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Baku State University

Ph.D.in economics

konul.aliyevna@mail.ru

Fakhriyya Rajabova

Baku State University

master student

faxriya93@gmail.com

EVALUATION OF THE FEATURES OF APPLICATION OF EXCISE TAX IN AZERBAIJAN

Astract

The article comprehensively evaluates the features of the application of excise tax in Azerbaijan, offering insights into its historical context and evolution. It highlights the diverse range of goods subject to excise tax, noting changes over time to align with economic shifts and international standards. The examination of excise tax rates reveals a strategic approach influenced by factors such as inflation and public health considerations, with a benchmark against global practices. The collection and administration of excise tax involve mechanisms monitored by the State Customs Committee and other authorities, facing challenges such as illicit trade and resource limitations. Moving to the impact on the economy and society, the article discusses excise tax's role in revenue generation, influencing consumer behavior, and affecting businesses, especially in targeted industries. Challenges in enforcement and compliance are acknowledged, prompting a call to action for stakeholders to contribute to ongoing discussions for refining excise tax policies. In conclusion, the article emphasizes the dynamic nature of excise tax in Azerbaijan, highlighting the importance of continuous evaluation and collaborative efforts for the tax system to align with evolving economic and societal needs.

Keywords: *excise tax, Azerbaijan, fiscal policy, revenue generation, consumer behaviour, enforcement challenges*

Könül Büyüker

Bakı Dövlət Universiteti

iqtisadiyyat üzrə fəlsəfə doktoru

konul.aliyevna@mail.ru

Fəxriyyə Rəcəbova

Bakı Dövlət Universiteti

magistrant

faxriya93@gmail.com

Azərbaycanda aksiz vergisinin tətbiq xüsusiyyətlərinin qiymətləndirilməsi

Xülasə

Məqalədə Azərbaycanda aksiz vergisinin tətbiqi xüsusiyyətləri hərtərəfli qiymətləndirilmiş, onun tarixi konteksti və təkamülü haqqında fikirlər verilmişdir. Biz məqalədə aksiz vergisinə məruz qalan malların müxtəlif çeşidini vurğulamış, zamanla iqtisadi dəyişikliklərə və beynəlxalq standartlara uyğunlaşmaq üçün baş verən dəyişiklikləri qeyd etmişik. Aksiz vergisi dərəcələrinin tədqiqi inflyasiya və ictimai sağlamlıq mülahizələri kimi amillərin təsirinə məruz qalan və global təcrübələrə qarşı bir etalon olan strateji yanaşmanı ortaya qoyur. Aksiz vergisinin toplanması və idarə edilməsi Dövlət Gömrük Komitəsi və digər orqanlar tərəfindən nəzarət edilən, qeyri-qanuni ticarət və resursların məhdudlaşdırılması kimi problemlərlə üzləşən mexanizmləri əhatə edir. İqtisadiyyata və cəmiyyətə təsirinə keçərək, məqalədə aksiz vergisinin gəlirlərinin yaradılmasında,

istehlakçılarının davranışına təsir etməsində və biznesə, xüsusən də hədəflənmiş sənayelərdəki rolundan bəhs edilir. İcra və uyğunluqda çətinliklər vurğulanır və bu, maraqlı tərəfləri aksiz vergisi siyasətlərinin inkişafı üçün davam edən müzakirələrə töhfə verməyə çağırır. Sonda məqalədə Azərbaycanada aksiz vergisinin dinamik xarakteri vurğulanır, vergi sisteminin inkişaf edən iqtisadi və sosial ehtiyaclara uyğunlaşdırılması üçün davamlı qiymətləndirmənin və birgə səylərin vacibliyi vurğulanır.

