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Integration of Azerbaijan's Tax System with the American Tax Model

Abstract

Tax systems differ in structure, administration, and objectives all over the world. Azerbaijan's tax system is governed by the Tax Code of the Republic of Azerbaijan (2016), which outlines the taxation of individuals and businesses, including VAT, corporate taxes, and excise duties. Additionally, presidential decrees such as the 2016 tax reforms focus on improving tax administration and increasing revenue collection efficiency.

In contrast, the U.S. tax system is complex, involving federal, state, and local taxation. It operates under a progressive income tax model and includes significant deductions and exemptions, such as the Standard Deduction. The Tax Policy Center describes key elements of the U.S. tax system, including individual income tax, corporate taxation, payroll taxes, and estate taxes.

Research Objective:

The objective of this research is to explore the integration process of Azerbaijan's tax system with the American tax model and to determine the potential impacts of this model on Azerbaijan's economy.

Research Methodology:

The research employs a systematic approach and comparative analysis.

Practical Significance of the Research:

The author conducts a comprehensive study of both international and local tax systems. This research provides practical recommendations for modernizing Azerbaijan's tax system based on key elements of the U.S. tax model.

Research Results:

The results of the research reflect the key findings related to the modernization of Azerbaijan's tax system based on the main elements of the U.S. tax model.

Originality and Scientific Innovation of the Research:

The research presents new approaches and recommendations for modernizing Azerbaijan's tax system based on the U.S. tax model.

Keywords: *tax system integration, corporative tax discounts, digital tax administration, tax revenue efficiency, fiscal sustainability*

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Azərbaycanın vergi sisteminin Amerika vergi modeli ilə inteqrasiyası

Xülasə

Bütün dünyada vergi sistemləri struktur, idarəetmə və məqsədlərə görə fərqlənir. Azərbaycanın vergi sistemi Azərbaycan Respublikasının Vergi Məcəlləsi (2016-cı il) ilə tənzimlənir, burada fiziki şəxslərin və müəssisələrin vergiyə cəlb edilməsi, o cümlədən ƏDV, korporativ vergilər və aksizlər göstərilir. Bundan əlavə, 2016-cı il vergi islahatları kimi prezident fərmanları vergi inzibatçılığının təkmilləşdirilməsinə və gəlirlərin toplanmasının səmərəliliyinin artırılmasına yönəlmişdir.

Bunun əksinə olaraq, ABŞ-in vergi sistemi mürəkkəbdir, federal, əyalət və yerli vergiləri əhatə edir. O, mütərəqqi gəlir vergisi modeli altında fəaliyyət göstərir və Standart Çıxarma kimi əhəmiyyətli ayırmalar və azadlıqlar daxildir. Vergi Siyasəti Mərkəzi ABŞ vergi sisteminin əsas elementlərini, o cümlədən fərdi gəlir vergisi, korporativ vergitutma, əmək haqqı vergiləri və əmlak vergilərini təsvir edir.

Tədqiqatın məqsədi:

Bu tədqiqatın məqsədi Azərbaycanın vergi sisteminin Amerika vergi modeli ilə inteqrasiya prosesini araşdırmaq və bu modelin Azərbaycan iqtisadiyyatına potensial təsirlərini müəyyən etməkdir.

Tədqiqat metodologiyası:

Tədqiqat sistemik yanaşma və müqayisəli təhlildən istifadə edir.

Tədqiqatın praktik əhəmiyyəti:

Müəllif həm beynəlxalq, həm də yerli vergi sistemlərinin hərtərəfli tədqiqini aparır. Bu tədqiqat ABŞ vergi modelinin əsas elementləri əsasında Azərbaycanın vergi sisteminin modernləşdirilməsi üçün praktiki tövsiyələr verir.

Araşdırma nəticələri:

Tədqiqatın nəticələri ABŞ vergi modelinin əsas elementləri əsasında Azərbaycanın vergi sisteminin modernləşdirilməsi ilə bağlı əsas tapıntıları əks etdirir.

Tədqiqatın orijinallığı və elmi yeniliyi:

Tədqiqat Azərbaycanın vergi sisteminin ABŞ vergi modeli əsasında modernləşdirilməsi üçün yeni yanaşmalar və tövsiyələr təqdim edir.

