



Your Tax and Legal Lighthouse

2018

Tax and Legal

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Baku

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 is 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 June 2018.

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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 more than 200,000 outstanding professionals who work together to deliver services in 154 countries worldwide. KPMG has been working for 27 years in the CIS and has 4,600 professionals working in 24 offices across nine CIS countries.

KPMG has been operating in Azerbaijan since 1997 through a fully functioning office.

In 2011 it completely renovated its office and recruited professionals that are experts in financial and advisory services in Azerbaijan. KPMG Azerbaijan has more than 130 professionals working for it, many of which have eight-to-twenty years' audit and advisory experience in Azerbaijan, Russia, Germany, Turkey, Georgia, and other countries.

In the CIS, KPMG now has offices in Baku, Moscow, Ekaterinburg, Kazan, Krasnoyarsk, Nizhny Novgorod, Novosibirsk, Perm, Rostov-on-Don, St. Petersburg, Almaty, Astana, Atyrau, Bishkek, Kyiv, Lviv, Tbilisi, and other regions, employing in total more than 4,000 people.





Baku

Contents

Introduction to Azerbaijan 7

Investment climate	7
Living and working in Azerbaijan: Useful tips	7

Starting a business 9

Overview of commercial legal entities	9
Types of legal entities	9
Representative offices and branches	9
Joint-stock company ("JSC")	9
An Azerbaijani subsidiary	11
Limited liability companies ("LLC")	11
Additional liability companies ("ALC")	11
Partnerships	11
Cooperatives	11
Registration	11
De-registration of companies	12
Registration of changes	13

Foreign investment 14

Investment promotion certificates	14
Safeguards for foreign investors	15
Bilateral investment treaties	15
Licensing requirements	15
Land ownership	16
Documents confirming ownership rights	16
Technology parks	17
Foreign trade	17
Strategic road maps	17
Special economic zones	18

Labour law 19

Minimum wage and the currency of salaries	19
Employment agreements and procedures	19
Probationary periods	19

Working weeks	20
Holidays	20
Annual paid leave	20
Sick Leave	20
Maternity leave	20
Cost of employment	21
Expatriate workers	21

General tax information: Azerbaijan 22

Corporate income tax	22
Annual depreciation rates	23
Personal income tax	24
Value-added tax	25
Property tax	26
Withholding tax	26
Social fund contributions	27
Other taxes	27
Customs	27
Double taxation treaties	28
Tax regimes for companies working under production sharing agreements (PSAs)	28
Profit tax	28
Withholding tax	29
Value-added tax	30
Personal income tax (PIT)	30
Social fund contributions	30
Import and export duties and taxes	31
Reporting requirements	31
Investment certificates	32

Miscellaneous 33

Non-cash settlements	33
Advanced tax rulings	33

Accounting 35



Baku

Country facts

Country snapshot

Capital:

Baku (population 2,262,600)

Area:

86,600 square kilometres

Population:

9.9 million

President:

Ilham Aliyev

Currency:

The manat (AZN)

Neighboring countries:

Russia, Iran, Armenia,
Georgia, Turkmenistan,
Kazakhstan, Turkey

Titular nationality:

Azerbaijani (92%)

Ethnic minorities:

Russian, Lezghi, Talysh, Tatar,
Kurds, Avars, Tat

Other main cities:

Sumgait (population 341,000);
Ganja (population 332,600)

Autonomy:

Nakhichevan Autonomous
Republic (population 452,800)

Introduction to Azerbaijan

Investment climate

Azerbaijan is an oil-rich post-Soviet Union country situated in the Caspian Sea basin. It has oil & gas reserves, a developing industrial sector, and fertile agricultural land. Heavy (aluminium mining and refining, metallurgy, oil extraction and refining, etc.) and light industries (textiles, food processing, etc.) dominate the market. The country had a nominal GDP of AZN 70135,1 million in 2017, mainly from oil & gas operations and non-oil economy. The country enjoyed rapid growth between 2007 and 2009, following completion of the Baku-Tbilisi-Ceyhan oil pipeline in May 2006; other drivers of the economy are the Baku-Novorossiysk and Baku-Supsa pipelines. After completion of the Southern Gas Corridor between Azerbaijan and Europe, revenues from gas exports are expected to increase.

In February 2015 the fall in oil prices put pressure on the foreign currency reserves the Central Bank of the Republic of Azerbaijan (CBAR). The CBAR subsequently devalued the manat (AZN, the national currency), replacing a hard peg to the USD with a euro-dollar basket. The exchange rate has now stabilised at around 1 USD/1.7 AZN (for more information visit www.cbar.com).

A GDP surplus of 2.3% was witnessed in the first quarter of 2018, driven by exports and imports. Non-oil exports rose by 2.9%, due to strong performance in the various fields of economy.

The Azerbaijani economy is expected to expand from the second half of 2018, as a result of an increase in oil GDP revenue following the Shah Deniz-2 gas field coming on line.

The policy “Strategic Road Maps for the Domestic Economy and the Main Sectors of the Economy” is expected to boost the development of the non-oil sector through fostering a sustainable and competitive environment, particularly in agriculture, logistics, and tourism. The policy was approved in December 2016 and its content is still being evaluated by experts, who are ascertaining the best method of implementation. Long-term economic development will depend on the diversification of the economy and the non-oil sector, to what extent gas exports can be increased, and what happens with global oil prices.

The investment climate in Azerbaijan is developing steadily, although considerable challenges remain. The Nagorno-Karabakh conflict and a lack of foreign investment into the non-oil sector are dragging the economy down. Another major issue is corruption, both in the public and private sectors, (a number of measures have been taken to combat this, such as the creation of ASAN – a one-stop window concept for government services and to improve the work of customs officials).

The Azerbaijani government has set as priorities the diversification of the economy, attracting foreign investment, integrating with global markets, and sustainable growth. Currency stability, crucial for investor confidence, is supported by USD 5.5 billion in CBAR reserves and USD 37 billion in oil fund reserves.

In order to facilitate diversification, the government has established the National Entrepreneurial Support Fund of the Republic of Azerbaijan. The fund primarily works to provide entrepreneurs with low-interest loans. 64.5% of its loans have been used to develop the agricultural sector, while the remaining 35.5% have been assigned to other, non-oil industries during the first quarter of 2018.

In April 2016 the President of the Republic of Azerbaijan signed an order to establish a Centre for the Analysis of Economic Reforms and Communication. The main goals of the centre are to analyse and assess macro- and micro-economic activity and to provide solutions to improve overall economic stability in all areas by analysing and implementing best international practices and improving existing domestic ones.