Açar sözlər: aksiz vergisi, Azərbaycan, fiskal siyasət, gəlirlərin yaradılması, istehlakçı davranışı, icra problemləri

Introduction

Excise tax stands as a distinctive fiscal instrument that plays a vital role in shaping economic policies globally. In Azerbaijan, its application serves as a linchpin within the broader framework of fiscal strategies. Excise tax, fundamentally an indirect tax, is levied on specific goods and services at the point of production, sale, or consumption. Typically applied to goods deemed as non-essential or posing potential societal harms, such as tobacco, alcohol, and certain fuels, excise taxes serve a dual purpose. They act as a revenue generator for governments while simultaneously discouraging excessive consumption of particular products.

Azerbaijan, with its diverse economic landscape, employs excise tax as a critical element of fiscal policy. The revenue generated through excise taxes contributes substantially to the national budget, providing the financial means to fund essential public services, infrastructure projects, and social welfare programs.

Beyond revenue generation, excise tax plays a pivotal role in regulating consumption patterns, aligning with broader public health and economic objectives. In the Azerbaijani context, excise tax is not merely a fiscal tool but a mechanism for achieving a delicate balance between economic growth and societal well-being. The targeted taxation of specific goods reflects a strategic approach to curbing potentially detrimental behaviors, such as excessive tobacco or alcohol consumption, while concurrently bolstering the nation's financial resources.

Theoretical approaches

1. Background of excise tax in Azerbaijan

The roots of excise taxation in Azerbaijan can be traced back to the early days of the country's independence in 1991. As Azerbaijan emerged from the dissolution of the Soviet Union, the need for a robust fiscal system became apparent. Excise tax was introduced as a means to diversify revenue sources and establish a more sustainable economic foundation. In the initial years, excise taxes primarily targeted traditional items such as tobacco and alcoholic beverages. The historical context of Azerbaijan's excise tax implementation reflects a strategic response to economic challenges and the imperative to develop a modern tax structure. This period saw the establishment of a foundation for excise taxation, laying the groundwork for future legislative and regulatory developments.

The evolution of excise tax laws and regulations in Azerbaijan has been characterized by a continuous process of refinement and adaptation. As the economy grew and diversified, so did the range of goods subject to excise taxation. Over the years, the legislative framework underwent amendments to encompass a broader spectrum of products, including petroleum products, vehicles, and certain luxury items. The evolution of excise tax laws in Azerbaijan also mirrored international trends and commitments. Aligning with global efforts to combat health issues and environmental concerns, the Azerbaijani government adjusted excise tax rates and expanded the list of excisable goods to address emerging challenges (1).

The excise tax system in Azerbaijan is designed to achieve multifaceted objectives that extend beyond revenue generation. One of the primary goals is to control the consumption of goods that have adverse effects on public health, such as tobacco and alcohol. By imposing higher excise taxes on these products, the government aims to reduce their consumption, mitigating associated health risks and societal costs. Additionally, excise tax serves as a tool for promoting environmental sustainability and regulating the use of certain resources. For example, higher excise taxes on fuel

and vehicles with larger carbon footprints contribute to the government's efforts to encourage environmentally friendly practices and reduce air pollution (Aliyev, Gasimov, 2018: 92).

2. Features of excise tax in Azerbaijan

Azerbaijan's excise tax system encompasses a diverse range of goods, with a primary focus on items deemed non-essential or posing potential societal harms. Traditionally, excise taxes have been applied to products such as tobacco, alcoholic beverages, and petroleum products. The inclusion of these goods aligns with the dual objectives of revenue generation and regulation of consumption patterns. Over time, the scope of excisable goods has evolved to reflect changing economic priorities and emerging concerns. While the initial emphasis was on traditional items, the list has expanded to include vehicles, luxury goods, and environmentally impactful items. This expansion mirrors global trends, where governments leverage excise taxes to address not only fiscal needs but also broader health and environmental objectives.

