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VAT and its implementation practice

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Abstract

VAT is subject to income that goes to final consumption. However, income that goes to accumulation and investment is exempt from tax, which indirectly stimulates these processes. The advantage is the fact that VAT can significantly increase the income of the state from incomes going to consumption, because it has a broader tax base than other taxes. At the same time, it to a certain extent stimulates the expansion of the production of goods going for export, since the sale of products abroad applies the minimum possible VAT rate - 0%. VAT, unlike other types of indirect taxes and taxes on turnover, allows the state to receive a portion of income at each stage of the production and distribution cycles. In this case, the final state income from this tax does not depend on the property of intermediate producers.

Key words: value-added tax, indirect taxes, economic impact, budget revenues, economic growth, tax reform, , tax administration

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INTRODUCTION

The relevance of the work lies in the fact that the value-added tax is one of the main state taxes and plays a significant role in the formation of the revenue part of the state budget and, accordingly, in the socio-economic development of our state.

The fact that different sources and transactions are subject to tax as a result of the commercial relations formed in parallel with the changing production and consumption structure due to economic development has led to the tax systems being composed of a wide range of taxes. It has the most general distinction covering all taxes, including the distinction between direct and indirect taxes, within the distinctions made to regulate the taxes under a single roof according to their common qualities.

Direct taxes are taxes that are directly targeted at real and legal persons' incomes and cannot be reflected. In this sense, taxes on income and wealth are typical examples of direct taxes.

In the case of indirect taxes that the tax can easily be reflected, the purpose is to tax the expense of the revenues obtained. In other words, the issue of taxes is the goods and services consumed. Therefore, indirect taxes are called transaction taxes. Currently, the transaction taxes are grouped under three groups:

1. Waterfall type tax,
2. Sales taxes,
3. Value added tax.

In waterfall type taxes, the sale of goods and services is cumulatively taxed at each production and distribution stage. In other words, goods and services are subject to taxation on the sale price at each hand exchange until the first production reaches the consumer. In this stage, the number of stages in this taxation system decreases or decreases the tax burden on the goods.

In sales taxes where the sale of goods and services is taxed at a single stage, the tax base is the sale price. However, the tax is taken in one step and the need to raise the tax rates with the concern of tax revenues. This is a factor that promotes the concealment and trafficking of tax incidents.

Another transaction tax is the value-added tax for the value-added taxation generated in all production and distribution stages. Therefore, the tax burden does not increase cumulatively. The fact that the tax rate can be kept low due to the tax being received at every stage and the deduction of the tax paid in the previous stage at the next stage decreases the tax evasion tendency.

For the first time in Germany, after the First World War, C. F. Siemens proposed the value-added tax to replace the multi-stage transaction tax. In 1953, in the state of Michigan in the US, a value-added tax was imposed on companies, by calculating the value added and applying the tax rate to this value, but was subsequently abolished. The value-added tax that the producers pay for the value of their productions in terms of the value of their sales was applied in Argentina in 1935 and in France in 1948.

In today's sense, the value added tax system was introduced in France in 1954, but until 1968 the retail phase was excluded. Furthermore, capital goods are not included in the tax.

Value-added tax today, besides the EEC countries Sweden, Norway, Austria, Panama, Uruguay, Ecuador, Bolivia, Honduras, Argentina, Chile, Israel, Morocco, Peru, Brazil, Colombia, Costa Rica, Côte d'Ivoire, South Korea, Madagascar, Nicaragua Has found application areas in Senegal and Mexico. The value added taxes applied in Senegal and Ivory Coast together with Algeria, Monaco and Tunisia are included in the manufacturing sector and imports.

The value-added tax is widespread in the modern world. Although VAT is a relatively new tax, it is used as the main form of indirect taxation in most countries in different parts of the world and at various stages of economic development.

In this research, the basic structure and operation of the value-added tax system and the value-added tax practices in the EEC countries and Azerbaijan have been tried to be explained without going into too much detail.

The aim of the work is to study the problems of collection and the development of ways to improve the value-added tax across the globe.

To achieve the goals, the following tasks were set:

- the study of the history of VAT;
- consideration of the main elements of the tax;
- analysis of the role of VAT in the revenue part of the state budgets;
- study of the practice of applying VAT and the level of VAT rates in foreign countries;
- consideration of the problems of charging and prospects for improving the VAT.

The object of research is the place of VAT in the revenues of the budget system of the Azerbaijan Republic and several foreign countries.

The degree of scientific elaboration of the problem. A significant contribution to the development of the theoretical foundations of taxation in general and VAT, in particular, was made by such scientists as I.A. Maiburov, S.V. Barulin, Needham A., Matthiasson B., L.I.Goncharenko, Andersson H., Franzen K., Due John F, Julia K., Cnossen S., Le Tuan Minh, M. Erdem, Helgason A.F., and others.

The practical significance of the study is to increase revenues to the budget value-added tax.

The structure and scope of the thesis. The purpose and objectives of the study determined the structure of the work, which consists of the introduction, two chapters, a conclusion, and a list of references.

In the first chapter, general information about the basic features of the indirect tax system and role of the VAT in this system is given and the economic impacts of this tax are analyzed. In the second chapter, the historical

development of the tax from the old times to the present day has been researched, the nominal and economic classification of the structure is mentioned, the concepts of exemption and exception are explained and general information is given with examples in Republic of Azerbaijan, EU, and the US.

I CHAPTER. The Role of VAT in Indirect Tax System and Its Impact on the Economy

1.1. Features of Indirect tax and the role of VAT in this system

Taxation is one of the vital and critical features in the functioning of the machine of a Nation. It frames a quintessential piece of improvement of any nation. The income that is gathered as duties is utilized for giving products and enterprises to open utility, for example, foundation, transportation, offices like downpour havens and regular regions, sanitation and all other such comforts, which are given by the legislature of the nation.

A tax can be supposed to be a non-penal, yet necessary exchange of assets from the private to the open part exacted based on a foreordained criteria. Taxes are gathered for filling the essential need of giving adequate incomes to the State and have turned into a system through which the social and economic destinations of a wellbeing state could be accomplished.

Each sum that is gathered is contributed towards giving enhanced foundation facilities to open on the loose. The equivalent is additionally used towards provincial restoration and social prosperity of the overall population. Taxation is instrumental in expelling neediness and disparity from the general public. Then again, charge change is a central gear in procedure advancement going for all-encompassing development of the general public. Consequently, the significance of a productive taxation system and changes in duty framework cannot be undermined.

There are two sorts of taxes exacted: Direct tax, which is required straightforwardly on income, profession, and so on, of an individual and where the tax rate cannot be passed on to some other individual. Indirect tax, then again, is not paid on the immediate salary of a distinctive individual, however, is demanded by implication on a definitive customer of products and ventures for utilization of merchandise and enterprises. Subsequently, the previous is

required on the salary while last is exacted on the products and services. In indirect taxes, the prompt burden is on one individual and the extreme burden is on some other individual i.e., the individual who at last expends.

One of the most established inquiries in the hypothesis and routine with regards to tax assessment is that of the proper blend of direct and indirect taxes. The decision among direct and indirect taxes has added to a since quite a while ago energized discussion, in political and theoretical circles, with respect to the ethics and imperfections of those two types of taxation.

At the point when the principal VAT systems were executed during the 1950s, nobody would have imagined that indirect taxes would one day become a standout amongst the most imperative wellsprings of income structure any nations around the globe. For quite a while, direct taxes, especially corporate income taxes, were the principal decision for financing the regularly developing public budget. This view changed quickly when — toward the start of the financial crisis in 2008 — corporate income tax revenues all of a sudden ran dry in numerous nations. Indirect taxes went to the fore to cover budget deficits, and VAT/GST rates moved to already unheard of statures, particularly in Europe. Today, consumption taxes (counting VAT/GST, deals charges, and other general duties on goods and services) represent approximately 33% of the all tax revenue for part nations in the Organisation for Economic Co-operation and Development (OECD).

An indirect tax is gathered by one unit in the supply chain (more often than not a manufacturer or retailer) and paid to the government, however, it is passed on to the consumer as a component of the price tag of a product or service. The consumer is eventually paying the tax by repaying more for the goods or products.

Indirect taxes are characterized by standing out them from direct taxes. Indirect taxes can be characterized as tax collection on an individual or enterprises, which is at last paid for by someone else. The body that gathers the tax will at that point transmit it to the government authority. In any case,

on account of direct taxes, the individual promptly settling the tax is the individual that the government is trying to assess.

Import obligations, fuel, alcohol and cigarette taxes are altogether viewed as instances of indirect taxes. Conversely, income tax is the clearest case of a direct tax, since the individual gaining the salary is the one quickly settling the government obligation. Admission fees to a national park is another reasonable case of direct tax collection.

Various indirect taxes are likewise alluded to as consumption taxes, for example, a value-added tax (VAT).

The existing literature on, the value-added tax is phenomenal in its institutional substance however is practical without hypothetical investigation. This is somewhat astounding since the idea of value-added tax is not new-fangled- - it was first exceptional in 1921 by T.S. Adams. However, a careful hypothetical examination of a tax regularly pursues its inconvenience; it is as of late that the value-added tax has been put into impact.

Before diving into hypothetical issues, it would maybe be insightful to offer a short depiction of the history and advancement of the idea of value-added taxation. The first enthusiasm for value-added taxation sprung from the craving for a general sales tax which would keep away from the “cascade” highlight of a general turnover tax. Under the last mentioned, the measure of tax borne by a specific final good relies on the quantity of middle of the road phases of production which go before it. Since final goods contrast in how much they are vertically incorporated, the turnover tax would make a bending in the example of relative products costs. This impact would be counterbalanced to some degree since there would be an inclination for firms to vertically coordinate. Since certain industries are vertically incorporated more effectively than others, this power could not completely counterbalance the underlying mutilation in relative products costs. A value-added tax, on the other hand, is free of the level of vertical integration inside an industry. Each firm is taxed just on that segment of its final good which is far beyond what it

has acquired from other value-added tax paying units. Subsequently, final goods will be saddled proportionately to their selling cost; there will result in no contortion of relative products costs.

The value-added tax is one of the most important and at the same time the most difficult to understand, calculate and control. In spite of this, it is successfully used in most countries with market economies and ensures revenues from 12% to 30% of the tax revenues of states. In particular, 20 of the 24 countries of the Organization for Economic Cooperation and Development apply VAT as the main consumption tax. In addition, VAT is levied on other developing countries.

The distribution of VAT in the 1970s – 1980s can be considered one of the most important achievements of world theory and practice of taxation. The history of the development of taxes knows no other examples when the tax would be so quickly transferred from the theoretical structure to the practical field while occupying a dominant position among consumption taxes in most countries of the world.

The VAT is a relatively young tax. It began to be used only in the 20th century. Initially, in Germany, economist V. von Siemens proposed to introduce a “refined turnover tax”, but at that time his idea was not perceived properly. In 1954, M. Lore has developed a specific scheme of taxation with this tax, after which the tax was introduced in France in 1958.