Living and working in Azerbaijan: Useful tips

Learn Azerbaijani. Azerbaijani language is the official language of Azerbaijan, however Russian is also commonly used, especially in large cities. Knowing Russian or Azerbaijani will not only help you in everyday communications (many street vendors, waiters, and shop assistants do not speak English), but also when doing business. 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 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 individuals that are 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 who speak English or their own native language. In general, medical personnel speak Russian and 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 prescribed Customs Union 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 (except those with a 'highly qualified' visa status), you must register and deregister each time you travel abroad or away from your place of residence in Azerbaijan.
- To pay some bills, you must physically go to a bank and pay in cash. Fortunately, cash machines are widespread.
- 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 time-consuming). The power of attorney can be granted for a period of 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 over a lengthy period of time.



**Baku:
Heydar Aliyev square**

Starting a Business

Overview of commercial legal entities

The procedures by which legal entities are established in Azerbaijan are mainly regulated by the Civil Code¹ and the Law “On State Registration and the State Register of Legal Entities”². In order to simplify the registration procedure for commercial legal entities, as well as branches and representative offices of foreign legal entities, President 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 two business days under a simplified application procedure. The Ministry of Taxes is the authorised body that registers commercial legal entities in the country.

Types of legal entities

Investors often encounter problems when choosing the type of legal entity to establish in order to conduct business in Azerbaijan. Azerbaijan's civil legislation covers a number of types of commercial entity that can legally operate in the country. These comprise:

- representative offices and branches of foreign legal entities
- joint-stock companies: open (OJSC) and closed (CJSC) joint-stock companies
- an Azerbaijani subsidiary
- limited liability companies (LLCs)
- additional liability companies (ALC)
- partnerships
- cooperatives

Representative offices and branches

Under Azerbaijani legislation, branches and representative offices of foreign legal entities are not considered to be 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, but not limited to, representation and the protection of its interests. Consequently, under civil law, representative offices cannot be engaged in commercial activities.

It should be noted that 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 Azerbaijan. Therefore, in practice, representative offices can perform the same activities as branches.

The relevant legislation does not distinguish between 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 to their overseas accounts.

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

Joint-stock company (“JSC”)

Under Azerbaijani legislation, JSCs operate with the purpose of issuing securities. They can be in the form of open and closed JSCs.

Open joint-stock companies

An open joint-stock company (OJSC) is a company which has its charter capital divided into a certain number of shares. OJSCs can be established by one or more individuals or legal persons and have their shares openly sold to the public and acquired by third parties, without restrictions. An 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 their 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. The general meeting of shareholders is the supreme supervisory 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, its main activities, and the de-registration rules governing the legal entity. It must also have information on the categories and amount of its securities, and their prices, along with the amount of charter capital.

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.

In recent years, Initial Public Offerings (IPO) have become more popular for companies in Azerbaijan, and this has been one of the reasons behind the rise of the OJSC as a favoured form of legal entity within the business community in Azerbaijan.

¹ Civil Code of the Republic of Azerbaijan, effective as of 1 September 2000

² Law “On State Registration and the State Register of Legal Entities”, effective as of 31.01.2004

Baku: TV tower



Closed joint-stock companies

A CJSC shares a number of features with an OJSC, although there are several distinctions between them as well. CJSCs differ because:

- Their shares are circulated among its shareholders and also within a pre-determined group
- The minimum amount of charter capital is AZN 2,000
- Shares in CJSCs can be sold to third parties if they are not bought by the CJSC's other shareholders under pre-emptive rights
- CJSCs with more than 50 shareholders must be reorganised into an OJSC within one year.

An Azerbaijani subsidiary

Azerbaijani law does not provide any legal definition of a "subsidiary", although Azerbaijani legal entities established by foreign legal entities are considered to be subsidiaries. These subsidiaries, i.e. the Azerbaijani legal entity, are most commonly registered as limited liability or joint-stock companies. Between these two, the former is considered the most preferable choice for conducting business.

Limited liability companies ("LLC")

LLCs are one of the most widely used types of company for performing commercial activities in Azerbaijan. An LLC is a legal entity that can be formed by one or more individual and/or legal entities. Members' liabilities in LLCs are limited to their stakes, which means that their liabilities can only extend to the amount of their contributions to the company's charter capital. Moreover, while members of an LLC do not bear any liability towards its obligations, an LLC in turn does not have any obligations towards its members' liabilities to third parties. An LLC is required to appoint an independent auditor to verify its annual financial reports.

The share capital of an LLC comprises assets that guarantee the minimum amount of its creditors'

interests. Another distinctive feature of this legal form is its exemption from a minimum capital requirement.

Moreover, the sale of stakes in an LLC to third parties can be limited by the LLC's charter.

Additional liability companies ("ALC")

An ALC is a legal entity that can be established by one or more persons, with its charter capital divided into a specific number of stakes, as defined in its charter. An ALC shares similar features with an LLC, although the exposure to an ALC company's liabilities for its members can exceed their contributions, as regulated in the charter.

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. Such entities have several distinctive features compared to other types of legal entities, in accordance with the requirements of their founders, liabilities, and corporate governance. Under the Civil Code, only entrepreneurs and/or commercial entities can establish general partnerships. In addition, partners in such entities continue to bear a liability towards it, even after leaving. Members (general partners) are also jointly and severally liable for the partnership's liabilities.

Cooperatives

A cooperative is a voluntary union of members that can be founded by at least five individuals and/or legal entities with the purpose of satisfying the material and other needs of the participants through consolidation of the participants' material contributions. Cooperatives fall into various categories, including production cooperatives and consumer cooperatives.

Membership of a cooperative

Members of a cooperative must make respective contributions to the

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

A cooperative's profit is divided among the members of the cooperative in proportion to their contributions. In addition, a cooperative's profit may be distributed to the cooperative's founders, used to settle creditors' debts or to pay dividends, or used for other matters, as covered by the cooperative's charter.

Registration LLC

An LLC is established through the adoption of a resolution or via a founders' agreement at an incorporation meeting. The meeting also approves and adopts its charter. In order to operate as a legal entity, LLCs must register with state authorities in Azerbaijan. To do this, an application package containing all required documents must be submitted to Ministry of Taxes. LLCs are registered within two working days after the submission of all the required documents to the registration body.

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

JSC

A JSC is established through a meeting of incorporators, which adopts a resolution on the establishment of the company as well as its charter. JSCs, together with other commercial legal entities, are registered by the Ministry of Taxes in two working days after submitting all required registration documents.

As similar to the registration process for LLCs, to register JSCs in Azerbaijan the founder(s) should submit an application form with certain other documents depending on whether the founders are individuals or legal entities, and foreign or local. However, unlike LLCs, the full value of an JSC's shares must be paid prior to its registration (with the exception of cases where its charter specifies otherwise). Moreover, the shares of JSCs must be registered separately with the Financial Markets Control Chamber, and the JSC must also be registered within 30 business days at a central depository.

Branches or representative offices

The process by which branches and representative offices are registered is similar to that for legal entities: they are registered via the Ministry of Taxes's one-stop shop principle within two working days after all required documents are submitted.

