Methodology for assessing the impact of tax and customs concessions and exemptions on state budget revenues and the regulation for keeping a register of those concessions and exemptions

1. General Provisions

1.1. This Regulation defines the methodology for assessing the effect of existing or proposed concessions and exemptions (hereinafter - concession) on the revenues of the state budget in the field of tax and customs and the procedure for keeping a register of those concessions and exemptions.

1.2. Assessment of the impact of concessions in the field of tax and customs on the revenues of the state budget and keeping the registry of those concessions and exemptions is carried out by the Ministry of Finance of the Republic of Azerbaijan (hereinafter - the Ministry of Finance).

1.3. The terms used in this Regulation have the meanings stipulated in the Law of the Republic of Azerbaijan "On the Budget System", the Tax Code of the Republic of Azerbaijan, the Customs Code of the Republic of Azerbaijan and other normative legal acts of the Republic of Azerbaijan.

1.4. This Regulation defines the following:

1.4.1. criteria for determining benefits;

1.4.2. methodology for calculating budget losses on concessions;

1.4.3. assessment of the impact on the budget revenues for concessions;

1.4.4. maintaining a centralized register of information on benefits.

2. Criteria for determining concessions

2.1. Concessions are determined by the Tax Code of the Republic of Azerbaijan, the Customs Code of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan "On Customs Tariff", on the share distribution of production approved by law, on the main export pipeline and other such agreements or laws, including on oil and gas, export laws on targeted oil and gas activity and special economic zones, the Law of the Republic of Azerbaijan "On Tool Free Economic Zone" and international agreements to which the Republic of Azerbaijan is a party.

2.2. Concessions are implemented through the full or partial application of taxes and customs duties determined by the Tax Code of the Republic of Azerbaijan and the

Customs Code of the Republic of Azerbaijan in accordance with the legislative acts and international agreements provided for in clause 2.1 of this Regulation.

2.3. For the purposes of this Regulation, the calculation of budget losses on concessions and the assessment of the impact of concessions on the revenues of the state budget are classified by categories in accordance with Appendix No. 1 of this Regulation.

2.4. The following sources of information are used when calculating the budget losses on the concessions in force and assessing the impact of the concessions on the revenues of the state budget:

2.4.1. Macroeconomic forecast indicators on economic and social development of the country presented by the Ministry of Economy of the Republic of Azerbaijan;

2.4.2. Taxation base for which concessions are granted on the basis of tax concessions, oil and non-oil sector, type of property and tax payers' declarations of the Ministry of Economy of the Republic of Azerbaijan;

2.4.3. Statistical data of the State Statistics Committee of the Republic of Azerbaijan;

2.4.4. Indicators of the State Customs Committee of the Republic of Azerbaijan on import-export operations (participants of the foreign trade activity granted concession, customs value according to the goods nomenclature of the foreign economic activity granted concession, customs payments);

2.4.5. Calculations of the Ministry of Finance on the forecasting of state revenues;

2.4.6. data of budgetary organizations, non-budgetary state funds and public legal entities;

2.4.7. information received from other legal and natural persons.

2.5. Calculation of budget losses on concessions offered by budget organizations, off-budget state funds and public legal entities, as well as other legal and natural persons in accordance with the "Application form for tax and customs concessions" in accordance with Appendix No. 2 of this Regulation and assessment of the impact on state budget revenues is carried out on the basis of the information provided for in clause 2.4 of this Regulation.

2.6. Calculation of budget losses on concessions and assessment of the impact on state budget revenues is carried out in the following period:

2.6.1. on existing concessions - until June 1 of the year following the reporting year;

2.6.2. on the proposed concessions - within one month from the date of submission of the proposal in relation to concessions on customs duties (if there is a need to obtain additional information, the period is extended for an additional month), in relation to tax benefits, in accordance with Article 2.8 of the Tax Code of the Republic of Azerbaijan, within the budget envelope of the next year.

