



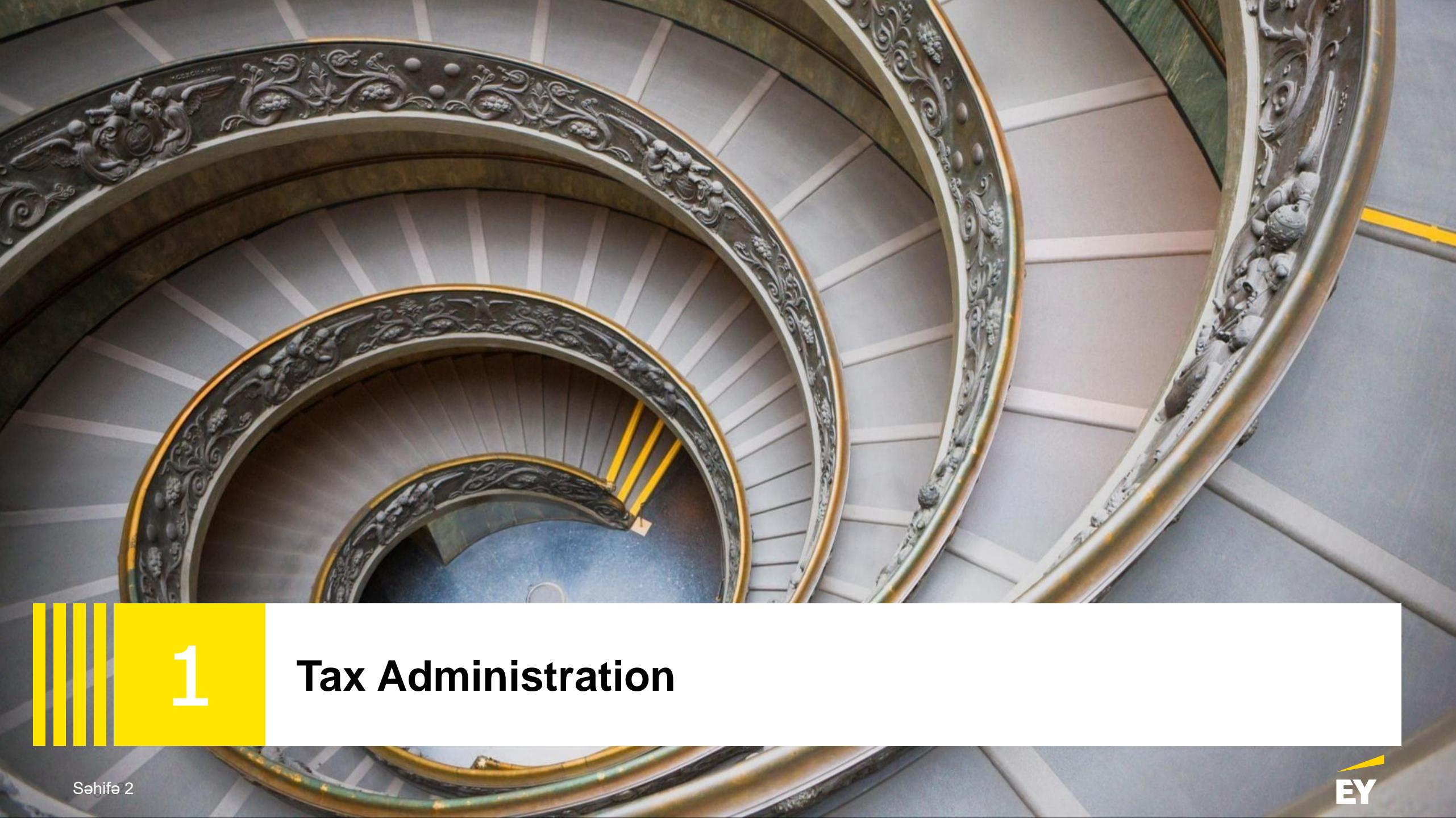
# Updates to the Tax Code

2023



**EY**

Building a better  
working world

A photograph of a grand, ornate spiral staircase. The stairs are white with gold-colored railings and balusters. The railings feature intricate dark-colored carvings. The ceiling above the stairs is also decorated with similar dark carvings. The perspective is looking down the center of the spiral staircase.

1

# Tax Administration

# Tax audits

## Compulsory marking

---

Compulsory marking - compulsory marking code and other protective measures applied to those goods for the purpose of tax control of the import, production, sale and circulation of goods specified **in the rules provided for in Article 50-2.1 of the Tax Code by the body (institution) determined by the relevant executive power body elements;**

**50-2.3-1. A person who violates the requirements of the rules stipulated in Article 50-2.1 of the Tax Code shall be liable in the cases provided for in the Tax Code, the Code of Administrative Offenses of the Republic of Azerbaijan and the Criminal Code of the Republic of Azerbaijan.**

50-2.1. The list of goods produced in the Republic of Azerbaijan or imported into the country that must be marked with mandatory marking, **the application of mandatory marking to those goods, the provision of them to taxpayers, circulation in the territory of the Republic of Azerbaijan, the order for the preparation of mandatory marking, the procedure for its application, sale** and accounting are regulated by the body (institution) determined by the relevant executive authority.



# Tax administration

## Limitation on use of privileges and preferences

Limitation of use of privileges and preferences set forth in the International Double Taxation Treaties (**Article 2.6** of the TC)

Provisions of Article 2.5. of this Code shall not apply if a resident of a state enacting the International Double Taxation Treaty to which the Republic of Azerbaijan is a party uses tax privileges or preferences envisaged by such Treaty **to evade taxes, including** the cases when this Treaty is used by a non-resident of a state enacting such Treaty to obtain tax privileges or preferences.

Note:

2.5. Should any international treaty to which the Republic of Azerbaijan is a party provide for regulations that differ from those contained in this Code and relevant regulations, the provisions of said international treaties shall apply.

# Tax administration

## Obligations of taxpayers

### Obligations of Taxpayers

16.1.8. to implement all cash transactions on the services provided by retail trade, public catering facilities, hotels and other accommodation facilities, medical institutions, **private medical practitioners**, barbershops, beauty salons and cosmetology centers through a cash register with real-time tracking tools complying with the criteria set by the body (institution) determined by a relevant executive authority and connected to the electronic information system of the body (institution) determined by a relevant executive authority:

16.1.11-4. to ensure the compliance with regulations of the Republic of Azerbaijan as well as international treaties to which the Republic of Azerbaijan is a party envisaging the exchange of tax and financial information, and the provision of electronic reports **and adjusted electronic reports (based on request of a tax authority)** in a form approved by a relevant executive authority reflecting information to be provided by financial institutions pursuant to Article 76-1 of this Code when financial institutions open accounts or provide financial services to legal entities or natural persons;

16.1.11-11. Except for taxpayers operating in the oil and gas field or categorized as public sector, **as well as taxpayers using the Green Corridor customs clearance system**, to submit respective information on goods to be imported by other taxpayers in a form approved by the body (institution) determined by a relevant executive authority to the tax authority with which the taxpayer is registered until the **date of import completion of customs clearance (within 1 business day from the completion of the customs clearance - for goods transported by air)**

# Tax administration

## Obligations of taxpayers

### Obligations of Taxpayers

16.1.11-11.3. If goods are delivered on order, the information about the persons placing the order (TIN – when the customer is a taxpayer; first name, surname, patronymic and FIN code – when the customer is a natural person) and the amount of order by each customer.

