

**REPUBLIC OF AZERBAIJAN**

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**ABSTRACT**

of the dissertation for the degree of Doctor of Philosophy

**IMPROVING THE TAX SYSTEM TO ENSURING  
COMPETITIVE BUSINESS ACTIVITY**

Speciality: 5308.01 – General economy

Field of science: Economic sciences

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The work was performed at the Department of "Economic Theory" of Azerbaijan Cooperation University.

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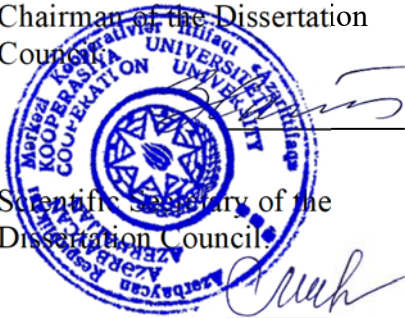
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A handwritten signature in black ink, which appears to be "Elshan Ali Ibrahimov", written over a horizontal line.

Doctor of Economic Sciences  
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## GENERAL CHARACTERISTICS OF THE RESEARCH

**Relevance and degree of development of the topic.** Economic transformations taking place in the world and emerging global challenges require the maximum improvement or renewal of existing economic mechanisms, economic policies and practical tools of states. It is noteworthy that solving the problems of efficiency of economic processes, optimizing costs, financial provision mechanisms of economic entities and profitability problems come to the fore. In this regard, the principles of competitiveness of the economy and the creation of a healthy competitive environment in the economic activity environment are important. On the other hand, various mechanisms and factors are of exceptional importance in ensuring a higher level of entrepreneurial activity. In particular, the influence and role of the tax system in the implementation of competitive entrepreneurial activity in the modern era is great.

In recent years, Azerbaijan, as an independent state, has been taking complex and systematic measures to improve its economic development model and adjust it to the conditions of the new era. Using the advantages of the oil and gas industry, Azerbaijan, which specializes in this area in the system of international division of labor, is demonstrating a systematic state policy in the formation of other sectors of its economy, carrying out reforms and diversifying the structure of the economy. That is, the development of non-oil and gas-oriented sectors of the economy has been raised to a high priority. In these processes, the role of taxes in strengthening entrepreneurial activity, efficient organization and increasing the efficiency of operating mechanisms is quite large.

Tax incentives and optimal improvement of the tax system create additional opportunities for the expansion of competitive entrepreneurial activity. On the other hand, the adoption and approval of a progressive Competition Code in 2023 provides additional incentives for conducting economic processes in our

country in a more transparent and healthy environment<sup>1</sup>. We also believe that the adoption of the Competition Code creates additional potential for the development of entrepreneurship in various sectors of the country's economy in a healthy environment. In such a situation, new opportunities arise for improving entrepreneurial activity and increasing its competitiveness.

By the decree of the President of the Republic of Azerbaijan dated February 2, 2021, “Azerbaijan 2030: National Priorities for Socio-Economic Development” was approved<sup>2</sup>. Among these priorities, the diversification of the non-oil and gas industry, the creation of a green economy and the intensification of related processes, strengthening the role of entrepreneurial activity, etc., have been given special attention. In addition, the implementation of the “Socio-economic Development Strategy of the Republic of Azerbaijan for 2022-2026”, approved by the Decree of the President of the Republic of Azerbaijan dated July 22, 2022, is underway intensively<sup>3</sup>.

Here, many issues are included in the priority tasks, including strengthening entrepreneurial activity in all sectors of the economy, maximum consideration of the opportunities of the non-oil and gas sector. On the other hand, the issues of strengthening economic activity in these areas due to the wide tax breaks provided for a period of 10 years in the revival of post-conflict territories, the formation of infrastructure based on high technologies, the creation of a production network, the development of economic sectors that include services and traditional economic sectors are of maximum relevance.

The role of small and medium-sized enterprises in ensuring competitive entrepreneurial activity in our country is increasing. In

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<sup>1</sup>Competition Code of the Republic of Azerbaijan. Approved by the Law of the Republic of Azerbaijan No. 1051-VIQ dated December 8, 2023.

<sup>2</sup>Azerbaijan 2030: National Priorities for Socio-Economic Development. / – Approved by the Decree of the President of the Republic of Azerbaijan dated February 2, 2021.

<sup>3</sup>Socio-economic development strategy of the Republic of Azerbaijan for 2022-2026. Approved by the decree of the President of the Republic of Azerbaijan dated July 22, 2022.

this direction, state policy has been improved and a central management structure - the Small and Medium Business Development Agency - is operating<sup>4</sup>. Various effective measures, including grant competitions, are being held, and motivational and stimulating mechanisms are being applied to increase the activity of small and medium-sized businesses. In recent years, a ten-year tax concessions mechanism has been applied for residents registered in industrial parks, high-tech parks, industrial districts and agroparks.

A wider range of concessions and state support mechanisms are being applied in newly created economic mechanisms in post-conflict areas. For example, in the Agdam Industrial Park near Agdam and the “Araz Valley Economic Zone” created in the territory of Jabrayil district, as well as in the Agropark organized in Lachin, in addition to 10-year tax concessions for residents, other state support mechanisms have also been applied.

However, we believe that there is a need to improve the tax concessions applied in modern times and to increase the efficiency of the existing mechanisms of the tax system in the country in general. There is a need for more efficient mechanisms to improve and extend the terms of tax concessions applied in many areas of entrepreneurial activity, especially in innovation-oriented and high-tech-based areas. On the other hand, it is necessary to eliminate the stifling elements of the tax system and increase the stimulating qualities of tax rates. There is a need to adapt the tax system to leading world experience, update the applied methodological styles, more intensive digitalization of the tax system, approve a new version of the Tax Code, and develop and implement more perfect and effective concepts and mechanisms of action to increase the role of taxes in strengthening the development of competitive, but also innovative entrepreneurship.

We believe that all of the above indicates the relevance of the topic of the dissertation work.

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<sup>4</sup>Decree of the President of the Republic of Azerbaijan on the establishment of the Small and Medium Business Development Agency. – Baku, – December 28, 2017, No. 1771.

**Regarding the degree of development of the topic of the dissertation work**, it can be said that, taking into account the challenges arising from modern economic transformations, there are fundamental scientific works on the development of entrepreneurial activity, especially the preparation and application of competitive entrepreneurial activity mechanisms, the study of existing problems in the processes of increasing the efficiency of entrepreneurship, strengthening the role of the tax system in increasing the competitiveness of SMEs, and improving the tax system in these processes.

Among Azerbaijani scientists: academician Z.A.Samadzade, E.A.Guliyev, A.F.Musayev, B.Kh.Atashov, A.J.Muradov, A.A.Alekperov, Y.H.Hasanli, Z.F.Mammadov, Y.A.Kelbiyev, T.N.Aliyev, Sh.T.Aliyev, E.A.Ibrahimov, P.G.Rzayev and others have written scientific works on the above-mentioned directions and problems.

From the point of view of researchers and scientists from foreign countries, we should note that the scientific works of a group of scientists, including representatives of the classical economic school: A. Smith, A. Marshall, D. Ricardo, A. C. Pigou, R. Cantillon, C. S. Mill, J. B. Say, J. M. Keynes, J. A. Schumpeter, P. A. Samuelson, M. Friedman, P. R. Krugman, M. E. Porter, R. M. Solow, A. V. Laffer, M. O. Lorenz, as well as: Y. M. Artyomov, T. V. Bodrova, A. O. Klyukina, L. D. Kuznetsov, V. S. Murzin, S. V. Rezvushkin, N. M. Turbina and others, examined problems related to entrepreneurial activity, put forward theories and scientific provisions on the development of entrepreneurship, and highlighted the role of tax in the development of SMEs and the formation of competitive entrepreneurial activity. studies have been conducted to improve the system.

