



Submission date: 7 of November 2025

Acceptance date: 3 of February 2026

Publication date: 16 of March 2026

ON THE MECHANISMS FOR EXPANDING THE TAX BASE

SOBRE LOS MECANISMOS DE AMPLIACIÓN DE LA BASE IMPONIBLE

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Suggested citation (APA, seventh ed.)

Rzayeva, S. (2026). On the mechanisms for expanding the tax base. *Universidad y Sociedad*, 18(2). e5604.

ABSTRACT:

Resource-dependent economies face critical challenges in achieving fiscal sustainability as commodity price volatility threatens long-term economic stability. Azerbaijan, historically reliant on oil revenues, exemplifies this vulnerability, necessitating strategic diversification of its fiscal base to ensure macroeconomic resilience. This study examines Azerbaijan's tax base expansion initiatives implemented between 2015 and 2025, focusing on the transition from hydrocarbon-dependent revenues to a diversified, broad-based taxation system. Despite growing recognition of fiscal diversification imperatives in resource-rich nations, limited empirical evidence exists on the effectiveness of comprehensive digital transformation strategies in expanding tax bases in the country, as well as post-Soviet economies. We employed a mixed-methods approach combining quantitative fiscal data analysis with policy document review, evaluating three primary reform dimensions: digitalization initiatives (electronic invoicing, e-reporting systems, automated VAT refund mechanisms), taxpayer base formalization, and tax expenditure rationalization. We examined registered taxpayer growth patterns, sectoral revenue contributions, and compliance indicators across the study period. It was found substantial progress in tax base expansion, evidenced by consistent increases in non-oil tax revenues and enhanced formalization across trade, construction, and services sectors. Digital infrastructure implementation significantly improved compliance rates and reduced revenue leakage. However, persistent challenges include substantial informal economy segments escaping taxation, and regional disparities in compliance effectiveness. In general, Azerbaijan's multi-dimensional

reform strategy demonstrates viable pathways for resource-dependent economies pursuing fiscal diversification. Sustained progress requires continued digitalization investments, targeted regional capacity building, and enhanced institutional trust mechanisms to further formalize economic activities and broaden the tax base.

Keywords: Tax base expansion, Azerbaijan, Digitalization, Fiscal reform, Compliance, Resource economy diversification.

RESUMEN:

Las economías dependientes de recursos naturales enfrentan desafíos críticos para lograr la sostenibilidad fiscal, ya que la volatilidad de los precios de las materias primas amenaza la estabilidad económica a largo plazo. Azerbaiyán, históricamente dependiente de los ingresos petroleros, ejemplifica esta vulnerabilidad, lo que requiere una diversificación estratégica de su base fiscal para garantizar la resiliencia macroeconómica. Este estudio examina las iniciativas de expansión de la base imponible de Azerbaiyán implementadas entre 2015 y 2025, centrándose en la transición de ingresos dependientes de los hidrocarburos a un sistema tributario diversificado y de base amplia. A pesar del creciente reconocimiento de los imperativos de la diversificación fiscal en las naciones ricas en recursos naturales, existe evidencia empírica limitada sobre la eficacia de las estrategias integrales de transformación digital para expandir las bases imponibles en el país, así como en las economías post-soviéticas. Se empleó un enfoque de métodos mixtos que combina el análisis cuantitativo de datos fiscales con la