It is important to note that branches and representative offices function on the basis of regulations that are similar to the charters of legal entities. All documents issued outside Azerbaijan must be certified and apostilled/legalised. However, the apostilles of some countries are not recognised in Azerbaijan (for example, Germany's), therefore, all documents that cannot be apostilled must be legalised. Also, all documents issued abroad in foreign languages must be translated into Azerbaijani and notarised by the notary public in Azerbaijan.

De-registration of companies

The process of liquidating and de-registering companies in Azerbaijan consists of two main stages.

Stage 1

This involves adopting a decision to liquidate the company (passing a "Liquidation Resolution") by the founder(s) of the company. The founder(s) of the company resolves,

among other decisions, to appoint a sole liquidator or a liquidation commission (the "Liquidator/Commission") and authorises it to carry out all necessary steps to de-register the company. In practice, a third party or parties are appointed by the Liquidator/Commission to perform all relevant actions pertaining to the company's de-registration.

The Liquidator/Commission can issue to the third party(-ies) a power of attorney to take all necessary actions to de-register the company. Both the Liquidation Resolution and power of attorney should be notarised and apostilled if they were issued in a foreign country.

The first stage of the de-registration process also includes making an announcement in an official newspaper (the newspaper "*Taxes*"), which contains details about the procedure and the timing for claims by creditors. This must be done within 10 (ten) days after the date that the Liquidator/Commission is appointed. This information must be published on two more occasions at intervals of 15-20 days. Thus, in practice, the announcement gives the company's creditors an opportunity to claim the repayment of their loans (i.e. the branch's debt). Creditors have at least 60 days to submit their claims from the date of the first announcement. Notifications must also be sent to all known creditors at the same time as the announcement is made in Taxes.

In addition to the above documents, the head of the company must create an official document confirming the solvency of the company, or engage an independent auditor to provide a report on the solvency/insolvency of the branch at least 20 days prior to adopting the Liquidation Resolution.

The company's stamp and respective application form must be submitted to the Ministry of Taxes (the "Registration Body"), together with above-mentioned documents.

Once these documents have been submitted to the Registration Body, the latter must enter the submitted information into the State Register of Legal Entities within five days.

In addition, the Liquidator/Commission must submit final tax returns to the Ministry of Taxes within 30 days after the date that the Liquidation Resolution was adopted.

The final tax returns should cover all activities, from the beginning of the year until the liquidation date.

An application letter, together with the Liquidation Resolution, must be submitted to the Social Protection Fund alongside with a request to the Ministry of Taxes for confirmation that the company does not owe any debt(s) to the Fund. Once it is established that the company does not have any debts, the Fund will issue a letter (a "Clearance Letter") which must then be submitted to the Ministry of Taxes.

The following procedures must be performed at any time between the official liquidation announcement (i.e. Stage 1) and the submission of the final package of documents to the Registration Body (Stage 2):

- the termination of employment contracts with existing employees, which must be performed in accordance with labour law
- the closure of bank accounts: after the company's accounts have been closed, a letter from the relevant bank(s) should be obtained confirming this fact
- VAT de-registration

A tax audit is conducted by the Ministry of Taxes and/or State Social Protection Fund.

It may in practice take longer and require more efforts than are stated above to secure a successful outcome to the audits, as the inspector(s) may challenge the documents/payment orders/returns of the company, or require additional supporting documentation/evidence. It can take several months to complete an audit(s) and to finalise the de-registration process.

Upon the expiry of the 60 (sixty)-day period from the placement of the announcement, the Liquidator/Commission will prepare and approve an interim liquidation balance sheet reflecting information about the assets of the company

being liquidated and a list of the claims creditors and debtors can make within 10 (ten) days.

Any outstanding Company obligations to creditors and to the state budget must be settled. The Liquidator/ Commission must initiate bankruptcy proceedings if a company's assets are insufficient to settle creditors' claims.

The Liquidator/Commission must split the remaining assets between the members (i.e. the founder(s) of the company) within 10 (ten) days after the final liquidation balance is adopted.

Stage 2

The Liquidator/Commission must submit the following documents to the Registration Body within 10 (ten) days after the date that the assets were shared among the founder(s) of the company:

- the approved final liquidation balance
- a report outlining the asset distribution plan

- a document confirming that the distributed assets have been provided to the participants of the company
- the original Certificate of Incorporation and the regulations/ charter of the company
- a stamp bearing the inscription "undergoing liquidation"
- clearance letters from the customs authorities and the Social Protection Fund

The company's de-registration decision must be adopted by the Registration Body within 7 (seven) days after all required documents being submitted.

Registration of changes

Under the Law "On State Registration and the State Register of Legal Entities", changes made to the registration documents of legal entities, branches or representative offices must be registered with the Ministry of Taxes. The application to register respective changes must

be submitted to the within 40 (forty) days after the date that the changes were made. The respective changes must be included in the application form submitted with the other documents certifying the changes.

It should be noted that changes to the documents of legal entities, branches or representative offices are binding once they are registered with the state. Legal entities, branches or representative offices cannot perform any activities based on changes that were not registered.

Recent legislative changes have increased fines for the non-submission to the Ministry of Taxes within 40 days of applications relating to changes to registration documents. Under the Code of Administrative Offences, respective fines of between AZN 2,500 and AZN 3,000 can be imposed.

Baku: Heydar Aliyev International airport



Foreign investment

Foreign investment in Azerbaijan is primarily regulated by the Law “On Safeguarding Foreign Investment” and the Law³ “On Investment Activity”⁴

Foreign Investment

Foreign investors can engage in any investment activity that is not prohibited by Azerbaijani law. Under the law “On Safeguarding Foreign Investment”, the following can act as foreign investors:

- foreign legal entities
- foreign citizens, stateless persons, and Azerbaijani citizens with permanent residence abroad only if they are duly registered to perform economic activities in the state where they are citizens or temporarily residents
- foreign states
- international organisations

The following list provides the legal forms that foreign investments can take:

- participating in entities established jointly with legal entities and Azerbaijani citizens
- establishing enterprises wholly owned by foreign investors
- purchasing enterprises, proprietary facilities, buildings, structures, shares in enterprises, other shares, bonds, securities, and other kinds of property which, under Azerbaijani law, may be owned by foreign investors
- obtaining rights to use land and other natural resources, as well as other proprietary rights
- concluding agreements with legal entities and Azerbaijani citizens that provide for other forms of foreign investment

The legal regime governing the foreign investor’s activity cannot be less favourable 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 defence, national security, or the protection of the environment and the public.

A savings fund should be created, comprising 25% of the charter capital from annual deductions. The size of the deductions and the currency are determined by the entity itself.