Along with this, we believe that, taking into account the challenges of recent decades, there is a need to renew the existing mechanisms of entrepreneurial activity, form and develop a competitive entrepreneurial activity model, organize the activities of small and medium-sized businesses on the basis of modern mechanisms and tools, and increase and improve the role of the tax

system in these processes.

**Object and subject of the study.** The object of the study is the tax system, entrepreneurial entities and tax structures in order to strengthen competitive entrepreneurial activity in Azerbaijan. The subject of the study is the theoretical and methodological issues, regularities, means and methods of the tax system in ensuring competitive entrepreneurial activity in the conditions of new challenges.

**Research goals and tasks.** The main goal of the dissertation is to develop proposals and recommendations for improving the tax system in ensuring competitive entrepreneurial activity in Azerbaijan in the context of modern transformations. In order to implement them, the following tasks are envisaged in the dissertation:

- study of theoretical issues of the tax system in the development of competitive entrepreneurial activity;
- identification of methodological approaches to increasing the efficiency of taxes in the activities of SME entities in modern conditions;
- study of international experience in improving the tax system in strengthening entrepreneurship;
- analysis of the current situation of SME entities in Azerbaijan and assessment of the role of taxes in these processes;
- assessment of the impact of the tax system in ensuring competitive entrepreneurial activity and investigation of the importance of digitalization of the tax system;
- study of mechanisms of state regulation of taxes in strengthening the competitiveness of SME entities and identification of measures to improve the Tax Code in this context;
- preparation of the main provisions of the Concept of Action on increasing the role of taxes in the development of innovative entrepreneurship, taking into account new challenges;
- identification of directions for improving the tax system in order to increase the competitiveness of SMEs, preparation of proposals in this regard, etc.

**Research methods.** In the course of the research, more emphasis was placed on methods such as abstraction, analysis, synthesis, comparison, statistical analysis and generalization. On the other hand, existing economic theories, methodological approaches and concepts in the direction of increasing the efficiency of tax mechanisms in the processes of organizing and developing competitive entrepreneurial activity were taken into account. References were also made to the scientific works of a group of national and world scientists in these areas.

Along with this, the main elements of state policy on the development of competitive entrepreneurship and improving the tax system, the laws and regulatory documents of the country in these areas, decrees and orders of the head of state, as well as analytical materials of specialized scientific and research institutes were taken into account.

**The main provisions put forward for defense are:**

1. In the context of modern challenges and realities, there is a need to improve the current state policy on competitive entrepreneurial activity and the tax system, to study its theoretical and methodological foundations in depth and to take adequate measures.

2. There is a need for systematic study and application of the leading experience gained in the development of entrepreneurship in countries around the world, effective use of the advantages of innovative entrepreneurship, and improvement of the role of the tax system in these processes.

3. Analyzing the current state of entrepreneurial activity and the competitive environment in Azerbaijan, analyzing and assessing the effectiveness of the tax system and applied tax mechanisms in these processes, taking into account global transformations, is the need of the day.

4. Further intensification of the processes of digitization of the tax system in Azerbaijan and expanding the use of digital mechanisms in increasing the competitiveness of SMEs are of great importance.

5. Taking into account global trends, it is possible to see that the

issues of state support and regulation mechanisms in strengthening the competitiveness of SMEs in Azerbaijan, as well as improving the existing Tax Code, have come to the fore.

6. The intensive activity of SMEs in the creation of high-tech and innovation-based economic sectors, the formation and development of the digital and knowledge economy, and the transformation of them into an important economic mechanism have made it inevitable to improve state policy in this area, especially regulatory mechanisms.

7. There is a need to prepare an Action Concept to increase the role of tax instruments in the development of innovative entrepreneurship and to determine the directions of improving the tax system in order to increase the competitiveness of SMEs.

**The scientific novelty of the research** is as follows:

- The main theoretical approaches and provisions on the role of the tax system in the development of competitive entrepreneurial activity have been systematized, the methodology for determining the differential tax burden and methodological approaches for assessing the efficiency of tax administration in the activities of SME entities have been developed;
- Taking into account modern realities, the advantages of digitalization of tax administration have been systematized, the principles of efficiency of tax mechanisms have been given, and digital tax services have been classified;
- In order to increase the competitiveness of SMEs, digital tools in the field of taxation have been grouped and the impact of digitalization of the tax system on the competitiveness of SMEs has been schematically presented;
- Block diagrams of the directions of strengthening the competitiveness of SMEs and tax regulation tools in strengthening the competitiveness of SMEs have been developed by dividing them into categories.
- In order to strengthen the competitiveness of SMEs and increase the efficiency of the tax system, the Tax Code has identified directions for improving a group of tax mechanisms

and justified the importance of expanding the Code's incentive mechanisms;

- The positive effects of using tax incentives as state support for innovative entrepreneurship and the impact of simplifying tax administration on the development of innovative entrepreneurship have been identified;
- The main components of the Action Concept for improving the tax system in terms of increasing the efficiency of taxes in the development of innovative entrepreneurship and increasing the competitiveness of SMEs have been developed;
- The directions for increasing the competitiveness of SMEs in the context of tax incentives and incentive mechanisms in the new realities have been identified.

**Theoretical and practical significance of the study.** From the point of view of the theoretical and practical significance of the research, we can say that the scientific provisions and proposals obtained in the work can be used in taking complex measures to develop competitive entrepreneurial activity in Azerbaijan, in preparing mechanisms to improve the tax system to ensure the competitiveness of SMEs, in carrying out tax reforms, in formulating targeted action strategies for the development of entrepreneurship, as well as in writing textbooks and teaching aids.

**Approval and application.** The topic of the dissertation work corresponds to the scientific and research directions of the Azerbaijan University of Cooperation and was discussed in the relevant structures of the university and approved by the Scientific Council.

9 scientific works of the applicant on the topic of the dissertation work, including 5 articles and 4 theses (2 articles and 1 thesis abroad) were published in local and foreign journals recommended by the Higher Attestation Commission. Among the conference materials, the following theses were published: “Actual problems of the tax mechanism in strengthening the competitiveness of entrepreneurship” (Baku, 2025), “Improving the role of taxes in strengthening the competitiveness of small and medium-sized businesses in Azerbaijan” (Baku, 2025), “Current state of small and

medium-sized businesses in Azerbaijan” (Moscow, 2025), “Problems of tax efficiency in small and medium-sized businesses in Azerbaijan” (Baku, 2025). During the research, the author also published articles entitled “Directions for increasing the efficiency of the tax system in the development of competitive entrepreneurship in Azerbaijan” (Baku, 2025), “Methodological aspects of increasing the efficiency of taxes in small and medium-sized entrepreneurship” (Baku, 2025), “Theoretical approaches to the problems of developing competitive entrepreneurship in the global context” (Baku, 2025), “Assessment of the impact of the tax system on increasing the competitiveness of entrepreneurial activity” (Moscow, 2025), “Modern aspects of taxation of small and medium-sized businesses” (Moscow, 2025).

