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### **Amendments made to the Tax Code in 2020**

The President of the Azerbaijan Republic approved amendments to the Tax Code to be valid from 01 January 2020. The Law was published on 28 December 2019.

#### **Value Added Tax (VAT)**

- Electronic VAT invoices will be abolished from 01 January 2020. Tax payers will be required to issue only electronic delivery notes for sold goods, services and work. This way administrative burden on VAT payers will be reduced.
- VAT will be calculated on cash basis and accrual method will be abolished from 01 January 2020. It means that time of VATable transactions will be the date of receipt of payment from customers as below:
  - Date when cash received or funds arrived in the bank account
  - In case of mutual settlements - the date of settlement/termination of liability
  - For unpaid accounts receivables – when claim period gets expired.
  - For barter operations – the date of disposal of assets.

#### **Additional obligation on banks**

Information on transactions carried out through the accounts of VAT payers will be submitted by the banks to the tax authorities within 10 days after month end.

#### **Risky tax payers**

The amendments introduce new terms in the Tax Code such as risky taxpayer, false transaction and beneficiary of the false transaction.

The beneficiary of a false transaction is the actual owner of a legal entity that receives income from the false transaction, or an individual who exercises control over that legal entity.

False transaction is a transaction made to gain profit without actual supply of goods, works and services.

Criteria for identifying a risky taxpayer are expected to be determined by Government.

The Tax Code envisages the following actions in respect to risky taxpayers:

- Information about risky taxpayers will not to be considered as a trade secret
- To perform extraordinary tax audit and operative tax control
- Determination of the date for refund of the overpaid tax from the state budget without consideration of the full completion of the operative tax control.

Documents authorized based on the false transactions as well as electronic delivery notes issued by a risky taxpayer will not be treated as a basis for recovery of VAT from the state budget.

For the profit tax purposes, the value of goods delivered within false transactions will be calculated based on the market price and related information.

### **Real-time cash machines**

The taxpayers will be able to offset the costs incurred due to the installation of the real-time cash machines against the tax liability arising after the installation of this register to certain extend.

### **Taxpayers engaged in construction of buildings**

Such tax payers will not have right to be simplified tax payer in 2020, except for those who have commenced but have not completed their construction works until January 1, 2020.

Persons engaged in the construction of the buildings must submit information on each building in the prescribed template to the tax authority until 20 January of each year.

### **Transnational corporations and reporting obligations**

Transnational group of companies refer to the companies that are resident in two or more countries or a group of companies operating through their permanent establishments.

If the total income of such group of companies for the fiscal year exceeds the manat equivalent of 750 million euros, an enterprise belonging to that group and a resident of the Republic of Azerbaijan is required to file return to the tax authorities.

### **Electronic purchase acts**

When buying goods from individuals who do not retain tax registration it will be required to issue electronic purchase acts within 5 days after purchase of such goods. Printed electronic purchase act signed by seller will be considered as tax deductible costs.

### **Exemptions applied to residents of the technology park**

For the residents of technology parks, it is envisaged to extend the defined tax exemptions in connection with profit, income, land and property taxes from 7 years to 10 years.

### **Excise tax rates**

Excise rates on the most alcoholic beverages, tobacco products, and energy (non-alcoholic or alcoholic) drinks are to be increased from 01 January 2020.

### **Amendments to Medical Insurance Law**

On 24 December 2019 the President of Azerbaijan Republic signed Decree approving amendments to Medical Insurance Law. According to the amendments

valid from 01 April 2020 contributions for mandatory medical insurance will be as follows:

Activity type	Monthly income			
	Up to 8,000 AZN		Over 8,000 AZN	
Responsibility	Employer	Employee	Employer	Employee
Public and oil sector	2%	2%	AZN 160+0.5% of amount exceeding 8,000 AZN	AZN 160+0.5% of amount exceeding 8,000 AZN
Non- oil and non- public sector in 2020	1%	1%	AZN 80+0.5% of amount exceeding 8,000 AZN	AZN 80+0.5% of amount exceeding 8,000 AZN
Non- oil and non- public sector from 2021	2%	2%	AZN 160+0.5% of amount exceeding 8,000 AZN	AZN 160+0.5% of amount exceeding 8,000 AZN
Tax registered individuals (freelancers, private notaries, bar members)	4% of minimum monthly salary			
Individuals without tax registration	2% of income		160 AZN +1% of amount exceeding 8000 AZN	

Medical insurance contributions shall be paid within 15 days after month end

In addition to the above below payments shall be paid as follows from 01 January 2020:

- Motor petrol, diesel fuel and liquid gas produced in Azerbaijan for domestic consumption and imported into Azerbaijan -0.02 AZN per liter (valid from 01 April 2020);
- Vodka, enhanced drinks and beverage drinks – 0.2 AZN of excise rate per liter
- Beer (excluding non-alcoholic ones) -0.05 AZN of excise rate per liter
- Slim cigars and cigarettes made from tobacco and its substitutes -1.5 AZN of excise rate on 1000 pieces
- Energy drinks -0.1 AZN of excise rate per liter

The information contained in this publication is for general guidance only. You should neither act, nor refrain from acting, on the basis of such information.

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