

Ministry of Education Republic of Azerbaijan

The types of taxes in Azerbaijan Republic and foreign countries (USA and Germany)

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May 2018

Acknowledgments

Fist of all, I would like to thank to my scientific supervisor, Eldar Gojayev. This work would not have been possible without his support, guidance and encouragement. I also feel deep appreciation to Fariz Yadigarov for his responsibility on me. I am extremely lucky to have teachers who cared so much about my work and responded my questions so promptly.

Then, I also want to thank to our dean PhD. Aida Guliyeva for the support and assistance in our student life. And finally, I want to thank my family and friends for their support, encouragement and patience love which enabled me to complete this work.

ABSTRACT

In practice, there are completely contradictory cases when, for example, a taxable person is a resident of the Azerbaijan Republic, but carries out his entrepreneurial activities outside its borders or vice versa, a resident of a foreign state conducts business in the territory of the Azerbaijan Republic. In such cases, the question arises as to which state the appropriate taxes will be paid, the law of which state will calculate the amount of tax, what legal regime arises in the case of double taxation, and how to resolve the issues that arise.

The information base of the thesis is made up of statistical data of the State Statistics Committee of Azerbaijan, Ministries of Taxes, Economics and Finance, data from foreign information and statistical institutions, organizations, materials collected through personal observation and study of the system of state regulation of the tax system, and sources from the Internet.

The scientific novelty of the study is to justify the mechanisms and instruments of tax policy that allow balancing the interests of bodies of various levels of public authority and various groups of taxpayers.

Key words: Taxes, Azerbaijan, USA, Germany

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INTRODUCTION

The purpose of the study is to develop the theoretical and methodological framework for the implementation of tax policy based on different tax types at the present stage in Azerbaijan.

To achieve this goal, the following tasks were formulated:

- theoretical interpretation of the content and tools of tax policy at the present stage of the development of the economy of Azerbaijan;
- evaluation of the effectiveness of the implementation of tax policy in Azerbaijan, Germany and the USA;
- identification of directions and instruments for implementing tax policies that promote economic growth and entrepreneurial activity within three countries;
- development of the concept of tax planning as an element of conjugation of macroeconomic tax regulation and tax rationalization at the micro level;
- analyze tax regulation in Azerbaijan and the other two countries and study the current compared state of the tax system in the countries;
- study the directions of improving tax regulation in Azerbaijan and analyze the impact of taxation on various sectors of the economy.

In accordance with the tasks defined above, the subject of this study is a set of theoretical, methodological and practical issues of tax policy.

The object of research is the tools and mechanisms for improving taxation in a modern economy.

The theoretical bases of the research are the scientific works of the classics of economic science, the scientific works of Azerbaijani and foreign economists on the state regulation of the tax system, the laws and regulations of the Republic of Azerbaijan, presidential decrees and

resolutions of the government of the Republic of Azerbaijan on the formation and state regulation of the tax system.

The methodological basis of the study was the dialectical method of cognition; systems approach; principles of formal logic; methods of economic analysis and synthesis. When writing a paper, general and special methods of scientific knowledge were applied.

Among the main scientific results that determine the novelty of the dissertation research are the following:

- the tax system is explored as a holistic entity;
- the approaches to the evaluation of the effectiveness of the implementation of the tax policy at various levels are grounded;
- it is shown that a decrease in the capacity of regions to conduct an independent tax policy does not contribute to the growth of their tax potential;
- peculiarities of state regulation of tax policy are revealed on the basis of analysis of the tax system as an object of regulation;
- the mechanism of effective taxation in the economy of Azerbaijan was proposed;
- a system of indicators was proposed to assess the effectiveness of the functioning of the tax system of Azerbaijan.

The theoretical significance of the dissertation research is that it contributes to the study of the problems of implementing the state tax policy in relation to various socio-economic conditions of society.

The practical significance of the study is that the proposed recommendations and proposals open up new opportunities for increasing the effectiveness of tax policy.

The materials of the work can be used for educational purposes, as well as for further research. The thesis consists of an introduction, three chapters, conclusions and a list of used literature.

CHAPTER I. TAXATION AND ECONOMIC- THEORETICAL FOUNDATIONS

1.1. The concept of tax, its essence and functions

Modern science calls a tax category that mediates the process of redistributing income to the state budget. Tax forms of the relationship between society and the state have found a variety of names. German scholars viewed the tax as support provided to the state by its citizens. In England, until now, tax is meant a duty, an obligation. US law defines the tax as a fee, and France - as a mandatory payment. The compulsory nature of the tax form in Russian practice once stressed the term "tax" (compulsory payment).

Modern tax legislation treats taxes and other payments only as a means of ensuring budget revenue. The tax, mediating economic relations between the state and payers, is designed not only to ensure the state's revenues, but also to regulate, reproduce, stimulate the economy as a whole.¹

Taxes are used to regulate the behavior of economic agents by inducing (tax reduction) or by obstructing (raising taxes) in the performance of certain activities.

Possessing the legitimate right of coercion, the state has the opportunity to receive at its disposal a significant amount of money collected in the form of taxes.

Taxes can be defined as income of the state, collected on a regular basis with the help of the coercive right belonging to it. Also, taxes defined as mandatory, refundable and non-refundable payments

¹ Adb (online). Economic Analysis. Available from: <http://www.adb.org/sites/default/files/linked-documents/cps-aze-2014-2018-ea.pdf>

charged by state institutions in order to meet government needs for financial resources.

As it follows from the definition, by taxes it is necessary to understand not only those payments in the name of which there is the word "tax", for example, value-added tax, income tax, etc. Tax duties also include customs duties, mandatory contributions to state non-budgetary funds, for example, to a pension fund, etc. All these payments together form a tax system.

The function of tax is a manifestation of its socio-economic essence in action. Functions show how the public purpose of this economic category is realized.

In modern conditions, taxes have two main functions:

fiscal function, which consists in providing the state with the financial resources necessary to carry out its activities (the source of the state's revenues);

regulatory function, through which taxes either stimulate or restrain one or another economic activity (the regulator of the economic system).

The degree of realization of the functions of taxes depends on which set of economic instruments the state enjoys. Together they represent a tax mechanism through which the state's tax policy is implemented.²

Using taxes as a regulatory instrument, the state encourages economic agents to do something (taxes are reduced) or, conversely, hinders their activities (taxes are increased).

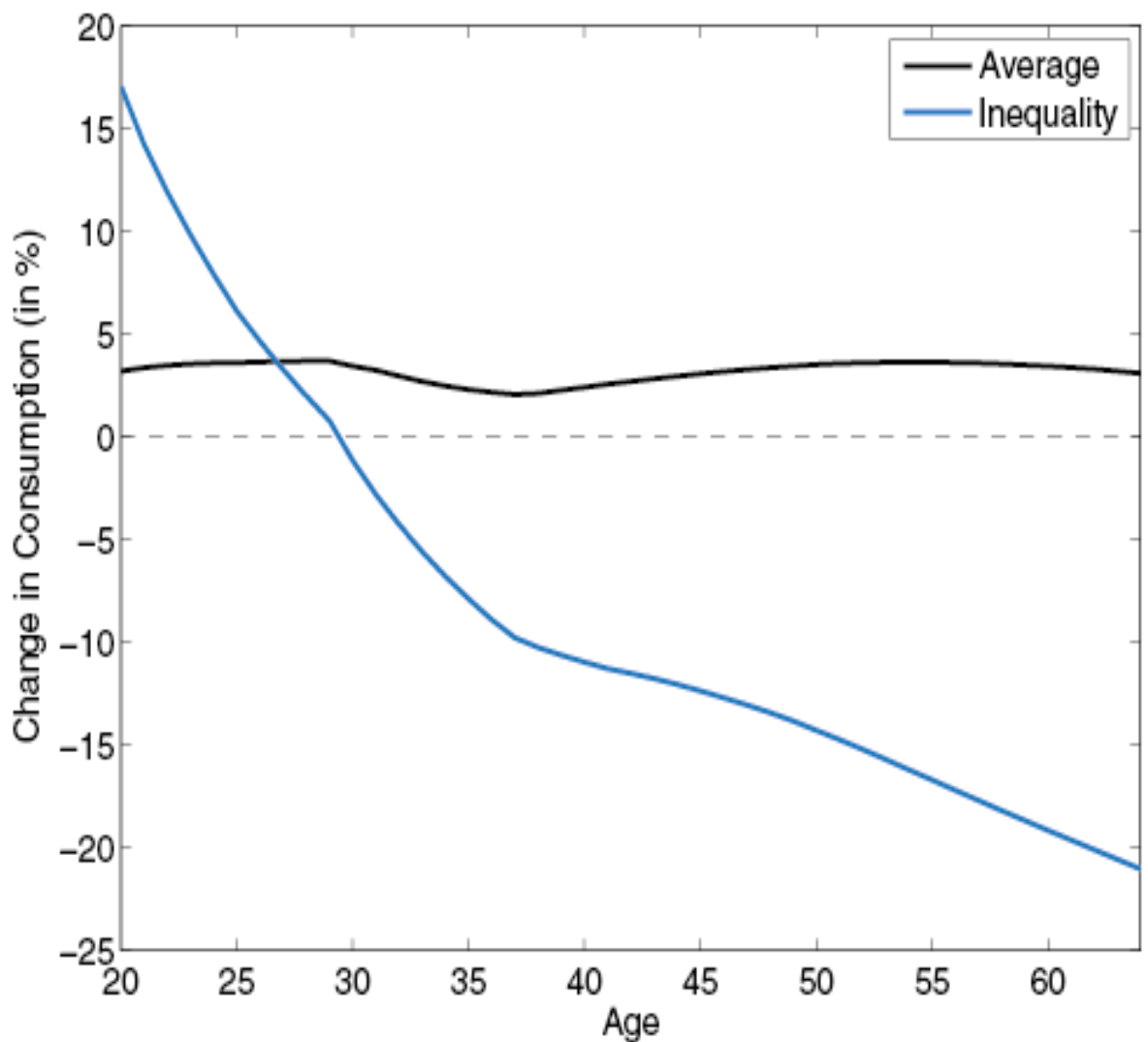
It should be remembered that taxes have a strong impact on the motivation of economic agents. On the one hand, the introduction of tax

² Ahmadov, I. (2016). Low Oil Prices: Economic and Social Implications for Azerbaijan. Caucasus Analytical Digest, No. 83.

causes a desire not to pay, that is, to evade. This desire can be realized either in the form of care of the payer in the informal sector of the economy, or in an attempt to shift the tax burden. So, the seller, increasing the price of the offered products, shifts a part of the tax burden to the buyer (in Figure 1. this is shown as an increase in the price from to).