VAT became widespread in 1957 in Rome thanks to the signing of the treaty establishing the European Economic Community, according to which the countries that signed this treaty were to harmonize their tax systems in order to create a common market. In 1967, the second directive of the Council of the EEC declared VAT the main indirect tax of Europe, ordering all members of the Community to introduce this tax into their tax systems. In the same 1967, the value-added tax was applied in Denmark, and in 1968 it appeared in the Federal Republic of Germany. The sixth directive of the Council of the EEC finally established the basis of the modern European system of VAT taxation,

which contributed to the unification of the collection of this tax in Europe. The latest changes to the VAT taxation mechanism were made in 1991.

Value added tax is directly related to the value added, so it is useful to explain the value added.

“From a microeconomic point of view, the difference between a firm's sales price and the cost of buying a business can be defined as the value that a firm adds to that item or service.” [7, p.13]

In macroeconomic terms, the added value is the additional value created by the elements of production (labor, capital, enterprise). In other words, it is the sum of the shares (production, wages, rent, interest, and profit) that production takes from production. Since indirect taxes paid on purchases with depreciation values are not added to value added, the added value calculated at macro level raises net value added with factor prices [7, p.15].

If factor depreciation is added to net value added, the added value will be added to the market value at the market price.

Although there are six different methods in calculating the added value, only three of them are preferred in the application.

These methods are as follows:

- Methods of addition and subtraction,
- Tax methods, including tax and tax-free,
- Indirect and direct methods,

The subject of Tax: In the value-added tax, the subject of the tax varies according to the types and qualifications of taxation transactions, but in most countries applying this tax, these transactions are grouped into three main groups.

1. Delivery of goods,
2. Service performance,
3. All kinds of imports,

In principle, goods and services produced in all sectors are subject to tax. Besides, since the goods and services produced and imported abroad are also

included in the scope of the tax, the value-added tax becomes a general quality and in practice, it is neutral between import and domestic production.

The Event that Causes Tax: In any stage of the production-consumption chain, the tax-generating event occurs when the taxable transaction, such as the delivery of goods or the fulfillment of the service, takes place. Furthermore, the event which gives rise to tax in domestic and import can be defined as the moment when the tax office starts. Therefore, the delivery of the goods and the performance of the service comes up in the event of tax. In the case of importation, if the taxable transaction is included in the customs tax, the event that gives rise to the tax occurs at the moment when the obligation of payment of tax is started, if not, the actual importation is made.

Taxpayers: Taxpayers of value added tax are those who make transactions that are subject to tax. The fact that the person is real or legal does not affect the tax burden.

Tax base: The sum of the values that economic units add to the inputs they receive from the other economic units at every stage of the production-consumption period as a result of their activities constitutes the basis of the added value.

In practice, the tax base, the price of goods delivered, the fee received in the services for services, the import price is bonded import.

Taxes, duties, fees, commissions, packaging, insurance and transportation expenses are included in the domestic transactions and imports except for the value-added tax.

Tax Rate and Rate Differentiation

Due to technical reasons and socio-economic purposes, as well as various transaction taxes, different rates have been determined by rate differentiation instead of a single ratio.

Advantages of Value Added Tax:

a) Value added tax is a positive tax type in terms of net tax revenue due to its wide scope [29, p.69].

- b) Value added tax encourages investments and exports. Investments are deducted from taxes by deducting the taxes owed to the purchase and exportation by the full exemption [24, p.56].
- c) Due to the wide scope, value added tax which can be applied with low rate minimizes tax evasion.
- d) The tax burden is spread among the various sectors, stages, and persons in the value of production. This situation is positive in terms of fair distribution of tax burden [28, p.123].
- e) Value added tax does not affect the flow of goods and services and the distribution of resources in any way [17, p.45].
- f) Theoretically, the value added tax allows for the importation of customs and special consumption taxes at the time of importation and the application of all indirect taxes on the basis of the exit country.
- g) Since the tax is taken in every hand change, the less it changes from production to consumption, the less tax is paid and the cost decreases. This is an important economic factor that helps prevent unnecessary exchanges and intermediaries.
- h) As the value-added tax increases with the increasing value of the goods, it monitors the national income increases much better than the other indirect taxes and brings structural flexibility to the tax system [28, p.176].
- i) Value-added tax is a neutral tax in some respects. With this tax, the industrial structure and the distribution of economic resources do not deviate significantly from the optimal equilibrium point. Because the tax ultimately remains on the consumers, not on the units of production [17, p.43].
- j) Value-added tax, such as other taxes targeting consumption, encourages savings and prevents inflationary pressures. It is even considered as a new means of war with price increases.
- k) Value-added tax prevents unfair competition among sectors, prepares the environment for balanced industrialization, does not create tax-free sectors.

l) In order to benefit from the tax deduction, the connection of the value added tax to the document enables the establishment of an auto control mechanism in tax.

m) Value added tax is a more general and effective tool as a means of reducing consumption compared to selective taxes. With this aspect, the value-added tax is an automatic stabilizer [25,p.236].

n) Value added tax is the most appropriate tax in terms of international economic integration and development of international trade.

o) The contribution may also help to provide more regular and reliable figures on tax, economic development, and policy.

Disadvantages of Value Added Tax:

a) Value added tax shows a mixed quality especially for small firms whose accounting has not been developed [17, p.41].

b) In a country where a single-stage tax is added to the value added tax, taxpayers increase several times, which raises the costs of the tax administration.

c) In cases where there is an exception in the value-added tax and differentiating tax rates in various articles, it is more difficult than other sales taxes. Excessions can disrupt the functioning of the system [28, p.114].

d) The fact that the services are subject to some taxes other than the value added tax disrupts the generality of the tax. If the goods sold to the service companies are included in the tax, deviations in the price structure occur and the tax is added to the costs.

e) Value added tax leads to an increase in the prices of export goods and, consequently, to the limitation of sales opportunities [23, p.4].

1.2. Effect of VAT on the Economy

Macroeconomic Effects. It is possible to summarize the macroeconomic effects of decreasing the deficit by add-on value-added tax as follows. The shortage is lessened by about two percent of GDP over each of the

possibilities, which entails that the debt to GDP ratio is approximately cut in 50% over the subsequent 20-year period. The deficit-decreasing impacts are amplified after some time with the decay of the size of the debt with respect to GDP and the related decrease in government interest compensations. Private sparing that was some time ago used to help government spending through the procurement of government bonds is presently used to fund private investment. Therefore, investment surges, as the exemplary "crowding out" impact of government debt is turned around.

These impacts are fortified by a few variables. To begin with, interest rates in the long run decay on the grounds that the demand for the government for debt is diminished, which thus decreases the cost of capital. Second, utilization is debilitated with respect to saving. This example is likewise fortified in the short run to the degree that old proprietors of capital, who have a generally high penchant to devour in their retirement years, endure unforeseen losses because of the execution of the VAT, as the genuine estimation of their capital resources decay because of VAT-induced increments in prices of consuming.

In the meantime, government expenditure that was once in the past funded with debt is presently funded with the consumption-based add-on value-added tax, which is thought to be moved forward to purchasers through higher buyer prices. Accordingly, private utilization falls. Besides, by expanding consumer prices, the VAT additionally diminishes genuine wages, which causes falling of labor supply.

Whether and if these negative consequences for consumption and supply of labor are in the end counterbalanced over a long time depends on the power of the speculation impact under the value-added tax choices. On the off chance that investment, the capital stock, and GDP increment by enough predominantly because of the VAT, consumption could increment. Correspondingly, nominal wages could increment by enough because of

capital collection and the similar increments in labor profitability that labor supply could likewise go up. In any case, the TPA model did not demonstrate this would result inside the numerous decades over which the Tax Policy Advise model was run.

The essential impact of the add-on value-added tax is to expand private saving and investment to the detriment of private consumption. This occurs with the substitution of government incomes from a consumption-based tax for assets that were raised with a deficiency account. In the wake of falling at first, GDP would be required to increment from the expansion in speculation - and the subsequent increment in profitability - because of the lower financing costs related to the lower shortfall.

Another important effect of the VATs is their effect on the mix of consumption. Because all of the VAT options, whether broad- or narrow-based, are partial in nature, consumption subject to the VAT falls, while consumption excepted from the VAT base rises. The results presented below to distinguish between several types of consumption – retail spending, services, and housing – to highlight the importance of these differential effects.

Another essential impact of the VATs is their influence on the blend of consumption. Since the majority of the VAT alternatives, regardless of whether broad-based or narrow-based, are incomplete in nature, consumption subject to the value-added tax falls, while consumption excepted from the VAT base ascends. The outcomes displayed recognize a few sorts of consumption – retail spending, administrations, and lodging – to feature the significance of these disparity impacts.

Economic growth is one of the basic concepts in macroeconomics since it is they who determine the economic development of the country, the improvement or deterioration of its macroeconomic state.

In general, in scientific literature, economic growth refers to economic growth, interpreted both narrowly and broadly. In the narrow sense, economic growth is an increase in the volume (cost) of goods and services produced in the national economy, calculated for a certain period of time (most often for a year)[25,p.102]. However, this is a fairly narrow idea of economic growth, only its quantitative side. At the same time, J. Schumpeter also interpreted economic growth as quantitative changes associated with an increase in the production and consumption of similar goods and services over time [27,p.403]. However, they also considered the concept of “economic development”, by which Schumpeter understood positive qualitative changes, innovations in the means of production, products, and services, in management and other spheres of human economic activity. This extended interpretation by Schumpeter was understood as “economic development”. And nowadays the concept of economic growth is widely discussed in scientific journals and periodicals. So, B.D. Bayeva and S.P. Dubrovsky argue that one can imagine economic growth in a broad sense, specifying that this is a unity of economic and social. Under the "economic" refers to the social product (where you can take the GDP, for example - a quantitative indicator), and the "social" they refer to social welfare [21, p.45].

Indirect tax actually shifts its payment to the buyer, other UST taxes, insurance premiums, property taxes, taxes on the use of resources (including MET) taxes on total income, income taxes, income excise taxes, VAT on goods imported on the territory. The VAT on the sale of goods and services despite the fact that the seller is nominally a payer. The final consumer, when paying the seller, pays the amount of excise and VAT. However, a decrease or increase in indirect tax rates does not at all entail an indispensable increase in prices for goods and services. If these rates are raised, the seller's expenses will certainly increase (actual expenses as payment to the budget of the difference between the accrued and reimbursable tax in the case of VAT or the entire excise tax),

since a larger part of the additional product is withdrawn from the budget (Fig. 3).

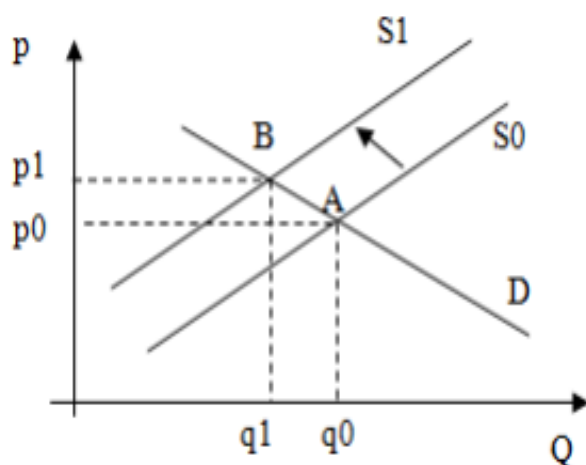


Fig.3 - Shift of the curve of the equilibrium point with an increase in the rate of indirect tax [23, p.5].

