliyev. The normative acts adopted so far did not fully and completely cover the tax system, which resulted in a number of objective difficulties in the centralized management of the tax system. Removal of these problems, first of all, necessitated the regulation and management of the whole tax system on the basis of a single legislative base. The adoption of the Tax Code of the Republic of Azerbaijan by the initiative of the great leader Heydar Aliyev played an important role in eliminating these problems. In his final speech at the Cabinet of Ministers meeting on November 6, 1998, the wise principal underlined the importance of the preparation and adoption of the Tax Code in a short time and

gave relevant instructions to the government. Tense and cost-effective work on the Tax Code was carried out, this important legislative document was discussed in the Milli Majlis and adopted in July 2000 and entered into force on 1 January 2001. All aspects of tax reform are reflected in the Tax Code of the Republic of Azerbaijan, which provides legal basis for regulating various stages of tax relations. Here is a clear list of taxes applied in our country, the rights and duties of taxpayers and tax authorities have been identified, the basics of the establishment (modification, suspension) of tax liabilities and the rules of enforcement of tax liabilities have been defined.

The protection of taxpayers' rights was in the focus of national leader Heydar Aliyev. That is why more than 100 articles of the Tax Code of the Republic of Azerbaijan have been directed to the protection of taxpayers' rights and their legitimate interests in this or that form. The Tax Code also reflects a complex of forms and methods of tax administration - tax control.

The Tax Code of the Republic of Azerbaijan, developed and put into effect by the great leader Heydar Aliyev and effective from January 1, 2001, enshrines the tax system, the general principles of taxation, the rules of taxation, payment and collection of taxes, taxpayers and state tax authorities, the rights and obligations of other participants of the taxation relationship with regard to taxation issues, the forms and methods of tax control, liability for violation of tax legislation, the rules for appealing actions (inaction) of state tax authorities and their officials.

After approval of the Tax Code, the Coordinating Commission was established by the order of the Ministry of Taxes on the application of the Tax Code under the Ministry of Taxes on August 10, 2000. This commission had to ensure the operational coordination of the necessary measures for the preparation of methodological guidelines and other normative documents on the application of the Tax Code, training of tax officials, comprehensive informing of taxpayers, and conducting large-scale propaganda campaigns. An appropriate

management was created at the central office of the Ministry of Taxes in order to implement the systematic measures related to the application of the Tax Code. Within a short period of time, the Ministry of Taxes has adopted a regulation, declaration, certificate, the form of application, certificate forms in accordance with the requirements of this or other article of the Tax Code and their implementation was ensured.

After the introduction of the Tax Code, its provisions were continued to improve in line with the international economic norms, taking into account the international norms, a number of amendments and addenda were made to this legislative document in order to create a favorable investment climate in the country and to protect the legitimate interests of taxpayers.

The conceptual framework for improving the tax legislation consists in the expansion of taxpayers' rights, minimizing tax reductions, the effective struggle against tax evasion, and the creation of favorable investment climate. At the same time, the creation of equal economic conditions for all taxpayers, the development of entrepreneurship in the country and the formation of free competition are among the key principles of improving tax legislation.

Following the Tax Code entry into force, various rules arising from the requirements of some of its articles were approved by the Cabinet of Ministers of the Republic of Azerbaijan. In addition to the Tax Code, other regulatory and legal acts were adopted in the application of legislation. For the purpose of establishing a single database of legislation, the Law of the Republic of Azerbaijan "On Additions and Amendments to the Tax Code of the Republic of Azerbaijan" dated 28 November 2003 provided more than 20 rules of the Cabinet of Ministers to the Tax Code. Most of these decisions are applied from the moment the Tax Code comes into force and their entry into the Code did not create any new procedures or norms.

Following the adoption of the Tax Code, over the past 10 years, the rate of profit tax was reduced by 27% in 2003 to 25% in 2003, 24% in 2004, in order to



ensure long-term stimulating effect on taxation, encourage investments and increase the remaining financial resources to 22 per cent in 2006, to 20 per cent in 2010.

In recent years, the mechanism of calculation of income tax for individuals has also been simplified. Currently, three degrees are used to calculate this type of tax. Government's constant focus is on strengthening social protection of the population and improving material security. In recent years, tax legislation has improved in this direction.

The main directions of improvement of the tax legislation after the adoption of the Tax Code were the expansion of taxpayers' rights, improvement of tax administration, minimization of tax breaks, organization of effective struggle against tax evasion, creation of favorable investment climate. Creating equal economic conditions for taxpayers, equalization of tax burden between legal entities and individual entrepreneurs and resident taxpayers and non-resident taxpayers, creating a tax regime allowing free competition is an important part of these changes.

## **2- ANALYSIS OF THE FUNCTIONING OF THE TAX SYSTEM.**

### **2-1. Problems and limitations of the development of the modern tax system.**

Significant progress has been made by many developing countries however weak capacity, corruption and the missing reciprocal interface between tax and open and social consumptions remain as challenges. The interminable loop of low cost resolve and consistence — which diminishes the backbone for subsidizing open administrations — should be broken.

Taxes Functions. In the modern era, the following four key properties are used:

1. Provides flow through the function of the fiscal function.

2. Reduce the existing disproportionality and establish balance and stability between the arrival of different groups, such as the splitter function (also called social).

3. Control function.

4. Editing function.

1. It is important to note the fiscal function as a function of the tax and its main function. In ancient Rome, the military cash register was called Fisk (basket), which was used in the history of the Roman Empire. In the first century BC, special cash registers at the expense of the Empire, which were created by the government, began to be called fiscal. In the Roman Empire, four centuries BC, this box office became a central element of a general general meaning, in which all diseases, taxes and excavations were collected, and all expenses were incurred, and this term was called a treasury.

The function of the fiscal function is the main function of taxation. The advantage of this function is the main goal of taxpayers, that is, the accumulation of funds for budgetary funds for the collection and formation of public funds, as well as for general or targeted programs.

After the 30s and early 40s of the 20th century, taxes played a role in fulfilling their function of fiscal and economic influence on the power of the state. This is an increase in the role of the state in the socio-economic life from that time to the process of forming and developing the idea of intercession. As a result of an increasingly complex combination of economic and social benefits, traditional functions also began to function in the new economic and social life. Each new feature is a new expense that provides a reasonable increase in tax revenue. As a result, the share of tax revenues in the first half of the twentieth century was only 6–8%, but this difference increased to 30–50% in developed countries at the end of the century. This means half the money means half the tax is redistributed. As a result, economists who have come to terms with the monetarism of economic thought have also come to terms with the idea of

"taxing the economy." Their idea was transformed into one of the main directions of official economic policy pursued in many ECO countries in our time. It is believed that with the help of the tax can influence the formation and development of economic policy. Tax exemptions, on the one hand, reduce the opportunities of the private sector, and, on the other hand, have a positive effect on consumption and the level of income that it has for economic and social purposes.

The Ministry of Finance and the Minister of Taxes have the right to use taxable stabilization of the economy, increased inflows, increased investments, increased export potential or reduced imports, as well as the effect of tax deductions to reduce unemployment. Tax-regulatory and separation functions are related to the fact that state intervention in the economy and society is accelerated in the twentieth century.

2. The function of tax distribution is the redistribution of state revenues through taxes between different segments of the population. Indeed, modern states are trying to change the difference between household incomes and social equilibrium in order to mitigate inequality between different segments of the population through the tax mechanism. The process of providing financial and budgetary funds to the poorest and most vulnerable citizens is carried out by placing the tax burden on the welfare of the socially oriented population. "The bulk of the state's products and services are taxes, which are collected and distributed among the population a little more free of charge. In part, this applies to education, medical care, parenting and other activities. The goal is to achieve a more proportionate share of vital cash flows." - K. Eklundana (who was a Swedish economist). As a result, part of the income is collected from one part of the population and distributed to another.

But before that, social benefits and property taxes are of progressive importance. The most socially vulnerable types of tax are indirect taxes - VAT, excises and customs duties. As a result, these taxes are reduced to the same

level as taxes with high income and lower income. Then, it turns out, these taxes cover most of the incomes of low-income citizens. However, the use of modern methods of taxation allows, for example, to apply excise taxes on more valuable goods and the vast majority of incomes of citizens who are consumers of these goods.

In the process of increasing the tax system and increasing its elasticity, in the process of increasing or decreasing taxes, government agencies are trying to alleviate social inequality by applying various tax incentives for low-income people. Taxes for large families, refugees, students discounts are widely used. In a number of socially-oriented countries (Sweden, Norway, Switzerland) it is almost rarely recognized that taxes are “right”, with which the high-income population pays low-income people to ensure social stability.

3. Tax regulation function. Until the end of the nineteenth century, the function of the state was to provide protection and ensure public order. Taxpayer taxes governing trade after tax evasion, tax burden was levied.

Starting in the 40th century of the twentieth century, tax rates were increased, which created excellent conditions for interfering with social and economic life.

C. Kanein (British economist) - a tool designed to regulate the economic relations between taxpayers. First of all, this function of the tax is aimed at fulfilling some or all of the tasks of the state tax policy through the tax mechanism. The regulatory function is manifested in several directions: self-stimulating (stimulating), receptive and rebalancing.

Tax incentives act to support the development of any economic event. The practice is carried out through a system of discounts and benefits. The current tax system allows taxpayers to invest in small firms, equity structures, consumers in the agricultural sector, mines that are consumed and impacted in regions and districts, and so on. Large tax deductions were applied.

Through the tax burden, socialist propaganda seeks to manipulate this or that economic process and is carried out through the patronage policy of the state.

