

Taxation
and investment
in Azerbaijan

2023

Deloitte in Azerbaijan 03

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Business and investment environment

1. General rules on investment activity and types of business organization in Azerbaijan

Azerbaijani legislation defines "investment" as funds, securities, other property, including property rights and other rights with monetary value, contributed in objects of entrepreneurial activity for the purpose of obtaining income.

Investors may invest in Azerbaijan in the following ways:

- Establishment and reorganization of legal entities;
- Acquisition of participatory interests (shares) in legal entities;
- Establishment of branches or representative offices of foreign legal entities in the Republic of Azerbaijan;

- Conducting business as an individual entrepreneur;
- Concluding an agreement on the implementation of investment activities;
- Acquisition of property, including property rights and other rights with monetary value;
- Other forms of doing business not prohibited by the law other forms of foreign investment.

Privileges for and state guarantees to foreign investors

The legal regime offers both foreign and local investors the same favorable conditions.

Foreign companies can establish either a branch or a representative office in Azerbaijan. Neither branches nor representative offices constitute legal entities and are considered as separate divisions of the foreign legal entity they represent.

Although there is no difference between the tax treatment of branches and representative offices, a branch office is more appropriate for conducting commercial operations from a legal point of view. Unlike a representative office, a branch can perform commercial operations that are also conducted by its head office.

Limited liability companies and branches are the most popular ways of doing business in Azerbaijan among foreign investors.

The Azerbaijani Government has set up a "one-stop-shop" for all company registration processes. Foreign companies can register their legal entities, branches or representative offices within two days. Legal entities with local shareholders can be registered immediately via fast e-registration process while regular e-registration takes one day.

Authorized Capital and Contributions of Shareholders

According to Azerbaijani civil law, as a general rule, a company's authorized capital cannot be less than the company's liabilities to its creditors. The minimum amount of authorized capital for closed joint stock companies is AZN 2,000 and AZN 4,000 for open joint stock companies.

Business organizations in Azerbaijan

Azerbaijani legislation provides for a number of different business types, including the following:

Type of commercial organization	Main characteristics or requirements
Open or closed joint stock company	<ul style="list-style-type: none"> • Limited liability • One or more founders (an individual and/or a legal entity) • Charter and charter capital required
Limited liability company	<ul style="list-style-type: none"> • Limited liability • One or more founders (an individual and/or a legal entity) • Charter and charter capital required
General partnerships	<ul style="list-style-type: none"> • Unlimited personal liability • Charter and share capital required
Limited partnerships	<ul style="list-style-type: none"> • Limited liability for limited partners and unlimited personal liability for a general partner • Charter and shared capital required
Companies with additional liability	<ul style="list-style-type: none"> • Founders bear subsidiary as per the charter • Charter and charter capital required
Cooperatives	<ul style="list-style-type: none"> • Established by at least five individuals and/or legal entities (property liability) • Charter and participation fund required

2. Licensing and compulsory notification of state authorities

Certain activities in Azerbaijan (for example, banking, audit, insurance, construction, etc.) require a license/special permit. Companies that intend to engage in activities that require a license should apply to the Azerbaijani Ministry of Economy via the ASAN (Azerbaijan Service and Assessment Network) Service for a license after state registration.

3. Acquisition of real estate in Azerbaijan

Any purchase of immovable property should be notarized. The title to the property is considered to have been transferred to the buyer as soon as the appropriate records have been made in the State Register of Immovable Property.

Although foreign investors, including individuals, may own immovable property, they cannot purchase land in Azerbaijan. Foreign nationals and foreign legal entities may only obtain the rights to land through lease or use agreements.

4. Exchange controls, bank accounts and confidentiality of bank information in Azerbaijan

Manat, Azerbaijan's official currency, has limited convertibility.

Manat is the only means of payment in Azerbaijan under the country's constitution.

1 USD buys 1.7000 AZN, according to the exchange rate published by the Central Bank of Azerbaijan as at 05 January 2023.

Both residents and non-residents of Azerbaijan have the right to open and close bank accounts in national or any other foreign currency. Residents and non-residents may import and exchange currency in line with the procedures established by the Central Bank of Azerbaijan.

Taxpayers engaged in entrepreneurial activity are obliged to notify tax authorities about opening bank accounts outside of Azerbaijan.

Foreign investors may repatriate their profits after paying the appropriate taxes in Azerbaijan.

Under current legislation, the disclosure of confidential bank account information is prohibited. Such information can be disclosed only following a court ruling or in certain limited cases in accordance with the law.

5. Construction activities Construction activities in Azerbaijan are regulated by the Azerbaijani City Building and Construction Code (the "Construction Code") and other laws and regulations, technical norms and standards (collectively, the "Construction Standards", available on the official website of the State Committee on City Planning and Architecture). Construction works require permits and licenses, except for certain small-scale and other specific construction projects specified in the Construction Code.

The Construction Code specifies rules with respect to the following parties to construction activity:

- i. the customer
- ii. the project manager
- iii. the contractor

Under the Construction Code, state authorities, municipal bodies, individuals and legal entities may qualify as customers of construction project, while the project manager and contractor must be individuals or legal entities registered in Azerbaijan and holding the appropriate licenses.

Furthermore, the Construction Code determines professional certification requirements for the following construction activities:

- i. engineering/research
- ii. project management
- iii. construction/installation
- iv. mechanization/transportation
- v. production of construction materials
- vi. construction projects expertise

Construction products and materials shall be certified to ensure the compliance with fire safety regulations. Laboratories of enterprises carrying out certification of construction materials and products, as well as test laboratories shall be accredited.

6. Competition rules

Competition on the Azerbaijani market is regulated by "the Law on Antimonopoly activity" (the "Antimonopoly Law") the Law on Natural Monopolies", and "the Law on Unfair Competition" along with other supplementary laws and regulations. Notification and authorization from the State Antimonopoly Service is required by the Antimonopoly Law in the following cases:

- Merger/consolidation
 - Where a merger/consolidation leads to the creation of entities with a market share of over 35 percent;
 - Where a merger/consolidation takes place between market participants with a total value of assets of over 75,000 times the minimum wage (minimum wage amount is AZN 345.00 updated as at 1 January 2023);
- Buying shares
 - Acquiring more than 20 percent of the voting shares of a market participant;
 - Acquiring main production means or non-tangible assets of a market participant in case such property represents more than ten percent of the seller's main production means or non-tangible assets; and
 - Acquiring the rights necessary to define the business and perform the functions of the highest governing management body of a market participant;

provided that:

- The value of the entity's total assets exceeds 75 thousand times the minimum wage (minimum wage amount is AZN 345.00 updated as at 1 January 2023); or
- One of the entity's market shares exceeds 35 percent; or
- The entity acquiring shares controls the activities of the entity transferring these shares.

Furthermore, market participants with a dominant position, or with special or exclusive rights or natural monopolies, have to disclose the terms and prices for their goods and services and any modifications to them 30 days prior to issuing them. A dominant position is defined as an exceptional position, which allows a market participant to use its economic potential to influence competition, so as to restrict market access to other participants.

Market participants with a market share exceeding 35 percent or any other threshold specified by legislation are considered entities with a dominant position.

7. Labor migration

According to the Migration Code every able-bodied person over 18 years of any nationality (or stateless) is entitled to work in Azerbaijan provided that the following conditions are met:

- i. an Azerbaijani citizen with the necessary skills and qualifications has not claimed the job vacancy;
- ii. the employment services are not able to meet employers' needs from local labor resources.

Foreigners or stateless persons must have a work permit in order to work in Azerbaijan, which is issued by the State Migration Service. Work permits are issued for up to one year and may be extended an unlimited number of times, each being valid for a period of up to one year or two years. Individuals coming to Azerbaijan to conduct entrepreneurial activity,* or for business trips not exceeding 90 days in one calendar year in specific industries (e.g. mining, processing, electricity, gas, utilities, telecoms, finance and insurance, education, transportation, water supply and waste treatment), the heads of legal entities with at least one foreign investor and branches/representative offices of foreign legal entities and their deputies do not need to obtain a work permit.

Additionally, individuals employed by the authorized institution, administrative enterprises and legal entities of Alat free economic zone, as well as the founders of these legal entities, residents of technology parks in relation to those holding the position of head and his/her deputies in a legal entity as well as specialists with experience in the field of information and communication technologies who are involved in labor activities in the territory of the Republic of Azerbaijan by such residents do not need to obtain a work permit.

Employers (legal entities) who employ expatriates without obtaining work permits risk an administrative penalty ranging from AZN 15,000 to AZN 35,000.

