Guide to doing business in Azerbaijan
Preface

This book has been prepared by the EY practice in the Republic of Azerbaijan in order to provide the busy executive a quick overview of taxation, the forms of business organization, and business and accounting practices in Azerbaijan.

EY provides assurance, advisory, tax and legal, and transaction services in the principal cities of the world.
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Country overview

General statistics*

Population: 9.4 million  
Territory: 86,600 square kilometer  
(approx. 34,000 sq. miles)  
Neighboring countries: Russia, Iran, Armenia, Georgia, Turkmenistan, Kazakhstan, Turkey  
Titular nationality: Azerbaijani (91%)  
Ethnic minorities: Russian, Lezghi, Talysh, Tatar  
Capital: Baku (pop. 2,150,800)  
Other main cities: Gyandja (pop. 323,500), Sumgait (pop. 325,237)  
Autonomy: Nakhichevan Autonomous Republic (pop. 427,200)

*Source: http://azstat.org/


According to the Constitution of 12 November 1995, the Republic of Azerbaijan is a secular, democratic, presidential republic. The country is led by a president elected for a five-year term. Presently, the Republic of Azerbaijan is governed by President Ilham Aliyev. The government (Cabinet of Ministers) is subordinate to the president, who appoints the prime minister and other ministers subject to the approval of the legislature. The highest legislative body is the single chamber 125-member Milli Majlis (National Assembly), which is elected for a five-year term. Milli Majlis may not be dissolved by the president; however the president is able to veto its decisions.
Economic structure

Vast oil reserves attract foreign investment to the Azerbaijani economy, and consequentially the oil & gas sector has become the main target of foreign investments. Several major oil contracts have been signed since 1994. Pursuant to the report of the Azerbaijani State Statistics Committee of 2001, foreign investments in the oil & gas sector comprised over 75% (US$820m) of all foreign investments. Moreover, following the success of oil & gas projects, the government declared a policy that called for the development of the non-oil sector. In 2011, Azerbaijan achieved an eight-fold increase of the total value of foreign investment compared with 2001. Given the rapid development of the non-oil sector, the share of oil & gas investments relating to the total value of foreign investments has gradually decreased as compared with the earlier years.

On 26 May 2000, the President of the Republic of Azerbaijan signed the Law on the Main Export Pipeline (MEP). The MEP, which connects Baku with the Turkish oil terminal in Ceyhan via Georgia, is the main route for the transportation of Azerbaijani crude oil to the world oil market.

The Agreement on the South Caucasus Pipeline (SCP) was executed on 29 September 2001 and approved by the Law of the Republic of Azerbaijan on 26 October 2001. The SCP is the main route for the transportation of Azerbaijani gas to the world market. In particular, the pipeline is used to ship natural gas from the offshore Shah-Deniz gas field to Turkey.

The country has two oil refineries with a total technical capacity of 22 million tons of crude oil per annum. Five big petrochemical plants, as well as two metallurgical plants, are located in Sumgait, 28 kilometers from Baku. Industrial and agricultural production has, after four years of decline, been stable since 1996. A five-fold increase in oil production is anticipated in the future.

The tight monetary stance of the central bank has continued to show success, and consequently the value of the local currency, the Manat, has stabilized against the US dollar in recent years. The banking system consists of more than forty banks, including several foreign banks.
Business overview

Labor licensing requirements
Foreign employees are required to have individual work permits issued by the State Migration Service. The legislation envisions a harsh penalty for employers that fail to obtain the work permit. The amount of such penalty is AZN3000 to AZN5000 for officials and AZN30,000 to AZN35,000 for legal entities. Management personnel of branch/representative offices of foreign companies, their deputies and foreign entrepreneurs are exempt from the requirement to obtain work permits. Moreover, a foreigner or a stateless person has a right to work in the Republic of Azerbaijan without obtaining a work permit provided that he/she is on a business trip in the area of activity specifically defined by the Cabinet of Ministers of the Republic of Azerbaijan and the term of the business trip does not exceed a cumulative total of 90 days in a year.

Apart from this, foreign citizens coming to Azerbaijan for more than three days should be registered with the State Migration Service within one day based on the application of the premises owner where they are staying. Foreign citizens who wish to live in Azerbaijan are required to obtain a temporary residence permit before expiration of the visa (i.e., those entering Azerbaijan under the non-visa regime should apply for a residence permit for stays of more than 30 days). Issuance of the temporary residence and work permits is carried out through the so-called “one-stop-shop” principle. State duty for a temporary residence permit varies depending on the period of validity (e.g., AZN120 for one year), whereas for a work permit it is AZN1,000.

