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### **Amendments to Unemployment insurance Law**

The Parliament of Azerbaijan Republic has adopted changes to Unemployment Insurance Law. According to the amendments valid from 01 January 2019 the Azerbaijan Tax Ministry will be an authority for control over payment and quarterly reporting of insurance contributions. Offset and refund of the contributions will be conducted as per provisions of the Tax Code.

The Law has already been signed by the Azerbaijan President.

### **Amendments to Social insurance Law**

The Parliament of Azerbaijan Republic has adopted changes to Social Insurance Law. According to the amendments valid from 01 January 2019 the Azerbaijan Tax Ministry will be an authority for control over payment and quarterly reporting of social contributions. Offset and refund of the contributions will be conducted as per provisions of the Tax Code.

22% and 3% contributions will remain in force for oil, gas and public sectors. For those operating in non-oil and non-gas private sector social contributions will be paid as per below table:

Monthly income	Rate of social contributions		
	Total	To be withheld from income of employee	To be paid by employer
Up to 200 AZN	25%	3%	22%
Over 200 AZN	25%	6 AZN + 10% of amount exceeding 200 AZN	44 AZN + 15% of amount exceeding 200 AZN

Income of insured individuals outside employment shall be subject to below social contributions:

- Entrepreneurial activity- 50% of minimum salary in construction and trade and 25% of minimum salary in other areas of economy (20% in 2019 and 25% in 2020).
- 25% of income for those working on the basis of civil law agreements, at

- source of payment
- Private notaries – 25% of minimum monthly salary
- 15% of author's royalties at source of payment
- Bar members, independent auditors, independent accountants -20% of income
- 6% of minimum monthly salary - those working at farms and using owned land for agriculture

Social contributions shall be paid within 15 days after each month end.

As per amendment made to Clause 15 payments to 3<sup>rd</sup> parties for personnel meal shall not be subject to social contributions.

The Law has already been signed by the Azerbaijan President.

### **Amendments to the Tax Code in 2019**

The Parliament of Azerbaijan Republic adopted significant changes to the Tax Code on 30 November 2018. The Law was signed by the Azerbaijan President and published on 22 December 2018.

#### **General provisions**

- Distribution of property (assets) formed from net profits in favor of founders/shareholders during liquidation of legal entity is considered dividend payment subject to tax
- Payments made to the companies (including branches and representative offices in other countries) established/registered or having bank accounts in countries with preferential taxation are subject to additional tax of 10%. These countries include Andorra, Angila, Antigua and Barbuda, Antilles (Netherlands), Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Dominica, Gibraltar, Grenada, Guernsey, Hong Kong (China), Liberia, Liechtenstein, Macau (China), Maldives, Marshall Islands, Men Islands, Monaco, Montserrat, Nauru, New Jersey, Niue, Palau, Panama, Saint Vincent and the Grenadines, Samoa, Seychelles, St. Kitts and Nevis, St. Lucia, Turks and Caicos Islands, Vanuatu, Virgin Islands (US).
- Refund of received loan (excluding interest) is not considered as income from Azerbaijan source.
- New definition of **electronic cabinet** added to the Tax Code as e-page with password and code where tax office and tax payer may exchange of information.
- New definition of **center of economic interests** added to the Tax Code as a main place of revenue irrespective of location of management.
- New definition of **capital** added to the Tax Code as value of net assets

arisen as difference between assets and liabilities.

- New definition of **innovative activity** added to the Tax Code as activity directed on creation of developed products, goods, services and technological process based on scientific research
- New definition of **KOB cluster company** added to the Tax Code as a company which obtained certificate from a state authority supporting micro, small and medium size businesses
- New definition of **startup** added to the Tax Code as a company which obtained certificate from an state authority supporting micro, small and medium size businesses to conduct innovative activity
- insurance and re-insurance companies are now obliged to provide quarterly report on insured and re-insured fixed assets of legal entities and their representative and branch offices.
- Tax authorities will have right to take the documents from tax payers during tax audit and operative tax control.
- Tax authorities will now have right during ongoing tax audit to review results of previous tax audits and may cancel or change results of previous tax audit. This change will apply to extraordinary tax audit only prescribed in the Clause 38.3 of the Tax Code.
- As per amended Clause 57.3 of the Tax Code if a tax payer fails to submit documents in time (including information in electronic form), or submit them in distorted form, or delay submission without a valid reason, financial sanction of 1000 AZN will apply.
- For violation of rules of cash settlements, implementing cash settlements with population without use of till machines or proper receipts financial penalty of 1000 AZN will apply for the 1st time, 3000 AZN for the 2nd time and 6000 AZN for the 3rd and any following time.
- For employment of physical persons without contract financial penalty of 2000 AZN will apply for the 1st time, 4000 AZN for the 2nd time and 6000 AZN for the 3rd and any following time.
- For not recording monetary funds over 1000 AZN, financial penalty of 10% of amount exceeding 1000 AZN will apply for the 1<sup>st</sup> time, 20% of amount exceeding 1000 AZN will apply for each following time if discovered within the same calendar year.
- Sale of goods by Seller without electronic delivery note or electronic tax invoice is subject to financial penalty of 10% of sale price for the 1<sup>st</sup> time, 20% of sale price will apply for the 2<sup>nd</sup> time, 40% of sale price will

apply for 3<sup>rd</sup> and any following time.

