



Doing Business in Azerbaijan

2025

Tax and Legal
www.kpmg.az



Doing Business in Azerbaijan

2025

Tax and Legal
www.kpmg.az

Contents

| | | | |
|--|-----------|---|-----------|
| Contents | 4 | Foreign investment | 18 |
| About KPMG | 7 | Investment promotion certificates | 18 |
| Investment climate | 9 | Safeguards for foreign investors | 19 |
| Living and working in Azerbaijan – useful tips | 9 | Inspections in the field of entrepreneurship | 19 |
| Starting a business | 11 | Licensing requirements | 20 |
| Overview of commercial legal entities | 11 | Land ownership and other related rights | 23 |
| Types of legal entities | 11 | Documents confirming rights over land | 23 |
| Representative offices and branches | 12 | Technology and industrial parks | 24 |
| Joint-stock company (“JSC”) | 12 | Foreign trade | 26 |
| - Open joint-stock companies | 12 | Environmental protection regulation | 29 |
| - Closed joint-stock companies | 12 | Banking | 30 |
| Limited liability companies (“LLC”) | 13 | Secured transactions | 31 |
| Partnerships | 13 | Litigation, arbitration and mediation | 32 |
| Cooperatives | 13 | Special economic zones | 34 |
| Membership of a cooperative | 13 | Intellectual property | 37 |
| Registration | 14 | Introduction | 37 |
| - LLC | 14 | Legislation | 37 |
| - JSC | 14 | Trademarks | 38 |
| - Branches or representative offices | 14 | Patent protection of inventions, industrial designs, and utility models | 38 |
| Liquidation of companies | 14 | Copyright | 38 |
| Registration of changes | 16 | Labour law | 39 |

| | | | |
|--|-----------|--|----|
| Introduction | 39 | Withholding tax | 54 |
| Minimum wage and the currency of salaries | 39 | Social fund contributions | 55 |
| Employment agreements and procedures | 39 | Other taxes | 55 |
| Probationary periods | 39 | Customs | 56 |
| Working weeks | 39 | Double taxation treaties | 56 |
| Holidays | 40 | Tax systems for companies working under production sharing agreements (PSAs) | 57 |
| Annual paid leave | 40 | Profit tax | 57 |
| Rules applying to annual paid leave | 40 | Withholding tax | 58 |
| Sick leave | 40 | - Payments to foreign subcontractors (FSC) for work and services | 58 |
| Maternity leave | 41 | Value-added tax | 58 |
| Cost of employment | 41 | Personal income tax (PIT) | 59 |
| Expatriate workers | 42 | - PIT rates | 59 |
| Competition law | 44 | - Reporting/payment requirements | 59 |
| Data protection | 47 | Social fund contributions | 60 |
| General tax information: Azerbaijan | 49 | Import and export duties and taxes | 60 |
| General tax information: Azerbaijan | 49 | Reporting requirements | 60 |
| List of main statutory system taxes | 49 | - Industrial and science parks | 60 |
| Corporate income tax | 49 | Investment certificates | 61 |
| Annual depreciation rates | 50 | Miscellaneous | 62 |
| Personal income tax | 51 | - Non-cash settlements | 62 |
| Value-added tax | 53 | - Advanced tax rulings | 62 |
| Property tax | 53 | Accounting | 63 |

Foreword

Dear Reader,

This guide has been prepared to provide a brief overview of Azerbaijan and its economy, as well as to introduce the tax and legal issues that are important for those planning to do business in Azerbaijan. In particular, there is a brief discussion of the benefits of investing in separate economic zones. Azerbaijani tax and civil legislation are continually developing and there is sometimes no clear answer to what might be considered a simple question. Therefore, court cases and practice are important sources for interpreting legislation. All information in this document was current as of October 2024.

The information included herein is for informational purposes only, and may not reflect the most current legal developments, judgements, or settlements. The information should not be construed as constituting legal or any other advice on any particular matter. KPMG Azerbaijan (“the Firm”) and the contributing authors expressly disclaim all liability to any party in respect of anything, and in respect of the consequences of anything, done or omitted to be done wholly or partially in reliance on the whole or any part of the contents of the Firm’s Doing Business in Azerbaijan guide. No client or other reader should act or refrain from acting on the basis of any matter contained in this guide without seeking appropriate legal or other professional advice on the particular facts and circumstances.

We would be pleased to provide you with updates on the material contained hereto, or with further information regarding a specific industry or area of Azerbaijani law in which you might have a particular interest.



About KPMG

KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. The company employs 273,000 outstanding professionals who work together to deliver services in 143 countries worldwide. KPMG has been operating in Azerbaijan since 1998 through a fully functioning office. In 2011 it completely renovated its premises and recruited professionals that are experts in financial and advisory services in Azerbaijan. KPMG Azerbaijan has over 170 professionals working for it, many of which have eight-to-20 years' audit and advisory experience in Azerbaijan, United Kingdom, Russia, Germany, Türkiye, Georgia, and other countries. In the Caucasus and Central Asia, KPMG now has offices in Baku, Almaty, Astana, Atyrau, Bishkek, Tbilisi, Tashkent and other cities, employing in total more than 1,500 people.

Introduction to Azerbaijan

Country facts (as of 01.01.2024)

| | |
|------------------------------|---|
| Capital | Baku (population 2,344,900) |
| Area | 86,600 square kilometres |
| Population | 10 million |
| President | Ilham Aliyev |
| Currency | Azerbaijani Manat (AZN) |
| Neighboring countries | Russia, Iran, Armenia, Georgia, Turkmenistan, Kazakhstan, Türkiye |
| Titular nationality | Azerbaijani |
| Ethnic minorities | Russian, Lezghi, Talysh, Tatar, Kurds, Avars, Tat and other ethnic minorities |
| Other main cities | Sumgait (population 427,000) Ganja (population 330,700) |
| Autonomous regions | Nakhichevan Autonomous Republic (population 468,600) |

Investment climate

Azerbaijan's rich oil and gas reserves have made it an attractive destination for foreign investment since 1994. The country's success in signing major oil extraction agreements with international companies has positively impacted its economy, financial stability, and standard of living, as numerous oil and gas companies have established entities and branches within Azerbaijan.

In 2023, the country's GDP reached 123.0 billion manats, reflecting a 1.1 percent increase from the prior year. While the added value in the oil and gas sector declined by 1.7 percent, it rose by 3.7 percent in the non-oil and gas sector.

Azerbaijan has been instrumental in key projects like the "East-West" and "North-South" transport corridors, the Baku-Tbilisi-Ceyhan oil pipeline, and the Baku-Tbilisi-Erzurum gas pipeline. Notable investment successes include the Shah Deniz-2 project and the EU-priority Southern Gas Corridor. Azerbaijan has also bolstered its role as a transport hub with projects like the Baku-Tbilisi-Kars railway and the New Baku International Sea Trade Port, advancing trans-regional infrastructure development.

In recent years, Azerbaijan has prioritized developing renewable energy infrastructure, attracting foreign investment for various energy plant construction projects. As the host country of UN Climate Change Conference (COP 29), Azerbaijan is committed to accelerating the transition to renewable energy.

Creation of Karabakh and Eastern Zangezur economic regions in the newly liberated Karabakh region offers significant opportunities for investors, with substantial industrial potential. The implementation of "smart city" and "smart village" initiatives, the adoption of green technologies, the commissioning of international airports, and enhanced transport and logistics capabilities all contribute to the region's growth and business appeal. Tax, social insurance and other benefits have been established in this region and numerous projects are implemented within the framework of public-private partnerships. To date, more than 1,500 companies, including up to 500 foreign companies, have applied for participation in the projects implemented in those regions.

Several legislative reforms have also been introduced to attract foreign investment, and these will be outlined in this guide.

Living and working in Azerbaijan – useful tips

Learn Azerbaijani. The Azerbaijani language is the official language of Azerbaijan. Even if you hold meetings in English or use an interpreter, it can still be useful to know how things are being translated and whether anything is being missed out.

Cultivate personal relationships. Relationships are important when it comes to doing business. Supportive and open business relations help build strong enterprises and long-lasting friendships.

Personal safety should not be a concern. Baku and other cities are safe or safer than many other major Western cities. The country's national culture and traditions encourage respect and tolerance towards people, particularly the elderly and visitors.

That said, it is inadvisable to walk around unfamiliar areas of the country's cities at night without a guide.

Mind the traffic!

Expats who hire a local driver for themselves and their children should choose someone that is competent and patient. Expats who drive themselves, or walk, should exercise caution, as drivers in cities have a reputation for sometimes driving recklessly.

Qualified medical services are available. While there are many qualified doctors in the country, expats often prefer doctors that speak English or their own native language. In general, medical personnel speak Azerbaijani, and in recent times private medical services have been widely introduced in the country.

Great cuisine. There are many good-quality restaurants, both in Baku and throughout the country.

If you are coming to stay

- An exemption from customs duties is available for people bringing household goods into Azerbaijan, provided that the quantities are within legal limits.
- Since 12 July 2016 tourists coming to visit Azerbaijan have been able to benefit from a tax-free system.
- Qualified (even English-speaking) domestic help can be easily found through other expats.
- English, French, and other foreign language schools cater for expat children in Baku (as well as some other cities), although you should be aware that the choice of school and the range of education on offer may not be as great as that in your home country.

Routine issues

- As an expat staying temporarily in Azerbaijan for more than 15 days, you must register upon arrival at your place of stay.
- Car registration can take one-to-two days, or someone (a legal representative) can do it on your behalf if you grant them a power of attorney (although this may come with a fee and be taking into account mobile notary application). The power of attorney can be granted for a period of up to one year.

While the above does not cover all aspects of living in Azerbaijan, it is sufficient to show that expats can and do live safely, successfully, and happily in the country, often with their families, and often for a lengthy period of time.



Starting a business

Overview of commercial legal entities

The procedures by which legal entities are established in Azerbaijan are mainly regulated by the Civil Code and the Law “On State Registration and the State Registry of Legal Entities”. In order to simplify the registration procedure for commercial legal entities, as well as branches and representative offices of foreign legal entities, President of the Republic of Azerbaijan, Ilham Aliyev signed an order in October 2007 according to which the registration of new commercial entities was simplified via the introduction of a one-stop shop principle. This allows commercial entities to be registered within 2 (two) business days under a simplified application procedure. State Tax Service under the Ministry of Economy of the Republic of Azerbaijan (“Registration authority”) is the authorized body that carries out the registration of the commercial legal entities.

Main types of legal entities

Civil legislation of the Republic of Azerbaijan stipulates a number of types of commercial entity that can be established. These include:

- Representative offices and branches of foreign legal entities
- Joint-stock companies: open (OJSC) and closed (CJSC) joint- stock companies
- Limited liability companies (LLC)
- Partnerships
- Cooperatives



Representative offices and branches

Under Azerbaijani legislation, branches and representative offices of foreign legal entities are not considered legal entities. From a practical standpoint, branches and representative offices, in terms of their legal nature, are very similar. Civil legislation defines representative offices as divisions of a legal entity that represent and protect the interests of that legal entity in another country. However, a branch is a division of a legal entity that carries out all or some of the functions of that legal entity in another country, including representation and the safeguarding of its interests. Hence, under civil law, representative offices cannot be engaged in commercial activities.

The Constitutional Court of the Republic of Azerbaijan in its resolution on this issue ruled that if a foreign legal entity's charter allows its representative offices in other countries to conduct commercial activities, then those representative offices can perform commercial activities in the Republic of Azerbaijan. Therefore, in practice, representative offices can perform the same activities as branches under this condition.

The relevant legislation does not distinguish requirements for representative offices and branches. They are both subject to the same legal, tax, currency, and reporting requirements.

The salaries of expatriate employees at branches and in representative offices can be paid by the head office into their overseas accounts.

All activities of a branch/representative office of a foreign legal entity are managed by the executive officer (director, manager etc.) who is appointed by the resolution of the head office. Head office of a branch/representative office also issues a power of attorney in the name of the executive officer of such branch/representative office in order to identify his (her) authorities.

Branches and representative offices are free of any requirement to have charter capital. In addition, branches and representative offices cannot be reorganized (for example, via a merger, division, or acquisition).

Joint-stock company (“JSC”)

A company which charter capital is divided into a certain number of shares is considered a joint-stock company. JSC can be in the form of open and closed JSCs.

Open joint-stock companies

An OJSC can be established by one or more individuals or legal entities. Its shareholders can alienate their shares without the consent of other shareholders. OJSC may issue shares through public subscription and carry out their open sale. OJSC's shareholders are not liable for the company's obligations; in fact, the liabilities shareholders face in OJSCs are limited by their shares, meaning that the liabilities can only extend to the amount that they have contributed to the charter capital.

An OJSC's charter capital cannot be less than AZN 4,000 (four thousand). However, different charter capital requirements have been determined for banks, non-bank credit institutions, insurance companies, investment firms, electronic money institutions and other participants of financial markets by the relevant legislation. The general meeting of shareholders is the supreme governing body of an OJSC, and it must convene at least once a year.

The Charter / Acts of Incorporation of an OJSC must contain information on the name of the legal entity, its address, procedure for managing its main activities, and its de-registration. It must also have information the categories of shares, their nominal value, and quantity; the amount of the legal entity's charter capital; the rights of shareholders; the composition and authority of the legal entity's governing bodies, the procedure for making decisions, including matters where decisions are made unanimously or by a specified majority vote.

An OJSC is required to appoint an independent auditor to audit its annual financial reports, and the annual financial reports of OJSCs must be published (with the exception of micro and small business entities).

Closed joint-stock companies

Close joint-stock company (CJSC) shares a number of features with an OJSC, although there are also several distinctions between them:

- their shares are circulated among its shareholders and also within a pre-determined group;
- the minimum amount of charter capital is AZN 2,000 (two thousand);
- shares in CJSCs can be sold to third parties if they are not bought by the CJSC's other shareholders under pre-emptive rights and by CJSC itself correspondingly;
- CJSCs with over 50 (fifty) shareholders must be converted into an OJSC within 1 (one) year and after the expiration of this period, if their number is not reduced to 50 (fifty), it must be liquidated by court order.

CJSC is required to appoint an independent auditor to audit its annual financial reports, and the annual financial reports of CJSCs must be published (with the exception of micro and small business entities).

Limited liability companies (“LLC”)

LLCs are one of the most widely used types of company for performing commercial activities in the Republic of Azerbaijan. An LLC is a legal entity that can be founded by one or more individual and/ or legal entities. The participants of an LLC are not liable for its obligations and bear the risk of loss related to the company’s activities only to the extent of the value of their contributions. LLC is not responsible for its participants’ obligations to third parties. LLC is required to appoint an independent auditor to audit its annual financial reports (with the exception of micro and small business entities).

The share capital of LLC comprises assets that guarantee the minimum amount of its creditors’ interests. Another distinctive feature of this legal form is the absence of a minimum capital threshold requirement, allowing the share capital to be established with a nominal amount. However, special categories of legal entities (such as electronic money institutions and payment institutions) are subject to minimum charter capital requirement set by the relevant state authorities. The participant(s) of LLC may pay up the charter capital within 3 (three) months after the registration of the company.

With the recent legislative amendments, LLCs are required to notify Registration Authority of the payment of charter capital within 5 business days after the payment. If the charter capital of LLC is not fully paid within the period specified in the Civil Code (i.e. 3 months), officials are fined in the amount of 1,000 AZN, and legal entities are fined in the amount of 2,000 AZN. Moreover, even if the amount of charter capital is paid within the period specified by the Civil Code, failure to notify the Registration Authority can result in fines in the amount of 500 AZN for officials and 1,000 AZN for the legal entities.

Moreover, the sale of shares in LLC to third parties is subject to other shareholders’ right of first refusal.

Partnerships

A partnership is a form of legal entity established by one or more members either in general or limited types, with its charter capital divided into a certain number of stakes.

The participants of general partnership conduct business activities on behalf of the partnership and are subsidiarily liable for its obligations with their own property.

Under the Civil Code, only entrepreneurs and/or commercial entities can establish general partnerships. Moreover, partner who has withdrawn from the partnership remains jointly liable with the remaining partners for the obligations of the partnership that arose up to the moment of its withdrawal, for a period of 2 (two) years from the date of approval of the partnership’s activity report for the year in which it withdrew.

