



Baku Research Institute

**Changes to the tax system
in 2019-2020:**

*An assessment of the impact on small and medium-sized businesses
and a study of the expected outcomes of the changes*

SURVEY REPORT

BAKU - 2020

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Introduction

In 2019-2020, more than 250 amendments were made to the Tax Code. These changes have been particularly significant in reducing in-person communication between taxpayers and tax authorities and increasing electronic capacities for this purpose. The key steps taken in this regard are the creation of electronic taxpayers' accounts, the introduction of electronic consignment invoices and acts of purchase, the establishment of remote tax control of the next generation of cash registers and excise goods, etc. In addition, other key areas of change over the past 2 years have been the toughening of financial sanctions for tax offenses or failing to report taxes in accordance with the law, changes in the tax burden for various types of taxes, and the clarification of tax cuts and tax concessions. One of the most significant changes is the full exemption from taxation of salaries of up to 8,000 manats (AZN) per month for contract employees in the private business segment of the non-oil sector to promote the legalization of illegal employment, and the introduction of a 75% tax cut for microbusiness entities. In addition, a significant limitation on the scope of simplified taxation, and a significant increase in the tax burden on various types of excise goods has created widespread discussions among entrepreneurs and the public at large.

In order to assess the impact on businesses of the changes in the tax legislation in 2019 and 2020, a survey of entrepreneurs was carried out. The survey was anonymous to ensure the sincerity of the responses. In the end, 124 entrepreneurs representing different regions of Azerbaijan participated in the survey. 95.2% of the respondents were small and medium-sized businesses. The respondents' business activities varied. 53.2% of the respondents said they were *service* providers in various fields (science, education, tourism, etc.). The second biggest group was the *trade sector* (30.6%).

As part of the assessment, along with the survey, individual interviews were conducted with the entrepreneurs and their views and opinions were solicited. In the end, both the survey data and the results of the individual interviews were systematized and recommendations were prepared.

I. A summary of the principal changes in the tax legislation in 2019-2020

One of the noteworthy changes in 2019 was the digitization of the relationship with taxpayers. According to Article 13.2.72, which was newly introduced to the Tax Code, each taxpayer must create their own online account in the information system of tax authorities. This account is a personal electronic page that provides for the mutual exchange of information between the taxpayer and the tax authority. The taxpayer signs a contract with the tax authority in the form prescribed by the relevant executive body, the tax authority issues a password code to the taxpayer in accordance with the agreement, and the electronic account can be accessed only with that same password.

1. Changes in the rights and obligations of taxpayers and their relationship with the tax authorities

Changes in this area occurred in 2020. The major innovations that will affect the interests of businesses are as follows:

1) Regarding the allocation to the state of residential and non-residential premises in buildings erected by persons engaged in construction, the turnover from the provision of residential and non-residential premises allocated to the state shall not be considered taxable income (Article 13.2.12);

2) The concept of a “risky taxpayer” has been defined (Article 13.2.82). Individuals who fit the official criteria, as well as those engaged in sham (literally “non-commodity”) and/or risky transactions, will be included in this category.

3) The taxpayer has gained the right to demand a reconciliation act in electronic and/or paper format from the tax authorities with regard to accrued, recalculated, paid and overpaid taxes, mandatory state social insurance, unemployment insurance and compulsory health insurance, interest, financial sanctions and administrative penalties (Article 15.1.15-3);

4) Entrepreneurs must draw up a purchase act for goods purchased from individuals not registered with the tax authority (Article 16.1.11-10);

5) Persons engaged in construction shall submit to the tax authority information in an officially approved format regarding the provision of residential and non-residential premises no later than the 20th of the month immediately following the end of each quarter (Article 16.8). However, this provision applies to persons with residential and non-residential premises, the construction or fabrication of which began after January 1, 2020, as well as those without simplified taxpayer status where the construction began before January 1, 2020 but has not been completed, and those which are not yet being exploited;

6) Defining a taxpayer as “risky” is cause for real-time tax oversight (Article 50.2.5);

7) Additional information to be displayed on cash registers has been identified and includes: the amount paid, the amount returned to the customer (in excess of the

cost of the goods), the amount paid at the time of sale (the balance of the debt), the form and method of payment (cash or cashless, advance (deposit), credit, bonus, gift card, and other similar payment methods), type of check (sale, refund, or cancellation), the control device's registration number, symbols on refund checks reflecting the sale check in fiscal marks (Articles 50.8.10 - 50.8.16);

8) Violations of the rules of conducting cash payments by an entrepreneur with persons who are not registered with the tax authority as a taxpayer without the use of cash registers or strict reporting forms, as well as the failure to install POS terminals in instances where the installation of POS terminals is compulsory, are considered as a single violation and the financial penalty is applied once. This article does not apply to wholesale traders (Article 53.6);

9) Different types of electronic consignment invoices sent (provided) by the goods have been defined depending on the nature of the taxpayer's transactions. These operations include the provision of goods, work, and services (Article 71-1.5.1), the transfer of goods by principal (consignor) to agent (broker) (Article 71-1.5.4), the provision of goods by an agent (broker) to the purchaser of the goods (Article 71-1.5.5), the processing of goods (Article 71-1.5.7), and the return of goods which have been processed (Article 71-1.5.8);

10) An electronic consignment invoice for the delivery of goods must be submitted within 5 days from the date of issuance of the document confirming the delivery of goods (Article 71-1.1.2), while an invoice for the rendering of work or services must be submitted within 5 days from the date of the rendering of the work and the services (Article 71-1.1.3). However, in some cases, an electronic consignment invoice must be submitted within 3 days of the return of the goods and the clarification of the taxable turnover. These cases include the return of goods, the return of goods to the principal (consignor) by the agent (broker), etc.

11) In order to ensure the accounting of income and expenses for taxation purposes, purchase acts must be drawn up for goods purchased from individuals not registered with the tax authorities, and an electronic purchase act must be created within 5 days from the date of purchase of goods. The form of the electronic act and the rules of its use must be confirmed by the tax authorities. If an electronic purchase act is prepared by a taxpayer and signed by the individual who is not registered with the tax authority, it is considered to be a document confirming the purchase of goods and no other paper purchase act has to be drawn up (Article 71-2);

12) After the installation of cash registers which meet the officially approved criteria and connect to the information system of the tax authority in real time, the cost incurred by the taxpayer for the installation of each cash register (including the cost of the cash registers themselves) is reimbursed from future tax liabilities up to a certain limit. However, this rule applies to taxpayers who replace cash registers in use since prior to January 1, 2019, with cash registers that meet the officially approved criteria and connect with the electronic information system of the tax authorities in real time. At the same time, the amount above the officially approved limit is paid by the taxpayer. In some cases, for example, when a cash register was installed before January 1, 2019, or when a cash register was installed after January 1, 2019, but it does not meet the criteria

established by the authority (body) designated by the relevant executive authority, etc., the cost of installation of a new cash register is not deducted from tax liabilities (Articles 77.5, 77.6 and 77.7);

13) According to the results of desk and onsite tax audits, the tax authority has the right to collect accrued taxes, interest and the sum of accrued (recalculated) financial sanctions for 5 years after the end of the tax period (Article 83.3). Previously, this period was 3 years.