3. Budget loss calculation methodology

3.1. Budget losses are calculated as follows, taking into account the types of payments, sectors of the economy and people who use the discount:

3.1.1. On the income tax of individuals related to salaried work:

for natural persons who are active in the oil and gas field and work for tax payers belonging to the public sector:

budget loss for the previous year (Bi_{fakt}^{ind}) is calculated by the following formula:

$$Bi_{fakt}^{ind} = \left[S_{G \leq 2500}^{nd} \cdot K_1 + S_{G > 2500}^{nd} \cdot K_2 \right]$$

budget loss for the next year and the following three years (Bi_{proq}^{ind}) is calculated by the following formula:

$$Bi_{proq}^{ind} = Bi_{fakt}^{ind}(1 + \%\Delta \partial) + \Delta V_{sd}$$

here:

$S_{G \leq 2500}^{\frac{n}{d}}$ - the amount of tax-exempt income up to 2,500 manats in the previous year;

$S_{G > 2500}^{\frac{n}{d}}$ - the amount of tax-exempt income above 2,500 manats in the previous year;

K_1 - the tax rate when the income is up to 2500 manats;

K_2 - the tax rate when the income is above 2500 manats;

$\%\Delta$ ∂ - percentage of salary increase (decrease) for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

For natural persons who do not have activities in the oil and gas field and work for taxpayers belonging to the non-state sector:

budget loss for the previous year ($Bi_{fakt}^{\frac{q}{n}}$) is calculated by the following formula:

$$Bi_{fakt}^{\frac{q}{n}} = \left[S_{G \leq 2500}^{\frac{q}{n}} \cdot K_1 + S_{2500 < G < 8000}^{\frac{q}{n}} \cdot K_2 + S_{G > 8000}^{\frac{q}{n}} \cdot K_3 \right]$$

The budget loss forecast for the next year and the next three years ($Bi_{proq}^{\frac{q}{n}}$) is calculated by the following formula:

$$Bi_{proq}^{\frac{q}{n}} = Bi_{fakt}^{\frac{q}{n}} (1 + \%\Delta \partial) + \Delta V_{sd}$$

here:

$S_{G \leq 2500}^{\frac{q}{n}}$ - wage fund up to 2500 manats per sector;

K_1 - Tax rate for installments up to 2500 manats;

$S^{q\underline{n}}_{2500<G<8000}$ - wage fund from 2500 manat to 8000 manat per sector;

K_2 - the rate of tax per part from 2500 manat to 8000 manat;

$S^{q\underline{n}}_{G>8000}$ - salary fund for the sector above 8000 manats;

K_3 - the difference between the applicable and the preferential rate for the part above 8000 manats;

%Δ Ə - percentage of salary increase (decrease) for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.2. On the profit tax of legal entities and the income tax of natural persons engaged in entrepreneurial activity without creating a legal entity:

budget loss for the previous year (Bi^{im}_{fakt}) is calculated by the following formula:

$$Bi^{im}_{fakt} = (G_{azad} - X_{azad} + MG_{azad} - İ_{zərər})\, V_{dər} + V_{azad}$$

budget loss forecast for the next year and the next three years (Bi^{im}_{proq}) proqnozu is calculated by the following formula:

$$Bi^{im}_{proq} = Bi^{im}_{fakt}(1 + \%\Delta XM) + \Delta V_{sd}$$

here:

G_{azad} - the amount of income tax relief;

X_{azad} - the amount of the expense incurred on the income to which the discount is applied (if it is not possible to determine the cost, the specific weight of the discounted income in the total income is taken as the basis);

MG_{azad} - the amount of the allowance on profits or taxable income;

$İ_{zərər}$ - loss arising from previous years and transferred to the next period;

$V_{dər}$ - rate of profit or income tax;

V_{azad} - the amount of the calculated profit or income tax credit;

%Δ XM - percentage increase (decrease) in net profit or income for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.3. Value added tax for the provision of goods (performance of work and provision of services) in the territory of the Republic of Azerbaijan:

budget losses for the previous year ($Bi^{ədv}_{fakt}$) is calculated by the following formula:

$$Bi^{ədv}_{fakt} = ƏDV_{azad} \cdot ƏDV_{orta}$$

Average VAT rate ($ƏDV_{orta}$) is calculated by the following formula:

$$ƏDV_{orta} = ƏDV_{hes} / ƏDV_{baza} * 100\%$$

budget loss forecast for the next year and the next three years ($Bi_{proq}^{jədv}$) is calculated by the following formula:

$$Bi_{proq}^{jədv} = Bi_{fakt}^{jədv}(1 + \%\Delta\dot{I}) + \Delta V_{sd}$$

here:

$ƏDV_{azad}$ - the amount of the turnover for which the discount was applied in the previous year;

$ƏDV_{orta}$ - average VAT rate in the previous year;

$\%\Delta$ İ - consumption increase (decrease) percentage for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years regarding benefits;

$ƏDV_{hes}$ - VAT calculated for the reporting period;

$ƏDV_{baza}$ - VAT taxable turnover during the reporting period.

