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DIFFERENCES IN THE DEPRECIATION POLICY: THE CASE OF AZERBAIJAN AND TURKEY

AMORTİSMAN POLİTİKASI FARKLILIKLARI: AZERBAYCAN VE TÜRKİYE ÖRNEĞİ

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ÖZ

Amortisman, vergiye tabi kârın belirlenmesinde etkin bir kalem olduğundan, bu kalem açısından ülkelerin pozisyonları araştırılmalıdır. Ülkeler arasında amortisman hesabında hizmet ömrü varsayımlarında farklılıklar olabileceği kabul edilmekle birlikte, bir varlığın hizmet ömrünün ekonomik faktörler tarafından belirlenmesi gerekmektedir.

Bu çalışmanın amacı, Azerbaycan ve Türkiye'nin amortisman politikaları arasındaki farklılıkları, iki ülkenin uyguladığı amortisman yöntemlerini, amortisman oranlarını, amortismana tabi ve amortismana tabi olmayan maddi duran varlıklarını incelemektir. İki ülkenin amortisman mevzuatı incelenerek uygulamadaki farklılıkları karşılaştırılmaktır.

İçerik analizi olarak gerçekleştirilen bu araştırmanın örneklemi Türkiye ve Azerbaycan ülkelerinin amortisman uygulamasına ilişkin yasal düzenlemelerdir. Önce Azerbaycan'ın yasal düzenlemeleri, ardından Türkiye'deki yasal düzenlemeler anlatılmış; iki ülke, amortismana tabi varlıklar, amortisman oranları, amortisman hesabında hizmet ömrü ve amortismana tabi olmayan varlıklar incelenerek karşılaştırılmıştır.

Bulgular, amortisman uygulama ve oranlarının iki ülke arasında farklılık gösterdiğini ortaya koymuştur. Ancak bu durumu açıklayabilecek ekonomik bir faktör tespit edilememiştir. Temel olarak amortisman tutarı, amortisman oranı ve amortisman tutarının hesaplanması yöntemlerinde çeşitli farklılıklar tespit edilmiş ve örneklerle gösterilmeye çalışılmıştır.

ABSTRACT

Since depreciation is all item in determining taxable profit, countries' positions in this item should be investigated. Although it is accepted that there may be differences in the service life assumptions in the calculation of depreciation between countries, the service life of an asset should be determined by economic factors.

This study aims to examine the differences between the depreciation policies of Azerbaijan and Turkey, the depreciation methods applied by the two countries, the depreciation rates, and the depreciable and non-depreciable tangible assets. It is to compare the differences in practice by examining the depreciation legislation of the two countries.

The sample of this research, carried out as content analysis, is the legal regulations regarding the depreciation application of Turkey and Azerbaijan. First, Azerbaijan's legal rules and then Turkey's legal principles were explained; Two countries, depreciable assets, depreciation rates, service life in the depreciation calculation, and non-depreciable assets, were examined and compared.

The findings revealed that depreciation practices and rates differ between the two countries. However, an economic factor that could explain this situation could not be determined. Differences have been identified in the methods of calculating the depreciation amount, depreciation rate, and depreciation amount and have been tried to be shown with examples.

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Introduction

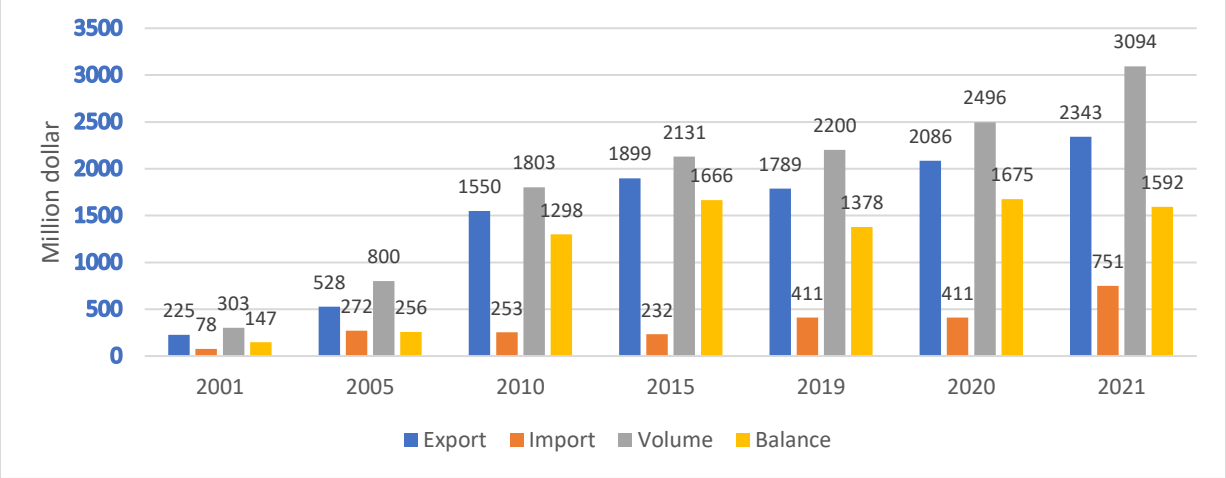
With globalization, it is expected that specific standards will be achieved in accounting practices, and regulations will be in the same perspective. However, especially in recent years, efforts have been made to ensure that international accounting standards are uniform in all countries to reach transparent, comparable financial reports that reflect the actual situation in terms of accounting. For this reason, the applied accounting approaches and financial reporting standards must be generally accepted in international norms.

In this context, accounting practices between the Republic of Turkey and the Republic of Azerbaijan, which have close ties in terms of commercial and cultural relations, and geographical location, are examined. So, in this research, the depreciation practices of the two countries were reviewed on the legislation and examples.