Limited partnership is another form of partnership which consists of, along with general partners, one or more participants

- limited partners who bear risk of losses related to the activities of the partnership to the extent of the amount of their contributions and do not take part in the business activities of the partnership.

Partnership is not commonly used type of legal entities due to the liability of partners for the obligation of the partnerships.

Cooperatives

A cooperative is a voluntary union of members that can be founded by at least 5 (five) individuals and/or legal entities with the purpose of satisfying the material and other needs of the participants through the consolidation of the participants’ material contributions. Cooperatives fall into various categories, including but not limited to production, consumer and mixed (production-consumer) cooperatives for the nature of its activities.

Membership of a cooperative

Members of cooperative are divided into two categories: member and associative member.

A cooperative member is an individual and/or legal entity who has paid the membership fee, mandatory and additional share contributions in the manner and amount determined by the cooperative’s charter, has been admitted to the cooperative, participates in its activities, and holds voting rights.

A cooperative member who has paid mandatory and additional share contributions has the right to receive main cooperative payments and dividends.

An associative member of a cooperative is an individual and/or legal entity who has paid the membership fee and only the mandatory share contribution in the manner and amount determined by the cooperative’s charter, has been admitted to the cooperative, and participates in its activities but does not have voting rights, except in cases specified by this Civil Code.

Associative member does not participate in the management of the cooperative, only receives main cooperative payments and is not entitled to receive dividends.

Members of a cooperative must make respective contributions to the share fund in full, prior to the state registration of the cooperative unless specified otherwise in the charter of the cooperative. If at the end of the fiscal year a cooperative reports financial loss, the members must cover them by making additional contributions no later than 2 (two) months after the date that the annual balance sheet was approved. An individual that joins a pre-existing cooperative is liable for the cooperative's incurred obligations, unless the charter of the cooperative stipulates otherwise. Individuals are informed of such obligations prior to joining.

A cooperative's profit may be distributed to the cooperative's funds, to settle creditors' debts or to pay dividends and cooperative's payments, or for other matters, as covered by the cooperative's charter.

Registration

LLC

An LLC is established through the organization of the founders' meeting and concluding the agreement (if the LLC is established by several founders) or adopting a decision on the establishment of the LLC (when the LLC is created by one person), payment of the charter capital (if the charter of the company does not provide for the payment of the charter capital for a certain period of time) and includes the preparation of the charter. In order to operate as a legal entity, an LLC must undergo state registration in the Republic of Azerbaijan. For the registration of LLC, an application package containing all required documents must be submitted to the Registration authority. LLCs are registered within 2 (two) business days after the submission of all required.

Also, LLCs established by Azerbaijani/foreign individuals, as well as legal entities, can be registered by submitting an e-application.

JSC

A JSC is established through a meeting of founders, which adopts a resolution on the incorporation of the company as well as its charter. JSCs, together with other commercial legal entities, are registered by the Registration authority within 2 (two) working days after submitting all required registration documents.

Similar to the registration process for LLCs, to register JSCs in the Republic of Azerbaijan the founder(s) should submit an application form with other required documents, depending on whether the founders are individuals or legal entities, and foreign or local. However, unlike for LLCs, the full value of a JSC's shares must be paid prior to its registration. Furthermore, issuance of shares of JSCs must be registered with the Central Bank of the Republic of Azerbaijan before it is distributed among shareholders and the shareholders of JSC must also be registered at a central depository within 30 calendar days after the state registration of JSC.

Branches or representative offices

The process by which branches, and representative offices are registered is similar to that for legal entities: according to the State Tax Service of the Republic of Azerbaijan one-stop shop principle, that is within 2 (two) business days after all required documents have been submitted.

Branches and representative offices function on the basis of regulations that are similar to the charters of legal entities. All documents issued outside the Republic of Azerbaijan must be certified and apostilled/legalized. Also, all documents issued abroad in foreign languages must be translated into Azerbaijani and notarized by a notary public in Azerbaijan.

Liquidation of companies

Liquidation of companies can be conducted either voluntarily or compulsorily (bankruptcy). Both forms of liquidation are registered with the Registration Authority upon submission of a liquidation application along with the required documents, as stipulated by legislation.

Voluntary liquidation

Voluntary liquidation begins with a resolution passed by the general meeting of shareholder(s), applicable only if the company is solvent. In such cases, the director issues a declaration of solvency. During the voluntary liquidation, competences typically handled by the director are transferred to a designated liquidator or liquidation commission.

The liquidator or liquidation commission undertakes the following key actions:

- **Public Notification:** Publishes an announcement of the company's liquidation on official journal.
- **Employee Relations:** Terminates employment contracts.
- **Creditor Payments:** Processes payments to creditors on a "first come, first served" basis.
- **Financial and Tax Obligations:** Closes bank accounts, deregisters VAT, and submits final tax returns.
- **National Archive Submission:** Submit archived documents created by the company to the National Archive Office.
- **Liquidation Balance Approval:** Prepares and approves a final liquidation balance.
- **Asset Distribution:** Distributes remaining assets to shareholders, based on an approved report by the liquidator or liquidation commission.

A tax audit may be conducted by the State Tax Service, which can take several months. Inspectors may challenge the company's documentation, payment orders, or tax returns, or request additional supporting materials. This process often requires additional time and can delay the liquidation process.

The entire liquidation process must be finalized within one year from the moment that the information about the liquidation of a legal entity is entered into the state register of legal entities. Failure to meet this deadline requires restarting the process from the beginning.

Compulsory liquidation (Bankruptcy)

If a company's assets are insufficient to cover its liabilities, the company may be subject to compulsory liquidation. Two types of insolvency proceedings are envisaged: in court and out of court.

- ***In-court bankruptcy proceedings***

In-court bankruptcy proceedings is initiated upon the request of either the company or its creditors. After reviewing the case, the court may make a judgment on one of the following actions:

- a) Declare the company bankrupt and appoint an asset administrator, transferring the director's responsibilities to this asset administrator.
- b) Appoint a temporary asset administrator or extend the term of a temporary appointment.
- c) Refuse to declare the company bankrupt.

- ***Out of court bankruptcy proceedings***

Out of court bankruptcy proceedings by the company is initiated upon the resolution of the company by which anticipated asset administrator is appointed.

Payment of the debts of the bankrupt company

Asset administrator organizes the sale of the property of the company through a public auction or by other methods in cases specified in legislation.

The main distinction between voluntary and compulsory (bankruptcy) liquidation lies in the payment sequence - voluntary liquidation operates on a "first come, first served" basis, while bankruptcy follows a structured order as indicated below:

1. Expenses regarding the bankruptcy process
2. Claims related to life or health damages and alimony payments
3. Claims for severance benefits and wages owed to employees, as well as fees under copyright agreements (limited to claims from up to six months prior to bankruptcy)
4. Followings at the same time:
 - Payments to the state budget, social protection fund, unemployment protection fund, and municipalities (limited to one year before bankruptcy)
 - Claims on unsecured debts and interest from credit institutions, including those owed to non-residents, that remain unpaid as of the enactment date of the Insolvency and Bankruptcy Law, which is 31.12.1997.
5. Claims of unsecured creditors
6. Payment to the shareholders

Registration of changes

Under the Law “On State Registration and State Registry of Legal Entities”, changes made to the incorporation documents of legal entities, branches, or representative offices, as well as any subsequent changes to the registered facts must be registered with the Registration Authority. The application to register respective changes must be submitted within 40 (forty) business days after the date that the changes were made. The respective changes must be included in the application form submitted together with the other documents confirming the changes.

Amendments to the documents of legal entities, branches, or representative offices enter into force after their state registration. Legal entities, branches, or representative offices cannot perform any activities based on changes that were unregistered.

Under the Code of Administrative Offences, for the failure to register the changes made to the incorporation documents of legal entities, branches, or representative offices, as well as any subsequent changes to the registered facts in the state within the specified timeline, fines in the amount between AZN 2,500 (two thousand and five hundred) and AZN 3,000 (three thousand) can be imposed on the legal entities.



Foreign investment

In recent years numerous legislative acts (the Law on Public Private Partnership, Law on Investment Activity, Presidential Decrees related to investment promotion mechanism, etc.) have been adopted with the aim of stimulating investment activities within the country. In addition, Azerbaijan has entered several bilateral treaties on the mutual safeguarding of investments.

According to the Law “On Investment Activity”, investment activity may be carried out in the following forms:

- Establishment and reorganization of legal entities;
- Acquisition of shares (participation interests) in legal entities;
- Establishment of branches and representative offices of foreign legal entities in the Republic of Azerbaijan;
- Individual entrepreneurship;
- Conclusion of contracts for the implementation of investment activity;
- Acquisition of property, including property rights and other rights with monetary value;
- Other forms not prohibited by the investment legislation of the Republic of Azerbaijan.

The legal system governing the foreign investor’s activity cannot be less favorable than that for Azerbaijani citizens and legal entities regarding their properties, property rights, and investment activities.

Legislation may prescribe restrictions and prohibitions on the territorial scope of an investment project related to defense, national security, or safeguarding the environment and the public.

Investment promotion certificates

Investment promotion certificate is a document that allows legal entities and individual entrepreneurs to obtain the benefits specified in the tax and customs legislation.

As per the requirements of the Decree of the President of the Republic of Azerbaijan dated December 20, 2022, no. 1913 the investment promotion certificate is issued to legal entities and individual entrepreneurs presenting the following projects:

- Projects to be implemented in industrial districts and agroparks;
- Projects to be implemented in tourism and recreation zones;
- Projects to be implemented in other cities and regions, except Baku, Sumgait, Ganja, Absheron district, and territories liberated from occupation;
- Strategic investment projects to be implemented in the directions determined by the President of the Republic of Azerbaijan.

The Decree sets out the list of economic activity areas for which investment promotion certificate is issued. Moreover, minimum amount of investment is determined for each economic activity area and geographic zone.

It should also be noted that according to the same Decree, issuance of investment promotion certificate will be available for 3 years from January 1, 2023. In other words, legal entities and individual entrepreneurs can only apply for investment promotion certificate till January 1, 2026. This period may also be extended in the future.

Following benefits are provided by legislation for holders of investment promotion certificate:

1. 50 percent of the profit gained by a legal entity that has received an investment promotion certificate is exempt from income tax for a period of 7 (seven) years from the date of receiving that document;
2. Import of machinery, technological equipment and devices by legal entities who have received an investment promotion certificate based on the confirmation document of the Ministry of Economy of the Republic of Azerbaijan is exempt from VAT for a period of 7 (seven) years from the date of receipt of the investment promotion certificate;
3. Legal entities who have received an investment promotion certificate are exempt from paying property tax for 7 (seven) years for their property acquired (purchased, brought, manufactured, built or installed) within the framework of the relevant investment project and at the expense of investment funds. This rule does not apply to properties acquired before the date of receipt of the investment promotion certificate and used by a legal entity in entrepreneurial activity.

Such tax exemption also applies to buildings involved in entrepreneurial activity within the framework of the investment project and previously not used in the entrepreneurial activity of the taxpayer.

4. Legal entities who have received an investment promotion certificate are exempt from paying land tax in relation to the respective lands owned or used by them for 7 (seven) years from the date of receiving the certificate.

5. Import of machinery, technological equipment and facilities by legal entities who have received an investment promotion certificate based on the confirmation document of the Ministry of Economy of the Republic of Azerbaijan is exempt from customs duties for a period of 7 (seven) years from the date of receipt of the investment promotion certificate.

Safeguards for foreign investors

Under Azerbaijani legislation the following guarantees exist for foreign investments:

- Except for cases involving the acquisition of investments for public needs and requisition (requisition refers to the acquisition of property from the owner for public interests during natural disasters, technological accidents, epidemics, and other emergencies, based on the decision of the relevant state authorities), the acquisition or nationalization of investments and investment contributions within the territory of the Republic of Azerbaijan without the investor's consent is prohibited.
- Foreign investors are entitled to transfer income, dividends, and other profits, as well as any remaining funds after the full or partial termination of investment activities in Azerbaijan, abroad, provided that all applicable taxes have been paid.
- After the exhaustion of legal remedies provided in the domestic law, the foreign investor may submit a dispute related to investment activities with the Republic of Azerbaijan to international arbitration.
- Compensation for damages, including loss of profits, caused to investors as a result of unlawful decisions (administrative acts) or actions (inaction) of state bodies (institutions), local self-government bodies, or their officials, shall be paid by the Republic of Azerbaijan or the respective local self-governing body.

Inspections in the field of entrepreneurship

Additionally, by the Law "On the suspension of inspections in the field of entrepreneurship", inspections conducted in the field of entrepreneurship in the territory of the Republic of Azerbaijan have been suspended until January 1, 2025 (and this period can further be extended). During this period, only specific inspections listed under this Law, such as tax audits, financial market audits, customs audits, and inspections related to health and safety, food and feed safety, fire control, state construction control, and the fight against money laundering and terrorism financing, are permitted under strict conditions set by the relevant executive authority and the suspension does not apply to inspections conducted by the General Prosecutor's Office of the Republic of Azerbaijan in connection with the investigation of corruption crimes. Any inspections conducted in violation of this Law will have no legal effect, and entrepreneurs have the right to challenge such actions through administrative or judicial channels. After the suspension ends, inspection bodies are not permitted to carry out any new inspections related to entrepreneurs' activities during the suspension period, unless otherwise stipulated by Law.

Licensing requirements

Business activities that are licensable in the Republic of Azerbaijan are regulated by the Law “On Licenses and Permits” and other relevant legal acts. Adoption of the Law “On Licenses and Permits” introduced a number of simplifications to licensing procedures under the one-stop shop principle.

Global recognition of Azerbaijani licences, as well as the recognition of foreign licences in Azerbaijan, is possible under international agreements.

Types of activities requiring a license and permit are determined based on one of the following criteria.

- Activities that affect the state security;
- Activities involving the use of limited natural resources;
- Activities that may have a negative impact on the ecological state of the environment;
- Activities that pose a threat to the life, health and property of an unlimited number of persons.

To obtain a license or permit the applicant shall provide the required documents and meet the certain requirements for each license or permit. Licenses and permits are issued by the relevant government bodies depending on the type of license and permit.

The licensing authority issues the license or adopts an administrative act on the refusal of issuance no later than 10 business days (unless shorter period is specified in the relevant laws) from the date the application is registered, based on the results of the review of the submitted application and the attached documents. An application for licences can be submitted electronically and is processed within 10 business days. The license is non-transferable, meaning that it can be used by the licensee only.

An online licenses and permits portal was recently set up, and gives information on available licences and permits, the authorities issuing them, a description of details, the list of required documents, state fees, service fees, and information for individuals and legal entities.

Licences are classified under general and special types, with the general type granting the right to engage in a commercial activity without having to obtain a separate license for each sub-category.

In contrast, the holder of a special license will need to obtain a separate license for each sub-type of activity stipulated in the license. The suspension or termination of an activity indicated in a general license does not serve as a basis for terminating or suspending other activities contained in the license.

Licences can also be suspended or terminated by the issuing authority if the conditions of the license is breached, and under other circumstances prescribed by law.

Issuance of license for the financial institutions (banks, non-banking credit institutions, electronic money institutions, payment institutions, insurance companies, investment firms, etc.) are regulated by the specific legislation.