3.1.4. On value added tax for goods imported to the Republic of Azerbaijan:

budget losses for the previous year ($Bi_{fakt}^{jədv}$) is calculated by the following formula:

$$Bi_{fakt}^{jədv} = ƏDV_{azad} \cdot ƏDV_{dər}$$

budget loss forecast for the next year and the next three years ($Bi_{proq}^{jədv}$) is calculated by the following formula:

$$Bi_{proq}^{jədv} = Bi_{fakt}^{jədv}(1 + \%\Delta\dot{I}D) + \Delta VG_{sd}$$

here:

$ƏDV_{azad}$ - the value of imports for which the rebate was applied in the previous year;

$ƏDV_{dər}$ - VAT rate in the previous year;

$\%\Delta$ İD - import increase (decrease) percentage for the forecast year;

ΔVG_{sd} - proposed changes in the tax and customs policy regarding concessions for the next year and the following three years.

3.1.5. On excise tax for goods produced in the territory of the Republic of Azerbaijan:

budget losses for the previous year (Bi_{fakt}^{ja}) is calculated by the following formula:

$$Bi^{ia}_{fakt} = i^i_{azad} * A^i_{dər}$$

budget loss forecast for the next year and the next three years (Bi^{ia}_{proq}) is calculated by the following formula:

$$Bi^{ia}_{proq} = Bi^{ia}_{fakt}(1 + \%\Delta\dot{I}) + \Delta V_{sd}$$

here:

i - types of goods exempted from excise tax;

i^i_{azad} - the value of production at advolor excise rates in the previous year, the amount of production at specific excise rates (volume);

$A^i_{dər}$ - rate of excise tax in the previous year;

$\%\Delta$ İ - percentage of production increase (decrease) for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.6. On excise tax on goods imported to the Republic of Azerbaijan:

budget losses for the previous year (Bi^{ia}_{fakt}) is calculated by the following formula:

$$Bi^{ia}_{fakt} = iD^i_{azad} * A^i_{dər}$$

budget loss forecast for the next year and the next three years (Bi^{ia}_{proq}) is calculated by the following formula:

$$Bi^{ia}_{proq} = Bi^{ia}_{fakt}(1 + \%\Delta\dot{I}D) + \Delta VG_{sd}$$

here:

i - types of goods exempted from excise tax;

iD^i_{azad} - the value of imports at advolor excise rates in the previous year, the amount (volume) of imports at specific excise rates;

$A_{dər}$ - rate of excise tax on types of goods;

$\%\Delta\dot{I}D$ - import increase (decrease) percentage for the forecast year;

ΔVG_{sd} - proposed changes in the tax and customs policy regarding concessions for the next year and the following three years.

3.1.7. On land tax of legal entities:

budget losses for the previous year (Bi^{it}_{fakt}) is calculated by the following formula:

$$Bi^{it}_{fakt} = \begin{cases} (S_{tor} \cdot K_1)/100, & S_{tor} \leq 10000 \text{ m}^2 \\ (10000 \cdot K_1 + (S_{tor} - 10000) \cdot K_2)/100, & S_{tor} > 10000 \text{ m}^2 \end{cases}$$

budget loss forecast for the next year and the next three years (Bi_{proq}^t) is calculated by the following formula:

$$Bi_{proq}^t = Bi_{fakt}^t(1 + \%\Delta TS) + \Delta V_{sd}$$

here:

S_{tor} - the plot of land for which tax relief was applied in the previous year;

K_1 and K_2 - if the land plot is up to 10,000 m2 and above 10,000 m2, the rate of land tax per 100 m2 for residential areas;

$\%\Delta$ TS - percentage increase (decrease) of the land area subject to land tax for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.8. On the property tax of legal entities:

budget losses for the previous year (Bi_{fakt}^{∂}) is calculated by the following formula:

$$Bi_{fakt}^{\partial} = \partial_{orta} * V_{d\partial r}$$

budget loss forecast for the next year and the next three years (Bi_{proq}^{∂}) is calculated by the following formula:

$$Bi_{proq}^{\partial} = Bi_{fakt}^{\partial}(1 + \%\Delta \dot{I}NV) + \Delta V_{sd}$$

here:

∂_{orta} - the average annual value of the property for which the tax relief was applied in the previous year;

$V_{d\partial r}$ - current tax rate;

$\%\Delta$ İNV - increase (decrease) percentage of investment directed to fixed capital for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.9. On simplified tax:

