



## **Policy Recommendations on Tax System of Azerbaijan**

**Center for Economic and Social Development (CESD),**

**Leading Economic Think Tank in Caucasus and Central Asia**

**[www.cesd.az](http://www.cesd.az)**

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Center for Economic and Social Development (CESD) has developed policy recommendations on improving tax system in Azerbaijan. The CESD paper studied the tax system of Azerbaijan and listed policy recommendations how to improve the system. Obstacles and problems are also stated in the paper.

CESD suggests decreasing some tax rates in Azerbaijan and applying new tax rate for e-trade in order to support e-government in Azerbaijan. The center also recommends applying interval VAT rates in the country.

The CESD suggests to have a full risk analysis of the Tax Code should be conducted in order to identify which specific provisions create unnecessary and unjustifiable space for corruption. Particular attention should be paid to identifying provisions which may be subject to multiple interpretations, and to the provisions that describe when and how the tax authorities may use transfer pricing methods to estimate companies' tax liabilities. The risk analysis should be independent, and conducted for example by an international tax consultancy.

## **Conclusion and Recommendations**

1. Although changes in the tax system of Azerbaijan Republic such as applied elements of e-government, made steps to reduce all kinds of procedures has been done recent years , improvement in tax policy is still needed. Following are recommended to be taken into consideration in Tax Code Amendments;
2. Zero VAT rate are recommended to be applied in e-commerce such as electron trade and services in Azerbaijan. Such a promotion will positively impact on development of e-commerce in the country;
3. Applying different rates of VAT instead of standard VAT rate which is 18 %. Different rates can be applied depending on sectors. Differential VAT system can give impulse to development of specific sectors such as technology, tourism and etc, particularly non-oil sector in Azerbaijan;
4. Abolishing the general duty to submit quarterly tax declarations and replace this with one annual declaration, in order to radically reduce the possibilities for tax officials to harass businesses;
5. Establishing of the Supervisory Board under the Ministry of Taxes with representation of both government and non-government institutes;
6. According to current Tax Code, the 2000 AZN threshold above which tax evasion is automatically considered to be a criminal matter. The threshold is recommended to be raised;
7. Considering reducing the tax burden on businesses and individuals, including social security contributions, in order to reduce the very strong incentives to hide revenue. This might include cuts in tax rates, or a significant rise in the level of turnover above which companies become subject to corporate income tax and VAT; decreasing VAT from 18% to 17 %, social tax from 22 % to 20 %, and increasing the quarterly threshold from 90, 000 AZN to 100,000 AZN for companies and from 150, 000 AZN to 200,000 AZN;

8. Applying of investment tax system. Despite the fact that in recent years has been widely discussed application of investment tax in the Azerbaijan Republic, in the reality the application of this system is still not possible. In order to reduce the negative impact of the financial crisis, the use of this type of tax would be appropriate;
9. Reducing income tax rates. Income tax rate among the CIS countries in Azerbaijan is one of the highests. For example, in Russia this figure is 13% and 15% in Ukraine. At the moment, the level of the primary categories of tax profits is 14%, and this applies to the profit for 2000 manats. As we see from the figures in the first place the difference between tax levels is significant, and secondly the border passage is low. It is therefore considered expedient to reduce income tax from 14% to 12%;
10. Conduct of a full risk analysis of the Tax Code should in order to identify which specific provisions create unnecessary and unjustifiable space for corruption. Particular attention should be paid to identifying provisions which may be subject to multiple interpretations, and to the provisions that describe when and how the tax authorities may use transfer pricing methods to estimate companies' tax liabilities. The risk analysis should be independent, and conducted for example by an international tax consultancy.

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## **University of Pennsylvania (USA) Rankings:**

### **CESD is**

Top domestic economic policy think tank;

One of top think tanks in CEE countries.