Economic Analysis of the Tax System: The Example of Azerbaijan

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Keywords:	Abstract:
	This paper presents an economic analysis of the tax system in Azerbaijan, focusing on its structure, efficiency, and impact on economic growth and development. The study aims to provide insights into the strengths and weaknesses of the tax system, identify potential areas for improvement, and offer policy recommendations for optimizing its effectiveness. Based on the findings of the analysis, several policy recommendations are proposed to enhance the efficiency and effectiveness of the tax system in Azerbaijan. These recommendations include streamlining tax administration processes, improving tax compliance through simplified regulations and electronic filing systems, promoting a more balanced tax burden across sectors, and exploring options for tax reform to incentivize investment and foster economic growth. *In conclusion, this economic analysis provides a comprehensive evaluation of the tax system in Azerbaijan, highlighting its strengths and weaknesses. By offering policy recommendations, the study aims to contribute to ongoing discussions on tax reform and optimization, ultimately supporting the country's goals of sustainable economic development and prosperity.*

Introduction

The tax system of a country plays a crucial role in shaping its economic landscape. It serves as a means of generating revenue for the government, financing public expenditure, and promoting economic growth and development. An effective and well-designed tax system can contribute to a stable and sustainable economy by incentivizing investment, encouraging entrepreneurship, and ensuring equitable distribution of resources.

This economic analysis focuses on the tax system of Azerbaijan, a country located in the South Caucasus region of Eurasia. Azerbaijan has undergone significant economic transformations since gaining independence in 1991, transitioning from a centrally planned economy to a market-oriented system. The tax system has played a crucial role in this transition, supporting economic diversification and attracting foreign (Musayev, Sadigov, Kalbiyev, et.al. 2010).

Azerbaijan's tax system comprises various taxes levied on individuals, businesses, and other entities. These taxes include income tax, value-added tax (VAT), corporate tax, property tax, and customs duties, among others. Each tax has its specific purpose, and the rates and regulations associated with them are subject to periodic changes to align with the country's economic objectives.

This analysis aims to provide an overview of Azerbaijan's tax system, exploring its structure, key features, and the impact it has on the country's economy. By examining the strengths and weaknesses of the tax system, we can gain insights into its effectiveness in promoting economic growth, encouraging investment, and ensuring fiscal sustainability. Furthermore, this analysis will delve into the recent reforms and initiatives undertaken by the Azerbaijani government to improve the tax system. These reforms might include simplification of tax procedures, reduction of tax burdens, and measures to enhance transparency and compliance.

By critically assessing the tax system of Azerbaijan, we can better understand its role in shaping the country's economic performance and identify potential areas for improvement. Ultimately, this analysis aims to contribute to the ongoing discussions surrounding tax policy and reform in Azerbaijan and provide valuable insights for policymakers, businesses, and researchers interested in the country's economic development.

The actuality of the subject

It is important to understand the essence of the tax reforms carried out in Azerbaijan in recent years, the introduction of concessions in the field of entrepreneurship, and the strategic road maps adopted for the development of the economy. It is also important to look at the results and expectations of these complex measures, to continue such measures in the future, to apply the optimal tax system, to provide concessions to exemplary tax payers, and to give recommendations and suggestions for the development of entrepreneurship, which is the leading force of the economy.

Previous research

When conducting an economic analysis of a tax system, researchers typically examine various aspects, including the structure of the tax system, tax rates, tax incentives, tax administration, and the economic impact of the tax policies. They may also assess the efficiency, equity, and effectiveness of the tax system.

To find previous research on the economic analysis of the tax system in Azerbaijan, it can be consider the following steps:

Academic Databases: Search academic databases such as JSTOR, Google Scholar, or EconLit using relevant keywords like "tax system," "Azerbaijan," "economic analysis," or similar combinations. These databases contain a wide range of scholarly articles, economic journals, and conference papers that may have explored the topic.

Government Publications: Explore official government websites such as the Ministry of Taxes or the State Statistical Committee of Azerbaijan. These sources often publish reports, studies, or policy documents related to the tax system and its economic analysis.

International Organizations: Check reports and publications from international organizations like the International Monetary Fund (IMF), World Bank, or the Organisation for Economic Co-operation and Development (OECD). These organizations often conduct country-specific analyses, including assessments of tax systems, which may include Azerbaijan.

Universities and Research Institutes: Look for research papers or studies conducted by universities or research institutions in Azerbaijan. These organizations often publish their research findings on their websites or through academic journals.

Contribution for research

Economic analysis of the tax system in Azerbaijan can provide valuable insights into the country's fiscal policies, revenue generation, and overall economic performance. By examining the tax system's structure, efficiency, and its impact on various economic indicators, researchers and policymakers can identify strengths, weaknesses, and opportunities for improvement. Here are some contributions an economic analysis of the tax system in Azerbaijan could make:

Revenue Generation and Budgetary Impact: The analysis would assess the efficiency and effectiveness of the tax system in generating revenue for the government. It would explore the composition of tax revenue, including direct and indirect taxes, and how they contribute to the national budget. This information is crucial for understanding the government's financial capacity to fund public goods, services, and investments.