**Name of the organization where the dissertation work was performed.** Azerbaijan Cooperative University.

**Total volume of the dissertation with a sign indicating the volume of the structural sections** separately. The total length of the title page and table of contents (1888 characters), introduction (16111 characters), chapter I (82061 characters), chapter II (53461 characters), chapter III (64825 characters), conclusion (17920 characters) and list of references (26406 characters) is 285674 characters. The number of characters of the dissertation is 234378 characters, excluding tables, figures and list of references.

## **MAIN CONTENT OF THE DISSERTATION**

In the **introductory** section of the study, the relevance and level of development of the topic of the dissertation work were examined, the object and subject were given, the goals and objectives, methods, main provisions, scientific innovations were reflected.

In the first chapter of the dissertation entitled “**Theoretical and methodological foundations of improving the tax system in entrepreneurial activity**”, the theoretical foundations of competitive entrepreneurial activity and the role of the tax system in its development were examined, methodological approaches to increasing

the efficiency of taxes in small and medium-sized entrepreneurial activity during the period of economic transformations were determined, and world experience in improving the tax system in the development of entrepreneurship was studied.

In relation to entrepreneurial activity, classical economic views and the ideas of representatives of this school are of interest. Thus, analogous approaches still attract attention with their relevance. For example, competitive entrepreneurial activity was of particular importance in the approaches of R. Cantillon. His approaches are evaluated as the foundations of the concept of entrepreneurship and are constantly referred to. According to R. Cantillon, "the basis of competitive entrepreneurial activity is the entrepreneur's ability to take risks, adapt to market conditions, operate effectively in a free competitive environment, and the effective functioning of the pricing mechanism"<sup>5</sup>. In our opinion, these approaches are quite relevant in modern conditions and retain their relevance in improving the development mechanisms of the entrepreneurship institution. A. Smith, the founder of the classical economic school, believed that: "Entrepreneurs who act to satisfy their individual interests involuntarily serve to increase the general economic well-being"<sup>6</sup>. Let us add that in our modern era, entrepreneurial entities are actively leading in socio-economic development processes and have taken their place at the basis of economic development processes in a market economy. According to D. Ricardo, another prominent representative of the classical economic school: "If different countries or regions can produce certain products or services at a lower alternative cost, they should focus on those areas and mobilize their economic resources in that direction"<sup>7</sup>. Despite these ideas, another important theory he proposed - the theory of comparative advantage - attracts attention. According to Y.

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<sup>5</sup> Cantillon, R. *Essay on the Nature of Trade in General // World Economic Thought. Through the Prism of Centuries.* – Moscow: Mysl, – 2004. – 82 p.

<sup>6</sup> Smith, A. (2019). *An Inquiry into the Nature and Causes of the Wealth of Nations.* EKSMO Publishing Group, 2019. 471 p.

<sup>7</sup>Ricardo, D. *On the Principles of Political Economy and Taxation,* 1817. Batoche Books, Kitchener, Ontario. – 2001, – 78 p.

Schumpeter's views: "entrepreneurs create revolutionary changes in the market by introducing new ideas, technologies and products, which leads to increased competition, increased productivity and accelerated overall economic development"<sup>8</sup>. The above-mentioned views remain relevant today. The application of new ideas, high technologies and innovations is an absolute characteristic of modern entrepreneurial activity. M. Porter believed that: "competitive entrepreneurship should start from the analysis of the market structure, purposefully form its resources and capabilities, and also have uniqueness that distinguishes it from competitors"<sup>9</sup>. We also believe that the role of business entities in the efficient and productive use of existing resources is great, and in such conditions, additional opportunities are formed to increase their competitiveness. Academician Z.A. Samadzadeh believes that "the steps taken in Azerbaijan to develop entrepreneurship and improve the business environment. As a result of the reforms and state support measures, the private sector has become the leading force in the economy. It is believed that in the next 10 years, 7 out of every 10 jobs in the world will be created by small and medium-sized entrepreneurs"<sup>10</sup>. We also believe that in recent years, systematic measures have been taken in Azerbaijan for the more efficient development of entrepreneurship, in particular, the priority of the activities of small and medium-sized enterprises has come to the fore.

In the fiscal approaches proposed by J.M. Keynes, tax systems were considered as a means of providing budget revenues, as well as one of the main mechanisms that stimulate economic activity, encourage investments and regulate general demand. According to J.Keynes, "the tax system acts as a flexible and effective regulatory

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<sup>8</sup>Shumpeter, J.A. Business Cycles. Theoretical, Historical and statistical Analysis of Capitalist Proces. N.Y. – 1939, Vol. 1.2. – p. 166.

<sup>9</sup>Porter, M.E. The five competitive forces that shape strategy // – Harvard: Harvard business review, – 2008. 86 (1), – p. 82.

<sup>10</sup>Samadzadeh, Z.A.: Creating favorable conditions for the development of small and medium-sized enterprises (2022), p.1. [Electronic resource] / URL: <https://iqtisadiyyat.com/az/pages/5/news/1324>.

tool in the economy”<sup>11</sup>. While we fully agree with this idea, we note that in modern times the tax system also performs stimulating and motivating functions in the economy. According to M. Friedman, "reducing the tax burden creates conditions for the revival of the entrepreneurial spirit, increasing investments, increasing employment and reducing inflation, which, along with economic development, leads to the alleviation of social problems”<sup>12</sup>.

While agreeing with this idea, let us add that the management of money circulation is a direct duty of the state, and the main measures taken in this direction include the withdrawal of excess funds from the market, the correct direction of loans, and an effective taxation policy. In order to ensure economic revival, the state should reduce the tax burden, implement adequate measures that affect the money supply and interest rates.

The methodology for determining the differential tax burden can be presented in the sequence of stages shown in Figure 1.

From a methodological point of view, in order to apply the differential tax burden, first of all, an accurate classification of business entities by categories should be carried out, their turnover, income, areas of activity and legal forms should be taken into account.

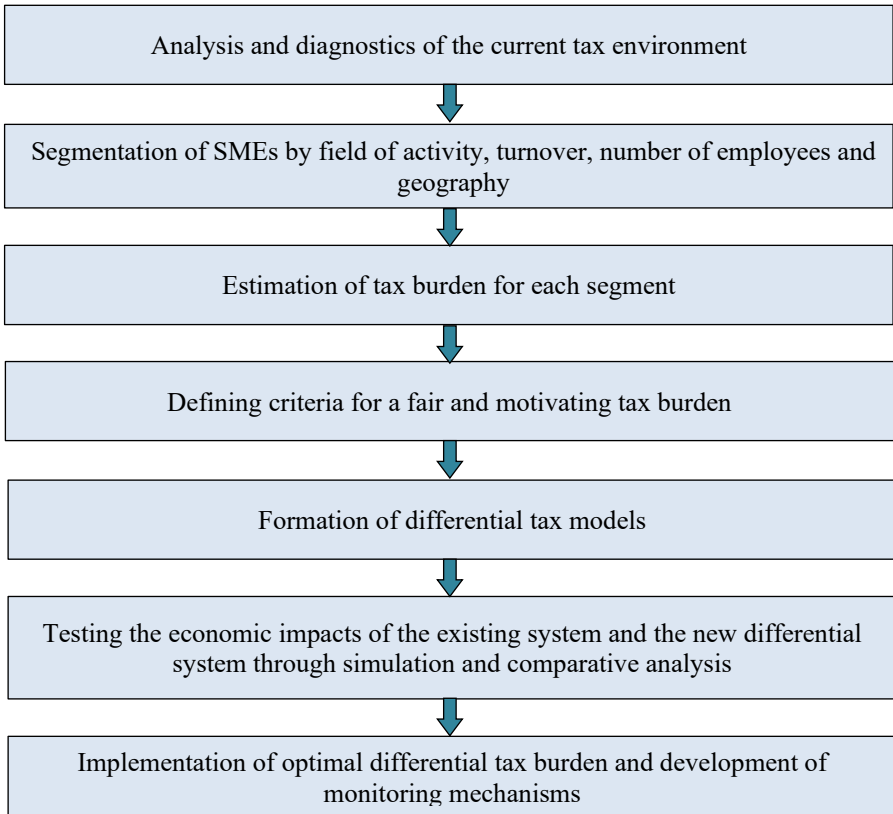
We would like to pay attention to a group of points in terms of measuring the tax burden on SME entities. Analogous measurement operations are mainly carried out by the ratio of total taxes and mandatory payments collected to the budget, as well as extra-budgetary funds, to GDP over a certain period of time. In this case, it is also possible to determine the boundaries of intervention of state structures in economic processes. Thus, in the approaches formed by the supervisory bodies under the Ministry of Finance and the structures of the State Tax Service, the tax burden is measured as the ratio of taxes paid by the enterprise, as well as excise duties, to the total income of that enterprise. That is, it can be viewed in the form