According to the data for 2021, Turkey is the first among the countries that the Republic of Azerbaijan exports non-oil products; It ranks second in exports of all products and second in imports.

The total trade volume between the two countries by year is presented in Table 1 below.

Table 1. The Trade of Azerbaijan - Turkey



Note: Profile of Azerbaijan, Ministry of Trade (Turkey, 2021)

Depreciation is the regular (systematic) distribution of the depreciable amount of an asset over its useful life over a specified period (Karimov, 2009: 169). Tax accounting requires that the depreciation be calculated systematically and distributed because the sudden write-off of an entity's capital expenditures does not allow the entity to estimate its actual profit. In this case, there are sharp differences in the entity's profit and loss statement for consecutive years. Therefore, the cost of fixed assets is not shown as a direct expense but deducted from income in the form of depreciation allowances.

Depreciation is the result of two factors affecting tangible and intangible assets. The first factor is the economic and accounting, which means functional and physical wear and tear. The second factor stems from the fact that it is not possible to obtain fixed assets per year, and their value must be included in expenses (Starova and Cermakova, 2010: 38). Reasons for depreciation allowances: depreciation, deterioration, failure of fixed assets as a result of unforeseen events, inability to perform timely and required maintenance, repair and replacement of parts, replacement of old ones with technological developments, changes in demand for products due to fashion and similar factors, social, cultural and political outcomes, economic reasons, and so on (Abdioğlu et al., 2014: 368). Although depreciation reduces the tax base, the differentiation in depreciation methods can be used as a tax planning tool. For this reason, the honesty rule should use the right to set aside depreciation.

Although there is little need to invest in property, plant, and equipment in trade and service enterprises, accounting for property, plant, and equipment is essential to accounting and reporting. In industrial enterprises, investments in fixed assets must be made first.

The capitalization of these assets and the elimination of depreciation on these assets are carefully considered to reflect the actual situation in the financial statements. In addition, the share of depreciation in industrial enterprises is essential not only as a cost of the period but also as an element of the cost of goods produced (Pamukçu, 2010: 68).

The purpose of this study is to examine the differences between the depreciation policies of Azerbaijan and Turkey, the depreciation methods applied by the two countries, depreciation rates, depreciable or non-depreciable assets, and to compare the differences in practice by examining the depreciation of tangible assets in the tax legislation of Azerbaijan and Turkey.

This study, which was carried out to reveal the differences in depreciation regulation and application between the two countries, literature research, methodology, practices from the two countries, and the conclusion are included.

Review of Related Literature

Intensive research on the concept of depreciation has been conducted and reported in the literature around the world. Sheshukova and Ivannikov (2006) write that the declining balance method assumes that the efficiency of using fixed assets will be lower than in the previous year due to the gradual depletion of fixed assets.

Güntutmaz and Erdoğan (2008) investigated the application of cyst depreciation in passenger cars belonging to businesses based on decreasing balances, excluding passenger cars used for this purpose by those who partially or wholly rent or operate passenger cars in various ways. At this time, there is no problem when normal depreciation is applied. However, they stated that different issues might arise when the depreciation of pro-rota is made according to the decreasing balance method, and they also gave examples.

Zuca et al. (2009) note that the amount of depreciation is an essential self-financing source for investments. Depreciation of fixed assets is a generalized process worldwide, whether applied in one way or another, emphasizing its multifaceted economic role; he studied the theoretical aspects. Depreciation means that it is an integral part of production costs and has a well-defined role in determining profitability.

Pamukçu (2010) notes that applying Pro-rata depreciation is also one of the issues that make a difference. Although pro-rata depreciation is a specific application in the tax legislation of the Republic of Turkey, it is applied to all tangible assets in the accounting standard of the Republic of Turkey. In addition, the principles of application are different. For example, according to the Tax Procedure Law, the underestimated depreciation in the first year is added to the last year's depreciation. Still, in the accounting standard, it is accepted as depreciation expense for the following year.

Korkmaz (2013) gave examples of the application of extraordinary depreciation in various situations and included recommendations regarding the application. He emphasized that in the case of receiving compensation for the insured property due to the flood disaster, the opinion prevails that the amount found as a result of the comparison of the payment received from the insurance without additional depreciation for the economic asset for which insurance compensation is received and the net value of the economic asset should be shown in the profit-loss account. The rulings of the Ministry also support this view.

Erol and Uyanık (2014) state that while global or transnational companies are managed from a central structure, investors need reports containing standard criteria to see the outcomes of their worldwide investments and loans healthily. In their opinion, there should be more parallelism and even more parallelism between the Turkish Accounting System and the Tax Procedure Law.

Ağca (2015) explained the causes of international accounting differences and the solutions to the problems arising from these differences by examining the international accounting literature.

Dmitrievna and Borisovna (2017) state that the choice of a particular depreciation method should be determined for the entire period of depreciation of fixed assets. They emphasize that their countries' legislation prohibits changing the method of calculating depreciation during the useful life of fixed assets.

Kaya and Atasel (2017) think that the 16 standards of the Turkish Accounting System contribute to the transparent and factual presentation of material assets in the financial statements and the comparability of the financial statements of operations in the world and Turkey. However, they also realize that the establishment

and application of a single type of accounting rule in the world and Turkey are mighty. One of the reasons for this, they said, was the combination of multiple accounting practices in Turkey and the fact that the tax issue was given priority at every stage.

The explanations of Dinç and Atabay (2018) show that the accounting regulations that are in effect and that will come into force in Turkey may reveal different rules regarding depreciation. However, these rules in accounting standards are different from tax rules and may differ. However, these differences make accounting records more complex and challenging to track. For this reason, professionals often base their depreciation calculations on tax rules for fear of tax penalties. This situation causes fixed asset values to be reflected in the financial statements.

