

Client Alert on Tax Code amendments in Azerbaijan

January 10, 2019

On 30 November 2018 Milli Mejlis and the President of Azerbaijan approved amendments to the Tax Code of Azerbaijan which include major changes in the taxation of the income of physical persons and businesses. A major part of the amendments are effective from 1 January 2019.

No doubt, there will be an in-depth analysis of this tax reform and a generalization of practice concerning its implementation in the coming months. However, the purpose of this alert is to provide a bullet point summary of the main changes in the tax legislation adopted for 2019 and the subsequent 7 years.

Income tax

- The income tax for individuals employed in the **private non-oil and gas industry** having a monthly income of up to AZN 8,000 will be taxed at **0%**, and such monthly income over AZN 8,000 will be taxed at **14%**.

The new income tax rates for private non-oil and gas sector are:

Taxable monthly income	Tax rate
Up to AZN 8,000	0%
More than AZN 8,000	14% over AZN 8,000

Income tax rates for employees in the **oil and gas industry and state sector** will remain as follows:

Taxable monthly income	Tax rate
Up to AZN 2,500	14%
More than AZN 2,500	AZN 350manats +25% over AZN 2,500

Social insurance contributions with regard to employees have also changed. For private non-oil and gas industry employees they are now as follows:

Monthly income subject to insurance contributions	Rate of social insurance contributions		
	Total	Withheld from the employee	Paid by the employer
Up to AZN 200	25%	3%	22%
More than AZN 200	25%	AZN 6 + 10% over AZN 200	AZN 44 + 15% over AZN 200

The new social insurance rates for the private non-oil and gas sector will be valid for 7 years. The existing 3% employee and 22% employer contributions will continue to apply in the oil and state sectors.

- Annual **non-entrepreneurial income** of individuals are to be taxed at the fixed rate of 14% (before the change, 25% tax would have applied to annual income above AZN 30,000).
- **Dividends** paid to individuals by enterprises whose turnover within a 12-month period does not exceed AZN 200,000 and who are not registered for VAT purposes will be exempt from withholding income. A similar exemption applies to legal entities that are shareholders of enterprises whose turnover within a 12-month period does not exceed AZN 200,000 and that are not registered for VAT purposes.
- An exemption of 50% income from the sale of shares and participatory interests will be provided to the **holders of shares and participatory interests** for at least 3 years.

Simplified tax

- Taxpayers involved in production activity with the number of employees exceeding 5 may not be simplified taxpayers.
- Taxpayers providing services to legal entities and individual entrepreneurs may not be simplified taxpayers (this prohibition does not apply to taxpayers providing certain types of services, e.g., persons involved in the repair of clocks/watches, TV sets, refrigerators, and other appliances, private drivers, nannies, etc.).
- The rate of simplified tax for Baku has been reduced from 4% to 2%.

So, basically, in terms of general businesses, simplified taxpayers now would be sole entrepreneurs and legal entities having not more than 5 employees providing services to the general public.

VAT

- A VAT exemption is introduced for the import of vehicles operated solely by electric engines.
- Consumers will now be able to obtain a refund of up to 15% VAT paid by a non-cash method and 10% VAT paid by a cash method in respect of retail goods and catering services purchased.

Profits tax

- A portion of not more than 10% of reporting period profit of a taxpayer (excluding legal entities in which a 51% or higher stake is directly or indirectly owned by the state, and public legal entities established on behalf of the state) transferred to the enterprises and organizations which operate in education, health, sports and culture and which meet factors defined by the relevant executive body, will be exempted from profits tax for 10 years.
- 50% of taxpayers' revenues from the sale of shares which have been owned for at least 3 years will be exempted from profits tax.

Excise tax

- The family of excised products has been enlarged by energy drinks (both alcoholic and non-alcoholic), busses (except for those operated using compressed gas), and liquids for electronic cigarettes.
- Excise tax rates for existing excisable products have increased approximately 1.5 fold.

Excise tax rates are as follows:

- alcoholic energy drinks AZN 2 per liter.
- non-alcoholic energy drinks AZN 3 per liter.
- liquids for electronic cigarettes – AZN 20 per liter.

Tax relief for micro and small businesses

- Various forms of tax relief have been provided to various **micro and small entrepreneurs**, including an exemption from income tax on 75% of the income of micro businesses.

Criteria for micro, small, medium and large businesses:

Categories of business subject by size	Average number of employees (persons)	Annual income (AI) (in thousands of manats)
Micro businesses	1-10	AI ≤ 200
Small businesses	11-50	200 < AI ≤ 3,000
Medium businesses	51-250	3,000 < AI ≤ 30,000
Large businesses	251 and more	30,000 < AI

- Participants in Small and Medium Business (SMB) clusters are exempt from profits tax, land tax and assets tax for 7 years from the date of registration in the SMB register.

An SMB cluster participant is a micro, small or medium business which entered into the relevant agreement with an SMB cluster company and which has received a relevant certificate from authorities

- Companies included in the SMB cluster are exempt from VAT for 7 years in respect of the import of mechanisms, technological equipment and devices for production and processing purposes.
- A portion of the income of participants of SMB clusters used for incurring expenses of a capital nature are exempt for 7 years from profits tax.
- Micro businesses are exempt from assets tax.
- Micro and small business who have obtained a 'Startup' certificate will be exempt from income and profits tax received from innovation activities for 3 years after the receipt of the relevant certificate.

Innovation activity is defined an activity directed at the creation and performance of new or improved goods (works, services) [and] technological processes for the purpose of achieving economic or social efficiency on the basis of scientific research and experimental design works and the implementation of the results of the same.

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