THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL CENTER OF GRADUATE EDUCATİON

MASTER DISSERTATION

On the topic

"IMPACTS OF COVID-19 ON TAX REVENUES AND CHANGES IN TAX POLICY IN AZERBAIJAN"

Suleymanzade Rashad Suleyman

BAKU – 2022

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Code and name of the specialty: 060403 - Finance

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Group: 656

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BAKU – 2022

Elm andı

Mən, Süleymanzadə Rəşad Süleyman oğlu and içirəm ki, “Impacts of Covid-19 on tax revenues and changes in tax policy in Azerbaijan” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

"COVID-19-UN AZƏRBAYCANDA VERGİ SİYASƏTİNDƏ VERGİ DAXİLOLMALARINA VƏ DƏYİŞİKLİKLƏRƏ TƏSİRİ"

XÜLASƏ

Tədqiqatın aktuallığı: Bu iqtisadi tənəzzül nəticəsində dövlətin vergi toplama potensialında azalma müşahidə olunur və pandemiyanın mənfi iqtisadi təsirləri dövlət gəlirlərində özünü göstərir. Bu araşdırmada vergi daxilolmalarında baş verən proseslər araşdırılaraq pandemiyanın Azərbaycan iqtisadiyyatına təsiri üzə çıxarılıb. Verginin təsiri ilə dövlətin istər pandemiya, istərsə də bu kimi qlobal böhranlarda təsirlərini ölçmək, dövlətin atdığı addımları təhlil etmək, pandemiyadan sonrakı vəziyyəti proqnozlaşdırmaq tədiqatın aktuallığını göstərən əsas amillərdəndir.

Tədqiqatın məqsədi: Araşdırmanın məqasədi vergi siyasətinin pandemiya dövründəki fəaliyyətini təhlil etmək, beynəlxalq təcrübədən istifadə edərək vergi güzəştlərinin effektivliyi ölçmək və antiböhran dövründə dövlətin yanaşmasını müəyyən etməkdir.

İstifadə olunmuş tədqiqat metodları: Müqayisəli təhlil, dolayı analiz, tətqiqat və s. metodlarından istifadə edilib.

Tədqiqatın informasiya bazası: Yerli statistik göstəricilərdən, dövlətin pandemiya ərzində olan qərarlarından, yerli və xarici məqalələrdən istifadə olunub.

Tədqiqatın məhdudiyyətləri: Tədqiqat zamanı pandemiyanın təsirlərini Azərbaycanda təhlil etmək üçün son dövlərin göstəriciləri yerləşdirilmədiyindən tam təhlil aparıla bilinmədi.

Tədqiqatın elmi yeniliyi və praktiki nəticələri: Burada olan hər bir tövsiyə və təklif pandemiyadan sonra Azərbaycanda vergi daxilolmalarını təhlil etməyə və onların artırılması üçün müəyyən tədbirlər görməyə kömək edəcəkdir.

Nəticələrin istifadə oluna biləcəyi sahələr: Vergi siyasətində pandemiya ərzində baş verən dəyişiklikləri təhlil edərək Azərbaycanın və regionların sosial inkişafını yaxşılaşdırmaq üçün istifadə oluna bilər.

Açar sözlər: pandemiya, vergi, büdcə, antiböhran, dövlət.

“IMPACTS OF COVID-19 ON TAX REVENUES AND CHANGES IN TAX POLICY IN AZERBAIJAN”

SUMMARY

The actuality of the subject: As a result of this economic downturn, the state's tax collection potential is declining, and the adverse economic effects of the pandemic are reflected in government revenues. Measuring the impact of taxes on the state in both pandemics and similar global crises, analyzing the steps taken by the state, and forecasting the post-pandemic situation are among the key factors that show the study's relevance.

Purpose and tasks of the research: The purpose of the study is to analyze the activities of tax policy during the pandemic, measure the effectiveness of tax incentives using international experience, and determine the state's approach in times of crisis.

Used research methods: Comparative analysis, indirect analysis, research, etc., methods were used.

The information base of the research: Local statistics, government decisions during the pandemic, and local and foreign articles were used.

Restrictions of research: The study did not provide a complete analysis of the effects of the pandemic in Azerbaijan due to the lack of recent data.

The novelty and practical results of investigation: Each of the recommendations and suggestions here will help analyze tax revenues in Azerbaijan after the pandemic and take specific measures to increase them.

Scientific-practical significance of results: It can be used to improve the social development of Azerbaijan and the regions by analyzing the changes in tax policy during the pandemic.

Keywords: pandemic, tax, budget, anti-crisis, state.

ABBREVIATIONS

AZN:	Currency of Azerbaijan
COVID-19:	Coronavirus disease
CR:	Cash Registers
GDP:	Gross Domestic Product
GNP:	Gross National Product
HIV:	Human Immunodeficiency Virus
IMF:	International Monetary Fund
KPMG:	Klynveld Peat Marwick Goerdeler
OECD:	Organisation for Economic Co-operation and Development
PWC:	PricewaterhouseCoopers
SECA:	Swedish Export Credit Authority
SECC:	Swedish Export Credit Company
SEK:	Swedish krona
TL:	Currency of Turkey
UN:	United Nations
VAT:	Value-Added Tax
WB:	World Bank
WHO:	World Health Organization

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INTRODUCTION

Relevance of the research topic: Governments need revenues from taxes to cover their expenses. There are various tax applications for individuals and businesses in almost every country. While it is easy for governments to increase tax revenues during periods of economic expansion, it is practically impossible to achieve this during recession periods when economic fluctuations are experienced downwards. In such periods, other alternatives such as borrowing and printing money can be used as financial resources to keep economies alive and to meet government expenditures. There is a worldwide economic contraction due to the measures taken against the Covid-19 epidemic, which emerged in China at the end of 2019 and continues to increase its impact worldwide.

The tax policies implemented by the state to achieve its growth goals in the economic field are also important. The concept of tax can be defined as the monetary value received by the state or public institutions with taxation authority, from individuals and institutions under legal force, according to specific rules and free of charge. The traditional function of taxes is to provide resources for the state to produce social goods and services. Still, with the emergence of Keynesian economics, functional finance has come to the fore to ensure full employment and growth. According to this understanding, taxes have begun to be seen as an instrument of fiscal policy.

Statement of the problem and learning level: This article will provide information on the impacts of Covid-19 on the tax revenue and changes in tax policy in Azerbaijan. The article will be easily understandable to readers as it is written in an academic style. The vocabulary and terminology used are primarily used within the field of economics.

The Covid-19 pandemic has seriously affected human health and freedom of movement, expenditures, trade, employment, production, and tax revenues. On the one hand, the decline in economic activities, on the other hand, the tax reduction applied to eliminate the effects of the epidemic and the extension of the tax return and payment periods led to significant decreases in the tax revenues of the state. It is important for Azerbaijan, where indirect taxes are dominant that the measures taken against the epidemic are largely restrictive in spending.

The process of studying the pandemic period of state tax policy in Azerbaijan is reflected in the scientific works of various local and foreign writers. These are Kalbiyev YA, Garayev IA, Bulut C., Suleymanov E., Allahverdiyev D. I., Shamil A. F., Rasul S. F., Kocherbaeva AA, Koshoev Ch. M., Manushin D. V., Rasulev AF, Voronin SA, and others can be cited as examples.

Purposes and objectives of the research: The research objective is to provide an insight into the impacts of Covid-19 on tax revenues and changes in tax policy in Azerbaijan. Concerns continue that the Covid-19 epidemic, which threatens public health, will cause a global economic crisis. Efforts to control the spread of the virus with social distancing measures negatively affect economic activity and revenues and ultimately reflect tax revenues. On the one hand, the decline in economic activities in Azerbaijan led to significant decreases in the tax revenues of the state; on the other hand, the tax reduction applied to eliminate the effects of the epidemic and the extension of the tax return and payment periods led to a temporary decrease in tax revenues.

The temporary waiver of tax revenues can reduce the economic costs caused by the epidemic. Expansionary fiscal policy measures, which reduce the tax burden of businesses and directly support the companies and individuals most affected by the epidemic, help maintain the level of investment and overcome economic problems. In addition, the extension of tax returns and payment periods for individuals and businesses negatively affected by the epidemic provides additional liquidity and reduces business failures.

This paper provides a detailed analysis of Covid-19 and its effects on tax revenues and Azerbaijan's Tax Policy changes. In addition, the paper analyzes some necessary steps and measures to be taken to enhance the positive impacts of Covid-19 on tax revenues and tax policy.

Object and subject of the research: The subject of the research includes the tax policy pursued by the state in the event of a pandemic and the system of measures taken to improve financial security in this area.

The object of the dissertation is the system of budget expenditures related to the activities and maintenance of education, medicine, social protection and social security, youth, sports, as well as other socio-cultural organizations in the field of tax functions of the state.

Research methods: The analysis was carried out by several methods in the research, the first of which is the analysis method. This method analyzes several research papers and literature on tax policy during a pandemic. The research papers and literature analyzed at the end were compared using a comparative approach. A comparative analysis of the possibilities of assessing and using the world experience of tax policy regulation in Azerbaijan during the coronavirus pandemic was conducted through the studied literature. One of the analyzes is the transfer of an actual research object to an artificially created model by the modeling method. This is done to model the situation more successfully and achieve results that will be difficult to achieve in reality.

Research database: The research used normative-legal acts, specialized literature, and instructions to analyze the tax policy implemented during the coronavirus pandemic. The scientific-theoretical basis of the study is the ideology of the implemented tax policy, detailed systematic approach, structural-functional analysis, economic theory, social, economic, strategic and financial management, management decision-making theory, etc., content. Morphological analysis and synthesis of tax policy, multi-criteria decision-making methods, and expert assessment addressed several issues.

Research limitations: The study is not intended to detect or measure the effects of tax policies implemented during a particular coronavirus pandemic in the country's regions. There is a need for large-scale research and forecasting of the impact of tax policy in the post-pandemic period. The data in the local database on the effects of tax policy measures during the study are limited. Despite the strategic importance of tax policy in Azerbaijan during the coronavirus pandemic, there are few expert opinions and scientific articles based on analytical analysis.

Scientific novelty of the research: Each of the recommendations and theoretical developments here will help to analyze tax revenues in Azerbaijan after Covid-19 and take certain measures to increase them.

Scientific and practical significance of the results: Based on the important provisions, recommendations and results obtained from the study, an analysis was made on the impact of the Azerbaijani entity on tax revenues during the pandemic, and changes in tax policy. It can be used to improve the social development of Azerbaijan and the regions by analyzing changes in tax policy.

CHAPTER I. ROLE OF TAXATION IN THE REGULATION OF ECONOMY

1.1. Socio-economic nature and role of taxes in the regulation of the economy

One of the tools used to achieve the objectives of fiscal policy is tax policy. Tax is the funds received gratuitously and internally from persons and institutions that form the basis of society to cover the costs of the state.

Taxes, which share individuals ' participation in state expenditures, appeared together with the state concept. Taxation and taxation, as a constitutional duty, are at the heart of economic and social activities. The reactions to tax policy, applied for economic, political, and social reasons, may differ depending on the tax method and the changes made to the code.

There are various forms of tax policy. The tax policy is divided into two, depending on the duration: tax tactics and tax strategy (Kelbiyev Y.A., 2012: p.36).

Tax tactics-implements the solution of the problems facing in a certain period through additions and changes to the tax system.

Tax strategy defines the state's tax policy in the long term and implements the solution of larger-scale problems.

Depending on the sphere of influence, tax policy is divided into domestic and foreign taxes (Garayev I.A., 2018: p.7).

Internal tax policy – is implemented on a country or territorial scale and considers the solution of internal problems.

Foreign tax policy seeks to bring countries' tax system closer to each other and bring it into a similar form. The main goal of the foreign tax policy is to ensure the elimination of double taxation.

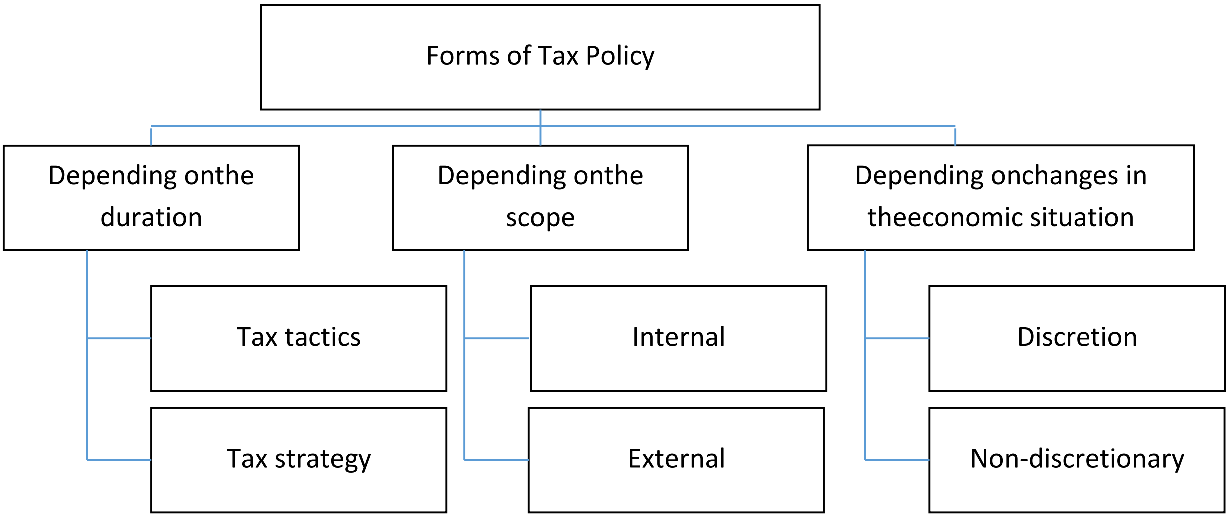
Depending on the reaction to a change in the economic situation, Tax Policy is divided into two types: discretionary and non-discretionary

Discretionary tax policy- which is carried out in periods of economic decline to ensure stability, is based on the government's decisions to manipulate. The discretionary tax policy is also called a stabilizing policy.

Non-discretionary tax policy – is carried out automatically, not by government decisions, but by various regulatory mechanisms.

Schematically, they can be shown as in Figure 1:

Figure 1: Forms of tax policy.



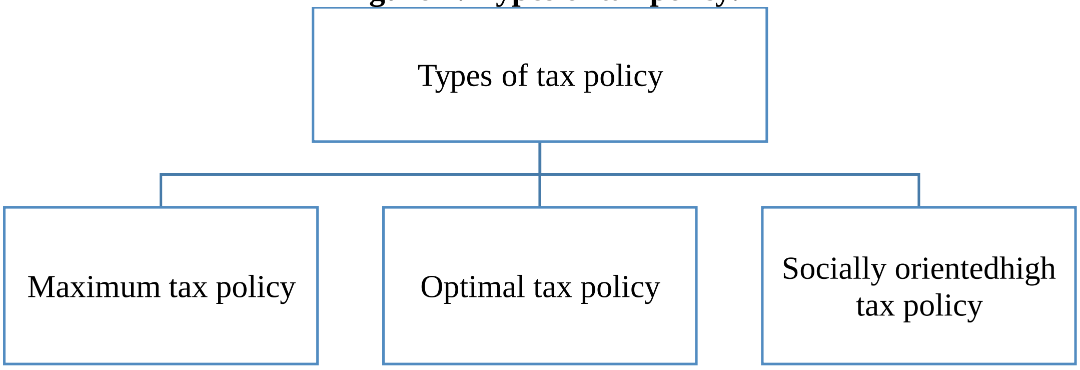
Source: Figure was compiled by the author.

We can list the main objectives of tax policy as follows:

- Minimize the injustice in the distribution of income in the community;
- Finance public expenditures;
- To reduce the deficit on the balance of payments (to impose a high tax on imports of luxury consumer goods, which leads to a negative balance of Foreign Trade and.s);
- To ensure the development of various business areas;
- Stimulate economic development and growth;
- Support preventive health policies (taxes applicable to alcoholic beverages and tobacco products and.s).

Conditionally, tax policy is divided into three types in the economy. This can be shown in Figure 2:

Figure 2: Types of tax policy.



Source: Figure was compiled by the author.

1. Maximum tax policy (high tax burden):

The maximum tax policy is mainly applied in emergencies (crisis, war). Because applying this policy in a stable situation can lead to economic decline. At the same time, tax rates are getting higher, the number of taxes increases and more taxes are collected from the population. This policy is mainly applied in the short term. When applied in the long term, it can have serious consequences for the economy (Kelbiyev Y.A. S. Maharramov R.B. and Rzayev P.Q., 2011: p.15).