Jafarli (2018) notes that the amendments to the Tax Code related to the application of depreciation in the Republic of Azerbaijan serve to stimulate the activities of micro and small businesses. According to the amendment, rapid depreciation rates will be applied to fixed assets on the balance sheets of micro and small businesses. This can be briefly explained as the volume of transactions, excluding VAT registrants, does not exceed 117,645.06 $ (at the Central Bank of the Republic of Azerbaijan exchange rate dated 13.06.2022) in any month (months) of a consecutive 12-month period. Accordingly, the taxpayer of this category has the right to deduct the excess amount of income by applying a factor of 2 to the annual depreciation rate for fixed assets on the balance sheet.

Akpınar (2021) examined the subject, methods, and conditions of depreciation in the Republic of Turkey according to the Tax Procedure Law. He explained that in the Republic of Turkey, the tangible fixed assets owned by the enterprises to continue their activities and used for more than one year are subject to depreciation. Therefore, the Ministry of Finance announces the depreciation rates to be applied to these assets by being updated yearly with the Tax Procedure Law Communique. In addition, businesses calculate depreciation expenses by using these rates in their desired depreciation method.

Research Methodology

In the research, the depreciation practices of the two countries were examined through legislation and examples. In this research, which was carried out as content analysis, the sample is the legal regulations of Turkey and Azerbaijan countries on depreciation application.

First, the legal regulations of Azerbaijan and then the legal regulations in Turkey are explained; The two countries were compared by examining the depreciated assets, depreciation rates, amortization periods, and non-depreciable assets. Finally, depreciation calculation examples are presented by applying the depreciation rules in both countries.

Legal Regulations of Both Countries

Depreciation allocations by categories of fixed assets are calculated by applying the depreciation rate established for each type of fixed asset based on the relevant article of the Tax Code of the Republic of Azerbaijan to the residual value of fixed assets in that category.

However, in micro-entrepreneurship (number of employees 1-10, annual income ≤200 AZN) and small businesses (number of employees 11-50, 200< annual income ≤3,000AZN) (The Prime Minister of the Republic of Azerbaijan, 2018: 1), rapid depreciation rates are applied to fixed assets. As a result, the taxable profits of this category of taxpayers are reduced, and they have the opportunity to expand their activities by saving working capital.

Table 2. Depreciation rates applied in the Republic of Azerbaijan

Ordinal Numeral	Depreciable Property	Depreciation Rates
1	Capitalized expenditures on land improvement, buildings, constructions, installations	Up to 7 percent
2	Machines, equipment	Up to 20 percent
3	Computer technology, which is a product of high technology	Up to 25 percent
4	Transport vehicles	Up to 25 percent
5	Working animals	Up to 20 percent
6	Expenditures on geological exploration and preparation for the extraction of natural resources	Up to 25 percent
7	Intangible assets (for those whose useful life is unknown)	Up to 10 percent
8	Other fixed assets	Up to 20 percent

Note: The table was prepared by the researcher

Depreciation allocations by categories of fixed assets are calculated by applying the depreciation rate established for each category of fixed assets in accordance with the Tax Code of the Republic of Azerbaijan to the residual value of fixed assets belonging to that category at the end of the tax year.

Useful life is the expected useful life of an asset or the amount of production or uses expected of an asset (Albay, 2019: 38).

Applying a prolonged depreciation rate compared to the process of physical and moral depreciation can lead to a situation where fixed assets have to be withdrawn at a certain point before the depreciation fund is fully established (Zucaet. al, 2009: 297).

To calculate depreciation, the residual value of fixed assets (funds) at the end of the tax year consists of the amount determined in the following order (but not less than zero):

The residual value of fixed assets at the end of the previous year (the value remaining after deducting the amount of depreciation calculated for this year) includes the cost of fixed assets received in the current year in accordance with Article 143 of the Tax Code of the Republic of Azerbaijan, as well as the excess of the established repair costs in accordance with Article 115 of this Code, the residual value of fixed assets is deductible if the residual value is less than 294.12 US dollars (according to the Central Bank of the Republic of Azerbaijan at the rate of manats as of 08.02.2022) or 5% of the initial value presented in the tax year. The increase in the revaluation of property, plant, and equipment (positive difference resulting from revaluation) is not added to the residual value of property, plant, and equipment at the end of the tax year for depreciation purposes.

Suppose, at the end of the year, the residual value of fixed assets is 294.12 USD (at the exchange rate of the Central Bank of the Republic of Azerbaijan dated 08.02.2022 AZN) or less than 5 percent of its original value. In that case, the amount of residual value is deducted from income.

In the Republic of Turkey, several methods are used to calculate the amount of depreciation for fixed assets. Under this method, the depreciation rate and useful life of assets are disclosed in the Depreciation and Depletion Payment Period List (Türkiye Cumhuriyeti, Resmi Gazetesi, 2015, 1).

The depreciable cost for movable property in the Republic of Turkey is 1,028.6 USD (at the exchange rate of the Central Bank of the Republic of Azerbaijan on 08.02.2022), and the depreciable cost for real estate is 2,498 USD (at the exchange rate of Central Bank of the Republic of Azerbaijan on 08.02.2022). The depreciation rate

for fixed assets not exceeding this amount is set at 100%. In other words, property, plant, and equipment valued at these amounts are fully depreciated at the end of the year they are recorded (Council of Ministers, 2006). Regarding depreciation, the Republic of Turkey adopts two methods: straight line and decreasing residual method, but particular depreciation method for mines, extraordinary depreciation principle for assets subject to special depreciation or loss, and cyst depreciation method for passenger cars. Taking these into account, we can classify the depreciation methods used as follows:

- Straight-line method (Tax Code of the Republic of Turkey, Article 315),
- Decreasing balance method (Tax Code of the Republic of Turkey, Article 315),
- Depreciation in mines (Tax Code of the Republic of Turkey, Article 316),
- Extraordinary depreciation (Tax Code of the Republic of Turkey, Article 316, Article 317),
- Pro-rota depreciation (Tax Code of the Republic of Turkey, Article 320).