- If a tax payer fails to keep records of revenue and costs, financial penalty of 10% of undocumented costs will apply to buyer for the 1<sup>st</sup> time, 20% will apply for the 2<sup>nd</sup> time, 40% will apply for the 3<sup>rd</sup> and any following time.
- If a tax payer does not declare or reduce revenue exempt from tax, financial penalty of 6% of undeclared or reduced revenue (without deduction of costs) will apply.
- If a tax payer disagrees with assessment made by the tax authorities he can file complaint to a court or higher tax authority and in this case tax order imposed on bank accounts and VAT deposit account of the tax payer shall be processed only after decision of court or such tax authority comes into force.

### Personal income tax

Personal tax rates for employees working for tax payers engaged in non-oil and non-gas private sector of economy will be valid from 01 January 2019 for 7 years.

<b>Taxable monthly income, AZN</b>	<b>Tax Rate</b>
Up to 8000 AZN	0 %
Over 8000 AZN	14% of the amount exceeding 8000 AZN

Criteria for oil and gas industry will be determined by competent state authority.

The change made also in respect to exemption from personal income tax for insurance premiums paid under the endowment life insurance concluded for not less than 3 years. Only 50% of insurance premiums will be now exempt from personal income tax.

Tax rate for annual income from non- entrepreneurial activity will be 14%.

Income of individuals without tax registration from provision of below products will be subject to 2% tax at source of payment:

- ferrous and non-ferrous metals;
- paper, plastic and glass products intended for utilization.
- Used tires intended for utilization

50% of income from sale of shares owned for at least 3 years will be exempt from personal income tax.

75% of income of micro businesses will be exempt from tax.

Income from innovative activities of micro or small entrepreneurs will be exempt from tax for 3 years from date of receipt of startup certificate.

Portion of income of SME cluster member individual entrepreneurs earned from

supply of goods, services and works under contract with SME cluster company, which are directed for capital expenditures will be tax exempt for 7 years.

### **Corporation income tax (CIT)**

50% of income from sale of shares owned for at least 3 years will be exempt from corporation income tax.

Depreciation rate for fixed assets of tax payers without VAT registration and with revenue not exceeding 200,000 AZN shall be doubled for CIT purposes.

Small business subjects shall multiply depreciation rate for fixed assets fixed in Tax Code by 1.5 for tax purpose.

Taxable losses cannot be carried forward in below cases:

- Losses arisen before tax payer becomes CIT payer
- Implementation of Reduced rates for fixed assets repairs and depreciation

Tax exemption will apply to:

- 75% of profit of legal entities from micro-entrepreneurship,
- profit of SME cluster company for 7 years
- profit of legal entity startups classified as micro and small businesses for 3 years

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

Consumers (physical persons) buying goods (excluding oil and gas products) from retail trade and public catering shall have right to apply for VAT refund of 15% if purchased in noncash settlement and 10% if purchased for cash.

Tax payers with activities subject to VAT and exempt from VAT at the same time will be allowed to fully recover VAT if such tax payers keep records of VAT-able and VAT exempt purchases.

Import of machinery, technological equipment and installations for production and processing purpose for SME cluster for 7 years will be exempt from VAT.

### **Excise tax**

Energetic drinks and liquid for electronic cigarettes will be subject to excise tax as below:

- Alcoholic energetic drinks – 2 AZN per liter
- Non-alcoholic energetic drinks – 3 AZN per liter
- Liquid for electronic cigarettes – 20 AZN per liter

Excise tax for imported cars will be increased from 01 January 2019.

### **Simplified tax**

Taxpayers engaged in trade with revenue exceeding 200,000 AZN for 12 consecutive months will not be able to continue being simplified taxpayers.

Such restriction will also apply to:

- entities engaged in production with number of employees over 10 persons
- wholesale traders
- suppliers of services other than services supplied to individuals without tax registration
- gold and leather product sellers
- those having activity subject to licensing

The flat tax rate will be 2% for the whole country. Tax rate for catering will remain 8%.

### **Decrees of Cabinet of Ministers**

The Cabinet of Ministers of the Azerbaijan Republic adopted the Decree № 556 dated 21 December 2018 approving criteria of subjects of micro, small, medium and large businesses for Tax Code purpose.

They are as follows:

<b>Category</b>	<b>Average number of employees</b>	<b>Annual income (thousand manats)</b>
Micro entrepreneur	1-10	Up to 200
Small entrepreneur	11-50	From 200 to 3,000
Medium entrepreneur	51-250	From 3,000 to 30,000
Large entrepreneur	251 and over	Over 30,000

On 19 December 2018, the Cabinet of Ministers adopted Decree approving dates of public holidays, including Novruz, Ramazan and Gurban in 2019.

According to the Decree, the below dates will be non-working days in 2019:

- March 20, 21, 22, 23 and 24 – Novruz holidays;
- June 5, 6 - Ramazan holidays;
- August 12 and 13 –Gurban holidays.

### **New Amounts of the Living Minimum for 2019**

On 30 November 2018, the President of the Republic of Azerbaijan signed a Decree “On Approval of the Law on the living minimum for 2019”.

According to the Law, living minimum in Azerbaijan are set as follows:

- AZN 180 for the main socio-demographic groups of population;
- AZN 191 for working population;
- AZN 149 for pensioners;
- AZN 160 for children.

The Law comes into force from 1 January 2019.

### **Green corridor Rules**

The Azerbaijan President signed Decree on 21 December on approving Rules of ‘green corridor’ for participants of foreign trade. The Rules will simplify and speed up process of documentation of customs procedures and will come into force from 01 February 2019.

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