

DOING BUSINESS IN AZERBAIJAN A BDO ROADMAP 2023

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CORPORATE INCOME TAX

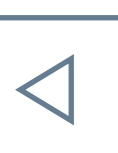
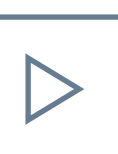
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What is new in this edition?

This edition has been updated to cover the following changes to the national legislation:

- ▶ *Incentives for businesses operating in the territories of Azerbaijan liberated from the occupation;*
- ▶ *Amendments to the rules on obtaining residence and work permits.*
- ▶ *Text of updates is in [blue] colour to assist readers in understanding what has changed.”*





BDO IN AZERBAIJAN



BDO AZERBAIJAN

BDO Azerbaijan LLC is a Member Firm of the BDO network, the world's fifth largest network of professional services firms. The fee income of the member firms in the BDO network, including the members of their exclusive alliances, was

USD 12.8 BILLION
AS OF 30 SEPTEMBER 2022

THESE FIRMS HAVE REPRESENTATION IN

164 TERRITORIES

111,307 PEOPLE

WORKING OUT OF OVER

1,803 OFFICES
WORLDWIDE



- ▶ AUDIT AND ASSURANCE
- ▶ TAX
- ▶ LEGAL
- ▶ FORENSIC
- ▶ ACCOUNTING AND BUSINESS ADVISORY
- ▶ SYSTEM INTEGRATION
- ▶ BUSINESS SERVICES OUTSOURCING (ACCOUNTING, TAX, PAYROLL, HR COMPLIANCE)

We in BDO provide our services to a diverse range of clients, from large corporate organisations to private businesses, entrepreneurs and individuals across a broad array of industry sectors. Our services include:

We enjoy outstanding relationships with our clients by focusing on what is important to them, adopting a partnership-style approach, being responsible and reliable, keeping our promises and maintaining open and frank communication.

Our approach to relationships allows us to partner with our clients and really get to know them and their organisation. Using this insight, we look for innovative ways to help our clients maximise growth opportunities, improve processes and avoid pitfalls. The end result is that we meet - or exceed - our clients' expectations.



A dark blue rectangular box is centered on the page, containing the text 'BUSINESS ENVIRONMENT' in white, bold, uppercase letters. The background of the entire page is a photograph of a city skyline with a large Ferris wheel in the foreground and modern buildings in the background.

GEOGRAPHY

The Republic of Azerbaijan (“Azerbaijan”, “AR”) is located in the east part of South Caucasus and on the coast of the Caspian Sea and has land border with the Russian Federation, Georgia, the Republic of Armenia and the Islamic Republic of Iran. With area of 86,600 square kilometres and population more than 10 million, the Republic of Azerbaijan is the largest country in the region. The country is subdivided into 66 districts, 11 cities under the direct jurisdiction and one autonomous republic - the Nakhichevan Autonomous Republic. Situated on the Absheron peninsula, with a population of over 2.3 million (as of the beginning of 2022), Baku is the capital and the largest city of Azerbaijan.

The availability of rich and rare flora and fauna, existence of 9 out of 11 types of climate in the territory of Azerbaijan contributes to development of different areas of economy.

HISTORY

Favourable natural and geographical circumstances allowed settling in the territory of Azerbaijan since ancient times. The remains of a primitive man are attributed to the huge period of stone age, more than 1.5 million years.

The statehood of Azerbaijan originates in IV century BC - the date of Caucasian Albania establishment, which was subsequently conquered by the Sasanian Empire and the Arabic Muslim Caliphate. With the weakening of Arab Caliphate, numerous states were established and ceased to exist in the lands of Azerbaijan, and until 1510 all territory of Azerbaijan was united under Safavid state, which became one of the most significant states of its time. Azerbaijani language and ethnos were prevailing in the public system of Safavids, however, from the beginning of XVII century the state took the features of a Persian look and ceased its existence in 1736.

From the XVIII century the territory of Azerbaijan was captured by Russian Empire, the end of reign of which came on 28 May 1918, when Azerbaijan Democratic Republic was established. Azerbaijan Democratic Republic was the first secular democratic republic in the east and one of the first countries in the world that granted women with suffrage. Despite the fact that Azerbaijan Democratic Republic existed only until 28 April 1920, the Republic formed several governments, enacted legislation in various spheres of state power and started to form main government administrative structures. Azerbaijan, occupied by the Soviet Union

for nearly 70 years, restored its sovereignty in 1991. The military conflict between Armenia and Azerbaijan which started in 1988 and resulted in the armed incursion of Armenia on Nagorno-Karabakh (historically and geographically Azerbaijani territory) was suspended in 1994 by signing cease-fire agreement. Despite of four resolutions adopted by the United Nations Security Council Nagorno-Karabakh and seven surrounding areas were occupied by Armenian forces and the attempts to resolve the conflict have not yielded results because of reluctance to withdraw its troops from the occupied Azerbaijani territory by the Armenian government.

2020 is marked by a historical event for Azerbaijan: as a result of the 44-day Patriotic war, the country has been successful at releasing its lands from occupation. With this victory Azerbaijan is experiencing the time of the most significant redevelopment now. After regaining the territorial integrity, one of the primary directions of the government policy is aimed at restoration of the liberated territories and encouragement of investments especially in Karabakh region which is famous for its rich natural resources and cultural heritage, partially destroyed during the occupation.

GOVERNMENT AND POLITICAL POWERS

According to its Constitution, Azerbaijan is a democratic, legal, secular, unitary republic. The head of the Azerbaijani state is the President, who holds executive power, and who is elected for seven years by way of general, direct and equal elections and appoints vice-presidents and the Cabinet of Ministries. The current president, Mr. Ilham Aliyev, the fourth president in the history of country, was re-elected in 2017. The first vice-president Mrs. Mehriban Aliyeva was appointed in 2017.

Legislative power is vested in unicameral parliament (National Assembly - Milli Majlis), composed of one hundred and twenty-five members elected for a term of five years.



DID YOU KNOW THAT...

1
BAKU'S OILFIELDS ACCOUNTED FOR OVER HALF OF THE WORLD'S OIL PRODUCTION IN 19TH CENTURY?

2
AZERBAIJAN WAS ONE OF THE VERY FIRST NATIONS IN THE WORLD TO GRANT WOMEN THE RIGHT TO VOTE?

3
THE NOBEL FAMILY WHO FUNDED THE NOBEL PRIZE MADE THEIR FORTUNE THROUGH TRADING OIL PRODUCED IN AZERBAIJAN?

4
HAS THE GREATEST CONCENTRATION OF MUD VOLCANOES IN THE WORLD (NEARLY 400 IN TOTAL)?



GENERAL INFORMATION

DID YOU KNOW THAT...

5 BAKU HAS THE MUSEUM OF MINIATURE BOOKS WHICH IS THE FIRST MUSEUM OF THE KIND AND IS HOME TO THE WORLD'S LARGEST COLLECTION OF MINIATURE BOOKS ACCORDING TO THE GUINNESS BOOK OF RECORDS?

6 HUMAN HISTORY IN AZERBAIJAN DATES BACK 2 MILLION YEARS? IN THE AZIKH CAVE IN WESTERN AZERBAIJAN, ARCHAEOLOGISTS FOUND TOOLS AND HUMAN REMAINS DATING BACK TO PREHISTORIC TIMES.

7 AZERBAIJAN HAS ONE OF THE HIGHEST FLAGPOLES IN THE WORLD?

8 BAKU'S OLD TOWN IS A UNESCO WORLD HERITAGE SITE?

POPULATION AND LANGUAGE

Azerbaijan has been long well known for its tolerance and multiculturalism and the best proof of this is peaceful residence in the territory of Azerbaijan of different nationalities, ethnoses, who have own cultures and religions. Azerbaijanis constitute the majority of population while there are several different nationalities such as Russians, Lezgis, Talysh, Jews, Kurds, Georgians, Armenians and others.

Azerbaijan is a secular and multi-confessional state. Although the majority of the population are Muslims, there are representatives of both orthodox and catholic Christianity, several large Jewish communities, as well as other religious minorities in the country.

The state language is Azerbaijani, a Turkic language, which is the official language of legislation, court proceedings, administration and recordkeeping in all government and non-government organisations.

REGIONAL CONCENTRATION OF BUSINESS

The economic sectors of country, particularly industrial enterprises are located in different industrial regions. The territory of the Republic of Azerbaijan has been divided into the following economic districts:

1. BAKU

(international trade, oil refining, chemistry, machine building, food, weaving industry);

2. ABSHERON-KHYZY

(oil-chemistry, chemistry, heavy industry, ferrous and non-ferrous metallurgy, energy, machine building, electrical engineering, light and food industry, construction industry);

3. GUBA-KHACHMAZ

(agriculture, oil and gas production, processing of scrap metal, light and food industry including fruit and vegetables production, carpet weaving);

4. MOUNTAINOUS SHIRVAN

(agriculture, oil and gas production, processing of scrap metal, light and food industry including fruit and vegetables production, carpet weaving);

5. SHIRVAN-SALYAN

(agriculture and food industry including cotton, grain farming, fishery, oil-gas);

6. LANKARAN-ASTARA

(agriculture and food industry including vegetables, tea, vine-growing, grain farming);

7. MIL-MUGHAN

(agriculture including grain and cotton farming);

8. CENTRAL ARAN

(brick manufacturing, agriculture, farming including grain farming, vine-growing, cotton farming);

9. SHAKI-ZAGATALA

(light and food industry including tobacco, rice, grain farming, sericulture);

10. KARABAKH

(processing of raw materials, polymetallic ores, oil, natural gas, construction materials);

11. GANJA-DASHKASAN

(machine building, communication equipment, repairment of automobile and agricultural machines, processing of local raw and agricultural products, construction including processing of ferrous and non-ferrous raw materials);

12. GAZAKH-TOVUZ

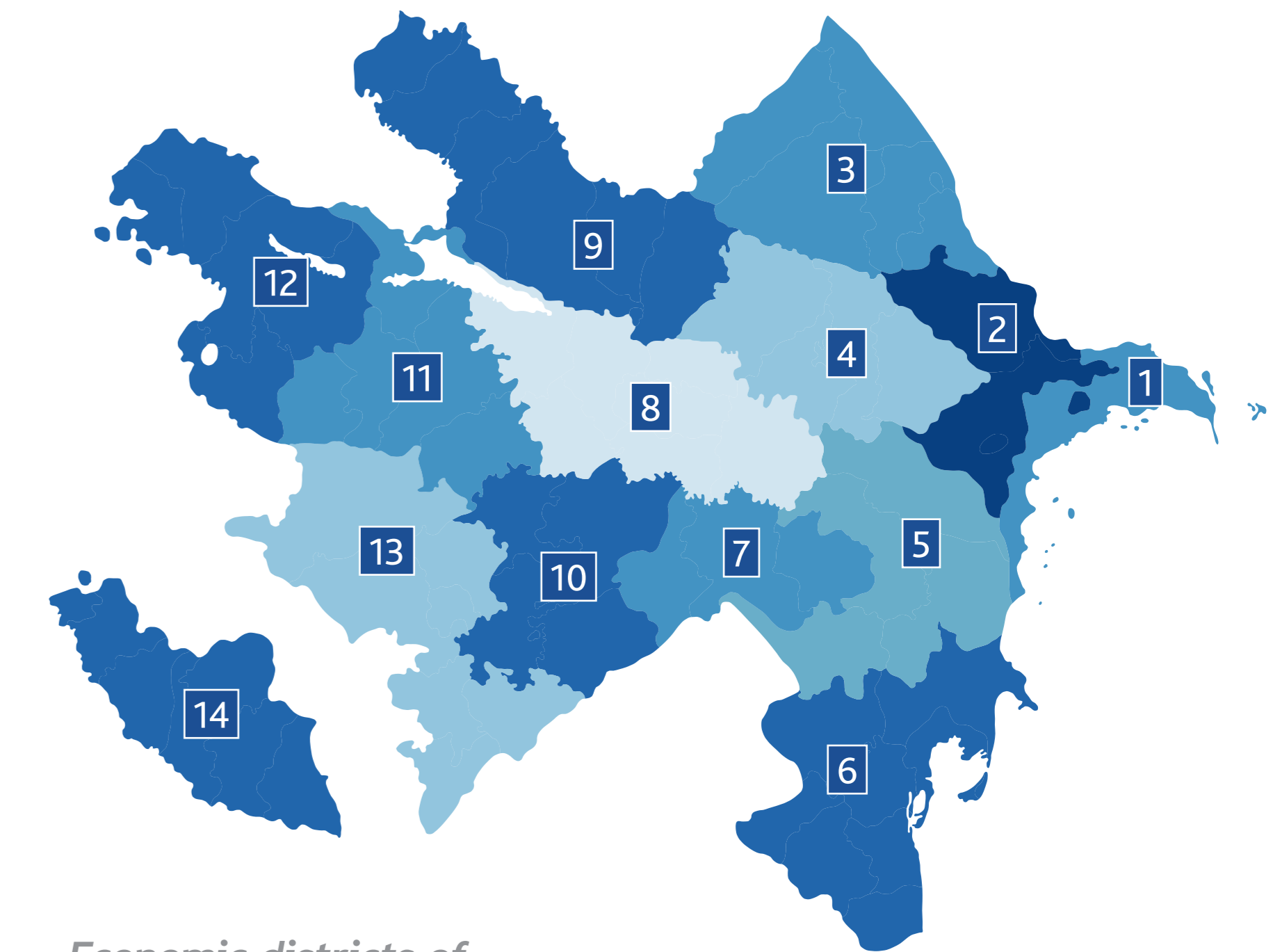
(copper melting, mining, agriculture including vine-growing, vegetables, grain farming);