**If a taxpayer operates an economic entity (facility) registered with a tax authority, the information form specified in this Article shall not be submitted to the tax authority. In this case, imported goods shall be considered delivered to that economic entity (facility).**

Effective from 1 Oct 2023

16.6. The information on insured ~~(reinsured)~~-fixed assets of legal entities, their branches, **and** representative offices **and individual entrepreneurs** shall be submitted by the insurers ~~and reinsurers~~ to the body (institution) determined by a relevant executive authority in a form set by the body (institution) determined by a relevant executive authority by the 20<sup>th</sup> day of the month following the end of the quarter.

~~16.1.11-9. To buy, import, keep or sell goods that must be marked with mandatory marking, as well as to observe the rules established by the body (institution) determined by the relevant executive authority regarding the circulation of those goods;~~

**16.1.11-9. To comply with the requirements of the rules stipulated in Articles 50-2.1 and 194.1 of this Code;**

# Opening accounts for taxpayers

## Issuance of duplicate certificates

- ▶ In accordance with Article 35 of the Tax Code, until 2023, taxpayers had to apply to the tax authority for a duplicate certificate to open a current account. Only upon receipt of a duplicate certificate, the taxpayer could apply to the banks and other credit organizations to open an appropriate account within 10 days.

### Changes and Amendments

Effective from 1 Oct 2023

**Article 35.1** With the introduction of relevant changes, in order to open an account in the Republic of Azerbaijan, a taxpayer can apply directly to an institution authorized to open accounts (bank, post office, etc.), without obtaining a duplicate certificate. Based on the application, the relevant institution opens an account and notifies respectively the tax authority in the prescribed manner within 1 day;

**Article 35.2** The tax authority receives information about the opening of a taxpayer's account automatically on a real-time basis and sends a notification form to the specified organizations. Outbound transactions on the account are not allowed until the notification is received;

**Article 35.4** If a taxpayer has a debt to the State Budget or extra-budgetary funds, a limit of 105% of the outstanding amount is applied to outbound transactions on a newly opened account in the manner established by law.

**Article 35.6** In case of transfer of taxpayer's accounts between branches or structural subdivisions within an institution carrying out banking operations, the relevant institution shall inform the state authorities about this within 1 business day.

# Tax administration

## Financial sanctions

---

### Amendments to Existing Articles

**57.1. A financial sanction in the amount of AZN 40 shall be imposed under decision of the head (deputy head) of a tax authority for unjustified late submission of a tax return by a taxpayer having a taxable objects and engaged in taxable or non-taxable (tax exempt) transactions during the reporting period.**

57.1-2. A financial sanction in the amount of AZN **500 10000** shall be imposed on a taxpayer for the failure to submit country by country report in prescribed time and manner.

# Tax administration

## Financial sanctions

### Amendments to Existing Articles

58.7-1.10. In case of receipt of cash payments for medical services in violation of the Law of the Republic of Azerbaijan "On Cashless Settlements", medical institutions **and individual private medical practitioners** shall be imposed a financial sanction as follows: 10% of the total amount of the transaction - for the first violation within a calendar year; 20% - for the second violation within a calendar year and 40% – for recurring (at least 3) violations within a calendar year:

58.13. In case of delivery of goods without providing an electronic invoice, when such an invoice is required by the Tax Code; provision of goods from wholesale trade and production facilities and warehouses with registration of goods in the order of retail sale (**with the exception of goods sold in electronic commerce, ordered and delivered from warehouses owned by retail outlets**); provision of goods without issuing an intercompany stock movement invoice for the purpose of loading them from an economic entity (facility) onto vehicles for delivery without a preliminary order – the supplier of goods shall be imposed a financial sanction as follows: 10% of the sales price of provided goods - for the first violation within a calendar year; 20% - for the second violation within a calendar year and 40% – for recurring (at least 3) violations within a calendar year

# Tax administration

## Financial sanctions

### Amendments to Existing Articles

Effective from 1 Oct 2023

60. Financial sanctions imposed on credit organizations, **individuals performing banking operations** and financial institutions (the title of the article has been changed).

60.1. The following financial sanctions shall be imposed on ~~banks and other lending institutions performing various banking operations~~ credit organizations and **individuals performing banking operations**:

60.3.3. For the failure of financial institutions to provide relevant information (Article 76-1) – 30% of the total amount of ~~the performed transaction funds received to the account~~, and if no transaction is carried out on these accounts - AZN 400 per account.

# Tax administration

## Rights and duties of financial institutions

### Rights and Duties of Financial Institutions

76.1. During a tax control or for the purposes of information exchange with other states based on international treaties to which the Republic of Azerbaijan is a party, tax authorities may request credit organizations or individuals performing banking operations, in writing, to provide ~~information on bank account and transactions~~ information on taxpayer's (person's) identification data, bank account and transactions, as well as relevant supporting documents.

Article 76-1. Provision of information by financial institutions

~~In accordance with international treaties signed by the Republic of Azerbaijan envisaging exchange of tax and financial information~~ Financial institutions shall provide information about financial transactions performed by ~~legal entities and individuals operating in those states non-residents~~ in the Republic of Azerbaijan to authorized bodies of respective foreign states through relevant executive authority to the extent and in the manner prescribed by relevant executive authority.

# Tax administration

## Collection of Tax Debts – new articles

Facilitation of payments to state budgets in cases of 105 percent freeze of taxpayers' accounts for all outgoing operations:

65.8-1. The payments from frozen bank accounts is achieved based on payment order indicating state budget payment details which should be processed by the banks and credit organizations.

