

Taxation aspects of pro-innovative amortization policy



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Abstract

Purpose - research the influence of the mechanism of taxes regulation to use the amortization sum for investment and innovations.

Design/methodology - deduction approach and comparative analysis.

Findings - are estimated the using of the amortization potential to investment and innovation aims, are defined the reasons of low level in using of taxes abate for the amortization and proposed different directions for taxes regulation of the amortization policy.

Research limitations - the non-existence of account and statistics information about using of amortization are limiting more deeply analysis of the amortization policy of enterprises.

Practical implications - using as scientific and guiding source in preparing the regulations measure on the amortization policy of enterprise.

Originality/value - are analyzed the observing levels of taxes regulation principles on the available amortization policy.

Keywords: *amortization potential, account policy, taxes regulation.*

JEL Classification Codes: *D23, D92, E62, H21, O23*

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1. Introduction

Market mechanism arisen from the mutual influence of demands and suggestions, competition and free capitals current, together with state regulations is obliging companies qualitatively pass to the new level - adaptation to foreign affects and modify the internal elements by directivity influence. In his programmed performance during the unveiling of the new Training Centre of the Ministry of Taxes located in Shamakhi, Ilham Aliyev, the President the Republic of Azerbaijan stated the main development directions of the country economy: “The Training center complies with to the modern standards and have been built in sightseeing in Shamakhi region. It is beautiful event and is connected with general development of Azerbaijan. Education, knowledge, science and the development of our economy founded on science are the important duties for us and are the reasons of our success” [1].

The amortization sum is considered the important source for investment directed to the creation of the scientific technologies, scientific - investigation and test - constructor works, and modernization of the technical elements in countries, which have higher innovations economy. It has to be noted that, the regulation of the amortization policy in the same countries is accepted as the main elements of the tax regulation.

“A labor” and “a land” are considered the primary sources of the economic growth in the history of the economic theory. The capital, knowledge and infrastructure as derivative sources of economic growth are giving possibility to provide the favorable use of primary source. An amortization takes important role in the development for the capacity of the knowledge and labor (*both physical and mental*) together with the providing of the repetitive and widened production of the technical elements. The modernization of the main capital, creation and the applying of the progressive technologies are considered the rational methods for the competition superiority. The amortization sum as the main finance source for such methods can give powerful impulse to the development of the science and education by creating great capacity demands for fundamental and applied science.

Basing on comments, the investigations of the amortizations policy from prism of the creation and applying of the new technology and techniques could be considered the actual. Regarding the analysis of the existing tax regulation for the amortization policy of enterprises is accepted as the aim of the investigation. Forwarding from this purpose, the learning of tax regulation on the amortization policy, directing of the existed amortization to investment and observing to principles of the tax regulation in this field are accepted as the duties of the investigation.

2. The main point of the amortization and its tax regulation tasks

In classical economic theory the main point of the amortization is accepted as the collection of the finance source for the providing of the repetitive production exploits

technical elements. The main point of the amortization has been changed by modern technical development. The picking up speed of the spiritual etching of the technical equipment, increasing of the applying speed of innovation to the economy, the necessity of the adaptation to the changes economic environment meet in front of enterprises requirements for the higher promptness ability. The promptness ability has to be in the structure and methods of management and production. The modification of the productions process is accompanied by modification in technical elements and in the technology. The finance guarantee of the innovations appropriation and the promptness ability of the company is created by the amortization sum and profit.

In the last 50 years, the amortization sum has become one of the main elements for the economic growth in developed countries. In the case, the special weight of the amortization sum in common investments was 25-30%, now its level has grown to 70-80%. The special weight of the investment finance from the profit decreased from 50% to 5-10%, but the investment on debt decreased from, 25-30% to 12-15% [2]. It is commented for comparison that 22,8% of all investment in the Russian Federation are implemented from the amortization sum, 54,6% from the credit and 19,2% from the profit [3]. Wasa resuet the amortization are developed countries turned into the investment sources to the new technical elements from the repetitive production and restore source. At a result, the amortization commenced to be used not as the physical etching of the technical elements, but the regulation means of the investment.

