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Theme: impact of taxation policy on SMEs in developing countries and Azerbaijan: comparative review

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1. Abstract

This examination predominantly focuses on the effect of assessment strategies on the economy of small business enterprises in developing countries more especially in Azerbaijan Republic. The investigation just delimits itself to the challenges on the tax policies in Azerbaijan to the small business enterprises and how it can influence independently employed business people, merchants and different types of sole proprietorship organizations. This paper will initially talk about plan alternatives and analyze the key issues and shortcomings in the structure of improved private company tax collection conspire on the move nations. It at that point brings up the issue with respect to whether these plans practically speaking have had the option to meet the desires for the private venture network and the assessment organization.

1. Introduction

Taxes are an objective and extensive reality related to the existence of any state. The development and change of forms of government is always accompanied by the introduction and transformation of the tax system. In modern civilized and developed society, taxes are the main form of state revenues. They provide not only the financial base for state expenditures, the budget, but also are actively used by the state power as a mechanism for indirect management of public relations in the sphere of economy, politics, and social protection of citizens. Efficient and competent construction of the tax system is one of the most difficult task, the economic progress and welfare of the state, as well as the standard of living of citizens depend on a sound decision. Today all things considered 82% of firms in Eastern Europe are private ventures, going from a generally low level of the economy in Russia (48.98%) and Ukraine (54.33%) to as much as 97.8% in Estonia. This makes real difficulties for expense frameworks and, specifically, charge organizations. Many progress nations have endeavored to encourage the tax collection of SME by structuring rearranged tax assessment plans.

The market economy, which is rapidly destroying and modifying the old economic ties, outdated economic relations, cannot but lead to changes in the structure of government revenues. Currently, tax payments have come to the force by the importance of replenishing the budget; they account for eighty percent or more of the formation of state and local revenues. One of the options for taxation is indirect taxation, meaning a way of tax collection, in which the tax burden is transferred from the producer to the consumer or, as it is usually called, the final buyer or user. Such taxes are considered to be the most beneficial for the state, since they do not depend on the financial performance of enterprises, and the mechanism of their collection is simple and transparent enough for control by tax services. Thanks to these advantages, sales taxes on sales have become an integral part of almost all

European tax systems. Among all taxes in force in the Republic of Azerbaijan, the most income generating is a tax on value added (VAT).

2. The theoretical framework of taxation policy. VAT

Value added tax is levied on almost all traction. It is included in the sales price of products (works, services) and is reimbursed from the proceeds as a matter of priority. This makes it possible to consider it as a guaranteed source of income, which replenishes the state budget. The value added tax today is one of the most discussed and controversial taxes. The subject of discussion is the theory of this tax as well as the practice of its collection. Numerous and complicated in understanding the documents involved in the process of collecting this tax, require constant clarifications and adjustments.

The purpose of this work is to study the theoretical foundations of tax, the history of its development and evolution, the modern domestic and foreign experience of its collection, the analysis of future changes and adjustments in the tax code.

The emergence of taxes is directly related to the emergence of the state. The development of statehood leads to a change and metamorphosis of both the taxes themselves and the methods of their collection. In the development of forms and methods of tax collection can be divided into three major stages.

At the initial stage of development (from the ancient world to the beginning of the Middle Ages), the state did not have a financial apparatus for determining and collecting taxes. It determined only the total amount of funds that it wanted to receive, and tax collection was entrusted to the city or locality.

At the second stage (XVI - early XIX centuries) a network of state structures, including financial ones, emerged, and the state took over some of the functions of tax collection: it determines the tax quota, oversees the process of tax collection, controls it, define the scope of this process.

And finally, the third, modern stage, which is characterized by the complete concentration of the function of setting and collecting taxes in the hands of the state.

The practice of the tax system has evolved in accordance with scientific theories. At the end of the 18th century. The scientific theory of taxation was created. Its founder is considered the English economist and philosopher Adam Smith (1723 - 1790), who identified four basic principles of taxation that are relevant to our time:

principle of justice

certainty principle

convenience principle

principle of saving.

At the end of the 18th century, Europe also laid the foundations of a modern state conducting an active economic, including financial and tax policy.

Thus, throughout the entire centuries-old period, a search was carried out for the most effective form of taxation that best suits the interests of the state and taxpayers. One of the taxation options is indirect taxation, i.e. this way of collecting taxes, in which the tax burden is transferred from the producer to the consumer or the final buyer. The first indirect tax was turnover tax, which was taxed on sales of products at the final consumption stage. It was a tax that was included in the price of consumer goods and paid by their customers. The dependence of the tax amounts exclusively on the sales of goods caused the stability and regularity of revenues to the state budget and revealed the main advantages of indirect taxation.

Along with the substantial advantages of the turnover tax, it also had significant drawbacks: the deduction of payment amounts for each group of goods was made according to individual criteria, therefore, its collection was associated with relatively high labor costs; taxpayers were only those enterprises that produced or

sold consumer goods; The tax was mainly related to fixed prices and was itself a determining factor in pricing.

The idea of forming a budget revenue or budget revenues from the value added tax arose at the beginning of the twentieth century in Germany under the name “Vegetet Umsatzsteuer” (“improved turnover tax”). The transition from value added tax to value added taxation began in the 1950s. This process was preceded by the use of the value added indicator in the practice of evaluating the results of the economic activities of enterprises, which excluded the recurring expense of material costs and therefore was much more objective than other analytical indicators.

Superiority in the invention of value added tax belongs to France. By inventing the tax (French financier M. Lore.) in 1954, he described in his writings the scheme of the action of VAT and substantiated its advantages over the turnover tax. However, for more than ten years, VAT was applied in a pilot and test (local) version, and the experimental state of Côte de Vouard, dependent on France, served as an experimental testing ground. In France, in the form that the value added tax exists today, it was introduced on January 1, 1968.

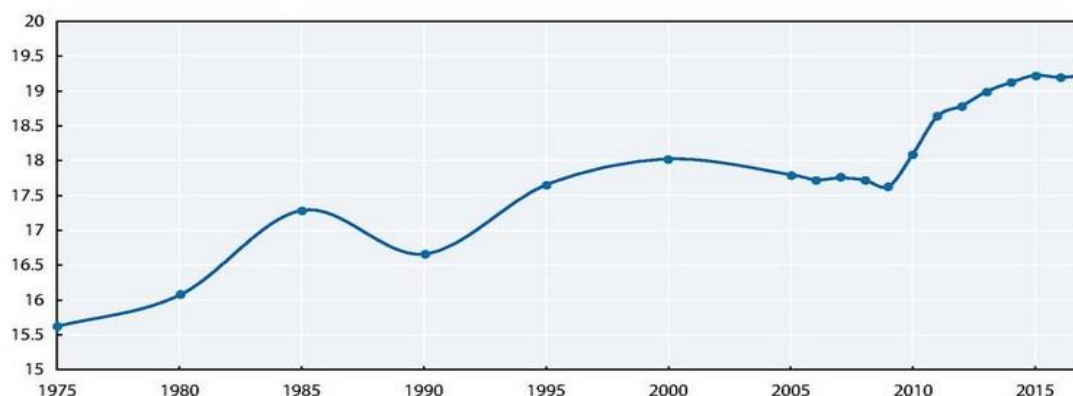
In the 70s of the XX century, VAT became pan-European and began to be applied in many European countries. This was facilitated by the adoption by the European Economic Community on May 17, 1977 of a special Directive on the unification of legal norms regulating the collection of value added tax in the Community member states, in which VAT was approved as the main indirect tax, and it was mandatory for all EU member states until 1982. For countries that intend to join the Community in the future, the availability of a functioning VAT system has become a prerequisite.

However, not all countries have a developed system of indirect taxation and the economy, which could serve as a basis for the transition to VAT. Such a transition requires careful, well-designed and balanced preparation.

Good in this sense is the example of the United States. For two years, preparatory work has been carried out to discuss this issue in Congress. The analysis of all the advantages and disadvantages of the value added tax showed that the introduction of this tax in the United States is impractical.

The VAT rate in different countries was set and changed differently (see table 1).

Figure 3.15. Evolution of the OECD average standard VAT rate until January 2017



Source: OECD Tax Database, www.oecd.org/tax/tax-policy/tax-database.htm.

Country	Tax introduction year	Tax rates, %	
		Initially	2005г.
Great Britain	1973	10	15
Austria	1973	8	20
Hungary	1971	18	19
Greece	1987	18	18
Denmark	1967	10	22
Ireland	1972	нет	25
Spain	1986	12	16
Italy	1973	12	18
Mexico	1980	10	15
France	1968	13,6	18,6
Germany	1968	10	14
Turkey	1985	10	15
Netherlands	1969	12	20
Uruguay	1986	No currently	20

Most countries are currently settled on a VAT rate of 20 (+/- 5) %. The reduced rate, for example, is usually applied to food products and services, and the increased rate

is applied to luxury goods. It is possible and complete exemption of some goods and services from taxation, for example, in our Republic of Azerbaijan, enterprises involved in the oil sector are exempted from VAT. At the same time, exemption from VAT may be expressed in the absence of tax as such or the adoption of a zero rate. The difference is that at a zero rate the seller is entitled to tax compensation in their costs, and in the absence of VAT - not. Therefore, a zero rate is more beneficial for the taxpayer. Thus, in the EU countries, a zero rate is set on all export goods sold outside the European Union, which gives the exporter the right to compensation for advance payments and allows him not to include VAT in the price, and thus increase the competitiveness of his goods.