With the growth of the share of value added in favor of the state, supply line S_0 moves to S_1 , which also shifts equilibrium point A , where equilibrium consumption q_0 is already set at equilibrium price p_0 to the position indicated by point B excise, volume - q_1 (lower than q_0). As a result, the seller for the goods sold receives the same amount in monetary terms, but the difference between p_1 and p_0 does not come to him, it must be paid to the state, withdrawn from circulation. , a, c Therefore, it reduces the possibility of expanded reproduction for it, that is, it limits economic growth.

But such an assertion is true for goods with elastic demand when there is competition in the market. With a low elasticity of demand and monopolization of the market with an increase in the price of such goods, with an increase in the indirect tax rate, the volume of demand will most likely remain at the same level (for example, utilities, electricity and other expenses, which are difficult to reduce) same increase. But, in effect, thereby increasing the expenditure on the consumption of such goods and services, the consumer will save on other goods and services, reducing their consumption due to

limited own incomes. The demand for goods and services with greater elasticity will decrease, and the growth of indirect tax rates in relation to them will further reduce the incomes of sellers. That is, a substantial and unreasonable increase in indirect taxes will lead to a decrease in demand, a rise in prices for a number of goods and services, and a negative impact on the economic growth of the country.

That is why in modern scientific literature questions are raised about the level of indirect tax rates, and their share in the country's GDP, comparing the dynamics of real GDP and the share of indirect taxes in it. Incomes of the low-income population are more susceptible to the impact of VAT and excise taxes through expenses, while in the high-income part they are less affected. Why, for example, with increasing VAT regressivity, the distribution function of this tax can be called problematic, and even negated, as described by F.G. Khadianidi [25, p.210].

Encouraging investments: One of the prerequisites for industrialization is to encourage investments through taxation.

The value added tax shall be deducted from the tax deduction mechanism allocated on the cost of investment goods and the sales prices of the goods that are paid at the time of purchase. This will be useful in the development of capital intensive industries. The withdrawal of taxes paid due to investments and overheads will lead to the accumulation of funds in the hands of the industrialists, and the industrialists will have significant resources as the investment and working capital. As a result, it will be possible to accelerate investments and industrialization.

In terms of industry: The tax burden on the industry is of great importance. The tax burden in VAT is distributed among various sectors and levels. The rates in VAT are lower than other taxes (e.g. construction tax). Since the tax will be distributed according to the added value created in the business line,

the production sector will face a lower tax burden than the old one, and this will contribute greatly to the development of the production sector. Industrialists will be able to allocate their free capital to investment as a result of the reduction of the tax burden. On the other hand, industrialists who produce by using taxable materials do not use this situation to link their capital to highly taxed items.

In terms of export: In the application of Value Added Tax, no tax is imposed on export. In addition, the tax burden on export goods is completely removed as the exporter will be refunded the VAT paid during the purchase. Thus export goods; In the rate of opportunities to remove the tax burden and with the VAT application and a self-functioning tax mechanism, it will have more competitive power in international trade.

Inflation: The restraining effect of Value Added Tax on consumption expenditures eases inflationary pressure. In addition, price increases can largely restrain.

In terms of prices: As the rates of VAT can be adjusted and tax deduction is possible, many goods with low VAT may have price decreases.

In terms of application: In terms of production stages, VAT provides impartiality. Because, in terms of taxation, there is no differentiation between an enterprises' direct production of secondary production works and the exploitation of another specialized enterprise. In this way, it prevents the vertical integration of enterprises and there is no incentive for taxation in this area. In this case, it will be more beneficial for the business to deal with the main work and to benefit from others for the auxiliary work.

In terms of the distribution of resources: As the Value Added Tax is reflected in the same ratio, it is an objective and a tax that ensures the equality of competition between the enterprises.

Financial Effects. Tax smuggling is effective in two ways.

1-Dividing of the base: In the production of VAT, the tax base is divided between various enterprises in the production and distribution processes. Therefore, each agent feels less burden of tax on the establishment and the tendency of smuggling decreases.

2-Possibility of auto control: Buyers may deduct the VAT that they have paid for their inputs, based on their sales, provided that they are included in the purchase documents. Therefore, the buyers control the sellers in order to benefit from the tax deduction and demand that the taxes they have paid take place in the invoices of the goods they receive.

Effect on tax revenue: In the application of VAT, tax revenue will increase when the increase in value added is increased. Thus, VAT revenue will gain flexibility.

Effect on tax justice: In principle, VAT covers the value added of goods, more than the high value-added goods, less tax than the goods with low added value are taken. Thus, everyone is taxed to the purchasing power and therefore VAT among the expense taxes is a fairer tax.

The harmonization of taxation with other countries: In order to harmonize taxes, countries prefer to eliminate their problems in these areas by focusing more on tax agreements. The VAT system, which has a widespread implementation in the world and where many countries are preparing for the transition, is a system that will contribute positively to our international economic and commercial relations for our country.

II CHAPTER. VAT Practice in the Azerbaijan and Foreign Countries(EU,US),and Current Challenges in Its Implementation Process

2.1 Role of VAT in tax systems of Azerbaijan

The process of establishing the institutional and legal infrastructure of the modern tax system in Azerbaijan started in 1991 with the acquisition of independence. In the first period of 1991-1992, the legal infrastructure on income and expense taxes was completed and entered into force. In December 1991, Laws about “Value Added Tax” and “Excise Tax” were adopted and Corporate Tax and Income Tax were adopted in June 1992, and the process of creating tax administration had been started since 1992. [35,p.2]

In Azerbaijan, the value-added tax rate is an assessment charged to buyers dependent on the price tag of specific products and services. The benchmark I use for the Value-added tax rate alludes to the most elevated rate. Revenues from the Value-added Tax Rate are a critical wellspring of income for the state budget of Azerbaijan.

Persons who are registered as VAT payers and must be registered are subject to VAT. In the Republic of Azerbaijan, importers of goods subject to VAT shall be deemed to be taxpayers of VAT on imported goods and services [36, p.1].At the same time, the common goods delivery and service performance made without creating a legal entity according to the Tax Council is also considered as the person who is the taxpayer of the VAT. In addition, the persons who produce the goods and those who are involved in the construction work are considered to be taxpayers of the VAT.

Taxable persons[1,p.114].Any individual who is listed or is responsible to register as a VAT payer is considered as a taxable person.

Taxpayers are compulsory to register for the value-added tax if:

- their accumulative taxable income goes above AZN 200,000 for a sequential 12-month period, or

- the worth of one taxable operation overdoes AZN 200,000.

Disbursements to a non-resident individual, who is not listed as a value-added taxpayer, for e-commerce services and works are subject to value-added tax.

If an individual, who is non-registered for tax objectives, pay to a non-resident aimed at these services (apart from the hotel and air ticket agreement services), the local bank implementing the payment ought to disburse the value-added tax from resources of the purchaser. Such compensated value-added tax is not considered as credible.

Taxable amount. The taxable amount is founded by commencing with the price of the products and services exclusive of totaling the value-added tax volume, nevertheless involving any customs duty as well as excise duty, if relevant.

The value of taxable importations is composed of the worth of the products settled in harmony with the customs legislation and taxes and duties (output value-added tax) to be compensated upon import to Azerbaijan.

The quantity of value-added tax to be paid is the alteration among the amount of value-added tax collected on taxable purchases of products and services (productivity VAT) and value-added tax paid on the consumption of products and services essential to create taxable supplies of products and services (input value-added tax).

The Cabinet of Ministers can admit exclusions for the import of products and equipage utilized for production intentions or to provide progressive technological know-how. These exemptions are accorded for a definite time period and in a definite field, and can only be granted if it is not possible to fulfill the particular necessities from local sources.

Exemptions and Exceptions in Value Added Tax[1, p.118]. Apart from the export of goods, the following types of goods presentation, business activities,

and services are displayed, but also the following types of imports are not subject to VAT:

- The value of the property purchased in the state department on the way to privatization, also the portion of the rent paid from the rental of public goods to be paid to the budget;
- Providing financial support;
- National and foreign currency (other than numismatic objectives), as well as the sending or import of valuable papers;
- The gold for the placement of the Central Bank of the Republic of Azerbaijan and the State Oil Fund of the Republic of Azerbaijan as well as imports of the Central Bank of the Republic of Azerbaijan's foreign exchange wealth, foreign currency coins, anniversary coins and other valuables of the Republic of Azerbaijan;
- To put any ownership in the form of a share in the regulation of the enterprise (except for the imported goods) (if the investment of the assets in the form of shares is not related to the acquisition of the other property directly in return);
- State dominance at the level of the limited amounts, wages, permits, fees paid by the local government and other competent bodies, the rights received by the private notaries (according to the notary acts and the services shown for the notary acts) and their services in exchange for their retention;
- All kinds of circulation in the purchase of media products, regulation, publishing and printing activities related to the production of press media products (excluding advertising services);
- Regulation, publishing, and printing works related to the production of children's books and textbook sets for general educational institutions;

- Burial and ceremonial services of the cemetery;
- Importation of goods, work, and service related to the duties of the Central Bank of the Republic of Azerbaijan in accordance with the legislation;
- The fulfillment of the duties of the Central Bank of the Republic of Azerbaijan and the State Oil Fund of the Republic of Azerbaijan envisaged by the legislation, the procedures for importing, operating and providing goods;
- Road transport services by metro;
- provision of paid education services (excluding services related to other activities);
- the value of assets determined in articles 106.1.9-106.1.11 of the Tax Code and the procedures to be presented in any form;
- Importing of technical, technological equipment and facilities on the basis of the approval of the relevant management bodies by the board of directors of the industrial or technological parks or with the purpose of conducting the construction and construction of the production parks and production and construction of the infrastructure of the industry or technologies established according to the decision of the relevant management body;
- Construction of production areas in the park of industry and technologies established according to the decision of the relevant management body, conducting scientific research and development, and legal entities which are residents of industrial or technological parks for the purpose of production and importing on the basis of a certificate of approval of the relevant governing body by real persons performing commercial activity without creating a legal person the importation of the vehicles, technological equipment and facilities - for 7 years from the registration date in the industrial and technology park of the resident;

-Presentation of shares or shares of the legal person.

If the relevant institutions are not able to pay the production needs to the domestic raw material account provided for the concrete period and to provide the development of the concrete area, it can exempt the production of raw materials and modern technology equipment from VAT.

Tax with Zero (0) Rate

-The official use of diplomatic and consular representations of international organizations and foreign countries accredited in the Republic of Azerbaijan, as well as the goods and services provided for the personal use of these members' family members, including their diplomatic and administrative-technical personnel, who are not citizens of Azerbaijan;

- Import of goods in grant account received from abroad on the basis of the grant contract (decision);

- export of goods and services as specified in article 168.1.5 of the Tax Code of Azerbaijan;

- International and transit services apart from international postal services. To see the works connected directly with international and transit flights, service;

- The sending of gold and other valuables to the Central Bank of the Republic of Azerbaijan;

- With the zero (0) degree within the scope of Article 165.1.1 of the Tax Code, the VAT shall apply to those countries, according to the specified jobs, services and transactions with VAT zero (0) degree application should be applied. [1, p.121]

VAT deposit accounts. Every value-added taxpayers are compulsory to dispatch VAT amounts via labeled bank accounts named VAT deposit accounts. Only value-added tax payments completed through such accounts

might be creditable averse to output value-added tax. Afterward, this VAT is requested by the payer.

