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**The Ministry of Education of Azerbaijan Republic**

**Azerbaijan State Economic University**

**SABAH Groups**

**Impact of tax policy on non-oil sector development in Azerbaijan**

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**Contents**

**Inroduction……………………………………………………………….…...1**

**Table of contents……………………………………….……………………..2**

**Summary………………………………………………………………………3**

1. **Theoretical and methodological bases of influence of taxes on the place and business activity in state regulation………………………….4**
2. **Evaluating the development of the non-oil sector within the framework of regional socio-economic development programs ……..12**
3. **Taxes, tax burden and tax revenues analysis in non-oil sector in Azerbaijan……………………………………………………………….23**
4. **Evaluating the impact of state incentives and tax breaks on the development of the non-oil sector………………………………………33**
5. **Analysis of the future impact of tax policy changes on the non-oil sector…………………………………………………………..…………40**

**Conclusions and suggestions……….………………………….……………53**

**Literature list………………………………………………………………...55**

**The main purpose of the research-** The objective of the research is to investigate the relationship between taxation and entrepreneurial activity and to analyze the role of tax factors in the development of entrepreneurship in Azerbaijan, to develop entrepreneurial activity and to identify the world experience in identifying problems and adapt to local conditions.

**Object of the research-**Problems identified as a result of the research and improvement of the possibilities to eliminate these problems.

**Predmet of the research-**Investigating the effects of taxes on entrepreneurship in the non-oil sector in Azerbaijan.

**Scientific novelty of research-**The scientific novelty of the research is conditioned by the fact that the problems arising from the impact of taxation on the non-oil sector in Azerbaijan have been thoroughly investigated and certain proposals have been put forward to address these problems.

**Key Words-** taxes, taxation impact on non-oil sector, tax budget receipts

1. **Theoretical and methodological bases of influence of taxes on the place and business activity in state regulation.**

The aim of the research is to investigate the relationship between taxation and entrepreneurial activity and to analyze the role of tax factors in the development of entrepreneurship in Azerbaijan, to develop entrepreneurial activity and to find the world experience in identifying problems and adapt to local conditions.

Taxes in the economic group, on the one hand, are the primary source of income of the state, and on the other hand, personal income is declining and compulsory. In this case, the taxes have a direct impact on their activities, as tax impedes partial revenues of people and economic entities. This is an obvious example of the impact of more taxation on entrepreneurial activity. Thus, the main aim of the research is to investigate the logical dialectics of tax relations and the interaction of entrepreneurial activity and to draw relevant conclusions. From this point of view, the assessment of the impact of the tax burden on entrepreneurial activity is real.

The study of the effects of taxes on the place of business and the effects of entrepreneurial activities in the state regulation of entrepreneurship is of major importance. Many studies have conducted in this area so let's look at some of them.

* Neoclassical Theory (J.Mill research)
* Evans (1983) research
* Colin Clark (1940) research
* J. Serieux, Y. Samy (2001) research
* A. Laffer's research
	1. **Neoclassical Theory (J.Mill research)**

Article 3.1 of the Tax Code of the Republic of Azerbaijan states that the tax legislation should be based on general, equitable and fair taxation. The current level of development and future prospects of our country, the tasks faced by the tax system necessitates a more active tax policy in the economic regulation. One of the priorities of modern taxation policy is to achieve equity and equity in the regulation of income distribution. In this regard, the study of the issues of compliance with the principles of equality and fairness in taxation is selected with particular relevance. In our view, the results obtained in the taxation of natural persons, in particular in the determination and application of income tax for individuals, can be useful in the decision-making process. The review of the principle of fairness and equity is based on a search for an optimal form of direct taxes and Improving taxation is key issues that are thought by tax professionals and economists. One of the questions asked for a full and comprehensive answer to the theory of taxation is related to the economy's income and expense issue. In each economic system, aggregate costs are equal to total revenue. Since the cost of an individual is the source of income for the other, there is no income without the costs.

* Which taxation is simpler and requires less expense?
* Taxation from income or tax expense?
* What two variables should be taxed and, if so, what should be done?

Many experts say that income tax is the most rational tax that directly affects the payer's ability to pay. The net income is considered an indication of a person's ability to participate in financing the state. One of the mains reasons for the wide of income taxes is that it can not put a commitment on others to pay. Direct income tax allows you to take into account the marital status and other personal qualities of the payer. It is very difficult to achieve this in tax imposition. The main purpose of direct taxes is to dispose of the funds from personal consumption, and direct investments to public use through the state budget. Pay attention to the history of this type of taxation to clarify the idea that taxation is better than the ability to comply with the principles of equality and fairness of taxation. The first application in Western countries, which coincides with the end of the 19th century and the beginning of the 20th century, be considered to be younger than the other taxes. The main reasons for the application of income tax are the necessity of increasing public spending and social ideas at that time. The rise of the military, and another spending on the eve of the First World War and the war eruption led to large-scale public debts. Income tax was perceived as an important tool for ensuring such expenditures. Social taxation related social issues were related to the elimination of the injustice caused by non-consideration of income tax and indirect taxes on the income of various sections of the population. Direct identification of taxpayer income in European countries and taxation as a tax base was justified by ensuring fairness and equity. In spite of the advantages of income taxes, there are also quite consistent questions about whether it is fair and equitable. Difficulties with the achievement of justice in the application of income taxes have contributed to the idea of ​​ the inclusion of taxes into taxation. Because the costs of the person are more obvious, their tax evasion is more difficult. But, according to experts, there are more opportunities for tax evasion than expenses because people's expenditure items are more than the source of income. The signs of expensiveness are not accurate from the relevant indications of revenues. The best guarantee of taxpayer's honesty is its accuracy and there is no guarantee that the payer's expense declaration will be more honest than the income tax return. In the theory of direct taxes, the positive and negative aspects of both the income tax and the alternative expense tax are stated. One of the first researchers of this issue and one of the principal ideologists of liberalism was British economist and philosopher John Stuart Mill (1806-1873). He examined the conformity of the income tax to the principles of taxation and noted that, if the income tax was calculated in strict compliance with the taxation principles, it could be at least a mere object of justice. J. S. Mill showed that a low level of public awareness creates a basis for tax evasion and thus it is difficult to determine the income of individuals for taxation purposes. Therefore, income tax is an unfair way of becoming a heavy load for honest taxpayers. Poorly developed individuals are able to obtain a financially better position in society because they do not pay much of their income tax and are not paying taxes. C.S.Mill agreed that, if there is a high level of taxpayer availability and sufficient opportunity to disclose tax evasion, the best way to calculate income tax is the taxation of revenue-consuming part of the revenue and tax exemption of taxable part. Dedicated and invested funds will be taxed in the form of profit or interest, even though these funds are subject to taxation as part of the previous taxable income. C. Mill noted that if the deductions were not exempted from tax, the taxpayer's income tax was double taxed, and the direct costs were deducted at the same time. The expense of the consumption of the individual as a direct tax base is assumed to be an expense. Here consumption means the costs incurred to ensure that the taxpayer is living alone and his family. Expenditure and cost estimates envisage the amount of money spent on consumption, but certain tax expense does not apply to the tax base. Alfred Marshall (1842-1924), Arthur Sessil Piqu (1877-1959),Irving.Fischer(1867-1947), Nicolas Kaldor (1908-1986) and other well-known economists defended the idea of ​​the direct expense of the expenses of natural persons.

* 1. **Evans (1983) research**

With a more scientific approach, Michael Evans, the econometric analysis of supply-side economics; "An economics branch that examines the factors affecting the productive capacity of the economy ...". Evans states that a balanced supply-oriented economic policy involves the following economic policies:

Discount on personal and corporate income taxes,

Reduction of public expenditures in line with tax reductions,

Legal-institutional liberalization policy.

According to Evans was a supply-side program to include these policies will provide high productivity with low inflation and economic growth. According to Evans, the basis of supply-side economics "tax cuts" are created.