In the 80s of the 20th century, VAT began to spread to the countries of the South-East Asia, America and Africa. As one of the main indirect taxes, it is introduced by the governments of Turkey, Indonesia, India, Brazil, Colombia, Egypt and other states. In 1989, this tax begins to be levied in Japan. The beginning of the 90s of the XX century was marked by the active inclusion of VAT in the tax practice of Eastern European countries.

In the Republic of Azerbaijan, value added tax was introduced by the Law “On Value Added Tax” of 01.12. 1992

In the general category of “indirect consumption taxes”, VAT is one of the most popular. In the course of a typical economic activity, an enterprise purchases goods and raw materials, manufactures products or provides a service, i.e. through processing, production and sales creates value added. Although value added can be calculated in various ways, it is easier to imagine as the difference between the cost of goods sold and the value of purchased goods, raw materials and services consumed in the production process (excluding labor costs).

Due to the division of labor in production for the market, many enterprises usually take part, so it is convenient to assume that the value of the goods (services) is equal to the total amount of values added in the process of production and marketing of

goods, products, products, services. Thus, when the value-added tax is levied at all stages of the production of a commodity, the same amount would be paid to the budget, which would have been transferred to it at the collection of retail sales tax at the same rate. However, the value added tax differs from the retail turnover tax in that it is collected in parts, in several stages.

The value added tax is the main type of indirect tax, which is included in the selling price of the goods, works or services. It is a withdrawal to the budget of part of the value increase created at all stages of production and sale. VAT is a multistage tax; it is charged every time a product changes its owner, but not all the turnover is charged, but only a part of it - value added.

The advantages of this tax include, first of all, its high productivity and profitability. Increasing VAT rates can quickly provide additional revenues to the budget; Also, VAT is less dependent on fluctuations in the economy compared to other taxes. These properties have provided VAT preferential distribution in developing countries with a limited base of direct income taxation.

The second important quality of the value-added tax is the effectiveness of influencing the interests of taxpayers. The value added tax ensures the neutrality of taxation and thereby stimulates accumulation, concentration of capital, and economic growth in general.

The third quality of the value-added tax is its psychological advantage, which consists in the fact that the final consumer, paying tax at the price of the goods, does not feel his real influence on the level of his own income. In this case, the tax authorities do not enter into a direct contract with taxpayers, since the seller of goods acts as a value added tax collector.

The positively stimulating function of the value-added tax lies in the benefits provided to taxpayers. For example, the majority of countries exempt from exporting

products for tax, substantial benefits are granted to agriculture, small businesses, and investment enterprises.

It should also be noted its negative properties, expressed in particular in the fact that it is not equally neutral in relation to material-intensive and labor-intensive sectors of the economy. The last of these industries are in unfavorable conditions compared with other areas of production, if they do not have real possibilities of shifting payments to the buyer through the price of the goods.

In addition to the advantages inherent in VAT, this tax has a disadvantage, which is the regressivity of VAT. So, with VAT at a flat rate and low benefits for its payment, low-wage buyers will lose a larger share of their income than high-wage consumers.

There are various methods of reducing the regressivity to ensure proportionality. The first method is the introduction of reduced (zero) VAT rates or the exemption from it of food and essential items, the second is the introduction of higher (or high) rates on luxury goods. However, the effectiveness of these methods is very conditional due to the fact that basic necessities and food products are also consumed by people with high incomes, and luxury items can be purchased by people with low incomes. Impact on the regressive effect of VAT can be provided only in conjunction with other taxes. Therefore, the presence of a single regressive tax does not affect the regressivity of the entire tax system, with the help of which the VAT regressivity is smoothed.

Thus, the value added tax is one of the most significant taxes in the tax systems of many states. Its discovery, introduction and distribution can be considered the most important economic event in the 50s – 80s of the 20th century. History does not know of another such example, when tax would have so quickly passed from theory to practice, and occupied among the taxes on consumption the dominant position in the budget of most countries of the world.

While growth of any firm or sector is measured by the contribution and number of employment it is providing an increase in sales, income, profit and thus capital which portrays a survival capability in case of any problem facing the sector or firm. Salemi (2010) argues that there are various types of taxes i.e. income tax, cooperation tax, sales tax, excise tax, custom duty, fees, prices, fines, special assessments, VAT along others. The government levy taxes to accomplish the following purpose i.e. raise revenue, maintain economic stability, solve unemployment problem, offer protection policy, social welfare and help achieve fair distribution of resources by optimally allocating resources and increase the rate of economic formula. But when imposing any tax, the following conditions and challenges must be fulfilled i.e. Equality, certainty, convenience, economical productivity, elasticity, flexibility, simplicity and durability otherwise it won't be fulfilling its objectives. Another challenge of taxation is those who try not to pay tax through evading or avoidance. In order for SME's sectors to grow, the level of taxation set must be friendly and not stifle the running of the business. Holtz-Eakin (1995) argues as to whether there is an economic case for the preferential tax treatment of SME's. Some of the factors that could be advance in favor tax concessions for SME's includes: firstly, presence of externalities provided by small firms that benefit the economy, the rewards for which are not fully captured by small firms, for example if small firms were highly innovative, but the majority of the advantages accrued to large businesses who, because of their market power, were able to buy small firms for less than they are worth. Secondly, there is a need to provide tax breaks for small firms, on the basis of equity and thirdly the tax system should not affect the growth of the SME's in a negative way.

The sector is characterized by free entry; small scale nature of the activities; self-employment with a high proportion of family workers and apprentices; little capital and equipment. Other characteristics include labour intensive technology; low skills; low level of organization with little access to organized markets, unregulated and

competitive markets, less formal credit, low education and training or services and amenities and cheap provision of goods and services.

(Principle of taxation for business and investment planning, 2018 edition; by Sally Jones; Shelley.C Rhoades-Catanach; Sandra R Callaghan.)

Problems of vat charging

Initially, the calculation of the tax was made on the basis of the direct deduction method. The practice of its use has shown both its positive and negative sides. VAT with this mechanism allowed to cover only those operations for the implementation, but also other activities of the enterprise. This mechanism allowed to apply the tax in relation to financial, insurance, banking and other similar operations. All this, incomparably, was essential for the formation of budget revenues.

The following can be singled out as negative elements of the VAT collection system:

- 1) this form of collection of value-added tax largely gave it a form not of a consumption tax, which is actually an indirect tax, but rather a production tax and total consumption;
- 2) the imperfection of the methodology in relation to export operations (using the principle of the country of destination) resulted in exemption from VAT only of the last stage of implementation, without deducting the tax paid on the acquired resources (goods). In addition, the use of this method of VAT collection in trade with the CIS countries, in respect of which the principle of the country of origin was applied, also incurred significant inconvenience for Belarusian exporters;
- 3) the establishment of initially very high VAT rates (28%), along with other unfavorable factors, contributed to a significant increase in prices and, as a consequence, to a decrease in the turnover of marketable products.

These deficiencies in the aggregate created a situation in which the model of VAT collection was not in harmony with the methods of its calculation used in most states and based on the crediting mechanism.

(Principle of taxation for business and investment planning, 2018 edition; by Sally Jones; Shelley.C Rhoades-Catanach; Sandra R Callaghan.)

3. The statement of problem

It is trusted that income tax rates that are charged on small and medium businesses are not precise since its base on suspicions without evaluating the real turnover of the undertaking, yet on occasion these ventures might make misfortunes. It is affirmed that high Income charge rates influence the dimension of utilization and increment the unit cost. Benefit augmentation is the significant objective of each little scale venture. In any case, this appears not to be a reality as the vast majority of them can't accomplish this objective. Pay charge organization assumes a relevant job seeing income gathering just as productivity of any business element. In an exertion for the legislature to expand its expense base, the taxation rate for some, organizations increments. Be that as it may, the duty organization framework is poor as now and again, the expense risk calculation depends on assessments, records of numerous private company firms are fragmented, and some pass up a great opportunity totally prompting expense over charge. Consequently, this legitimately influences the development of the undertaking and may undermine its survival in light of the fact that charges are paid out of benefits. Subsequently, inability to have a successful assessment organization framework antagonistically influences the benefit of little scale businesses.

4. Overview of Azerbaijan economy

The primary challenge Azerbaijan faces is to save the reform energy created by the monetary stun of 2015-16 and to give motive to organizations for contributing to the economy's strength to future overseas shocks. However, advance on the basic change motivation to give impetus to private area support and employment creation lingers restricted. Besides, a viable social security framework went for poor and helpless family units is expected to lessen destitution.

The Azerbaijani economy had an unassuming recuperation in 2017, as the bounce back in the non-oil economy was counterbalance by a compression in the oil segment due to generous OPEC-drove cuts in oil generation and limit limitations. The non-oil area bounced back by 2.7% year-on-year (y-o-y), bolstered by kind open financing, more grounded outer interest, and improved trust in light of recouping oil costs. On the drawback, and regardless of higher oil costs, oil GDP shrunk by 5% y-o-y. ¹ The economy recaptured further lost ground in the January-March time of 2018, with yearly GDP development quickening to 2.3% from 1.3% in the January-February period. A swifter pace of extension in the non-oil area, which was the economy's urgent oil-delivering area, supported the upturn in development.

