

## GRATA INTERNATIONAL (AZERBAIJAN)



In keeping with GRATA's practice of informing clients regarding important legal developments that might influence their business, we draw your attention to the important recent changes in Azerbaijani legislation.

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From 1 January 2023 a number of amendments to the legislation of the Republic of Azerbaijan in connection with the provision of tax and other incentives to persons engaged in activities in the field of information technology will take effect.

According to the amendments to the Tax Code of the Republic of Azerbaijan:

1. IT business entities carrying out activities on system integration, software design and development that have received a certificate of registration in the technology park, but operate outside the technology park will also be considered residents of the technology park.
2. Income tax on monthly income from salaries of individuals employed by taxpayers carrying out system integration, software design and development activities that operate outside the technology park as residents of the technology park will be levied as follows:
  - 2.1. 0% on monthly income up to AZN 8,000, 5% on the amount over AZN 8,000 for 3 years from January 1, 2023;
  - 2.2. 5% of monthly income for 7 years from January 1, 2026.
3. Exemption of income of individuals engaged in entrepreneurial activity without the establishment of a legal entity that is a resident of industrial or technological parks established on the basis of a decision of the relevant executive authority from activities in the park of industry and technology (with the exception of income tax withheld from salaries) from income tax for 10 years, starting from the reporting year in which they are registered in the park of industry and technology in accordance with the legislation will also apply to income received by individuals, engaged in system integration, software design and development activities outside the technology park as a resident of the technology park, from this activity (including from improvement, technical support and training services provided to customers in connection with these activities).
4. Exemption from corporate income tax (profit tax) on income earned by legal entities - residents of industrial or technology parks established on the basis of a decision of the relevant executive authority from activities in the park of industry and technology for 10 years from the reporting year in which they are registered in the park of industry and technology in accordance with the legislation will also apply to income received by legal entities carrying out system integration, software design and

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development activities outside the technology park as residents of the technology park from these activities (including from improvement, technical support and training services provided to customers in connection with these activities).

5. Dividends paid by persons carrying out system integration, software design and development activities outside the technology park as a resident of the technology park will not be subject to withholding tax for 10 years starting from the reporting year in which the technology park registration certificate was obtained.
6. Exemption from property tax on the property of legal entities and individuals engaged in entrepreneurial activities without establishing a legal entity, that are residents of industrial or technology parks established on the basis of a decision of the relevant executive authority, in the industrial and technology park for a period of 10 years starting from the reporting year of their registration in the industrial and technology park, in accordance with the legislation, will also apply to persons carrying out system integration, software design and development activities outside the technology park as residents of the technology park.
7. Exemption from land tax on the land of legal entities and individuals engaged in entrepreneurial activities without establishing a legal entity, that are residents of industrial or technology parks established on the basis of a decision of the relevant executive authority, used in the industrial and technology park for a period of 10 years starting from the reporting year of their registration in the industrial and technology park, in accordance with the legislation, will also apply to persons carrying out system integration, software design and development activities outside the technology park as residents of the technology park.

In addition to the above-mentioned tax incentives, a number of social insurance benefits will also apply. Thus, according to the amendments to the Law of the Republic of Azerbaijan on "Social Insurance":

1. Foreigners and stateless persons engaged by a technology park resident carrying out system integration, software design and development activities, its contractor and a subcontractor contracted by the contractor for the purpose of these activities will be exempt from paying compulsory state social insurance contributions for a period of 10 years from 1 January 2023.
2. Starting from 1 January 2023 for 10 years, compulsory state social insurance contributions for a technology park resident (including persons carrying out activities of system integration, software design and development), its contractor and subcontractor contracted by the contractor, as well as for individuals (except foreigners and stateless persons) employed by these persons for the purposes of these activities, will be paid depending on their preferences (a) on the basis of four times the minimum monthly salary, or (b) in the usual manner.

Also, in accordance with amendments to the Migration Code of the Republic of Azerbaijan, a foreigner or stateless person that is a resident of a technology park (in relation to a legal entity, persons holding the position of its head and deputies) and specialists (foreigners or stateless persons) with experience in the field of information and

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communication technologies, engaged by this resident to work in the territory of the Republic of Azerbaijan, will not be required to obtain a work permit.

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