Electronic VAT invoices. Each VAT payers are obligatory to matter electronic value-added tax invoices. The common format and data to be covered in electronic VAT invoices, such as the processes for their subject, amendment, and annulment are predetermined in the Rules on Electronic Value-added Tax Invoices [36,p.2].

Declarations and payments. Declarations have to be filed and value-added tax should be dispatched once-a-month by the 20th of the next month. Output value-added tax is normally accepted on both accrual and cash bases, however, input value-added tax is usually acknowledged on a cash basis. The VAT on imported goods is compensated independently at the fact of customs clearance.

Electronic Delivery Notes. Commencing from 1 January 2017 an electronic delivery note is described as an initial accounting document organized in electronic form and dispensed by a person supplying goods, providing services or performing works to individual entrepreneurs and legal entities. The common structure and data to be covered in electronic delivery notes, such as the procedures for their subject, amendment, and annulment are predetermined in the Rules on Electronic Delivery Notes [36, p.2].

2.2 Role of vat in tax systems of foreign countries(EU,USA)

In foreign countries, taxes are an important component in the income of the country's budget, so the main task of foreign governments is to find such a variant of the tax system, which achieves the optimal value of tax collection.

Consider the application of VAT in the three main leading countries of Europe: Germany, France, UK.

Germany. The scheme for calculating VAT used in German tax practice is simple and undoubtedly available to every taxpayer. The VAT is charged in a uniform form and is designed so that all goods and services at the same tax rate, falling to the final consumer, are burdened with the same amount. The tax rate corresponds to the tax rate applicable to the product or service. At the same time, it does not matter how many steps of economic development a product passes on its way to a consumer - tax cumulation (tax collection) is fundamentally excluded, since the practice of preliminary tax deduction is applied [8, p.15]. A preliminary deduction gives the entrepreneur the right to reduce his VAT by the amount of VAT that is billed to him by other entrepreneurs for their taxable turnovers. As a preliminary tax, an entrepreneur can deduct VAT on goods purchased within the EU, as well as from imported goods, paid by the entrepreneur to the customs board when importing goods from non-EU countries.

In Germany, the share of VAT in budget revenues is about 30% yielding income tax. The total tax rate today is 19%. At the same time, basic food products, as well as book-journal products, are taxed at a reduced rate of 7%. This rate does not apply to the turnover of cafes and restaurants.

It should be noted that the VAT rate tends to increase. Previously, the basic rate was 14%. Then it was increased to 15, further to 19%.

The VAT in Germany has its own characteristics. For example, entrepreneurs whose turnover for the previous calendar year does not exceed 20 thousand euros, and in the current year does not exceed 100 thousand euros, may be exempted from paying value-added tax. But at the same time, the entrepreneur loses the right to refund the amount of tax in the invoices issued to him. This entrepreneur is a payer of income tax, not VAT. He has the right to waive his

exemption from VAT and to make tax calculations on a general basis. If an entrepreneur receives an income not exceeding 60 thousand euros in a calendar year, he is entitled to regressive taxation and contributes about 80% of the estimated VAT amount to the budget.

Farming and forestry enterprises in Germany are exempt from VAT. Also, as well as the goods going for export [8, p.11]. Germany has a policy of encouraging small business and encouraging the start of the business process. However, these same entrepreneurs are deprived of the right to deduct the pretax taxes they were charged on. Also, they themselves are not allowed to invoice with a reflected tax. Because of such a refusal of pre-tax deduction, this situation may have both positive and negative consequences for small entrepreneurs. Therefore, the law gives them the right to choose: either use the opportunity to exercise their right to non-payment of VAT, or refuse such a decision and choose the way of taxation according to the general rules.

France. The VAT in France is one of the main consumption taxes that go to the country's budget. This tax is levied on goods and services produced and used in the country.

VAT payment is determined by the nature of the transaction and does not take into account the financial condition of the taxpayer. The tax rate is the same regardless of the price of the goods to which it applies. The object of taxation in France is the sale price of a product or service. In addition to the retail price, it includes all fees and duties, excluding VAT [16, p.5]. The total amount of tax deducted from the total amount is paid to suppliers of raw materials and semi-finished products. When selling goods, the company fully reimburses all its costs of paying VAT and adds a tax on the newly created value in the company. This part of the VAT included in the sales price is transferred to the budget. The entire burden of the tax falls not on the enterprise, but on the final consumer of the product.

Unlike most Western countries, where the leading place in budget revenues is paid to personal income tax, in France, as in Russia today, the leading element of the budget system is VAT. Its share in budget revenues exceeds 40%. Transactions related to the external market are exempt from VAT. Persons who have committed transactions relating to export and who have paid VAT may use the right to compensation.

VAT payment is determined by the nature of the transaction and does not take into account the financial condition of the taxpayer. The object of taxation is the sale price of the product or service. In addition to the retail price, this includes all fees and duties, excluding VAT. The amount of tax paid to suppliers of raw materials and semi-finished products is deducted from the total amount. When selling goods, the company fully reimburses all its costs of paying VAT and adds a tax on the newly created value in the company. This part of the VAT included in the sales price is transferred to the budget. The entire burden of the tax falls not on the enterprise, but on the final consumer of the product.

There are four VAT rates in France.

The standard rate of value added tax in France is 20%. The increased rate goes up to 33.3% and applies to alcohol, tobacco, cars and other luxury items (for example, furs). Reduced rates of 10, 5.5 and 2.1% are valid for books, essential goods, and certain prescription drugs.

There are significant benefits for VAT. First of all, small business is privileged. Tax legislation establishes that enterprises can be exempted from paying VAT if their turnover for the previous fiscal year did not exceed 70 thousand euros. At the same time, they use the VAT exemption regime from the beginning of the year following the reporting year.

In addition, VAT is exempt from:

- activities of public institutions aimed at the implementation of administrative, social, cultural and sports

functions;

- medicine and education;

- the activities of people of certain liberal professions; private teachers, private practitioners, people engaged in spiritual creativity.

There are activities where the VAT exemption is possible. More precisely, the taxpayer is given a choice: pay VAT or income tax [13, p.73]. This includes the rental of premises for economic activities; financial and banking; literary, artistic, sports activities; municipal economy.

The value-added tax is supplemented by a number of indirect duties (or excise taxes), which also represent consumption taxes. Some of them are levied in favor of the state, others are transferred to the budgets of local governments.

Great Britain. UK VAT applies to most goods and services that enterprises implement/provide in the country, or to a number of goods and services imported from non-EU countries, or to goods and services received from EU countries [18, p.320]

The following VAT rates apply:

20% - standard rate;

5% - reduced;

0% is zero.

Some goods are exempt from paying this type of tax or are outside the VAT system.

The reduced VAT rate applies to children's car seats, sanitary hygiene products, and is also used for household fuel and energy and for the

installation of energy-saving materials in low-income households according to the state program.

The zero VAT rate is used when selling books and newspapers, children's shoes and clothes, paying for public transport, selling food outside restaurants and delivering to your home.

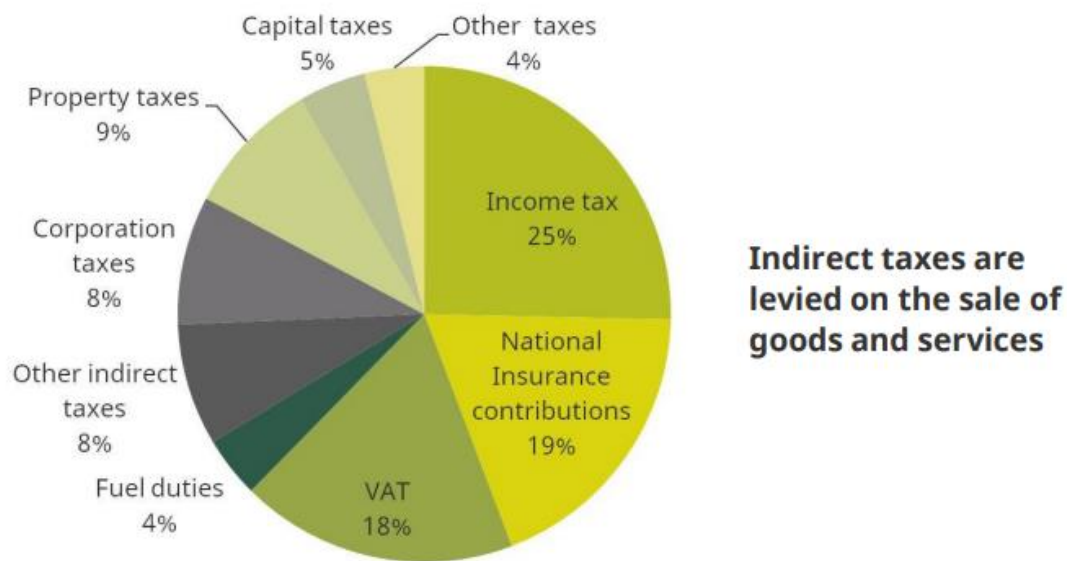
The zero VAT rate is as follows:

A product is sold or a service is provided with a 0% VAT rate. This product/service is considered as taxable VAT, but VAT is not added to the value of the product/service.

Insurance, loan, education and training services, fundraising for charity, membership fees, dentists and doctors are exempt from VAT in accordance with UK law. Lease and sale of commercial buildings and land are also exempt from VAT [16, p.44]. However, the company may refuse exemption and use the standard VAT rate to recover input tax in the absence of other options. Outside the VAT system, there are fees established by the laws of the country and known as “obligatory payments”, non-production activities classified as a hobby.

Exemption from VAT applies to the donation of certain property rights to land, insurance and financial services, gambling and betting, educational services, certain sports, cultural services, and social and medical services [13, p.39].

UK tax revenue



Source: Figure 2 in Miller and Roantree (2017).

Reasons for the Selection of Value Added Tax as Common Consumption Tax. Value Added Tax is included in the group of spread treatment taxes, on the basis of collective treatment taxes and spread treatment taxes.

In the first years of the establishment of the European Community, it was initially thought that the treatment taxes would hamper member states trade. An efficient single market in the European Union has required a tax system that supports tax neutrality and permits a neutral and transparent, capital transfer allowing for a reduction in the actual price of tax during export.

In a system where collective treatment taxes are applied, there are some disadvantages such as taxation of only one ring of the production distribution chain and the fact that only one of the production (factory), wholesale or retail sales stages of this ring is taxed, causing tax evasion by showing the tax base.

In terms of the spreading taxes, the taxpayers of the production chain shall be subject to the taxation of the tax, in this system, the tax will be generated at any stage of the taxation process, so the tax will be transferred to the next stage and thus the goods will be transferred from the producer to the consumer's hands. It will cause an excessive tax burden such as taxing every stage.

Since the tax is repeated at each stage in the taxation tax, these taxes damage the rationality of production. It leads to the merger of production companies (manufacturer, manufacturer, wholesaler, retailer prefer to merge instead of giving tax at every stage). A tax accumulation arises because taxation is carried out at every stage. This is called the accumulation of the tax, the pyramidion of the tax or the snowball effect.