Fig.1.

Introduction of the tax on the commodity market



On the other hand, economic agents change their behavior. Under the influence of the tax the firm reduces the volume of production, as its profit decreases, and consequently, also the interest in the production of this quantity of products. This situation is illustrated in Fig. 5.1. If a

product tax is introduced, for example, excise duty, the supply of goods will be reduced, the curve will move to a position. The vertical distance between the curves is equal to the value of the tax per unit of output. As can be seen from the figure, the price of the commodity will increase, and the equilibrium quantity will decrease.

If the payroll tax is increased, workers can reduce the labor supply, preferring to have more free time, or, conversely, increase the labor supply, feeling poorer and deciding to compensate for the decline in income by a larger salary over a longer period of working time.

1.2. Taxation and development history

The process of state regulation of the tax system of Azerbaijan should be closely related to the economic situation of enterprises that are in the real sector of the economy. The whole point is that the process of increasing the number of enterprises in the field of industry where the level of profitability is decreasing is accelerating to a certain extent, and the process of bankruptcy is accelerating, openly or secretly. In this situation, it is necessary for businessmen and business people to create tax conditions that will not allow their capital to move into the shadow economy, since the process of legalizing such capital is extremely complicated.

Despite the fact that in recent years, the tax authorities have taken some tough measures, but they have not been able to solve all the problems of tax collection. Today, Azerbaijan needs more simple to control, cheaper to use, contributing to increasing revenues for the rational construction of businesses and businesses - the tax system. I also wanted to emphasize that it would be very important to take into account some tax regimes that create conditions for the development or revival of some industries.

At present, the development of the regions of Azerbaijan causes some concern. Most of the republic's economic potential is concentrated in Baku and partly in its environs. From the point of view of the revival of the economy of regions and attraction of foreign investors, the tax system is more sensitive. Since foreign investors, business people invest in those areas that are the most profitable, they need to create such conditions that they invest their capital in the most remote, backward regions, especially in the border regions, ensuring the necessary security of their deposits. In my opinion, in order to stimulate the activity of foreign firms and enterprises in the regions, including business people from Azerbaijan, it is necessary to create sufficiently favorable tax conditions (up to exemption from taxes), and at the same time to create conditions for the part taxes held in these territories, went to local budgets.³

The use of the tax system as a factor of Azerbaijan's economic development requires studying foreign experience. In this regard, it should be emphasized that, in general, in the second half of the twentieth century. have identified two main stages of stimulating investment activity through the regulation of the tax system - these are the periods of the 50-70's and 80-90's.

It was in the 1950s that leading countries began to shift from budgetary financing and subsidizing the processes of technical re-equipment of industries and individual enterprises to tax and credit methods that encourage private firms and corporations to independently implement these costs. The period of the 50s and 70s became a time of active use and increase of the volume of tax benefits and privileges. At the beginning of the 1980s, it became obvious that for a number of

³ Azerbaijan (2015). Budget System of the Republic of Azerbaijan. Available from: http://www.azerbaijans.com/content_731_en.html [Last accessed on March 05, 2018]

reasons this practice of taxation is no longer able to play the role of an effective regulator of investment policy. Implementation of their investment projects companies often began to connect not with the strategic tasks of expansion and modernization of production, but with the possibility of obtaining additional tax benefits. The taxation of companies stimulated their investments and the restructuring of the balance sheet not for economic but for tax reasons. All this had a negative impact on the quality of investment and the allocation of resources.

For the reforms of the tax system in the 1980s, a whole series of privileges for industrial investment have been abolished. The investment tax credit was reduced and then canceled, tax discounts reduced and conditions allowing artificially inflating the amount of depreciation write-downs were limited. At the same time, Western economists paid considerable attention to the problem of tax incentives for companies' research activities, which affected not only the financial provision of R & D, but also the extreme points of the innovation process, fundamental research, and the direct introduction of innovations into production and distribution. Industrially developed countries began to use tax incentives to strengthen cooperation between companies and universities. Significant impact on the mass appearance of small innovative companies has had a lower level of their income taxation. There was a whole system of benefits for taxing new specific areas of scientific and technical activities of corporations.⁴

It should be emphasized that when developing a policy on foreign investment, countries with economies in transition should also consider problems of tax jurisdiction and tax benefits. If a corporation

⁴ Barati, I.S. (2016). Reversing the Resource Curse: Session on "Budgeting in Resource Rich Settings" [Power Point slides].

makes investments abroad by creating or expanding a foreign subsidiary, there is a possibility of imposing tax jurisdictions of different countries.

Therefore, Azerbaijan's agreements on avoidance of double taxation with 33 countries are important and agreements are being prepared with other countries. These agreements are of a combined nature - a resident source.

Stimulation of investment activity by lowering tax rates is mostly of the form of a "tax holiday", meaning the release of capital investment from tax in the initial period. The tax base is calculated using the provisions on depreciation methods, provisions for transferring losses to other periods, handling capital gains, tax credits, methods for estimating inventories and incomes, as well as losses from changes in exchange rates. Most industrialized countries and many developing countries have used such measures as accelerated depreciation, full or partial exemption of capital gains and investment tax credits over the past twenty years, which makes one think about the neutrality of the tax system. Although some of these incentives are aimed at increasing investment, more often such investments do not lead to the desired economic growth. The reason for this is quite obvious and has become the subject of close scrutiny in recent years: such incentives create differentiation in taxation, which leads to inefficient distribution of capital between different industries, assets, financing methods and forms of ownership.⁵

A country that accepts foreign investment must determine which activities are subject to taxation (in other words, what should be the minimum amount of activity for an enterprise to become taxable, and it could be required to pay taxes). Usually in such cases the criterion of "permanent establishment" is applied, but its definitions may vary. In

⁵ Ppi (2015). Boosting Economic Growth in Azerbaijan through Economic Diversification. Available at: <http://www.ppi.az/publication/boosting-economic-growth-in-azerbaijan-through-economic-diversification/> [Last accessed on March 06, 2018]

terms of budget revenues, capital importing countries have a clear incentive to maximize taxation coverage of foreign investors. Here, however, the costs of valuing and collecting taxes from "smaller" activities that can be very significant are not taken into account.

However, taking into account the peculiarities of the Azerbaijani economy, it is advisable to apply tax benefits, as well as preferential taxation of foreign investments for the near future. To achieve one of the main goals of the tax system of the transition period, that is, to stimulate national production, it should contribute to the formation of full-fledged market players, thereby creating a competitive environment, which to a large extent can ensure the participation of foreign investors in the national economy.

According to foreign experience, one of the most important factors for attracting foreign capital is the existence of a favorable legal environment, a stable legislative framework that ensures the conditions for the most effective protection of the interests of investors. A very important component of the investment climate is the tax regime. To attract foreign investment, it is necessary to use various tax incentives. Types of tax incentives introduced by the countries - importers of capital can be divided into two principles.

The first is incentives in the form of lowering tax rates or tax exemptions, or allowing deductions from the tax base. Secondly, the incentives for investing in the tax system can be general and apply to local and foreign investors, or be directed only at foreign investors.

In general, to attract foreign investment in Azerbaijan, it is necessary to focus on two elements: simplicity of the tax system with minimal tax incentives for foreign investors and coordination of tax policy with other countries - importers of capital and countries - exporters of capital. The reasons for this orientation are as follows. First,

a foreign investor is likely to be attracted by a stable macroeconomic situation, a transparent regulatory system and no restrictions on the repatriation of profits, rather than specific tax incentives. Secondly, the problems connected with the taxation of import-export of profits are rather complicated.

Thirdly, the total tax burden (as we know, economic growth is in inverse proportion to the tax burden) that lies with enterprises depends on the tax legislation of not only the host country, but also the country in which the head office of the firm is located. It is likely that without proper coordination of the tax policy, tax incentives will either lose their significance or the tax base in the country - importer of capital will decrease, or both will occur simultaneously.

Solving the problem of taxation of the oil sector is also one of the most important tasks in the republic today. Despite the high tax burden of the oil sector, this industry is developing confidently, but, however, it leads to an increase in the price of petroleum products and has a decisive impact preventing the revival of not only individual sectors of the economy but also the economy as a whole. Therefore, given these arguments, it is necessary to reduce the tax burden on the oil sector. First of all, in this sector it is necessary to adjust excise taxes. Determining the level of the tax rate, you need to take the long-term average price for oil, taking into account the situation in the oil market, and limit the difference with the help of tax deferrals. If this is not done in time, there will be a problem of ensuring the development of such industries as machine-building, light, food and other spheres that use products of the

fuel and energy sector and automatically transfer the tax burden to their products.⁶

An equally important problem is the problem of legalization of the shadow economy. Azerbaijan's gaining independence, its transition to a market economy, all this did not lead to the eradication of the shadow economy. It is necessary to give more serious attention to the legalization of the shadow economy. Here, first of all, you need to think over the legal mechanisms and procedures for paying taxes by the "business community" of the shadow economy. In any case, the "shadow investments" invested by our compatriots will be more profitable for the republic than the investments made by foreign countries under more stringent conditions.

At the moment, the most acute problem in regulating the tax system is collecting taxes and hiding from paying taxes. Many specialists, scientists and even high-ranking officials are called the main reason for this high level of tax rates. Of course, one can not deny the direct relationship between tax evasion and high tax rates. However, it is also true that if there is a possibility of tax evasion, regardless of whether the tax burden is "heavy or easy", the taxpayer will take advantage of this opportunity. In other words, as long as there are contradictions, ambiguities in the tax legislation, as well as mistakes in the organization of the work of tax authorities, an increase or decrease in the tax burden will not have serious significance for this issue.

