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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 2023.

General provisions

- Failure to submit or absence of documents on the provision of goods (works, services) by the taxpayer during the tax audit will be another basis for market price application
- Transfer of net profit of permanent establishment of a non-resident company established on the territory with preferential taxation will not be now considered as income from Azerbaijan source
- The criteria for determining the countries or territories subject to preferential taxation regime have been further expanded. The following will be considered as countries or territories with preferential taxation:
 - countries or territories whose tax rate is 75% or less of the rate specified in this Code and (or);
 - countries or territories that do not exchange information with the Republic of Azerbaijan within international agreements and (or);
 - countries or territories where a law on the confidentiality of information about financial information, or about companies that are allowed to protect the secret of the actual owner of the property or the recipient of income (profit) exist.

Tax exemptions in the territories of Azerbaijan liberated from occupation

- Profit (Income) and Simplified tax, including on non-sales income;
- Property tax;
- Land tax;
- VAT on the import of raw materials and materials in the areas of production activities approved by the relevant executive authority;
- Dividends of the shareholders (participants) of the resident legal entities of the liberated territory.

Such exemptions will apply to legal and physical entities directly operating in the liberated territories for next 10 years but will not apply to financial services, transportation of cargo and provision of goods (works, services) by the contractors sourced from the state budget.

Exemptions shall apply as outlined below:

- Production, processing and extraction activities - income obtained from the goods presented both within the liberated territory and outside that

territory, as well as from the goods exported from the territory of Azerbaijan Republic.

- Wholesale trade, construction, and services - legal entities and individuals providing goods (works, services) to residents of the liberated territories.
- Tourism, retail trade, public catering, and other public service – those tax payers performing activity in those areas.

Personal and Corporation Income Tax exemptions

- Income of physical persons earned from industrial production of agricultural products, including non-sale income of agricultural product producers and subsidies given to these persons at the expense of the state budget;
- Dividend income of participants-physical persons of resident legal entities engaged in the production of agricultural products earned in 2023 (including by industrial method);
- Non-sale income of resident legal entities engaged in the production of agricultural products (including by industrial method), subsidies given to legal entities at the expense of the state budget in connection with the production of agricultural products, as well as those engaged in the production of agricultural products (including by industrial method), dividend income of legal entities that are participants of resident legal entities in this field - for a period of 1 year from January 1, 2023;
- Up to AZN 800 of the taxable monthly income of the parents, widows (husbands) and children of the persons granted the status of martyr's family - exemption from the income tax on employment income;
- The full value of the awards given by the organizers of international, cross-country sports competitions, and the amount of up to AZN 50,000 (currently up to AZN 4,000) of the value of the prizes given in the form of money by domestic republican sports federations and sports clubs - from the income tax of individuals;
- For a period of 7 years from the year of approval of the relevant list of individual entrepreneurs and legal entities producing food products that will replace imported goods with locally produced (processing) goods - 50 percent exemption from income and profit tax of the income/profit obtained from that activity, as well as exemption from property and land tax for the respective property and land used in that activity
- Salaried Income of employees working for companies-residents of technology parks engaged in provision of system integration, software preparation and development activities outside the technology park shall be taxed as follows:
 - In the period of 3 years from January 1, 2023, if the monthly income is up to 8,000 manats, 0 percent, 5 percent of the amount exceeding 8,000 manats;
 - 101.7.2. 5 percent of monthly income for 7 years from January 1, 2026.

Corporation Income Tax

Repair costs of the leased fixed assets below 500 AZN shall not be capitalized and be considered as tax deductible costs.

VAT

VAT amount must be paid no later than 1 business day from the day of payment of the main amount of the goods, works and services received.

Investment of fixed assets in the form of shares in the charter fund (capital) of the enterprise (if the investment of fixed assets in the form of shares is not related to the acquisition of other property in exchange for it) shall be subject to VAT @ 0% rate.

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
- Thin Cigars – 43 AZN per 1000 pcs
- Cigars – 1 AZN per pcs

Financial penalty

Tax payers which fail to file Country-by-Country Report ('CbCR') on time will have to pay financial penalty of AZN 10,000 instead of AZN 500.

Filing of information on imported goods by taxpayers engaged in non-oil sector

Those tax payers engaged in non-oil sector and having one object registered with the tax authorities shall be now exempt from requirement to file return on goods to be imported into country. Other tax payers shall file such return before goods leave customs control and if shipped by air within 1 working day after goods leave customs control.

VAT registration for e-commerce

Electronic tax registration of a non-resident who provides works and services by means of electronic commerce without establishing a permanent establishment will be required now. Rules shall be approved soon by the Government.

New procedures for opening a bank account

Tax payers now may open and operate bank accounts without any need to obtain permits from tax authorities. The banks now will directly inform the tax authorities about opened accounts.

VAT refunds by population

Population may get 17.5% of VAT when paid non-cash and 5% of VAT when paid cash.

Minimum monthly salary change

The President signed Decree to fix monthly minimum salary of 345 AZN in country from 01 January 2023.

Living minimum change

The President signed Decree on approval of changes to the Law on living minimum in the Azerbaijan Republic from 01 January 2023. In accordance with the Decree living minimum in country is 246 AZN, for working population it is 261 AZN, for pensioners -199 AZN and 220 AZN for children.

Amendments to the Code of Administrative Offences introduced penalties for illegal transfer of funds from Azerbaijan to a foreign state or from a foreign state to Azerbaijan

In accordance with the Amendments dated November 5, 2022 starting from 6 December 2022, the activity of illegal transferring of funds up to 50,000 AZN from Azerbaijan to a foreign country or from a foreign country to Azerbaijan by means of offsetting and other mutual settlement methods will be fined in the amount of 40-60 % of the object of the administrative offense.

Amendments to the Criminal Code introduced sanctions for illegal transfer of funds from Azerbaijan to a foreign state or from a foreign state to Azerbaijan

In accordance with Amendments dated November 5, 2022 starting from 6 December 2022, transfers of illegal funds from Azerbaijan to a foreign country or from a foreign country to Azerbaijan by means of offsetting and other mutual settlement methods will accordingly be sanctioned. Thus, these acts:

- if committed in the amount of 50,000-200,000 manats, will be punished with a fine in the amount of 40% of the crime object, or along with this fine, with restriction of freedom for a period of up to 2 years;
- if committed by officials using their official position or in the amount of 200,000-500,000 manats, will be punished with a fine in the amount of 40% to 60% of the crime object, or restriction of freedom for a period of 2 to 4 years along with a fine in the amount of 40% of the crime object or deprivation of liberty for a period of up to 3 years; and
- if committed in the amount of more than 500,000 manats, will be punished with restriction of freedom for a period of 3 to 5 years with a fine in the amount of 40% to 60% of the crime object, or deprivation of liberty for a period of 3 to 5 years.

Electric cars are exempted from import custom duties

The Cabinet of Ministers of the Republic of Azerbaijan approved amendments to Decree No. 411 dated November 10, 2022.

In accordance with amendments, with effect from 11 December 2022, the import customs duties will not be applied to passenger automobiles with electric engines, the factory release date of which are not more than 3 years.

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