So we can see the amortization policy directed on the increase of the investment activity has given real results in developed countries. In accordance with the investigations, tax regulation of the investment activity of the owners and the investment direction of the amortization policy are completed by state regulation measures as constant support and protect of competitive mechanism of the market, provide of the innovations with allowances and the applying of the transparent mechanisms of the execution of the legislative acts. Just such systems approach has created a huge chance for the successful results in the practice [4, 5].

The amortization sum is concerning to expenses was taken out from the income for tax aim and has decreased the tax collecting for the state budget. The turning of the amortization sum into independent net finance allocations for tax payer as net profit is the main peculiarity differentiating them from other productive and selling expenses. In general, amortization sum has to use for restoring and modernization of the technical elements. If the amortization sum does not direct to investment, its deduction from the tax base lose the macroeconomic point. The direction of the amortization sum to investment and economic growth is the main motive of the state in amortization policy. Therefore, if the income tax degree is 20% and the state does not receive 1 manat tax (*from income/profit*), taxpayers receive additional investment source equaled 4 manats. [6]

Basing on the comments, the turning of amortization sum into the investment source for repetitive production and innovations enlarge from the source for the main capitals restoring has been suggesting as the one of main duties of the tax policy.

In modern period, the speed of spiritual etching of the active part of the main allocations (*technological equipment, machine-tools, mechanisms, devices, mounting*) is grown more than there physical etching. Just this factor decreases the restoring role of the amortization and makes the investment to new equipment economic necessity. The amortization sum has to create the finance chance for the receiving the new and more efficiency assets. Such approach stimulates the demand for the technological equipment and directs the finance resources to productive forces.

The methods for accounting amortization sum take great part in amortization policy. Proportional and speedy amortization methods are widely used in the practice. Amortization sum in the proportional method is accounted by constant percentage from the initial cost of the technical elements during its defined exploitation term. The initial cost of the technical elements is equally dividing into years in this method.

Two types of amortization are used in developed countries: decreased remainder cost method by double norms or constant percentage method, cumulative method and “numbers totality” methods [7, p. 117-119].

The main point of the first method consists of the facts, that the amortization sum is accounted by double norms from the remainder cost of the assets. At this method, the major part of the investment was returned during the initial years of the exploitation and used for new investment. The negative peculiarities of the constant percentage method are that, the term of the complete return of investment by the amortization is expanded (*because amortization sum is accounted from remainder cost*).

In the applying of the second method, the amortization sum is accounted by the definition of the exploitation terms of the technical elements and increasing of the amortization norms during initial term of the exploitation (*Table 1*).

Table1. Account of the amortization sum by cumulative methods.

Exploitation term of the technical elements (years)	Remainder exploitation term (years)	Amortization norm of the technical elements from its initial value
1year	5	5/15
2year	4	4/15
3year	3	3/15
4year	2	2/15
5year	1	1/15
Total 5year	15 part	15/15

Source: *Economy of the company. (Under editorship. N.A.Safranova), M.: Yurist, 1998, p. 117.*

During the apply of the cumulative method, the value of the technical elements is completely amortized during fixed exploitation term and the major part of the value is returned back in the initial years of the exploitation.

Now, we are going to analyze the regulation of the amortization policy according to by legislation of our country.

The tasks of the amortization sum and their accounting are reflected in the article, 27 of Law on the Accounting coming into force on March 24, 1995 in Azerbaijan Republic. In accordance with this article, the costs of technical elements and immaterial assets are amortized by exploitation (*amortization*) terms or by norms confirmed by the Cabinet of Ministries of the Republic of Azerbaijan . The companies could apply speeded amortization norms by increasing (*the increase could not be more than twice*) amortization norms according to the agreement of the Ministry of Finance of the Republic of Azerbaijan. In the case, if amortization will be decreasing factor for financial position, enterprises have a right for decreasing an amortizations norm according to the agreement of the Ministry of the Finance of the Republic of Azerbaijan (*decreasing could not be less than 0.5*) [8].

The enterprises have been given rights on using the speeded amortization and rules for defining of the exploitation terms for the technical elements

In other part, there are no demands on account and regulation of the use from the amortization division. At the same time, there are not articles about regulation and accounting for amortization sum. Furthermore, there are any discrepancies between this articles and corresponding articles of Civil and Tax Code came into force by the next years.