On the other hand, VAT does not lead to tax and profit pyramidization, and it is positively characterized by a conflict of interest between the sellers and buyers in the production-consumption chain, resulting in the benefit of treasury. In the VAT application, taxes are levied on the value added to the product at each stage of the production-distribution process. Alternatively, taxes paid for operating inputs are deducted from the tax payable and double taxation is prevented. The VAT is a tax on this value that is earned at each stage. VAT does not lead to tax pyramidion, as is the case with distributed treatment taxes. It does not cause the merger of manufacturers. VAT prevents competition inequalities that may arise from indirect taxes applied in an integrated market. In this system, taxes are taken for importation. The ratio of imported, trowel applied is the same rate for both imported product and domestic product of the same type.

Article 93 of the Treaty of Rome (formerly 99), whose main objective is to establish a common market free of unfair competition within the framework of economic unity, aims to harmonize legislation on excise duty, value added tax

and other indirect taxes necessary for the establishment and functioning of the internal market. Therefore, in order to prevent unfair competition as well as the customs duties harmonized in the first phase of the European Community, the treatment taxes (value added taxes) were also harmonized. The main purpose of treatment taxes is the indirect taxation of the total consumption within a country.

However, the fact that the value added tax base in the European Union is taken as a basis for the financing of the Union budget on the foundation of the countries brings some problems when the budget is related to the distribution of income. In this system, as each country participates in the financing of the budget of the Union in proportion to its own value-added tax base, the countries with high consumption / national income rates have a higher rate of income than the unity countries. As a result of the inconvenience among the countries of the union, a ceiling on the said equity has been determined and it is stipulated that the value-added tax base to be paid by the member states cannot exceed 55% of the GNP of the Member State which makes the payment.

Key Features of Value Added Tax in the European Union. One of the most important types of indirect taxes, value-added tax in member countries; It cannot be said that the differences between ratio and exception are fully harmonized today. The EU, which includes many countries, appears to be a viable VAT acquis despite the problems in the VAT system. In the EU VAT system; If the tax is taken over the value added, there is a tax deduction system, the principle of the arrival applies. These basic features are;

Tax is taken over value added; The added value is the value that an enterprise acquires (the first or the intermediate goods) as a result of its activity. Value added tax is a type of tax that is possible to be received at each economic stage through the sales value (through the taxation of value added generated at each

stage of production and distribution). For this reason, the value added tax has the quality of being a distributed treatment tax that is taken from the sale of goods and services at every stage from production to consumption. The European Union VAT system is, as a rule, applicable for all goods and services. Only goods and services permitted by the legislation regulating VAT specifically may be exempt from the tax base. Unless there is a specific correction to the exemption or the exclusion, the goods, and services offered in the market may, in principle, be subject to VAT.

The taxes previously paid are decreased by tax deduction; The basic element of the VAT system constitutes a preliminary tax deduction (Directive 6, Article 18, 20). This event prevents the formation of tax pyramids. With this application, VAT paid in purchases is deducted from VAT collected in sales. The difference is paid by the tax return to the tax office. This method, which is called "tax deduction", is explained in Article 2 (2) of the VAT Directive. "In each transaction, the amount of the goods and services subject to that transaction shall be determined by applying the rate applicable to that goods or services, and the amount remaining after deducting the tax paid on the cost elements of that goods or services shall determine the tax payable for that transaction."

Value added tax paid for investment goods is allowed to be deducted and consumption-type VAT model has been adopted by allowing the full amount of VAT paid for investment goods in EU application. The VAT is a consumption tax, so that, finally, the burden of the VAT remains on the consumer, not the company dealing with the production or distribution of goods or services. Companies are exempted from the burden of the VAT via the right to discount, which enables them to pass the tax burden on the consumer. Thanks to the right to discount, the VAT system ensures that the goods remain in the end-user of the final consumer or service, even though the tax burden is technically collected by the companies.

Since the introduction of VAT in the movements of the member countries, the taxation authority has been given to the country where the goods are consumed. The Directive of 16 December 1991 on this issue has planned a fundamental change. According to this directive, although the "current regime" is a "transitional regime", it has been stated that this regime will be implemented by the end of 1996 and since the beginning of 1997 it will be passed to the "definite regime". In the current system, both the destination policy and the departure policy are applied. In this system, VAT is not paid due to the principle of one departure within the purchases made by non-taxpayers and a good or service from any country in the union. Within the borders of the EU where there are no borders, people pay the VAT calculated by applying the VAT rates of the country in which they are purchased in the purchase of goods and services, regardless of the country they are citizens in their retail purchases; In the absence of limited controls, consumers pay tax at the rate of the country of origin at the purchase of goods and services. According to the "destination" principle, taxation is carried out by the importing country in the cross-border deliveries between taxpayers.

The main principle in the movement of goods and services for commercial purposes is the principle of taxation in the country of destination. As of 1 January 1993, the Directive of 16 December 1991 provided important facilities for the implementation of the principle of "taxation in the country of destination". Until the beginning of 1993, the goods exported to the border were subjected to control. These formalities took a long time, were exhausting and caused a loss of money. For each shipment, the cost to be paid at the customs was around 70 EURO. The same formalities were to be repeated every time the goods were delivered. With the new application, which was put into effect as of the beginning of 1993, customs were abolished so that the application of filling many documents used in customs until that date was terminated. With the new application, goods loaded goods are waiting at

customs, where tax payments are not in question. The buyer accrues his / her tax return by sending the VAT declaration related to the goods in question together with the invoice and loading slip to the tax office. In the country of export, these goods are exported as 0 rate VAT. This shows a part of the seller declaration. In addition, exporters are obliged to submit detailed information about their sales to the member countries and declare their customers' VAT numbers every three months. Each company operating in the EU has been given a VAT number. A code added to these numbers indicates the country of operation. In the case of imports from third countries, VAT is paid upon receipt of payment and continued to be paid.

Member countries and third countries In the movement of goods and services, the classic practice of goods movements between EU countries continues until 1993. The VAT paid to the taxpayer who is exporting out of the EU is refunded after the customs transactions. In the case of importing goods from any third country, VAT is collected in parallel with the customs import transactions. A limited amount of passenger exemption is available for travel from third countries to the EU. The amount of this exemption is 75 Euro. The VAT is required for passenger baggage over this amount. Duty-free shopping opportunities removed during EU journeys continue to exist on the journey from the EU to third countries. Passengers who make purchases at airports or ports when departing from the EU can benefit from this facility. Persons who do not reside within the Community are paid VAT at the time of purchase if they buy goods from the country and take them to third countries outside the airport or port. The paid VAT is then returned by removal of the goods from EU borders. In such a case, how the VAT will be returned is described in Directive 13 of 17.11.1986. Refunds will be given if the application is made by the taxpayers. The Member States shall specify the time required for the applications to be covered, including the time allowed for the application, the

competent authority for receiving the application and the minimum amount for which the applications can be made.

Basic Directives Forming the European Union VAT Regime. While there are many directives issued to regulate the EU VAT regime, the main VAT directives governing the EU zone VAT system are; the first, second, sixth value-added tax directives and the VAT directive dated 12 December 1991 and the directives 2006/112.

In the light of the recommendations of the European Commission's Neumark Report, the first and second VAT directives were published on April 11, 1967, after a long period of negotiations as a result of the proposed proposal to issue a Directive on VAT implementation in the Member States in 1962. Article 1 of Council Directive 67/227 / EEC of Directive 67/227 on a common VAT system states that, from 1 January 1970, member states will be subject to VAT instead of revenue tax. According to the Directive, member states will not be taxing exports but although they are stated to subject the imports to tax, member states are given the freedom to determine the structure and rates of VAT. Article 2 of Directive 1 states that the taxation process must continue until the retail phase. After that, it is foreseen that the states which will become a member after 1973 will be included in the VAT system.

The main purpose of this directive is the elimination of taxation that does not comply with the competition conditions at national or community level in the short term, and the reduction of taxes on imports and the elimination of taxes on exports in the long term. Another aim is to ensure that the European Union budget is financed by the Union's own resources.

The second directive gave the member countries considerable flexibility in setting common rules. Article 15 on tax rates and Article 15 on taxation of small-scale enterprises and Article 15 on taxation of the agricultural sector.

With the implementation of the second directive, it has been issued with the purpose of narrowing the flexibility granted to member countries on issues such as taxation, exceptions, preparing the possibility of establishing a new equity facility to the Community, harmonizing the VAT base, removing tax limits and regulating the VAT to meet the Single Market requirements. By Article 37 of Directive 6, the second directive was repealed; it was stated that the new regulations should be put into effect by the member countries by 1 January 1978 at the latest.

By the sixth directive; Many basic principles of the system of Value Added Tax, such as taxation, tax base, tax rate, tax deduction, tax exemption, concrete and broad definitions of service performance, are determined. Again, subject to VAT should be made within the boundaries of the country and taxed by the people, even if the import is made by private individuals, entrepreneurs or public institutions, even if the tax will be subject to the event, electricity, gas, heating, cooling and so on, counting the goods and their value added the first provisions are also regulated by the 6th Directive. With the sixth directive, there has been a further alignment on the tax base and taxpayers. It can be said that this directive clarifies the issues related to VAT transactions and who are the taxpayers. With the directive dated 16 December 1991, the 6th directive was amended. With the new regulations, the tax limits (customs controls) were abolished and the obligation of many forms of regulation was terminated and the bureaucratic procedures were mitigated.

The 2006/112 / EC directive, which brings together all the previously issued VAT directives, is the most important document of the EU VAT legislation, in which the VAT legislation is brought into a single piece and in accordance with the strategy revised in particular in 2000, the community activity in the short term is comprehensively focused on “simplification” modernization, more equal implementation and administrative cooperation. In this context, the VAT directives published until this date are combined with this directive to

simplify the dispersed VAT acquis. The directive 2006/112 / EC consists of 414 articles and has established almost a common VAT law.

VAT Rates in the European Union. If national indirect tax rates differ significantly in an area where consumers are freely engaged in cross-border trade, it is impossible to avoid trade aberrations and tax competition. In order to ensure the conditions of healthy competition in the common market, it was necessary to harmonize the different VAT rates applied in the member countries. In this respect, the harmonization of VAT rates has been part of the aim of designing a VAT system that is applied throughout the European Union as applied in a single country. One of the most important objectives of this system is the establishment of the principle of taxation in the first and second VAT directives of April 1967, where the import is not taxed and the export is taxed. In the current VAT rates, all goods and services are defined individually and no tax rates are determined. However, it is possible to say that this is the target to be realized in the long term. Because one of the main objectives of the agreement establishing the EU is to ensure the free circulation of goods and services among the member countries. This can be accomplished by reaching the most efficient production of unity in the economic sense to achieve this goal. The fact that input costs differ from natural causes (tax, etc.) will damage the ideal internal market operation. The fact that VAT rates carry different tax burden among member countries will also affect the flow of trade between countries. This will be an obstacle to the free circulation of goods and services. The issue of VAT rates is regulated in Article 12 of the 6th Directive. In this article, important amendments have been made with the directives of 19 October 1992, 20 December 1996 and 28 November 2006 [16, p.11].