13. EAST ZANGAZUR

(non-ferrous metallurgy including gold, marble, perlite);

14. NAKHCHIVAN

(light and food industry including vine-growing, farming, beekeeping, grain farming, tobacco farming).



Economic districts of Azerbaijan on map

GENERAL INFORMATION

CURRENCY

The national currency of Azerbaijan is manat (“AZN”), which is regulated by the Central Bank. The country faced a sharp decline of oil prices and devaluation of manat in 2015. Currently, average AZN to USD rate is AZN 1.70 for USD 1 and AZN to EUR rate is AZN 1.88 for EUR 1.

TIME, WEIGHTS AND MEASURES

Azerbaijan uses Azerbaijani Time, which is four hours ahead of Greenwich Mean Time (GMT +4 hours). Daylight Saving Time has been cancelled in Azerbaijan since 2016.

Azerbaijan uses the metric system for weights and measures and the Celsius temperature scale.





BUSINESS ETIQUETTE, LANGUAGE & CULTURE, HOURS OF BUSINESS

BUSINESS ETIQUETTE, LANGUAGE & CULTURE, HOURS OF BUSINESS

MEETING AND GREETING

When meeting and greeting in Azerbaijan it is normal to shake hands. In business environment firm handshake is the norm for men but not widespread for women, although this is becoming more common.

The handshake is not necessarily used when departing.

Those who arrived earlier each time get up to greet those who came later.

Once the relationship warms up men usually kiss each other on the cheek when greeting. Azerbaijanis often use emotional gestures in their communication.

The traditional hospitality of the nation determines business etiquette. Although appointments should be made wherever possible, most businessmen will receive visitors without an appointment if they are able to do so. Establishing personal relationships is also an important factor in conducting business in Azerbaijan.

As a rule, Azerbaijanis address each other by first name followed by “muallim” [mju:ælim]/“bey” [bæj] for men or “khanim” [hAnym] for women which are equivalents for Mr. and Ms./Mrs., but it is usually acceptable for foreigners to use first names.

LANGUAGE & CULTURE

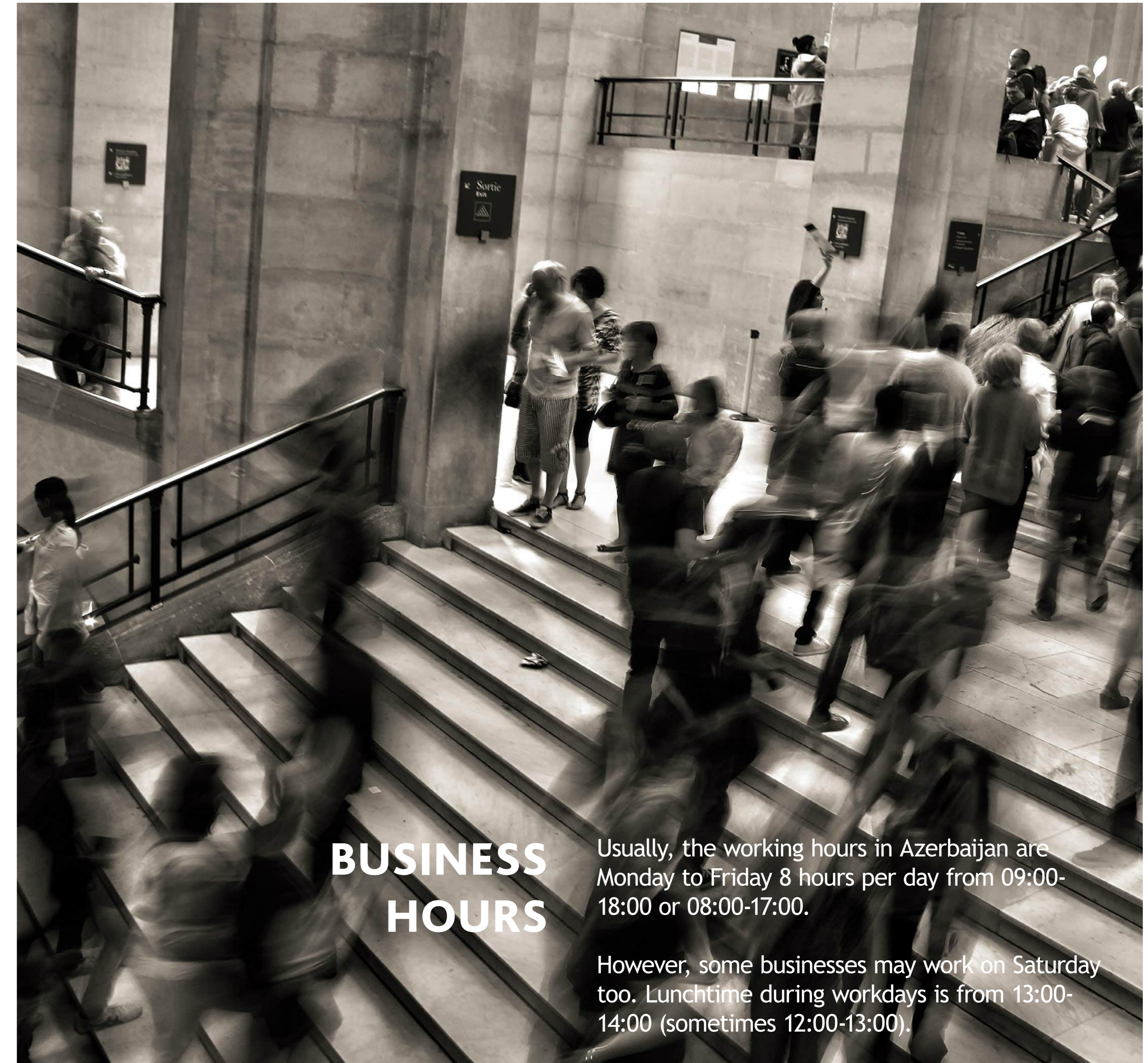
The official language in Azerbaijan is Azerbaijani. A big part of population speaks Russian and/or Turkish as a second native language.

The use of English, treated as a foreign language in Azerbaijan, is steadily increasing. Most of Azerbaijani companies, particularly those with an international outlook, have English speakers in their staff. However, when setting up an appointment, it is recommended to ask if your contact speaks English or if they would feel more comfortable with an interpreter.

The culture is nominally Muslim and, therefore, there is an instilled traditional respect for the elderly or in general older people. Nowadays, women are active participants of business relations. According to the statistics of employed population for 2021, women and men are almost equally employed. Among entrepreneurs, the number of men is several times higher than the number of women.

According to the general culture, men should demonstrate less assertive behaviour in business communications with women.

The majority of Azerbaijani population hold university degree.



BUSINESS HOURS

Usually, the working hours in Azerbaijan are Monday to Friday 8 hours per day from 09:00-18:00 or 08:00-17:00.

However, some businesses may work on Saturday too. Lunchtime during workdays is from 13:00-14:00 (sometimes 12:00-13:00).



BUSINESS ENTITIES

Over recent years, important steps have been taken to reorganise business legislation and considerable progress has been made in the modernisation and facilitation procedures for foreign investment policy and registration of business entities with foreign investment.

“One-stop shop” system for registration of commercial legal entities (both domestic and foreign investments) and branches and representative offices of foreign commercial legal entities is placed in Azerbaijan since 2008. The state registration period of commercial legal entities is two business days.

DID YOU KNOW THAT...

- ▶ THERE IS NO MINIMUM AMOUNT REQUIREMENT FOR CHARTER CAPITAL OF A LIMITED LIABILITY COMPANY?
- ▶ LLC MAY BE MANAGED BY AN EXTERNAL MANAGER?

FORMS OF BUSINESS ORGANISATIONS

The legislation prescribes the following forms of commercial legal entities in Azerbaijan:

- ▶ PARTNERSHIP
- ▶ LIMITED LIABILITY COMPANY
- ▶ ADDITIONAL LIMITED COMPANY
- ▶ JOINT STOCK COMPANY
- ▶ COOPERATIVES

In addition to the entity forms indicated above, a foreign investor is able to establish legal presence in Azerbaijan via a representative office or a branch.

PARTNERSHIP

Legislation recognises two forms of partnership: General Partnership (“GP”) and Limited Partnership (“LP”). A GP is constituted by at least two natural and/or legal persons and its participants are jointly liable to the extent of their property for obligations of the partnership.

An LP is a form of partnership having one or more general partners and one or more participants - limited partners, who do not take part in the business activity of the partnership and bear risk to the extent of their contributions to charter capital.

LIMITED LIABILITY COMPANY

Limited Liability Company (“LLC”) is the most common company form for doing business in Azerbaijan. An LLC is established by one or more natural and/or legal person(s) and its participants are liable to the extent of their contributions to the charter capital. An LLC cannot be established by a sole legal entity participant who in its turn is owned by a sole legal or natural person. An LLC shall not bear responsibility for liabilities of its participants before third parties, and participants of an LLC shall not be liable for obligations of the LLC. There is no

minimum charter capital requirement for an LLC, however, it cannot be zero. The charter capital of an LLC should be either paid up before the state registration of LLC or within three months from the date of the state registration of the company.

With the recent amendments made to the migration legislation, payment of charter capital has gained specific importance. Now according to the law, amounts of paid-in charter capital and cash turnover of the company will be taken into account when issuing a residence permit to directors.

The organisational structure of an LLC includes a general meeting of participants which is a supreme management body and an executive body (either a management board or a sole director). Participants may also establish a board of directors (supervisory board), audit board. A supervisory board and auditing board are optional bodies.

The state fee for registration of an ordinary commercial entity it is AZN 15 (~ USD 8.82), state fee for such commercial entities as banks, insurance companies and other types is AZN 300 (~ USD 176.47).