At the moment, Azerbaijan has adopted the tax practice of stimulating business activity, mainly from countries that mainly focus on imports. However, all the tax privileges envisaged for innovation are of an episodic nature, since they do not cover the entire cycle of the

⁶ Euronews (2016). Azerbaijan's president insists low oil price are bringing reforms and diversification. Euronews. Available at: <http://www.euronews.com/2016/03/11/azerbaijan-s-president-insists-low-oil-price-are-bringing-reforms-and/> [Last accessed on March 13, 2018]

innovation process, and enterprises are, in principle, neutral to innovative behavior.

As a result of ongoing structural changes in the economy, it is necessary to revise the practice of taxation on investment. First of all, structural reorganization requires, from the point of view of the interests of the national economy, the closure of a number of unprofitable industries and the direct provision of equal benefits to them, along with all other enterprises, and this can further increase disproportions and deformations in the economy. Secondly, it is necessary to take into account the real investment opportunities both from the budget and from the company's own resources. Since our economy has taken the path of a market economy, the decisive factor in regulating the tax system is the approach aimed at attracting foreign investment for the revival of the country's economy.

During the period 2006-2014, 104.9 billion dollars was invested in the economy of Azerbaijan, taking into account all financial sources. of which: 29.9 billion dollars. (28.5%) - foreign investments. In this period, about 1,174 enterprises with foreign investments operate in Azerbaijan and account for about 20% of all taxes.⁷

Also, the experience of the countries with a transitional economy has shown that to stimulate the transitional economy of Azerbaijan, it is not enough to be content with certain moments that are taken by countries with developed market economies in the field of forming and regulating the tax system. One of the key elements of the mechanism for supporting and developing small and medium-sized businesses is, as mentioned above, the tax system. The experience of countries with

⁷ Gurbanli, A. (2016). The Impact of Declining Oil Prices on the State Budget of the Republic of Azerbaijan: Public Finance and Budgeting. Oval. Available at: <http://oval.az/the-impact-of-declining-oil-prices-on-the-state-budget-of-the-republic-of-azerbaijan-public-finance-and-budgeting/> [Last accessed on March 10, 2018]

developed market economies testifies that a purposeful program of reforming the tax system is aimed at strengthening and supporting small and medium-sized enterprises.

Taxes can be an element of the mechanism regulating demographic processes, youth policy, other social phenomena. With the help of taxes, it is also possible to regulate consumption. For example, such a tax as excise, along with securing the revenue side of the budget, and especially its high proportions, affects the demand and purchasing power of the population. Also, the experience of the countries with a transitional economy has shown that to stimulate the transitional economy of Azerbaijan, it is not enough to be content with certain moments that are taken by countries with developed market economies in the field of forming and regulating the tax system. One of the key elements of the mechanism for supporting and developing small and medium-sized businesses is, as mentioned above, the tax system. The experience of countries with developed market economies testifies that a purposeful program of reforming the tax system is aimed at strengthening and supporting small and medium-sized enterprises.

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Without a doubt, the Tax Code is more connected with the budget process than with the overall economic growth of the country. Therefore, we need to seriously approach the problem of granting tax benefits to taxpayers, along with this - to the problem of forming the republic's budget.

CHAPTER II. TAX SYSTEM OF THE REPUBLIC OF AZERBAIJAN AND ITS MAIN FEATURES

2.1. Tax system. Features of the tax system of the Republic of Azerbaijan

The tax system of the Republic of Azerbaijan ensures the functioning of the country's production mechanism, allows financing urgent needs of the state, limits the growth of the budget deficit, meets all the requirements of a market economy.

Currently, the main objectives of the tax system, which is based on market elements, are as follows:

- Ensuring the mobilization of all state revenues to the budget, otherwise it will be impossible for the state to implement its social and economic programs;
- creation of conditions for regulating both production and consumption of agriculture and its various spheres, taking into account the characteristics of the formation and redistribution of income of various strata of the population.

As already noted, the modern taxation system faced with a number of problems in its formation. First, it was based on the conditions of weak development of tax relations between individuals. Secondly, unsatisfactory attitude of production entities in relation to taxes required the creation of serious accounting units. Fourthly, there were almost no scientific schools and tax practice in the country.

Modern tax system of the Azerbaijan Republic has the following characteristic elements:

- is based not on separate legislative acts, but on legal bases, that is, covers all financial relations for the redistribution of one part of social production;

- tax authorities conduct an operational audit of tax revenues;
- an objective division of the tax burden between individual taxpayers is ensured;
- studying the experience of foreign countries allows entry into international integration processes;
- The modern tax system of the Republic of Azerbaijan was formed on the classical principles of taxation, taking into account the principles prepared by foreign countries.

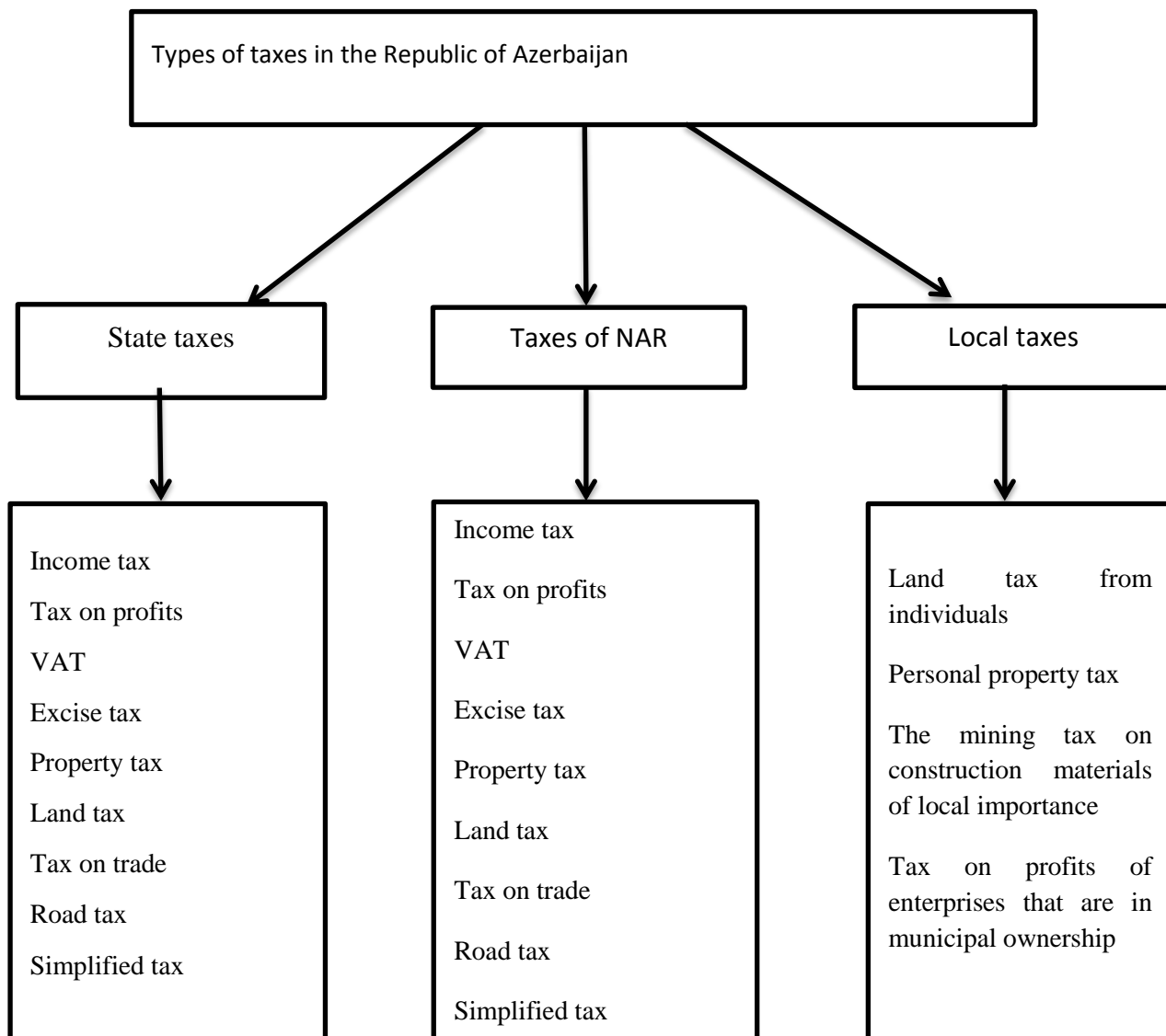
According to the Tax Code of the Republic of Azerbaijan, the country's tax system is based on the following principles:

- Tax legislation is based on the universality, equity and fairness of taxation;
- taxes should have an economic justification;
- no one can be forced more than once to pay a tax of one kind from the received profit (income);
- taxes can not be discriminatory and established on the basis of political, ideological, ethnic, confessional and other existing differences between taxpayers;
- it is prohibited to establish differentiated tax rates depending on the form of ownership or citizenship of individuals or the place of origin of capital;
- taxes of the Republic of Azerbaijan are established exclusively by this Code, their modification or cancellation is made by introducing amendments to this Code;
- no one can be charged with the duty to pay taxes that have tax features established by this Code and are not established by this Code or are established by other rules than are determined by this Code.