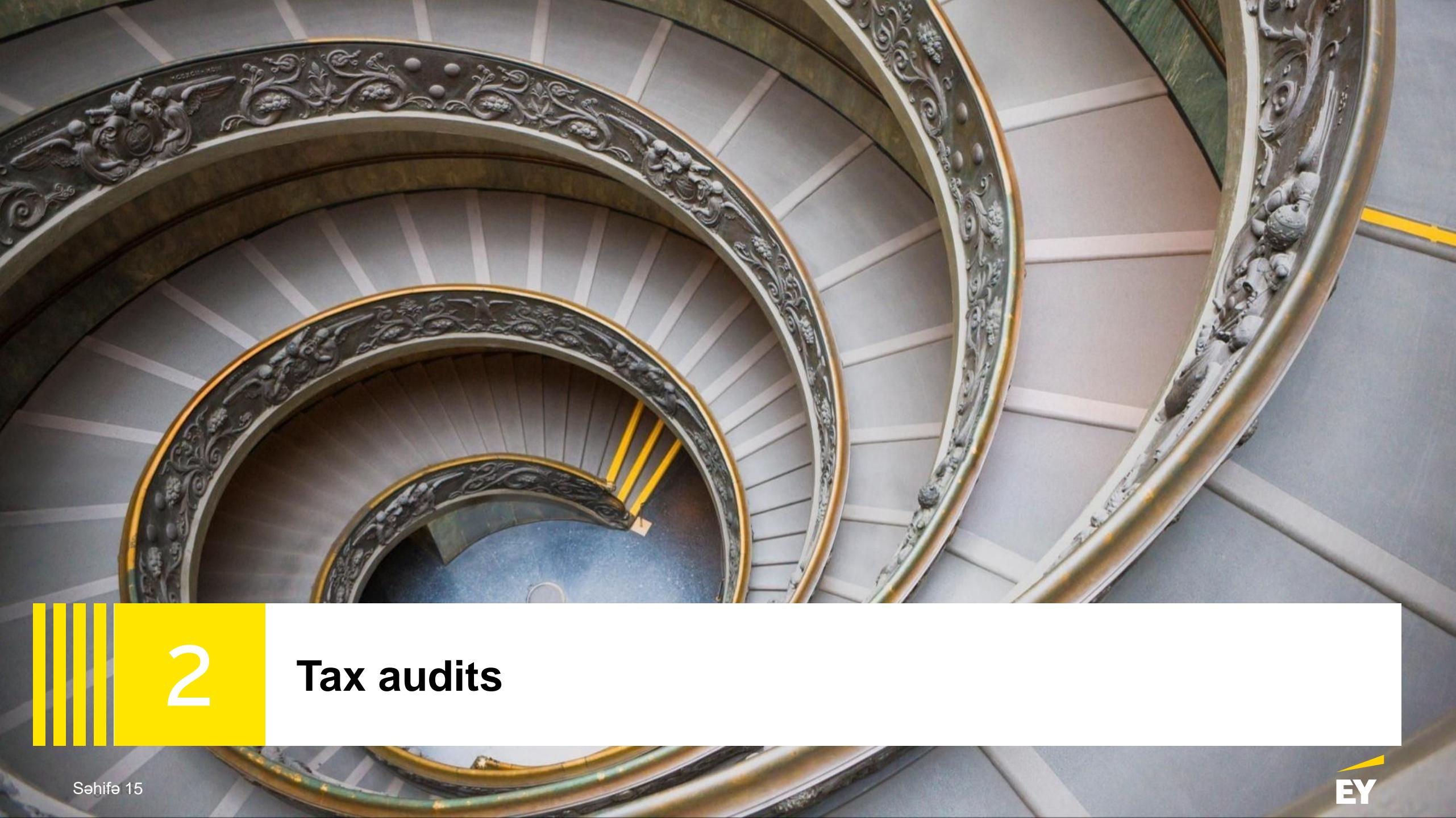
Collection of debts originating in foreign jurisdictions based on international agreements AR is a party to:

65.10. In order to comply with obligations under international agreements AR is party to, the AR Tax Administration would conduct debt collection procedures envisaged in clauses 65.1 – 65.9 of the Tax Code on the bases of incoming requests from the tax administration of a foreign tax jurisdiction.

# Tax administration

## Deadline for payment of tax obligations and change of the deadline

For taxpayers (Article 85.4)	For tax authorities (Article 85.5)
<p>State tax authorities shall have the right, within 3 years after a tax reporting period elapses, to review a taxpayer's taxes, interest and financial sanctions and to recalculate tax liabilities, and, within 5 years after the taxable period elapses <b>(starting from the date of the resolution issued under the on-site tax audit on accrual of additional taxes, interests and financial sanctions)</b>, to collect any tax, interest or financial sanction amount.</p>	<p>Within 3 years after the relevant taxable accounting period elapses a taxpayer shall be entitled to claim a calculation and recalculation (if calculated) of taxes, interest and financial sanctions which were incorrectly collected or withheld, and a refund or offset of overpaid taxes, interest and financial sanctions within 5 years after the relevant taxable accounting period elapses <b>(starting from the date of the resolution issued under the on-site tax audit findings pursuant to Articles 38.3.3 and 38.3.4 of the Tax Code)</b>.</p>

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The stairs are made of light-colored wood, and the railings are highly detailed with gold-colored, floral and acanthus leaf patterns. A bright yellow arrow points diagonally upwards and to the right, starting from the bottom right and ending near the top center of the frame. The background is a light-colored wall.

# 2

## Tax audits

# Tax audits

## On-site and Desk audits

### Amendment to Existing Article

#### Desk Tax Audit (37.2)

Upon receipt of information about the income generated in foreign states from the authorized bodies of relevant states, a desk tax audit shall be carried out within **30–90** business days from the date of receipt of the information for the period indicated in Article 85.4 of the Tax Code.

### New Article

#### Suspension of on-site tax audit for a period of up to 9 months (38.7-4)

In case of applying to the authorized body of a foreign state for the participation of a representative of the tax authority in a tax audit in the territory of the foreign state within the framework of international treaties to which the Republic of Azerbaijan is a party, in order to obtain relevant information or documents in connection with the ongoing tax audit of the taxpayer - until the completion of the audit in the foreign state.

# Tax audits

## International tax audits

### New Articles

#### Participation of Azerbaijan and foreign tax authorities in tax audits carried out in Azerbaijan and abroad (38.9)

In the cases specified in international treaties to which the Republic of Azerbaijan is a party, a representative of the authorized body of a foreign state (territory) may participate in on-site tax audits of taxpayers operating in Azerbaijan, and an authorized representative of the tax authority of the Republic of Azerbaijan may participate in on-site tax audits of taxpayers operating in a foreign state (territory).

#### Participation of Azerbaijan and foreign tax authorities in tax audits carried out in Azerbaijan and abroad (38.10)

The procedure for participation of representatives of the authorized body of a foreign state (territory) in on-site tax audit in the territory of the Republic of Azerbaijan shall be established by the body (institution) determined by relevant executive authority.

