GENERAL OVERVIEW OF TAX SYSTEM IN AZERBAIJAN

Tax policy, enforcement and collection of taxes in the Republic of Azerbaijan is the responsibility of the Ministry of Taxes. On the legislative level, the Tax Code describes the general principles of taxation in the Azerbaijan Republic including rules for determination, payment and collection of taxes; rights and responsibilities of taxpayers and State tax authorities; forms and methods of enforcement; liability for violations of tax laws and procedures for filing complaints of unlawful actions (or failure to take actions) committed by tax agencies and officials thereof.

Definitions, procedures and rules determined by the Tax Code are provided for the purpose of enhanced governance in related areas of tax compliance, payment of respective liabilities and are used only within the scope of taxation and enforcement regulated by the Code and other legislative acts.

Should any tax legislation conflict with legislation in other areas, with the exception stipulated below, the provisions of Tax Code shall prevail.

Should any international treaties to which the Republic of Azerbaijan is a party, provide for regulations that differ from those contained in the Tax Code, the provisions of the international treaties shall take priority.

If a production sharing or main pipeline agreements approved by the legislation before the Tax Code is enacted or after its enactment, as well as other laws and agreements of a similar nature, including the legislation on Oil and Gas, contain provisions that differ from those stipulated by the Tax Code and other legislative acts on taxes, then provisions of such agreements and laws shall be applied.

The taxes levied in the Republic of Azerbaijan, pursuant to the Tax Code, shall be as follows:

- State taxes
- Taxes of autonomous republic
- Local (municipal) taxes

State taxes are those taxes that are stipulated by the Tax Code and are obligatory for compliance and payment within the entire territory of the Azerbaijan Republic.

Within the territory of the Azerbaijan Republic taxes are calculated and paid in the currency of the Azerbaijan Republic – Manats (AZN).

There are certain rules and regulations describing a permanent establishment of legal or physical non-resident persons in the Azerbaijan Republic. Generally, it is the place and/or engagement in which such persons find themselves or their authorized representatives fully or partially conducting their entrepreneurial activities in the Azerbaijan Republic for a cumulative period of not less than 90 days within any 12-month period.

A permanent establishment shall include, but is not limited to the following:

- Place of management
- Subdivision
- Office
- Branch or agency
• Construction and repair sites, installation and assembly facilities, as well as related supervisory activities
• Platforms, yards, drilling equipment or vessels used for the exploration and production of natural resources, as well as related supervisory activities
• Any fixed base (location) where a non-resident physical person carries out entrepreneurial activity
• Premises used for the provision of consulting services
• Any place of employment in which other types of entrepreneurial activity is conducted within the territory of the Azerbaijan Republic
• Persons executing functions of the permanent establishment for non-resident enterprises or non-resident natural persons in the Azerbaijan Republic, or persons acting on their behalf and authorized to make agreements on their behalf
• Sites for manufacturing and sale of goods, and the execution of works and services

The following shall not be considered as activities performed by a permanent establishment:

• Storage and demonstration of goods and products belonging to a non-resident enterprise
• Storage of goods or products belonging to a non-resident enterprise for eventual processing and subsequent export from the Republic of Azerbaijan by a third party
• Purchase of goods or manufacturing of products by non-resident enterprise for its own needs
• Implementation by non-resident enterprise of any preparatory or supporting activity for its own needs
• Joint execution of all of the above types of activities

Furthermore, any place in the Azerbaijan Republic where a legal or natural non-resident person conducts activities for the cumulative period of less than 90 days within any 12-month period, shall not be recognized as a permanent establishment. In such event, any income derived from an Azerbaijani source shall be taxed at the source of payment.

State District or Regional Tax Authorities in the Azerbaijan Republic are the appropriate bodies of executive power.

Within their area of responsibility, tax authorities hold the authority of law enforcement agencies. State Tax Authorities conduct their activities independently from other local authorities of executive power. Decisions made by Tax Authorities, within their area of responsibility, shall be binding for all legal and natural persons, unless disputed according to the provisions of the Tax Code.

Tax authorities shall exercise control over timely payment of State taxes (with the exception of local/municipal taxes) such as Income Tax, Road Tax, Corporate Profits Tax, Value Added Tax, Excise tax (withholding of which is the responsibility of Customs authorities) and so on.

Tax Authorities shall act within their area of responsibility on the basis of the Tax Code, Customs Code, other laws of the Azerbaijan Republic and legislative acts.

The Constitution of the Azerbaijan Republic, the Tax Code and other legislative acts of the Azerbaijan Republic shall be the legal basis for the activity of the State Tax Authorities.

Tax authorities and their officials, in the course of performing official duties, shall maintain confidentiality regarding all taxpayer information.
Any taxpayer information received by the Tax Authority shall be considered as commercial (or tax) secret and information about private life with the exception of the following:

- Disclosed at the taxpayer's consent
- Relating to taxpayer's tax identification
- Relating to charter capital of an enterprise
- Relating to violation of the Tax Code and responsibility for such violations
- Relating to delayed tax payments
- Relating to information in the state register of legal entities

Information received by the Tax Authority containing sensitive commercial (tax) information shall be handled with the utmost care and consideration of the taxpayer’s interests. Any loss, disclosure or compromising of information with such a sensitive content shall be the legal responsibility of a Tax Authority that worked on the subject matter.

Tax Authorities indicated above may, in the order established by legislation, provide other agencies with taxpayer information as follows:

- Other tax authorities for the purpose of carrying out their duties
- Relevant body of executive power for the purpose of prevention and investigation of Tax Code violations with criminal content
- Courts in the course of proceedings for establishing taxpayer's tax liability or responsibility for tax violations or offences, as well as other criminal liability
- Relevant government authorities of other states in accordance with international treaties to which the Azerbaijan Republic is a party
- State Social Security and Medical Insurance Funds to the extent necessary for the implementation of laws concerning social security
- Customs authorities for the purpose of administering customs legislation

Government authorities and their officials shall return the documents that contain commercial (tax) information to the tax authorities that provided them with such documents

**TAX REGIMES**

**State Taxes**

In the event a Foreign Subcontractor performs work or services, or conducts other business activities, in the Azerbaijan Republic other than in connection with Hydrocarbon Activities, such Foreign Subcontractor shall be required to submit tax returns and financial statements to the Tax Ministry and other Governmental Authorities, and shall be taxed in respect of such work or services, or other business activities, in accordance with the Azerbaijan Legislation.