Investment promotion certificates

Under legislative amendments made in April 2016⁵ investors can, depending on the area of economic activity, the administrative territory, and the investment threshold, receive various tax and customs benefits through an investment promotion certificate. These include a 50% income tax exemption and a 100% property and land assets tax exemption, as well as exemptions from customs duties. The minimum investment requirements for each region can vary between AZN 0.5 and 10 million.

The main criteria for qualifying for a certificate are as follows:

- an investment plan that contains information on the investment area, amount, and location
- confirmation of payment of 10% of the total investment amount
- a tax registration certificate

The investor has the right to contact the Ministry of Economy to check compatibility with the other two criteria before investing the 10% amount, and the Ministry must respond within five business days. The ministry then informs the Ministry of Taxes and the State Customs Committee within three days prior to issuing the certificate. Once issued, the certificate will entitle the investor to the above tax benefits for a period of seven years.

³ Law “On safeguarding foreign investment”, effective as of 15.01.1992

⁴ Law “On Investment Activity”, effective as of 13.01.1995

Istiglaliyyat Street in Baku

Safeguards for foreign investors

Under Azerbaijani legislation the following guarantees exist for foreign investments:

- Foreign investments enjoy full legal protection in the territory of the Republic of Azerbaijan. If there are any legislative changes that worsen the investment climate, then the legislation that was in force when the foreign investment was made will apply for a period of 10 years, and the new amendments will not apply.
- The nationalisation of a foreign investment is forbidden by law, except in cases where a foreign investment has damaged the interests of the people and the state of Azerbaijan. Nationalisation is possible only through a resolution passed by the National Assembly. Confiscation is also possible; however, only under the circumstances of a natural disaster, an epidemic, or any other extraordinary situations and following a decision by the Cabinet of Ministers. In cases of both nationalisation and confiscation, foreign investors must be compensated.
- Foreign investors are entitled to repatriate profits, revenues, and other amounts received in connection with their investments, provided that all applicable Azerbaijani taxes have been paid.
- The income gained by foreign investors can be reinvested in the same currency that the original investment was made in, kept in Azerbaijani banks, and spent on purchasing foreign currency in accordance with the rules of the CBAR.

Entities that have received foreign investment can form associations, concerns, consortiums, and other unions.

Legal entities that are fully owned by foreigners and those with a charter capital comprising more than

30% foreign investment can export manufactured products (works, services) without a license.

Property brought to Azerbaijan as part of foreign investor savings in a joint venture or for an entity fully owned by foreigners is exempt from tax duties.

Bilateral investment treaties

Azerbaijan has concluded over 60 bilateral treaties on the mutual protection of investments. And in November 2002 it signed with the OPEC Fund for International Development a multilateral treaty on the mutual protection of investments, which was ratified on 9 December 2003.

Licensing requirements

Business activities that are licensable in the Republic of Azerbaijan are regulated by the Law "On Licenses and Permits"⁵ and the Rules "On the Issuance of Licenses"⁶. These introduced a number of simplifications to the licensing procedures under the 'one stop shop' principle.

Under the above law, a license is defined as an official document which grants the right to legal entities and self-employed entrepreneurs to engage in commercial activities. A permit is defined as an official document providing rights to perform relevant actions in connection with conducting entrepreneurial activity, which could be in the form of approvals, certifications, accreditations, etc.

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

The list of activities that requires a license has significantly been reduced in areas relating to state security, natural reserves, the environment, and public health.

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.

Online portal on "Licenses and permits" has been recently introduced giving opportunity of receiving information on available licences and permits, authorities issuing them, description of details, list of required documents, state fees, service fees, information for individuals and legal entities and other information.

A license (or permit) must contain information on the name of the issuing authority, its owner, and the field of permitted activity. 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.

An application to renew a licence can be made upon there being changes in the field of activity of the entrepreneur, the re-organisation of an entity, or during the loss of the issued licence within 15 days

Licences can also be suspended or terminated by the issuing authority if they are not used for their respective permitted purposes, and in other circumstances prescribed by law.

⁵ Law of the Republic of Azerbaijan "On licenses and permits", effective as of 01 June 2016

⁶ The Decree of the President of the Republic of Azerbaijan #713 on "Activities in the field of Licensing", effective as of 23 December 2015

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 that are responsible for issuing the respective license:

Type of licensable activity	Executive authority
Toxic industrial waste:	Ministry of Economy
Recycling; neutralisation	
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
Educational activities	Ministry of Economy
Communication services	Ministry of Economy
TV and radio operations; satellite broadcasting	National Television and Radio Council
Elevator installations; fire-fighting activities; individual hunting organisations; construction and installation works; private veterinary medical activities; mining works	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 Organization Activities; Depository Activity of the Investment Fund; manufacture and sale issuance of securities blanks;	Financial Markets Market Control Chamber Supervisory Authority
Banking activities and; insurance activities	Financial Market Supervisory Authority Financial Markets Control Chamber
Audit activities	Azerbaijan Chamber of Auditors of Azerbaijan of the Republic of Azerbaijan
Private security activities	Ministry of Internal Affairs; The Azerbaijan State Security Service of the Republic of Azerbaijan (depending on the scope)
Activities in the area of related to the design and manufacture production of information protection;	The Azerbaijan State Security Service of the Republic of Azerbaijan
Biometrics technologies and their maintenance of such technologies; the establishment of personal data information resources and creation of information systems and, their maintenance	The Ministry of Transport, Communications and Information High Technology

Land ownership

Under the Civil Code, ownership is a subject's right (i.e. a right belonging either to a individual or a legal entity), recognised and protected by the state, to own, use, and dispose of property (estate), belonging to him/her at his/her 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 (estate'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 (estate)

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, are considered to be immovable property. Under the Civil Code the ownership rights to immovable property (including land plots) must be registered.

Under Azerbaijani law, foreigners can only lease lands in Azerbaijan.

Documents confirming ownership rights

Under the Land Code⁷, 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 an appropriate 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. The 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 parks

Technology parks have been introduced to the Azerbaijan market to facilitate the sustainable development of the economy, expand the scope of information and communication technologies, conduct research, and discover new technologies. Under a Presidential Decree, the High-Tech Park was established⁸ – a hub containing information and communication technologies, space and telecommunication technologies, and infrastructure to create new and advanced technologies. Under a Presidential Decree⁹, technology parks can be created independently or by a scientific and educational institution. The first educational and scientific institution to establish a technology park was the Azerbaijan National Academy of Sciences, and another is set to be established in Mingachevir. 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. In addition, the concept of a joint technology park has been introduced. These can be created on state, municipal, or private land plots.

Foreign trade

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. Under a Presidential Order¹⁰ steps are to be taken to achieve these goals, such as establishing a Digital Trade Hub of Azerbaijan section in 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 electronic form. The portal also issues payments of export incentives from the federal budget to persons exporting non-oil goods, and issues ASAN Imza electronic signature certificates.