Presented below is a non-exhaustive list of activities that are licensable in the Republic of Azerbaijan, together with a corresponding list of the state authorities responsible for issuing the respective license:

| Type of licensable activity | Executive authority |
|--|---------------------|
| Toxic industrial waste: Recycling; neutralization | Ministry of Economy |
| Collection of raw, wild medicinal plants | Ministry of Economy |
| Private medical activities | Ministry of Economy |
| Pharmaceutical activities: production; wholesale; retail | Ministry of Economy |
| Pharmaceutical precursors: production; import; export; transit | Ministry of Economy |

| Type of licensable activity | Executive authority |
|--|---|
| Educational activities | Ministry of Economy |
| Communication services | Ministry of Economy |
| Construction activities | Ministry of Economy |
| TV and radio operations; satellite broadcasting | Audiovisual Council |
| Elevator installations; fire-fighting activities; individual hunting organisations; ; private veterinary medical activities; | Ministry of Economy |
| Manufacture of various types of seals and stamps | Ministry of Economy |
| Stock exchange activity; joint- stock investment fund activities; investment company activities; clearing organisation activities; investment fund depository activity | Central Bank |
| Banking activities and insurance activities; electronic money institutions and payment institutions | Central Bank |
| Audit activities | Chamber of Auditors of the Republic of Azerbaijan |
| Private security activities | Ministry of Internal Affairs; State Security Service of the Republic of Azerbaijan (depending on the scope) |
| Activities related to the design and production of information protection tools | State Security Service of the Republic of Azerbaijan |
| Biometric technologies and their maintenance; the establishment of personal data information resources and information systems and their maintenance | Ministry of Digital Development and Transport |



Land ownership and other related rights

Under the Civil Code, ownership is a subject's right (i.e. a right belonging either to an individual or legal entity), recognised and protected by the state, to own, use, and dispose of property belonging to them at their own discretion. Thus, an ownership right is an aggregate of the following rights:

- the right to own, defined as the legally protected possibility of taking possession of a property
- the right to use, defined as the legally protected possibility of enjoying a property's useful features, and obtaining benefit from them (benefit from use may be expressed in the form of income, growth, or any other form)
- the right to dispose, defined as the legally protected possibility of determining the legal fate of a property

The Civil Code categorises land plots as immovable property. In particular, the Code sets forth that land plots, as well as separate bodies of water, forests, long-standing harvested farmland, buildings, installations, and other real estate items closely attached to land (which cannot be separated from it), meaning objects that cannot be moved without disproportionate damage to their purpose are considered immovable property. Under the Civil Code, the ownership and use rights to immovable property (including land plots) must be state registered. In addition to ownership, the Land Code of the Republic of Azerbaijan regulates use and lease rights over land plots.

The main difference between these two types of rights is that the lease term is determined through agreement between the respective parties, whereas the term for (gratuitous) use might be permanent, or for a period of up to 99 years (in case of lands under the state or municipality ownership, for the period of up to 49 years). Moreover, as opposed to lease, (gratuitous) use does not entail any consideration to be paid to the property owner. Under Azerbaijani law, land can be used by foreigners only in the form of a lease. Regarding formalities, all relevant transactions are subject to notary certification, as well as state registration if the term of gratuitous use/lease exceeds 11 months. A land user or lessee can transfer (sell) their use/lease rights to a third party in accordance with the legislation of the Republic of Azerbaijan.

Documents confirming rights over land

Under the Land Code, the granting to legal entities or individuals of rights to land plots owned by the state or its municipalities is performed based on a decree from a relevant executive power and based on an agreement concluded between the parties.

The transfer of all rights to land plots in private ownership from one person to another is performed based on agreements concluded between the parties. Such agreements should be notarised.

Rights to land plots (with the exception of lease and usage rights to land plots not exceeding 11 months) are registered in the State Registry of Immovable Property and are formalised in a respective registry extract.

In addition, the Land Code states that rights arising from the purchase of land plots in state ownership or owned by the state's municipalities, as well as rights obtained through the conclusion of deeds related to land plots and other immovable property, must be registered.

Technology and industrial parks

Technology parks

Technology park is an area with the necessary infrastructure, material and technical base, and management bodies for conducting scientific research and experimental design work aimed at the development, processing, or improvement of innovative products and high technologies, the creation and development of software, and the application (commercialization) of their results in industries, services, and other sectors.

Technology parks can be created independently or by a scientific and educational institution. In order to operate in a technology park, the legal entity or individual engaged in entrepreneurial activity should become a resident by obtaining a registration certificate, or become a resident of a technology business incubator, which are involved in developing new technical projects and receive support from a technology park. Also, the concept of a joint technology park has been introduced. These can be created on state, municipal, or private land plots. The cost of organising and managing the activity of joint technology parks is determined based on the respective shares of state and municipal and private proprietors.

Industrial parks

Based on the relevant presidential decrees and orders “Azerbaijan National Academy of Sciences” High Tech Park, Mingachevir High Tech Park, Pirallahi High Tech Parks etc., have been established. The residents of technological parks are entitled to tax and customs duty exemptions provided by the relevant legislative acts.

The operation of the industrial parks is regulated by the Decree of the President of the Republic of Azerbaijan on approval of the Model Regulations on Industrial Parks dated April 24, 2013, no. 865 and other relevant legal acts.

An industrial park is an area equipped with the necessary infrastructure and management institutions for the implementation of entrepreneurial activities. It is used for the production of competitive products and the provision of services through the application of modern technologies, as well as for the sale of goods in cases determined by the President of the Republic of Azerbaijan. The industrial park supports the efficient operation and development of entrepreneurs.

The organization, management and development of the industrial park is carried out by the management organization. The management organization is responsible for the operation of the industrial park.

The regulations of each industrial park is approved by its management organization. Regulations defines the functions of the industrial park, the types of business activities to be carried out there, the relations of the industrial park with the relevant state and local self-government bodies, and other issues.

Currently, the Republic of Azerbaijan hosts several industrial parks across various regions, including “Araz Valley Economic Zone”, “Sumgayit Chemical”, “Garadagh”, “Pirallahi”, “Mingachevir”, “Aghdam”, and “Hajigabul”.

In order to operate in the industrial park, legal entities and individuals must sign a letter of intent with the management organization and register in accordance with the Law of the Republic of Azerbaijan on “Licenses and permits” and receive an industrial park registration certificate.

Legal entities and individuals submits their investment project and other required documents to the management organization directly or through an operator to register as a resident of the industrial park.

Based on the results of the review of the submitted application and the documents attached to it, the management organization makes a decision to register the applicant as a resident of the industrial park and issues the applicant an industrial park registration certificate or makes a substantiated decision to refuse registration no later than 7 (seven) working days from the date of registration of the application.

The residents of industrial parks are entitled to tax and customs duty exemptions provided by the relevant legislative acts.



Foreign trade

Overview

In order to make the business and investment environment of Azerbaijan as efficient and convenient as possible, a number of reforms have been introduced, with the main focus on increasing exports of local goods to traditional and new markets and introducing to international markets goods produced in Azerbaijan.

Special rules on import and export

While legal entities in Azerbaijan are free to engage in imports and exports, specific categories of goods require approval or opinions from state authorities. Goods are classified as follows:

Goods export and import of which are carried out solely based on the decree of the Cabinet of Ministers of the Republic of Azerbaijan:

- Military equipment for combat purposes, military weapons, ammunition, equipment and spare parts for their design and production, as well as scientific-technical information, materials, and technologies (with respect to the Ministry of Defense of the Republic of Azerbaijan and other state bodies intended for military service)
- Gunpowder, explosives and devices, explosive means, flammable substances, and pyrotechnic products
- Nuclear materials, technologies, equipment, and installations, special non-nuclear materials
- Drugs and psychotropic substances, the circulation of which is restricted by law in the territory of the Republic of Azerbaijan, psychotropic substances subject to control in the territory of the Republic of Azerbaijan, equipment used in the production of drugs and psychotropic substances, and subject to circulation control
- Blood, blood components, and preparations made from them
- Unprocessed diamonds (with respect to export)
- Sources of ionizing radiation, including radioactive substances (including radioactive waste), equipment intended for the production of such sources and substances, except for radiation-emitting devices with economic, household, and medical significance.

There are also specific goods, services, and intellectual property that can only be exported or imported with approval from the relevant state authorities.

Additionally, following goods (works, services, results of intellectual activity) are subject to export control and may only be exported and imported with special permission by relevant authority:

- Goods (works, services, results of intellectual activity) and technologies subject to export control as stipulated in international treaties to which the Republic of Azerbaijan is a party
- Military goods, including weapons of mass destruction and their delivery (transportation) systems
- Dual-use goods (works, services, results of intellectual activity) that can be used in the creation and development of weapons of mass destruction, weapons, military equipment, and ammunition
- Explosive and radioactive substances, materials, devices with radioactive sources, ionizing radiation sources, and installations
- Other goods (works, services, results of intellectual activity) subject to export control, including those determined by the relevant executive authority based on their final use or user.

Trade facilitation and incentives

To further ease business operations and promote exports, Azerbaijan has implemented a range of incentives and mechanisms to enhance trade efficiency:

1. **Digital Trade Hub:** Under the Presidential Order, steps are to be taken to achieve these goals, such as creating a Digital Trade Hub in the Azerbaijan section of the online portal www.azexport.az. This portal assists persons registered as taxpayers in Azerbaijan in drafting and signing documents and agreements in an electronic format and conducting trans-border electronic services in real-time, and establishing electronic services that enable exporters to obtain the permits required to conduct export activities and export custom declarations in an electronic form. The portal also issues payments of export incentives from the state budget to persons exporting non-oil goods, as well as ASAN Imza electronic signature certificates.

2. Incentives for Businesses:

- **Green Corridor** – low-risk legal entities that meet requirements stipulated in the legislation can obtain the right to permanent use of the “Green Corridor” pass system within 1 month upon their online application. Right holders can benefit some privileges including but not limited to ensuring faster passage of goods and vehicles through customs border crossing points, prioritizing the services provided by customs authorities at border crossing points, trade facilitation centers, and other designated locations for customs clearance, minimizing physical customs inspections through the application of customs audits.
- **One-stop shop principle** – for accelerating import-export operations, the authority of the single state body responsible for the inspection of goods and vehicles passing through the border crossing points of the state border of the Republic of Azerbaijan, based on the one-stop shop principle, is vested in the State Customs Committee of the Republic of Azerbaijan.
- **Electronic customs declaration** – businesses access the internet address where the electronic service is provided and fill out the declaration by adding accompanying documents. By confirming the documents with an enhanced electronic signature, they submit them to the customs authority in real time. If there is no ground for refusal, the declaration is approved by the customs authorities on the day it is submitted.
- **Zero (0) percent VAT rate for exported goods and some exported services** – exported goods and certain exported services, such as provision of consulting, legal, accounting, engineering, or advertising services, as well as data processing services and other similar services are subject to Zero (0) percent VAT rate.
- **VAT exemption for import and sale of certain goods** – the list of raw materials and materials exempted from value-added tax on import has been approved by the Decree of the President of the Republic of Azerbaijan, dated July 1, 2022, No. 1732.

Additionally, import of machinery, technological equipment, and installations by legal entities and individual entrepreneurs who have received an investment promotion certificate, based on the approval document from the relevant executive authority is subject to VAT and customs duty exemption for 7 years.

International cooperation and FTAs

Azerbaijan holds observer status in the World Trade Organization (WTO) and has been in the accession process since 1997. It has signed Free Trade Agreements with 10 countries, including Russian Federation, Republic of Moldova, Republic of Ukraine, Georgia, Republic of Turkmenistan, Republic of Uzbekistan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Belarus and Republic of Tajikistan, as well as a Preferential Trade Agreement with Turkey.



Environmental protection regulation

Legal Framework

Businesses operating in Azerbaijan must comply with the requirements with regards to protection of environment established by several laws and regulations such as:

- Law on Environmental Protection
- Law on Environmental Impact Assessment
- Law on Protection of the Atmosphere
- Law on Ecological Security
- Forest Code
- Water Code
- Law on Wastes
- Other laws and legal acts adopted by relevant executive authorities.

The Ministry of Ecology and Natural Resources (the “Ministry of Ecology”) sets specific standards regarding environmental impact, such as permissible emission limits of harmful substances into the atmosphere and their physical effects.

Environmental Impact Assessment (EIA)

Certain activities are subject to mandatory Environmental Impact Assessment (EIA), which include, but are not limited to:

- Design of oil and gas processing plants
- Design of chemical production facilities
- Design of metallurgical enterprises
- Design of paper and cellulose production enterprises
- Design of production facilities focused on processing
- Design of technological equipment and machinery manufacturing enterprises
- Design of large industrial enterprises (technoparks)

The EIA process evaluates the potential impact of these activities on various environmental elements, including the atmosphere, water bodies, subsoil, ecosystems, public health, and socio-economic sectors. The EIA evaluator issues a final EIA document, which must be submitted to the Ministry of Ecology for ecological examination. After the approval of the Ministry of Ecology is obtained these activities can be carried out.

Monitoring and Audits

Ministry of Ecology carries out state monitoring of the compliance with the environmental requirements and initiates administrative proceedings in cases of violation of these rules.

Alongside the state monitoring, under Azerbaijan legislation, legal entities (users of natural resources) are required to conduct environmental monitoring of their operations, accounting for and reporting the potential ecological impacts of their activities. The measurement tools used in this monitoring must comply with standardization and metrology requirements. Reports on monitoring indicators must be submitted to the Ministry within agreed-upon timeframes.

In certain cases, businesses are required to engage an external auditor to conduct an environmental audit. This audit ensures compliance with environmental laws, regulations, and standards, as well as proper reporting on natural resource use and restoration.

Licensing

Activities having environmental impact or involving the use of natural resources that require a license or permit can only be carried out after obtaining the relevant authorization. Such licenses and permits includes: license for utilization of toxic waste materials, permit for the emission of harmful substances into the atmosphere and harmful physical impacts, report of state ecological examination, permit for use of subsoil, etc.

Liability

Businesses that fail to comply with environmental laws are subject to penalties under the Administrative Offences Code and may face criminal liability for severe violations.

Transition to green energy

In recent years Azerbaijan has committed to take necessary steps towards transition into green economy. For this purpose, the national strategy, Azerbaijan 2030: National Priorities for Socio-Economic Development, emphasizes the importance of establishing a high-quality ecological environment and becoming a “green” energy hub. To meet these goals, Azerbaijan prioritizes sustainable energy sources and the application of eco-friendly technologies across all sectors to mitigate climate impact and improve environmental quality. As a signatory to the Paris Agreement, the country is also committed to reducing greenhouse gas emissions.

Additionally, The Socio-Economic Development Strategy of the Republic of Azerbaijan for 2022–2026 also emphasizes the necessity for promoting green energy and sets new target indicators in this regard.

Banking

Banking activity in Azerbaijan is regulated by the Law “On Banks”, the Law “On the Central Bank of Azerbaijan”, as well as other legislative acts and regulations. Central Bank of the Republic of Azerbaijan (“CBAR”) is a public legal entity and is independent in its operations, and is in charge of the licensing, regulation, and effective and transparent supervision of securities, equity funds, insurance, credit institutions (bank, non-bank credit institutions, and the national postal services provider), and currency exchange and payment systems.. CBAR is also responsible for conducting state's monetary and exchange rate policy, organising money circulation, setting official national currency exchange rates, and maintaining and managing gold and foreign exchange reserves, taking measures to protect the rights of consumers and investors in financial markets and to conduct awareness-raising activities in the field of financial markets; To perform banking activity a bank should be established by a minimum of three individuals and/or legal entities, in the form of an open joint-stock company. Currently, the minimal charter capital of a new bank is at least AZN 50 million.

Under law, banks should provide services based on the licenses issued to them by CBAR. Bank licenses are issued for an indefinite period and should not be transferred to third parties. Together with licenses, the CBAR also issues permits for opening bank subsidiaries, branches, and representative offices. Banks, in addition to core banking activities, can also be engaged in activities in other laws, with several exceptions. The prohibited activities for banks to engage in are as follows:

- wholesale and retail trade
- production
- transportation
- agriculture
- mining
- construction
- insurance



Secured transactions

Secured transactions in the Republic of Azerbaijan form an important part of the law and economy of the country. By enabling lenders to take a security interest in collateral, secured transactions law provides lenders with legal assurances in the event of defaults by borrowers. Assets used as collateral may be under the title of either the debtor or third parties. Pledges may cover actual demands or future obligations resulting from loan agreements, as well as bank credit agreements, purchase sale agreements, and the lease of property. Under law, the same property can be subject to more than one encumbrance. With the exception of certain cases, a change of ownership of collateral and its use or lease by third parties does not affect the encumbrance or the creditor's preferential right. Encumbrances on immovable and movable assets subject to state registration are regulated under the Law "On Mortgages". In addition, in May 2017 Azerbaijan enacted the Law "On the Encumbrance of Movables", which followed the UNCITRAL model law on secured transactions. This law governs the creation, prioritising, and enforcement of all private security interests. Security interests are defined in accordance with the UNCITRAL approach of including all types of rights over moveable property (except for movable property subject to state registration) in order to secure the payment or performance of an obligation, irrespective of the form of the transaction. To ensure third-party effectiveness, a security interest is publicised through either the registration or possession of the collateral, or control over the collateral. The Collateral Registry of movable property operates on a paid basis and is run by the Central Bank of the Republic of Azerbaijan. The adoption of the new law on movable encumbrances improves access to finance, boosting movable asset-backed lending, and also opens doors to businesses, which may not have assets such as real estate to obtain financing resources.

