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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

ASSESSMENT OF TAX POTENTIAL IN BUDGET FORMATION IN THE REPUBLIC OF AZERBAIJAN

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GENERAL CHARACTERISTICS OF THE WORK

The foundation of economic growth in every country lies in establishing a strong financial base, which significantly depends on the consistent enhancement of its tax potential. Tax potential is generated by all sectors of the national economy and is directly linked to the tax base. In this context, expanding the tax base becomes a realistic prerequisite for ensuring economic growth, increasing production volumes, and enhancing competitiveness in the country. Therefore, identifying and forecasting the demand for the resources of the tax-budget system, conducting a comprehensive assessment of the economy's tax potential, and developing directions for its enhancement are among the main priorities for the effective formation and sustainable development of the state. From this perspective, it becomes evident that evaluating tax potential emerges as a critical tool for governments to assess opportunities for generating revenue from alternative sources, such as non-oil sectors, direct foreign investments, and small and medium-sized enterprises. This perspective reduces risks associated with excessive dependence on unstable energy markets and paves the way for creating a more robust and stable budget constraint.

Disparities between the public and private sectors in the national economy negatively affect their development and hinder the strengthening of their mutual interactions. This necessitates the regulation of these sectors, where tax policy holds a special place among regulatory mechanisms. The reliability of such a policy directly influences the expansion of the tax base and, consequently, the growth of tax potential, which constitutes the financial foundation for the state's development. Thus, the need for theoretical substantiation and methodological approaches aimed at enhancing the efficiency of forming and implementing tax potential has become apparent. This includes the comprehensive empirical analysis of factors influencing tax potential, employing descriptive and regression analyses, and developing proposals and recommendations on ways to increase tax potential. These considerations have guided the author's choice of this research topic.

Taxation, being a significant tool in the formation of national budgets, has been the focus of numerous studies and research by scholars and

researchers who have made valuable contributions to the science of taxation. Prominent economists and researchers such as Adam Smith, David Ricardo, Milton Friedman, Arthur Laffer, Alan J. Auerbach, L.Q. Khodov, C. Robson, T. Blumkin, Laurence Kotlikoff, and Reuven S. Avi-Yonah have highlighted the importance of taxation in their works and studies. These scholars have emphasized the critical role of taxation in various aspects, including its use as a regulatory tool by governments, its capacity to address income inequality, and its essential role in shaping a country's economic system. In their research, taxation is primarily presented as a means of forming the state budget and a mechanism for equitable income distribution. The pivotal role of taxation in supporting national economic stability and development is consistently underscored in these works.

Similar to the work of scholars and researchers globally, the significance of taxation and its impact on the national economy has been thoroughly examined by Azerbaijani economists and researchers. Notable contributions in this field have been made by academics such as Y.A. Kalbiyev, Z.F. Mammadov, A.C.Mammadov, A.F.Musayev, P.Q. Rzayev and Y.H.Hasanli, among others.

Their numerous works, scientific-practical publications, and monographs have enriched the science of taxation. These studies not only highlight the critical importance of taxation for both global economies and Azerbaijan but also explore pathways for its development and suggest directions for its improvement.

Object and Subject of the Research. The object of the research is the tax potential of Azerbaijan's economy. The subject of the research encompasses the socio-economic relations associated with determining the interaction between tax potential and the state budget, as well as the assessment of tax potential in the formation of the budget.

Purpose and Objectives of the Research

The purpose of the research is to study, analyze, and evaluate the tax potential of Azerbaijan's economy and its fundamental role in the formation and execution of the state budget. To achieve this purpose, the following objectives have been identified and addressed:

- **Analyze and systematize international best practices** successfully applied in taxation by other countries, and explore possible options

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for their application in Azerbaijan.

- **Identify the sources of state budget formation** and their shares within the budget while forecasting the directions of budget expenditures.
- **Conduct a comprehensive analysis of the tax system**, identify existing deficiencies, and develop relevant proposals for their resolution.
- **Evaluate economic variables influencing tax potential** through detailed analysis.
- **Analyze tax administration and legislation**, identify existing shortcomings, and substantiate directions for their elimination.
- **Examine and evaluate deficiencies in expanding the tax base**, including improving tax collection mechanisms, and provide necessary recommendations for their resolution.
- **Assess the current tax system's role in promoting investments**, and propose suggestions to improve methodologies for identifying effective tax incentives.

Research Methods.

The research employs a systematic methodology that includes comparison, economic-mathematical modeling, economic-statistical analysis, synthesis, and generalization methods, as well as deductive and graphical methods. Additionally, multiple regression analysis was conducted to identify relationships between the data.

During the research process, a combination of quantitative and qualitative data collection and analysis methods was used, which is referred to as a multi-method methodological approach.

Key Provisions Defended:

- Assessing tax potential and determining the directions for tax development creates the conditions for progress in taxation and overall economic advancement in the country.
- The adoption of successful international practices in taxation positively impacts the creation of a progressive tax system, the elimination of tax evasion, and the improvement of the tax system.
- Establishing the significance of taxation in budget formation leads to an increase in tax revenues within the state budget.
- Justifying the evaluation of macro and microeconomic factors

affecting the country's tax potential stimulates economic development and helps identify and eliminate deficiencies in the tax system.

- Analyzing the tax base and tax collection mechanisms plays a fundamental role in improving the tax system in the country.
- Exploring ways to enhance tax legislation and administration helps define the development prospects of these areas and enables the formation of an effective tax system.
- Assessing the significance of taxation in promoting investments encourages the country's investment attractiveness and boosts long-term increases in tax revenues from foreign investors.