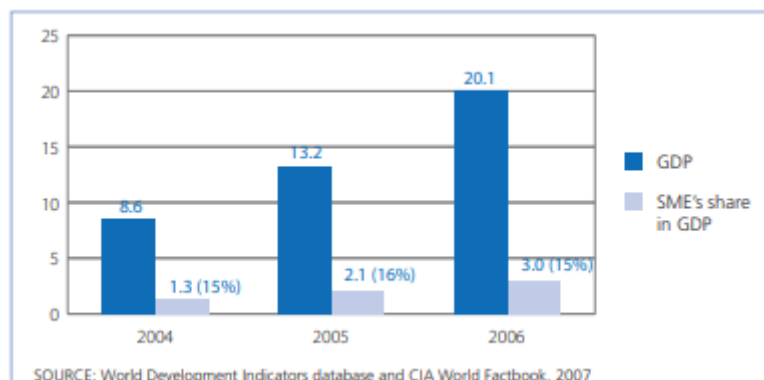
While the exports of goods and services in 2016 (in current US\$) were just a large portion of the 2011-2014 dimensions, in outright terms they are just behind Ukraine and Belarus and they remain at 46.5% of GDP, which has been in accordance with the EaP normal (46.4%) and nearly 10% up contrasted with the earlier year. There is much room for development, yet it stays to be checked whether the hole that begun being topped off by the non-oil area and SMEs can proceed to grow and assume an ever more prominent job in the national economy. Crediting of the private area has dependably been low in Azerbaijan and well beneath the territorial average with 26.6% of GDP in 2016, agreeing to the IMF, incompletely additionally in light of the fact that the loaning financing cost is the most elevated in EaP, although dropping

ceaselessly – 16.5% in 2017, as per the WB. There has been no significant swapping scale and nearby cash variance, since the conversion scale balanced out over a year back, so an Euro is worth 1.98 Azerbaijan Manat (AZN) at the end of May 2018.

5. Share of SMEs in Azerbaijan economy

As the country's monetary framework has developed in current years, explicitly because of its expanding oil endeavor, the assortment of little and medium foundations (SMEs) has additionally developed. But, the expansion in SMEs does not reflect the commitment of this enterprising division to the GDP. The development of the oil area impacts inside the blast of the non-oil zone almost as 'free riders' inside the favored fiscal development. The present advancements however show a slower blast of the non-oil quarter, for example, its shrinking in contrast with the oil endeavor in relative terms.

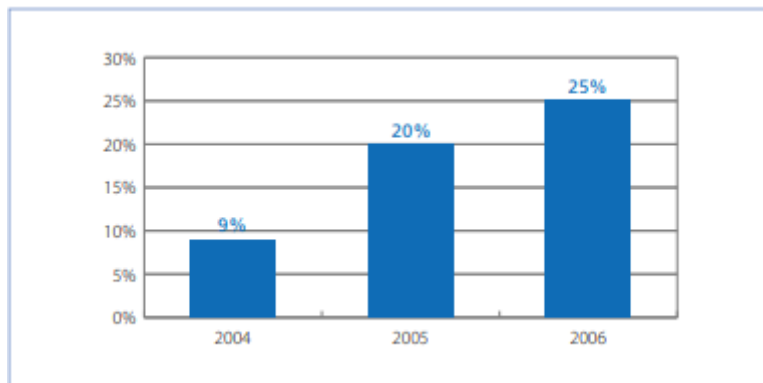
Micro and small and medium sized enterprises in Azerbaijan are isolated into two gatherings: singular business people (for example sole proprietors of the undertaking without framing a lawful substance); and little and medium ventures (for example lawful substances). All person business people are legitimately viewed as little undertakings as a matter of course, though those enrolled as lawful substances are ordered by two pointers: number of workers furthermore, yearly turnover.



The expansion in the SME division mirrors its developing significance to the nation's economy. This is unmistakably shown in the extending number of enrolled elements, be that as it may, significantly more so the expanding number of workers, either

contracted or formally enlisted. By the by, around 90 percent of all the work power inside the enterprise network is utilized by IEs.

	2004		2005		2006	
	No of subjects	Total No of employees	No of subjects	Total No of employees	No of subjects	Total No of employees
Small Enterprises (legal entities)	17,028	68,565	11,982	73,447	12,232	90,134
Individual Entrepreneurs	144,406	292,654*	166,558	687,848*	171,776	922,215*
Total	161,434	361,218	178,540	761,294	184,008	1,012,348



Especially after 2004 the percentage of people that were employed by small and medium enterprises has increased from 9% to 25% sharply.

It is less complex for business visionaries to work in the formal economy as individual business visionaries for various reasons:

- 1) The enlistment procedure is less difficult for the individual business people than for legal entities;
- 2) The costs for the enlistment procedure, permit and allows are much lower for individual business people;
- 3) In agents' feeling, singular business visionaries are all the more frequently checked by the nearby or provincial parts of the assessment administrations contrasted with SMEs, since the home office of services and offices don't have a

rundown of enrolled IEs. Legitimate substances must enlist with services and offices' central command; consequently, they are checked by these administration structures, with whom it isn't in every case simple to come to achieve a casual settlement

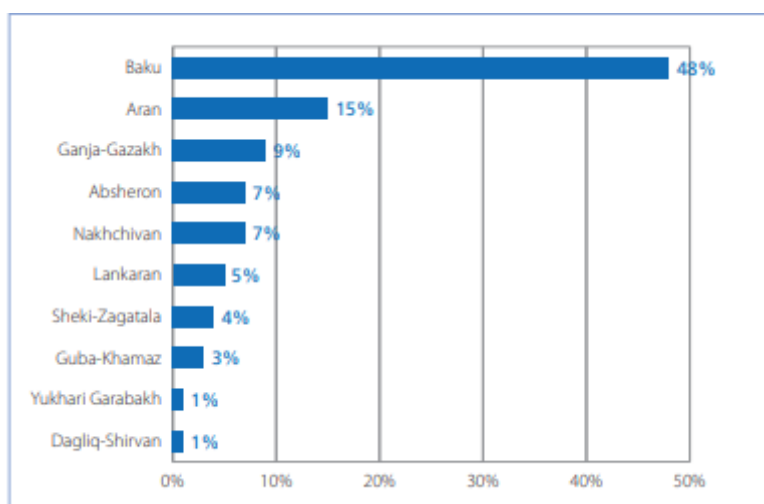
The quantity of SMEs operating in Azerbaijan's economy has been on the ascent in the most recent years, with a sum of 139,185 of every 2016, nearly multiplying the SMEs present in 2015. The greater part of the SMEs enrolled are singular business people, speaking to 95% of all, while the rest of the 5% comprises of lawful elements.

Singular business people in Azerbaijan more than doubled in 2016, in contrast with the ones set up in 2015. The table underneath condenses the status of SMEs in Azerbaijan's economy based on value included, number of workers and all out turnover. Given the vast presence of the oil business in Azerbaijan, the pointers additionally give rates stemming absolutely from the non-oil segments. As a rule, the table depicts that SMEs have decreased their share over every one of the three markers, particularly with respect to add up to turnover. The absolute employed people in the country were 1.50 what's more, 1.51 million in 2015 and 2016 separately, of which SMEs employed 280,500 and 279,350 in the two years individually. The quantity of recently made SMEs has developed in the most recent two years of accessible measurements, as the information illustrates:

- Total number of recently made SMEs (2015): 69,894, of which 5,655 legal people and 64,239 individual business people.
- Total number of recently made SMEs (2016): 139,185, of which 7,435 legal people and 131,750 individual business people

Indicator (%)	2015			2016		
	Total	Small	Medium	Total	Small	Medium
1. Value added	7,5	5,9	1,6	6,4	5,2	1,2
<i>non-oil sector</i>	10,9	8,6	2,3	9,9	8,1	1,8
2. Number of employees	18,7	5,8	12,9	18,5	6,6	11,8
<i>non-oil sector</i>	19,1	5,9	13,2	18,9	6,8	12,1
3. Turnover	11,9	9,2	2,7	9,2	7,4	1,8
<i>non-oil sector</i>	18,8	14,5	4,3	14,9	11,9	3,0

A small enterprise could be a personal legal entity meeting the necessities of the cabinet Council Decree on Criteria for outlining SMEs. By the start of 2006, there have been concerning 12,000 tiny enterprises registered in the country, that corresponds to 6.6 % of the full SME sector. The annual growth indicator from a pair of 005 to 2006 was 2 %. This indicator is under the corresponding growth of the world, reflecting the tiny range of entrepreneurs that opt to become a lot of structured by registering their business as a legal entity. As within the case with individual entrepreneurs, smaller companies are principally situated in giant cities. Thus, the full range of tiny enterprises in capital, Sumgayit, and Ganja equals 56 % of the full range within the country. (Sumgait is enclosed within the Aran region, Ganja is enclosed within the Ganja-Gazakh region).



Almost half of the small enterprises are concentrated in the capital of Azerbaijan, contributing by 48%. The second place consists of 15% belonging to Aran region. Ganja-Gazakh region exceeds Absheron and Nakhchivan only by 2 percent, which contributes to the economy by 9 percent. Lankaran, Sheki-Zagatala, Guba Khacmaz shares are 5%, 4%, 3% respectively. Furthermore, Yukhari Garabagh and Dagliq-Shirvan have the least share of small businesses, thus 1% in Azerbaijan.

(<https://vergiler.az/news/taxes/2123.html>)

5.1. Government

The Government of Azerbaijan gives three distinct designs to SME support. The biggest of them is the Azerbaijani Investment Company (AIC) that puts resources into organizations by taking value stakes of at any rate \$1 million, giving funding. The National Entrepreneurship Fund (NEF) gives exceedingly sponsored credits (up to \$3.2 million in esteem) to SMEs. At long last, the Mortgage Fund additionally gives profoundly sponsored credits for an exceptional reason. Every one of the three assets depends vigorously on the state oil incomes and issue obligation at underneath market rates.