2. Changes in the financial penalties for reporting violations and violations regarding the storage of required information

Changes in this area occurred primarily in 2019 and include:

1) For individuals farming their own agricultural land and for each family member on a family farm capable of working, a financial penalty has been set for failing to submit in the determined timeframe without reason the report and information mentioned in the fourth and fifth paragraphs of the second part of Article 10 of the Law on Social Insurance - 3% of the minimum monthly salary for the first time in the calendar year and 6% for the second and all subsequent times (Article 57.1-1);

2) For the period specified by law of no less than 5 years, taxpayers must keep entirely legible electronic and/or paper copies of all financial documents, accounting books, reports, estimates, cash, securities, and other valuables, declarations and other documents related to the calculation and payment of taxes, as well as documents and information related to the requirements of international contracts regarding tax and financial information sharing. Otherwise, the taxpayer faces a financial penalty of up to 1,000 AZN. Prior to January 1, 2019, this amount was 100 AZN (Article 57.3);

3. Changes in the financial penalties for tax offenses

Changes in this are occurred primarily in 2019 and include:

1) The amount of tax (including tax at the source of payment) shown in the report has decreased in relation to the amount of tax that must be reflected in the report, and if it is discovered that, based on the information provided to tax authorities in electronic form by the taxpayer, a portion of taxes has not been reported and has been diverted, a financial penalty has been set at 25% of the amount underreported or diverted (excluding additional tax amounts assess as a result of the cameral tax inspection) (Article 58.1-1);

2) In case of violation of the rules of registration of monetary transactions with the public, the taxpayer shall pay 1,000 AZN (400 AZN prior to January 1, 2019) for the first time during one calendar year, 3,000 AZN for the second time, and 6,000 AZN for the third time and all subsequent times. These penalties are in regard to violations of the rules for conducting monetary transactions with persons not registered with the tax authorities as taxpayers (the public), excluding wholesale traders. This includes the failure to utilize cash registers or strict reporting forms (failing to install cash registers, failure to use strict reporting forms in accordance with the law, or failure to enter the

amounts of cash payments), the use of cash registers not registered with the tax authorities or failing to meet the technical requirements, the failure to use strict reporting forms in accordance with legislation, the failure to install POS terminals at sites where the installation of POS terminals is required or the refusal to accept cashless payments at locations with installed POS terminals, ceasing to use cash registers, etc. (Article 58.7.1):

In turn, according to this amendment, the fine for persons engaged in public catering activities exceeding 200,000 AZN in any month (months) of any consecutive 12-month period, has decreased from 2,000 AZN to 1,000 AZN for the first time, and from 4,000 AZN to 3,000 AZN for the second time and all subsequent times.

3) Fines have been implemented for the failure to register revenues and expenses in accordance with the law by failing to declare a taxpayer's funds during on-site tax audits and real-time tax oversight, and for failing to create an electronic consignment invoice or an electronic tax account invoice confirming the purchase of goods in the taxpayer's possession, to draw up purchase acts in accordance with the official form in cases defined by law, or to make a customs declaration regarding imported goods. For example, financial penalties have been set for the concealment or non-registration of funds in excess of 1,000 AZN at 10% of the amount exceeding 1,000 AZN, and 20% of the amount exceeding 1,000 manat should it be repeated during the calendar year (Article 58.8.1), for failing to provide at least one of the required documents confirming the purchase or receipt of goods at 10% of the value of the goods purchased for the first occurrence within a calendar year, 20% for the second occurrence, and 40% for the third and all subsequent occurrences (Article 58.8.2), and for failing to register revenues and expenses in accordance with the Tax Code at 10% of the unregistered amount (Article 58.8.3);

4) For employers who create the conditions to conceal (underreport) their income through the engagement of individuals in the performance of any work (services) before their employment contract enters into legal force in accordance with the Labor Code, as well as clients registered with the tax authorities who engage individuals engaged in hosting, musicianship, dance, singing, clownery, and other similar activities, those engaged in the photo or audiovisual fields, or individuals (waitstaff) who serve customers at catering facilities, who commence work without first "receiving fixed tax deductions and obligatory state social insurance benefits" in accordance with Article 220.10 of the Tax Code, financial penalties have been set at 2,000 AZN for the first occurrence during the calendar year (previously it was 1,000 AZN), 4,000 AZN for the second occurrence, and 6,000 AZN for subsequent occurrences (Article 58.10);

5) For supplying goods without submitting an electronic consignment invoice or an electronic tax account invoice, in those instances in which an electronic consignment invoice or an electronic tax account invoice must be submitted according to the Tax Code, a financial penalty has been set for the individual supplying the goods at 10% of the sale price of the goods supplied for the first occurrence in a calendar year, 20% for the second occurrence, and 40% for subsequent occurrences (Article 58.13);

6) For the sale of goods without an excise stamp that require an excise stamp, or goods lacking a required mark, or for keeping goods outside of the production building

or allowing them to leave the production building for the purpose of selling them, a financial penalty has been set at the market price of the goods for the first occurrence in a calendar year, and twice that amount for all subsequent occurrences in the same calendar year (Article 58.14);

7) For taxpayers who benefit from the tax cuts and exemptions in the Tax Code, but fail to report or underreport their income that has been exempted from taxation, a financial penalty has been set at 6% of the unreported or underreported income (before expenses) (Article 58.15).

4. Changes in the mechanisms for tax debt collection

Changes in this area occurred mainly in 2019 and include:

1) Except in cases stipulated in the Tax Code, the tax authority shall make the decision to freeze funds in the taxpayer's VAT deposit account equal to 105% of a debt for taxes, interest, or an imposed financial penalty for assessed or recalculated VAT (Article 65.2.3-1).

Exceptions include the failure to pay taxes assessed and declared by the taxpayer within the period specified in the Tax Code (Article 65.2.1.1), the failure on the part of the taxpayer to submit a complaint to a court or the body (agency) designated by the relevant executive authority body within the period stipulated by article 65 of the Tax Code of 30 calendar days after receiving notification regarding taxes, interest, or imposed financial penalties assessed by the tax authorities (Article 65.2.1.2), the written consent of the taxpayer, etc.

It should be noted that under Article 65.1 of the Tax Code, if a taxpayer fails to execute a tax obligation on time, the tax authority shall notify the taxpayer of the requirement to pay the assessed or recalculated taxes, interest and imposed financial sanctions within a 5-day period in accordance with this law.

2) In regard to the tax authority's calculations, if the taxpayer fails to file a complaint with a court or the body (agency) designated by the relevant executive authority body within 30 calendar days after receiving the 5-day notification, the tax authority shall carry out the transfer of the tax debt, interest, or imposed financial penalty for VAT from the VAT deposit account to the state budget (Article 65.2.3-2).

5. Changes in individual income tax

Changes in this area occurred in both 2019 and 2020. Key changes include:

1) For a 7-year period starting on January 1, 2019, the tax on the monthly income of individuals not working in the oil and gas sector and working in the non-governmental sector is subject to this rule (Article 101.1-1): i) up to 8,000 AZN - no tax is assessed, greater than 8,000 AZN - a tax of 14% of the amount exceeding 8,000 AZN is assessed. The income tax for an individual employed in two or more positions is calculated separately from the amount paid for each position and paid to the state budget (Article 101.1-2).

Previously, the tax on this category was at 14% for a monthly income up to 2,500 AZN and, for a monthly income over 2,500 AZN, at 350 AZN plus 25% of the amount exceeding 2,500 AZN.

2) Non-entrepreneurial activity is taxed at a rate of 14% of annual income (Article 101.2).

3) A 2% tax is assessed on income (excluding income exempted from taxation in the Tax Code) before expenses received by individuals not registered as taxpayers with the tax authority for the receipt of agrarian products from the producers of agricultural products, non-ferrous and ferrous scrap metal, paper, glass, and plastic products intended for utilization, and used tires intended for utilization (Article 101.6).

4) At an individual's main place of employment (where the employment record book is kept), for any contract work, 200 AZN is exempt from taxation in a monthly income up to 2,500 AZN, and 2,400 AZN is exempt from taxation in a yearly income up to 30,000 AZN. Prior to this change, the part of the monthly salary equal to the subsistence minimum was exempt from taxation, while the part of annual income equal to 12 times the subsistence minimum was exempt from tax.