* 1. **Colin Clark (1940) research**

The main policy tool in supply-side economics is taxes. The pioneer of this situation is Australian Economist Colin Clark. According to Clark, high tax rates will reduce savings and diminish employment in people. Thus, production and supply will shrink, and the total demand balance will eventually deteriorate, resulting in inflation. However, the fact that industrial countries continue their rapid development despite the tax burden exceeding 25% has not influenced Clark's views on economic policies.

Economists who advocate supply-side economics think that total market production and tax revenues will increase due to tax cuts. People will prefer to work instead of consumption and work instead of working in the long-term. Thus, tax revenues and GDP will increase.

* 1. **J. Serieux, Y. Samy (2001) research**

The decrease in social investment expenditures of the state such as education and health will lead to a decrease in human capital expenditures. The reduction in human capital, which is one of the most important reasons for economic growth and productivity growth, will indirectly affect the decrease in economic growth by decreasing productivity. The high level of debt service, interest payments, and budget deficits reduce public savings. Excessive debt service also has a negative impact on the composition of public investments by reducing infrastructure investments and investments in human capital (Serieux and Samy, 2001).

* 1. **A. Laffer's research**

As an alternative to the economic problems in the 1970s, supply-side economic policies emerged as an alternative to Keynesian economics and began to be implemented in the 1980s. Supply-side economics focused more on tax cuts policy. When tax deductions are made according to supply-side economics, production and thus tax revenues will be positively affected. American economist Arthur Laffer, one of the proponents of supply-side economics, suggested that tax revenues would not decrease and would increase in contrast. Laffer explained his argument with the Laffer Curve which bears his name. Although this relationship between tax rates and tax revenues has been tested and criticized for different countries in different periods, the results that support the Laffer curve, in general, have been obtained.

Taxes on expenditure have two types of effects: rising prices and decreasing amounts. The increase in prices, on the other hand, increases public revenues. However, the decrease in the amount or the deterioration in the tax base has led to a decrease in public revenues. These effects also apply to taxes on income and wealth. Arthur Laffer draws on a napkin from his supply-side economists and illustrates it with his famous graphic known as the Laffer curve. Wanniski's 1978 publication inde Taxes, Revenues and the Laffer Curve ism is published in The Public Interest magazine.

However, the Laffer curve was not discovered by Laffer but by the Muslim philosopher of the 14th century, Ibn Khaldun. In Ibn Khaldun's work of Muqaddimah, “The burden of taxes on individuals at the beginning of the state is light, but in a considerable amount in total. This is due to the state of religion only the obligations of the Shari'a to commit obligations, that is, zakat, xaraj, and jizya that the order that they do not have a heavy burden on individuals ... These are limits to be observed. An agriculture-based rural economy with a low standard of living and light taxes encourages hard work. But when rulers consider power, the ever-increasing demands for a much higher standard of living cause heavy taxes from farmers, craftsmen, and merchants. For this reason, production and profits are reduced, because the incentives for everyone associated with the economic life of the state (due to low taxes) have been abolished.

The Laffer curve shows that the changes in the tax rate have two types of effects on tax revenues: the first one is the arithmetic effect and the second is the economic effect. Arithmetic effect: if the tax rates are reduced, tax revenues (for every dollar in the tax base) will be reduced by the decrease in the tax rate. The reverse is also valid for tax increases. The economic effect refers to the positive effect of falling tax rates on work, output, and employment. Increasing the tax rate creates an adverse economic impact by punishing participation in taxed activities. Arithmetic effect always moves in the opposite direction of economic influence. Therefore, when the economic and arithmetic effects of tax rate changes are combined, the results on total tax revenues are not very clear.

Figure 1 shows the Laffer curve. No matter how large the tax base is at a tax rate of 0%, there is no public tax. Similarly, there is no tax revenue for a tax rate of 100% as no one will want to work. The tax system among these extremes may generate tax revenues. There is a tradeoff between the increase in income and the decrease in income in high tax rates. If the tax rates are sufficiently high, people will not reduce their income or go to tax evasion. People can start doing informal work in this situation, they can lower their efforts, they can leave the country and start to do business abroad. Under these conditions, a decrease in tax rates may actually lead to an increase in tax revenues.



The Laffer curve alone does not imply that the tax rate reduction will increase or decrease tax revenues. The response of the tax revenues to the change in the tax rate depends on the current tax system, the time taken into consideration, the ease of shifting to the informal economy, the level of current tax rates, the prevalence of tax gaps based on legal and accounting, and the trends of production factors. If the current tax rate is too high (blocking area), the tax rate reduction will increase tax revenues. In other words, the economic impact of the tax reduction will depend on its arithmetic effect.

It should not be forgotten that resilience is higher in the long run as soon as the contracts are completed or when individuals have the opportunity to collect information and evaluate the options. The impact of the increase in tax rates, which significantly increased tax revenues in the first 1-2 years, is weakened by individuals who change their spending, working, investing or location preferences, after finding tax evasion, avoiding tax or reducing the tax burden.

The dynamics of the Laffer curve is an approximation between taxation and labor and capital supply. Higher tax rates reduce labor and capital supply. The decrease in labor and capital supply will ultimately decrease national income.

One of the most important factors in tax reductions is the timing of the reductions. Individuals take into account not only how much they will work when calculating their post-tax revenues, but also when they will work, invest and consume. If there is an expectation of a reduction in tax rates in the future, individuals may shift their work to a future where they are taxed at a low rate, and taxed economic activities may be reduced. Individuals do not prefer to shop in a store after a week of discounts before entering a discount. Likewise, individuals will postpone their income before tax cuts are implemented, and then they will fully realize their income when tax rates fall.

1. **Evaluating the development of the non-oil sector within the framework of regional socio-economic development programs.**
	1. **State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan (2004-2008)**

Efficient use of labor resources, natural and economic potential in the regions, accelerate the development of the non-oil sector of the economy and deepen reforms in the agrarian sector, increase employment, reduce poverty, modernize infrastructure, create favorable investment conditions, modern enterprises and create new jobs. the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan (2004-2008) "was approved by the Decree of the President of the Republic of Azerbaijan dated February 11, At the same time, 17 orders were signed to accelerate the socio-economic development of cities and regions included in the economic regions of Guba-Khachmaz, Shaki-Zagatala, Daglig Shirvan, Lankaran, Aran, Ganja-Gazakh and Yukhari Garabagh.

The State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan in 2004-2008 has identified factors that accelerate the development of the economy in some districts and identified the main directions of state policy and state support. The main purpose of the State Program is to develop separate areas of the economy, to further expand the production of enterprises, to stimulate export-oriented production, to improve the living standards of the local entrepreneurship, to increase the level of employment, to increase employment and to ensure the dynamic development of the country's economy.

The following objectives are envisaged to achieve the set goal:

* Restoration of production activity of enterprises and the creation of new production facilities;
* Increase the efficiency of using local resources;
* Ensuring the creation and development of the necessary infrastructure for the development of the regions;
* To accelerate the second phase of reforms in the agrarian sector, to create different service centers in order to assist farmers and other agricultural workers in the regions, to expand the seeding base, to improve the supply of machinery and take other necessary measures;
* Ensure the creation of favorable conditions for attracting investors to the regions;
* Encourage the creation of new jobs;
* Improvement of the population's utility services.

The structural policy of the state will be directed to the development of the non-oil sector along with the oil sector, the introduction of innovative technologies, privatization of large enterprises, entrepreneurship development, and increase of export potential.

One of the main goals of the privatization process will be to restore the operation of non-operated enterprises in the regions and to open new jobs. In this regard, the following measures will be taken:

* Transparency in the privatization process;
* Opening of new areas for privatization in accordance with the State Program and intensification of the process of privatization of enterprises;
* Maximum use of privatization shares;
* Ensuring the inviolability of private property, protection of the rights of owners and shareholders;
* Establishment of the State Register of real estate and establishment of its work at the level of international requirements.