As per the Ministry of Economic Development information, in 2007 NEF assigned more than \$112 million as such financed credits pointed supporting neighborhood enterprise. These credit lines were assigned to 882 private companies in 56 urban communities furthermore, locales of the nation. The enthusiasm of the business people in accepting subsidized loans builds the interest for the store's action, which thus required a more noteworthy allocation of public funds for the reason. Along these lines, amid the principal half of the year, the support designated an extra \$66.5 million to business people for sponsored loans. The arrangement of fund allocation and the subtleties of the recipients, including how the sponsorships were spent, remain to a great extent non-transparent.

As per the IFC overview, the greater part of the entrepreneurs faces the issue of access to fund, for example inadequacy of monetary assets to develop their organizations. The number of undertakings that got credits from the assigned reserve adds up to as it were 1 percent of the individuals who confronted troubles in access to back. In addition, the average loan size, as indicated by the store's 2007 report, is \$127,000. The figure proposes that the advances were not dispersed to the littler ventures and individual business visionaries, however truth be told to bigger organizations, whose turnover and overall revenues take into account bigger scale acquiring. Given the IFC review information, the normal credit estimate from NEF more than significantly increases IE's yearly turnover (which remains at \$42,000) and is about the half of the yearly turnover of SMEs (\$250,000).

<https://vergiler.az/news/taxes/2123.html>

Among several others, the Tax Code has been amended nineteen times since it came into impact on January 1, 2001 and thirty amendments have been created to the Civil Code since it became effective on September one, 2000. Significant amendments were created to the law on State Registration and State Register of Legal Entities in reference to the introduction of a one-stop-shop system within the registration of business legal entities. Relevant changes were created to the Tax Code in addition. Among the additional notable improvements within the legislation was the adoption of Presidential Decree No. 782 on Improvement of Rules of provision of Special Permits (Licenses) certainly sorts of activities dated September 1st, 2002. These rules unified the licensing provision rules for all types of licenses, approved the list of activities subject to licensing, determined the amounts of state duties for the provision of licenses, and selected the license issue authorities and also the authority supervising the license provision method. Additionally the law on Mortgage adopted April 15, 2005, broadened the mortgage market by providing the

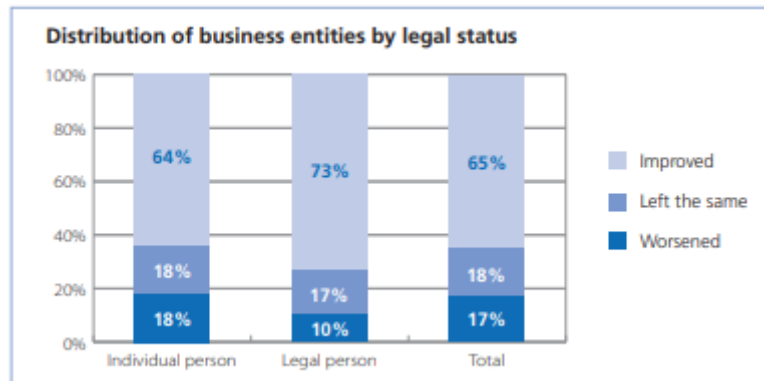
necessary legislation that was lacking before. Such legislative volatility, whereas supposed to boost the business atmosphere in practice, conjointly has negative effects on businesses, particularly individual entrepreneurs and SMEs, UN agency are less ready to keep informed frequent legislative changes. The quality of the laws and legislative instability, not to mention the scarce means for dissemination of laws, contributes to a poor legal awareness of legal entrepreneurs.

In Azerbaijani Republic, new legislative acts are revealed in 2 official newspapers and 3 official publications depending on the kind of enactment. However, no authority is officially liable for the effective dissemination of data regarding new legislative acts.

5.2. Legal debate

Most business people will in general maintain a strategic distance from courts in the settlement of monetary question. Such a propensity is identified with the question towards courts by and large shaped over the a long time. Additionally the accompanying perceptions may clarify the low dimension of court applications:

- powerful specialists/authorities are said to get choices to support them;
- the methods are non-straightforward, taking into account informal installments amid the procedure;
- the procedure can turn out to be protracted, and along these lines unsatisfactory for dynamic business enterprise;
- the procedure can turn out to be all around exorbitant, so business people hazard going through the whole procedure and losing more cash over the long term.



Regardless of the way that entrepreneurs assess the circumstance around the business condition as changing in a positive sense, in the meantime 50% of them don't concur with such explanations, as:

- 1) The local authorities plainly and consistently comply with all laws and benchmarks of the focal government body;
- 2) The local authorities aid business improvement by giving equivalent conditions to directing business;
- 3) Government agents interpret the laws and standard acts and control business action, in a sufficient and predictable way;
- 4) The business condition in my city adds to the advancement of venture and business;
- 5) The business condition in my city is superior to in different districts of the nation.

There is little separation between how business visionaries in the locales and in the capital assess the business condition.

The SME division investigation, just as the center gatherings with business people, demonstrated that the business condition in Azerbaijan has been growing quickly, yet there are some regular issues in authoritative method. The degree and recurrence of examinations, and the high prerequisites for grants, licenses, and compulsory

affirmation are the most perplexing regulatory techniques triggering the improvement of nearby business enterprise. These managerial boundaries, combined with the troubles in getting outer financing, high rental installments and the insufficiency of foundation all adversely influence the development of the SME area.

6. Functioning of the tax system from 2019 and analysis

The Ministry of Taxes of the Republic of Azerbaijan prepared a package of amendments to the Tax Code, which came into force on January 1, 2019. This was announced by the head of department Mikayil Jabbarov. He noted that these changes will help solve the key problems in tax administration faced by entrepreneurs. He stressed that the focus will be on reducing the share of the shadow economy and stimulating the transition to the legal economy.

Mr. Jabbarov pointed out that changes in economic policy require appropriate changes to the Tax Code, drawing attention to the fact that frequent changes complicate planning by entrepreneurs, and supplements can lead to unplanned tax risks. It is necessary to ensure the stability of legislation and direct it to support the development of entrepreneurship. First of all, Jabbarov believes, it is necessary to monitor tax legislation, as well as assess the effectiveness of the existing system of preferences and the possibility of further improving the tax system.

Let's take a closer look at the changes made to the tax code, which came into force on January 1, 2019

First of all, we note that the changes did not affect oil and gas enterprises and state enterprises. The adjustments concerned the private sector and individual entrepreneurs.

First of all, let's talk about commercial organizations that are designed as a legal entity. If earlier they paid the following taxes:

- 22 percent of the employee's salary - to the State Social Protection Fund
- 0.5 percent in wages of employees - to the Unemployment Insurance Fund;
- 18 percent of the value of goods and services sold - VAT;
- 20 percent of the profits.

Now, according to the changes in the tax code, they will pay:

- 44 manat and 15 percent of the part of the salary above 200 manat - in the State Social Protection Fund.

All other items will remain as before.

The next point that requires the closest consideration is the so-called "simplified payment system" - a simplified tax for enterprises with an annual turnover of less than 200,000 manat. This tax literally saved small and medium businesses by paying the following benefits:

- four percent of turnover - simplified tax in Baku;
- two percent - in the regions;
- people employed in the trade and catering sector could pay six and eight percent, regardless of turnover;

Now:

- Many will be forced to move to another category and start paying income tax (as an individual) or income tax and VAT in the case of a legal entity.
- Entrepreneurs engaged in wholesale sales, in areas requiring a license, production with more than five employees, those who sell jewelry and leather goods, and those who provide services to other persons will be forced to switch from "simplified"

taxation. Registered on the tax account. The latter are freelancers who conclude contracts for the sale of their services to organizations.

- Employed in trade will have to pay VAT and income tax in case of exceeding the turnover of 200,000 manat.
- For anyone who continues to work on the "simplified", the tax rate will fall by half - two percent instead of four per turnover.

The next paragraph concerns hired labor, labor on the basis of an employment contract.

Under Azerbaijani law, in order to receive wages, you need to conclude an employment contract with the employer. In this so-called union, taxes are paid by both the employee and the employer. Until December 31, 2018, workers paid:

- 14 percent of the amount above AZN 173 - income tax;
- three percent in the SSPF;

0.5 percent to the Unemployment Insurance Fund.

Starting from January 01, 2019, employees will pay:

they were exempted from income tax for seven years

- three percent, as before, from the amount up to 200 manat and 10 percent of the amount above 200 manat - to the State Social Protection Fund;
- 0.5 percent to the Unemployment Insurance Fund.

All this applies to workers in the non-oil and private sector, that is, about 600 thousand people, according to the latest data.

The next vast stratum of workers is individual entrepreneurs.

They used to pay:

- with a turnover of up to 200,000 manat - four percent of “simplified”;
- with turnover above 200 thousand manat - 20 percent income tax plus 18 percent VAT;
- 26 manat per month at the SSPF.

Now they will pay:

- 20 percent - income tax for all who provide any services to organizations or people on tax records (that is, everyone who has a business);
- two percent from a turn - if you render services to the population;
- 32.5 manat in SSPF.

Here, at first glance, everything is very difficult and not profitable. But at the same time as the rate hike, microentrepreneurs (it is interesting that in the tax code, where all concepts should be defined in the preamble, it is not clear who they are) offer a big discount - 75 percent. But there is a “but”. If microentrepreneurs keep records in the old way, that is, to submit a declaration every three months and not showing receipts confirming their expenses, the tax rate will be five percent. But if they bother taking into account, they will be able to reduce the tax burden, since for individuals income tax is considered as a tax on the difference between income and expenses.

To summarize, employers from all these changes received a slight shift in the tax burden from them on the employee. In theory, it should now be profitable for them to conclude employment contracts, and not individual “service contracts”.