5) Income from dividends received by individuals whose revenues and expenses are registered in accordance with the Tax Code and who are founders (shareholders) or stockholders of a domestic enterprise that is not registered for VAT purposes and whose operations add up to 200,000 AZN in any month (months) of a consecutive 12-month period is exempt from income tax (Article 102.1.22-1);

6) The amount of income tax payable to the budget by an individual entrepreneur engaged in commercial activities regarding the retail sale of goods and (or) public catering activities is reduced by the amount of 25% of the tax determined according to the particular share in overall income of cashless payments carried out by means of a POS terminal as determined by the Law of the Azerbaijan Republic on Protecting the Rights of Consumers for a period of 3 years beginning January 1, 2019. When determining whether one has the right to receive this tax break, the amount of payments made through POS terminals by persons registered with the tax authority are not considered (Article 102.1.24);

7) 50% of a taxpayer's income from the sale of shares or stocks that have been owned for at least 3 (three) years is exempt from income tax (Article 102.1.27);

8) 75% of income from the entrepreneurial activity of individual entrepreneurs who are classified as micro-entrepreneurs is tax-exempt (Article 102.1.30);

9) Income of micro- and small businesses and individual entrepreneurs from innovation activity is exempt from taxation for 3 years following the date of receipt of a Start-Up Certificate (Article 102.1.31);

10) For an individual entrepreneur participating in an SME cluster under contract with an SME cluster company, the portion of income they receive from providing goods (work, service) that is used for capital expenditure is exempt from income tax for a period of 7 years (Article 102.1.32);

11) For individuals who have not created a legal entity but are engaged in entrepreneurial activities (Article 102.1.21) and legal entities (Article 106.1.13) who are residents of an industrial or technology park, income (excluding income tax from

salaries) from their activities in the industrial or technology park is exempt from taxation for a period of 10 years beginning from the reporting year when they register at the industrial or technology park in accordance with the law. Previously the period of exemption had been 7 years.

12) In the case of taxable transactions, along with tax-exempt transactions or those exempt from profit (income) tax, as well as transactions related to non-entrepreneurial activities, income and expenses should be recorded separately. The amount of expenses that is deducted from income, and that was incurred in transactions that are taxable and those that are non-taxable, not subject to profit (income) tax, or related to non-entrepreneurial activities, but that cannot be divided, is determined based on the share of taxable income in the taxpayer's overall income. At the same time, residential and non-residential premises built by individuals engaged in construction are allocated to the state, the costs incurred for the state-owned residential and non-residential premises are expenses deducted from income (Article 108);

13) A depreciation deduction of 7% was set for capitalized land improvement costs (Article 114.3.1);

14) Income from the provision of residential and non-residential premises by persons engaged in construction activities, and the expenses deducted from this income are determined on the basis of the amounts excluding VAT received from the provision of residential and non-residential areas according to the completed work (stages) during the course of the tax year, along with construction costs, including the costs incurred in acquiring the land (Article 130.6);

6. Changes to corporate income tax

Changes in this area occurred primarily in 2019 and include:

1) Excluding legal entities of which 51% or more of the shares (stocks) belong directly or indirectly to the state, and public legal entities created in the name of the state, the part of a taxpayer's profits, not exceeding 10% of profits for the reporting year, that is transferred to enterprises, institutions, and organizations that are engaged in the fields of science, education, health, sport, and culture and that meet the requirements stipulated by the body (agency) determined by the relevant executive authority body, is exempt from taxation for a 10-year period beginning January 1, 2019. The provisions of this article apply only to non-cash expenditures (Article 106.1.18).

2) 50% of a taxpayer's income from the sale of shares or stock owned for at least three (3) years is exempt from taxation (Article 106.1.19);

3) 75% of the income earned by the legal entities defined as micro-businesses from their entrepreneurial activities is exempt from taxation (Article 106.1.20);

4) The profits of an SME cluster company are exempt from taxation for a period of 7 years from the date when the SME cluster company was included in the registry of SME cluster companies (Article 106.1.21);

5) For a legal entity that is a member of an SME cluster, the portion of income earned for providing goods (work, service) under a contract with another SME cluster

company that is used for capital expenditure is exempt from taxation for a period of 7 years (Article 106.1.22);

6) Income of micro- and small businesses and legal entities from innovation activity is exempt from taxation for 3 years following the date of receipt of a Start-Up Certificate (Article 106.1.23);

7) The amount of income tax payable to the budget by a legal entity engaged in commercial activities regarding the retail sale of goods and (or) public catering activities is reduced by the amount of 25% of the tax determined according to the particular share in overall income of cashless payments carried out by means of a POS terminal as determined by the Law of the Azerbaijan Republic on Protecting the Rights of Consumers for a period of 3 years beginning January 1, 2019. When determining whether one has the right to receive this tax break, the amount of payments made through POS terminals by persons registered with the tax authority are not considered (Article 106.9).

8) The income from dividends received by legal entities that record income and expenses in accordance with the Tax Code, are not registered for VAT purposes, and are founders (shareholders) or stockholders of a resident enterprise whose turnover is up to 200,000 AZN in any month (months) of a consecutive 12-month period, is exempt from taxation (Article 106.10);

9) Micro-business entities have the right to deduct depreciation deductions in respect of fixed assets used in their entrepreneurial activities by applying a factor of 2 to the depreciation rates established by Article 114.3 of the Tax Code (Article 114.3-1).

10) Small business entities have the right to deduct depreciation deductions in respect of fixed assets used in entrepreneurial activity by applying a factor of 1.5 to the depreciation rates established by Article 114.3 of the Tax Code (Article 114.3-2);

7. Changes in VAT calculation, imposition, and administration

Changes in this area occurred in both 2019 and 2020. Key changes include:

1) Persons carrying out domestic passenger and cargo transportation (including taxis, excluding international cargo and passenger transportation) by vehicles which they own or use, or who hire other persons on a contractual basis to carry out such transportation, may apply to cancel registration at any time after three years from the date on which VAT registration takes effect (paragraph 2 of Article 158.1);

2) VAT reductions have been granted in accordance with Article 164 of the Tax Code. These reductions include:

- **Turnover from the sale of agricultural products by the agricultural producers who produced them (including industrial producers) is free from VAT for 10 years beginning from January 1, 2014 (Article 164.1.18);**
- **The import of liquefied natural gas buses designed to carry at least 10 persons, including the driver, for 5 years beginning from January 1, 2020 (Article 164.1.39);**
- **The import of machinery, technology, and equipment for production or processing by an SME cluster company on the basis of an approval issued by**

the body (agency) determined by the relevant body of executive authority supporting the development of micro-, small, and medium-sized businesses, for a period of 7 years from the date of registration of the SME cluster company as an SME cluster company (Article 164.1.40);

- The import of exclusively electric motor vehicles (Article 164.1.41);
- The sale of animal and poultry meat for a period of 4 years beginning January 1, 2020. However, this provision does not apply to animal and poultry meat that has undergone processing, excluding animal and poultry meat that has undergone slaughtering and freezing;
- Turnover from the sale of feed and feed supplements used on livestock and poultry farms for 4 years beginning from 1 January, 2020 (Article 164.1.46);
- Turnover from the parts of buildings provided to the state as residential and non-residential premises by persons engaged in construction (Article 164.1.47);

3) The procedure for the return of VAT paid by individuals for goods (excluding oil and gas products) purchased from individuals engaged in retail trade or public catering domestically, shall be established by the authorized body. According to this article, the repayment amount is 15% of VAT paid in cashless transactions and 10% of VAT paid in cash. The cash register check presented at the time of the return of the part of VAT specified in this article must comply with the requirements of Article 50.8 of the Tax Code (Article 165.5). According to that article, cash register checks must contain the following information:

- Taxpayer name and TIN, name of economic entity (object), tax registration code, and address;
- Date and time of printing of the check, name of the goods or service (work), unit of measurement, scale, unit price, and total amount (including sum of VAT or simplified tax);
- Amount of checks issued per day and their numbers, brand name of the cash register and factory number, mark (symbol) of the fiscal regime of the cash register, Quick Response Code of the goods;
- The amount paid, the amount returned to the customer (in excess of the value of the goods), the amount to be paid at sale (the balance of debt), the form and method of payment (cash or cashless, advance (deposit), credit, bonus, gift card, and other payment methods);
- The type of check (sale, refund or cancellation), the registration number of the control mechanism, and the symbols depicted in the fiscal marks on the sale voucher.

