

INTERDEPENDENCE BETWEEN TAX POLICY AND THE DEVELOPMENT OF ENTREPRENEURSHIP

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Xülasə: The article examines the interrelationship and mechanisms of influence between tax policy and the development of entrepreneurship, analyzing their role in economic processes and the directions of their interaction. The main objectives of tax policy, the factors affecting the entrepreneurial environment, as well as the current situation and reforms in this field in Azerbaijan are explored. The research findings indicate that an effective tax policy stimulates the development of entrepreneurship, increases economic activity, and contributes to the reduction of the informal economy. Additionally, practical recommendations are presented for the development of entrepreneurship and the improvement of tax policy.

Keywords: tax policy, entrepreneurship, economic development, tax incentives, SMES, fiscal regulation, tax burden.

Introduction

In the contemporary period, one of the main directions of economic development is the expansion of entrepreneurship. Entrepreneurship plays a significant role in fostering economic growth, employment, innovation, and the improvement of social welfare. In this regard, tax policy is one of the key state instruments that directly affects entrepreneurial activity. Taxes ensure the formation of the state budget. At the same time,

they play an important role in regulating economic processes, stimulating investment activity, and improving the business environment. Therefore, the analysis of the interrelationship between tax policy and the development of entrepreneurship is of particular relevance.[5] Taxes constitute the main financial source of the state. In addition, the following characteristics of taxes can be noted:



Figure 1

Source: Compiled by the author based on the information obtained. [6]

The compulsory nature of taxes refers to the legal obligation of individuals and legal entities to pay taxes in the amount and within the timeframe established by law. The effectiveness of tax policy is closely linked to ensuring tax discipline and the timely fulfillment of tax obligations.[3] According to the Tax Code of the Republic of Azerbaijan, failure to fulfill tax obligations results in the application of financial sanctions and other liability measures. These mechanisms serve to enhance transparency in the tax system, strengthen financial discipline, and promote the formation of a fair competitive environment.[7]

Control cash registers and POS terminals are considered modern instruments of tax administration. These tools serve to enhance the transparency of financial transactions and reduce the scale of the informal economy. The implementation of these mechanisms makes a significant contribution to strengthening tax discipline, ensuring transparency in entrepreneurial activity, and forming a fair competitive environment.[3]

In the modern economy, the tax system encompasses two core functions—ensuring the fiscal sustainability of the state and financing public services. At the same time, it also integrates regulatory functions aimed at influencing the behavior of economic agents by stimulating investment and production decisions, reducing the shadow economy, and promoting inclusive development. In particular, in the micro, small, and medium-sized enterprise (SME) sector, tax instruments and the quality of tax administration have a direct impact on the formation of entrepreneurial entities, operating costs, financial discipline, and competitiveness.[7]

Changes in the tax legislation of Azerbaijan can generally be grouped into three main blocks. These include the reduction and optimization of the tax burden, the improvement of tax control mechanisms, and the modernization of tax administration. These measures serve to ease the business environment, expand the tax base, and strengthen collection discipline.

One of the key issues in the development of entrepreneurial activity is the optimal regulation of taxation. In this regard, the assessment of the regulation of entrepreneurial activity through tax mechanisms is of particular importance. This evaluation is carried out within a framework

based on key criteria such as economic efficiency, compliance costs, equity and neutrality, the quality of administration, and policy stability. This approach makes it possible to assess the impact of tax instruments on investment, employment, productivity, and the level of formalization of economic activity. In addition, it takes into account the time and financial burden imposed on business entities by declaration, accounting, documentation, and payment procedures.[8]

Furthermore, balancing the tax burden across the same economic base, ensuring inter-sectoral neutrality, and minimizing threshold effects play an important role in the formation of a fair tax system. The accessibility of digital services, the implementation of risk-based control mechanisms, and data-driven analytics serve as key factors enhancing the quality of tax administration. At the same time, reducing the uncertainty caused by frequently changing tax rules contributes to the formation of a predictable and stable tax environment for economic agents. These approaches are consistent with international practices aimed at reducing tax compliance burdens and increasing fiscal efficiency through digital tax governance.[7]

The cornerstone of tax regulation is tax control. Tax audits include desk and field inspections, as well as operational tax control mechanisms. When properly implemented, these tools contribute to limiting the shadow economy and fostering a healthy competitive environment. However, an excessively high tax burden may weaken motivation for entrepreneurial development. In this regard, tax policy should be optimal; that is, the tax level imposed on entrepreneurs should be structured in such a way that it ensures the sustainable generation of state budget revenues while not hindering the development of entrepreneurial activity or reducing investment activity.[5]

The empirical analysis of this theoretical approach can be conducted based on the development trends of newly established business entities. In particular, the analysis of the registration dynamics of micro, small, and medium-sized enterprises for the period 2018–2024 is of significant importance for assessing the impact of tax policy and tax control mechanisms on the busi-

ness environment. To evaluate the changes between these indicators, the following table is used.

