



In this issue, we would like to bring to your attention an overview of the changes in the Tax Code in connection with the following:

- ▶ Interest income of resident entities and non-residents with permanent establishment in the Republic of Azerbaijan are no longer subject to withholding tax;
- ▶ Income of individuals from dividend on shares and discount/interest paid on bonds are exempt from income tax until February 1, 2028;
- ▶ The method for calculation of withholding tax on discount and interest income paid on bonds is determined.

## On June 9, 2022, the Tax Code of the Republic of Azerbaijan was amended

On June 9, 2022, the Law "On Amendments to the Tax Code of the Republic of Azerbaijan" (hereinafter, the "**Law**") was adopted.

According to the law, the following changes have been made to the Tax Code:

### **The scope of individuals and entities subject to withholding tax applied on interest income has been reduced**

Based on amended Article 123.1 of the Tax Code, interest income of an individual, non-resident individual without permanent establishment in the Republic of Azerbaijan (except for an individual carrying out financial leasing operations) and non-resident entity without a permanent establishment in the Republic of Azerbaijan paid by a resident or a non-resident's permanent establishment in the Republic of Azerbaijan or on its behalf, including interest paid on financial leasing operations is subject to 10% withholding tax if that income is received from an Azerbaijani source in accordance with Article 13.2.16 of the Tax Code with consideration of the concessions provided in Articles 102.1.22 and 102.1.22-2 of the Tax Code.

Based on the amendment, the interest income of resident entities and non-residents with permanent establishment in the Republic of Azerbaijan is now subject only to corporate income tax, and no withholding tax is applied on that income.

**The period of exemption from income tax on dividend and interest income of individuals has been extended**

According to the amendment to Article 102.1 of the Tax Code, income of individuals from dividends on shares, discounts (difference arising from the placement of bonds below face value) and interest income on bonds available for public offering and trading on the regulated market are exempt from income tax for an additional period of 5 (five) years from February 1, 2023.

**The method for calculation of withholding tax on discount and interest income paid on bonds has been determined.**

According to amended Article 123.3 of the Tax Code, withholding tax on discount and interest income paid on bonds is calculated in proportion to the number of days the bondholder owns the bond.

It should be mentioned that currently there are no provisions in the Tax Code requiring withholding tax from discounts.

**Note:** The law is effective from January 1, 2022.

## Contacts

We hope that you will find this overview helpful.  
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