2.2. Features of application of direct and indirect taxes in the Azerbaijan Republic

At the moment, the tax system of the Azerbaijan Republic is determined by the Tax Code. The general tax system in the country is as follows:

Figure 2. Types of taxes in the Republic of Azerbaijan



Speaking about state taxes, it means taxes that are payable throughout the territory of the Republic of Azerbaijan. The taxes of the Nakhichevan Autonomous Republic are determined in accordance with

the Tax Code of the Autonomous Republic of Azerbaijan and the laws of the Nakhichevan Autonomous Republic, and paid on the territory of the Nakhichevan Autonomous Republic. Local taxes are also determined by the Tax Code and the relevant laws, are applied in accordance with the decisions of municipalities and are paid in the territories of municipalities.⁸

The dynamics of tax revenues of certain types of taxes in the formation of the revenue side of the budget of the Republic of Azerbaijan is shown in the table.⁹

As can be seen from the table, within the framework of years from 2008 to 2014, in the Republic of Azerbaijan, compared with developed countries, the share of personal income tax is lower, and the share of income tax is much higher.

Table 1. Income Tax Rates within 2008-2014

<i>Taxes and other payments</i>	<i>Income Tax Rates within 2008-2014</i>						
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
VAT	1.169.893,6	1.180.280,6	1.271.462,7	1.387.662,7	1.483.585,3	1.723.917,5	2.048.656,7
Excises	395.810,5	417.368,2	452.027,4	417.394,4	454.642,4	511.976,6	740.292,9
Tax on profits	2.863.950,2	1.329.192,5	1.429.824,9	2.133.993,3	2.252.223,2	2.374.791,6	2.302.887,7
Tax on trade	147.749,5	121.904,4	130.074,4	129.770,0	125.782,7	121.480,2	116.162,3
Land tax	30.789,7	26.235,6	35.311,2	35.321,0	30.596,1	33.113,2	35.398,1
Property tax	113.225,5	66.168,7	101.811,5	103.867,1	105.087,4	125.147,6	141.275,5
Taxes on income from individuals	637.800,2	581.873,3	590.235,1	715.656,2	812.958,4	859.656,6	980.233,3

⁸ Taxes (2016). Municipal Taxes. Available at: <http://vn.taxes.gov.az/info/verginovleri/eng/belediyye.pdf> [Last accessed on March 16, 2018]

⁹ Karimova (2016). Tax Revenues from Azerbaijan's Region Exceeds \$387M. Azernews. Available at: <http://www.azernews.az/business/92135.html> [Last accessed on March 02, 2018]

State fees	59.870,7	72.874,5	89.519,1	104.804,8	103.186,3	123.229,5	111.082,3
Road tax	27.365,6	16.462,8	15.168,8	28.095,4	28.655,3	24.383,5	22.313,9
Simplified tax	65.654,5	63.573,7	65.525,0	100.425,7	111.423,2	119.526,3	153.396,7
Other income	234.455,8	237.465,7	111.839,9	318.071,4	517.226,2	646.410,8	461.923,0
Total	5.746.565,8	4.113.400,0	4.292.800,0	5.475.062,0	6.025.366,5	6.663.633,4	7.113.622,4

However, according to the Diagram 1, the Personal Income Tax Rate in Azerbaijan stands at 25 percent in 2018. Personal Income Tax Rate in Azerbaijan averaged 29.62 percent from 2006 until 2018, reaching an all time high of 35 percent in 2007 and a record low of 25 percent in 2013.

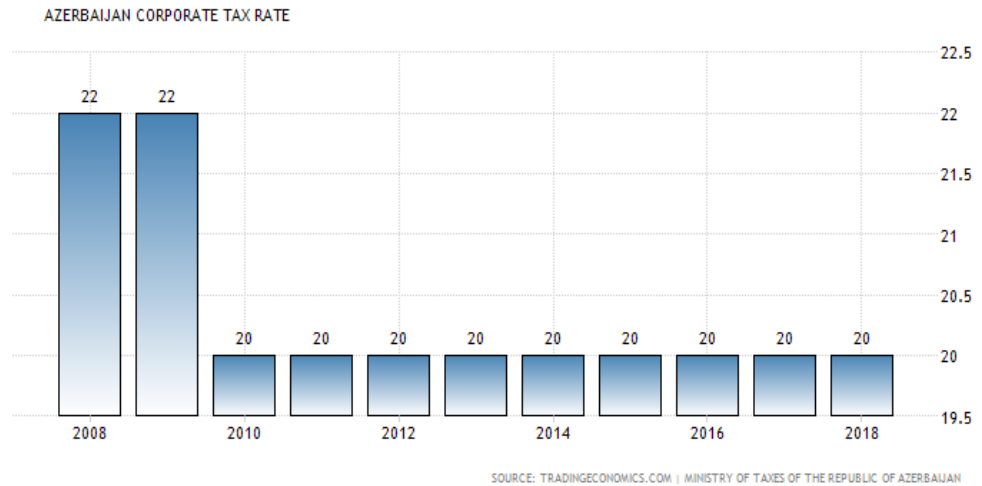
Diagram 1. Azerbaijan Personal Income Tax Rate within 2008-2018



The following Diagram 2 shows that the Corporate Tax Rate in Azerbaijan stands at 20 percent in 2018. Corporate Tax Rate in Azerbaijan averaged 21.27 percent from 2004 until 2018, reaching an all time high of 25 percent in 2004 and a record low of 20 percent in 2010.¹⁰

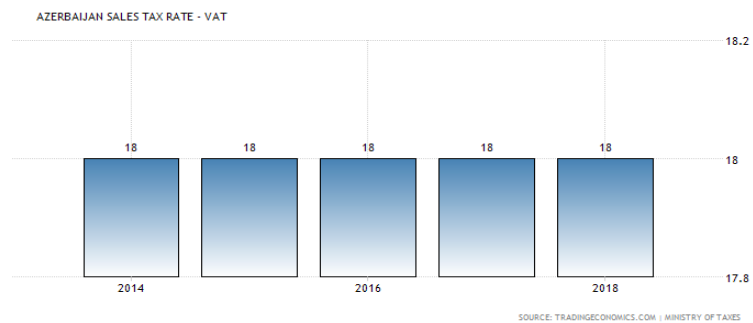
Diagram 2. Azerbaijan Corporate Tax Rate within 2008-2018

¹⁰ <https://tradingeconomics.com/azerbaijan/social-security-rate-for-companies> [Last accessed on March 19, 2018]



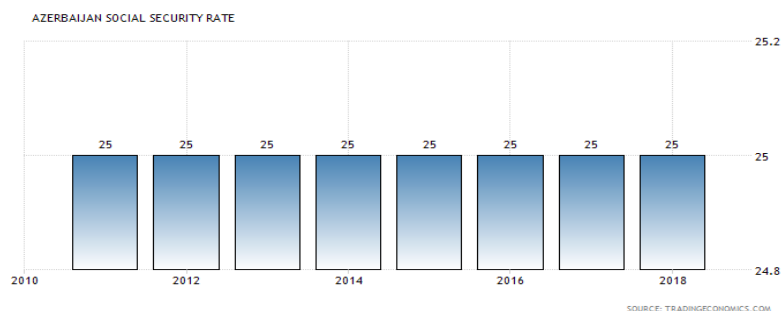
The Diagram 3 illustrates that the Sales Tax Rate in Azerbaijan stands currently at 18 percent and remained stable within 2014-2018.

Diagram 3. Azerbaijan Sales Tax Rate within 2014-2018



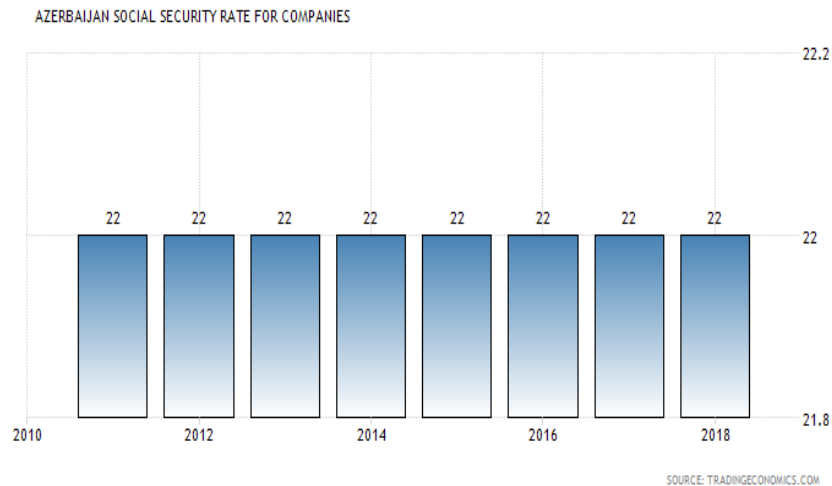
The following Diagram 4 illustrates that the Social Security Rate in Azerbaijan stands currently at 25 percent.

Diagram 4. Azerbaijan Social Security Tax Rate within 2010-2018



Based on the Diagram 5, The Social Security Rate For Companies in Azerbaijan stands at 22 percent within 2010-2018.

Diagram 5. Azerbaijan Social Security Rate for Companies within 2010-2018



According to the Diagram 6, the Social Security Rate For Employees within 2010-2018 in Azerbaijan stands currently at 3 percent.