For instance, some institutions benefit high tax rate (85%) application, export tax not very high amount of customs duties, and so on. This function, which is the usual method of expanding the recycling function, is used to look for funds for recoverable resources. This function is used to process raw materials, pay for water use and so on.

The tax adjustment mechanism is as follows:

1. Definition and change of the tax system of the legislator;
2. Determination of tax rates, income differentiation;
3. Certain benefits and tax benefits - Exemption from taxation of a certain part of the proceeds and profits that will be used in accordance with the approved economic development plan.

Changes in tax revenues and direct and indirect taxes are important in terms of making adjustments to economic tax benefits.

Theory and practice proved long ago that tax cuts in the most realistic way can lead to increased profits in the private and public sectors, stimulate economic life, reducing investment, investment, unemployment and loss of economic conditions. Raising taxes is an easy way to avoid overconjugation of the conjugate. A change in the tax rate may affect the savings fund and the price level.

Taxation is widely used as a mechanism for regulating the economic structure as tax legislation develops. The degrees of taxation are primarily related to the economy and regional differentiation in the SES. Developed Western economies aim to stimulate the target objectives of the economy in the field of economic regulation. Due to economic growth and growth rates, the state of conjuncture, the continuity of competition, the continuity of competition, the renewal and expansion of fixed capital, the optimistic structural statistics of the national economy, the speed and direction of ETT depend significantly on investments. In modern economic conditions, 60-80% of the need for investment in post-Soviet economies is ensured by self-sufficiency. It is

important to note that a more significant source of this source was the tax policy chosen by the state, and the instantaneous depreciation rate supported by the state.

4. Controls the financial and economic activities of state enterprises and citizens through the function of tax supervision and establishes relationships.

The external environment poses increasing challenges. The continued heavy reliance of many countries on trade tax incomes, for instance, means that continued trade liberalisation poses significant challenges in recovering income from other sources. Striking the privilege balance between an attractive tax routine for domestic and foreign venture, by utilizing tax motivators for example, and verifying the necessary incomes for open spending, is a key policy dilemma. Competition between developing countries for speculation can trigger a race to the bottom. Developing countries face challenges in organizing and actualizing fruitful exchange evaluating and data trade routines and all the more for the most part in improving transparency. These issues are being addressed as the debate over transparency in the reporting of financial data by Multinational Enterprises strengthens and as developed and developing countries alike gear up to take 'whole-of-government' action to address unlawful financial flows. Many of these and other tax challenges faced by developing countries like Azerbaijan affect more advanced economies too. Explicit challenges that loom especially large in developing countries include:

- Weak assessment organizations. A well working assessment organization is vital to assembling household assets in creating nations and the structure of the duty framework ought to be affected by the capacity of expense organizations to manage it. However numerous organizations keep on being staffed by inadequately prepared and low paid authorities, have structures which don't urge an incorporated way to deal with various assessments, and are set apart by imbalanced administration and authorization capacities;

- Low citizen spirit, debasement and poor administration are frequently profoundly settled in. Defilement markers are firmly connected with low income (without a doubt debasement capacities like a duty itself, and is probably going to be an especially backward and wasteful type of tax assessment), as are other administration pointers (feeble standard of law, political insecurity). Causation can run both ways, yet the centrality of assessment accumulation as an activity of state control gives tending to administration issues in duty gathering more extensive significance;

- Dealing with parts that are 'difficult to-impose' all over, including private companies, little ranches, and experts. This is especially imperative where regulatory limit and motivations to agree are feeble. 'Familiarity' is broad in creating nations—maybe 40% of GDP by and large, up to 60% in many—yet is apparently not in itself the issue: miniaturized scale dealers might be casual, for example, but on the other hand are probably going to have salary and well underneath any sensible duty limit; and a significant part of the most offensive avoidance is by qualified experts. The issue is maybe better confined as one of resistance. Appraisals of rebelliousness are rare, yet Value-Added Tax (VAT) 'holes' have been put at 50-60% in some creating nations, contrasted with 7-13% in created nations.

There are obviously noteworthy contrasts among creating nations. Likely the most critical is in regular asset riches. Topography additionally matters. Little islands are better ready to force charges at the outskirts than are landlocked nations.

Post-struggle nations, with broke organizations and assessment bases, face specific troubles, and successor states are frequently particularly anxious to set up speculator benevolent notorieties. History likewise has a job, with varying

legitimate conventions reflecting different frontier pasts, being related with various income execution.

While the difficulties are considerable, there are additionally justification for idealism. A few African and Latin American nations have made noteworthy advances, frequently in the most testing administration situations. The call for change is progressively originating from creating nations themselves. In Africa, the making of the African Tax Administration Forum, driven, oversaw, and operationally supported by Africans, gives a key stage to peer learning, limit advancement and exchange on local and global duty issues. In the Americas, the Centro Interamericano de Administraciones Tributarias (CIAT) is an entrenched stage for provincial activity. Different locales have comparative associations. Progressively the associations and reciprocal givers that work around there are fortifying their co-activity, including under the umbrella of the International Tax Dialog. This has prompted a system of contributors which energizes both South-South and North-South Cooperation.

Experimental evaluations recommend that "exertion"— the proportion of real incomes to potential—isn't low in every single developing nation, yet that critical extra income could be brought up in those nations where execution is weakest. Execution of taxes collection is significant and must get the attention. In Azerbaijan a number of reforms have been done in this area effectively, but still there are some loops. Those with the most reduced expense GDP proportions additionally will in general be those with the least exertion. In one examination, out of 15 developing nations with expense GDP proportions beneath 15%, for example, 13 had assessed exertion underneath their gathering middle; raising it to the middle would build their income by a normal of about 3% of GDP<sup>[6]</sup>.

**SWOT ANALYSIS OF NEW TAX REFORMS**



### Strengths:

1.Changes in income tax will result in a decrease in income tax. Citizens with monthly income up to 8,000 manat will be exempt from income tax. Citizens with more than 8,000 manat a month will be taxed at 14 percent. According to the previous legislation, those with income up to 2500 manat would pay 14 percent tax and 25 percent for those over 2500 manat. Income tax is virtually canceled for whom monthly salary of the non-oil and non-state sector employees is less than 8,000 manat. This means that the new change will cover almost all the working citizens. Particularly, it is worth mentioning that the conversation is about non-oil and non-governmental sector employees. At the same time, the termination of the income tax does not mean that the taxpayer's payable tax will be void. Because, in some cases, citizens who work under a labor contract think that they will not pay taxes. But it does not change according to the new changes. 2. There are some fugitives in taxes paid by legal entities. Simplified tax rates have been reduced from 4 to 2 per cent across the country. Fixed simplified tax rates have been determined. The number of participants in the simplified tax will be reduced. That is, in comparison with previous years, reduction in the number of simplified taxpayers will be observed.

3.There are also significant differences between legal entities. For example, there is 75 percent discount on income tax for small entrepreneurs, startups (newcomers in the technology industry) are exempt from income tax over the next three years. There are also privileged and full exemptions from different groups of income tax.

### Weaknesses:

1.Even if the income tax is abolished, citizens will pay 10 percent of their social tax. That is, practically there is no 14 percent income tax, but in return, the working population will pay 10 percent of social taxes. Social tax was 22 + 3 percent, ie 25 percent. 25 per cent are distributed among workers and employers,

10 per cent are workers, and 15 per cent are employed by the employer. The positive point here is that the social payment is accumulated on the employee's card and in the future, it pays much more for the retirement.

2.The amount of tax paid for the service contract will be increased. If payroll taxation is widening in employees with income tax, employee wages will increase if the service is to be dropped. Previously, the citizen who earned 1000 manat in service contract, paid 66 manat, ie 40 manat tax, 26 manat social tax. According to the new rules, the tax is 5 percent, meaning that the person who receives 1000 manat in service contract will pay 50 manat instead of 40 manat. At the same time, the amount of social payment for those employed in service contracts has also increased. That is, a person who has paid 66 manat before the service contract will pay nearly 90 manat next year. This also indicates that there is an increase in service contract payments.

3.There is also an increase in excise tax rates. Increased excise rates on imported cars, alcoholic drinks, energy drinks, and tobacco use will ultimately increase their cost. It means in 2019 there will be a rise in prices for products, including cars. Especially, the car prices are expected to rise. There is already a price increase in cars. Because tax rates applied to all cars imported into the country, regardless of the engine power, have been increased.

#### Opportunities:

Discounts on income tax for individuals can reduce the level of unemployment. Previously, the employment contract was not signed, because the the payment was plentiful. There were 14 percent tax on one side and 25 percent social tax on the other. As a result, the employer and employee paid about 40 percent of the tax. Under the new rules, this declines, with a 25 per cent tax payer dividing between 10 and 15 per cent of employers and workers. This can lead to the elimination of non-employment. But overall approach is that there is a need for further liberalization of the economy and the full electronization of relations between tax

authorities and taxpayers in order to minimize the hidden economy. Tax control should be strengthened, but should be strengthened electronically. Taxation, electrification of tax control may reduce the share of the hidden economy in the future.

Threats:

The adoption of a new Tax Code would be more expedient. Taking into account that several years ago, the Tax Code had over a hundred changes, and now the "Tax Code" has more than 200 changes. As a result, the number of amendments to the Tax Code in recent years has exceeded 300. At the same time, there are certain difficulties in understanding the terms contained in the "Tax Code". Because of the large number of changes, entrepreneurs, especially small and medium entrepreneurs can have difficulty keeping track of changes. More precisely, it is better to prepare a "Tax Code" that will be less exposed to variables.