ADDITIONAL LIABILITY COMPANY

An Additional Liability Company (“ALC”) is established by one or more natural and/or legal person(s) and its legal structure is similar to LLC’s structure with only difference that participants of ALC may assume liability in excess of their contributions

JOINT STOCK COMPANY

Joint Stock Company (“JSC”) is established by at least one natural and/or legal person except for certain regulated entities (such as banks where the law requires at least nine founders). The charter capital of a JSC is divided into a certain number of shares and its shareholders are liable for the JSC’s activity to the extent of their shares’ value. Law recognises two types of JSC: Open Joint Stock Company (“OJSC”) and Closed Joint Stock Company (“CJSC”). Shares of an OJSC can be openly sold and disposed by shareholders to third parties without authorisation of other shareholders. Shareholders of a CJSC have pre-emptive right to purchase shares. If they do not use this entitlement and CJSC itself refuses to purchase such shares, then shares can be sold to third parties. A CJSC having more than 50 shareholders shall be reorganised into an OJSC

within a year.

Shares of JSCs are considered investment securities and can be denominated only in AZN. Issuance of a JSC’s shares shall be registered with the Central Bank of Azerbaijan.

The legislation sets up minimum charter capital amount, which shall be paid up before the date of state registration of JSC:

▶ CJSC
AZN
2000
~ USD 1 176

▶ CJSC
AZN
4000
~ USD 2 353

The organisational structure of a JSC does not differ from that of an LLC, except for board of directors (or supervisory board) which is mandatory body for a JSC with more than 50 shareholders. Regulated entities also have compulsory minimum requirements to the corporate structures.

COOPERATIVE

A cooperative is a voluntary union of natural persons and/or legal persons formed on the basis of membership with the purpose of satisfying the material and other needs of participants through consolidation of the participants’ material contribution. The cooperatives’ members have to make contributions to the share fund in full before the state registration of the cooperative. The general meeting of members is the supreme management body of a cooperative.



BRANCH OR REPRESENTATIVE OFFICE

Branch or representative office (“BO” and “RO”) of a foreign legal entity are forms of limited legal presence in Azerbaijan. Both BO and RO do not have separate legal personality and are a subdivision of the legal entity that represent and protect its interests. Unlike a RO, BO carries out all or some functions of a legal entity, including running business and commercial activity. A RO is not entitled to conduct commercial operations. The head office is liable for all obligations of BO or RO. Both BO and RO are liable for payment of all applicable taxes, including personal income tax and social security payments for employees.

POST-REGISTRATION ACTIONS

Following state registration, all organisations indicated above need to obtain a corporate seal and to open bank accounts.

As the result of recent changes, obtaining ASAN Imza is also an important post-incorporation step. ASAN Imza is an electronic signature used for accessing e-services and putting digital signature to documents. Currently more than 650 e-services provided by state agencies and private companies use ASAN Imza as authorisation mechanism, allowing to submit tax declarations, customs declaration of goods and transport means, register labour contract notifications, use banking services, etc.

BUSINESS LIQUIDATION

A company may be liquidated voluntarily by a decision of its shareholders or through a court order. In order to commence voluntary liquidation, shareholders adopt a decision on liquidation, appoint a sole liquidator or a liquidation commission and approve liquidation procedures and terms. The sole liquidator or a liquidation commission implements subsequent liquidation procedures prescribed by law. The length of liquidation process should not exceed one year from the date of submission of the information on liquidation of a company to the state register of legal entities. If this term is exceeded the procedure shall be commenced anew. The duration of liquidation tax audit conducted by the State Tax Service under the Ministry of Economy is one of the most important factors impacting duration of the liquidation proceedings.

Amendment to the legislation made in 2022 requires companies going through the liquidation process to hand over company documents to the National Archive Fund.

The procedures for liquidation of legal entities also apply to the liquidation of BO and RO of foreign legal entities in Azerbaijan.



LLC v. BO

Below is the table which reflects the main differences between LLC and BO:

	Primary factors	Branch Office (Permanent establishment)	LLC
1	Legal status	Not a separate legal entity, but a subdivision of a foreign legal entity.	A separate legal entity which is accountable for its business rights and responsibilities.
2	Liability	Full liability of a head office for obligations incurred by its Branch in Azerbaijan.	Liability of participants is limited to the extent of their contributions.
3	Formation/Registration	Does not have a charter capital.	Shall have a charter (share) capital.
4	State fees for registration	AZN 300 (~USD 177).	AZN 15 (~USD 9).
5	Management	By a Branch Manager.	By a General meeting of shareholders and executive body.
6	Taxation ¹	Corporate income tax - 20% of taxable profit, value added tax - 18% of gross value of goods and services. Personal income tax: <ul style="list-style-type: none"> • in oil-gas and government spheres - 14% of monthly salary up to AZN 2,500 (~USD 1,340) and 25% of the amount exceeding AZN 2,500; • in other fields - 0% of monthly salary up to AZN 8,000 (~USD 4,290) and 14% of the amount exceeding AZN 8,000. 	
		10% branch profit withholding tax	10% dividend withholding tax
		Special taxation regime applies under Production Sharing Agreements.	General taxation regime only.
7	Financing by the parent	Possibility to freely transfer funds from the head office to support its Branch Office.	Limited ability of a parent company to transfer funds for financing its subsidiary (either in the form of a loan or an increase of the charter (share) capital of the LLC).
8	Local labour regulations	Do not apply in case expatriate employees entered into an agreement with the head office.	Apply to all employees of an LLC, including expatriate employees.
9	Invoicing	Can be made from the head office.	Is made from the LLC.
10	Bookkeeping	Approach to Production Sharing Agreements and not Production Sharing Agreements business will be different.	Approach to Production Sharing Agreements and not Production Sharing Agreements business will be the same.

¹ Where available, provisions of respective double tax treaties shall be considered.



LICENSING

LICENSING

In accordance with the national law, it is required to obtain special permission (license) in order to engage in certain types of activities as defined by the legislation.

The system of licenses and permits is regulated by the respective Law of the Republic of Azerbaijan adopted on 15 March 2016. The Law regulates the rules of obtaining, renewal and termination of licenses, validity periods of licences and permits and other matters related to licenses and permits.

The Law determines necessity to obtain a license for different types of activities within the following fields:

- ▶ MEDICINE AND PHARMACY
- ▶ EDUCATION
- ▶ COMMUNICATION AND MEDIA
- ▶ TRANSPORT
- ▶ ELEVATORS AND ATTRACTIONS
- ▶ OIL, LIQUID GAS, NATURAL GAS AND ENERGY
- ▶ TOXIC INDUSTRIAL WASTE, RADIOACTIVE AND IONISING SUBSTANCES, DANGEROUS OBJECTS
- ▶ ENVIRONMENT INCLUDING ANIMALS AND PLANTS
- ▶ GEOLOGY
- ▶ BIOLOGY AND AGROCHEMICALS
- ▶ FOOD SAFETY
- ▶ FIRE PROTECTION
- ▶ ENGINEERING-CONSTRUCTION WORKS
- ▶ INDUSTRIAL PARKS
- ▶ SEALS AND STAMPS
- ▶ COMPLIANCE ASSESSMENT
- ▶ PRIVATE SECURITY
- ▶ INFORMATION SECURITY INSTRUMENTS
- ▶ BIOMETRIC TECHNOLOGY
- ▶ PERSONAL DATA STORAGE SYSTEMS
- ▶ CULTURAL AND RELIGIOUS OBJECTS
- ▶ OBJECTS LIMITED IN CIVIL CIRCULATION

For obtaining a license or permit it is required to submit an application together with other required documents to the respective state authority (which is the Ministry of Economy, a Ministry of Digital Development and Transport, the State Security Service, the Ministry of Internal Affairs or Audiovisual Council of Azerbaijan for licenses and other government bodies for permits depending on the type of activity) and pay the required state fee.

Except certain fields of activities, the licenses and permits are normally granted for an indefinite term.

Penalties for operating without a license may be severe, and an individual or entity may be held liable under the Code on Administrative Offenses or the Criminal Code.





LABOUR RELATIONS AND WORKING CONDITIONS

LABOUR RELATIONS AND WORKING CONDITIONS

With the population of more than 10 million people Azerbaijan is the biggest market in the Caucasus.

One of the main advantages of the Azerbaijani labour market is availability of competent labour force in such areas of Azerbaijani economy as oil and gas production, and refining industry.

DID YOU KNOW THAT...

AMOUNT OF UNEMPLOYMENT INSURANCE PAYMENT DEPENDS ON LENGTH OF INSURANCE RECORD AND AMOUNT OF HISTORICAL AVERAGE MONTHLY SALARY?

EMPLOYMENT REGULATIONS AND LAWS

The primary legal act regulating labour relations in the Republic of Azerbaijan is the Labour Code adopted on 1 February 1999. In accordance with the Labour Code, employment contracts shall be executed in writing only. Conclusion, amendment and termination of an employment contracts shall be registered in the electronic database of the Ministry of Labour and Social Protection of the Population.

SERVICES CONTRACT

The primary legal act regulating labour relations in the Republic of Azerbaijan is the Labour Code adopted on 1 February 1999. In accordance with the Labour Code, employment contracts shall be executed in writing only. Conclusion, amendment and termination of an employment contracts shall be registered in the electronic database of the Ministry of Labour and Social Protection of the Population.

STATE LABOUR INSPECTORATE

According to the Labour Code, the State Labour Inspectorate and representatives of trade unions are authorised to monitor workplace conditions, labour safety and relations. In case of violation of the law, an employer can be subjected to considerable penalties.

WORKING HOURS AND ANNUAL LEAVE

According to the Labour Code, the State Labour Inspectorate and representatives of trade unions are authorised to monitor workplace conditions, labour safety and relations. In case of violation of the law, an employer can be subjected to considerable penalties.

The standard annual leave term is 21 or 30 days depending on the position of an employee. Additional vacation days shall be granted based on various criteria.

HOLIDAYS

In accordance with the Labour Code, the official non-working days shall be paid by the employer. Usually, number of official non-working days is 20 calendar days (nineteen days are public holidays and one the day of national mourning) per year:

- | | |
|--|---|
| ▶ 1-2 JAN
New Year's Holidays | ▶ 20 JAN
The day of national mourning |
| ▶ 8 MAR
International Women's Day | ▶ 20-24 MAR
Novruz Holiday |
| ▶ 9 MAY
The Victory day Over Fascism | ▶ 28 MAY
The Republic Day |
| ▶ 15 JUN
The Day of National Salvation of the Azerbaijani People | ▶ 26 JUN
The Armed Forces Day |
| ▶ TWO DAYS
Eid al-Adha/Kurban Holiday (set yearly) | ▶ TWO DAYS
Eid al-Fitr/Ramadan Holiday (set yearly) |
| ▶ 8 NOV
Victory Day | ▶ 9 NOV
State Flag Day of Azerbaijan |
| ▶ 31 DEC
The World Azerbaijanis Solidarity Day | |

In case any of these non-working days coincide with weekends, the days following the weekends will be non-working days.



TERMINATION OF AN EMPLOYMENT CONTRACT

The grounds for termination of an employment contract are as follows:

- ▶ THE INITIATIVE OF ONE OF THE PARTIES
- ▶ EXPIRATION OF THE EMPLOYMENT CONTRACT
- ▶ CHANGE IN TERMS AND CONDITIONS OF EMPLOYMENT
- ▶ CASES RELATED TO A CHANGE IN THE OWNERSHIP OF AN ENTERPRISE
- ▶ CASES NOT DEPENDING ON THE WILL OF THE PARTIES
- ▶ CASES ESTABLISHED BY THE PARTIES IN THE EMPLOYMENT CONTRACT

The employee, without stating the reason of leaving, has right to terminate an employment contract any time with one-month prior notice except certain situations determined by law when the employee is entitled with a right to terminate the contract on the day of notice. The employer has to state the reason for the termination of the contract and provide an employee with prior notice (e.g. in case of redundancy the notice period is from 2 to 9 weeks depending on the employee seniority). However, the law allows a list of grounds for termination by the employer of contract without prior notice.