Strategic road maps

The sustainable and competitive development of the non-oil sector in Azerbaijan is a priority within the country's economic policy. In this regard, the President signed Decree No. 1897 on "Primary Areas of Strategic Road Maps for the Domestic Economy and the Main Sectors of the Economy"¹¹, to help ensure the sustainability of economic policy and reforms implemented in the country, provide an in-depth analysis of the current state of the economy, and develop new economic strategies and initiatives. Under the decree strategic road maps have been drafted that cover 12 main economic fields:

- A Strategic Roadmap for the Domestic Economy of the Republic of Azerbaijan
- A Strategic Roadmap for the Development of the Oil & Gas Industry (including Chemical Products) in the Republic of Azerbaijan
- A Strategic Road Map for the Production and Processing of Agricultural Products in the Republic of Azerbaijan
- A Strategic Roadmap for the Production of Consumer Goods in Small- and Medium-sized Enterprises in the Republic of Azerbaijan
- A Strategic Roadmap for the Development of Heavy Industry and Machine-building in the Republic of Azerbaijan
- A Strategic Road Map for the Development of a Specialised Tourist Industry in the Republic of Azerbaijan
- A Strategic Road Map for the Development of Logistics and Trade in the Republic of Azerbaijan
- A Strategic Road Map to Provide Affordable Housing in the Republic of Azerbaijan
- A Strategic Road Map on Vocational Education and Training in the Republic of Azerbaijan
- A Strategic Road Map for the Development of Financial Services in the Republic of Azerbaijan
- A Strategic Road Map for the Development of Telecommunication and Information Technology in the Republic of Azerbaijan
- A Strategic Road Map for the Development of Communal Services (electricity, heat, water, gas) in the Republic of Azerbaijan

Strategic road maps are made up of an economic development strategy and action plan for 2016-2020, a long-term concept for the period up to 2025, and a view of the post-2025 period. Projects were openly debated and numerous comments and suggestions from stakeholders, including civil society organisations and citizens, were taken into consideration when drafting the final document.

⁷ Land Code of the Republic of Azerbaijan, approved on 25 June 1999

⁸ The Decree of the President of the Republic of Azerbaijan #736 on establishment of High-Technology Park, dated 05 November 2012

⁹ The Decree of the President of the Republic of Azerbaijan #168 on the approval of "Exemplary Regulations on Technology parks"

¹⁰ The Order of the President of the Republic of Azerbaijan #1255 on "Additional measures on strengthening of Azerbaijan's position such as Digital Trade Hub and broadening foreign trade operations", effective as of 24 February 2017

¹¹ The Decree of the President of the Republic of Azerbaijan #1897 on "Primary Areas of Strategic Road Maps for the Domestic Economy and the Main Sectors of the Economy", effective as of 17 March 2016

Special economic zones

New special economic zones have been established in accordance with the Law “On Special Economic Zones”¹², with a view to strengthening Azerbaijan’s position as a logistics and transport hub and to create a multifunctional transport infrastructure. In these zones entrepreneurial activities benefit from a special, favourable legal regime. 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
- 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 certificate.

Residents benefit from a favourable customs regime; 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 that were 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 regime 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 regime will be in effect throughout the entire period of activity of the zone.

The first special economic zone of a free trade zone type will be opened in the Alat settlement of Azerbaijan, and will include the new Baku International Sea Trade Port.

Azerbaijani treats



¹² Law “On Special Economic Zones”, effective as of 06 June 2006



Labour law

Introduction

Labour matters in the Republic of Azerbaijan are regulated by the Labour Code of the Republic of Azerbaijan ("Labour Code") as well as other relevant legislation¹³. The Labour Code defines an employer as being an owner, or a person appointed by an owner as the head of an enterprise, who has the authority to enter into, terminate, or amend employment agreements with employees. The working conditions provided by an employer must not be less favourable than those set forth in labour legislation.

Minimum wage and the currency of salaries

An employee's salary cannot be lower than the minimum monthly wage, which in 2018 stood at AZN 130 (approximately USD 77).

The Azerbaijani manat (AZN) is the official currency in Azerbaijan, and therefore all salaries are paid in this currency.

Employment agreements and procedures

Under Azerbaijani law, in order to perform his activities within the scope of labour legislation an employee should sign an employment agreement with an employer. Employment agreements are divided into two categories in terms of duration: for a fixed term and for an unlimited period. In case if the fixed term employment agreement lasts for a period of more than five years, then it should be deemed as agreement executed for an unlimited period.

The employment agreement should contain mandatory provisions, such as: the full name and address of the employee; identification document details of the employee; the employer's name, the taxpayer identification number (TIN); the insurer registration number (IRN); the legal address of the employer; the mutual obligations of the parties to the employment agreement; the employment contract's term and other mandatory provisions stipulated by the Labour Code.

A labour book is a document that constitutes an official record of an employee's employment.

An employer must make an appropriate record in the labour book of an employee if the person's employment lasts for longer than five days. The labour book plays a key role in establishing the employee's rights to state-provided pension benefits. Employees entering into an employment contract (except in cases where a contract is concluded for the first time) must provide the employer with their labour books. However, this requirement does not apply to forced migrants, refugees, foreigners, or stateless persons. Also, the employer should create a labour book for the employee if it is the latter's first job.

Probationary periods

Probationary periods can be stated in employment contracts and cannot exceed a period of 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 independently raising a child under the age of three, recent graduates taking up their first position, persons elected to certain paid positions, and persons entering into an employment agreement for a period of up to two months.

¹³ Labour Code of the Republic of Azerbaijan, effective as of 1 July 1999

Working weeks

The regular working week in Azerbaijan is 40 hours, 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, first- and second-degree disabled employees, as well as pregnant women, women with a child aged under 18 months, and single parents raising a child under the age of three should not work for more than 36 hours a week. Employees work in accordance with the schedule indicated in their employment agreement 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 the purposes of defending the state, public safety, guaranteeing the supply of public utilities, or for a select number of other situations. 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 with 14 public holidays and one 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 is a non-working day. Work on official public holidays and other non-working days qualifies for higher pay. It is prohibited for an employee to work during public holidays that are not a working day or during a National Day of Mourning. Exceptions are employees performing work that is necessary for national defence purposes or to prevent or immediately respond to a social or natural disaster or an industrial accident, and restoring order after there has been an accident; during the performance of work that is vital for the public, such as the supply of water, gas, heat, lighting, sewage facilities; at production facilities where work cannot be interrupted; transportation; public catering; communications and at other entities providing services.

The following days are holidays in the Republic of Azerbaijan:

- New Year (1 and 2 January)
- Women's Day (8 March)
- Victory Day (9 May)
- Republic 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)
- 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 Bayram (five days)
- Gurban Bayram (two days)
- Ramadan Bayram (two days)

Annual paid leave

In accordance with the Labour Code, annual paid leave is provided for each working year of the employee, and starts from the first working day, while the right to annual paid leave starts six months after a person has begun employment.