Litigation, arbitration and mediation

In Azerbaijan, the three primary methods of dispute resolution are litigation, arbitration, and mediation. Litigation, conducted through the court system, remains the most widely used method. While arbitration between local entities is still uncommon, it has gained considerable attention following the introduction of comprehensive legislation that addresses key aspects of its establishment and regulation. This has opened new opportunities for arbitration as an alternative dispute resolution mechanism, particularly within the business sector. Mediation has also grown in prominence, becoming a mandatory step before litigation in family and labor cases, with specific legal frameworks now to support its implementation. A detailed explanation of each method follows below.

LITIGATION

The judicial power in the Republic of Azerbaijan is vested in the Constitutional Court of the Azerbaijan Republic, the Supreme Court of the Azerbaijan Republic, Courts of Appeal of the Azerbaijan Republic, and ordinary and specialised law courts of the Azerbaijan Republic. Justice is administered in the form of constitutional, civil, administrative, and criminal proceedings.

Azerbaijan has a three-tier court system: courts of first instance, appellate courts, and a cassation court (the Supreme Court of the Republic of Azerbaijan).

Courts of first instance comprise the district (city) courts of general jurisdiction, administrative courts, commercial courts, serious crime courts, and military courts.

- District (city) courts hear cases on civil, labour, real estate disputes, and other matters, where at least one of the parties to a dispute is an individual without the status of a sole proprietor, or, in case of such status, where the dispute is not related to the carrying out of entrepreneurial activity by this individual. In addition to these cases, administrative offences and misdemeanour crimes sanctioned with imprisonment terms of less than seven years and non-custodial sentences also fall under the jurisdiction of these courts.
- Administrative courts hear cases on administrative disputes within their jurisdiction.
- Commercial courts hear the cases related to commercial disputes assigned to its powers by law.

Courts of Appeal. Decisions of a court of first instance that have not entered into legal force may be appealed in Courts of Appeal. These courts conduct the appellate review of first instance court decisions and deal with the specific category of cases in the capacity of a first instance court.

The Supreme Court has been established as a court of last resort to conduct appellate reviews of appellate court decisions. However, some specific categories of disputes exist, for which the Court of Appeal itself acts as a last resort.

For example, Court of Appeal decisions on civil disputes involving claims of less than AZN 5,000 as well commercial disputes involving claims of less than AZN 10,000 regarding property related allegations are final and cannot be appealed at the Supreme Court.

The Constitutional Court of the Republic of Azerbaijan adopts decisions on the correspondence of laws and other normative legal acts with higher legislation, as well as the constitution. The Constitutional Court of the Republic of Azerbaijan has the exclusive power to make interpretations of the constitution and laws of the Republic of Azerbaijan, based on petitions from the relevant state authority. Moreover, any person that alleges that their rights and freedoms have been violated by a normative legal act, the acts adopted by municipality or a court may submit a complaint with the Constitutional Court in order to restore their human rights and freedoms.

E-COURTS

In commercial disputes, as well as in courts where the “Electronic Court” information system is implemented, proceedings, including sending and accepting applications, complaints and other documents and delivery of court documents to the court and process participants are carried out through electronic cabinet in the “Electronic Court” Information System. It is important to highlight that the majority of district courts have already integrated the “Electronic Court” Information System.

ARBITRATION

Azerbaijan has recently adopted the Law on Arbitration, which replaced the preceding Law on International Arbitration, introducing the concept of “domestic arbitration” for the first time. This law addresses key aspects of establishing and regulating arbitration, creating new opportunities for resolving business disputes outside of the courtroom.

Arbitration as a private and exclusive process where disputes are settled by independent arbitrators, not appointed by the state, based on the agreement of the parties, and resulting in a final and binding decision. In addition to domestic and international arbitration, the law also regulates permanent arbitration organizations and ad hoc arbitration, clearly outlining their legal status.

Arbitration agreement or clause must exist to refer disputes to arbitration. However, certain types of cases are prohibited from being resolved through domestic or international arbitration, including:

- criminal and administrative offenses;
- disputes arising from public law and administrative relations;
- family disputes;
- cases related to an individual's legal status;
- labor disputes;
- environmental protection issues;
- inheritance cases;
- intellectual property rights and their registration;
- competition law and consumer rights protection;
- disputes over real estate ownership in Azerbaijan;
- insolvency and bankruptcy cases;
- disputes regarding the dissolution or decisions of legal entities registered in Azerbaijan;
- disputes involving individuals not related to entrepreneurial activity;

Claims against carriers under transport contracts and disputes over leasing real estate in Azerbaijan could be resolved through domestic arbitration only.

The Law on Arbitration does not set a maximum period for arbitrators to issue a decision but allows the parties to define timeframes for certain actions, thereby influencing the overall arbitration process. Arbitration offers a specialized, confidential process that can lead to quicker resolutions, and its decisions are legally binding, as stipulated by the Law. However, arbitration is still not widely used in Azerbaijan, though its advantages suggest that more businesses may adopt arbitration clauses in their contracts, making it a more preferred method for resolving disputes in the business environment.

MEDIATION

Mediation can be implemented for the following types of disputes:

- civil cases and commercial disputes including disputes with a foreign element;
- disputes arising from family relationships (attending an initial mediation session is mandatory before applying to the court);
- disputes arising from labor relations (attending an initial mediation session is mandatory before applying to the court);
- disputes arising from administrative law relations.

In order to operate as a mediator, individuals and legal entities should meet the requirements of the mediation legislation of the Republic of Azerbaijan and apply for membership of the Mediation Council.

Mediation dispute is considered resolved once the parties sign a settlement agreement. The agreement becomes binding on the parties upon signing unless otherwise stated. If no specific execution timeline is mentioned, the agreement must be voluntarily executed within 10 days. If a party fails to comply, the aggrieved party can request the court to enforce the agreement. A court's confirmation is required for the agreement to be enforceable. This process ensures a high degree of enforceability for mediation outcomes, while maintaining the flexible and non-confrontational approach of mediation. Mediation is mandatory for family and labour disputes before referring to the court.

However, voluntary mediation remains infrequently used as a dispute resolution method among local entities.

Special economic zones

New special economic zones have been established in accordance with the Law “On Special Economic Zones”, with a view to accelerate the development of entrepreneurship and the economy as a whole in the Republic of Azerbaijan.

In these zones entrepreneurial activities benefit from a special, favourable legal system. In the special economic zone, entrepreneurial activities related to the production of highly competitive products and rendering of services which are not prohibited by the legislation of the Republic of Azerbaijan, are carried out; however, the following activities are prohibited:

- the production, preservation, or sale of prohibited or restricted goods
- the extraction of minerals from the earth
- the extraction and processing of precious metals, oil, oil products, and natural gas
- television and radio broadcasting activities
- the production of alcoholic drinks and tobacco products

In order to operate in a special economic zone, legal entities and individuals should become residents by signing a memorandum of association with the zone's administration, registering, and receiving a respective certificate.

Residents benefit from a favourable customs system; at the same time:

- Import duties and VAT do not apply to goods imported from outside the customs zone of Azerbaijan (except for excisable goods).
- Customs duties and taxes do not apply to the export of goods imported from outside the customs zone of Azerbaijan to a special economic zone and then exported to outside the customs zone of Azerbaijan.
- Customs duties and taxes do not apply to the export of goods produced in the special economic zone.
- Customs duties and taxes do not apply to the import of goods from a special economic zone that imported such goods from outside the customs zone of Azerbaijan.
- Customs duties and taxes do not apply to goods produced or processed in a special economic zone and which are temporarily imported into the customs zone of Azerbaijan for the purpose of repairing, finishing, and exhibiting samples of products and for other similar purposes.
- Customs duties and taxes do not apply to goods imported and exported between special economic zones in Azerbaijan.

The favourable tax system allows registered residents to pay 0.5% tax (simplified tax) on revenue earned from the sale of goods, performing works, provided services, as well as non- sales income.

The investments, revenue, and income of special economic zone residents performing entrepreneurial activities are guaranteed by the state, and residents can transfer abroad funds that have been legally obtained. When creating a special economic zone, the state guarantees that the special legal system will be in effect throughout the entire period of the zone's activity.

Alat Free Economic Zone

The Alat Free Economic Zone (“Free Zone”) has been established for the purpose of conducting entrepreneurial and investment activities. Free Zone legislation is enforced on the territory of the Free Zone and takes precedence if any discrepancies arise with Azerbaijani legislation.

The authorised body of the Free Zone is accountable for the activities of the Free Zone and its responsibilities include supervision and control over the activities of Free Zone residents, legal entities, and administrative entities, its territory, all property and assets, as well as all other matters relating to the strategic objectives of the Free Zone.

The authorised body of the Free Zone, administrative entities of the Free Zone, and Free Zone legal entities operating in the Free Zone in the cases specified in the internal regulations adopted by the Free Zone authorised body are exempt from all taxes related to their activities on the territory of Free Zone.

Customs payments, including customs duties and taxes, are not applicable for the goods and vehicles brought to the Free Zone and exported from the Free Zone by the authorised body of the Free Zone, the administrative entities of the Free Zone and the legal entities of the Free Zone, except for customs clearance fees,

The related authorised body sets out internal regulations, covering the customs requirements with regards to imported and exported goods, works, services, and matters related to them. Regulations on the incorporation, operation, and licensing of legal entities in the Free Zone, as well as migration procedures, are to be adopted by the authorised body of the Free Zone. This body is also responsible for the establishment of an arbitration centre or any other institution for the resolution of disputes. Free Zone legal entities and their employees, investors and shareholders, as well as Free Zone residents in the cases provided in the regulations adopted by the authorised body of the Free Zone are entitled to conduct transactions in any currency and to transfer without limitation funds abroad.

Free Zone legal entities that have acquired the right to operate in the Free Zone may not be subject to any nationalization, confiscation, or any other restrictions on private property, except for the cases provided in the internal regulations adopted by the authorised body of the Free Zone.

The working languages of the Free Zone are Azerbaijani and English, and additional languages can be used in case of necessity.



Intellectual property

Introduction

Under Azerbaijani law, intellectual property rights include the rights to works that are objects of copyright, performances, phonograms, audiovisual broadcaster's programs, integrated circuit topologies, databases, folklore samples (traditional cultural samples), inventions, utility models, industrial samples, trademarks, geographical indications.

Legislation

In Azerbaijan, relations concerning intellectual property rights are primarily regulated in accordance with local sources of legislation, such as:

- The Law "On Trademarks and Geographical Indications"
- The Law "On Patents"
- The Law "On Copyrights and Related Rights"
- The Law "On the Provision of Intellectual Property Rights and Combatting Piracy"
- Regulations "On the Registration of Trademark Contracts"
- Regulations "On Recognising Well-known Trademarks in Azerbaijan"
- The Law "On the Regulation of Customs Regulations Covering Items of Intellectual Property Crossing Customs Borders"
- In addition, Azerbaijan has acceded to the following conventions, which seek to safeguard intellectual property rights:
- The Paris Convention On Safeguarding Industrial Property, 1883 (joined 2016)
- The Madrid Agreement Concerning the International Registration of Trademarks, 1892 (joined 1995)
- Protocol to the Madrid Agreement Concerning the International Registration of Trademarks, 1989 (joined 2006)
- The Berne Convention for Safeguarding Literary and Artistic Works, 1886 (joined 1998)
- The Patent Cooperation Treaty, 1970 (joined 1995)
- The Eurasian Patent Cooperation Treaty, 1995 (joined 1995)
- The Convention Establishing the World Intellectual Property Organization, 1970 (joined 1995)

Trademarks

In accordance with applicable legislation, the following can be registered as trademarks: words, personal names, letters, numerals, figurative elements, the shape of the goods or their packaging, combinations of colours, as well as any combinations of these items. The legislation also prescribes circumstances wherein trademarks cannot be registered. For example, trademarks not having any distinguishing characteristics; trademarks reflecting the type, quality, amount, purpose, value, as well as the place and time of productions of goods and services.

Foreign legal entities and individuals conduct legal matters related to trademarks and geographical indications only through a patent attorney, unless they engage in entrepreneurial activity in Azerbaijan. The list of necessary documents should be submitted to the respective authority, which then conducts a preliminary examination (to be conducted within a month after the submission of the application), and then a more comprehensive examination (to be conducted within six months after receipt of the result of the preliminary examination).

The validity of the trademark is 10 years from the moment of submitting a respective application to the state registration authority. This period can be extended for further periods of 10 years. In addition, the non-use of a trademark for a period of five years may lead to the annulment of its registration at the request of any person.

Patent protection of inventions, industrial designs, and utility models

Legal protection is granted to new, inventive (non-obvious), and industrially applicable (useful) object of invention. An invention is considered to be authentic if it is original in nature. Respective legislation stipulates a list of items that are not considered to be inventions, included but not limited with scientific theories, mathematical calculations, and computer algorithms/ programs.

Utility models that are new and applicable within the industry are granted legal protection. A utility model is considered new if a significant part of it consists of not commonly known or recognised information.

Industrial designs consist of artistic-constructive schemes that describe the appearance of an object, and can be presented in the form of a picture or model, or both. Legal protection is granted to industrial designs that are new and original. For example, the following items, among others, cannot be considered industrial designs: printing products, architecture subjects (with the exception of small architectural items).

Patent protections with respect to inventions are valid for 20 (twenty) years, and for utility models and industrial designs 10 (ten) years after the date of submitting the application form to the relevant state authority.

Copyright

Under Azerbaijani law scientific, literary, and cultural works are considered to be subjects of copyright law. They can exist in a written, verbal, voice or video recorded, visual, or physical form. There is no need for a work to be formally registered in order for it to be eligible for copyright protection. Ideas, processes, working methods, or mathematical concepts do not qualify for copyright protection. Copyright protection only applies to works in a tangible form of expression.

The right to copyright is established on its date of creation and is enforced within the lifetime of the author and for 70 (seventy) years after their death, with the exception of cases stipulated by law. A copyright (except for moral rights) is granted under the author agreement and is can be passed on through of inheritance.

Labour law

Introduction

Labour matters in the Republic of Azerbaijan are regulated by the country's Labour Code ("Labour Code"), as well as other applicable legislation.²⁰

Minimum wage and the currency of salaries

An employee's salary cannot be lower than the minimum monthly wage, which in 2024 stood at AZN 345 (approximately USD 203).

The Azerbaijani manat (AZN) is the official currency in Azerbaijan, and hence all salaries of employees engaged in labour activity are paid in AZN.

Employment contracts and procedures

Under Azerbaijani law, in order to perform labour activities an employee should first sign an employment contract with an employer. Employment contracts are divided into two categories in terms of duration: for a fixed term and for an unlimited period. If the fixed-term employment contract lasts for a period of more than five years, it should be deemed to be an contract executed for an unlimited period.

Employment contracts are concluded and amended at the date of signing by both parties with an enhanced electronic signature. The termination of the employment contract has legal force from the date the order on termination is entered into the electronic information system and signed by the employer with an enhanced electronic signature.

The employment contract is concluded in the form of an electronic document and should contain mandatory provisions, such as: the full name and the Personal Identification Number (PIN) of the employee; the insurer registration number (IRN) (employees whose employment contract is concluded in the form of an electronic document are excluded); the employer's name, the taxpayer identification number (TIN); the legal address and address of actual activity of the employer; the mutual obligations of the parties; the employment contract's term, and other mandatory provisions stipulated by the Labour Code.

Information about the employee's labor activity is registered in the electronic information system.

Probationary periods

Probationary periods can be stated in employment contracts. Probationary periods cannot exceed a period of two weeks for the employment contracts signed up to six months and for the rest of the employment contracts it cannot exceed three months. In some cases probationary periods do not apply, for example for employees who are younger than 18, employees that were appointed as a result of winning a competition, pregnant women, women raising a child under the age of three and men who raise a child alone until the age of three, recent graduates taking up their first position, persons elected to certain paid positions, and persons entering into an employment contract for a period of up to two months and in other cases that parties agreed upon.