2. Optimal tax policy (low tax burden):

In countries with which an Optimal tax policy is applied, as budget revenues decrease, funds allocated for social purposes to a certain extent are also reduced. In this tax policy, the state is more at the forefront of the positive growth of the economy and the interests of society.

3. Socially oriented high taxation policy:

By applying this type of tax policy, the state provides the solution to social problems envisaged in the future. Taxpayers are taxed in high amounts, but these funds are again allocated for the country's social activities.

An effective tax structure aims to achieve fiscal policy goals, reduce income imbalances in society, and ensure economic growth. In this context, factors such as the historical heritage of the countries, their social structure, and the development of their economic institutions impact the establishment of the tax structure.

Transitional economies refer to countries that have moved from a centrally collectivist or planned economic structure to a free market economy. Although there are differences between them, countries have dec with hyperinflation, sumoylation, and depression since the transition process. This is owing to the fact that countries that have different levels of development need to adapt to changing Sunday relations, create institutions for the free market, and set an economic policy. The fact that countries have shortcomings in tax system structure and taxpayer ownership has also prevented them from pursuing fiscal policy against the conjuncture. Therefore, the lack of free-market experience of transition economies also delayed their creation of tax systems until the 2000s.

From the point of view of transition economies, the tax structure refers more to financing the transition process than to financing development. The first goal of these countries is to reduce the socio-political risks caused by rising unemployment as a result of privatization, increase social support for transition policies, and establish the corporate structure proposed by global regulators for the free market.

The decisiveness between the tax and economic structures can be investigated in two ways: conformity in terms of place and time. Today, the research allows us to determine whether the decoupling existing between the economic structures of various countries causes similar differences in the tax systems. On the other hand, compliance with time explains the role of economic development in this regard and the transformations that have transpired in the tax system over a long period. Among the elements dec in the formation of the financial structure, the most characteristic is the tax system.

The composition and technique of the tax system are strictly dependent on economic and social structures. This commitment is also a result of the efficiency that must be present in the tax: in addition to the non-financial objectives of the tax policy, it must also allow the state and public services to raise sufficient resources. Therefore, the tax system should be realistic; it should correspond to the tax source or the degree of the economic evolution of the country and the distribution of income.

Finance, in a sense, is the part of economics that belongs to the satisfaction of human needs that arise through political decisions and whose qualities are determined. However, there should be a direct link between the elimination of needs and economic dec. From this point of view, economic development with the increase of public services is a process that acts together. Since the state covers its expenses with taxes from the population, people can only withstand the heavier burdens required by this development and change in public services at a higher income level. From this point of view, when creating the tax structure, it is necessary to consider GDP per capita and GDP levels in terms of tax capacity.

On the other hand, since external sources are incidental and unreliable in financing public expenditures, taxes, which are the most important internal sources of financing, should be given weight to finance economic development. The tax is an unrequited and pocket-sized public income. Besides financial goals, it also carries an effective means of intervention in realizing economic and social goals that force states to use public revenues. However, taking advantage of tax policy in financing development brings with it various difficulties:

Due to the fact that capital accumulation is also insufficient in economies with low-income levels, the capacity to increase growth through spending is weak.

Financing development by focusing on tax policy in economies that cannot pay taxes can have negative economic consequences. The accumulation of the tax burden in segments with a high tendency to marginal savings can lead to a tax response, reducing savings and investments or causing them to use their savings surpluses outside of economic development.

Political problems may arise if the tax burden is piled up in areas with a high marginal consumption tendency. In these economies, where per capita income is low, and unemployment is high, the concentration of the tax burden on households may result in an economic contraction.

Directing tax policies to the wealthy in financing development may not be possible in practice. In these economies, the fact that the wealthy are also in political power means that they will have to tax themselves. However, when financial events are examined from a sociological point of view, such a conclusion is unrealistic.

The tax technique is one of the factors to reduce the difficulties and reactions faced by taxation from a material and psychological point of view. Therefore, it is very important to make rational decisions in the tax technique that considers the principle of economics. In addition to the objectives pursued by taxation, there are two other issues on which the tax technique depends: one is the principles of taxation of how the tax system should be; the other is the legal and economic conditions that taxation must comply with, formed in the course of historical development.

The scope of the first issue includes the unique tax mentality of the countries themselves, their tax ethics, and their thinking about the scope and objectives of public finance. The second aspect covers areas such as the state regime and economic order and administrative and legal organizations connected to them, dominant forms of business, and their accounting systems. Therefore, the more developed the legal order and the economic system, the more rational the functions of the tax technique will be realized.

The limited experience of transition countries with a tax system has forced them to establish a tax system through policy transfer. Such an obligation has led countries to take the ideal types that western countries have set in their fiscal policies in the first years of the transition. However, attempts to implement these policies have caused various political, social, and economic depressions. In addition, the establishment of a tax structure without establishing an economic structure suitable for a free market system has increased corruption and negatively affected the institutionalization of the tax system. In other words, the period before the ideal type was returned to again in a short time, and the reflection of the reforms on macroeconomic variables was postponed to the 2000s. Such a result is that countries receive the ideal types they receive directly, without changing them according to their national characteristics. Therefore, the tax structure, the tax administration, and the general tax environment, such as the effectiveness of the audit, must be appropriate to the tax structure. Especially in developing countries, the registration system is weak, and foreign trade is easy to control because it is made of a limited number of customs. For this reason, foreign trade has been an important source of taxes. In addition to the tax capacity to be increased, there must also be an effective tax administration to benefit from this capacity.

Within this framework, various political, social, and economic reasons determine the effectiveness of tax administration. From a social point of view, the lack of an effective legal and supervisory system and a strong structure in the public sector can lead to corruption and bribery trends that the taxpayer and the administration are jointly responsible for. On the contrary, the tax authority should have a structure that will ensure a simple and stable income level. Therefore, it should create an uncomplicated, simple and understandable tax system since underdeveloped countries usually do not have an effective and reliable tax administration. Thus, it can increase tax revenues by curbing corruption.

Since the private sector is almost non-existent in the initial conditions of the countries and unemployment is high, the tax base has narrowed, and they have resorted to a populist way of increasing public spending to increase political support for the transition process. However, countries such as China, Estonia, Latvia, and Lithuania, in particular, have wanted to reduce tax pressure in society by focusing on foreign direct investment.

Transition economies have been looking for an exemplary tax system in the first years of their independence. As in historical tax systems, these economies have established an effective tax system to the extent that it removes inefficient elements contained in tax systems over time.

The tax rates of transition economies are generally higher than income tax and, on the other hand, the social security employer share rate. The income tax averages of the respective economies are below the EU and OECD averages, while the social security employer share is above the EU and OECD averages. In terms of tax tariffs, they have mostly adopted a flat-rate tariff or stable tax rate. The general view in the tax structures of countries is that they are based on consumption and social security contributions.

The specified tax rates are the (marginal) rates in the upper tranche and have been used as specified in the global tax institutions.

Countries establish a tax structure through tax rates and finance public services with these rates within certain limits. Tax rates for transition economies will also contribute to ensuring fairness in the distribution of income, accumulation of capital, and the establishment of a social security system as a key element of the new financial system is established.

Table 1 shows the structure of tax rates. Tax rates vary according to countries' per capita GDP, capital accumulation, foreign direct investment, and resource-richness:

Table 1: Structure of Tax Rates in Transition Economies (2020).

Countries	Income tax	Corporation tax	VAT	Social Security Share (Employee)	Social Security Share (Employer)
Albania	23	15	20	10	15
Armenia	23	18	20	0	0
Azerbaijan	25	20	18	3	15
Belarus	13	18	20	1	34
Bosnia and Herzegovina	10	10	17	31	11

Followed by Table 1.

Countries	**Income tax**	**Corporation tax**	**VAT**	**Social Security Share (Employee)**	**Social Security Share (Employer)**
Bulgaria	10	10	20	14	19
Chinese	45	25	13	11	29
Croatia	36	18	25	20	17
Czech Republic	22	19	21	11	34
Estonia	20	20	20	4	33,8
Georgia	20	15	18	2	2
Hungary	15	9	27	19	21
Kazakhstan	10	20	12	0	4
Kosovo	10	10	18	5	5
Kyrgyzstan	10	10	12	10	17
Latvia	31	20	21	11	24,1
Lithuania	20	15	21	20	1,8
Macedonia	10	10	18	28	0
Moldova	12	12	20	11	23
Mongolia	10	10	10	12	15
Montenegro	9	9	21	24	10
Poland	17	19	23	14	22
Romania	10	16	19	35	2
Russia	13	20	20	0	30
Serbia	10	15	20	20	17
Slovakia	25	21	20	13	35
Slovenia	16	19	22	22	16
Tajikistan	13	23	18	1	25
Turkmenistan	10	20	15	0	20
Ukraine	18	18	20	0	22
Uzbekistan	12	8	15	7	25
EU	37	20	21	15	21
OECD	41	23	19	12	21
world	31	23	15	9	15

Source: KPMG, https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online.html/; PWC, https://taxsummaries.pwc.com/

In Table 1, the tax rates differ according to the progress levels of the countries. Income tax rates have been determined high in economies such as Estonia, Latvia, Lithuania, Croatia, and China, which have a high tax base. In particular, the low corporate tax rates of these economies with high direct or foreign investment flows or the presence of exceptions, social security is replaced by the employer's share.

For example, there is no corporate tax in Estonia and Latvia, but employers' share in social security has been determined to be relatively high (34%).

The common feature of economies such as Belarus, Russia, and Slovakia, where the share of social security employers is high, is the excess of public-owned enterprises. In addition, social security October premium rates have been determined relatively low in these countries. However, countries have replaced this low labor premium by setting indirect tax rates high. On the other hand, the tax base is narrow, and the tax rates of resource-rich countries are relatively low.

All tax rates are below the EU and OECD average in these resource-rich economies, such as Azerbaijan, Kazakhstan, and Kyrgyzstan. As for the average tax rates of transition economies, income tax (23%), corporate tax (18%), indirect tax (18%), and social security worker's premium (9%) rates are below the EU and OECD average, while the social security employer's premium (22%) is above the OECD average. A tax tariff is a series of rates that apply different tax rates to distinct items. Here, the rates increase or decrease according to the matrix. Currently, it is accepted that as the tax base increases, the power to pay taxes should also increase. According to this view, it is accepted that the marginal units of the base have different importance for taxpayers.

The benefit of the marginal unit of the base will decrease as the base increases, or the benefit of the last unit of the base will increase if the base decreases. Tariffs in which the tax rate increases as the base rises are called incremental rate tariffs. In a flat-rate tariff, the rate applied to the base is always the same when calculating the amount of tax to be levied. In other words, stable rates are taxes in which there is no relationship dec the tax rate and the tax base.

However, the difference between the item to which the smallest rate contained in the increased rate tax dec is related and the item to which the largest rate is related is called the length difference; the difference between the lowest rate and the highest rate of the tax dec is called the height difference.

Table 2 contains general information about the tax tariff of transition economies. The common feature of the countries concerned is that they have adopted a stable tax rate. The countries using the increased-rate tariff have determined the height and length differences in favor of low-income people, except China.

Table 2: Structure of Tax Tariffs in Transition Economies (2021).

Countries	**Tax Schedule**	**Height and Length Difference**
Albania	Increased-Rate	While the height difference was constant between 2014 and 2020, the length difference increased.
Armenia	Stable Tax Rate	A stable tax rate tariff was introduced in 2020. While the height difference increased before 2020, the length difference decreased.
Azerbaijan	Stable Tax Rate	
Belarus	Stable Tax Rate	
Bosnia and Herzegovina	Stable Tax Rate	
Bulgaria	Stable Tax Rate	
Chinese	Increased-Rate	While the height difference was constant between 2015-2020, the length difference decreased.
Croatia	Increased-Rate	The difference in height and length is constant.
Czech Republic	Stable Tax Rate	
Estonia	Stable Tax Rate	
Georgia	Stable Tax Rate	
Hungary	Stable Tax Rate	
Kazakhstan	Stable Tax Rate	
Kosovo	Increased-Rate	The difference in height and length is constant.
Kyrgyzstan	Stable Tax Rate	
Latvia	Increased-Rate	In 2019, an incremental tariff was introduced. There is no change in height and length difference.
Lithuania	Increased-Rate	In 2019, an incremental tariff was introduced. While the height difference increased, the length difference remained constant.
Macedonia	Increased-Rate	In 2019, an incremental tariff was introduced. There is no change in height and length difference
Moldova	Stable Tax Rate	
Mongolia	Stable Tax Rate	
Montenegro	Stable Tax Rate	
Poland	Increased-Rate	Between the years 2015-2020, the height difference is constant while the length difference is constant.
Romania	Stable Tax Rate	

Followed by Table 2.

Countries	Tax Schedule	Height and Length Difference
Russia	Stable Tax Rate	
Serbia	Stable Tax Rate	
Slovakia	Increased-Rate	The difference in height and length is constant.
Slovenia	Increased-Rate	While the height difference was constant, the length difference increased.
Tajikistan	Stable Tax Rate	
Turkmenistan	Stable Tax Rate	
Ukraine	Stable Tax Rate	
Uzbekistan	Stable Tax Rate	

Source: PKF (2015); Pwc (2018); PKF (2019); PKF (2020); dits.deloitte.com/#TaxGuides; home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online.html/

Albania, China, Armenia, Kosovo, Latvia, and Slovenia are the countries that use increased tariffs in transition economies. At the same time, the tax burden is relatively lower in these countries, and it was only China shaped the tax tariff against low-income earners in terms of height and length difference. A large majority of transition economies have adopted flat-rate tariffs or stable tax rates. In the study aimed at the importance of flat-rate tariffs, it was stated that a stable tax rate would encourage working, investing, and tax compliance by reducing the substitution effect of tax; and it will reduce tax evasion.

While tax rates were set high in Latvia, Lithuania, and Estonia, the first countries to implement tax reform after the transition process, tax rates were set low in the second tax reform movement that started with Russia in 2001. Income tax rates are over 20% in Albania, Azerbaijan, Armenia, Latvia, Croatia, Slovakia, and China. In the remaining countries, they are well below the recommended 19% level in the Hall-Rabushka model. In contrast, the flat-rate tax rates on corporate income are higher compared to Russia, Ukraine, Kazakhstan, and Mongolia, the Czech Republic, and Slovakia, which are timid due to the threat of income loss compared to the countries in the first wave of reforms. A single-rate tax on income is levied in most countries; however, the tax rates applied to different sources of income are not always the same. In other words, income tax and corporate income tax rates are generally different from each other. Flat-rate income tax reform in Estonia, Bosnia and Herzegovina, Moldova, Ukraine, Mongolia, Slovakia, Romania, Kyrgyzstan, Macedonia, Montenegro, Albania, and Bulgaria, corporate income tax and personal income tax rate the same (Table 1).

Personal Value Added Tax, income tax, and Corporate tax are equal to Mongolia is the only country where comprehensive tax income in the respective countries engaged in previously, which is common exceptions, exemptions and discounts are reduced to a minimum. The income tax system is simple and broad-based have been. In addition to the transition to a flat-rate structure, introducing a "personal exemption" application that will cover a spacious proportion of the population and keep the current tax deductions at a limited level plays a big role in making the tax system simple. However, personal exemption applications stop being "proportional" to flat-rate income tax applications and turn them into a decreasing-rate structure. When we look at the widespread structure of tax revenues of transition economies, it is seen that the share of indirect tax revenues is quite high. A similar view exists in countries with a high level of decency among transition countries. On the other hand, the resource income specified as other income is close to or above indirect tax income in resource-rich countries.

Table 3: Structure of Tax Revenues (2019).

Countries	Tax Income (GDP%)	Taxes on Goods and Services	Taxes on income, profits and capital gains	Taxes on internati onal trade	Other Taxes	Social Contri-butions	Grant s and other Inco me
Albania	17,77	52,29	14,35	4,2	0,74	18,68	9,73
Azerbaijan	13,78	16,86	13,75	2,73	1,03	7,03	58,6
Belarus	16,84	32,04	5,51	11,48	3,83	34,53	12,62
Bosnia and Herzegovina	20,2	43,51	5,67	2,66	1,42	37,64	9,87
Bulgaria	19,54	44,36	15,63	0,39	0,15	23,21	0
Czech Republic	14,46	28,71	15,8	1,13	0,15	45,88	9,16
Chinese	9,7	51,95	22,91	2,19	0,05	30,18	13,62
Armenia	18,09	38,98	25,71	4,18	10,57	10,49	12,18
Estonia	20,15	36,17	20,45	0,09	..	31,4	11,96
Georgia	17,43	53,68	23,51	2,91	1	19,68	12,05

Followed by Table 3.