In both Cockfield (1987) and Scrivener (1989) reports, it is proposed that the Community VAT consists of a two-rate structure, one lowered and the other normal. In accordance with these recommendations, Article 12 of the 6th Directive is based on a two-rate structure with the amendment of the directive

dated 19 October 1992.¹⁰³ The current regime, which is shaped by these directives, remains a temporary regime, meaning that the application with definite limits in this area has not yet been launched. In the application of temporary regime; Starting from 1 January 1993, the rate of non-member countries, which are not less than 15%, to be applied by 31 December 1996, shall not be lower than 5%; the rates below (3%, 0%) are permitted. Some member states have been allowed to apply "zero rates", "lowest rate" and "temporary ratio", deviating from general provisions. In the common VAT system, a fixed VAT rate to be applied to goods and services is not determined.

As can be seen from the table below, there is a 4-rate structure in the EU, which is super-reduced, reduced rate, standard rate and approximation rate. While the basic practice in the European Union is a two-rate structure, which is a normal and a reduced rate, applications such as the super-reduced rate and the approximation rate remain outside these applications. The standard rate refers to the general rate in the application of the value-added tax. Reduced rate; refers to the ratio below the overall rate (standard rate). The superimposed ratio is used to indicate much lower rates of exemption, which are applied at an even lower rate. Finally, the approximation rate is the system that expresses the rate that allows member states to apply a ratio below the normal rate to some goods and services.

List of VAT rates applied in the Member States (in %) [8, p.99]

Member States	Code	Super-reduced Rate	Reduced Rate	Standard Rate	Parking Rate
Belgium	BE	-	6 / 12	21	12
Bulgaria	BG	-	9	20	-
Czech Republic	CZ	-	10 / 15	21	-
Denmark	DK	-	-	25	-
Germany	DE	-	7	19	-
Estonia	EE	-	9	20	-
Ireland	IE	4.8	9 / 13.5	23	13.5
Greece	EL	-	6 / 13	24	-
Spain	ES	4	10	21	-
France	FR	2.1	5.5 / 10	20	-
Croatia	HR	-	5 / 13	25	-
Italy	IT	4	5 / 10	22	-
Cyprus	CY	-	5 / 9	19	-
Latvia	LV	-	12	21	-
Lithuania	LT	-	5 / 9	21	-
Luxembourg	LU	3	8	17	14
Hungary	HU	-	5 / 18	27	-
Malta	MT	-	5 / 7	18	-
Netherlands	NL	-	6	21	-
Austria	AT	-	10 / 13	20	13
Poland	PL	-	5 / 8	23	-
Portugal	PT	-	6 / 13	23	13
Romania	RO	-	5 / 9	19	-
Slovenia	SI	-	9.5	22	-
Slovakia	SK	-	10	20	-
Finland	FI	-	10 / 14	24	-
Sweden	SE	-	6 / 12	25	-
United Kingdom	UK	-	5	20	-

N.B.: Exemptions with a refund of tax paid at preceding stages (zero rates) are not included above.

Standard rate (general rate); In Article 3 / a of Article 12 of the Sixth Directive, the standard ratio is envisaged to be at least 15% until 1.1.1999. In the same paragraph, it was foreseen that a decision was taken on 1 January 1999, but no change was made in the ratio. With the Directive of 19 January 2001, it was decided to keep the minimum rate of 15% until 31 December 2005, but it was extended from the beginning of 2006 until the end of 2010. Finally, with the 2010/110 / EU directive dated November 7, 2010, the standard ratio is expected to be at least 15% from 01.01.2011 to 31.12.2015.

The standard rate application covers goods and service deliveries other than those listed below. As with the reduced rate, the member countries have the

opportunity to exceed 15%. However, although this possibility is available, it is observed that 25% and 30% of the applications have been increasingly used.

Reduced rate; they are used in tax systems for economic and social purposes and sometimes as tax incentives to be used as incentives. For example, the standard rate of VAT in Azerbaijan (general rate) is 18%. Thus, all are characterized by VAT rates below the general rate of 18% as a reduced rate of VAT in Azerbaijan.

Usually, member countries can apply one or two deducted rates. The reduced rates cannot be less than 5% and these rates are applied to goods delivery and service performances specified in the Say Annex III 112 list of directive 2006/112 / EU. In other words, member countries will not be able to determine a reduced VAT rate for each commodity and service, but will only apply reduced rates for goods and services listed in List III. The application of low rates on these issues is not a necessity but left to the request of the member countries.

The given goods and services allowed for the reduced rate in the II list attached to the Directive; food, water, health, transportation, education (culture, housing), hotel and accommodation, rest, sports, cleanings, such as social-cultural and basic food items. The possibility of applying low rates on these issues can be explained by the social purpose of the tax. Apart from the general system described above, there are some exceptions to the rules. The most important of these is that the natural gas and electricity deliveries can be applied to the discounted rate provided that they have two conditions. The first one is to report to the commission, and the second one is that they do not have a competitive quality. Apart from these, there are only a few exceptional practices determined by the countries in order to avoid the framework we have given general rules. However, the privileges given in this kind are also created within the framework of the provisional and determined conditions. These

exceptional provisions set out for the Member States do not affect the general rules, but rather allow the Council to grant different implementation for a temporary period of time when the countries entering the community have difficulty in adapting. Another application that will be said about the discount rate application is a temporary provision that allows member countries not to use the goods and services listed in the Annex III list of the directive 2006/112 / EU and to allow a reduced rate application. A provisional permit is granted for persons other than goods and services not included in Annex III of Directive 2006/112 / EU on condition that they apply at least 12%.

Super-reduced rates are also considered as lower rates than the standard rate, although they are a reduced rate. In France, for example, the reduced rate is 5.5 and 7, while the super-reduced rate is 2.1. super downloaded rate and the goods and services to which this rate applies are listed with country example. Super-reduced rate is not applied outside a few countries. The super reduced rate is only available in Spain, France, Ireland, Italy, and Luxemburg. Among the 27 EU members, the scope of the super-reduced rate applied by 5 member countries is limited. As is understood, the super-reduced rates in the EU range between 2% and 4,8%. Super reduced rates are seen in countries as 2.1% in France, in Luxemburg 3%, in Ireland 3.8%, in Spain and in Italy 4%. On the other hand, it is understood that the goods and services included in the super-reduced rate are very limited. Periodicals such as basic foodstuffs, newspaper books, journals, and social housing deliveries are the common areas of application where super-reduced rates are applied. Although the EU has the lowest super-reduced rate of 2.1% in France, the goods and services group subject to the super-reduced rate in France; drug, television license fees, periodicals such as newspapers and magazines.

Zoom ratio; The adduction rate, except for the two basic structures envisaged, is a temporary implementation and is temporary flexibility for the implementation of the normal rate for national states. With the adduction rate,

member states are given the opportunity to apply a rate below the normal rate to certain goods and services. When the goods and service groups in which the adduction rate is applied are examined; While these goods and service groups should be subjected to the normal rate, it is seen that the countries consist of goods and service groups where a rate below the normal VAT rate is applied according to their cultural, social and even economic policies. In some EU member countries, adduction rates (parking rate) are applied as follows;

In **Belgium**, areas with a 12% approximation rate are as follows;

1. In energy production,

- Solid fuels from coal and coal,
- lignite and agglomerate lignite (except for jets),
- Petroleum coal used for fuel.

2. Some tires and tubes.

13.5% approximation rates in **Ireland**;

1. Energies used for warming and enlightenment

2. In movable goods and in immovable goods for construction and maintenance purposes

3. Routine cleaning services of immovable property

4. Maintenance and repair of movable goods

5. Services for human health

6. Specific tourist services

7. Photography-related services

8. Jockey services

9. Studies on antiques and art
10. Short term rentals (less than 5 weeks),
11. Driving schools

Areas with a 12% approximation rate in **Luxembourg**,

1. Wines
2. Solid fuels, mineral oils, and firewood used for fuel
3. Washing and cleaning products
4. Advertising, commercial and similar catalogs published, tourism publications
5. Fulfillment of liberal professions
6. Travel agencies and tour operator
7. Advertising works
8. Tailors sewing men's clothes
9. Performing ventilation, heat and steam adjustments
10. Security services
11. Guaranteed loans by a person or organization and administrative management credits, other than those granting other credit approval

12% approximation rates in **Austria**;

1. Farmers' wines produced by individual farmers.

In some EU member states, a “0” tax rate is applied. Zero rate VAT application in the final delivery stage tax exceptions, which have been entered into the property in the previous stages are returned.

In EU member countries, zero rate applied areas are as follows;

In **Belgium:** A zero rate is applied to support daily and weekly general information newspapers and to support the need for specific, remanufactured materials and by-products.

In **Denmark:** For newspapers sold more than one publication per month [8, p.7],

In **Ireland:** The book supports the need for brochures (newspaper, catalog, periodicals, daily publications) to support the food and beverage consumption needs of the human (except for certain products (eg alcoholic beverages, manufactured beverages, ice cream and candies), In order to support the need for trees, plants and seeds that meet the need for seeds, not less than 10 kg, for the consumption of animal products and for oral medications (except for pets), wheelchairs, crutches, orthopedic devices and other parts of the body. medical devices required for artificial parts (except prosthetic teeth),

In **Italy:** to support the need for raw gold (gold bullion etc.)

In **Cyprus:** food and beverages required for the consumption needs of people (excluding food, alcoholic beverages, manufactured beverages, ice cream, chocolate, candies, biscuits, etc.),

In **Malta:** Consumption needs of human and animals (except for beverages and pet food, which require long and special processing processes such as ice-cream, chocolate, beverages or special consumption tax), Seed supply, Water supply, distillation and mineral waters, pharmaceutical services, drugs only prescribed, people with disability services (those who need help to hear, dental prosthesis, etc.),

In **Poland:** Books and periodicals,

In **Finland**: Newspapers and periodicals sold at least once a month by subscribing;

In **Sweden**: sale of medicines with prescriptions in hospitals and in the country,

In **the UK**: Books, newspapers, periodicals, music newspapers, maps etc., except human and animal foods (ice cream, chocolate, long and special processing processes, beverages or pet food), supply of seeds, water supply, distillation and mineral waters, pharmaceutical services, drugs prescribed only with prescription, assistance to people with disabilities (those who need help to hear, dentures, etc.), children's clothes and shoes, constructions made for the purpose of sitting, motorcycle and motor helmets, industrial helmets and boats, caravans and floating houses, passenger transport outside the UK, sewer cleaning, magnetic tape and tape device, and some goods and services for the blind are applied at 0%.

Despite its popularity, the value added tax is not present in all countries. For example, VAT does not apply in the United States and the United Arab Emirates.

USA - is the country with the most developed tax system. The United States is oriented toward a liberal economic model and is a federal state [15, p.12]. The US tax system, like Russia, includes three levels: federal, state, and local, which consists of municipalities, counties, and school districts.

Taxes constitute the largest share of the expenditures of the working population of the United States. If you add up federal, state, and all small taxes, then on average you get about 28% of the total income. Pensioners, students, the unemployed, and people employed in low-paid jobs pay less ²⁰. Americans who own a business or have multiple sources of income, use the services of professional accountants to legally reduce taxable amounts.

