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Amendments made to the Tax Code

The President of the Azerbaijan Republic approved amendments to the Tax Code to be valid from 01 January 2022. The Law was published on 31 December 2021.

General provisions

- Tax payers, excluding subjects of micro and small entrepreneurship, engaged in production activity must file tax return on norms of consumption of raw materials and materials required per unit of produced product by 31 January each year. In case of any change in norm consumption or production of new products tax payers shall file adjusted tax return within calendar year.
- New definition of controllable enterprise added to the Tax Code as an overseas company with over 50% shares owned by Azerbaijani resident. Notification of such enterprises must be filed to the tax authorities within 90 days after each year end.
- Tax payers must provide access to hard and soft data upon request from the tax authorities. Subjects of medium (when number of employees ranges from 51 to 250 and revenue ranges from AZN 3M to AZN 30M) and large entrepreneurship (when number of employees exceeds 251 and revenue exceeds AZN 30M) must provide such access also to their financial statements.
- Transportation of commercial goods by road must be supported with electronic consignment note and electronic waybill. Rules of usage of such documents shall be declared by the Cabinet of Ministers and then this requirement will become valid.
- Tax payers, excluding those engaged in oil-gas and public sectors, shall provide tax authorities with Notification on goods to be imported into country before import made. Such information shall include place of storage (offloading) and customer if goods ordered. Form of the notification shall be declared by the Cabinet of Ministers. The tax authorities now have right to visit storage place and inspect the goods within 3 working days after import of such goods. Such inspection shall be formalized by a protocol. Failure to provide notification to the tax authorities on time or with distorted information will result in penalty of 2% of invoice value of imported goods for subjects of micro entrepreneurship and 5% for others.
- VAT registered tax payers must file Notification on debtors and creditors together with annual profit (income) tax return. Form of the return shall be approved by the Cabinet of Ministers. Failure to provide

such notification will result in penalty of 100 AZN. This change will apply to subjects of small entrepreneurship from 01 January 2023 for 2022 and shall be filed by 31 March 2023.

- Tax payers shall include below information in their payment order when remitting funds:
 - Contract date and number as well as series and number of e-invoice if payment made for goods, services and works
 - For foreign trade - series and number of import declaration and invoice date and number
 - Contract or invoice date and number if payment made as per loan agreement and payment description shall mention loan
 - Contract or invoice date and number if advance payment made

Failure to meet the above requirements will result in penalty of 100 AZN per payment order.

- Tax authorities may remotely audit profit (income) tax returns within 60 working days. In the meantime other tax returns will continue being audited remotely within 30 working days as before.
- Sale of goods with e-invoice by Seller without detailed information of sold goods will result in reduction of purchase value of such goods by dividing value by 1.2

Personal and corporate income and tax

- Payments made by legal entities and tax registered individuals of income of individuals without tax registration such as bonuses, financial aid, advocates from bureaus shall be taxed at 14% rate at source of payment.
- Income of individuals without tax registration from provision of below products will be subject to 5% now instead of 2% tax at source of payment:
 - ferrous and non-ferrous metals;
 - paper, plastic and glass products intended for utilization.
 - Used tires intended for utilization
 - Supply of raw leather
 - Receipt of agricultural products from agricultural producers
- Business trips within country shall be tax deductible as per supporting receipts (excluding daily rates) within fixed norms. In case of absence of hotel receipt only 50% of daily rate shall be considered as tax deductible cost.
- Repair costs of rented off-balance fixed assets shall be capitalized and depreciated as per rates applicable on each category of fixed assets.
- Transportation between destination points outside Azerbaijan as well as transit transportation shall not be subject to taxation in Azerbaijan within provisions of Article 125 of the Tax Code.

- Subjects of micro entrepreneurship may keep records of revenue and expenses on accrual or cash basis. Subjects of small, medium and large entrepreneurship must use accrual method only. This change will be valid for subjects of small entrepreneurship from 01 January 2023.
- Invoices from 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% on accrual basis now. These countries include Andorra, Angila, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cabo Verde, Cook Islands, Dominica, Fiji, Gibraltar, Grenada, Hong Kong (CPR), Jersey, Liberia, Liechtenstein, Maldives, Marshall Islands, Monaco, Montserrat, Niue, Palau, Panama, Saint Vincent and the Grenadines, Samoa, St. Kitts and Nevis, St. Lucia, Thailand, Taiwan (CPR), Trinidad and Tobago, Turks and Caicos Islands, Vanuatu, Virgin Islands (US).

VALUE ADDED TAX (VAT)

- VAT exemption will apply on import of media products, books, textbooks, irrigation and other facilities, machines of agricultural nature; provision of agro-technical services to producers of agricultural products; import and sale of hybrid cars with production date no more than 3 years and engine volume below 2500 cubic centimeters- for 3 years; import and sale of chargers of 2nd and 3rd levels for electric cars- for 3 years;
- Forwarding services provided for international and transit transportation shall be subject to VAT at 0% rate.
- VAT paid to customs on goods imported into country on temporary regime can be claimed only after the goods moved to 'free circulation' (permanent) customs regime.
- Tax payers engaged in wholesale and retail sale of agricultural products cannot claim VAT on purchased agricultural products for 3 years starting from 01 January 2022.

Excise tax

Excise tax rates will change as below:

- Vodka, cognac and cognac materials, liquor and liquor materials – 4 AZN per liter
- Champagne – 2.6 AZN per liter
- Vine and vine materials – 0.2 AZN per liter
- Beer and beer containing drinks (excluding non-alcoholic ones) – 0.4 AZN per liter
- Energetic drinks – 3.1 AZN per liter
- Liquid for electronic cigarettes – 100 AZN per liter
- Cigarettes – 38.5 AZN per 1000 pcs
- Cigars – 1 AZN per pcs

Property tax

Value of cars now will be subject to property tax.

Medical Insurance rate changes

Mandatory medical insurance contributions for those working in non-oil and non-gas sector shall be 2% on employee and 2% on employer from 01 January 2022.

Non-cash payments Law

The law introduces number of new restrictions for use of cash.

Below payments can be made in non-cash form only:

- Sale of cars at car salons
- Retail sale for amounts over 2,000 AZN per deal (excluding furniture and appliances)
- Sale of furniture and appliances for amounts over 10,000 AZN per deal
- Medical services provided by medical organizations for amount exceeding 500 AZN per transaction

Minimum monthly salary change

The President signed Decree to fix monthly minimum salary of 300 AZN in country from 01 January 2022.

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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