In the following years, complex measures aimed at improving the entrepreneurship environment in Azerbaijan will continue and their main areas will be:

* Increasing state financial assistance to entrepreneurship development in the regions;
* Creating a database of potential opportunities available in the regions;
* Consulting services, information provision, marketing services for entrepreneurs in places. creation of centers to provide services;
* Development of tourism in regions;
* Establishment of trade fairs in regions;
* Strengthen laboratory control over the quality of produced products;
* Creation of centers of professional training for unemployed in regions, taking into account local specialization;
* Implementation of tax and customs policy aimed at the promotion of entrepreneurship;
* Regular regulation of natural monopoly tariffs;
* Prevention of interference in entrepreneurial activities;
* Support and development of successfully tested types of entrepreneurial activities in international practice such as mortgages, leasing, franchising;
* Expansion of state-entrepreneurial dialogue.

According to the forecasts, Gross Domestic Product in 2008 will increase by 2.3 times to 76.3 trillion manats in 2003, the volume of gross domestic product per capita will be $ 1578 and the share of the non-public sector in the gross domestic product will be 85 percent. In 2004-2008, the growth rate of all sectors, including agriculture, will be at the level of 10-15% in the structure of the gross domestic product. The real increase in agricultural production in the five years will make 62.5%, the volume of investment will be 16.8 billion dollars. Will reach USD, about 60 percent of which will be directed to the regions.

In the next five years, 600,000 new jobs will be created and the average monthly wage will be increased by 3.1 times.

* 1. **State Program of socio-economic development of regions of the Republic of Azerbaijan for 2009-2013**

Successful implementation of the measures envisaged in the socio-economic development areas provided by the "State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan (2004-2008)" and other documents, set a qualitatively new stage in the country's socio-economic development, the creation of new jobs and businesses played an important role in boosting the volume and quality of public utility, service and social infrastructure in the regions, furthering the business environment, increasing investment in the economy, increasing the employment level of the population and reducing poverty.

Over the past five years, 27,500 new enterprises have been created, 547,500 new permanent jobs have been created, and the level of poverty reduced by 13,2%. During this period, the real volume of gross domestic product was 2.6 times, production in the non-oil sector - 1.8 times, dynamic growth in all sectors of the economy, including industrial production 2.5 times, agrarian production 25.2% the population's income has increased fourfold.

As a result of implementation of the tasks set forth in the 2004-2008 Program, the country's non-oil sector's sustainable development, creation of new businesses and jobs, increasing the volume and quality of municipal services and social infrastructure in the regions, further improving the entrepreneurship environment , significant increase in the level of employment, poverty reduction. Thus, the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2009-2013 was developed to continue the work initiated within the framework of the "Program of Actions on Acceleration of Socio-Economic Development of the Towns of Baku in 2006-2007".

The main objective of the "State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2009-2013" is to achieve non-oil sector development, diversification of economy, balanced regional and sustainable socio-economic development and further improvement of the living standards of the population.To achieve the goals set out in the State Program, the following tasks are envisaged:

* Ensuring rapid development of the non-oil sector by utilizing the country's natural and labor potential effectively;
* Continuation of measures to improve infrastructure provision;
* Carry out purposeful measures to improve the business environment and accelerate the development of entrepreneurship;
* Continue to invest in the development of the economy;
* Stimulation of export-oriented production;
* Creation of modern types of infrastructure facilities, bringing existing facilities to international standards;
* Improvement of public service provision;
* Continuation of measures to increase the employment level of the population;
* Reduce the poverty level.

In order to accelerate the integration of the country's economy into the global economic system, the process of adapting the legislation and standards to the international requirements, including the World Trade Organization (WTO) requirements, will be accelerated in future in order to enhance Azerbaijan's cooperation with authoritative international organizations and economic associations. Foreign economic policy will be aimed at creating favorable conditions for the export of produced products, at the same time protecting the domestic market from unfair competition.

One of the main goals in the budgetary-tax policy is to achieve sustainable development of the non-oil sector, to maintain the stable macroeconomic situation in the country, to effectively regulate the economy and to stimulate its dynamic development. In this regard, in the coming years, it is necessary to achieve the expansion of production in the country, the creation of a competitive economy, infrastructure, favorable investment climate, and increasing the share of domestic resources in investments to be attracted to the economy. At the same time, the priority areas for 2009-2013 are the provision of state care for agriculture and direct subsidies to this sector, the attraction of investments to the establishment of processing facilities, and the development of non-oil, non-raw material industries, and tourism.

The following measures are planned to be implemented in the coming years to improve the tax system:

* Optimization of tax rates;
* Implementation of tax and customs policy aimed at the promotion of entrepreneurship;
* Extension of tax breaks applicable to producers of agricultural products;
* Establishment of computer terminals and private tax advisory services to improve tax services for entrepreneurs and expand coverage.

Development of tourism in the Republic of Azerbaijan, expansion of international cooperation in this field is one of the priorities in the coming years. Turning tourism into a highly profitable sector of the economy, creating an efficient and competitive modern tourism complex that meets social and environmental requirements, and opening new jobs in this area are among the major challenges facing the development of the non-oil sector. The development directions of the tourism industry are as follows:

* Establishing a competitive tourism infrastructure and tourism industry;
* bringing existing tourism facilities to international standards;
* Development and implementation of progressive methods and standards for tourism services;
* defining the legal status of the country's tourism and recreational zones, identifying tourism zones and tourist routes throughout the country;
* Expansion of international cooperation in training personnel with countries with rich experience in tourism.
	1. **On Approval of the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2014-2018**

As a result of the successful implementation of the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan in 2009-2013, a high level of macroeconomic indicators has been achieved in the country, implementation of the measures envisaged in the socio-economic development has played an important role in further improving the living standards of the population.

More than 240 orders have been signed to accelerate the socio-economic development of cities and regions in all economic regions during the implementation of both state programs on regional development.

In general, over the past 10 years, the policy of socio-economic development of the regions has resulted in the rapid growth of macroeconomic indicators of the country, GDP growth was 3.2 times, 6 times, and the average annual economic growth in our country was 12.9%.

Over the past 10 years, strategic currency reserves increased 31 times, foreign trade turnover - 6.6 times, exports - 9.3 times, imports - 4.1 times, non-oil exports - 4.7 times.

According to the report of the Global Competitiveness Index 2013-2014, the Azerbaijani economy was ranked 39th in the CIS, the first in the CIS, and our country was included in the "top-middle income" and "high-tech" countries of the world for the first time. All influential rating agencies (Fitch Ratings, Standard & Poor's and Moody's) have issued an investment credit rating to Azerbaijan and Azerbaijan is the only country with investment rating among the Caucasus countries.

Over the past 10 years, revenues of the state budget have increased 16 times, average monthly wages - 5.5 times, pensions - 9.6 times, population deposits - 27 times.

The policy of reducing the minimum wage to the country's living standards was continued, and the annual increase in the average monthly wage for those employed as a result of labor policy and labor remuneration increased the living standards of the population. In the last 10 years, the minimum wage in the country has increased 11.7 times, and the poverty rate has dropped from 44.7 percent in 2003 to 5.3 percent in 2013.

As a result of the flexible fiscal policy implemented in Azerbaijan, the work was continued to further increase the economic power of the state, the development of regions, the non-oil sector, and entrepreneurship, the reconstruction of production and infrastructure in accordance with modern requirements, improving the welfare of the population, oriented, development and development budget, the source of funding for economic reforms and state programs. While only 26.8% of total investment in the country's economy was funded from domestic sources in 2003, the share of domestic investment in 2013 reached 62.5%. In general, in 2004-2013, domestic investments increased 14.6 times, investments in the non-oil sector increased 12.9 times and 50.7 billion manats were allocated to the regions through all sources. More than 1.2 million new, including 900,000 permanent jobs were created in the country as a result of purposeful measures implemented over the past 10 years and 55,600 new enterprises were created. Nearly 80 percent of newly opened jobs fell to the regions.

Dynamic growth has been registered in the machine-building, metallurgy, chemistry, furniture, textile, food and other sectors of the industry, while the world economy has faced the crisis even in the non-oil sector of the Azerbaijani industry. Sumgayit Technologies Park, Sumgayit Chemical Industry and Balakhani Industrial Parks to ensure sustainable development of the non-oil sector, to create favorable conditions for the development of innovative and high tech competitive products in the country, to organize industrial enterprises based on modern technologies, Creation of High Technology Park and so on. Have major importance.