Temporary residence

Any expatriate visiting Azerbaijan on a visa or visa free regime may apply for a temporary residence permit if the applicant:

- has a close relationship with an Azerbaijani citizen (father, mother, husband/wife, children, sibling, niece/nephew, grandfather/grandmother, etc.);
- invests AZN 500,000 or greater into the country's economy;
- possesses real estate in Azerbaijan of minimal value of AZN 100,000 or minimum deposit of AZN 100,000 with a bank in Azerbaijan based on a fixed-term deposit agreement;
- is a high-level specialist in an economic, industrial, defense, scientific, cultural, sporting or other field;
- is an expert with higher education in shipbuilding or vocational training in a relevant field with at least one year of experience in this area, invited either by Azerbaijani citizens, contractors of an Azerbaijani legal entity, or the residents of Garadagh Industrial Park;

- is a family member of an expatriate temporarily or permanently residing in Azerbaijan;
- is the head or deputy head of a legal entity with at least one foreign investor or a foreign legal entity with a branch/representative office in Azerbaijan;
- is involved in entrepreneurial activity in Azerbaijan*;
- is in the process of obtaining a work permit;
- is a serviceman and specialist invited to serve or work in the Armed Forces of the Azerbaijan Republic and other armed formations established in accordance with the legislation of the Azerbaijan Republic; is an employee of mass media accredited in the Republic of Azerbaijan; is a sailor; is a teaching staff and a lecturer invited to give lecture courses in higher education institutions; is an art worker, a coach and an athlete invited to work in sports clubs registered with the relevant executive authority;
- is in full-time education at an educational institution in Azerbaijan;
- is considered a victim of human trafficking;
- is assisting law enforcement bodies;
- is professionally involved in a registered religious institution;
- is covered by intergovernmental agreements of the Republic of Azerbaijan.

* Entrepreneurial activity does not require a work permit and can only be used to obtain a temporary residence permit if an applicant undertakes business activity and has at least five full time or ten part-time employees hired with the appropriate employment agreements. In such cases, at least 80 percent of the employees have to be Azerbaijani citizens.

Registration upon arrival

Foreigners and stateless persons planning to stay in Azerbaijan for more than 15 days must be registered at the place of stay within 15 days of their arrival.

8. Customs

Customs relations are regulated by the Azerbaijani Customs Code and other supplementary laws and regulations issued by state authorities.

Under the Customs Code, legal entities can register as an Authorized Economic Operator to receive simplified customs control procedures for delivering goods in a safe and secure manner and facilitating foreign trade. The Code sets the eligibility criteria for acquiring Authorized Economic Operator status.

Customs authorities may audit the goods that were cleared during checks previously. The Customs Code outlines two types of customs procedure in the customs territory of Azerbaijan (the "Customs Territory"):

General customs procedures:

- export
- re-export
- temporary export
- release for free circulation
- re-import

Specific customs procedures:

- transit (international/domestic)
- specific use (temporary import/end use)
- processing (inward/outward)
- warehousing (temporary/customs)
- free zone

The customs legislation provides for exemptions from customs duties in various cases, including but not limited to:

- full exemption from customs duties for imports of import of machinery, technological equipment and devices (valid for seven years from the date of issuance of the investment promotion document);
- full exemption from customs duties for imports of machinery, technological equipment and devices by the management organization or operator of industrial and technological parks for construction and Research & Development purposes;
- full exemption from customs duties for imports of machinery, technological equipment and devices by resident legal entities and individuals of industrial and technological parks for construction and Research & Development purposes (valid for ten years from the date of registration of residents within such technological or industrial parks)
- full exemption from customs duties for import of machinery, technological equipment and installations, as well as raw materials and other materials based on the confirmation document of the Ministry of Economy obtained by residents of territories liberated from the occupation registered within such territories for VAT purposes - for ten years starting from 01 January 2023.

9. Securities

The securities market in Azerbaijan is regulated primarily by the provisions of the Civil Code, the Law on Securities Market and regulations adopted by the supervisory authority in Azerbaijan.

Under the Civil Code, security is an instrument certifying existence of contractual relations between its holder and issuer and the holder's rights arising from the contract. An issuer is a person that carried out the issue, placement or distribution of securities.

Securities may be issued as registered or bearer securities. In the case of registered securities, certificates bear the name of the holder, or their ownership is registered with a central depository. In the case of bearer securities, the issuer must perform obligations to the bearer (person possessing security).

Depending on method of placement, securities may be of two types:

- Investment securities, such as shares and bonds, which are placed through separate issuances and, regardless of the time of their acquisition, have equal rights thereunder within the respective issuances; and
- Non-investment securities, which are placed otherwise and have different rights, such as promissory note, depository receipt, investment fund share, pledge paper, mortgage paper and real estate certificate.

Only joint stock companies (open and closed) can issue shares.

Depending on the physical nature, the Civil Code distinguishes between two forms of securities:

- Documentary (or “certificated”), which are printed in a special manner to exclude fraud risks and in which the rights of holders to securities are established by a paper document; and
- Non-documentary (or “non-certificated”), where the rights of holders to securities are evidenced by entries made in a deposit account held by a central depository.

Placement of investment securities, i.e., their transfer from the issuer to initial holder, may be of two types:

- “closed,” in which the securities are placed by offering them to less than 50 persons or by indication of purchasing investors in the resolution on issuance of investment securities; or
- “public,” in which the securities are placed by offering them to an indefinite number of people or to more than 50 persons by publication in the mass media.

Prospectus or memorandum is required in case of public placement of investment securities. Public placement is carried out via a stock exchange.

There are limitations for Azerbaijani companies placing investment securities outside the country.

A set of new regulations was adopted in 2012 to increase transparency, the detection and prevention of abuse on the securities market, the protection of shareholder rights and the monitoring of security transactions, under which the following must be reported to the Central Bank of the Republic of Azerbaijan:

- i. Information on security transactions by professional participants of the securities market (brokers, dealers, depositories, registrars of security owners and those performing the functions of a stock exchange);
- ii. Instances of insider trading;
- iii. Annual reports on the activities of investment securities issuers;
- iv. Attestation of professional participants on the securities market.

10. Banking issues

The banking system in Azerbaijan comprises of the Central Bank of the Republic of Azerbaijan (the “Central Bank”), and credit institutions. Both banks and non-bank credit organizations are classified as credit organizations. However, while banks are allowed to conduct all types of banking operations, under the Law on Non-Bank Credit Organizations, non-bank credit organizations may only conduct certain types of banking operations, such as extending loans, selling and purchasing debt obligations (factoring, forfeiting), financial leasing, issuing guarantees, etc., and are expressly prohibited from accepting deposits.

Banks in Azerbaijan must be established by at least three individuals and/or legal entities in the form of an open joint stock company. Political parties, social unions, funds and other non-commercial organizations cannot be shareholders in banks.

All banking activities, including the acceptance of deposits, maintenance of correspondent accounts, cash operations, money transfers and lending are subject to licensing.

As of 1 January 2015, the aggregate capital requirement for banks was increased under the Rules on the Calculation of Bank Capital and Its Adequacy. Pursuant to these rules, the minimum aggregate capital requirement for banks is AZN 50 million.

Taxation system in Azerbaijan

The tax system in Azerbaijan consists of three taxation regimes:

- The statutory tax regime governed by the Tax Code;
- The tax regime established by existing Production Sharing Agreements ("PSAs") and Risk Service Agreements ("RSAs");
- The taxation regime established by the two Host Government Agreements ("HGAs"): the main Export Pipeline (Baku-Tbilisi-Ceyhan) HGA ("BTC") and South Caucasus Pipeline (Shah Deniz Gas) HGA ("SPC").

A general overview of the taxes applicable under these taxation regimes is presented below.

I. Statutory taxation

The Tax Code sets out the general taxation framework in Azerbaijan and establishes the following taxes:

- Profit tax
- Value added tax ("VAT")
- Property tax
- Personal income tax
- Mining tax
- Land tax
- Excise tax
- Road tax
- Simplified tax

1. Profit tax

1.1. Tax jurisdiction and payers of profit tax

Legal entities incorporated in Azerbaijan are normally treated as residents and are taxable on their worldwide income. Legal entities incorporated abroad are normally treated as non-residents and are only taxable on income from sources in Azerbaijan. Both resident and non-resident enterprises in Azerbaijan pay profit tax.

1.2. Taxation of resident entities

Taxable base

Legal entities are taxed on profit, which is determined as gross income from economic activities less allowable deductions at a flat rate of 20 percent.