One of the main news is the release of almost 600 thousand employees from income tax. From it are free all who receive less than eight thousand manat. As a result, their "net" incomes will increase by 5.8 percent.

In Azerbaijan, only 1.8 percent of households have an income of more than 550 manat per person, so most of the population will benefit.

Also, income tax concessions in the amount of 25 percent were received by individual entrepreneurs, who will sell through POS-terminals.

The winners will be those individual entrepreneurs who are affected by the reduction of the simplified tax from four percent to two.

The Ministry of Taxes believes that these measures will allow:

- stimulate economic activity;
- remove workplaces from the shadows;
- increase salary transparency.

Also, citizens will be able to claim the return of the money spent. When buying “by card”, it will be possible to return 15 percent, and with cash - 10 percent of the price of the goods. So far, however, it is not clear exactly how this will happen. They promise to adopt an additional law.

Patrons wishing to invest in education, health, sports and culture will be exempt from part of taxes for ten years. The amount should be no more than 10 percent of the annual profit in enterprises in these areas.

The measures taken for the most part are intended to make employers less likely to force employees to enter into a contract for the provision of services instead of an employment contract.

The Ministry of Labor also proposed its own measures, but it is not clear whether they coordinate their activities with the Ministry of Taxes or not. Because as a result of the “reform”, thousands of people who are engaged in entrepreneurial activities as freelancers (translators, programmers, journalists and others) will have to pay more.

Wouldn't it be easier to build a mechanism to protect the rights of workers? Apparently, the Ministry of Social Protection has other "high" goals. Just recently, the Deputy Minister of Labor and Social Protection population received a medal for the promotion of Azerbaijan in the World Bank's business climate ranking.

Businessmen in regions will suffer. For them, social contributions will double, and they will have to pay not two, but five percent from turnover - and that if they keep records, which they have never done before.

And those merchants who buy products from farmers for resale to stores have not paid taxes at all before, but now they will pay two percent of their turnover. This will badly affect rural residents or consumers, as they will have to take this tax from someone.

The insurance industry will suffer. If earlier it was possible to insure life for a certain amount and after three years to get it back with interest, now half of this amount was taxed. And for insurance agents who receive licenses and cannot work anymore, they will have to pay a tax of 20 percent or create legal entities.

Because of the tax "relief" will be less revenue to the state budget. According to the recall of the Accounts Chamber, it turns out that workers' incomes in the amount of 1.9 billion manat are exempted from taxes. Projected revenues in this area of the budget will decrease by 249.3 million manat.

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Azerbaijan's tax revenue forecast in 2019

Taxes	Forecast for 2018	Forecast for 2019	Difference by %
Personal income tax	1196,0	880,0	-26.4%
Income tax	2533,0	2670.4	5.4%
Land tax	50,0	45,0	-10%
Property tax	182,0	211,0	15.9%
VAT	1813,0	1804,0	-0.5%
Excise duty	554,0	602,0	8.7%
Trade tax/field tax	136,0	133,0	-2.2%
State duty	142,0	190,0	33.8%
Other incomes	321,0	376.6	17.3%
Simplified tax	380,0	322,0	-15.3%
Road-traffic tax	73,0	82,0	12.3%%

The table shows that tax revenues will be reduced only by one percent. How will lost income be compensated? First of all - at the expense of those who will pay VAT and income tax instead of "simplified payment". The list of excisable goods will expand, the share of excise in the price of excisable goods will increase.

The excise tax on the import of cars will be raised - almost twice (different rates for different engine volumes). Even excise tax levied energy drinks. This means that prices will soar for both. The draft budget states that the goal of increasing excise taxes is to stimulate domestic production. Only it is not clear what. Because local automobile plants are still not able to provide even the domestic market. And if Azerbaijan produces energy drinks, it is so small that they are not even in the official statistics. Even in the budget is planned to collect more fines. it is 71 percent more than in the corresponding period in 2018. On this occasion, questions arise in the Accounts Chamber. According to her, in the first eight months of 2018, tax collection was carried out at the level of 100.8 percent of the forecast. In other words, there seems to be no problems with collecting taxes (collection is high).

And now the Ministry of Taxes, as it were, reports that in 2019 they expect massive violations in the field of voluntary declaration. In its response to the draft budget, the Court of Accounts notes that instead of increasing administrative pressure, it is necessary to increase the rate of voluntary declaration. That is, stimulate, not punish.

Under the tax code, any changes to it can be made for consideration by the Milli Majlis only until May 15, and certainly not at the time of consideration of the budget.

After all, this is what lies at the core of the business climate — uncertainty about tax rates pushes investors away.

As for workers, at first glance, changes in taxation seem to improve their situation. But if they are accepted, in the near future we can expect an increase in prices for many goods. All this can in no way positively affect both the business climate and the expectations of entrepreneurs.

Apparently, in the first months of 2019, the situation of the first months of 2017 will repeat even more sharply. Then they also made changes to the code, and the banks, without understanding, took the VAT not from the payments from which it was necessary.

6.1. Methods of taxing the small and medium enterprises

There are central contrasts in starting a duty routine in developed and developing economies. In created economies, most private companies are inside the formal classification and it has been anything but difficult to modify the current assessment enactment to suit their requirements. Basically, the framework utilized does not speak to a noteworthy takeoff from existing frameworks. Besides, the area of the citizen is effectively discernible. Notwithstanding, in creating nations, the assignment is increasingly troublesome in that little citizens are not commonly agreeable with expense, enlistment, nearby government prerequisites and guidelines (through numbness just as goal). Besides, they can't be effectively found or

recognized by the duty organization since they overwhelmingly work inside the casual part.

The following are the key features of the small taxpayers sector: 1) Small, transient, and often cash-based businesses; 2) High turnover rates - many new businesses created, many others fail, and a few grow. Many of them are family based, sole proprietorships, and partnerships; 3) Large numbers often comprising between 70-80 percent of total taxpayers; 4) Low income potential (ordinarily 5-10 percent) of absolute incomes; 5) Expensive to direct; 6) Many stay outside the expense net because of difficulties in consenting to charge and other government guidelines; 7) They have powerless bookkeeping capacities combined with simple bookkeeping frameworks.

Tax authorities experience serious issues in distinguishing casual segment exercises, since they once in a while incorporate illegal exercises, yet in addition in light of the fact that even authentic exercises are hard to recognize when they are portable (dealers), little scale (essential administrations) or subtle (skilled workers doing little employments for money). These challenges seriously limit the individual and business salary charge base that is known and answered to the assessment specialists. Normally, just a small amount of private companies registers with the assessment specialists. Additionally, just a little offer of the general populace is on the finance of formal area ventures and the administration, where recorded wages and pay rates are promptly recognizable and effectively assessable through manager retaining plans. Regardless of such incapacitates, the experience of a few nations as of late demonstrates that considerable improvement can be accomplished with decided exertion and a fittingly structured procedure.

7. Recent changes in taxation

Significant changes in tax exemption that affects SMEs

- The dividends received by means of the shareholders of a resident legal entity with revenues of up to AZN 200,000 over consecutive 12 months, not registered as a VAT payer, and preserving a full file of its revenues and costs, will be tax exempt;
- Personal income tax charge on sales transactions in retail commercial enterprise and catering finished with a financial institution card will be reduced by way of 25 percent for three years;
- 50% of taxpayer's profits from disposal of shares and participating interests held at least for three years;
- Income from the modern things to do of micro or small entrepreneurs will be exempt from taxation for three years upon receipt of the startup certificate;
- Portion of earnings of SME cluster member man or woman entrepreneurs, earned from supply of items (services, works) underneath the contract concluded with SME cluster company, which are directed for capital expenditures will be exempt from earnings tax for seven years;
- New tax advantages will be delivered for the micro-, small, and medium businesses, exempting seventy five percent of their profits (individual entrepreneurs categorized as micro-business will additionally be eligible).

-Exemptions regarding profit tax

The Draft Law units new tax exemptions:

- Income of academic institutions (excluding of the component of profit paid as dividend);
- 50 percentage of income from the disposal of shares/participation interest held for at least three years;

- 75% of income of prison entities from micro-entrepreneurship;
- Profit of SME cluster agency for seven years;
- Profit of prison entity startups classified as issue of micro or small entrepreneurship for three years upon receipt of the startup certificate;
- Profit tax from sales transactions in retail enterprise and catering completed with a financial institution card will be decreased by way of 25 percentage for three years;
- The dividends received by means of the shareholders of a resident prison entity with revenues of up to AZN 200,000 over consecutive 12 months, not registered as a VAT payer, and preserving a full file of its revenues and costs, will be tax-exempt.

-Exemptions regarding VAT

With the new adjustments the following new exemptions have been granted:

- Provision of assets during the financial disaster procedures of a bank will be exempt from VAT till 1 January 2020;
- Import of machinery, technological tools and installations for the purposes of manufacturing and processing by means of SME cluster enterprise for seven years.

Depreciation

Extra motivating forces have been given to micro scale innovative and small enterprising organizations in regard of deduction of depreciation costs for CIT (Corporate Income Tax) purposes:

- Micro (smaller scale) innovative organizations are qualified for increasing their fixed resources yearly depreciation costs by two;
- Small enterprising organizations will be qualified for increasing their fixed resources yearly depreciation costs by 1.5.