# Tax administration

## Operational tax control

---

### Amendments to Existing Articles

#### Operational Tax Control

##### *50.8. The receipts issued by cash registers shall contain:*

- 50.8.6. the number of checks issued **during current shift** and the ordinal **check** number
- 50.8.11. amount refunded to the customer (for the portion exceeding the cost of goods **or services (work)**);
- 50.8.14. type of check (sales, refund or **annulment annulment, advance payment, sale on credit**);
- 50.8.13. type and method of payment (~~**cash or cashless, advance, on credit, bonus, gift card or other similar types of payment**~~) (**cash, cashless, bonus, gift card**);
- 50.8.16. **symbols depicted in the fiscal elements (Unique Identifier) of relevant refund, annulment and sales (advance payment) checks.**

# Tax administration

## Operational tax control

---

### New Articles

#### Operational Tax Control

##### *50.8. The receipts issued by cash registers shall contain:*

- 50.8.17. the amount payable for the sale on credit and the payment sequence number indicated in the relevant sale-on-credit check, including the symbols depicted in the fiscal elements (Unique Identifier) of sale-on-credit check.
- 50.8.10-1. amount of the advance payment indicated in the advance payment check (50.8.10. paid amount)
- 50.8.18. state registration number of the buyer's vehicle indicated in the sales check for fuel provided by gas stations to taxpayers based on fuel cards (fuel vouchers).

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The staircase is made of light-colored wood and features intricate, dark-colored, possibly brass, railings with floral and acanthus leaf patterns. The spiral design creates a sense of depth and movement. A bright yellow arrow points to the right, indicating the direction of the stairs. The background is a plain, light-colored wall.

# 3

## Market Price and Transfer Price

# Market Price

## Extension of application of Market Price article

---

Assessment of taxes based the market price could be applied in the following cases (14.3.6.):

**failure of a taxpayer to provide (unavailability of) documents confirming the provision (receipt) of goods (works, services) during the tax control procedure**

# Transfer Price

---

## Clarification of Profit Split Method

**(14-1.1.4) The Profit Split method is the method of sharing profit originating in transactions between the parties envisaged with the clause 14-1.2 of this Code between such parties based on this Article on Transfer Price.**

## Application of Transfer Price article in respect of Permanent Establishments – New Article

**(14-1.10.) The determination of profit (income) of a non-resident derived from Azerbaijani source and assessment of taxes of a Permanent Establishment of such non-resident would be conducted based on the provisions of this Article on Transfer Price.**

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The staircase is made of light-colored wood and features intricate, dark-colored, possibly brass, railings with floral and acanthus leaf patterns. A bright yellow arrow points to the right along the side of the staircase. The ceiling above is white with decorative moldings.

# 4

## Controlled Foreign Company (CFC)

# Controlled Foreign Company (CFC)

---

## Extension of Article application

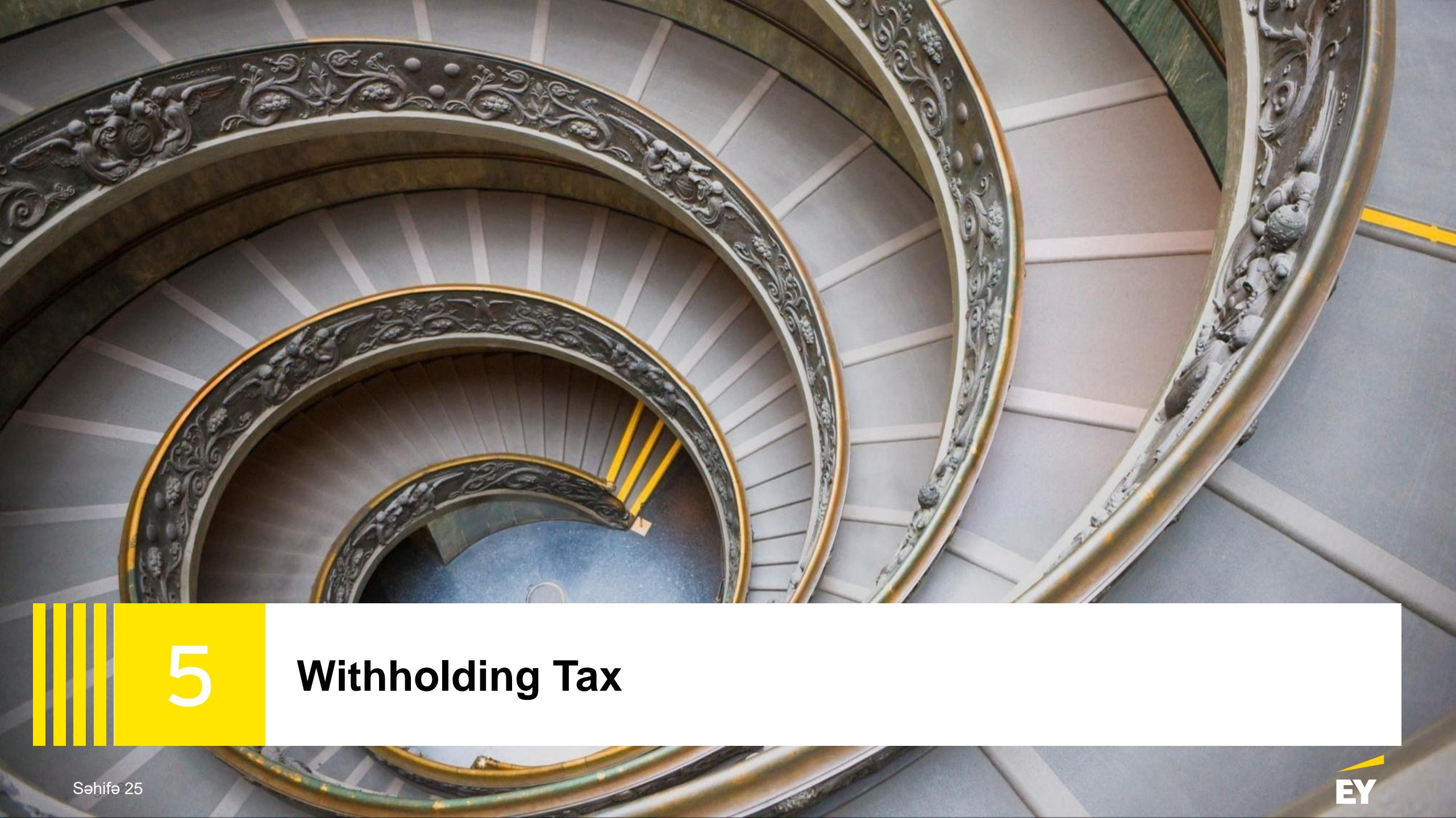
The reference to taxpayer registered in “jurisdictions recognized as those providing preferential tax regime” was excluded from clause 14-2.1;

New edition:

The profit of an entity not considered a resident of AR ~~registered in jurisdictions recognized as those providing preferential tax regime~~ could be taxed in AR in the following cases:

14-2.1.1. If an entity considered a resident of AR directly or indirectly, severally or jointly with a related party non-resident holds more than 50% voting rights, or more than 50% of chartered capital, or has the right to more than 50% of profit share of a foreign entity **and**;

14-2.1.2. if actual tax burden aid by a foreign controlled entity from its profit ~~is two times or lesser~~ **equal or less than 75%** of the amount payable from such profit based on the provisions of this Code **and**,

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The staircase is made of dark wood treads and features railings with intricate gold-colored metal scrollwork. A yellow arrow points to the right along the right-hand railing. The ceiling above is white with decorative moldings.