Diagram 6. Azerbaijan Social Security Rate for Employees within 2010-2018



There are several reasons for the reduced share of income tax from individuals in the revenue side of the country's budget. The main one is that the level of wages in Azerbaijan is much lower than in these countries, as well as tax evasion of persons receiving high profits. The taxes that make up the tax system of the Republic of Azerbaijan can be divided into 3 main groups: the tax on profit (income), property tax, and the tax on goods and services. Taxes on profits include income tax on individuals, corporate income tax and a simplified tax. Income tax from individuals is withheld from income earned from hired labor (wages or other payments for this work) and received from non-wage labor (obtained from entrepreneurial activities). According to the Tax Code, the income tax is withheld at a rate of 14%¹¹ (if the taxable income is more than 30,000 manats per year, then this amount is added to 25% of the amount over 30/000 manats). It should be noted that the amount of monthly income up to 200 manats is not taxed. The objects of taxation of profit tax include the profits of legal entities, credit and insurance companies, branches of legal entities, permanent representations of non-residents. The income tax rate is 14%, while at the same time, withholding tax on dividends, interest and royalties is 10%. It should be noted that over the recent years, the income tax rate has been reduced by 7% (27% - 20%). Taking into account the provisions of Chapter XI of this Code, persons who do not register for VAT purposes, for which the amount of taxable transactions for a consecutive 12-month period is 200,000 manats or less, is entitled to become a payer of simplified tax. The simplified tax rate for the city of Baku is 4%, and for regions 2%. Taxes on property can include property tax and land tax.¹² The property

¹¹ The Tax Code of the Republic of Azerbaijan. Available at: http://www.taxes.gov.az/uploads/qanun/2015/vergi_mecellesi_eng.pdf [Last accessed on March 10, 2018]

tax is paid by legal entities and individuals. Legal entities pay this tax to the state budget, and individuals to local budgets. The object of taxation for legal entities are fixed assets in the balance sheet of the enterprise, motor vehicles and the value of other assets. The tax on property from individuals is calculated on the basis of the transport and fixed assets that are in their ownership. According to the Tax Code, land tax taxpayers are individuals and legal entities that own or use land plots in the territory of the Republic of Azerbaijan. The rate of land tax on agricultural land is set at 0.06 manats per 1 conventional point. But when calculating land tax, its purpose, geographic position and quality are taken into account. Taxes for goods and services provided include VAT, excise tax, trade tax, road tax, customs duties and payments. The VAT taxpayers are business persons who have the volume of taxable transactions for a consecutive 12-month period exceeding 200,000 manat within 10 days after the end of this period are required to submit to the tax authority an application for registration for VAT purposes. The VAT rate is 18%. I note for information that the VAT rate in 1991-1992. was 28%, and in 1992-2000. 20%. The object of taxation of excise taxes is operations on the production of alcoholic beverages, tobacco products, petroleum products, automobiles, as well as operations for the import or sale of floating facilities intended for sports or entertainment. These taxes also occur in the sales prices of goods of the VAT type. The object of taxation is minerals extracted from the depths of the territory of the Republic of Azerbaijan, including the sector of the Caspian Sea (lake) belonging to the Azerbaijan Republic. The fishing tax is paid to the state budget, and for local construction materials, the tax is paid to local budgets. The object of taxation of road tax are motor vehicles of foreign

¹² Farchy, J. (2015). Azerbaijani Manat Collapses After Government Abandons Dollar Peg. Financial Times. Available at: <http://www.ft.com/intl/cms/s/0/b5f46eac-a7c4-11e5-9700-2b669a5aeb83.html#axzz49fz9toEG> [Last accessed on March 10, 2018]

states entering the territory of the Azerbaijan Republic, as well as those owned or used by persons in the territory of the Republic of Azerbaijan. One of the indicators characterizing the tax system is the amount of the tax burden. The tax burden can be defined as the ratio of total tax revenues to the country's GDP, or the ratio of total revenues (customs payments and receipts to the State Social Insurance Fund) to the country's GDP. The level of the tax burden in the country is much less than in comparison with foreign countries. There are several reasons for the formation of this situation. One of the reasons is the unsatisfactory level of tax discipline in the country.

CHAPTER III. KEY FEATURES OF TAX SYSTEMS IN THE USA AND GERMANY

3.1. US tax system and its features

For tax purposes, the United States of America includes 50 states and the capital, the city of Washington, DC. Also, the United States exercises sovereign jurisdiction over a number of possessions and territories, including Puerto Rico, the Virgin Islands, Guam, American Samoa and the Commonwealth of the Northern Mariana Islands. However, the US tax laws do not apply to these territories and territories, they are also not part of US international treaties with respect to income taxes and are not regulated by them.

Because the United States is a federal state, taxes on income and other taxes are levied both at the federal and state levels, and in some cases by municipalities.

One of the characteristic features of the US tax system, it should be noted, firstly, that the US tax law, unlike the Azerbaijan one, does not contain a list of federal, regional and local taxes, moreover, the US states have the right to establish any taxes on their territory and this right is limited only by the duty to observe the constitutional principles of taxation. Secondly, there is no value added tax in the United States, but almost all states levy sales tax. Thirdly, companies are taxpayers of the federal corporate tax, but in most cases they also pay state corporation tax. Fourth, the social security tax is paid by both employees and employers. Fifthly, the US tax system is more focused on direct taxes, and income from personal income tax is much higher than the amount collected from corporate tax collection.

The body that administers taxes in the United States is the Internal Revenue Service (IRS), which is the largest structural division of the US Treasury.

US Tax System

In the United States, the following types of taxes are levied:

- 1) taxes on income (personal income tax and corporation tax (ie corporation tax));
- 2) social security tax (contribution);
- 3) tax on the liquidation of unemployment;
- 4) tax on the property of legal entities;
- 5) tax on property, passing in the order of inheritance or gift;
- 6) excises;
- 7) sales tax;
- 8) tax on environmental protection;
- 9) taxes on the extraction and processing of oil and other minerals;
- 10) customs duties.

Customs duties are levied only at the federal level. Only at the state and local government level, sales tax and property taxes are levied.

In the US there are three levels of taxation:

1. The federal tax
2. State taxes (depending on the state where the company conducts business)
3. Local tax (depending on the city and region where the company's business is located).

There are no offshore companies in the US. All companies pay the same federal income tax, depending only on the level of profitability of the firm.

State taxes are very different. Below, I listed some states and the average percentage of personal income that goes to taxes for residents of the state. If you are the owner of the company, the tax depends on the state (s) where your company conducts business, and from the state of residence.

US taxes on the states.

10 States with the highest taxes:

- New Jersey - 11.8%
- New York - 11.7%
- Connecticut - 11.1%
- Maryland - 10.8%
- Hawaii - 10.6%
- California - 10.5%
- Ohio - 10.4%
- Vermont - 10.3%
- Wisconsin - 10.2%
- Rhode Island - 10.2%

10 States with the lowest taxes:

- Alaska - 6.4%
- Nevada - 6.6%
- Wyoming - 7.0%
- Florida - 7.4%
- New Hampshire - 7.6%
- South Dakota - 7.9%
- Tennessee - 8.3%
- Texas - 8.4%
- Louisiana - 8.4%
- Arizona - 8.5%

In addition, there are local and regional taxes. In most regions there are no separate local taxes, but in large cities (for example, New York) there are. Local taxes can amount to a total of up to 5%. In addition to the above taxes, there are sales taxes, taxes on expensive products (cars, boats, etc.) (Luxury Items Tax and Car Registrations), property taxes (Property Taxes), inheritance taxes (Inheritance and Estate Taxes) e. They all depend on the state and region of residence. According to my rough estimate, the average American, having a normal salary (say \$ 50,000 per year) and living in a normal middle house gives 40% to 50% of his income for taxes. If an individual earns above average (say \$ 100,000 per year), then taxes can go up to 60% of his/her income.

The federal government is currently financed mainly by the corporate income tax and corporate income tax. Previously, the government funded tariffs from imported goods, but now these tariffs constitute a small part of federal income. There are non-tax payments to compensate for service agencies such as additions to tickets or filling out special trust funds.

The state legislatures can only enact taxes that are not inconsistent with federal tax legislation, and local governments are entitled to levy taxes that are permitted by state legislations. However, in practice this means that the states have virtually unlimited independence in setting taxes, because The federal tax law of the USA, unlike the Azerbaijan, does not contain the list of taxes allowed for introduction in the states. It is this situation that forces the inhabitants of the states to

show great interest in the elections of their governor and parliament, this directly affects their tax burden.¹³

Taxes that give the largest and most stable revenues go to the federal budget.

Further, it is proposed to consider the above main types of taxes levied in the US, in more detail.

Corporation tax

Corporate tax is levied at two levels: federal and state. During the 1980s, the marginal rate of corporate tax in the US fell from 46 to 35%.

The object of taxation is the gross income, including the gross proceeds from the sale of goods and services, dividends, income from rental payments, income from sales on the securities market, all other revenues, except for legal deductions (discounts):

- 1) usual deductions:
 - a) salary;
 - b) taxes paid to the states and local authorities;
 - c) social security tax;
 - d) rental payments;
 - e) expenses for repairs and depreciation;
 - (e) R & D expenditures;
 - g) advertising costs;
 - h) interest for a loan;
 - i) irrecoverable (bad) debts.
- 2) special deductions:
 - a) net operating losses;
 - b) 85-100% of the amount of dividends received;

¹³ Ebel, D.R. (2014). Democracy, Decentralization and Development. Available at: <http://www.frp2.org/english/Portals/0/Library/Inter-Governmental/Democracy.pdf> [Last accessed on March 10, 2018]

c) for some corporations working in the economic sectors, priority or socially necessary from the point of view of the state, such deductions can be, for example, the cost of developing oil or gas wells, the costs of environmental technologies or activities, etc.

Federal corporate tax is levied on the taxable income of any corporation on the following scale:

- 15% of taxable income not exceeding \$ 50,000;
- 25% of taxable income over \$ 50,000, but not more than \$ 75,000;
- 34% of the tax base is more than \$ 75,000, but not more than \$ 10,000,000;
- 35% of the tax base is more than 10 000 000 \$.

At the same time, if the corporation has taxable income in excess of \$ 100,000 for any tax year, the tax amount is increased by the smaller of the following:

- 1) 5% of the excess amount;
- 2) \$ 11750.

And if the corporation taxable income exceeds \$ 15,000,000, the tax amount is increased by the smaller of the following values:

- 1) 3% of the excess amount;
- 2) 100 000 \$.

As for the state level, the corporation tax is levied by almost all US states (except for Nevada, South Dakota, Texas, Washington State and Wyoming), and in some cases municipalities. Although the rules for calculating the tax base vary from state to state, corporate corporation tax is usually assessed on the sum of the corporation's total profits received in the territory of the respective state. As of 2017, the maximum state corporation tax rate was 12% (Iowa State).

A good example is the state of Alaska, where corporate tax is levied on all taxable income received from sources in the state and is calculated as follows:

In practice, the amount of tax paid to the state is reduced through the provision of benefits, in particular, the amounts spent on investment in housing projects, programs to encourage the creation of additional jobs; on the development of alternative energy sources, etc.