The following taxes are applicable to legal entities that perform commercial activities in the territory of the Republic of Azerbaijan:

- Corporate Profits Tax
- Value Added Tax (VAT)
- Excise Taxes
- Property Tax
- Land Tax
- Road Tax
- Mining Tax
- Simplified Tax

**Personal Income Tax & Social Contributions**

Employment income of Tax Residents and employment income received from the sources in the Azerbaijan Republic of Non-residents should be taxed at the source of payment according to the monthly rates provided in the Tax Code of the Republic of Azerbaijan.

<table>
<thead>
<tr>
<th>Taxable Monthly Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 2 000 Manats</td>
<td>14%</td>
</tr>
<tr>
<td>More than 2 000 Manats</td>
<td>280 Manats +30% of the amount exceeding 2000 Manats</td>
</tr>
</tbody>
</table>

For the persons whose monthly income does not exceed 200 AZN, additional benefit is provided – first 93.50 AZN is not taxable.

3% Employees’ and 22% Employer’s Social Protection Fund contributions from employees’ monthly Gross Income must be paid to the State Budget of the Republic of Azerbaijan not later than the date when the salaries are actually paid.

The Law on Individual Registration with the Social Protection Fund comes into force effective January 2006. According to this law, social contributions should be accounted for, and reported individually for each employee of the company.

Social allowances to employees for sick days for the first 14 days of sickness should be made at expense of employer. Sickness allowances for all the periods exceeding 14th day of sickness should be compensated to employee by Social Protection Fund.

Quarterly personal income tax reports must be filed within 20 days after the end of each calendar quarter.

According to the Tax Code of the Republic of Azerbaijan “any physical person staying in the territory of the Azerbaijan Republic for more than 182 cumulative days within a calendar year or those having a
permanent residence in the Azerbaijan Republic, or center of vital interests or habitual adobe” shall be considered as Residents for Tax purposes and report its Worldwide Income in the Azerbaijan Republic.

According to the Tax Code of the Republic of Azerbaijan, employers hiring personnel without concluding employment agreements shall be liable for financial sanction in amount of AZN 1000 for each individual hired without a proper employment contract.

Non-employment income of tax residents and income from Azerbaijan sources of non-residents which has not been taxed at the source of payment should be declared annually not later than 31st of March of the year following the year when taxable payment was made and taxed according to the annual rates prescribed in the Tax Code of the Republic of Azerbaijan

<table>
<thead>
<tr>
<th>Taxable Annual Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 24,000 Manats</td>
<td>14%</td>
</tr>
<tr>
<td>More than 24 000 Manats</td>
<td>3 360 Manats + 30% of the amount in excess of 24 000 Manats</td>
</tr>
</tbody>
</table>

For those persons whose annual income does not exceed 2 400 AZN, an additional benefit is provided – the first 1 122 AZN is not taxable.

Income received by physical persons from rent of movable or immovable property shall be subject to 14% Withholding Tax. If the tax is withheld properly and paid timely, no further taxes or interest shall be applicable on such income.

**Corporate Profits Tax**

Profit is defined as the difference between income (except for income that is exempt from tax) and deductible expenses. The tax paid from profits is defined as the Corporate Profits Tax.

**Payers of Corporate Profits Tax**

Companies whose gross income for 12 (twelve) consecutive months is more than AZN 150 000 and those who meet the below criteria, regardless of their turnover, are liable for filing and payment of annual Corporate Profits Tax:

- Producers of goods which are subject to excise tax
- Credit and Insurance organizations, investment foundations, professional participants of securities market, and pawn-shops
- Non-state pension funds
- Those who receive income from letting of property and royalties
- Owners of fixed assets with a net book value of more than AZN 1,000,000
Rates of Corporate Profit Tax

The current Profits Tax Rate, as established by the Tax Code of the Republic of Azerbaijan, is 20% of the annual profit.

Tax Payment and Reporting Requirements

Profits Tax declarations are filed annually not later than the 31st of March of the year following the reporting year. As a rule, a fiscal year is a Calendar Year. Profits Tax is paid quarterly in advance based on the past year’s Profit Tax within 15 days after the end of current quarter, or based on the financial results of the current year. Notification of the method of calculation of advance payments of Profits Tax should be provided to the Tax Ministry every year by the 15th of April. If notification is not timely filed, the Tax Ministry shall base calculations of advance payments on the results of the previous fiscal year.

Value Added Tax (VAT)

Payers of VAT

Legal entities with income for 12 consecutive months of more than AZN 150 000, and individual entrepreneurs with income for 12 consecutive months of more than AZN 90 000, shall be liable for registration as VAT payers within 10 days upon the ending of such period.

Any person making payments to a non-resident legal entity providing services in the territory of Azerbaijan Republic without registration with the office in Azerbaijan, should account for VAT on the amount of payment and then transfer the subject VAT to the State Budget of the Republic of Azerbaijan.

Rates for VAT

The current VAT Rate, as established by the Tax Code of the Republic of Azerbaijan, is 18%.

Tax Payment and Reporting Requirements

VAT declarations are filed and tax payments made monthly before the 20th day of the month following the reporting month.

VAT shall be paid to the State Budget of the Republic of Azerbaijan on monthly basis before the deadline as per the deadline requirements stipulated for filing of VAT report.

Other information on VAT

VAT is applicable to any goods or services provided or supplied in the Azerbaijan Republic except for certain cases specified by the Tax Code of the Republic of Azerbaijan.
Effective from the 1st of January 2008, each VAT-payer will be required to maintain a VAT Deposit Account for collection and transferring of incoming and outgoing VAT. Moreover, VAT will be accounted for and creditable only if it is paid through the above designated accounts.

Effective from the 1st of January 2010 all VAT invoices must be issued in special electronic format.

A financial sanction of 50% shall be imposed for failure to pay VAT on the supplier/service provider invoices following the new rules on payment of VAT using designated bank accounts.

VAT paid from petty cash to suppliers may not be recorded for the offset purposes even where valid receipts are provided.

Excise taxes

Excise – is an indirect (consumption) tax included in the sale price of excise goods as determined by the relevant legislation.

Payers of Excise Tax

- Producers of excise goods in the Republic of Azerbaijan
- Importers of excise goods into the Republic of Azerbaijan
- Residents of the Republic of Azerbaijan involved in the production of excise goods directly or via contractor outside of the territory of the Republic of Azerbaijan, who are not registered as taxpayers at the manufacturing location of such goods

Manufacturers of goods, which are produced form raw materials delivered by customer, are also considered to be excise taxpayers.