In accordance with the law, the probation period cannot exceed three months. Termination of the contract within the probation period can be done with a three-day prior written notice.

Staff redundancy process is specifically regulated the labour legislation. There are two options for redundancy: (i) decrease of number of employees; and (ii) termination of specific position (s). The Labour Code establishes groups of employees who must have privilege against dismissal during staff redundancy. In addition, the Code prohibits dismissal of some groups of employees unless such dismissal is due to expiration of the term of their employment contracts or liquidation of the employer.

BENEFITS

The legislation does not stipulate directly any mandatory benefits for employees. Some companies grant their employees with such benefits as medical insurance, company paid mobile telephone, the cost of public transportation and so on.



INCENTIVES FOR EMPLOYEES WORKING IN THE TERRITORIES LIBERATED FROM OCCUPATION

After the liberation of occupied territories , government has introduced incentives to promote redevelopment of Karabakh and East Zangezur regions. The definition of “specialist employed in the liberated territories of Azerbaijan” was added to the Labour Code along with other legislative changes. This category includes employees who have graduated from vocational, secondary or higher education institutions and have at least 2 years of work experience in the last 5, years and are employed on the basis of an employment contract in the liberated territories of Azerbaijan. This category of employees has a right to get a one-time allowance in the amount of AZN 600 (~ USD 353) for supporting their financial wellbeing. Additionally, they are entitled to 5 days’ additional leave each year.



AS OF TODAY, THE FOLLOWING FIELDS ARE COVERED BY THE SOCIAL SECURITY LEGISLATION OF AZERBAIJAN:

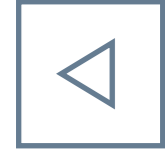
- ▶ PENSIONS
- ▶ HEALTHCARE SERVICES
- ▶ UNEMPLOYMENT BENEFITS AND ASSISTANCE
- ▶ ALLOWANCE AND SUPPORT FOR THE FAMILY (CHILD ALLOWANCE, ALLOWANCE FOR SINGLE-PARENT FAMILIES)
- ▶ SOCIAL ASSISTANCE FOR DISADVANTAGED INDIVIDUALS, INCLUDING SPECIAL PROTECTION FOR DISABLED PERSONS

The first three fields are considered as the social insurance of employees, the main purpose of which is supporting of insured persons who cannot receive permanent remuneration because of the age, temporary or permanent disability, maternity leave, retirement or unemployment. The social insurance system is supported by funds collected from compulsory fees paid by employers and insured persons. Family support and social assistance are financed by the state budget.

Both an employer and an employee, including foreign employees have to make social insurance payments to the State Social Protection Fund. The amount of social insurance payments forms 22% of an employee’s gross salary paid by the employer and 3% withheld from employee’s salary.

Starting from 1 January 2019 employers who do not operate in the oil and gas sector and belong to the private sector and their employees shall make the social insurance payments for 7 years at the following rates:

Monthly income involved in insurance payments	Social insurance payment rate		
	Total	Deducted from the income of the employee	Deducted from the income of the employer
Under AZN 200 (~USD 107)	25%	3%	22%
Over AZN 200	25%	AZN 6 (~USD 3) + 10% of income over AZN 200	AZN 6 (~USD 3) + 10% of income over AZN 200



SOCIAL SECURITY

COMPULSORY WORK INJURY COMPENSATION INSURANCE

Both local and foreign employees are covered by compulsory insurance from disability due to workplace accidents and occupational diseases, which shall be procured by the employer for all employees. The insurance fees range from 0.2 to 2% of the gross salary depending on the risk category of employees.

UNEMPLOYMENT INSURANCE

Unemployment insurance is in force from 1 January 2018 in Azerbaijan. In accordance with the law, unemployment insurance is paid by the fund of unemployment insurance to employees who lose their job as a result of liquidation of employer or redundancy. Unemployment insurance fees are calculated as percentage from the gross salary of an employee and shall be paid monthly by an employer at a rate of 0.5% and an employee at a rate of 0.5%.

MEDICAL INSURANCE

Medical Insurance is in force from 1 January 2021 in Azerbaijan. Since 1 January 2022, Medical Insurance is calculated at the rate of 2% from a part of the monthly gross salary not exceeding AZN 8,000 (~USD 4,290) and at the rate of 0.5% deducted from the part of gross salary exceeding AZN 8,000 employees working whether for oil and gas or non-oil and gas industry and pertain to the state or non-state sector, while, additionally, the same are deducted from monthly gross payroll as the employer's portion.





VISA REQUIREMENTS

Except for citizens of certain jurisdictions such as Georgia, Turkey and CIS countries, foreigners who intend to set-up a business, to be hired as an employee or to travel to Azerbaijan have to obtain visa. In order to promote tourists visits and business ties, procedures on obtainment of visas have been simplified in Azerbaijan since 2016. This resulted in adoption of “ASAN Visa” system, which allows foreign citizens (stateless persons) to obtain a single entry touristic visa for up to 30 days stay via electronic visa application. The electronic visa is issued within 3 working days through “ASAN Visa” system for state fee of USD 20, whereas additional fee of USD 5 is charged as a service fee for processing an electronic visa application. The list of countries whose citizens may apply for “ASAN Visa” is prescribed by the Ministry of Foreign Affairs and reaches approximately 70 countries. For urgent cases, on non-working days and holidays, “ASAN Visa” provides such option as “urgent visa”. Urgent electronic visa can be obtained within 3 hours in consideration of the state fee of USD 20 plus service fee in the amount of USD 40.

Foreigners desiring to stay in Azerbaijan for more than 30 days need to obtain business or other type of visa by applying to relevant consular sections of Azerbaijan abroad. Citizens of CIS countries, Turkey and Georgia are exempt from visa requirement and their staying period is limited to renewable 90 calendar days. Citizens of some countries (such as Saudi Arabia, Iran, Israel, China, Japan) have possibility to obtain visa directly in the visa section of the Consular Department of the Ministry of Foreign Affairs of Azerbaijan at the border checkpoints.

SINGLE ENTRY AND MULTI ENTRY VISA

All types of visas granted by the Ministry of Foreign Affairs are either single or multi entry. Single entry visa is valid up to 90 days and granted for 30-90 days of stay. Multi entry visa is valid for up to two years and is valid for up to 180 days of stay.



FOREIGN EMPLOYEES

WORK AND RESIDENCE PERMITS

Azerbaijani employers, who intend to hire a foreign employee on regular basis, must obtain a work permit (“WP”) for such an employee. The officials and legal entities are subject to statutory fine for employing foreigners without a WP starting from AZN 3,000 up to AZN 20,000 (~ USD 1,762 - 11,750). In addition to WP, a foreigner needs to have temporary residence permit (“TRP”), because the WP does not cover the right to reside in Azerbaijan. WP and TRP are issued for a period of up to one year.

There are several groups of foreigners that have the right to work without getting WP:

- ▶ HEAD OF LOCAL LEGAL ENTITIES WITH FOREIGN INVESTMENTS
- ▶ MANAGERS OR DEPUTY MANAGERS OF FOREIGN LEGAL ENTITY'S BRANCH AND REPRESENTATIVE OFFICES IN AZERBAIJAN
- ▶ FOUNDERS OF LOCAL LEGAL ENTITIES OWNING AT LEAST 51% OF THE SHARES
- ▶ SOLE ENTREPRENEURS IN AZERBAIJAN
- ▶ SPECIALISTS HAVING WORK EXPERIENCE IN INFORMATION AND COMMUNICATION TECHNOLOGY INDUSTRY INVITED TO WORK IN AZERBAIJAN BY A RESIDENT OF A TECHNOLOGY PARK

In addition, the legislation provides other grounds for obtaining TRP and residing in Azerbaijan. These are:

- ▶ HAVING CLOSE FAMILY TIES WITH AN AZERBAIJANI CITIZEN OR A FOREIGNERS LIVING TEMPORARILY OR PERMANENTLY IN AZERBAIJAN
- ▶ BEING A HIGH-LEVEL SPECIALIST IN ECONOMY, INDUSTRY, MILITARY, SCIENCE, CULTURE, SPORTS AND OTHER FIELDS
- ▶ OWNING STATE SECURITIES WITH A NOMINAL VALUE OF AT LEAST AZN 100,000 (~ USD 58,825)
- ▶ OWNING INVESTMENT SECURITIES OF LEGAL ENTITIES, 51 PERCENT OR MORE SHARE(S) OF WHICH ARE OWNED BY THE STATE
- ▶ INVESTING IN THE ECONOMY OF AZERBAIJAN IN THE AMOUNT OF AT LEAST AZN 500,000 (~ USD 294,120)
- ▶ HAVING IMMOVABLE PROPERTY IN THE VALUE OF AT LEAST AZN 100,000 (~ USD 294,120) IN THE TERRITORY OF AZERBAIJAN
- ▶ DEPOSITING FUNDS IN THE AMOUNT OF AT LEAST AZN 100,000 (~ USD 58,825) TO BANKS OPERATING IN AZERBAIJAN BASED ON TEMPORARY DEPOSIT AGREEMENT ETC.

After the recent amendments to the migration legislation directed at stimulation of foreign investments, the minimum amount of AZN 500,000 now encompasses various investment options, including real estate, bank deposits and securities. It means that foreigners who do not fulfil the requirements of any of the last three separate grounds above but meet the condition of the total amount of AZN 500,000 have a right to apply for residence permit.

With another change in the legislation, foreigners were provided with an opportunity to obtain the TRP and WP more quickly by paying respective state fee amount. The state fees for TRP and WP for 1 year are determined as follows:

WP	10 DAYS	15 DAYS	20 DAYS
	AZN 1,400 (~ USD 823)	AZN 1,200 (~ USD 705)	AZN 1,000 (~ USD 587)
RP	15 DAYS	20 DAYS	
	AZN 160 (~ USD 94)	AZN 120 (~ USD 70)	

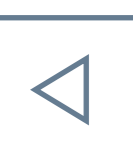
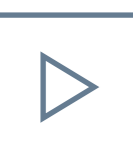
REGISTRATION UPON THE PLACE OF STAY

Foreigners who do not hold valid TRP need to be registered upon the place of residence if they intend to stay more than 15 days in Azerbaijan. The registration must be done by a hotel (landlord) within 15 days from the date of arrival. In case of missing registration, a foreigner will be subjected to fine of AZN 300-500 (~ USD 177-294).

INCENTIVES FOR BUSINESS IN THE TERRITORIES LIBERATED FROM OCCUPATION

New incentives have been introduced for a period of 5 years starting 1 January 2023 for businesses operating in the territories of Azerbaijan liberated from occupation . With this amendment, the application for WP for foreign employees engaging in labour activity in the liberated territories is reviewed within a term which is 5 working days shorter than the periods indicated above.

Additionally, WPs for foreigners working in these territories can be extended to 2 years instead of standard 1 year.





FINANCE AND INVESTMENT

The Law on Banks of 2004 governs banking in Azerbaijan. The main regulator in the banking system in Azerbaijan is the Central Bank of the Republic of Azerbaijan (“Central Bank”)

After liquidation of Financial Markets Supervisory Authority by decree of the President of 28 November 2019, its powers were also transferred to the Central Bank.

The **main activities** of the Central Bank are:

- ▶ LICENSING, REGULATION AND CONTROL OF SECURITIES MARKET, INVESTMENT FUNDS, INSURANCE, CREDIT INSTITUTIONS (BANKS, NON-BANK CREDIT ORGANISATIONS AND OPERATOR OF POSTAL COMMUNICATION) AND PAYMENT SYSTEMS
- ▶ IMPROVING A SUPERVISORY SYSTEM FOR PREVENTION OF LEGALIZING CRIMINALLY OBTAINED FUNDS AND OTHER PROPERTY, PREVENTION OF FINANCING OF TERRORISM AND MAINTENANCE OF TRANSPARENCY AND FLEXIBILITY IN THE SUPERVISION OF THESE FIELDS.