In accordance with the article 152.5 of the Civil Code of Azerbaijan Republic, the owner has the right freely own the property by legislation or other case and by limits defined by agreement, could use of it, issue order on it, not allow the ownership other person to it, act as his wishes according to his property, not break the rights of the third person and abuse of the right” [9]. It is cleared from the article that legal and physical entity could freely use the exploitation term of the technical elements being under their ownership by implying technical, safety, ecological and other limits.

Amortization norms, the rule of the account and its and sum defined by the applicable Tax Code of Azerbaijan Republic are basically differed from corresponding articles of the law on the accounting.

Therefore, according to articles 114.4 of the Tax Code of Azerbaijan Republic, the amortization sum on the main categories is accounted by applying the remainder cost in the year, relating to each category. The remainder cost included the remainder cost for the current year (*amount remained after deduction of the accounted amortization for the same year*) and parts of repair expenses, which are the above limited sum, in the case the liquidated or the remainder amount is less than 100 manats and

5 percent of the initial year, the remainder amount of the initial amount is deducted.

In the article 114.3 of the Tax Code, the amortization sum is limited as 7% for the building and mounting, 25% for machines, equipment, account techniques and transport, 20% on other technical elements [10]. As it seen, the account rule of the amortization sum by the tax legislation is improved method of the “decreased remainder cost”. No limited and stimulating item on service articles of the technical elements and amortized amounts in the Tax Code has been defined.

Such faulty existed in the legislative acts arose the implementation of differences amongst tax and accounting of the amortization sum.

The definition of the amortization amount by the maximum norms is given in the Table 2.

Table 2. The accounting of the amortization period for equipment with initial costs 100.000 manats by “decreased remainder cost” method.

Years	Remainder cost of the (<i>manat</i>)	Amortization norm (%)	Amortization sum (<i>manat</i>)	Special weight of unpaid sum in initial cost	Yearly amortization sum by implying discount	Special weight of discounted amortization sum in the initial cost
1	100000	25	25000	0,25	21739	0,22
2	75000	25	18750	0,44	14178	0,36
3	56250	25	14063	0,58	9246	0,45
4	42188	25	10547	0,68	6030	0,51
5	31641	25	7910	0,76	3933	0,55
6	23730	25	5933	0,82	2565	0,58
7	17798	25	4449	0,87	1673	0,59
8	13348	25	3337	0,90	1091	0,60
9	10011	25	2503	0,92	711	0,61
10	7508	25	1877	0,94	464	0,62
11	5631	25	1408	0,96	303	0,62
12	4224		4224	1,00	789	0,63
Total			100000		62722	0,63
Note: Repair expenses have been accepted in the limit of the norms.						

Source: accounts given by authors.

As it seen form the table, the period of investment returning by amortization is equal to 12 years. It should be stated that, in the initial years of this exploitation, the return speed of this amount is satisfactorily high: 58% of the amount amortized during three year, 76% during 5 years and 90% during 8 years. In the case, the purchase of the equipment from alternative point of view, brought net amount of the 12 amortization is 63% of the initial amount. Due to inflation, the amount could fall the lower level. In accordance with the commented base, existed tax regulation does not sti-

mulate the innovation of the active part of the technical elements of the owners in the amortization policy and motivation on enlarged repeated production.

It is not casual, that amortization is considered the main cause of the rapid economic growth commencing from 60-th years of the last century in the developed countries. Just by the help of such policy, the important results in the field of higher technologies, information science, bio and nanotechnologies are achieved. In modern period, the amortization is an indicator characterizing physical etching and is accepted as one of the sources of the economic growth and regulation of the increased repetitive production.

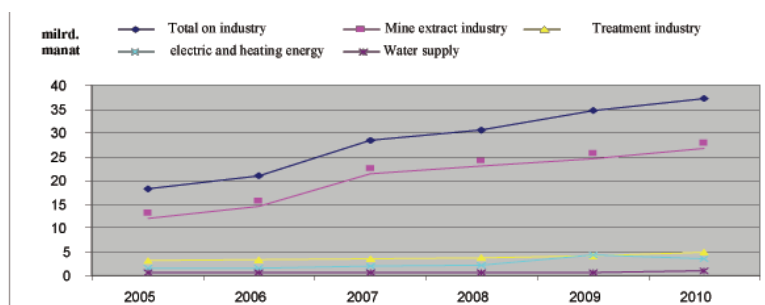
3. Investigation of the existed amortization policy of the industrial companies of Azerbaijan

We will analyze by using the information of the State Statistic Committee, amortization mechanism defined by the Tax Code and amortization practice in our country. It is considered important to analyze the industrial fields, because industry fields have a great weight on GDP, tax incomes, amortized machine and equipment, large scale and economic regulation (*state and market*).