Dynamics of Newly Established Business Entities (2018–2024)

Years	Micro	Small	Medium
2018	83071	233	42
2019	103756	161	32
2020	167271	161	43
2021	118537	138	44
2022	121308	363	66
2023	124247	775	137
2024	98121	839	89

Source: Compiled by the author based on the information obtained. [2]

The analysis of the table shows that during the period 2018–2024, micro enterprises dominated the structure of newly established business entities. While the number of micro enterprises was 83,071 in 2018, it increased to 167,271 in 2020, reaching its peak level. In the subsequent years, although certain fluctuations were observed, the micro enterprise sector continued to

constitute the largest share of newly established business entities.

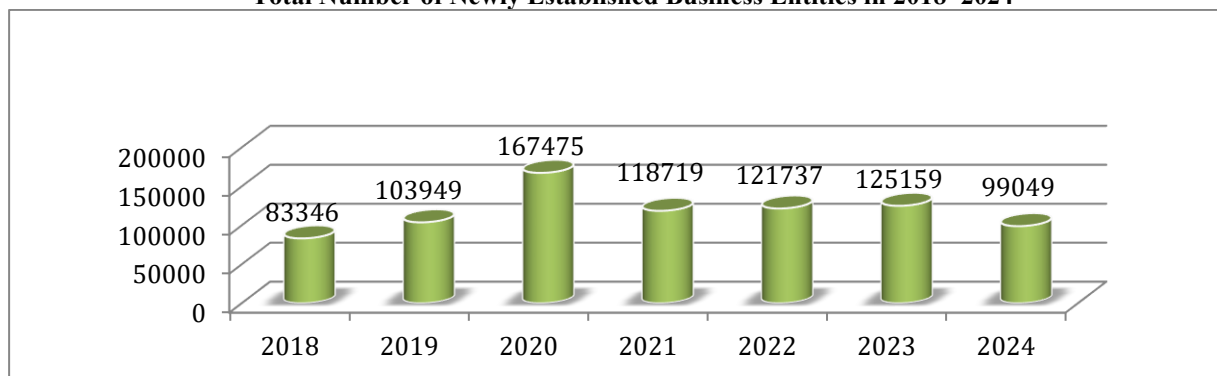
As for small enterprises, a noticeable increase has been recorded starting from 2022. Specifically, the indicator rose from 138 in 2021 to 839 in 2024. A similar trend was observed in medium-sized enterprises as well, where their number increased from 42 in 2018 to 89 in 2024.

The observed dynamics reflect the results of measures implemented to promote entrepreneurial development in the country. However, they also demonstrate the positive impact of reforms aimed at improving tax administration, expanding digital services, and enhancing the business environment. In particular, the recent increase in the number of small and medium-sized enterprises (SMEs) provides evidence that tax policy has had a stimulating effect on entrepreneurial development.[4]

To more clearly illustrate the changes in the total number of newly established business entities, the following chart has been prepared. The chart reflects the dynamics of newly established business entities over the period 2018–2024 and presents the development trends of entrepreneurial activity in a visual form.

Chart 1

Total Number of Newly Established Business Entities in 2018–2024



Source: Compiled by the author based on the information obtained. [2]

The analysis of the chart shows that during the period 2018–2024, an overall upward trend was observed in the number of newly established business entities. Specifically, the indicator increased from 83,346 in 2018 to a peak of 167,475 in 2020. Although a certain decline was recorded in 2021, growth resumed in the following years, reaching 125,159 units in 2023. The decrease to 99,049 units in 2024 indicates a relative slowdown in the rate of new business formation. Nevertheless, the 2024 figure remains

higher than that of 2018, which suggests that the long-term trend of entrepreneurial development has been maintained. Based on the conducted analysis, it has been determined that the increase observed particularly in micro and small enterprise (SME) segments confirms the positive impact of tax policy on entrepreneurial development.