Countries	Tax Income (GDP%)	Taxes on Goods and Services	Taxes on income, profits and capital gains	Taxes on internati onal trade	Other Taxes	Social Contri-butions	Grants and other Income
Croatia	20,74	45,99	7,9	1,64	0,73	31,37	4,88
Montenegro	..	..	..	..	..	..	..
Kazakhstan	12,73	25,89	32	14,12	1,07	3,07	24,95
Kyrgyzstan	17,27	35,28	10,95	9,67	0	17,87	26,22
Kosovo	..	..	..	..	..	..	..
Latvia	21,3	41,16	10,74	0,38	0,46	30,96	16,34
Lithuania	17,94	33,99	20,68	0,79	0,24	33,03	12,43
Hungary	22,12	36,05	18,43	0,84	1,21	32,82	11
Macedonia	17,29	41,76	17,47	3,67	1,06	29,07	11,59
Mongolia	16,82	32,48	16,66	6,62	1,89	16,69	25,67
Moldova	16,5	47,47	4,4	4,54	0,13	28,92	14,54
Uzbekistan	13,93	33,99	19,72	9,34	0	22,54	14,4
Poland	16,56	35,62	13,13	0,7	0,72	39,37	…
Romania	17,13	36	18,53	0,96	0,18	31,88	13,06
Russia	13,51	23,55	3,86	19,22	0,06	23,63	29,68
Serbia	20,05	44,12	9,24	4,5	0,02	34,55	7,57
Slovakia	17,17	30,71	17,03	0,37	0,06	37,04	..
Slovenia	19,23	34,42	12,24	1,04	1,65	39,05	..
Tajikistan	8,86	54,83	2,79	13	1,14	15,85	12,4
Turkmenistan	..	..		..	..	..	..
Ukraine	16,81	32,97	12,87	3,61	0,11	31,92	18,55

Source: Worldbank, https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS/

When Table 3 is evaluated with Tables 1 and 2, even if income tax rates are high in transition economies, there is not the same degree of share in terms of tax income. As a result of the income and corporate tax exceptions and exemptions contained in the tax legislation, the provision of incentives for foreign investments can be cited as a reason for this situation. In general, it is seen that the share of indirect taxes in economies is high. Of these countries, Tajikistan, Albania, and China stand out as the countries with an indirect tax share of more than 50% of total revenues.

In countries such as Czechia, Slovakia, and Slovenia, which have high rates of social security contributions, social contribution revenues also exceed indirect taxes. On the contrary, countries with large foreign trade tax revenues are generally resource-rich countries. Of these countries, Azerbaijan, in particular, stands out with a 58% share.

When we look at the average of transition economies, the ratio of tax revenues dec GDP is between 8-22%. It can also be stated that the financial structure is based on indirect taxes and social contributions.

1.2. The main directions of tax policy applied in economic difficulties

The meaning of the concept of economic difficulties is based on the crisis. Another purpose of this word, which has critical, divergence, contradiction, is to decide. Because crises show a new situation, a unique position also requires a new moment of judgment. This decision moment is a process that will be formed according to what will happen in the future, how it will be, and the decisions that are taken.

The meaning of the word crisis is not limited to this. In particular, the word crisis is widely used in medical science. In general, it means the sign of a disease that has arisen from the moment or the maturation of a condition to a very advanced stage. The word crisis is also used in French etymology to mean unexpected and rapid emergence, destroying existing goals and plans.

Depending on this approach, the economic crisis is expressed in a period of stagnation after long economic life development. Briefly, sudden and negative changes depending on the circumstances can be described as a harbinger of crises. Based on the above views, the economic crisis can be expressed in this way: the economic crisis brings about the consequences of unexpectedly emerging economic events that will seriously undermine the country's economy in the macro sphere and the microsphere firms.

Proceeding from the definitions, several features of economic crises can be listed:

- Unpredictable or unpredictable;

- Short-term or long-term;
- Creating both opportunities and threats to individuals and corporations;
- Having an infectious effect.

Economic difficulties are complicated to know and prevent in advance. Many countries face crises unprepared. Although this situation threatens some corporations, many corporations can turn these crises into opportunities. How long the crises will last vary depending on the cyclical structure and the effectiveness of the economic policy imposed by countries.

Another feature of crises is that they are short-term and long-term. The element that determines this is the severity of crises. Events that occur at a low level of severity can not be considered an economic crisis. Even if it is believed, the effect of such crises will be more short-term.

Let's look at the causes of economic crises. Defects in the system and structure of a country's economy cause a crisis. Especially in developing countries, where the economic system is not fully established, there is a problem of compatibility between market activity and central government in the economy of such countries. These are generally the internal causes of crises. However, in addition to a country's own internal dynamics, economic, political, and socio-cultural factors can also affect the country's economy. These are the external causes of crises.

Economic crises are caused mainly by oversupply or low demand in the fundamental and financial sectors of the economy.

Economic crises in developing countries are more likely to be caused by wasteful spending, poor monetary policy, international financial shocks, and weaknesses in domestic banking. In developed countries, the problems in the foreign exchange markets do not extend to the domestic financial markets. Still, domestic financial issues always lead to currency and balance of payments crises. External influences are one of the leading causes of economic crises in developing countries. Significant changes, especially in developed countries, the globalization of investment, and the growing integration of capital markets are the leading causes of crises.

As the starting point for many crises, large-scale budget deficits are attracting attention. At the same time, economic inequality can be unmanageable.

In addition to economic effects, changes in the political, technological, and environmental spheres can also cause economic crises, for example. Events such as government crises, coups, and political instability in the political sphere can also lead to economic crises because of their negative impact on financial markets. At the same time, globalization, natural disasters such as floods and emergencies can cause an economic crisis.

The effects of the economic crisis on the economy can be different. Economic crises are characterized by rising unemployment, weakening economic growth, unequal income distribution, and declining social welfare. This situation is based on the fact that more crises reduce the economy to a lower level of GDP.

Although it is difficult to enumerate the standard features of crises due to their effects, it is not very easy to know them in advance and to detect their consequences in the first place. Whatever the cause, the destructive impact of the crisis on the country's economy, depending on the severity and duration, can be long and short-term.

The effects of economic crises can be summarized under the following headings:

- Unemployment, stagnation and poverty,
- Shrinking economy and weakening economic growth,
- Negative impact on the trade balance, the balance of payments and foreign investment,
- Decrease in foreign direct investment,
- Fluctuations in exchange rates,
- Increase in the budget deficit and decrease in tax revenues,

- Significant decline in exports,
- Rising prices in the domestic market and a decrease in the number of tourists,
- Decreased confidence in financial instruments.

Looking at the effects of economic crises, it is seen that they have a significant negative impact on the real economy. On the one hand, these macroeconomic effects lead to a decline in production in the real economy and, on the other hand, to the spread of crises from one country to another.

The effects we have listed above only reflect the general characteristics of crises. Of course, their results vary depending on the type of crisis. For this reason, it is more appropriate to consider the types of economic crises one by one.

Basic approaches to the economic crisis. There are several approaches to the economic crisis. However, none of these approaches can fully explain the crisis. Because each of the crises occurred in a different time zone and conditions. Theories that the study in question is a common denominator can be summarized as follows:

- First-generation models
- Second-generation models
- Third-generation models

First-generation economic crisis models. According to the First Generation Economic Crisis Model developed by Paul Krugman, there is a significant material expansion at the root of financial crises. In addition to this expansion, weak controls and non-transparency in the banking sector are substantial causes of the crisis.

Under the model, governments financed the budget deficit through domestic borrowing or money issuance. Monetary financing of public expenditures leads to a balance of payments deficit, leading to inflation, negative expectations, and capital outflows. In this situation, it was adequate for governments seeking to maintain a stable exchange rate system to use the Central Bank's reserves and open the market to speculators. As a result, a central bank with limited resources can't maintain a stable exchange rate system. At the same time, money is either devalued or transferred to a floating exchange rate system.

Krugman pointed out that economic policy, which would not be continued with these models, paved the way for speculative attacks. The material expansion in a stable exchange rate system was linked to economic crises. Thus, the emergence of the crisis was generally accompanied by the expectation of market participants that the government would release the exchange rate. With this expectation, market participants tried to convert their local currency into the foreign currency. When the reserves of the central bank that meet this requirement are depleted, a crisis arises, and it becomes impossible to continue the existing exchange rate system.

The main shortcoming of the first-generation crisis theory was that it was insufficient to explain today's crises, mainly by considering only monetary crises. The criticism was that governments that applied a fixed exchange rate system were financing the budget deficit by increasing the money supply, knowing that it would lead to a financial crisis. However, while this model has been criticized for not reflecting real crises realistically, another criticism has been that the model has shown only foreign exchange reserves and budget deficits as the cause of money crises.

Second generation economic crisis models. In addition to the inability of existing models to express the economic crisis in Europe in 1992, Obstfeld's models based on his 1994 research are presented as second-generation crisis models. These models showed that even if monetary and fiscal policy were successful, speculative attacks on the country's currency would lead to an economic crisis, and problems in the economic structure could also lead to a crisis.

Second-generation models, unlike first-generation models, saw the collapse of the fixed exchange rate system as a political choice, not as a result of an economical process. They thought that the higher the cost of maintaining a stable exchange rate system, the more the private sector's confidence in the market would suffer.

Third-generation economic crisis models. The economic crises of the 1990s were not fully articulated by first- and second-generation crisis models. The crisis had three types of spread. The first is the financial ties of international financial institutions due to restrictions on international lending through foreign relations. The second is the fundamental dependence of countries on mutual trade relations or competitive behavior in the third market. The third is the increase in investors' willingness to invest together due to globalizing markets.

Another issue considered by economists working on this model is the financial crisis caused by the lack of control, which allows unlimited borrowing in foreign currency. The panic that accompanied the sudden change in market expectations led to a premature outflow of capital. This situation leads to liquidity problems and a debt crisis.

The main directions of economic policy applied in the regulation of the economy in times of crisis are as follows:

Stabilization policy for economic crises. Economic crises have a negative impact on key macroeconomic indicators in an economy, such as employment levels, overall price levels, exchange rates, and interest rates. Several economic measures are being taken to mitigate the adverse effects of the economic crisis on the country's economy and prevent new crises. In this regard, the countries' package of measures to overcome the crisis and ensure economic balance can be expressed as stability programs.

Means of economic stability policy. The main goal of the stability policy is to ensure stability by restoring the balance in the economy. The main problem of economic stability is inflation, unemployment, the balance of payments deficit, and surplus. Thus, these programs are aimed at increasing development, reducing inflation, solving problems such as capital flight and budget deficits.

It can be said that the real goal of the stability programs applied by both developed and less developed countries to end the crisis is to ensure full employment in a developing economy and reduce inflation. While some countries have succeeded with their policies in time, in others, they have failed. At this point, in addition to expressing the goals of politics, timing seems to be an essential element. We can list the general purposes of the countries' stability policy as follows:

- To ensure full employment,
- Maintain price stability,
- To ensure the balance of payments,
- Increasing economic growth,
- Ensuring equity in income distribution.

In order to measure the success of these programs and to understand whether they achieve their goals, it is necessary to measure their effects on economic growth and income distribution. Programs that do not reach their goals are considered a failure.

Types of economic stability policy. The stability policy must be divided into two parts: supply and demand to ensure economic balance. The goal of the demand-oriented policy is to reduce consumer demand. In supply-oriented policy, the goal is to increase the production of tangible goods and services. The main difference between supply and demand-oriented policies is that the scale of supply-side policy is more micro-economic, while the demand-oriented policy is macroeconomic.

Stability programs are divided into Orthodox and Heterodox, depending on both the aspect of the problem and the methods used to solve it.

The Orthodox policy of economic stability. Orthodox stability programs are the common name given to programs offered by the International Monetary Fund to developing countries struggling with hyperinflation since the 1970s. Orthodoxy is used here in the classical, traditional sense.

The orthodox policy of economic stability. Orthodox stability programs are the common name given to programs offered by the International Monetary Fund to developing countries struggling with hyperinflation since the 1970s. Orthodoxy is used here in the classical, traditional sense.

Heterodox economic stability policy. In Greek, the word Orthodox means the opposite. Heterodox programs implement a revenue policy that covers price control over some time. This is the main difference from Orthodox programs.

Heterodox programs try to prevent hyperinflation by implementing immediate and rapid policies instead of medium and long-term programs. For this purpose, it prefers a tight fiscal policy first and then a soft monetary policy.

Economic stability policy tools. One of the essential elements to consider when implementing economic policy is the compatibility between our policies and our goals. In addition, the operation of the vehicles and the economic structure also play a decisive role in achieving the goals. Thus, the tools of economic policy should be studied mainly in two headings:

- Monetary policy
- Fiscal policy

Monetary policy instruments. We can say that the goals of monetary policy are to maintain the value of money and ensure price stability by showing significant changes over time. In addition, monetary policy has many purposes, such as full employment, economic growth, balance of payments, interest rate stability, and stability in financial markets.

The responsibility for the implementation of monetary policy is primarily vested in the Central Banks. The central bank has open market operations, credit limit, discount rate, required reserve ratio, particular deposit, stock and bond control, including interest rate and exchange rate policy.

Central Banking Policy. The monetary policy applied under the authority of the central bank is divided into indirect and direct. These Indirect monetary policy instruments are the discount rate, open market operations, and the required reserve ratio. There are several types of blunt instruments, mainly used in interest rates, credit limits, control over the sale of shares and bonds, and deposits.

The difference between indirect and direct instruments in the central bank's monetary policy can be illustrated as follows:

- Although blunt instruments are limited to controlling interest rates or deposit and credit amounts, indirect instruments are used in a way that can affect supply and demand conditions.
- Direct instruments cover the balance sheets of financial institutions, while indirect instruments cover the central bank's balance sheet.

Interest rate policy. One of the essential tasks of the central bank is to manage the amount of money in the money markets or interest rates, which are the value of money. The policy pursued by the central bank when working interest rates, not money supply, is called interest rate policy. With such a policy used by the central bank, the amount of money demand is formed according to the money supply in the market.

The interest rate policy applied by the central bank may limit the interest rates on deposits and loans of banks and other financial institutions. Loans at lower interest rates can be given to any sector stimulated by different interest rates to various industries.

Exchange rate policy. One of the tools of monetary policy is the use of exchange rate policy in times of crisis. Exchange rate systems allow price and cost comparisons between countries by determining the value of a foreign currency against a national currency.

Different exchange rate policies may be applied in different economic periods. There are various exchange rate systems such as floating exchange rate, fixed exchange rate, and medium floating exchange rate.

Also, exchange rate policy is an effective tool when used to reduce speculative attacks in a country. However, the situation may change when the exchange rate is stabilized to protect the value of the national currency in the country. If this policy continues for a long time, it can lead to borrowing with high-interest rates and high amounts of foreign currency.

Economic effects of monetary policy. Changes in the economy can affect the goals of monetary policy and the means used to achieve them. At the same time, monetary policy to rebalance the market has profound implications.

The effects of monetary policy instruments can vary in terms of indirect and direct mechanisms. While blunt instruments determine prices or quantities through regulations, indirect monetary policy is governed in a way that affects the supply-demand ratio in the market.

The ability of monetary policy to influence can also manifest itself as an expanding and narrowing policy. While expansionary monetary policy is applied when unemployment is a problem in the economy, a narrowing monetary policy is pursued to reduce the amount of money in the market during periods of inflation.

Monetary policy also has an impact on economic growth. In particular, the Central Bank will facilitate the regular operating income of companies in the banking and other capital markets by stimulating sustainable development through monetary policy tools. However, in this case, attention should be paid to fluctuations in interest rates.

The role of monetary policy in times of economic crisis. The application of monetary policy may be different in terms of the effects of economic crises. Fiscal policy is more effective in the long run, while monetary policy is more effective in the short term. Tight monetary policy is often pursued to prevent speculative attacks in a short time.

There are various ways to implement monetary policy during a crisis. One of these ways is to reduce the depreciation of the local currency by keeping the exchange rate stable during inflation or by allowing the local currency to be valued against a foreign currency. In addition, the inflow of capital at certain times and the policy pursued in this direction are also significant. As capital inflows increase liquidity in the domestic market, nominal interest rates fall, which improves domestic spending.

Instruments such as the reserve requirements set by the central banks, the discount rate, open market operations, and foreign exchange market operations are also essential. These tools need to prevent market fluctuations during the crisis, ensure real GDP growth, and manage money supply by minimizing inflation. For this reason, we can say that it is one of the most critical sectors of the economy.

Interest rates are also an effective tool in times of crisis. In countries open to foreign trade, changes in interest rates affect the real exchange rate, and imports and exports are indirectly affected. The Central Bank uses the interest rate to influence individuals and legal entities' savings and consumption choices. Lowering interest rates in the face of deflation allows market participants to be more inclined to consume. In contrast, in the case of inflation, rising interest rates make individuals more prone to save.