Excise Tax rates

According to the Tax Code of the Republic of Azerbaijan, the following goods are subject to excise tax at the following rates:

- Alcohol (including ethyl non-denaturized alcohol with the concentration of alcohol of not less than 80%; ethyl non-denaturized alcohol with concentration of alcohol of less than 80%) – 8,00 AZN per liter
- Vodka, related drinks, liqueurs and related products – 0,5 AZN per liter
- Brandy and related products – 0,20 AZN per liter
- Sparkling wines – 0,2 AZN per liter
- Wines and related products – 0,1 AZN per liter
- Beer and drinks containing beer – 0,08 AZN per liter
- All types of tobacco – 12,5%
- Cars, yachts and other sports and recreational vehicles imported into the Azerbaijan Republic at the following rates:
<table>
<thead>
<tr>
<th>Object</th>
<th>Tax Rate, AZN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars with the following engine capacities:</td>
<td></td>
</tr>
<tr>
<td>- Up to 2000 sm^3</td>
<td>0.15 per each sm^3</td>
</tr>
<tr>
<td>- Up to 3000 sm^3</td>
<td>300 + 1 per each sm^3 exceeding 2000</td>
</tr>
<tr>
<td>- Up to 4000 sm^3</td>
<td>1,300 + 2 per each sm^3 exceeding 3000</td>
</tr>
<tr>
<td>- Exceeding 4000 sm^3</td>
<td>3,300 + 4 per each sm^3 exceeding 4000</td>
</tr>
<tr>
<td>Yachts and other floating facilities for recreation and sports</td>
<td>1 per each sm^3 of engine capacity</td>
</tr>
</tbody>
</table>

- Petroleum derivatives, cars, yachts and recreational vehicles manufactured in the Azerbaijan Republic – rates are fixed by the government.

**Tax Payment and Reporting Requirements**

The reporting period for Excise Tax is a calendar month.

Upon production of excise goods, excise on taxable operations for each reporting period shall be paid and a Tax Declaration shall be filed not later than the 20th day of the month following the reporting one.

**Property tax**

The tax calculated and paid for fixed assets per the Balance Sheets and assets registers of the enterprises is defined as Property Tax.

**Payers of Property Tax**

Resident enterprises, as well as non-resident enterprises carrying our business activity through its permanent establishment in the Republic of Azerbaijan, are subject to property tax.

**Property Tax Rate**

The annual property tax shall be calculated and paid by Legal Entities at the rate of 1% of the average annual net book value of fixed assets (except for transportation fixed assets).

**Tax Payment and Reporting Requirements**

Payers of Property Tax shall make advance payments of 20% of the amount of property tax of the previous year prior by the 15th of the second month of every quarter.
Legal entities shall submit annual Property Tax declarations along with the Profits Tax declaration to the State Tax Departments.

**Land tax**

**Payers of Land Tax**

Physical persons and legal entities shall pay Land Tax for land in their ownership or use, situated within the territory of the Republic of Azerbaijan.

Physical persons and legal entities shall duly register their ownership rights by obtaining relevant registration certificates within 1 (one) month of acquisition.

**Land Tax Rate**

Land Tax shall be calculated as a fixed payment irrespective of the results of the economic activity of owners and users of land. The tax rate on land plots used for the agricultural purposes shall be defined at AZN 0.06 for 1 conventional unit.

Conventional units are specially defined rates as established by the respective body of Municipal Executive Authority subject to the designation, geographical location, quality, etc. of land.

**Tax Payment and Reporting Requirements**

Enterprises shall annually calculate Land Tax on the basis of the size of land plots at established tax rates and submit such declarations to tax bodies not later than the 15th May of each year. Tax should be paid in equal installments before August 15th and November 15th.

**Road tax**

Tax on auto transport equipment of foreign states entering the territory of the Azerbaijan Republic is calculated at rates depending on the type, number of seats, cargo capacity, total weight of motor transport facilities with loaded cargo, transportation of dangerous goods, etc.

Tax on transport facilities owned by physical and legal persons, excluding agricultural transport and transport belonging to government organizations, is calculated depending on engine capacity, according to the following rates.

<table>
<thead>
<tr>
<th>Taxable object</th>
<th>Rate of tax, AZN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Cars with the following engine capacities:</td>
<td></td>
</tr>
<tr>
<td>- Up to 2000 sm^3</td>
<td>0,01 per each sm^3</td>
</tr>
<tr>
<td>- Over 2000 sm^3</td>
<td>20 + 0,02 per each sm^3 exceeding 2000</td>
</tr>
<tr>
<td>Buses and other auto transport</td>
<td>0,02 per sm^3</td>
</tr>
</tbody>
</table>
Legal Entities shall submit an annual Road Tax declaration not later than the 31st of March of the year following the reporting year. The payment of the calculated Road Tax shall be also made to the State Budget by this deadline.

Physical Persons pay the Annual Road Tax to the State Budget at the time of the annual vehicle check-up.

Requirements for Obtaining Distinctive Badges and Special Distinctive Badges

All physical and legal persons engaged in transportation activities are obliged to obtain a Distinctive Badge for each vehicle owned or used based on power of attorney or rent agreement for transportation services for the Ministry of Transport of Azerbaijan Republic.

All physical and legal persons who are not engaged in transportation activities, but own vehicles intended for personal/internal operation purposes are obliged to obtain a Special Distinctive Badge for each vehicle registered in the name of such a person.

Application for Distinctive and Special Distinctive Badges should be filed within 5 days of acquisition of a new vehicle. Such application is to be filed with the Ministry of Transport.

Mining Tax

Payers of Mining Tax are physical persons and enterprises engaged in extraction of commercial minerals from subsurface strata of the earth within the territory of the Azerbaijan Republic, including the Azerbaijani Sector of the Caspian Sea.

Mining Tax Rates

Mining Tax shall be calculated based on wholesale prices or total volume of commercial minerals extracted (in m3), depending on their type.

Tax Payment and Reporting Requirements

Mining Tax shall be paid by the 20th day following the month when such minerals have been extracted.

Payers of Mining Tax shall submit tax declarations on a monthly basis not later than the 20th day of the month following the reporting month.

Simplified Tax

Payers of Simplified Tax

Enterprises that are not registered for VAT purposes (except for enterprises producing excisable goods, credit and insurance organizations and investment funds, professional participants of securities market, non-governmental pension funds, lessors of property, receivers of royalties, owners of fixed assets with a net book value of more than AZN 1 million) shall be considered as payers of the Simplified Tax.
Physical and Legal persons engaged in transportation activities (excluding international carriage of passengers and cargos) within the territory of the Azerbaijan Republic are subject to the Simplified Tax irrespective of their level of income.

Persons engaged in house-building activities for personal needs or commercial purposes are payers of Simplified Tax.

Persons who have the right or obligation to register as a Simplified Taxpayers during the calendar year should apply to the Ministry of Taxes not later than the 20th April of the year following the year when the obligation to become a Simplified Taxpayer arises.

Payers of Tax on based on the Simplified System are not obligated to pay Profits Tax, Property Tax or VAT.