There are numerous variables that can impact the improvement of little and medium enterprises within the economy. The foremost habitually specified among them are: state support of the division, appropriate authoritative bolster and instruments of its fulfillment, access to monetary assets and venture motivating forces (Small Business to Ukraine 1997 122). Be that as it may, one of the foremost imperative components that promote development and growth of little and medium undertakings is the tax collection system. Research made totally different nations has appeared that the nations where the level of assess rates, the costs of satisfying tax assessment necessities as well as costs of auditing are tall, the division of little and medium undertakings is comparatively little. For instance, in Ukraine, where approach of SME division tax assessment is considered to be too burdensome, the share of the division in GDP is as it were 5.5% (Explanatory report on State Committee for Enterprise Improvement 1997). Additionally, for a few a long time the share of working SMEs among enlisted ones was falling: in 1992 that index was 49.4%, in 1993 – 47.7%, in 1994 – 37.3% (Little Commerce in Ukraine 1997 49). On the other hand, within the Czech Republic, where tax collection arrangement for small and medium endeavors is milder, whereas all the other arrangements supporting small and medium businesses are roughly comparable, the share of this division in official GDP is more than 50% (Materials of the Class «Development of Entrepreneurship» 19982). Of course, such a enormous distinction in numbers cannot as it were be due to the different taxation arrangements. It is understandable, that the move within the Czech Republic started prior and some time recently move the SME division was show to greater degree in Czech economy than in Ukraine. Be that as it may, within the Czech Republic proper taxation motivating forces were made at the exceptionally starting of move period. Thus, we can see that tax assessment approaches can play a huge portion in advancement the development of the SME sector.

In order to provide comparative review, I find it beneficial to define the same subject in other developing countries, as Kazakhstan and Ukraine, respectively.

8. Kazakhstan case

The government of Kazakhstan has set a goal to generously build the commitment of SMEs and business visionaries to work and esteem included the economy. In spite of the fact that there are substantial quantities of SMEs and business people in the nation, accomplishing this development will require a stage change in the efficiency of existing SMEs and the rise of a lot progressively medium-sized and development situated firms. This report demonstrates the significant accomplishments of the administration in making a reasonable vision and structures for SME and enterprise approach, incorporating real upgrades in business guidelines and through the presentation of the Business Road Map 2020 program offering direct backings to SMEs and business people in regions, for example, financing and framework. It likewise features the present test of accomplishing more to reinforce the executives' abilities, aptitudes, and advancement in SMEs and new undertakings, and makes a scope of explicit suggestions for strategy activities including further structure the hatchery and Entrepreneurship Support Center framework, presenting devoted help for high-development potential endeavors, and animating inventory network linkages around remote chief financial specialists.

When all is said in done, government arrangement in connection to little and medium undertakings can be assembled in the accompanying six zones:

1. Helping little and medium-sized enterprises;
2. Money related help for business enterprise;

3. Okazanie assistance makes a successful arrangement of the executives of the venture;
4. Data provision of business;
5. Stimulirovanie enterprising action through an arrangement of tax collection and other administrative instruments;
6. Formation of the enterprising atmosphere in the public eye.

Against the foundation of high development rates of the fundamental markers of the structure of private venture did not differentiated. Therefore rises the picture of the normal Kazakhstani business person - singular business visionaries occupied with their exercises in the field of exchange and obtainment. In such a circumstance, a progression of measures, including financial, fiscal and managerial, to upgrade the appeal for private company circle of generation and invigorate the progress from the individual business person to frame the state of a little undertaking. Mostly entrepreneurs, utilizing the advantages of this specific classification can with the engagement of employees performing on this work which they sometimes might find difficult to get done.

Troubles in getting credit is - one of the essential issues of private venture in Kazakhstan. Endless supply of credits important to give certain insurance. Much of the time, independent ventures don't have adequate fluid security, and banks to diminish the danger of its misfortune increment financing costs or cut credit terms. Numerous business banks are hesitant to make credits to new companies, in view of the high hazard and the absence of certifications. There are numerous types of participation among banks and second-level organizations, however the solidness of the economy and the financial framework will permit Kazakh organizations to ace every one of the types of advances adequately use them to extend their generation. It is imperative to business visionaries to get credits on schedule, at sensible rates of premium, and banks to guarantee reimbursement of their capital. Issues of private

company support are isolated into two gatherings. The first - the arrangement of a complex staggered arrangement of help of private venture, giving access to the subjects of his creation, mechanical, money related, work and data assets. This requires the production of city or region assets to help private companies, including Warranty organization as unpredictable objects of between territorial and city framework of private company bolster offices, business hatcheries, warning focuses, and so on. The second - the accomplishment of positive changes in the quantitative, subjective and basic markers of private company. The exemption of SMEs from paying registration fee once they register since 2015 is the remarkable side of government policy in Kazakhstan.

8.1. Tax regime

In describing the code already, Kazakh Minister of National Economy Timur Suleimenov said that it pointed essentially at the improvement of little and medium-sized organizations. One approach to help that is its new elective duty routine, which utilizes a fixed reasoning (considering pay and costs) of 30 percent. Entrepreneurs themselves will most likely pick which routine is increasingly productive for them. Organizations that make a greatest salary of 300 million tenge (US\$903,000) and have a limit of 50 representatives can choose this routine.

Alleviation is additionally offered to business as fewer examinations: from 32 explanations behind assessment, there are presently only 14. The assessment rate for individual business people working under the patent was decreased from 2 to 1 percent. Duty changes have been made in the agrarian part, in land investigation and subsoil use, industry and venture and unique monetary zones. The monetary division is relied upon to recoup, and the weight on payrolls has been decreased, as per zakon.kz. So as to unravel this issue and so as to keep up the present burden, the social assessment rate was diminished from 11 percent to 9.5 percent.

Wasteful advantages and installments have been cut. Closeout expenses have been dropped, as have installments for the utilization of safe conduits, since the state does not give administrations and allows in these cases, as per Suleimenov.

Benefits have been dropped for turnover from the administrations of opening machines, offers of lottery tickets, state postal installment signs and the import of postage stamps. Benefits that repudiate World Trade Organization (WTO) prerequisites were dropped too. The WTO requires equivalent conditions for tax assessment for locally delivered merchandise and imports. Incomes from online business are presently absolved from corporate pay expense and individual salary charge. New standards in the field of assessment organization have been acquainted in an exertion with set up clear guidelines for communication between state income bodies and citizens. These are the standard of lawfulness, the guideline of successful association and the rule of hazard based organization. Rights and duties regarding directing assessment reviews have been cleared up and the hazard the board framework has been drastically changed. Duty organization, including impetus and control measures, will be based on an establishment of a separated way to deal with citizens. For generally safe citizens, there are no expense reviews, and the planning of detailing, the installment of obligations, the likelihood of interest in flat monitoring and different exercises might be relaxed.

An organization must registers as a VAT citizen if the limit inside a logbook year surpasses 30,000 MCI (KZT 72,150,000 out of 2018). Voluntary VAT enlistment is likewise accessible. The enlistment is finished by the arrangements of Article 82 of the Tax Code of Republic of Kazakhstan (received in 2018).

From 2018, an organization can enroll as a VAT citizen in two different ways:

1. face to face at the Public Registration Center
2. through electronic portal via website

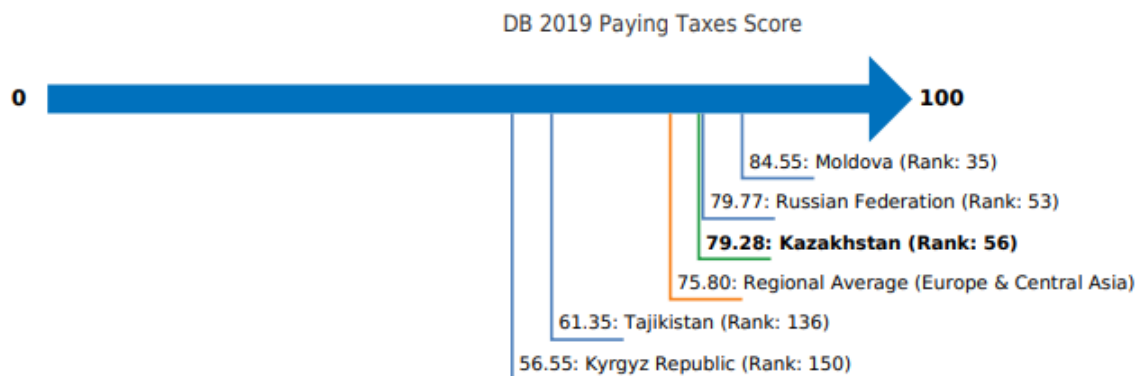
Deliberate enrollment should be possible amid the consolidation also. The main archive that should be submitted is the standard application for VAT enlistment. The authentication of enlistment for the VAT is given inside on the following industry day from recording the application.

Paying Taxes - Kazakhstan

Indicator	Kazakhstan	Europe & Central Asia	OECD high income	Best Regulatory Performance
Payments (number per year)	7	16.6	11.2	3 (Hong Kong SAR, China)
Time (hours per year)	182	214.8	159.4	49 (Singapore)
Total tax and contribution rate (% of profit)	29.4	32.3	39.8	26.1% (32 Economies)
Postfiling index (0-100)	48.85	64.41	84.41	None in 2017/18

The positioning of economies on the simplicity of covering government obligations is controlled by arranging their scores for settling regulatory expenses. These scores are the straightforward normal of the scores for every one of the segment pointers, with an edge and a nonlinear change connected to one of the segment pointers, the complete expense and commitment rate. The limit is characterized as the absolute duty and commitment rate at the fifteenth percentile of the general circulation for all years incorporated into the investigation up to and including Doing Business 2015, which is 26.1%. All economies with all out assessment and commitment rate underneath this limit get a similar score as the economy at the edge. (<https://www.oecd.org/countries/kazakhstan/sme-and-entrepreneurship-policy-in-kazakhstan-2018-9789264301450-en.htm>)

Figure - Paying Taxes in Kazakhstan and comparator economies - Ranking and Score



Here, it is apparent that regarding taxes score Kazakhstan's rank is 56, which is considered as average for current model. The highest and lowest ranks are referred to Kyrgyz Republic and Moldova respectively.