The achievement of the objectives set out in the State Program, as well as the protection of macroeconomic stability in the country is crucial for the fulfillment of these tasks. Given the macroeconomic stability, the state's budget policy will be prioritized to modernize the economy's priorities and to create conditions for its effectiveness, long-term sustainability, and further improve the investment climate. As the main source of economic growth, employment, budget and currency revenues, the non-oil sector will continue to play a strategic role in balanced and sustainable economic growth and the formation of a highly profitable economy. In this direction, the main conditions for the development of the economy as a whole in the 2014-2018, as well as separate areas in the regions:

* maintaining the average annual inflation rate and the national currency at an acceptable level;
* Determination of optimal tax and customs rates;
* continuation of measures to stimulate agricultural producers;
* Increase grain production and strengthen competitiveness;
* Stimulating the producers' export-oriented activities;
* stimulation of creation of new workplaces;
* Increase the share of budget revenues in the non-oil sector in the Gross Domestic Product;
* Agrarian sector development will be continued to ensure food security.
	1. **Macroeconomic indicators of economic and social development of the country**

|  |  |  |  |
| --- | --- | --- | --- |
| **The name of the indicator** | January-March 2019, Actually | January-March 2019,percent compared to January-March 2018 | January-March 2018, percent compared to January-March 2017 |
| **Gross domestic product, million manat** | **18 111.7** | **103.0** | **102.3** |
| including non-oil GDP | 10 363.1 | 101.7 | 102.9 |
| **GDP per capita, manat** | **1 835.1** | **102.1** | **101.4** |
| **Industrial product, million manat** | **11 511.8** | **104.4** | **102.0** |
| including non-oil industry | 2 605.7 | 115.6 | 109.9 |
| **Funds allocated to fixed capital, million manats** | **2 699.7** | **91.0** | **84.7** |
| including non-oil sector | 1 604.9 | 106.0 | 141.2 |
| from the non-oil industry | 227 | 83.2 | 171.9 |

Volume of GDP on oil and gas and non-oil and gas sectors, million manats

Number of small and medium entrepreneurship subjects

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  **Indicators** | Legal entities2016 | Individual entrepreneurs2016 | Legal entities2017 | Individual entrepreneurs2017 |
| Total number of business entities | 20932 | 170763 | 23752 | 145851 |
| Number of small entrepreneurship subjects | 16835 | 170763 | 19535 | 145851 |
| Number of medium entrepreneurship subjects | 4097 | --- | 4217 | --- |

1. **Taxes, tax burden and tax revenues analysis in non-oil sector in Azerbaijan.**
	1. **Tax conception**

Tax is a mandatory, individual, indemnified payment that is transferred to the state budget and local budgets in the form of alienation of funds owned by the taxpayers for the purposes of financing the activities of the state and municipalities.The following taxes shall be established and paid in the Azerbaijan Republic:

**1.State taxes-** State taxes shall mean taxes payable under this Code and payable throughout the territory of the Republic of Azerbaijan. State taxes include the following:

1. income tax for physical persons;

2. income tax of legal entities (except for enterprises and organizations which are in municipal ownership);

3. value-added tax;

4. excises;

5. property tax of legal entities;

6. land tax of natural persons and natural persons provided for in Article 206.1 of this Code;

7. road tax;

8. mining tax;

9. Simplified tax.

The highest rates of state tax rates are determined. The rates applied for each year of the state tax cannot be higher than the rates established by this Code, and when the law on the state budget of the Republic of Azerbaijan is adopted every year, these rates can be revised.

**2.Autonomous republican taxes-** Autonomous republican taxes shall mean taxes payable in the Nakhichevan Autonomous Republic determined by the laws of Nakhichevan Autonomy in accordance with this Code.

**3.Local taxes (municipal taxes)-** Local taxes (municipal taxes) mean taxes levied by this Code and applicable law, applied to decisions of municipalities and paid to municipalities. Other mandatory payments made by municipalities are determined by relevant law. Local taxes (municipal taxes) are as follows:

1. land tax of natural persons;

2. property tax of natural persons;

3. mining tax on construction materials of local significance;

4. Income tax for municipal enterprises and organizations.

The rules for calculating and paying local taxes, the rights and obligations of taxpayers and municipalities tax service bodies, forms and methods of tax control, liability for violation of tax legislation, complaints of actions (inactions) of municipalities tax authorities and their officials are defined by relevant legislation.

According to the laws of the Republic of Azerbaijan, the criteria for the activity of the oil and gas industry and the non-governmental sector are determined by the body (s) established by the relevant executive authority.

* Non-entrepreneurial activity is taxed at a rate of 14 percent from annual income.
* The taxable income of individuals engaged in entrepreneurial activity without taxation is taxed at a rate of 20 percent.
* The VAT rate is 18 percent of each taxable transaction and the value of each taxable import.
* The monthly taxable income of physical persons is charged according to the following table:

|  |  |
| --- | --- |
| **Amount of taxable monthly income** | **Amount of tax** |
| Up to 2500 manats | 14 percent |
| More than 2500 manats | 350 manats + 25 percent of the amount that is more than 2500 manats |

* The monthly taxable income of physical persons working in the taxpayers who are not engaged in the oil and gas sector and which belongs to the non-state sector is taxed in accordance with the following table from 1 January to 7 January 2019:

|  |  |
| --- | --- |
| **Monthly income tax** | **Tax rate** |
| Up to 8000 manats | 0 percent |
| More than 8000 manats | 1. ercent of the amount over 8,000 manats
 |

* Depending on the type of mineral resources extracted from the earth's surface, the mining tax shall be determined on the basis of their wholesale price as follows:

|  |  |
| --- | --- |
| **Name of mineral resources involved in mining tax** | **Mining tax rates (in percent)** |
| Crude oil | 26 |
| Natural gas | 20 |

* 1. **The necessity to consider the impact of the tax burden on entrepreneurial activity**

The development of entrepreneurial activity largely depends on the tax system in the country it depends on the installation. The existing tax for the formation of an advanced tax system the impact of the burden on entrepreneurial activities should be studied in detail it is necessary to determine the optimal tax burden by deducting the results steps should be taken. State to stimulate entrepreneurial activity The minimum tax rates are determined by the tax burden softened. As a result of the lower tax rate, enterprises are able to buy extra circulating assets,reinvesting them,and participating in the creation of additional revenues and, in addition, an additional taxation base. Thus, the taxation base is expanding, with lower tax rates.

In each country, there is a policy of import and export implemented by the state. Starting a new business with entrepreneurial activity is the import of products from abroad they are against. Theoretically, it has been proven that by increasing customs duties, it is possible to adjust the import of certain products from abroad. At the same time, by investing in the production of these products in the republic can stimulate. But it should not be forgotten that if the price of the local product is low If the product is not imported from abroad, monopoly tendencies will increase. That's it is undesirable. Because the state strives to create monopolies in the country not to come, to have a healthy competition among entrepreneurs. Imported from foreign countries products in some way regulate competition. One such question arises: If the country imports good quality products, why not allow it? If domestic entrepreneurs cannot lower their prices, then the country's population suffers. If imported products are of high quality, if it does not run out of taxes, if it is brought in halal, and compete with the local product, the price it will have a impact on the living standards of the population, As a result, consumers' rights are protected.

Establishment of an advanced taxation system in the country is actually a tax base increase the tax burden, increase tax revenues consequently, to stimulate entrepreneurship. Impact of the tax burden on entrepreneurial activity provides financial opportunities for decision-making, sustainable development The tax burden to a certain level will lead to positive trends, but the next tax increasing the burden of its burden reduces entrepreneurship and develops becomes a factor of inefficiency.

The tax burden is public, as a result of the state's tax policy a generalized indicator that characterizes the role of taxes in life and is calculated as the ratio of total tax revenues to GDP.