Rates of Simplified Tax

All payers of Simplified Tax, apart from physical and legal entities engaged in transportation activities, should calculate tax on gross sales for each quarterly reporting period at 4% for activities implemented in Baku, and 2% for activities in all the other cities and regions of the Azerbaijan Republic and Nakhchivan Autonomous Republic.

The following ratios should be applied to the tax calculated at the rates provided below, depending on the location of the transportation services provided:

- Baku metropolitan area and transportations between Baku and other settlements – 2,0
- Absheron area, Sumgait, Ganja and transportations between the said area and cities and other settlements – 1,5
- Other cities and areas and transportations between them and other settlements – 1,0

Persons engaged in house-building activities for personal needs or commercial purposes should pay simplified tax at the rate of 10 AZN per 1 m\(^2\) of building facilities.

Physical and legal persons engaged in transportation activities in the territory of the Azerbaijan Republic shall calculate Simplified Tax depending on the technical characteristics and type of vehicles as per the rates provided the following rates:

<table>
<thead>
<tr>
<th>Transportation Type</th>
<th>Monthly Amount of Tax, AZN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carriage of passengers (except for taxis), per number of seats:</td>
<td></td>
</tr>
<tr>
<td>Up to 13</td>
<td>1,8 per 1 seat</td>
</tr>
<tr>
<td>13-31</td>
<td>21,6 + 0,5 per every seat from the 13(^{th}) and beyond</td>
</tr>
<tr>
<td>More than 31</td>
<td>30,6 + 0,3 per every seat from the 31st and beyond</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Taxis</td>
<td>9 per 1 vehicle</td>
</tr>
<tr>
<td>Freight Services</td>
<td>1 per 1 ton of carrying capacity</td>
</tr>
</tbody>
</table>

**Tax Payment and Reporting Requirements**

Taxpayers on the simplified system (excluding persons engaged in transportations activities) shall submit a Simplified Tax Declaration to the Tax Ministry not later than the 20th day of the month following the reporting period and shall remit this tax to the State Budget within the said period.

Persons engaged in transportation activities should pay the Simplified Tax for each vehicle in possession or in use by those persons on a monthly basis. No tax returns should be filed by subject persons in respect of income received from transportation activities.

Persons engaged in house-building activities should file declaration to the Tax Ministry not later than the 20th day of the month following the quarter when work actually commences on laying the foundation. The tax should be paid in quarterly installments.

**Withholding Tax from Non-residents (WHT)**

**Payers of WHT**

Gross income of a non-resident person derived from an Azerbaijani source that is not attributable to the permanent establishment of the non-resident located within the territory of the Republic of Azerbaijan, shall be subject to taxation at the source of payment without deduction of expenses.

**WHT rates**

The gross revenue of a non-resident enterprise that is not related to the activity of its permanent establishment shall be taxed at source without deduction of expenses at the below rates and in the following cases:

- **Dividends**
  Paid by a company-resident at the rate of 10%

- **Interest**
  Paid by a company-resident at the rate of 10%

- **Payments for International Communication**
  Includes international transportation services paid by the resident enterprise at the rate of 6%

- **Other Works and Services**
  At the Rate of 10%

- **Rent**
  Relating to the lease of movable and immovable property, at the Rate of 14%
- **Taxation of Net Profit of Non-resident Legal Entity**

  Net Profit of permanent establishment of non-resident legal entity repatriated to such a non-resident legal entity shall be taxed at the rate of 10%.

**Tax Payment and Reporting Requirements**

All taxes withheld at the source should be transferred to the State Budget of the Republic of Azerbaijan not later than the 20th day of the month following the month when the tax was withheld.

**Other information on WHT**

If international treaties stipulate lower tax rates or full exemption from taxes, then the amount of taxes withheld from the source of payments at a higher rate shall be refunded or offset in an order stipulated by the Tax Code of the Republic of Azerbaijan.

**NAR Taxes**

The taxes of the Autonomous Republic are those taxes that are stipulated by the laws of Nakhichevan Autonomous Republic in accordance with the Tax Code and obligatory for payment in the Nakhichevan Autonomous Republic.

The State taxes levied in the Nakhichevan Autonomous Republic are as follows: Corporate Profit Tax, Value Added Tax (VAT), Excise Taxes, Property Tax, Land Tax, Road Tax, Mining Tax, and Simplified Tax.

**Municipality taxes**

Local (municipal) taxes are those taxes stipulated by the Tax Code and other applicable legislation, applied by the resolution of municipalities and obligatory for payment within the territory of municipalities. Other obligatory payments applied by municipalities shall be stipulated by the appropriate legislation.

Local (municipal) tax rates shall be established within limits stipulated by tax legislation. In accordance with tax legislation municipalities shall be entitled to make decisions on complete or partial tax release or decrease of tax rates for certain categories of taxes paid by taxpayers in their areas.

The following taxes relate to local (municipal) taxes:

- Land tax from physical persons
- Property tax from physical persons
- Mineral royalty tax on construction materials of local importance
- Profits Tax of enterprises and organizations that are owed by municipalities

Procedures for calculation and payment of local taxes, roles and responsibilities of taxpayers and tax authorities of local municipalities, pro-forma and methods of tax control, liability for violation of tax legislation, complaint procedures for actions or non-actions of municipal tax authorities and their officers are determined under relevant legislation.
SPECIAL TAX REGIME

There is total of approximately twenty Production Sharing Agreements (PSAs) concluded or committed between the Azerbaijan Republic and consortiums of major international oil companies. Conceptually, all production sharing type agreements have very similar structures, however they sometimes provide for different interpretations of such important aspects as cost recovery, tax deductibility, residency, etc.

Here is a brief analysis of four different and, currently, the most active PSAs beginning with a comparative overview of rules for determination of residency of foreign employees (based on the Tax Protocols of relevant PSAs):

Income Tax of Foreign Employees
(ACG/Shah-Deniz/Nakhchivan/Kursangi&Karabagli/Zafar and Mashal PSAs and followed Tax Protocols)

1. Residency of Foreign Employees

1.1. 30 Consecutive Days Rule

ACG/Shah Deniz

- Presence in Azerbaijan for more than 30 (thirty) consecutive days during a calendar year in connection with Hydrocarbon Activities. Tax liability arises on taxable payments received in the Azerbaijan Republic in connection with Hydrocarbon Activities only after the first thirtieth (30th) consecutive days of employee’s stay in the Azerbaijan Republic.

Nakhchivan/Kursangi&Karabagli (K & K)/Zafar-Mashal

- Differently from ACG/Shah Deniz Protocols, Nakhchivan Protocol concerning taxation of employees’ personal income provides that individual income tax liability arises after each 30 consecutive days of stay of foreign employee in Azerbaijan until he or she has been present in the Azerbaijan Republic for a period more than 90 cumulative days.