Profit repatriation
Under the Foreign Investment Laws, foreign investors are entitled to repatriate profits in convertible currency after the payment of all taxes and other fees that are due.

Currency regulations
The official currency of Azerbaijan, the Manat (AZN)\(^1\), is not freely convertible in international markets, but has been internally stable and convertible for the last few years.

Foreign companies and individuals may have both AZN and foreign currency accounts at a local bank. All settlements within Azerbaijan, including the payment of an employee salary, should be made in AZN with a few exceptions. Permission from the Central Bank of Azerbaijan is required in order to collect revenues in foreign currency in the territory of Azerbaijan.

Land ownership
Land ownership in Azerbaijan is governed by the Law on Land Reform adopted in 1996, the Law on the Land Market, the Civil Code and the Land Code adopted in 1999, as well as other laws, decrees and legal acts.

Azerbaijani citizens and legal entities are permitted to own land. However, foreign individuals and legal entities cannot acquire land in Azerbaijan but can enjoy other rights, such as the right to lease land. Legal entities can purchase residential premises together with the land on which they are located.

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\(^1\) Information on foreign versus AZN currency exchanges rates can be found on the website of the Central Bank of Azerbaijan (www.nba.az)
Establishing a business

The Law on Protection of Foreign Investment (adopted on 15 January 1992) and the Law on Investment Activity (adopted on 13 January 1995), collectively the “Foreign Investment Laws”, provide the legal framework for foreign investment in Azerbaijan. The Foreign Investment Laws discuss the types of entities in which foreign companies can invest, the conditions governing the repatriation of profits and earnings, and the general rights and guarantees of foreign investors. Foreigners can invest in a business venture in Azerbaijan in a number of ways, such as:

- Establishing a fully owned subsidiary
- Acquiring shares in an existing company
- Establishing a joint venture with Azerbaijani companies and individuals
- Entering into other acceptable forms of investment agreements

Various registration requirements apply to foreign companies establishing a business presence in Azerbaijan. A special license to conduct business is required for companies operating in telecommunications, sea and air transportation, insurance and other regulated industries. Business presence is registered by the Ministry of Taxes. Registration with other state authorities is not required, as this will be done by the Ministry of Taxes based on the so-called “one-stop-shop” principle.

Types of business presence

The Civil Code of Azerbaijan and the Law on Protection of Foreign Investment provide for the following types of Azerbaijani organizations in which a foreign individual or legal entity may participate:

- Open and closed joint stock companies (JSCs)
- Additional and limited liability companies (LLCs)
- General and limited partnerships

Foreign companies may also open a representative office or a branch in Azerbaijan.

Joint stock companies (JSCs)

JSCs are regulated by the Civil Code of Azerbaijan. A JSC is established by at least one legal entity or an individual. A JSC owner’s liabilities are limited to the amount of its contributions. JSCs fall into two categories – “closed” and “open” JSCs. The shares of closed JSCs are not freely transferable and the company must have a minimum capital of AZN2,000. The shares of open JSCs are not subject to the transfer restriction, but the company must have a minimum capital of AZN4,000.

Limited liability companies (LLCs)

LLCs can be founded by one or more legal entities or individuals with the founding members having a portion of capital/interest in LLC equal to the amount paid to the charter capital. Each owner’s liability is limited to the amount invested in the LLC. LLCs do not issue shares. Participation interest in LLCs can be freely transferable to third parties, unless provided otherwise under the Charter of the LLC.

Partnerships

General and limited partnerships are governed by the Civil Code of Azerbaijan. A general partnership is established by at least two legal entities or individual entrepreneurs with all partners having unlimited liability. A limited partnership is established by at least two legal entities or individual entrepreneurs with at least one partner having unlimited liability. Partnerships are not taxed at the partnership level.

Other types of business presence

Foreign companies may operate in Azerbaijan without establishing a local legal entity by registering a branch or a representative office with the Ministry of Taxes. Branches and representative offices are allowed to conduct commercial activities in Azerbaijan.
Guide to doing business in Azerbaijan

Introduction

There are currently three separate and distinct tax regimes that are applicable in Azerbaijan. They are the statutory regime, the tax regime applicable to oil and gas companies and mining companies operating under the Production Sharing Agreements (PSAs) and the tax regime for companies working under the Host Government Agreements (HGAs) on the Main Export Pipeline and the South Caucasus Pipeline. The general profits tax regime is applicable to all entities operating in Azerbaijan beyond the scope of the PSA and the HGA regimes, i.e., outside the oil and gas regime; foreign companies, which are deemed to have a permanent establishment in Azerbaijan, are taxable on income derived from the commercial activities of the PE in Azerbaijan. Foreign companies receiving income from Azerbaijani sources other than through a PE are subject to withholding tax on the amount of such income.