Experience shows that when the tax burden set by the state is high, production activity in the country is often diminished. However, the impact of the increase in the tax burden on socio-economic development depends on the use of budget funds. In some cases, the effectiveness of the measures implemented by the state with funds mobilized at the expense of taxes and the importance of the society is higher than the use of these funds in the private sector. However, it should be noted that, in all cases, the definition of the optimal tax burden in the national economy is of great importance in terms of ensuring the interests of both the state and the taxpayers. In most cases, the tax burden is higher when the tax burden is 35% normal, 36-45% average, 46-55% higher, and higher than 55%.

In general, the proportionate method of profit tax calculation has been gradually reduced from 35% to 20%, the value added tax is from 28% to 18% 30%, and also the income tax rate of individuals engaged in entrepreneurial activity without the creation of a legal entity reduced from 35% to 20%, the annual volume of taxable activities of legal entities for the purpose of obtaining a simplified taxpayer right is 150,000 manats, and 90,000 manats for individuals. Until 2014, entrepreneurs engaged in agricultural production have been exempted from other taxes, except for land tax. In addition, from 1 January 2009 to 3 years, the portion of the profit directed by the banks, insurance, and reinsurance companies to increase their share capital was exempted from profit tax. At the same time, according to the Law of the Republic of Armenia "On Exemption from Interest Tax on Interest on Individuals' Deposits by Banks and Other Credit Institutions", approved by the Presidential Decree of 27 October 2009, the interest paid by banks and other credit organizations on deposits of individuals Has been exempted from income tax for a period of three years from 1 January 2010.

In general, it is recommended to take into consideration the peculiarities of the economy of the country when analyzing the impact of taxes on entrepreneurial activity in our country. It is assumed that the level of the average tax burden and the number of tax rates should not be compared, the level of distribution among taxpayers and the specific features of the taxable base should be investigated. At the same time, it should be noted that the tax burden on the macroeconomic level as a whole does not reflect the true picture. Thus, the tax burden on taxpayers in the country, calculated as the ratio of taxes to GDP, may have a different effect on the different characteristics of the bribe, such as the structure of production and circulation expenses, the production and distribution of production, level and so on. does not take into account such important factors. Therefore, I think that the existing tax burden assessment methods should be analyzed and a new method of the tax burden should be developed to reduce the tax burden on the business environment.

* 1. **Budget receipts from Azerbaijan for taxes and other payments in 2005-2018:**

|  |  |
| --- | --- |
| **Years** | **Taxes and other payments****Inputs (thousand AZN)** |
| 2018 | 7 415 462,9 |
| 2017 | 6 971 679,6 |
| 2016 | 7 015 165,4 |
| 2015 | 7 118 196,7 |
| 2014 | 7 113 622,4 |
| 2013 | 6 663 633,4 |
| 2012 | 6 025 366,5 |
| 2011 | 5 475 062,0 |
| 2010 | 4 292 800,0 |
| 2009 | 4 113 400,0 |
| 2008 | 5 746 565,8 |
| 2007 | 4 549 259,0 |
| 2006 | 2 706 282,3 |
| 2006 | 1 427 452,9 |

Revenues of the state budget of the Republic of Azerbaijan for 2019 shall be approved in the amount of 23 168 000.0 thousand manats, expenses 25 190 000.0 thousand manats. The tax revenues of the state budget of the Republic of Azerbaijan for 2019 shall be envisaged in the following amounts:

|  |  |
| --- | --- |
| **Sources of Income** | **Amount (in 1000 AZN)** |
| Individuals' income tax  | 880 000,0 |
| Profit (income) tax for legal entities  | 2 670 400,0 |
| Land tax of legal entities  | 45 000,0 |
| Property tax of legal entities  | 211 000,0 |
| Value-added tax | 4 194 000,0 |
| Simplified tax  | 322 000,0 |
| Excises tax | 982,000.0 |
| Road tax  | 114 000,0 |
| Mining tax  | 133 000,0 |

The Ministry of Taxes continues its activity on ensuring tax revenue to the state budget, expanding the tax base, implementing effective tax administration and tax control, and tax returns, as well as changes in tax legislation.

* In the first quarter of 2019, the Ministry of Taxes has mobilized 1 billion 672.9 million manats of taxes to the state budget, 110.4% of the forecast was fulfilled, compared to the same period of the previous year by 16.5% or 236.4 million manat funds have been collected.
* 30.9% of taxes paid to the oil and gas sector, 69.1% to non-oil and gas sector. The increase in tax revenues for the non-oil sector was 18.3%.
* The share of the non-state sector in tax revenues increased by 18.6% to 76.5% compared to the same period last year. Tax payments from the private sector of the non-oil sector increased by 20.6%, its share in non-oil taxes increased to 76.7%, and the share of total tax revenues increased by 53%.
* In the first quarter of 2019, tax revenues from the regions increased by 24.3% compared to the same period last year, amounting to 168.4 million manats. In this case, the volume of revenues from the domestic potential of the regions increased by 40.4%, without taking into account centralized receipts. The share of regional revenues in total tax revenues increased by 10.1%.
* Starting from the beginning of 2019, the collection of premiums on mandatory state social insurance and unemployment insurance has been included in the functions of the Ministry of Taxes. Compared to the 1st quarter of the current year, the mandatory state social insurance payments were executed by 110.8%, including 582.1 million manats, and the unemployment insurance receipts amounted to 117.3%, amounting to 22.8 million manats.
* In the first quarter of 2019, the number of registered taxpayers was 25,536 (3,270 legal entities, 22,266 individuals), which is 25,5% more than in the same period last year. 52.2% of the registered taxpayers accounted for the regions.
* During the reporting period, 11,231 farms were registered, which is 73.2% more than in the same period last year. The number of taxpayers registered for VAT purposes was 4.033, which is 4.8 times more than the corresponding period of 2018.
* In the first quarter of 2019, control measures were implemented to end tax evasion, to eliminate the "shadow" economy, to ensure transparency, to properly register the taxpayers and pay taxes to the state budget, and to strengthen tax control over the turnover of excise goods. By the end of the first quarter of 2019, the turnover in the production of alcoholic beverages increased by 1.7 times, and the circulation of tobacco products - by 7.4 times due to increased control over production and turnover of excise goods.
* In the first quarter of 2019, AZN 7.4 million was paid from the damages inflicted on tax evasion cases, which is 3 times more than in the same period last year.
* The Ministry of Taxes provides tax audits to identify tax evasion cases through modern information technologies, their electronic management, determination of mobile tax inspections based on risk criteria, more accurate assessment of existing risks with algorithms, and effective tax assessment.
* The number of inspections in the first quarter of 2019 decreased by 86.9% compared to the same period of the previous year and the number of inspections completed by 75.2%, while the number of additional inspections decreased by only 3.7%. The amount of reverse turnover increased by 47.7% compared to the previous period.
* In the first quarter of 2019, 1,858 taxpayers and officials were allowed to leave the country on the basis of a court decision, with a tax debt of 14 million 624.0 thousand manats, more than 50% of the debt was paid to the state budget.
* During the first quarter of the current year, 21.874 unreported declarations were received, which means a 74.9% increase over the same period last year. More than 95% of taxpayers have voluntarily paid for taxpayers as a result of informal measures carried out by the tax authorities, without administrative measures.

Tax authorities have collected more taxes than the non-oil sector:

President Ilham Aliyev said at the meeting of the Cabinet of Ministers dedicated to the results of the socio-economic development of the first quarter of 2019 and the forthcoming tasks: "From the beginning of this year positive changes in the Azerbaijani economy strengthen our potential, are highly appreciated by the population and to create conditions for that. "

The head of state praised the results of the tax and customs reforms and noted that budget revenues increased significantly in the first quarter - more than 200 million manats, including more than 150 million manats in the tax field and more than 50 million manats in the field of customs. "

President Ilham Aliyev noted that the tax authorities could collect more than 136 million manats from the non-oil sector: "This is a clear example of reforms, and entrepreneurs also know that they have to pay the state's tax. In the first quarter, thanks to transparency and innovation, Of course, this made it possible for us to focus on social issues first of all. "

1. **Evaluating the impact of state incentives and tax breaks on the development of the non-oil sector.**
	1. **Tax incentives and promotion**

Implementation of investment incentive mechanism, which is part of President Ilham Aliyev's economic reforms, contributes significantly to the growth of a private investment. To date, 281 entrepreneurs have been issued 320 investment promotion licenses. More than 21,000 new jobs will be created by investing 2.7 billion manats in these projects covering 8 economic regions. About 63% of companies receiving investment promotion licenses are already operating and the rest will start operating by the end of next year. At the same time, the commissioning of 181 production and processing enterprises, with a total cost of 2.5 billion manats, provided with complex state support, will make a significant contribution to the development of the non-oil sector and will create 19,000 new jobs.