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<sup>11</sup>Keynes, J.M. A tract on monetary reform / Cambridge Macmillan and co., Limited st. Martin's street, London, 1924. – 75 p.

<sup>12</sup>Friedman, M. A Program for Monetary Stability. Fordham University Press, 1960. – 57 p.

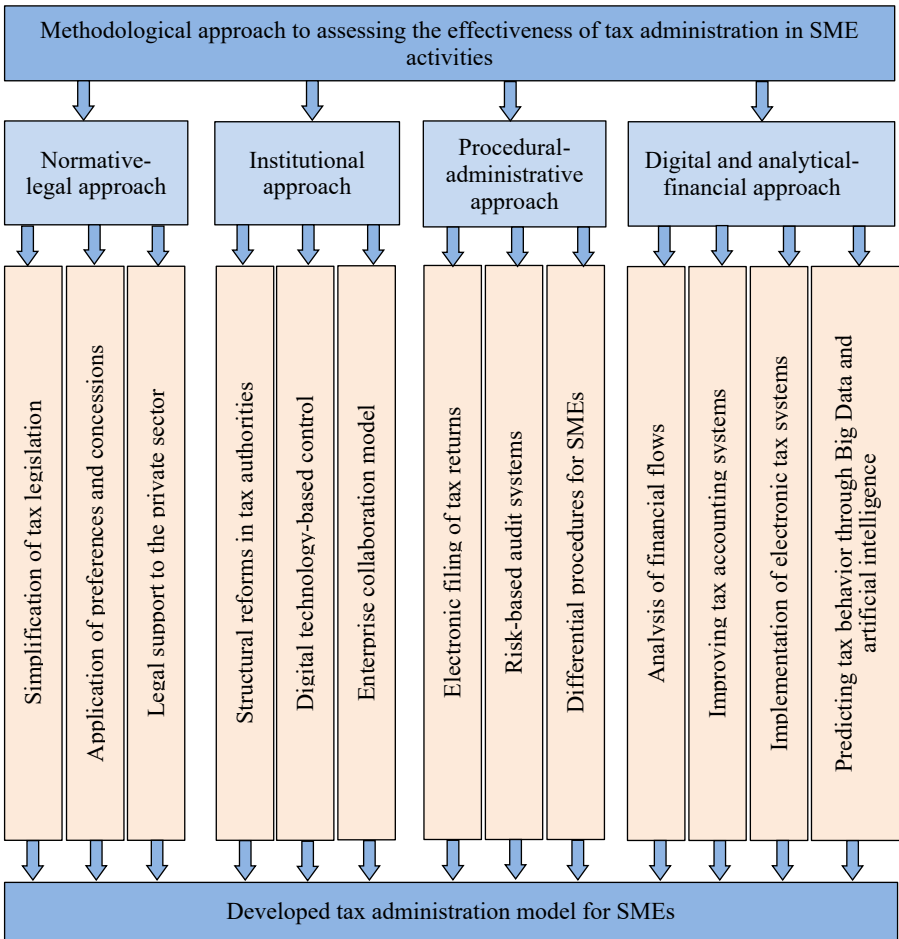
of the scheme Tax Burden (VY) = Total taxes (CV) : Total income (UG).



**Figure 1. Methodology for determining the differential tax burden**

*Source: prepared by the author.*

We present the methodological approach to assessing the role of tax administration in terms of increasing the efficiency of taxes in the activities of SMEs during the period of economic transformations in the form of a general block diagram (Figure 2).



**Figure 2. Flowchart of the methodological approach to assessing the effectiveness of tax administration in SME activities**

*Source: prepared by the author.*

The targeted application of tax incentives and preferences for SMEs is also an important methodological tool. However, the effectiveness of incentives is conditioned by their control by tax administration and the existence of monitoring mechanisms. Therefore, it is necessary to create a methodological framework for the system of incentives, assess their economic impact and apply result-based approaches.

From the perspective of the experience of countries around the world in improving the tax system in the development of entrepreneurship, it should be noted that the stimulation of entrepreneurship, which is one of the main driving forces of economic development in the modern era, occupies an important place in the tax policy of any country. The US tax system covers the federal, local and regional levels, and the largest financial inflows to the budget are due to income taxes. The basis of the profit tax is the financial resources of the most affluent part of the population. "Income taxes are levied on all possible types of labor activity, including contract labor and labor activity that generates one-time income, along with the sale of one's own property on the market"<sup>13</sup>. In recent years, China has introduced simplified tax regimes to support the development of SMEs, and has set low tax rates for micro-enterprises and newly established businesses. In total, 17 different types of taxes are applied in China, and taxpayers are divided into two main categories based on their annual turnover: small taxpayers with an annual turnover of up to 5 million yuan and ordinary taxpayers with an annual turnover of more than 5 million yuan. Tax breaks are intended to promote the development of economically priority areas, and their application may differ depending on the policies of certain regions.

We would like to note a group of points about the comparison of the tax system between Azerbaijan and the European Union countries. Thus, income tax rates in Azerbaijan are much lower, in a number of European Union countries this figure is up to 50%. However, in terms of profit tax, while the tax rate in Azerbaijan is 20%, in European countries, for example, Hungary, this figure is at the level of 9%. However, in developed Western countries, including Germany, as well as France, these tax rates are much higher. Another indicator is that the VAT rate in Azerbaijan is 18%, while in the European Union countries this indicator is more than 25%.

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<sup>13</sup>Babukin, G.M. Foreign Experience: Tax Load and Economic Growth / G.M. Babukin // *Мировая экономика: проблемы безопасности*. – 2020. No. 3, – p. 18.

We believe that Azerbaijan can benefit from the above-mentioned examples of world experience, but when studying and applying the experience of any country in improving the tax system in the direction of entrepreneurship development, the characteristics of our country's economic development model, as well as the main components of state policy related to the development of entrepreneurship and the characteristics of the development of the tax system, should be taken into account.

In the second chapter of the dissertation entitled "**Analysis of the current State of Small and Medium-Sized Enterprises in Azerbaijan and evaluation of the efficiency of the tax system**", the current state of small and medium-sized entrepreneurship in Azerbaijan is analyzed, taxes applied to the activities of SMEs are analyzed and evaluated, the role of digitalization of the tax system in increasing the competitiveness of SMEs is studied.