In the US, more than 90% in the federal budget are direct taxes, while indirect taxes account for only 5%. However, this in no way means that indirect taxes in this country are insignificant. The fact is that state taxes are based on indirect taxes. In this case, the main role is played by the universal excise tax in the form of a sales tax, which is set at a certain percentage of the price of the goods.

A considerable part of the quality of life of an American is a sales tax. This is a tax levied by each state separately on each commodity sold in its territory [15, p.146]. For example, a pack of chips may cost \$ 2.00 in advertising on TV, and in stores of different states, the price of these chips may be different: from \$ 2.04 (Alaska) to \$ 2.40 (Chicago). This means that going to a grocery store in different states you spend different amounts of money, which can not but affect the quality of life.

Since VAT is a modification of the turnover tax that historically preceded it, in order to understand the pattern of transition from one tax to another, it is necessary to conduct a comparative analysis of them.

The most common difference in taxes under consideration is that the turnover and value-added taxes are multi-stage, i.e. charged at each stage of the movement of goods from the manufacturer to the final consumer, whereas the sales tax is one-step.

As for the turnover tax, as a result of taxing the entire gross turnover, it generates a cascading (cumulative) effect — the calculation of the turnover tax, containing the value added not only at this stage but at previous stages, which was already taxed.

The magnitude of the cumulative effect depends on:

- on the value added of enterprises in the initial stages of production (the larger it is, the greater will be the cumulative effect);

- on the number of stages in the chain “production - final consumption” (the more stages the product passes from the producer to the final consumer, the greater will be the cumulative effect);
- on the degree of elasticity of demand and supply at a price that determines the ability of producers to transfer the tax burden to consumers.

In addition to the cumulative effect, the result of the tax on turnover is the uneven distribution of the tax burden among enterprises. The smallest tax burden on turnover tax is borne by enterprises that are in the initial stages of production, i.e. enterprises producing raw materials, fuel, generating electricity [6,p.123]. The greatest burden is enterprises of the manufacturing industry, trade, etc.

The turnover tax also creates incentives for the vertical concentration of production, since in the case of a merger of technologically related enterprises there is no need to pay tax at different stages of the movement of goods within the merger. The amount of tax paid when selling the products of the association to enterprises that are not part of it is also reduced. This is due to a decrease in the cumulative effect, the magnitude of which, as already noted, depends on the number of stages at which the tax is charged.

Thus, the main disadvantages of turnover tax compared to VAT are:

- the cumulative effect, causing the tax burden on the final consumer to depend on the number of stages of movement of the goods;
- the uneven distribution of the tax burden, distorting the conditions of competition;
- the absence of a mechanism for the reimbursement of tax paid at the price of the acquired material resources used in the production of products intended for export. But even if to provide for the exemption of this product from tax, its

price will still contain the tax paid at the previous stages, which reduces the competitiveness of national exports.

The only advantage of the turnover tax is the simplicity of taxation and administration, while VAT is characterized by a complex mechanism for determining tax liabilities and administration.

Unlike sales tax, the sales tax is one-step. It can be kept at different stages of production and distribution and, accordingly, can acquire various forms - sales tax of producers, wholesale sales tax (wholesale trade tax), retail sales tax (retail tax) [20, p.21]. Of all types of sales tax, the one that causes the least distortion is considered to be a retail tax, since other types of sales tax do not exclude the possibility of a cumulative effect; create incentives for transferring economic activity to distribution stages that are not taxable; discourage the integration of production, wholesale and retail functions. For this reason, it makes sense to compare VAT only with a retail tax.

The advantages of sales tax in comparison with multi-stage VAT and VAT are that enterprises engaged in production and wholesale trade do not bear any tax burden, which contributes to their development. In addition, sales tax is easy to administer.

2.3. Current challenges in modern VAT systems

Value Added Tax (VAT), being one of the most important economic instruments for regulating market relations, has a significant impact on the solution of government tasks to ensure a balanced budget and create guarantees for the development of the institution of entrepreneurship. At the same time, the current legislation in Azerbaijan leaves the possibility of using numerous methods of unfair compensation, which is negatively reflected in protecting the interests of the treasury [2, p.98].

In the modern Azerbaijan tax system, VAT is one of the most complex and problematic taxes. According to the most optimistic estimates, in Azerbaijan, no more than 75% of the VAT owed to the budget is collected, which negatively affects the financial support for solving social and economic problems facing the state. In recent years, the problem of loss of budget funds has become especially acute due to the large volumes of VAT refunds on domestic operations and on deliveries for export.

The main sectors (spheres of economic activity) in which attempts were made to commit fraudulent activities in connection with VAT reimbursements are most often the following: geology, drilling operations; commercial activities related to the rental of real estate; shipping; repair work; wood processing industry; the sale of oil and its products; publishing and printing; the provision of mediation services in the field of trade; wholesale purchase of goods on the domestic market of the Republic of Azerbaijan and its implementation under foreign economic contracts; activities in the field of accounting [3, p.6].

This crime is characterized by constant “updating” of fraudulent VAT reimbursement schemes using sophisticated conspiracy measures. The development and organization of the fraudulent VAT reimbursement schemes are carried out by highly qualified tax consultants who have thoroughly studied the tax and criminal legislation, the use of which allows the organizers and executors to ensure receipt of funds from the budget and not be held accountable. The variety of types of criminal schemes suggests that without a clear understanding of the basic schemes it is impossible to stop this type of fraud in the initial stages of its commission. The most common fraud schemes are as follows:

1. Schemes to commit fraud with VAT reimbursement on export, based on the application of the 0% rate.

1.1 Export, in which goods intended for export are not actually exported from the territory of the Republic of Azerbaijan, but sold on the domestic market for cash; at the same time, a package of fictitious financial documents is created for an alleged export transaction. In most cases, this fraud scheme provides for the creation of one-day firms that are specifically registered for the sole purpose of receiving a tax deduction; fictitious founders, fake seals, mass registration addresses are opened during the dispute resolution process.

1.2 Removal of goods from the territory of the Republic of Azerbaijan, accompanied by inaccurate declaration. This scheme of fraudulent VAT reimbursements provides for the actual delivery of goods within the framework of the concluded export transaction, when the cargo crosses the border of the customs union, but exported goods are declared either at multiple overpriced prices or with significant overestimation of volumes for a number of counterparties and their value increases an average of 10 times as the amount to be reimbursed. All other actions of criminals are similar to the first scheme. It should be noted that at present the scheme for winding up the cost of goods for export through a chain of suppliers is considered unsafe and easily opened.

More complicated are the VAT reimbursement schemes implemented as a result of export operations related to the movement of goods across the customs border of the Republic of Azerbaijan, accompanied by other deceptive actions, such as a substitute goods, when another is exported under the guise of a certain goods, as well as goods are exported, while similar documents for compensation are submitted to different tax authorities with distorted data by two and sometimes three different legal entities, not affiliates among themselves. These schemes include:

2. Schemes of illegal VAT compensations on transactions concluded on the domestic market in relation to certain goods and services.

2.1. Artificially overstating the taxpayer's expenses when purchasing goods, works, and services (the so-called cost scheme) by:

-falsification of documents reflecting the purchase from a formally legitimate organization under control of goods, works or services that actually do not exist (non-standard scheme);

-falsification of tax and accounting records for work performed in-house or provided services allegedly performed by a false subcontractor, which is controlled by a formally legitimate organization (subcontract scheme).

2.2. Artificially overstating the taxpayer's costs by giving a documentary justification to false business transactions when the taxpayer sells goods. For example, by creating the appearance of an entrepreneurial trade and procurement activity, accompanied by a reflection of the fictitious value of products, which allows deriving the difference between "input" and "output" VAT on transactions of companies participating in the scheme ("circular scheme"). Often, one of the essential conditions of such contracts is a deferment of payment, which does not allow tax authority officials at the time of the off-site tax inspection of the declaration with the claimed right to tax reimbursement to check the actual cash flow to the organization's account. To mislead the tax authorities regarding the reality of business transactions, attackers submit to the tax inspectorate 3-6 months before the theft is committed, tax returns with small amounts of tax payable. Thus, fraudsters exclude one of the main signs of an unscrupulous taxpayer - the provision of "zero" declarations in the process of economic activity.

2.3. Conclusion of a lease agreement by an organization (enterprise, institution) with itself. An organization that has turned to taxation under UAT, acting at the same time both as a legal entity and as a participant in a simple partnership, rents the object to itself. As a lessor, an organization (enterprise,

institution) takes to deduct VAT on acquired works and materials, and as a tenant, it reimburses VAT paid on rent.

2.4. Using the scheme "agreement commission". The missing goods according to the documents are repeatedly resold between the chain of intermediaries, after which its remnants are allegedly transferred to the sale to the commissioner, the exact data of which is not known, and VAT is charged on the cost of the goods "purchased" by the last buyer. Payment for the goods is not made at the same time due to the condition of a significant deferred payment stipulated in all contracts.

2.5. Scheme of illegal VAT reimbursements on advances paid to suppliers. When applying the scheme of illegal VAT reimbursements on advances paid to suppliers, the funds are transferred from the account of one organization through a chain of counterparties, including being one-day firms, as a partial payment towards future deliveries of goods (works, services), while the actual movement of goods (performance of work, provision of services) is not carried out. The supplier organization, which serves as the final link in this scheme, is a one-day firm, does not calculate and pay VAT to the budget when receiving funds as an advance. The result of applying this scheme is illegal VAT reimbursements and cash withdrawals by transferring from the one-day company (one-day companies of the next link) to the accounts of foreign organizations and/or to plastic cards of individuals.

2.6. Scheme of illegal VAT reimbursement with the accumulation of goods in stock. The scheme of illegal VAT reimbursements in case of accumulation of goods in a warehouse consists in the creation by organizations of fictitious document circulation in the absence of real movement of goods (acquisition, transportation of goods, transfer of it for safekeeping). An organization acting as a buyer declares a VAT deduction on purchased goods and, through fictitious workflow, creates the appearance of further sales. In this case, a

fictitious implementation of only a small part of the previously purchased goods is carried out.

3. Fraud schemes for VAT reimbursements using a declarative procedure and filing a clarifying declaration.

3.1. Submission of updated tax returns. During the period of the desk audit, fraudsters submit to the tax authority a revised declaration for the same tax period, but with a small amount to be reimbursed or with zero reimbursements. In this regard, the verification of the previously filed declaration in accordance with the law is terminated [4,p.125]. Subsequently, an unscrupulous taxpayer turns to the tax authority (or court) demanding reimbursement of VAT in the original amount, explaining his position that they did not submit a revised declaration and did not own the signature in the organization's head. stamp of the organization. In this case, the arbitral tribunal may consider this circumstance not interfering with the exercise of the right to compensation.

3.2. Recurring VAT reimbursements on transactions for which the deduction has already been granted. Application of fraud when applying for a VAT reimbursement: the application is submitted by an unidentified person; indicates a non-existent current account or account of another organization; forged identity documents of the applicant, etc.

Analysis of investigative and judicial practice suggests that the majority of one-day firms used to implement criminal intent are controlled by third parties providing illegal cash withdrawal services, and only in rare cases are they created by the management of a taxpayer-fraudster. When formally legitimate structures are used in the calculations of taxpayer dependent on taxpayers, the issue with the evidence on the consistency of criminal actions is relatively easier to solve, which in other situations seems rather difficult.