1.2. 90 Cumulative Days Rule

ACG/Shah Deniz/Nakhchivan/K&K/Zafar-Mashal

Presence in Azerbaijan for more than 90 (ninety) cumulative days during a calendar year in connection with Hydrocarbon Activity. Personal income tax liability arises on taxable payments received in connection with Hydrocarbon Activities only after the ninetieth (90th) cumulative day in the Azerbaijan Republic during a Calendar Year.

1.3. 90 Cumulative Days Rule – Presence in Azerbaijan on a permanent or rotating basis

ACG/Shah Deniz/Nakhchivan/K&K/Zafar-Mashal
Presence in the Azerbaijan Republic on a permanent or rotating basis for a period of more than ninety (90) cumulative days during a Calendar Year. Income Tax liability arises on all taxable payments received in connection with Hydrocarbon Activities.

2. Clarifications on Protocols concerning Taxation of Employees and Physical Persons

ACG/Shah Deniz/Alov/Inam/SCP/BTC

The Clarification on Protocols concerning Taxation of Employees and Physical Persons is signed on 19 April 2006 by and among the Commission, comprised of representatives of the Ministry of Tax, Ministry of Finance, State Customs Committee and the State Oil Company of The Azerbaijan Republic, and Contractor Parties of ACG/Shah Deniz/Alov/Inam PSAs.

According to the Clarification on Protocols, Rotators or Rotating Employees shall mean any employee or contracted individual of an Employer who requested to perform duties in Azerbaijan for a scheduled period of time and subsequently leaves the territory of Azerbaijan for a scheduled number of days on a periodic basis.

For purpose of the Clarification on Protocols, Rotators or Rotating Employees should meet the following criteria:

1. Work on a scheduled based on a Rotational Cycle (i.e., a cycle of days on duty and days off) developed and approved prior to commencement of the assignment and maintained on a periodic basis (as required) during the Rotational Cycle
2. Employer/customer approves Rotational Cycle and the class of transportation for rotational travel
3. Return only to home country (i.e., country of residence) upon completion of days on duty

According to the Clarification on Protocols the following clarifications have been provided regarding tax treatment of Rotator’s or Rotating Employee’s transportation expenses:

Transportation expenses incurred in relation to Rotators’ travel to the assigned work place and from the assigned work place to their home country (i.e., country of residence) shall be excluded from the taxable income of such Rotator, irrespective of whether or not incurred directly by the Rotator.

Amounts paid only in respect of a Rotator travel to and from the work place to the home country (including but not limited to airfare expenses) and other business expenses (such as utility expenses, taxi, telephone call expenses, meals etc.) shall not be included in taxable income.

For the avoidance of doubt, the value of tickets for the following trips should be included in taxable income:

1. Trips of family members of Rotator, airfare of which was provided by the employer/customer
2. Trips of a rotator to any destination other that their home country provided by employer/customer
The same rules are applicable under the Clarifications related to BTC/SCP Host Government Agreements. The Ministry of Taxes, the SCP/BTC Participants and the Interest Holders have agreed to enter into Protocols to establish these procedures, including the Protocol dated 19 April 2006 concerning the Clarification on Protocol Concerning Taxation of Employees and Physical Persons.

3. Personal Income Tax Rates of Foreign Employees

The Azerbaijan Personal Income tax liability shall be calculated at the rates stipulated in the Azerbaijan legislation applicable on the date of payment of the gross taxable income (from 0% to 30%).

4. Application of Double Tax Treaties

**ACG/Shah Deniz/Zafar and Mashal**

Foreign Employee during a Calendar Year shall be entitled to the benefits provided by any applicable Double Tax Treaty or if there is no such treaty, the benefits that would have been available if a treaty equivalent to the OECD Model tax Convention on Income and Capital, updated as of 1 November 1997, were in force.

**Nakhcivan/K&K**

Where a Double Tax Treaty is applicable during a calendar year, such Double Tax Treaty shall provide relief from taxes.

5. Filing of Personal Income Tax Return

**ACG/Shah Deniz/Nakhchivan/K&K/Zafar and Mashal**

Tax Reporting deadline shall be by the 20th of each quarter following the end of the previous one.

**Local Employees Payroll Taxes**

*(ACG/Shah-Deniz/Nakhchivan/K&K/Zafar and Mashal PSAs and followed Tax Protocols)*

Local employees are taxed in accordance with the Azerbaijan Tax legislation.

The income tax rates applicable to monthly income vary between 0% and 30% depending on the level of income. Income tax should be transferred to the State Treasury every month not later than the day when the salaries are actually paid.

3% Employees’ Social Protection Fund contributions from their monthly Gross Income as well as 22% Employer’s contribution to the same Fund must be paid not later than the date when the salaries are actually paid.
Quarterly reports must be filed within 20 days after the end of each quarter.

**Withholding Tax**

**1. Requirements to Withhold Tax**

ACG/Shah Deniz/Nakhchivan/Zafar-Mashal

Protocol Concerning Taxation of Foreign Subcontractors is applicable to Foreign Sub-contractors that contracted directly or indirectly by, or on behalf of, a Contractor Party or an Operating Company to supply work or services in the Azerbaijan Republic in connection with Hydrocarbon Activities.

Each party making such payments to a Legal Entity Foreign Sub-contractor shall withhold tax from such taxable payments.

K&K

Payments received by legal entities foreign subcontractors are subject to withholding tax only on contracts with a duration which does not exceed 6 months. All payments received in connection with contracts exceeding 6 months will be taxed in accordance with regular Azerbaijani tax legislation.

**1.1 Withholding Tax Applicable to Mark-up on Goods Provided in the Territory of Azerbaijan**

ACG/Shah Deniz/Nakhchivan

If a foreign sub-contractor provides goods in the Azerbaijan Republic then withholding tax at the normal rate shall be applicable to the mark-up on such goods.

If a foreign sub-contractor fails to provide information on the mark-up or documentation on the cost of the goods sold within the Azerbaijan Republic prior to, or at the time it receives payment for such goods, the full invoice amount for such goods will be subject to tax

Zafar-Mashal

Withholding tax on the full amount of such mark-up is at the rate of 30%. If a foreign sub-contractor fails to provide information on the mark-up or documentation on the cost of the goods sold within the Azerbaijan Republic prior to, or at the time it receives payment for such goods, such legal entity foreign sub-contractor shall be subject to Profit Tax on payments received for sales of those goods.