Table 1 provides an analysis of a number of important macroeconomic indicators of SME entities in the Azerbaijani economy for 2018-2023. If we look at the indicators in Table 1, we can note that in 2018-2023, the volume of added value created by SMEs in our country increased by 2 times and the number of employees increased by about 38%. At the same time, it can be noted that during the analyzed period, the volume of investments directed to fixed capital by SMEs decreased by about 3 times. In 2023, the surveyed entrepreneurial entities created added value in the amount of 20087.1 million AZN, which is 2,916.7 million AZN or 17.0% more than in 2022. Of this increase, 561.3 million AZN or 7.9% fell to micro-enterprises, 404.7 million AZN or 14.5% to small businesses, and 1950.7 million AZN or 26.8% to medium-sized businesses.

Tax is a mandatory, individual and gratuitous payment of taxpayers' funds to the state and local budgets to finance the activities of the state and municipalities. "All legal and administrative issues related to taxes in Azerbaijan are regulated on the basis of the Tax Code"<sup>14</sup>.

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<sup>14</sup> Məhərrəmov, R. Sahibkarlıq. / R.Məhərrəmov, S.Musayeva – Bakı, – 2019. – 55 s.

**Table 1**

**Key macroeconomic indicators of micro, small and medium-sized enterprises in the economy of Azerbaijan, 2018-2023**

Years	Added value created, million manats	Number of employees, thousand people	Average monthly nominal wage, manat	Investments in fixed capital, million manats	Active business entities
<b>2018:</b>					
<b>Total</b>	9836,6	283,4	445,3	6953,0	244883
Micro	4467,8	35,0	294,9	2831,5	237815
Small	1235,5	76,1	373,5	1046,7	4930
Medium	4133,3	172,4	517,1	3074,8	2138
<b>2019</b>					
<b>Total</b>	11071,7	332,2	531,0	3422,2	271304
Micro	4900,8	40,2	332,5	515,5	262622
Small	1423,2	85,1	437,0	494,2	5956
<b>Medium</b>	4747,7	206,9	624,6	2412,5	2726
<b>2020</b>					
<b>Total</b>	10941,0	348,7	612,3	2674,1	316370
Micro	4455,2	40,9	359,4	970,2	307717
Small	1617,9	92,1	533,8	380,4	5943
<b>Medium</b>	4867,9	215,7	714,4	1323,5	2710
<b>2021</b>					
<b>Total</b>	13956,1	357,8	632,2	3387,7	355906
Micro	5790,8	40,9	382,5	1706,2	346171
Small	2384,3	102,2	528,2	892,7	6856
<b>Medium</b>	5781,0	214,8	748,3	788,8	2879
<b>2022</b>					
<b>Total</b>	17 170,4	370,1	707,9	2 827,1	377 842
Micro	7 091,9	42,4	450,8	857,1	366 944
Small	2796,1	104,8	575,6	955,1	7 760
Medium	7 282,4	222,9	843,0	1 014,9	3 138
<b>2023</b>					
<b>Total</b>	20 087,1	390,8	765,8	2 366,1	401 149
Micro	7 653,2	49,9	501,5	303,5	389 133
Small	3200,8	110,3	642,8	794,0	8 610
Medium	9 233,1	230,6	899,4	1 268,6	3406
<b>2018-2023 increase-decrease +/-</b>					
<b>Total</b>	2,04 dəfə	37,9 %	72,0 %	- 2,94 dəfə	63,8 %
Micro	71,3 %	42,6 %	70,1 %	- 9,33 dəfə	63,6 %
Small	2,6 dəfə	44,9 %	72,1 %	- 31,8 %	74,6 %
Medium	2,23 dəfə	81,35 %	73,9 %	- 2,42 dəfə	59,3 %

Source: Prepared by the author based on ARDSK- <https://www.stat.gov.az/source/finance/>

Table 2 shows the dynamics of taxes paid by SMEs in our country by types of economic activity in 2019-2023.

If we look at the analysis of Table 2, we can see that in 2019-2023, the total amount of taxes paid by SMEs increased by 44.4%, this increase was 57.3% in the industrial sector, 28.1% in construction, 70.4% in trade and vehicle repair, 46.2% in transport and warehousing, 67.6% in tourism, etc. Smaller growth indicators in tax payments were recorded in agriculture and the information and communications sector. There are a number of tax exemptions in agriculture, and we believe that a comprehensive and systematic review of the currently applied tax exemptions and an increase in the stimulating role of these mechanisms could be more beneficial.

Digital tools in the field of taxation can play a significant role in a number of important areas of activity to increase the competitiveness of SMEs:

1. Simplification of tax reporting. Through electronic declaration systems, SMEs can submit their tax reports more easily. Convenient interfaces and automated calculators prevent human errors and ensure timely submission of reports.

2. Real-time data flow. Digitalization makes the flow of information between tax authorities and entrepreneurs operational and interactive. For example, through “e-cash” and “online clerical” systems, turnover and sales data are immediately transmitted to tax authorities.

3. Fair competition environment. The introduction of digital control tools minimizes shadow economic activities. This creates fair market conditions for legally operating SMEs.

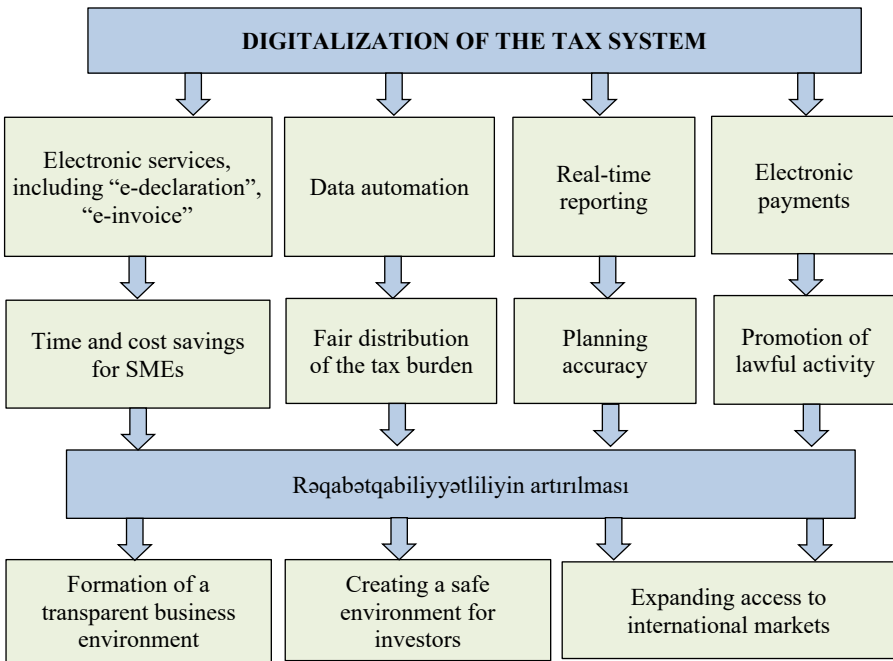
4. Improving the investment climate. A transparent and predictable tax system is attractive to investors. Thanks to digitalization, risks are reduced and more SMEs have the opportunity to enter new markets and grow.