Scientific Novelty of the Research: The following points are considered as the scientific novelties of the research:

- The research provides a detailed analysis of Azerbaijan's tax legislation, identifying existing deficiencies and proposing measures to address them.
- A multiple regression analysis was conducted to assess the impact of macroeconomic indicators such as GDP, inflation, trade balance, state debt, and daily oil production on tax potential, and the study substantiated their effects.
- The study identifies shortcomings in tax administration, offering theoretical and practical recommendations for improving tax administration processes and addressing these deficiencies.
- The research identifies significant models of tax incentives aimed at attracting investments and evaluates their potential applicability in Azerbaijan.
- Analyses were conducted to improve the tax base, identifying developmental directions, and emphasizing the importance of implementing excise tax on sugary drinks as a policy measure.

Theoretical and Practical Significance of the Research. The research integrates scientific-theoretical perspectives, economic theories, syntheses, and analyses. Therefore, it can be utilized in writing bachelor's, master's, and doctoral dissertations, as well as in the development of scientific works and the execution of scientific research and studies.

In addition to its theoretical significance, the research also holds practical importance. It includes multiple regression analysis based on long-term statistical data, mathematical-statistical models, statistical information, and practical models widely used in foreign practices for

increasing tax potential.

Approval and Application:

The provisions analyzed and the results obtained in the dissertation have been presented at international scientific conferences both in Azerbaijan and abroad. These include discussions at the **XXV Republic Scientific Conference of Doctoral Students and Young Researchers (NASCO XXV)**, titled *"Education and Research Activity in the New Era: Realities and Challenges"*, and at the **"Biltek-VI. Current Development in Science, Technology, and Humanities"** conference held by the Economic Development and Social Research Institute (IKSAD, Turkey) in Malatya, Turkey.

Additionally, the research has been discussed at other conferences, contributing to the international dialogue on the topic. As part of the dissemination process, **4 scientific articles** have been published within Azerbaijan (all of which are listed in the **President of the Republic of Azerbaijan's Higher Attestation Commission's recommended journals** for publication), and **1 scientific article** has been published internationally.

These efforts underscore the research's relevance and contribution to both local and international academic discussions on taxation and economic policy.

The dissertation was completed at Ganja State University**.**

The structure of the dissertation includes the introduction, three chapters, conclusion, and the list of references. The total word count for each section is as follows: **Introduction**: 13,060 characters, **Chapter I**: 90,218 characters, **Chapter II**: 83,443 characters, **Chapter III**: 63,135 characters, **Conclusion**: 17,639 characters, **List of References**: 17,856 characters

The total volume of the dissertation is 307,845 characters, with the content excluding tables, graphics, diagrams, and the list of references amounting to 267,495 characters.

STRUCTURE OF THE DISSERTATION:

INTRODUCTION
CHAPTER I. Theoretical and Methodological Foundations of Tax Potential in Budget Formation
1.1. The Role, Functions, and Application Principles of Taxation in State Budget Formation
1.2. Conceptual and Theoretical-Methodological Approaches to the Formation and Assessment of Tax Potential
1.3. Analysis of International Experience in the Application Mechanisms of Tax Policy

CHAPTER II. Analysis and Evaluation of the Factors Influencing the Formation of Azerbaijan's Budget-Tax System and Tax Potential
2.1. Study of the Sources for the Formation of the State Budget in the Country
2.2. Comprehensive Analysis and Evaluation of the Current State of Azerbaijan's Tax System
2.3. Descriptive and Regression Analysis of the Factors Influencing the Formation of Azerbaijan's Tax Potential

CHAPTER III. Directions for Increasing Tax Potential in the Formation of the State Budget of the Republic of Azerbaijan
3.1. Improvement of Tax Legislation and Administration as a Direction for Increasing Tax Potential
3.2. Improvement of the Tax Base and Tax Collection Mechanisms in the Context of Increasing Tax Potential
3.3. The Impact of Enhancing the Use of Tax Incentives for Investment Promotion on Increasing Tax Potential

Conclusion
List of References
Abbreviations
Appendices

MAIN POINTS PRESENTED FOR DEFENSE:

Clause 1: **The evaluation of tax potential and the identification of directions for tax development create conditions for progress in the taxation sector and overall economic development in the country.** Taxation is a fundamental concept that underpins the functioning of modern society. It refers to the process by which governments collect income from individuals and organizations to finance public goods and services. Taxation is an essential part of any modern society and plays a crucial role in economic development, social welfare, and public progress. The essence of taxation is the principle that citizens contribute their fair share towards the costs of government administration and the provision of public goods and services. It should be noted that according to the legislation of the Republic of Azerbaijan, taxes are described as mandatory, individual, and non-repayable payments that are transferred to the state and local budgets in the form of the expropriation of funds owned by taxpayers, for the purpose of financing the activities of the government and municipalities.

When evaluating tax potential, the maximum possible amount of tax resources in a given area, region, or country is determined, meaning the overall tax capacity of that area is assessed. It is important to note that when analyzing existing literature, several methods for evaluating tax potential have been identified. These methods include the representative tax system method, the indirect assessment method for potential tax liabilities, the additive method, the per capita income-based method, the direct calculation method, and the regression analysis method, among others. Of the above-mentioned evaluation methods, the most widely used methods are the representative tax system method and the additive method.

The representative tax system method is a technique based on forecasting potential tax revenues to regional budgets using average tax rates in the country, in accordance with tax bases. The essence of this method is to calculate the potential tax revenues to the budget from regions, assuming that tax efforts are at an average level and tax rates are the same. The calculation of tax potential through the representative tax system method is carried out using the following formula:

$$VPR_i = \sum_{k-1}^{k} VB_k \; x \; RV_i \; /100\%$$

VPR_i - The tax potential of the i-th region of the country; VB_k - the tax base of the k-th tax revenue of the i-th region of the country; RV_i - "the representative (average) tax rate for the k-th tax revenue of the i-th region of the country.

It should be noted that the information required for the application of this method must be both sufficient and accurate. That is, obtaining the necessary information can sometimes pose certain challenges. However, it should be taken into account that, when the required information is available, the use of this method provides relatively comprehensive and reliable results.