As a result of the complex measures to be implemented, the non-oil sector, which is the priority sector of the economy, is projected to be 3.9 percent in 2019 and an average of 3.5 percent in the following years. The non-oil industry, which is of particular importance in the development of the non-oil sector, increased its value by 11% in nine months of the year, the pace of industrialization rose, along with industry's leading and traditional industries, new industries were created, and dependence on imports on some products declined.

Shahin Mustafayev said that at the industrial parks and neighborhoods, which were established by the Presidential orders, which have played an important role in the development of the non-oil industry, 62 entrepreneurship subjects have been granted resident status so far. In Sumgayit Chemical Industrial Park, 18 enterprises with a total cost of more than $ 2.8 billion have been granted resident status, 9 of which have already been put into operation, and 5 are planned to be put into operation by the end of the year, and another 3 will be put into operation next year. In the first area of ​​the Balakhani Industrial Park, five residuals on waste recycling have been launched, and 50% of the products produced by the enterprise this year were exported. In the 2nd area of ​​the Industrial Park, the construction of production sites has been started. Two yarn factories with a production capacity of 20 thousand tons and cost of $ 85 million were commissioned in Mingachevir Industrial Park in the first quarter of 2018 and 750 workplaces were opened. 3,500 tons of products were produced in these factories, 2,000 tons of which were exported.

Taking into account the expected outcomes of the reforms in the non-oil industry, it is predicted that the field would increase by 9.7 percent in 2019 and an average of 5.8 percent in subsequent years.

The Head of State has decided to take additional measures to promote the export of non-oil products produced in Azerbaijan in 2016-2020:

Depending on the specific weight of the local components used in the production and production process in Azerbaijan and the non-oil products produced in Azerbaijan, as well as those engaged in the export of non-oil products in Azerbaijan, depending on the type of exported products, the export promotion should be paid at the expense of the state budget .

The decree establishes that the base amount of the export incentives to be paid will constitute 3 percent of the customs value of the export customs declaration of the actually exported goods for export operations.

The Cabinet of Ministers "Non-oil exports involved in export promotion Compensation," then "Export promotion will be applied to the non-oil products to foreign economic activity commodity nomenclature of the list" and "the products depending on the type of export promotion the basic amount will be applied to the coefficients "Within a month to agree with the President of Azerbaijan; Submit proposals to the President of the Republic of Azerbaijan within three months to bring the acts of the President of the Republic of Azerbaijan in line with this decree; Inform the President of the Republic of Azerbaijan within three months of bringing the normative legal acts of the Cabinet of Ministers to this decree; to solve other issues arising from this decree.

The Ministry of Justice will ensure compliance of normative legal acts and normative acts of central executive bodies with this decree to the Cabinet of Ministers.

This decree comes into force from March 1, 2016, and is valid until December 31, 2020.

* 1. **Tax deduction for the amount paid by POS-terminals**

According to the amendments introduced in the Tax Code from January 1, 2019, certain privileges were granted to entrepreneurs for POS-terminals. Article 102.1.24 of the Tax Code states that the amount of the income tax payable to the budget by the individual entrepreneur engaged in the sale of goods and (or) public catering activities on the sale of goods, from January 1, 2019 Is reduced by 25 percent of the tax rate determined in accordance with the total weighted gross amount of payments made through a POS-terminal established by the Law of the Republic of Azerbaijan "On Protection of Consumers' Rights" for 3 years. When determining the right to receive this redemption, the amount of payments made by the taxpayers through the POS terminal is not taken into account. It applies to the amounts paid by the taxpayers for the goods (works, services) they receive for entrepreneurial activity. Amounts payable by the taxpayer through the POS-terminal on cash received for personal consumption purposes shall be taken into account for the purposes of this Article.

**Example:** Suppose that your total income is 1,000 manats. Its 200 manat is cash, and 800 manat - via the POS terminal. If your expenses are 700 pounds, your income will be determined after deducting that sum:

Total deductible income = 700 manats;

1000 - 700 = 300 manats

Income = 300 manats

In the case of non-compliant taxation, the taxpayer's income tax liability was 60 manat:

1000 - 700 = 300 x 20% = 60 manats.

After taxation, the taxpayer has to pay 48 manat. Here, 12 manats decrease is observed:

800 (non-cash circulation) / 1000 (total revenue) = 0.8 (specific weight)

60 x 0.8 x 25% = 12 manats

60 - 12 = 48 manats.

* 1. **Improve the use of tax factor in stimulating entrepreneurship**

According to the Tax Code, certain tax exemptions and tax exemptions are currently envisaged in our country. But, unfortunately, the scope and absolute scope of these discounts are not so wide. It does not have a major impact on entrepreneurship development and economic growth in the country. But we believe that this is a positive step, and will further accelerate the economic development of the country and affect the entrepreneurship in the future. As the economic base becomes stronger and entrepreneurship gets wider, the impact of this factor will be stronger. At the same time, we also consider the need to increase discount rates. Because existing discounts cannot create a substantial stimulus as mentioned above.

It is true that raising concessions will lead to a decrease in some taxpayers and accumulated tax filing at the earliest stage. However, we consider that this is a temporary phenomenon, and in the conditions of a substantial expansion of the economic base and a substantial expansion of the production volumes, even the relatively low tax rates and the amount of taxes levied will be more than ever before. In other words, it is more appropriate to get less tax than long-term taxes. Practice shows that this is a more efficient way and, ultimately, the effect is greater.

One of the most important issues in the proper setup and improvement of the tax system is to ensure the arrival of foreign investment in the republic and to create favorable conditions for their activities. Naturally, much work has been done in this field in the republic. Our country occupies one of the leading places among CIS and East European countries according to the volume of foreign investments. Here, in our opinion, special attention should be paid to 2 issues. First of all, it is necessary to work to attract investments mainly to the production areas, especially to streamline these regions to activate the economic and social potential of the mountainous and frontier districts, and secondly, to invest in the non-oil sectors as much as possible for the complex development of our national economy. Nowadays, there is a great need in the republic.

At present, there are about 5000 foreign legal taxpayers. Of course, this is a positive thing. But if they create more favorable conditions for additional tax incentives and capital investments, their number will increase and the amount of capital will increase and will increase budget revenues accordingly. In general, the tax mechanism should have a broad incentive for both foreign and domestic investors and should create enormous conditions for economic and social activity.

Thus, according to the country's legislation, there are two types of tax systems in the country:

1) The existing tax system, mainly for medium and large entrepreneurs;

2) Basically, a simplified tax and accounting system for small entrepreneurs.

We believe that the tax system should be active in the formation and development of entrepreneurship, be adapted to the features of the formation of the national economy, and the economic and social conditions existing in the country and in its separate regions should be taken into account. In other words, the efficiency of the current tax system in the republic should be further enhanced by its efficiency, motivation, protective, guiding role and social function.

Research shows that fundamental reforms in the tax system should, first of all, imply tax incentives for entrepreneurship, improvement of existing degrees. We consider that the state should prefer one or another of the economic entities to the following forms of tax privileges in the world in relation to these or other areas of economic activity encouragement.

* To further reduce the rates of some taxes (in particular, profit tax and VAT);
* Implementation of various tax incentives, including tax exemptions, primarily during the earliest period of activity of enterprises operating in the real sector, encouraging economic activity;
* Maintaining a part of taxes levied on entrepreneurship subjects at the disposal of local executive authorities in order to accelerate the development of economic regions of the republic;
* To apply preferential tax on investment directed by entrepreneurs in poorly developed, and also strategically important regions of the republic;
* Carrying out tax audits in the selective procedure and when there is a substantial reason, etc.