Table 3. Applied in the Republic of Turkey Depreciation Rates

Ordinal Numeral	Depreciable Property	Depreciation Rates (within the range)	Useful period (years)
1	Buildings, constructions, installations	2-25 %	6-50
2	Machines, equipment	4-50 %	2-25
3	Computer technology, which is a product of high technology	8.33-33.33 %	3-12
4	Transport vehicles	20 %	5
5	Biological assets	2-40 %	2-40
6	Expenditures on geological exploration and preparation for the extraction of natural resources	20 %	5
7	Intangible assets	6.66-20 %	5-15

Note: The table was prepared by the researcher

The useful life in the Republic of Azerbaijan is determined by the manufacturer or the current market situation. In the Republic of Turkey, it is announced by the Ministry of Treasury and Finance.

Entities are free to apply a different depreciation method to each asset. For example, an entity may depreciate using the declining balance method for equipment and the straight-line method for machinery (Deran and Yakupçebioğlu, 2006).

According to the Tax Code of the Republic of Turkey, the depreciation rate to be applied by the declining balance method is not more than 50%, and the straight line is twice the depreciation rate (Kaya and Atasel, 2017:144).

Depreciation of some fixed assets is not calculated, which depends on the economic nature of those fixed assets and the economic position of those involved in the enterprise (Salahov and Mehdiyev, 2016: 307).

Table 4. Comparison of Non-Depreciable Assets in the Republic of Azerbaijan and Turkey

Republic of Azerbaijan	Republic of Turkey
Land	Land and plots of land (If there is nothing on it)
Equipment, exhibits, samples, active and non-active models, models, and other visual aids used in cabinets and laboratories for research, teaching, and experimental purposes	Research and development costs-depreciation rate of 20%, the useful life of five years
Productive animals (breeding cows, buffaloes, mares, camels, deer, pigs, sheep, goats, breeding bulls, goats, stallions, wild boars, rams, goats, and other production animals such as)	Dairy and rearing cattle (this class includes dairy cows, breeding calves, etc.), dairy sheep and goats (including breeding ram sand goats), bees, - depreciation rate 20%, useful life five years, laying hens depreciation rate 50%, useful life two years.
Exhibits of fauna in zoos and other similar establishments	It is not depreciated
Perennial plantings that do not reach the service life	It depends on whether it is a commercial activity or not.
Library funds, film funds (video, audio, photo), stage props, museum treasures (exhibits)	Library funds and film funds (video, audio, photo) are not depreciated, but the depreciation rate of the theatre decorations is 50%, and the useful life is two years
Fully depreciated fixed assets, if they are serviceable	It is not depreciated
Conserved (suspended) fixed assets	It is not depreciated
Public roads	Roads (concrete and asphalt roads, parquet roads, ordinary highways, and ordinary pavements and similar roads) - depreciation rate 12.50%, useful life eight years
Equipment in public parks	It is not depreciated
Fixed assets in an unused warehouse	Fixed assets under construction

Note: The table was prepared by the researcher

All assets used for commercial purposes in the Republic of Turkey are depreciated.

Pedigree or dairy cattle and hens used for entrepreneurial and production purposes are also depreciated within the depreciation rates specified in the Tax Code of the Republic of Turkey (Erol and Uyanık, 2014: 96).

According to the Tax Code of the Republic of Azerbaijan, depreciation is not calculated on pedigree cows, buffaloes, mares, camels, deer, pigs, sheep, goats, breeding bulls, calves, stallions, wild boars, rams, goats, and other production animals.

Under the straight-line method, the amount of depreciation to be allocated is equal to each year, and the depreciation at the end of the depreciation period is similar to the cost of the economic asset.

Calculation of the amount of depreciation using the declining balance method is determined by deducting the depreciation to be accrued each year from the depreciation previously allocated to the total depreciable amount (Fatullayev, 2019: 205).

The ownership of mineral deposits in the Republic of Turkey is subordinated to the state. Therefore, these are not mineral deposits owned by individuals and legal entities operating them but only the right and privileges to exploit these fields. In addition, depreciation practices for specific depleted assets, such as mines, have different characteristics from those of other tangible and intangible assets. For example, the right to exploit mineral resources is exercised by obtaining an operating license and mining permit from the state or by accepting this license from licensed persons. There are no legal obstacles here.

If the company has its license, the price to be revoked is the discounted price. The concessional price includes all costs associated with identifying the ore, such as the preparation of topographic maps required to obtain the concession, the salaries of technical and other workers sent to the mine site, and drilling costs. If the right of use has been leased or acquired, the amount to be amortized in the acquired mines is the cost.

Depreciation can be calculated when the reserve amount is determined and documented by the Ministry of Energy and Natural Resources. Depreciation cannot be calculated unless the apparent and probable reserves are known. In the case of the acquisition of land on which materials such as ore, sand, gravel, and clay will be extracted or used for products such as cement, brick, tile, etc., the amount of land depreciated by the method of mining depreciation is included (Ayar, 2015: 38).

When a depreciation rate is applied to fixed assets of any category below the depreciation rate established for the tax year, the resulting difference may be added to the amount of depreciation deductible in subsequent tax years. Depreciation for buildings, structures, and facilities (from now on - buildings) is made separately for each building. Assessment is one of the most important and complex topics in accounting science.

An appraisal is the acquisition of assets or liabilities that constitute an entity's existence due to multiplying the amount obtained by measurement, counting, or deducting the unit value on a particular date. It expresses the importance of resource items in currency, i.e., their valuation.