## **2-2. Analysis of the structure and dynamics of tax revenues received in the budget system of the republic of Azerbaijan.**

Optimization of the state budget revenue forecasting service, which contributes to the mobilization of financial resources for solving state tasks, is more relevant at the stage of adaptation of the national economy to non-oil priorities. Strengthening macroeconomic stability and alignment with the strategic roadmap for the national economy should be identified as a goal for management decisions on the distribution and redistribution of income in order to ensure sustainability. Therefore, the process of forecasting state budget revenues should ensure that the non-oil sector (s) of the non-oil sector (s) is short-term in the short term, provided that tax rates (as well as other mandatory payments) are not increased, but the effectiveness of tax incentives applied.

Increasing the level of universal taxation of direct taxes in the current economic environment, the reform of using incentives to stimulate the export of non-commodity raw materials, as well as eliminating administrative gaps and

improving legislation in the required areas are important components of the tax revenue forecasting process. Optimization of participation of state budget funds in activities of business entities related to state property, losses from the state budget, except for capital expenditures in whole or in part, on a non-exclusive basis, as well as the development of alternative financing mechanisms.

In accordance with Decree of the President of the Republic of Azerbaijan No. 2257 dated August 4, 2016, determining the directions of tax reform, along with other necessary measures, reducing the tax burden and simplifying administration, as well as international experience aimed at ensuring optimal profitability of taxpayers and improving the investment climate taking into account the list of goods (works, services) applied to differentiated rates of value added tax, and determining the rates of value added tax value for these goods (works, services).

At the same time, in accordance with the “Concept of Economic and Social Development of the Republic of Azerbaijan for 2018 and for the next three years”, it is planned to introduce tax policy in priority areas covering 2018-2021, including monitoring tax incentives and benefits, developing a mechanism for applying additional tax incentives for exporters engaged in the production of export-oriented products in the regions, the use of discounts on financial penalties for the prompt payment of tax and financial sanctions for tax payers as a result of tax control measures and small business entities; limiting tax audits and chronometry observations such as defining criteria for conducting observations, as well as criteria that must be followed by the method of mandatory scheduling.

According to the “fiscal shell”, according to the medium-term forecast of the socio-economic development of the country, the measures envisaged for the implementation of fiscal policy in 2018 in accordance with the state budget revenues for the implementation of fiscal policy will increase non-oil revenues in the medium term, continuously promoting the tax and customs system , the

continuation of stimulating tax reforms in the field of small and medium enterprises, the expansion of the tax base, the increase in tax collection rates and other their revenues to the state budget, development of the environment of free competition, production and investments; continue working to promote dividends to the state budget; continue working to increase the rate of collection of funds for the estimated state obligatory social insurance; balance local revenues and expenditures in cities and districts of the country (dotasia) at the expense of taxpayers who actually work in these areas.

The measures to be taken next year are primarily designed for one type of car or another and for previous years. The fiscal and tax policies of 2018, as well as the promotion of an effective tax and customs system in the field of small and medium-sized businesses, continued to stimulate tax reform and broaden the tax base by amending tax legislation, even if the implementation of these measures requires the revision of tax issues directly or indirectly. documents are not included in the budget package next year. Taking into account the requirements of the Tax Code of the Republic of Azerbaijan (Article 2.8), it should be noted that, if necessary, make amendments to the Tax Code of the Republic of Azerbaijan on tax policy, tax administration and tax rates within the framework of the draft state budget for the next year. Later than May 15 of the current year.

Summarizing the above, it should be used to assess the effectiveness of tax benefits and benefits for fiscal policy for the next year, to develop reforms to stimulate non-commodity exports in taxation, to optimize the participation of the state budget in the activities of state enterprises and differentiated tax rates on value added. Drawing up a list of goods (works, services) and the terms of their use, as well as a method for determining the terms and the addition of measures to restrict mobile tax audits in small enterprises.

At the same time, measures envisaged in the fiscal policy of the next year include the improvement of customs and tax policies, which will provide more

flexible protection for the domestic market, which is especially important for the long-term use of the “customs tariff” and the Powers defined by the laws of the Republic of Azerbaijan “On anti-dumping, compensatory and protective measures ” should be used effectively.

It should be noted that the Law of the Republic of Azerbaijan “On anti-dumping, countervailing and protective measures” of May 31, 2016 No. 261-VQ entered into force 90 days after the publication of the law on the application of this law by the President of the Republic of 2016. Decree No. 987 of July 13 has been signed. The law regulates the use of anti-dumping, countervailing and protective measures against dumping, subsidizing or increasing imports that may damage or harm the area of domestic production in order to protect economic interests in the Republic of Azerbaijan. According to the law, the Cabinet of Ministers of the Republic of Azerbaijan and the Ministry of Economy of the Republic of Azerbaijan, as the executive body, were identified as executive authorities that decide on the imposition of additional duties on imports.

Global energy centers, close to the region to third countries, territories, military and political conflicts are gradually increasing in sanctions, accompanied by trade wars and expansion of world markets and non-economic impacts and demand and supply, the formation of a growing trend in terms of energy resources in the world market prices for the country in a favorable range.

Long-term prospects, but at first glance, positively characterized the process of public resources in connection with the confidence of decision-making to create an interim dividend was recognized as a reserve for increasing the plane to be evaluated, and a number of trading partners in national currencies of currency positions in a significant weakening, given non-commodity .

"Budget Package" in the state budget of Azerbaijan for 2019 fiscal and tax policy trends in oil and gas activities in this area, and not in the non-state sector of taxpayers. Unofficial employment reduction, jobs "shadow appearance" and,

accordingly, paid salaries in employment transparency , monthly income tax exemptions in determining and compulsory social insurance contributions on the burden of employer and employee falls on tariff regulation, as well as insurance and insurance e unemployment social contributions timely and in full in calculating and paying control from tax authorities to agriculture, developing the non-oil sector and supporting entrepreneurial activities horse producers applicable tax incentives for another 5 year extension, simplified tax rate throughout the country harmonize (2 percent), small enterprises of the balance of fixed assets rapid devaluation of applications and small businesses, the founders of income in the form of dividends, ozhdaemyh from value-added tax is gradually drawn into the expansion of trade (wholesale trade license is required activities, the number of employees in the production of more than 3 and up. s) and related tax breaks to reduce, by taking appropriate measures, non-cash transactions to stimulate retail trade and public cash payment non-cash payments (POS-terminal) businessmen of the term retail sales tax incentives, real turnover in the definition of consumers (individuals) for participation of oil and gas products, with the exception of non-cash form of VAT paid for goods, some consumers returning to the principles of applying excise taxes and internally designated and import, domestic production, trade, wholesale and retail sales management for the implementation of the Unified State Automated Information (Tracking and Monitoring) systems, as well as goods (works, services) registration fees and improve tax authorities, electronic integration of the system to ensure a new generation of cash registers , a list of excisable goods, the increase in the price of excisable goods excise rate increase the proportion of the country to increase production to promote excise paid on goods subject to excise to determine the size of the government to return the principles of applying tax and customs existing and proposed benefits and exemptions in the central register, benefits for the state budget, entrepreneurship and social protection, influence in terms of the effectiveness

of the assessment mechanism to prepare the Car, “shadow economy” in reduction and economic transparency for goods management, document management, tax-free records of an organization’s income and tax data of taxpayers precisising tax control measures to improve financial control of Oia in the field of accounting transparency of procedures in non-oil exports in this respect.

It should be borne in mind that the introduction of a unified state system of automated information (tracking and tracing) to control imports, imports, excises, excises, domestically produced goods, sales, wholesale and retail sales of goods with excise and obligatory obligations, the introduction of a centralized register of discounts and benefits in the tax and customs sectors, the preparation of a mechanism for evaluating the effectiveness of these concessions, as well as the simplification of export procedures for non-oil products will lead to a transition to other administrative model could further aggravate. Thus, optimization of management decisions in the context of integration and (or) centralization of electronic information systems for production, delivery and import-export operations necessitates the creation of a unified cybernetic system (single server) to ensure the success of this process, the progressive experience of developing countries creates sufficient confidence . The gradual formation of a unified cybernetic system is also a significant contribution to increasing the level of confidence in calculating the forecast of budget revenues and expenditures. At the same time, the main directions of the fiscal policy for 2019 are the application of the principle of returning a certain part of the excise amount paid for excisable goods, contributing to an increase in production in the country. Considering the fact that products promoted by production mainly consist of alcoholic beverages and tobacco products, it is more expedient to apply these principles as part of operations for the production and export of excisable goods.



The implementation of the fiscal policy for the next year, of course, must be accompanied by extensive changes in existing legislation (in particular, in the Tax Code of the Republic of Azerbaijan). It should be noted that in accordance with Article 2.8 of the Tax Code of the Republic of Azerbaijan, in case of need to make changes to the Tax Code of the Republic of Azerbaijan on tax policy, tax administration and tax rates in the framework of the draft state budget for the next year, these draft laws can be submitted to Milli Majlis of the Republic of Azerbaijan. must be submitted no later than the 15th of the month.

According to the draft law of the Republic of Azerbaijan “On the state budget of the Republic of Azerbaijan for 2019”, the state budget revenues will be 6400816.0 thousand manat or 38.8% compared with the performance in 2017 and 768500.0 thousand manat in 2018 or more than 3.5%, which, according to forecasts, will be AZN 2,291,750.0 thousand (Table 1).