Working weeks

The regular number of hours per working week in Azerbaijan is 40, although this can be reduced for some groups; for example, employees aged under 16 should not work for more than 24 hours a week, while employees in the 16-18 age category, disabled employees with 61-100 percent impairment of body functions, as well as pregnant women, women with a child aged under 18 months, and parents who raise a child alone until the age of three, employees working in jobs with harmful working conditions, employees working in special jobs list of which is determined by Cabinet of Ministers of AR should not work for more than 36 hours a week. Employees work in accordance with the schedule indicated in their employment contract and for not more than a total of 12 hours in one day. As a rule, overtime cannot be enforced unless it is necessary for national defence purposes, public safety, to guarantee the supply of public utilities, or for other situations permitted by the Labour Code. Overtime cannot extend beyond the limits set forth in the Labour Code. For each hour of overtime an employee must be compensated at a rate that is at least double their normal hourly rate.

Holidays

The Labour Code provides for 15 public holidays and one non-working day of mourning. If one of these official non-working days falls on a day-off (a Saturday or Sunday), then the first day of normal business following the official non-working day becomes a non-working day. Work on official public holidays and other non-working days qualifies for a higher rate of pay. It is prohibited for an employee to work during public holidays that are not a working day, a National Day of Mourning and election day. Exceptions are 1) employees performing work that is necessary for national defence purposes or to prevent or to immediately respond to a social or natural disaster or an industrial accident, or restoring order after there has been an accident; 2) the performance of work that is of vital public interest, such as the supply of water, gas, heat, lighting, and sewage facilities, 3) the performance of work at production facilities where work cannot be interrupted; 4) transportation; 5) public catering; 6) communications.

The following days are holidays in the Republic of Azerbaijan:

- New Year (1 and 2 January)
- Women's Day (8 March)
- Day of Victory over fascism (9 May)
- Independence Day (28 May)
- Day of National Salvation of the Republic of Azerbaijan (15 June)
- Armed Forces Day of the Republic of Azerbaijan (26 June)
- National Independence Day (18 October)
- Victory Day (8 November)
- Day of the National Flag of the Republic of Azerbaijan (9 November)
- Constitution Day (12 November)
- National Revival Day (17 November)
- Azerbaijan World Solidarity Day (31 December)
- Novruz Holiday (five days)
- Eid al-Adha (two days)
- Eid al-Fitr (two days)

Annual paid leave

Under the Labour Code annual paid leave is provided for each working year of an employee, and starts from the first working day, while the right to annual paid leave commences six months after a person has begun their employment. The minimum amount of annual paid leave is 21 (twenty-one) calendar days, although certain categories of employees (e.g., specialists, managerial staff) are entitled to a minimum of 30 (thirty) calendar days per year.

Additional days to annual paid leave are provided in a number of cases:

- due to the working conditions of certain types of jobs, as specified in legislation: a minimum of six calendar days of additional paid leave
- seniority:
 - seniority of 5-to-10 years: two additional calendar days
 - seniority of 10-to-15 years: four additional calendar days
 - seniority of over 15 years: six additional calendar days
- women with children (same periods are applied to the fathers who raise a child alone and employees who adopted children)
- with two children aged under 14: two additional calendar days
- with three-or-more children aged under 14 and women with a child under the age of 18 who has been diagnosed with a disability: five additional calendar days

Employees working in territories liberated from occupation: five additional calendar days.

Employees aged under 16 and disabled employees regardless of percentage, cause and period of impairment of body function are eligible for at least 42 calendar days' holiday per year; employees aged 16 to 18 are eligible for 35 calendar days. Legislation also prescribes annual paid leave for such categories of employees as teachers and researchers, persons that exhibited exceptional courage in defence of the country, and certain professions within the entertainment industry and other establishments.

Rules applying to annual paid leave

At the employee's request and with the consent of the employer, annual paid leave may be divided and granted in segments, provided that one of the segments consists of at least two calendar weeks. An employee's request for annual paid leave should be made at least five days before the first day of the respective leave.

Sick leave

The employer pays compensation for the first 14 days of sick leave. Compensation for additional days is provided by the State Social Protection Fund. Sick leave is provided based on a respective certificate issued by a doctor up to 3 days

and can be extended up to 3 days (extensions for more than 6 days are allowed in accordance with additional procedures stipulated in law).

Maternity leave

Women are entitled to paid maternity leave for 70 calendar days prior to childbirth and 56 days (70 in cases of the birth of more than one child and for difficult births) after childbirth. Women working in agriculture are entitled to a longer maternity leave term, depending on the conditions of childbirth. A respective maternity allowance is paid by the State Social Protection Fund, not the employer.

Cost of employment

Women are entitled to paid maternity leave for 70 calendar days prior to childbirth and 56 days (70 in cases of the birth of more than one child and for difficult births) after childbirth. Women working in agriculture are entitled to a longer maternity leave term, depending on the conditions of childbirth. A respective maternity allowance is paid by the State Social Protection Fund, not the employer.

On behalf of their employees, employers are required to pay social security contributions at a rate of 22% of salaries. In addition, employers must insure their employees against occupational illness and workplace injury. Depending on the industry and the occupational hazards involved, insurance premiums for this mandatory coverage vary from 0.2 to 2.0 percent of an employee's annual gross salary.

On behalf of its employees, an employer is obliged to withhold income taxes, as well as mandatory health insurance (Table 1) and social insurance, at a rate stipulated by law (Table 2).

| Table 1 | Mandatory health rate | |
|----------------------------------|---|---|
| | For employers | For employees |
| Monthly gross income | | |
| Up to AZN 8000 (around USD 4706) | 2% | 2% |
| Over AZN 8000 | AZN 160 + 0,5% of the amount exceeding AZN 8000 | AZN 160 + 0.5% of the amount exceeding AZN 8000 |

From 2019, the social contributions of employees working in the non-oil and non-state sectors are calculated as follows for a period of seven years (Table 2).

| Table 2 | Social insurance rate | |
|--------------------------------|--|---|
| | For employers | For employees |
| Monthly gross income | | |
| Up to AZN 200 (around USD 118) | 22% | 3% |
| Over AZN 200 | AZN 44 + 15% of the amount exceeding AZN 200 | AZN 6 + 10% of the amount exceeding AZN 200 |

In addition, under the Law "On Unemployment Insurance" the employer and employee are obliged to pay 0.5% of the calculated salary fund of the employer and 0.5% of the employee's salary (withheld by the employer), respectively.

Expatriate workers

Expatriates wishing to work in Azerbaijan are required to register at their residence address (for periods of stay exceeding 15 days) and consequently to obtain a work permit in order to perform labour activity. Work permits are issued by the State Migration Service for periods of three-to-six months or for up to one year. The heads of representative offices and branches of foreign legal entities (and their deputies) are not required to obtain work permits to work in Azerbaijan. In contrast to a work permit, a residence permit is compulsory for anyone wishing to live and work in Azerbaijan.

Heads of legal entities established in the Republic of Azerbaijan and at least one of the founders of which is a foreign legal entity or natural person, and the founder who owns at least 51 percent of the equity of that legal entity are also exempt from obtaining a work permit.

In order to enter Azerbaijan, it is mandatory to obtain the type of visa corresponding to the purpose of the visit, which also covers visits for work and business activities.

- Work visa is required for the foreigners and stateless persons who intend to engage in paid labor activity in the Republic of Azerbaijan. However, such visa does not entitle those persons to engage in paid activities in Azerbaijan automatically. Work visa allows the person to stay in Azerbaijan up to 90 days.
- Business visit visa is intended for foreigners and stateless persons who aim to establish business relations or cooperation in the Republic of Azerbaijan. Business visit visa allows the person to stay in Azerbaijan up to 180 days. Businesses that intend to hire foreign employees are required to obtain work permits for each employee and conclude an employment contract only after successful obtainment of such work permit. Therefore, only employees exempt from the work permit requirement may directly conclude the employment contract with the companies. In order to conclude employment contract with employees of Branch/Representative office, the executive officer of such Branch/Representative office should be authorized with such power through a valid power of attorney granted by the head office.

Migration related requirements for foreign employees and stateless persons are similar for LLCs and Branches/Representative offices. The below provided general information will help you to understand local migration requirements.

Work permit. Foreigners intending to reside temporarily and engage in a paid labor activity on the territory of the Republic of Azerbaijan are required to obtain work permit in addition to the temporary residence permit, unless he/she is exempted from such requirement.

Migration legislation stipulates an exhaustive and extensive list of exemptions from the work permit requirement, below you can find the ones that are considered the most relevant for businesses in the Republic of Azerbaijan:

- For those engaged in entrepreneurial activity in the territory of the Republic of Azerbaijan
- For the employees of media entities accredited in the Republic of Azerbaijan
- For those who are on a business trip in the Republic of Azerbaijan for a period of not more than 90 (ninety) days during the year in the fields of activity determined by the relevant executive authority
- For experts belonging to the category determined by the relevant executive authority, invited by citizens of the Republic of Azerbaijan or legal entities established in the Republic of Azerbaijan to perform work or provide services in the fields of activity determined by the relevant executive authority
- For the heads of the branch and representative office of a foreign legal entity in the Republic of Azerbaijan and their deputies
- For the heads of legal entities established in the Republic of Azerbaijan and at least one of the founders of which is a foreign legal entity or individual, and the founder who has at least 51 (fifty-one) percent share (stock) in the authorized capital of that legal entity (if he/she operates in the legal entity he/she established)

List of the documents for obtainment of a work permit is also available under the migration legislation. The employer should submit the following documents to the migration authorities in order to obtain a work permit for its employee that is foreigner or a stateless person:

- application form, which is approved by the relevant executive authority
 - a copy of the passport or other border crossing document of a foreigner and stateless person
 - a notarized copy of the document confirming the qualifications of the foreigner and the stateless person required to perform the intended work
 - a reference letter justifying the need to attract a foreigner and a stateless person for the intended job
 - a copy of the relevant document giving the right to stay in the territory of the Republic of Azerbaijan to a foreigner and a stateless person on other grounds
 - notarized copies of the incorporation documents of the legal entity, which acts as the employer
 - a medical certificate that the foreigner and stateless person is not a carrier of the disease virus specified in the list of dangerous infectious diseases approved by the relevant executive authority
- Temporary residence permit. According to the migration legislation of the Republic of Azerbaijan, foreigners and stateless persons intending to temporarily reside in the territory of the Republic of Azerbaijan must obtain a temporary residence permit and based on this permit, they can exit from the Republic of Azerbaijan and return back with a visa-free basis during its validity period. The applicable migration legislation outlines the list of the grounds eligible for obtainment of temporary residence permits the following grounds for obtainment of temporary residence permits are most related for purposes of conducting businesses in the Republic of Azerbaijan:
- if the total amount of investment in the country's economy is at least 500,000 (five hundred thousand) Azerbaijani manats

- If you have real estate worth at least 100,000 (one hundred thousand) Azerbaijani manats in the territory of the Republic of Azerbaijan, or cash in the same amount in the banks of the Republic of Azerbaijan
- When depositing funds in the amount of at least 100,000 (one hundred thousand) Azerbaijani manats to banks operating in the Republic of Azerbaijan on the basis of a term deposit agreement
- if they have state securities with a nominal value of at least 100,000 (one hundred thousand) Azerbaijani manats or investment securities of legal entities whose shares (stocks) are 51 (fifty-one) percent or more owned by the state
- being family member of foreigners and stateless persons temporarily or permanently residing on the territory of the Republic of Azerbaijan
- when the founder or at least one of the founders holds the position of head of a legal entity established in the Republic of Azerbaijan, whose paid-up charter capital is not less than the amount approved by the relevant executive authority, or at least 51 (fifty-one) percent of the shares (stocks) of that legal entity in possession
- holding position of the head or deputy head in the branch or representative office of a foreign legal entity in the Republic of Azerbaijan
- engaging in an entrepreneurship activity in the Republic of Azerbaijan
- being involved in labor activity in cases specified by the President of the Republic of Azerbaijan
- obtaining work permit for carrying out paid labor activity in the territory of the Republic of Azerbaijan.



Competition law

Overview

The new Competition Code of the Republic of Azerbaijan serves as the main legal framework for overseeing competition in the marketplace. Built on the experience of advanced jurisdictions and tailored to meet the specific needs of the local market, the Code was adopted to provide a clearer and more comprehensive approach to regulating competition.

Anti-competitive practices

The Competition Code prohibits the following anticompetitive practices:

Restrictive agreements

Persons conducting business in Azerbaijan cannot enter into following restrictive agreements:

» **Horizontal:**

- Setting or sharing information on purchase/sale prices or other trade terms
- Restricting or controlling production, markets, technical development, or investments
- Allocating customers, suppliers, territories, or product types among parties
- Predetermining or controlling market supply and demand
- Pre-arranging participation or prices in public procurements or competitions
- Applying different terms to similar transactions, disadvantaging competitors
- Adding irrelevant or unfavorable conditions to contracts with non-participating competitors
- Discouraging others from establishing commercial relationships with certain entities
- Limiting or removing competitors' access to the market
- Joint refusal to join essential competition-related agreements or associations.

» **Vertical**

- Restricting on a buyer's ability to set resale prices, including enforcing minimum or specific resale prices (subject to exceptions)
- Restricting a buyer's sales territory or customer groups in exclusive supply agreements (subject to exceptions)
- Prohibiting cross-supply between buyers at the same or different trade levels
- Limiting territories or customer groups where selective distribution buyers can sell (subject to exceptions)
- Incorporating following clauses into the agreements:
 - Non-compete obligations exceeding 3 years, unless limited to properties owned by the seller for the duration of use
 - Restrictions preventing selective distribution participants from selling competitor products (subject to exceptions)
 - Limitations on a buyer's ability to produce, purchase, sell, or resell certain products after the agreement's expiration

Any such agreements, if concluded, shall be considered void. However, the Competition Code sets out specific conditions in which the agreements are exempt from the prohibition, taking into account their benefits to the consumers, their contribution to improving the production or distribution of goods as well as the market share of the undertakings, etc.

Abuse of dominant position

An undertaking is considered to hold a dominant position when it has a market share of 50 percent or more.

The conditions for determining the dominant position of financial institutions (market share limits and determination criteria) shall be established by the Cabinet of Ministers, based on the proposal of the Central Bank and in agreement with the competition authority.

Moreover, an economic entity with a market share of less than 50 percent but more than 35 percent is considered to hold a dominant position if it has the ability to influence the relevant market.

The Competition Code provides non-exhaustive list of actions which are considered an abuse of dominance:

- The imposition of low or high monopoly prices;
- Limiting production, markets or technical development to the prejudice of consumers;
- Making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts, as well as tying and bundling
- The coercion of other economic entities by the dominant entity to give it preference, or the inducement to purchase a product only from it and not from its competitors;
- Applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- Other conditions stipulated by the Competition Code.

Unfair competition

The unfair competition practices are prohibited by the Competition Code:

- Aggressive behavior against customers that influence the customers' choices by unlawful means
- Discrediting a competitor
- Imitation of the entrepreneurial activity of the competitor without consent
- Confusion and deception of customers
- Illegal acquisition, use, and dissemination of trade secrets
- Other actions stipulated by the Competition Code.

Concentrations

The Competition Code specifies the cases which are considered concentration for the purposes of merger control.

Undertakings participating in the concentration must apply to the competition authority for consent in the following cases:

- One of the entities participating in the concentration holds a dominant position in the relevant market
- The resale of shares by financial institutions is not possible within 1 year (2 years if prolonged upon request)
- The total turnover of the entity created after the concentration, or of one of the participating entities, exceeds 25 million AZN
- The total turnover of the participating entities within and outside the country exceeds 35 million AZN in the last reporting year
- The domestic turnover of one participating entity in the last reporting year exceeds 15 million AZN, and the domestic turnover of the other entity (or entities) exceeds 5 million AZN
- The total turnover of all participating entities in the last reporting year is less than the amounts specified above, but the total turnover of the participating entities in the relevant market exceeds 20% of the market's total turnover

It should be noted that in some cases the Competition Code provides different rules for financial institutions with regard to merger control regulation.