The **primary goals** of the Central Bank are:

- ▶ TO ENSURE PRICE STABILITY
- ▶ TO ORGANISE AND ENSURE OPERATION OF CENTRALISED INTERBANK AND OTHER PAYMENT SYSTEMS
- ▶ TO SUPPORT STABILITY OF THE BANKING SYSTEM



In 2006 a Law on Deposits Insurance has been adopted. Pursuant to the law, Deposits Insurance Fund started functioning in August 2007. The fund compensates 100 per cent of insured deposits up to the amount of AZN 100,000 (~ USD 53,633).

Participation of foreign capital in the banking system of Azerbaijan has limits, established by the Central Bank. Foreign citizens and foreign legal entities as well as foreign banks and foreign bank holding companies registered in offshore zones a list of which is approved by the Cabinet of Ministers of Azerbaijan, may not be founders or shareholders of local banks, as well as establish local subsidiary banks, open local branches and representative offices.

A foreign bank is not allowed to establish branches in Azerbaijan without a banking license, issued by the Central Bank. In addition, foreign banks may open representative offices in Azerbaijan upon acquisition of a permit from the Central Bank.

According to the Resolution of the Central Bank, dated 24 November 2020, aggregate capital required for banks is AZN 50 million.

EQUITY MARKET

The state regulatory authority for the stock exchange and the Azerbaijani securities market is the Central Bank.

The Law of the Republic of Azerbaijan on Securities Market was adopted in 2015. The National Depository Centre of Azerbaijan (a non-commercial institution established by FIMSA) acts as the central securities depository. The purpose and mission of the National Depository Centre of Azerbaijan is to form low-risk, accurate, flexible, secure, and fully customer-oriented securities' safekeeping and settlement system and to provide post trade services.

The only stock exchange in Azerbaijan - Baku Stock Exchange was founded in 2000. Baku Stock Exchange is a member of the Federation of Euro-Asian Stock Exchanges.

BANKS

Below is the table of the banks which currently operate in the territory of Azerbaijan and the category they belong to:

Bank Name	Category
Accessbank	Majority of foreign capital
AFB Bank	Local capital
International Bank of Azerbaijan	State control
Azerbaijan Industry Bank	Local capital
Azer Turk Bank	State control
Bank Avrasiya	Local capital
Bank of Baku	Local capital
Bank BTB	Local capital
Bank Respublika	Majority of local capital
Premium Bank	Local capital
Bank VTB (Azerbaijan)	Majority of foreign capital
Expressbank	Local capital
Gunay Bank	Local capital
Kapital Bank	Local capital

Bank Name	Category
Bank Melli Iran Baku branch	Local capital
Mughanbank	Local capital
Nakhchivanbank	Local capital
Yelo Bank	Majority of local capital
Pasha Bank	Local capital
Rabitabank	Local capital
TuranBank	Local capital
Unibank	Majority of local capital
Xalq Bank	Local capital
Yapi Kredi Bank Azerbaijan	Foreign capital
Ziraat Bank Azerbaijan	Foreign capital





ACCOUNTING AND AUDIT REQUIREMENTS

Accounting and financial reporting in Azerbaijan is regulated by the Accounting Law, the Law on Audit Service, the Law on Internal Audit and the Law on Professional Liability Insurance of the Auditor.

ACCOUNTING AND ANNUAL FINANCIAL REPORTING

The Law on Accounting of 2004 governs financial statements of commercial and non-commercial organisations.

This law divides commercial organisations to following three groups:

- ▶ PUBLIC INTEREST ENTITIES
- ▶ MICRO ENTREPRENEURS
- ▶ SMALL, MEDIUM AND LARGE ENTREPRENEURS

Public interest entities shall prepare their financial statements in conformity with International Financial Reporting Standards (“IFRS”). Any public interest entity, which has one or more subsidiaries, must prepare consolidated financial statements in conformity with IFRS, in addition to its separate financial statements as a legal entity.

Public interest entities (except credit organisations) conduct their accounting in compliance with the accounting rules approved by the respective state authority based on IFRS.

SUBJECTS OF MICRO ENTREPRENEURSHIP EITHER:

- *conduct their accounting in compliance with accounting rules for micro entrepreneurs approved by the respective state authority;*
- *at their own discretion may prepare financial statements in accordance with the IFRS or IFRS for Small and Medium-Sized Entities (“IFRS for SMEs”). In this case they may conduct their accounting in compliance with:*
 - *accounting rules approved by the respective state authority based on the IFRS*
 - *accounting rules approved by the respective state authority based on the IFRS for SMEs.*

- *prepare their financial statements in compliance with the IFRS for SMEs and conduct their accounting in compliance with the accounting rules approved by the respective state authority based on the IFRS for SMEs;*
- *may prepare financial statements in compliance with the IFRS and in this case conduct their accounting in accordance with the accounting rules approved by the respective state authority based on the IFRS.*

According to the Law on Accounting, if accounting documents contain information which constitutes a commercial secret, its disclosure shall be in accordance with the Law of Azerbaijan on Commercial Secret.

Subjects of compulsory audit in Azerbaijan are banks, extra-budgetary funds, public interest entities, enterprises which submit consolidated reports, subjects of natural monopolies, non-banking credit institution, insurance (reinsurance) organisations, financial-industrial groups, funds, joint stock companies, medium and large limited liability companies, municipalities and municipal institutions.



AUDIT OF JOINT STOCK COMPANIES

Pursuant to the Civil Code of the Republic of Azerbaijan, open joint stock companies shall publish their annual financial report and balance sheet. A joint stock company is obligated to invite a professional auditor, who does not have any property interest in the company or its participants, to audit the annual financial report. An audit may be also conducted at any time at the request of shareholders, who hold in aggregate at least ten per cent of shares.

AUDIT OF LIMITED LIABILITY COMPANIES

According to the Civil Code of the Republic of Azerbaijan for the purposes of verification of correctness of the annual financial statements of a limited liability company (except for micro and small businesses), such company shall annually engage a professional auditor, whose property interests are not associated with the company or its participants (external audit). An audit of annual financial statements may also be conducted upon demand of any participant. In this case the audit shall be conducted on the account of the participant demanding such audit.





FOREIGN EXCHANGE

The Law on Currency Regulation of 1994 regulates foreign exchange transactions. The Central Bank governs the overall enforcement of currency and foreign exchange regulations. Azerbaijan has a rather liberal exchange system and both residents of Azerbaijan and non-residents can open bank accounts in the country in local and foreign currency.

Regulation of outbound payments of both residents and non-residents is similar and requires documentary evidence to be transferred to payer's bank. Residents of Azerbaijan are free to make certain outbound transfers without any special permission from the Central Bank. These transfers include:

- ▶ RE-TRANSFERS OF AMOUNT EARLIER TRANSFERRED TO AZERBAIJAN BY AZERBAIJANI RESIDENTS
- ▶ TRANSFERS TO BRANCHES, REPRESENTATIVE OFFICES, AND SUBSIDIARIES OF AZERBAIJANI RESIDENTS IN FOREIGN COUNTRY
- ▶ DIVIDENDS TO NON-RESIDENTS
- ▶ PAYMENTS FOR IMPORTED GOODS OR SERVICES
- ▶ PAYMENTS UNDER RE-EXPORT CONTRACTS
- ▶ REFUNDS RECEIVED UNDER TERMINATED IMPORT/EXPORT CONTRACTS
- ▶ REPAYMENTS OF LOANS AND INTEREST FROM NON-RESIDENT ORGANISATIONS
- ▶ DAILY TRANSFERS UP TO USD 1,000 (USD 10,000 PER MONTH) FOR PERSONAL PURPOSES AND TRANSFERS TO CLOSE RELATIVES' ACCOUNTS
- ▶ COSTS FOR MEDICAL TREATMENT, EDUCATION, SOCIAL INSURANCE, TAXES AND DUTIES, PARTICIPATION IN INTERNATIONAL CONFERENCES, LITIGATION, ARBITRATION, ETC.
- ▶ TRANSFERS RELATED TO THE EXPORT OF CAPITAL FROM AZERBAIJAN, SUCH AS EQUITY INVESTMENTS, ACQUISITION OF SECURITIES, OWNERSHIP RIGHTS TO DIFFERENT PROPERTIES, ETC.

An individual consent by the Central Bank is required in order to perform various outbound transfers not listed above but having a sound nature.

Exchange of foreign currency can only be carried out by authorised banks, national post office and other persons based on the license.



INVESTMENT OPPORTUNITIES AND INCENTIVES

FOREIGN INVESTORS' GUARANTEES AND RIGHTS

According to the Law on Investment Activity, foreign investors in Azerbaijan are foreigners, stateless persons, foreign legal entities and its branch and representative offices, foreign states and international organisations, while local investors are citizens and legal entities of Azerbaijan.

Foreign and local investors have equal rights and opportunities. There are no restrictions for any kind of foreign investment which is in accordance with the legislation. Protection of investment is one of principles of this law. Legislation existing at the moment of implementation of the investment shall be applied for 10 more years if the legislation is amended to the disadvantage of the investor (a so called "grandfather clause").

Generally, legal regime of foreign investments and activity of foreign investors might not be less favourable than the regime applicable to local legal entities and citizens of Azerbaijan.

Strengthening welcoming business environment and legislative reforms are among the top priorities of "Azerbaijan 2020: the vision of the future" - the national concept of development.

BILATERAL INVESTMENT TREATIES

Azerbaijan is also party to a number of bilateral investment treaties, which enable better protection for foreign investments and improve business environment. Usually, the investment treaties provide such benefits as restitution and compensation for damage, limits on the expropriation of investments, money transfers without delay, alternative dispute resolution mechanisms etc. Below are the bilateral investment treaties signed by Azerbaijan:

Counterparty	Status
Afghanistan	Signed
Albania	In force
Austria	In force
Belarus	In force
Belgium-Luxembourg Economic Union	In force
Bulgaria	Signed
China	In force
Croatia	In force
Czech Republic	In force
Egypt	Signed
Estonia	In force
Finland	In force
France	In force
Georgia	In force
Germany	In force
Greece	In force
Hungary	In force
Iran	In force
Israel	In force
Jordan	In force
Kazakhstan	In force
Korea	In force
Kuwait	In force
Kyrgyzstan	In force
Latvia	In force

Counterparty	Status
Lebanon	Signed
Lithuania	In force
Macedonia	In force
Moldova	In force
Montenegro	In force
Norway	Signed
Pakistan	Signed
Poland	In force
Qatar	In force
Romania	In force
Russia	In force
San Marino	In force
Saudi Arabia	In force
Serbia	In force
Spain	In force
Switzerland	In force
Syrian Arab Republic	In force
Tajikistan	In force
Turkey	In force
Turkmenistan	In force
Ukraine	In force
United Arab Emirates	In force
United Kingdom	In force
United States of America	In force
Uzbekistan	In force

Treaties marked as signed are not in force.



PERFORMANCE REQUIREMENTS AND INCENTIVES

Foreign investment may be represented by any kind of property and proprietary rights, including right for results of intellectual activity and other intangible rights being contributed by foreign investors to objects of business activity and other kinds of activity with the objective of generating profits.

Investments in the territory of Azerbaijan may be made by the way of:

- ▶ ESTABLISHMENT AND REORGANISATION OF LEGAL ENTITIES
- ▶ PURCHASE OF SHARES IN LEGAL ENTITIES
- ▶ ESTABLISHMENT OF BRANCH OR REPRESENTATIVE OFFICE OF FOREIGN LEGAL ENTITY
- ▶ SOLE ENTREPRENEURSHIP
- ▶ CONCLUDING AGREEMENT ON INVESTMENT ACTIVITY
- ▶ ACQUISITION OF PROPERTY OR PROPERTY RIGHTS AND OTHER RIGHTS FOR PROPERTY VALUE
- ▶ OTHER FORMS NOT PROHIBITED BY LEGISLATION

Enterprises with foreign investments are established in form of stock companies, limited liability companies, other economic companies and enterprises and in any other forms not contradicting legislation of Azerbaijan.