The PSAs regime is a description of the rules which cover the twenty-five production sharing agreements that have been ratified by the Milli Majlis (the Parliament). The PSAs regime generally applies to all contractor parties under the production sharing agreements and their direct and indirect foreign subcontractors. The HGA tax regime applies to enterprises working on the Baku-Tbilisi-Ceyhan oil export pipeline and the South Caucasus Pipeline. For a complete summary of the two tax regimes mentioned in this paragraph, please refer to our separate Azerbaijan oil and gas tax guide.

Statutory tax regime

The tax regime outlined below is based on the Tax Code that was implemented on 1 January 2001 and amended as of 5 February 2014. The main taxes and payments affecting foreign investors operating under the statutory regime are as follows:

- Corporate profit tax
- Personal income tax
- Value Added Tax
- Withholding tax

In addition to the above, the statutory legislation envisages Social Fund Contributions and other taxes and charges (e.g., excise tax, property tax, road tax, land tax).

Corporate Taxation

Permanent Establishments (PEs)

The Tax Code defines a PE as an entity conducting commercial activities for 90 days in any twelve-month period. However, despite this definition, the Tax Code also provides that entities conducting exclusively any or all of the following specific activities will not create a PE in Azerbaijan:

- Storage and display of goods
- Storage of goods for the purposes of processing by another entity and subsequent export from Azerbaijan
- Purchase of goods for own purposes and the collection of information
- Performance of any other preparatory or auxiliary activities

Foreign companies not creating a PE are subject to withholding tax (see below) at the source of payment on any taxable income received from the Azerbaijani sources.

It should be noted that the provisions of Double Tax Treaties (see the list of effective DTTs hereunder) prevail in relation to the ones in the Tax Code.
**Profit tax**

The following entities are generally subject to profits tax in Azerbaijan:

- Azerbaijani companies, with or without foreign ownership
- Branches of foreign legal entities
- Representative offices of foreign enterprises undertaking commercial activities in Azerbaijan

Taxable profits include trading profit, capital gains, profits from financial activities and other profit items. Residents, including those entities with foreign investment, are taxable on worldwide profits. Non-residents are taxable only on profits from activities performed in Azerbaijan.

**Tax rates**

The general profits tax rate is 20%. An additional branch remittance tax of 10% applies to profit remittances from the branch to the head office. The taxable base is net profits after taxes.

**Determination of taxable profit**

The annual income disclosed in the company’s Azerbaijani statutory accounts is reduced for all business expenses except for those specifically disallowed by the Tax Code. The most significant items of non-deductible expenditures for tax purposes are:

- Repair expenses in excess of the established limits (to be capitalized and expensed through depreciation)
- Entertainment, accommodation and meal expenses (except for meal expenses connected with the provision of “therapeutic nourishment”, milk and similar foodstuffs to employees that are deductible up to certain norms, which are yet to be introduced by the government)
- Business travel expenses in excess of the statutory limits

**Capital gains**

Capital gains arising from the disposal of tangible and intangible assets are calculated as the difference between the selling price and the net book value (depreciated value) of an asset (without VAT). Capital gains are included in taxable profit and are therefore taxed at the basic rate of 20%.

**Losses and bad debts**

Entities having deductible expenses in excess of their annual income are entitled to carry the resulting losses forward for a period of up to five years and offset them against the profits of these years without any limitation for the offset. Bad debts may be deducted from taxable income only if recognized as having no value in the accounting books of the company and if they were reflected as income in the previous periods.

Losses and bad debts recovered in the future periods shall be recognized as income in the period of their recovery.

**Interest and dividends**

Interest (except interest on loans paid to local banks or non-resident banks with PEs in Azerbaijan) and dividend income received from Azerbaijani companies and the PEs of foreign companies is subject to 10% tax at the source of payment.

