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FINANCING AND TAX FACTOR IN THE AGRICULTURAL SYSTEM OF AZERBAIJAN

1. Financing and risks

Although there are many sources of funding for the development of agriculture in the country, we can mention subsidies as the main source. Direct state support in the field of agriculture is regulated by the Decree of the President of the Republic of Azerbaijan dated June 27, 2019 "On the establishment of a new subsidy mechanism in the agricultural sector" No. 759. According to the decree, the formation of a new mechanism for support measures in the agricultural sector, simplification and electronicization of appeals, etc. reflects their goals.

Based on reports from the United Nations, the World Trade Organization, the Organization for Economic Development and Cooperation (OECD) and EuroStat, it is clear from the statistics of direct subsidies to agriculture that the total amount of subsidies in Europe and the Caucasus is 0.2% of public spending – 4.6% of the volume. In the Republic of Azerbaijan, this figure is 1.51% (Ministry of Agriculture of the Republic of Azerbaijan, State Statistics Committee).

In addition, it should be noted that the share of agricultural expenditures in the budget is 3.2%, and the

index of agricultural orientation is 0.6 (State Statistics Committee). The "Agricultural Orientation Index" shows the share of this sector in GDP, and although it has increased compared to the previous year, the overall figure is less than 1. This shows that the share of public spending on agriculture is relatively low compared to the contribution of the agricultural sector to the economy [2].

In addition, we can note that the statistics for 2010-2018 show that the amount of funds allocated to agriculture has increased almost 2 times, and the amount of subsidies has increased almost 4 times. As a result of the Decree of the President of the Republic of Azerbaijan approved in 2019 and the reforms carried out by the state in the field of agriculture, these indicators have increased in recent years compared to previous years and the country's self-sufficiency in agricultural products is acceptable.

There are many risks in the financing of agriculture and this sector, and these risks are listed in the following table:

Agricultural risks:	Risks related to financing:
1. Variable productivity: weather conditions, diseases, pests, etc.	1. Major credit risk
2. Market risk: price and volume	2. Risk of payment of liabilities
3. Environmental risks	3. Collateral risks
4. Human capital risk	4. Political risks: legislative acts, taxes, etc.

As mentioned in the table above, financial institutions use a variety of tools to reduce and manage the impact of risks, one of which is CLARA. CLARA is a cash flow risk assessment tool in agriculture. This tool was developed by the International Finance Corporation and presented to certain financial institutions within the "Azerbaijan Investment Climate and Agribusiness Competitiveness Project".

In describing the risks, the risks inherent in agriculture can be divided into 5 groups:

1. Production risks;
2. Market risks;

3. Financial risks;
4. Institutional risks;
5. Other risks.

Production risks are risks that directly or indirectly cause damage as a result of production activities and business processes, system and human factor errors related to its provision. They can be divided into 4 groups:

1. On the technological process of production – climatic conditions, production safety, natural disasters, etc.

2. On the process of logistics – raw materials, supplies, etc. shortage and untimely delivery of items.

3. Logistics of products and raw materials – covers transportation.

4. Impacts of production on internal and external environment – environmental risks, health protection, labor protection, etc. [3].

2. Taxes and tax breaks

Tax exemptions and privileges are applied in agriculture in the country, taking into account the development of this sector, ensuring food security, self-sufficiency in agricultural products and other circumstances. At present, agricultural producers are exempt from other taxes except land tax. These benefits, which have been applied for 5 years since 2001 and have been extended 4 times so far, will be valid until 2024.

According to the legislation, agricultural producers are exempt from profit, income, value added tax (VAT), simplified tax and property tax on objects used in the process of activity. According to Article 16.1.3 of the Tax Code, it is the taxpayer's responsibility to keep records of his income (expenses), including tax-exempt income (expenses) and objects of taxation, in accordance with the legislation. Pursuant to Article 58.15 of the Code, a tax sanction in the amount of 6% of undeclared or reduced income is imposed on a taxpayer for non-declaration or reduction of tax-exempt income by persons receiving tax benefits and exemptions. In order to avoid financial sanctions, payers must include in the declaration the information to be declared on discounts and exemptions.

According to the Tax Code, the following documents are required from those who are entitled to tax benefits on income from agricultural production:

1. Confirming documents related to economic entities engaged in the production of agricultural products;

2. Documents on agricultural lands owned or used;

3. Documents on the existence of other production facilities in the field of agriculture;

4. Documents confirming the implementation of the production process on the mentioned lands and facilities [5].

In addition, individuals and legal entities engaged in agricultural production are exempt from property taxes. According to Article 199.9 of the Tax Code, this exemption is provided for a period of 10 years from January 1, 2014. The amount of income from the sale of agricultural products produced by agricultural producers was also exempted from the simplified tax for a period of 10 years from January 1, 2014.

As mentioned above, currently agricultural producers pay only land tax. According to Article 204 of the Tax Code, land taxpayers are individuals and enterprises that own or lease or use land in the territory of the Republic of Azerbaijan, as well as lease and other use of land owned by the state and municipalities [6].

It should be noted that the “Strategic Roadmap for the production and processing of agricultural products in the Republic of Azerbaijan” approved by the President of the Republic of Azerbaijan in 2016 includes “Promotion of primary accounting in agriculture” (Measure 8.2.10) and “Agricultural producers Preparation of proposals on improving the policy of customs duties applied for the import of tax incentives and relevant means of production” (Measure 8.4.2) noted. These and the above-mentioned issues prove once again that the development of agriculture is one of the main issues facing the state [7].

According to Article 206.1 of the Tax Code, the rate of land tax on agricultural lands is set at 2 manat for every 100 square meters of land. In Article 206.1.1, with the exception of Article 206.1, the rate of land tax on agricultural lands used for their intended purpose or which cannot be used for their intended purpose due to irrigation, amelioration and other agro-technical reasons, according to the certificate issued by the relevant executive authority, is 1 conditional point. is set at 0.06 manat.

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Гіркларов Е. А. Фінансування та податковий фактор в сільськогосподарській системі Азербайджану

В Азербайджані, як і в усьому світі, сільське господарство в основному фінансується з державного бюджету, і в цій сфері передбачено багато податків та інших пільг. Основними причинами надання податкових та інших пільг у сільському господарстві є створення умов для розвитку цієї галузі в країні, забезпечення продовольчої безпеки всередині країни, мінімізація імпорту в цій сфері тощо. Залежно від чинників виникають серйозні проблеми, вирішення яких є одним із серйозних завдань держави та відповідних органів.

Ключові слова: аграрний сектор, аграрні ризики, податки, державні програми, стратегії.

Girkhlarov E. Financing and Tax Factor in the Agricultural System of Azerbaijan

In Azerbaijan, as in the rest of the world, agriculture is mainly financed from the state budget, and many taxes and other benefits are provided in this area. The main reasons for tax and other benefits in agriculture are to create conditions for the development of this sector in the country, to ensure food security within the country, to minimize imports in this area, and so on. Depending on the factors, serious problems arise and their solution is one of the serious issues facing the state and relevant agencies.

Keywords: agricultural sector, agricultural risks, taxes, government programs, strategies.

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Received by the editors 17.10.2022