In a temporary crisis, the Central Bank must effectively use indirect monetary policy instruments to manage the number of deposits and loans. To do this, either the financial markets must be at a high level of development, or the Central Bank must skillfully use indirect monetary policy instruments.

It is possible to see that during the crisis, a tight monetary policy was implemented. However, if these periods are not well analyzed, the monetary policy applied can prevent the crisis and complicate the issue a bit.

Financial policy instruments. The main goal of fiscal policy is to maximize public welfare. Fiscal policy instruments include the state budget and other related elements. Budget revenues and expenditures are the primary tools of fiscal policy (Bulut J., Suleymanov E., 2015: p.204).

Budget expenditure policy. One of the most important means of public finance is public spending. There are several classifications in the literature of public expenditure. These are mainly classified in the budget system as current expenditures, transfer expenditures, and investment expenditures.

Investment and current expenses are also known as real expenses. Investment expenditures are expenditures aimed at increasing the production potential of the country's economy. We can give an example of investments in transport and energy sources. Current expenses are recurring expenses every year. Salary and utility costs are examples of this.

Transfer costs are seen as reciprocal transfers to individuals and social groups. The state does not buy any goods or services for these expenses.

Borrowing policy. Sometimes the government pursues a borrowing policy to meet its obligations when budget revenues are insufficient.

There are different forms of terms and sources of public debt. The way of public borrowing is when tax revenues are insufficient to cover budget expenditures. That is, borrowing next to the primary sources of government revenue is a temporary income.

Government borrowing capacity is closely linked to the structure of the country's commodity and capital markets. The country's economic performance, liquidity, and the activities of financial institutions have a direct impact on borrowing opportunities.

Economic effects of fiscal policy. The effectiveness of fiscal policy has changed over time. Thus, according to classical economists, state intervention in the economy was inappropriate. However, after the crisis of 1992, according to Keynes's theory, the state assumed essential functions in managing economic life. These functions include crucial goals such as ensuring economic development and stability and fair income distribution. Since then, the importance of fiscal policy has increased.

Contrary to this view, according to the theory of neoclassical economists, the effectiveness of the fiscal policy on economic growth, in the long run, was low and fiscal policy had to be limited. Although the goals of the tools are similar, they are different in terms of their impact on the economy. While fiscal policy ensures development through public spending and investment, the borrowing and tax policies it pursues provide a source of revenue for the state.

The study shows that the effects of taxes on the economy are different. For this reason, the structure of taxes is as important as the level. When taxes are allocated indirectly and directly, direct taxes can be referred to as actual state income and wealth taxes. These include income tax, profit tax, and wealth tax.

The economic effects of an increase in tax rates can be varied. This effect will be manifested mainly by a decrease in purchasing power. Due to the increase in tax rates, the taxpayer will work harder in his spare time to maintain his pre-income level. This is also called the income effect of the tax. But it can be quite the opposite. Because tax rates are so high, the taxpayer may choose not to work at all.

The effects of tax reductions and tax breaks can also be summarized as follows:

- Reduces the cost of investment by increasing the income that individuals can spend and increases the rate of return on investment,
- Ensures that tax funds are inclined to invest and improve,
- Expands investments.

Another type of direct tax, the income tax, also has different short- and long-term effects. Profit tax plays a vital role in companies' investment decisions. Tax breaks for some sectors in the country stimulate the development of this sector. Indirect taxes are taxes on goods and services. Indirect taxes can be used as an effective tool to increase savings, reduce consumption, save currency. Direct taxes are also an effective tool in directing the economy. Mainly tax breaks, employment, national income, increase in production, while stimulating tax policy leads to increased investment and output.

The role of fiscal policy in times of economic crisis. Fiscal policy tools can be used effectively in times of crisis. However, fiscal policy alone may not be effective. It must be coordinated with monetary policy.

In times of crisis, a high level of national income and employment can be ensured by increasing consumption and investment expenditures through fiscal policy. The application of fiscal policy can be listed as follows:

- Successful response to the economic crisis is possible with sustainable growth;
- In solving the economic crisis, it is always essential to eliminate the problems in macroeconomic indicators;
- If the economic crisis has spread to entities and firms, stimulating fiscal policies should be pursued;

To ensure financial stability, the implementation of fiscal policy needs to be implemented within the framework of several reforms and laws. Examples include:

- Changes in the tax system.
- The improvement of the budget system.
- The elimination of problems in the financial markets.

The groundwork must be laid for fiscal policy to be fully effective. Fiscal policy can be applied in two ways:

1. Through automatic regulators
2. With the application of voluntary policy

There are some automatic regulators in economies. The automatic regulators in fiscal policy are rising taxes and unemployment benefits. Voluntary guidelines include changes in government spending, borrowing, and tax rates. According to research, the policy pursued arbitrarily is not very effective in the long run, so it is not very appropriate to apply. Although the concept of intervention has not been widespread, it has been used in recent years to prevent high debt. It was widely used, especially during the global financial crisis of 2008 (Bulut C., Suleymanov E., 2015: p.205).

As we have said before, fiscal policy may have different application areas due to a structure that changes over time. Public spending, borrowing policy, and tax policy can be shaped differently depending on their impact on the economy.

Public spending policy aimed at economic crises. Public spending is one of the most crucial fiscal policy tools and is used effectively in times of crisis. The amount and direction of public expenditure are essential in terms of economic balance. It is possible to use financial resources efficiently in times of inflation by focusing on costs that limit demand and increase supply, so it is possible to affect the balance of supply and demand during deflation.

Borrowing policy aimed at economic crises. Debt policy in the fight against inflation is based on the withdrawal of excess liquidity from the market. Some factors affect the success of debt policy during a crisis. These are from whom the borrowing is made, the type of debt documents to be exported, the term of the debt securities, interest rates, and debt management methods.

The inflationary borrowing policy seeks to divert money from the passive state to the economy by reducing the swelling of the money supply in the economy and creating an effect in terms of limiting aggregate demand.

The impact of tax policy on crises, which is another tool of fiscal policy, is undeniable. We can even say that tax policy is the primary tool. The effects of tax policy during a crisis are varied and widely used. The third chapter of the dissertation will detail the role of tax policy in times of economic crisis.

CHAPTER II. ANALYSIS OF TAX POLICY IMPLEMENTED DURING THE CORONAVIRUS PANDEMIC

2.1 Impacts of Covid-19 on government revenues

Governments need tax revenues to cover their expenses. Almost every country has different tax practices for individuals and businesses. While it is easy for governments to increase tax revenues during periods of economic expansion, it is almost impossible to achieve this during recession periods when economic fluctuations decrease. In these periods, other alternatives such as borrowing and printing money are used as financial resources to keep the economy alive and meet public expenditures. Global economic contraction is observed due to the measures taken against the Covid-19 epidemic, which emerged in China at the end of 2019 and continues to increase its impact worldwide. As a result of this economic recession, the tax collection potential of states decreases, and the adverse economic effects of the epidemic are reflected in state revenues.

Of course, the economic effects of the epidemic on this scale are devastating. As a result of this economic recession, the states' tax collection potential decreases, and the epidemic's adverse economic effects are reflected in the state revenues. Considering the low level of savings in developing countries, the contribution of taxes to public expenditures is high, and the effects of tax policy are more evident on growth (Durkaya M., Ceylan S., 2016: p.80).

The Covid-19 pandemic has exacerbated long-standing economic problems such as unemployment, poverty, and income inequality in many countries. The consequences of the epidemic are expected to be deep and long-lasting. Although it differs from country to country, it is known that all nations feel its economic effects. It is emphasized that the prolongation of the epidemic will increase poverty and thus disrupt social and political stability. Also, governments heavily dependent on food imports are more likely to face food shortages and rising prices. For this reason, the needs of those who lost their jobs and those who are more likely to be unemployed should be personally taken into account (United Nations, 2020: p.2).

The Covid-19 pandemic has had an unprecedented impact on the cash flow of many temporarily laid off or on unpaid leave. The decline in economic activity has had severe consequences for many businesses, tiny businesses, and the self-employed, such as the closure of stores, a significant decrease in the number of customers, the cancellation of contracts, and the supply chain disruption. Also, these businesses cover operating rent, utilities, salary costs, etc. It maintains regular expenses (OECD, 2020: p.20).

The Covid-19 epidemic significantly impacted tax revenues in many countries, depending on the economic contractions it caused, the measures taken, and the followed tax policies (Rephann T., 2020: p.3).

In the economic field, the tax policy followed by the state to achieve its growth targets is essential. The concept of tax can be defined as the monetary value obtained by the state or public institutions from persons and organizations with legal power within specific rules before the tax administration. The traditional function of taxes is to provide the government with resources to produce social goods and services. However, with the emergence of the Keynesian economy, functional finance came to the fore to ensure full employment and growth. According to this understanding, taxes have begun to be seen as a tool of fiscal policy (https://vergidosyasi.com/2017/11/17/verginin-tanimi-ve-ozellikleri, 2017).

The state needs financial resources to provide services to its citizens in defense, infrastructure services, education, and health. For every government, income generation is the primary concern of economic and social development. Unfortunately, as the availability of income sources in many developing countries remains very low, we are seeing an increase in the problem rising public debt and of budget deficits for these countries.

There are various sources from which government revenues can be diversified. Developing countries mainly benefit from taxes (income, property, trade, sales, and value-added taxes). The composition and components of central government revenues may differ from country to country. Significant differences in tax structures observed between countries may, to some extent, reflect differences in social preferences for public and private goods over time. For example, countries differ significantly in spending on defense, infrastructure investment, public education, or social security. Higher spending levels require higher revenues leading to higher tax rates. Tax revenues are essential for the state to perform its functions well.

According to the operational data provided by the Ministry of Finance, state budget revenues in the January-September 2021 period amounted to 17 billion 871.6 million manats, expenditures - 17 billion 711.9 million manats.

According to the State Statistics Committee, the budget has a surplus of 159.7 million manats or 0.3 percent of GDP.

In January-August 2021, taking into account the revenues of the public debt and guarantees of the Guarantee Fund, the state budget revenues were 15 billion 974.3 million manats, and expenditures - 15 billion 626.8 million manats. 21.49 percent of the revenues are value-added tax, 13.77 percent corporate tax, 5.42 percent taxes related to foreign economic activities, 4.87 percent personal income tax, 4.47 percent SCT, 1.27 percent was obtained from Simplified tax, 1.96 percent from other types. in taxes, 46.76 percent in non-tax revenues. 20.10 percent of the budget resources are devoted to defense and national security measures, 18.14 percent to education and health, 15.62 percent to general public services, 14.31 percent to social protection and social security, 7.54 percent ' of the judiciary, law enforcement, and prosecutor's office. Percent was spent on financing activities in other areas.

In addition to the dynamic growth rate of the budget, the preservation of the budget income and expenditure ratio, the budget deficit is much lower than expected, a positive balance of payments, a significant increase in non-oil exports, and a significant increase in non-oil exports. Oil tax revenues, macroeconomic In Azerbaijan, it can be said that stability has been affected less than expected by the consequences of the coronavirus pandemic.

The impact of Covid 19 on tax revenues will vary depending on how much tax is collected from the sectors most affected by the epidemic. For example, in less-taxed sectors such as agriculture, the loss of tax revenue will be much lower than in other sectors. In many countries, the almost complete closure of some sub-sectors such as housing, gastronomy, and transportation will reduce tax revenues from these sectors. On the other hand, tax revenues will increase from the growing agriculture, telecommunications, and distribution-based retail sectors (IMF Financial Affairs, 2020: p.3).

The tax structure is also of great importance in terms of the impact of Covid-19 on tax revenues. Profit-based taxes, such as corporate taxes, are more volatile than consumption and income taxes. The epidemic will affect the stable consumer tax revenues due to the social exclusion measures implemented (IMF Fınancıal Works, 2020: p.3). Goods and services such as restaurants, transportation, and clothing have been the most significant areas of cost reduction since the pandemic. On the other hand, there has been a substantial increase in expenditures on electronics, computers, and various food products (Dündar M., 2020: p.3-4).

Undoubtedly, tax revenues have decreased due to reduced international trade and international travel restrictions. However, since the prohibitions and restrictions, economic structure, tax base, tax system, tax administration, and compliance with taxpayers' obligations differ from country to country, the decrease in tax revenues will also be different. In this case, the epidemic's impact on public finances will be very uncertain. For countries with little or no domestic borrowing capacity to finance public expenditures, it is important to seek alternative external financing from international institutions or temporarily from central bank sources (Steel and Phillips, 2020: p.1).

In addition to some of the measures taken against Covid-19, the concept of "tax expenditures," which refers to the tax revenues rejected by the state, is also emerging. Tax expenditures are expressed as taxes abandoned in line with the socio-economic goals desired to be achieved (Sarac, 2010: p.262-264). Tax costs that may be incurred in exemptions, deductions, and tax deferrals affect tax revenues. The tax revenues that the government refuses to bear in the average tax loss appear to be a significant expense.

Tax expenditures in Azerbaijan began to be used as a policy tool against Covid-19 and aimed to minimize the impact of declining economic activity on individuals and companies. In this context, measures have been taken to affect the declaration and its duration. In connection with the Covid-19 epidemic, in the context of the possibility of both businesses and taxpayers not fulfilling their obligations within the legal period, facilitating practices have been implemented in favor of the taxpayer in many ways. In particular, declaration, notification, and payment periods have been established in favor of taxpayers (Özcan Y., 2020: p.348).

Undoubtedly, different economic conditions and restrictions are applied in each country, which necessitates different policy measures. In this sense, the fiscal estimates used in developed and developing countries vary. Income and expenditure measures, as well as liquidity support for enterprises, have been announced in developed countries. Income support is offered to households and industries most affected by the COVID-19 outbreak in low-income countries through expansionary fiscal policies and foreign assistance. There are reductions in VAT rates, personal income taxes, and corporate taxes (Gupta S., Liu J., 2020: p.1).

Many countries are considering measures to alleviate the problems of layoffs, non-payment of suppliers, closure of businesses, or increased cash flow in case of bankruptcy. These measures must target the taxpayers most affected by the epidemic and the sectors expected to reduce the economic disruption and are valid for all taxpayers in these sectors (OECD, 2020: p.6-7).

Moreover, in less developed countries, many workers work in the informal sector. Therefore, reducing or delaying tax payments for businesses and individuals will primarily only benefit taxpayers. Casual companies and their employees are particularly vulnerable to the economic shocks of the coronavirus. Therefore, other policy tools are needed (Steel and Phillips, 2020: p.8). In this context, especially social assistance programs will play an important role.

One of the restrictions applied on the backdrop of the pandemic and affecting the world economy the most was the suspension of flights in the tourism and transportation sectors. This, in turn, led to a rapid collapse in oil prices and disrupted the balance of supply and demand in the oil market. Travel agencies, hotels, and restaurants worldwide are experiencing severe problems due to the coronavirus. While people are afraid to travel due to the virus, tourist areas face severe economic losses. The pandemic, which caused a record economic decline in many economic sectors, especially the service sector, generated a record decline in GDP in many developed and developing countries. According to the World Bank (WB), quarantine restrictions on the pandemic affecting small and medium-sized businesses worldwide have also led to increased unemployment. The damage caused by the coronavirus pandemic to the global economy has exceeded $ 3.5 trillion. Azerbaijan was also among the countries affected by the pandemic to some extent. At the same time, both the rapid decline in oil prices and the fact that more than half of the budget revenues came from oil further increased this effect. At the same time, the 44-day Second Karabakh War, which started at the end of September 2020 and ended with the liberation of occupied Nagorno-Karabakh and its surroundings from Armenian occupation, also created an economic impact and increased its effectiveness. Thus, the country's economy, which started with positive economic growth in the first months of 2020, began to decline due to the pandemic. At the end of 2020, economic growth was negative, and the country's economy shrank 3.5 percent. It should be noted that this figure is not so bad in the current situation compared to other developed and neighboring countries. At the same time, according to recent data, 2021 is expected to end positively, and the country's economy is expected to grow by 4-4.5 percent.

Considering the negative consequences of the COVID-19 pandemic in Azerbaijan, while the income from housing activities in Azerbaijan was 74.3 million manats in 2006, this figure increased almost seven times and reached 450 million manats in 2019. While the VAT and other taxes paid by the hotels to the budget increased from year to year, 9.4 million manats born to the state in 2006 reached 42.2 million manats in 2019. However, essential developments in tourism were reversed with the COVID-19 pandemic. While the number of domestic tourists, which was 841,000 in the January-June period of 2019, increased to 297,000 in the same period of 2020, tourism revenues decreased by 2.7 times in the January-June 2020 period to 532.8 million manats. In the private sector, 40.7% of the catering turnover falls on legal entities, and 59.3% on people engaged in entrepreneurial activities in this field. The turnover of legal entities decreased by 2.8 times compared to January-February 2020 and amounted to 31.4 million manats. In December 2020, mass catering turnover decreased by 3.2 times compared to December 2019. In general, the volume of catering services decreased by 2.2 times compared to 2019 and amounted to 759.6 million manats.