Forms of balance of payments	2017			Forecast and expected performance for 2018	2019				
	forecast	done	%		for 2019	Comparing to 2017' performance		Comparing to 2018' expected performance	
						amount	%	amount	%
Income of the state budget	16 766 000,0	16 516 684,0	98,5	22 149 22 917 500,0	6 400 816,0	138,8	76 850,0	103,5	
Income tax of physical persons	1 168 000,0	1 040 282,0	89,1	1 196 880 000,0	-160 282,0	84,6	- 31	73,6	

								6		
								00		
								0,0		
<b>Profit tax of legal persons</b>	2 179 000,0	2 285 840,6	104,9	2 533 000,0	2 670 400,0	384 559,4	116,8	13 740	105,4	
								0,0		
<b>Land taxes</b>	50 000,0	50 368,2	100,7	50 000,0	45 000,0	-5 368,2	89,3	-5 00	90,0	
								0,0		
<b>Property tax of legal persons</b>	178 000,0	178 563,9	100,3	182 000,0	211 000,0	32 436,1	118,2	29 00	115,9	
								0,0		
<b>Value-added taxes</b>	4 257 000,0	3 668 602,6	86,2	4 033 000,0	4 097 600,0	428 997,4	111,7	64 60	101,6	
								0,0		
<b>Simplified taxes</b>	344 000,0	371 409,9	108,0	380 000,0	322 000,0	-49 409,9	86,7	-58 00	84,7	
								0,0		
<b>Excises</b>	608 000,0	612 620,3	100,8	726 000,0	927 000,0	314 379,7	151,3	20 1 00	127,7	
								0,0		
<b>Road taxes</b>	89 000,0	134 345,7	151,0	103 000,0	114 000,0	-20 345,7	84,9	11 00	110,7	
								0,0		
<b>Mining tax</b>	111 000,0	111 090,7	100,1	136 000,0	133 000,0	21 909,3	119,7	-3 00	97,8	
								0,0		
<b>The difference between the price of the contracted (selling) price of the products regulated in the Azerbaijan Republic and the countrywide wholesale price (excluding the export expenses)</b>	189 000,0	189 023,9	100,01	177 000,00	136 000,00	-53 023,9	71,9	-41 00	76,8	
								0,0		
<b>State duties</b>	105 000,0	107 672,2	102,5	142 000,0	190 000,0	82 327,8	176,5	48 00	133,8	
								0,0		

<b>other tax income</b>	140 000,0	115	82,5	136 000,0	232	117	2,0	96	171,0
<b>(other receipts collected by tax authorities)</b>		568,5			600,0	031,5	dəfə	60	
								0,0	
<b>Customs duties</b>	469 000,0	706	150,	768 000,0	801	94 128,3	113,3	33	104,3
		871,7	7		000,0			00	
								0,0	
<b>Income from the State Oil Fund</b>	6 100 000,0	6 100	100,	10 966	11 364	5 264	186,3	39	103,6
		000,0	0	000,0	300,0	300,0		8	
								30	
								0,0	
<b>Income from paid services of budget organizations</b>	429 000,0	358	83,5	499 000,0	626	268	174,9	12	125,6
		263,97			600,0	336,0		7	
								60	
								0,0	
<b>Other income</b>	350 000,0	486	138,	122 000,0	167	-319	34,4	45	136,9
		159,8	9		000,0	159,8		00	
								0,0	

The revenue forecast in the bill is based on physical income tax, land tax, simplified tax, mineral extraction tax and the contractual (selling) price of products regulated in the Republic of Azerbaijan (excluding export costs) compared with the expected performance in 2018 from a decrease in deductions from the difference and an increase in other sources of income. The overall increase in state budget revenues is projected mainly due to revenues from the State Oil Fund, excise taxes, income tax on resident enterprises, financial sanctions and fines imposed for violating tax laws, as well as revenues from paid services of budget organizations.

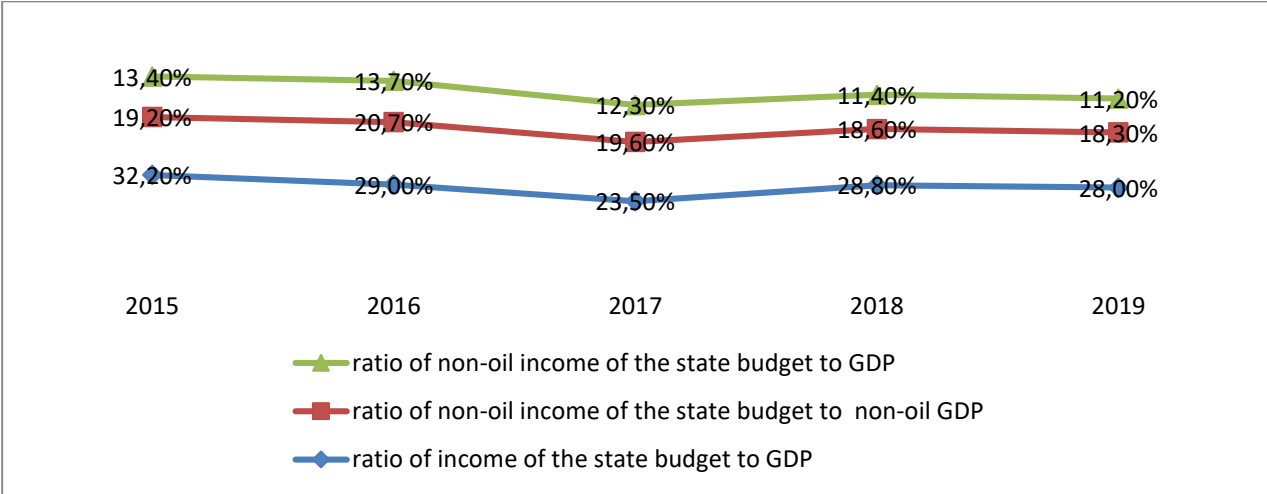
It should be noted that the amount of transfers from the State Oil Fund to the state budget was projected at 113,643,300 thousand manats for the next year, which is expected by 2017, and the expected figures for 2018 are 5,264,300.0 thousand manats. 86.3%) and 398300.0 thousand manats (3.6%). Excluding revenues from the State Oil Fund, the forecast of the state budget revenues for 2019 is estimated at 11553200.0 thousand manat, which is 1136516.0 thousand

manat or 10.9% more than in 2017, and 370200.0 thousand manat or 3.3% more than in the expected performance of the year.

The share of revenues from the oil sector in state budget revenues for the next year amounted to 13,700,300.0 thousand manat or 59.8%, while the share of the non-oil sector contribution amounted to 9,217,200.0 thousand manat or 40.2%. Compared to the figures for 2017 and 2018, growth rates are expected to increase by 6.8% (by 58.5357 million manat) and by 4.7% to non-oil sources (414200.0 minutes). and revenues from the oil sector amounted to 73.8% (5816280.3 thousand manat) and 2.7% (354300.0 thousand manat), respectively.

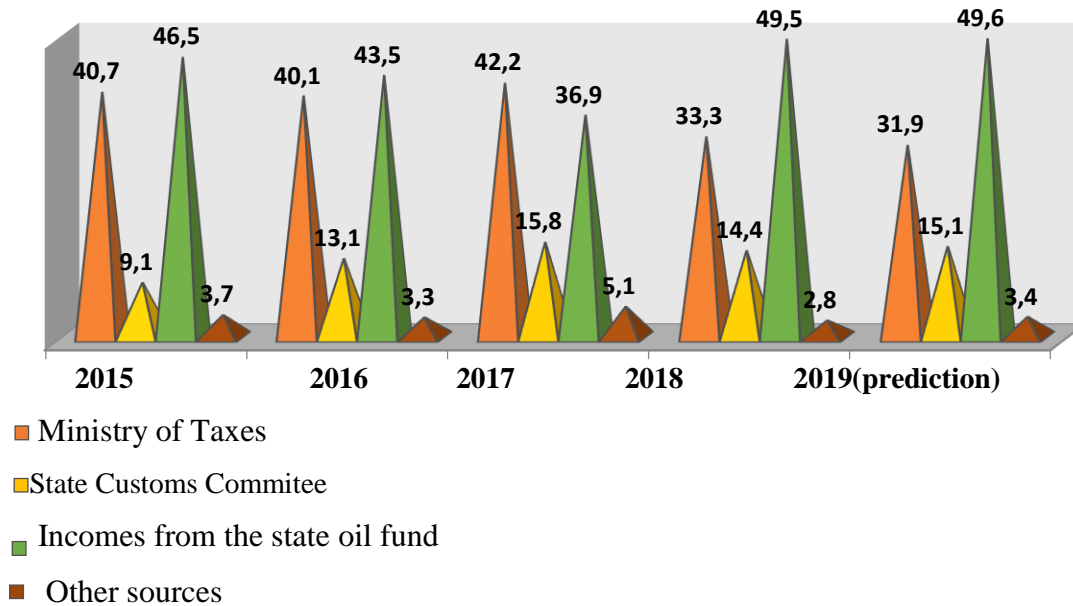
The dynamics of state budget revenues, including non-oil revenues, in relation to GDP can be observed in the following scenario (Figure 1)

**Figure 1. Ratio of Income of the state budget with GDP, %**



According to the Law of the Republic of Azerbaijan “On the state budget of the Republic of Azerbaijan for 2019” and the relevant documents included in the “Budget envelope”, 49.6% of state budget revenues were received from the State Oil Fund, 31.9% 15.1% of the Ministry of State Customs , 3.4% - other sources (Figure 2).

**Figure 2. The share of revenues from the state budget revenues, %**



Apparently, the high volume of transfers from the State Oil Fund for 2019 has a significant impact on the share of revenues from other major sources of state budget revenues.

The projected revenues of the state budget for the next year amount to 7316,000 manat for the Ministry of Taxes and 3451600.0 thousand manats in the State Customs Committee, which is expected to be performed in accordance with the indicators for 2017 and the expected indicators for 2018, respectively 34.2499 , 2 thousand manats or 4.9% and 64 million manats or 0.9% respectively and 842820.6 thousand manats or 32.3% and 261600.0 minutes, respectively, manat or 8.2% more.