3.1.9.1. taking into account the volume of total production, budget losses for the previous year (Bi_{fakt}^{sv}) is calculated by the following formula:

$$Bi_{fakt}^{sv} = SV_{azad} \cdot V_{d\partial r}$$

budget loss forecast for the next year and the next three years (Bi_{proq}^{sv}) is calculated by the following formula:

$$Bi_{proq}^{isv} = Bi_{fakt}^{isv} (1 + \%\Delta \dot{I}) + \Delta V_{sd}$$

here:

SV_{azad} - the volume of total production obtained for goods (works, services) and property, as well as non-sales income (excluding income taxed at the source of payment) in the previous year;

$V_{dər}$ - current tax rate;

$\%\Delta \dot{I}$ - consumption increase (decrease) percentage for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years regarding benefits;

3.1.9.2. taking into account the submission of residential, non-residential and land plots by individuals, budget losses for the previous year (Bi_{fakt}^{isv}) is calculated by the following formula:[1]

$$Bi_{fakt}^{isv} = \partial_{sahə} * V_{məb} * Z_{əmsal} * Y_{əmsal}$$

budget loss forecast for the next year and the next three years (Bi_{proq}^{isv}) is calculated by the following formula:

$$Bi_{proq}^{isv} = Bi_{fakt}^{isv}(1 + \%\Delta S) + \Delta V_{sd}$$

here:

$\partial_{sahə}$ - residential, non-residential and land plots owned *by natural persons* for which tax relief is applied;[2]

$V_{məb}$ - tax amount for each square meter of the taxable object;

$Z_{əmsal}$ - applicable zone factor;

$Y_{əmsal}$ - applied uplift factor;

$\%\Delta S$ - percentage of sales increase (decrease) due to the presentation of residential, non-residential and land plots for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.10. On mining tax:

budget losses for the previous year (Bi_{fakt}^{im}) is calculated by the following formula:

$$Bi_{fakt}^{im} = M_{azad} \cdot M_{dər}$$

budget loss forecast for the next year and the next three years (Bi_{proq}^{im}) is calculated by the following formula:

$$Bi^m_{proq} = Bi^m_{fakt}(1 + \%\Delta H) + \Delta V_{sd}$$

here:

M_{azad} - the value of production of ore minerals in the previous year, the quantity (volume) of production of non-ore minerals;

$M_{dər}$ - the rate of mining tax in the previous year;

$\%\Delta H$ - percentage of production increase (decrease) for the forecast year;

ΔV_{sd} - proposed changes in the tax policy for the next year and the following three years.

3.1.11. On customs duties:

budget losses for the previous year (Bi^{iGr}_{fakt}) is calculated by the following formula:

$$Bi^{iGr}_{fakt} = iD^i_{azad} * GR^i_{dər}$$

budget loss forecast for the next year and the next three years (Bi^{iGr}_{proq}) is calculated by the following formula:

$$Bi^{iGr}_{proq} = Bi^{iGr}_{fakt}(1 + \%\Delta iD) + \Delta G_{sd}$$

here:

i - types of goods exempted from customs duty;

iD^i_{azad} - the value of import under advolor customs duty in the previous year, the amount (volume) of import under specific customs duty;

$GR_{dər}$ - rate of customs duty on types of goods;

$\%\Delta iD$ - import increase (decrease) percentage for the forecast year;

ΔG_{sd} - changes in the customs policy for the next year and the next three years.

3.2. Upon the calculation of budget losses by types of payments, microsimulation models based on declaration data for each taxpayer and participants in foreign trade activities are used.

4. Evaluation of the impact of concessions on the revenues of the state budget

4.1. The impact of budget losses on the income of the state budget for each type of payment, areas of economic activity and persons using the concession is calculated separately using the elasticity coefficients obtained on the basis of regression analysis.

4.2. The Ministry of Finance compares the actual indicator of the reduction of state budget revenues and taxpayers' expenses as a result of the application of concessions based on the documents and indicators submitted in accordance with clauses 2.4 and 2.5 of this Regulation with the indicator predicted at the time of granting those concessions.

4.3. The report on the calculation of the budget losses on concessions and the results of the assessment of the impact on the state budget revenues by the Ministry of Finance is drawn up in the following period:

4.3.1. on existing concessions - until July 1 of the year following the reporting year;

4.3.2. on the proposed concessions - within one month from the date of submission of the proposal in relation to concessions on customs duties (if there is a need to obtain additional information, the period is extended for an additional month), in relation to tax benefits, in accordance with Article 2.8 of the Tax Code of the Republic of Azerbaijan, within the budget envelope of the next year.