Supervision and liability

The State Service for Antimonopoly and Consumer Market Control is the main regulatory body overseeing competition.

The new Code expands the Service's investigative powers and introduces a range of practical and effective mechanisms.

With the adoption of the new Code, modifications were introduced to enhance oversight of competition law compliance, as well as to specify the types and extent of liability for violations.

Regulatory control

According to the legislation, two types of control is carried out by the competition body: investigations and inspections.

Investigations

The regulatory authority has the right to conduct an investigation in the following circumstances:

- documents, information and applications received from market subjects and individuals;
- information published (broadcast) in the media (as well as social networks);
- signs of violation of the competition legislation revealed as a result of monitoring, analysis and inspections carried out by the competition body in the relevant market;
- checking the state of fulfillment of the instructions given on the elimination of violations.

Inspections

The regulatory authority conducts inspections of market entities when i) signs of competition law violations are detected, ii) information regarding a violation of competition law is received from a known source, iii) it is necessary during case reviews, iv) additional evidence is required during ongoing investigations.

The regulatory authority conducts both planned and unplanned inspections of dominant economic entities and natural monopolies, as well as unplanned inspections of other economic entities.

When an unplanned inspection is initiated, the market entity is not informed in advance to prevent the destruction or concealment of facts and evidence.

During the implementation of inspections, the regulatory authority is authorized to inspect premises, seal rooms containing equipment, documents, and research materials, confiscate documents, and items such as samples, involve experts, specialists, and translators, and impose temporary measures as necessary.

Liability

The Competition Code also extensively regulates the procedures for reviewing cases of violations of the legislation by the regulatory authority and determining responsibility.

For various violations of competition legislation, sanctions are imposed ranging from up to 3 percent, 5 percent, and 10 percent of the total turnover of the economic entity, respectively. If the total turnover of the economic entities or the financial turnover of the members of economic associations cannot be determined, fines range from 10,000 to 500,000 manats. In addition, criminal liability is provided in the Criminal Code for monopolistic actions and restriction of competition which are sanctioned with fine, imprisonment and deprivation of the right to hold certain positions or engage in certain activities.



Data Protection

Protection of individuals' personal data is primarily governed by the Law of the Republic of Azerbaijan "On personal data", № 998-IIIQ, dated May 11, 2010 ("Personal Data Law"). According to Article 2.1.1 of this Law, personal data is any information that allows identification of a person directly or indirectly.

Collecting and processing personal data

Processing shall be lawful only if and to the extent that at least one of the following applies:

- Data subject has given consent to the collection and processing of his or her personal data.
- Personal data is categorized as open. Open personal data are those which have been anonymized, publicly disclosed by the data subjects, or information related to data subject that has been included in the public information systems upon their consent;
- Personal data is processed on the basis of specific legislation that determines the purposes and methods of their collection and processing;
- If personal data are processed with absolute anonymization for scientific and statistical research purposes;
- If the collection and processing of personal data is necessary for the protection of life and health of the data subject. The purpose of collection and processing of personal data must be clearly stated by the controller (a state or municipal body, legal entity or natural person, exercising full ownership, use, disposal rights over the information system or personal data resources in accordance with the law, and determining the purpose of personal data processing) or processor (the controller of personal data, who carries out the collection, processing and protection of personal data, or the state or local self-governing body, legal entity or individual to whom the controller has assigned these functions to a certain extent and under certain conditions), and collection and processing of such data must comply with declared purposes, as well as with the material, technical and organizational capabilities of the controller or processor. Personal data should be collected only for lawful, previously defined and declared purposes and processed in ways that are consistent with the stated purposes.

Collection and processing of sensitive data

As per Article 2.1.6 of the Personal Data Law, sensitive data is information that is related to individual's racial and ethnic identity, family life, religious beliefs, health and criminal records. Pursuant to Article 9.7. of same Law, sensitive data should not be the object of collection and processing except in the following circumstances:

- If there is a written consent of the data subject;
- If it is mandatory in accordance with legislation;
- If the personal data is categorized as open;
- If it is necessary for the protection of the life or health of the data subject or of another life natural person or group of persons, and where the data subject is physically or legally incapable of giving consent;
- If the processing of sensitive data relating to members of public unions or other non-profit organizations with a political, philosophical, religious or trade union aim is carried out by the association or the body in pursuit of its legitimate aims and on condition that the data are not disclosed to a third party without the consent of the data subject.

Notice

Pursuant to Article 11 of the Personal Data Law, data controller or operator shall communicate following information to data subject at the time of data collection:

- Information identifying the controller or processor;
- The purpose of processing personal data and its legal justification;
- The level of protection of personal data collected and processed in the information system;
- Information on the availability of the information system's compliance certificate and its state examination; (Note: currently state examination of information systems is not implemented in practice)
- Intended users of personal data, including the scope of other information systems with which the exchange of information is planned;
- Information about the subject's rights as defined by the Personal Data Law.

Transfer of personal data to third parties

According to Article 13.3 of the Personal Data Law, transfer of personal data by controller or operator to any third party is allowed only upon written consent of the data subject. Personal data can be transferred without data subject's consent in the following situations:

- If the data is open;
- If the personal data is transferred to state and municipal bodies in connection with their duties assigned to them;
- If it is necessary for the protection of the life or health of the data subject and it is not possible to obtain his/her consent without delay.

Data subject can anytime recall his/her consent for transferring personal data to third parties. In such case controller or operator shall cease to transfer (Article 13.3).

Cross-border transfer of personal data

Azerbaijani legislation does not impose strict rules for cross-border transfer of personal data. As per Article 14 of the Personal Data Law, personal data shall not be transferred to third countries in the following cases:

1. Legislation of the intended transfer country does not ensure the legal protection of such data at the level determined by the legislation of the Republic of Azerbaijan. However, current legislation does not stipulate exact list of such countries. As per Article 14.3 of the Personal Data Law, in cases where the subject agrees to the cross-border transfer of personal data, as well as when the transfer of personal data is necessary to protect the subject's life and health, the cross-border transfer of personal data can be carried out regardless of the level of their legal protection;
2. If such transfer poses threat for national security.

Licensing requirements and registration of information systems

As per the Law of the Republic of Azerbaijan "On Licenses and permits", in order to create information resources of personal data and establish information systems, as well as providing services to them, entities shall obtain relevant license. Ministry of Digital Development and Transport of the Republic of Azerbaijan ("Ministry") issues such license. Obtainment of this license is mandatory to be able to register the information systems where the personal data are collected. The license is issued on a permanent basis; however, it can be revoked by the issuing authority or the courts in certain instances, such as if the license holder breaches the terms of the license.

Upon obtaining the license, the controller or operator is required to register the information system to gain authorization for the collection and processing of personal data within that database. Currently Electronic Security Service under the Ministry conducts registration of information systems. Applicants have the option to use their own servers or utilize hosting services provided by other providers for registration. Application can be made both electronically and in hard copy.



General tax information: Azerbaijan

General tax information: Azerbaijan

The Republic of Azerbaijan currently has three tax systems in place:

1. A statutory (Tax Code) system.
2. A system for companies (oil & gas) working under production sharing agreements (PSAs).
3. A system for companies operating under host government agreements (HGAs).

List of main statutory system taxes

- corporate income tax
- personal income tax
- value-added tax
- property tax
- withholding tax
- social fund contributions
- other taxes

Corporate income tax

Taxpayers: Both residents and non-residents are subject to income tax in Azerbaijan. For Azerbaijani residents, their worldwide income is taxable. For non-residents, income generated from sources in Azerbaijan is taxable.

Permanent establishments (PE): The Tax Code defines a PE as an entity that conducts commercial activities for not less than 90 days, cumulatively, in any 12-month period. However, despite this definition, the Tax Code also provides that entities solely conducting any or all of the following activities do not qualify as a PE in Azerbaijan:

- the storage and display of goods
- the storage of goods for processing by another entity and subsequent export from Azerbaijan
- the procurement of goods and the collection of information
- the performance of any other preparatory or auxiliary activities.

However, Tax Code stipulates that the above exemptions shall not apply, if the activities are not auxiliary, and the participants' actions within a unified business process complement each other.

Foreign companies that do not create a PE are subject to withholding tax at the source of payment on any taxable income from Azerbaijani sources.

Tax base: The taxable base is net profit, i.e. income minus deductible expenses.

Tax rate: The profit tax rate in Azerbaijan is 20%. An additional branch remittance tax of 10% applies to profit remittances from the branch to the head office. The taxable base is net profit after taxes.

Deductible expenses: Expenses resulting from entrepreneurial activities, except for non-deductible and/or limited expenses, can under the Tax Code be deducted from the gross income earned from conducting these activities. Expenses not connected with income-earning activities, personal expenses, and entertainment expenses are non-deductible. Financial sanctions, administrative penalties, and calculated interest amounts stipulated by other legislative and regulatory acts (excluding interest, fines, and payments for material damages incurred due to the late fulfilment of obligations, and other similar fines incurred via civil contracts) are non-deductible.

Financial sanctions, administrative penalties, and calculated interest amounts stipulated by other legislative and regulatory acts (excluding interest, fines, and payments for material damages incurred due to the late fulfilment of obligations, and other similar fines incurred via civil contracts) are non - deductible.

The Tax Code also prescribes rules and limitations for the following deductions: interest payments subject to limitations, bad and doubtful debts, insurance reserve funds, scientific research and experimental designs, the depreciation of fixed and intangible assets subject to limitations, repairs subject to limitations, insurance payments, geological explorations, and the extraction of natural resources.

Depreciation: All assets with residual values of over AZN 500 and with a useful life of over one year should be capitalised and expensed through depreciation. The depreciation rates adopted by Azerbaijani law depend on the category to which an asset belongs. The following are the maximum depreciation rates by category for the most common groups of assets:

Annual depreciation rates:

| | |
|---|--|
| Buildings, constructions, and installations | 7% |
| Equipment and machinery | 20% |
| Hi-tech computers and servers | 25% |
| Means of transport | 25% |
| Livestock | 20% |
| Geological and exploration costs | 25% |
| Intangibles | 10%, or proportionally to the useful life (if known) |
| All other assets | 20% |
| Assets purchased for state entities through a state budget investment | Rates over * 40% |

These depreciation rates are applied to the residual value of their asset categories. Depreciation may be applied at rates lower than the maximum rates listed above. The leftover balance resulting from using the lower rate can be claimed in future periods.

Taxpayers, except for VAT payers, whose transactions do not exceed AZN 200,000 in a consecutive 12-month period can deduct depreciation expenses by multiplying the above rates by a coefficient of two.

Small entrepreneurship subjects can deduct depreciation expenses by multiplying the above rates by a coefficient of 1.5.

Thin Capitalization Rules: Interests accrued on foreign borrowings exceeding two times equity will not be deductible for profit tax purposes (not applicable to banks and credit institutions). Deductibility of interests is limited to the amount not exceeding 2 times the equity of a company. Interest amounts exceeding this threshold will be deemed as non-deductible expenses.
 $DE = (\text{Loan} \leq \text{Equity}) * \%$

Payment and reporting: Taxpayers are required to make quarterly advance (current) tax payments, calculated either:

- i. at 25% of the previous year's tax liability, or
- ii. by multiplying the amount of their income in the current quarter by the weighted tax coefficient of the gross income for the previous year. The formula below explains this calculation in more detail:

Current (advance) profit tax = "current quarter's gross income" x (last year's profit tax / last year's gross income).

An annual profit tax declaration is due no later than 31 March of the following reporting year. This deadline can also be extended by three months, provided that the tax is paid in full by the original due date.

Transfer pricing

Transfer prices are prices determined between the persons cited below and they must be compliant with the prices defined in comparable transactions conducted under similar conditions between the parties (other than controlled persons).

Transfer prices can apply to transactions between the following persons:

- Azerbaijani residents and related-party non-resident persons
- transactions between the PE of non-residents in Azerbaijan and a non-resident, or any representative offices, branches, divisions or any non-resident related-party of this non-resident in other countries
- transactions between an Azerbaijani resident or the PE of a non-resident in Azerbaijan, as well as persons established (registered) in offshore zones

Regardless on whether it is related parties the scope of Transfer Pricing covers:

- transactions with goods/commodities traded in international stock-exchanges; or
- transactions with a single non-resident would exceeding value of 30 mln. AZN;
- transactions with a single non-resident exceeding 30% of total income/expenses of a resident.

If comparable data on separate transactions are unavailable and/or it is not possible to obtain information from official sources on the price at which goods were provided, the transfer price is determined by referring to one of the following methods:

- the subsequent sale price method
- the cost-plus method
- the level of profit method
- the allocation of profit method

The transactions with single person subject to transfer pricing with a total annual value of more than AZN 500,000 should be reported to the tax authorities no later than 31 March of the following year.

Personal income tax

Taxpayers: Both residents and non-residents are subject to personal income tax.

Azerbaijani residents are taxed on their worldwide income, while non-residents are taxed only on their Azerbaijani-sourced income. Tax on Azerbaijani-sourced income is normally paid by deducting the tax at source, and at progressive rates.

Income from overseas sources is assessed on a current-year basis for residents.

Residents:

- Physical persons staying in Azerbaijan for more than 182 days in the calendar year.
- If the individual was present in Azerbaijan for less than 183 days in a calendar year and was not present for more than 182 days in another country:
- the individual will be resident in Azerbaijan if the individual has a permanent place of residence in Azerbaijan but not in another country; or
- if the individual has a permanent place of residence in Azerbaijan and another country, or has no permanent place of residence, the individual will be resident in Azerbaijan if the individual's place of main interest is in Azerbaijan; or
- if it is not possible to determine where the individual's place of main interest is located, the individual will be resident in Azerbaijan if their normal place of residence is in Azerbaijan; or
- if it is not possible to determine where the individual's place of normal residence is located, the individual will be resident in Azerbaijan if they are an Azerbaijani citizen.

Non-residents:

- Diplomats, their family members, and the personnel of international organisations registered in Azerbaijan (e.g. the UN), provided that they do not perform business activities in the country.
- Diplomatic representations, consulates, and other official representatives of foreign countries, international organisations, and branches and representative offices of foreign legal entities not performing business activities.
- Other persons not covered by the term "resident".

PIT rates:

In general, PIT rates for employee income are calculated according to Table 2.

| Monthly taxable income | Tax rates |
|------------------------------------|--|
| Up to AZN 2,500 (around USD 1,470) | 14% |
| Over AZN 2,500 | AZN 350 + 25% of amounts exceeding AZN 2,500 |

From 2019, employees working in the non-oil & gas and non- state sectors, and earning up to AZN 8,000 per month, will be exempt from PIT for a period of seven years (Table 3).

| Monthly taxable income | Tax rates |
|------------------------------------|------------------------------------|
| Up to AZN 8,000 (around USD 4,700) | 0% |
| Over AZN 8,000 | 14% of amounts exceeding AZN 8,000 |

The criteria for activities in oil and gas industry and state sectors are as following:

- State Oil Company of Azerbaijan Republic and the entities included to its structure, as well as the contractors and operating companies under PSAs, major pipeline agreements and such other related agreements, in full staff, not withstanding their types of activity;
- Foreign and local subcontractors, of which annual income (without expenses) earned within previous calendar year for the goods, work and services provided to the abovementioned persons is more than the 50% of the aggregate annual revenue. This criteria for the subcontractors established during the year shall be applied on the basis of the months they provide goods, work and services to the abovementioned persons;
- Public legal entities established on behalf of the state, budget organizations, the institutions and authorities financing from state budget and other state funds, as well as the legal entities, which the state directly or indirectly possesses the 51 or more percent of shares or stakes of.

The portion of employment income equivalent to AZN 200 is exempt from taxation if the monthly income of the individual gained at the principal place of work is less than AZN 2,500.

The annual taxable income of individuals from non- entrepreneurial activity is subject to a 14% rate of tax.

The taxable income of individuals engaged in entrepreneurial activities is subject to a 20% rate of tax.

Declaration and payments: If a taxpayer's only income is from Azerbaijani sources, and if such sources are subject to withholding tax at source, then the individual is not required to complete an income tax declaration.