As seen in Figure 2, incomes from The Ministry of Taxes is not less than 30 % of the budget. It is not a little amount. Approximately one-third of the budget is collected by The Ministry of Taxes<sup>[14]</sup>.

### **3- DIRECTIONS FOR IMPROVING THE TAX SYSTEM OF AZERBAIJAN REPUBLIC.**

#### **3-1. Proposals and measures to improve tax regulation.**

State regulation of the economic, political and social structure of society plays a big role at every stage of its development. The main mechanism for implementing the state's economic and social policy is the financial system and its budget and tax system. The creation and use of centralized and decentralized state funds through the budget is carried out.

The budget is the main financial plan of the state and municipalities, allowing state authorities and municipalities to carry out their activities. The budget reflects the financial state of the state and, accordingly, determines the tax policy in the country, simultaneously realizes the redistribution of national income and GDP in the country, determines the direction of spending funds and regulates the economy of the state.

The budget is a historical economic category that reflects financial relations. Its origin and development is directly related to the formation and formation of the state. The state also implements economic and social policies, using the budget as a key economic tool to fulfill its functions.

The budget is an integral part of the financial system as an economic category, reflects monetary relations and reflects the functions of finance.

The budget implements the following functions:

- 1) redistribution of gross domestic product;
- 2) government regulation and stimulation of the economy;
- 3) financial support for the implementation of the social policy of the state;
- 4) control over the creation and use of centralized cash.

The budget and distribution function is a state and local government at the level of creation and use of funds. In developed countries, 30-50% of GDP is redistributed through budgets of different levels. The GDP of the Republic of Azerbaijan in 2007 amounted to 28,360.5 million dollars. USA. State budget

revenues amounted to 6006.6 million manat. Manats and costs - 6086.2 million. UAH. manat In other words, the share of state budget revenues in GDP was 21.2%, while the share of expenditures was 21.4%. GDP in 2008 amounted to 40137.2 million UAH. State budget revenues 10762.7 million. UAH. Manat, the share of state budget revenues in the distribution of GDP was 26.86%, expenditures - 10774.2 million UAH. The share of manat was 26.8%, in 2009 - 35,601.5 million manat. The revenues of the state budget amounted to 10325.9 million UAH. manat. The share of state budget revenues in the distribution of GDP is 29%, expenditures - UAH 10503.9 million. manat, the share of expenditures - 29.5%, GDP - 42465.0 million UAH. State budget revenues 11403.0 million. UAH. manat. The share of state budget revenues in the division of GDP is 26.86%, expenditures - 11.765.9 million UAH. manat, the share of expenditures - 27.7%, GDP - 52082.0 million UAH. The revenues of the state budget amounted to 15700.7 million UAH. Manat The share of the state budget revenues in the GDP structure is 30.1%, expenditures UAH 15397.5 million. In manats, while the share of expenditures was 29.5%, in 2012, GDP amounted to 54,743.7 million manats. State budget revenues amounted to 17281.5 million. UAH. Manat The share of the state budget revenues in the distribution of GDP is 30%, expenditures - UAH 17416.5 million. The share of state budget revenues in the amount of 57,708.2 million Manat in 2013 amounted to 19,496.3 million. Manat The share of state budget revenues in the distribution of GDP was 34%, expenditures amounted to UAH 19143.5 million manat, the share of expenses amounted to 33.2%, in 2014 - 59014.1 million manat.

The state budget provides for the financing of social spheres of the country, the development of economic regions and individual areas. The state regulates the development of productive forces in the country through such regulation of economic relations.

The redistribution of GDP through the budget is a two-way process that is simultaneously interconnected:

- budget revenues;
- use of budget funds (budget expenditures).

Budget revenues consist of taxes, non-tax revenues, capital gains and offshore funds (transfers). The main source of tax revenues is the newly created value, income and bonuses received as a result of redistribution (income, wages, value added, interest on loans, dividends, etc.).

Looking back, we see that after political and economic independence in 1991, the administrative-emirates method was completed in a socio-economic structure based on new relations of free enterprise and market relations. Currently, our country is entering a higher socio-economic cycle. It aims to form a modern economic system that meets the challenges of innovation and new challenges. President Ilham Aliyev signed a decree on the preparation of the Concept “Azerbaijan 2020: A Look into the Future” on November 19, the Concept provides for the growth of gross domestic product through the development of the non-oil sector, diversification of the economy, reducing the factor of natural resources in the structure of domestic goods and forming the state budget. , the promotion of non-oil factor in the expense of the regions, (4) Naturally, these missions in the economy require that the tax authorities have new responsibilities and adapt valis to their new business environment. At the same time, it should be noted that continuous improvement of the taxation of the economy is necessary.

From this point of view, the Tax Code, which entered into force on January 1, 2001, is one of the most important steps taken to improve the tax system and bring it to international standards, as a new historical phenomenon in the life of independent Azerbaijan. (1) Within the framework of tax reforms in our country, it continued building the tax service on the basis of international best practices and took practical steps to bring the service in line with modern



European standards. One of the main components of the transformation was the implementation of the “State Program for Improving Taxation in the Republic of Azerbaijan”. As a result of the implementation of the state program approved by the Decree of the President of the country dated September 12, 2005, the taxation system was adapted to international standards, a voluntary taxation system, protection of taxpayers' rights, tax evasion, tax evasion and taxation. and debt prevention has been done. During the implementation of the state program, which defines the most important strategic tasks of the tax authorities, a set of measures was implemented, covering five main strategic directions. I would like to emphasize that experts from the US Treasury Department, the International Monetary Fund and the World Bank rated the state program for improving tax administration as an exemplary strategic program for the CIS countries. In 2006, the implementation of the Automated Tax Information System (AVIS) was achieved, which allowed the creation of a tax administration in electronic form. The Ministry of Taxes has established electronic exchange of information with other government agencies and agencies. A collective agreement on the exchange of electronic documents was signed between the Ministry of Taxes and the Central Bank and banks.

Since 2008, the registration of business entities on the principle of "one window" has been highly appreciated by taxpayers and international organizations, as part of the main component of electronic services. For the first time in Azerbaijan, VAT deposit accounts were first introduced in Azerbaijan during the administration of VAT, which allows for full electronic tax control. The introduction of a single deposit account of VAT also contributed to the prevention of tax evasion on VAT, as well as reducing the administrative burden for taxpayers on VAT. (1) In the context of a global deficit, the legislative body to promote the real sector by reducing the tax burden in Azerbaijan Decisions were taken, in 2009, significant changes were made to tax legislation. As a result, since January 2010, the income tax was reduced

from 22 to 20 percent, the maximum income tax rate was reduced from 35 to 30 percent, and for individual entrepreneurs this rate was reduced to 20 percent. Currently, the maximum income tax rate for individuals is 25 percent (1). Tax rates are lowered to keep a portion of budget revenues in the real sector. In other words, these measures led to the stimulation of economic activity, due to which the profits and profits of enterprises increased, which led to the expansion of the tax base through the expansion of the tax base. One of the innovative technologies that the Ministry of Taxes began to apply in 2010 is the online cargo system. Thanks to this system, the main components of e-government, such as "citizen-state", "business state" and "business-business", are organized at the level of modern international standards. Beginning in 2010, the taxpayer taxpayer database of taxpayers began to be entered into the database of tax authorities through the GPRS network to enhance control over cash settlements. On January 1, 2011, the "Concept of development of tax services provided by tax authorities" was approved, covering 2011-2015, with the aim of improving the tax payment system and creating a more favorable business environment, taxpayer service terminals were created. From July 1, 2011, state registration of persons engaged in entrepreneurial activities is carried out electronically. One of the main directions of the country's tax policy is to stimulate tax incentives for economic activity and stimulate investment. Looking at tax rates, we see that tax rates have been significantly reduced in stages. As a result, most tax rates in the Republic of Azerbaijan are much lower than similar tax rates in other countries. In addition, the mechanism for calculating income tax for individuals has been simplified. The country has simplified taxation since 2001 in order to support the development of small and medium-sized businesses and simplify the taxation mechanism. One of the most important areas of reform in the tax policy of the Republic of Azerbaijan can be the signing of agreements on the elimination of interstate double taxation. One of the main directions of the tax reform in our country is to attract foreign investors to create a favorable

tax environment. On this issue, the Republic of Azerbaijan closed a number of international conventions. In accordance with these conventions, the promotion and protection of investments implies the elimination of double taxation with respect to taxes on income and property, transport and loan agreements. In addition, a special taxation mechanism, which has various advantages over the Tax Code, is regulated by the relevant protocols for foreign companies, which operate in the field of hydrocarbons based on production-sharing agreements in the territory of the Republic of Azerbaijan, in order to stimulate foreign investment in the country's economy illustrate the embodiment of rich oil and gas deposits was captured. All these measures have led to an increase in the number of foreign taxpayers in recent years and the influx of foreign investment into the economy.

In general, the tax reforms mentioned above are reflected in the Tax Code, which today is the tax base.

Since January 1, 2001, the Tax Code, which has been exhausted, has been amended and adapted to international standards.

Information on tax deductions from the state budget shows that the dynamics of tax rates and effective tax policy quickly increased tax revenues.

According to the World Bank Doing Business 2012 and PWC Paying Taxes 2012, the simplicity of compliance with tax laws is much higher than the indicators of both Azerbaijan and the regional and global average. In our report on the payment of taxes for 2012, our country rose by 26 points in the rating of simplicity of tax simplicity.