4.4. The report on the results of the calculation of budget losses and the assessment of the impact on the state budget revenues for the concessions in force contains the following:

4.4.1. a list of exemptions for each type of tax and customs duties;

4.4.2. property type;

4.4.3. type of economic activity;

4.4.4. division by oil and non-oil sector;

4.4.5. persons using the discount;

4.4.6. budget losses (projected and actual) as a result of giving concessions;

4.4.7. ratio of concessions to budget revenues;

4.4.8. data on the evaluation of the effect of the concessions in force on the state budget revenues in the dynamics for years (for at least a 3-year period);

4.4.9. depending on the results of the assessment of the impact on the revenues of the state budget, proposals for revision of concessions.

4.5. The report on the results of the calculation of budget losses and the assessment of the impact on the revenues of the state budget on the proposed concessions reflects the following:

4.5.1. predicted budget losses if a decision is made to apply concessions;

4.5.2. forecast of assessment of the impact of the proposed concessions on the revenues of the state budget for the medium-term period (at least for a period of 3 years).

4.6. No later than August 1, the Ministry of Finance shall submit the report on the calculation of budget losses on concessions and the results of the assessment of the impact on state budget revenues to the Ministry of Economy of the Republic of Azerbaijan and the State Customs Committee of the Republic of Azerbaijan, and those institutions submit their opinions and proposals on the reference to the Ministry of Finance no later than August 15.

4.7. According to Article 11.15 of the Law of the Republic of Azerbaijan "On the Budget System", the Ministry of Finance submits to the Cabinet of Ministers of the Republic of Azerbaijan information on the calculation of budget losses on concessions and the results of the assessment of the impact on state budget revenues, together with the draft of the state budget and summary budget for the next budget year and the summary budget for the next three years.

4.8. The Ministry of Finance, together with the authorities that ensure the revenues of the state budget, performs the analysis of the results of the use of concessions, as well as the application of concessions.

5. Maintaining a centralized register of concessions

5.1. The "Centralized Electronic Register System" for tax and customs concessions is being created in the Ministry of Finance.

5.2. The Ministry of Finance maintains the "Centralized Electronic Register System" on the basis of the following information submitted in the form and time agreed with the Ministry of Economy of the Republic of Azerbaijan and the State Customs Committee of the Republic of Azerbaijan:

5.2.1. Information on tax benefits (except import taxes) used by taxpayers under the Ministry of Economy of the Republic of Azerbaijan;

5.2.2. Information on customs concessions benefited by the participants of foreign trade activities under the State Customs Committee of the Republic of Azerbaijan.

5.3. The Ministry of Finance arranges the connection of these institutions to the "Centralized Electronic Register System" in order to ensure the transfer of the information mentioned in clause 2.4 of this Regulation in the form and time agreed with the Ministry of Economy of the Republic of Azerbaijan, the State Customs Committee of the Republic of Azerbaijan and the State Statistics Committee of the Republic of Azerbaijan.

5.4. It is necessary to reflect at least the following indicators about benefits in the "Centralized Electronic Registry System":

5.4.1. the legislative basis of the concession;

5.4.2. the type of tax and customs duty to which the discount is applied;

5.4.3. property type;

5.4.4. type of economic activity;

5.4.5. division by oil and non-oil sector;

5.4.6. on persons using the discount;

5.4.7. date of entry into force and validity of the concession;

5.4.8. taxation elements (taxation object, taxation base);

5.4.9. customs value according to the goods nomenclature of foreign economic activity granted concession;

5.4.10. the amount of calculated and paid taxes and customs duties;

5.4.11. the amount of budget losses as a result of the application of the discount.

Appendix No. 1
to the "Methodology for assessing the
impact of tax and customs concessions
and exemptions on state budget
revenues and the regulation for keeping
a register of those concessions and
exemptions"

Categories for calculation of budget losses on concessions and assessment of the impact on state budget revenues

Benefits arising from international agreements	Benefits arising from the activities of budget organizations, off-budget state funds and public legal entities	Benefits arising from entrepreneurial activity	Benefits of a social nature

Appendix No. 2
to the "Methodology for assessing the
impact of tax and customs concessions
and exemptions on state budget
revenues and the regulation for keeping
a register of those concessions and
exemptions"

Application form for tax and customs benefits

1.	Applicant's name	
2.	Date of application	
3.	Type of concession (tax, customs duty)	
4.	Type of economic activity	
5.	Purpose of the proposed concession	
6.	Additional income (turnover) from the proposed discount	
7.	Impact of the proposed concession on other sectors of the economy	
8.	The number of people who are supposed to use the discount	
9.	Duration of concession	
10.	The total amount of the calculated discount (tax, customs duty).	
11.	Forecast of loss or additional income to the state budget	