Deductible expenses

The Tax Code allows expenses incurred in the course of economic activities to be deducted from the gross income earned from such activities. Expenses not related to the income generating activity, personal expenses, and entertainment expenses are non-deductible (unless entertainment is considered to be the taxpayer's economic activity). Deductions are also not allowed for the acquisition of fixed assets and intangible assets, although these assets may be depreciated.

The Tax Code also provides rules and limitations relating to specific deductions. Some specific allowable deductions are as follows: interest payments (subject to limitations), provisions for banks and insurance companies, bad and doubtful debts, expenses related to scientific research and experimental design, depreciation of fixed and intangible assets (subject to limitations), repair expenses (subject to limitations), insurance payments, expenses related to geological exploration and the extraction of natural resources.

Deductibility of interest expenses

Any interest expenses paid or incurred by the taxpayer in the course of their business activities are generally deductible. However, there are some limitations. The deduction of interest on loans received from abroad or related parties cannot exceed the expense calculated using 125 percent of the interbank loan rate set forth by the Central Bank of Azerbaijan. According to the thin capitalization rule applicable from 2019, if debts received from abroad (excluding loans received from

foreign banks and credit organizations and debts on bonds traded on foreign stock exchanges) are more than double the taxpayer's net assets (capital), the amount of interest accrued on the part of the debt exceeding this threshold cannot be deducted for profit tax purposes. This rule does not apply to resident banks and credit organizations.

Depreciation and amortization allowance

The Tax Code provides for the group depreciation of fixed assets (except buildings, which are depreciated separately). Annual depreciation rates per group of assets are as follows:

- buildings, facilities and installations, structures: up to seven percent;
- machinery, equipment: up to 20 percent;
- computer equipment as a high tech product: up to 25 percent;
- means of transportation: up to 25 percent;
- expenses on geological exploration and preparation for the production of natural resources: up to 25 percent;
- land improvement costs: up to seven percent
- other fixed assets: up to 20 percent;
- intangible assets
 - for those with an undetermined period of use: up to ten percent;
 - for those with a determined period of use: at an annual rate, pro-rated to the determined period of use.

Micro entrepreneurs can deduct depreciation expenses for profit tax purposes by applying a coefficient of 2 to the above depreciation norms. Small entrepreneurs are allowed to deduct depreciation expense by applying a coefficient of 1.5 to the existing depreciation norms on the fixed assets used for entrepreneurial purposes. State-owned companies can deduct up to 40 percent of the depreciation expense calculated from

assets acquired from state financing. Any amount paid or incurred for the acquisition, construction or improvement of assets for business use cannot be deducted immediately, but should instead be capitalized and depreciated over time. Gains from the revaluation of fixed assets are not considered when determining the value of assets for taxation purposes. Land, art, buildings, and facilities that are historical or architectural monuments, and other fixtures, may not be depreciated.

Deductibility of repair expenses

The amount of deductible repair expenses each year is limited to a certain percentage of the residual value of each group of fixed assets as of the previous year-end. Those rates are defined as follows:

- buildings, facilities, installations and structures: two percent of the residual value;
- machinery, equipment, computer equipment as a high tech product and transportation means: five percent of the residual value;
- other fixed assets: three percent of the residual value.

Any amounts spent in excess of the limits are deemed to increase the residual value of the asset at the end of the current year.

If the actual amount of repair expenses is less than the amount established by this limit, the repair expenses can be deducted from income. In this case, the maximum value of deductible repair expenses in the following tax years is increased by the difference between the actual repair costs and the established limit.

In the light of the changes to the Tax Code, effective from 1 January 2022, capitalization of repair expenses for leasehold property not included in the lessee's balance sheet and not offset against rent fees is now permissible. It can be further amortized at the depreciation rate of

respective category of fixed assets in accordance with provisions of the Tax Code. Effective from 1 January 2023, deduction of the capitalized repair expenses on the leased assets (leasehold improvement) from the taxable income is allowed if the amount of capitalized repair expenses on leased fixed assets is less than AZN 500 at the end of the calendar year.

Loss carry forward

The Tax Code allows taxpayers to carry losses forward. Losses can be carried forward for up to five years and offset against other years' profits without limitations.

Tax accounting rules

Taxpayers are required to maintain accurate and up-to-date records of their income and expenses in accordance with the rules provided in the Tax Code.

Taxpayers must keep records of both income and expenses related to tax-exempt transactions separately as well as taxable transactions.

Micro entrepreneurs may choose either cash or accrual method of accounting, whereas small, medium and large entrepreneurs may only use accrual method of accounting for taxation purposes. This change is effective starting from January 1, 2022 for medium and large size enterprises, and from January 1, 2023 for small businesses. A taxpayer must use the same method for both accounting and tax purposes and be consistent in using it throughout the tax year. The tax year is a calendar year.

Cash method

Using the cash method of accounting, a taxpayer is required to record income upon its receipt, regardless of when the income was earned. Expenses are recorded when the payment are made rather than when the expenses have incurred.

Accrual method

In contrast to the cash method, the general rule under the accrual method of accounting requires a taxpayer to record income when it is earned, regardless of when it is actually received. Expenses are recorded when they are incurred rather than when they are paid.

Tax payment and reporting

Companies pay profit tax at a rate of 20 percent. They are required to make quarterly advance tax payments calculated as either 25 percent of the previous year's tax liability or by multiplying their income in the current quarter by the weighted tax coefficient of gross income for the previous year.

The formula below explains this calculation in more details:

A — Last year's profit tax

B — Last year's gross income (without deduction of expenses)

C — Current quarter's gross income

Advance profit tax = $C \times (A/B)$

Taxpayers that had no taxable income in the previous year may calculate advance tax payment on the basis of their quarterly incremental profit, in accordance with the relevant tax rates.

The annual profit tax return is due no later than 31 March of the following reporting year.

Taxpayers that had no taxable income in the previous year may calculate advance tax payment on the basis of their quarterly incremental profit, in accordance with the relevant tax rates.

Controlled Foreign Corporation

The recent changes to the Tax Code introduced the concept of controlled foreign corporation (CFC). The profit of CFC is taxed in Azerbaijan in the following cases:

*if an Azerbaijan resident, solely or jointly with a related resident or non-resident party, has over 50 percent of direct or indirect voting rights in such foreign company, or holds more than 50 percent of its authorized capital, or has the right to more than 50

percent of its profits

*if the profit tax effectively paid on profits of such controlled foreign corporation is 75% or less than the profit tax payable on such profits in accordance with the tax legislation of the Azerbaijan Republic

*if more than 30 percent of the annual income of a foreign enterprise is made up by:

- interest on financial assets
- royalties on intellectual property
- proceeds from sale of shares (stocks)
- income from financial leasing
- income from insurance, banking, and other financial operations
- income received as a result of fictitious transactions

Additionally, in case the profit of a CFC is taxed in Azerbaijan, the tax amount already withheld from that profit (income) of CFC in the source jurisdiction may be offset against the taxes payable in Azerbaijan for the avoidance of double taxation.

Resident individuals and legal entities must annually report their controlled foreign corporations to the tax authorities by 31 March. Failure to timely and/or fully report a CFC is penalized with a fine of AZN 2,000.

1.3. Taxation of non-residents in Azerbaijan

Tax jurisdiction over non-residents

A non-resident enterprise operating in Azerbaijan via a permanent establishment pays tax on its profit, i.e. on gross income generated from Azerbaijani sources in connection with the permanent establishment, less the amount of expenses incurred with respect to such income as per the Tax Code.

The tax has a flat rate of 20 percent. The gross income of a non-resident enterprise that is not connected with the permanent establishment is taxed at the source of payment without the deduction of expenses. A non-resident enterprise generating income through the supply of property (sale) not connected with the

permanent establishment pays tax on the gross income received in a calendar year from an Azerbaijani source. The tax is paid after the deduction of expenses relating to the generation of such income.

Permanent establishment

Under the Azerbaijani Tax Code, a foreign individual's or a legal entity's permanent establishment in Azerbaijan is an establishment through which a taxpayer's economic activity is either fully or partially conducted for 90 or more days within a 12-month period, including the activities of an authorized representative.

The Tax Code allows for any of the following items to be used as evidence of a permanent establishment:

- a place of management, subdivision, office branch or agency;
- construction and repair sites;
- installation, montage and assembly facilities, as well as supervisory activities associated with them;
- platforms, sites, drilling equipment or vessels used for the exploration and production of natural resources, as well as supervisory activities associated with them;
- any fixed base/location where a non-resident individual carries out entrepreneurial activity;
- premises used for the provision of consulting services;
- any places of employment in which other types of entrepreneurial activities are conducted in Azerbaijan;
- persons carrying out the functions of a permanent establishment for a non-resident enterprise or a non-resident individual in Azerbaijan, or people acting on their behalf, expanding customer base for them and organizing the work with clients, authorized to make agreements on their behalf and usually conducting such responsibilities;

- places for the manufacture and sale of goods and the execution of works and services.

