

# Opening business in Azerbaijan: key practical considerations



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# Why Azerbaijan?



Geographical location (Bounded by the Caspian Sea to the east and the Greater Caucasus mountain range to the north. Being the geographical center of the region's oil industry, Azerbaijan shares borders with Georgia, Russia, Turkey, Iran and Armenia);



Azerbaijan holds favored trade status under an EU Partnership and Cooperation Agreement;



Azerbaijan lies at the heart of the International transport corridor between Europe and Asia;



Due to its fertile climate, Azerbaijan has significant agricultural potential;



Substantial hydrocarbon reserves;

# Why Azerbaijan?



Azerbaijan regions presents lots of benefits for the investors, including rich water supply, agricultural produce, electricity, abundant minerals and recreation opportunities;



Quick establishment of businesses (the timeframe for setting up a new entity takes up to 4 days after the submission of the necessary documents);



Low cost of labor (e.g., minimum monthly salary is USD 176);



Ease of doing business (Azerbaijan achieved a rank of 34 out of 190 countries in the World Bank's Ease of Doing Business Report 2020 due to constant economic, legal and other reforms in the country);



Visa-free regime for foreign citizens from 10 countries, including Russia, Belarus and Ukraine for up to 90 days.

# Legal forms of doing business in Azerbaijan:

Civil Code of the Republic of Azerbaijan determines incorporation of the companies by foreign entities in different forms, but most frequently chosen forms by foreign companies are followings:

- 1) a Limited Liability Company;
- 2) a Branch Office;
- 3) a Representative Office.

The timeframe for setting up a new entity takes up to 4 days after the submission of the necessary documents. State fee for incorporation is AZN 15 for an LLC and AZN 300 for a Branch or Representative Office. The incorporation process consists of following steps:

- (1) Preparation and issuance of necessary documents abroad;
- (2) Translation and notarization of documents received from the founders;
- (3) Preparation of application forms;
- (4) Submission of the entire package of documents to the tax authority;
- (5) Registration;
- (6) Collecting the corporate documents of a new entity;
- (7) Ordering company seal, electronic signature, login details to the electronic cabinet of the legal entity in the tax system, opening bank accounts.

# Tax system

Tax Code of the Republic of Azerbaijan dated 11 July 2000 ("Tax Code") provides two tax regimes.

## **Statutory tax regime**

This regime is applicable in case a company does not operate in the hydrocarbon activities sphere under PSAs. Depending on the volume of an entity's turnover, the following two types of statutory tax regime are applicable in the Republic of Azerbaijan:

- Simplified tax regime (2-8%)  
Applies if an entity's taxable turnover/revenue does not exceed AZN 200,000 during any month (months) of a consecutive 12-months period with no deductions. The simplified tax regime is also applied to persons engaged in public catering business even if an entity's turnover exceeds AZN 200,000. With effect from 1 January 2020, tax exemptions for some cases are available under this tax regime.
- Profit/VAT tax regime  
Applies if an entity's taxable turnover/revenue exceeds AZN 200,000 during any month (months) of a consecutive 12-months period. Deductions are allowed under this regime. According to Article 108 of the Tax Code, except for non-deductible expenses determined under Chapter 10 of the Tax Code, all expenses in connection with obtaining revenue, as well as mandatory payments required by the laws of Azerbaijan, are deducted from revenues. Enterprise's profit shall be taxed at the rate of 20 percent.

## **Special tax regime**

According to Article 4.5 of the Tax Code, apart from the statutory tax regime, a special tax regime can also be applied on the territory of the Republic of Azerbaijan. The special tax regime provides a special procedure for the calculation and payment of taxes for a specified period of time. More than 20 PSAs have been signed and ratified in the Republic of Azerbaijan. Each PSA has its exclusive tax regime; however, generally, they provide lower withholding tax rates, exemption from VAT, and simplified reporting and accounting procedures. PSA tax regime applies to each contractor party (signatory to PSAs), operating company and subcontractor (including foreign subcontractor).

# Tax incentives

There are no specific tax incentives for investors from a particular jurisdiction. The table reflecting tax incentives is shown as below:

<b>Corporate Income Tax</b>	<ul style="list-style-type: none"><li>- Profits of startups that are legal entities operating as micro or small business entities and carrying out innovative activities are exempt from corporate income tax for 3 years from the date of receipt of the "Startup" certificate (Article 106.1.23);</li><li>- Micro businesses are taxed with Corporate Income Tax at the rate of 5% (instead of 20%) of their profit (Article 106.1.20).</li></ul>
<b>Personal Income Tax from dividends</b>	<ul style="list-style-type: none"><li>- Dividend income of an individual that 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 (Article 102.1.22-1);</li><li>- 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.</li></ul>
<b>Property Tax</b>	<ul style="list-style-type: none"><li>- Micro businesses are exempt from paying property tax (except for entities whose fixed assets have a residual value of more than AZN 1,000,000 at the beginning of the year) (Article 199.14).</li></ul>
<b>VAT</b>	<ul style="list-style-type: none"><li>- Import of raw materials and materials determined by the relevant executive authority is exempt from VAT (Article 164.1.35);</li><li>- Turnover from the provision of a part of a residential and non-residential area of the building constructed by entities engaged in building construction activities to the state is exempt from VAT (Article 164.1.47).</li></ul>

# Currency regulations / Banking

Residents and non-residents can open and maintain bank accounts in local and foreign currency in the Republic of Azerbaijan.

The currency of the Republic of Azerbaijan is Azerbaijani manat which is currently equal to approximately USD 0,59 and EUR 0,52.

Central Bank of the Republic of Azerbaijan is the country's main finance control authority administering the overall enforcement of currency regulation in the Republic of Azerbaijan.

The most important rules related to currency control determined are the following:

- transfer of funds to Azerbaijan is not prohibited and/or subject to any restrictions;
- transfer of funds from Azerbaijan without opening a bank account and through a bank account but for personal purposes is subject to several restrictions related to transaction amounts;
- transfer of funds from Azerbaijan via bank accounts not for personal purposes is carried out with submission of supporting documents determined in the legislation (such as contract, invoice, customs declaration, etc.) and is not subject to any restrictions related to transaction amounts;
- no restrictions are applied on the operations of residents and non-residents in local currency within the territory of Azerbaijan; and
- cash transactions in foreign currency are not allowed within the territory of Azerbaijan.



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