**Depreciation charges**

All the assets which have a residual value of more than AZN500 and which have a useful life of more than one year need to be capitalized and expensed through depreciation. The depreciation rates adopted in Azerbaijani legislation depend on the category to which the assets belong. The following are the maximum depreciation rates by category for the most common groups of assets:

<table>
<thead>
<tr>
<th>Type of assets</th>
<th>Rate of depreciation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>7</td>
</tr>
<tr>
<td>Equipment and computers</td>
<td>25</td>
</tr>
<tr>
<td>Means of transport</td>
<td>25</td>
</tr>
<tr>
<td>Livestock</td>
<td>20</td>
</tr>
<tr>
<td>Geological and exploration costs</td>
<td>25</td>
</tr>
<tr>
<td>Intangibles (for those with an undetermined period of use)</td>
<td>10</td>
</tr>
</tbody>
</table>

**Transfer pricing rules**

Transfer pricing rules are provided for use in the event of import and export operations, barter transactions, transactions between related parties, transactions where the used price varies from market prices by more than 30% within 30 days and when the property is insured for amounts exceeding its residual value and if it is necessary to establish for tax purposes a minimum amount of monthly rent of real estate (except housing). While the Tax Code provides some guidelines on the application of the transfer pricing rules, they are not comprehensive, and there was a fair amount of uncertainty about the application of the transfer pricing rules when this guide was being written.

**Declarations and payments**

Corporate tax is calculated on a calendar year basis. All taxpayers shall submit their declarations no later than 31 March of the following year. The deadline may be extended for three months, provided that tax is paid in full by the original due date.

Tax installments are due quarterly by the 15th of the month following each quarter. Tax installments are estimated as one-quarter of the tax payable for the previous calendar year, or they can be calculated as a multiplication of the previous year’s tax payable to the ratio of the quarterly income to the annual income of the previous calendar year. The final payment of the balance is due no later than 31 March of the following year.
Individual tax

Residency rules/scope

A resident is defined as an individual who is physically present in the Republic of Azerbaijan for a period of 183 days or more in a calendar year. Individuals not meeting this requirement are considered to be non-residents.

Residents are taxed on their worldwide income, while non-residents are taxed only on their Azerbaijani source income. Tax on Azerbaijani source income is normally paid by tax deduction at source at progressive rates. Income from an overseas source is assessed on a current year basis for residents.

Azerbaijani source income is defined as any income from commercial activities and sources in Azerbaijan, and specifically includes dividends received from Azerbaijani companies, income from the sale of shares and participation interest in an Azerbaijani company, any income from employment in Azerbaijan, etc. The place of payment in determining the source of income is irrelevant.

Rates

Income earned as a result of non-entrepreneurial activities is subject to the following marginal income tax rates:

<table>
<thead>
<tr>
<th>Monthly taxable income</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to AZN2,500</td>
<td>14%</td>
</tr>
<tr>
<td>Over AZN2,500</td>
<td>AZN350 + 25% of the amount exceeding AZN2,500</td>
</tr>
</tbody>
</table>

Individuals whose monthly income is less than AZN250 are exempt from tax on the portion of their income equal to the minimum living wage of the country’s working population. Individuals whose annual income is less than AZN3,000 are exempt from tax on the portion of their income in the amount of 12 minimum living wages of the country’s working population.

Individuals deriving income from entrepreneurial activities without forming a legal entity are liable to personal income tax at the rate of 20%.

Determination of taxable income

Virtually all forms of compensation to an employee are taxable, including hardship and cost of living allowances, payments by the employer for the education of an employee’s child and payment of taxes on behalf of an employee, unless they are specifically exempted. Such an exemption includes accommodation and meal expenses incurred by the employer on behalf of employees, provided that no tax deduction is made for these expenses on the profits tax return.

Social insurance fund contributions payable by the employee

Both Azerbaijani and foreign nationals receiving income in connection with their work in Azerbaijan must contribute 3% of their gross salary to the Social Insurance Fund. Contributions are withheld at the source and remitted to the Fund by the employer.

Capital gains and investment income

Sales of movable assets are not generally subject to income tax unless the disposal relates to a business or other entrepreneurial activities. The sale of an immovable asset is not subject to tax if it has been the place of residence of the seller for at least three years. Except for these two exemptions, all other gains resulting from the sale of property would be taxed according to the annual income tax rates for individuals and profits tax rate for legal entities.

Interest on deposits is exempted until 1 January 2015.

Declarations and payments

If a taxpayer’s sole income is from Azerbaijani sources which are subject to withholding tax at the source, the individual is not required to complete an income tax declaration.