revisión de documentos de políticas, evaluando tres dimensiones principales de la reforma: iniciativas de digitalización (facturación electrónica, sistemas de declaración electrónica, mecanismos automatizados de devolución del IVA), formalización de la base tributaria y racionalización del gasto tributario. Se examinaron los patrones de crecimiento de los contribuyentes registrados, las contribuciones sectoriales a los ingresos y los indicadores de cumplimiento a lo largo del período de estudio. Se observó un progreso sustancial en la expansión de la base imponible, evidenciado por el aumento constante de los ingresos fiscales no petroleros y una mayor formalización en los sectores de comercio, construcción y servicios. La implementación de infraestructura digital mejoró significativamente las tasas de cumplimiento y redujo la fuga de ingresos. Sin embargo, persisten desafíos como la evasión fiscal de importantes segmentos de la economía informal y las disparidades regionales en la efectividad del cumplimiento. En general, la estrategia de reforma multidimensional de Azerbaiyán muestra vías viables para las economías dependientes de los recursos naturales que buscan la diversificación fiscal. Un progreso sostenido requiere inversiones continuas en digitalización, desarrollo de capacidades regionales específicas y mejores mecanismos de confianza institucional para formalizar aún más las actividades económicas y ampliar la base imponible.

Palabras clave: Expansión de la base imponible, Azerbaiyán, Digitalización, Reforma fiscal, Cumplimiento, Diversificación de la economía de los recursos naturales.

INTRODUCTION

Expanding the tax base remains a cornerstone of fiscal resilience for developing economies, and Azerbaijan is no exception. Historically reliant on hydrocarbon revenues, the country has progressively shifted focus toward broadening its tax structure to support fiscal sustainability, social equity, and macroeconomic stability. However, challenges persist—particularly the substantial informal economy, tax evasion, and administrative inefficiencies. In response, Azerbaijan has implemented a series of reforms: digitization of tax administration, VAT refunds tied to cashless transactions, and targeted incentives for the real estate sector. These efforts gained fresh momentum in early 2025, with 2,665 VAT refund applications tied to cashless residential and commercial purchases submitted in the first half of the year (1,768 approved, totaling AZN 14.8 million), showing a policy push to formalize transactions and expand the tax base (Trend.Az, 2025).

Empirical data illustrates steady revenue growth. In January 2025 alone, the State Tax Service reported AZN 2.26 billion (~USD 1.33 billion) in tax transfers—61% from the non-oil and gas sector, representing a year-on-year increase of 11.6% (Sadigov, 2025a). From January to May, total revenue reached AZN 7.843 billion, exceeding

forecasts by 5.7%, with non-oil revenues rising by 9.1% to AZN 5.716 billion—comprising nearly 73% of total tax income (Apa.az, 2025). Mid-year figures reflect AZN 8.703 billion in tax receipts (~USD 5.12 billion), marking a 5.1% increase year-on-year and achieving over half of the annual AZN 15.5 billion target (Sadigov, 2025b). But beyond numbers, fiscal policy outlooks remain supportive. The IMF emphasized in April 2025 that broadening the tax base—including reducing around AZN 2 billion annually in tax expenditures (~1.5% of GDP)—is central to fiscal consolidation (International Monetary Fund, 2025b). In parallel, Moody's recent upgrade of Azerbaijan's sovereign credit rating to Baa3 cited improved non-oil revenue diversification and tax transparency (ABC.AZ, 2025).

The expansion of the tax base has been a widely studied subject in public finance literature, particularly in the context of developing and resource-rich countries. A broad tax base is generally associated with greater revenue stability, reduced dependency on specific sectors, and improved capacity for public service delivery (Bird & Zolt, 2015). Numerous studies emphasize that a narrow tax base, often due to high levels of informality, limited tax coverage, and sectoral imbalances, weakens fiscal systems and undermines long-term economic planning (Aizenman & Jinjarak, 2008; International Monetary Fund, 2020).

In the international context, empirical research suggests that effective tax base expansion is closely linked to structural reforms, administrative modernization, the introduction of digital tax tools, and reductions in tax exemptions and incentives (OECD, 2022). For instance, Sen Gupta (2007) argues that tax administration reforms, such as automation and e-filing, can significantly enhance revenue performance, particularly in middle-income countries. Similarly, Keen (2012) highlights the importance of targeting sectors with rapid growth, such as digital services, to keep pace with evolving economic structures.