Clearly there is a generally short history of independent company tax assessment on the move nations. In the underlying phase of duty changes a few nations tried different things with the utilization of standard assessment motivating force plans for substantial organizations and outside speculations as well as for independent venture improvement. Kazakhstan from 1990-1993 worked an assessment occasion plot for SME, exempting SME from benefit charge for the initial three years after foundation and allowing a half benefit charge decrease for the fourth year. Amid that period, the quantity of private companies developed quickly, to some extent due to re-enrollment of the recently settled Coops. Numerous private ventures were set up by enormous state-possessed endeavors whose administrators, utilizing the impetuses allowed to independent companies, frequently put state assets into them. This brought about genuine maltreatment and misappropriation since there were no legitimate criteria for the status of private company elements. So as to cure the circumstance, the legislature needed to take outrageous measures and nullified all benefits. Essentially, in Moldova the law "On Supporting and Protecting Small Businesses" go in May 1994 built up duty occasions for a long time for smaller scale endeavors and two years for little undertakings occupied with need exercises, for example, development, creation of therapeutic gear, and generation of youngsters'

foodstuff. If there should arise an occurrence of non-need exercises, the assessment occasions were decreased to three years for miniaturized scale undertakings and to one year for independent ventures.

Perceiving that expense occasion plans are not a suitable instrument to address tax avoidance in the private company division and the particular consistence issues of miniaturized scale endeavors and independently employed, progress nations by and large have moved to the structure of hypothetical frameworks for difficult to-charge citizens along the lines of frameworks connected in other creating and created nations. There are three fundamental sorts of frameworks set up in the area: (I) frameworks dependent on turnover/net salary, (ii) frameworks utilizing explicit pointers to decide the size and yield of an independent venture, for example, floor space, number of workers, or the area of the business, or (iii) general licenses for explicit callings regardless of the size, area, and turnover of the business.

Stability has been distinguished by numerous proprietors of independent companies as a center component of a decent tax system. Approach of instability was distinguished as the second significant hindrance for working together in the CIS nations as per a private segment study for the 1997 World Development Report . The normal SME reviews did by the Economic Research Institute in Kazakhstan reliably uncover that most by far of independent company administrators are concerned predominantly about the shakiness of the assessment routine . A study completed in Hungary by Tóth and Semjén demonstrates that almost all SME administrators studied said that the Hungarian assessment rules changed again and again (93%), and just somewhat less (81%) that the degree of changes imperils the security of their business figuring .Worldwide in any case, just couple of duty frameworks can be portrayed as steady. This absence of security especially applies to charge frameworks on the move nations. In Ukraine, for instance, in the last quarter of 1999 alone, 27 bits of enactment were presented or altered that influenced SME tax collection (IFC 2000).

The inquiry to what degree an extraordinary hypothetical expense framework can shield little citizens from regular changes in assessment rates and methods along these lines is urgent when endeavoring to assess the advantages of a disentangled routine. Experience shockingly demonstrates that possible frameworks are just hardly more steady than the general expense framework. There are two primary components adding to this instability: Simplified duty routines are not a disconnected piece of the expense framework; they were presented in lieu of a specific number of different duties and should set up a taxation rate that either rises to the taxation rate under the general assessment routine or is somewhat lower to give a motivating force to independent companies to work in the formal economy. This would require the gathering and examination of countless on overall revenues and the connection between business markers, for example, the span of a business, its exercises or area, and the benefit potential. By and by, be that as it may, such top to bottom investigation is uncommon; rather the count of the taxation rate depends on unpleasant evaluations of business productivity. In this situation, it is hard for services of money to introduce strong contentions when looked by analysis from the business network or from government organizations in charge of independent company advancement. Second, weight from the independent venture network to adjust hypothetical tax collection rules will in general be more grounded than anticipated, as the developing number and achievement of private companies on the move nations has transformed them into an incredible intrigue bunch. This ended up evident in Bulgaria in 2002, when challenges of cabbies against a hypothetical duty increment prompted a critical decrease in expense rates and caused the acquiescence of the Deputy Minister of Finance.

Because of the vulnerability about the proper structure of improved frameworks, and the absence of information supporting the framework set up, changes in disentangled

tax collection frameworks regularly appear as significant adjustments of the way to deal with independent venture tax collection, and are not restricted to basic rate changes. (<https://www.oecd.org/countries/kazakhstan/sme-and-entrepreneurship-policy-in-kazakhstan-2018-9789264301450-en.htm0>)

9. Ukraine case

An expanding number of environmental controllers in OECD nations set up unique routines for generally safe establishments, most by far of which are SMEs. While allowing remains an overwhelming administrative routine in most OECD nations, there is a fast development of standard principles, from rearranged allowing to action based prerequisites without compulsory notice of the controller, to an extensive number of SME parts.

Small organizations, having few or no in-house legal assets, generally welcome institutionalized, rules based way to deal with setting natural necessities, which gives them more sureness about the most powerful approach to accomplish consistence than do individual, bespoke licenses. Most SMEs want to be told what they have to do plainly and succinctly. Guideline based routines additionally have different advantages, including decreased organization and expenses to the controller and organizations. In addition, they can assume a job of specialized mastery advancing area explicit best accessible methods.

The Guidance on improved natural guideline of SMEs (Annex 2) is intended to support Ukraine to change its allowing framework utilizing the great practices in EU and other OECD nations. This change is especially squeezing in light of the Association Agreements that Ukraine marked with the European Union in 2014.

The Guidance advances better execution of SMEs through guideline for action segments rather than individual establishments by methods for institutionalized allowing dependent on general restricting standards (GBRs). The littlest and least-contaminating offices would not require any license, however ought to be liable to an enrollment routine by means of straightforward notice, which would give data about such offices to ecological experts at an insignificant managerial expense. The proposed improved administrative instruments for okay establishments are completely in accordance with the strategy needs of facilitating the state control of, and upgrading support for SMEs. The Guidance addresses the various holes and irregularities in the current ecological administrative routine and promotes a framework that, together with the disposal of pointless condition related grants and necessities, ought to guarantee progressively viable and monetarily proficient natural insurance.

<https://www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf>

9.1. Tax regime

Presumptive tax collection in Ukraine: Presumptive tax collection in Ukraine was presented in 1998 by presidential declaration to encourage the improvement of SME and to reduce the casual economy. The assessment framework offers independent ventures the decision to pick either for the standard expense framework or to choose one of a few possible duties. In complete five distinctive private venture charges were planned:

- I) Unified tax expense: the bound together assessment is the most significant possible duty. It applies to organizations worked by common people with up to 10 representatives and a yearly gross salary of close to UAH 500,000. Lawful elements can choose the brought together assessment in the event that they have close to 50 representatives and a yearly gross pay of close

to 1 million UAH. The duty rate is 6% on turnover. Be that as it may, organizations subject to VAT can likewise settle on a 10% duty on turnover, which at that point, notwithstanding supplanting the salary/benefits charge, additionally is imposed in lieu of VAT.

- II) Fixed tax expense: a second significant hypothetical assessment is the fixed duty as a patent. This choice is accessible to regular people with a gross pay from pioneering exercises in the year going before the concede of the patent of up to multiple times the tax-exempt least salary, giving the business has close to 5 representatives. A private company may apply for such a patent to the nearby income specialist. Patent charges are set by neighborhood gatherings between 20 UAH and 100 UAH.
- III) There are three other possible charges for extremely private companies, that can be evaluated by the neighborhood organization inside specific confines: the purported exchange license (for administrations), the little venture charge (for discontinuous exchange exercises), and the market expense (for selling rural produce).

As Thiessen appropriately brings up, it is difficult to comprehend why sole business visionaries in the administration part without any representatives and a gross pay of not exactly UAH 119,000 every year ought to have the decision of three hypothetical charges. Such a business visionary can either decide on the brought together duty, the fixed expense, or for the exchange grant. Numerous other private companies can at any rate pick between two assessments, the brought together expense and the fixed duty. The Ukrainian methodology offers private companies the likelihood of expense shopping, superfluously muddles the duty framework, and decreases the income accumulation from this part of the economy.