The budget is the leading financial asset of the state that regulates the economy. In this sense, the budget is a document reflecting the revenues and expenditures of the state and a guide for the whole country's economy and the economic outlook of the following year. Therefore, as a result of the globalizing financial system, while preparing the budget, all economic, political, and social issues within and outside the country should be taken into account so that the following year's budget coincides with the calculated figures. Of course, the economy, which is struggling with crises with globalization, is changing rapidly, and it is not easy to predict precisely what will happen next year. At the same time, the closeness of the budget estimates to the performance figures indicates the success of the budget policy.

Estimating the state budget is much more complex than calculating the importance of a company or family budget. While performance figures in many countries match estimates, they are pretty different in others. At the same time, the deficit accepted at the beginning of the year (mostly in times of crisis) may increase during the current year. In addition, although the budget is approved with a deficit at the beginning of the year, efforts are made to find appropriate resources during the year. Under the influence of global economic integration, good, bad, and average scenarios are used in budget forecasting. Because, as a part of the general economy, the budget is resistant to economic fluctuations. So, if GDP growth doubles next year, the budget is expected to increase similarly.

The state budget is the most important financial document in a country. The state affects the country's economy and social life with these funds. While this is often part of economic policy, it is also natural because public finances are at the heart of the economy. Therefore, when estimating the state budget, it is essential to anticipate possible changes in its economy. It primarily considers macroeconomic indicators such as current and expected GDP and growth rates, inflation and unemployment in the country, and microeconomic factors that will affect the business development.

On the contrary, changes in the economy affect the budget flexibly. Thus, an increase in GDP increases tax revenues, and high inflation causes an increase in public expenditures. Due to such increased importance of the state budget, attention should be paid to its more precise estimation.

The Ministry of Finance of the Republic of Azerbaijan, by the "National Action Plan for the Promotion of Open Government for 2020-2022" and the experience of recent years,

According to the Ministry of Finance, the document, which was prepared to consider advanced international practices, includes 2022 and medium-term macroeconomic forecasts, central aspects of fiscal policy, priority revenues and expenditures of the state budget, and basic information. Public debt.

In 2022, it is estimated that the state budget revenues will be 26 billion 407 million manats, expenditures will be 28 billion 974 million manats, and the deficit will be 2 billion 567 million manats. Projected revenue is 3.8 percent higher than the figure confirmed for 2021.

Continuing tax and customs reforms and mitigating the impact of the pandemic In 2022, the growth of related revenues in the non-oil sector will be 1 billion compared to the approved figure for 2021 (excluding deductions from Central Bank profits and transfers from banks). State Debt and Guarantee Fund). 844 million manats or 19.3 percent.

While calculating the consolidated and state budget revenues for 2022, the barrel price of oil was 45 dollars with a more conservative approach. Oil prices and the exchange rate of the manat against the US dollar remained stable for the medium term (AZN 1.7), duration of oilfield development and production sharing agreements, international agreements on production volumes, and GDP growth. The estimates and targets of the Ministry of Economy and measures to improve tax and customs policy have formed the basis of assumptions and assumptions in revenue estimation.

State budget expenditures in 2022 are estimated at 28 billion 974 million manats (35.6 percent of GDP), 1.5 percent more than the figure approved for 2021. 68.7% of the expenditures are current expenditures, 24.7% are capital expenditures, and 6.6% are expenditures related to paying public debts and liabilities. In the said period, current prices are expected to increase by 10.5 percent, capital expenditures by 14.1 percent, and public debt service by 13.0 percent due to increased wages and social payments compared to the previous year.

2.2 Tax policy measures against Covid-19 pandemic in international experience

The Covid-19 epidemic, which affects all parts of the world, threatens the general health of countries and causes significant deaths, has caused and continues to cause severe crises in terms of both health and economy. Although the epidemic caused a historical contraction in the world economy, it caused many production losses, declining business and household incomes, and unemployment. Countries seem to have followed a series of fiscal and tax policies to minimize or protect their epidemic economies.

It is known that there have been many epidemics in the world throughout human history. These epidemics threaten the general population's health and affect many countries economically and politically. Viruses such as Ebola and HIV continue to threaten human health locally. The Covid-19 virus, which killed approximately 70 million patients and 1.7 million people worldwide as of December 2020 (WHO, 2020), seems to seriously impact the world economy and the country's financial system.

With the Covid-19 epidemic, the world economy has shown a significant contraction trend, and this seems to have disrupted domestic and foreign trade, supply chains, and investment flows. At the same time, it has stopped the tourism sector in many countries, leaving financial and human capital idle and rapidly reducing remittances, transportation revenues, and revenues from tourism. In addition, the rapid decline in commodity prices has seriously damaged commodity-dependent economies. On the other hand, socio-economic consequences such as obtaining vital medical supplies and meeting critical food needs of countries, and food security have emerged (WB, 2020).

The Covid-19 epidemic, which has left very different effects in different parts of the world, has led to various struggles due to both the size of its impact and the highly developed human information and communication alternatives. Compared to many epidemics in history, this epidemic has also shown that countries are more dynamic in using advanced economic and financial resources, available communication, and advanced medical technology.

Efficient use of social resources and the management of this process by the crisis management process increase significantly against the adverse effects of urgent needs such as employment and income loss for households, disruption of essential services and food supply, public health, nutrition, education, and essential services.

In the face of this unpredictable situation, the countries that have locked their economic systems require the financial system's maximum capacity to react immediately to the crisis. In addition, this process, which can dissolve the development gains of countries, requires solid and continuous financial support from international financial support institutions and their institutions and organizations.

Given the means of action needed to prevent or slow the spread of Covid-19, such as vaccination or social isolation (Hansen E., Day T., 2011: p.428), direct GDP loss seems inevitable. Supply chain disruptions (forced changes in consumer habits resulting from appropriate sanitation and their impact on supply) have directly affected production and sales in many industries. The world economy seems to be in a severe and severe economic recession in many countries. Fiscal policies shape intervention measures in this stagnation and recession process, and the experiences of countries receiving financial incentives draw attention. There are many financial measures and regulations, from tax cuts for businesses to supporting households' direct income.

As a fiscal policy tool, economic development programs provided by the public in various ways and under different names are also one of the tools of intervention in the market, a sub-executive tool. Financial incentives, also known as state aid, promote economic growth and development, ensure economic stability and equality in income distribution, and increase well-being.

Variable incentive practices, which are affected by many factors such as economic policies and development differences, have many purposes such as increasing social welfare, ensuring regional and sectoral development, and eliminating regional and sectoral inequalities (Koç N., 2019: p.108-109).

The first effects of Covid-19 on the EU economy were felt in the industry and service sectors and worldwide. Due to the measures taken, industrial facilities and the service sector suspended production. Therefore, scarcity and sudden shocks in the demand structure have affected countries economically dependent on each other in chains. The EU's strong dependence on the Middle East as an energy source and Southeast Asia or China for intermediate products has maintained its industrial production structure with domestic consumption. However, the same cannot be said for the service sector. The ongoing barriers to access between the EU and other countries have led to the loss of employment, which feeds approximately fifty-two sub-sectors such as tourism and an essential source of income.

It is expected that the EU will follow policies to combat the Covid-19 epidemic and compensate for the economic damage it has caused through the open budget and financial channels among EU members. Since the EU could not impose its crisis management policies on other countries, it forced governments to find solutions. In this context, it is seen that incentive and tax incentive policies aim to strengthen the health system and reduce the financial burden of enterprises arising from financial and salary payments.

In Austria, temporary income tax and corporate tax payments have been reduced to zero. The tax payment date can be postponed to 30 September 2020, or payment can be made in installments until this date. Revenues have been extended until 31 August 2020, the deadline for institutions, VAT, and determination of revenues. Grants from government funds to entrepreneurs were exempt from tax. Additional payments made by the employer are tax-free up to a maximum of 3,000 Euros. It was decided to simplify the procedures for duty-free use of alcohol in the manufacture of disinfectants and to exempt alcohol from tax. The preferential income tax rate for retired doctors returning from retirement due to the Covid-19 crisis has been halved from sales or business closures.

Companies donating medical supplies and equipment to healthcare facilities in Belgium are exempt from VAT. In addition, VAT, Income, and Corporate Tax payments are automatically deferred for two months. Opportunities to pay taxes in installments were created. In the first two quarters of 2020, temporary social insurance premiums for individuals were postponed for one year. Flanders deferred payment of property tax. In the Flemish Region, turnover tax payments have been delayed four months. The Brussels Region has suspended taxes on tourist accommodation facilities for the first half of 2020. The Brussels Region has exempted taxi or car drivers from taxes for 2020. Measures have been taken to deduct donations from health income and corporate tax.

Corporate and income tax periods have been extended for VAT payers and employers in Denmark. Firms with a significant drop in demand were allowed to send their workers home, and the government paid 75% of their wages (up to €3,100), provided they pledged not to lay off workers for economic reasons. Companies paid the remaining 25% to receive their full salaries. The compensation period for hourly workers (with no notice period) is 90%. (max 3500 euros). The government covered all sick leave payments of Covid-19 patients. As the spread of Covid-19 affected businesses, the government lowered its expected profit for 2020. Compensation for fixed costs such as rent, debt interest costs, and non-canceled contract costs - companies that are temporarily banned from doing business will be able to recoup all fixed costs. The government compensated all businesses between 80% and 25% based on reduced turnover. The state has compensated people whose income has decreased due to Covid-19 because their incomes have decreased by at least 19%.

In Finland, in connection with Covid-19, additional time has been given for late filing of tax returns, and late filing penalties have been lifted. Payment arrangements have been made for the taxes to be paid by companies in financial difficulties, and provisional tax payments have been made if the companies' annual earnings are lower than expected. As of March 1, 2020, the tax liability interest rate has been reduced from 7% to 4%. Pension funds postponed pension contributions paid by employers and self-employed organizations for up to 3 months at taxpayers' request.

France has delayed payment of all or part of employee and employer contributions for up to 3 months. Individuals' monthly tax payments have been postponed to March. Tax reductions on corporate and real estate taxes were provided to companies experiencing financial difficulties due to Covid-19. In any case, the period of temporary non-payment of taxes was extended. Interest or penalties for delinquent taxes have been removed. Permits have been granted to temporarily suspend water, gas, electricity, and rent for small businesses struggling due to Covid-19. The state paid compensation to workers who had to stay at home. The application was delivered to more than 1.1 million employees in 2.5 months. A solidarity fund for small companies was established. A 6-year government loan was offered to companies registered in France (small businesses, individuals, and micro-entrepreneurs experiencing a sharp decline in turnover). (State loan rate was 0.25% for one-year loans to SMEs, 0.50% for medium-sized enterprises and large firms)

Payments of VAT and corporation tax for firms in Germany affected by the Covid-19 outbreak have been postponed until December 31, 2020. Default penalties for unpaid taxes were waived. Additional public funding was provided for start-ups and entrepreneurs.

VAT and other tax obligations have been suspended for businesses, self-employed and individual entrepreneurs affected by the crisis in Greece. Payments that had been suspended were divided into four equal parts, with no interest or additional costs. The 800 Euro help was available to individuals, small enterprises, and employers with at least five employees who had been affected by the Covid-19 outbreak. The state covered the costs of companies whose employment contracts were terminated due to the Covid-19 epidemic and individuals (including employees) affected by the epidemic. Tax and social insurance liabilities (excluding VAT) were reduced by 25%. VAT on hygienic products (mask, gloves, etc.) has been reduced from 24% to 6% for companies. Loan payments in the principal amount for companies affected by the Covid-19 crisis were suspended until September. A total of 108,000 civil servants working in hospitals were given Easter awards. The Easter bonus paid to private sector employees according to the expiry of the employment contract was produced from the state budget. Six professional groups (economists, engineers, lawyers, doctors, teachers, and researchers) received economic support in training checks for 600 euros. The Ministry of Rural Development and Food provided 150 million Euros of aid. An additional 70 million euros was allocated to the Ministry of Health to employ 2,000 health workers for hospitals, health centers, and the National Emergency Center. In April, May, and June, interest payments to companies affected by the Covid-19 crisis were conditionally paid by the state to companies that retain employment.

During the epidemic, Hungary provided for the temporary abolition of social insurance premiums for the housing, food, arts, entertainment, and leisure sectors and reduced workers' insurance premiums to the level of primary health insurance premiums. Tax cuts were introduced for small businesses. Employers' salary taxes have been temporarily lifted in the most affected sectors (such as tourism, catering, event management, entertainment industry). Between March and June 2020, social insurance contributions for employees were abolished. From March to June 2020, the tax obligations of passenger service providers who pay the small business tax are suspended. The following opportunities have been provided to individuals and individuals experiencing economic difficulties due to Covid-19;

1) delay of payment,

2) installment payment,

3) tax deduction or waiver upon request.

Social insurance payments of employers and employees in Italy have been suspended for a while. VAT, Real Estate, and Income Tax payments of companies operating in the fields of tourism, transportation, food and beverage, entertainment, sports, and education have been stopped. Social security premiums to be paid by households to domestic workers and salaries to be paid to companies operating in the betting industry have been postponed to May 31, 2020. Due to the state of emergency in Covid-19, a 19 percent tax discount was applied to donations made by philanthropists. The payment of port taxes and fees of companies operating in the maritime sector has been suspended until July 31, 2020.

Corporate Tax, VAT, and withholding responsibilities for firms affected by the Covid-19 epidemic have been postponed in the Netherlands. Default penalties for unpaid taxes were waived. Unemployment payments may be available to those who lost their jobs as a result of Covid-19.

It was decided to postpone VAT, income tax, and social contributions in Norway. The temporary exemption is applied to air transport taxpayers. Additional resources were allocated from the budget to municipalities whose costs increased due to the virus epidemic. Measures were taken to ensure that the retirement rights of retired health workers who returned to service due to the corona epidemic are not adversely affected. Between April 1, 2020, and October 31, 2020, the VAT rate for cultural and tourism services was reduced from 12% to 6%.

In Poland, it has been decided to subsidize employees' salaries of companies affected by Covid-19 up to 40% of the average legal wage. It was agreed to support the salaries of individual employees under certain conditions. An appeal has been filed for taxpayers to defer their VAT debts, including installment payments and debt relief. VAT has been temporarily reduced to zero for selected local materials that contribute to the fight against Covid-19. From the 1st of March until the 31st of May, 2020 discounts are available for small businesses (less than ten employees) and self-employed (provided their monthly income did not exceed three times their average monthly payment in 2020).

In Portugal, it was decided to postpone the payment of property tax and some other taxes. It was agreed to pay a specific part of employees who had to stay at home for their children. In addition to the minimum wage, it has been decided to provide training subsidies for employees up to the cost of training 19% of their previous earnings as a result of the Covid-19 crisis. A cash management loan fund of 200 million Euros was created for companies. It was decided to provide non-repayable interest-free loans up to 60 million Euros to micro-companies operating in the tourism sector. In order to prevent temporary job loss, it was agreed that 2/3 of the employer's salary should be paid by the state, 70% by the state, and 30% by the employer. It was decided to defer taxation under certain conditions for individuals. It has been chosen to postpone corporate tax payments, provisional tax payments, and partial payment of VAT. VAT exemption is applied to the donations of goods to be distributed to the state and non-profit organizations, health institutions, or the needy. Credit stamp duty was waived for businesses affected by Covid-19. In order to support the liquidity of companies operating in the travel and tourism sector, 1.1 billion Euros of Credit Guarantee Support and 600 million Euros of funds were created for the accommodation sectors such as the textile, ready-made clothing, and footwear sectors.

It has been decided to postpone the corporate tax payments for corporations with a turnover of fewer than 6 million Euros in Spain until 30 May. The maximum amount that can be delayed is determined as 30,000 Euros. For individuals or organizations whose turnover does not exceed 6 million Euros, VAT payments are postponed until 30 May, and the maximum amount that can be delayed is determined as 30,000 Euros. Emergency unemployment benefit for individuals is defined as at least one month. Regional governments were given €300 million in central government loans to finance essential social benefits for needy households.

Sweden has decided to delay the quarterly net VAT payments for 12 months, including interest, between January and September 2020. In January-September 2020, businesses could delay the payment of social security contributions by employers for up to three months. The first 12-month income tax payments of salaries to be paid between January and September are deferred quarterly. The government covered 75 percent of the cost of the discount. The central government covered financing of municipal and regional emergency expenditures related to Covid-19. Additional funds have been allocated for the culture and sports sector. Employers' social insurance premiums were temporarily reduced. Rental prices have been temporarily reduced for companies with significant challenges, such as consumer durables, hotels, restaurants, and other activities. Swedish airlines were guaranteed a maximum of 5 billion (SEK) government loans. The extension of credit and loan guarantees was provided by the Swedish Export Credit Authority (SECA) and the Swedish Export Credit Company (SECC).