A place is not considered a non-resident enterprise's permanent establishment in Azerbaijan if used (regardless of the user) exclusively to:

- store goods or products owned by the non-resident enterprise;
- keep a stock of goods or products owned by the non-resident enterprise for eventual processing and subsequent export from Azerbaijan by a third party;
- purchase goods or manufacture products for a non-resident enterprise for its own needs;
- implement any preparatory or support activity for a non-resident enterprise for its own needs.

Joint implementation of any activity listed above by a non-resident and its related party in Azerbaijan for entrepreneurial purposes give rise to permanent establishment.

Azerbaijani source income

For withholding tax purposes, the following income types are treated as received from Azerbaijani sources:

- Interest income
- Dividends income
- Royalty income
- Rent income
- Insurance income
- Management fees
- Income from international communication and transportation
- Other income

Withholding tax rates

Unless otherwise specified in double taxation treaties that Azerbaijan has entered into, the following withholding tax rates normally apply to the following items of income from Azerbaijani sources which are payable to non-residents, provided that such income is not attributable to a non-resident's permanent establishment in Azerbaijan:

Income from Azerbaijani sources	Tax rate
Dividends	10%
Interest	10%
International communication and transportation services	6%
Royalties	14%
Management fees	10%
Interest on financial leasing	10%
Risk insurance and re-insurance fees	4%
Income received from performing works and rendering services	10%

Income from Azerbaijani sources	Tax rate
Other items of income from Azerbaijani sources	10%

The Tax Code treats any payments to countries or territories with preferential taxation regimes (tax havens) as Azerbaijani source income and imposes a ten percent additional withholding tax with the exception of the following payments:

- repayment of principal amount of debt;
- payment to correspondent bank accounts opened with resident banks;
- funds to be returned back to the bank account of the payer from the account in a low-tax country within a year;
- payments for e-commerce services received by individuals not registered with the tax authority;
- payments made by persons not registered with the tax authority to low-tax countries for purchases for personal consumption, including purchase of movable or immovable property outside the Republic of Azerbaijan;
- payments related to the acquisition of debt securities;
- payments of interest and dividend income on investments in the Republic of Azerbaijan and deposits with financial institutions in the Republic of Azerbaijan;
- payments of salaries and pensions to residents of low-tax countries or territories;
- fees and other charges paid to the competent state authorities for the issue of permits or certificates.

The list of countries and territories with preferential taxation regimes is approved by the special Decree of the President of the Republic of Azerbaijan and updated if such necessity arises.

Legal entities and individual entrepreneurs making payments to physical persons not registered as taxpayers in relation to supply of agricultural products by their producers as well as rawhide, non-ferrous and ferrous metal scrap, paper, plastic and glass waste and used tires for recycling are obliged to withhold tax at a rate of 5 percent at the source of payment.

Moreover, amounts transferred by Azerbaijani residents to the digital wallets of non-residents are subject to a ten percent withholding tax.

In addition, the provision of assets or cash generated from a company's operations to a shareholder for the purposes other than economic activity (except for debt to the shareholder and the repayment of debt received from the shareholder), as well as the reimbursement of a shareholder's debts to other persons, are treated as a dividend payment and are taxed at the source of the payment at a rate of ten percent.



1.4. Tax exemptions

The Tax Code specifies the following exemptions from profit tax:

- income of charitable organizations, except for that received from entrepreneurial activity;
- grants, membership fees and donations received by non-commercial organizations;
- income of international, interstate and intergovernmental organizations, except for that received from entrepreneurial activity
- income of educational institutions (excluding the portion of profit paid as a dividend).
- income from the sale of lottery tickets at all stages by an agent on the basis of a contract concluded with the seller of lottery tickets.

Moreover, 50 percent of a taxpayer's income from the disposal of shares and participating interests owned for at least three years and 75 percent of profit from entrepreneurial activities classified as a "micro entrepreneurship" are exempt from profit tax. Small- and medium-sized enterprise ("SME") cluster companies are also exempt from profit tax for a seven-year period from the date they are included in the SME cluster register. Legal entity startups classified as micro or small entrepreneurs are exempt from profit tax liability for a three-year period from the date of receiving the startup certificate.

The Tax Code also grants a tax exemption to resident entities of industrial or technology parks for ten years from date they become residents. Additionally, the profits used by entities that manage industrial or technology parks to improve park infrastructure is exempt from profit tax.

The Tax Code also stipulates a 50 percent exemption from profit tax for legal entities holding an investment promotion certificate. The exemption is valid for seven years from the date of receiving this certificate.

In addition, the Tax Code provides a ten-year exemption from profit tax liability for income generated from the production of agricultural products starting from 1 January 2014. Furthermore, 50% of the income of legal entities producing food products that shall replace imported goods with locally produced (processed) goods is exempt for a period of 7 years starting from the year of approval of the relevant list (2023).

Residents of the liberated territories (legal entities and individuals registered with the tax authorities in the liberated territories and operating directly in these territories) are exempt from profit tax for a period of 10 years starting from 1 January 2023.

1.5. Taxation of cross-border transactions

Outbound transactions

Since resident entities are taxed on their worldwide income in Azerbaijan, and may

also be taxed on their income derived from sources of foreign countries, the same income could be subject to double taxation.

In terms of domestic tax law, income or profit tax paid outside Azerbaijan is credited upon payment of tax in Azerbaijan.

Excess foreign tax credit cannot be offset against the resident taxpayer's tax liabilities in Azerbaijan on any domestic source income or carried forward or backward.

Double taxation treaty relief in Azerbaijan

Azerbaijan has agreed double taxation treaties with 55 countries (54 of them currently valid) that generally follow the OECD Model Income Tax Convention.

Azerbaijani tax legislation sets the rules on how to claim a refund of taxes withheld from payments to non-residents who are covered by double taxation treaties signed with other countries.

According to rules on the administration of double taxation treaties, if a non-resident submits a claim for a tax exemption or application of reduced taxation for income derived from sources in Azerbaijan for all income types (e.g. business profit, dividends, royalties, and interest) generated by a non-resident, then the non-resident may be entitled to the benefits in advance (before paying tax) as set forth by the respective double taxation treaty.

Country of recipient	Dividends	Interest	Royalties
Austria	5% -10%-15%	10%	5%-10%
Belarus	15%	10%	10%
Belgium	5%-15%	10%	5%-10%
Bosnia and Herzegovina	10%	10%	10%
Bulgaria	8%	7%	5%-10%
Canada	10%-15%	10%	5%-10%
China	10%	10%	10%
Croatia	5%-10%	10%	10%
Czech Republic	8%	10%	10%
Denmark	5%-15%	8%	5%-10%
Estonia	5%-10%	10%	10%
Finland	5%-10%	10%	5%-10%
France	10%	10%	5%-10%
Georgia	10%	10%	10%
Germany	5%-15%	10%	5%-10%
Greece	8%	8%	8%
Hungary	8%	8%	8%
Iran	10%	10%	10%
Israel	15%	10%	5%-10%
Italy	10%	10%	5%
Japan	15%	10%	0%-10%
Jordan	8%	8%	10%
Kazakhstan	10%	10%	10%
Republic of Korea	7%	10%	5%-10%
Kuwait	5%-10%	7%	10%
Latvia	5%-10%	10%	5%-10%
Lithuania	5%-10%	10%	10%
Luxembourg	5%-10%	10%	5%-10%
Macedonia	8%	8%	8%
Malta	8%	8%	8%

Country of recipient	Dividends	Interest	Royalties
Moldova	8%-15%	10%	10%
Montenegro	10%	10%	10%
The Netherlands	5%-10%	10%	5%-10%
Norway	10%-15%	10%	10%
Pakistan	10%	10%	10%
Poland	10%	10%	10%
Qatar	7%	7%	5%
Romania	5%-10%	8%	10%
Russia	10%	10%	10%
San Marino	5%-10%	10%	5%-10%
Saudi Arabia	5%-7%	7%	10%
Serbia	10%	10%	10%
Slovenia	8%	8%	5%-10%
Sweden	5%-15%	8%	5%-10%
Switzerland	5%-15%	10%	5%-10%
Tajikistan	10%	10%	10%
Turkey	12%	10%	10%
Turkmenistan	10%	10%	10%
UK	15%	10%	5%-10%
Ukraine	10%	10%	10%
United Arab Emirates	5%-10%	7%	5%-10%
Uzbekistan	10%	10%	10%
Vietnam	10%	10%	10%

Non-residents operating in Azerbaijan without creating a permanent establishment can apply for an advanced exemption or reduced taxation for all income types, including business profits, dividends, interest, and royalty income.