In addition to the method mentioned above, the additive method is also considered a significant method in terms of assessing tax potential. The additive method is based on the additional characteristic of tax potential and is a method where the sum of the potentials of individual taxes is equal. It is expressed by the following formula:

$$VP = \sum (VB_i \times VD_i) \times S_1 \times S_2 \times ... \times ... S_i$$

VP - Tax potential; $VB_i - i$ - Tax base for tax; $VD_i - i$- Tax rate for tax; $S_1 \times S_2 \times ... . \times ... S_i$ – Coefficients that determine the established conditions.

It should additionally be noted that this method is based on the idea that the tax potential represents the absolute value of the unrealized tax revenues of a territory due to one reason or another. This method uses data on tax liabilities, actual tax revenues, arrears on payments, and the activities of territorial authorities in tax administration.

Clause 2. The application of successful international experience in the field of taxation has a positive impact on the creation of a progressive system in the tax area, the elimination of tax evasion, and the improvement of the tax system. It is an undeniable fact that taxes are an integral part of the economic system of every state. In various countries around the world, states try to develop their economies by applying different taxes. In a globalized world, international experience is an essential factor that must be taken into account when determining and applying taxes. This is because states are constantly in economic cooperation with each other. Furthermore, it should be noted that any

global change occurring in the world can affect the economies of all countries to some extent. Additionally, it should be emphasized that the application of the positive taxation experience of developed and some developing countries, adapted to our country's economic and social environment, could yield significantly effective results for the country.

It should be noted that many countries around the world have implemented various projects aimed at improving tax administration. The projects carried out have led to increased efficiency in tax administration, higher tax collections, as well as the optimization of costs related to the implementation of tax administration. The table below shows the countries that have implemented measures in the field of tax administration:

Table 1. Measures Implemented in the Field of Tax Administration in Various Countries

| Country	Implemented Measure
Canada	Aggressive International Tax Planning
Egypt	Exemplary Customs and Tax Center
El Salvador	Automated Robo-Call System
Sweden	Taxpayer Opinion Surveys
USA	Self-Service Capabilities
Chile	Taxpayer Services
United States	Voluntary Disclosure Program
Italy	Targeted Data Matching and Other Compliance Activities
Georgia	Integrity of Tax Administration

Source: USAID's Leadership in Public Financial Management. Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean. - USAID, - It has been compiled by the author based on the data obtained from the 2013 report

The analysis of international experience in the field of taxation shows that the approaches to taxes and tax administration differ across various countries. The research reveals that in countries where the importance of taxes is understood by citizens, it is easier to carry out reforms in this area. When looking at the changes in the tax field in different countries, it is evident that international experience, as well as the existing economic and social conditions of the country, are taken into account during these changes. Similarly, in our country, when implementing changes in the tax field, the tax system should be analyzed comprehensively, deficiencies should be identified, and international experience

should be analyzed and adapted to the country's current socio-economic situation for effective implementation.

Clause 3. Justifying the importance of taxation in the formation of the state budget leads to an increase in tax revenues to the budget. When discussing the nature of taxes, it should be considered that taxes are an integral part of the budget system, and the general characteristics of taxes are determined by the budget system. Every state has several sources for forming budget revenues. These include revenues from state property and reserves, revenues from taxation, and revenues from the sale of bonds and securities. The main revenue of the budget being formed through taxes is a tool that ensures the sustainability of economic and social development. For instance, some developing countries provide the main budget revenues through the extraction and export of natural resources (oil, gas, gold, diamonds, etc.). This, in turn, creates dependency in the budget and poses a barrier to economic development and diversification. Such situations are generally characteristic of developing countries. The budget is a crucial component of the financial system. It plays a vital role in linking fiscal policy with economic stability, ensures the efficient allocation of resources, and promotes sustainable financial management. The budget serves as the mechanism for implementing fiscal policy, which plays a significant role in the formation of economic stability. It should be noted that the state uses the budget to determine revenue generation strategies, expenditure priorities, and fiscal targets. Budget policy, aligned with economic goals such as promoting growth, reducing inflation, or achieving a balanced budget, becomes a crucial tool for maintaining economic stability in the financial system.

It should be noted that, despite our country being a major exporter of oil and gas in the region, in recent years, it has managed to ensure that the majority of budget revenues come from taxes. When looking at the budget revenues of recent years, it can be observed that more than 60% of budget revenues are formed through taxes. The significant role of tax revenues in the formation of the budget is a clear indicator of economic and social development. This is because, just as taxes impact the budget, the budget also significantly influences the formation of taxes. Specifically, an increase in budget revenues creates conditions for the government to invest more in the economic and social sectors. This, in turn, leads to the creation of new jobs, the implementation of social projects, an increase in the level of employment, and, ultimately, an increase in the number of taxable objects. The following graph shows the state budget revenues by year since 2010: As can be seen from the graph, there has been a consistent increase in the state budget revenues over the years. It is clearly evident from the graph that the state budget revenues, which amounted to 11,403 million manats in 2010, reached 35,577.8 million manats in 2023.
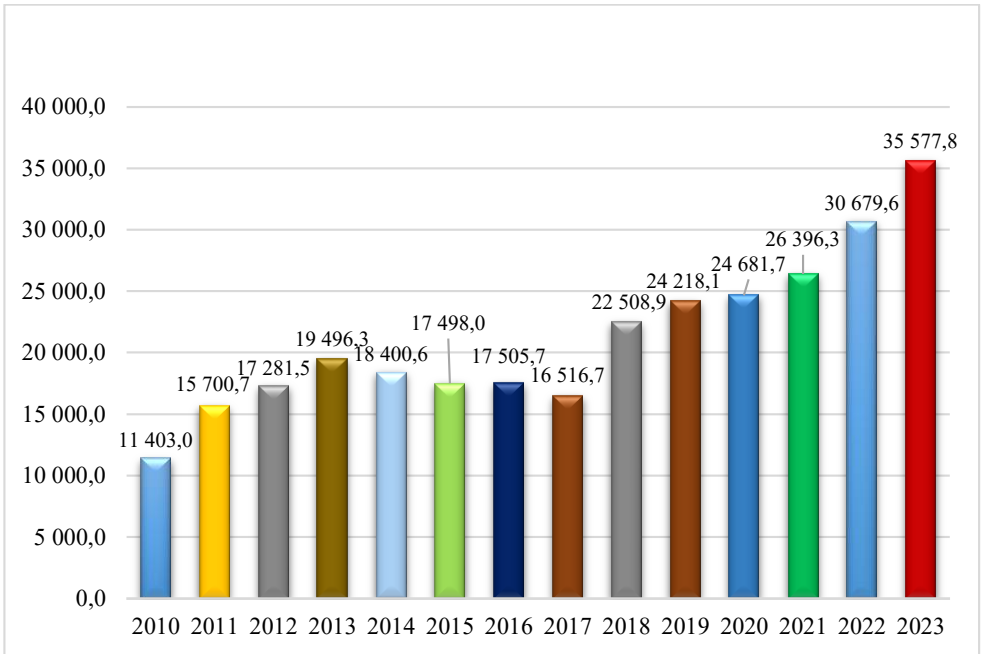
Graph 1. State Budget Revenues (in million manats)
Source:https://azstat.org/statHtml/statHtml.do?orgId=994&tblId=DT_BK_002&conn_path=I2 It has been compiled by the author based on the data obtained from the portal.