Both residents and non-residents must complete and file income tax declarations no later than 31 March of the following tax year. Tax payments must be made by the filing deadline.

The deadline for income tax declarations can be extended by three months, provided that the respective tax is paid in full by the original due date.

Value-added tax

Commercial activities carried out in Azerbaijan, as well as the import of goods and certain services provided by non-residents to Azerbaijani residents, are subject to VAT.

Rate: The standard rate is 18%, although some transactions are exempt or carry a rate of zero.

Registration: Taxpayers must register for VAT purposes if turnover in a consecutive 12-month period exceeds AZN 200,000. Furthermore, if the total value of one transaction or contract exceeds AZN 200,000, the taxpayer must register for VAT purposes before starting its activities. The Tax Code also permits voluntary VAT registration. Where services are provided by non-resident entities that are not VAT registered in Azerbaijan, the resident must self-assess a reverse-charge VAT and remit it to the state budget.

VAT deposit account: All payers of VAT are required to make their VAT payments through designated bank accounts called VAT deposit accounts. Only VAT payments made through these accounts can be credited against output VAT. This VAT is then claimable by the payer of the VAT (subject to the fulfilment of other requirements).

Failure to remit VAT later than the day of payment of the principal amount for the goods (services, works) is subject to financial sanctions of 50% of the overdue VAT amount.

Output VAT: Once an entity is registered as a VAT payer, it is required to charge VAT for its goods, performed work, or services rendered in Azerbaijan. VAT charges should be made on electronic VAT invoices.

The place of sale of goods is considered to be the place where the goods are passed to the purchaser. For goods that require transport, the place of supply is considered to be where the transport journey of the goods began.

The Tax Code defines the place of the provision of services for some service types. For advertising and consulting services, as well as data processing and similar services, the place of provision of services is defined as the place of incorporation or location of the entity receiving the work or services.

Input VAT: In general, input VAT paid to customers (and reverse charge VAT) can be credited against output VAT.

Excess VAT: (the positive difference between input and output VAT) may either be refunded or offset against other taxes. Tax refunds are difficult to receive in practice, although offsetting against other taxes (e.g. profit tax) is usually permitted by the tax authorities.

Excess VAT: (the positive difference between input and output VAT) may either be refunded or offset against other taxes. Tax refunds are difficult to receive in practice, although offsetting against other taxes (e.g. profit tax) is usually permitted by the tax authorities.

Declaration and payments: Declarations should be filed and VAT should be remitted monthly, by the 20th of the following month. Output VAT is recognised on an accrual basis, while input VAT is recognised on a cash basis. VAT on imported goods is paid separately at the point of customs clearance.

Property tax

Property tax is levied at the rate of 1% on the average annual residual value of fixed assets, including buildings, machinery, vehicles and equipment. The taxable base is calculated as the average of the value at the beginning and end of the year. For profits tax purposes, property tax is deductible.

The following are specifically exempt from property tax:

- facilities that are used for environmental preservation, fire protection, or civil defence purposes
- product-conveying pipelines, railways and motorways, communication and power transmission lines, and irrigation system facilities
- vehicles discussed in the “Road Tax” section
- properties belonging to educational, health, sport, and cultural institutions used only for officially designated purposes.

Declaration and payments: Taxpayers are expected to submit declarations by no later than 31 March of the following year. The tax due is payable in quarterly instalments by the 15th of the second month of the calendar quarter, at a rate of 20% of the property tax due for the previous year.

Withholding tax

A foreign legal entity that is not a taxpayer in Azerbaijan is subject to withholding taxes on income derived from sources in Azerbaijan at the following rates:

- 4%: insurance payments
- 5%: dividends
- 6%: telecommunications and international transport services; freight income
- 10%: interest
- 14%: lease payments
- 14%: royalties
- 10%: other income from Azerbaijani sources
- 10%: payments to entities established in countries or territories with a beneficial taxation system

Parties making the above payments to non-resident entities are required to withhold taxes at the above rates and then remit the taxes to the state budget.

Withholding tax returns are submitted on a quarterly basis by the 20th of the month following the reporting quarter.

Branch tax (a tax on the net profit of a non-resident's PE): In addition to the profit tax paid by the non-resident's PE, each amount transferred from the PE's net profit to the non-resident is taxed at a rate of 10%.

Income received in countries with a beneficial taxation system: Moreover, if a resident directly or indirectly holds more than 20% of the charter capital or has more than 20% of the voting shares of a non-resident entity earning income in countries with a beneficial taxation system, such income of the resident is included in its taxable income in Azerbaijan.

Countries or territories with a beneficial taxation system are listed below:

| | |
|---------------------------------|---|
| Andorra | Liechtenstein |
| Anguilla | Labuan(Malaysia) |
| Antigua and Barbuda | Maldives |
| Aruba | Isle of Man |
| The Netherlands Antilles | Marshall Islands |
| Bahamas | Montserrat |
| Bahrain | Mauritius |
| Bermuda | Monaco |
| British Virgin Islands | Brunei Darussalam |
| Brunei Darussalam | Macau (China) |
| Belize | Nauru |
| Barbados | Niue |
| Gibraltar | Panama |
| Jersey | Palau |
| Liberia | Seychelles |
| Dominica | Grenada |
| Hong Kong (China) | Saint Kitts and Nevis |
| Cayman Islands | Samoa |
| Cook Islands | Saint Vincent and the Grenadines |
| Costa Rica | Saint Lucia |
| Guernsey | Turks and Caicos Islands |
| Vanuatu | Virgin Islands (US) |

The above list is updated by the respective executive authority each year.

Social fund contributions

Employers and employees are responsible for making payments to the Social Insurance Fund. The employer pays 22% of an employee's gross salary, and the employee pays 3% of their gross salary. This 3% is withheld from the gross salary by the employer.

Other taxes

Mining tax - Legal entities and individuals engaged in the recovery of minerals, crude oil, and natural gas in Azerbaijan are required to pay mining tax. The rate varies for crude oil, natural gas, and minerals, from 3% to 26% of the wholesale price, and for non-minerals from AZN 1 to AZN 10 per each m².

Excise tax - Excise goods produced in or imported into Azerbaijan are subject to excise tax, unless the goods are specifically exempt.

The following goods are excisable and subject to excise tax:

- spirits, beer, and all other types of alcoholic beverages
- tobacco products
- petroleum products
- passenger vehicles (except for specially marked, special- purpose motor transport and equipment)
- leisure and sports yachts
- all imported jewellery, together with products made from precious metals and processed, sorted, framed, and fixed
- diamonds
- fur/leather products
- energy drinks
- buses (except for those using compressed gas)
- liquids for electronic cigarettes

Land tax - Land tax is calculated as a fixed payment for land, regardless of the results of the economic activity of landowners and users.

Resident and non-resident physical persons, as well as Azerbaijani and foreign companies, can be registered after obtaining documents proving their right to own or use land plots.

Road tax - Legal entities engaged in the production or import of automobile fuel, diesel fuel and liquid gas and expatriates are obliged to pay road tax. The respective rate varies, depending on the vehicle engine capacity, weight carried, and the wholesale fuel price per litre.

Simplified tax - This tax is mostly aimed at small enterprises, as well as construction sector entities. Persons not registered for VAT purposes and whose volume of taxable income for 12 consecutive months is AZN 200,000 or less are entitled to pay simplified tax. Simplified tax is charged at 2% of the gross revenue of small enterprises.

Also, a different rate of tax is applied for the following activities:

- 8% for public catering services
- 1% for cash withdrawals from bank accounts by legal entities and individual entrepreneurs.

Persons selling residential and non-residential areas under their ownership should pay simplified tax at the rate of AZN 15, respectively, per square metre of the taxable item, multiplied by the rates set by the Cabinet of Ministers, which are determined by city and district zones.

Taxpayers qualifying for a simplified tax system must submit to the tax authorities a declaration on the amount of tax due no later than by the 20th of each month following the reporting period, and make respective tax payments to the state budget within the same period.

Customs

Import taxes: Three main types of calculation exist for import taxes:

Ad valorem – calculated as a percentage of the cost of imported goods. This rate can vary between 0% and 15%, depending on the type of goods.

Specific – calculated at a fixed rate paid per imported unit.

Combined – calculated as a combination of both.

Depending on the value of imported goods, customs may charge from AZN 10 to AZN 550 in customs processing fees. In addition, depending on the goods imported, certain seasonal and special/ anti-dumping import taxes may apply. Any goods on which a tax may apply must be declared verbally or in writing (either a full or short declaration). If the customs authorities determine that the declared value of goods does not correspond to the value of identical goods, then it may be necessary to recalculate the tax.

Export taxes: Most exports of goods are exempt from custom duties; however, export tax applies to a prescribed list of goods.

There are various amendments currently being made to customs legislation to ease the customs clearance procedure and to automate customs procedures in general.

Double taxation treaties

The rate of withholding tax varies under existing double taxation treaties, depending on the contents of a particular treaty. The maximum rates of withholding tax under existing double taxation treaties are shown in the table below.

| | Double taxation treaty | Tax rate for dividends (%) | Tax rate for interest (%) | Tax rate for royalties (%) |
|----|------------------------|----------------------------|---------------------------|----------------------------|
| 1 | Austria | 5/10/15 | 0/10 | 5/10 |
| 2 | Belgium | 5/10/15 | 0/10 | 5/10 |
| 3 | Belarus | 15 | 0/10 | 10 |
| 4 | Bosnia and Herzegovina | 10 | 0/10 | 10 |
| 5 | Bulgaria | 8 | 0/7 | 5/10 |
| 6 | Canada | 10/15 | 0/10 | 5/10 |
| 7 | China | 10 | 0/10 | 10 |
| 8 | Croatia | 5/10 | 10 | 10 |
| 9 | Czech Republic | 8 | 0/5/10 | 10 |
| 10 | Denmark | 5/15 | 0/8 | 5/10 |
| 11 | Estonia | 5/10 | 0/10 | 10 |
| 12 | Finland | 5/10 | 0/10 | 5/10 |
| 13 | France | 10 | 0/10 | 5/10 |
| 14 | Georgia | 10 | 0/10 | 10 |
| 15 | Germany | 5/15 | 0/10 | 5/10 |
| 16 | UK | 10/15 | 10 | 5/10 |
| 17 | Greece | 8 | 8 | 8 |
| 18 | Hungary | 8 | 8 | 8 |
| 19 | Iran | 10 | 10 | 10 |
| 20 | Italy | 10 | 10 | 5/10 |
| 21 | Israel | 15 | 0/10 | 5/10 |
| 22 | Japan | 15 | 10 | 10 |
| 23 | Kazakhstan | 10 | 0/10 | 10 |
| 24 | Korea | 7 | 0/10 | 5/10 |
| 25 | Kuwait | 0/5/10 | 0/7 | 0/10 |
| 26 | Latvia | 5/10 | 0/10 | 5/10 |

| | Double taxation treaty | Tax rate for dividends (%) | Tax rate for interest (%) | Tax rate for royalties (%) |
|----|------------------------|----------------------------|---------------------------|----------------------------|
| 27 | Lithuania | 5/10 | 0/10 | 10 |
| 28 | Luxembourg | 5/10 | 10 | 5/10 |
| 29 | Macedonia | 8 | 0/8 | 8 |
| 30 | Malta | 8 | 0/8 | 8 |
| 31 | Moldova | 8/15 | 10 | 10 |
| 32 | Montenegro | 10 | 0/10 | 10 |
| 33 | Netherlands | 5/10 | 10 | 5/10 |
| 34 | Norway | 10/15 | 10 | 10 |
| 35 | Pakistan | 10 | 10 | 10 |
| 36 | Poland | 10 | 10 | 10 |
| 37 | Qatar | 7 | 0/7 | 0/5 |
| 38 | Romania | 5/10 | 0/8 | 10 |
| 39 | Russia | 10 | 0/10 | 10 |
| 40 | San Marino | 5/10 | 0/10 | 5/10 |
| 41 | Saudi Arabia | 5/7 | 7 | 10 |
| 42 | Serbia | 10 | 0/10 | 10 |
| 43 | Slovenia | 8 | 0/8 | 5/10 |
| 44 | Sweden | 5/15 | 0/8 | 5/10 |
| 45 | Switzerland | 5/15 | 0/5/10 | 5/10 |
| 46 | Tajikistan | 10 | 0/10 | 10 |
| 47 | Turkey | 12 | 0/10 | 10 |
| 48 | Turkmenistan | 10 | 10 | 10 |
| 49 | Ukraine | 10 | 10 | 10 |
| 50 | United Arab Emirates | 5/10 | 0/7 | 5/10 |
| 51 | Uzbekistan | 10 | 0/10 | 10 |
| 52 | Vietnam | 10 | 0/10 | 10 |

Double taxation treaties with the following countries have been signed, but are still not in effect:

- Spain, signed on 23 April 2014
- Jordan, signed on 5 May 2008
- Slovakia, signed on 08 June 2023
- Kyrgyzstan, signed on 24 April 2024
- Morocco, signed on 05 March 2018

Tax systems for companies working under production sharing agreements (PSAs)

PSAs were ratified by the Parliament of Azerbaijan as law, with their provisions overriding those of the statutory legislation of Azerbaijan where this legislation contradicts or is inconsistent with the provisions of the PSAs. Each PSA and its tax protocols set forth specific taxation rules. Below we outline the taxation rules under Azerbaijani, Chirag, and Gunashli PSA.

Currently, 22 ratified PSAs and two ratified HGAs exist, with each having an exclusive tax system. PSA tax systems can be applied to each contracting party (signatory to the PSA), operating companies, and subcontractors (especially foreign subcontractors). Also, tax protocols providing guidance on paying taxes or filing reports are negotiated with the Azerbaijani Government. PSAs have their own separate tax system in Azerbaijan in cases where they were ratified by the National Assembly and granted the force of law.

Profit tax

The individual liability of a contractor party for profit tax is based on the contractor party's separate share of items of income and deductions, consolidated with the profits or losses of its PE in the Republic of Azerbaijan.

Profit tax is imposed on the taxable profit of each contractor party for a calendar year, at a fixed rate of 25%.

Taxable profit/(loss) for a calendar year is calculated for each contractor party as follows:

- sales income
- other income
- expenses
- amortisation
- interest costs
- balance profit/(loss)
- brought forward losses
- taxable profit/(loss)

In calculating balance profit/loss, sales income is defined as the amount of income derived from sales of petroleum produced during hydrocarbon activities by the contractor party during the calendar year. In the event that petroleum is exchanged or swapped, then the sales income is defined as the amount of income derived during the calendar year by the contractor party from the sale of the petroleum received in the exchange or swap. For the purpose of calculating balance profit/loss, sales income is determined by applying, for arm's-length sales, the actual price achieved by the contractor party.

Other income does not include amounts received from the sale of petroleum or immovable assets, loans received, tax refunds, and amounts received that are not freely at the disposal of and do not increase the wealth of the contractor party.

Expenses are deducted in full in the calendar year in which they are incurred. This includes the full amount of wages and other amounts paid to all employees, all social insurance contributions, all exploration and appraisal costs, all costs associated with drilling dwells, all pipeline tariffs incurred, all payments made under a lease agreement, all insurance costs, and all personnel training costs. This also includes an allocable portion, in light of services rendered in respect of hydrocarbon activities, of wages and salaries paid to managers and employees abroad, and the general and administrative overhead costs of the central services of each contractor party and affiliates working for the contractor party, located abroad, as well as indirect costs incurred by the central services abroad for the contracting party. The allocable portion of such costs with respect to this contract for each contractor party for the calendar year is equal to the amount determined using the designated formula.

Amortisation deductions are calculated as follows:

- equipment and all capital assets other than those described below: 25% per calendar year on a declining-balance basis
- Permanent office: 2.5% per calendar year on a straight-line basis
- Temporary office: 5% per calendar year on a straight-line basis

Each contractor must, beginning in the first calendar year in which it estimates that it will earn a taxable profit, pay an estimated profit tax for each calendar quarter, based on its estimate of its taxable profit for the quarter and the preceding calendar quarters in the calendar year. The estimated profit tax is paid not later than 25 days after the end of the relevant calendar quarter and is accompanied by a calculation in the appropriate form.