Açar sözlər: *vergi sisteminin inteqrasiyası, korporativ vergi güzəştləri, rəqəmsal vergi inzibatçılığı, vergi gəlirlərinin səmərəliliyi, fiskal davamlılıq*

Introduction

Tax policy is a key method for governments to generate income, affect financial behavior, and divide resources in order to achieve social equality. The United States, with its complex and constantly evolving tax system, is an interesting example of fiscal management. This paper delves into the American experience of optimizing the tax responsibility and examines how these examples might be effectively applied to enhance Azerbaijan's tax system.

The United States model was chosen as the main point for this study because of its strong economic structure and strategic use of tax policies that adjust income generation with economic incentives. The U.S. tax system is identified by its comprehensive approach, which comprises numerous levels of taxation—federal, state, and local—and a blend of progressive and regressive aspects that cater to a various population and a complex economic structure.

Azerbaijan, while unique in its economic and cultural profile, has the universal task of developing a tax system that promotes economic progress while simultaneously ensuring fiscal

sustainability and social justice. The need for a proper tax system in Azerbaijan is especially important as the government attempts to diversify its economy beyond the oil sector and promote incorporating economic development (Azerbaijan Constitution, 2017).

This study will conduct a comprehensive comparative examination of the tax systems of the United States and Azerbaijan, concentrating on essential elements such as tax rates, compliance mechanisms, deductions, and administrative practices. The study will focus on how unique United States tax incentives and penalties drive corporate innovation and consumer behavior, as well as if these strategies may be adjusted to the Azerbaijani environment.

Research

By determining and applying best practices from the American tax model, this study intends to provide well-founded recommendations for Azerbaijan to improve the productivity, responsiveness, and fairness of its tax system. Such adjustments are expected to strengthen Azerbaijan's economic resilience and connect its tax policies with larger development objectives (Azerbaijan Tax Code, 2024).

Overview of Tax Systems and Regulations

Tax systems worldwide differ in structure, administration, and objectives. Azerbaijan's tax system is governed by the Tax Code of the Republic of Azerbaijan (2016), which outlines the taxation of individuals and businesses, including VAT, corporate taxes, and excise duties. Additionally, presidential decrees such as the 2016 tax reforms focus on improving tax administration and increasing revenue collection efficiency (Block, 2013).

In contrast, the U.S. tax system is complex, involving federal, state, and local taxation. It operates under a progressive income tax model and includes significant deductions and exemptions, such as the Standard Deduction. The Tax Policy Center describes key elements of the U.S. tax system, including individual income tax, corporate taxation, payroll taxes, and estate taxes. Comparative Analysis of Azerbaijan and U.S. Tax Systems (Bankman, Shaviro, & Stark).

Azerbaijan's Tax System

Azerbaijan's tax framework includes:

- Corporate Taxation: Standard corporate tax rate of 20%, with incentives for specific sectors.
- VAT: A 18% VAT is applied to goods and services. Value added tax is the difference between the amount of tax calculated on taxable turnover and the amount of tax that must be offset according to electronic invoices issued in accordance with the Tax Code or documents indicating that VAT has been paid on imports.
- Income Tax: Individuals earning below a certain threshold benefit from reduced tax rates.
- Excise duties - excise duty is levied on excisable goods produced or imported in the territory of the Republic of Azerbaijan.

Property tax of legal entities; - buildings or their parts (hereinafter referred to as buildings) owned by resident and non-resident individuals and located in the territory of the Republic of Azerbaijan, as well as water and air transport vehicles owned by resident individuals, regardless of their location and use (Ventry, 2008);

- Land tax - land tax is calculated annually in the form of a fixed payment per land plot, regardless of the results of the economic activity of land owners or persons using land on a lease or other basis.

- Road tax - owners of motor vehicles registered in foreign countries entering the territory of the Republic of Azerbaijan and transiting through the territory of the Republic of Azerbaijan, or persons driving such vehicles, as well as persons engaged in the production or import of motor gasoline, diesel fuel; and liquefied gas road tax are payers in the territory of the Republic of Azerbaijan.

- Mining tax - mining tax is levied on the extraction of minerals in the territory of the Republic of Azerbaijan, including in the sector of the Caspian Sea (lake) belonging to the Republic of Azerbaijan.

- **Simplified tax** - The following persons have the right to be payers of simplified tax: Persons who are not registered for VAT purposes and whose taxable transactions in any month(s) of a consecutive 12-month period amount to 200,000 manats or less; Persons engaged in public catering activities whose taxable transactions in any month(s) of a consecutive 12-month period amount to more than 200,000 manats.