By selecting the appropriate valuation measure, the values of assets and resources can be determined as closely as possible to reality.

With a measure of misstatement of assets and resources, financial statements, if they can be measured, lead to erroneous decisions (Tunçez, 2019: 209). Valuation of a taxpayer's registered property in the Republic of Azerbaijan shall be carried out by an appraiser by the Law of the Republic of Azerbaijan "On Appraisal Activity," except in cases when a court decision assesses the taxpayer's property, as well as the application of regulated prices. The cost of assets includes the costs of their acquisition, installation, manufacture, transportation, and construction, as well as other costs that increase the value of assets, except for expenses that the taxpayer is entitled to deduct from income and increases in the revaluation of property, equipment, and equipment (positive difference arising as a result of revaluation). (Tax Code of the Republic of Azerbaijan, 2022: article 143). If the assets are obtained through loans, the loan interest does not increase the value of the assets and is deducted from income under Article 108 of the Tax Code of Azerbaijan.

Long-term tangible assets can be valued at three values: initial cost, residual value, and replacement cost.

Long-term tangible assets are carried at cost, i.e., the actual cost of acquiring, transporting, installing, and preparing them, excluding VAT and other reimbursable taxes and insurance costs.

The initial value of long-term tangible assets received in the form of shares from the founders is determined by the agreed value based on the market prices of that period. Market prices determine the initial cost of long-term tangible assets received as gratuitous financial assistance at their registration date. The initial cost of a long-term tangible asset acquired under an exchange agreement is measured by the value of the replacement asset. For example, suppose it is impossible to determine the value of the replaced assets. In that case, the cost is determined by acquiring similar property, plant, and equipment in the same period.

The difference between the cost of long-term tangible assets and the amount of depreciation charged on them is called the residual value (Terekhova, 2008: 189).

An entity's balance sheet reflects long-term tangible assets at the residual value.

In current conditions, the value determined after the revaluation of long-term tangible assets is called the replacement cost of long-term tangible assets (Abbasov, 2013: 266).

As a general principle in the Republic of Turkey, depreciable assets are carried at cost. Cost is the sum of all payments made to acquire or increase the value of an economic asset and all related expenses. Property, plant, and equipment assessed as depreciable by law are purchased, manufactured, or constructed, so the main cost element is either the purchase price or the cost of production or construction (Republic of Turkey tax procedure law, 2022: article 262).

In addition to the purchase price of property, plant, and equipment, this may include customs duties on machinery, equipment, and facilities, transportation and installation costs, and the costs of acquiring and demolishing an existing building and leveling the land (Topal, 2019:109).

Including notary, property title, court, appraisal, and commission, and cash costs in the cost is entrusted to enterprises' decisions. Businesses can include these costs in the price or write them off as direct costs.

Expenses such as construction and real estate sales taxes may be included in the cost of a building constructed by an entity or recorded as an expense.

If the building to be constructed is an old building on the site, the demolition costs of the old building will be included in the cost of the new building. If the demolished old building has an obsolete value, this balance should be included in the initial cost of the new real estate at net book value based on the opinion of the Ministry of Finance. When the demolished value of a building is sold or used in a new building, the difference is considered taxable income when determining the financial profit when the value obtained exceeds the depreciable net carrying amount of the old building.

If the initial value of economic assets is unknown or it is not possible to estimate them at cost, buildings and lands from assets will be assessed at tax value, others, at exchange value, at book value; if not, at previous values and depreciation will be calculated.

Vacant land and areas are not depreciated. Here, a definite result is obtained from developing the word empty. In the future, when a building or facility is built on these lands, the value of the land may be added to those buildings or structures and depreciated over the total value. In fact, the article explicitly states that facilities such as orchards, mulberry trees, hazelnut trees, olive groves, rose gardens, fig orchards, and vineyards to be established in agricultural enterprises may be depreciated (Republic of Turkey tax procedure law, 2022: article 314).

Calculation of Depreciation Examples

Various differences have been determined in the depreciation calculation methods of Azerbaijan and Turkey, and this situation has been tried to be shown with examples below.

Example 1.

Suppose there is a coal mine with a license cost of $100,000, a useful life of 3 years, and a reserve of 210 tons. Fifty tons were produced in the first year, 60 tons in the second year, and 100 tons in the third year.

For an enterprise operating in the Republic of Azerbaijan, the straight-line method will be used to determine the useful life of an intangible asset license.

Depreciation amount = initial cost / useful life

Depreciation amount = 100,000/3 = 33,333 USD

For an enterprise operating in the Republic of Turkey, let's depreciate it in 2 ways.

1. Amount of depreciation to be applied in mines:

*Concession or Cost Fee /Apparent or Probable Reserve * Annual production*

If we use the calculation method, we can find the amount of depreciation per unit and calculate the amount of depreciation according to the amount of production per year.

Depreciation amount per 1 product=$100,000/210 = 476.2 USD
Depreciation amount for the first year = 50 * 476.2 = 24,000 USD
Depreciation amount for the second = 60 * 476.2 = 29,000 USD
Depreciation amount for the third = 100 * 476.2 = 48,000 USD.

2. Amount of depreciation *:*

Annual production ratio =Annual production / Apparent or Probable Reserve
Annual depreciation amount = Annual production ratio Concession or Cost Fee*
The annual production rate for the first year = 50/210 = 0.24
The annual depreciation amount for the first year = 0.24 * 100,000 = 24,000 USD
The annual production rate for the second year = 60/210 = 0.29
The annual depreciation amount for the second year = 0.29 * 100,000 = 29,000 USD
The annual production rate for the third year = 100 /210 = 0.48
The annual depreciation amount for the third year = 0.48 * 100,000 = 48,000 USD
To account for the loss of value due to a natural disaster as an extraordinary depreciation loss, you must first determine that the loss in value of property, plant, and equipment resulted from a natural disaster. (Yılmaz, 2019: 42).
The difference between the asset's net carrying amount and the amount determined by the valuation commission will be subject to extraordinary depreciation. However, except for periods of emergency depreciation (those subject to excessive depreciation due to forced labor), depreciation cannot be carried out using straight-line and declining balance methods.