Both residents and non-residents must complete and file their income tax declarations no later than 31 March of the following tax year. Payment of tax must be made before the filing deadline. The deadline may be extended for three months, provided that tax is paid in full by the original due date.
Value added tax (VAT)

Scope
All companies involved in commercial activities and foreign companies importing goods and services into Azerbaijan are subject to VAT.

Rate
The standard rate of VAT is 18%.

VAT registration
There are detailed requirements for registration and accounting for VAT, with penalties for non-compliance. Legal entities and individuals with taxable transactions exceeding AZN120,000 for twelve consecutive months must register as VAT payers. Also, companies engaged in the construction of apartment complexes should separately register for VAT purposes and pay VAT under special rules.

Other companies doing business in Azerbaijan may register voluntarily. Only registered VAT payers may charge VAT or claim credit for input VAT that they pay.

Determination of taxable base
VAT is levied on turnover arising from the supply of all goods and services, including imports, unless they are zero-rated or specifically exempt. Barter and the free transfer of goods and services are specifically included in the taxable base. All excise taxes and customs duties paid are also included in the taxable base for VAT purposes.

Zero-rated goods and services include exports, transit and international transportation, the purchase of goods, and services rendered in relation to the projects funded by international loans, and imports paid with foreign financial donations. Specifically exempt goods and services include:
- Financial services
- Transactions connected with currency or the circulation of securities
- Publications

Generally, goods are deemed to be imported or exported if they clear customs. When determining the treatment of exports and imports of services, there are detailed place-of-sale rules which need to be applied.

Azerbaijani VAT legislation generally allows credit for input VAT on commercial goods or services. However, credit is allowed only if VAT is paid to suppliers through a designated VAT bank deposit account (see below for additional information). Credit is not allowed for input VAT in the supply of VAT exempt goods and services (such input VAT can only be claimed as a deduction for profits tax purposes). If input VAT exceeds output VAT, excess input VAT may be carried forward or offset against certain other tax liabilities. Taxpayers may also petition the tax authorities for a refund of excessive input VAT.

VAT on the purchase of fixed and intangible assets is not capitalized as part of the asset’s cost, but offset against output VAT.

Reverse charge of VAT
Foreign companies providing services in Azerbaijan without establishing a PE must pay VAT for the taxable supplies in Azerbaijan. In such cases, VAT is applied through the reversed charge mechanism. In other words, it is self assessed by the recipient of the services and remitted to the Budget.

VAT deposit account
Effective as of 1 January 2008, all VAT payers are required to remit VAT amounts through the designated bank accounts called VAT deposit accounts. Only VAT payments made through these accounts may be creditable against the output VAT. Such VAT is then claimed by the payer.

Electronic VAT invoices
Effective as of 1 January 2010, all VAT payers are required to issue electronic VAT invoices. The general format, the details and requisites of the electronic VAT invoices, as well as the procedures for the issue, amendment and cancellation of the invoices, are given in the Rules on the Electronic VAT Invoices.

Declarations and payments
Declarations should be filed and VAT should be remitted monthly by the 20th of the following month. Output VAT is generally recognized on an accrual basis, while input VAT, on a cash basis. VAT on imported goods is paid separately at the point of customs clearance.
Other taxes and fees

**Excise tax**
Excise taxes for domestically produced hydrocarbon products range from 18% to 159%, and alcoholic beverages, from AZN0.08 to AZN0.8 per liter, while for tobacco products they are 12.5%. Excise tax and VAT are not included in the taxable base.

In addition, imported automobiles and yachts are also subject to excise taxes. The tax rates for these goods vary from AZN0.15 to AZN1 per cm³ of engine capacity.

When producing excisable goods from excisable supplies, any excise tax paid on the supplies may be deducted from the excise tax due on the finished product.

Declarations should be filed and payment should be made monthly by the 20th of the following month. Excise tax is deductible for profits tax purposes.

**Property tax**
Property tax is levied at the rate of 1% on the average annual residual value of fixed assets, including buildings, machinery and equipment (excluding vehicles). The taxable base is calculated as the average of the value at the beginning and the end of the year. Property tax is deductible for profits tax purposes.

The following are exempt from property tax:
- Facilities that are used for environmental preservation, fire protection or civil defense purposes
- Product-conveying pipelines, rail and motorways, communication and power transmission lines, and irrigation facilities
- Vehicles discussed in the road tax section
- Property of educational, health, sport and cultural institutions used only for officially designated purposes

Taxpayers are expected to submit their declarations no later than 31 March of the following year. The tax due is payable in quarterly installments by the 15th of the second month of the calendar quarter in the amount of 20% of the property tax due for the previous year.