Distributional Impact: A comprehensive analysis would also shed light on the distributional impact of the tax system. It would reveal whether the system is progressive, regressive, or proportional, and its implications for income inequality and poverty levels. Understanding how taxes affect different income groups can help policymakers design more equitable tax policies.

Economic Growth and Investment: The study would assess how the current tax system influences economic growth and private sector investment in Azerbaijan. It would examine how taxation affects business decisions, entrepreneurship, and foreign direct investment inflows. By identifying any bottlenecks or incentives for economic activity, policymakers can make informed adjustments to promote sustainable growth.

Tax Compliance and Administration: Analyzing the tax system would also involve an evaluation of tax compliance rates and the efficiency of tax administration. High compliance rates indicate a robust tax collection mechanism, while low compliance can highlight areas of improvement, such as simplification of tax laws and enhanced enforcement.

International Competitiveness: Understanding the tax system's impact on the country's international competitiveness is crucial, particularly in attracting foreign investment and

fostering trade relations. An economic analysis would compare Azerbaijan's tax policies with those of other countries in the region to identify potential advantages or disadvantages.

Tax Policy Recommendations: Based on the findings of the analysis, researchers can propose policy recommendations to optimize the tax system in Azerbaijan. These suggestions may include tax rate adjustments, base broadening measures, simplification of tax laws, and targeted tax incentives to promote specific sectors or activities.

Long-term Fiscal Sustainability: An economic analysis can also assess the tax system's contribution to long-term fiscal sustainability in Azerbaijan. By analyzing revenue and expenditure trends, the study would help identify potential fiscal risks and suggest measures to ensure fiscal stability over the medium and long term.

Overall, an economic analysis of the tax system in Azerbaijan is essential for evidence-based policymaking and improving the country's economic performance. It would help create a more efficient, equitable, and sustainable tax system that supports economic growth and social welfare.

Research Method

To conduct an economic analysis of the tax system in Azerbaijan, various research methods can be employed. Here are some common research methods that can be used in this context:

Literature Review: İt begins by conducting a comprehensive review of existing literature on the tax system in Azerbaijan. This involves studying academic papers, reports, policy documents, and publications from government agencies, international organizations, and research institutions. It helps to understand the existing knowledge and identify any research gaps or areas of interest.

Data Collection: İt is gathered relevant data on the tax system in Azerbaijan. This includes information on tax rates, tax revenue, tax structure, tax incentives, tax compliance, and economic indicators. Data can be obtained from government sources such as tax authorities, statistical agencies, and finance ministries. Additionally, international organizations like the International Monetary Fund (IMF) and World Bank also provide relevant data.

Quantitative Analysis: We utilized quantitative methods to analyze the tax system in Azerbaijan. This involves applying statistical techniques to the collected data. For example, it can be examine the relationship between tax rates and tax revenue, assess the progressivity of the tax system, or evaluate the impact of tax incentives on investment and economic growth. Regression analysis, econometric modeling, and cost-benefit analysis are common quantitative tools used in such analyses.

Qualitative Analysis: We conducted qualitative research to gain insights into the tax system from the perspective of taxpayers, tax officials, and other stakeholders. Qualitative analysis helps in understanding the challenges, perceptions, and behaviors related to the tax system, as well as identifying potential areas for improvement.

Comparative Analysis: We compared the tax system in Azerbaijan with similar countries or regions. This allows for benchmarking and assessing the strengths and weaknesses of the system. By studying the experiences of other countries, it can be identify best practices, policy implications, and potential reforms for Azerbaijan's tax system.

Policy Analysis: We analyzed the impact of existing tax policies and propose potential policy reforms. This can involve simulating the effects of policy changes using economic models or conducting cost-effectiveness analyses. It also requires considering the broader socioeconomic context and goals of the country, such as promoting economic growth, reducing inequality, or improving tax administration.

It's important to note that the specific research methods chosen depend on the research objectives, available data, and available resources. A combination of quantitative and qualitative approaches is often employed to gain a comprehensive understanding of the tax system and its economic implications.

Model of analysis

When conducting an economic analysis of the tax system in Azerbaijan, several key components need to be considered. These include the structure of the tax system, the impact of taxes on various economic agents, the efficiency of tax collection, and the overall effect on economic growth and development. Here's a model of analysis for the economic analysis of the tax system in Azerbaijan:

Tax Structure:

a. To identify the different types of taxes in Azerbaijan, such as income tax, value-added tax (VAT), corporate tax, property tax, etc.

b. To analyze the tax rates and thresholds for each type of tax.

c. To examine the distribution of tax burdens across different income groups and economic sectors.

Tax Impact:

a. To evaluate the impact of taxes on individuals, households, and businesses in Azerbaijan.

b. To assess the progressivity or regressivity of the tax system and its effect on income distribution.

c. To determine the impact of taxes on the behavior of economic agents, such as work effort, consumption patterns, and investment decisions.

Tax Efficiency:

a. To assess the efficiency of tax collection mechanisms and administrative procedures in Azerbaijan.

b. To evaluate the compliance costs for taxpayers and the effectiveness of tax enforcement.

c. To analyze the tax administration's ability to detect and deter tax evasion and avoidance.

Economic Growth and Development:

a. To examine the overall impact of the tax system on economic growth in Azerbaijan.

b. To assess the role of taxes in promoting or hindering investment, entrepreneurship, and innovation.

c. To evaluate the effectiveness of tax incentives and exemptions in attracting foreign direct investment (FDI) and fostering economic development.