To do this, a non-resident must first obtain a certificate of residency from the tax authorities of their country of residence to confirm their residence in that country. According to the administration rules for double taxation treaties, copies of the contracts confirming that income is to be paid to the non-resident, and other relevant documents (such as invoices, contract addendums, etc.), must be submitted to the Azerbaijani tax authorities for confirmation.

The rules also allow non-residents operating in Azerbaijan to use double taxation treaties to apply for a tax refund without creating a permanent establishment. To do this, the non-resident must complete a DTA-05 form and submit it to the tax department where the payee is registered.

According to the administration rules, applications should be reviewed and responded to by tax authorities within 20 working days of the submission of the application (e.g. DTA-05).

A tax refund must be made within 45 days of the submission of the application if approved by the tax authorities.

2. VAT

2.1. Concept of VAT

The concept of VAT according to Azerbaijani tax legislation is similar to the principles used in most European countries. Under Azerbaijani law, VAT payers are entitled to recover VAT paid on purchases (input VAT) even if this exceeds the VAT generated by the sale of goods or services (output VAT).

2.2. Payers of VAT

An individual or legal entity whose taxable sales amount to more than AZN 200,000 in a consecutive 12-month period must register for VAT. Taxpayers must register for VAT in advance of carrying out a taxable transaction worth more than AZN 200,000.

The Tax Code also allows for voluntary VAT registration.

A taxpayer that has registered, but whose total taxable sales over a 12-month period do not exceed AZN 100,000 may apply to cancel their registration at any time after a one year period from their last VAT registration, subject to some exceptions indicated in the Tax Code.

2.3. Objects of taxation

Under the Tax Code, the supply of goods/provision of services and imports of goods are subject to VAT. Taxable transactions do not include services provided or work completed outside Azerbaijan.

However, VAT applies to payments made by persons without tax registration to non-residents who are not registered for VAT purposes in Azerbaijan for works and services supplied via e-commerce (with the exception of purchasing airline tickets and booking hotel accommodation services outside of Azerbaijan).

VAT amount to be paid to non-resident must be calculated and paid by the tax agent. The timing of the taxable transaction is considered the time when the payment is made. When a payment is made before a transaction, the taxable transaction will be considered to have been made at the time of payment.

2.4. VAT rate

The current VAT rate is 18 percent.

2.5. Electronic invoice

Any taxpayer who carries out a taxable transaction is required to issue an electronic invoice to the person receiving the goods or services.

The taxpayer must draw up and issue an electronic invoice to the purchaser of the goods either at the shipping time of goods or within five days from the date of issuance of the document confirming delivery of goods.

The taxpayer must draw up and issue an electronic invoice to the purchaser of works/ services within five days from the date of performance of works/services. It is not allowed to issue electronic invoice for advance payments.

The registration and administration of electronic invoices is carried out online by the tax authorities.

2.6. Time of recognition of VAT liability

Output VAT must be recognized at the time when the payment for goods (services/ works) is made.



In case the payment is made before the delivery of the goods (works, services), the timing of the taxable transaction shall be the date of the payment.

If two or more payments are made for a taxable transaction, each payment is treated as a separate transaction.

2.7. VAT administration

VAT on domestic supplies and service imports is administered by the tax authorities. VAT on the import of goods is administered by the customs authorities. Registered VAT payers should assess the amount of VAT to be remitted to the budget by subtracting input VAT credit from its output VAT liability.

All input VAT must be paid through a VAT Deposit Account ("VDA"), a type of escrow bank account administered by the government. The purpose of introducing VDAs, according to official sources, is to combat VAT fraud.

Regulations require every VAT payer to have a VAT sub-account ("VSA"). VSAs are part of a VDA. Only VAT paid to the supplier via VDAs is recoverable.

Registered VAT payers must submit VAT returns and pay VAT due on a monthly basis by the 20th day of the following month.

2.8. VAT refund

The VAT reporting period is a calendar month. The amount of input VAT remaining after offsetting it against a taxpayer's output VAT in any given month is automatically carried over and can be offset against the other tax liabilities.

Taxpayers have the right to offset VAT receivables against liabilities for other taxes, interest charges for late tax payment, financial sanctions and administrative

penalties. If input VAT is not fully offset, the remaining amount must be refunded to the taxpayer within four months of the taxpayer's submission of an application to the tax authorities.

Daily interest of 0.1 percent is payable by the tax authorities if the amount of tax due to the taxpayer is not repaid within four months.

The taxpayer can recover input VAT up to three years after it becomes due.

The right of a taxpayer to claim overpaid taxes is limited to five years from the end of the tax reporting period.

It should be noted that the VAT refund process in Azerbaijan is extremely difficult. Azerbaijan tax authorities and Ministry of Finance are always reluctant to approve VAT refund applications.

The Tax Code specifies exemptions from VAT for some businesses and transactions. Some of them are listed below:

- Leasing (renting) of agricultural machinery without transfer of title to agricultural producers;
- Provision of agro-technical services to agricultural producers;
- Import and sale of electric cars (for 4 years starting from 1 January 2022);
- Sales of lottery tickets by agents at all stages on the basis of a contract with the seller of lottery tickets;
- Gratuitous transfer of real estate by legal entities and individuals, to state bodies (institutions);
- Editorial, publishing, and printing activities related to the production of books (including e-books);

Moreover, import of machinery and technological equipment by legal entities and individual entrepreneurs holding an investment promotion certificate.

The exemption is valid for seven years from the date of receiving this certificate. Freight forwarding services related to international and transit cargo transportation, also investment of fixed assets in the form of shares in the charter fund (capital) of the enterprise (if the investment of fixed assets

in the form of shares is not related to the acquisition of other property directly in exchange for it) are subject to VAT at a 0% rate. Residents of the liberated territories are exempt from VAT on the import of raw materials and materials in the areas of production activities approved by the body (institution) appointed by the relevant executive authority for a period of 10 years starting from 1 January 2023.

3. Property tax

3.1. Property tax for individuals

Payers of property tax are resident and non-resident individuals who personally own buildings and parts of buildings, as well as water and air transport facilities.

Individuals pay property tax in the following order and at the following rates:

For the building in their ownership:

- Property tax is calculated by multiplying the building's total area in square meters by the relevant tax rate, which varies between AZN 0.1 to AZN 0.4 depending on the building's location

For water and air transport vessels:

- AZN 0.02 per cubic cm of a water transport vessel's engine
- AZN 0.02 per cubic cm of an air transport vessel's engine
- One percent of the market value of water and air transport equipment without engines

3.2. Property tax for legal entities and individual entrepreneurs

Taxable objects for legal entities and individual entrepreneurs include:

- average annual value of fixed assets on the enterprise's balance sheet
- for non-resident enterprises carrying out business activity in Azerbaijan through a permanent establishment, only the average annual value of fixed assets connected with the permanent establishment.

Legal entities and individual entrepreneurs holding an investment promotion certificate are exempt from property tax on property obtained (purchased, imported, produced, built or constructed) using the funds granted within the framework of the respective investment project for seven years from the date of receiving this certificate. This exemption does not apply to property acquired by legal entities or individual entrepreneurs and used for entrepreneurial purposes before the investment promotion certificate was issued. However, this exemption applies to buildings used for entrepreneurial activities within the framework of an investment project, but that were not employed by the taxpayer for its entrepreneurial activities before.

Micro entrepreneurship businesses (with the exception of ones whose assets total book value exceeds AZN 1,000,000) are exempt from property tax.

In addition, the Tax Code exempts property tax on properties owned by legal entities and individuals engaged in the production of agricultural products for ten years starting from 1 January 2014.

SME cluster companies are exempt from property tax on property used for SME cluster activity for seven years from the date of their inclusion on the SME cluster register.

Residents of the liberated territories are exempt from property tax for a period of 10 years starting from 1 January 2023.

Entities and individual entrepreneurs pay tax at a rate of one percent of the average annual residual value of the fixed assets, which is determined by adding up the residual value of the fixed assets (excluding vehicles) as of the beginning and the end of the reporting year, and dividing the total by two.

Entities should make quarterly advance payments of property tax at 20 percent of the previous year's property tax no later

than the 15th day of the second month of each quarter. An annual property tax return should be submitted no later than 31 March of the next reporting year.