This indicates a 3.12-fold increase, or 212%, in state budget revenues in 2023 compared to 2010. It should be noted that there has been growth in the budget every subsequent year. In particular, the growth in state budget revenues in 2023 is especially noticeable. However, it can be clearly observed in the graph that the growth rate was disrupted during the 2015-2017 period. Specifically, when examining the state budget revenues for the years 2015-2017, a decline in tax revenues compared to previous years is noticeable. This can be more clearly observed in the next graph:

Looking at the above graph, it is evident that taxes hold a significant share in the formation of the state budget. It should be noted that, in particular, value-added tax (VAT) and corporate income tax play a crucial role in budget formation. The graph shows that revenue from other taxes has also continued to increase over the years. Specifically, in 2010, total tax revenues amounted to 5,266.8 million manats, which accounted for 46.18% of the total budget revenues. However, this figure increased to 22,063.16 million manats in 2023, representing 62.01% of the total budget revenues. In addition to taxes, the graph

also highlights the significant role of other revenues. Among these revenues, the transfers from the State Oil Fund, customs duties, and revenues from the paid services of budget organizations hold a special place.
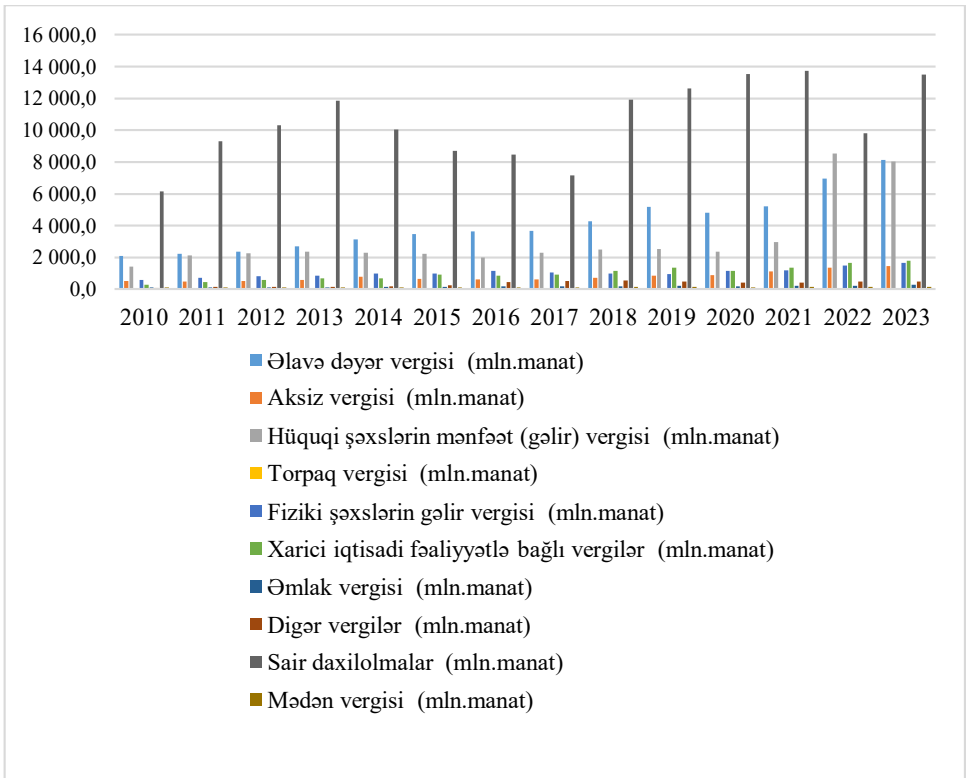

Graph 2. Sources of Formation of the State Budget

Source*: https://www.azstat.gov.az/portal/tblInfo/TblInfoList.do# It has been compiled by the author based on the data obtained from the portal.*

Overall, innovative and constructive work is carried out in the field of taxation every year in the country. In recent years, changes in tax legislation, the establishment of an electronic portal for tax services, the creation of a one-stop system for taxpayer registration, and constructive steps taken in tax control have contributed to further improvement of the tax system and a significant increase in tax revenues. Additionally, the application of tax incentives in certain areas has led to the promotion of the business activities of individuals and legal entities living in the country.