The minimum amount of annual paid leave is 21 calendar days, although some special categories of employees are entitled to a minimum of 30 calendar days per year.

Additional annual paid leave is provided in a number of cases:

- due to working conditions and the type of specified in legislation jobs: a minimum of six calendar days of additional paid leave
- for reasons of seniority:
 - seniority of five 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
 - with two children aged under 14: two additional calendar days
 - with two or more children aged under 14 and women with a disabled child: five additional calendar days

Employees aged under 16 are eligible for 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 who have shown exceptional courage in defence of Azerbaijan, employees with physiological ailments, 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, vacation time may be divided and granted in segments, provided that at least 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, and can be extended for up to three (but no more than six) days (extensions 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 the agricultural field 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

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 their employees an employer is obliged to withhold income taxes, as well as certain social contributions, at a rate of 3% of the employee's salary. Additionally, based on the newly presented Law "On the unemployment insurance", 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 (through withholding by the employer) respectively.

Also, if an employer signs a life insurance agreement with an insurer, the employer is exempt from the 22% social contribution from the employee's salary.

Expatriate workers

Expatriates wanting to work in Azerbaijan are required to register at their residence address (within 10 days after arrival in the country) and to obtain a work permit. 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 everyone wishing to live and work in Azerbaijan.

Following amendments to the Migration Code in May 2016, the founders and deputy founders of local legal entities are also exempt from obtaining a work permit.



Panorama of Baku city

General Tax Information – Azerbaijan

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

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

List of main taxes under statutory regime:

- 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 Azeri 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, in spite of 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

Foreign companies not creating a PE are subject to withholding tax at the source of payment on any taxable income from Azeri sources.

Tax base: The taxable base is net profit that is 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, with the exception of 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 expenses.

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 design, depreciation of fixed and intangible assets subject to limitations, repairs subject to limitations, insurance payments, geological explorations, and the extraction of natural resources.

*Tax Ministry of
Azerbaijan Republic*

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 Azeri 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 federal 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.

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

- at 25% of the previous year's tax liability, or
- 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 by 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 average prices, defined by dividing the sum of the prices created in comparable transactions conducted under similar conditions between the parties (other than controlled persons) by the number of the transactions.

Transfer prices can apply to transactions between the following persons:

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

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

Transfer prices only apply to operations with a value exceeding AZN 500,000. Individuals conducting such operations must submit to the tax authorities a relevant certificate no later than by 31 March of the following year.



Personal income tax

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

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

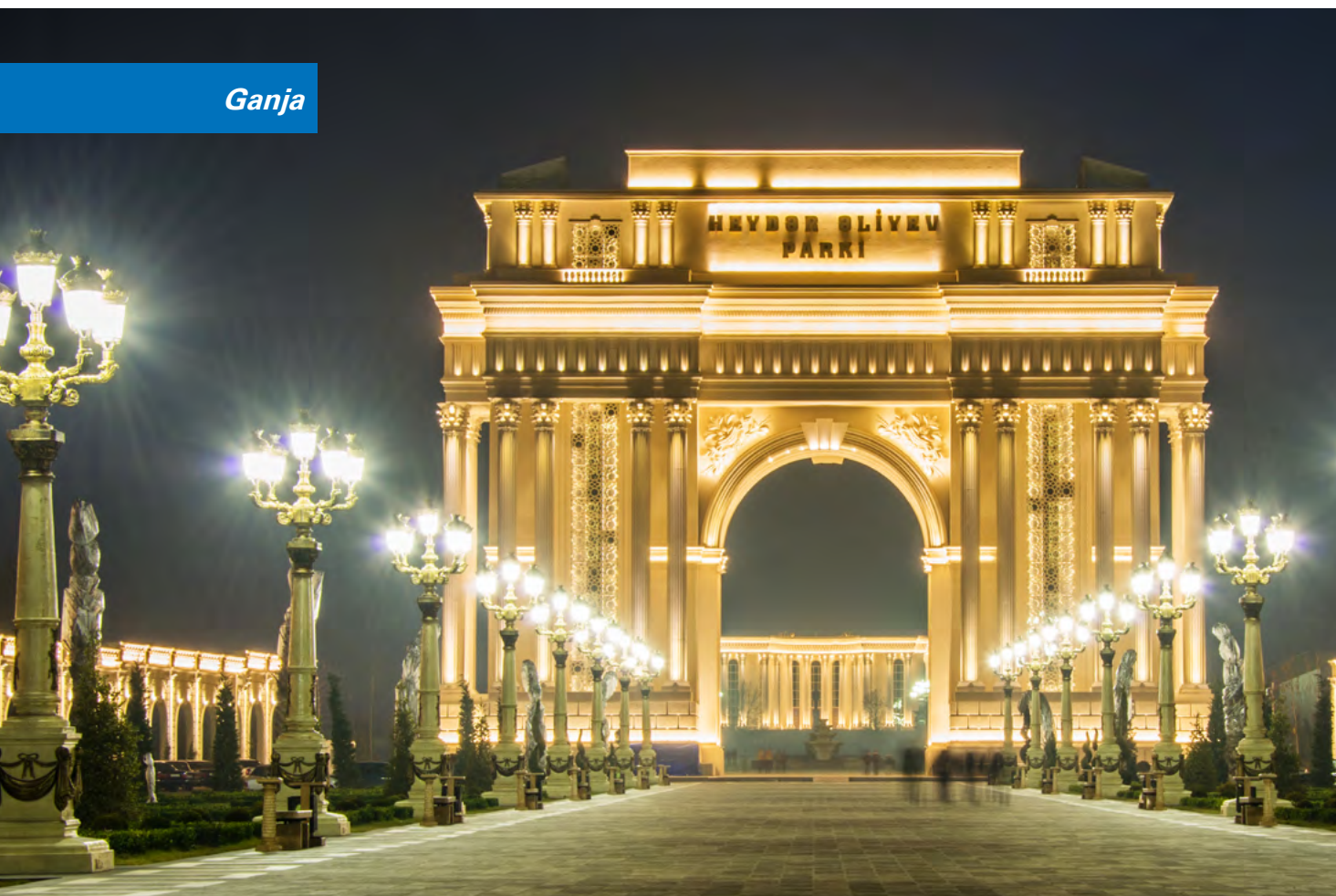
Non-residents:

- 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:

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

Ganja



The portion of employment income equivalent to the minimum living wage 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 minimum legal living wage in Azerbaijan in 2017 was AZN 155.

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

Declaration and payments: If a taxpayer's only income is from Azeri sources, and if these 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 by 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 and the import of goods and certain services provided by non-residents to Azeri 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 commencing 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 federal 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.