# 5

# Withholding Tax

# Withholding Tax

## Payments to jurisdictions with preferential tax regime

The list of cases not related to income from an Azerbaijani source was expanded when making direct or indirect payments by residents and permanent establishments of non-residents in the Republic of Azerbaijan, as well as residents not registered with the tax authorities, to individuals established (registered) in countries or territories with preferential taxation, including their branches or representative offices in other countries, as well as bank accounts in countries or territories with preferential taxation.

### New Article

*Article  
13.2.16.14-1,  
Part 10*

**10. When net profit of permanent establishments of a non-resident is transferred (provided) to that non-resident.**

# Withholding Tax

## Jurisdictions with preferential tax regime

### Amendment to Existing Article

#### Article 128.2

**Foreign countries or territories with preferential tax regime shall mean the following:**

**Countries or territories with the tax rate up to 75% of the rate specified in TCA and (or);  
Countries or territories that do not exchange information according to the relevant standards under international treaties with the Republic of Azerbaijan and (or);  
Countries or territories with enforced law on confidentiality of financial information on companies that are allowed to keep confidential their financial information, the property's beneficial owner or income (profit) recipient .**

### New Article

#### Article 122.5

**Dividends paid by persons who perform system integration, software preparation, and development activities outside the technology park as a resident of the technology park are not liable for a withholding tax for a period of 10 years, starting from the accounting year in which the technology park registration certificate is obtained.**

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The stairs are made of light-colored wood, and the railings are highly decorative with gold-colored metalwork featuring intricate scrollwork and small figures. A bright yellow arrow points to the right along the right-hand railing of the staircase.

# 6

# Corporate Income Tax

# Corporate Income Tax

## Exemption and privileges

### New articles

#### 106. Exemptions and Privileges

<i>Article 106.1.14-1</i>	<b>106.1.14-1. other income of legal entities engaged in the agricultural production (including by industrial method), subsidies to legal entities from the state budget for the agricultural production, as well as relevant dividend income of legal entities that are participants of resident legal entities engaged in the agricultural production (including by industrial method) - for 1 year starting from January 1, 2023</b>
<i>Article 106.1.31</i>	<b>106.1.31. 50% of income of legal entities from food production aimed at replacing the imported goods with locally produced (processed) goods, the list of which is approved by the body (institution) determined by relevant executive authority - for 7 years starting from the year the relevant list was approved.</b>

# Corporate Income Tax

## Exemptions and privileges

### Exemptions and Privileges

#### Amendments to Existing Articles

Article  
106.1.18

a portion of a maximum 10% of profit of a taxpayer (with the exception of **legal entities with participation share of 51 percent or more directly or indirectly owned by the state and** public legal entities established on behalf of the state) for the reporting year that was transferred to entities, departments and organizations operating in the area of science, education, healthcare, sports and culture that meet the criteria established by the body (institution) determined by relevant executive authority - for a period of 10 years, starting from January 1, 2019, and a portion transferred to funds created for public and social purposes **the list of which is approved by the body (institution) determined by relevant executive authority** - for a period of 8 years starting from January 1, 2021. Provisions of this Article shall apply to non-cash expenses only.

Article  
106.1.13

The income of legal entities that are residents of industrial or technological parks created according to the decision of the relevant executive authority from the activity in the industrial and technological park - starting from the reporting year in which they were registered in the industrial and technological park in accordance with the legislation - for a period of 10 years. **The privilege provided for in this article is also applied to the income received by legal entities that perform system integration, software preparation and development activities outside the technology park as a resident of the technology park (including the improvement, technical support and training services provided to buyers as a result of the implementation of that activity).**

# Corporate Income Tax

## Deductible repair costs

---

### Deductible Repair Costs

#### Amendments to Existing Article

*Article  
115.1.*

115.6-1. The costs incurred for the repair of fixed assets that are not accounted for on the lessee's balance sheet, not reimbursed at the expense of rent, or not reimbursed by the lessor, shall be capitalized by the lessee and depreciated at the depreciation rate applicable to the repaired fixed asset's category as per Article 114.3 of this Code. **If the amount of capitalized repair costs for each category determined in the manner prescribed by this article is less than AZN 500 at the end of the calendar year, this amount shall be subject to deduction.**