The taxpayers of the tax are two groups of economic entities: a partnership (the association of two or more persons for joint activities with a view to making a profit is typical for organizations providing intellectual services: legal, audit, actuarial, consulting) and the corporation. From the point of view of taxation, their main difference is as follows:

a) the partnership does not pay tax on the income received as a result of its activities. The income of the partnership is distributed among its participants, each of which pays the tax independently;

b) the corporation directly pays the profit tax received as a result of its activities, and in addition to this, with the dividend distributed in the form of dividends, corporation profits tax is paid by its shareholders. In fact, there is double taxation. In order to minimize this shortcoming of the tax system, the legislation provides for the possibility of choosing a tax regime for corporations working in the medium and small business.

It should be noted that the corporate tax payable at the state level is deducted from the federal corporate tax base. Thus, double vertical taxation by corporate tax is prevented.

Personal income tax

The maximum rate of income tax in the United States until 1964 was 91%, then it was reduced to 70%, in 1981 a new reduction was made to 50% (federal income tax in the USA had a 14-digit scale of rates

from 11 to 50%). From the beginning of 1988, three tax rates for personal income were introduced: 15% on income up to 30 thousand dollars a year; 28% on income of 30-72 thousand dollars and 33% for those who have income over 72 thousand dollars.¹⁴

Citizens and residents of the United States are required to pay taxes from their income around the world, even if they live outside the United States. Foreign citizens are subject to US income tax only if they become residents of the United States or if they extract certain types of income from sources within the United States.

Foreign citizens are considered residents of the United States, if they have a so-called. American green card and they entered the territory of the United States, or if they passed the so-called "green card". `test for a significant presence '. A substantial presence test is considered to have been completed if a person is present in the United States for at least 183 days during the current calendar year and the preceding two years. In this case, the number of days is considered as follows: every day of attendance in the current year is considered as one day, each day of attendance during the year preceding the current one is considered as one third of the day, and each day of attendance during the year that was one year before the current one, counts for one sixth of the day.

Exceptions to the procedure for the recognition of foreign citizens by residents are applied to individuals from certain categories (for example, officials of foreign governments, students, teachers and trainees), as well as for individuals who are more objectively related to housing in another country. Married persons can file either separate income tax declarations, indicating their own income and deductions, or

¹⁴ Barney Jopson and David Crow, 2015, "Wall Street critic Elizabeth Warren slams tax reform plans," Financial Times, [Last accessed on April 16, 2018]

they can choose to file a joint tax return, specifying in it joint incomes and deductions, that is, their own and the spouse(s).

On December 22, 2017, the US President signed a law on measures to reduce the tax burden and increase employment. For US GAAP purposes, the law is considered to be adopted from the date of signing, and for the purposes of IFRS - actually adopted from December 22, 2017, it has entered into legal force on January 1, 2018. Most observers agree that the law contains the most significant changes in federal laws on income taxation since 1986. Since most state income tax laws are inextricably linked to definitions of federal tax law, it is expected that the changes provided for by the law are likely to have significant effects on local and state taxes for individuals, corporations and other business entities, and , that these consequences can radically differ depending on how the legislation of individual states will be brought into line with the new federal laws rules.

According to the International Monetary Fund and other financial institutions, recent years in the world, economic growth in developed countries is weaker than in developing countries. In terms of external debt, the United States ranks first in the world (about \$ 20 trillion) in 2016. According to the updated forecast of the World Bank, in 2017, global economic growth was 2.8%, and in 2018, is expected to be at a level of 3%. In the updated report "Prospects for the World Economy" of the International Monetary Fund, the forecasts of economic growth in the US are positive (an increase from 3% to 3.3% in 2016). The model of the budget that was formed in Azerbaijan is difficult to assess without taking into account the connection between SOFAZ and the state budget. Over the past 10 years, GDP in the non-oil sector has increased 7 times, the share of the non-oil sector in GDP has increased from 30% to 67%. In 2005-2015, the average annual growth rate of real GDP in the non-oil

sector was 9.5%. Since 2005, Azerbaijan has experienced rapid economic growth. In 2005-2007, GDP grew by more than 2 times, in terms of GDP growth (26.4%, 34.5%, 25%, respectively) Azerbaijan's economy ranked first in the world. In 2006-2011, the economy grew by more than 2 times (the average annual growth was about 17%). The volume of GDP per capita increased 2.6 times, incomes of the population 6 times, industry 3.6 times.¹⁵

3.2. The German tax system and its key features

The basic principle of German taxation is: "taxes must correspond to the amount of services rendered by the state".

The German tax system is fundamentally different from that of other industrialized countries. The main features of the German legal system of taxation are the determination of the mutual relations and powers for the distribution of basic taxation objects, taxes, federations, territories and communities through the country's constitution. In terms of revenue collection and distribution authorities, taxes in Germany are grouped as follows: federal, territorial, joint, local and church taxes. The most important taxes (income tax, value-added tax, property tax, excises, etc.) belong to federal authorities. The rules for the application of separate taxes, such as mining and land tax, are regulated by special legislation. According to this legislation, the taxation base, tax exemption and minimum exemption are within the competence of the federal government. Territorial authorities are responsible for the base

¹⁵ Guliyev, F. (2016). Paradox of Plenty, Redux: Azerbaijan Grapples with Low Oil Prices. Natural Resource Governance Institute. Available at: <http://www.resourcegovernance.org/blog/paradox-plenty-redux-azerbaijan-grapples-low-oil-prices> [Last accessed on April 10, 2018]

rates, the specific coefficients apply to the community. Opponents play an important and effective role as a tool for the state's financial policy.¹⁶

In Germany, a complex and ramified tax system has been adopted. All the taxes that citizens and non-citizens of Germany must pay to you will be reported to you every month: written notifications of tax authorities come to the post office. The assistance of specialists in paying taxes is a common thing in Germany. New entrepreneurs and foreign entrepreneurs, as well as those who receive additional income, are always advised to contact experts when filling out the first tax returns (for example, tax advisers, lawyers, sworn auditors, auditors and financial inspectors).¹⁷

Consolidated, the budget of Germany is divided into three levels:

- Central (state) budget (incomes and expenditures of the whole country)
- 48% of all tax revenues. - Budgets of 16 federal states. Budgets of different lands are not the same, depend on the economic factors of the regions
- 34% of all tax revenues
- Budgets of urban and rural communities - 13% of all tax revenues.

In addition, the state budget includes the revenues of the German Central Bank and state enterprises. Land budgets, initially uneven, are distributed vertically and horizontally for financial "equality" - from high-yielding regions (accident, Wurttemberg, North Rhine-Westphalia) in favor of "less developed economically (Saxony, Schleswig-Holstein) is redistribution of tax collections, additionally financially" weak "lands receive state subsidies.

¹⁶ Berezin M.Yu. Taxation in Germany [property tax in Germany]. *Finansy i kredit = finance and credit*, 2010, no. 18, p. 74-80.

¹⁷ Bundesministerium der Finanzen. Available at: <http://www.bundesfinanzministerium.de/Web/DE/Home/home.html> [Last accessed on April 16, 2018]

The general rules of taxation in Germany are regulated by the Law "The procedure for collecting taxes" - Abgabenordnung.¹⁸

Taxes in Germany provide about 80% of budget revenues. That is why they are considered by the government as the main means of the state's influence on the development of the economy.

The basic principle of German taxation since the inception of the system is: "taxes must correspond to the amount of services rendered by the state".

In total there are 45 kinds of tax in Germany, including such as tax for dog owners, tax on acetic acid, church tax, tax on sparkling wines, energy, entertainment, coffee, beer, hunting, second home or apartment, alcohol and many others.

In general, all German taxes can be divided into three main groups:

income taxes

property taxes

taxes on transactions and consumption

The main types of income tax:

personal income tax - Einkommensteuer

Corporate income tax - Körperschaftsteuer

business tax - Gewerbesteuer

Basic property taxes:

tax on land - Grundsteuer

taxes on donation and inheritance

Major taxes on transactions and consumption:

property tax

VAT

¹⁸ Meskikh K.L. Opyt Germanii v nalogovom administrirovanii [Experience of Germany in the tax administration]. Financial analytics: problems and solutions = Financial analytics: science and experience, 2012, no. 6, pp. 78-84.

If you consider some taxes in more detail:

Income tax from individuals. The main source of government revenues - it gives about 40% of all tax revenues. The tax is levied on the income of individuals from different sources (including income earned in other countries, if they have not yet been taxed). Income tax includes:

payroll tax

capital gains tax

Income tax is also levied on all incomes of industrial and agricultural activities, independent and dependent labor, possession of capital, the surrender of housing, the leasing of any property, etc., up to the income from speculative agreements.

This is a progressive tax. Its minimum rate is 19%, the maximum is 53%.

The non-taxable minimum is 5616 euros (for single people) and 11232 euros (for married couples)

For incomes that do not exceed € 8,153 for single people and € 16,307 for married couples, proportional taxation is applied at a rate of 22.9%. Further, the tax is levied on a progressive scale to the level of income of 1,001,400 euros (for single people) and 24,0083 euros (for married couples). All income is taxed at the maximum rate of 51%.

The federal budget is formed at the expense of receipts:

· Federal taxes: customs duties, taxes and added value, income tax on insurance activities, bill of exchange taxes, solidarity tax, taxes on the European Community, excises (except for beer tax);

· Shares in joint taxes;

· Shares in the distribution of the fishing tax.

The lands receive income from:

- Land taxes, property tax, inheritance tax, land acquisition tax, vehicle owners tax, beer tax, tax on tote and lotteries, fire protection tax, from collection from proceeds in the casino;

- Shares in joint taxes;

- Shares in the distribution of the fishing tax. Joint taxes include: the tax on wages, income tax, corporate tax, VAT (including VAT on imported goods).

Communities receive part of the proceeds from:

- Local taxes: trade tax, land tax, local excises and tax on specific forms of income use (tax on dog owners, on income of entertainment institutions);

- Shares in income from the tax on wages and income tax;

- Tax contributions in the framework of land legislation.