Tax Incentives: Special exemptions exist for non-oil sectors to promote economic diversification. Some exemptions apply. For example (Government of Azerbaijan, 2016):

- In micro-enterprises, 75% of the loss tax is applied, and when calculating depreciation, it is allowed to calculate depreciation coefficients of 2x for micro-enterprises and 1.5x for small enterprises. 50% of the profit earned by a legal entity that has received an investment promotion document within 7 years from the date of receiving the document.

- The profit tax rate for production enterprises owned by public organizations of disabled or disabled children, the total number of employees of which consists of disabled people or disabled people under the age of 18, is reduced by 50 percent. When determining the right to a discount, the average number of employees does not include disabled people or persons under the age of 18 working under replacement contracts, contractual agreements and other contracts of a civil-legal nature;

- Profits of educational institutions, including special educational institutions created for the education of persons with disabilities - except for the part of the profit directed to the payment of dividends.

- Legal entities engaged in the production of agricultural products (including industrially) receive income only from this activity; 13-year period starting from January 1, 2014;

However, challenges remain, including tax evasion, informal economic activities, and limited tax compliance mechanisms (Sharman, 2006).

U.S. Tax System

General characteristics of the Tax System of the United States of America:

The United States of America has a multi-tiered and complex tax system at the federal and state levels. In this system, taxes are divided into three parts (Kalbiyev, 2011):

- ✓ Federal taxes.

- ✓ State taxes.

- ✓ Local taxes.

The following are highlighted as the main sources of revenue for the federal government:

- **Individual Income Tax**

Individual income tax constitutes the main part of federal revenue. Tax rates for 2024 range from 10% to 37%. Taxes increase progressively in line with increasing income.

- **Corporate Income Tax**

The corporate income tax paid by companies in the United States is applied at the federal level at a standard rate of 21% (approved under the "Tax Cuts and Jobs Act" law adopted in 2017).

- **Payroll Taxes**

These are taxes collected from employees and employers for Social Security and Medicare. The Social Security tax is 12.4% (shared 50/50 between the employee and employer), and the Medicare tax is 2.9% (Mammadov, Musayev, Sadigov, & Kalbiyev, 2010).

- **Excise taxes**

These are consumption taxes on specific products such as alcoholic beverages, tobacco products, and fuel.

The U.S. tax system follows a progressive income tax structure, where higher-income individuals face higher tax rates. Key features include (McDaniel, McMahon):

- **Federal Corporate Tax Rate:** 21% (reduced from 35% after the 2017 Tax Cuts and Jobs Act).

- **Income Tax Structure:** Marginal tax rates range from 10% to 37%.

- **Tax Deductions and Credits:** Standard and itemized deductions lower taxable income, incentivizing investments.

- The system also incorporates tax compliance frameworks such as corporate tax audits and anti-tax avoidance policies.

- Advantages of the U.S. Tax System and Integration Potential

The U.S. tax system presents several advantages that could benefit Azerbaijan's tax reform initiatives:

1. Transparency and Compliance: Digital tax filing and compliance monitoring reduce evasion.

2. Investment Incentives: Targeted deductions and corporate tax policies encourage business growth.

3. Progressive Taxation: Ensuring a fairer distribution of tax burdens while maintaining revenue efficiency.

If Azerbaijan adopts U.S.-style tax reporting and audit mechanisms, it could enhance tax collection efficiency and attract foreign investment (Nallareddy, 2018).

Potential Integration Areas

Adopting key elements of the U.S. tax system in Azerbaijan could improve tax policy effectiveness. Possible areas for reform include:

Corporate Taxation: Introducing sector-based tax incentives similar to the U.S. to encourage non-oil industry growth.

Income Tax Adjustments: Implementing a progressive tax rate model to improve tax equity.

Digitalization: Establishing online tax filing and compliance automation.

Conclusion

Azerbaijan's tax system has undergone reforms, but further improvements are needed to enhance efficiency and transparency. The U.S. tax model, with its structured taxation policies and compliance mechanisms, presents valuable lessons for Azerbaijan's tax system modernization. Integrating aspects of U.S. corporate taxation, digital tax administration, and progressive income tax structures could help Azerbaijan achieve a more sustainable and business-friendly taxation framework.

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