# Corporate Income Tax

## Non-recognition of Income or Loss

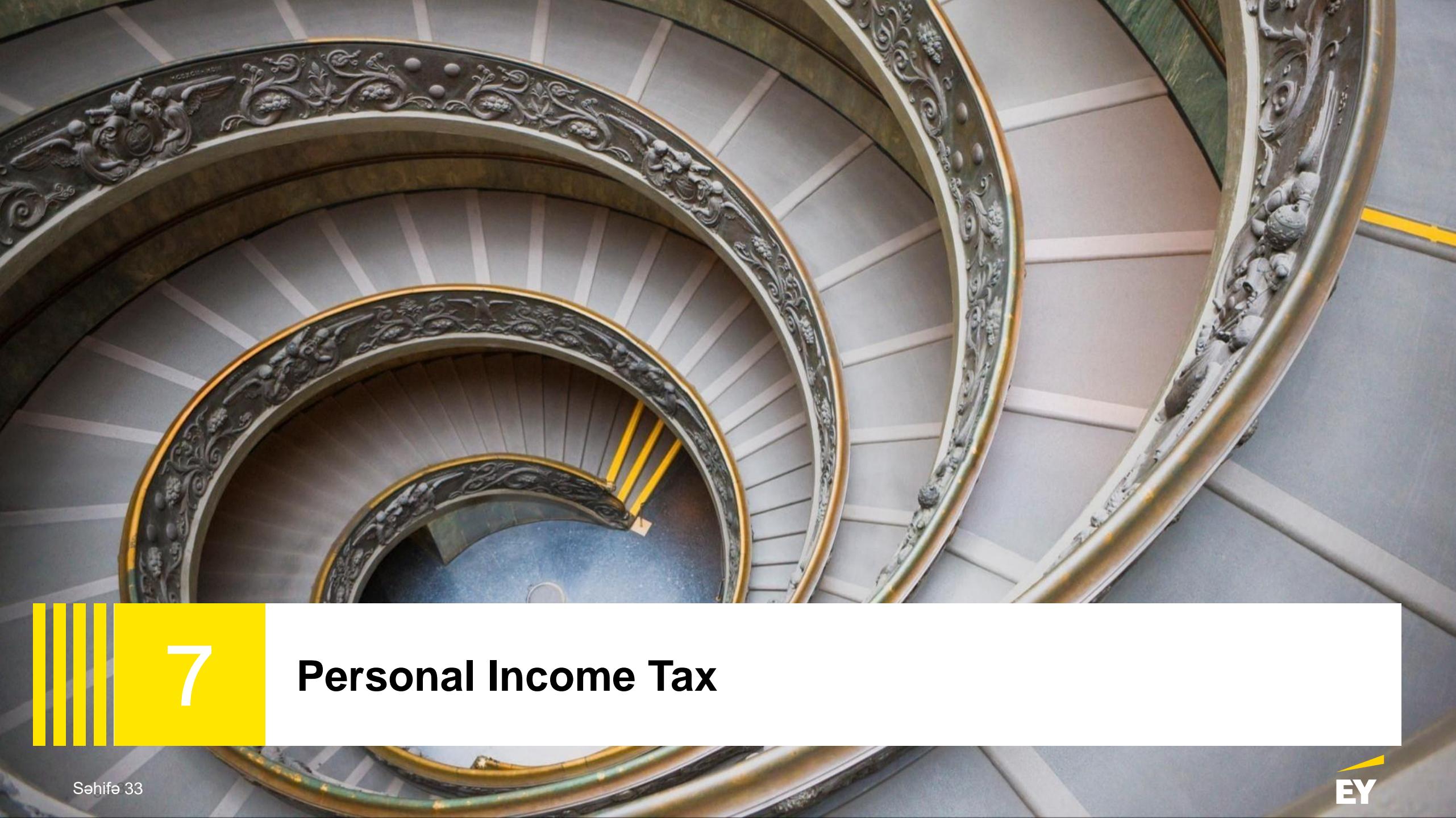
---

### Non-Recognition of Income or Loss

#### Amendments to Existing Article

Article  
144.1.4

144.1.4. **movable and immovable properties, intangible assets**, as well as entities in the form of a property complex that are transferred free-of-charge by legal and natural persons to state bodies (institutions), as well as to **funds created for public and social purposes, the list of which is approved by the body (institution) determined by relevant executive authority**.

A wide-angle, low-angle shot of a grand, spiraling staircase. The staircase is made of light-colored wood and features ornate, dark-colored metal railings with intricate scrollwork. A bright yellow arrow points to the right along the right-hand railing. The perspective is looking up the center of the spiral, with the stairs curving upwards and out of view.

7

## Personal Income Tax

# Personal Income Tax

## The rate of personal income tax

### 101. The rate of personal income tax

#### New article

Article  
101.7

**101.7. Regardless of other provisions of this article, income tax is levied on the monthly employment income of natural persons working for taxpayers who perform system integration, software preparation, and development activities outside the technology park as a resident of the technology park in the following manner:**

**101.7.1. Within 3 years from January 1, 2023, if the monthly income is up to 8,000 manats, 0 percent, and 5 percent of the amount exceeding 8,000 manats;**

**101.7.2. 5 percent of monthly income for 7 years from January 1, 2026.**

# Personal Income Tax

## Income tax exemptions and privileges

### 102. Exemptions and Privileges

#### New Articles

<i>Article 102.1-1</i>	<p><b>The monthly taxable income of parents, surviving spouses and children of persons who have been granted the status of a martyr's family is reduced by AZN 800.</b></p>
<i>Article 102.1.11-1</i>	<p><b>Dividend income of natural persons who are participants of resident legal entities engaged in the agricultural production (including by industrial method) - for a period of 1 year starting from January 1, 2023</b></p>
<i>Article 102.1.37</i>	<p><b>50% of income of individual entrepreneurs engaged in food production aimed at replacing imports with locally produced (processed) goods, the list of which has been approved by the body (institution) determined by relevant executive authority - for 7 years from the year of approval of the relevant list.</b></p>

# Personal Income Tax

## Income tax exemptions and privileges

### 102. Exemptions and Privileges

#### Amendments to Existing Article

Article  
102.1.11

**Income derived** directly from the agricultural production **(including by industrial method), including other income of natural persons engaged in the agricultural production, as well as subsidies given to natural persons at the expense of the State Budget for the agricultural production.**

Article  
102.1.22-2

Dividends, discounts and interest income on shares and bonds publicly offered and marketed **by resident legal entities in the territory and outside of the Republic of Azerbaijan** for a period of 5 (five) years starting from February 1, 2023.