As a result of the measures taken, when looking at the budget revenues, it

is possible to observe the increase in the role of tax revenues in the budget over the years. The following graph shows tax revenues to the state budget between 2005 and 2023:
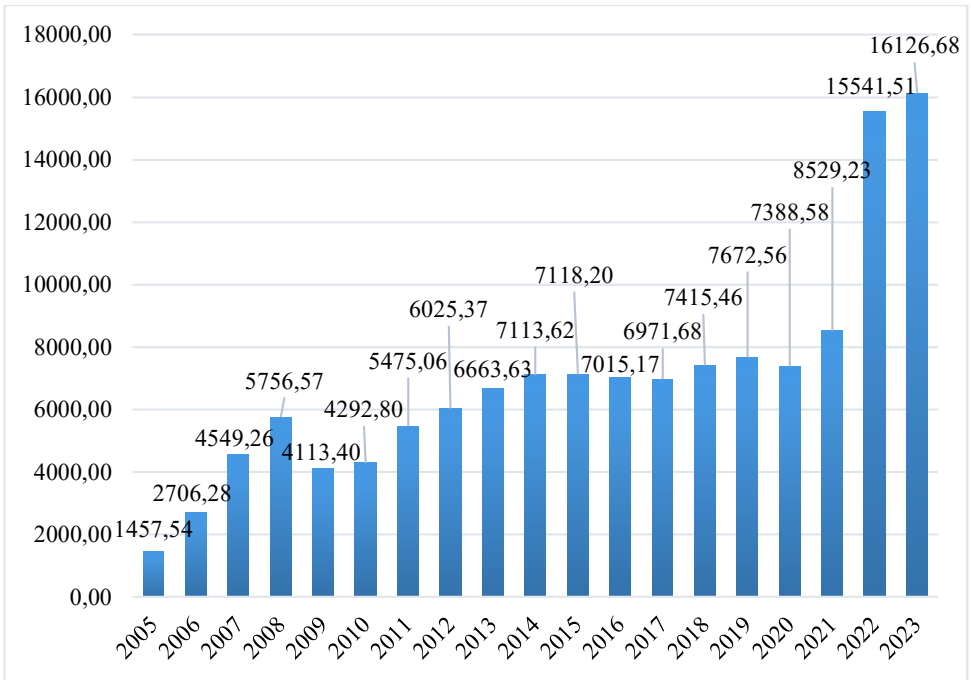
Graph 3. Tax and Other Revenues to the State Budget
Source: https://www.taxes.gov.az/az/page/daxilolmalar It has been compiled by the author based on the data obtained from the portal

It is clearly observed from the graph that over the years, tax revenues to the state budget have increased significantly. In the last 10 years, the volume of tax revenues has risen from 6,663.6 million manats to 16,126.68 million manats, which is an increase of 2.42 times. The graph also shows some years with a decrease in tax revenues, which is related to the overall economic situation in those years. For instance, the devaluation in the country and the subsequent effects of the pandemic had a certain impact on tax revenues. A particularly important point to note in the graph is the difference in tax revenues between 2021 and 2022. Despite the easing of the pandemic's effects in 2021, its negative effects on economic entities were still significant, leading to a relatively small difference in tax revenues compared to 2020. However, when examining 2022, it is possible to observe the successful outcome of the tax reforms and fiscal

policies implemented during the pandemic period.

Clause 4. Justification of the assessment of the impact of macro and microeconomic factors on the country's tax potential contributes to ensuring economic development in the country and helps identify and eliminate deficiencies in the tax sector.

A multiple regression analysis has been conducted to assess the impact of various macro and microeconomic factors on the tax potential. The table below shows the independent and dependent variables of the analysis:

Table 2. Variables of the Analysis

Independent Variables	Dependent Variables
Economic Growth	Tax Revenue
Gross Domestic Product (GDP)	Share of Taxes in GDP
Inflation	Taxes on International Trade
Trade Balance	Other Taxes
Government Debt	Tax Inflows to the State Budget
Rule of Law	
Control of Corruption	
Shadow Economy	
Daily Oil Production	
Capital Investment (in dollars)	

Source: Prepared by the author.

Based on the above-mentioned variables, five linear regression analyses have been applied within the framework of the analysis. The models of the mentioned regression analyses are presented in the table below:

The main goal of the five regression models mentioned above was to identify the independent variables that play a role in increasing the country's tax potential and, consequently, its impact on the state budget. The results obtained through these models support the notion that all the regression models serve as reliable tools for determining the country's tax potential. Based on the results obtained from the models, it can be stated that economic development, GDP, trade balance, national debt, rule of law, shadow economy, daily oil production, and capital investment in the country's economy (in dollars) statistically significantly influence various indicators of the country's tax potential.

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Table 3. Regression Models

The objective formed based on the dependent variable of the regression model	Regression model
1. Regression Model Based on Independent Variables Affecting Taxes on International Trade	$Y_a = \alpha + \beta_1{*}X_1 + \beta_2{*}X_2 + \beta_3{*}X_3 + \beta_4{*}X_4 + \beta_5{*}X_5 + \beta_6{*}X_6 + \beta_7{*}X_7 + \beta_9{*}X_9 + \beta_{10}{*}X_{10} + \mu$
2. Regression model based on independent variables affecting the country's tax revenue as a ratio of GDP	$Y_b = \alpha + \beta_1{*}X_1 + \beta_2{*}X_2 + \beta_3{*}X_3 + \beta_4{*}X_4 + \beta_5{*}X_5 + \beta_6{*}X_6 + \beta_7{*}X_7 + \beta_9{*}X_9 + \beta_{10}{*}X_{10} + \mu$
3. Regression model based on independent variables affecting taxes on the country's international trade	$Y_c = \alpha + \beta_1{*}X_1 + \beta_2{*}X_2 + \beta_3{*}X_3 + \beta_4{*}X_4 + \beta_5{*}X_5 + \beta_6{*}X_6 + \beta_7{*}X_7 + \beta_9{*}X_9 + \beta_{10}{*}X_{10} + \mu$
4. Regression model based on independent variables affecting the country's other taxes	$Y_d = \alpha + \beta_1{*}X_1 + \beta_2{*}X_2 + \beta_3{*}X_3 + \beta_4{*}X_4 + \beta_5{*}X_5 + \beta_6{*}X_6 + \beta_7{*}X_7 + \beta_9{*}X_9 + \beta_{10}{*}X_{10} + \mu$
5. Regression model based on independent variables affecting tax revenues from taxes to the state budget	$Y_e = \alpha + \beta_1{*}X_1 + \beta_2{*}X_2 + \beta_3{*}X_3 + \beta_4{*}X_4 + \beta_5{*}X_5 + \beta_6{*}X_6 + \beta_7{*}X_7 + \beta_9{*}X_9 + \beta_{10}{*}X_{10} + \mu$

Source: Prepared by the author.