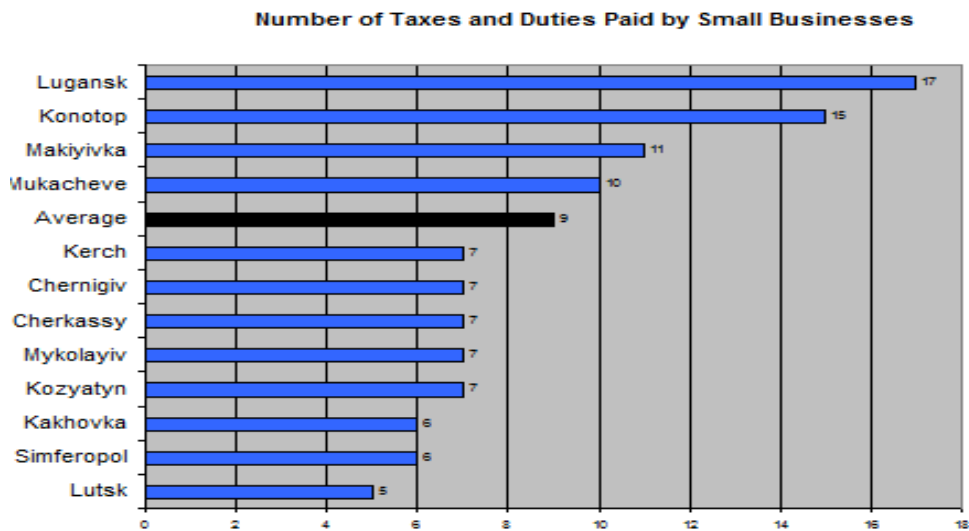
It ought to be noted in this setting just a single year after the foundation of the framework charge approach producers in Ukraine have made an endeavor to address

these issues. The 1999 draft law for another duty code incorporated a proposition for unification. This proposition planned to decrease the quantity of hypothetical duties to two: a 5% "gains charge" for companies with up to 50 representatives and a gross pay of close to 1 million UAH, and a 10% possible duty on an expected invented "unit pay" for common people with up to 5 workers and a yearly gross salary of up to UAH 200,000. Be that as it may, plans to pass an expense code in Ukraine have bombed up until this point and the possible duty framework has not yet been amended.

(<https://www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf>)

Reducing the compliance burden

Compliance expenses can be decreased altogether if the simplified tax conception goes about as a substitute for a huge number of duties. The instance of Ukraine shows the extent of the issue: In Ukraine 23 national charges are exacted on organizations. Neighborhood specialists can exact an extra 16 charges and compulsory installments. Models incorporate shared assessment, advertise obligations, and transport obligations. Furthermore, there are various supposed non-spending assets to which business people are firmly 'energized' to contribute, that can demonstrate precisely like an expense and are once in a while utilized for their corrective impact. As a result Ukrainian SME all things considered made good on nine diverse government obligations and obligations in 1999. Be that as it may, the normal number fluctuated significantly by city:



Most of enterprises (61%) revealed that they required one committed worker to manage charge issues and that his individual burned through 20-half of their working time on assessment issues alone. SME administrators believed VAT to be the most hazardous expense from a co assessment and finance charge. From a business arranging perspective, corporate benefit charge was viewed as the fundamental deterrent, with VAT positioning second.

The unified tax system in Ukraine enables qualified organizations to make good on one regulatory obligation in lieu of the pay/benefits charge, VAT (if the 10% bound together assessment is chosen), property charge, charge on extricating and handling characteristic assets, Chernobyl finance charge, shared expense, national protection charge, standardized savings obligatory gathering, required business support accumulation, and obligation on getting a grant for exchange and client administration outlets.

In Ukraine a portion of the patent rates add up to under US\$4 every month. However, even the turnover charge rates accept an exceptionally low esteem included, taking into account that the 10% expense on turnover covers all benefit duty and VAT liabilities of a business. This special duty treatment given to SME is featured by an IFC study on taxation rate by firm size as an offer of significant worth included Ukraine. The study demonstrates that the normal taxation rate surpasses a large portion of the esteem made by a normal organization (55%); in any case, the taxation

rate contrasts significantly when broke down by firm size, cause and part. While medium-sized undertakings are the most hindered, especially on account of medium-sized assembling ventures, the normal taxation rate as an offer of significant worth included for independent ventures is fairly lower, at around 46% in 2000, declining to around 42% in 2001, mirroring the expanding exchange of organizations from the customary to the rearranged framework.

Nations for which information are accessible demonstrate a low income yield from possible assessments. In Bulgaria the 268,000 patent citizens in 2002 paid generally BGL 56 million (35 million US\$) in duties, which speaks to around 1% of all duty incomes. In Georgia the possible duty gathering was just 5 million GEL or 0.7% of all out tax incomes in 2000. In Azerbaijan, as indicated by the 2002 spending plan, possible expense incomes added up to 1.5% of salary charge gathering.

Tax collection in Albania added up to generally 2% of complete tax gathering during the year 2000. The extent is to some degree higher in Ukraine, where 4.6% of all out expense income was gotten from different possible assessments in 2001.

There are two ends to be drawn from this information. Most importantly, there is a hazard that the all of expenses of organization and accumulation of some hypothetical assessments will add up to more than the genuine income gathered. Besides, the low taxation rate under the hypothetical expense is in peril of giving motivating forces to bigger organizations to structure their tasks so as to profit by the possible duty routine. It can likewise go about as a disincentive for SME to develop and in this way being exchanged to the standard expense framework.

A few nations demonstrate that they have encountered issues with assessment shirking plans utilized by bigger organizations. The propensity of bigger organizations to strip themselves of certain littler tasks and have these overseen by SME under the possible assessment routine has for example been seen in Ukraine and Kazakhstan. In Ukraine significant expense shirking issues including the independent company charge routine as of late even prompted a dialog about its

abolishment. An ordinary evasion conspire has been intended to diminish the generally high joined pay duty and government disability taxation rate on work. Managers urge their workers to enroll as independently employed under the possible expense. When enlisted, they render similar administrations to the organization; notwithstanding, rather than settling high salary regulatory obligations and standardized savings commitments, they simply pay the significantly lower possible expense.

In Ukraine, for instance, a worker who gets a month to month pay of 510 UAH (multiple times the lowest pay permitted by law) is liable to individual pay charge adding up to 108.8 UAH. Also, various social assessments are expected, which can be as high as 40.2% (37.2% on managers and 1.75 – 3.0% on representatives). Should a similar individual formally work for the business as a self-employed entity, and after that decide on the fixed duty framework, the absolute month to month taxation rate adds up to 20– 100 UAH just, which is advantageous to both the worker and the business. In Russia the sheer distinction in the duty rate between the standard 13% individual salary charge and the 6% single expense rate as indicated by reports has made a motivating force for workers to supply their work benefits as independent ventures.

The income capability of hypothetical charges could be significantly expanded by altering charge rates and aligning the genuine taxation rate more with the standard expense framework. In any case, this would likewise require a rebuilding of the duty, setting up nearer connects between expense rates and business exercises to maintain a strategic distance from an over-tax collection of specific organizations, and a much improved accumulation and examination of information on business net revenues. This is hard to accomplish and requires a more noteworthy focal point of services of fund and duty organizations on structuring and refreshing streamlined frameworks. Also, the test to adjust the taxation rate of an independent venture exhausted under

a hypothetical framework with the taxation rate under the standard framework, while maintaining a strategic distance from over-tax assessment of certain citizens, may require decreasing the effortlessness of the framework.

10. Conclusion

In general, tax impetuses focused to small firms – including lower corporate expense rates, speculation charge credits, VAT exclusions, and so on – ought to be assessed to guarantee they are tending to advertise disappointments and not initiating monetary mutilations or empowering tax avoidance. Great expense treatment of little firms benefits existing firms too new or innovation based ventures. A substantial extent of built up SMEs are definitely not critical makers of new employments or generators of developments, and great assessment treatment of all little firms could be wasteful. In addition, lower charge (tax) rates for SMEs can discourage their development when little entrepreneurs endeavor to keep announced pay beneath specific edges to exploit the particular charge treatment of private companies (Hendricks, Amit and Whistler, 1997). Lower taxes may support business visionaries9entrepreneurs) to divide organizations into independent segments for tax purposes. Little firms may not even advantage from huge numbers of these impetuses since they should be productive before they can utilize charge credits and different measures. These components ought to be considered in the plan of duty arrangements in case of small businesses. Considering the remarkable development of the private venture segment in the locale, the absence of a genuine deliberate compliance culture, and the weak tax administration limit, simplified tax assessment can be a significant component of a methodology to address the issue of a developing underground economy.

Involvement with streamlined tax collection plans shows that these plans have in any event been effective in one regard: they have added to expanding the tax net. Improved tax assessment plans have demonstrated to be more speaking to the

business network than the standard tax assessment routine, and the quantity of citizens enlisted under such plans has expanded considerably in all nations. Be that as it may, the plan of a rearranged framework alone isn't adequate to accomplish significant upgrades in citizen consistence. Disentangled frameworks have not on a very basic level changed the citizens' view of the expense framework as oppressive or their supposition that duty rates are excessively high. In spite of the presentation of improved frameworks, tax assessment stays one of the key obstructions to business advancement recognized by independent venture administrators in the district. This is a striking differentiation to the real taxation rate under disentangled frameworks, which can for the most part be viewed as altogether lower than the taxation rate under the standard expense routine. One motivation behind why objections about the duty framework keep on being advanced by the independent company network could be that in many nations the improved framework has been presented in lieu of pay assessment or salary expense and VAT as it were. In just few nations has the disentangled duty supplanted all or a large portion of the national and subnational charges. Private ventures in this manner still need to manage countless and documenting prerequisites, and consequently likewise keep on review the duty framework as convoluted and awkward. Another factor contributing significantly to this observation is the unsteadiness of streamlined duty frameworks. The longing enunciated by numerous independent company administrators to build soundness and consistency of the assessment framework has not been tended to by the disentangled frameworks, which will in general experience incessant and major change in many progress nations.

However the regularly very generous tax allowances provided by simplified regimes, those regimes have not drastically altered the tax behavior of SME operators. Small groups commonly hold to view the tax collection system as a key obstacle for business improvement and the general tax burden as too excessive. This will partially be due to the fact that simplified regimes in lots of instances had been introduced in lieu of earnings tax best, simply so small commercial enterprise

operators stay confronted with a massive variety of tax responsibilities and high compliance prices. At long last, while some emerging nations assign some portion of the yield from possible taxes to subnational governments, little thought has been given to the choice of transforming presumptive taxes into local taxes regulated by particular governments.

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