At the same time, in developed market economies, many state-owned businesses help small businesses, including small businesses, investment and leasing companies, credit and insurance companies, advertising and information enterprises, etc. a number of tax incentives are also being imposed. We consider that this experience of world countries in tax policy should also be kept in mind.

However, it should be noted that it would be incorrect to repeat it as often as it would be by using any form of international experience, and would not yield the expected effect. Therefore, we believe that the experience of world countries in the field of tax concessions should be organically linked to the nature of the tasks and the direction of implementation of the requirements of the present stage of our economic development.

These discounts include the use of low and different taxes for industries that are engaged in production in the early stages of their business, economics development areas, economic regions and types of activities, tax evasion for a while, and so on. includes.

1. **Analysis of the future impact of tax policy changes on the non-oil sector.**

In November 2018, the following amendments have been made to the Tax Code.

1. Those who pay 8,000 manats will not pay 7 years tax
* Among the proposals made to the Taxes Code, the non-oil and gas sector and non-state sector employees were exempt from income tax.
* According to the new Code, those who work in this sector will not pay a tax of 8,000 manats, if they pay more than 8 thousand, they will pay 14 percent of the tax on that part.
1. At the same time, the amount of income tax on natural persons working in all fields, including the state and the oil sector, is increased from AZN 173 to AZN 200.
2. At present, 25 percent of the income tax is levied on salaries higher than 2,500 manats, which is 14 percent higher than salaries and 2500 manats.
3. The amendment applied on January 1 of this year provides for a period of 7 years, and supporters of this proposal believe that such a tax environment can be "bleaching" wages, legalization of illicit employment, the widespread use of labor contracts, "shadow economy" will reduce its share.
4. The combined 2-percent tax, but not everyone
* Simplified taxpayers are already paying 2% tax on this year.
* At present, this tax is 4 percent in the city of Baku and 2 percent in other districts of Nakhchivan Autonomous Republic.
* But the new rule does not apply to all simplified taxpayers.
* The simplified taxpayers, which are subject to Articles 218.1.2 and 218.4 of the Tax Code, are not included in the single tax rate of 2 percent.
1. At the same time, the circle of individuals who can apply a simplified tax is limited. They are manufacturers with more than 5 employees, wholesale trade, gold, jewelry, and other household goods, sellers of fur products, and so on.
2. Individuals with a restricted right to become a simplified taxpayer will act as earnings or income taxpayers next year.
3. Independent economists believe that fewer taxpayers will be less likely to pay 2 percent of tax-payers because of the newer changes to the "simplified taxpayer" concept. Economists, who have a negative impact on the economy, say "black accounting", which will lead to tax evasion, and analyze the new tax change.
4. The Ministry of Taxes has not yet disclosed how much this change will cover the current simplified taxpayer. More than 80 percent of entrepreneurs are reported to be simplified taxpayers.
5. Customers who receive cash desk receipts at retail outlets, stores and shops will refund their Additional VAT (VAT).
* Cash receipts when buying cash, pay 10% of VAT and 15% cashless payment.
1. Taxes Ministry told BBC News that customers should also receive a cash receipt along with the barcode supplied to them during the purchase so that they can repay the VAT they paid later. However, the Ministry of Taxes has decided that the procedure will be returned to the customer later has not released yet.
2. Tax rebates for small and medium businesses
* The new Code for Small Entrepreneurship provides a number of concessions.
* Small and Medium Business (SME) companies are exempt from profits, land and value-added tax for a period of 7 years from their registration in the SME Register.
* Moreover, imports of technology, equipment, and equipment for production and processing by the companies included in the SME cluster are exempt from VAT for a period of 7 years.
1. Additionally, the substantial part of the revenues from services rendered by entrepreneurs participating in the small and medium business cluster is exempt from income tax for a period of 7 years.
2. Discounts for small businesses include tax deductions for 75% of profits and earnings from entrepreneurial activity. They are also exempt from property tax.
3. According to the amendment, start-ups engaged in small entrepreneurship activities are issued for a period of three years from the date of receipt of the certificate for start-up activities and are exempted from profit tax. The purpose of this amendment is to support small and micro-entrepreneurship and to provide them with long-term tax incentives, evaluated.
4. Excise taxes increase
* The list of commodities for excise tax has been expanded.
* Alcoholic, non-alcoholic energy drinks, cigars and electronic cigarettes produced in Azerbaijan are included in the excise tax.
* At the same time, the minivan cars brought to Azerbaijan will be increased, depending on the engine.
* In particular, excise rates on tobacco products are being increased.

Analysis of the results of the first quarter of 2019 gives grounds to say that recent amendments to the Tax Code have been successfully implemented. This idea was emphasized at the roundtable organized by the "Vergiler" Newspaper. Discussions on "Changes to the Tax Code: Initial Outputs" focused on new economic approaches to taxpayers, their registration and clarification, reduction of the shadow economy, as well as innovations in the collection of mandatory insurance premiums.

Advisor to the Minister of Taxes Khagani Abdullayev, General Director of Economic Analysis Department of the Ministry of Taxes Natig Shirinov, Director General of Tax Policy Department Samira Musayeva, General Director of State Registration and Accounting Department Alakbar Mammadov and economists participated in the roundtable. Editor-in-chief of "Vergiler" newspaper Anar Aliyev, opening the event, stressed that the Ministry of Taxes has formed new strategic development directions. He noted that taxpayers' awareness of the taxation of the taxpayers rather than the administrative resources and the increase of the level of voluntary performance was promoted in order to increase tax revenues. The use of media power for this is one of the priorities: "We can support the elimination of taxpayers by addressing the challenges they face."

|  |  |  |
| --- | --- | --- |
|  **Tax deductions** |  **Existing rates** |  **Post-change rates** |
|  **Income tax** |  =(2000-173)\*14%=255,78  |  =2000\*0%=0 manat |
| **Mandatory State Social Insurance (Employee)** |  =2000\*3%=60 manat |  =6+(2000-200)\*10%=186  |
| **Unemployment insurance (employee)** |  =2000\*0,5%=10 manat |  =2000\*0,5%=10 manat |
| **Total employee disability** |  =325,78 manat |  =196 manat |
|  **Wages to workers** |  =1674,22 manat |  =1804 manat |

* 1. **A "Single Window" system**

President Ilham Aliyev signed a decree on "Some measures to develop entrepreneurship in the Republic of Azerbaijan". The document envisaging reduction of the number of bureaucratic obstacles in the business environment is aimed at improving the business climate in the country, eliminating various obstacles in entrepreneurial activity. Under the decree, the Cabinet of Ministers has adopted a unified code for business entities on the principle of "A Single Window" together with the Ministry of Justice, the Ministry of Economic Development, the Ministry of Taxes, the Ministry of Labor and Social Protection of Population, the State Social Protection Fund and the State Statistical Committee. Before proceeding to concrete details of the decree, let us explain the essence of the "Single Window" system, which has a special place in the document and applied in our country.

"Single Window" system is considered to be one of the key elements of the e-government. It is intended to concentrate data at one center and synchronize all administrative records (including tax registration). In this case, business people automatically, on-line and have a continuous relationship with the central system. In fact, these are centralized and electronic delivery of licenses. At this time, of course, the number of procedures required for registration is reduced, and business structures take advantage of the electronic registration system and also prevent the loss of time.

It should be noted that the "Single Window" system was developed and implemented by IBA since 1970. In the United States, the creation of this system dates back to 1970-1997. In accordance with the system developed by the CPA, all registration related information has been started in the MARK IV file system. By 1990, these indicators were concentrated in a centralized system. Increasing the number of businesses in the United States since the 1990s has led to the creation of a regional "single window" system. In 1998, HP began the application of ORACLE faults to further simplify registration procedures in a "Single Window" system. In 1998, the introduction of this system was first introduced in the transition countries. In neighboring Georgia, this system has been implemented since last year. According to World Bank research, the introduction of this system has positively impacted the development of business in the neighboring country, particularly in the creation of new business entities.