Within the South Caucasus, Azerbaijan presents a unique case where oil-dominated fiscal revenues have historically overshadowed non-oil tax sources. However, in recent years, particularly after the 2016 fiscal consolidation strategy and the 2019 reforms, the State Tax Service has introduced mechanisms such as risk-based audits, electronic invoicing (e-invoicing), and VAT refunds tied to cashless transactions (World Bank, 2021; OECD, 2023). These changes have been driven by the country's goal to reduce its fiscal dependence on hydrocarbons and enhance revenue diversification.

Azerbaijan's tax reform agenda has gained additional momentum in the post-pandemic recovery phase. According to the Ministry of Economy of the Republic of Azerbaijan (2023), improvements in digital infrastructure and enforcement mechanisms have helped expand the taxpayer base, especially among SMEs. Recent data for 2025 further support this: tax revenues in the first half of the year

amounted to AZN 8.703 billion, of which more than 70% was derived from the non-oil sector—a 5.1% year-on-year increase (Sadigov, 2025b). Moreover, empirical studies on Azerbaijan have examined the effect of digitization on taxpayer compliance and transparency. Huseynli & Mammadov (2022) found that the implementation of digital tax solutions led to a 17% increase in declared turnover among small businesses within a two-year period. Another study by Aliyev & Karimova (2023) notes that the VAT cashback initiative significantly incentivized electronic transactions, especially in real estate and retail trade.

Despite progress, challenges remain. IMF staff reports (2025b) highlight that nearly AZN 2 billion per year—approximately 1.5% of GDP—is still lost due to tax expenditures and exemptions. These findings underscore the necessity of continued reforms in tax policy design, sectoral coverage, and administrative enforcement. Thus, the literature supports a multi-dimensional approach to tax base expansion—combining legal reform, institutional strengthening, and digital innovation. In the case of Azerbaijan, ongoing efforts have yielded positive outcomes, as evidenced by the statistical gains in 2024–2025. Nonetheless, sustained progress will depend on addressing structural inefficiencies, closing compliance gaps, and enhancing the efficiency of tax collection mechanisms. This article builds upon these foundations and contributes new statistical and analytical insights into Azerbaijan's evolving tax architecture.

The objective of the research is to provide an analytical examination of Azerbaijan's tax-base expansion mechanisms, anchored in robust statistical evidence from 2015 through the first half of 2025. It will be covered theoretical framework and best practices; structural analysis of revenue trends and non-oil sector performance; assessment of administrative reforms such as digital VAT, cashless incentives, and compliance enhancements; and policy recommendations aimed at sustaining and further enhancing the tax base. Through this evidence-based exploration, the study contributes to the broader discourse on sustainable fiscal frameworks and public-finance diversification in resource-rich states.

MATERIALS AND METHODS

This study applies a descriptive-analytical methodology based on official statistical data from 2015 to 2025. The objective is to examine the mechanisms for expanding the tax base in Azerbaijan through empirical trends, sectoral shifts, reform outcomes, and revenue structure transformations. The research integrates a comparative time-series analysis supported by multiple data sources to ensure accuracy, including the State Tax Service, the Ministry of Finance, international institutions (IMF, World Bank, OECD), and recent 2025 government reports (table 1).

Table 1. Dynamics of Tax Revenues in Azerbaijan (2015–2025).

Year	Total Tax Revenue (AZN bln)	Non-Oil Tax Revenue (AZN bln)	Non-Oil Share in Total (%)
2015	7.11	3.94	55.40%
2018	7.64	4.53	59.30%
2020	7.28	4.7	64.60%
2022	9.36	6.23	66.50%
2023	11.14	7.54	67.70%
2024	14.13	9.99	70.70%
2025*	8.703 (Jan–Jun)	6.13 (Jan–Jun)	70.40%

Note: *2025 data represents January–June only.

Source: Ministry of Economy of the Republic of Azerbaijan (2023); Sadigov (2025a, 2025b).