**2. Rates of withholding tax**

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<tr>
<td>ACG</td>
<td>5%</td>
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<tr>
<td>Shah-Deniz</td>
<td>6.25%</td>
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<tr>
<td>Nakhchivan</td>
<td>8%</td>
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<tr>
<td>Zafar and Mashal</td>
<td>7.5%</td>
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Kursangi & Karabagli– according to the Article 15 of the K&K PSA foreign sub-contractors shall be subject to ProfitsTax calculated in accordance with the regular tax legislation applicable in Azerbaijan.

However, if the contract for provision of works or services by foreign sub-contractors does not exceed 6 months, then withholding tax at the rate of 8% will be applicable to the payments made for such works or services.

3. Reporting on Tax Withheld

ACG/Shah Deniz/Nakhchivan/Zafar-Mashal/K&K

Each person making payments to Foreign Subcontractor that requires withholding of tax shall notify the Tax Ministry about such payments and tax withheld within 20 days after the calendar quarter during which the payment was made.

3.1. Reporting on Tax Withheld from Payments Made by Customers

Nakhchivan

Each legal entity foreign sub-contractor receiving a payment that requires withholding is required to provide the Tax Ministry with quarterly reports on payments received from customers and tax actually withheld. The report should be filed not later than the 20th day of the month following the reporting quarter.

Each legal entity foreign sub-contractor receiving a payment that requires withholding is required to file an Annual Profits Tax Return not later than 15 March of the year following the reporting one.

Zafar- Mashal/K&K

Each legal entity foreign sub-contractor receiving a payment that require withholding is required to file an Annual Profit Tax Return not later than 1 April of the year following the reporting one.

ACG/Shah-Deniz

No reporting on payments received from customers is required.

4. Payment of Tax Withheld
ACG/Shah-Deniz/K&K

The tax withheld from payments to Foreign Sub-contractors shall be transferred to the Ministry of Tax thirty (30) days following the end of calendar month during which the payment was made to the Foreign Subcontractor. If the thirtieth day is a day other than a business day, payment of Tax withheld shall be made on the 1st business day thereafter.

Nakhchivan

The tax withheld from payments to Foreign Sub-contractors shall be transferred to the Ministry of Tax thirty (30) days following the date when the payment was made to the Foreign Subcontractor.

Zafar-Mashal

Tax withheld from payments to Foreign Sub-contractors shall be transferred to the Ministry of Tax fifteen (15) days following the end of calendar month during which the payment was made to the Foreign Sub-contractor.

Value Added Tax (VAT)
(ACG/Shah-Deniz/Nakhchivan/K&K/Zafar and Mashal PSAs and followed Tax Protocols)

ACG/Shah Deniz/Nakhchivan/K&K

According to the Protocols Concerning Value Added Tax, "Any supplies of goods, works or services directly to a Contractor Party, Operating Company or Subcontractor in connection with Hydrocarbon Activities shall charge VAT at a zero (0)% percent on those supplies."

All imports and exports by a Contractor Party, its Affiliates, its agents, Operating Company or Foreign Subcontractors or any of their respective employees or employee's family members, shall have VAT charged at a zero (0) percent.

VAT exemption certificate should be obtained from the Tax Ministry.

VAT declarations should be filed quarterly within 20 days after the end of each calendar quarter.

Import/Export Taxes
(ACG/Shah-Deniz/Nakhchivan/K&K/Zafar and Mashal PSAs and followed Tax Protocols)

ACG/Shah Deniz/Nakhchivan/K&K

Protocols Concerning Import and Export Taxes (Duties and Fees) state that "Each Contractor Party, its Affiliates, its agents, operating Company and Sub-contractors shall have the right to import into and export from the Azerbaijan Republic free of all taxes ... and restrictions in their own name all equipment,
materials, machinery and tools, vehicles, spare parts, goods and supplies (excluding foodstuffs, alcohol and tobacco products), works and services necessary in Contractor's reasonable opinion for the proper conduct and achievement of Hydrocarbon Activities”.

"Each Contractor Party, its Affiliates, its agents, operating Company and Subcontractor and any of their respective employees and employee's family members, shall have the right to import into and export from the Azerbaijan Republic, free of all taxes ... and restrictions and at any time, all furniture, clothing household appliances, vehicles, spare parts and personal effects for personal use by Foreign Employees and their families assigned to work in, or travel to, the Azerbaijan Republic." Import/Export Tax Exemption Certificate should be obtained from the Customs Committee to enable exemption.

All the goods imported free of taxes under PSA regime automatically fall under the category of “conditionally released goods” for customs purposes. That is, all the transfers of such goods to third parties or projects other then reported on the Customs Declarations for exemption purposes should be reported to the Customs Department. As soon as the subject goods are used for non-PSA purposes (sold to a third party, used for non-PSA project, etc.) all customs taxes and duties applicable to non-PSA importations should be paid.

Customs Department shall conduct a compulsory audit of the goods imported free of taxes under a PSA umbrella upon dissolution of the importing entity. Additionally, audits may be performed by the Customs Department at any other time at their option.

TAXES RELATING TO PIPELINE PROJECTS AGREEMENTS

There are two Host Government Agreements between the Government of Azerbaijan Republic and a number of international oil companies for development, construction and operation, etc. of product pipeline which provides for tax regimes different from ordinary PSA and non-PSA ones:

1. Baku-Tbilisi-Ceyhan (BTC) Pipeline Agreement
2. South Caucasus Pipeline (SCP) Agreement

Both agreements provide for full exemption from taxes by all legal entities providing works, services or goods in respect of the relevant projects.

Foreign employees working for these projects are liable for personal income tax only on the income received in connection with their work on projects and only if they are present on territory of project for 183 or more days during the calendar year.

TAXES APPLIED IN INTERNATIONAL TRADE

The Customs Code of the Republic of Azerbaijan determines legal, economic and organizational aspects of customs business and is intended for protection of economic security, economic sovereignty and interests of the Azerbaijan Republic, expansion of economic relations of the Azerbaijan Republic with
the world economy, protection of rights of economic subjects, physical persons and public bodies and implementation of their obligations in the area of customs business.

Customs business in the Azerbaijan Republic constitutes procedure and conditions of clearance of commodities and means of transportation through the border of the Azerbaijan Republic, applications and withdrawal of customs duties, customs clearing, customs control and other means of implementation of customs policy.

Customs policy, which is an integral part of internal and foreign policy of the State, is implemented in the Azerbaijan Republic with the following objectives: to provide the most efficient use of mechanisms of customs control and monitoring of exchange of commodities within the customs territory of the Azerbaijan Republic; protection of domestic markets of the Azerbaijan Republic; to encourage development of national economy; to promote implementation of responsibilities under the state economic policy of the Azerbaijan Republic; and, other objectives defined in compliance with the Constitution of the Azerbaijan Republic, the Customs Code and other legislative acts of the Azerbaijan Republic. Customs policy of the Azerbaijan Republic is aimed to develop international co-operation in the area of customs business. Customs business in the Azerbaijan Republic is developed in harmony and unification with generally accepted world practices and standards.