Area of application of the emergency depreciation method:

Complete or partial loss of value due to disasters such as fire, earthquake, flood, technical efficiency, and cost reduction due to new inventions, cannot be used in whole or in part.
After disasters such as fires, earthquakes, and floods, the Ministry of Finance should be asked to apply emergency depreciation (Korkmaz, 2013:85).

Example 2.
The initial cost of a piece of equipment with a useful life of 5 years is $ 100,000. The calculation will be carried out by the straight-line method.

Annual depreciation amount = 100,000/5 = 20,000 $

In the third year, a state of emergency occurs, and the Valuation Commission of the Ministry of Finance of the Republic of Turkey determines that the damage is $ 20,000. Given this situation, we can say that the useful life of the equipment will be four years.

Pro-Rata Depreciation - Depreciation is calculated based on the part of the month in which the passenger car is included in the asset and for the remaining months, except for vehicles used by those operating in the region or whole by renting or operating other vehicles. According to the registered cars, the assets outside the cars are fully depreciated in the year of commencement of operations (Republic of Turkey Ministry of Finance, 2018). On the other hand, Pro-Rata Depreciation will not be applied to passenger cars used for this purpose by taxpayers whose activities are wholly or partially leased or operated by other means (Benli, 2016).

Pro-Rata Depreciation calculation formula:

Depreciation amount for the first year (annual depreciation amount / 12) * a number of months used (Elitaş et al., 2009: 21).

It will be useful to give a few examples to demonstrate the application of Pro-Rata Depreciation better and show the mistakes taxpayers made in the application.

Example 3.

Consider an enterprise engaged in the service sector. The initial cost of a car purchased on 01.08.2018 is $ 5,000. The enterprise fully complies with the conditions under which the Pro-Rata Depreciation can be depreciated.

However, various problems can arise when Pro-Rata Depreciation is carried out using the reduced balance method (Güntutmaz and Erdoğan, 2008: 115).

Let's find differences in the approach to this issue by the legislation of Turkey and the Republic of Azerbaijan.

Table 5. The Differences Between the Depreciation Years and the Depreciation Amounts

In The Republic of Azerbaijan				In The Republic of Turkey			
Date	**Depreciable Amount (USD)**	**Depreciation Amount (USD)**	**Accumulated Depreciation (USD)**	**Date**	**Depreciable Amount (USD)**	**Depreciation Amount (USD)**	**Accumulated Depreciation (USD)**
2018	5,000	1250	1,250	2018	5,000	833	2,000
2019	3,750	937.5	2,187.5	2019	3,000	1200	3,200
2020	2,812.5	703.1	2,890.6	2020	1,800	720	3,920
2021	2,109.4	527.4	3418	2021	1,080	432	4,352
2022	1,582	395.5	3,813.5	2022	648	648	5,000
2023	1,186.5	296.6	4,110.1				
2024	889.9	222.5	4,332.6				
2025	667.4	166.9	4,499.5				
2026	500.4	125.2	4,624.7				
2027	375.2	94	4,718.7				
2028	281.3	281.3	5,000				

Note: The table was prepared by the researcher

Article 114 of the Tax Code of the Republic of Azerbaijan states that the depreciation rate for a vehicle is 25%. At the same time, according to the legislation, the liquidation value is depreciated to 294.1 USD (exchange rate according to the statement of the Central Bank of the Republic of Azerbaijan dated 31.01.2022). Taking these into account, the calculation was made in Table 5.

2018, depreciation amount = 5,000 * 25 % = 1,250 USD

2019, depreciation amount = (5,000-1,250) * 25% =937.5 USD
2020, depreciation amount = (3,750- 937.5) * 25 % = 703.1 USD
2021, depreciation amount = (2,812.5- 703.1) * 25 % = 527.4 USD
2022, depreciation amount = (2,109.4 - 527.4) *25% = 395.5 USD
2023, depreciation amount = (1,582 - 395.5) *25% = 296.6 USD
2024, depreciation amount = (1,186.5 - 296.6)* 25% = 222.5 USD
2025, depreciation amount = (889.9 - 222.5) * 25% = 166.9 USD
2026, depreciation amount = (667.4 - 166.9) * 25% = 125.2 USD
2027, depreciation amount = (500.4 - 125.2) * 25% = 94 USD
2028, depreciation amount = (375.2 - 94) = 281.3 USD

In the legislation of the Republic of Turkey, the depreciation rate for a vehicle is 20%, and the useful life is five years. Therefore, the differences between the depreciation years and the depreciation amounts between the two countries can be seen in Table 5. The cyst depreciation method may be used if the entity does not lease or use the vehicle for such activities. In this case, it can be depreciated for five months in 2018.

2018, depreciation amount = 5,000 * 20 % * 2= 2000 USD
depreciation amount for 5 months = 2000/12 *5 = 833 USD
2019, depreciation amount = (5,000 – 2,000) * 20 % * 2 = 1,200 USD
2020, depreciation amount = (3,000 – 1,200) * 20 % * 2 = 720 USD
2021, depreciation amount = (1,800 - 720) * 20 % * 2 = 432 USD
2022, depreciation amount = (1,080 - 432) = 648 USD

In the Republic of Turkey, goodwill is depreciated in equal amounts over five years in accordance with the registration value. If the company wants, it can eliminate the one-time cost. The lease and the right of use are depreciated equally throughout use. Intangible assets with indefinite useful lives are depreciated over five years. If the lease and right of use expire for any reason before the expiration of the term, the remaining amount is written off as a one-time expense (Dinç and Atabay, 2018: 77).