**Table 2.**  
**Taxes paid by micro, small, and medium-sized business entities by types of economic activity in the**  
**Republic of Azerbaijan, million manats, 2019–2023.**

Years	Total by types of economic activity, including n	Agriculture, forestry and fishing	Industry	Construction	Trade; repair of motor vehicles	Transportation and storage	Tourist accommodation and public catering	Information and communication	Real estate activities	Education	Human health and social work activities	Other sectors
<b>2019:</b>												
<i>Total</i>	1643,8	12,8	216,8	334,0	354,8	49,7	68,0	132,9	49,8	15,8	25,0	384,2
Micro	241,0	4,4	8,3	27,0	82,4	8,6	10,7	12,3	9,0	2,2	1,6	74,5
Small	379,8	2,8	39,1	73,4	88,5	13,8	18,6	35,5	19,4	3,4	4,9	80,4
Medium	1023,0	5,6	169,4	233,6	183,9	27,3	38,7	85,1	21,4	10,2	18,5	229,3
<b>2020</b>												
<i>Total</i>	2022,7	13,4	430,1	437,1	354,2	146,3	30,9	201,9	46,2	13,1	33,7	315,8
Micro	503,5	3,1	190,3	40,3	85,1	90,2	4,9	10,3	4,4	1,9	1,7	71,3
Small	501,2	3,3	105,7	128,8	87,4	18,5	6,5	39,7	16,6	2,4	4,6	87,6
Medium	1018,0	7,0	134,1	268,0	181,6	37,6	19,5	151,9	25,2	8,8	27,4	156,9
<b>2021</b>												
<i>Total</i>	2849,2	18,1	1050,3	402,3	455,0	241,3	44,2	207,2	47,5	17,1	35,4	357,8
Micro	1161,7	4,6	750,8	35,4	91,4	158,1	6,1	14,1	6,4	2,0	1,7	91,1
Small	538,9	4,4	102,9	104,5	128,4	23,8	11,9	57,3	19,6	3,9	5,7	76,5
Medium	1148,6	9,1	196,6	262,4	235,2	32,4	26,2	135,8	21,5	11,2	28,0	190,2
<b>2022</b>												
<i>Total</i>	1791,6	16,9	242,3	354,6	503,0	60,4	63,2	84,8	46,8	15,5	43,1	361,0
Micro	238,9	6,2	20,7	23,6	85,2	13,8	6,7	10,6	8,2	3,4	1,9	58,6
Small	616,0	4,0	74,5	135,0	151,9	18,9	15,2	27,9	22,9	4,1	7,2	154,4
Medium	936,7	6,7	147,1	196,0	265,9	27,7	41,3	46,3	15,7	8,0	34,0	148,0



In Figure 3, we reflect the impact of digitalization of the tax system on the competitiveness of SMEs.



**Figure 3. Impact of digitalization of the tax system on SME competitiveness**

*Source: prepared by the author.*

It should be noted that in recent years, the process of digitizing the tax system in Azerbaijan has been successfully implemented. Serious reforms are being carried out in this direction, and the successes achieved in the field of digitizing tax administration create new opportunities for the development of SMEs and increasing their competitiveness.

We consider it important to conduct a more in-depth review of tax policy for SMEs in the regions and evaluate its results. It is known that there are certain differences between tax rates in Baku and other regions, and their impact on entrepreneurial activity is noteworthy. For example, micro-entrepreneurs with an annual income of less than 200 thousand manats have a significant tax break, in other words,

they are exempt from 75% of profits. In the regions, there is a 50% discount on income, property and land taxes for investors. In post-conflict areas - in the Karabakh and East Zangezur economic regions, SMEs are exempt from profit, land and property taxes for 10 years, and are also exempt from simplified taxation.

On the other hand, the practical impact of electronic tax services on entrepreneurial activity, including the impact of tax services, online cash registers and the e-invoice system on entrepreneurial activity and tax discipline, is of particular interest. For example, by submitting tax reports electronically, entrepreneurs avoid time loss and also reduce transaction costs. In addition, transparency is increased through electronic payments, and the digitization of other documents speeds up business processes. Electronic transactions form new opportunities for reducing the shadow economy. The role of electronic tools in terms of more efficient organization of tax control has increased significantly.

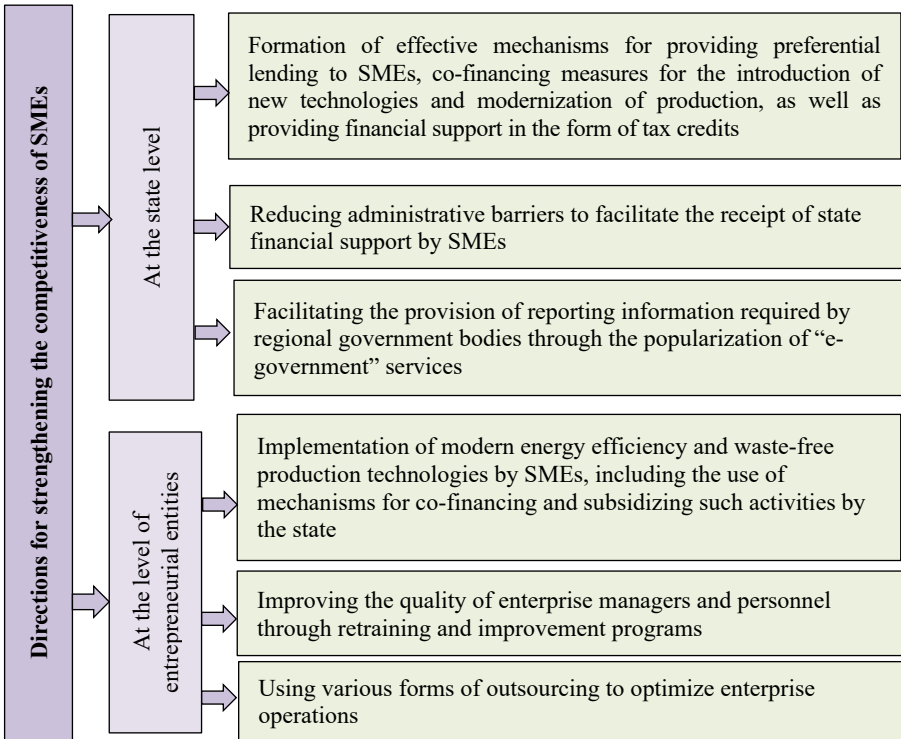
In the third chapter of the dissertation, entitled **“Prospects for improving the tax system in strengthening competitive entrepreneurial activity in Azerbaijan under new conditions”**, issues related to increasing the regulatory role of taxes in strengthening the competitiveness of SMEs and improving the Tax Code in the context of enhancing competitiveness were examined. In addition, an Action Concept aimed at increasing the efficiency of taxes in the development of innovative entrepreneurship was proposed, and directions for improving the tax system to enhance the competitiveness of SME entities were identified.

There is a special need to study and assess the relationship between tax policy and the activities and indicators of business entities. Thus, it is important to objectively assess the contribution of business entities to tax revenues and other indicators. For example, it is possible to expand investment activities by optimizing tax rates. Or, the high tax burden of enterprises ultimately reduces their profits, which creates certain problems in the implementation of strategic tasks facing the enterprise.

It should be noted that we have distinguished the main factors that allow strengthening the competitiveness of SMEs: 1) the availability

of start-up capital and professional training for the successful start of entrepreneurial activity; 2) high-level development of the information support system of SMEs; 3) low tax burden of SMEs; 4) facilitating access of small businesses to energy and transport infrastructure, etc.

The directions of strengthening the competitiveness of SMEs are schematically presented in Figure 4.