In Switzerland, the Federal Council has provided financial support of up to 1 billion to companies affected by Covid-19. Companies affected by the crisis were able to temporarily and socially delay the payment of their social security contributions. The delay interest on the incomes of natural and legal persons, VAT, customs duties, special consumption taxes, and incentive taxes have been reduced to 0 percent until 31 December 2020. Rules on the right to compensation for short-time work entered into force. Individual entrepreneurs who lost their earnings due to the official measures taken to combat the coronavirus were provided with compensation or insurance. Parents who had to leave their jobs to take care of their children due to school closures and quarantine were compensated. As a result of the Covid-19 measures, non-repayable interest-free loans were given to reduce the negative economic impact on sports and cultural activities. Employers are temporarily allowed to use employer insurance reserves created by employees to pay insurance premiums.

In neighboring Turkey, the 'Economic Stability Shield' package worth TL 100 billion was announced to reduce the impact of Covid-19 on the economy. April, May, and June 2020 tax, VAT, and social insurance payments of taxpayers in shopping malls, retail, iron, steel, automobile, transportation, cinema, housing, food and beverage, textile clothing, and events were postponed for six months. The VAT rate on domestic flights was reduced from 18% to 1% in 3 months. The current payment date of the housing tax has been postponed to January 1, 2021, instead of April 1, 2020. Direct income support was provided to low-income families who lost their temporary jobs. The deadline for submitting the 2019 corporate tax returns until April 30, 2020, and the payment of the taxes accrued on these returns has been extended until the end of the year. In 2020, the annual fee paid to the Travel Agencies Association had been abolished. Except for the reasons stated in the second paragraph of the first paragraph of Article 25 of the Labor Law, all employment contracts are limited by the employer for three months as of April 17, 2020. Forestry permits and fees in state-owned forest and recreation areas were delayed for three months. Rent payments in national parks were delayed for three months. A basic needs support package was announced through public banks for minimum wage earners, retirees, individuals, and other middle and lower-income groups with a monthly income of less than 5,000 TL. It was decided to continue the minimum wage support. It was decided to increase the minimum pension to 1,500 TL. Within the scope of the social support program, 1000 TL per person was provided to 6,310,104 people in 3 stages.

Azerbaijan is fully exempt from property and land taxes for 2020. A 75 percent income tax reduction was envisaged. With this concession, the payment of the income tax calculated on the results of 2019 to the enterprises was postponed to September (it was supposed to be paid until March 31), the taxpayers' current tax payment obligation was abolished in 2020, Concessions were granted. Such as freezing the interest calculation on tax and social insurance debts of business entities until 2020 and January 1, 2021. According to the changes introduced during the pandemic period, 100% of real estate and land taxes will be paid to those subject to the temporary tax regime; 75% income tax; A 50% exemption, and the discount was applied the simplified tax.

As a result of the measures taken to prevent the spread of the Covid-19 epidemic (for example, the closure of workplaces and the introduction of curfews), businesses' economic losses, especially private-sector employees, have increased significantly. To reduce these effects, EU countries and Azerbaijan have implemented fiscal measures and incentives to keep their economies in balance. However, the increase in technical needs such as human resources and additional intensive care units, necessary medical equipment, and protective masks created other financial resources. In this context, incentives for health services such as transferring supplemental budgets to health ministries, paying fees to private health institutions, tax reductions, and grants to companies producing technical equipment have emerged.

Since the beginning of the epidemic, some carelessness, such as the EU's institutional weakness in coordinating preventive measures against the Covid-19 epidemic and delays in restricting human mobility, has caused the epidemic to spread rapidly. This situation has led to the criticism of institutional structures such as the World Health Organization, the UN, and the European Union, which are insufficient to provide international cooperation.

Considering the measures taken in selected EU countries and Azerbaijan as a whole, the economic, social, and financial actions taken so far reflect protectionist policies. In the upcoming period, businesses that face severe income losses need to benefit from more social incentives to survive, create new employment and increase their social motivation. The digital working life, which has come to the fore, especially during the quarantine process, will see more demand in the future. In this context, increasing incentives to improve working life will contribute to the economy.

Considering the effects of the Covid-19 outbreak on the process, small businesses and SMEs are most affected by liquidity problems. For this reason, measures and incentives for small and medium-sized enterprises to increase production and protect employment will play a protective role in income distribution. On the other hand, businesses and entrepreneurs can show and work by providing project-based grants and interest-free loan support. By expanding SMEs' financial and technical feasibility studies, companies can be strengthened against possible crises. Sustainable tax cuts and exemptions, especially for sectors affected by Covid-19, will also increase the industry's resilience. Project support can be grown to increase cooperation between state institutions - universities - NGOs. In this context, a structure called the Epidemics Fight and Prevention Fund can be established, increasing the country's mobility and speed in combating and protecting against epidemics.

As a result, it is possible to say that with the Covid-19 epidemic, there will be a severe transformation of the world economy, and the state economy will be more effective in the markets. The implementation of incentives that will enable the production of high-tech and high-value-added products will both increase exports of high-tech products and develop digital systems. It can be said that public incentives will grow in areas such as establishing a robust health system, ensuring food safety, ensuring the production and sustainability of agricultural and strategic food products to ensure their safety, and eliminating the deficiencies in the process.

Finally, the Covid-19 epidemic in Azerbaijan is seen as an ideal approach in terms of financial incentives and measures within the framework of tax policy, especially within the framework of Azerbaijan's population and economic opportunities. End-to-end process management is more successful than other EU countries, especially in financial incentives, tax incentives, and financial measures applied to health, science and innovation, social policy, and related strategies. It is also essential to examine the effectiveness of economic standards and incentive practices in the fight against Covid-19. Researching the effectiveness of these measures will help policymakers improve current efforts and identify possible future actions.

CHAPTER III. RESULTS OF TAX POLICY IMPLEMENTED IN THE REPUBLIC OF AZERBAIJAN IN PANDEMIC CONDITIONS

3.1 Anti-crisis measures applied in Azerbaijan during the pandemic and the effect of these measures on tax revenues

The tightening of restrictions to prevent the rapid spread of the pandemic has led to a reduction in economic growth, as well as tax revenues from non-oil sectors, which are planned to be included in the budget. The steps taken to combat the pandemic have also affected the restructuring of budget expenditures.

The coronavirus crisis has directly and indirectly affected the CIS and Azerbaijani economies. Anti-crisis measures have minimized the negative effects of the pandemic, and isolation measures have saved many lives. In countries other than Belarus, the government has imposed general quarantine. The closure of borders has hampered trade and tourism flows, as well as seasonal activities. As a result of the state's anti-crisis policy in 2020, economic activity decreased by 4%, although macroeconomic and financial stability was ensured in Azerbaijan (Ibrahimov K., 2021).

Restrictive measures in connection with the pandemic have had a significant impact on the state of the labor market and employment. The International Labor Organization estimates that global unemployment could affect between 5.3 million and 24.7 million people. The Center for Macroeconomic Analysis and Short-Term Forecasting estimates that 25 million people could lose their jobs, which is quite a large number.

According to the International Labor Organization, the coronavirus will increase the number of "working poor": their number will increase by 20.1-35.0 million people. According to the World Economic Forum, more than 4 billion people have been isolated from their homes to compensate for social distance due to the pandemic. The global pandemic has affected economic activity, created financial difficulties in enterprises and limited the activities of enterprises. According to the

International Labor Organization, the decline in jobs has become sharp. Although a number of countries have taken measures to maintain employment, it has not been possible to stabilize the situation in this area in the world as a whole (Глазьев С.Ю., 2020).

The main measures to be taken to reduce or eliminate the social problems caused by the pandemic are described in the "COVID-19 and working life" report of the International Labor Organization. In a short period of time, some countries have taken measures to expand social protection, short working hours, paid leave, financial and tax support to enterprises, regardless of the size of the business, and credit and financial support for specific sectors of the economy.

The table below analyzes the anti-crisis measures applied in Azerbaijan and the impact of these measures on tax revenues in the state budget for 2017-2021. Despite the reduction in many taxes, the state budget increased in terms of total revenues. This is highly affected by the transfer from state oil fund to the state budget. In addition, there were increases in income and excise taxes from individuals. It can be said that all other tax revenues will decrease in 2020, and the largest decrease will be in value-added tax.

Covid-19 started in 2019 but it is highly affected countries economies in 2020 and 2021.Despite the pandemic government main revenue source tax decreased in some areas. In 2020 and 2021 total income of government increase 6.9% and 2.1% respectively compared to the previous year. But especially in 2020 when covid-19 hit the world economy sharply we can see most of the volume of collected taxes decreased. As we can see in table 4.2 reduction in tax revenues are in profit tax (-7.6%) , land tax (-18.4%) , VAT (-7.1%) , mining tax (-2.7%) , taxes in foreign axtivity (-13.6%) , and other taxes (-13.3). Due du pandemic most of the companies and small businesses can’t handle economic difficulties. Their incomes decreased and expense increased and this led to decrease in their overall profit that’s why in 2020 profit tax decreased by 7.6%. Government make some concession like increase the length of time to give taxes or decreased some rate of taxes to small businesses furthermore giving goverment assistance to companies that in financial difficuties otherwise that number can be very high.

Table 4.1: Tax revenues in the state budget (million manats).

	2017	2018	2019	2020	2021
Income-total	**16516,7**	**22508,9**	**24398,5**	**26077,9**	**26631,7**
Income tax of individuals	1040,3	995,9	952,1	1151,0	1194,6
Profit (income) tax of legal entities	2285,9	2499,7	2546,0	2351,7	2958,4
Land tax	50,4	50,6	50,0	40,8	45,7
Property tax	178,6	182,2	212,6	186,8	211,3
Value-added tax	3668,6	4287,6	5185,1	4818,3	5214,5
Excise	612,6	728,6	854,7	898,2	1105,8
Mining tax	111,1	137,4	133,8	130,2	138,4
Taxes on foreign economic activity	903,0	1143,7	1343,2	1160,6	1360,0
Other taxes	505,7	561,6	477,5	413,8	418,8

Source: The State Statistical Committee of the Republic of Azerbaijan, https://www.stat.gov.az/source/finance/

Table 4.2: Tax revenues percentage increase (decrease) from previous year (%)

	2018	2019	2020	2021
Income-total	**36.3**	**8.4**	**6.9**	**2.1**
Income tax of individuals	-4.3	-4.4	20.9	3.8
Profit (income) tax of legal entities	9.4	1.9	-7.6	25.8
Land tax	0.4	-1.2	-18.4	12
Property tax	2	16.7	12.1	13.1
Value-added tax	16.9	20.9	-7.1	8.2
Excise	18.9	17.3	5.1	23.1
Mining tax	23.7	-2.6	-2.7	6.3
Taxes on foreign economic activity	26.7	17.4	-13.6	17.2
Other taxes	11.1	-15	-13.3	1.2

Source: Compiled by the author on the basis of preliminary indicators of state budgets

According to the anti-crisis measures, other revenues account for the state budget's largest share of tax revenues. There was a 1.2% decrease in other payments to the state budget in 2019 and an increase of 5.4% in 2020. Second, in terms of VAT, a 2.3% increase was observed in 2019 and a 2.8% decrease in 2020. According to the statistics on income tax, which is the third-largest tax revenue, in 2019, it decreased by 0.7%, and in 2020 it decreased by 1.4% compared to the previous year.

Table 5: Tax revenues in the state budget (in percent).

	2015	2016	2017	2018	2019	2020
Income-total	100%	100%	100%	100%	100%	100%
Income tax of individuals	5,6%	6,5%	6,3%	4,4%	3,9%	4,4%
Profit (income) tax of legal entities	12,6%	11,3%	13,8%	11,1%	10,4%	9,0%
Land tax	0,3%	0,3%	0,3%	0,2%	0,2%	0,2%
Property tax	0,8%	1,0%	1,1%	0,8%	0,9%	0,7%
Value-added tax	19,7%	20,7%	22,2%	19,0%	21,3%	18,5%
Excise	3,7%	3,6%	3,7%	3,2%	3,5%	3,4%
Mining tax	0,7%	0,6%	0,7%	0,6%	0,5%	0,5%
Taxes on foreign economic activity	5,3%	4,9%	5,5%	5,1%	5,5%	4,5%
Other taxes	1,4%	2,6%	3,1%	2,5%	2,0%	1,6%
Other receipts	49,8%	48,4%	43,4%	53,0%	51,8%	57,2%

Source: The State Statistical Committee of the Republic of Azerbaijan, https://www.stat.gov.az/source/finance/

As a result of the partial easing of the strict quarantine regime in the country due to the coronavirus (COVID-19) pandemic, the gradual resumption of business activities, as well as measures taken in the first quarter of 2021 to apply effective control over the tax base, improve tax administration, and establish proper tax accounting, forecasts for tax revenues to the state budget have been provided.

The increase in the number of registered taxpayers in the first quarter of this year, including the number of active taxpayers, as well as active VAT payers, registered objects (economic entities), the number of employees in the private sector, and the wage bill, as well as turnover in various sectors of the economy had a positive impact on tax revenues.

Work on transparency in turnover, a significant increase in the level of income declaration and voluntary declaration, reforms in tax administration, and growth rates in various sectors of the economy have led to an increase in tax revenues both by type of payment and in most areas of the non-oil-gas sector.

In the new Unified Budget Classification, which came into force in 2020, the revenues of special-purpose budget funds in the direction of state revenues are grouped as follows:

- Receipts of the National Fund for Entrepreneurship Support (Entrepreneurship Development Fund)
- Receipts from other trust funds
- Receipts of the State Guaranteed Loans Guarantee Fund.

In 2022, the state budget deficit is projected to be 2 billion 567 million manats, which is 17.6 percent less than the approved figure for 2021, which will be 3.2 percent of GDP. This ratio is projected at 2.3% in 2023, 1.9% in 2024 and 1.5% in 2025. It is clear that the negative effects of the coronavirus pandemic will continue for many years, but will decrease over the years.

Table 6: Forecast of the state budget of the Republic of Azerbaijan for 2022-2025.