The amortization policy of the company could be differed by depending on the activity independence of the different fields of the industry and technical-economic peculiarities. Therefore, the export prices of the oil and gas products defined in the world exchange, but the internal costs are regulated by the state. Prices of electricity and heating energy, water supply are regulated by the state. Treatment industry differed from other industrial fields by the competition structure, the state regulation and the market mechanism. Because of the reason, the amortization practice accepted as the investigative objects in industry and its processing field.

In the graphic 1, the residual cost of the main industrial-productive funds in Azerbaijan for the end of the 2005 -2010 years has been given.

Graphic 1: Residual costs of the main industrial-productive funds.

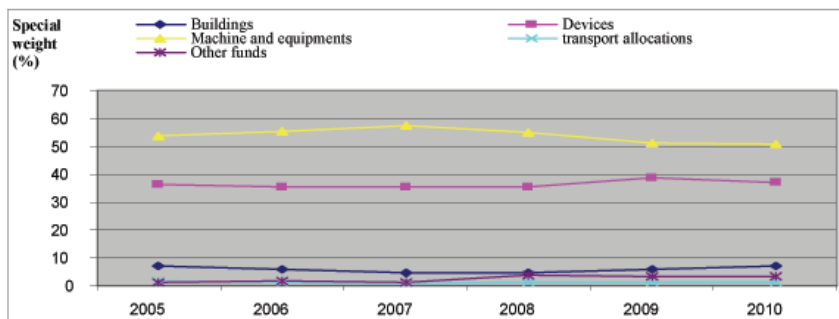


Source: <http://www.azstat.org/stainfo/industry/az/index.shtml>.

As it seen, the residual costs of the main funds have increased by high speed. Therefore, the amount of the main fund for 2010 increased nearly twice in comparison to 2005. The increasing happened due to of the great investment put on the oil and gas industry. The amount of the main funds in this field increased 1.55 times in 2010 in comparison to 2005.

The structure of the main funds is given in the graphic 2. Decreasing of the weight of the equipment and machines in industrial production funds, nevertheless its higher special weight and the fact of increase of the special weight of the devices could be explained by the use of the new devices in the oil and gas production.

Graphic 2: The structure of the main funds in the industry

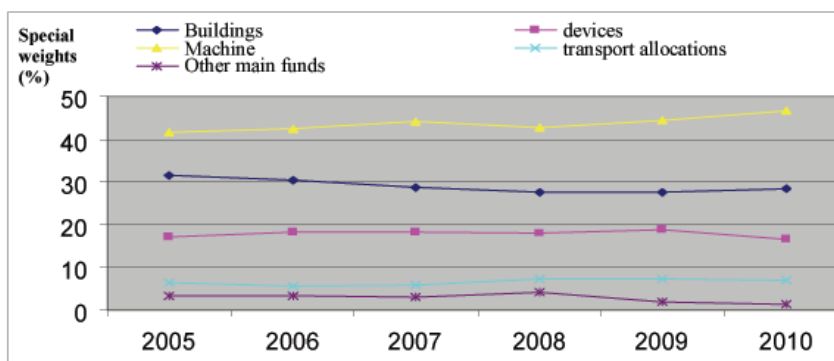


Source: <http://www.azstat.org/stainfo/industry/az/index.shtml>.

There are different situation in the treatment industry. Private sector is preferential and competition is more intensive in this field.

In the graphic 3 we can observe the increasing of the special weights of the machine, equipment and transport and decreasing of the buildings, devices and other main funds in these fields.