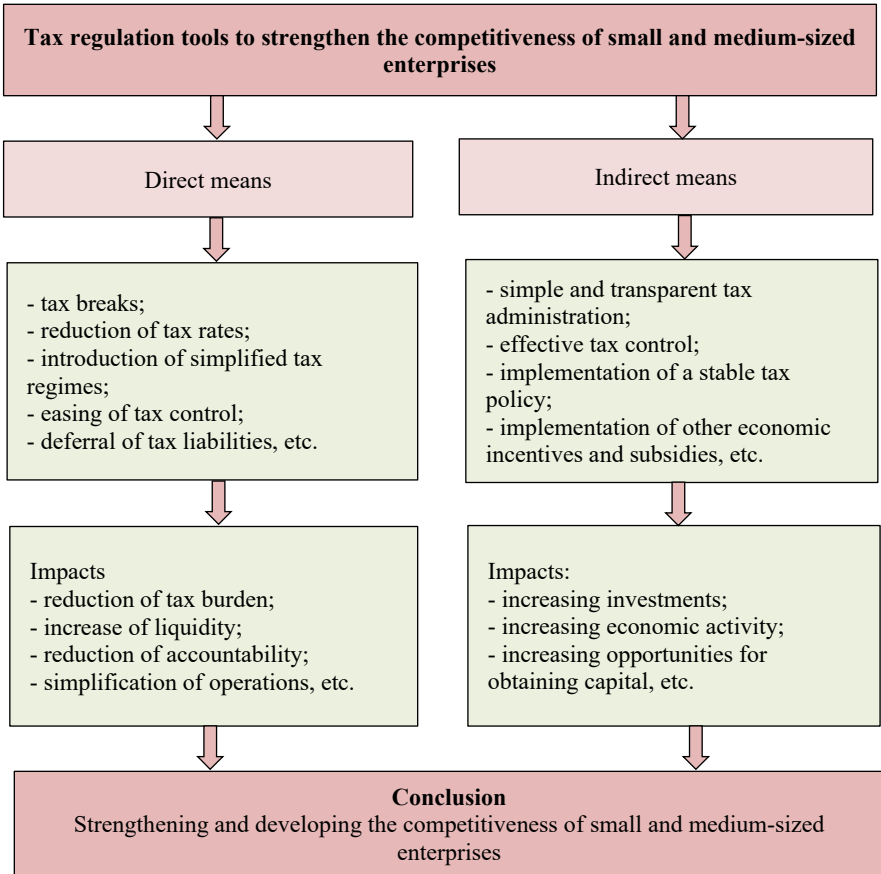


**Figure 4. Block diagram of directions for strengthening the competitiveness of SMEs**

*Source: prepared by the author.*

We believe that the competitiveness of SMEs directly depends on the tax policy implemented by the state and the effective regulatory mechanisms of this policy.

Figure 5 shows a block diagram of the main tax regulation tools that strengthen the competitiveness of SMEs, divided into categories.



**Figure 5. Block diagram of tax regulation tools for strengthening the competitiveness of SMEs, divided into categories**

*Source: prepared by the author.*

If we look at Figure 5, direct means ease the financial burden of entrepreneurs, while indirect means improve the economic environment. Tax administration ensures transparency and simplicity of the system, while innovation and development tools support technological progress. The integrated application of these elements

creates conditions for sustainable and competitive development of SMEs.

Strengthening the competitiveness of SMEs in Azerbaijan and their effective integration into the market economy have been identified as one of the main priorities of state policy, in which context the role of tax policy and especially the Tax Code comes to the fore. The application of the Code is of great importance in terms of the formation of tax policy in the country and the legalization of economic activity<sup>15</sup>.

According to the next amendments to the Tax Code from January 1, 2023, the amount of VAT refunded to consumers has been increased from 15% to 17.5% for non-cash payments, and reduced from 10% to 5% for cash payments. Although the Tax Code provides for certain exemptions and simplified procedures for SMEs, practical analysis shows that some problems remain in this area. First, the application of the tax burden without taking into account sectoral differences creates an unequal competitive environment for some SMEs. Second, the technical and legal complexity of tax reporting creates additional costs and risks, especially for micro-entrepreneurs. This leads to their tendency to engage in informal activities, which leads to a narrowing of the tax base and a decrease in revenues to the state budget. In order to improve the current situation, it is considered appropriate to improve the Tax Code in a number of areas.

In order to strengthen the competitiveness of SMEs, I consider it appropriate to make improvements in the Tax Code in a group of areas:

1. Expanding simplified tax regimes. It is appropriate to expand the circle of entrepreneurs using the simplified tax system, raise turnover limits, and apply differentiated approaches across sectors. This can reduce the tax burden of micro and small entrepreneurs operating in particular in the regions and ensure their more active

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<sup>15</sup>Law of the Republic of Azerbaijan on approval, entry into force of the Tax Code of the Republic of Azerbaijan and related legal regulation issues. – Baku, July 11, 2000: [Electronic resource] / URL: <https://e-qanun.az/framework/119/>.

participation in the market.

2. Introducing differential tax rates. Applying differential approaches in the Tax Code, i.e. determining tax rates based on the size, field of activity, and geographical location of entrepreneurial entities, can create conditions for creating a balance in the competitive environment.

3. Expanding the provision of tax holidays and loans. Providing tax holidays for 1-3 years to newly started SMEs and providing tax loans to entrepreneurs operating in innovative and high-tech fields can increase their development rate.

4. Simplifying tax administration. Transparency and accessibility of tax administration processes are ensured by promoting their use.

5. Simplification of electronic tax services. Improving electronic services provided by tax authorities and creating special integrated platforms for SMEs will reduce their administrative burden and facilitate the fulfillment of tax obligations.

6. Ensuring the sustainability of legal and institutional reforms. The changes made to the Tax Code should include not only technical, but also regulatory, legal and institutional changes. A synchronized relationship should be established between tax policy and the development strategy of entrepreneurship. Coordination between the Ministry of Economy, the State Tax Service and the Entrepreneurship Development Fund should be strengthened.