4) 30% of the VAT paid for residential and non-residential premises purchased by individual consumers from persons engaged in building activities is to be returned (Article 165.6);

5) The time of a taxable transaction is the time when the payment for the provided goods (work and services) is carried out (Article 166.1). In the previous version, the time of the shipment of goods (the shipment of work and services), or the

time when the transportation of goods began, was considered the time of the taxable transaction. According to this article, the payment shall be deemed to have been carried out at the following times:

- **At the time of the receipt of the cash, or in the case of a non-cash payment, at the time when the funds are deposited in their bank account, or in an account that they manage, or in an account in which they will have the right to receive the funds (Article 166.1.1). The previous rule was less favorable for entrepreneurs, because, for the time of a taxable transaction, a payment deferral period was given for the first 30 days, or when the 30 days passed, the date of the shipment of the goods, or the date of the shipment of the work or services, was automatically considered the time of the taxable transaction;**
- **The date of cancellation or payment of obligations in mutual transactions (Article 166.1.2);**
- **At the time of expiration of the claim on accounts receivable arising from the provision of goods (work, services) (Article 166.1.3);**
- **At the time that the assets are acquired (bartered) as the result of a cash transaction, as well as barter (Article 166.1.4);**
- **At the time of provision in the case of non-substitutive provision (Article 166.1.5);**
- **In the case of waiving the right of claim - at the time when the right of claim on the reduced amount is waived (Article 166.1.6).**

6) When two or more payments are made on a taxable transaction, each payment is considered a separate transaction in the amount of the payment (Article 166.5);

7) When the payment is made before the provision of goods (work, services), the time of the payment is considered the time of the taxable transaction. If two or more payments are made on a taxable transaction, each payment is considered a separate transaction in the amount of the payment. It is prohibited to issue an electronic consignment invoice for advance payments received (Article 166.6);

8) For transactions subject to VAT, the amount of VAT paid during the purchase of goods (work, services) is reimbursed when the transaction value is paid to the bank account and the VAT is paid to the VAT account. For the purposes of this article, the barter of goods (work, services) is equivalent to the payment of the value of the transaction without VAT to the bank account of the person providing the goods (work, services) (Article 175.1);

9) For the purposes of this article, receipts, checks, and documents registering cash transactions, as well as electronic invoices not compiled in the manner approved by the competent authority, do not serve as a basis for tax reimbursement (Article 175.9).

10) For the purposes of this article, import documents issued by the customs authorities which indicate that VAT has been paid on imports provide the basis for tax reimbursement regardless of the form of payment (Article 175.10).

11) For the purposes of Article 175 of the Tax Code, documents registering sham and (or) risky transactions do not provide grounds for tax reimbursement (Article 175.11);

12) When the taxpayer carries out transactions both subject to VAT and exempt from VAT, the amount of VAT paid for goods (work, services) in transactions subject to VAT, in the case of separate accounting of goods (work, services) for which VAT was paid and which were exempt from VAT based on the information registered about the goods (work, services) when making the transactions, is entirely reimbursed in accordance with Article 175.1 of the Tax Code (Article 175.4);

13) Excluding taxpayers, at least 50% of whose taxable turnover during the reporting period is subject to a 0% tax rate, for all remaining taxpayers the amount of reimbursable taxes exceeding the assessed tax amount for the reporting period is refunded no later than 4 months after the taxpayer submits an electronic application to the tax and customs bodies (Article 179.2).

8. Excise tax changes

Changes in this area occurred in both 2019 and 2020. Key changes include:

1) Energy drinks, buses (excluding compressed gas buses), and liquid for electronic cigarettes are included in the list of excise goods (Article 190.1);

2) Buses are included in the list of imported excise goods (Article 190.2);

3) Excise taxes have been determined of 3.2 AZN per liter of alcoholic energy drinks, 3.1 AZN per liter of alcohol-free energy drinks, 20 AZN per liter of fluid for electronic cigarettes, 1.0 AZN per cigar, including cigars with tips that must be cut, 3.2 AZN per liter of drinking alcohol (including non-denatured ethyl alcohol not containing less than 80% alcohol and non-denatured ethyl alcohol containing less than 80% alcohol), 3.2 AZN per liter of vodka, colored drinks and colored drink products, liqueurs and liqueur products, 3.2 AZN per liter of cognac and cognac products, 2.6 AZN per liter of champagne, 0.2 AZN per liter of wine and wine products, 0.4 AZN per liter of beer (excluding alcohol-free beer) and other drinks containing beer, 31.0 AZN per 1,000 cigarillos (thin cigars), 31.0 AZN per 1,000 tobacco cigarettes and tobacco substitutes, 1.0 AZN per cigar, including cigars with tips that must be cut, 20.0 AZN per liter of fluid for electronic cigarettes, and 0.4 AZN per liter of colored alcoholic beverages (no more than 9% alcohol content) (Articles 190.3.1 to 190.3.13);

4) The excise tax rates for the import of passenger vehicles have changed as follows:

- **for engine capacities up to 2000 cc, the excise rate increased from 0.20 AZN to 0.30 AZN per cubic centimeter of the engine;**
- **for engine capacities up to 3000 cc, the excise tax increased from 400 AZN to 600 AZN for 2000 cc, and from 3 AZN to 5 AZN for each additional cubic centimeter from 2001 to 3000;**
- **for engine capacities up to 4000 cc, the excise tax increased from 3,400 AZN to 5,600 AZN for 3000 cc, and from 8 AZN to 13 AZN for each additional cubic centimeter from 3001 to 4000;**

- for engine capacities up to 5000 cc, the excise tax increased from 11,400 AZN to 18,600 AZN for 4000 cc, and from 20 AZN to 35 AZN for each additional cubic centimeter from 4001 to 5000;
- for engine capacities of 5000 cc and more, the excise tax increased from 31,400 AZN to 53,600 AZN for 5000 cc, and from 40 AZN to 70 AZN for each additional cubic centimeter over 5000;
- An excise tax of 6 AZN per cubic centimeter of engine capacity was set for recreational or sporting yachts and other watercraft intended for these purposes.

5) An excise tax on imported buses has been introduced and Articles 190.4.1-1 and 190.4.1-2 have been added to the Tax Code. According to Article 190.4.1-1, the excise tax on bus imports is defined as follows:

- for engine capacities up to 4000 cc, 2 AZN per cubic centimeter of engine capacity;
- for engine capacities up to 6000 cc, 8000 AZN plus 4 AZN per cubic centimeter of engine capacity from 4001 to 6000 cc.
- for engine capacities up to 8000 cc, 16,000 AZN plus 6 AZN per cubic centimeter of engine capacity from 6001 to 8000 cc;
- for engine capacities up to 10000 cc, 28,000 AZN plus 8 AZN per cubic centimeter of engine capacity from 8001 to 10,000 cc;
- for engine capacities of 10000 cc and more, 44,000 AZN plus 10 AZN per cubic centimeter of engine capacity over 10000 cc.

6) If the production date of buses imported to the Republic of Azerbaijan is more than 1 year, or if the distance traveled is more than 100,000 kilometers, a coefficient of 1.5 will be applied to the amount of excise tax determined by the Tax Code (Article 190.4.1-2).

9. Property tax changes

All changes in this area were made in 2019, including:

1) Legal entities and individuals engaged in the production of agricultural products (including by industrial methods) are exempt from property tax for the property used in the process for a 10-year period beginning January 1, 2014. The previous version stipulated 5 years (Article 199.9).