4. Personal income tax

4.1. Tax residency

Individuals who are present in Azerbaijan for more than 182 days during a calendar year, or those with a place of permanent residence, a center of vital interests or a residential adobe in Azerbaijan, or who have Azerbaijani citizenship, are considered tax residents.

4.2. Taxable income and exemptions

Residents of Azerbaijan are subject to income tax on taxable income, which is defined as gross income received from all sources (both Azerbaijani and non-Azerbaijani) during a tax year, regardless of where the income was earned or paid, less allowable deductions.

Non-residents are only subject to Azerbaijani income tax on income received from Azerbaijani sources.

The taxable base for personal income tax is determined as the difference between gross income for the tax year and expenses (or deductions) stipulated by the Tax Code for this period.

Virtually all forms of employee compensation are taxable. If a participating interest or shares in charter capital are sold at a price that exceeds the proportionate value of net assets, then the taxable income is the difference between the actual sale price and the nominal value of the participating interest or shares. Where the participating interest or shares are sold at a price lower than the proportionate value of net assets or shares, the difference between the proportionate value of net assets and the nominal value of the shares at the sale agreement date will constitute the tax base for individuals.

If participating interests or shares are bought at a price exceeding its nominal price, then expenses deducted when providing these participating interests or shares, are recorded at the actual purchase price of these assets.

The income of sole entrepreneurs operating in industrial parks is exempt from taxation. Moreover, a 50 percent exemption from personal income tax is granted to individuals who hold an investment promotion certificate for seven years from the date of receiving the certificate.

In addition to the above, following income tax exemptions stipulated under the Tax Code:

- the dividend income of an individual who is the founder (shareholder) of a resident entity is exempt from income tax if the resident entity is not registered for VAT purposes, and the taxable turnover of this entity's activities is less than AZN 200,000 within a month(s) of a 12-month period;
- a 50 percent income tax exemption on a taxpayer's income from sale or disposal of shares and participating interests owned at least for three years;
- a 75 percent income tax exemption on an individual entrepreneur's income from entrepreneurial activities classified as "micro entrepreneur";
- the "startups that function as individual entrepreneurs and are classified as micro- or small business are income tax exempt for three years from the date of receiving the startup certificate
- the part of income earned by an individual entrepreneur who is a member of a SME cluster for the provision of goods and/or services under a contract concluded with an SME company intended for capital expenditures is income tax exempt for seven years.

- 50% of the income of individual entrepreneurs producing food products that shall replace imported goods with locally produced (processed) goods is exempt for a period of seven years starting from the year of approval of the relevant list.

Residents of the liberated territories are exempt from taxation for a period of 10 years starting from 1 January 2023.

4.3. Tax rates

The worldwide income of tax residents and Azerbaijani source income of non-residents received from employment are subject to the following progressive income tax rates:

Monthly taxable income	Tax rate
Up to AZN 2,500	14%
Over AZN 2,500	AZN 350 + 25% of the amount exceeding AZN 2,500

AZN 200 of a salary below AZN 2,500 is not taxable

One of the main changes brought about by the 2018 tax reforms was a reduction in income tax for private non-oil and gas industry taxpayers. The following preferential tax rates will remain in force for seven years from 1 January 2019.

Monthly taxable income	Tax rate
Up to AZN 8,000	0%
Over AZN 8,000	14% of the amount exceeding AZN 8,000

Individuals engaged in entrepreneurial activity are taxed at a fixed rate of 20 percent. Taxable income from non-entrepreneurial activities are taxed at a rate of 14 percent.

Moreover, domestic sport betting, lottery winnings (with the exception of cash winnings on sports betting, winnings from lotteries and other types of competitions and contests outside of Azerbaijan) are subject to a 10 percent withholding tax at the source of payment, which should be withheld and paid to the State Budget on a monthly basis. The tax base for this type of income is the difference between the winnings and the amount paid to place a bet or buy a lottery ticket.

4.4. Payment and reporting of personal income tax

Personal income tax from employment income must be withheld by the employer at source.

Withheld taxes are to be remitted by the employer to the budget by the 20th of the following month.

A tax return for employment income withheld at source is filed by the employer on a quarterly basis together with social insurance, unemployment insurance and mandatory medical insurance contributions by the 20th of the month following the end of the reporting quarter.

4.5. Individual filing

Residents and non-residents must complete and file their income tax returns no later than 31 March of the following tax year.

5. Social insurance

According to Azerbaijani law, social insurance contributions are paid by both Azerbaijani nationals and foreign individuals.

Employers are liable for paying social insurance contributions at a rate of 22 percent of the employee's gross salary, while three percent is deducted from the employee's gross salary as the employee's portion of the social insurance contribution.

The income of insured employees who are not employed in the oil and gas or public sectors is subject to social insurance contributions at the following rates for seven years starting from 1 January, 2019:

Employers are also responsible for submitting quarterly reports to the tax authorities on social insurance contributions calculated and paid for local and foreign employees on the local payroll by the 20th of the month following the reporting calendar quarter.

from the employee's gross salaries the employee's portion of the social insurance contribution. Contributions must be paid no later than the 15th of the month for which unemployment insurance contributions are due.

Employers are also responsible for submitting quarterly reports to tax authorities about the unemployment calculated and paid for local and foreign employees on the local payroll by the 20th of the month following the reporting calendar quarter.

Employment income is subject to MMIC at the following rates:

- Employee's portion (deducted from salary):
 - gross salary up to AZN 8,000 – 2%;
 - gross salary over AZN 8,000 – AZN 160+ 0.5% of amount exceeding AZN 8,000.
- Employer's portion:
 - Gross salary up to AZN 8,000 – 2%;
 - Gross salary over AZN 8,000 – AZN 160 + 0,5% of amount exceeding AZN 8,000.

The Agreement on Cooperation in the Area

Social insurance contribution rate			
Monthly taxable income	Tax rate	Deduction from the income of the insured person	Paid at the expense of the insurer
Up to AZN 200	25%	3%	22%
Over AZN 200	25%	AZN 6 + 10% of the amount exceeding AZN 200	AZN 44 + 15% of the amount exceeding AZN 200

of Social Insurance was signed between the governments of Turkey and Azerbaijan on 17 July 1998. According to Article 7.1 of the Agreement, Turkish citizens employed by Turkish companies operating in Azerbaijan for less than 24 months are exempt from paying Azerbaijani social insurance contributions. However, Article 7.5 of the Agreement states that this exemption will not apply if Turkish citizens are employed by a division or a permanent establishment of a Turkish company in Azerbaijan.

6. Unemployment insurance

According to the Law "On unemployment insurance" dated 30 June 2017, employees and employers are required to make unemployment insurance contributions as insured parties and insurers respectively. Employers are liable for paying unemployment insurance contributions at a rate of 0.5 percent of the employee's gross salary, and 0.5 percent is deducted

7. Mandatory medical insurance contributions

As a part of the State Social Insurance Program, Mandatory Medical Insurance Contributions ("MMIC") are applied from 1 January 2021. According to the Law "On Medical Insurance" citizens of the Republic of Azerbaijan as well as foreigners and people without citizenship who have obtained a refugee status in the Republic of Azerbaijan are considered as insured persons. Expatriate employees do not fall under any of the mentioned categories described in the law, thus the MMIC shall not be applied to the expatriate employees. However, it is worth mentioning that the position of local tax authorities is different in this regard. Based on tax officials, income of expatriate employees who have a local employment agreement is subject to MMIC.

Insurance premium for individual entrepreneurs:

- 4% of the minimum monthly salary (AZN 345).

Payments must be processed at the same time with payments of employees' salaries but not later than the 15th day of the month following the month when salaries are calculated.

Employers are also responsible for submitting quarterly reports to tax authorities about the contributions by the 20th of the month following the reporting calendar quarter.

8. Land tax

A land tax is imposed on land owners and users. The amount depends on the use, location and total area of the land. For instance, in Baku, the tax rate on industrial land under 10,000 square meters is AZN 10, while any area over 10,000 squares meters is taxed at AZN 20 per 100 square meters.

Legal entities holding an investment promotion certificate are exempt from land tax for seven years from the date of receiving an investment promotion certificate.

Land tax on land plots involved in prospecting, evaluation, and exploration of mineral resources (except for oil and gas fields) assessed on the basis of a geological allotment document (contract with the person carrying out prospecting and exploration works, geological exploration plan, or report on geological exploration) is reduced by 75 percent for the calendar year in which the prospecting, evaluation and exploration of mineral deposits began.

Legal entities calculate land tax annually based on the total land area and the respective land tax rates, and then submit their calculation to tax authorities no later than 15 May each year.