The only independent variable included in the models, control over corruption, was found to have no statistical relationship with any of the dependent variables in the analysis, and consequently, changes in this variable between 1990 and 2021 had no effect on the country's tax potential.

In general, it should be noted that to increase the state's tax revenues through the budget, it is necessary to further develop the independent variables identified through the models. For example, economic development, GDP, the rule of law, daily oil production, and capital investment in the economy (in dollars) should be further developed to increase the amount of tax revenues in the budget in the coming years. On the other hand, a strategy related to inflation, as an independent variable positively influencing the country's tax potential, is not needed, as it only impacts the country's tax potential at the nominal level. Additionally, the country's trade balance should be increased, and the size of the shadow

economy should be reduced for a noticeable improvement in the tax potential, since these independent variables have a statistically negative effect on the dependent variables. The last independent variable, national debt, has a positive effect on certain dependent variables in the analysis. It should be noted that increases in government debt lead the government to make decisions regarding taxes, which, in turn, result in the increase of taxes and the number of taxes in order to repay national debt.

Clause 5. The analysis of the tax base and tax collection mechanisms plays a crucial role in the improvement of the tax system in the country. The strengthening of the tax base and tax collection mechanisms is crucial for maintaining fiscal stability, financing government services, and supporting economic growth. It should be noted that in our country, comprehensive measures are regularly taken to improve the tax base and strengthen the tax collection mechanisms. As a result of these measures, in recent years, there has been an increase in tax revenue to the state budget and the number of taxpayers in the country. According to the existing statistics, as of July 1, 2023, there were 1,452,702 taxpayers in our country. Of course, the observed increase in the number of taxpayers, as well as the significant increase in the share of taxes in the state budget, is the result of a successful budget-tax policy. However, it must be taken into account that the changing socio-economic conditions require substantial changes in the tax sector. The necessary directions for the improvement of the tax base and strengthening of tax collection mechanisms in our country are shown in the table below:

Table 4. Necessary Directions for Improving the Tax Base and Strengthening Tax Collection Mechanisms

Expansion of the Tax Base	Elimination of the Informal Economy Application of Taxes in the Digital Economy Implementation of Property Tax Reforms
Improvement of Tax Administration	Improvement of information analytics in the tax field Strengthening tax auditing and tax enforcement
Modernization of Tax Legislation	Increasing tax exemptions and deductions Implementation of progressive taxation measures
International Cooperation	Exchange of tax information Increase in double taxation treaties

Mənbə: https://www.imf.org/en/News/Articles/2021/07/28/na-072821-five-things-to-know-about-the-informal-economy Based on the data obtained from the platforms, it has been prepared by the author.

In general, it should be noted that in order to improve the tax base in the republic, the tax base for each tax type should be considered separately, the tax objects should be clearly identified, and the principles and rules for forming the tax base applied in international practice should be adapted to our country. Additionally, to strengthen the tax collection mechanisms, modern technologies and programming should be used, bureaucratic obstacles should be removed to accelerate the tax collection processes, and the tax declaration and payment processes should be fully digitized. This will not only save time and financial resources for tax authorities, but also encourage taxpayers to approach the payment process correctly, leading to increased tax compliance. Furthermore, strengthening the implementation and control mechanisms of tax authorities, increasing the amounts of tax sanctions, utilizing foreign experience in addressing tax evasion, identifying high-risk taxpayers and compiling a list, as well as familiarizing tax officials with international anti-tax evasion measures can create an environment conducive to achieving significant success in this field. In our country, an analytical approach to tax issues and the implementation of comprehensive measures aimed at solving these problems will contribute to increasing the tax potential.

Clause 6. **Studying the ways to improve tax legislation and tax administration helps to determine the development prospects of these areas and provides the opportunity to form an effective tax system.**

Tax administration is considered one of the key tools of the state's tax policy, as well as its overall economic policy. It not only forms the sources that ensure budget revenues but also performs a regulatory function by changing the conditions for the collection of financial resources from economic entities. Providing tax authorities with the necessary information technologies system, the electronicization of tax administration systems and business processes, the explanation and interpretation of tax legislation and rules by tax administration lawyers to other administrative and technical staff, the participation of tax authority employees in training and advanced qualification courses, as well as conducting internal audits of tax authority employees are factors that directly affect the efficiency and effectiveness of tax administration.

It should be noted that the improvement of tax legislation is also of

great importance for the overall development of the tax system. In our country, tax legislation consists of the Constitution of the Republic of Azerbaijan, the Tax Code of the Republic of Azerbaijan, and other legislative acts adopted in accordance with them. It is important to mention that the determination of taxes, the procedures for their collection, the rights and responsibilities of tax authorities, as well as tax payers, the forms and methods of tax control, liability for violations of tax legislation, and other tax relations are regulated by the Tax Code. Therefore, improvements made in the Tax Code play an indispensable role in the development of the country's tax system.