Property delivered to the territory of Azerbaijan as the share of foreign partner contributed to the Partnership fund of Joint Venture is completely exempted from custom duty but shall be subject to import VAT.

In 2016, an investment promotion certificate was introduced in Azerbaijan by the Presidential decree

on additional measures in investment promotion. Investment certificate holders are exempt from paying fifty percent of income tax and land tax and from paying customs duties on equipment, machinery and devices imported for investment purposes in priority industries of the economy for up to seven years. The priority projects include work in industrial parks, creation of manufacturing plants, and research work.

In order to stimulate production in non-oil sectors of economy, Azerbaijan abolished customs duties and VAT for imports of many products and types of equipment used in agro-food production.





TAX SYSTEM

INTRODUCTION

The tax system of Azerbaijan has significantly changed over recent years. To make business climate more attractive to foreign investment, the Azerbaijani Government has undertaken a number of measures to address shortcomings in tax laws.

The State Tax Service is a government agency responsible for tax collection and enforcement of tax regulation in Azerbaijan.

System of taxation in Azerbaijan consists of the following parts:

DID YOU KNOW THAT

- ▶ STATE TAXES – DETERMINED BY THE TAX CODE OF AZERBAIJAN
- ▶ TAXES OF AUTONOMOUS REPUBLIC – DETERMINED BY LEGISLATION OF AUTONOMOUS REPUBLIC OF NAKHCHIVAN BASED ON THE TAX CODE
- ▶ LOCAL TAXES – DETERMINED BY MUNICIPAL AUTHORITIES BASED ON THE TAX CODE.

<p>1</p> <p>75% of income of entrepreneurs with revenue not exceeding AZN 200,000 is exempted from income tax</p>	<p>2</p> <p>monthly employment income of up to AZN 8,000 is exempt from personal income tax for private sector personnel outside the oil and gas business</p>	<p>3</p> <p>residents of industrial and technology parks are entitled to tax holidays with respect to corporate income tax, VAT, land and property taxes for 10 years</p>	<p>4</p> <p>entertainment, food and other social benefits of employees are non-deductible for taxable income purposes</p>	<p>5</p> <p>there is a specific withholding tax on payments to tax havens</p>	<p>6</p> <p>the government has introduced a moratorium on all inspections of business until 2024 (except certain types such as tax and customs audits, inspections related to using public utilities etc.)</p>
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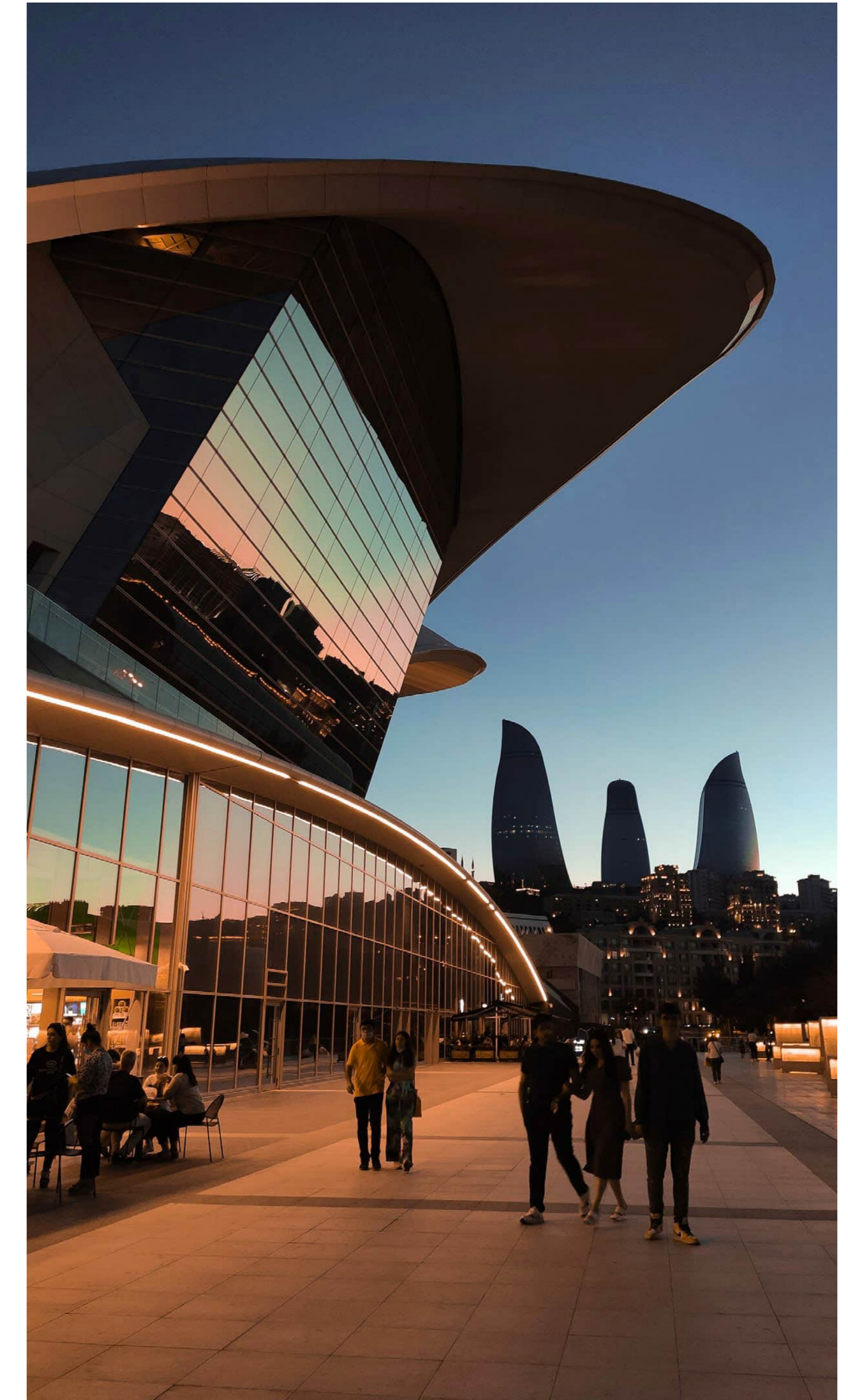
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INTRODUCTION

Income from operating a business in Azerbaijan may be treated differently depending on the type of tax regime applicable: general tax regime and special regime, which is applicable only to businesses, involved in oil and gas projects. Tax liability may also depend on residency status of a taxpayer.

State taxes, including their rates, payers, taxable bases and examples of exemptions applicable to commercial entities conducting business activities in Azerbaijan are as follows:

Tax and its rate	Payers
1. Profit Tax or Corporate Income Tax – Mənfəət Vergisi 20%	All enterprises (resident and non-resident). Resident enterprises are subject to tax on their total profit. Non-resident enterprises operating in Azerbaijan through permanent establishments (within this table - referred to as “PE”) are subject to tax on profit from such operations.
Income tax of entity (personal or legal) not registered as a PE in Azerbaijan (another name “Withholding Tax”) – Ödəmə Mənbəyindən Vergi tutma 4%, 6%, 10% and 14% depending on type of income	Enterprises or entrepreneurs making payments (“tax agents”) to non-residents which are not registered in Azerbaijan or constitutes no permanent establishment. The agent shall withhold tax by applying the appropriate rates when makes payments to non-resident.
2. Income Tax of Employees – Gəlir Vergisi Sliding scale (0% - 14%)	Enterprises or entrepreneurs making payments to employees. Payments made by the PE of non-residents are treated the same as the payments of resident enterprises. Exemption from Income Tax of Employees exists for income up to AZN 8,000 (- USD 4,290) (till 2026) for persons not engaged in the state and oil fields. Income Tax of 14% for employees engaged in state and oil fields is applied to the income up to AZN 2,500 (- USD 1,470), and income tax rate of 25% is applied to the income exceeding AZN 2,500 plus AZN 350 as a transitory from the previous tax grid. Exemption of AZN 200 is in effect at a main workplace where the employee’s workbook is kept. Workbook is an individual record of employees’ official work experience
3. Income Tax of Natural Persons – Fiziki Şəxslərin Gəlir Vergisi 20%	Any entrepreneur without establishing legal entity and who did not choose simplified tax regime. There exists exemption from the tax (75%) for entrepreneurs with revenue not exceeding AZN 200,000 (- USD 107,266) (called micro-business).
4. Value Added Tax (“VAT”) – Əlavə Dəyər Vergisi (“ƏDV”) 18%	Any person registered or required to register as a VAT payer. There is a requirement to register for VAT purposes if volume of taxable transactions in any month (months) during a consecutive period of 12 months of a taxpayer exceeds a certain threshold (from 1 January 2016 - AZN 200,000). Persons importing goods to which VAT applies are considered payers of VAT on goods imported.



INTRODUCTION

Tax and its rate	Payers
5. Excise Tax – Aksiz Vergisi Various rates (per unit, volume etc)	All persons engaged in production of excisable goods in Azerbaijan or importation of such goods into Azerbaijan.
6. Asset/property tax – Əmlak Vergisi Single tax rate of 1% for legal entities. Different rates depending on the location of the property and other conditions for individuals	All persons having assets (buildings or their part, fixed assets etc.) in ownership.
7. Land Tax – Torpaq Vergisi Different rates depending on location and type of land plots.	All persons owning or using land in Azerbaijan.
8. Mining Tax – Mədən Vergisi 3% - 26% levied on the wholesale purchase price of minerals or on the basis of fixed rates per cubic meter of commercial minerals (AZN 1-10 per cubic meter).	All persons engaged in extraction of commercial minerals from subsoil strata (including Azerbaijan sector of the Caspian Sea).
9. Simplified System Tax – Sadələşdirilmiş Vergi 2% 8% - for public catering activity when exceeding the threshold.	Enterprises and individuals with total volume of taxable income not exceeding AZN 200,000 (~ USD 107,266) in any month for preceding 12 months. Enterprises and individuals engaged in public catering can be payers of simplified tax regardless of their turnover.
10. Road Tax – Yol Vergisi Depending on the tonnage of vehicles. AZN 0,02 per litre for produced or imported fuel.	Entities producing or importing fuel, non-residents using territory of Azerbaijan for transportation purposes.

There are also specific tax regimes (in the field of oil and gas production) regulated by the production sharing agreements (“PSA”) or risk service agreements (“RSA”) applicable in oil and gas industry. These specific regimes apply to contractors and subcontractors engaged under production sharing agreements. Specific tax regime also applies through host government agreements applicable to certain pipeline projects.

All taxes shall be assessed and paid in Azerbaijani Manats (AZN).





SPECIAL ECONOMIC ZONES

The Law on Special Economic Zones (“LSEZ”) provides for preferential tax regime for residents of free economic zones including simplified tax of 0.5 levied on total turnover and exemption from other taxes, except for personal income tax of employees.

The LSEZ does not specifically provide for the list of business areas to which the regime applies. However, it lists areas excluded from the special economic zone:

- Production, storage of and trade in goods circulation of which is restricted or prohibited by law
- Extraction of minerals
- Production and processing of precious metals, oil and gas
- Tele and radio broadcasting activities
- Manufacturing of alcoholic and tobacco products

The Alat Free Economic Zone is the first Special Economic Zone in Azerbaijan as a regional logistics and trade hub. The zone shall operate at Baku International Sea Trade Port at Alat settlement 70 km south from Baku.

Residents of Alat Free Economic Zone are exempt from all taxes within the territory of the zone. Trading with persons registered outside the zone will be taxed in accordance with the regular tax regime.