International Comparisons:

a. To compare the tax system in Azerbaijan with those of other countries in the region or with similar economic characteristics.

b. To identify best practices and areas for improvement based on international benchmarks.

c. To consider the potential impact of tax reforms or policy changes in neighboring countries on Azerbaijan's tax system.

Policy Recommendations:

a. To based on the analysis conducted, identify strengths and weaknesses of the tax system in Azerbaijan.

b. To propose policy recommendations for improving the efficiency, equity, and simplicity of the tax system.

c. To consider the potential trade-offs between different policy options and their overall impact on economic growth and development.

It's important to note that conducting a comprehensive economic analysis of the tax system in Azerbaijan requires access to relevant data, including tax revenue statistics, economic indicators, and household income data.

Research phenomenon

The research phenomenon in this case is the economic analysis of the tax system in Azerbaijan. The study aims to investigate and examine various aspects of the tax system in Azerbaijan, such as its structure, efficiency, equity, and impact on economic growth and development. The research phenomenon involves analyzing the existing tax policies, identifying their strengths and weaknesses, and assessing their overall effectiveness in achieving desired economic outcomes. The study also explores potential reforms or improvements to the tax system based on the findings of the analysis.

Result and Discussion

Each state forms its tax system according to the current economic potential of its country. It should be noted that international experience should also be learned while this system is being formed. As we know, the tax system is characterized by various indicators, and the most important among these economic indicators is the tax burden. To reveal the essence of the concept of tax burden, it is necessary to look at it at two levels. First of all, we should note that the tax burden determined by the ratio of the volume of tax revenues to the budget to the volume of the gross domestic product (GDP) is considered a macroeconomic level (Abbasov, 2010). At the micro level, the tax burden is the part of the total income of a specific taxpayer that is transferred to the budget. As one of the important factors that determine the efficiency of the tax system, the positive effect of not deducting more than 30-40 percent of taxpayers' income in determining the amount of tax burden has been scientifically and practically proven. The ratio of the state's tax revenues from foreign and domestic trade is also one of the important economic indicators characterizing the tax system. This indicator is naturally directly related to the fact that the state exports or imports more products. This difference can be explained by the fact that export duties in countries that export more products are either very low or non-existent. Cases of export duty at this level are more common in highly developed countries, where the role of taxes applied to domestic trade in the formation of the budget increases. In countries with a low level of development, more imports of ready-made products lead to a higher share of the taxes imposed in this direction in the budget. In addition to the indicators listed above, it is necessary to mention the indicator of the ratio of direct and indirect taxes, which is as important as them. This economic indicator used to characterize the tax system is directly related to the country's level of development (Kalbiyev, 2011). From an economic point of view, the amounts of

income tax, property tax, and insurance deductions in economically developed countries are higher than in other countries.

It is an undeniable fact that tax policy plays an important role in the efficiency of the tax system. The implemented tax policy is mostly related to issues related to budget formation, which is based on the norms that ensure budget regulation, planning and control (Mammadov, Seyfullayev, 2013). Taking into account the economic characteristics of the state in the current situation, that is, applying the tax policy in an economically justified manner, implies the collection of financial resources by the most optimal means. The tax policy implemented by the states must be legally approved and create conditions for the revival of reproduction. The main goal of this policy is to ensure the development of economic relations, along with organizing a legally justified and balanced collection process for taxable persons (Gasimov, 2010).

In general, the tax policy of the state is determined by its active participation in the reproduction process, despite the political-economic and other differences, where the main goal is to solve the economic and social problems facing the society. This process, in turn, has a direct impact on the formation of tax policy.

The tax policy applied in Azerbaijan is carried out in accordance with the liberation of the tax burden, the achievement of an increase in collections without various concessions to taxpayers, the creation of a transparent investment environment in the country, equal treatment of taxpayers, the development of entrepreneurship and, in the context of all this, the improvement of the social condition of the country's citizens (Mammadov, 2010)

In order for the tax policy implemented by the state to be effective, it is first necessary to look at the principles of its formulation. The tax policy applied in our country is based on the following principles:

- formation of a single base of tax legislation, promotion of tax culture;
- to establish a suitable system for taxpayers to do their work in an easy way and to fundamentally protect their rights;
- maintaining the optimal state of the tax burden;
- establishment of mixed relations between tax service authorities and other state institutions;
- establishment of comfortable conditions for employees of the ministry and tax authorities subordinate to the ministry and implementation of their social protection;
- Studying international experience and applying it to the existing tax system without touching the single basic principles of tax legislation;
- promotion of entrepreneurship and investment activity,
- to simplify the tax legislation.

The main goals of the tax policy of the Republic of Azerbaijan implemented in accordance with the mentioned principles are the following:
- carrying out work to carry out free economic activities in our republic;
- to stimulate the export capacity of the country;
- form an effective tax policy in the direction of development of the investment environment;
- to systematize the information provision of the tax system in one base;

- strengthen control and responsibility measures to prevent tax evasion during the tax collection process;
- to carry out educational work in the direction of accounting of taxpayers' receipts in accordance with the requirements of the legislation;
- to be able to provide comfortable services to taxpayers, to strengthen the material and technical support of these institutions for the useful work of the employees of the ministry and tax authorities subordinate to the ministry (Mammadov at all. 2010).