In recent years, two main documents defining trends in the development of the tax system for the medium term: "Strategic directions for improving tax legislation" and "Expanding access to information and communication technologies to improve tax administration" and "Tax authorities Concept of developing services provided to taxpayers" and Approved the "State plan for the improvement of tax legislation and administration for 2009-2012". Let's

look at some of the projects that we are currently implementing in the near future:

As we mentioned earlier, our republic has begun the transition to a more innovative economic development with higher socio-economic development. These strategic goals and the rapid growth of the country's financial capabilities create requirements and opportunities for a more streamlined process of bringing tax legislation and management in line with international standards. On the other hand, it should be noted that when using all the methods of tax control provided by law, the tax authority cannot detect all cash flows and control all trading operations. As a result, there is a need for tax reform in a particular country. Economists believe that every 5-7 years a fundamental tax reform is carried out, and every 2-3 years the deeper the effectiveness of tax legislation

(6) If such an analysis leads to a negative result, then it is necessary to carry out reforms without delay. This trend is characteristic of economically developed countries. The main objectives of the tax system of economic regulation, including the budget system, can be grouped as follows:

- maximum simplification of the tax system. Mastering the tax system leads to an increase in administrative costs, which creates confidence that the tax burden is unevenly distributed among individual groups of taxpayers;
- Increasing the incentive role of the trading system. In the coming years, the increase in budgets is aimed not only at increasing the tax burden, but also at increasing the tax base. The reduction of personal income tax rates and income tax taxpayers, the expansion of the tax base has already become traditional, and this trend is expected to continue in the future. Moreover, since the economic model of our republic is socially favorable, the introduction of a simplified tax incentive for small businesses should continue, especially in regions where small businesses are competitive and the employment problem is solved;
- stability and predictability of the trading system, ensuring competitiveness;

- improving the professionalism of tax authorities;
- development of cooperation with the European Union in the field of trade;
- Further improvement of the appeals system to protect the rights of taxpayers.

When the state largely establishes the tax burden on the economy, the economic activity of economic entities decreases, and when it is weak, certain problems arise in the formation of state budget revenues, which is accompanied by a budget deficit. In this matter, the fiscal policy pursued in the Republic of Azerbaijan and the current tax legislation in accordance with the concept of the Laffer curve for the tax burden of the economy is considered taking into account the fact that at the time of determining the tax burden of the economy there was no uniform methodology adopted by all. In general, the long-term and rich experience of developed countries shows that fiscal pressure, which is extremely serious, can lead to a number of negative trends that we have seen in the past.

The issue of creating a methodology for assessing the effectiveness of the fiscal regulation system in the context of the transition to market relations is of particular relevance. For this purpose, different approaches are used, the most important of which is the quantitative method of determining the optimal rates for individual taxes. This method aims to identify the most effective tax rates within the framework of the existing fiscal policy. It is clear that this method, along with determining the optimal amounts of individual tax rates, also simplifies the cost of the total tax burden on individuals and legal entities. This method does not change the existing tax system, but is aimed at adjusting the number of fiscal parameters.

The effectiveness of fiscal policy can be assessed from different positions, especially from the position of economic agents (source of taxation). From the point of view of legal entities and individuals, the assessment of the effectiveness of fiscal policy of the state does not represent scientific interest.

Thus, there is a primitive and one-dimensional logic: the greater the amount of tax payments, the more serious the situation.

When assessing fiscal policy from the point of view of the state, the analysis should be carried out in two aspects: formation of the revenue part of the state budget and evaluation of the effectiveness of fiscal policy affecting the economic activities of the economic system. If these two ratings are usually inconsistent, the fiscal policy that operates on the second criterion may be completely ineffective in terms of the first criterion. In addition, none of these criteria was achieved in this regard, that is, there are bends in the development of the processes under study.

It is important to distinguish between “tax evasion”, “tax evasion” and “tax planning”. These three concepts appeared all over the world after the tax law was formulated.

“Avoid taxation” or, in other words, “tax smuggling” is usually illegal use of tax benefits by enterprises and organizations, late payment of taxes and concealment of income, timely payment of taxes and failure to submit documents required for payment or timely submission. In other words, when a taxpayer or an individual is a taxpayer, the taxpayer wants to avoid paying or reducing tax arrears, directly or indirectly, using methods that are prohibited or in the manner prescribed by law. The fact that the tax deduction is actually illegally reduced, allows us to distinguish tax evasion from the concept of tax planning.

As stated above, illegal tax evasion in the scientific literature is called tax evasion when tax evasion. Violation of tax legislation is considered a tax offense if the tax debt is practically streamlined, partially or completely avoiding its payment. Cases of tax evasion are widely viewed as a social problem with deep causes and consequences. This event is primarily related to morality and moral norms in the field of taxation.

It is widely recognized that the general tax rate is an integral part of economic and cultural development, and it has been reversed compared with developing countries in developing countries, and there is a great need for a wider range of taxation. There is even a sharp difference between the regions in the developed region and in the rest of the region. The situation in developed countries is also different from each other. Regarding tax culture in the Anglo-Saxon countries, the origins of IATI, like Spain and Spain, improved much better than the population.

In Addition, in 2019 there has been some reforms and changes in Taxes Code. The simplified tax rate was reduced to 2 times.

The press service of the Ministry of Taxes of Azerbaijan reported.

According to the information provided, the right to apply this tax was restricted and discounts were applied to taxpayers who had entered the profits tax regime. Clarification of the scope of the simplified tax implies the application of this tax to the substance, the formation of the culture of accounting for small entrepreneurs.

Those who had previously had a simplified tax payer could have achieved a lower tax burden when they set up the accounting system.

One of them is the comparison of the current rate of simplified tax (2%) and income tax rates (20% or 5%), and it is claimed that the tax burden increases.

This is the result of a lack of awareness of the tax regime application. By January 1, 2019, the taxpayer, who was simplified tax liability, paid 4% tax in Baku city from total production without taking into account any expense.

After the amendment, the entrepreneur who chooses the income tax liability has the opportunity to formalize his expenses and lower the tax burden by deducting them.

Thus, micro entrepreneurship subjects, which constitute the vast majority of entrepreneurs, have the right to preferential 75% of income tax.

Moreover, in the private sector of the non-oil sector, the small entrepreneur has significantly lowered the tax burden due to the tax exemption of up to 8,000 manats on sector wages.

Here is a small example of how the tax burden can be changed: the annual income of an entrepreneur with four businessmen engaged in trade activities in Baku is 120,000 manat.

She gives every employee a monthly salary of 500 manat. During the pre-change period, the taxpayer was simplified tax liability, and after the amendment he selected the income tax liability.

Profit (profit) on goods sold by the taxpayer is 10 percent.

The pre-change tax calculation was as follows:

- Simplified tax:  $120,000$  (annual income) \* 4% (simplified tax rate) = 4,800.0 manats.

- Employee Income Tax:  $4$  workers \*  $(500.0 - 173.0$  (minimum subsistence)) \* 14% \* 12 months = 2,197.4 manats

- Total:  $4800.0 + 2197.4 = 6997.4$  manats

After the change, the calculation is as follows:

- Income tax:  $120,000$  (annual income) -  $108,000.0$  (annual expense) \* 20% \* 25% (75% discount for micro entrepreneurs) = 600,0 manat

- Employee Income Tax:  $4$  employees \*  $500.0$  \* 0% \* 12 months = 0.0 manat

- Total:  $600,0 + 0,0 = 600,0$  manat

Thus, before the change in tax burden was 6,997.4 manat, after the amendment, this was 600.0 manat, which means that the annual tax burden of the entrepreneur decreased by 6,397.4 manat.

Another issue we want to focus on is the submission of tax and social insurance reports. In some cases, reporting is compounded.

As it is known, implementation of social tax collections by the Ministry of Taxes since 2019 has also been accompanied by innovations in the process of submission of tax reports.



Legal regulation of labor relations between the insured and the insured, transparency of wages, proper and timely collection of social insurance payments

and the new forms of the "quarterly report on compulsory state social insurance" and the "quarterly report on unemployment insurance" by the Ministry of Taxes in order to improve administration in this area, their compilation procedures have been approved. Some changes have been made in these reports for 2019 and subsequent periods. In addition to paper reports, social insurance reports were provided electronically.

It is not obligatory for individuals to have "Easy signature" at this time. As taxpayers submit electronically their declarations electronically, they can also submit social reports in the same manner. Social reporting is as simple and easy as using simple electronic boxes.

An unemployed entrepreneur can complete the report using only 4-5 clicks. For other entrepreneurs this process has been significantly simplified.

Taxes and social payments are electrified, and this process can take only a few minutes for the entrepreneur. At the same time, continuous measures are being taken to streamline and simplify reporting.

In general, the analysis shows that most of the declarations and reports submitted to the tax authorities are sent electronically.

VAT payers, as well as average entrepreneurs, are over 95 percent. Taxpayer service centers, mainly engaged in micro-entrepreneurial activity, submit tax reports.

Unfortunately, in many cases, payers keep their declarations and reports up to the last day, which leads to density at service centers at the end of the submission period.

Electronic submission of tax returns and reports is not a complicated process, and anyone who looks at video-guides prepared by the Ministry of Taxes can

easily adopt it. Therefore, entrepreneurs can report electronically without going to these centers.

The tax legislation has established fairly clear terms for small entrepreneurs. Since 2019, dividends from small entrepreneurs accounting for revenues and expenses have been exempted from taxation and the ability to apply rapid amortization norms.

Micro entrepreneurship subjects have been exempted from property tax in full. The system of defined discounts allowed small entrepreneurs to work in a more favorable environment, to increase their profits and reinvest.