The dynamic nature of the Azerbaijani economy has led to periodic revisions in the list of excisable goods. These changes are often driven by shifts in consumer behavior, emerging health considerations, and environmental awareness. For instance, the inclusion of electric vehicles in the excise tax regime reflects a commitment to incentivizing environmentally friendly transportation choices. Additionally, excise tax policies have been adapted to align with international agreements and commitments. As Azerbaijan engages in global efforts to address health concerns, the excise tax framework may witness adjustments to include new products or alter rates to better reflect societal and environmental priorities (Garayeva, Rzayeva, 2023: 96).

Specific rates are utilized for all variants of locally produced drinking alcohol, beer, and alcoholic beverages within the Republic of Azerbaijan, as well as for motor vehicles. On the other hand, ad valorem rates are employed for oil products.

Table 1.
Excise rates applied in proportion to the engine capacity of passenger cars

Engine capacity	Excise rate	Excise rate if the engine volume is more than 3000 cubic centimeters and the production date is more than 3 years
When up to 2000 cm ³	every 1 cm ³ - 0.3 manat	-
When up to 3000 cm ³	600 manats + for every 1 cm ³ for part 2001-3000 cm ³ - 5 manats	-
When up to 4000 cm ³	5600 manats + for every 1 cm ³ for part 3001-4000 cm ³ - 13 manats	5600 manats + for every 1 cm ³ for part 3001-4000 cm ³ - 15 manats
When up to 5000 cm ³	18600 manats + for every 1 cm ³ for part 4001-5000 cm ³ - 35 manats	20600 manats + for every 1 cm ³ for part 4001-5000 cm ³ - 40 manats
When more than 5000 cm ³	53600 manats + per cm ³ for parts over 5000 cm ³ - 70 manats	60600 manats + per cm ³ for parts over 5000 cm ³ - 80 manats

Source: Ministry of Taxes of the Republic of Azerbaijan. Excise tax. Baku, 2017.

The current excise tax rates in Azerbaijan vary based on the type of goods. For traditional excisable goods like tobacco and alcohol, specific rates are applied per unit or volume. In the case of petroleum products, rates may be linked to fuel types and quantities. The government regularly reviews and updates these rates to ensure they remain effective in achieving fiscal and regulatory objectives.

Several factors influence the determination of excise tax rates in Azerbaijan. Economic

considerations, such as inflation and changes in production costs, play a role in rate adjustments. Public health concerns and environmental impact are also significant factors, influencing higher rates on goods with detrimental effects on health or contributing to environmental degradation.

Azerbaijan's excise tax rates are often benchmarked against international standards to ensure competitiveness and alignment with global practices. This comparative analysis helps the government make informed decisions on rate adjustments, taking into account economic conditions, regional market dynamics, and international commitments (9).

Excise tax collection in Azerbaijan is facilitated through a structured mechanism involving both manufacturers and importers. Producers of excisable goods are responsible for calculating, withholding, and remitting the excise tax to the government. Customs authorities play a crucial role in monitoring and enforcing compliance for imported goods, ensuring that the correct excise taxes are levied. The State Customs Committee of Azerbaijan, along with other relevant authorities, plays a pivotal role in the administration of excise tax. They are responsible for overseeing the importation process, verifying compliance, and conducting audits to prevent tax evasion. Collaborative efforts with law enforcement agencies further strengthen the enforcement of excise tax regulations.

Table 2.
Rates of excise goods in the Republic of Azerbaijan

potable alcohol (including undenatured ethyl alcohol with an alcohol content of less than 80 percent; undenatured ethyl alcohol with an alcohol content of less than 80 percent)	4.0 manat per liter
vodka, fortified beverages and fortified beverage materials, liquor and liquor products	4.0 manat per liter
brandy and brandy materials	4.0 manat per liter
champagne wine	2.6 manat per liter
wines and wine materials	0.2 manat per liter
beer (except non-alcoholic beer) and other beverages containing beer	0.4 manat per liter
cigarilla (thin cigars)	43.0 manat per 1000 units
cigars, including cigars with cut ends	1.0 manat per unit
cigarettes made from tobacco and its substitutes	38.5 manat per 1000 units
energy drinks	3.1 manat per liter
liquid for electronic cigarettes	100.0 manat per liter
Non-darkened alcoholic beverages (not exceeding 9 percent alcohol content) not specified in this table	0.4 manat per liter

Source: Ministry of Taxes of the Republic of Azerbaijan. Excise tax. Baku, 2017.