In general, we can note that these goals may not be the same for every state. Because the tax environment is formed according to the economic situation of each country. In order to achieve the goals set in the direction of the implementation of the tax policy in Azerbaijan, regular preventive measures are taken.

The impact of the sectors of economy on tax revenues

It is important to highlight that the growth rate of tax revenues has surpassed the growth rate of GDP due to comprehensive tax service reforms. These reforms have resulted in improved tax legislation, better tax administration, and strengthened tax control. As a result, previously unidentified potential tax bases have been identified and effectively taxed.

In 2019, the State Tax Service under the Ministry of Economy contributed 7,672.6 million manat to the state budget, surpassing the forecast by 104.9%. This amount also represented a 3.8% increase (283.6 million manat) compared to 2018. The increase in tax revenues in 2019 can be attributed to several factors, including the gradual emergence of the economy from the informal sector, higher levels of voluntary tax payments, and ongoing tax reforms focused on improving tax legislation, administration, and the overall regulatory framework.

The purposeful tax reforms, as evidenced by the provided table, have not only improved the country's tax legislation and administration but have also had a positive impact on GDP, budget revenues, and overall tax revenues. These reforms have stimulated and diversified the economy, resulting in growth in both the oil and non-oil sectors, ultimately leading to increased tax revenues (Samadzade, 2010).

The table and diagram further demonstrate that in 2019, the non-oil sector accounted for a significant portion of tax revenues, with 5,432.3 million manat or 70.8% of total tax revenues coming from this sector. On the other hand, the oil sector contributed 2,415.0 million manat or 29.2% of tax revenues. In comparison to 2018, tax revenues from the non-oil sector saw a substantial increase of 458.3 million manat or 10.9%. Overall, tax revenues from the non-oil sector continue to exhibit dynamic growth.

Table 1.

**Impact of tax revenues on growth dynamics of GDP and budget revenues as a result of changes in tax legislation (State Tax Service)**

Years/ Indicators	Gross Domestic Product, million manat	Budget revenues, million manat	Tax revenues, million manat	Specific weight of tax revenues in GDP, in%	Specific weight of tax revenues in budget revenues, in%
2000	4718,1	714,6	510,4	10,8	71,4
2001	5315,6	785,0	579,6	10,9	73,9
2005	12522,5	2055,2	1 427,7	11,0	69,5
2007	28360,5	6006,6	4 549,3	16,1	75,7
2009	35601,5	10325,9	4 113 ,4	11,6	39,8
2010	42465,0	11403,0	4 292 ,8	10,1	37,6
2011	52082,0	15700,7	5 475,1	10,5	34,9
2012	53995,0	17281,5	6 025,4	11,2	34,9
2013	57708,2	19496,3	7654,2	13,3	39,3
2014	58182,0	18400,6	7113,7	12,2	38,7
2015	54380,0	17498,0	7118,2	14,4	44,9
2016	59987,7	17505,7	7015,6	11,7	40,1
2017	70135,1	16516,7	6 973,5	9,9	42,2
2018	79797,3	22535,4	7415,5	9,3	32,9
2019	81681,0	24199,6	7672,6	9,4	31,7
2020 (prognoz)	83321,5	24134,5	7875,0	13,5	46,5

Source: https://www.stat.gov.az/source/system_nat_accounts/

Table 2.

Execution of tax revenues by sectors of the economy, (mln. manat)

Indicators/ Years	2015	2016	2017	2018	2019	2020 (forecast)	Compared to 2018, in 2019, in%
Total	7118,3	7015,6	6973,5	7415,5	7672,6	7875,0	99,4
Oil sector	2089,9	1610,1	1784,0	2441,5	2240,3	2180,0	110,8
Non-oil sector	5028,4	5405,5	5189,5	4974,0	5432.3	5995,0	96,0