Electronic VAT invoices: All payers of VAT are required to issue electronic VAT invoices. The general format, details, and requisites of these, as well as the issue procedures, amendments, and invoice cancellations, are specifically set forth in the Rules on Electronic VAT invoices.

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 allowed by the tax authorities.

Baku: Flame tower



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, and equipment (excluding vehicles). 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 under 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
- 6%: telecommunications and international transport services; freight income
- 10%: dividends
- 10%: interest
- 14%: lease payments
- 14%: royalties
- 10%: other income from Azeri sources
- 10%: payments to entities established in countries or territories with a beneficial taxation regime

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 Azeri federal 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 that non-resident is taxed at a rate of 10%.

Income received in countries with a beneficial taxation regime:

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 regime, such income of the resident is included in its taxable income in Azerbaijan.

Countries or territories that have a beneficial taxation regime are listed below:

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

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, with the employee paying 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 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 are subject to excise tax:

- spirits, beer, and all other types of alcoholic beverages
- tobacco products
- petroleum products
- passenger vehicles (with the exception of special-purpose motor transport with special markings and equipment)
- leisure and sports yachts, as well as other vessels designated for the above purposes
- all imported jewellery, together with products made from precious metals and processed, sorted, framed and fixed diamonds
- fur/leather products

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

Resident and non-resident physical persons, as well as Azeri 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 road tax rate varies, depending on the vehicle engine volume, weight carried, and 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 the following rates on the gross revenue of small enterprises:

- 4% on operations in Baku
 - 2% on operations in other regions
- Also, a different rate of tax is applied for the following activities:
- 6% for trade activities
 - 8% for public catering services
 - 1% for cash withdrawals from bank accounts by legal entities and individual entrepreneurs

For persons engaged in the construction of buildings, residential and non-residential areas of building under construction (except for those owned by the state), including areas of detached private, individual residential and holiday home premises, intended for sale, are subject to simplified tax. Under the Tax Code, the total area of each floor of a constructed building is subject to taxation.

Persons engaged in constructing buildings and persons selling residential and non-residential areas under their ownership should pay simplified tax at the rate of AZN 45 and 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 simplified tax 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 tax payments to the federal 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: Exports of most goods are exempt from custom duties; however, a list of goods exists to which export tax applies.

Currently, there are various amendments to customs legislation to ease the customs clearance process, automate customs procedures, etc.



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 treaties with the following countries have been signed, but are not as yet effective:

- Spain, signed on 23 April 2014
- Jordan, signed on 5 May 2008
- Israel, signed on 13 December 2016

Double Tax Treaties	Tax rate for Dividends (%)	Tax rate for Interest (%)	Tax Rate for Royalties (%)
Austria	5/10/15	0/10	5/10
Belgium	5/10/15	0/10	5/10
Belarus	15	0/10	10
Bosnia and Herzegovina	10	0/10	10
Bulgaria	8	0/7	5/10
Canada	10/15	0/10	5/10
China	10	0/10	10
Croatia	5/10	10	10
Czech Republic	8	0/5/10	10
Estonia	5/10	0/10	10
Finland	5/10	0/10	5/10
France	10	0/10	5/10
Georgia	10	0/10	10
Germany	5/15	0/10	5/10
Greece	8	8	8
Hungary	8	8	8
Iran	10	10	10
Italy	10	10	5/10
Japan	15	10	10
Kazakhstan	10	0/10	10
Korea	7	0/10	5/10
Kuwait	0/5/10	0/7	0/10
Latvia	5/10	0/10	5/10
Lithuania	5/10	0/10	10
Luxembourg	5/10	10	5/10
Macedonia	8	0/8	8
Moldova	8/15	10	10
Montenegro	10	0/10	10
Netherlands	5/10	10	5/10
Norway	10/15	10	10
Pakistan	10	10	10
Poland	10	10	10
Qatar	7	0/7	5
Romania	5/10	0/8	10
Russia	10	0/10	10
Saudi Arabia	5/7	7	10
Serbia	10	0/10	10
Slovenia	8	0/8	5/10
Switzerland	5/15	0/5/10	5/10
Tajikistan	10	0/10	10
Turkey	12	0/10	10
UK	10/15	10	5/10
Ukraine	10	10	10
United Arab Emirates	5/10	0/7	5/10
Uzbekistan	10	0/10	10
Vietnam	10	0/10	10

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

PSAs were ratified by the Parliament of Azerbaijan as law, with their provisions overriding the provisions 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 Azeri, Chirag, and Gunashli PSA.

Currently, 22 ratified PSAs and two ratified HGAs exist, with each having an exclusive tax regime. PSA tax regimes can be applied to every contractor party (signatory to the PSA), operating companies, and subcontractors (especially foreign subcontractors). Furthermore, tax protocols providing guidance on paying taxes or filing reports are negotiated with the Azeri Government. PSAs have their own separate tax regime 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, and 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 assets described below - 25% per calendar year on 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 a respective 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 Azeri Republic at rates of from 5 to 10 percent.



Baku: Heydar Aliyev Centre

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 (asset), 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 Azeri 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 Azeri 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:

- "Ordinary Business Purpose" Expatriate Employees. The above protocol does not define the term "ordinary business purpose", but 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 Azeri Republic for a period exceeding 30 consecutive or 90 cumulative days in a calendar year. They are liable to pay Azeri 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).
- "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 Azeri 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 Azeri personal income tax liability is calculated at the tax rate set forth in the Azeri Republic's Tax Code, as outlined below:

PIT rates:

The same PIT rates as under the statutory regime 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 Azeri 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 Azeri State social insurance fund, together with similar payments (including contributions to pension, recruitment, social insurance, employment, and medical funds), only for employees that are Azeri citizens. Thus operative companies, contractor parties, and FSC are liable for payments to the social insurance fund for their employees that are Azeri citizens. Operative companies, contractor parties, and FSC pay 22% of a citizen's gross salary, while the citizen pays 3% of their gross salary.

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 Value of Shipment in Dollars	Duty
USD0-USD100,000	0.15% of value
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 of the activities.

Industrial and science parks

Following the success of oil & gas projects, the government announced policies to develop the non-oil sector. In 2013 Azerbaijan recorded a more than 10-fold increase in the total value of foreign investment compared with 2001.

The Sumgait Technology Park (STP), launched by Azeri President Ilham Aliyev in December 2011, is a groundbreaking project in this area. The STP is a complex of factories and plants manufacturing 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 are currently employed in production and construction/installation activities at the STP, and once all of the planned plants have been launched over 10,000 more are expected to be employed, 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 oil-based economy into a knowledge-based one, through developing a sustainable and competitive environment for information and computer technology firms. The HTP is wholly owned by the Azeri Government, and reports to the Ministry of Communications and Information Technology.

