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“On increase of social benefits” and the Law of the Republic of Azerbaijan “On social insurance”

Amendments were made to the Tax Code of the Republic of Azerbaijan, the Presidential Decree “On increase of social benefits” and the Law of the Republic of Azerbaijan “On social insurance” in connection with the provision of incentives to persons engaged in activities in the liberated territories.

In accordance with the amendments to the Tax Code of the Republic of Azerbaijan the following benefits are provided for a period of 10 years starting from 1 January 2023 for legal entities and individuals registered in tax authorities of the liberated territories and carrying out activities in these territories (hereinafter “residents of the liberated territories”)

- ▶ exemption from corporate income tax/personal income tax, including non-operating income, and simplified tax;
- ▶ exemption from property tax;
- ▶ exemption from land tax;
- ▶ exemption from VAT on the import of raw materials for certain manufacturing activities;
- ▶ exemption from tax on dividend income of shareholders (participants) of legal entities - residents of the liberated territories.

The envisaged tax exemptions will not apply to the following activities and operations:

- ▶ activities in the field of provision of financial services;
- ▶ road freight transport services;
- ▶ provision of goods (works, services) by a contractor (except for resident contractors carrying out manufacturing activities within the liberated territories) at the expense of the state budget.

The above exemptions will apply subject to the following conditions:

- ▶ exemption from taxation on manufacturing, processing and extraction activities, shall apply to taxpayers that are registered for tax purposes in the liberated territory and that carry out these activities in these territories. Tax exemption applies to income derived from manufacturing, processing and extraction of goods supplied in or outside the liberated territory, as well as exported from the territory of the Republic of Azerbaijan;
- ▶ tax exemption in the fields of wholesale trade, construction, and services (except for services rendered to the population) applies to residents of the liberated territories that provide goods (works, services) to residents of the liberated territories. Tax exemptions do not apply if goods (works, services) are provided to persons carrying out activities outside the liberated territories including when goods (works, services) are exported from the territory of the Republic of Azerbaijan;
- ▶ exemption from taxation in the fields of tourism, retail trade, catering and other services to the population applies to residents of the liberated territories that carry out activities in these territories;
- ▶ where residents of the liberated territories carry out the activities stipulated in items i, ii and iii above outside the liberated territories (within the territory of the Republic of Azerbaijan), the tax exemptions stipulated shall not apply to them;
- ▶ if a resident of the liberated territories engaged in the activities referred to in items i, ii, iii above carries out other activities

outside this territory, including outside the Republic of Azerbaijan, then the accounting of income and expenses related to activities performed in these territories and other activities performed outside these territories shall be carried out separately for each type of activity.

Moreover, according to the amendments to the Presidential Decree "On increase of social benefits", specialists working in the territories liberated from the occupation will be given a one-time allowance of 600 AZN to maintain the basic living conditions. These changes will remain in force until 1 January 2028.

According to the amendments made to the Law of the Republic of Azerbaijan "On social insurance", the following part of the mandatory state social insurance contributions paid by insurers (insured) of the non-governmental sector not operating in the oil and gas field in the liberated territories of the Republic of Azerbaijan will be subsidized from the state budget (excluding contractors carrying out activities in the fields of finance and road freight transport services and supplying goods (works and services) at the expense of the state budget, except resident contractors carrying out manufacturing activities in the liberated territory):

- ▶ from 1 January 2023 to 1 January 2026 - 100 percent;
- ▶ from 1 January 2026 to 1 January 2029 - 80 percent;
- ▶ from 1 January 2029 to 1 January 2031 - 60 percent;
- ▶ from 1 January 2031 to 1 January 2033 - 40 percent.

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