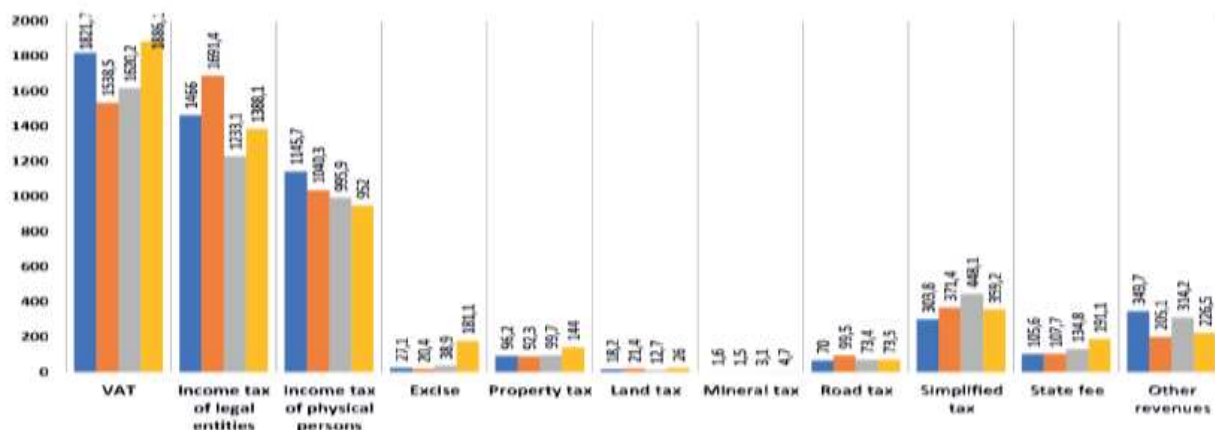*Source: https://www.stat.gov.az/source/system_nat_accounts/*
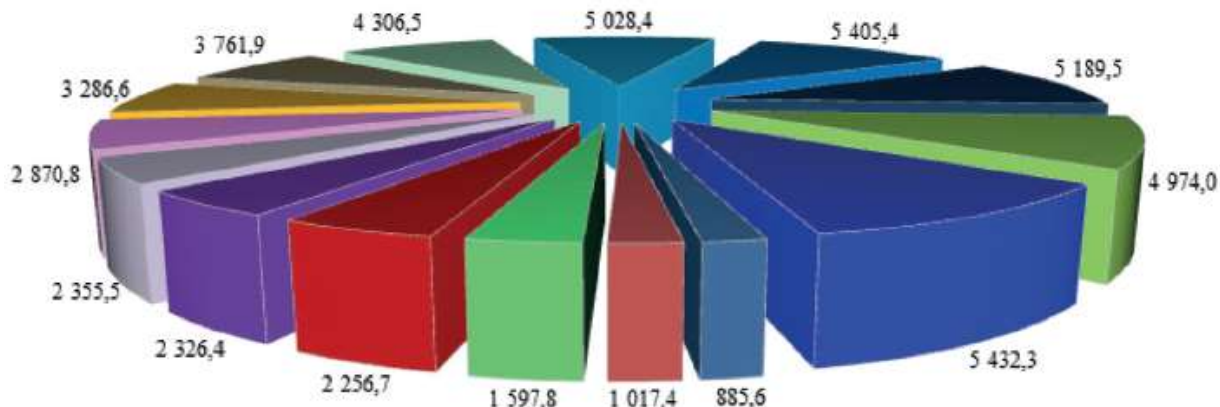
Source: https://www.stat.gov.az/source/system_nat_accounts/
Figure 1. Tax revenues from the non-oil sector, (mln. manat)
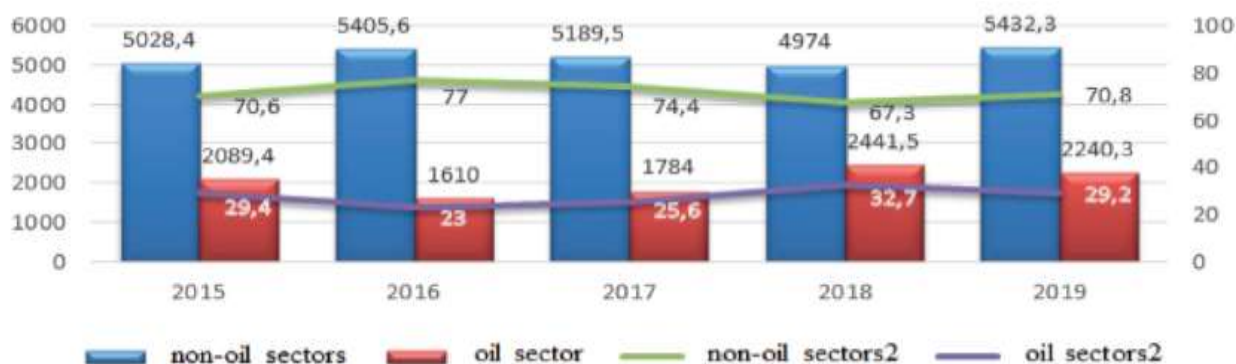
Source: https://www.stat.gov.az/source/system_nat_accounts/
Figure 2. Tax revenues from oil and non-oil sectors of the economy

In 2019, tax revenues from the private non-oil sector accounted for 70.6% of the total, amounting
to 3835.2 million manat. The non-private sector contributed 29.4%, equivalent to 1597.1 million manat.

Source: https://www.stat.gov.az/source/system_nat_accounts/
Figure 3. Tax revenues from the non-oil sector, (mln. manat)

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Compared to 2018, tax revenues from the non-oil sector increased in almost all categories except for income tax, simplified tax, and other revenues. The diagram illustrates that tax revenues from the non-oil sector experienced significant growth. Specifically, there was a 16.4% increase in value-added tax (VAT), a 12.6% increase in income tax, and a significant 4.7-fold increase in excise taxes.