Tax policy is one of the key economic regulatory instruments influencing the development

of entrepreneurial activity. Tax rates, tax incentives, special tax regimes, and the level of tax administration have a direct impact on the financial capacity, investment decisions, and competitiveness of business entities. An effective tax policy creates favorable conditions for the improvement of the business environment, the establishment of new enterprises, and the expansion of the activities of existing entrepreneurial entities.[6]

In Azerbaijan, various tax incentives are implemented to promote entrepreneurial development. In particular, the exemption of 75 percent of micro-entrepreneurs' profits from taxation, social insurance support mechanisms, and the simplified tax regime contribute to reducing the tax burden on entrepreneurs. These incentives have a positive impact on increasing investment activity and enhancing the competitiveness of business entities.[1]

The digitalization of tax administration is also one of the key factors positively influencing entrepreneurial activity. Electronic registration, electronic invoices, online tax declarations, and other digital services facilitate the fulfillment of tax obligations by reducing administrative costs and time losses for entrepreneurs. This, in turn, contributes to increased transparency in the business environment and the strengthening of tax discipline.[3]

At the same time, the effectiveness of tax policy depends not only on the level of tax rates but also on the stability, transparency, and predictability of the tax system. The creation of a favorable and stable tax environment for entrepreneurs has a positive impact on investment decision-making, the expansion of business activity, and the acceleration of the country's economic development.

Research shows that important tax reforms have been implemented in Azerbaijan to support entrepreneurial development. However, certain challenges still remain in this area. For some entrepreneurs, the complexity of tax legislation and, in certain cases, the additional time and costs associated with administrative procedures constitute key problems. At the same time, difficulties in promptly adapting to changes in tax legislation also have a certain impact on business activity. In addition, the relatively low

level of financial and tax literacy among SMEs creates further challenges in the fulfillment of tax obligations.[8]

To address the existing problems, the implementation of the following measures is considered appropriate:

1. Further simplification of tax administration;
2. Expansion of the scope of digital services;
3. Increasing awareness-raising activities for entrepreneurs;
4. Improvement of mechanisms for the application of tax incentives.

At the same time, ensuring the stability of tax policy and the creation of a predictable tax environment for business entities can provide an additional stimulus to entrepreneurial development.

Result

The study reveals that there is a close interrelationship between tax policy and the development of entrepreneurship. Tax rates, tax incentives, special tax regimes, and the level of tax administration have a direct impact on the activities of business entities, investment decisions, and competitiveness. The conducted analysis shows that tax reforms implemented in Azerbaijan, the expansion of digital tax services, and measures aimed at supporting entrepreneurship have had a positive effect on improving the business environment and increasing the number of newly established business entities.

At the same time, for further development of entrepreneurship, the improvement of tax administration, the enhancement of transparency in the tax system, and the preservation of tax policy stability are of significant importance. An effective tax policy makes an essential contribution to accelerating economic growth, increasing employment, and ensuring sustainable socio-economic development of the country.

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VERGİ SİYASƏTİ VƏ SAHİBKARLIĞIN İNKİŞAFI ARASINDA QARŞILIQLI ASILILIQ

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Xülasə: Məqalədə Vergi siyasəti ilə sahibkarlığın inkişafı arasındakı qarşılıqlı əlaqə və təsir mexanizmləri araşdırılır, onların iqtisadi proseslərdə oynadığı rol və qarşılıqlı təsir istiqamətləri təhlil olunur. Vergi siyasətinin əsas məqsədləri, sahibkarlıq mühitinə təsir edən amillər, eləcə də bu sahədə Azərbaycanın mövcud vəziyyəti və islahatları araşdırılır. Tədqiqat nəticəsində müəyyən olunur ki, səmərəli vergi siyasəti sahibkarlığın inkişafını stimullaşdırır, iqtisadi fəallığı artırır və qeyri-rəsmi iqtisadiyyatın azalmasına şərait yaradır, o cümlədən sahibkarlığın inkişafı və vergi siyasətinin təkmilləşdirilməsi istiqamətində praktiki təkliflər təqdim olunur.

Açar sözlər: vergi siyasəti, sahibkarlıq, iqtisadi inkişaf, vergi güzəştləri, KOS, fiskal tənzimləmə, vergi yükü.

ВЗАИМОЗАВИСИМОСТЬ НАЛОГОВОЙ ПОЛИТИКИ И РАЗВИТИЯ ПРЕДПРИНИМАТЕЛЬСТВА

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Резюме: В статье исследуются взаимосвязь и механизмы влияния налоговой политики на развитие предпринимательства, анализируются их роль в экономических процессах и направления взаимодействия. Рассматриваются основные цели налоговой политики, факторы, влияющие на предпринимательскую среду, а также текущее состояние и реформы в данной сфере в Азербайджане. В результате исследования установлено, что эффективная налоговая политика стимулирует развитие предпринимательства, повышает экономическую активность и способствует сокращению теневой экономики. Кроме того, представлены практические предложения по развитию предпринимательства и совершенствованию налоговой политики.

Ключевые слова: налоговая политика, предпринимательство, экономическое развитие, налоговые льготы, МСП, фискальное регулирование, налоговая нагрузка.