Persons intending to steal money from the state budget, as a rule, register an organization for citizens from dysfunctional families who are registered with drug treatment or who do not have a permanent residence. Next, the attackers open a bank account in a credit institution with the Bank-Client remote user connection. Then they enter into contracts with front companies, often located in other regions, for the supply of material values, using the power of attorney on behalf of the “head” of the organization. Opposition to tax authorities forces fraudsters to migrate to other regions: hundreds of cases of re-registration of enterprises belonging to the so-called risk zone have been recorded.

MTIC/ Carousel fraud. On the other hand, VAT issues are particularly significant in Europe and have produced an enormous number of investigations, reports, and discussions. The European Union Member States are deprived of billions of euros in Value-added tax incomes consistently on account of extortion and insufficient system of tax collection. This misfortune is regularly alluded to as the “gap in Value-added tax”, which can be characterized as the contrast between anticipated VAT incomes and VAT really gathered. The 'gap' along these lines distinguished incorporates assessments of income misfortunes because of tax fraudulence and evasion, yet in addition because of liquidations, money related bankruptcies and erroneous conclusions. Be that as it may, the vast majority of the gap emerges from Value-added tax extortion.

MTIC fraud happens when a provider founded in Member State 1, the purported conduit organization, supplies products (value-added tax excluded) to a second organization situated in Member State 2, the alleged missing broker. The missing trader benefits from the value-added tax excused intra-Community supply of products and exchanges similar goods in the household market of Member State 2, at exceptionally competitive costs. This missing

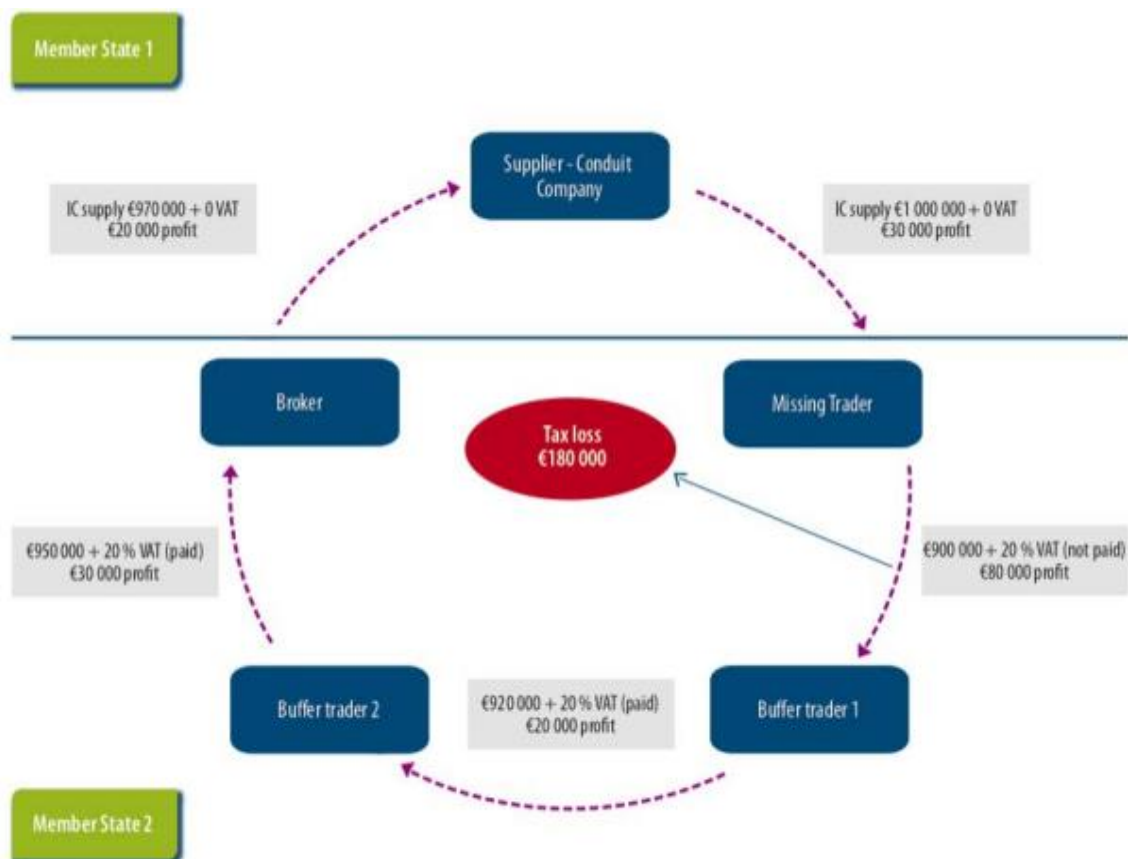
dealer is typically a 'phony' individual, i.e., for example, another organization with no genuine seat or genuine activity [6, p.14].

The concern here is twofold:

⇒ *Firstly*, despite the missing trader charges Value-added tax to its purchaser, it next does not dispatch that to the tax authorities [12, p.36].

⇒ *Secondly*, the customer is permitted to subtract the input value-added tax compensated to the missing trader.

The scheme may also be applied with in excess of two Member States, utilizing the same Value-added tax regulations and gains, and can be utilized repetitively. The products may also return to a company in Member State 1 (to finalize the circle) and can be recurrent (the alleged 'carousel fraud').



Source: European Court of Auditors, based on an example by the Financial Action Task Force

A 'never-ending circle' is the most remarkable characteristic of carousel fraud since it evades VAT disbursements and because of the revenue considerably growths at every round.

Against this sort of fraudulence, the Value-added tax Information Exchange System (VIES) and Intrastat reports that are intended to give value-based data to the European Commission and the tax administrations are frequently futile, just in light of the fact that the data is not effectively acquired and additionally useable or on the grounds that when information is gotten and useable, the fraudsters have just vanished.

Ten years ago, carousel fraud schemes, for the most part, included high esteem goods that were frequently minor in size, for example, cell phones, PC chips, microchips, hi-fi gear, new and utilized vehicles, and valuable metals. In any case, recently, carousel schemes have likewise included immaterial items, for example, carbon credits, gas and electricity, and environmentally friendly power vitality authentications.¹⁴ As reported by Europol, Value-added tax fraud on carbon discharge trading caused an expected EUR 5 billion misfortune somewhere in the range of 2009 and 2010. This new sample can be disclosed by the facility to exchange such impalpable items at a fast dimension, and by the trouble in following such transactions. Due to that absence of traceability, MTIC/ carousel fraud may likewise include less expensive products, for instance, fundamental nourishment items (oils, sugar, coffee and so forth.) that are immediately expended in huge sums and are thusly incredibly hard to trace.

Moreover, measurements demonstrate that the fraudsters are inclined to be 'opportunistic' and pursue the improvement of the economy and the dynamic increase of demand for specific supplies. This implies it would be an oversight to concentrate solely on products when looking to handle MTIC fraud.[19, p.10]

What is the scope of the fraudulence?

Just Belgium and the United Kingdom freely convey figures on the degree of MTIC/carousel fraud in their nations. In 2012, the Belgian Court of Auditors measured MTIC at 94 million euro for 2009, EUR 29 million for 2010, and EUR 28 million for 2011. the UK evaluated intra-Community value-added tax extortion at British pound sterling 0.5 to 1 billion between 2013 and 2014. This amount was affirmed in 2015-2016.[18, p.45]

At the European Union level, the ECA and Europol assessed that MTIC/carousel frauding could represent EUR 40 to 60 billion of yearly value-added tax income misfortunes and that 2 % of sorted out wrongdoing gatherings could be behind 80 % of the fraudulence. Some creators thought that this figure may even be an underrating of the genuine figure.

At the point when executed by sorted out wrongdoing gatherings, the swindle is regularly used to back illicit actions, for example, human dealing, terrorism, etc. For example, in 2015, 'Italian examinations uncovered an association between 1 billion EUR value-added tax fraudulence on carbon credits and the funding of terror in Pakistan'.

Carousel fraud /MTIC likewise misshapes rivalry and legitimately influences agreeable organizations, essentially on the grounds that impostors are trading products or services beneath market cost. Genuine dealers may, in the end, be enticed to likewise submit extortion by not announcing sales so as to hold on in the market (another kind of misrepresentation, of little significance, however one that ought not to be ignored in light of the fact that it menaces the steadiness of our tax system).

Conclusion

Based on the research and analysis, the following conclusions can be drawn:

The value-added tax is applied in more than 40 countries of the world as the main indirect consumption tax. It is charged at each stage of production and circulation of goods with the newly created value. As a result, the entire required amount of value-added tax is included in the price of the goods that the final consumer buys. In Western European countries, for certain types of activities, the right to choose is offered: to pay value-added tax or income tax. These are financial and banking, rental of premises, municipal economy, artistic and sports activities. Enterprises that invest in the development of knowledge-intensive industries, as well as in less developed regions of the country, have privileges on value-added tax.

Tax holders are not businesses, but consumers. At the same time, enterprises act as a kind of tax collectors, which is extremely effective for the state. Tax collection is carried out by way of partial payments. At each stage of the production and circulation of goods, the company compensates for its costs and adds a tax on the newly created value in the enterprise.

But the feature of the value-added tax is not only that it is one of the largest sources of state budget revenues, but it also differs from other revenue sources of the budget in its warranty and regularity of revenues. The value of the value-added tax is also great in regulating the revenues of regional budgets. Its share as a whole in local budgets is more than 12%.

In the work in the course of the analysis, it was found that the value-added tax is one of the key taxes in the modern tax system of most countries of the world. This tax provides steady revenues to the state budget and does not cause significant distortions in the production and consumption of goods and services.

The value-added tax has a broader tax base since they are taxed not only on retail sales but also on all non-production purchases of enterprises in which

enterprises act as final consumers, including works performed by the enterprise itself for its own needs; the VAT collection technique ensures tax collection at all stages of production.

In the course of writing, the definition of value-added tax was given, a brief historical background on the development of taxation by this tax was given, legal regulations, tax elements were considered: taxpayers, objects of taxation, transactions that are not recognized as an object of taxation, tax base, tax period tax rate.

As part of the study, a description was given of the role of VAT in the tax system of the Republic of Azerbaijan, EU, and the US, in the course of which it was concluded that VAT plays a significant role in the formation of the state budget and is the most collected tax.

The problem of tax refunds and VAT credits, in my opinion, needs to be urgently addressed and cardinally solved. Without its solution, tax reform in modern countries cannot be considered complete. We still have to come back to the idea of the need for its serious consideration, and the sooner we understand this, the sooner we will be able to solve a considerable part of the existing problems of providing the growing resources of the state and society with financial resources.

In conclusion, it should be said that the tax system should stimulate the development of the economy, and not force the company to go into the "shadow".

Based on the analysis of the theoretical basis for the collection of value-added tax, it is possible to formulate recommendations for reforming the VAT system in the Republic of Azerbaijan:

- It is necessary to develop a list of socially significant goods and to subject various tax rates depending on their significance level;
- Legalization the compensation rights of the payments on products with VAT made by companies which are exempted from VAT;

-Making possible to compensate VAT for cash transfers or payments which is not paid to deposit accounts by the companies.

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