2) A legal entity and an individual entrepreneur who has received an investment promotion document is exempt from the payment of property tax for a 7-year period for property acquired (purchased, delivered, manufactured, built, or installed) within the relevant investment project from the date of receipt of the document. The exemption specified in this article does not apply to property acquired and used in entrepreneurial activity by a legal entity or an individual entrepreneur prior to the date of receipt of the investment promotion document. The exemption defined by this article also applies to buildings that will be involved in entrepreneurial activities within the framework of an

investment project but have not previously been used in the taxpayer's business activities (amendment to Article 199.11).

3) Micro-business entities are exempt from property tax indefinitely, and SME cluster companies are exempt from property tax for a 7-year period beginning from the date of their inclusion in the SME cluster companies register (Articles 199.14 and 199.15).

10. Land tax changes

There has been only one change in this area and it was made in 2019. The change exempts SME cluster companies from paying land tax on land owned or used in SME cluster activities for a 7-year period from the time they are included in the SME cluster companies registry (Article 207.6).

11. Simplified tax changes

Changes in this area occurred in both 2019 and 2020. Key changes include:

1) If taxable transactions are in excess of 200,000 AZN in any month (months) of a consecutive 12-month period, commercial entities cannot be a simplified taxpayer (Article 218.1.2);

2) Since January 1, 2019, a number of individuals have lost their right to be simplified taxpayers (Article 218.5). This includes persons engaged in production activities with more than 10 employees (Article 218.5.8); persons engaged in the supply of goods through wholesale trade activities (Article 218.5.9); persons engaged in the sale of gold, gold jewelry and other domestic articles, as well as diamonds (refined, sorted, framed, and reinforced, and unprocessed, unsorted, unframed and unreinforced) (Article 218.5.11); persons engaged in the sale of fur products (Article 218.5.12); persons engaged in construction activities and those engaged in activities requiring licenses, excluding persons providing services regarding obligatory insurance contracts (Article 218.5.13).

At the same time, under a 2019 amendment, only businesses that provide services to persons (the public) who are not registered with the tax authority as taxpayers are entitled to be simplified taxpayers (Article 218.5.10). This approach has been slightly modified based on the changes introduced in 2020 (Article 218.6.2): entities that provide services directly to the public are also allowed to serve both legal entities and individual entrepreneurs registered with the tax authority. However, in that case, the amount of transactions registered each quarter with electronic consignment invoices should not exceed 30% of total transactions for rendering services (excluding non-sales revenue). Otherwise simplified taxpayer status will be lost. In accordance with the requirements of this article, the loss of the right to the simplified tax does not apply to the provision of services by persons stipulated in Articles 218.4.1 and 220.10 of the Tax Code. The persons stipulated in Article 218.4.1 are persons who carry out passenger and cargo transportation (including taxis) domestically by means of motor vehicles which they possess or hire other persons to carry out such

transportation on a contractual basis (excluding international freight and passenger transport). The persons stipulated in Article 220.10 are those who work individually (without the involvement of hired workers) and who pay fixed taxes (for example, photo-video service providers, barbers, shoemakers, tailors, etc.).

3) The amount of tax to be paid by the simplified tax payers engaged in retail sales and (or) public catering activities is reduced by 25% of the tax determined according to the specific weight in total output of cashless payments made through POS terminals for a period of 3 years beginning January 1, 2019. When determining the right to receive this tax break, the amount of payments made through POS terminals by persons registered with the tax authority is not taken into account (Article 219.9).

4) Dividends paid to persons who are founders (shareholders) or stockholders of resident enterprises which keep accounts of revenues and expenditures in accordance with the tax code, are not registered for VAT purposes, and whose transactions add up to less than 200,000 AZN in any month (months) in a consecutive 12-month period, are exempt from the simplified tax (Article 219.11);

5) Excluding taxpayers engaged in activities specified in Article 218.4 of the Tax Code and taxpayers referred to in Article 218.1.2, a 2% rate is calculated from the amount of funds received by simplified taxpayers from the provision of goods, the completion of work, and the delivery of services (amount of overall output) as well as non-sales income (Article 220.1). Persons specified in Article 218.4 of the Tax Code include persons engaged in domestic transportation of passengers and cargo (excluding international transportation of cargo and passengers) by means of automotive vehicles in their possession or use or those who hire other persons to carry out such transportation on a contractual basis, persons engaged in the sale and operation of gambling related to sports matches, individuals engaged in the provision of residential and non-residential areas in their possession, persons engaged individually in the types of activities specified in Article 220.10 of the Tax Code (excluding individuals who hire employees during the activity), and persons engaged in the provision of land plots in their possession. The persons referred to in Article 218.1.2 include persons engaged in public catering activities whose taxable transactions amount to more than 200,000 AZN in any month (months) of a consecutive 12-month period.

6) Persons engaged in public catering activities whose taxable transactions amount to more than 200,000 AZN in any month (months) of a consecutive 12-month period based on Article 218.1.2 pay a simplified tax at the rate of 8% of turnover from services rendered in the reporting period as specified in Article 219.1 (Article 220.1-1).

7) The right to pay a simplified tax at a rate of 6% of the turnover from trade when the amount of taxable transactions exceeds 200,000 AZN in any month (months) of a consecutive 12-month period has been revoked (Article 220.1-1.1);

8) The simplified taxation procedure for Baku city and the regions at differential rates (2% and 4%) has been revoked (Article 220.2);

9) A fixed simplified tax has been established of 15 AZN for personal barbers, 10 AZN for personal tailor services, and 20 AZN for those engaged in hosting, playing, dancing, singing, clownery, and other similar activities at weddings, celebrations, and other events (Article 220.10);

10) Dividends received by the founders (shareholders) or stockholders of a resident enterprise which keeps account of revenues and expenditures in accordance with the requirements of the Tax Code, is not registered for VAT purposes, and whose turnover is up to 200,000 AZN in any month (months) of a consecutive 12-month period, are exempt from the simplified tax (Article 218-1.1.4);

11) Individuals providing residential premises that have been registered as residential areas for at least 3 calendar years are exempt from the simplified tax (Article 218-1.1.5.1);

12) The provision of up to 30 square meters of residential premises owned privately by individuals is exempt from the simplified tax (Article 218-1.1.5.3);

13) The full value of gifts, financial assistance, and inheritance left by taxpayers to their family members, the full value of compensation paid to individuals for land acquired for public needs and assets that are transferred between husband and wife, and the full value of assets that are transferred between spouses in divorce proceedings are exempt from the simplified tax (Article 218-1.1.5.2);

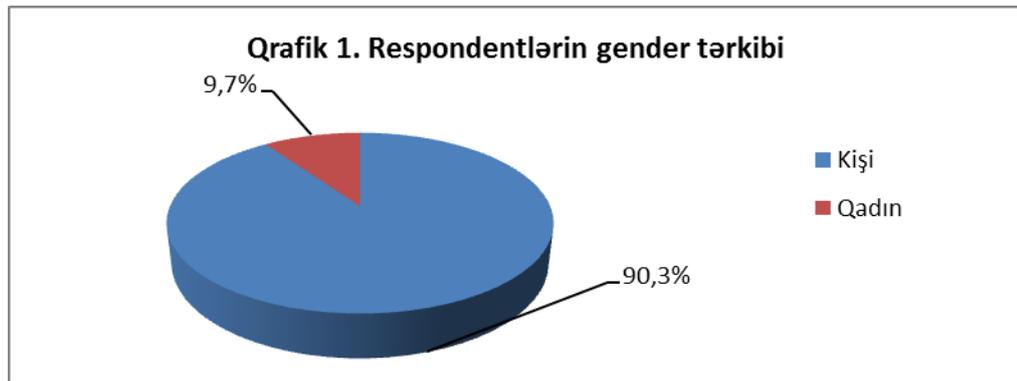
14) The amount of tax payable by simplified taxpayers engaged in the retail sale of goods and (or) public catering activities is reduced by 25% of the taxes determined according to the particular weight of cashless transactions made by means of POS terminals in overall output for a 3-year period beginning January 1, 2019. In determining the right to receive this tax break, the amount of payments made through POS terminals by persons registered with the tax authority is not taken into account (Article 218-1.2);

15) Retailers retain the right to apply the simplified taxation method when selling goods wholesale. However, in this case it is possible that the amount of transactions subject to registration with electronic invoices during the quarter should not exceed 30% of the total trade transactions (excluding non-sales revenue) (Article 218.6).