In fact, the application of this system is no longer complicated. The Central Registry Office in the United States controls a single window system. In this case, the Central Statistical Office, the Tax Administration, and other relevant entities are engaged in both verifications and sending of information to the said department. Explained in simple language; The information provided to the department is checked and approved electronically by statistical and tax authorities. Once the department receives electronic approvals, the electronic registration decision will be made and the registration number and other information will be sent to the business entity, which will then complete the registration. This code uses the business structure in future calculations or correspondence. Business entities in the European Union are provided with "registration name and password", which allows them to electronically update their information. This rule is already used in all countries that apply a window.

* 1. **Doing Business**

In 2003, IFC (International Finance Corporation) and the World Bank launched a Doing Business - Ease of Business Eligibility project to cover 185 countries' economies, such as a company firm that can affect the investment environment of these countries, tax policies, employment, licensing, based on a comparative rating, and publishes annual reports on this subject.

Doing Business reports rank economies based on 10 business adjustments indicators, which indicate the state's requirements for starting and maintaining a business, showing the time and costs of cross-border trade, tax payments, and termination of a business.

Indicators Of The Economic Reformation And Communication Center Of The Republic Of Azerbaijan In The Special Edition Of "Doing Business-2020" Reform

* Payment Of Taxes In Azerbaijan

Existing rating: 28th place among 190 countries

Score on "Doing Business": 85.23

|  |  |
| --- | --- |
|  **Total tax rate** |  **Post-submission procedure index** |

|  |  |  |  |
| --- | --- | --- | --- |
| Social insurance payments | Specific weight of social insurance payments in profit | VAT return period | Required application deadline |
| Before 22% | 24.82% | 27.6 Week | 7.5 Hour |
| Now 15% | 20.29% | 17.1 Week | 4 Hour |

|  |
| --- |
|  **Time (hours per year required)** |

|  |  |  |  |
| --- | --- | --- | --- |
|  Social insurance |  Income Tax |  Value-added tax |  TOTAL |
| Before 65 Hour | 50 Hour | 44 Hour | 159 Hour |
| Now 43 Hour | 31 Hour | 39 Hour | 113 Hour |

The result of the reform

1. The rate of the social insurance premium paid by the employer has been reduced from 22 to 15 percent.
2. An application to be filed with tax authorities on return of VAT is electronic.
3. The taxable part of the tax payable for taxpayers over the reporting period exceeds the amount of the tax calculated by the taxpayer no later than four months from the date of submission of the application by the taxpayer to the tax and customs authorities in electronic form.
4. VAT has been repaid within 3 months. (Article 179.2)
	1. **Strategic Road Map**

The strategic road map for key sectors of the national economy and economy states that it will further boost competitiveness, inclusiveness and social welfare of the economy, attract investment, free competition, access to markets and human capital.

The Strategic Roadmap for National Economy Perspectives covers three periods, covering short, medium and long-term periods: by 2020, by 2025 and after 2025.

The fundamentals of the economic development of this period are the protection of macroeconomic stability, improvement of the business environment, promotion of private sector investment and creation of supportive public sector.

It is aimed to increase the share of direct foreign investments directed to the non-oil sector by up to 4% in the non-oil GDP by 2025. At present, this share is 2,627%.

Also, the export of non-oil sector to $ 170 per capita in 2015 is planned to be raised to $ 450 and to create 150,000 additional jobs in the commodity and services sectors, for example, in manufacturing or tourism sectors by 2025.

Reduction of budget transfers from the Oil Fund by 15% is one of the targets.

The maps include a new economic growth approach. A strategic choice for this is the creation of a productive-based approach. For this purpose, it is necessary to take a number of priority steps - institutional reforms:

* Continuing judicial and legal reforms - protection of property rights by strengthening the independence of the judiciary and ensuring the rule of law.
* Enhancing the rule of law - improving legislation, strengthening and transparency of law enforcement mechanisms.
* Improving the business environment - increasing the effectiveness of government regulation mechanisms, improving the quality of tax and customs administration, minimizing market access restrictions and at the same time ensuring free competition.

The post-2025 period aims to build a strong competitive and inclusive economy based on the highest technological development and optimal structure of the economy, ensuring better social welfare and the highest human development index.

The document basically covers 11 sectors:

1. development of oil and gas industry (including chemical products),
2. production and processing of agricultural products,
3. production of consumer goods at small and medium enterprises,
4. heavy industry and machinery development,
5. development of specialized tourism industry,
6. logistics and trade development,
7. housing affordability,
8. development of vocational education and training,
9. development of financial services,
10. development of telecommunications and information technologies,
11. development of utility services (electricity and thermal energy, water and gas).

What will be the benefits of small and medium entrepreneurs?

Increasing the economic activity of entrepreneurs for this document, supporting private initiatives, forming a healthy competitive environment and accelerating privatization of state property are among the most important directions of economic policy. Although strategic maps for all areas are not publicly available, some of the areas are mentioned in the overall map presentation. According to the proposals made, the private sector participation in heavy industry and machinery - assets can be sold to private companies. In the logistics and trade area, it is also suggested to increase the weight of the private sector.

The main implementation of the "National Road Map and Strategic Roadmap for Major Sectors of the Economy" covers four years, 2017-2020 and 52% of the measures envisaged during the past two years. While performance rates vary across sectors, the implementation of a 50 percent exercise has been completed and 52 percent has been achieved. As you look at the performance of individual organizations, it turns out that almost all institutions have reached the target of 50 percent.

Only 20 months have been left for the full implementation of strategic road maps. During this time, the business environment and the adoption of a competitive code are among the most important issues. According to your assignment, the process of obtaining the competition code should be completed within two years. Transition to the medium-term expenditure framework, corporate governance standards should be approved, and private investment should be increased. Up to 60 percent of the financial depth, the development of agrarian insurance, and the full implementation of e-agriculture information systems across the country. Significant reforms should also be made to increase the share of small and medium entrepreneurs in the gross domestic product to 15 percent, and non-oil exports to 10 percent.

**Conclusions and suggestions**

In our study, we can conclude that after the independence of our state, our state has achieved economic growth over the oil and gas industry for a long time. Even in the first years of independence, without the existence of rich oil, there would be no such thing as the Azerbaijani Economy. The development of the oil field, investments have led to the rapid growth of our country. However, our dependence on oil continued to grow as well. The oil revenues were the basis of our oil revenues, transfers from the State Oil Fund. But these revenues will not be long-lasting, In the 2000s, reforms for the development of the non-oil sector were launched. Some examples include "State Program for Socio-Economic Development of the Regions of the Republic of Azerbaijan" (2004-2008), " the State Program on socio-economic development of the regions of the Republic of Azerbaijan in 2009-2013 ", the" State Program on socio-economic development of the regions of the Republic of Azerbaijan in 2014-2018 "and most importantly, the changes to the Tax Code of 2018. In different years Although various programs were developed, all of them had the same purpose: social and economic development, development of the non-oil sector, creating conditions for entrepreneurs' development, privileges in taxes, increasing subsidies, promoting the private sector and others. And these reforms have not been successful, in recent years, the non-oil sector has grown rapidly and surpassed the oil sector.

Based on my research, I recommend the following updates on this area:

Release of this field from VAT for the development of electronic commerce.

Reduce the difference between the transition from the simplified taxation system to the standard taxation system and reduce the overall tax burden on the standard taxation system.

Application of "variable rates" of VAT.

Elimination of double taxation of profits of legal entities and income of individuals by way of exemption from profit tax or income tax deduction.

To provide free legal advice, to conduct seminars, courses, and other activities to increase the legal knowledge of entrepreneurs.

Release of import of equipment that supplies our country with modern technology from VAT

Reduction of some tax rates is crucial.

VAT reduced from 18% to 16%;

The amount of social insurance premium deducted from the employer is reduced from 22% to 18%;

Lower the income tax rate on the first level from 14 to 10 percent.

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