Land tax is paid twice per annum in equal installments no later than 15 August and 15 November.

9. Mining tax

Legal entities and individuals extracting mineral resources in Azerbaijan and on the Caspian shelf pay a mining tax at rates ranging from 3 to 26 percent.

The tax is paid after the extraction of minerals on a monthly basis by the 20th of the month following the reporting month. Mining tax is deductible for profit tax purposes. Mining taxpayers submit tax returns on a monthly basis no later than the 20th of the month following the reporting month.

10. Excise tax

All individuals and legal entities producing or importing excisable goods in Azerbaijan pay excise taxes.

Tobacco products, alcoholic beverages, energy drinks and petroleum products are subject to excise tax at fixed rates, e.g. AZN 4 per liter of spirits or AZN 38.5 per 1,000 cigarettes produced in Azerbaijan.

Imports of passenger cars, buses, leisure and sport yachts are subject to excise tax at different rates depending on the size of their engines.

Imported platinum, gold and jewelry and other products made of them, processed, graded, framed and hardened diamonds are exempt from excise tax for three years starting from 1 January 2021.

Imported fur/leather products are subject to excise tax at a rate of ten percent of its wholesale price. The export of excisable goods is taxed at a zero percent rate.

11. Road tax

Road tax is paid by non-resident entities and individuals entering Azerbaijan, as well as persons engaged in the production or import of motor petrol, diesel fuel, and liquid gas in Azerbaijan.

The tax payable by non-resident entities and individuals entering Azerbaijan is collected by the customs authorities at different rates depending on the type of vehicle, distance driven within Azerbaijan, and the length of time spent in the country.

The road tax for motor petrol, diesel fuel, and liquid gas produced in Azerbaijan and allocated for domestic consumption is calculated by adding AZN 0.02 to the wholesale price of each liter.

The road tax for imported motor petrol, diesel fuel, and liquid gas is calculated by adding AZN 0.02 to the customs value of each liter, which must not be lower than the wholesale price.

12. Simplified tax

Individuals and legal entities involved in entrepreneurial activity that are not registered as VAT payers have the right to pay simplified tax. However, producers of excised goods, credit and insurance organizations, investment funds, professional securities market participants, non-governmental pension funds, and certain other persons cannot become simplified taxpayers. Also, as per the limits on simplified tax, persons carrying out production activities with more than ten employees during a quarter, persons providing goods in wholesale trading activities, and persons providing services other than those provided to non-taxpayers (except from services provided by fixed simplified taxpayers) do not have the right to become simplified taxpayers. This limitation also applies to persons engaged in building construction activities, persons engaged in the sale of jewelry, fur and leather and to activities requiring a license.

Simplified tax is calculated from the revenue obtained from the provision of goods, completion of works, rendering of services, and non-sale income at the following rates:

- for all cities and regions – two percent
- revenue of sports betting operators – six percent
- income of sports betting commissioners – four percent

Persons engaged in public catering activities whose taxable turnover exceeds AZN 200,000 in any month within a 12-month period are entitled to register as simplified tax payers and pay taxes at a rate of eight percent.

The following types of the provision of residential and non-residential areas are tax-exempt:

- Provision of residential area where an individual is registered for at least three calendar years;
- The full amount of gift, financial aid and inheritance received from the family members of the taxpayer;
- Compensation paid to individuals in accordance with the Law of the Republic of Azerbaijan “On Acquisition of Land for State Needs”;
- 30 square meters of living space of the private property of individuals.

Residents of the liberated territories are exempt from simplified tax for a period of 10 years starting from 1 January 2023.

Persons providing transportation services (except for international transportation) are simplified tax payers. Simplified tax rates for transportation service providers vary from AZN one to AZN nine per month depending on factors such as the number of seats, cars, and tonnage.

Furthermore, income from the sale of residential and non-residential property is subject to simplified tax at a rate of AZN 15 per square meter multiplied by the location zone rate, which varies from 0.5 to 4.0. The rate for non-residential buildings is 1.5 regardless of location.

Legal entities' and sole entrepreneurs' cash withdrawals from their bank accounts are subject to one percent simplified tax, which shall be withheld by local banks and branches of foreign banks in Azerbaijan, and national operators of postal services.

Income from the sale of land plots is subject to simplified tax at a rate that depends on the use, location, and total area of the land. For instance, in Baku, the tax rate is AZN 0.5 per square meter multiplied by the location zone rate, which varies from 1.2 to 4.0.

Simplified tax payers must make simplified tax payments and file tax returns no later than the 20th of the month following each calendar quarter.

The public notary approving the contract of the sale of residential and non-residential property is responsible for calculating, withholding, and remitting the simplified tax amount to the State Budget within one banking day. The notary is also responsible for filing a monthly tax return with the tax authorities no later than the 20th of the following month.

13. Transfer Pricing

Transfer Pricing rules in Azerbaijan are generally in line with the OECD TP guidelines, and transactions between the parties listed below are considered controlled transactions:

- between an Azerbaijani resident and mutually dependent non-resident persons;
- between a non-resident's permanent establishment in Azerbaijan and the non-resident themselves, or any representative, branch or other division of such non-resident located in other countries;
- between a resident of Azerbaijan or the permanent establishment of a non-resident in Azerbaijan, and subjects established (registered) in countries with preferential taxation.
- between a resident of the Republic of Azerbaijan or a permanent establishment of a non-resident in the Republic of Azerbaijan and non-residents, provided that the transactions are in products that are traded on international commodity exchanges.
- between a resident of the Republic of Azerbaijan or a permanent establishment of a non-resident in the Republic of Azerbaijan and non-residents, provided that the total income of a resident of Azerbaijan or a permanent establishment of a non-resident in Azerbaijan during fiscal year exceeds AZN 30,000,000 (≈USD 17,650,000) and the net weight of transactions carried out with each non-resident in the total income (expenses) exceeds 30 percent.

According to Azerbaijani tax law, the relevant authorities must be notified about transactions over the threshold of AZN 500,000 (approximately USD 300,000) calculated based on the transfer price. Failure to comply with the filing requirements will result in a financial sanction of AZN 2,000 (approximately 1200 USD).

Moreover, Azerbaijani residents belonging to the multi-national enterprises with annual consolidated group revenue exceeding the amount of € 750 million, are required to submit a report to the tax authorities for the purpose of ensuring automated information exchange with the competent authorities of the states in the framework of international agreements signed by Azerbaijan.

II. PSA and RSA taxation

More than 20 PSAs and two RSAs have been now signed and ratified in Azerbaijan. PSAs/RSAs contain provisions governing certain taxation rules.

In addition, detailed taxation procedures are set out in PSA/RSA tax protocols. PSAs/RSAs stipulate taxation rules for foreign sub-contractors performing work or providing services in connection with PSAs/RSAs.

1. Profit tax

Under PSAs/RSAs, contractors carrying out business in Azerbaijan relating to Hydrocarbon Activities should pay profit tax at rates varying from 20 to 32 percent.

Contractors should submit their financial statements and profit tax returns (drawn up exclusively in USD) for each calendar year, along with an appropriate report from an auditor to the tax authorities by the dates set out in the PSAs/RSAs.

2. VAT

Contractors and foreign sub-contractors are exempt from VAT with a zero percent rate on their activities in the sector. This includes the following:

- goods, work, and services supplied to or by them;
- export of petroleum and all products processed and refined from such Petroleum;
- import and acquisition of goods, work, and services.

Contractors and foreign subcontractors should obtain a VAT exemption certificate to confirm VAT exemption status issued by the tax authorities.

VAT exemption certificates are issued to contractors, operating companies, and direct local and foreign subcontractors registered in Azerbaijan.

3. Withholding tax

In lieu of profit tax, foreign subcontractors pay withholding tax at rates varying from five to ten percent, calculated from gross payments received from work or services performed in Azerbaijan. Under the PSAs/RSAs, a foreign subcontractor is defined as a legal entity incorporated outside of Azerbaijan and providing goods, work or services directly or indirectly to the contractor who is a party to the PSA/RSA.

Income tax must be withheld by anyone making payments to a foreign sub-contractor and remitted to the Azerbaijani state budget. This is a foreign sub-contractor's only profit tax liability.

According to the newly signed PSAs/RSAs (e.g. SWAP PSA, Karabagh RSA, ADUA PSA, etc.), a foreign subcontractor that has a legal presence in Azerbaijan must pay profit tax in accordance with the Tax Code.

Taxation of activities under PSAs and RSAs are very distinct as compared to tax regulations provided by the domestic tax legislation governed by the Tax Code.