However, one should not justify tax evasion by the level of morality in the tax sphere. Because in any given period, the moral values of taxpayers are not significantly different from each other. However, the taxation strategy used for individual taxation purposes allows the taxpayer to vary by degree. More precisely, the methods of taxation of some taxes allow to evade from paying taxes, while in other methods of taxation there is no such possibility. For example, if there are some wage exceptions, there is no possibility. Because the tax itself is their source. However, the situation in other types is not the same. The widespread tax evasion violates the principle of social cohesion in taxation. One of the important duties of the successor is to eliminate tax evasion, create an effective system of control and develop methods and strategies for taxation. Tax evasion is a matter of tax culture, moral and technical issues, as well as an essential remedy and a comprehensive remedy for its elimination.

Measures to eliminate tax evasion. Tax evasion in the taxpayer world is widespread in tax legislation. The development of tax legislation is crucial in this regard. Preventing tax evasion largely depends on taxpayer fines, but how can this be a punishment? Should PuI be punished with fine or imprisonment? In addition to fines in the United States, in many developed countries and some industrialized countries, stricter penalties apply to the United States. However, in recent years, fines for tax evasion have fallen significantly. Today the most

important thing in tax legislation is to prevent tax evasion. However, along with all this, tax evasion should be punished. The current meeting in this area includes the abolition of the measure of deprivation of liberty and its impact, and so on. Consider economic penalties more appropriate. Here, too, many taxpayers who do not know about complex tax laws are aware of tax evasion. In other words, they should be able to distinguish between the law and the one who falls into this situation without being able to avoid taxes.

Further expansion of the tax burden, training of highly qualified personnel for tax authorities and taxpayers, compliance of the accounting system with international standards, as well as the development of accounts and cash registers are crucial in this regard. It is imperative that the application of the declaration system and control over its implementation should be followed by the practice of tax evasion in areas where it has not done so. Reducing the amount and extent of tax is also important for preventing tax evasion in a modern tax strategy.

Tax evasion occurs when an enterprise or an individual exercises its legitimacy in a tax-free zone or is not registered with the relevant tax authority. As you can see, tax evasion is possible in two ways: legal and illegal. The first is the choice of the legislator or the choice of the taxpayer, and the latter does not depend on personal morality. If a person falls into taxation and refuses to receive a higher rate in the area, he / she does not comply with the law and in the best interest to do so. For example, some taxpayers have a high interest rate, which is still possible through income tax intermediation transactions. If the taxpayer does not have a high duty to pay taxes, he has no legal basis for challenging his actions.

The second reason for tax evasion is to use a prohibited law (for example, not to register an enterprise legally) and is a tax offense, since it is subject to tax evasion.

Tax assessment is a tax liability for taxpayers and the use of intermediaries to reduce the tax burden.

The difference between tax deductions and tax evasion is that taxes are paid as a result of active behavior, and not passive behavior of the taxpayer. Since this behavior rejected a certain type of business, it was focused on the effective use of the same taxonomy.

However, it is incorrect to call all tax deductions that are aimed at reducing the tax burden in the framework of the law. For example, if the taxpayer does not use a tax exemption for a particular action or transaction, he does not consider the transaction to be appropriate.

The main advantage of tax planning is that minimizing tax liabilities is legal. In some foreign publications, "tax evasion without tax legislation" can be defined in some hall on "tax planning".

An example of what is being said is the fact that US tax laws in this area can be illustrated. According to the law, proven attempts to avoid tax liability are considered tax offenses. One of the most important signs of tax offenses in the United States is the misinterpretation of the action. That is, a person who violates the law, "seeks to violate the law by his actions." The legislator showed this sign as the main difference between "tax evasion" and "tax evasion", which is considered a violation of the law.

It should be noted that in the tax legislation of Azerbaijan there are no such concepts as "tax evasion", "tax evasion" and "tax planning", as in Russian tax legislation, or, rather, these terms are not separated as an independent term. The tax legislation of our republic does not use the term "tax evasion". In the Tax Code of the Republic of Azerbaijan, the Criminal Code and the Code of Administrative Offenses of the Republic of Azerbaijan, the terms "tax evasion" and "tax evasion" are equally referred to as "tax evasion". Only in Russian this term is used in the code as a term. " is given.

In Article 215 of the Customs Code, the term “tax evasion” is considered as “tax evasion”. In the Criminal Code of the Republic of Azerbaijan "Tax evasion", in Russian translation, Article 213 of the Criminal Code "Criminal Code of the Republic of Azerbaijan" provides for criminal liability for two hectares:

- 1) Indicating the amended information about the expenses and expenses of the person in order to avoid taxation.
- 2) Information about income and non-derivative information in the organization’s accounting records.

This movement is not tax evasion, but tax evasion in world practice. The term “tax evasion” refers to tax violations in our tax laws, as well as tax violations. However, all taxpayers are responsible for “tax evasion” in tax legislation, and they are not specifically mentioned in tax legislation (Article 58 of the Tax Code).

We believe that tax offenses committed as a result of the proposed taxpayer activity should be considered as “tax evasion” and should be punished accordingly. Tax charges payable to the budget should be treated as tax evasion in the event of distortions, misuse of tax benefits and other violations.

It is also clear that, in accordance with the Criminal Code of the Republic of Azerbaijan, the criterion of taxpayer solvency (cf. does not reflect correctly. This rule is in fact a large taxpayer and a small and medium payer. To eliminate this situation, it is advisable to postpone the percentage of “distorted income” to the interest rate (i.e. more than 15%) and to the conditional unit of "distortion" in relation to the taxable value of the object of taxation. It is also possible to overcome the large difference between the fines that The judge appoints penalties for tax evasion and tax evasion shows that today's use of the usual unit of labor is more rarefied than the relative weight of fines for the maximum amount of fines imposed. Article 213.2 of the Criminal Code states that up to two years may be imposed a fine in the amount of from two thousand

to five thousand monthly salaries of conditional wages, two to ten years in prison, or up to two years in prison. punished for that. Here, the amount of fines ranging from two to five thousand times the standard unit of wages is 10.0 and 20 million. Consider two taxes;

The first of the payers is 10.0 million manat and the second - 20.0 million did not show a tax in the amount of manat. At the same time, the maximum fine (2.75 million manat), which was applied to the first payer, concealed a tax of 27.5% and was 13.75% for the second payer. This difference is less than the administrative sanctions imposed by Articles 58.1 and 58.2 of the Tax Code for tax violations (20% for tax deductions, 40% for the second time for the same transaction). It is obvious that the Republic of Azerbaijan, as a rule, does not use the definition of tax legislation in tax legislation.

In addition, many taxable tariffs in Azerbaijan are considered to be one degree, or a sharp degree differentiation leads to problems with the tax burden. In this case, income tax implies a tax deducted from the rent. In many households, entrepreneurs use a rental tax to minimize their profits. The reason for this is that the 20% corporate income tax rate is 14%.

Thus, avoiding tax evasion, taxation and tax planning on the basis of the principles of accuracy can lead to the replacement of one of the concepts in practice and the unjustified use of a particular sanction.

### **3-2. Prospects for improving the tax system according to world experience.**

An in-depth study of the tax laws of countries allows us to assess the experience of countries with market economies in the field of taxation, the general legality of tax policies and mechanisms, as well as the practical application of positive aspects.

The tax systems of countries with market economies developed as a result of the influence of various factors (social, economic, political). The tax systems

of different countries are very different from each other due to the types, structure, rates, forms of accumulation and other characteristics of taxes. But in all these tax systems there is a common point. This is an attempt to explore various ways for the state to increase tax revenues and try to create an optimal tax system that complies with important tax principles.

The most important aspect of modern states is state intervention in various fields. As an example, the United States can serve as an example of a very low level of intervention, while in Norway it is high, in France and Italy this indicator is moderate.

The most important aspect of government intervention is economic regulation. The main means of state regulation are tax policy, as well as the financial impact on free enterprise. The main goal of state regulation of the economy is to achieve sustainable economic growth, to ensure significant commodity consumption, as well as stability of prices for services, full employment in the country and minimum incomes of the country's population, as well as the creation of a system of social protection for citizens.

It is almost impossible for all these celebrations to be held simultaneously. For example, if price limits are set, economic growth will be weakened, and employment will fall.

In many developed countries, tax policy is based on the theoretical tenets of the so-called economy, one of the main schools of modern economic thought, which unites the idea that the economy that is observed in the economy must fight against the degradation of taxes in the form of radicalism.

Based on a single economy, the tax is not intended for those who pay it, but to stimulate economic development. The main goal of the country's tax policy is to create conditions for the formation of a tax environment and the creation of favorable conditions for investors to increase their investments.

Below is a practical example of how a high level of taxation leads to an outbreak. In early 1994, the flow of another capital from France was about 50

million US dollars. Most of this capital has been invested in income taxation. Thus, during the period 1985–1994, direct investment in the Caribbean, as well as in the Pacific taxa, was one of seven large statements, about five times more. According to the level of tax burden, it is necessary to divide the world economy into two main groups:

- jurisdiction over a high tax regime;
- Iibera tax regime is governed by a judge.

The most economically developed and most developed countries are involved in high taxes. In the same countries, the corporate income tax rate is also in the range of 30 to 60 percent of the personal income tax, while the dividend rate, interest is charged at a rate of 15 to 35 percent. The conditions for the creation of these companies are also strictly controlled by audit reports and are subject to fines and penalties for violating tax laws in the country. Tax regime Ibero divides jurisdictions into three groups:

- legal entities or individuals are not responsible for direct taxes;
- jurisdictions in which the level of direct taxes is relatively low;
- The highest tax rate is jurisdiction.