INDUSTRIAL AND TECHNOLOGY PARKS

Since 2011 a practice on establishment of industrial and technology parks has emerged.

Residents of such parks are entitled to tax holidays with respect to corporate income tax, VAT, land and property taxes. The duration of tax holidays is normally 10 years. On case-by-case basis there could be customs exemptions and supporting measures in connection with cost of utilities, infrastructure, financing etc.

At present, the following industrial/ technology parks have been established:

- Sumqayit Chemical Industrial Park
- Balakhani Industrial Park
- The High-Tech Park
- Qaradagh Industrial Park
- Mingachevir Industrial Park
- Mingachevir High-Tech Park
- Pirallahi Industrial Park
- Aghdam Industrial Park
- “Araz Valley Economic Zone” Industrial Park
- Neftchala Industrial Cluster
- Masalli Industrial Cluster
- Hacigabul Industrial Cluster
- Sabirabad Industrial Cluster

TERRITORIES LIBERATED FROM OCCUPATION

To encourage development of foreign and national businesses in the liberated territories of Azerbaijan, certain tax exemptions have been introduced.

The incentives are applicable to natural persons and legal entities (“residents”) registered or incorporated in Karabakh and East Zangezur regions for 10 years starting 1 January 2023:

- Residents carrying on business including operations with the other residents within the regions
- Residents deriving income from operations in the production, processing and extraction industries
- Resident contractors engaging in production funded by the state budget and operating within the regions

The incentives exclude the activities in financial services, freight forwarding, and provision of goods and services by contractors funded by the state budget.

The following incentives are applied to the entities operating in the liberated territories of Azerbaijan:

- Resident entities of the liberated territories are exempt from corporate income, property, land and simplified taxes
- Imports of mechanisms, technological equipment and facilities, and raw materials are exempt from VAT based on special certificate issued by the governmental body.
- Shareholders of legal entities registered in the liberated territories are exempt from tax on dividend income.

PSA, RSA AND HGA

Over 30 Production Sharing Agreements (“PSA”), Risk Service Agreements (“RSA”) and Host Government Agreements (“HGA”) in the oil and gas industry have been signed.

Special tax regime is set for both contractors and sub-contractors operating under Production Sharing Agreements in connection with oil industry providing lower tax rates, VAT exemptions, simplified procedures etc. Parties are charged 0% VAT and exempt from customs import taxes for activities under PSA.

Host Government Agreements are exclusive for BTC and South Caucasus pipelines where sub-contractors are exempt from paying taxes, filing or tax compliance obligations.

START-UPS AND SME CLUSTER COMPANIES

With recent changes to the Tax Law Azerbaijani government has granted start-ups and SME cluster companies with several tax exemptions and reliefs. These include certain exemptions from income tax, profit tax, property tax and VAT.



APPEALS

All taxpayers have right to appeal against decisions of tax authorities and actions or inactions of tax officers. Taxpayers may appeal to upper-level tax authority or appeal to courts directly.

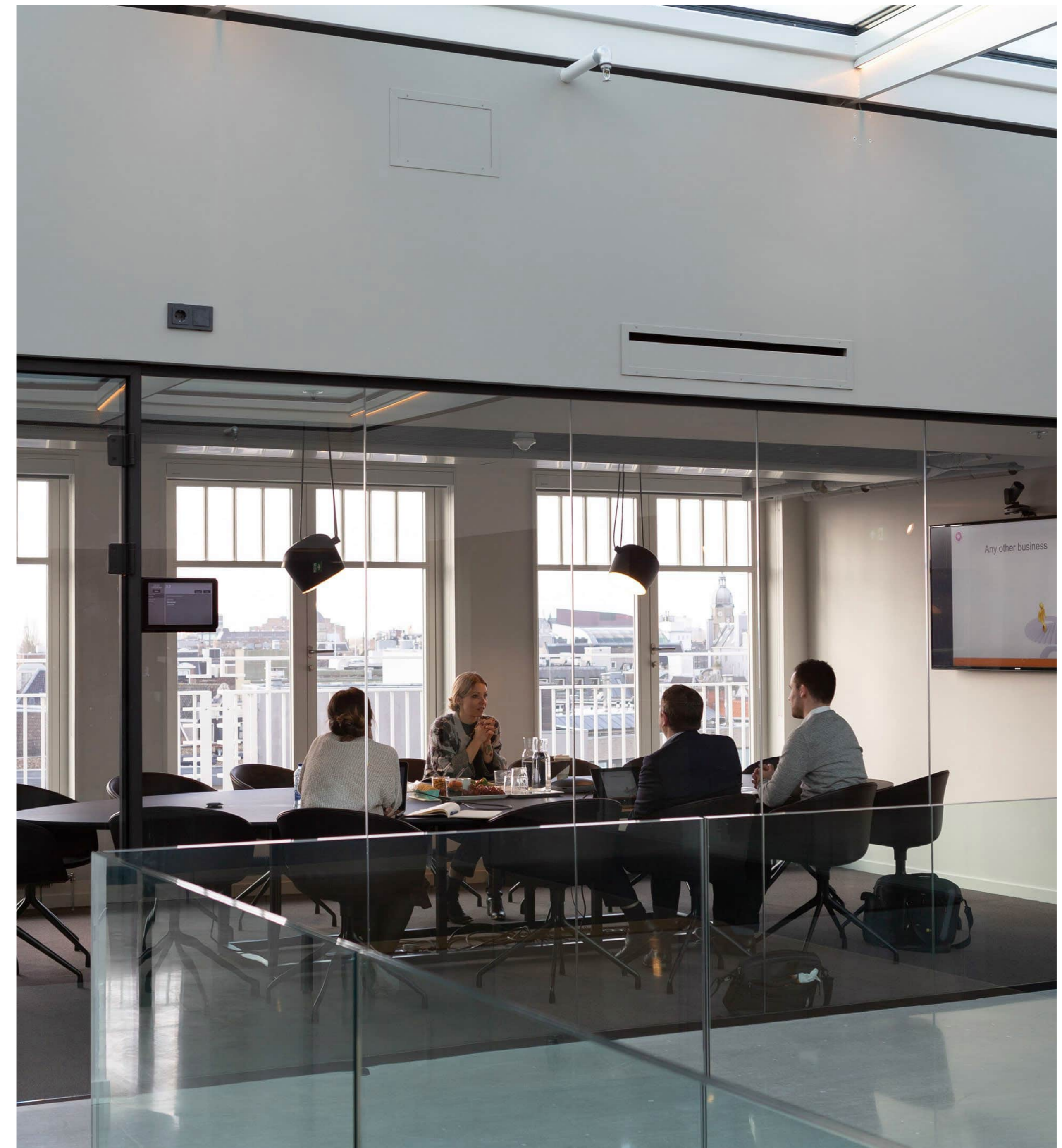
Decisions or actions of tax authorities may be appealed within three months from the moment the taxpayer becomes aware of violation of its rights.

BOARDS OF APPEAL

As of February 2016, boards of appeal have been established in order to provide businessmen with a multi-layered appellate instance. Although their practical value is questionable, there are boards of appeal under almost every ministry and the Board of Appeal under the President of Azerbaijan as the last resort against decisions of the formers.

Taxpayers can appeal to the Appeal Board under the Ministry of Economic Development of Azerbaijan. If still dissatisfied by the result they may appeal to the Board of Appeal under the President of Azerbaijan as mentioned above.

Taxpayers can always appeal to courts alongside these options.





CORPORATE INCOME TAX

TAXABLE PERSONS

Companies incorporated under the laws of Azerbaijan (including branches, representative offices and subsidiaries foreign companies) are treated as tax residents for corporate income tax (hereinafter referred to as “CIT”) purposes.

Non-resident companies may also be subject to Azerbaijani CIT if they are operating in Azerbaijan through a permanent establishment.

PERMANENT ESTABLISHMENT

A non-resident individual or a company are deemed to have a permanent establishment in Azerbaijan, if they carry out all or part of their business in Azerbaijan, independently or through an authorized representative, for not less than cumulatively 90 days within any 12-month period. A permanent establishment may include, but is not limited to the place of management, branch or agency, subdivision, office or other places in Azerbaijan from which a non-resident company operates all or part of its business.

Despite this broad definition, there are certain activities stipulated under the applicable tax regulations which do not give rise to a permanent establishment in Azerbaijan. These include:

- ▶ STORAGE AND DISPLAY OF GOODS
- ▶ MAINTENANCE OF GOODS SOLELY FOR THE PURPOSE OF PROCESSING BY ANOTHER ENTITY AND SUBSEQUENT EXPORT FROM AZERBAIJAN
- ▶ PERFORMANCE OF ANY OTHER PREPARATORY OR AUXILIARY ACTIVITIES FOR OWN PURPOSES
- ▶ PERFORMANCE OF ANY COMBINATION OF THE ACTIVITIES LISTED ABOVE FOR OWN PURPOSES

These activities are deemed not to give rise to a permanent establishment unless they are part of the broader business process, and they do not reflect preparatory or auxiliary activity between non-resident and its permanent establishment.

RATES

The general CIT rate in Azerbaijan is 20%. In addition, withholding tax of 10% is applied to income and dividends at the source of payment to company by its permanent establishment in Azerbaijan or a resident counterparty.

Dividends once imposed by withholding tax at the source of payment is not subject to withholding tax when redistributed to the stockholders or owners. The business owners with multi-level hierarchy benefit from such the tax relief.

Double taxation treaties to which Azerbaijan is a party provide more beneficial tax rates as can be seen on page 16.

TAXABLE INCOME

Resident companies are taxable on their worldwide income. Their total taxable income for CIT purposes comprises income from all sources after all allowable deductions.

Taxable income of non-resident companies operating in Azerbaijan through a permanent establishment comprises their Azerbaijani-source income after all allowable deductions.

Taxable income of non-resident companies that do not constitute a permanent establishment in Azerbaijan is subject to withholding tax on their Azerbaijani-source income only.



DEDUCTIONS

As a general rule, all expenses associated with generating income are treated as deductible business expenses for CIT purposes. So, a company is entitled to claim a deduction in relation to expenses incurred for its business purposes. These include but are not limited to employee wages, taxes, utilities, depreciation and other business-related costs.

No deductions are allowed in respect of certain expenses stipulated by law. Non-deductible expenses can be classified into three categories:

A Not deductible in full amount

- ▶ ENTERTAINMENT, FOOD AND OTHER SOCIAL BENEFITS OF EMPLOYEES
- ▶ INVENTORY THAT HAS BEEN LOST, STOLEN, SPOILED (VAT ON SUCH INVENTORY AS PREVIOUSLY CLAIMED ALSO HAS TO BE PAID BACK TO THE STATE BUDGET)
- ▶ CIT AND INCOME TAXES PAID IN OTHER JURISDICTIONS; TAX PENALTIES AND LATE PAYMENT INTEREST, AS WELL AS ADMINISTRATIVE FINES, EXCLUDING PENALTIES INCURRED UNDER CIVIL LAW

B Partially deductible

- ▶ INTEREST EXPENSE ON LOANS RECEIVED FROM ABROAD AND FROM AFFILIATED PARTIES IS DEDUCTIBLE ONLY IN THE AMOUNT NOT EXCEEDING 125% OF INTERBANK LENDING RATE FOR LOANS OF SIMILAR DURATION AND THE SAME CURRENCY AS PUBLISHED BY THE CENTRAL BANK FOR THE RESPECTIVE PERIOD
- ▶ PROVISION FOR DOUBTFUL DEBTS CANNOT BE DEDUCTED FROM TAXABLE INCOME. BAD DEBT CAN ONLY BE WRITTEN OFF IN ACCORDANCE WITH THE CIVIL CODE
- ▶ INTEREST CHARGES ON DEBTS RECEIVED FROM ABROAD AS WELL AS DEBTS ON BONDS TRADED IN FOREIGN EXCHANGE SHALL NOT BE DEDUCTIBLE IN PART OF EXCESS OF THE TWICE OF SUCH DEBT OVER THE EQUITY

C Those that cannot be deducted in full amount in the current reporting period, and are deferred to future periods

- ▶ DEPRECIATION
- ▶ REPAIRS
- ▶ INSURANCE PREMIUM COSTS ARE DEDUCTED IN AMOUNT PAID (NOT ON ACCRUAL BASIS)

In addition, there is a list of other expenses that are deductible with certain limits stipulated by law. These include, e.g. repair costs, travel expenses.