The steady increase in non-oil revenues from 55.4% to over 70% highlights successful tax diversification efforts. The 2025 mid-year figures suggest a continued shift in revenue structure toward non-hydrocarbon sources, strengthening the fiscal base (table 2).

Table 2. Sectoral Contribution to Non-Oil Tax Revenues (2020–2025).

Sector	2020 (mln AZN)	2022	2023	2025 (Jan–Jun)
Trade	1,028	1,294	1,673	1,009
Construction	625	758	983	594
Industry	780	926	1,081	565
Services	564	715	872	603
Transport	289	366	495	286
Agriculture	143	188	204	118

Source: Compiled by the author based on materials from State Tax Service of Azerbaijan (2025).

Trade, construction, and services are the core pillars of the expanding non-oil tax base. Their growing contribution indicates not only economic diversification but also enhanced tax registration and compliance due to electronic audits and real-time reporting (table3).

Table 3. Number of Registered Taxpayers in Azerbaijan (2015–2025).

Year	Legal Entities	Individual Entrepreneurs	Total Registered
2015	89,437	392,100	481,537
2018	97,000	442,800	539,800
2020	103,200	512,000	615,200
2022	113,700	598,300	712,000
2024	126,500	662,900	789,400
2025*	129,800	675,200	805,000

Source: Compiled by the author based on materials from State Tax Service of Azerbaijan (2025).

An increase of over 300,000 taxpayers from 2015 to 2025 reflects successful registration reforms, automation of tax services, and outreach programs for SMEs and informal sector actors. The accelerated registration between 2022 and 2025 further supports tax base growth (table 4).

Table 4. Digitalization Indicators in Tax Administration (2018–2025).

Year	e-Invoice Usage (mln)	e-VAT Refunds (AZN mln)	% Businesses Using e-Reporting
2018	0.52	1.2	28%
2020	1.47	7.6	49%
2022	2.03	12.5	61%
2024	3.21	21.3	76%
2025*	1.86 (Jan–Jun)	14.8 (Jan–Jun)	79%

Rapid digitalization is a cornerstone of tax base expansion. Over 75% of businesses now use electronic reporting tools. VAT refund automation not only increases transparency but incentivizes accurate reporting, indirectly strengthening the tax base (table 5).

Table 5. VAT Refunds in Real Estate via Cashless Transactions (2023–2025).

Year	Applications	Approved	Refund Amount (AZN mln)	Avg Refund
2023	3,422	2,109	12.6	5,976 AZN
2024	4,191	3,065	19.4	6,330 AZN
2025*	2,665	1,768	14.8	8,370 AZN

Source: International Monetary Fund (2025b)

Increased participation in VAT refunds tied to non-cash real estate purchases suggests formalization of large transactions. The rising average refund also reflects higher reporting accuracy, indirectly increasing (table 6).

Table 6. Estimated Annual Tax Expenditures (2018–2025) revenue oversight and compliance.

Year	Estimated Tax Expenditures (AZN bln)	% of GDP
2018	1.24	1.90%
2020	1.61	2.10%
2022	2.07	2.00%
2024	1.96	1.70%
2025	1.85 (projected)	1.50%

Source: International Monetary Fund (2025a).

Tax expenditures represent revenue loss from exemptions and privileges. A downward trend since 2022 shows improved policy targeting and reduced leakage. Eliminating or reforming these areas is essential for further broadening the effective tax base. On the other hand, while this study offers a comprehensive and data-driven analysis of tax base expansion mechanisms in Azerbaijan, several limitations must be acknowledged to ensure a balanced interpretation of the findings:

Incomplete Data for Full-Year 2025. The analysis includes data up to the first half of 2025 (January–June), which limits the ability to assess full-year fiscal performance. Certain trends—especially seasonal effects in sectors like construction, real estate, and trade—may not be fully reflected in half-year data. As a result, extrapolations for the entire year must be interpreted with caution.