Despite the established mechanisms, excise tax administration faces challenges, including issues related to compliance, enforcement, and the informal economy. Potential improvements may involve leveraging technology for better monitoring, enhancing collaboration between relevant agencies, and conducting regular reviews to address emerging challenges and ensure the effectiveness of the excise tax system (10).

The features of excise tax in Azerbaijan encompass a comprehensive framework that evolves in response to economic shifts, societal concerns, and international standards. The inclusion of diverse goods, coupled with carefully determined rates and effective administration, positions excise tax as a dynamic instrument in achieving fiscal goals while addressing broader societal and environmental objectives.

Regular reviews and adjustments to the excise tax system demonstrate Azerbaijan's commitment to staying attuned to global trends and adapting its fiscal policies accordingly.

Analysis

1. Impact of excise tax on economy and society.

One of the primary impacts of excise tax in Azerbaijan is its significant contribution to revenue generation for the government. The revenue generated from excise taxes forms a substantial portion of the national budget, providing essential funds for public services, infrastructure projects, and social welfare programs.

This revenue stream offers financial stability, allowing the government to address economic challenges and invest in initiatives that promote long-term growth and development. The allocation of excise tax revenue is strategic, often directed towards sectors that benefit public welfare, such as healthcare and education. The consistent flow of funds from excise taxes underscores its role as a reliable and sustainable source of income for the government.

Excise tax serves as a powerful tool in shaping consumer behavior, particularly in the realm of public health. Higher excise taxes on goods such as tobacco and alcohol act as deterrents, leading to reduced consumption. This, in turn, contributes to positive health outcomes by curbing habits associated with various health risks. The impact extends beyond health, influencing societal behaviors and fostering a more responsible and mindful approach to consumption (6).

The concept of using excise tax to regulate behavior aligns with international best practices, where governments leverage taxation to achieve broader public health objectives. In Azerbaijan, the effect on consumer behavior manifests as a balance between fiscal goals and societal well-being, illustrating the nuanced role excise tax plays in influencing individual choices.

The implementation of excise tax has a direct impact on businesses operating in industries affected by taxation, such as tobacco, alcohol, and petroleum. For businesses in these sectors, excise taxes represent a cost that can influence pricing strategies and market competitiveness. The higher tax burden may prompt businesses to explore innovations, such as introducing healthier products or adopting environmentally friendly practices, to mitigate the impact of taxation. While excise tax can pose challenges for businesses, it also creates opportunities for diversification and adaptation. In the long term, the influence of excise tax on industries can foster a transition toward more sustainable and socially responsible business practices, aligning with global trends in corporate social responsibility (Azərbaycan Respublikası Vergi Məcəlləsi, 2015: 195).

The impact of excise tax on the economy and society of Azerbaijan is multifaceted. Beyond its role in revenue generation, excise tax influences consumer behavior and prompts businesses to adapt to changing economic landscapes. The delicate balance between fiscal goals and societal well-being positions excise tax as a dynamic instrument in shaping economic and social outcomes in Azerbaijan. The ongoing evaluation of its impact is crucial for informed policymaking and ensuring that excise tax continues to contribute positively to the nation's economic and societal objectives.