7. Continuous attention to international experience and the application of the most successful examples.

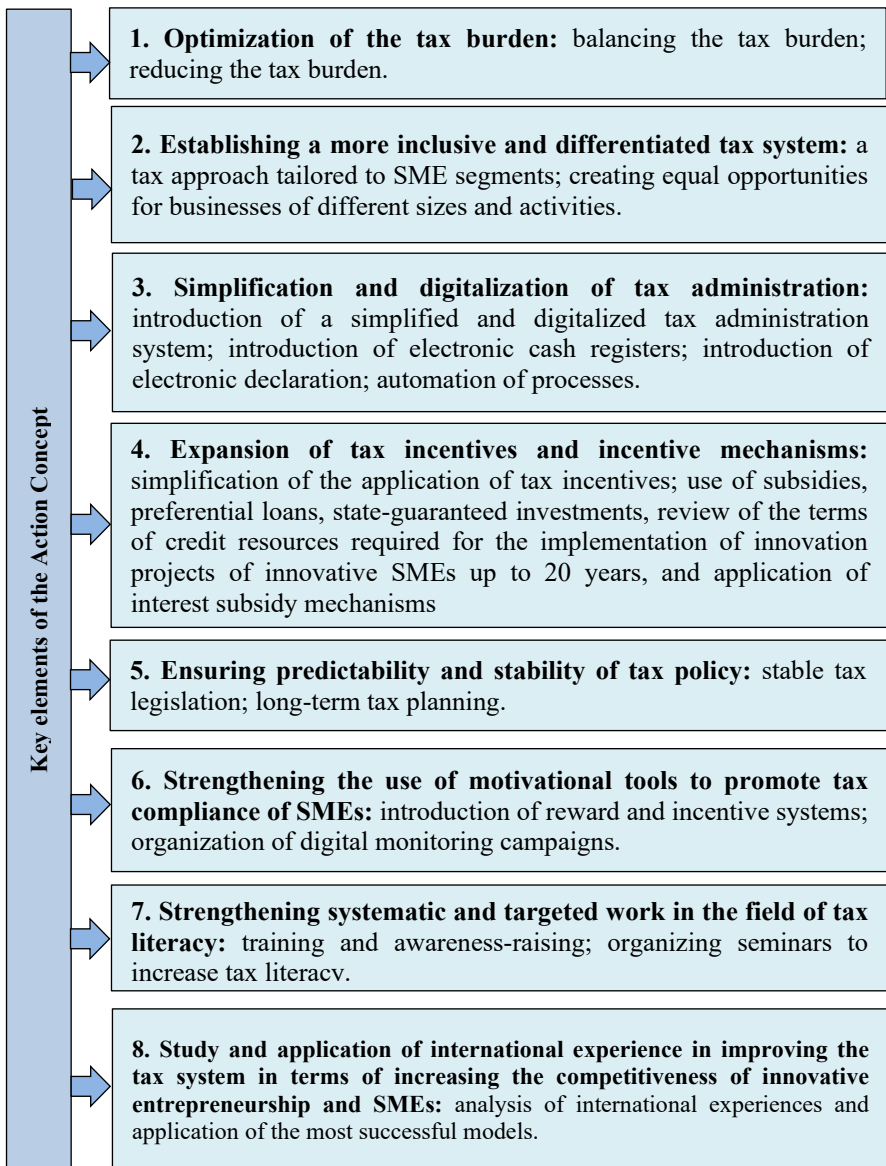
Measures implemented in this direction can not only increase SMEs' access to capital, but also ensure their sustainable participation in the international market.

An efficient tax system should serve to reduce risks, facilitate the entry of startups into the market and attract investments, while encouraging entrepreneurs to innovative activities. For this purpose, the introduction of tax incentives, tax holidays for investment projects, support for scientific and research activities and measures promoting technology transfer constitute the main components of the concept. The main goal of the Concept of Action is to transform tax policy into an environment that is open to innovation, flexible and

encouraging entrepreneurs. One of the main goals of the measures within the Concept of Action is to minimize the fiscal obstacles faced by innovative entrepreneurship.

We propose a block diagram of the main components of the Concept of Action on improving the tax system in terms of increasing the efficiency of taxes in the development of innovative entrepreneurship and increasing the competitiveness of SMEs, as shown in Figure 6.

The concept is also based on the differentiation of the tax system, and this approach involves the application of tax regimes appropriate to entrepreneurial entities with different levels of innovation. For example, special tax incentives can be developed and applied for technology startups, manufacturers of environmentally friendly products and enterprises operating in the field of high-tech equipment. This stimulates the advantage of entrepreneurs who add value to innovation activities and serves to modernize the overall economic environment.



**Figure 6. Block diagram of the main components of the Action Concept for improving the tax system in terms of increasing the efficiency of taxes in the development of innovative entrepreneurship and increasing the competitiveness of SMEs**

*Source: prepared by the author.*

**In the “Conclusion” section of the dissertation, the following results of scientific and practical significance arising from the essence of the research were obtained and proposals were made:**

1. The tax system, standing at the center of these frameworks, plays a leading role in the formation, development of entrepreneurship and the acquisition of competitive advantages. Institutional theories create broad analytical opportunities in explaining these relationships and present fundamental approaches that should be taken into account in the formation of economic policy.

2. The main principle underlying the approaches to improving entrepreneurial activity and increasing the role of the tax system in these processes is to support and ensure the sustainable development of SMEs in the context of economic transformation. Tax policy should serve this purpose and not limit the activities of entrepreneurs, but, on the contrary, encourage them to be competitive and innovative.

3. We believe that it is necessary to improve the Tax Code in a direction that supports the development of SMEs, which is of strategic importance not only in terms of increasing tax collections, but also in terms of improving the entrepreneurial environment, reducing the informal economy and expanding economic activity. For this reason, institutional and legal reforms in tax policy should complement each other and be implemented on the basis of a long-term and systematic approach.

4. In order to strengthen themselves in a competitive environment, access to technology and knowledge base of SMEs, increasing digital literacy and strengthening marketing resources are important factors. In this regard, tax and non-tax incentives created by the state allow to reveal the innovation potential of business entities.

5. Transparent and purposeful application of tax incentives ensures that this policy produces more effective results. In order to motivate entrepreneurship on a larger scale and ensure competitive entrepreneurial activity in the country, the tax system should be improved in accordance with the requirements of the time.

6. Tax mechanisms should be developed and tax rates should be determined in the context of more efficient financial mechanisms for business entities in the implementation of investment-innovation projects covering a long-term period.

7. One of the main problems of innovative entrepreneurship in Azerbaijan is the lack of their own funds to produce innovative products, and we believe that taking this factor into account, special tax mechanisms should be applied, and for this, a period of at least 15-20 years should be taken.

**The following scientific articles and theses have been published on the topic of the dissertation:**

1. Directions for increasing the efficiency of the tax system in the development of competitive entrepreneurship in Azerbaijan // – Baku: Western Caspian University, Scientific News (Social and Technical Sciences Series), 2025, No. 01. – pp. 514-519.

2. Methodological aspects of increasing the efficiency of taxes in small and medium-sized entrepreneurship // – Baku: “Audit” scientific and practical journal, 2025, No. 01. – pp. 44-54.

3. Theoretical approaches to the problems of developing competitive entrepreneurship in the global context // – Baku: Western Caspian University, Scientific News (Social and Technical Sciences Series), 2025, No. 02. – pp. 93-100.

4. Assessment of the impact of the tax system on increasing the competitiveness of entrepreneurial activity // Moscow: Monetary Economics and Management Magazine, 2025, No. 07. – pp. 401-409.

5. Modern aspects of taxation of small and medium-sized businesses // Moscow: Financial Economics, Scientific and Analytical Journal, 2025, No. 08. – pp. 128-132.

6. Improving the role of taxes in strengthening the competitiveness of small and medium-sized businesses in Azerbaijan // – Baku: New strategic approaches to the development of a competitive economy in strengthening sovereignty. Materials of the International Scientific and Practical Conference. Baku Business

University, April 25, 2025. – pp. 563-566

7. Actual problems of the tax mechanism in strengthening the competitiveness of entrepreneurship // – Baku: Dedicated to the 102nd Anniversary of the National leader of Azerbaijan Heydar Aliyev of IX international scientific conference of young researchers. Baku Engineering University, Academy of the State Customs Committee of the Republic of Azerbaijan. Proceedings – BOOK, 23-24, May 2025. – pp. 767-771

8. Current state of small and medium-sized businesses in Azerbaijan // – Moscow: XX International scientific and practical conference “Sustainable development of society: New scientific approaches and research” (code – MURO), 07/08/2025. – pp. 190-201.

9. Problems of tax efficiency in small and medium-sized businesses in Azerbaijan // – Baku: International scientific and practical conference “Economic and social development of Azerbaijan in new realities: problems, challenges, prospects” dedicated to the 60th anniversary of the Azerbaijan University of Cooperation, December 6, 2025. – pp. 198-202.





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