Informal Economy Estimation Gaps. Azerbaijan's informal sector remains substantial, yet it is difficult to measure accurately due to underreporting, cash-based transactions, and limited visibility in official records. Although proxies such as taxpayer registration growth and VAT refund participation offer indirect indicators, precise quantification of informal activities is not possible with current data.

Data Source and Access Constraints. While most data were retrieved from official government sources (e.g., the Ministry of Finance, State Tax Service), some sector-specific details—particularly micro-level taxpayer behavior or enforcement data—are not publicly disclosed. This restricts the granularity of the analysis, particularly when **examining compliance behaviors and regional differences in tax performance.**

Limited Access to Cross-Country Benchmarking. Although international literature and IMF/OECD reports were reviewed for context, the study does not include a detailed comparative analysis with countries of similar economic structure due to data incompatibility and differences in reporting methodologies. This limits the ability to generalize Azerbaijan's progress or challenges in relation to peer economies.

Non-Fiscal Influences Not Fully Controlled. Macroeconomic and political factors such as currency fluctuations, regional conflicts, oil price volatility, and

legislative changes may impact tax revenue trends but were not quantitatively isolated in this study. These external variables could have amplified or distorted certain outcomes, particularly between 2020 and 2023.

Taxpayer Behavioral Data Unavailable. The study does not include direct survey data or qualitative insights from taxpayers (e.g., small business owners or self-employed individuals). As a result, behavioral and attitudinal factors affecting voluntary compliance—such as perceptions of fairness, ease of tax payment, or trust in institutions—could not be explored in depth.

Despite these limitations, we aim at providing a robust macro-level analysis of Azerbaijan's tax base expansion using available statistical data. Future research could enhance this foundation through micro-level case studies, cross-country benchmarking, and incorporation of full-year data and behavioral insights.

RESULTS AND DISCUSSION

This section presents the key findings of the study, derived from a detailed analysis of statistical data covering the period from 2015 to mid-2025. The results are categorized thematically to highlight trends, reform impacts, and sectoral performance associated with tax base expansion in Azerbaijan.

Steady Growth of Non-Oil Tax Revenues. One of the clearest findings is the consistent increase in both the share and absolute volume of non-oil tax revenues within the total tax structure. In 2015, non-oil revenues accounted for 55.4% of total tax collections. By 2024, this figure had risen to 70.7%, and data from the first half of 2025 (AZN 6.13 billion out of a total of AZN 8.703 billion) confirm the continued dominance of non-oil revenues at over 70%. This growth indicates the success of fiscal diversification policies and the increasing formalization of economic sectors beyond hydrocarbons.

Structural Shifts in Sectoral Contributions. The analysis revealed that certain sectors—namely trade, construction, and services—have become primary contributors to the expanding non-oil tax base. In the first half of 2025, tax revenues from these three sectors were:

Trade: AZN 1.009 billion

Construction: AZN 594 million

Services: AZN 603 million

These sectors collectively accounted for over 45% of non-oil tax collections in that period. The growth in construction and services is especially notable, reflecting increased transparency, digital invoicing requirements, and stricter reporting standards.

Significant Growth in the Taxpayer Base. Between 2015 and 2025, the total number of registered taxpayers increased from approximately 481,000 to over 805,000. Legal entities grew by nearly 45%, while individual entrepreneurs increased by over 70%. This expansion reflects the combined effect of simplification in registration processes, digitization of services, and targeted campaigns encouraging formal business activity. The large influx of small and micro-businesses into the formal system plays a critical role in widening the tax base.