2. Challenges and issues.

The enforcement of excise tax in Azerbaijan faces various challenges that impact its effectiveness. One significant challenge is the prevalence of illicit trade and smuggling, particularly in goods subject to high excise taxes, such as tobacco and alcohol. Illicit trade not only undermines revenue collection but also poses a threat to public health and safety. The State Customs Committee and other relevant authorities must contend with the constant evolution of tactics employed by illicit traders, requiring continuous adaptation and enhancement of enforcement strategies. Additionally, the enforcement of excise tax can be impeded by limited resources and infrastructure. Adequate staffing, technology, and training are essential for effective enforcement, and addressing these resource constraints is crucial for mitigating enforcement challenges (Musayev, 2016: 64).

Ensuring compliance with excise tax regulations is a persistent challenge in Azerbaijan. Businesses, especially smaller ones, may struggle with understanding and adhering to complex tax structures and reporting requirements. This can lead to unintentional non-compliance and hinder the effectiveness of the excise tax system. Furthermore, the informal economy presents challenges for monitoring and enforcing compliance. Some businesses may operate outside the formal sector, evading excise tax obligations. Strengthening mechanisms to address compliance issues, including

improving communication and education for businesses, can contribute to a more effective and equitable excise tax system (Azizova, 2020: 42).

Potential areas for improvement:

- **Technology integration:** Implementing advanced technology, such as electronic monitoring systems and data analytics, can enhance excise tax administration. Automated processes can improve accuracy in tax assessment, reduce administrative burdens, and provide real-time insights into compliance.

- **Public awareness campaigns:** Increasing public awareness about the purpose and impact of excise taxes can foster a sense of civic responsibility and compliance. Educational campaigns can help consumers understand the rationale behind excise taxes and the societal benefits associated with them.

- **Collaboration with international partners:** Collaborating with international organizations and neighboring countries can strengthen efforts to combat illicit trade and smuggling. Information-sharing and coordinated enforcement strategies can be beneficial in addressing cross-border challenges.

- **Streamlined reporting and compliance processes:** Simplifying reporting requirements for businesses, particularly smaller enterprises, can promote better compliance. Clear and streamlined processes contribute to a more business-friendly environment while ensuring that businesses fulfill their excise tax obligations.

- **Continuous review and adaptation:** Regularly reviewing excise tax policies and regulations to adapt to changing economic conditions, emerging industries, and international standards is essential. This proactive approach ensures that the excise tax system remains relevant, effective, and aligned with the evolving needs of the country (International Monetary Fund, 2008: 17).

Addressing these challenges and implementing improvements in enforcement, compliance, and administration will contribute to the overall effectiveness of Azerbaijan's excise tax system. As the government explores potential enhancements, a holistic approach that considers technological advancements, public engagement, and collaboration with international partners will be crucial for achieving sustainable and equitable outcomes.

Conclusion

Throughout this exploration of excise tax in Azerbaijan, key points have emerged, highlighting the pivotal role of excise taxation in the country's fiscal landscape. From its historical inception to its evolution in response to economic shifts, the tax has been a dynamic force shaping revenue, consumer behavior, and businesses. The diverse range of excisable goods, coupled with carefully determined rates and effective administration, underscores the nuanced nature of Azerbaijan's excise tax system.

The dynamic nature of economic and societal factors necessitates a continuous evaluation and refinement of excise tax policies. As evidenced by its impact on revenue, consumer behavior, and businesses, excise tax is a powerful tool that requires careful calibration to align with changing needs, global best practices, and emerging challenges. Rigorous assessment ensures that the tax system remains responsive, equitable, and effective in achieving its intended goals.

Policymakers, businesses, and the public are urged to actively contribute to the ongoing discussion on excise tax. Engaging in this dialogue, sharing experiences, and providing insights can foster a collaborative environment that leads to informed policymaking. By actively participating in the discourse, stakeholders can collectively shape a resilient and adaptive excise tax framework that not only meets fiscal objectives but also aligns with broader societal and environmental goals. The collective input of stakeholders is essential to ensure that excise tax policies in Azerbaijan remain responsive, transparent, and conducive to the nation's long-term economic well-being.

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