Depreciation allocations by categories of fixed assets are calculated by applying the depreciation rate established for each category of fixed assets established by the relevant article of the Tax Code of the Republic of Azerbaijan to the residual value of fixed assets to that category. However, in micro and small businesses, rapid depreciation rates are applied to fixed assets. As a result, the taxable profits of this category of taxpayers are reduced, and they have the opportunity to expand their activities by saving working capital.

According to the relevant article of the Tax Code of the Republic of Azerbaijan, the depreciation rate for equipment is 20%, and the depreciation rate for other fixed assets is 20%. According to the relevant article of this Code, a coefficient of 2 should be applied to the depreciation rates specified in the micro-entrepreneurship entity.

Example 4.

Suppose that the residual value of the equipment used by a micro-business entity to carry out business activities at the end of the current year is $ 10,000, and the residual value of other fixed assets at the end of the current year is $ 8,000. The depreciation amount will be calculated as follows.

Depreciation of equipment for the reporting year = 10,000 x 20% * 2 = 4,000 USD;
Amount of depreciation on other fixed assets in the reporting year = 8,000 x 20% * 2 = 3,200 USD;
Total depreciation allowances of the enterprise in the reporting year = 4,000 + 3,200 = 7,200 USD.

Example 5.

The residual value of a computer used by a small business entity at the end of the current year is $ 800, the residual value of a vehicle at the end of the current year is $ 22,000, and the residual value of a building at the end of the current year is $ 70,000. Based on this, we will calculate as follows:

The amount of depreciation for the computer = 800 x 25% x 1.5 = 300 USD;
The amount of depreciation for the vehicle = 22,000 x 25% x 1,5 = 8,250 USD;
The amount of depreciation for the building = 70,000 x 7% x 1.5 = 7,350 USD;
Total depreciation allowances of the enterprise in the reporting year = 300 + 8,250 + 7,350 = 15,900 USD.

In this case, the entity has the right to deduct the profit by deducting $ 15,900 in depreciation as an expense.

According to the relevant article of the Tax Code of the Republic of Azerbaijan, only 40% of assets (calculate depreciation using the declining balance method by the legislation) are acquired or installed at the expense of funds allocated to state enterprises at the expense of investment expenditures, calculated by the annual depreciation rates established by the relevant article of this Code.

Example 6.

An enterprise financed from the budget has a vehicle with a residual value of 20,000 USD received at the expense of investment expenditures from the state budget.

The depreciation rate for the vehicle is 25%.
Depreciation amount for the reporting year = 20,000 x 25% = 5,000 USD
An enterprise may deduct from its income only 40% of the amount of depreciation calculated by the depreciation rate under the relevant Code.
Depreciation amount deducted from income = 5,000 x 40% = 2,000 USD.

Table 6. Differences in Depreciation Amounts

	In The Republic of Azerbaijan			In The Republic of Turkey		
Year	**Depreciable Amount (USD)**	**Depreciation Amount (USD)**	**Accumulated Depreciation (USD)**	**Depreciable Amount (USD)**	**Depreciation Amount (USD)**	**Accumulated Depreciation (USD)**
1	2,000	25	I* 500	2,000	40	I* 800
				2,000	20	II* 400
2	1,500	25	I 375	1,200	40	I 480
				2,000	20	II 400
3	1,125	25	I 281.3	720	40	I 288
				2,000	20	II 400
4	843.7	25	I 210.9	432	40	I 172.8
				2,000	20	II 400
5	632.8	25	I 158.2	259.2	100	I 259.2
				2,000	20	II 400
6	474.6	25	I 118.7			
7	355.9	25	I 89			
8	266.9	25	I 67			

Note: The table was prepared by the researcher

The difference in the depreciation policies of the two countries can be seen in Table 6. The main difference is the percentage difference in the vehicle's depreciation rate, which is worth $ 2,000. Another difference is that the annual depreciation amount in the Republic of Turkey can be calculated in two ways.

Conclusion

As a result of studying the differences in the depreciation policy, we found that according to the Tax Code of the Republic of Azerbaijan, tangible assets are depreciated using the declining balance method until the liquidation value remains at 294.12 USD (at the exchange rate of the Central Bank of Azerbaijan on 08.02.2022). In addition, intangible assets with a known useful life are depreciated on a straight-line basis, and 10% for those with an indefinite useful life. According to the Tax Code of the Republic of Turkey, an enterprise can depreciate its depreciable assets by choosing one of two methods (straight line or decreasing balance) calculated in two layers. According to the relevant legislation, the cancellation cost is not considered, and in the last year, it is depreciated by 100%.

The study reveals that one of the main differences between the two countries is that by the Tax Code of the Republic of Azerbaijan, the amount of depreciation is calculated by coefficients 1.5 and 2 to increase the amount of depreciation deducted from income as support for small and micro businesses and pay less income tax.

Depreciation rates applied in the Republic of Turkey have been disclosed in more detail. For example, different depreciation rates are applied to concrete, masonry, iron, steel, semi-masonry, semi-wooden buildings (buildings built by pouring concrete on wooden structures), seasonal cinemas, casinos and similar places, glass or wooden structures, glass buildings (warehouses and facilities) and similar classifications. The general communique of tax procedure law also states that depreciable economic assets not included in any classification in the list may be

depreciated at the request of taxpayers for a period and rates determined by the Ministry of Treasury and Finance.

Table 4 also shows that non-depreciable assets are disclosed in more detail by the Republic of Azerbaijan Tax Code. When looking at the non-depreciable assets of the two countries in this table, productive animals are depreciated by the Tax Code of the Republic of Turkey concerning the Tax Code of the Republic of Azerbaijan. If we compare this indicator for the two countries, direct costs are written off in the Republic of Azerbaijan. Still, in the Republic of Turkey, expenses are written off by amortization for five years in a balanced manner or by a declining balance method of 20% * 2.