**Road fund tax**
Resident legal entities in Azerbaijan owning or using vehicles in the Azerbaijani territory (except for agricultural vehicles - tractors, combine harvesters, cotton strippers) pay annual road tax at the rates which depend on the engine volume of the vehicle.

The deadline for payment and submission of the Road Tax return is 31 March of the year following the reporting year.

**Land tax**
Companies using land are generally subject to land tax calculated as AZN0.1 to AZN10 for every 100 square meters. Land tax is deductible for profits tax purposes. Taxpayers are required to submit their declarations annually by 15 May. The tax due is payable twice a year not later than 15 August and 15 November of the year.

**Social fund employer contributions**
Employers are required to make contributions to the Social Insurance Fund in the amount of 22% of the gross payroll of local and foreign employees. These contributions are made at the expense of the employer and are deductible for profits tax purposes. The relevant reports should be filed quarterly by the 20th of the following month.

**Mining tax**
All companies and individuals engaged in the extraction of mineral resources are subject to mining tax at the appropriate rate in addition to any land tax due. Mining tax is deductible for profits tax purposes. The tax is applied to the wholesale price of oil, natural gas and all types of mining resources at rates ranging from 3% to 26%. For all other taxable mineral resources, mining tax is calculated based on a certain ratio of the conventional financial unit per cubic meter of the mineral.

Taxpayers are required to submit their declarations monthly by the 20th of the following month. The tax due is payable monthly by the 20th of the following month.

**Simplified tax system**
Companies and individual entrepreneurs that are not required to register for VAT purposes are subject to the simplified tax regime, under which tax is levied at 4% for companies and individual entrepreneurs conducting business in Baku and 2% for companies and individual entrepreneurs conducting business in other regions of Azerbaijan. The taxable base is gross income received from the sale of goods and the provision of work and services, except for income subject to the withholding tax. Legal entities working under the simplified tax regime are exempt from property tax.
Any taxpayer engaged in the transportation of passengers and cargo (except for international transportation) will be subject to simplified tax at the established tax rates and will be required to obtain what is referred to as a “distinctive number”. Taxpayers not involved in local transportation businesses and having vehicles for their own use will need to obtain a “special distinctive number” to differentiate themselves from the simplified taxpayers. Both the distinctive number and the special distinctive number should be issued by the Ministry of Transportation at no cost within two or five days, respectively, after an application is submitted.

Taxpayers under the simplified tax regime must submit their declarations quarterly by the 20th of the following month. The tax due is payable quarterly by the 20th of the following month.

Credit and insurance organizations, investment funds, taxpayers producing excisable goods, securities market participants, taxpayers receiving income by leasing property, taxpayers owning fixed assets of the residual value exceeding AZN1 million at the beginning of the year, non-governmental pension funds and subjects of natural monopolies established by the relevant executive authorities are not entitled to be simplified taxpayers.

Additionally, companies engaged in the construction of apartment complexes are also in the category of simplified taxpayers. Therefore, such construction companies should pay a fixed amount of tax. There are special rules for calculating this tax for construction companies, introduced by a decree of the Cabinet of Ministers. The tax rates under this regime vary, depending on the district/region where the construction site is located.

### Interest and penalties

Certain interest and penalties are applied for failure to comply with the tax legislation. For example, interest on outstanding tax liabilities accrues at the rate of 0.1% per day. The following list of penalties may also be applicable:

<table>
<thead>
<tr>
<th>Offence</th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to register as a taxpayer with the tax authorities</td>
<td>AZN40</td>
</tr>
<tr>
<td>Failure to file declarations</td>
<td>AZN40</td>
</tr>
<tr>
<td>Understatement of tax liability</td>
<td>50% of understated tax</td>
</tr>
<tr>
<td>Payments from petty cash while bank accounts are under tax sanctions or penalties imposed by the tax authorities</td>
<td>50% of expenses paid from petty cash</td>
</tr>
<tr>
<td>Failure to register a foreign bank account with the tax authorities</td>
<td>100% of the revenue collected on such accounts</td>
</tr>
<tr>
<td>Failure to notify the tax authorities of the changes in a taxpayer’s registration documents</td>
<td>AZN40</td>
</tr>
<tr>
<td>Failure to provide a list of assets (as the first step in seizing the property) by the established deadline following the request of the tax office</td>
<td>AZN100</td>
</tr>
<tr>
<td>Delay in paying VAT on the supplier/service provider invoices in accordance with the rules on the payment of VAT using a designated bank account</td>
<td>50% of VAT paid in violation of the special rules</td>
</tr>
</tbody>
</table>

The Statute of Limitations period for a tax law violation is three years.