It is also possible to trace the similarities between the tax system of Azerbaijan and Germany, because in Azerbaijan taxes are also subdivided into federal, regional and local, which in turn come in different proportions to different budgets.

Churches in the Federal Republic of Germany (Catholic, Protestant and Lutheran) are competent to levy church tax from believers of the corresponding confession.

From the above it follows that the tax system in the FRG is plural (it has 45 taxes), ramified, three-tiered. The main fiscal role is played in it by income taxes. In Azerbaijan, the three-level tax system is also built on the principles of multiplicity (about 30 taxes) and branching.

In view of the wide variety of taxes in Germany, let us dwell only on the main of them.

Income tax from individuals is the main source of government revenue. The object of taxation for it is the income of individuals obtained by them from various sources: from work in agriculture and

forestry, fishing, hired labor and from free professions, from leasing or renting movable and immovable property, from capital and other income.

When taxing income, two methods of levying taxes are used: at the source and on declarations that are submitted to the tax service at the beginning of the calendar year following the reporting year.

Since 1993, the Federal Republic of Germany introduced a tax-free living wage, which is constantly changing in the direction of increase. So, in 1997 it was 12095 DM for single and 24191 DM for family; in 1998 it was 12,365 DM and 24,731 DM, and in 1999 - 24,731 DM and 26135 DM, respectively.

When forming a taxable base for this tax, income from production is deductible from production costs related to income generation and special costs. Some types of special costs are subject to deduction in unlimited amounts (for example, church taxes, party fees), others with restrictions on the maximum amount of deductions, differentiated depending on marital status. This is primarily a deduction of insurance premiums and contributions to the targeted accumulation of funds for housing construction. The cost of own training or in-service training, the costs of employees in their own economy, as well as school expenses are deducted in a fixed amount. Special expenses include alimony of divorced or spouses who live separately for a long time (they are taxed by the alimony recipient).

The taxable base can be reduced by the amount of unforeseen expenses (expenses for staying in a hospital, expenses of a single parent for household services in the upbringing of a child under 16).

There is also a similarity between the taxes of Azerbaijan and Germany. Unlike Azerbaijan, income tax in Germany is progressive. Its minimum rate is 19%, the maximum is 53%. The maximum tax rate

applies to citizens whose income exceeds 120 thousand marks. Although earlier in Azerbaijan the progressive rate of income tax was also applied.

It is more interesting for a working person to know more about what taxes are envisaged in Germany for individuals in 2018, and how much he will eventually receive on a current account with a bank. Of the earnings earned by honest labor, not only income tax will be withheld, it will be necessary to pay in addition to the budget: the contribution for medical insurance (14.6%) is paid by both the employee and the employer. It covers the periods of hospital stay of medical institutions, dental services, diagnostics, medicines; insurance premiums for unemployment (3%) - subject to payment of contributions for 12 months, the German who has lost his job will receive benefits during the period of job search; pension payments (18.7%) - like most civilized countries, this contribution forms a future pension. The lion's share is paid by the employer; insurance in case of need for care (2.55%) - solidarity contribution, which allows the state to contain disabled people, orphans, as well as victims of violence. Most of the fees are paid at the employer's expense, the smaller part is paid out of the employee's income.

An important role in the formation of the budget is played by taxation in Germany for legal entities, because the high level of economic development and the stability of the implementation of social guarantees by the state can not be supported solely by the efforts of industrious citizens. The basis of the financial well-being of Germany is successfully operating enterprises with the participation of both domestic and foreign capital. Whatever form of business organization the investor chooses, after paying taxes, he will not get more than 55% of the earned money.

Acquisition of immovable property involves the payment of two types of taxes. One of them is transferred to the budget at a time when

transferring ownership. The rate of such collection depends on the amount of the transaction and is between 3.5 and 5%. The specific size is determined by the federal land authority. After the conclusion of the transaction and the purchase of real estate or land, the owner is required to pay annually the property tax - 1% of the initial price for natural persons and 0.6% for businesses. For objects of real estate with a relatively low estimate, a privilege is provided in the form of a non-taxable cost of 120 thousand euros for citizens and 20 thousand euros for legal entities.

The mechanism for levying value-added tax (Mehrwertsteuer) in the FRG is in many respects similar to those in other EU countries. The taxation at the standard rate of 19% is subject to the entire amount of cash proceeds from business activities. At the same time, the amounts received from the received amount of liabilities exclude amounts that have already been paid to suppliers. In the end, only a margin surcharge falls under the taxation. This type of fiscal payment is sometimes called the turnover tax (Umsatzsteuer). For export operations, a zero rate is set, and for public catering enterprises a privilege applies - the tax is calculated on the basis of a 7% trade mark-up.

Non-rationality can not be called a hallmark of the German government. Therefore, all illogical, at first glance, fees are quite understandable origin: the rain tax is paid only by residents of those areas where rainwater requires the construction of special systems of disposal or harvesting, since it can cause trouble and harm to the environment or people - it is more correct to call this payment communal collection; tax on Google - more relates to the tax of copyright and is designed to protect the interests of authors who post on the network their unique content; the radio collection already takes care of the

maintenance of German TV and radio channels, it is taken for the unit of each type of device (receiver or TV).

Social justice in the understanding of the government of Germany is that citizens of the country and companies that conduct successful entrepreneurial activity and receive high incomes must pay taxes at higher rates. In turn, those segments of the population who experience constant or temporary difficulties should not be subjected to fiscal oppression, and sometimes even they can count on additional financial support. Preferential taxation in Germany on income tax, for example, is provided to minors, disabled people, elderly citizens, as well as to large and single parents. In addition, for those whose income does not allow them to rank themselves and their families as taxpayers of the fifth and sixth classes, there is a system of non-taxable and lump sums.¹⁹

Virtually all types of tax payments in Germany are levied on a progressive scale or their size and rate depend on the territorial factor. That is why almost all taxpayers resort to the help of tax advisers when drafting declarations and transferring obligations. As an aid to accountants and entrepreneurs, tax inspectors notify the public about how much in Germany they pay taxes in each calendar period.

¹⁹ Shawn Donnan, 2017, "Trump's top trade adviser accuses Germany of currency exploitation," Financial Times

RESULT

For regional and local budgets taxes are fixed, which do not have significant fiscal significance for the respective budgets. Their share does not exceed 15-20% of all revenues of consolidated budgets of entities. This calls for a review of the distribution of taxes.

In Germany, despite a large number of taxes and fairly high tax rates, a reasonable tax and economic policy, while respecting the most important principles of the tax system of the state, allows not only stable replenishment of budgets of different levels, but also has a constant increase in most tax revenues. It should be noted that

The government of the Azerbaijan Republic does not plan to increase the tax burden on the economy in the medium term by raising the rates of basic taxes. One of the main taxes in Germany is income tax, in Azerbaijan - the tax on personal income. In the case of income tax in Germany, the state guarantees a living wage, which is not taxed.

When establishing taxes, the German tax system is guided by the principle of social justice and the criteria for the individual maximum permissible tax burden. In accordance with this, a progressive scale of the income tax is applied (from 14 to 42%). In Azerbaijan, the tax rate on personal income is 13% for taxpayers.

Other tax rates of personal income tax are established for winnings and prizes, income on deposits in the bank is 35%. According to most scientists, at the current stage of reforming the tax system, it is necessary to develop a concept of taxation of citizens' incomes, which should take into account both world experience and specific features of the state system of Azerbaijan.

Since the transition to proportional taxation of incomes of individuals in the country, discussions on the need to return to

progressive taxation of such incomes continue. In practice, the effective tax rate on income of wealthy citizens acquires a regressive nature, as they have great opportunities to reduce the tax base by deducting the costs of charity, education, treatment, purchase of real estate. The current Tax Code of the Azerbaijan Republic does not provide for a tax-free minimum income. There is a need for tax rates that would ensure a fair redistribution of income. It should be noted that today the broad masses of the population are involved in the process of capital formation in the form of holders of shares, bonds, as well as property owners, which allows to significantly expand the taxable base and thereby reduce the tax burden on enterprises.

Introduction of progressive taxation of incomes of physical persons will favorably affect the redistribution of the tax burden between legal entities and individuals.

Foreign experience is difficult to adapt to Azerbaijan conditions, but, nevertheless, can be used in domestic tax administration. When forming the federal budget of Germany in 2013, the share of tax revenues was 84%, in Azerbaijan - 54%. An effective means of replenishing state revenues can be the return to the state monopoly of the production and marketing of spirits.

Violations of tax laws in Germany are among the most dangerous. The problem of tax collection is an acute problem of the Azerbaijan tax system. Using the experience of tax administration in Germany, a key proposal to improve the tax system of the Azerbaijan Republic is to increase automation and modernize tax accounting and control. Using the latest technologies to improve the quality of public services will ensure the transparency of the whole process, and for a number of tax authorities will expand the tax base itself, which will have favorable macroeconomic consequences. The latest innovations are

relevant and necessary. In particular, the introduction of a new automated risk-based approach to the control of VAT reimbursement - the ASK VAT system, which allows you to save VAT invoices, tax returns of VAT taxpayers, information on transactions, creating a tax history of companies, and thereby reduce the inflated and unreasonable deductions for VAT. Recent changes in the tax legislation are aimed at reducing the time of interaction between taxpayers and tax authorities, simplifying the rules of accounting for taxpayers and optimizing the adoption of investment decisions by market participants.²⁰

In the current conditions of the mobilization model of the Azerbaijan economy, there is a growing need for self-reliance, including an increase in the revenue side of the budget and the effectiveness of the tax system. It seems that further development of the tax system is necessary for the innovative development and modernization of the domestic economy.

At the same time, it should be understood that this process is very dynamic and it is necessary to carry out further research in the tax of studying foreign taxation experience.