The Sumgait Chemical Industrial Park (SCIP), overseen by the Ministry of the Economy, includes 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 in accordance with decrees from respective executive bodies are exempt from the following taxes for periods

Baku: City Hall



of seven years from the date on which they are registered in the 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 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 who 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 which have been 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.

Baku: Maiden tower



Miscellaneous

Non-cash settlements

The Azeri Law “On Non-Cash Settlements” was introduced in early 2017.

Non-cash settlements

- Settlements made via a transfer from one person’s bank account to another person’s bank account 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 a non-cash settlement, the transfers must be made using this method only.
- Settlements carried out via payment terminals.
- Settlements made by a direct cash transfer to the vendor’s bank account.

Limits on cash settlements

- Taxpayers registered for VAT purposes and taxpayers 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 is effective from 1 January 2017.
- Other taxpayers are eligible to make cash settlements of up to AZN 15,000 during a calendar month. The limit is effective from 1 April 2017.

Financial sanctions for violation of cash settlement limits

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

- 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 and 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 (with the exception of 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 (with the exception of cases where the funds are provided by the individuals 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.

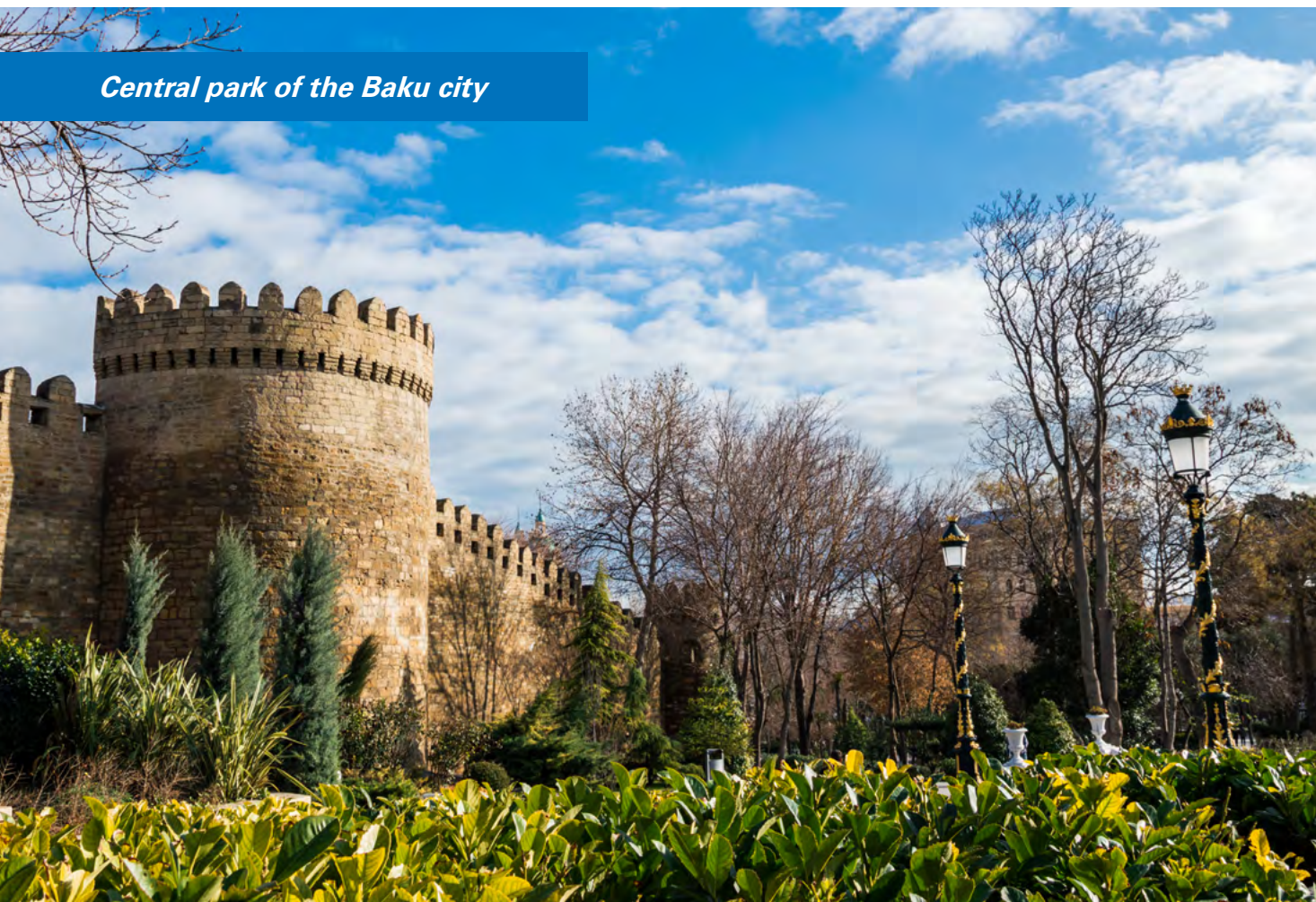
In order to benefit from an advanced tax ruling, an application form along with all applicable documents should be submitted to the tax authorities. The official duty to be paid is AZN 500 and the decision is valid for three years.

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 this 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.

Central park of the Baku city



Accounting

Accounting regulations are set forth in the March 1995 law "On Accounting". In 2004 the Azeri 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, envisaging state's control and regulation in it. This law defines the types of organisations that are required to adopt various accounting standards, dividing the subjects of this law on micro, small, medium and large group of subjects in accordance with the recent amendments.

Public interest entities are defined as credit organisations, insurance companies, investment funds and their management of these funds, non-state (private) social funds, licensed entities of the securities market, private pension funds, and legal entities with stock market share listings. Entities that meet at least two of the following criteria are also considered to be public interest entities:

- they have revenue of or exceeding AZN 120 million (approximately USD 71 million)
- they have an average headcount of at least 1,500 persons
- they have a total balance sheet of or exceeding AZN 300 million (around USD 176 million)

The Cabinet of Ministers of the Republic of Azerbaijan has not yet set criterias determining entities' classification such as micro, small, medium and large. Nevertheless, micro and small businesses are allowed to follow accounting rules, as approved by the Ministry of Finance.

Alternatively, they may choose to follow IFRS for SMEs (Small and Medium-Sized Enterprises). Middle and large businesses should follow IFRS for SMEs, whereas, upon their discretion, large businesses may choose to follow IFRS, meanwhile middle businesses may choose to follow either IFRS or IFRS for SMEs.

According to the law, lead accountant is a person responsible for providing accounting of the entity, as well as preparation of financial, tax and other statements. The lead accountant of entities, such as the ones with controlling stake belonging to the state, public interest entities except the ones listed in securities market, large entrepreneurial subjects, budget organisations and public legal entities publishing annual financial and combined (consolidated) statements, should be professional accountants - the professionals who have successfully passed the exams and received the certificate proving their status, acting as a member of professional accountants' organization.

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).

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