### Import tax

The maximum rate of import tax is currently 15%. Goods temporarily imported by enterprises for use in their own production for a period of less than one year and not for the purpose of deriving income are exempt from import tax.

Customs charges of AZN10 to AZN550 (depending on the value of the declared goods and if the goods were cleared for customs after regular working hours or outside the customs territory) are payable in relation to the customs value of imported goods as customs processing fees.

### Export tax

Exports of most goods are exempt from Export tax.
Withholding taxes

Scope

Withholding tax is applicable to the repatriation of profits and other cross-border payments to foreign companies not related to a PE in Azerbaijan. The tax is payable at the following rates:

<table>
<thead>
<tr>
<th>Nature of payment</th>
<th>Rate of withholding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums</td>
<td>4</td>
</tr>
<tr>
<td>International communication and freight fees</td>
<td>6</td>
</tr>
<tr>
<td>Dividends and interest, including the interest element of financial lease payments</td>
<td>10</td>
</tr>
<tr>
<td>Management fees and fees for other services performed or deemed to be performed on the Azerbaijani territory but not connected with an Azerbaijani permanent establishment</td>
<td>10</td>
</tr>
<tr>
<td>Rents and royalties</td>
<td>14</td>
</tr>
</tbody>
</table>

The remittance of profits, derived from a permanent establishment in Azerbaijan, to the head office is subject to a branch remittance tax of 10%.
Double tax treaties

The rate of withholding tax may be reduced by double tax treaties. There are special rules under which a mechanism on advance tax clearance under a double tax treaty may be provided.

The rate of withholding tax varies under the existing double tax treaties, depending on the contents of a particular treaty. The maximum rates of withholding tax are shown in the table below with regard to the current double tax treaties.

<table>
<thead>
<tr>
<th>Payee resident in</th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5/10/15</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Belarus</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>8</td>
<td>0/7</td>
<td>5/10</td>
</tr>
<tr>
<td>Canada</td>
<td>10/15</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Croatia</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>8</td>
<td>0/5/10</td>
<td>10</td>
</tr>
<tr>
<td>Estonia</td>
<td>5/10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Finland</td>
<td>5/10</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>France</td>
<td>10</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Georgia</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>5/15</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Greece</td>
<td>8</td>
<td>0/8</td>
<td>8</td>
</tr>
<tr>
<td>Hungary</td>
<td>8</td>
<td>0/8</td>
<td>8</td>
</tr>
<tr>
<td>Iran</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Japan</td>
<td>15</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>South Korea</td>
<td>7</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Latvia</td>
<td>5/10</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Lithuania</td>
<td>5/10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5/10</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Macedonia</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Moldova</td>
<td>8/15</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5/10</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Norway</td>
<td>10/15</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Poland</td>
<td>10/15</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Qatar</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>5/10</td>
<td>0/8</td>
<td>10</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Serbia</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Slovenia</td>
<td>8</td>
<td>0/8</td>
<td>5/10</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5/15</td>
<td>0/5/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Turkey</td>
<td>12</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>UAE</td>
<td>5/10</td>
<td>0/7</td>
<td>5/10</td>
</tr>
<tr>
<td>Ukraine</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10/15</td>
<td>0/10</td>
<td>5/10</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>No treaty country</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Guide to doing business in Azerbaijan
Accounting and reporting

All entities registered in Azerbaijan (Azerbaijani legal entities, representative offices and branches) are required to maintain their books and records on the territory of Azerbaijan in local currency and in accordance with the recently introduced 27 National Accounting Standards (NAS), which have been prepared on the basis of International Financial Reporting Standards (IFRS). One notable difference between NAS and IFRS is the use of a mandatory chart of accounts.

The recently introduced Law on Accounting also stipulates that all significant entities, including credit institutions, insurance companies, investment funds and commercial organizations, which meet certain criteria, will be subject to IFRS. Others (except for small private businesses) will have to follow NAS or IFRS. Small private businesses registered as simplified taxpayers are not obliged to keep very detailed accounts and are therefore not required to follow NAS or IFRS.
EY Azerbaijan

Introduction
EY has been undertaking projects in Azerbaijan continuously since 1993. EY was the first of the international accounting and tax consulting networks to establish a member firm in the Republic of Azerbaijan. Our office in Baku, the capital, opened in 1994. A team of over 160 staff is led by Assurance Partner Ilgar Veliyev, a member of the American Institute of CPAs.