Graphic 3: Structure of the main funds in mounting industry

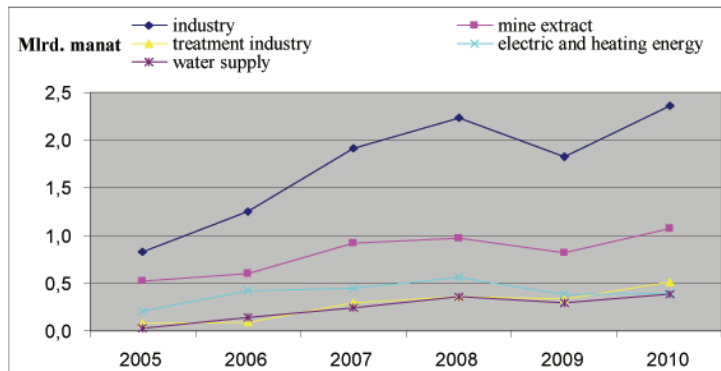


Source: <http://www.azstat.org/stainfo/industry/az/index.shtml>.

The amount of the internal sources invested to technical elements could be used for analyzing the amortization potential. Of course, information on sum of the internal investment on concrete sources (*amortization sum, profit and other*) could give possibility for more qualitative results. However, such information is unknown, to us termed the use of the general indicators as the “investment on internal sources”.

The information on amount, dynamics and structure of the investment to the industrial field on account of the internal sources are given on the Graphic 4.

Graphic 4: Internal investment in the field and its branches.



Source: <http://www.azstat.org/statinfo/industry/az/index.shtml>

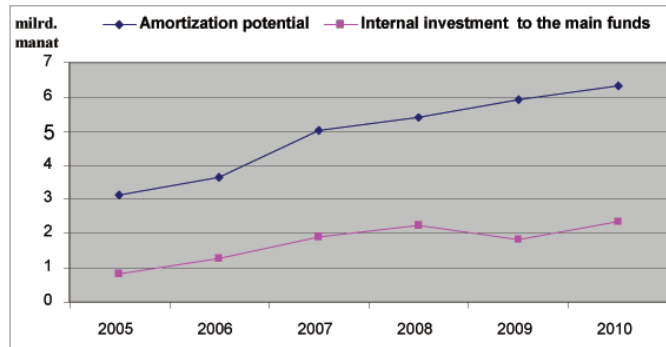
The increase of the investment because of the internal sources could be observed in the case of the non-oil sector of 2009, being the hardest period of the global finance crisis. The suitable environment created for the development of the non-oil sector in the country made condition for the severe increase of the internal investment. So, being 6,37 times more than corresponding indicator of 2005, the amount of the internal investment was 509,1 manats.

The amortization division existed on the base of information on the amount and the structure of the main allocations in the industry are accounted on the amounts of the amortization potential. The accounts carried out in the opinion of the use of the maximal amortization on the corresponding groups of the main allocations. The mentioned opinion based on the interest of companies of amortization of the allowances to the main allocations in short term, its allocations to companies are interested to use the highest limits of amortization norms defined by Tax Code.

The fact of being of the internal investment allowance from existed amortization division smaller, give possibility to adopt the consideration of realizing of the internal investment completely on account of amortization by the aim of the use of amortization potential in industrial field.

In accordance with the account, the use of the amortization potential as the source of the investment in Azerbaijan industry is at lower level. This indicator was 37,2% in 2010. In the Graphic 5, the comparison of the internal allowance to the main allocations with the amortization potential in the industry has been provided.

Graphic 5: The comparison of the internal allowance to the main allocations with the amortization potential in the industry