One of the types of tax policy in Azerbaijan, Germany and the USA is a low tax burden, when the states take into account not only its own fiscal interests, but also the interests of taxpayers. Such a policy promotes the rapid development of the economy, especially its real sector, since it provides the most favorable tax and investment climate (the level of taxation is lower than in other countries, there is a large influx of foreign investment, including export-oriented, and, accordingly, the competitiveness of the national economy). Within three countries, the tax burden on business entities is substantially mitigated, but state social

²⁰ THE CONSTITUTION OF THE REPUBLIC OF AZERBAIJAN. Available at: <https://en.president.az/azerbaijan/constitution> [Last accessed on April 10, 2018]

programs are significantly curtailed, as budget revenues are reduced. In this case, the states weaken the tax press for entrepreneurs, reduce their spending primarily on social programs. The purpose of this policy is to ensure the priority expansion of capital, stimulation of investment activity. Such a policy is carried out at a time when there is a stagnation of the economy, threatening to go into the economic crisis. Similar methods of tax policy, called "Reaganomics", were used, in particular, in the US in the early 80s of the XX century.

In European countries, tax burden is at the level of 40-50%, up to 70% of tax revenue is spent on public welfare (medicine, education, various social transfers) in a wide range. By such redistribution, the quality of life of the entire population grows, incentives are created for the effective use of human capital in the economy. This expresses the "socioeconomic" essence of taxes more than "economic". If in the "economic" sense of the taxes, this is the formation of collected taxes in their favor on the part of the state, and in the "socioeconomic" understanding of taxes this redistribution of part of GDP is sufficient for a comprehensive development of society and economy. This is a more correct and logical expression of the relationship between taxes and the budget.

The modern tax policy pursued by President Ilham Aliyev ensures rapid economic development and, on the background of this development, the tax service is being modernized, modernized and conforms to its international standards. The result of all these measures was the implementation of reforms in the apparatus of the Ministry of Taxes, as well as local tax authorities, and a new effective model for managing the tax system was organized. As a result of the reforms, a tax administration was formed, carrying out more stringent tax controls, an excellent system of electronic communication between the taxpayer and

tax authorities, and information systems with a modern base. One of the important parts of this transformation is the implementation of the program "Improving tax administration in the Republic of Azerbaijan." As a result of the implementation of this program, which was confirmed by presidential decree on September 12, 2005, important work was done to ensure that the taxation system was in compliance with international standards, protect the rights of taxpayers, strengthen the fight against tax evasion, improve the system of compulsory tax payment and prevent the emergence tax debt. Within the framework of the execution of the state program, which determines the main strategic goals of the tax authorities, 5 basic measures were implemented. I would like to specially note that the Department of the US Treasury, as well as experts from the International Monetary Fund and the World Bank, evaluated the state program on improving tax administration as an exemplary program for developing countries and CIS countries.

As can be seen from statistical outcomes, Belgium and France have the highest tax burden. In Belgium, the maximum tax rate is 54%. Finland at the level of the maximum rate is in the front positions. Despite the high tax rates for GDP per capita, Belgium ranks 18th, and Finland is 20th. In Azerbaijan, the tax burden, including social allocations, is 21.5%, and excluding social allocations, 17.5%. Tax policy is characterized, along with the growth of national income per capita and with GDP growth, includes the ongoing structural changes. Countries Weight of Taxes in GDP (%) is as follows: Germany 40.6, France 47.9, Belgium 47.9, Japan 28.3, England 34.4, Finland 43.6, USA 26.9, Spain 37.3, Netherlands 39.8, Turkey 32.5, Italy 43.5, Russia 19.5, Belarus 24.2, Ukraine 28.1

In developed countries, most of the collected taxes are used in the form of public investments and expenditures. With the proper

provision of this flow, economic growth and sustainability of development will be in a positive direction. In each country, the taxation policy with its direct contribution to the economy and through influence in terms of encouragement and control is an important source for the use of financing for economic development. Tax benefits, increasing revenues and providing tax savings by reducing the cost of investment, increases the profitability of investment and expands their volume. More important is the macroeconomic importance of applying favorable tax conditions for investment.

The Personal Income Tax Rate in Azerbaijan stands at 25 percent. Personal Income Tax Rate in Azerbaijan averaged 29.62 percent from 2006 until 2018, reaching an all time high of 35 percent in 2007 and a record low of 25 percent in 2013, while the top personal income tax rate in the United States stands at 37 percent for individuals with an income above 500,000 USD per year and married filling jointly with an income above 600,000 USD per year. Personal Income Tax Rate in the United States averaged 36.67 percent from 2004 until 2018, reaching an all time high of 39.60 percent in 2013 and a record low of 35 percent in 2005. In Azerbaijan, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labor, pensions, interest and dividends. In the United States, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. However, the Personal Income Tax Rate in Germany stands at 47.50 percent. Personal Income Tax Rate in Germany averaged 49.85 percent from 1995 until 2018, reaching an all time high of 57 percent in 1996 and a record low of 44.30 percent in 2005. In Germany, the Personal Income Tax Rate is a

tax collected from individuals and is imposed on different sources of income like labour, pensions, interest and dividends.

The Corporate Tax Rate in Azerbaijan stands at 20 percent. Corporate Tax Rate in Azerbaijan averaged 21.27 percent from 2004 until 2018, reaching an all time high of 25 percent in 2004 and a record low of 20 percent in 2010. However, the Tax Cuts and Jobs Act (TCJA) introduced on January 1st, 2018 reduced the United States federal corporate income tax rate to 21 percent from 35 percent. Still, 44 of the 50 US states levy additional corporate income taxes which brings the average rate to 25.7 percent. Corporate Tax Rate in the United States averaged 32.68 percent from 1909 until 2018, reaching an all time high of 52.80 percent in 1968 and a record low of 1 percent in 1910. In Azerbaijan, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. In the United States, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. However, The Corporate Tax Rate in Germany stands at 29.79 percent. Corporate Tax Rate in Germany averaged 38.53 percent from 1995 until 2018, reaching an all time high of 56.80 percent in 1995 and a record low of 29.40 percent in 2009. In Germany, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year.

The Sales Tax Rate in Azerbaijan stands at 18 percent, while the Sales Tax Rate in the United States stands at 0 percent. In the United States, the sales tax rate is a tax charged to consumers based on the purchase price of certain goods and services. In Azerbaijan, the sales tax

rate is a tax charged to consumers based on the purchase price of certain goods and services. In the United States, the sales tax rate is a tax charged to consumers based on the purchase price of certain goods and services. However, the Sales Tax Rate in Germany stands at 19 percent. Sales Tax Rate in Germany averaged 17.89 percent from 2000 until 2018, reaching an all time high of 19 percent in 2007 and a record low of 16 percent in 2001.

The Social Security Rate in Azerbaijan stands at 25 percent, while the Social Security Rate in the United States stands at 12.40 percent. Social Security Rate in the United States averaged 20.20 percent from 1981 until 2018, reaching an all time high of 21.55 percent in 1990 and a record low of 12.40 percent in 2017. In the United States, the Social Security Rate is a tax related with labor income charged to both companies and employees. But, the Social Security Rate in Germany stands at 40.21 percent. Social Security Rate in Germany averaged 39.98 percent from 1981 until 2018, reaching an all time high of 42.53 percent in 2005 and a record low of 33.35 percent in 1981.

The Social Security Rate For Companies in Azerbaijan stands at 22 percent, while the Social Security Rate For Companies in the United States stands at 6.20 percent. Social Security Rate For Companies in the United States averaged 12.93 percent from 1981 until 2018, reaching an all time high of 13.90 percent in 1990 and a record low of 6.20 percent in 2017. In the United States, the Social Security Rate is a tax related with labor income charged to both companies and employees. Revenues from the Social Security Rate For Companies are an important source of income for the government of the United States because they help to pay for many social programs including welfare, health care and many other benefits. The Social Security Rate For Companies in Germany stands at 19.43 percent. Social Security Rate For Companies in Germany averaged

19.66 percent from 1981 until 2018, reaching an all time high of 21 percent in 2003 and a record low of 16.70 percent in 1981.

The Social Security Rate For Employees in Azerbaijan stands at 3 percent, while the Social Security Rate For Employees in the United States stands at 7.65 percent. Social Security Rate For Employees in the United States averaged 7.41 percent from 1981 until 2018, reaching an all time high of 7.65 percent in 1990 and a record low of 5.65 percent in 2011. In the United States, the Social Security Rate is a tax related with labor income charged to both companies and employees. However, the Social Security Rate For Employees in Germany stands at 20.78 percent. Social Security Rate For Employees in Germany averaged 20.32 percent from 1981 until 2018, reaching an all time high of 21.63 percent in 2005 and a record low of 16.65 percent in 1981.

It should be noted that the formation of the main directions of the budgetary-tax policy for 2018 in the Republic of Azerbaijan has been prepared by identifying four of the five principles set out for the current year. In addition to the principles of "Budget stability and long-term sustainability", "Medium term financial planning", "Effective financial control, accountability and monitoring" and "Fiscal Transparency" in 2017, "Budgetary relations on an efficient and equitable system" principle.

It should be noted that the dominance of oil and gas revenues has led to the dependence of the state budget on oil revenues and this creates difficulties in the further economic development of the country.

At present, most countries with rich natural resources are poorly developed countries. But in countries with abundant natural resources, there are favorable conditions for economic growth. The main reasons are the irrationality of the ongoing economic reforms and the wrongly formed state policy. From this point of view, it is necessary to analyze

the fiscal capacity of the state that impedes economic growth and eliminate shortcomings. In countries with and without effective and transparent public administration, the impact of financial policy instruments on economic growth varies considerably. Bureaucracy and red tape has a negative impact on the economy of the country. Given all this, in modern conditions, the fiscal policy pursued to ensure budget sustainability and increase investment efficiency, focusing on high-spending programs and providing low-level benefits, should be aimed at reducing budget spending. Tax policy, as an important means of financing economic development in the country, should be regularly improved. Expansion of the tax base income from non-entrepreneurial activities should be actively involved in taxation. Given that taxes from the non-oil sector are less affected by the processes occurring on the world market compared to taxes from the oil sector, the tax burden in this sector should be reduced.

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