



**GRATA**  
INTERNATIONAL

# Doing Business in Azerbaijan

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Royal Ibrahimli  
Senior Associate  
GRATA International, Azerbaijan

# TAX REGULATIONS AND ADMINISTRATION

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## Main legislative acts governing tax matters in Azerbaijan:

- (1) Tax Code; and
- (2) Customs Code (in some instances, e.g., import VAT, excise tax)

## Tax administration authorities:

- (1) State Tax Service under the Ministry of Economy; and
- (2) State Customs Service.



# TAX REGIMES

Statutory tax regime, as governed by the Tax Code and Customs Code:

- Simplified tax regime
- Profit tax/VAT regime

Special tax regime applicable to oil and gas companies operating under a Production Sharing Agreement (PSA) and Host Government Agreement (HGA)

Temporary tax regime applicable to taxpayers affected by a force majeure event (e.g., Covid – 19).

# SIMPLIFIED TAX REGIME (2-8%)

- shall not be a VAT payer
- Threshold: AZN 200,000 - during any month (months) of a consecutive 12-months period
- Exemption from threshold: public catering services
- Applies to whole turnover with some exemptions



## Which businesses are required to be simplified taxpayers? (e.g.)

- providers of domestic transportation services (passenger and cargo);
- sports betting/lottery operators;
- sellers of lottery tickets.



## Which business cannot be eligible for simplified tax regime? (e.g.)

- persons producing excisable products (e.g., alcoholic beverages, tobacco products);
- banks, insurance companies, investment funds;
- persons receiving income from royalty and lease of property, etc.

# PROFIT/ VAT TAX REGIME



- Mandatory VAT registration: if an entity's taxable turnover/revenue exceeds AZN 200,000 during any month (months) of a consecutive 12-months period.
- Voluntary VAT registration: even if the entity's turnover does not reach AZN 200,000 threshold.
- Deductions are allowed under this regime.
- Profit tax rate is 20%.
- Standard VAT rate is 18%.

# TAX INCENTIVES



Agriculture



SMEs



Educational services



Start ups



Technological parks



Export promotion

# CIT incentives

- 75% of income of micro businesses (i.e., a business with one to 10 employees and annual income less than or equal to 200,000 manat) - 5% (instead of 20%)
- Profits of startups (operating as micro or small business entities and carrying out innovative activities) - are exempt from CIT for 3 years from the date of receipt of a "Startup" certificate
- 50% of the income of a company received from the sale of its shares owned for at least 3 (three) years



# PIT incentives

Salaries of employees (up to AZN 8,000 monthly) working in non-oil-gas and non-public sectors are taxed at a rate of "0" percent

Dividend income of an individual who is the founder or shareholder of a resident entity keeping records of income and expenses in accordance with Tax Code, not registered for VAT purposes and the volume of transactions of which in any month (months) of a consecutive 12-month period is below AZN 200,000

50 percent of an individual's income received from the sale of his shares owned for at least 3 (three) years.





# VAT incentives

## VAT exemption

- contributions to charter capital
- provision of financial services
- provision of paid education services
- transfer of share in a company
- imports of residents of industrial/technological parks
- import and sale of hybrid cars with a production term of three years and an engine capacity not exceeding 2,500 cubic centimeters will be exempted from VAT (for a period of three years from January 1st, 2022);
- import of second and third level electric chargers for electric cars will be exempted from VAT (for the period of three years from January 1st, 2022)





**TAXES**

## **“0” rate VAT**

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- Freight forwarding services related to international and transit cargo transportation
- Export of goods
- Export of certain services (e.g., accounting, legal, telecommunication)

# DOUBLE TAX TREATIES

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Republic of Azerbaijan has entered into Double Tax Treaties (DTTs) with 55 countries.

The implementation mechanism of DTTs in Azerbaijan is regulated by the Resolution of the State Tax Service (formerly known as the Ministry of Taxes) on "Administration of International Agreements for the Avoidance of Double Taxation between the Republic of Azerbaijan and Other States" dated 12 June 2017 ("DTT Administration Regulations").

# DTT APPLICATION OPTIONS



DTT Administration Regulations provide 3 options for non-residents to avoid double taxation in Azerbaijan.

**DTA-03**

for advance exemption or application of a lower tax rate

**DTA-04**

for confirmation of taxes paid in the Republic of Azerbaijan

**DTA-05**

for refund of overpaid tax



# THANK YOU!

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Royal  
Ibrahimli  
Senior Associate

+99450 451-41-42

ribrahimov@gratanet.com

[www.gratanet.com](http://www.gratanet.com)