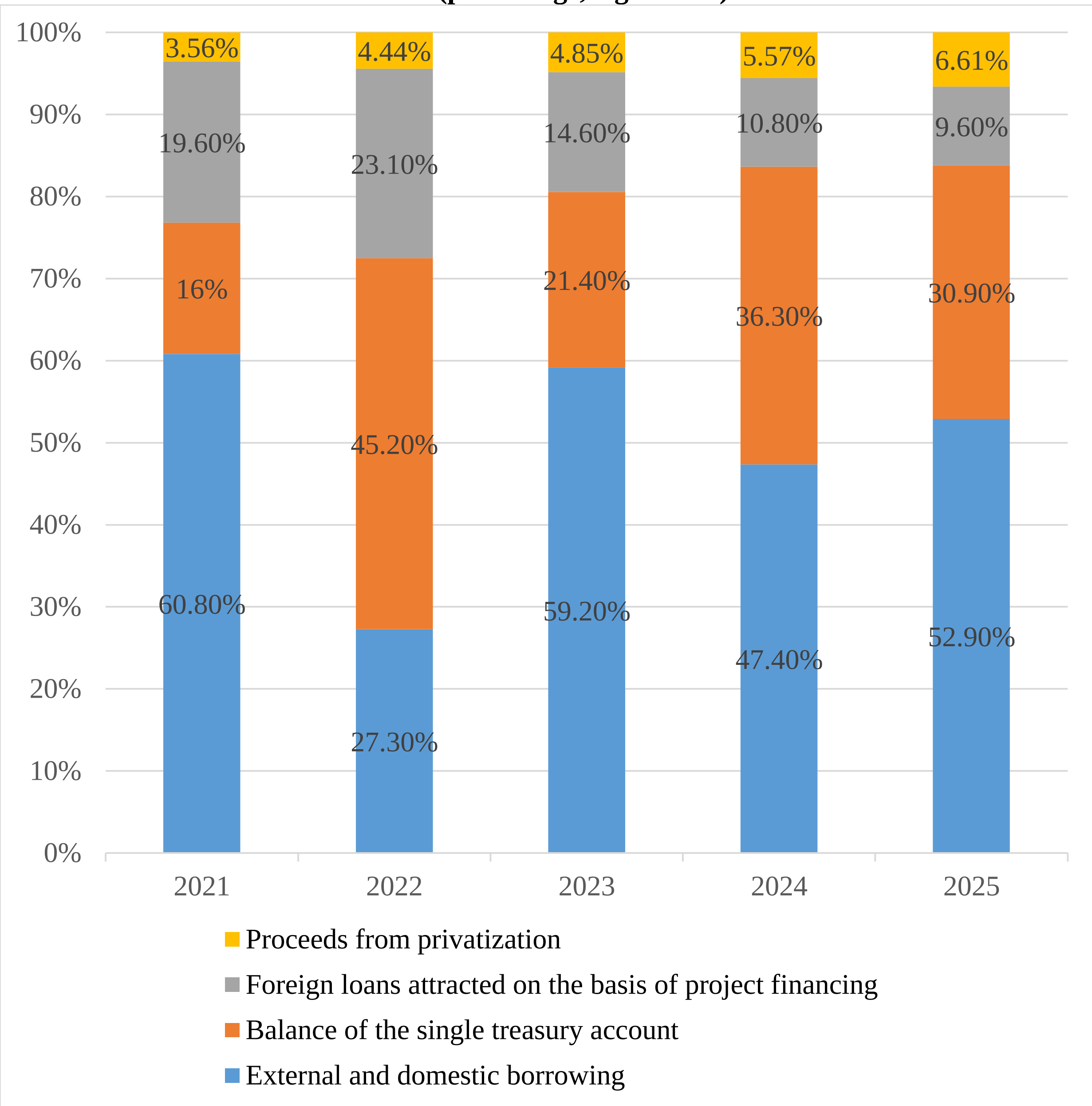
		2022	2023	2024	2025
Income		26 407 000,0	26 539 000,0	26 825 000,0	27 127 000,0
Expenses		28 974 000,0	28 600 000,0	28 620 000,0	28 640 000,0
1	General public services	4 261 018,9	4 292 087,9	4 380 187,9	4 311 595,5
2	Defense and national security	4 499 238,9	4 586 538,9	4 666 438,9	4 749 038,9
3	Judiciary, law enforcement and prosecutors	2 428 367,1	2 504 767,1	2 571 767,1	2 640 067,1
4	Education	3 740 045,8	3 876 963,3	4 018 376,20	4 172 152,8
5	Health	1 443 373,1	1 488 598,5	1 538 098,50	1 587 398,5
6	Social protection and social security	3 584 408,0	3 831 148,0	3 967 202,8	4 136 937,0
9	Agriculture	985 967,6	1 003 279,3	1 006 891,5	1 009 762,9
11	Economic activity	5 399 768,3	4 354 056,9	3 884 518,7	3 717 335,0
11,1	State capital investment (investment costs)	1 939 800,0	1 850 400,0	1 678 900,0	1 575 300,0
12	Services not included in the main sections	1 645 816,6	1 633 631,7	1 538 351,3	1 248 982,1
	Deficit	-2 567 000,0	-2 061 000,0	-1 795 000,0	-1 513 000,0
	The ratio of the fraction to the GDP	3,20%	2,30%	1,90%	1,50%

Source: The State Statistical Committee of the Republic of Azerbaijan, https://www.stat.gov.az/source/finance/

The deficit will be financed by the balance of the single treasury account (45.2 percent), domestic and foreign borrowing (27.3 percent), loans attracted on the basis of project financing (23.1 percent) and proceeds from privatization (4.4 percent).

Considering the financing sources of the budget deficit, the ratio of the budget deficit to GDP is expected to be 4.00% in 2021, 3.20% in 2022, 2.30% in 2023, 1.90% in 2024 and 1.50% in 2025.

Figure 3: Sources of financing the budget deficit (percentage, left scale) and the ratio of GDP (percentage, right scale).



Source: Compiled by the author on the basis of preliminary indicators of state budgets.

The draft state budget, consolidated budget, and indicators of the consolidated budget for the next three years must be submitted to the Cabinet of Ministers of the Republic of Azerbaijan by September 15 and to the President of the Republic of

Azerbaijan by September 25 according to the Law of the Republic of Azerbaijan "On Budget System". By paragraph 2 of Article 109 of the Constitution of the Republic of Azerbaijan, the draft law on the state budget for 2022, along with other attached documents, must be submitted to the Milli Majlis of the Republic of Azerbaijan for discussion and approval no later than October 15 of the current year. At each stage, changes can be made to the state budget and consolidated budget indicators reflected in the “Macrofiscal Framework for 2022-25 and the Statement on Preliminary Indicators and State Budgets for 2022”.

The State Tax Service, which is part of the Ministry of Economics, transferred 7 billion 961.8 million manats in taxes to the state budget from January to November 2021. The prediction was surpassed by 121 percent. Tax receipts climbed by 15.7 percent, or around 1.1 billion manats, compared to the same period previous year.

Revenues from the non-oil-gas sector amounted to 5 billion 870.1 million manats in that period; the forecast was fulfilled by 114.8 percent. In addition to the estimates, the state budget received 756.1 million manats. Tax receipts from this sector climbed by 13.5 percent, or 697.3 million manat, over the same time last year.

The macro-fiscal framework for 2022-2025 and the consolidated and preliminary state budgets for 2022 are reflected in the following tables. It turns out that the main expectations of anti-crisis measures applied in Azerbaijan during the pandemic in tax revenues are revenues from the State Tax Service and non-oil revenues. Thus, over the next three years, 16.9% and 22% more funds are expected to enter the state budget from these areas, respectively.

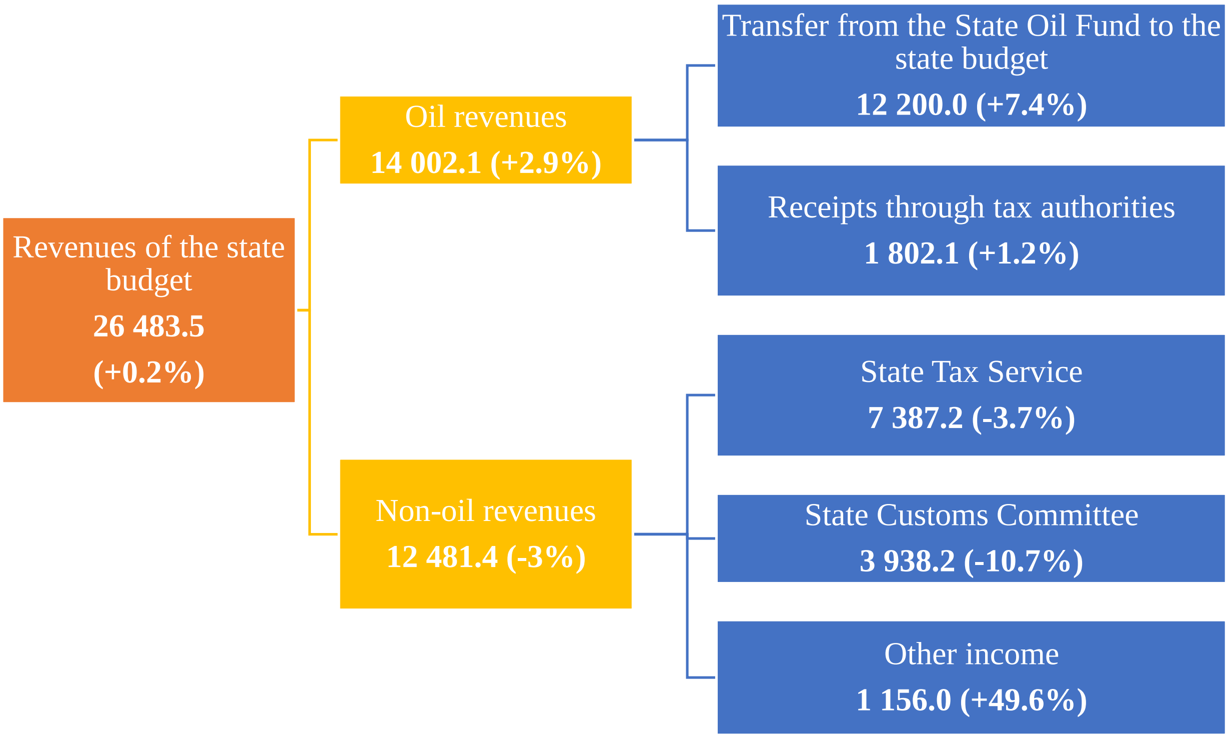
Table 7: 2022-2025 Revenues of the state and consolidated budgets, sources of financing the state budget deficit (million manats).

Indicators		2022	2023	2024	2025
1	**Consolidated budget revenues**	**26967,7**	**28175,8**	**28963,4**	**29606,5**
1.1.	**State budget revenues**	**26407**	**26539**	**26825**	**27127**
1.1.1.	State Tax Service under the Ministry of Economy	9138	9611,1	10127,9	10681,4
1.1.1.1.	Oil revenues	1980	1990	1972	1951
1.1.1.2.	Non-oil revenues	7158	7621,1	8155,9	8730,4
1.1.1.2.1.	Additional income generated by social activities	308	314	318	322
1.1.2.	The State Customs Committee	4260	4306	4405	4487
1.1.3.	Transfer from the State Oil Fund	11860	11520	11180	10840
1.1.4.	Extra-budgetary revenues of budget organizations	810	810	820	825
1.1.5.	Other receipts	339	291,9	292,1	293,5
1.2.	**Revenues of the budget of Nakhchivan AR**	**138**	**138,5**	**138,7**	**139**
1.3.	**Revenues of the State Social Protection Fund**	**2842,4**	**2759,7**	**2856,5**	**2956,7**
1,4	**Unemployment Insurance Fund revenues**	**163,6**	**128,7**	**127**	**131,4**

Source: The State Statistical Committee of the Republic of Azerbaijan, https://www.stat.gov.az/source/finance/

The effort done from January to November 2021 to improve turnover transparency and tax administration, as well as the rate of recovery seen in many sectors of the economy, has resulted in an increase in tax and social insurance revenues.

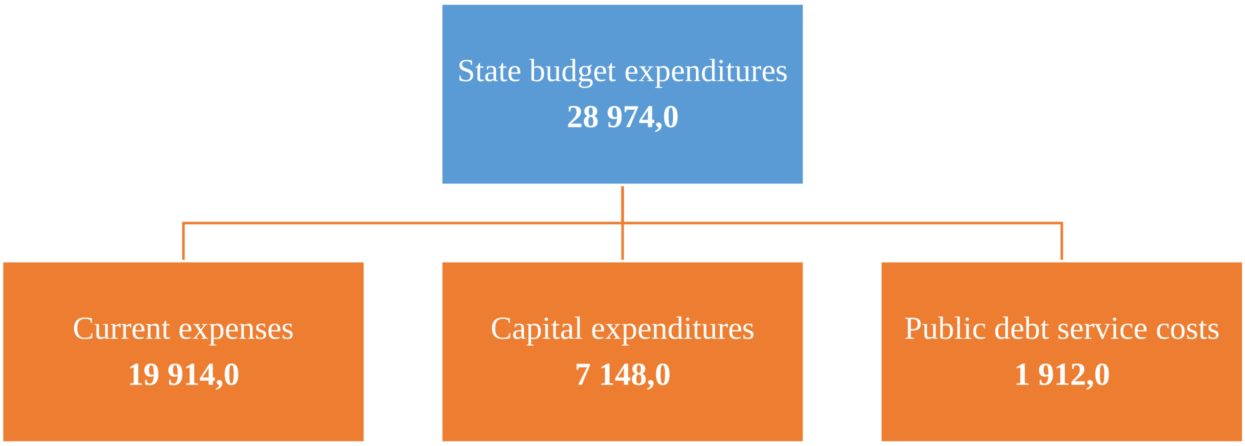
Figure 4: Revenues of the state budget for 2020, in a million manats (in comparison with 2019).



Source: Compiled by the author on the basis of preliminary indicators of state budgets

As a result of creating incentives in the legislation to make labor relations between the insurer and the insured transparent, to conclude labor contracts and to reflect the real amount of wages in these contracts, there has been an increase in the number of employees and employment contracts in the country's labor market. Most of the growth was in the private sector.

Figure 5: 2022 State budget expenditures, in a million manats.



Source: Compiled by the author on the basis of preliminary indicators of state budgets

The number of labor contracts finalized in the non-governmental sector of the non-oil industry as of December 1, 2021 was 773,133, up 233,211 from the beginning of 2019, when the changes to make labor relations more transparent began. The significant increase in revenues from compulsory state social insurance and unemployment insurance premiums is an indicator of the process of transparency in the labor market, and this indicates the fiscal effectiveness of the introduction of income tax exemptions (Guliyeva S. et al, 2021).

In the process of transparency of the number of employees and the salary fund, revenues from compulsory state social insurance premiums amounted to 3 billion 433.1 million manats in January-November 2021, an increase of 8% over the same period last year, which was 309.6 million manats more than expected. Non-budget organizations' revenues climbed by 14.7 percent over the same period the previous year, to 2 billion 193.8 million manats, and the projection was met 113.1 percent of the time.

Unemployment insurance premium revenues climbed by 9% compared to the same period last year, reaching 118.8 million manats, exceeding the expectation by 108.2 percent. Non-budget revenue climbed by 15.3 percent, and the prediction was met 110.3 percent of the time. Through these groups, the state budget collected 87.9 million manats in unemployment insurance premiums.

The number of active taxpayers had climbed by 7.2 percent since the beginning of the year, reaching 660,838 as of December 1. During the reporting period, the number of active VAT payers climbed by 17.3 percent to 34,191. In comparison to the start of the year, the number of operational facilities (economic entities) increased by 8.9% to 181,822.

The State Tax Service continues to work on the introduction of a new generation of cash registers (CR) in the country. So far, 50,653 new generation CRs have been installed in the country. The use of the new generation of CR has allowed for more transparent calculations, preventing illicit trafficking in goods and ensuring control over turnover. The turnover via the new generation of CRs was almost 14 billion manats in January-November 2021, up 85.8% from the same period last year.

Work on the adopted Action Plan in the framework of the implementation of the order of the President of the Republic of Azerbaijan "On some measures to reduce the negative impact of the coronavirus (COVID-19) pandemic and, consequently, sharp fluctuations in world energy and stock markets on the economy, macroeconomic stability, employment and entrepreneurship" is underway.

One of the directions of the Action Plan adopted by the Cabinet of Ministers is to provide support for businesses affected by the pandemic in the country. For this purpose, proposals have been prepared for amendments of the Tax Code and a number of legislative acts. Samira Musayeva, head of the Tax Policy Department of the State Tax Service under the Ministry of Economy, commented on the proposals.

She said that the country would provide tax incentives to businesses affected by the pandemic. In this regard, a draft law on amendments to the Tax Code has been prepared. The changes were widely discussed with representatives of business entities, business communities and relevant government agencies. The requirements and wishes of businesses were taken into account, and the applicable draft law was submitted to the Milli Majlis. The law amending the Tax Code contains extensive incentives for many areas affected by the pandemic.

Musayeva noted that the areas affected by the pandemic include intercity and inter-district passenger transport, hotels, hostels, public catering, exhibitions, stages, recreation and entertainment (gaming clubs), cinema, theaters activities, museums and concert halls, etc. as an example of businesses engaged. Educational institutions, including preschools and training centers, have also been identified as affected.

The bill introduced a full tax exemption for property and land taxes for 2020 in areas directly affected by the pandemic, and a 75 percent discount on income tax. In addition to these exemptions, special discounts were offered, taking into account the existing tax regimes in specific areas. There is a special simplified tax regime for entities engaged in passenger transportation within the country, as well as for entities engaged in catering. The simplified tax rate was also reduced by 50 percent for entrepreneurs exercising this right. Given the significant decline in the economic activity of businesses affected by the pandemic, limited activities in these areas on the basis of decisions of the Operational Headquarters under the Cabinet of Ministers, the postponement of current tax payments by businesses in these areas in 2020 and 2020 It was proposed to issue certificates of profit (income) tax as a whole and to cancel the charges. On the other hand, the submission of income tax returns and payments of businesses on the results of 2019 was postponed until September 1, 2020.

The proposed amendments to both the Tax Code and the Law on Social Insurance have played an important role in reducing the difficulties faced by businesses as a result of the coronavirus pandemic and declining economic activity, and minimizing their financial burden as a result of government support.

As tax revenues of the Azerbaijani state budget are formed mainly due to indirect (turnover) taxes (VAT, excises, customs duties), nominal indicators affect the dynamics of tax collection more than real indicators of economic growth. It should be borne in mind that the continuation of the severe coronavirus pandemic and the expansion of unemployment and poverty due to the COVID-19 spread over a larger area could further weaken economic growth by narrowing the demand for consumption. At the same time, the fact that both small and medium-sized businesses and households spend more resources as the strict quarantine regime lasts is one of the severe risks to economic contraction.