Acceleration of Digital Tax Reforms. Digital tools have increasingly driven tax compliance and transparency. From 2018 to 2025:

e-Invoice usage rose from 0.52 million to over 1.86 million (mid-2025)

The percentage of businesses using e-reporting climbed from 28% to 79%

VAT refund automation increased from AZN 1.2 million (2018) to AZN 14.8 million (Jan–Jun 2025)

These figures confirm that digitization has not only improved administrative efficiency but has also encouraged voluntary compliance and reduced underreporting, thus expanding the effective tax base.

Positive Outcomes from VAT Refund Mechanism. The VAT refund scheme tied to non-cash real estate purchases has emerged as a strategic tool for formalizing high-value transactions. In the first six months of 2025:

2,665 applications were submitted

1,768 were approved (66.3%)

Total refunded amount: AZN 14.8 million

This mechanism is incentivizing taxpayers to declare full values in contracts and shifting real estate toward the formal economy, thereby resulting in higher recorded tax revenue.

Reduction in Tax Expenditures and Revenue Leakage. Tax expenditures—defined as revenue lost due to exemptions, deductions, and preferential treatments—have decreased from 2.1% of GDP in 2020 to a projected 1.5% in 2025. According to the IMF, this decline represents roughly AZN 200 million in annual recoverable revenue, which has been redirected to broaden the effective tax

base. The reduction of exemptions indicates a gradual shift toward a more uniform and equitable tax structure.

Enhanced Revenue Forecast Accuracy and Compliance. Tax revenues in 2025 exceeded forecasts by 5.7% in the first half of the year, driven by strong performance in the non-oil sectors. This overperformance indicates not only improved compliance but also more accurate forecasting, which is a critical factor for macro-economic planning. The Ministry of Finance and the State Tax Service have increasingly used real-time data and predictive modeling in planning, which is a direct result of integrated digital systems.

The findings clearly demonstrate that Azerbaijan's strategic reforms—particularly digitalization, taxpayer expansion initiatives, reduction of tax exemptions, and real-sector transparency—have significantly contributed to broadening the tax base. While challenges such as informality and uneven sectoral compliance persist, the country has made measurable progress toward a more diversified, inclusive, and efficient fiscal system. The statistical data from 2025 reinforce the upward trajectory and confirm the relevance of the reform agenda in current economic conditions.

Based on the above, it is underscored that Azerbaijan has made significant strides in expanding its tax base over the past decade, with particularly strong progress evident between 2020 and 2025. The integration of digital technologies, structural tax policy reforms, and institutional modernization efforts have collectively produced a measurable transformation in the country's fiscal architecture.

A key point of discussion is Azerbaijan's gradual but firm transition from a resource-dependent fiscal model to one increasingly reliant on diversified non-oil revenues. The data demonstrate that the share of non-oil tax revenue increased from 55.4% in 2015 to over 70% by the first half of 2025. This change is not merely a shift in percentages but a reflection of structural changes in the national economy. The growing role of trade, services, and construction indicates a broader taxable economic base, driven by expanding urbanization, formal business registration, and rising consumer activity. This transformation aligns with the fiscal sustainability goals laid out in Azerbaijan's strategic roadmaps and post-pandemic recovery strategies, confirming that public finance reforms have taken root beyond mere policy declarations.

In parallel with this economic diversification, digital transformation has emerged as the most powerful driver of tax base expansion. The sharp increase in e-invoicing usage and e-reporting—from 28% of businesses in 2018 to nearly 80% in 2025—has not only improved administrative efficiency but has also significantly curbed underreporting and tax evasion. The data clearly show that the digital VAT refund system has incentivized formalization, especially

in the high-risk real estate sector. With 1,768 cashless property refund applications approved in just the first six months of 2025 (totaling AZN 14.8 million), digital compliance is becoming institutionalized. This confirms the conclusions of prior studies (e.g., Huseynli & Mammadov (2022)), which suggest that digitalization creates “compliance momentum,” encouraging even reluctant taxpayers to align with formal processes due to the efficiency and incentive structure of automated systems.

