



Tax and Legal messenger

In this release, we would like to bring to your attention an overview of the following:

- Rules for Determining the Taxpayer's Capacity to Fulfill Tax Liability
- List of Leased Fixed Assets Exempt from Import VAT
- Amendments to the Rules for Refund of Overpaid Taxes and Mandatory Insurance Contributions
- Deadlines for Digital Transition of Employment Contracts have been Determined
- Recent Changes to Business Trip Expense Norms in relation to COP29

Rules for Determining the Taxpayer's Capacity to Fulfill Tax Liability

On September 3, 2024, the Decision "On the approval of the Rules on determining the taxpayer's capacity to fulfill tax liability" (the "Rules") was adopted by the Cabinet of Ministers of the Republic of Azerbaijan.

The Rules were adopted to regulate the fulfillment of tax liability of taxpayers who have applied for the extension of their tax payment period.

The Rules outline tax authorities' methods for calculating the average monthly income and expenses of taxpayers. These methods vary for corporate and personal income taxpayers, simplified taxpayers, as well as taxpayers which recently started their activities during the reporting period.

After calculating the average monthly income and expenses, the taxpayer's available funds are determined by taking into account the taxpayer's cash reserves, as well as the funds in current or other bank accounts. Afterwards, the taxpayer's capacity to fulfill tax liabilities is identified by comparing the amount of tax liabilities and available funds.

The Rules provide a special condition for public legal entities (and their subordinate entities) engaged in the restoration and reconstruction of liberated territories, as well as the management of Azerbaijan's transportation infrastructure using funds allocated from the state budget and extrabudgetary state funds. If VAT liability arises from received advances by such entities, this situation is considered as the inability of the taxpayer to fulfill the tax liability in a single payment.

The Rules entered into force on September 4, 2024.

List of Leased Fixed Assets Exempt from Import VAT

On September 3, 2024, the Decision "On the approval of the List of fixed assets that are subject of leasing agreements exempt from import VAT" (the "List") was adopted by the Cabinet of Ministers of the Republic of Azerbaijan.

With the adoption of the List, Article 164.1.25 of the Tax Code of Azerbaijan, which was amended by the changes made on December 5, 2023, came into force with its amended text. The mentioned Article provides that fixed assets which are the subject of leasing agreements and whose list is determined by the Cabinet of Ministers are exempt from import VAT. Previously, the exemption was applied without making a reference to such a list.

The List details a broad range of specialized machinery and equipment for industrial, agricultural, and construction purposes, including processing, packaging, textile, and paper production, as well as advanced digitally controlled tools and industrial robots.

The List entered into force on September 5, 2024.

Amendments to the Rules for Refund of Overpaid Taxes and Mandatory Insurance Contributions

On September 3, 2024, the Decision "On the amendments to the Rules for the refund of overpaid taxes, mandatory state social insurance, unemployment insurance and compulsory medical insurance contributions, interest, and financial sanctions" (the "Amendments") was adopted by the Cabinet of Ministers of the Republic of Azerbaijan.

Pursuant to the Amendments, the scope of non-refundable tax payments has been expanded to include mandatory state social insurance and compulsory medical insurance contributions paid by taxpayers engaged in passenger transportation.

Moreover, the Amendments clarify the limitations on the offset of unemployment and compulsory medical insurance contributions with taxes and mandatory state social insurance contributions and vice versa.

The Amendments entered into force on September 5, 2024.

Deadlines for Digital Transition of Employment Contracts have been Determined

On September 17, 2024, the Decision "On determining the phases for transferring employment contracts to electronic form by employers" (the "Decision") was enacted by the Cabinet of Ministers of the Republic of Azerbaijan.

The process for transferring valid employment contracts, concluded prior to the amendments to the Labor Code of the Republic of Azerbaijan

dated August 12, 2024, to electronic form will be carried out according to below deadlines by the following employers:

- By January 1, 2025: state bodies of Azerbaijan, state-owned enterprises or legal entities whose controlling stake is owned by the state, and public legal entities established by the state
- By July 1, 2025: employers classified as entrepreneurs, as well as non-entrepreneurs
- By January 1, 2026: employers classified as family farms and family enterprises

The Decision came into force on September 18, 2024.

Recent Changes to Business Trip Expense Norms in relation to COP29

On September 14, 2024, the Decision "On the amendments to the Decision on the norms of business trip expenses" (the "Amendments") was adopted by the Cabinet of Ministers of the Republic of Azerbaijan.

In connection with hosting the upcoming COP29 Conference, the 19th session of the Meeting of the Parties to the Kyoto Protocol, and the 6th session of the Meeting of the Parties to the Paris Agreement in Baku, the members of organizing committee and the designated delegates shall receive a 50% increase to the daily business trip allowance for travel to specified cities within the framework of the COP29 events during the years 2024-2025.

The Decision applies from August 1, 2024.

The Amendments entered into force on September 16, 2024.

Contacts

We hope that you will find this overview helpful. For more detailed information, please contact the following specialists:



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