Upon filing the final PTR (profit tax return) for a calendar year, estimated profit taxes paid with respect to the calendar quarters during such a calendar year are credited against the final profit tax as calculated on the profit tax return. Any overpayment is refunded to the contractor party within 10 days after submitting its final PTR for such a calendar year (or, if the contractor party chooses, credited against the following calendar quarter's or quarters' estimated profit tax payment(s)), and any underpayment is paid by the contractor party within 10 days after submitting the final PTR. In any event, the final profit tax for a calendar year, as calculated in the PTR, is payable no later than by 25 April of the following calendar year.

Withholding tax

Payments to foreign subcontractors (FSC) for work and services

A foreign subcontractor is a subcontractor that is (i) an entity or organisation incorporated, legally created, or organised outside the Republic of Azerbaijan, or (ii) a physical person or individual that is a citizen of a country other than the Republic of Azerbaijan.

Under the Protocol on the Taxation of Foreign Subcontractors, FSCs are obliged to withhold tax from gross taxable payments (less reimbursable expenditure) to corporate foreign sub-contractors in respect of work or services provided to them by the corporate foreign sub-contractor in the Azerbaijani Republic at rates of from five to 10 percent.

Reimbursable expenditure is expenditure that does not create profit when separately reflected in a contract or payment document. These expenses include expenditure on travel and accommodation, and they must be supported by provisions in contracts and/or original receipts or copies of original receipts.

In the above protocol, work and services means any activity performed in Azerbaijan by any legal entity for any other legal entity (including the provision of raw materials and the elements necessary for the performance of work and services which, as a result, cease to be independent units and are no longer provided separately). Work and services include the following activities: design works, geological research, exploration, production, drilling, extraction, modernisation, construction, engineering, and various types of technical activities; leasing immovable property; administrative, technical, legal, bookkeeping, and advertising; transport, procurement, logistics, and communications; IT support and security services; consulting and financing activities; and training and other similar activities. Work and services do not include goods or separately provided raw materials.

Goods means any tangible or intangible property (assets), including electricity and thermal energy, gas, and water.

Value-added tax

Exemption from VAT (that is, a zero rate of VAT) on all goods, work or services performed under PSAs apply to FSCs, as PSAs stipulate that, “Sub-contractors are exempt (zero (0) percent rate) from value-added tax in connection with hydrocarbon activities”. This applies to the following:

- goods, works, or services supplied to or by it
- exports of petroleum and all products processed or refined from such petroleum
- imports and acquisitions of goods (excluding tobacco, foodstuffs, and alcohol), works, and services

The zero rate of VAT applies to both input and output VAT (i.e. supplies made by or to the FSC under the PSA).

To confirm the zero VAT rate, the FSC should apply and obtain a zero rate VAT certificate from the Azerbaijani Tax Authorities. The Tax Ministry issues certificates within 30 days after receiving an application from a FSC.

Personal income tax (PIT)

In general, in accordance with PSAs, resident expatriate employees are subject to Azerbaijani personal income tax only on income received as a direct result of being employed in Azerbaijan.

Under the Protocol of the Azeri Chirag Gunashli (ACG) PSA on the Taxation of Employees and Physical Persons, the tax residency of expatriate employees is determined based on the following criteria:

1. “Ordinary Business Purpose” expatriate employees. The above protocol does not define the term “ordinary business purpose”, however these employees are understood to be persons with a primary place of employment outside of Azerbaijan.

This person becomes a tax resident in Azerbaijan if they are present in the republic for a period exceeding 30 consecutive or 90 cumulative days in a calendar year. They are liable to pay Azerbaijani tax on their taxable income as a result of being employed in Azerbaijan for time periods exceeding 30 consecutive or 90 cumulative days (i.e. on income earned on the 31st or 91st day onwards).

2. “Rotators” are defined as persons that are present in Azerbaijan “on a routine basis for regularly scheduled periodic employment as their primary place of employment and which employment is not incidental to the exercise of that primary place of employment outside of Azerbaijan”. These individuals are considered to be tax resident if they are present in Azerbaijan for periods cumulatively exceeding 90 days in a calendar year, and are liable to pay Azerbaijani personal income tax on all taxable income directly earned from employment in Azerbaijan, including taxable income earned during their first 90 days of employment in the country.

Each local employee’s and tax-resident foreign employee’s Azerbaijani personal income tax liability is calculated at the tax rate set forth in the Azerbaijani Republic’s Tax Code, as outlined below:

PIT rates

The same PIT rates as under the statutory system apply (see above for details).

Reporting / payment requirements

Operative companies, contractor parties, and FSC are liable to withhold and pay personal income taxes on behalf of each tax-resident expatriate employee and to remit them to the Azerbaijani state budget no later than 10 days following the end of the reporting month.

Operative companies, contractor parties, and FSC must also submit quarterly declarations for its tax-resident expatriate employees within 20 days after the end of a reporting quarter.

Social fund contributions

According to the PSA, operative companies, contractor parties, and FSC are required to make contributions to the Social Insurance Fund, together with similar payments (including contributions to pension, recruitment, social insurance, employment, and medical funds), only for employees that are Azerbaijani citizens. Thus operative companies, contractor parties, and FSC are liable for payments to the Social Insurance Fund for their employees that are Azerbaijani citizens. Operative companies, contractor parties, and FSC pay 22% of a citizen's gross salary, while the citizen pays 3%.

Import and export duties and taxes

Contractor parties and subcontractors have the right, tax free, to import into and re-export from the Republic of Azerbaijan all equipment, materials, and goods in relation to its activities conducted under the PSA. Such imports and exports are subject only to the following customs service (procedural)/ documentation fees:

| Declared shipment value in USD | Duty |
|--------------------------------|---|
| USD0-USD100,000 | 14% |
| USD100,001 - USD1,000,000 | USD150 plus 0.10% of any value over USD100,001 |
| USD1,000,001 - USD5,000,000 | USD1,050 plus 0.07% of any value over USD1,000,001 |
| USD5,000,001 - USD10,000,000 | USD3,850 plus 0.05% of any value over USD5,000,001 |
| Over USD10,000,000 | USD6,350 plus 0.01% of any value over USD10,000,000 |

In order to enjoy the above customs exemptions, contractor parties and subcontractors should apply for and obtain an import/export exemption certificate from the State Customs Committee.

Reporting requirements

Once the FSC has registered with the Tax Ministry, the PSA requires that it submit the following reports:

- value-added tax returns (quarterly)
- reports on withholdings from foreign sub-contractors (quarterly)
- statistical committee reports (monthly, quarterly)
- social funds reports (quarterly)
- personal income tax declarations (quarterly and annually)

Should the FSC be engaged in activities other than those agreed in the PSA, then the FSC will be required to submit a separate set of reports for each activity.

Industrial and science parks

Following the success of oil & gas projects, the government announced policies to develop the non-oil sector. And in 2013, the total value of foreign investment recorded in Azerbaijan was 10 times higher than in 2001.

The Sumgait Technology Park (STP), launched by Azerbaijani President Ilham Aliyev in December 2011, is a groundbreaking project in this area. The STP is a complex of factories and plants that manufacture various types of products, and which benefit from pooled know-how and resources. The STP is a unique project in the region, and is capable of meeting the demands of both domestic and foreign markets.

More than 4,500 people are currently employed in production and construction/installation activities at the STP, and once all the planned plants have been launched over 10,000 more are expected to be employed, thereby significantly improving living standards.

Another important development, the High-Tech Park (HTP), was launched as part of the development concept Azerbaijan 2020: Vision of the Future, which aims to transform the economy from being oil-based to knowledge-based, through developing a sustainable and competitive environment for information and computer technology firms. The HTP is wholly owned by the Azerbaijani Government, and reports to the Ministry of Communications and Information Technology.

The Sumgait Chemical Industrial Park (SCIP), overseen by the Ministry of the Economy, comprises territories earmarked for the production of agricultural, medical, consumer, construction industry, electronics and automotive chemicals, polymers, and industrial equipment.

The residents (legal entities or individuals) of industrial and science parks (Parks) created under decrees from respective executive bodies are exempt from the following taxes, for periods of seven years from the date on which they are registered in Parks:

- profit tax for profit generated by legal entities in Parks
- property tax applicable to assets located in Parks
- land tax
- import VAT on the import of various types of equipment (including technical equipment) for the development and construction of infrastructure and production areas, as well as scientific research and conducting experiments and construction activities

The executive organisation and operators of Parks are exempt from the following taxes:

- profit tax: the amount of taxable profit invested in the
- construction and maintenance of infrastructure in Parks
- import VAT on the import of various equipment (including technical equipment) for the development and construction of infrastructure and production areas, as well as scientific research and conducting experiments / construction-related activities
- property tax applicable to assets located in Parks
- land tax
- customs duties on imported equipment, etc., upon confirmation documents issued by the relevant state authority being presented

In addition, the income of physical persons (that have not registered as legal entities) carrying out activities in a Park is exempt from taxation (with the exception of personal income tax, which applies to salaries).

Investment certificates

Exemptions and privileges related to personal income tax: annual interest income paid from the deposits of individuals in local banks and the branches of foreign banks in the Republic of Azerbaijan, as well as dividends paid by the issuers of investment securities, discounts, and interest are exempt from income tax for 3 (three) years from 1 February 2016.

- In addition, 50% of profit generated by individual entrepreneurs that have obtained investment promotion certificates are exempt from income tax for a period of seven years from the date on which the certificates were obtained.
- Exemption from profit tax: the profit of entities that have obtained investment promotion certificates is exempt from 50% of income tax for a period of seven years from the date on which the certificate was obtained.
- Exemption from VAT: any entity or individual entrepreneur that has obtained an investment promotion certificate is exempt from VAT for a period of seven years from the date on which the certificate was obtained upon the import of equipment, technological equipment, and devices approved by the relevant executive authority.
- Exemption from property tax: any entity or individual entrepreneur that has obtained an investment promotion certificate is exempt from property tax for a period of seven years from the date on which the certificate was obtained.
- Exemptions from land tax: any entity or individual entrepreneur that has obtained an investment promotion certificate is exempt from property tax for a period of seven years from the date on which the certificate was obtained.
- Technology and technical equipment imported by entities and individual entrepreneurs engaged in investment activity, as well as by resident entities and individual entrepreneurs in industrial or science parks for the purpose of constructing production areas within industrial or science parks, and for conducting scientific research and development work in accordance with various official approvals, are exempt for a period of seven years.

Miscellaneous

Non-cash settlements

The Azerbaijani Law “On Non-Cash Settlements” was brought in in early 2017.

Non-cash settlements

- Settlements made via a transfer from one person’s bank account to another’s via a payment tool (payment cards, orders, etc.) and payment means (mobile phones, computers, etc.). For a transfer between tax-registered parties to qualify as being a non-cash settlement, the transfers must be made using this method only.
- Settlements carried out via payment terminals.
- Settlements made via a direct cash transfer to the vendor’s bank account.

Limits on cash settlements

- Taxpayers registered for VAT purposes and those engaged in trading or catering services whose taxable turnover exceeds AZN 200,000 in any month during one consecutive 12-month period are eligible to make cash settlements for up to AZN 30,000 during a calendar month. This limit has been in effect since 1 January 2017.
- Other taxpayers are eligible to make cash settlements of up to AZN 15,000 during a calendar month. This limit has been in effect since 1 April 2017.

Financial sanctions for violating cash settlement limits

Taxpayers are subject to the following financial sanctions in the event of violating the Azerbaijani law on “Non-Cash Settlements”:

- 10% of the amount exceeding the limits, if the violation is occurring for the first time
- 20% of the amount exceeding the limits, if the violation is occurring for the second time
- 40% of the amount exceeding the limits, if the violation is occurring for the third or more times

Non-cash settlements of payments

- payments of taxes, customs duties, administrative penalties, and financial sanctions levied by the authorities
- payments of debts related to leasing transactions and loans
- salaries, pensions, scholarships, financial aid, benefits, compensation, and indemnity paid by individuals (except for individuals with taxable operations of less than AZN 200,000 in any month during a consecutive 12-month period)
- payments of stationary phone services and utility expenses
- payments and reimbursements of funds bearing no interest (except for cases where the funds are provided by individuals that are not registered as taxpayers) and other allocations

Advanced tax rulings

An advanced tax ruling refers to the advance determination by the tax authorities of potential tax liabilities and the legal results arising from the application of tax legislation to operations.

In order to benefit from an advanced tax ruling, an application form, together with all necessary documents, should be submitted to the tax authorities. The official duty to be paid is AZN 500 and the decision is valid for three years.

A decision on an advanced tax ruling can be rejected in the following cases:

- the information declared in the application form and documents is incompliant with legislation
- the taxable operation declared in the application form has already been completed, or the tax authorities or a court has made a decision on the operation
- the cost of the taxable operation is less than AZN 10,000,000

The decision on the application for an advanced tax ruling for the stated operation is legally binding on both the taxpayer and the tax authority, provided that the taxpayer performs the respective operation. However, the taxpayer is not obliged to perform the operation for which the decision on the application of an advanced tax ruling is adopted.

Accounting

Accounting regulations are set forth in the March 1995 law “On Accounting”. In 2004 the Azerbaijani Government took steps to improve the transparency of financial reporting, accelerate the economy’s integration into the global financial system, and bring the national reporting and accounting system up to international standards.

The June 2004 Law “On Accounting” prescribes the implementation of International Financial Reporting Standards (IFRS) in organisations engaged in commercial activities in Azerbaijan. This law defines which types of organisations are required to adopt various accounting standards.

Public interest entities are defined as credit organisations, insurance companies, private pension funds, and legal entities with stock market listings. Entities that meet at least two of the following criteria are also considered to be public interest entities:

1. they have revenue of or exceeding AZN 30 million (around USD 17.6 million)
2. they have an average headcount of at least 1,200
3. they have a total balance sheet of or exceeding AZN 100 million (around USD 59 million)

All public interest entities in Azerbaijan must adhere to IFRS. Commercial organisations are required to follow either IFRS or the National Accounting Standards for Commercial Organizations (NASCO).

Small businesses are allowed to follow simplified accounting rules, as approved by the Ministry of Finance. Alternatively, they may choose to follow the NASCO. Small businesses are defined by assessing the size of their business in their specialist area of operations. For example, in the industry and construction sphere, an entity with fewer than 40 employees and an annual turnover of less than AZN 200,000 is considered to be a small business.

NASCO regulations are largely based on the 2006 version of IFRS. The use of IFRS and NASCO standards became mandatory for commercial entities and public interest entities on 1 January 2008. These standards have also been in force for non-commercial organisations since January 2009.

The transition period is specified as one year for small businesses, two for public interest entities, and three for non-commercial / non-governmental entities. The Civil Code contains general provisions on financial reporting and audit requirements for legal entities. Open JSCs and limited liability companies are required to use an independent auditor to audit their annual financial statements (open JSCs are also required to publish annual accounting reports and balance sheets). Depending on the value of the assets on the balance sheet, or of annual revenues, companies are obliged to have their balance sheets audited.

Our Contacts



Vitaly Yakovlev

Managing Partner

KPMG in Azerbaijan

T: +994 12 404 89 10

E: vitaliyakovlev@kpmg.com



Rizvan Gubiyev

**Director, Head of Tax and
Legal Department, Tax &
Legal**

KPMG in Azerbaijan

T: +994 12 404 89 10

E: rgubiyev@kpmg.az



Seymur Niftaliyev

**Director, Head of KPMG
Law Azerbaijan, Tax &
Legal**

KPMG in Azerbaijan

T: +994 12 404 89 10

E: sniftaliyev@kpmg.az



KPMG in Azerbaijan

**Port Baku South Tower
153, Neftchilar Avenue
AZ 1010 Baku, Azerbaijan**

+ 994 12 404 89 10

office@kpmg.az

www.kpmg.az

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG in Azerbaijan refers to KPMG Audit Azerbaijan LLC, a company incorporated under the Laws of the Republic of Azerbaijan, and KPMG Azerbaijan Limited, a company incorporated under the Laws of the Guernsey, acting through its Representative Office in the Republic of Azerbaijan, member firms of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Azerbaijan.

For more detail about the structure of the KPMG global organization please visit home.kpmg/governance

Legal services may not be offered to SEC registrant audit clients or where otherwise prohibited by law.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.