# Personal Income Tax

## Income tax exemptions and privileges

---

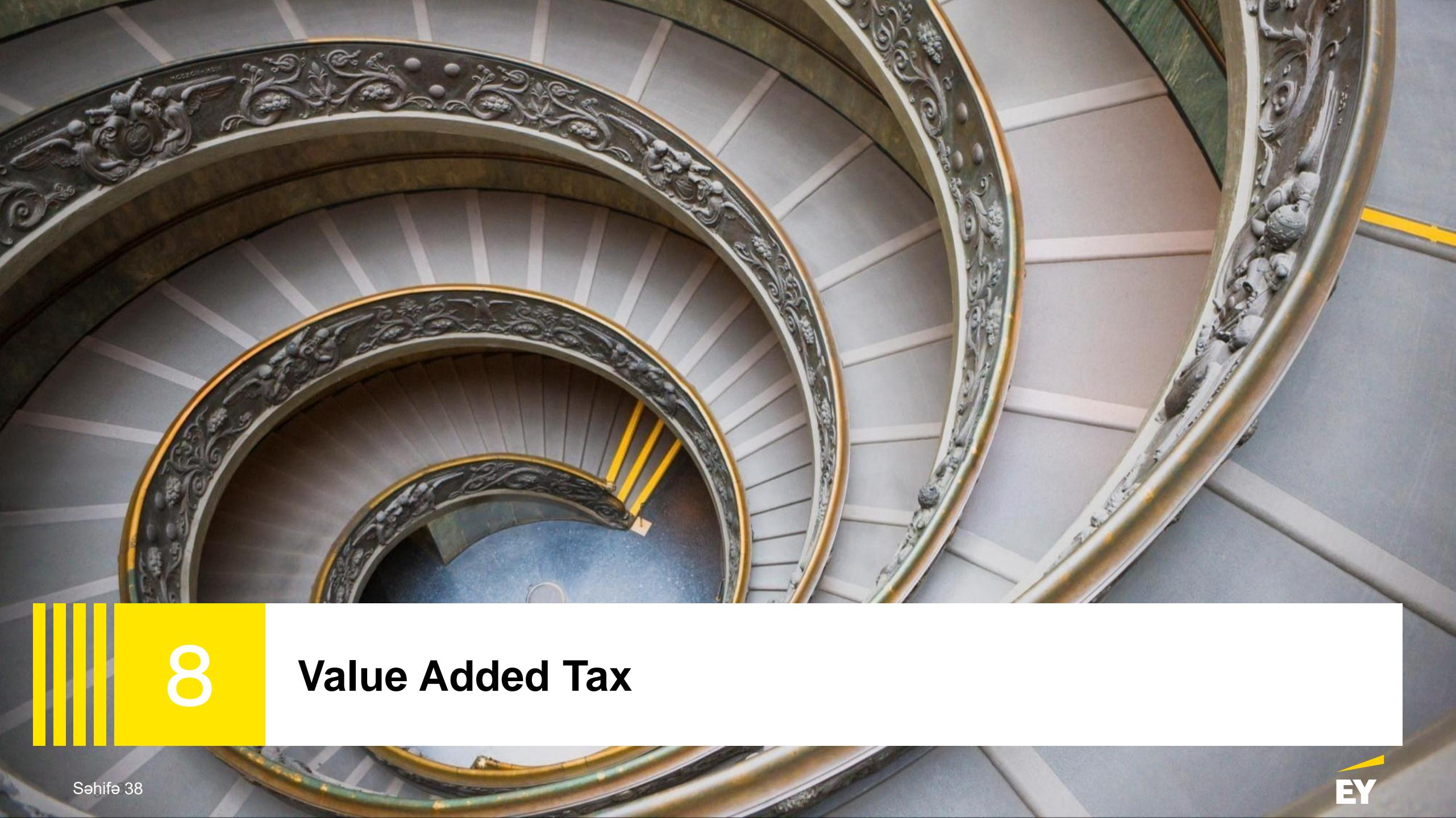
### 102. Exemptions and Privileges

#### Amendments to Existing Article and New Article

102.1.21

Income of the natural persons who carry out entrepreneurial activities without establishing a legal entity that is a resident of the industrial or technological parks created according to the decision of the relevant executive power body which is obtained from the activities in the industrial and technological parks (except for the income tax levied on salaries) - for a period of 10 years from the date of registration in the industrial and technological parks in accordance with the legislation.

**The privilege provided in this article is also applied in relation to the income obtained from those activities (including improvement, technical support, and training services provided to buyers as a result of the implementation of these activities) of persons who, as a resident of the technology park, carry out the activities of system integration, software preparation and development outside the technology park.**

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The staircase is made of dark wood treads and features railings with intricate gold-colored metal scrollwork. A yellow arrow points to the right along the right-hand railing. The ceiling above is white with decorative moldings.

8

## Value Added Tax

# Value Added Tax

## Changes to the VAT payment period

### Changes and Amendments to Existing Articles

<b>Article 58.6</b>	For <b>non</b> -payment by the taxpayer referred to in Article 175.8 of Tax Code, the amount of VAT <b>in 1 business day from later than on</b> the date of payment of the cost of goods (works and services) in accordance with Article 175.1.3 of this Code, the taxpayer shall be subject to a financial sanction amounting to 50% of unpaid VAT.
<b>Article 177.4</b>	VAT on taxable imports shall be calculated and collected by customs authorities in the manner established for the payment of customs duties under this Tax Code and customs legislation, <b>and paid to the State Budget within 1 banking day.</b>
<b>Article 175.1.3</b>	When two or more payments are made on an electronic delivery note issued to a taxpayer, each payment shall be considered as made for the separate operation in the amount of the payment. VAT amount shall be paid in accordance with the procedure determined by the Tax Code and relevant executive authority <b>within 1 business day</b> following the payment of the cost of goods (works, services) received under the electronic delivery note issued to the taxpayer. When two or more payments are made for the cost of goods (works, services), VAT amount shall be paid to VAT deposit account in relation to the payment made.

# Value Added Tax

## VAT exempt transactions

---

### Changes and Amendments to Existing Articles

**Article 164.1.41-1** Import and sale of hybrid vehicles with a manufacturing date of up to 3 years and an engine capacity of up to 2500 cc are exempt from VAT for 3 4 years starting from January 1, 2022.

**Article 164.1.5.** A contribution of any property (**except for fixed assets**) to an entity's charter fund (equity) in the form of shares, except for imported property (where the contribution of a property in the form of shares is not directly connected with the acquisition of other property in exchange) shall be exempt from VAT;

### New Article

**Article 164.1.60** **The import of fixed assets, the list of which is approved by the body (institution) determined by relevant executive authority, shall be exempt from VAT.**

# Value Added Tax

## Transactions that are not subject to VAT

### Changes and Amendments to Existing Articles

#### *Article 160.4*

Free-of-charge transfer of **movable and immovable properties, intangible assets**, as well as entities in the form of a property complex by legal and natural persons to state bodies (institutions), as well as to **funds created for public and social purposes, the list of which is approved by the body (institution) determined by relevant executive authority** shall not be considered a taxable transaction.

#### *Article 175.6*

**With the exception of the case specified in Article 160.4 of the Tax Code**, the amount of VAT paid for goods (works, services) by persons engaged in operations which are either not subject to VAT or are exempt from VAT shall not be considered claimable VAT amount by that person in accordance with procedures established by this Article. When purchasing goods (works, services) at the expense of funds (except for subsidies and reimbursements) allocated from the State Budget, the paid VAT amount is not claimable.

# Value Added Tax

## Zero (0) rate of VAT and time of taxable transaction

### New Articles

<b>Article 165.1.10</b>	<p>A contribution of fixed assets in the form of shares to the charter capital (equity) to the entity (where the contribution of fixed assets in the form of shares is not directly connected with the acquisition of other property in exchange).</p>
<b>Article 166.3</b>	<p>When Article 159.6 of the Tax Code applies, the time of the taxable transaction (including receivables from provision of goods (works, services)) shall be considered to be the time (day) immediately preceding the entry of the liquidation into force.</p> <p><u>NOTE:</u></p> <p><i>159.6. If a taxpayer liquidates its registration, the goods that remain in its possession at the time of liquidation shall be considered sold at that time and subject to VAT.</i></p>

# Value Added Tax

## Electronic VAT registration

---

### New Articles

*Article  
33.8-1*

The procedure for electronic tax registration, re-registration and de-registration of non-residents engaged in electronic commerce through the internet information resource (except for permanent establishments provided for by Article 19 of the Tax Code) who derive income from provision of electronic commerce works and services to residents, shall be determined by the body (institution) determined by relevant executive authority.

*Article  
169.8*

The provision of works and services for the purposes of this chapter by a non-resident registered under Article 33.8-1 of the Tax Code shall not be subject to the taxation based on this Article, and the non-resident shall calculate and pay tax liability on such transactions in accordance with the Tax Code.