Table 3.
Execution of tax revenues by sectors of the economy, (mln. manat)

	Calculated				Paid			
			Difference				Difference	
	2018	2019	in the amount	in %	2018	Difference 2019	in the amount	in %
Total	8221,4	8237,2	15,8	0,2	7415,5	7672,6	257,1	3,5
Oil sector	2816,7	2397,9	-418,8	-14,9	2441,4	2240,2	-201,2	-8,2
Non-oil sector	5404,8	5839,3	434,5	8,0	4974,1	5432,4	458,3	9,2
On Baku	4854,5	5143,1	288,7	5,9	4366,0	4745,2	379,2	8,7
DVX, MGBİ	3413,0	3386,6	-26,4	-0,8	2985,3	3190,9	205,6	6,9
10 major taxpayers	527,2	374,0	-153,2	-29,1	339,7	349,7	10,0	2,9
PSA other	808,2	740,2	-68	-8,4	905,9	864,1	-41,8	-4,6
Others	2077,6	2272,4	194,8	9,4	1739,7	1977,0	237,3	13,6
DVX, BKGBİ	1358,3	1665,6	307,3	22,6	1282,5	1453,1	170,6	13,3
DVX, BKSİBİ	82,2	90,9	7,7	9,3	98,1	101,2	3,1	3,1
əVİ, total	550,3	696,1	145,8	26,5	710,6	795,4	84,8	11,9

Source: https://www.stat.gov.az/source/system_nat_accounts/

Table 4.
Data on tax revenues by the sectors of economy, (mln. manat)

Areas of activity	Tax revenues on the areas of activity of the non-oil sector		Difference, in %
	2018	2019	
Total	4974,0	5432,3	9,2
Industry	1353,8	1356,1	0,2
Trade	601,4	644,7	7,2
Service	913,6	958,0	4,9
Banking and insurance	301,6	400,3	32,7
Construction	823,8	902,3	9,5
Transport	243,7	259,0	6,3
Communication	272,4	352,2	29,3
Agriculture	7,1	9,2	29,5
Other	456,6	550,6	20,6

Source: https://www.stat.gov.az/source/system_nat_accounts/

The table data reveals that the majority of tax revenues in the oil sector, ranging from 60% to 74%, come from the State Oil Company of Azerbaijan (SOCAR). In contrast, tax revenues in the non-oil sector primarily stem from Baku, accounting for 87.5% to 89.7%, while the territorial tax authorities collect only a small portion, around 10% to 11%.

When considering tax revenues by sectors of the economy, it becomes evident that in 2019, tax revenues in the non-oil sector amounted to 5432.3 million manat, indicating a 9.2% increase compared to 2018. The non-oil sector contributed 70.8% to the total tax revenues. Notably, the banking and insurance sector experienced the highest growth in the non-oil sector, with a 32.7% increase, followed by agriculture (29.5%) and communication (29.3%).

Table 4 highlights that the industry sector accounts for the largest share of tax revenues by areas of activity, comprising 25%. However, the service, construction, and trade sectors also play a significant role in generating tax revenues. Tax revenues in these sectors are relatively low due to exemptions for agricultural producers from income tax, VAT, simplified tax, property tax, and income tax for individuals engaged in entrepreneurial activities. In 2019, compared to 2018, tax revenues increased in the industry sector by 2.3 million manat, trade by 43.3 million manat, services by 44.4 million manat, banking and insurance by 98.7 million manat, construction by 78.5 million manat, transport by 15.3 million manat, agriculture by 2.1 million manat, and other areas by 94 million manat.

The State Tax Service implemented improvements in VAT administration, resulting in increased VAT revenues across various sectors of the economy. A comparison between 2018 and 2019 revealed significant increases in VAT revenues: 9.6% in the industry sector, 44.1% in trade, 12.1% in services, more than double in banking and insurance, 38.7% in transport, and over five times in agriculture. Overall, the economy experienced a 16.4% increase in VAT revenues.

To provide a breakdown of the specific gains in each sector, the volume of VAT revenue in the industry sector rose by approximately 39 million manat. In the trade sector, VAT revenues increased by 112 million manat, while the service sector saw a rise of 38.3 million manat. The communication sector experienced a boost of 21.6 million manat. Collectively, these increases amounted to approximately 266 million manat across all sectors of the economy.

The impact of changes in tax rates on the tax burden

A well-designed tax system should not only fulfill the state's financial needs but also foster the interests of taxpayers in entrepreneurial activities and encourage them to continuously seek ways to enhance economic efficiency. The tax burden on economic entities is considered an indicator of the tax system's quality, which is a result of the state's implemented tax policy.

To achieve an optimal distribution of the tax burden across sectors, it is important to determine the ultimate limit of the tax burden while considering its economic impact on tax revenue growth. This approach allows for the creation of a model that promotes entrepreneurship development, increases state budget revenues, and safeguards the interests of both the state and taxpayers.

The tax burden encompasses various factors, including tax rates, the presence of tax privileges, the growth rate of different economic sectors, the efficiency of tax control, and other relevant indicators (refer to Table 6).

In 2019, the tax burden on the State Tax Service's revenues amounted to 9.4%. Specifically, the non-oil sector experienced a tax burden of 10.8%, while the oil sector faced

a burden of 7.2%. In 2018, the tax burden indicators were slightly lower at 9.3%, with the non-oil sector at 10.8% and the oil sector at 7.4%.

These statistics demonstrate that the state's tax legislation and tax administration reforms have produced positive outcomes. The tax legislation has been aligned with international standards, and several normative documents have been enacted to improve tax administration. These reforms draw upon the experiences of advanced nations, recommendations from international financial institutions, outcomes from engagements with tax administrations of developed countries, and collaborative conferences and seminars.