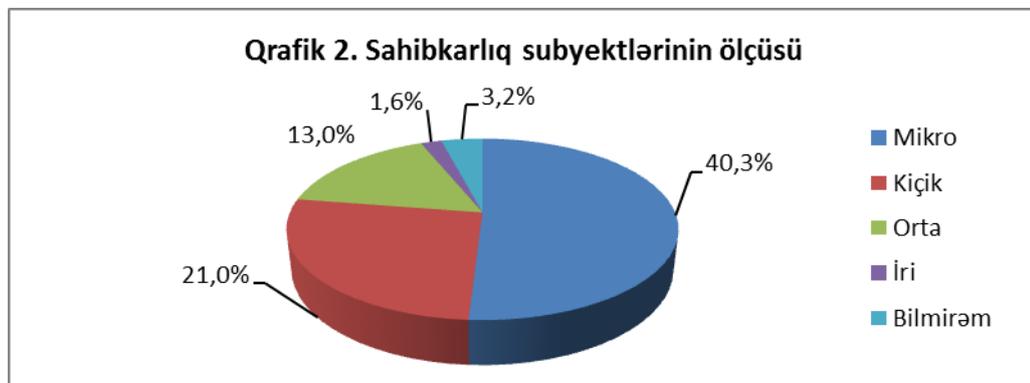
An assessment of the impact of the changes in the tax legislation on entrepreneurial activity *(survey analysis)*

124 entrepreneurs representing various regions of Azerbaijan participated in the survey. The purpose of the survey was to assess the impact of recent changes in tax legislation on the activities of entrepreneurs.

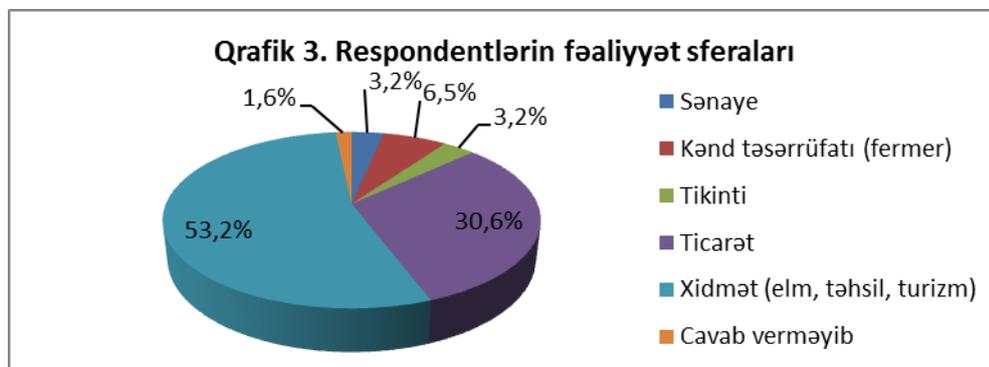
An analysis of the survey responses shows that the existing predominance of men among entrepreneurs is reflected in the survey. Only 9.7% of the respondents were women, while 90.3% were men. **(Chart 1)**



Most (95.2%) of the respondents were *small and medium-sized businesses*. The share of *big business* entities was 1.6%. The largest group of respondents (40.3%) was *microbusinesses*. Of those surveyed, 21% were small businesses, and 13% were medium-sized. 3.2% of respondents could not determine which group they belonged to and did not answer the question. **(Chart 2)**

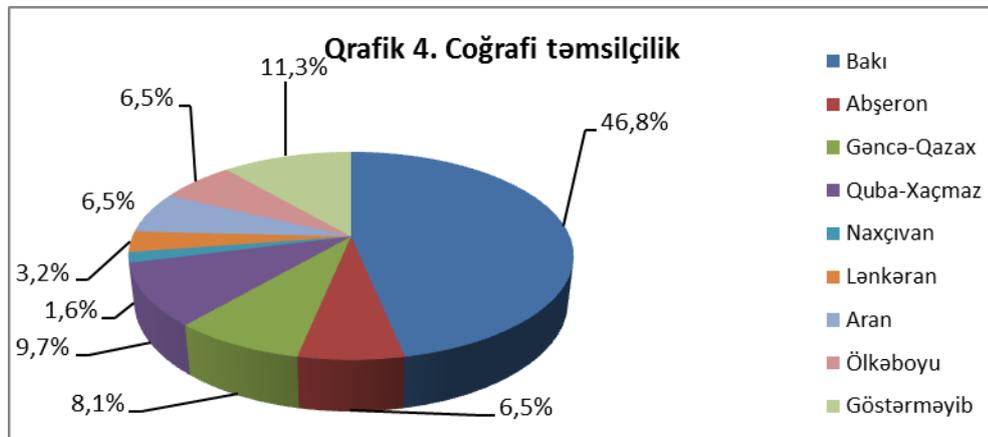


Respondents were engaged in various business activities. 53.2% of respondents stated that they provide *services* in various fields (science, education, tourism, etc.). The second major group was the *trade sector* (30.6%). *Agriculture, including farmers*, accounted for 6.5%, and *industry and construction* accounted for 3.2% each. 1.6% of the respondents did not indicate their field. **(Chart 3)**



Although the respondents represent different geographical regions, about half (46.8%) of those surveyed work in *Baku*. Of the respondents, 9.7% are located in the *Guba-Khachmaz* economic regions, 8.1% are in *Ganja-Gazakh*, and 3.2% are in *Lankaran*.

The Absheron and Aran economic regions account for 6.5% each. Another 6.5% of respondents did not indicate their specific location because they have extensive networks throughout the country. 11.3% of respondents did not specify the region of their economic activity at all. **(Chart 4)**



The first question put to the respondents was related to the impact on their activities of *the changes in the tax legislation that came into force in 2019*. The answers revealed that 29% of respondents said that the impact of these changes on their activities was *positive*, more than half (51.6%) said it was *negative*, and 8.1% said there was *no impact*. 11.3% of the respondents *did not answer* this question. **(Chart 5)**



The entrepreneurs who participated in the survey noted as positive impacts *the elimination of unofficial payments, the optimization of their work, a decrease in the tax burden, the expansion of export opportunities, and the official registration of wages and turnover.*

Respondents noted as negative impacts the following:

- *Tax reports have become complicated, tax administration has become complex, and time-consuming procedures are starting to be implemented.*
- *The tax burden has increased; Due to the limited opportunities for reimbursement, additional taxes are paid.*
- *We are forced to make cashless payments, which has increased our expenses, including bank expenses.*
- *Our accounting costs have increased.*

- *The changes in the legislation were inconsistent with information provided by tax officials, and as a result I had to pay more taxes.*

The next question put to the respondents was related to *the changes in social insurance benefits that came into force in 2019*. The answers revealed that 19.4% of the respondents said that the impact of these changes on their activities was *positive*, 51.6% said it was *negative*, and 9.7% said there was *no impact*. 19.4% of the respondents *did not answer* this question. **(Chart 6)**