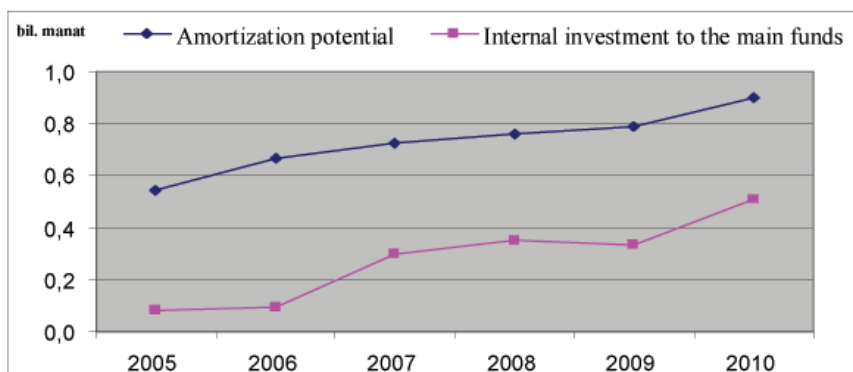


Source: <http://www.azstat.org/statinfo/industry/az/index.shtml>

As it seen from the graphic, there exist both amortization and increase lean in the amount of investment made in the main allocations in the field. Amortization potential was in the level of 6,34 billion in 2010. The indicator is twice higher compared to corresponding indicator of 2005. The amount of the internal investment in the main allocations was 2,36 billion by increasing more than 2,8 time on 2010 in comparison to 2005. It is impossible to note one more discrepant case to gether with such positive lean: the differences amongst the amount of the internal investment in the main allocations increased from 2005 until 2009 and the increase stopped only in 2010.

In the graphic 6 the amount of the internal investment allowance is compared to the amortization potential on the treatment industry.

Graphic 6: Comparison of the amortization potential and internal investment in the field of the mounting



Source: <http://www.azstat.org/statinfo/industry/az/index.shtml>

The amortization potential increased in the field of the mounting: In 2010, the amortization potential was more than 1,65 times from the corresponding indicator of 2005. The high increasing of the internal investment to the treatment industry is showing development perspective of this field.

In the other part, the use level of amortization potential has increased. Therefore, the indicator was 14,6% in 2005 and reached 56,4 % in 2010. The lower level of the amortization potential together with the existence of the hopeful increase lean, shows that there exist objective and subjective problems in the field of amortization.

There exists conclusion of relation of the account motive of the amortization division of owners with the competition ability of the produced yield. In accordance with this conclusion, companies try to decrease the profits on account of amortization division by lower norms for the puporse to provide the rivalry ability of products. By the aim of assessment of the realization of the mentioned conclusion, the analyzing of the structure of the expense is carried out generally on the industry and mounting field (*Diagram 1 and 2*).

Diagram 1. The structure of expenses in the industry in 2010

Source: <http://www.azstat.org/stainfo/industry/az/index.shtml>.

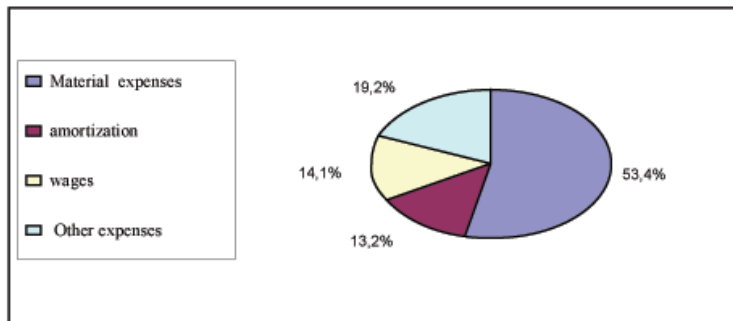
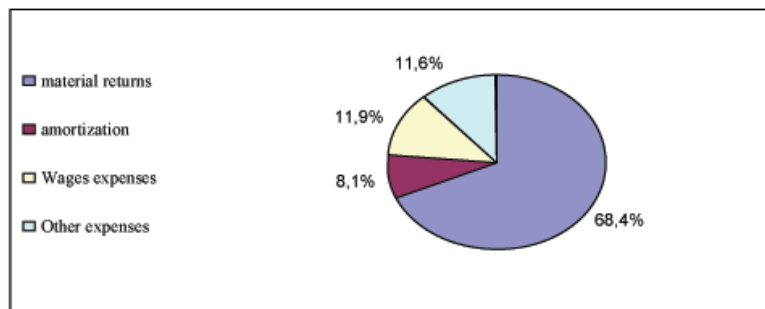


Diagram 2. The structure of the profit in the processing industry in 2010



Source: <http://www.azstat.org/stainfo/industry/az/index.shtml>

As it seen, amortization sum in industrial field possesses the less weight amongst economic profits. There observed lean of the increase of material profits and increase of the amortization division in the industry. Nevertheless, the increase lean, the amortization sum remains as the group possessing to the less weight in the general amount by 13,3% level in the field in 2010.