The improvement of tax legislation is of great importance in optimizing tax policy. Despite the regular improvements in legislation, certain shortcomings still exist in tax legislation, and it is crucial to address these issues. First and foremost, it should be noted that the taxation of monthly incomes of tax payers, who do not operate in the oil and gas sector and are part of the non-state sector, at a 0% rate up to 8,000 manat for a period of 7 years, contradicts the principles of taxation. The principle of taxation suggests that taxes should be distributed fairly and equally, and should not have a discriminatory character. It is clear that this measure is aimed at stimulating these sectors and uncovering cases of tax evasion in these areas. However, the absence of similar exemptions in the public sector and the oil and gas sector could create distrust among taxpayers and increase instances of tax evasion.

Additionally, it should be noted that the lack of a general declaration system in our country during taxation, i.e., the failure to calculate taxes based on expenses, creates conditions for the non-formalization of payments during the settlement process. This, in turn, leads to the non-formalization of both income and expenses. The non-formalization of income subsequently causes tax evasion. Furthermore, the requirement to provide information about payments as stipulated in the code, without any corresponding accountability measures, results in taxpayers being indifferent to this issue.

Article 98.2.1 of the Tax Code, which involves the taxation of loans granted to individuals at a lower interest rate than the interbank lending auction rate, is not appropriate in terms of the objectivity of taxation. The difference between the amount that should be paid at the

interbank lending auction interest rate and the amount paid at the lower interest rate is considered as the individual's income and is taxed. It should be noted that even though the individual pays interest at a lower rate for the loan they obtained, the difference between this rate and the interbank lending auction rate should not be considered their income.

Additionally, it should be noted that there are contradictions in some articles of the Tax Code, and these contradictions should be eliminated to ensure more objective tax legislation. For example, while Article 123 of the Tax Code does not provide for withholding tax on interest paid to legal entities, Article 150.1.5 stipulates the withholding tax on interest paid to legal entities. Such contradictions can lead to misunderstandings between taxpayers and tax authorities and may create obstacles in the activities of taxpayers.

It should be noted that despite the cancellation of the licenses required for the production of alcoholic beverages and tobacco, Article 194.2.4 of the Tax Code contains provisions related to the suspension or revocation of the validity of these licenses. When making changes to the Code, such cases should be taken into account, and these deficiencies should be addressed to prevent potential contradictions during tax administration.

It should be noted that the improvement of tax administration is considered one of the most important tools of the state's tax policy. Improving tax administration simplifies the work of both taxpayers and tax authorities, increases transparency in the tax sector, accelerates the processes of tax payments, and also encourages investment. One of the greatest successes in the field of tax administration in our country is the electronicization of tax services. Looking at international experience, we see that the electronicization of tax services facilitates taxpayers in declaring and paying taxes easily, while also allowing tax authorities to perform their functions efficiently and effectively. Additionally, the electronicization of tax services leads to the simplification of tax procedures, which in turn significantly contributes to increasing the country's tax payment ranking internationally and ultimately attracts investors. Undoubtedly, the electronicization of tax services also reduces direct contact between taxpayers and tax authorities, which leads to increased transparency in the tax sector.

Clause 7. Evaluating the importance of taxation in promoting foreign and domestic investments stimulates the attractiveness of the country for investment and encourages the increase of tax revenues from foreign investors in the long term.

There are a number of measures implemented by the government to stimulate investment. One of the most important of these measures is tax incentives. Tax incentives mainly include tax benefits, tax holidays, exemption from taxes on imported equipment, exemption from VAT for products belonging to specific categories, and others. Many studies have shown that the profit tax is more closely related to investments. For example, multinational companies in one country invest in another country due to reasons like cheap labor and accessibility to raw materials, and tax incentives also have a direct impact on the decision-making process. Every investor prefers to choose a place where they would pay fewer taxes. From both global and regional perspectives, countries are applying more suitable tax programs based on world experience to attract foreign direct investment (FDI). Many countries have already created special free economic zones, industrial zones, and districts, which not only contribute to the development of regions but also stimulate the growth of the national economy.

The regulation of tax incentives cannot serve as a comprehensive policy tool to increase foreign investment flows. When examining the dynamics of FDI movements between countries, it becomes clear that, in order for these changes to have an effective impact, not only tax incentive policies but also the complex interaction of broader institutional and macroeconomic factors play a key role. These multifaceted elements collectively influence investors' post-tax returns and pre-investment costs. Governments, when implementing tax incentives to promote FDI, should carefully assess the benefits FDI can bring to their economies, including tax revenues, job creation, and knowledge transfer. At the same time, they must also consider potential negative aspects, such as the increase in government expenditures. Looking at global practices, we observe that many countries, especially developed ones, make highly effective use of tax incentives in promoting investments. The following table presents a range of measures implemented by various countries around the world in the field of investment promotion:

Table 5. Measures Implemented in the Field of Investment Promotion

COUNTRIES	MEASURES TAKEN
Estonia	No tax is levied on profits reinvested by companies.
United Kingdom	No tax is levied on both foreign dividends and capital gains.
Belgium:	No tax is levied on both foreign dividends and capital gains.
Canada	Businesses are allowed to immediately write off the full cost of machinery and equipment used for the production of goods.
Ireland	Net operating losses can be carried back for one year and carried forward indefinitely.
Italy	There are incentives for payments related to investments in intangible assets and corporate capital.
Lithuania	More efficient tax regimes are applied to investments in machinery, buildings, and intangible assets compared to the existing tax rates.
Portugal	Corporations can deduct property taxes from taxable income, and there are incentives for corporate capital.
USA	Businesses are allowed to deduct expenses related to investments in new technology, equipment, and buildings.

Mənbə: 2022 International Tax Competitiveness Index | Tax Foundation Based on the information obtained from platforms, it has been prepared by the author

The study of the models applied in international practice and their adaptation and implementation in line with our country's tax system can contribute to the improvement of the investment climate in our country. In particular, the application of tax incentives in specific sectors identified in various areas of our republic will contribute to improving the investment climate, creating new job opportunities, increasing employment levels, raising long-term revenues from taxes, expanding the socio-economic development of the regions, and contributing to overall economic growth.