Complementing these technological advances, another notable outcome is the expansion of the taxpayer registry, which increased from 481,000 in 2015 to over 805,000 by mid-2025. The rise in individual entrepreneurs and legal entities signifies an ongoing process of formalizing the informal economy. While accurate estimation of the informal sector remains a challenge, proxy indicators such as increased small business registration, e-declaration volumes, and growing tax payments in previously underregulated sectors suggest that Azerbaijan is successfully absorbing previously untaxed segments. This growth, however, is also driven by improvements in tax education, simplification of reporting systems, and the government's targeted outreach to sectors like agriculture, logistics, and e-commerce. Yet, more direct microdata—such as taxpayer satisfaction and compliance behavior—would be valuable for deeper evaluation.

Despite this structural progress, one of the more nuanced elements of the discussion is the gradual reduction in tax expenditures. As the data indicate, tax expenditures have decreased from 2.1% of GDP in 2020 to an estimated 1.5% in 2025. This represents a policy shift toward limiting excessive exemptions, deductions, and sector-specific privileges. While this move enhances equity and base broadening, it must be implemented carefully to avoid undermining strategic sector incentives (e.g., for startups or green energy). Fiscal neutrality and fairness must be balanced with economic development goals.

Another key implication is the improvement in tax revenue forecast accuracy. In the first half of 2025, tax revenues exceeded government targets by 5.7%, showing that not only has compliance improved but administrative institutions have also become more competent in modeling revenue flows. This improved predictability is crucial for macroeconomic stability and investment planning, signaling the growing maturity of Azerbaijan's tax governance framework. However, challenges remain. Some sectors—such as agriculture and informal retail—still demonstrate low compliance, and geographical disparities in enforcement persist. Addressing these gaps requires a more tailored, region-sensitive approach to enforcement and support.

Overall, the discussion reaffirms that Azerbaijan is on a positive trajectory in expanding its tax base. The mechanisms that have shown the greatest impact include digitalization, cashless transaction incentives, simplification of taxpayer services, and the gradual reduction of tax expenditures. The findings validate international best practices, yet also highlight Azerbaijan-specific factors such as the importance of post-oil diversification and the need to balance formalization with inclusive growth. Continued success will depend on fully implementing e-auditing and AI-driven tax risk assessments, further integrating the informal economy into the tax net, expanding real-time tax data use for policy evaluation, and enhancing transparency and public trust in tax institutions.

CONCLUSIONS

The research shows that Azerbaijan has achieved substantial progress in expanding its tax base between 2015 and 2025. The share of non-oil tax revenues rose steadily, driven by reforms in tax administration, digitalization, and efforts to formalize the economy. The rapid growth in registered taxpayers, the spread of e-reporting tools, and improved revenue forecasting all point to the effectiveness of these mechanisms. However, certain challenges remain: parts of the informal economy are still outside the tax net, tax exemptions reduce potential revenue, and regional disparities persist in compliance levels. Addressing these limitations is essential to sustaining long-term fiscal stability and ensuring equitable development. Based on these findings, the following recommendations can be made regarding the research work.

First, it is crucial to enhance digital tax systems by expanding e-invoicing, real-time data integration, and automated audit tools to improve compliance and reduce evasion. In parallel, supporting the formalization of the informal sector through simplified tax regimes and incentives for micro and small businesses to register voluntarily will help broaden the tax base. Additionally, reviewing and reducing tax exemptions by phasing out ineffective tax privileges and linking incentives to measurable economic outcomes would strengthen revenue generation. Furthermore, increasing taxpayer awareness and trust through improved transparency on tax revenue usage and better access to tax education and services is essential for building a culture of compliance. This should be complemented by strengthening regional tax administration by allocating more resources to low-compliance regions and developing local compliance strategies tailored to their specific needs. Finally, improving tax data availability and research capacity by publishing more disaggregated tax data and supporting independent fiscal analysis will inform evidence-based policymaking and enable continuous improvement of the tax system.

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