The two countries have different depreciation calculations for mining. Differences in depreciation amounts can be seen by looking at Example 1. For example, in the Republic of Azerbaijan, the initial cost of the license was calculated using the straight-line method, and the same amount of depreciation was provided each year. Still, in the Republic of Turkey, the depreciation amount differs each year because the functional method is used.

The legislation of the Republic of Turkey, which takes this into account in the event of an emergency, uses the method of emergency depreciation. In this case, the reduction of useful life due to property damage should be positively assessed.

The results of the analysis of the depreciation policy of passenger cars in the two countries can be seen in Table 5. For example, in the Republic of Azerbaijan, the same car will be depreciated using the 11-year depreciation method. In contrast, in the Republic of Turkey, the difference between the full-year depreciation amount calculated on the first-year depreciation months is added to the depreciation expense for the last year and deducted from income. The main difference in this table is the difference in years of depreciation. During the analysis of the difference of 6 years, we can note that the same car will be written off at a later cost in the Republic of Azerbaijan. For example, suppose the fully depreciable property does not leave the farm. In that case, the process of faster depreciation and overstatement of the amount of depreciation to reduce income and the renewal of assets should be positively assessed. The initial cost is considered a depreciable amount in both countries. As the limitations of this study, we can state that it is difficult to obtain information about the Azerbaijani accounting system and economic institutions and that the standards and rules are not similar between countries.

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GENİŞLETİLMİŞ ÖZET

Özellikle küreselleşme ile birlikte her konuda olduğu gibi muhasebe uygulamalarında da belirli standartlara ulaşılması ve düzenlemelerin de aynı perspektifte olması beklenmektedir. Son yıllarda muhasebe açısından gerçek durumu yansıtan şeffaf, karşılaştırılabilir finansal raporlara ulaşmak için uluslararası muhasebe standartlarının tüm ülkelerde tek tip olması için gerekli çalışmalar yürütülmektedir. Bu nedenle uygulanan muhasebe yaklaşımlarının ve finansal raporlama standartlarının uluslararası normlarda genel kabul görmüş olması muhasebe kullanıcıları açısından istenilen bir durumdur.

Azerbaycan ve Türkiye arasındaki amortisman kavramı karşılaştırmak önemlidir. Çünkü, iki ülke arasında geçmişten gelen kültürel ilişkilerin ve coğrafi konum açısından yakın bağların varlığı ve özellikle Azerbaycan'ın 1991 yılından sonra bağımsızlığını kazanması ile birlikte Türkiye ile artan ticari ilişkileri ve sürekli ifade edilen "kardeş devlet" vurgusu iki ülkenin kanunlarını ve mevzuatlarını karşılaştırmayı gerekli kılmıştır.

Bu kapsamda ticari, kültürel ilişkiler ve coğrafi konum açısından yakın bağları bulunan Türkiye Cumhuriyeti ile Azerbaycan Cumhuriyeti arasındaki muhasebe uygulamaları bu çalışmada incelenerek, iki ülkenin amortisman uygulamaları mevzuat ve örnekler üzerinden değerlendirilmiştir. Bu çalışmanın amacı, Azerbaycan ve Türkiye'nin amortisman politikaları arasındaki farklılıkları, iki ülkenin uyguladığı amortisman yöntemlerini, amortisman oranlarını, amortismana tabi ve amortismana tabi olmayan maddi duran varlıklarını incelemektir. İki ülkenin amortisman mevzuatı incelenerek uygulamadaki farklılıkları karşılaştırılmaktır.

İçerik analizi olarak gerçekleştirilen bu araştırmanın örneklemi Türkiye ve Azerbaycan'ın amortisman uygulamasına ilişkin yasal düzenlemelerdir. Önce Azerbaycan'ın yasal düzenlemeleri, ardından Türkiye'deki yasal düzenlemeler anlatılmış; iki ülke, amortismana tabi varlıklar, amortisman oranları, amortisman hesabında hizmet ömrü ve amortismana tabi olmayan varlıklar incelenerek karşılaştırılmıştır.

Literatür araştırmasında, hem ulusal hem de uluslararası literatür taranarak amortisman kavramı üzerine yapılan çalışmalar değerlendirilmiş ve sunulmuştur. Araştırmanın bulguları olarak, amortisman uygulama ve oranlarının iki ülke arasında farklılık gösterdiği tespit edilmiştir. Temel olarak amortisman tutarı, amortisman oranı ve amortisman tutarının hesaplanması yöntemlerinde çeşitli farklılıklar tespit edilmiş ve örneklerle ifade edilmiştir.

Amortisman politikasındaki farklılıkları incelemenin bir sonucu olarak, Azerbaycan Cumhuriyeti Vergi Kanunu'na göre, maddi duran varlıkların azalan bakiyeler yöntemi kullanılarak amortismana tabi tutulduğu belirlenmiştir. Türkiye Cumhuriyeti Vergi Kanunu'na göre ise bir işletmenin, amortismana tabi varlıklarını iki kademeli olarak hesaplanan iki yöntemden (normal veya azalan bakiye) birini seçerek amortismana tabi tuttuğu sonucuna ulaşılmıştır.

Ayrıca çalışmada, iki ülke arasındaki temel farklılıklardan birinin, Azerbaycan Cumhuriyeti Vergi Kanunu'na göre, amortisman tutarını hesaplarken, küçük ve orta ölçekli işletmelere destek olmak için amortisman oranını 1.5 ile 2 kat arasında artırarak hesaplama kolaylığı getirmesidir. Bu sayede işletmeler vergi avantajı sağlayarak daha az gelir vergisi ödemektedirler.