Table 5.
**Data on VAT revenues on the sectors of the economy, (thousand manat)**

Areas of activity	Revenues		Difference	
	2018	2019	Amount	Percentage
Industry	405488,0	444471,3	38983,3	9,6
Production	225107,2	266777,5	41670,0	18,5
Trade	253602,8	365558,9	111956,1	44,1
Retail trade	91091,6	134780,4	43684,8	48,0
Wholesale trade	162507,2	230778,5	68271,3	42,0
Service	315953,9	354248,7	38294,8	12,1
including PSA without others	302653,6	341941,6	39287,9	13,0
Banking and insurance	16412,6	34316,8	17904,2	109,1
Construciton	353296,4	362887,6	9591,2	2,7
including PSA without others	331112,0	331339,6	227,6	0,1
Transport	42402,5	54559,5	12157,0	28,7
Communication	163675,5	185246,9	21571,4	13,2
Agriculture	396,3	2442,0	2045,7	516,3
Other	68896,0	82359,4	13463,5	19,5
TOTAL:	1620123,9	1886091,1	265967,2	16,4

Source: https://www.stat.gov.az/source/system_nat_accounts/

Table 6.
Data on tax burden, (mln. manat)

Years	2014	2015	2016	2017	2018	2019
GDP	58182,0	54380,0	59987,7	70135,1	79797,3	81681,0
GDP on the oil sector	24968,4	16459,6	20584,6	26073,2	32904,2	31289,9
GDP on the non-oil sector	33213,6	37920,4	39403,1	44061,9	46893,1	50391,1
Tax revenues	7113,6	7118,2	7015,6	6973,5	7415,5	7672,6
Taxes on the oil sector	2807,1	2089,8	1610,1	1784,0	2441,5	2240,3
Taxes on the non-oil sector	4306,5	5028,4	5405,5	5189,5	4974,0	5432,3
Tax revenues on the oil sector, in %	39,5	29,4	23,0	25,6	32,9	29,2
Tax revenues on the non-oil sector, in %	60,5	70,6	77,0	74,4	67,1	70,8
Tax burden on the State Tax Service, in %	12,2	13,1	11,7	9,9	9,3	9,4
On the oil sector	11,2	12,7	7,8	6,8	7,4	7,2
On the non-oil sector	13,0	13,3	13,7	11,8	10,6	10,8

Source: https://www.stat.gov.az/source/system_nat_accounts/
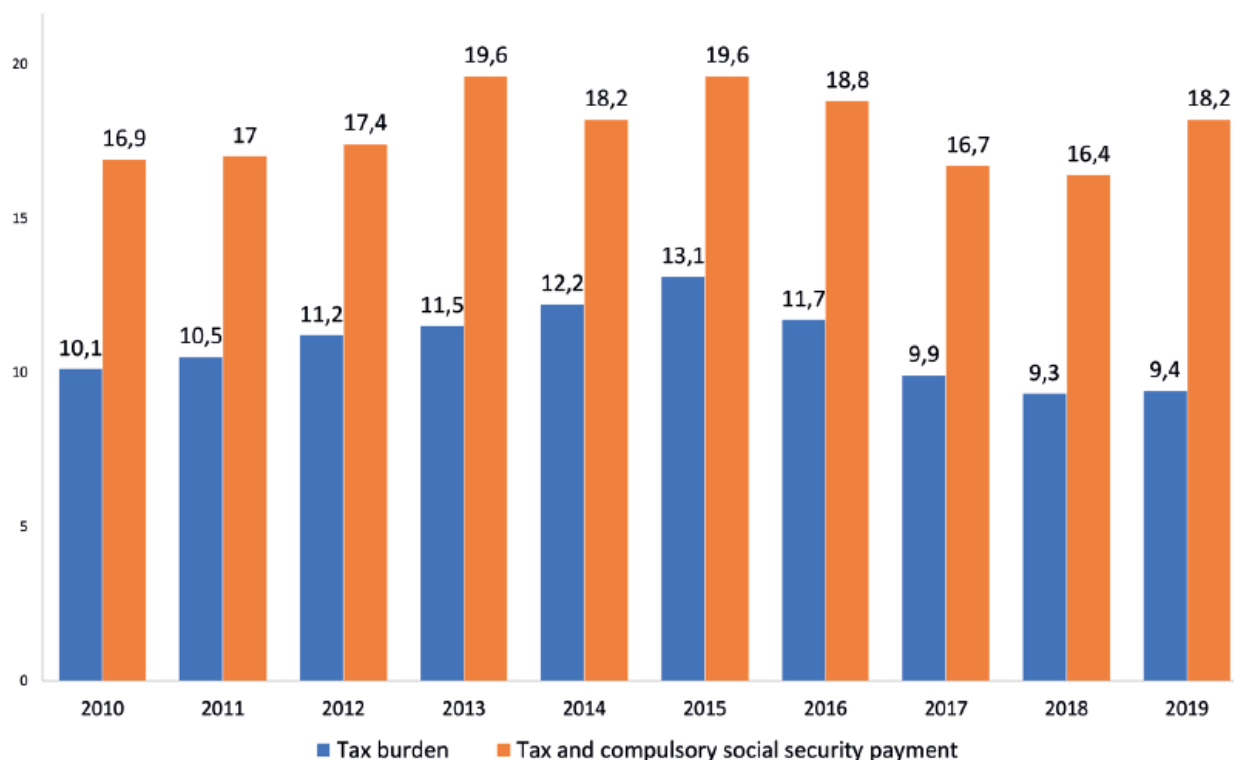
Source: https://www.stat.gov.az/source/system_nat_accounts/
Figure 4. The impact of changes in tax rates on the tax burden

The tax system of any country plays a crucial role in shaping its economy. Azerbaijan, a country located in the South Caucasus region, has undergone significant economic transformations since gaining independence in 1991. In this context, an economic analysis of the tax system in Azerbaijan can provide insights into its effectiveness, efficiency, and impact on the overall economy (Tax Code of the Republic of Azerbaijan, 2016).