Customs territory of the Azerbaijan Republic consists of dry land of the Azerbaijan Republic, interior waters, and Azerbaijani sector of Caspian Sea, including natural and artificial islands, hydro technical structures and buildings and the air space over these sectors. Free customs zones and free warehouses may exist on the territory of the Azerbaijan Republic. Territories of free customs zones and free warehouses are regarded as existing outside the customs territory of the Azerbaijan Republic, except in the cases specified in the Customs Code and other legislative acts of the Azerbaijan Republic.

In the interests of development and strengthening of international economic integration, the Azerbaijan Republic forms customs unions with other countries, establishes free economic zones, and concludes agreements on customs business in accordance with norms of international legislation.


If provisions of international agreements of the Azerbaijan Republic differ from provisions of the Customs Code and other legislative acts of the Azerbaijan Republic on customs business, the former shall apply.

Customs business in the Azerbaijan Republic is implemented under supervision of customs authorities being an integral part of a single system of protection of law and order. Authorities, directly implementing customs business, act in compliance with regulations approved by the executive body in charge of customs business in the Azerbaijan Republic. Identification of a single system of customs authorities in the Azerbaijan Republic, establishment, re-organization and liquidation of customs authorities is carried out by relevant executive authority. No governmental bodies shall have the right to take decisions interfering with the competence of customs authorities, implement or change their functions, assign additional tasks thereon, or in any other way interfere with activity of said authorities.
which comply with provisions of the Customs Code and other legislative acts of the Azerbaijan Republic, except cases specified in legislation.

According to the Customs Code of Azerbaijan Republic the following customs taxes and fees are paid on importation of goods:

- **Import Tax**

Any items imported into Azerbaijan Republic are subject to customs duties (Import Taxes). The Import Tax rate varies between 0% to 15% and depends upon the type of goods being imported.

- **VAT at Customs**

Goods imported into and exported out of the Azerbaijan Republic are subject to VAT in accordance with the Tax Code (current rate is 18%).

- **Excises**

Excise Tax is applicable to goods transferred through the custom of Azerbaijan Republic in accordance with the Tax Code.

- **Customs Procedure & Registration Fee**

All commercially and non-commercially imported goods through the customs of the Azerbaijan Republic are subject to the customs procedure and registration fees.

- **Storage Fee**

Storage fees are collected for goods and transport stored at warehouses or special sites belonging to the Customs Authorities of the Azerbaijan Republic. The Customs Department of Executive Authority based on an average cost of the services rendered determines the storage fees.

**TAX EXEMPTIONS**

The Tax Code of the Republic of Azerbaijan provides for 0% rated VAT for all goods, services, works purchased or imported on credits and loans extended by international financial organizations, foreign governments, or foreign legal entities and individuals under interstate and intergovernmental treaties.

Purchase of goods, works and services at the expense of grants received from abroad are subject to VAT at 0% rate.

The following are some examples of exemptions from the Corporate Profit Tax:

- Income of charitable organizations – except for income from their business activities
- Grants, membership fees and donations received by non-commercial organizations
- Income of international, interstate and intergovernmental organizations – except for the income received from their business activity
• Income of state power authorities, budget-funded organizations and local managing authorities (except for income from business activities)
• Income of the Central Bank of the Republic of Azerbaijan, its structures and State Oil Fund of the Azerbaijan Republic (with exception of profits made from the allocation of its funds), as well as the Fund of Deposit Insurance
• Received insurance payments (with exception of amounts of losses connected with each insurance case)
• Income of special educational institutions, established for education of persons with poor health – except for income, gained as a result of business activities

Income tax rates for production enterprises owned by public organizations of disabled people, or children with limited levels of health, shall be reduced by 50 percent if not less than 50 percent of employees at such enterprises are disabled people, or persons under age of 18 with limited levels of health.

When establishing the right for the privilege, the average number of employees shall not include disabled people, or persons under age of 18 with limited levels of health, who work on contract terms at two jobs, as contractors and other agreements civil legislation.

**PAYING TAXES**

**ESTABLISHING A LEGAL PRESENCE IN THE AZERBAIJAN REPUBLIC**

**Introduction**


One may establish either a limited presence, in the form of a representative office or a branch of foreign legal entity, or a full presence in a number of other forms of Azerbaijan legal entities.

According to the Decree of the President of the Republic of Azerbaijan #2458, dated October 25, 2007, regarding the implementation of “one-stop shop” principle, effective January 1, 2008, state registration of a representative office or branch of foreign legal entity and Azerbaijan legal entities shall be carried out by the Ministry of Taxes of the Republic of Azerbaijan. In accordance with the legislation, the appropriate registering body is required to execute registration within 3 business days after the submission of the necessary documents.

**Representative Office and Branch of Foreign Legal Entity**

According to Azerbaijan legislation, representative and branch offices are subdivisions of a foreign legal entity. Although they are not considered to be legal entities in the Republic of Azerbaijan, they are subject to taxation, including profits tax whenever they engage in commercial activity.
Both carry out all or some of the functions of its parent “home country” foreign legal entity and can be engaged in revenue generating activities. Both a representative office and a branch operate on the basis of regulations (similar to a charter) approved by their parent legal entity.

Additionally, branch and representative offices of foreign legal entities should have the right to trade in Azerbaijan. Unless a foreign law implication is involved, the only restriction is applied to a representative office where it would not be engaged in banking activity and would only represent and protect interests of the head organization.

**Means of tax reporting**

Effective 2008, all taxpayers shall conclude a contract with the Tax Authorities for obtaining reporting software, wherein they will be able to submit tax returns to the Tax Authorities in the electronic format. It is stipulated by the contract that the enterprise will obtain specifically designed software for online tax reporting.