In the "conclusion" section of the dissertation, the overall results of the research are summarized, and information about the development directions of taxation is provided. These directions are as follows:

1) The results of the conducted multiple regression analysis show that the growth rate of GDP, the rule of law, capital investment (in dollars), and public debt are direct factors influencing the tax potential in our country. Therefore, the development of these factors should become a

priority for the country's development. For GDP growth, the development of the non-oil sector, the implementation of tax incentives to attract investments, the improvement of the judicial system to ensure the rule of law, and the redefinition of the lower and upper limits of public debt will lead to the development of these areas and, as a result, an increase in tax revenues.

2) Currently, the corporate income tax rate of 20% is applied across the republic. Lowering the corporate income tax rate in the regions could stimulate the economic potential of the regions, increase the level of employment, and help reduce the significant economic disparity between Baku and the regions.

3) One of the shortcomings in the tax legislation is the insufficiently strong mechanisms for resolving tax disputes. In some cases, resolving tax-related disputes in the country can take years. Therefore, the implementation of sound and advanced mechanisms for dispute resolution will contribute to the development of the country's tax system. As applied in foreign countries, resolving tax disputes through specialized Tax Courts will create an environment for addressing the issues in this area.

4) The implementation of the "Voluntary Disclosure Program," which has been successfully applied in the United States, will play an exceptional role in preventing tax evasion in the country. The essence of the program is the anonymous reporting of tax evasion cases to the tax authorities. The identity of the person providing information to the tax authorities is fully kept confidential, and after the accuracy of the information is verified by the tax authorities, the person who provided the information receives a reward amounting to 15-25% of the funds collected from the tax evading individual or legal entity. The application of this program in our country will encourage individuals to report tax evasion cases to the tax authorities and will play a significant role in preventing such cases.

5) In order to ensure fair and transparent taxation of digital businesses, clear and comprehensive tax regulations specifically targeting the digital economy can be implemented. Innovative approaches, such as imposing taxes on the collection and use of user data by digital companies, can help prevent tax evasion. By identifying individuals

accessing pre-listed platforms through specialized technical and technological equipment, imposing fines, and subsequently subjecting them to taxation, a framework will be established to prevent tax evasion in digital businesses.

6) The implementation of an environmental tax is a crucial issue both from the perspective of environmental protection and in terms of increasing tax revenues. The majority of the revenues generated from this sector can be allocated to state measures aimed at environmental conservation.

7) Measures to increase the number of double taxation agreements with foreign countries will lead to an increase in the competitiveness of our country's tax system. Currently, our country has agreements to eliminate double taxation with only 56 countries, while the average number of such agreements in the countries of the Organization of Islamic Economic Cooperation (OIEC) is over 70.

8) The implementation of the American model in attracting investments will increase our country's international competitiveness and accelerate the flow of investments. Specifically, allowing businesses to deduct expenses related to investments in new technology, equipment, and buildings from their taxable amount will both reduce the tax burden on businesses and lead to an increase in the country's tax revenues in the long term.

9) The implementation of the Estonian model in land tax collection will significantly increase the revenue generated from these taxes. In Estonia, land tax is levied annually at a rate of 0.1-2.5%, based on the calculated value of the land and the area in which it is located. The application of this model will both eliminate the difficulties in determining the amount of taxes and simplify their collection, as well as ensure that the taxes are more fair and transparent.

The implementation of the above-mentioned proposals will accelerate the growth rate of GDP, promote the development of the non-oil sector, reduce state debt, ensure more efficient and effective management of budget expenditures, attract both local and foreign investors, eliminate existing shortcomings in the tax system, facilitate the electronicization of the taxation processes, address income inequality, and create conditions for ensuring a decent standard of living for citizens.

The main provisions of the dissertation are reflected in the following scientific articles:

1. Covid-19 böhranından sonra fiskal siyasətin istiqamətləri // Azərbaycan Texnologiya Universiteti. İnnovasiyalı İqtisadiyyat və Menecment jurnalı. Gəncə, 2022.

2. Fiskal siyasət inkişaf etməkdə olan ölkələrdə sabitləşmə aləti kimi // Geostrategiya jurnalı. Bakı, 2023.

3. Azərbaycanda koronavirusa qarşı aparılan fiskal siyasətin əsas istiqamətlər // Azərbaycan Dövlət İqtisad Universiteti. Elmi xəbərlər jurnalı. Bakı-2023.

4. Fiskal risklərin qiymətləndirilməsi və idarə olunması // Azərbaycan Dövlət Neft və Sənaye Universiteti. Azərbaycan Ali Texniki Məktəblərinin Xəbərləri. Bakı-2023.

5. Влияние Налоговой Политики На Приток Прямых Иностранных Инвестиций: Обзор Литературы // Научно-исследовательский экономический институт Министерства экономики Республики Беларусь. Экономический бюллетень. Минск, 2023.

6. Impact Of Budget Deficit On Macroeconomic Variables // Biltek-VI International Symposium On Current Developments in Science, Technology And Social Science. Malatya, september 16-18, 2022.

7. Covid-19 Böhranından Sonra Vergi Və Fiskal Siyasətlərin İstiqamətləri // Doktorantların və gənc tədqiqatçıların XXV respublika elmi konfransı (NASCO XXV). Bakı, 23-24 noyabr 2022.

8. Vergitutmanın inkişaf etməkdə olan ölkələrdə əhəmiyyəti // 10-cu Avrasiya zirvəsi elmi tədqiqatlar və innovasiyalar konqresi. Bakı, 16-17 fevral 2023.

The defense of the dissertation will be held 22 January on 2025 at 14:00 at the meeting of the ED 2.10 Dissertation Council operating under the Azerbaijan State University of Economics.

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It is possible to get acquainted with the dissertation in the library of the Azerbaijan State University of Economics.

The electronic versions of the dissertation abstract are posted on the official website of the Azerbaijan State University of Economics. (http://unec.edu.az/tedgigat/dissertasiva-surasi/).

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