As it seen in diagram 2, the amortization is remained lower group in the processing industry. The prior profits for the decrease of the general profits in the field of the are processing of the material profits. In the case, we accept, the special level of the amortization division in general profit 8,1%, 10% increase of the amortization division for the similar production capacity and in the case of non-modification of other expenses could bring 1,8% total increase of the total profits. The fact of the lower of rationality of amortization division as the factors of the profit regulation shows the relation of the lower amortization norms apply with the rivalry ability of product is not basic.

Amortization division is also used as the financial source spends to the technological innovation. Information on the division and sources on the activity types of investment put on the technological innovation in the Azerbaijan industry are given on the table 3 and 4.

Table 3. Expenses to technological innovations in the industry and processing and their sources (*million manats*)

Indicators	2005	2006	2007	2008	2009	2010
All industries	53, 2	43,8	49,6	8,02	4,6	8,1
On account of the allocations of the company	4,06	0,89	25,5	5,9	3,6	3,5
State budget	43,0	34,1	29,8	0,01	-	-
Funds beyond the budget	1,62	0,33	9,2	-	-	-
Other	4,5	8,5	14,75	2,11	1,0	4,6
Processing industry	8,6	1,08	49,5	7,4	4,1	8,1
On account of the personal allocations of the company	2,3	0,73	25,5	5,3	3,1	3,5
State budget	0,2	-	-	0,01	-	-
Funds beyond the budget	1,6	0,26	9,3	-	-	-
Other	4,5	0,09	14,7	2,1	1,0	4,6

Source: <http://www.azstat.org/statinfo/industry/az/index.shtml>.

The initial fact implied from the issued information consists of the fact that, the special weight of the directed investment to the main fund in internal investment is lower. Therefore, in 2010, the internal investment was 2,35 billion, in addition, 509,1 manat to the field of the treatment. In the same years, the investment to the innova-

tion is the processing field was only 3,5 billion manats (*weight in total internal investment was 0,68%*).

In 2005-2010, the investment directed to purchase of cars and equipments in relation with the technological innovation in the field of the processing increased rapidly in 2007, prior to financial crisis and was at the level of 40 million manats.

Table 4. Information on the direction of the innovation profits in the industry and processing industry (million manats)

Indicators	2005	2006	2007	2008	2009	2010
All industries	53,2	43,8	49,6	8,0	4,6	8,1
<i>At the same time:</i>						
Apply and use of new products, services and new processes	0,86	0,78	3,8	2,5	0,8	2,5
Purchase of cars and equipment in relation to technological innovation	1,8	0,4	40,0	4,5	2,3	5,0
Purchase of new technology	50,6	42,7	0,3	0,1	1,1	-
Technological innovation	2,0	-	5,3	-	0,02	0,14
Processing manufacturing industry	8,6	1,1	49,5	7,4	4,1	8,1
<i>At the same time:</i>						
Apply and use of new products, services and new processes	0,04	0,8	3,8	2,5	0,7	2,5
Purchase of cars and equipment in relation to technological innovation	1,8	0,3	40,0	4,5	2,0	5,0
Purchase of new technology	6,7	-	0,2	-	1,0	-

Source: <http://www.azstat.org/statinfo/industry/az/index.shtml>.

Approximately 80% of these sources used in the polygraph field (30 million manats) and foods field (9 million manats). 25 million of the same amount is provided on the account of the company. In next years the decrease lean observed on purchase of the new technological car and equipment because of the internal allocations. The mentioned facts, display the lean of the innovation in the field of the amortization of the processing companies.

4. Use of the tax regulation principles in the existed amortization policy

Relation of the amortization sum to profits deducted from tax by the aim of the profit tax is accepted as tax allowance supporting repetitive and enlarge production

of the main allocations. The made investigation shows that, the relation of them in the result of the amortization society carried out in industrial field with tax society is weak. Therefore, there is no severe modification in tax regulation of the amortization society. The effect of the decrease of the profit tax from 24% level in 2005 to 20% level in 2010 is not considered the powerful.

The result of the conducted analyses, bring into conclusion that, the principles [12, 13, 14] of the tax regulation in amortization society were not obeyed.

In accordance with the initial principle of the tax regulation, the achievement of balance of interest of all participants of tax relations is necessary. The use of the amortization potential lower in industrial companies display the need of higher amortization norms and lower of the ability of the use of these norms from different reasons. The companies does not use the corresponding allowance defined by tax code or cannot use. Therefore, interest of the state in this field has to be completely provided.