OTHER TAXES

PERSONAL INCOME TAX

Under the regular tax regime in accordance with the Azerbaijani Tax Code resident and non-resident physical persons are payers of PIT. An individual residing in Azerbaijan for more than 182 cumulative days in a calendar year is considered to be a resident for PIT purposes. Residents shall be subject to Azerbaijani PIT on their entire (worldwide) income while non-resident individuals shall pay PIT only with respect to income derived from Azerbaijani source.

The PIT rate is two-fold when employers are not operating oil-gas or government spheres:

- ▶ MONTHLY INCOME UP TO AZN 8,000 IS SUBJECT TO 0% PIT
- ▶ MONTHLY INCOME IN EXCESS OF AZN 8,000 IS SUBJECT TO 14% PIT APPLIED TO THE AMOUNT EXCEEDING AZN 8,000

The PIT rate is two-fold when employers are operating oil-gas or government sectors:

- ▶ MONTHLY INCOME UP TO AZN 2,500 IS SUBJECT TO 14% PIT
- ▶ MONTHLY INCOME IN EXCESS OF AZN 2,500 IS SUBJECT TO 25% PIT APPLIED TO THE AMOUNT EXCEEDING AZN 2,500

Under the regular tax regime, expenses on housing and similar allowances are not deductible for the purposes of personal and corporate income tax.

However, 50% of taxpayer's income from disposal of shares and participating interests held at least for three years and 75% of individual entrepreneur's income classified as micro-business are exempt from PIT.

Also, dividends paid to shareholders of a resident legal entity not registered as a VAT payer, with revenues of up to AZN 200,000 (~ USD 107,266) in any month of a consecutive 12 months period and holding a full record of its revenues and costs are exempt of PIT. There are also specific exemptions for start-ups and SME cluster members.



OTHER TAXES

SIMPLIFIED TAX

The Tax Code of Azerbaijan gives right to legal persons and individuals who are not registered as VAT payers to pay simplified tax. Excluding certain activities, all legal persons or individuals with total volume of taxable income not exceeding AZN 200,000 (~ USD 107,266) in any month for preceding 12 months are qualified to be registered as simplified taxpayers.

Simplified tax rate is 2% from the beginning of the year 2019 regardless of activities and regions. Persons delivering transportation services by their own vehicles or by contracts are also able to be registered as simplified taxpayers.

Following persons are prohibited from becoming a simplified taxpayer:

- ▶ PRODUCERS OF EXCISE GOODS
- ▶ CREDIT AND INSURANCE ORGANISATIONS
- ▶ INVESTMENT FUNDS
- ▶ PROFESSIONAL PARTICIPANTS OF SECURITIES MARKET
- ▶ NON-GOVERNMENTAL PENSION FUNDS
- ▶ NATURAL MONOPOLIES AND CERTAIN OTHER PERSONS

Providers of public catering services with total volume of taxable income not exceeding AZN 200,000 (~ USD 107,266) in any month for preceding 12 months have right to be registered as a simplified taxpayer under the tax rate of 8%.

VALUE ADDED TAX (VAT)

VAT is defined as “the difference between the tax amount calculated on taxable turnover and the tax amount to be credited in accordance with electronic delivery notes received [...] in accordance with the provisions of the Code.” The VAT rate stands at 18%.

In accordance with the Tax Code of Azerbaijan, the VAT taxable object is supply of goods, delivery of works, supply of services and taxable import within Azerbaijan.

The Tax Code lays down rules to determine when Azerbaijani VAT is due on service supply by identifying the place of service supply for VAT purposes.

MINING TAX

Mining tax in Azerbaijan varies from 3% to 26% and shall be paid by all legal entities and natural persons engaged in extraction of commercial minerals from subsoil (including Azerbaijan sector of the Caspian Sea).

EXCISE TAX

All legal persons and individuals engaged in the production of excisable goods in Azerbaijan or importation of such goods into Azerbaijan shall pay excise tax. These goods are determined by the Tax Code of Azerbaijan and are as follows:

- ▶ TOBACCO PRODUCTS
- ▶ LIQUID FOR ELECTRONIC CIGARETTES
- ▶ ALCOHOLIC BEVERAGES
- ▶ ALCOHOLIC ENERGY DRINKS
- ▶ NON-ALCOHOLIC ENERGY DRINKS
- ▶ PETROLEUM PRODUCTS
- ▶ VEHICLES
- ▶ LEISURE AND SPORT YACHTS
- ▶ IMPORTED JEWELLERY
- ▶ IMPORTED FUR-LEATHER PRODUCTS

Export of such goods is free from excise tax.

Resident natural persons are exempt from PIT for interest income, dividend income of securities and income from the discounted bonds traded in the regulating markets and issued by public offering. The exemption comes into force from 1 February 2023 and is valid for 5 years regardless of the country where this income is earned.



PROPERTY TAX

All legal persons and individuals both resident or non-resident having buildings or their part, fixed assets etc. in ownership are subject to property tax.

Property tax is paid annually, and rates differ depending on value and type of the property.

Natural persons owning premises, water and air vehicles shall pay the tax equally two times within a year. Tax is paid to municipalities which issue a notice payment no later than 1st of August of each year.

LAND TAX

All legal and individual persons who own or use land in Azerbaijan are subject to land tax, except holders of investment promotion certificate who are exempt from this type of tax for seven years.

Amount of land tax is determined by the Cabinet of Ministers and shall be paid twice a year. Calculation of land tax depends on type of use, area and location of the land.

ROAD TAX

Road tax is imposed on non-residents providing motor transport services in the territory of Azerbaijan and persons engaged in production or import of motor petrol, diesel fuel and liquid gas in Azerbaijan.

Rate of road tax charged from non-residents depends on the type and weight of the vehicle, distance of travel within Azerbaijan, products imported etc.





DOUBLE TAXATION

All legal persons and individuals both resident or non-resident having buildings or their part, fixed assets etc. in ownership are subject to property tax.

Property tax is paid annually, and rates differ depending on value and type of the property.

Natural persons owning premises, water and air vehicles shall pay the tax equally two times within a year. Tax is paid to municipalities which issue a notice payment no later than 1st of August of each year.

Jurisdiction	Dividend %	Interest %	Royalty %
Austria	5/10/15	10	5/10
Belarus	15	10	10
Belgium	5/10/15	10	5/10
Bosnia and Herzegovina	10	10	10
Bulgaria	8	7	5/10
Canada	10/15	10	5/10
China	10	10	10
Croatia	5/10	10	10
Czech Republic	8	10	10
Denmark	5/15	8	5/10
Estonia	5/10	10	10
Finland	5/10	10	5/10
France	10	10	5/10
Georgia	10	10	10
Germany	5/15	10	5/10
Greece	8	8	8
Hungary	8	8	8
Iran	10	10	10
Israel	15	10	5/10

Jurisdiction	Dividend %	Interest %	Royalty %
Italy	10	10	5/10
Japan	15	10	0/10
Jordan	8	8	10
Kazakhstan	10	10	10
Kuwait	5/10	7	10
Latvia	5/10	10	5/10
Lithuania	5/10	10	10
Luxemburg	5/10	10	5/10
Macedonia	8	8	8
Malta	8	8	8
Moldova	8/15	10	10
Montenegro	10	10	10
Morocco*	Signed - text not disclosed yet		
Netherlands	5/10	10	5/10
Norway	10/15	10	10
Pakistan	10	10	10
Poland	10	10	10
Qatar	7	7	5
Romania	5/10	8	10

Jurisdiction	Dividend %	Interest %	Royalty %
Russia	10	10	10
San-Marino	5/10	10	5/10
Saudi Arabia	5/7	7	10
Slovenia	8	8	5/10
Serbia	10	10	10
Spain	5/10	8	5/10
Sweden	5/15	8	5/10
South Korea	7	10	5/10
Switzerland	5/15	10	5/10
Tajikistan	10	10	10
Turkey	12	10	10
Turkmenistan	10	10	10
Ukraine	10	10	10
United Arab Emirates	5/10	7	5/10
United Kingdom	10/15	10	5/10
Uzbekistan	10	10	10
Vietnam	10	10	10

TRANSFER PRICING

In order to determine applicable CIT or PIT the tax authorities are entitled to apply transfer pricing rules to following transactions:

- ▶ AZERBAIJANI RESIDENTS AND RELATED NON-RESIDENT
- ▶ A PERMANENT ESTABLISHMENT OF A NON-RESIDENT IN AZERBAIJAN AND THE SAID NON-RESIDENT, ITS DIVISIONS OR ANY RELATED PARTY OF THIS NON-RESIDENT IN ANOTHER JURISDICTION OUTSIDE AZERBAIJAN
- ▶ AZERBAIJANI RESIDENTS OR PERMANENT ESTABLISHMENTS OF A NON-RESIDENT IN AZERBAIJAN AND ENTITIES INCORPORATED IN TAX HAVENS

The Tax Code of the Republic of Azerbaijan lists the following transfer pricing methods (detailed rules on application of these methods have been issued by the State Tax Services under the Ministry of Economic Development):

- ▶ PRICE BENCHMARKING METHOD
- ▶ RESALE PRICE METHOD
- ▶ COST PLUS METHOD
- ▶ NET MARGIN METHOD USING INFORMATION ON SIMILAR TRANSACTIONS BETWEEN COMPARABLE UNRELATED PARTIES
- ▶ PROFIT SPLIT METHOD USING INFORMATION ON SIMILAR TRANSACTIONS BETWEEN COMPARABLE UNRELATED PARTIES



DETERMINING TRANSFER PRICING

Price benchmarking method shall be used in all the cases where it can be applicable. Other methods like resale price method, cost plus method, net margin method, or profit split method will be applicable if determining of transfer pricing is not possible by direct comparison, or values on comparable operations are not available.

Taxpayers are under obligation to report on operations that are regulated by transfer pricing rules in case annual amount of transactions falling with transfer pricing definition exceed AZN 500,000 (~USD 268,165).

A taxpayer has procedural rights to submit documents to tax authorities evidencing the arm's length nature of transaction being questioned from transfer pricing perspective.

TAX HAVENS

By definition, tax havens are jurisdictions which have a tax burden at least twice more preferential compared to tax regime of Azerbaijan, and laws ensuring secrecy of financial information or information on actual owners and beneficiaries of assets.

There is a specific WHT on payments to tax havens. Thus, direct or indirect payments to entities established in tax havens by Azerbaijani residents or non-residents having a permanent establishment in Azerbaijan are considered as income from Azerbaijani source. There is an additional WHT of 10 per cent on such payments.

The approved list of 37 tax havens was as follows as of 11 July 2017:

Tax Havens	
Andorra	Liechtenstein
Anguilla	Maldives
Antigua and Barbuda	Marshall Islands
Aruba	Monaco
Bahamas	Montserrat
Barbados	Niue
Belize	Palau
Bermuda	Panama
British Virgin Islands	Samoa
Jersey	Saint Lucia
Gibraltar	Saint Vincent and the Grenadines
Dominica	Saint Kitts and Nevis
Fiji	Thailand
Hong Kong	Taiwan
Cape Verde	Turks and Caicos Islands
Cayman Islands	Trinidad and Tobago
Cook Islands	Vanuatu
Grenada	United States Virgin Islands
Liberia	

The list is reviewed annually



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