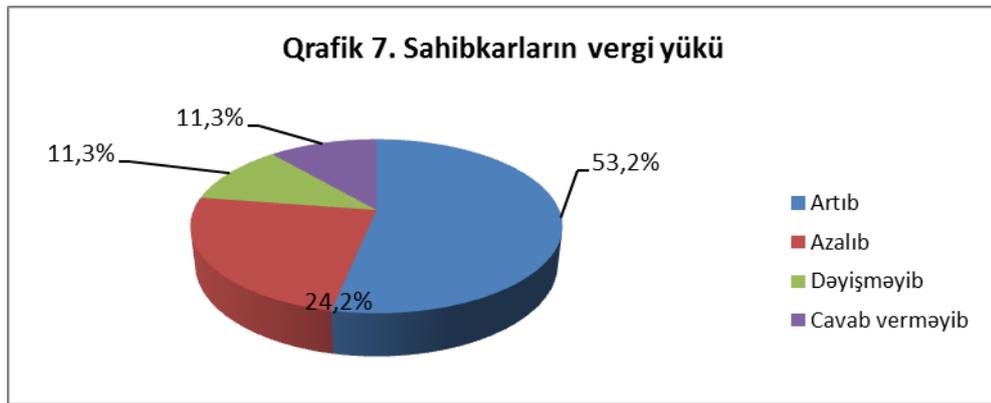


The respondents noted as positive impacts *a more accurate reflection of expenses, a reduction in payroll costs, a reduction in the payment of social insurance to the payroll fund, and employee motivation.*

Respondents noted as negative impacts the following problems:

- *The payment for social insurance increased.*
- *An increase in costs*
- *Software issues have caused big problems.*
- *At the beginning of the year, the funds collected were doubled due to the incomplete installation of the system.*
- *We couldn't benefit from it because we are a state-owned enterprise.*

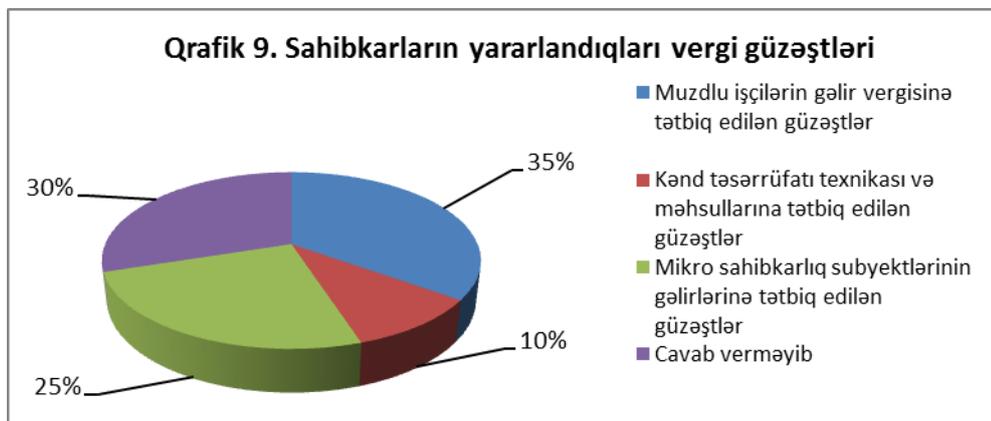
An analysis of the results shows that the changes have had different impacts on the tax burden on entrepreneurs. More than half (53.2%) of the respondents noted *an increase in the tax burden*. Every fourth respondent (24.2%) said that *the tax burden had decreased* and 11.3% said that *there was no change*. 11.3% of the respondents *did not answer* the question. **(Chart 7)**



32.3% of the respondents answered *affirmatively* about the opportunity of benefiting from any of the tax exemptions provided by the Tax Code. More than half (56.5%) of the survey participants said they *could not benefit* from it. 11.3% of respondents *did not answer* the question (**Chart 8**)

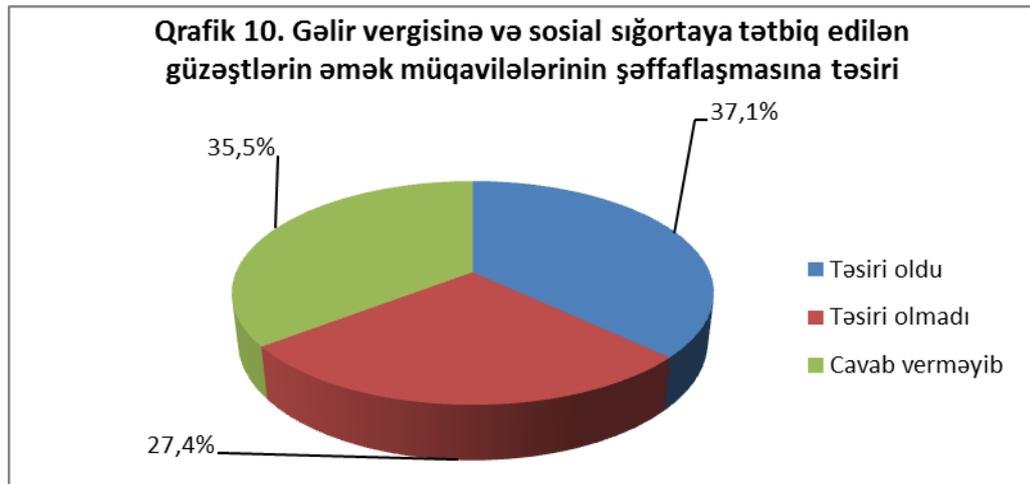


Respondents who may benefit from tax cuts noted the *reductions established for the salaries of contract employees in the non-governmental and non-oil sector (35%), the cuts established for agricultural equipment and products (10%), and the 75% cuts established for the revenues of micro-business entities (25%)*. 30% of respondents did not note any cuts that they might benefit from. (**Chart 8**)



37.1% of respondents responded *affirmatively* to the question of the impact of income tax and social insurance cuts on the transparency of employment contracts in your company. 27.4% of respondents stated that the cuts had *no impact* on the

transparency of employment contracts. 35.5% of respondents *did not answer* the question. **(Chart 9)**



The following question was related to the impact of the implementation of the electronic consignment invoice on the legalization of their turnover. It was clear from the responses that, as a result of the implementation of this mechanism, the legalization of turnover occurred in almost half (46.8%) of the surveyed businesses. One-fifth (19.4%) of the respondents said that the application of the invoice had *no impact* on legalization. 33.9% of respondents *did not answer* this question. **(Chart 11)**



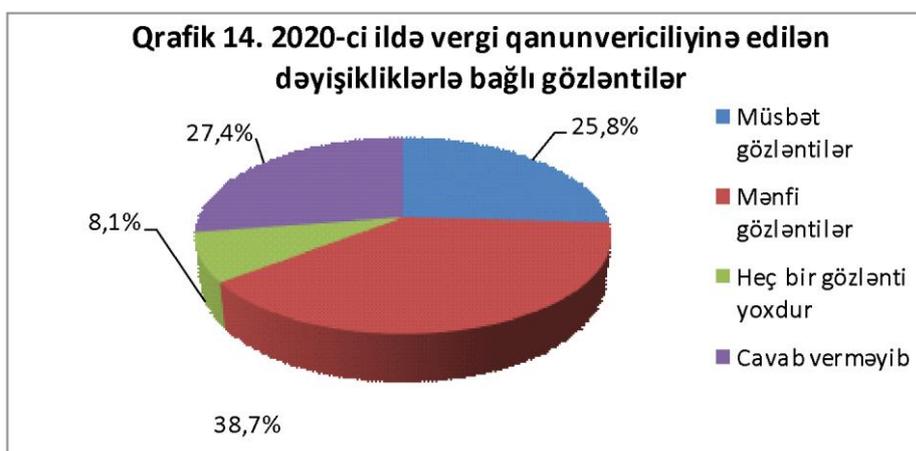
32.3% of respondents said they *felt* in their activities the *toughening of penalties for tax evasion and accounting*. 38.7% of respondents said they *did not feel it*. 29% of respondents preferred *not to answer* this question. **(Chart 12)**