Tax Revenue and Structure:

Azerbaijan's tax revenue primarily comes from three main sources: income taxes, value-added tax (VAT), and excise taxes. Income taxes are levied on both individuals and corporations, with progressive rates ranging from 14% to 25%. VAT is imposed on the supply of goods and services at a standard rate of 18%. Excise taxes are applied to specific goods such as tobacco, alcohol, and petroleum products.

Effectiveness:

The effectiveness of a tax system can be assessed based on its ability to generate revenue for the government. In recent years, Azerbaijan has made progress in increasing tax revenues, which have contributed to the country's fiscal stability. This can be attributed to the government's efforts to improve tax administration, reduce tax evasion, and broaden the tax base (A.R, 2020a).

Efficiency:

Efficiency is an essential aspect of any tax system, as it determines the economic burden imposed on taxpayers. A well-designed tax system minimizes administrative costs and provides incentives for economic growth and investment. In Azerbaijan, efforts have been

made to simplify tax procedures and reduce compliance costs for businesses. This has helped improve the efficiency of the tax system, making it more conducive to economic activity.

Tax Compliance:

Tax compliance, or the extent to which taxpayers meet their tax obligations, is a crucial factor in the functioning of a tax system. Azerbaijan has implemented various measures to enhance tax compliance, including the introduction of electronic tax filing systems and the establishment of a tax ombudsman's office. These initiatives have aimed to create a transparent and fair tax environment, reducing opportunities for tax evasion and fostering voluntary compliance (A.R, 2020b).

Investment Climate:

The tax system can significantly influence the investment climate of a country. In Azerbaijan, the government has taken steps to attract foreign direct investment (FDI) by offering tax incentives and benefits to investors. These measures include exemptions from income tax, property tax, and customs duties for certain industries and regions. By creating a favorable tax environment, Azerbaijan has sought to stimulate investment and promote economic growth (A.R, 2020c).

Challenges and Future Considerations:

Despite the progress made, the tax system in Azerbaijan still faces some challenges. These include a relatively narrow tax base, overreliance on oil revenues, and the need to diversify the economy. To address these issues, the government has initiated reforms aimed at expanding the tax base, reducing the informal economy, and improving tax collection. Additionally, there is an ongoing focus on enhancing tax administration, improving transparency, and increasing public awareness of tax compliance (Tax Encyclopedia, 2013).

In conclusion, the economic analysis of the tax system in Azerbaijan reveals both positive developments and areas for improvement. Efforts to increase tax revenues, enhance efficiency, and improve tax compliance have contributed to the country's economic stability and investment climate. However, challenges such as diversification and expanding the tax base remain ((Ministry of Taxes of the Republic of Azerbaijan: 2000-2015 (Overview), 2015). The ongoing reforms in Azerbaijan's tax system demonstrate the government's commitment to creating a sustainable and business-friendly environment for economic growth.

Conclusion

The tax system in Azerbaijan has been subject to economic analysis, providing insights into its structure and impact on the country's economy. This analysis examines various aspects of the tax system, including tax rates, revenue collection, and the effectiveness of tax policies.

One key aspect of the tax system in Azerbaijan is its reliance on oil and gas revenues. As a major oil-producing country, Azerbaijan heavily depends on these resources for its economic growth and government revenue. The analysis recognizes the importance of diversifying the economy and reducing this reliance on oil and gas, as it leaves the country vulnerable to fluctuations in global energy markets.

In terms of tax rates, Azerbaijan has implemented a relatively low and flat income tax rate, which is set at 14%. This low rate aims to incentivize economic activity and attract foreign investment. However, some experts argue that this flat rate may not effectively address

income inequality and could benefit higher-income individuals more than lower-income groups.

Furthermore, the analysis highlights the need for a more efficient tax collection system in Azerbaijan. The government has made efforts to modernize tax administration and improve compliance, but there is still room for improvement. Strengthening tax administration can help increase revenue collection and reduce tax evasion, leading to a more sustainable and fair tax system.

The economic analysis also emphasizes the importance of targeted tax policies to support key sectors and promote economic development. For instance, Azerbaijan has implemented tax incentives for industries such as agriculture, tourism, and technology, aiming to stimulate growth and diversify the economy. Evaluating the effectiveness of these incentives and ensuring they align with broader economic goals is crucial for sustainable development.

In conclusion, the economic analysis of Azerbaijan's tax system sheds light on its strengths and areas for improvement. Diversifying the economy, addressing income inequality, improving tax administration, and implementing targeted tax policies are some of the key recommendations to enhance the effectiveness and fairness of the tax system in Azerbaijan.

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