In addition, incentives for businesses have an impact on reducing tax forecasts. According to the Tax Code amendments, from May 1, 2020, tax breaks and exemptions will be applied to some businesses affected by the pandemic. Domestic (inter-city and inter-district, intra-city and intra-district) passenger transportation by road (including taxi), hotel and other hotel-type facilities, tour operator and travel agent activities, goods on orders, including transportation and (or) delivery of food, and non-food products from sellers to buyers, catering activities, organization of exhibitions, stage, cinema, theater, recreation and entertainment (game), museum and concert halls, sports and health facilities, business entities engaged in the activities of training (education) and refresher courses, out-of-school educational institutions, psychological centers have the opportunity to benefit from tax benefits. The tax benefits provided for these activities include:

• are fully exempt from property and land taxes;

• 75% of the profit (income) is discounted;

• 50 percent discount on the amount of tax if the entities engaged in passenger and cargo transportation by road are simplified taxpayers;

• The amount of withholding tax on real estate leased from individuals is reduced by 50 percent;

• The amount of this simplified tax is reduced by 50 percent for those who exercise the right to be a payer of the simplified tax.

• Imports of products in the list approved by the relevant executive authority are exempt from VAT to ensure the health and needs of the population.

Unfortunately, the documents released on the budget changes do not provide information on which sectors will reduce tax forecasts. The last time the Chamber of Accounts' opinion on the implementation of the 2015 state budget revealed the sectoral structure of tax revenues. Based on this report, it can be said that, at best, 10-15% of tax revenues are generated by businesses that receive tax benefits, such as areas affected by the pandemic.

3.2 Impacts of tax policy implemented in Azerbaijan in the context of coronavirus on stabilization of the country's economy

Tax revenues, which account for about 80-95% of budget revenues in developed and developing countries, are one of the most important tools of fiscal policy. Although the first and main target of the tax is the financial purpose, the non-financial purposes of the tax have also been adopted and often used in connection with the events of the last century (Shamil A.F., & Rasul S.F., 2021). The purpose of the conjunctural policy, which is one of the non-fiscal goals of the tax, is to take measures against the occurring events in the economy from time to time through taxes. As for the classics, to keep taxes neutral and not deviate from the principle of budget balance, it is crucial to balance the budget by applying additional taxes during periods of declining tax revenues or declining budget revenues. But the Keynesian economic outlook that emerged with the 1929 depression is the opposite. Public efforts to balance the budget during the crisis may deepen the crisis. In this regard, it is argued that countermeasures should be taken against the crisis (Turhan, 2020: p. 37-41).

As can be seen in the Covid-19 epidemic, pandemic periods always have the potential to create an economic crisis by combining a number of economic problems. The pandemic process, which has put heavy pressure on both the real sector and the financial sector, has led to severe contractions in all economies and rising unemployment rates. According to the Keynesian doctrine, a significant number of governments have had to increase public spending, especially transfer costs. While there were significant increases in public spending in almost every country in the corresponding period, there were also significant reductions in tax revenues due to the economic downturn (Abbasov J., et al, 2021). The main focus of this chapter is to determine the relationship between tax revenues and economic stability during a pandemic. Tax revenues are expected to decline during periods of economic contraction and increase during periods of expansion. This situation also shows the flexibility of the tax structure and the extent to which it is in line with the situation.

The tax structures and tax revenues of the countries are proportional to the level of development. As countries develop, the tax structure strengthens, and the ratio of taxes to government spending increases. At the same time, if we look at the income items of modern countries, it seems that a large part of them consists of tax revenues, and this is assessed as an indicator of development. As gross income increases, the tax capacity increases in proportion to income.

A study of less developed and developing countries examined whether there was a correlation between the growth of gross national product (GNP) per capita and the ratio of total tax revenues to GDP. In the results of the work, A strong and positive correlation was found between per capita GDP and total tax revenue / GDP. Therefore, the increase in GDP per capita also increases total tax revenues and GDP.

Taxes are one of the most effective fiscal policy tools. The sensitivity of tax revenues to the economic structure provides a wide range of activities for businesses. In periods of deflation or inflation, tax revenues are expected and desirable to prioritize as a means of automatic stabilization. This situation, which is reflected in the financial literature as the concepts of tax flexibility and tax viability, makes it easier to manage economic crises (Nalraj, 2015: p.522).

The flexibility of tax revenues is expressed as the ratio of the percentage change in tax revenues to the percentage change in GDP over the same period. Tax flexibility mainly measures how much tax revenue changes relative to GDP without any change in tax policy and regulations. Tax flexibility generally helps determine which taxes are more flexible and which tax revenues increase with GDP growth.

The primary purpose of tax policy, of course, is closely related to the nature and functions of taxes and is expressed as the acquisition of part of the gross public product by the state, as well as its redistribution through the budget (Agarzayev A., 2021). The normalization of such a policy is carried out through the adoption of relevant legislation, which is reflected in critical conceptual documents such as the general economic development programs of the state, the doctrine of economic (financial) security, etc. The picture of tax policy for the current period is usually formed by the annual law on the state budget (Лещенко Ю.Г.,2020).

The content of tax policy is directly related to the overall economic development of each country and the type of state. In this regard, under the leadership of President Ilham Aliyev, the principles of flexible taxation are being implemented in the country within the framework of a successful economic policy aimed at the formation of a socially-oriented market economy and integration into the modern world economy. As a result, despite the difficulties and crises in the economic and financial segments of the world, our country has long been one of the leading countries in the world in terms of key economic and social indicators. For example, in the Doing Business report, our country ranks 25th in the world in terms of the business environment. In the latest report, Azerbaijan is among the 20 most reformist countries. In addition, in the latest report of the Davos World Economic Forum, Azerbaijan ranked 18th in the world for the fight against organized crime and 30th for the level of public confidence in the police. According to the government's long-term strategy, Azerbaijan ranks 10th in the world in terms of leadership's propensity for change, i.e. reform.

Today, the state tax authorities of the Republic of Azerbaijan are accelerating economic growth by implementing a stimulating tax policy in the medium term. At the same time, the already consistent reforms serve to establish a transparent tax system, create an attractive tax environment, and raise the quality of administration to a high level (Aliyev A., 2019).

The goal is to achieve the long-term sustainability and reliability of the existing favorable conditions for economic growth in the country. In recent years, the range of e-services provided to taxpayers has been significantly expanded, made more widespread, improved tax returns, timely payment of taxes, organization of preventive work to avoid tax arrears, simplification of forms and methods of service to taxpayers, professional development of service personnel. Significant achievements have been made in these areas.

Undoubtedly, tax revenues play a special role in the successes achieved in the socio-economic development of our country, and the President highly appreciates this. Taxes have now become one of the main management tools that determine the economic development of Azerbaijan, and the conditions of business management. The Ministry of Taxes has set an important task to create an atmosphere of horizontal cooperation in business relations in the country. In this regard, the Ministry of Taxes has studied the best practices of European countries and has done serious work to bring the national tax system in line with this practice. The successful implementation of the Twinning project "Support to the Ministry of Taxes of the Republic of Azerbaijan in setting transfer prices and developing measures against tax evasion" clearly manifests this.

Our state's modern tax policy aims to ensure the uninterrupted operation of the single economic and financial market, harmony in both indirect and direct taxation, the improvement of the corporate taxation system, and the effective organization of the fight against tax evasion. Expanding the tax base by lowering tax rates and reducing tax benefits, stimulating investment in the economy, equalizing the tax regime among taxpayers, ensuring the development of the country's export potential, creating a unified accounting and information system of the tax system, increasing the appropriate level of tax and non-tax payments, application of an effective mechanism of public control over the income of taxpayers, improvement of the system of control over the voluntary fulfillment of tax obligations, implementation of a differential approach to the solution of liability for tax violations, etc. are the main factors of the modern tax policy of our state. All this requires taking measures to increase the investment attractiveness not only for the country's global rating but also for the development of the national economy

(Манушин Д. В.., 2020). At the same time, along with stimulating investment in the national economy, it also creates favorable conditions for ensuring the necessary level of economic and financial security of the country.

As a result of the successful tax policy implemented in the context of the pandemic, a reliable basis for the sustainability and sustainable development of socio-economic achievements has already been created in our country. It is no coincidence that despite the severe economic crisis in the world, thanks to the flexible, pragmatic policy of President Ilham Aliyev, Azerbaijan has neutralized foreign economic influences, all planned socio-economic programs have been fully implemented and our economy has grown. In order to achieve all this, measures to diversify the economy, minimize dependence on oil, and expand entrepreneurial activity were of particular importance.

Review of the principles of organization of management in the tax system, improvement of tax administration, increase of mutual trust between taxpayers and tax authorities, reorganization of the appellate system for operative solution of problems faced by taxpayers, organization of services of tax commissioner and ombudsman leads to ensuring transparency (Расулев А.Ф., Воронин С.А.,2021). Our country's state registration of legal entities has already started within 20 minutes with only one procedure. Amendments to the Tax Code cover important areas such as supporting entrepreneurship, reducing the scale of tax evasion and the "shadow economy," expanding the tax base, improving tax administration, and increasing the efficiency of existing and new tax incentives.

The introduction of a new generation of cash registers in the trade and catering sectors of the country and the achievement of a complete and legal application of cashier's checks also contribute to ensuring transparency in tax relations. In this regard, both administrative and incentive measures are being taken to eliminate the shortcomings in VAT revenues in the country. Thus, according to Article 165.5 added to the Tax Code by the Law of the Republic of Azerbaijan dated November

30, 2018, a certain percentage of VAT paid on goods purchased from individuals engaged in retail trade or public catering (cash transactions) 10 percent, and 15 percent for non-cash transactions). For this purpose, the taxpayer’s name, the date of issuance of the check, etc. shall be indicated on the check of the cash register. In addition to the information, the name of the goods or service (work), unit of measurement, quantity, unit price, and final amount (including the amount of VAT or simplified tax), the product's quick information code (barcode, Quick Response Code) should be reflected. Work is underway to install cash registers that meet these requirements in trade and catering facilities operating in the country.

In recent years, achieving maximum voluntary compliance with tax obligations in the country, ensuring the active participation of citizens in this area, minimizing operational control measures, and expanding digital payments are the main directions of tax reform. Modern technologies positively impact the provision of better tax services and the establishment of a transparent control system in business entities.

After the Second Karabakh War, there were real opportunities for the Zangazur corridor to become operational. This corridor will provide a convenient alternative transport route from Azerbaijan to Armenia and from there to the Nakhchivan region of the republic and Turkey, and Europe.

Some important projects were implemented during the year to further improve the business and investment climate. In addition to focusing on foreign investment in the country, control over the efficient use of investments in state-owned enterprises has been strengthened. Thus, to improve the financial health and sustainability of state-owned enterprises and manage the attraction of financial resources, as well as foreign debt on the basis of effective criteria, the Azerbaijan Investment Holding was established by President Ilham Aliyev. This has had a significant impact on increasing the profits of state-owned enterprises, reducing their dependence on the budget, the comprehensive development of free-market relations, and the expansion of the private property. In other words, with the establishment of the Azerbaijan Investment Holding, a unified management model has been launched in the country, and thus measures have been taken to improve the financial situation of state-owned companies.

Various economic crises have occurred due to economic and natural, and structural shocks from the past to the present. The most important are the recent First and Second World Wars, the global economic crisis in 1929, the oil shocks of stagflation in the 1970s, and the mortgage crisis in the United States in 2008. Not all countries have been equally affected by the crisis due to the low impact of globalization on past crises. However, developments in the Internet and electronic environment since the 1990s have united the world on one level, and globalization has reached its peak. Therefore, the crisis of 2008 deeply affected the whole world. Also one of such crises, which is relevant today, began with the Coronavirus pandemic. This crisis has had the same global effects as the 2008 crisis with its economic consequences. All these crises have had different effects on tax revenues. For example, The Peacock-Wiseman boom wars had a growing impact on government spending and thus tax revenues. On the other hand, although public spending has reportedly declined due to privatization policies since the 1980s, the upward trend continues (Кочербаева А.А., & Кошоев Ч. М, 2021). Although GDP declined sharply in 2008 with the global economic crisis, tax revenues did not decline in parallel.

The fact of the Covid-19 epidemic is a decrease in tax revenues in parallel with the decline in GDP. In addition, although the sizes differed during the epidemic, all countries announced various financial incentives, supports, discounts, and exceptions. In other words, governments are interfering in tax revenues. According to changes in government tax practices, the effects of the tax force are expected to be reflected in the results.

The reforms carried out during this period, the diversification of the economy, and the measures aimed at developing the non-oil sector were accompanied by several political changes and structural reforms. Against the background of all this, the environment of political transformation has become more transparent (Allahverdiyev D. I..,2020). The sustainability of structural and personnel reforms has become apparent. This has positively impacted ensuring transparency in employment and social justice, eliminating bureaucracy and corruption, and minimizing official-citizen contact.

Consistent and purposeful reforms in our country give grounds to say that today the tax policy pursued by our state is observed without a cataclysm, gradually, and with high results. The establishment of a new and solid relationship between the Ministry of Taxes and businesses clearly indicates this.

CONCLUSIONS AND RECOMMENDATIONS

Taxes are one of the most effective tools of fiscal policy. Revenue sensitivity to the economic structure offers businesses a wide range of activities. It is expected and desirable that tax revenues function to automatically stabilize the economy in the event of deflation and inflation. This situation is reflected in the fiscal literature regarding tax flexibility and tax sustainability and facilitates coping with the economic crisis.

The national tax system and income are proportional to the level of development. As the country grows and develops, the tax system will be strengthened, and the ratio of taxes to government expenditures will increase. At the same time, when we look at the income items of modern countries, it is seen that a large part of them consists of tax revenues, which are indicators of development as the total income of the economy increases, taxable capacity increases in proportion to income. Covid19 will see lower tax revenues in every country in line with the pandemic's lower GDP.

In addition, although the scale changed during the epidemic, all countries announced various financial incentives, supports, discounts, and tax exemptions. In other words, the government is blocking tax revenues. As the tax practices of the state change, it is expected that the influence of the tax authorities will be reflected in the results. However, the reverse is expected to be positive, not in the form of an increase in tax revenues but the form of a decrease in tax revenues.

As a result of the study, the analysis of tax policies implemented during the coronavirus pandemic, the impact of the pandemic on government revenues have been identified, and tax policy measures against the Covid-19 pandemic have been investigated in international practice. Expenditures of the state budget in 2022 are projected at 28 billion 974 million manats (35.6 percent of GDP), which is 1.5 percent more than the approved figure for 2021. 68.7% of expenditures are current expenditures, 24.7% are capital expenditures, and 6.6% are expenditures related to servicing public debt and liabilities. During the mentioned period, current prices are expected to increase by 10.5 percent, capital expenditures by 14.1 percent, and public debt service by 13.0 percent due to increased wages and social payments compared to the previous year's forecast.

It is also essential to study the effectiveness of financial measures and incentive practices in the fight against Covid-19. Investigating the effectiveness of these measures will help policymakers improve existing standards and identify possible future actions.

The Covid-19 epidemic is a reduction in tax revenues in parallel with the decline in GDP of the countries. In addition, although the sizes differed during the epidemic, all countries announced various financial incentives, supports, discounts, and exceptions. In other words, governments are interfering in tax revenues. According to changes in government tax practices, the effects of the tax force are expected to be reflected in the results. However, this opposite is expected to be positive not in terms of an increase in tax revenues but in the form of a decrease in tax revenues.

Covid-19 pandemic brought financial difficulties to world economy. Small-medium enterprises affected mostly by this difficulties. Most of them struggle to pay not even taxes also simple expenses.Because of the this government decided to assist with decreased rates to small businesses:

- fully exempt from property and land taxes;
- 75% of the profit (income) is discounted;
- 50 percent discount on the amount of tax if the entities engaged in passenger and cargo transportation by road are simplified taxpayers;
- The amount of withholding tax on real estate leased from individuals is reduced by 50 percent;
- The amount of this simplified tax is reduced by 50 percent for those who exercise the right to be a payer of the simplified tax.

• Imports of products in the list approved by the relevant executive authority are exempt from VAT to ensure the health and needs of the population.

The study recommended that after the pandemic, the state should first assess the following:

• whether their business sustainability and recovery plans are adequate to cover a range of different crises that may require different response measures;

• By improving the ability of employees to work differently, distributing staff between roles as soon as possible, etc., how to be more flexible through administration;

• There may be options for greater automation of routine functions or greater use of artificial intelligence and machine learning to support decisions;

• Options to improve the IT infrastructure's ability to respond quickly to new requirements and changes in the business environment;

• Opportunities to alleviate both short-term and long-term burdens on taxpayers by making greater use of compliance-based approaches.

Successful implementation of tax policy in the recovery period after the corona crisis should be carried out not only with the best practices of tax administration but also with the maximum use of existing scientific developments in terms of digitalization.

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