4. Taxation of employees

The personal income tax of local employees is calculated in accordance with the statutory tax legislation. The personal income tax of foreign tax resident employees is only calculated on their income earned as a direct result of their employment in Azerbaijan. Foreign employees who do not become tax residents should not pay Azerbaijani personal income tax.

4.1. Tax residency

There are three tax residency rules under PSAs/RSAs:

- An expatriate employee, who is present in Azerbaijan for ordinary business purposes, becomes a tax resident if he/she spends more than 30 consecutive days in Azerbaijan in a calendar year. Income earned after the 30th day is taxable in Azerbaijan.
- Individuals spending less than 30 consecutive days, but more than 90 cumulative days in Azerbaijan in a calendar year are also treated as tax residents, and income earned after the 90th day becomes taxable.
- Rotating employees and foreign employees who have their primary place of employment in Azerbaijan qualify as tax residents if they spend more than 90 cumulative days in Azerbaijan in a calendar year, and they are taxable from the first day of their stay in Azerbaijan.

4.2. Taxable income

Almost all payments to foreign employees in Azerbaijan, including wages, salaries, bonuses, personal travel costs, education costs of an expatriate's family members, etc. are considered taxable income.

4.3. Tax rates

The rates of personal income tax are the same as the statutory rates set out above.

4.4. Personal income tax

Each employer must withhold personal income tax from payments made to local and foreign employees.

Foreign employees are entitled to receive a tax receipt from the tax authorities for the amount of income tax paid.

4.5. Tax reporting

Employers are responsible for reporting all Azerbaijani personal income tax payments made for their local and foreign tax resident employees to the tax authorities.

4.6. Social insurance

All foreign employees employed by companies engaged in the petroleum sector under PSAs/RSAs are exempt from mandatory social insurance.

Employers are required to pay social insurance contributions of 22 percent of the local employee's gross income. Employers must also withhold social insurance contributions from local employee's income at a rate of three percent and pay them to the same authority.

4.7. Unemployment insurance

All foreign employees employed by companies engaged in the petroleum sector under PSAs/RSAs are exempt from unemployment insurance.

Employers must pay unemployment insurance contributions of 0.5 percent of local employee's gross salary, and 0.5 percent is deducted from local employee's gross salary as the employee's portion of the unemployment insurance contribution.

4.8. Mandatory medical insurance contributions

All foreign employees employed by companies engaged in the petroleum sector under PSAs/RSAs are exempt from MMIC. However, employment income of local employees is subject to the MMIC.

4.9. Customs duties under PSAs/RSAs

All imports made in connection with a PSA/RSA are exempt from customs duties and import VAT.

Contractors and foreign sub-contractors may obtain a certificate granting exemption from import/export duties. Certificates are issued by the Azerbaijani State Customs Committee. An import and export exemption certificate can only be issued to contractors and foreign sub-contractors who are registered in Azerbaijan.

A contractor or a foreign sub-contractor importing goods under the PSA/RSA should submit copies of their VAT and import and export exemption certificates to customs authorities during the import process.

III. HGA taxation

1. Profit tax

Profit tax is imposed on the taxable profit from the project activities of each participant in an Host Government Agreement (HGA) is set at a fixed rate of 27 percent.

HGA participants should submit their profit tax return (drawn up exclusively in USD) to tax authorities for each calendar year, no later than 15 April (under BTC HGA) and 1 April (under SCP HGA) of the following calendar year.

2. Other taxes

Under HGAs, no taxes are imposed on or withheld from payments to any contractor in connection with HGA activities. Contractors also do not have tax compliance or filing obligations for HGA activities.

HGA participants are entitled to import into or export/re-export from Azerbaijan free of taxes and restrictions, whether in their own name or on their behalf, all equipment, materials, machinery, tools, vehicles, spare parts, supplies, petroleum, fuels and lubricants to be used in connection with HGAs and all other goods (other than natural gas), work, services or technology necessary or appropriate for use in connection with the HGA.

Foreign employees of HGA participants, contractors, and each family member of such foreign employees, have special rights with regard to the import and export of goods and services. They may import or export/re-export all goods, work, services or technology for their own use and personal consumption. They may do this personally or arrange for a third party to provide import/export services on their behalf.

However, the re-sale of any such imported goods to any other person is taxable, and, in the case of the sale of automobiles, furniture and professional tools and instruments, will result in customs duties liability, in accordance with Azerbaijani law.

The personal income tax of foreign employees is only calculated on their income earned as a direct result of their employment in Azerbaijan and only if the employees spend more than 182 days in Azerbaijan per calendar year.

3. Social insurance

Foreign nationals employed in connection with HGAs are exempt from mandatory social insurance.

The employment income of Azerbaijani nationals working under HGAs is subject to mandatory social insurance.

Employers must pay social insurance contributions of 22 percent of an employee's gross salary, and three percent of the employee's gross salary is deducted as the employee's share of social insurance contributions.

The employer is responsible for making a monthly payment of social insurance contributions on the day that the employees' salary is paid, but no later than the 15th day of the month following the month when the income was earned.

4. Unemployment insurance

Foreign nationals employed in connection with HGAs are exempt from unemployment insurance.

Employers must pay unemployment insurance contributions of 0.5 percent of local employee's gross salary, and 0.5 percent is deducted from local employee's gross salary as the employee's portion of the social insurance contribution.

5. Mandatory medical insurance contributions

Although not specifically indicated in the Law of the Republic of Azerbaijan on Medical Insurance, as per the Protocol Concerning Taxation of Employees and Physical Persons, all foreign employees employed by companies engaged in the petroleum sector under HGAs are exempt from mandatory medical insurance contributions.

However, employment income of local employees are subject to the MMIC.

IV. Alat Free Economic Zone (“AFEZ”)

1. General information

Alat Free Economic Zone (hereinafter – “AFEZ”) is a special economic zone established by the Decree of the President of the Republic of Azerbaijan with the objective of boosting local and international investment activities. AFEZ includes the land plots of the administrative areas of Baku and Garadagh district.

Investment, taxation, customs, and migration matters in AFEZ are governed by the Law of the Republic of Azerbaijan “On Alat Free Economic Zone” and AFEZ internal regulations.

AFEZ seeks to provide a unique environment for investors and is an important component of Azerbaijan's goal of developing a knowledge-based, competitive economy with modern energy, transportation, and logistics infrastructure.

2. Investment regulations

- Legal entities of AFEZ, their owners, investors, and residents are free to invest in AFEZ and repatriate funds earned through AFEZ activities;
- AFEZ legal entities, their employees, investors, shareholders, and residents can conduct transactions in any foreign currency.

3. Taxation regulations

- Legal entities operating in an AFEZ are free from any taxes imposed on their operations.
- Supply of goods, works and services to the authorized body, administrative and legal entities of AFEZ is tax-free.

Certain additional provisions should be considered regarding the taxation issues associated with AFEZ:

1. VAT

For the purposes of taxation, applicable legislation of Azerbaijan distinguishes AFEZ from the “Main Economy”, which includes the remainder of the territory of the Republic of Azerbaijan. Therefore, for taxation purposes supply of goods and services from the Main Economy to AFEZ and from AFEZ to the Main Economy is considered as equivalent to import and export of goods and services. In this case, taxpayers of the Main Economy shall be subject to the tax regulations of the Main Economy.

2. WHT

No taxes shall be deducted from payments made by the taxpayers of the Main Economy in connection with supply of goods and services provided by AFEZ Authority, Administrative Entities (an administrative entity established for the purpose of operating and developing AFEZ, dispute resolution body, any other administrative entities operating in AFEZ, as well as a legal entity established by AFEZ authority, or any other legal entity which is a partner of AFEZ authority) or legal entities (any legal entity established and operating in AFEZ according to AFEZ legislation, except for AFEZ Administrative Entities).

3. Taxation of employees

Taxation of income of AFEZ residents, employees of the AFEZ Authority, Administrative Entities, and legal entities is governed by the Free Zone Authority's Internal Regulations and, if specified in those

regulations, by the legislation of the Main Economy.

4. Customs taxes

Other than costs paid for customs clearance processes, import and export of goods to/from AFEZ by the competent authority, administrative enterprises, and legal entities of AFEZ are exempt from customs duties and taxes.

5. Labor migration matters

- AFEZ authorities are authorized to adopt internal regulations governing labor migration matters in AFEZ, including the types of visas, requirements, and rules for obtaining each type of visa.
- Individuals employed by the authorized institution, administrative enterprises, and legal entities of AFEZ, as well as the founders of these legal entities are exempted from work permit requirement.

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