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The staircase is made of dark wood treads and features railings with intricate gold-colored metal scrollwork. A bright yellow arrow points to the right along the right-hand railing. The ceiling above is white with decorative moldings.

9

## Other Taxes (Property, Land)

# Property Tax

## New article and amendments to the existing article

### Tax Privileges and Exemptions

Article  
199.4.1

Facilities that are used for environmental preservation **and fire protection** purposes

### Tax Privileges and Exemptions (new article)

Article  
199.4.1-1

**Civil defense properties owned (on the balance sheet) by entities, the list of which is approved by the body (institution) determined by relevant executive authority**

### Calculation and Payment of Property Tax on Entities and Entrepreneurs

Article  
201.1.1

When property of the entity is insured to the amount exceeding its residual value, property tax shall be calculated by applying property tax rate determined under Article 14.3.4 of the Tax Code **considering the market value of the property as of the date of insurance**. When the value of the insured property is determined on the basis of the market price, provisions of Article 202 of this Code shall not apply.

# Property and Land Tax

## New article and amendments to the existing article

### Tax Privileges and Exemptions

Articles 199.7 and 207.3 **Persons who perform system integration, software preparation and development activities outside the technology park as a resident of the technology park** are exempt from tax on property and land for 10 years from the reporting year of registration in the technology park in accordance with the law.

### Tax Privileges and Exemptions (new article)

Articles 199.17 and 207.10 Legal and natural persons engaged in food production aimed at replacing imports with locally produced (processed) goods, the list of which has been approved by the body (institution) determined by relevant executive authority, shall be exempt from **property and land** tax on property and land used in the process of that activity for 7 years from the year of approval of the relevant list.

### Tax Privileges and Exemptions (new article)

Articles 199.19 and 207.11 According to the State Programs of Privatization of State-Owned Property in the Republic of Azerbaijan, state-owned legal entities with privatization decision made after January 1, 2023, shall be exempt from **property and land** tax during the privatization process, but for not more than 3 years from the year of the decision.

A wide-angle, low-angle shot of a grand, ornate spiral staircase. The staircase is made of light-colored wood and features intricate, dark-colored, possibly brass or bronze, railings with detailed carvings. A bright yellow arrow points to the right, indicating the direction of the spiral. The ceiling above is also decorated with similar ornate patterns.

# 10

## Taxation in liberated territories

# Taxation in liberated territories

## Exemptions and privileges

### General Taxation Provisions

#### New Article

##### Article 226

This chapter regulates issues related to tax exemptions granted to residents of liberated territories, as well as objects and scope of transactions subject to such exemptions. All other matters related to taxation in liberated territories shall be regulated by Chapters I - XVII of the Tax Code.

For the purposes of this chapter, the term "resident of a liberated territory" refers to the legal and natural persons registered for tax purposes and operating directly in the liberated territories. The tax exemptions specified in this chapter do not apply to the following activities and operations:

- activity associated with the provision of financial services;
- trucking services;
- provision of goods (works and services) by a contractor at the expense of the State Budget (with the exception of resident contractors carrying out manufacturing activity within liberated territories).

# Taxation in liberated territories

## Exemptions and privileges

### Exemptions and Privileges

#### New Article

##### Article 227

227.1. Residents of liberated territories are exempt from profit (income), property, land and simplified taxes for a period of 10 years starting from January 1, 2023.

227.2. Import of raw materials and supplies for manufacturing activities, the list of which is approved by the body (institution) determined by relevant executive authorities, by residents of liberated territories that are registered VAT payers shall be exempt from VAT for a period of 10 years starting from January 1, 2023. The provisions of this Article shall be applied on the basis of a support document issued by the body (institution) determined by relevant executive authority.

227.3. Dividend income of shareholders of legal entities that are residents of liberated territories shall be exempt from taxation for a period of 10 years starting from January 1, 2023.

227.4. The tax exemptions provided for in this Article shall be applied under conditions that:

227.4.1. tax exemption in the field of production, including processing and extraction activities shall be applied to taxpayers who are registered for taxation purposes and are engaged in such activities in liberated territories. The tax exemption provided for in this Article applies to the income from goods produced, including those processed or extracted and then provided within or outside the liberated territory, or exported from the territory of the Republic of Azerbaijan.

# Taxation in liberated territories

## Exemptions and privileges

### Exemptions and Privileges

#### New Article

Article 227  
(continue)

**227.4.2. tax exemption for wholesale trade, construction and services (except for public services) shall be applied to legal and natural persons registered for tax purposes in liberated territories and providing goods (works, services) to the residents thereof.**

The tax exemptions provided for in this Article do not apply to above persons providing goods (works, services) to persons operating outside the liberated territories or exporting goods (works, services) from the Republic of Azerbaijan.

**227.4.3. tax exemptions for tourism, retail trade, public catering and other public services shall be applied to taxpayers registered for tax purposes and operating in the liberated territory.**

**227.4.4. If a resident of the liberated territory engaged in the types of activities provided for in Articles 227.4.1 - 227.4.3 of the Tax Code is engaged in the same activity outside the liberated territory (within the territory of the Republic of Azerbaijan), the tax exemptions provided for in this Article shall not apply to those persons.**

**227.4.5. If a resident of the liberated territory engaged in the types of activities provided for in Articles 227.4.1 - 227.4.3 of the Tax Code along with the liberated territories, performs other types of activities outside that territory, including outside the borders of the Azerbaijan Republic, the accounting of the income and expenses obtained from the activities performed in the liberated territories and other types of activities outside those territories shall be conducted separately for each by type of activity.**

# Taxation in liberated territories

## Exemptions and privileges

### VAT Refund and Accounting

#### New Articles

##### Article 227.5

**The tax exemptions provided for in this article shall also apply to other income received by the resident of the liberated territory in connection with the activity in that territory.**

##### Article 228

**30% of non-cash VAT payments and 5% of cash VAT payments made by individual consumers for the accommodation services (except for other extra services) provided by hotels considered accommodation facilities in liberated territories, shall be refundable. The procedure and conditions for VAT refund under this Article shall be determined under Article 165.5 of the Tax Code.**

##### Article 229

**The resident of a liberated territory submits tax reports on its activities in that territory to the tax authority in the manner and within the time limits provided for in the Tax Code.**

## **EY | Building a better working world**

**EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.**

**Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.**

**Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.**



EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](http://ey.com).

EY works together with companies across Caucasus and Central Asia and assists them in realizing their business goals. More than 1,300 professionals work at 8 offices (in Almaty, Baku, Bishkek, Nur-Sultan, Tashkent, Tbilisi, and other locations).

© 2023 Ernst & Young Holdings (CIS) B.V.  
All Rights Reserved.

ED MMYY

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

**[ey.com](http://ey.com)**