The share of entrepreneurs who established expenditure recordkeeping in accordance with the demands of the Tax Code was 40.3% among survey respondents. 37.1% of respondents said they could not keep records of expenses. 22.6% of respondents did not answer. (Chart 13)



One of the survey questions asked was to determine entrepreneurs' expectations regarding the changes to the tax legislation that came into force in 2020. 25.8% of respondents stated that expectations were positive and 38.7% had negative expectations. 8.1% of those surveyed had no expectations. 27.4% of respondents did not answer. (Chart 14)



Respondents with positive expectations noted that they expect improvements in the application of electronic consignments and VAT reporting, increased transparency, transition to the cash register method, tax deductions, and simplification of VAT reporting. *Respondents with negative expectations* expressed the following concerns:

- *High customs duties*
- *Severe financial penalties on POS terminals*
- *Harsh measures for irregular taxpayers*
- *Further expansion of bureaucracy*
- *An increased tax burden and complex systems will create problems for entrepreneurship*

The last question put to the survey participants was about what they would like to change in the Tax Code in the near future. Respondents' suggestions were as follows:

- *Elimination of contradictions between the Tax Code and other legislative acts*
- *Elimination of gaps and discrepancies in the Tax Code*
- *Reduction of tax burden; Decrease of income tax rate*
- *Application of differential VAT rates for goods produced in the country*
- *Relative easing of financial penalties applied to micro-business entities*
- *Reinstitution and further simplification of the simplified tax system for individuals*
- *Implement deductions for small and medium-sized businesses*
- *Allow small and medium-sized businesses to submit expenses as paper bills and invoices without electronic invoices*
- *Reduction of customs duties and value added tax for environmentally friendly vehicles*
- *Establish an upper limit of social insurance contributions and eliminate the minimum wage*
- *Extension of the period of validity of the Easy Signature (ASAN İmza)*
- *Specification of expenses deducted and those not deducted from income*

PROPOSALS

While the business entities surveyed said that there were new provisions and mechanisms in the tax law changes for 2019-2020 that align with the interests of business, they stated that there is a need for additions in the following areas:

1) There is a need for legislation to regulate cases where the POS terminal does not work. According to Article 58.7 of the Tax Code, if a business entity fails to install a POS terminal or refuses to provide one, it is fined 1,000 AZN for the first occurrence in a calendar year, 3,000 AZN for the second occurrence, and 6,000 AZN for each subsequent occurrence. However, it is necessary to take into account cases in which the POS terminal does not work through no fault of the taxpayer (failure of internet connection, problems with the operating system of the servicing bank, etc.). This system can be implemented in accordance with the solution of problems arising during the use of cash registers. According to Article 7.2.25 of the Rules for the Operation of Cash Registers approved by the Cabinet of Ministers Resolution No. 338 on August 1, 2019, the operator has been entrusted with the responsibility to provide the taxpayer with a record of technical maintenance confirmed with their signature and seal, as well as making relevant notes about the technical maintenance in the record of technical maintenance kept by the users.

In addition, according to Article 16.1.10 of the Tax Code, in the event that the cash register's seal is broken or other malfunctions occur during its operation, the taxpayer must immediately inform the tax authorities, temporarily suspend the use of the cash register, and ensure that a record of cash transactions is maintained properly during that period.

2) The criteria for retail and wholesale trading should be changed. According to Article 218.5.9 of the Tax Code, persons who are engaged in the supply of goods through wholesale trade lose the right to use the simplified tax. According to Article 218.6.1 of the Tax Code, if a taxpayer delivers goods through retail sales, while at the same time selling goods in wholesale, they lose the right to use the simplified tax if operations subject to official registration with an electronic consignment invoice account for more than 30% of the amount of overall trade operations (excluding non-sales revenues) in a given quarter.

The attitude of the survey participants is that the criteria for wholesale and retail trade and their right to simplified taxation should be determined not by the sale of goods to the public or to taxpayers, but by the volume of sales or the turnover during the reporting period.

3) The criteria for the determination of micro, small and medium-sized businesses for taxation purposes should be changed. According to decision no. 556 of the Cabinet of Ministers from December 21, 2018, businesses with annual revenues of up to 200,000 AZN are considered micro-businesses, and those with 200,000 AZN to 3 million AZN are small businesses. According to the proposal, the maximum annual income for micro-businesses should be set at 50,000 AZN, while that for small businesses should be 500,000 AZN.

4) The accounting systems for micro-businesses and small and medium-sized businesses should be differentiated, the requirements for micro-businesses to submit expense documents should be softened, and micro-businesses should file their expenses with simple bills and invoices instead of electronic consignments. If the maximum annual revenue for micro-businesses is lowered, the softening of requirements related to expenses will not pose serious problems for establishing an accounting system in the economy.

5) The practice of frequent and large-scale changes to the tax legislation must stop. This practice prevents entrepreneurs from planning their future activities effectively. Also, all changes to the Tax Code should be made by the end of May of the current year, as envisaged by the Tax Code, and should come into force on or after January 1 of the following year, so that taxpayers can be prepared for these changes.

6) The practice of freezing taxpayers' accounts without a court order should be restricted. Survey respondents believe that different provisions (cases where the tax authority has this exclusive right and where it does not) may be discussed in this regard.

7) The punishments, penalties and restrictions established by the tax legislation for risky taxpayers should not apply to business entities which carry out transactions with them. According to Article 13.2.82 of the Tax Code, business entities that fit the official criteria, as well as those engaged in transactions with them, will be automatically included in the list of risky taxpayers. Taxpayers on this list will be subject to unscheduled tax audits and will not be able to receive their overpaid taxes before they complete their desk or on-site tax inspections, as well as real-time tax oversight measures.

However, survey respondents believe that being blacklisted by the tax authorities for dealing with risky taxpayers, even if they do not meet the risky taxpayer criteria themselves, may undermine the reputation of their businesses and negatively impact their economic potential. Until the activities of a risky taxpayer have been declared illegal by the competent authorities, it is not fair to impose the same legal restrictions and punishments on economic entities which carry out business transactions with them and conduct their activities in accordance with the law.

8) The pace of the digitization of tax registration must be increased. In particular, receipts for the placement of a founder's shares, losses, property purchased on credit, and goods purchased in the past can only be registered in paper format, and the digitization of these operations would simplify the activities of business entities and expand the scope of the implementation of electronic auditing.

9) At large, especially wholesale trade chains, the practice of documenting the turnover of goods through cargo companies should be stopped. At the markets where this practice remains, all retailers and wholesalers register their goods in the name of cargo companies whose main function is transport. As a result, these businesses are unable to provide purchase documents in accordance with the law to other taxpayers who purchase raw materials, materials and equipment from them. In turn, entities that purchase undocumented raw materials, materials and equipment lose their ability to keep records of their expenses.

10) The principle of fairness in taxation must be entirely upheld. For this purpose, it is important to determine the social insurance burden, taking into account the turnover or revenues of micro- and small businesses. For example, 2 business entities with monthly incomes of 1,000 AZN and 5,000 AZN currently pay the same amount (62.5 AZN per month). If the income tax for micro-entrepreneurs (5%) is paid for earned income, that means that tax authorities can determine turnover and income. Under these conditions, it is also realistic that social benefits could be calculated as a percentage of income.

11) Differential VAT rates should be applied. Rates of 5%, 8% and 10% can be set, especially for semi-finished products that are essential for the production of final products and for some socially important products (e.g. medicines). This can support business by increasing the paying capacity of consumers.

12) There is a need for tax incentives for businesses in the regions. In particular, the application of differential rates of income tax can stimulate the development of micro-, small and medium-sized businesses in the regions.

13) A relative easing of financial penalties applied to micro-business entities. Financial penalties can be differentiated by the turnover and geographical location of business entities.

14) Extending the validity of the Easy Signature. The validity of the Easy Signature, issued to business entities by the Easy Certification Authority (ECA) of the Ministry of Taxes, should be extended from 3 years to at least 5 years.