According to the second principle of the tax regulation, the rationality of the regulation measures has to be provided. Non-express of the major part of the amortization potential directed to the restoration, modernization and creation of innovation in the production of the main allocations, decrease the rationality of such regulation without a debt.

In accordance with the third principles, the tax regulation has to be addressed. The differentiation elements are not applied on the field of the national economy in the existed amortization society of the state. The apply of the same amortization society in the field of severely differed each other according to capital capacity, fund capacity and fund deliver of the industry, structure, use intensive, innovation activity of the main allocations, paying of actives and other indicators could not bring the necessary results.

In accordance to the fourth principles of tax regulation has to be coordinated and applied by measurement regulation of the state. The fact of non-use of amortization potential of the industrial companies by the aim of investment display insufficient maintenance this principle in the practice. More developing of the mechanisms enlarging the investment of companies to the main allocations and innovations and state regulative mechanisms indirectly obliging to it, codes, technical and ecological society (*standardizing, certification, technical norms*) legislative mechanism providing the care of the right of author and production and others could significantly rise the rationality of tax regulation applied in the field of the amortization.

In my opinion, limits in amortization fields of the industrial companies of our country are explained well by quotation taken out the work named “Economical development theory” published 100 years before in 1911 by Josef Schumpeter: “Ideal technical solution not taking account economic terms has to be modified. Economic logic always conquers the technical logic. That is why, we see rope instead of the

steel wire, efficient animal in bad situation instead of the beautiful situation, primitive handwork instead of the completely machine, and clumsy cash economy instead of the cheque turnover in real life. The best technical variant doesn't often comply with economic design. The reason of such case is not the absence and inertia off knowledge, but adaptation of the economy to the case" [15, s. 73].

Because of companies activate as open, complex and non-line systems of the self-organization theories used in the explanation of their behavior. Basing the articles of the same theory and noted results of J.A.Schumpeter, the reason of the lower use of amortization potential and weaken of the innovation inclination in industrial field of our country is expressed: "inbeing of effects internal elements (*aims, technologies achieving the aims, technical elements, production and management structure, tasks for working place*) and external environment directed to modification and pass to the new level forceful (*both in quality and quantity*)".

5. Conclusion

Norms and account methods of amortization division defined in the Tax Code of Republic of Azerbaijan do not issue the complete finance supply of enlarged and simple repetitive production of the main resources. Nevertheless, the observation of the investment to main resources and amortization potential in the field of the industrial company in Azerbaijan use the possibilities prescribed by Tax Code in amortization policy. The less level of the machine and equipment purchasing by technological innovation aims indicated that the lean to innovations are less.

In the last 20 years, the sufficient economic reforms implemented in our country brought important development for the regulation mechanisms. Of course, it is just impossible to complete the evaluative market mechanism during short term. The existence of the objective looseness of the competitive environment, chose possibilities and abilities, ownership culture, "relative and auxiliary" fields and other such elements in the development level are appeared in the quality of the market mechanisms regulating economic activity. In such case, the state as the source of the creating "impulse" for developing of the chain reaction have to be institutional organization forming the corresponding environment and it is turned into the necessity.

There is no any need on the account of the use direction of the amortization sum in the Law on Tax account and Tax Code. The issue of the free use of amortization division to companies during the initial years of our independence is explained by difficulties of the transit period to market economy, severe finance faulty and by existence of the mutual non-payment. The economic case in our country is characterized by the higher speed of the development, macroeconomic stability, existence of the infrastructure, provide of the market preference in mutual relations amongst companies and other such indicators in our country. All these facts show, that the corre-

sponding date for the assessment of the tax allowance results as the use of the the amortization division, provide the state regulation and relation of profits deducted from amortization division obtained.

The following differentiation directions for initial period in tax regulation of the amortization society are suggested:

- On oil and non-oil sectors;
- Oil - chemical and other processing field;
- On the main resources for implementation of the scientific-technical activity;
- On the main resources used in innovation activity;
- Car and equipment saving energy (*lists and that real results certified by bodies of the corresponding legislative authority*).

Together with the strengthening the mechanism stimulating the investment activity, it is necessary to increase the role of the tax regulation function. The solution of duties will be rational by parallel convey of improvement of elements directed to the decrease of tax evasion case of the tax administration.

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