In the first group, a group of companies with a share in this group is a profitable company, and an individual has certain types of income and does not pay any taxes on interest, interest, dividends and royalties, as well as the donation of his property. For individual and individual taxpayers, single registration fees are applied to taxpayers at the expense of the entrepreneur. The level of this tax is very small. For example, if you have between \$ 100 and \$ 1600 per month, Bermuda, Bahamas, Cayman Islands, etc., if you have a fee of \$ 100,000 for a Caribbean company, whereas direct taxes are absent.

In the second group of taxpayers, the income tax rate for certain categories of taxpayers is also below 30%, and in some cases less than 10% in Ikstenstein, Cyprus, Luxembourg, Switzerland and others as well as in certain jurisdictions.



Congratulations on this group include Hong Kong, Costa Rica, Miazia, Panama, which are free from foreign taxes on foreign and legal entities.

Some companies of the group in another group belong to the jurisdiction that provides tax benefits. Special tax treatment is applied for companies that have demonstrated their commitment to stimulate foreign economic activity and attract foreign investment in developed countries. In addition to the discounted income tax rate, these taxpayers also reduce their tax rates like Beethoven, Hoihandia, Ireland, Luxembourg and so on. Many of the EU members who are currently members of the European Union are calling on each other to help tax the interests of the company. The idea of closing a multilateral tax agreement in the field of information sharing in the near future to prevent tax evasion is intended.

Although some work was done in the area of coordinating direct taxes of the governments of the European Union, they could not do it at the desired level. This is exactly what we are talking about in some contradictions between the Union and the common goal of the economic policy that is being implemented in the European Union.

In the EU, the main task for coordinating EU tax collection is to eliminate existing tax restrictions within the Union and the approximate degree of value added tax in the same taxation.

In order to bring the VAT rates in the EU closer in 1993, the VAT rate was set at 15%. In addition, there is a decrease in the tax rate on the value added of some taxable items and their increased rates. Exemption from VAT on imports from other EU countries and third parties in the EU

To ensure compliance with the VAT, the main task of each individual entity is to ascertain the procedure for paying VAT on its export operations and reconciliation with the taxpayer for VAT in a foreign economic operation in accordance with the VAT accrual system.

Comparing VAT rates in the EU is an important aspect of each other's accuracy. The difference between the exclusion indicators and the difference in the exclusion of the "tourist market", as well as the spread of cross-border trade. This, in turn, leads to a loss of budget among citizens who deal with foreigners in foreign affairs.

For example, a high shortage of alcohol in many Scandinavian countries has led to a high degree of development of "beer" tourism in this country. To prevent this, it is important to have a single picture within the EU and to avoid a high degree of difference between the excise cost.

Also, look at the legislature on the degree of tax rates in some advanced economies;

France. In this case, the existing tax benefits are divided into three main groups:

1. tax or income tax;
2. income tax and income tax;
3. Taxes on income.

One of the main sources of the French budget is that the tax is taxed, and VAT is the main part of it. In France, the standard VAT rate in France (18.6%) and the reduced rate (5.5%) are applied in France. The reduced value-added tax rate applies to certain agricultural products, drugs, food and medical equipment.

The French legislature imposes some benefits on value added tax. For example, in France are not subject to VAT:

- small enterprises with a total turnover not exceeding the total amount;
- Export operations all. The business owner is entitled to a refund of the value of his or her value, as well as the value added tax payable on the export of goods;
- special doctors and practitioners;
- banking and financial services;
- Our agriculture is good;

- Sosial is a state enterprise that performs administrative, cultural and sports functions.

Belgium. The share of taxpayers in the country is higher than in other countries. The VAT rate here is 21 percent. In addition, 12 percent of residential buildings with VAT are taxed, with a tax rate of 7 percent for newspapers, medicines, books, utilities, agriculture, passenger traffic, and hotel business. Some services include VAT. This service is owned by a bank, an insurance company, a lawyer, a doctor, an employee, a hospital, and an international carrier.

Some jurisdictions and services are subject to US tax laws (refining, tobacco, electricity, beverages, beer, drinking, drinking, drinking, coffee, and gambling). As you can see, there are similarities in the tax systems of different countries. (For example, alcoholic beverages in Belgium, for example, in many countries, excise taxes). However, there are still some gaps in the tax system of each country.

Gaps in the tax legislation of Azerbaijan create an impetus for improving the tax system. For example, VAT is still practically applied in our country at a rate of 18 percent. Due to the extensive use of taxes, some changes are required based on external taxation practices.

Another way to avoid tax evasion is to create a system with several taxes.

There are many international agreements on the development of taxation in the Republic of Azerbaijan in the modern era of economic development, in particular, there are 48 international agreements on the prevention of double taxation by the Republic of Azerbaijan:

- The EU has signed an agreement with 21 countries: Germany, Austria, Finland, Belgium, Slovenia, Bulgaria and Northern Ireland, the Czech Republic, Estonia, Greece, France, Croatia, the Netherlands, Spain, Romania, Italy, Latvia, Luxembourg, Hungary, Lithuania, Poland;

Other countries: Turkey, Belarus, Bosnia and Herzegovina, China, United Arab Emirates, Georgia, Jordan, Iran, Korea, Kuwait, Tajikistan, Switzerland,

Macedonia, Moldova, Montenegro, Norway, Canada, Uzbekistan, Pakistan, Qatar, Kazakhstan, Serbia, Saudi Arabia, Ukraine, Russia, Vietnam and Japan. Ministry of Taxes of the Republic of Azerbaijan - Relations with the European Union: The Ministry of Taxes closely cooperates with the EU. These relations with the EU have been developed for the most important projects within the framework of the European Neighborhood Policy, as well as within the European Neighborhood and Partnership. Partnerships implemented within the ENPI framework are provided to the CIS through technical assistance, Twinning (TACIS), information sharing (TAIEX) and other programs.

The TACIS program, launched in 1991, currently provides technical assistance to grants, funded by 13 grants from Eastern Europe and Central Asia (these countries include Azerbaijan, Russia, Belarus, Kazakhstan, Kyrgyzstan, Georgia, Moldova, Mongolia, etc.

In 2004-2005, the project “Modernization of the tax system” was implemented in the country under the EU TACIS program. The main objectives of the project are:

- training of tax authorities;
- Improving ICT in the Ministry of Taxes of the Republic of Azerbaijan;
- Improved taxpayer information.

The European Union’s TACIS program has allocated € 1.6 million for this project.

Thanks to the cooperation of TACIS with the Ministry of Taxes of the Republic of Azerbaijan: at the beginning of February 2004, the project “Modernization of tax system standards” began in Azerbaijan.

Summarizing all this, it can be said that at the present stage of economic development the countries of the world use different ways, in particular, countries are implementing various measures in the field of modernization of the tax system. Improving the tax system in accordance with modern standards

has arisen in the course of tax legislation that will prevent many problems. Modernization of the tax system will lead to tax evasion and corruption.

World experience shows that at present tax evasion is not only an ideal way to solve the problem of tax evasion, but also a way of approaching the tax regime of the population. Statistics show that the high efficiency of fines for tax evasion is low. To prevent tax evasion, many states are currently choosing people who will adhere to a tax culture. The tax policy in the existing countries of the tax culture will have a positive effect on its effect, and tax violations will be significantly reduced.

## **CONCLUSION**

Reducing the tax burden is one of the key factors for the development of the economy. The current tax policy in the Republic of Azerbaijan is aimed at reducing the tax burden.

In general, reducing the tax burden can be achieved through the use of many factors. Creating favorable conditions for the opening of new production and service areas is one of the key conditions. Creating a favorable environment means creating a favorable tax environment.

In addition, the taxation of people in the country should be an important part of the tax policy, which has taken important steps in our country.

Extensive and comprehensive reforms in the country give us a pleasant morning of our nation. Effective investment in oil revenues in the economy has led to the eradication of poverty and significant employment.

The issues related to the determination of the tax burden in the master's thesis. Modern literature has been used efficiently.

In the first chapter of master's work, the tax burden is theoretically analyzed and reflected in the methodological aspects. In addition, the country's tax policy and tax reforms have been widely analyzed.

The second chapter consists of four questions. Methods for determining the tax burden and methods for determining the tax burden were presented in these questions. Moreover, since 2001, an analysis of the dynamics of the tax burden in our country has been demonstrated, the last chapter of which discusses in detail the tax policy and analysis of the effectiveness of the tax system in Azerbaijan. Tax reforms should be based on the following principles, based on the experience of developed people:

1. The creation of a low-level tax system for the formation of budget revenues, as shown by economic research, the entire climax in the tax system is directly related to the final limit of tax rates.
2. Various tax evasion schemes are mainly related to the welfare of the taxpayer and taxation of capital at different rates. The weakening of various income tax regimes prevents gross violations of tax laws and leads to a significant reduction in the number of fines imposed on them. Thus, attempts to legalize incomes are growing and a multidisciplinary investment environment is being formed.
3. Formation of the tax system of the "good" taxes. A "good" tax means that in the end it will be clear who this tax will be. For example, corporate income tax in the United States is referred to as "bad" tax, because the weight of this tax falls on consumers and shareholders, which ultimately leads to capital gains and investment activity.
4. The essence of changes in the tax system should be to pay the ordinary taxpayer.
5. Warning of tax reforms. Because businessmen sometimes report changes in tax legislation for the current fiscal year, placing their investments in certain areas and closing commercial transactions that lead to certain losses both in business and in the field of budgets.
6. When carrying out tax reforms there should not be many tasks.

For example, it is necessary to determine the fiscal requirements for the tax system and at the same time stimulate business activity, increase revenues, and so on. Such goals will ultimately lead to the impossibility of achieving the goals outlined in the plan.

7. Getting to the next tax reform, it is necessary to accurately predict the results of these reforms and to determine the optimality of the tasks facing the reform.

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