Services
EY Azerbaijan, in conjunction with partners and staff in other EY offices, provides Assurance, Tax & Law, Advisory and Transaction Advisory Services to international and local clients in Azerbaijan. A number of major assignments have been undertaken in the country relating to inbound investment, enterprise and sector restructuring and public policy.

Assurance
EY has been licensed to conduct audits in Azerbaijan since 1994. During this time, we gained unprecedented experience. We currently have eight auditors who have received the status of certified public accountant in the USA (and nine more who have no license yet), one member of the ACCA and several others currently taking the CPA and ACCA examinations. We provide US GAAP and IFRS audits for many companies, including BTC, SCPC, AGSC, Garadagh Cement, Bakcell, Azerfon, BP, Statoil, State Oil Fund of Azerbaijan Republic (SOCAR), Azpetrol, Azertrans, Crescent Beach and Azeurotel, to mention but a few.

We also provide audit services to numerous companies operating in Azerbaijan under production sharing agreements (PSAs). We audit the cost recovery reports and profits tax returns for all PSAs in which BP Amoco is the operating company. We also audit LukOil’s PSAs and perform the profits tax return audits for numerous contracting parties which own interests in various PSAs.

Our statutory audit clients include such companies as Azeri Mi, Caspian Shipyard Company and Caspian Drilling Company, all being joint ventures with the State Oil Company of the Azerbaijan Republic (SOCAR).

We also provide accounting advice and other Assurance services to foreign and Azerbaijani companies which prepare accounts in accordance with IFRS, US GAAP and UK GAAP.

Tax & Law
EY is recognized as the leading tax and legal advisor in Azerbaijan. With a service line consisting of Tax and Law Partner Arzu Hajiyeva and a team of tax and legal advisors, EY gives advice on all aspects of corporate and personal tax planning and compliance, corporate, insurance, business, migration, licensing, contract and labor law. We gave advice on local and international tax and legal issues to a number of international enterprises that have made, or are considering making, investments in Azerbaijan.

Our areas of expertise include international tax planning, transaction structuring, expatriate tax affairs, local tax compliance, currency and foreign exchange planning, legal advisory and due diligence and participation in litigations representing clients in disputes and before courts and other adjudicatory bodies. Our impressive client base speaks for itself. The firm has established good contacts with key state authorities and is in a position to facilitate negotiations between potential investors and the authorities. This continues to be the key service in a legislative environment that is ever changing and open to interpretation. The firm’s tax practice receives technical support and a wider perspective on tax affairs in the CIS through its links with the rest of the EY network.
Advisory Services

EY’s Advisory practice comprises professionals with exceptional experience in addressing a broad spectrum of business tasks. Our Advisory professionals possess a wealth of experience in bringing performance improvements and business value to our clients, reducing costs, managing risks, operating efficient IT systems and successfully accomplishing operational and strategic objectives. A dedicated team will develop each project based on the specific features of the industry and the client.

Our clients in Baku are the biggest private holding companies and state-owned entities in Azerbaijan. Thanks to our international experience and global network of professionals, we are able to team with specialists from all over the world to help our clients overcome market challenges and address unique business risks. Our local market knowledge and international experience allow us to provide state-of-the-art consulting services, ensuring our client’s business growth.

Our major services include:

- Performance Improvement
- Risk
- IT
- Advisory for Financial Services

Transaction Advisory Services

EY’s Transaction Advisory Services team provides assistance in finance raising (including project finance, infrastructure financing and public-private partnership), mergers and acquisitions, infrastructure and real estate transactions. We are experienced independent financial advisors who have participated in numerous transactions regionally and locally.

We provide a full range of hands-on, operationally focused support and advice across the transaction life cycle, whether supporting a buyer or seller. We also put together the most effective restructuring plans, improving transactions to achieve your strategic goals.

Our services include assistance in valuing your business, financial interests, assets and liabilities, utilizing excellence in legal, taxation and financial due diligence to provide you with valuation advice for a multitude of purposes. With more than 10 years of local expertise, we provide the following Transaction Advisory Services:

- Lead Advisory
- Operational Transaction Services
- Real Estate Advisory Services
- Restructuring
- Transaction Support
- Transaction Tax
- Valuation & Business Modeling
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