**Deductibility & Depreciation Rules**

Generally, the following expenses may not be deducted from income for tax purposes:

- Expenses related to the purchase and building of fixed assets and other capital expenditures
- Expenses unrelated to the core business activities
- Meals, entertainment, living and other social expenses
- Personal expenses related to individual consumption or earning salary
- Business trip expenses above the rates established by the relevant executive authority
- Repair and maintenance expenses deductible from income are limited to the threshold amount of the previous year end net book value of the fixed assets category to which they relate at the rates of 0 to 5% depending on the category of fixed assets

The annual depreciation rates for major fixed assets categories are presented as follows:

1. Buildings, installations and structures – up to 7%
2. Machinery, equipment and computer hardware – up to 25%
3. Vehicles – up to 25%
4. Working cattle – up to 20%
5. Capital expenses incurred for geological exploration and preparatory works for the extraction of natural resources – up to 25%

- Intangible assets – up to 10% if the useful life of the asset is not definable, or the rate is based on the useful life of the assets
- Other fixed assets – up to 20%
The following types of fixed assets are not subject to depreciation:

- Equipment, exhibits, specimens, models and other visual aids used in lecture halls and laboratories for scientific, educational and experimental purposes
- Reproductive cattle
- Exhibition animals at zoos and other similar institutions
- Perennial plants
- Library inventories, cinematography and media inventories (video, audio, photo), museum exhibits
- Fully depreciated useable fixed assets
- Roads in general use
- Park equipment in general use
- Fixed assets in stocks and other securities

**TAX ENFORCEMENT**

Tax enforcement is provided by the Tax Authority for the purpose of complete and timely collection of taxes. Tax enforcement is a single system of control over the registration of taxpayers as well as to ensure their compliance with tax legislation.

The tax enforcement is provided by the relevant executive authorities in cases and in accordance with procedures stipulated by the Tax Code and the Customs Code of the Azerbaijan Republic. Compliance over the calculation, reporting and timely payment of local taxes (municipal taxes) is conducted by municipal authorities.

Tax authorities oversee compliance and provide enforcement via registration of taxpayers and establishing their taxable bases, review of registration and accounting data, interview of taxpayers and other persons, inspection of premises used for generation of income and other instruments established by the Tax Code of the Republic of Azerbaijan.

Tax Audits/Inspections conducted by tax authorities can be on-site and off-site inspections.

During tax inspections, tax authorities and their officials shall clarify all circumstances that can be important for making of right decision.

**On-site Tax Inspection**

An on-site inspection may be conducted upon the Tax Authority’s decision. When conducting a regular on-site inspection, a Tax Authority shall give written notice to the taxpayer at least 15 days prior to the inspection. A regular on-site tax inspection may not be conducted more often than once a year and may not last for more than 30 business days. In exceptional cases an on-site tax audit may be extended up to 90 business days.

On-site tax inspection shall cover a period of no more than 3 calendar years.

It is not allowed for tax authorities to have on-site inspections of State taxes paid or to be paid by the taxpayer for tax periods already audited with exception of cases when such inspection is conducted in connection with dissolution of legal or physical entity, carrying out business activity without
establishment of the legal entity, concerning termination of entrepreneurial activity, and in other cases stipulated by Article 38.3 of the Tax Code.

Taxpayers who disagree with the results of a tax inspection may ask for a re-inspection. In that case, re-inspection shall not be performed by the tax officials who had conducted the previous inspection.

Taxpayers also hold the right to appeal to the courts in relation to the results of inspections conducted by tax authorities.

**Off-site Tax Inspection**

An off-site tax inspection shall be carried out without on-site visits on the basis of documents being in lawful possession of the tax authorities. These documents may be provided by taxpayer in the form of tax returns as well as other documents that support the calculation and payment of taxes, and other documents on taxpayer's activity.

If any discrepancy is found in documents submitted, the Tax Authority shall be entitled to require the taxpayer to submit additional information, documents and explanations.

**VIOLATION OF TAX LEGISLATION**

Taxpayers, tax agents and their representatives as well as Tax Authority officials shall be responsible for violation of tax legislation in accordance with the procedures set by the Tax Code, the Code of the Azerbaijan Republic for Administrative Offences and other legislation of the Azerbaijan Republic.

No person can be called to account for the same action (lack of action) involving violation of tax legislation twice.

Every taxpayer shall be deemed innocent in violation of tax legislation until his guilt is proved in accordance with procedures of the Tax Code or the verdict of court entered into force.

The taxpayer is not obliged to prove his innocence in violation of tax legislation.

The obligation for proving the circumstances confirming the fact of violation of tax legislation by the taxpayer shall be laid on the tax authorities.

Any doubtful or conflicting Articles of the Tax Code shall be interpreted in taxpayer's favor.

The following financial sanctions are applicable for failing to comply with the requirements of the Tax Code:

- Non-filing of tax reports and declarations by the deadlines provided in the Tax Code – AZN 40
- Understatement of taxes due by the taxpayer in tax declarations and returns – 50% of the understated amount of tax
- Failing to register with the appropriate tax or other government bodies within the terms provided by the Tax Code - AZN 44
- Late payment of taxes – 0,1% of the amount of tax due for each day of delayed payment
DOUBLE TAXATION TREATIES

Many countries have agreed with other countries in treaties to mitigate the effects of double taxation (tax treaties). Tax treaties may cover income taxes, inheritance taxes or other taxes. Tax treaties tend to reduce taxes of one treaty country for residents of the other treaty country in order to reduce double taxation of the same income. The provisions and goals vary highly; very few tax treaties are alike. Most treaties:

- Define which taxes are covered and who is a resident and eligible for benefits
- Reduce the amounts of tax withheld from interest, dividends, and royalties paid by a resident of one country to residents of the other country
- Limit tax of one country on business income of a resident of the other country to that income from a permanent establishment in the first country
- Define circumstances in which income of individuals resident in one country will be taxed in the other country, including salary, self employment, pension, and other income
- Provide for exemption of certain types of organizations or individuals
- Provide procedural frameworks for enforcement and dispute resolution

The stated goals for entering into a treaty often include reduction of double taxation, eliminating tax evasion, and encouraging cross-border trade efficiency. It is generally accepted that tax treaties improve certainty for taxpayers and tax authorities in their international dealings.

List of countries concluded the international agreements for the avoidance of double taxation with the Republic of Azerbaijan:

1. Republic of Austria
2. Republic of Belarus
3. Kingdom of Belgium
4. Republic of Bulgaria
5. The People’s Republic of China
6. Czech Republic
7. Republic of Estonia
8. Republic of Finland
9. French Republic
10. Georgia
11. Federal Republic of Germany
12. Republic of Hungary
13. Islamic Republic of Iran
14. Italian Republic (in process)
15. Japan
16. Canada
17. Republic of Kazakhstan
18. The Republic of Korea
19. Republic of Latvia
20. Republic of Lithuania
21. Grand Duchy of Luxemburg
22. Republic of Moldova
23. The Netherlands
24. The Kingdom of Norway
25. Republic of Poland
26. State of Qatar
27. Romania
28. Russian Federation
29. Swiss Confederation
30. Republic of Tajikistan
31. Republic of Turkey
32. Republic of Ukraine
33. United Arab Emirates
34. The United Kingdom of Great Britain and Northern Island
35. Republic of Uzbekistan

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