



Azerbaijan Tax News
Amendments to Law on Social
Insurance

28 December 2018

Introduction

The Law on Amendments to the Law of the Republic of Azerbaijan "On Social Insurance" ("Law") was issued on 21 December 2018. The Law will go into effect on 1 January 2019.

The amendments to the Law are in line with the significant changes introduced in the tax legislation earlier. In this newsletter we bring to your attention a summary of major amendments to the Law.



Nuran Kerimov
Partner

Phone: +994 (12) 404 1210

Mobile: +994 (50) 222 9907

Email: nkerimov@deloitte.az



Emil Garayev
Director

Phone: +994 (12) 404 1210

Mobile: +994 (50) 224 1070

Email: egarayev@deloitte.az



Control over calculation
and payment of
mandatory
state social insurance
contributions



State control

The long-awaited unified state control over tax and other compulsory payments related to employment income has been reflected in the Law.

New amendments

- Control over calculation and payment of mandatory state social insurance contributions (SIC) has been aligned in accordance with tax legislation. The main changes are:
 - ✓ the Ministry of Taxes of the Republic of Azerbaijan has been appointed to keep records of insurer and insured, to impose financial sanctions for violations in related area and handle refunds for overpaid contributions.
 - ✓ Reports on mandatory SIC and applicable certificates are submitted to the Ministry of Taxes.
 - ✓ Refund of overpaid mandatory SIC is entrusted to the Cabinet of Ministers of the Republic of Azerbaijan. It should be noted that the Cabinet of Ministers has similar resolution on refund of overpaid taxes (see: [Resolution No. 48 of 23 February 2001 on Approval of Rules for refunding to the taxpayer of overpaid taxes, interests and financial sanctions](#)).
 - ✓ Article 21 of the Law on Social Insurance related to financial sanctions for violating mandatory SIC rules is canceled. Financial sanctions for understatement of mandatory SIC and late payment interest will be set in accordance with the Tax Code of the Republic of Azerbaijan (see: [TC of the Republic of Azerbaijan, Chapter 5](#)).
-

Mandatory
state social insurance
contribution rates



Mandatory SIC rates

Employment income

Before amendments

SIC rates			
Monthly income subject to SIC	Total	Deducted from employee income	Paid by employer
Regardless of the amount	25%	3%	22%

After amendments

From 1 January 2019, mandatory SIC rates for employment income in the non-government sector except for oil and gas industry will be as follows for the period of 7 years:

Monthly income subject to SIC	SIC rates		
	Total	Deducted from employee income	Paid by employer
Up to AZN 200	25%	3%	22%
The amount exceeding AZN 200	25%	AZN 6 + 10% of the amount exceeding AZN 200	AZN 44 + 15% of the amount exceeding AZN 200

We should note that the criterion for determination of oil and gas industry and the non-government sector will be additionally defined by the government.

Mandatory SIC rates

Entrepreneurial and non-entrepreneurial income

SIC rates		
Type of income	Before amendments	After amendments
Sectors other than construction and trading	20 percent of a minimum monthly wage. Coefficient from 0.5 to 1 is applied to that amount depending on a geographic zone.	25 percent of a minimum monthly wage regardless of a geographic zone starting from 1 January 2020
Private notaries	20 percent of income	2.5 of minimum monthly wage

- Mandatory SIC rates remain unchanged for all other types of income.

Note: The current rate of minimum monthly wage is AZN 130. (see: [Order No. 3545 of the President of the Republic of Azerbaijan dtd 25 December 2017](#))

Income subject to
mandatory state social
insurance contributions



Income subject to mandatory SIC

Significant amendments have been made to Article 15 that lists types of income exempt from mandatory SIC

Before amendments	After amendments
• New article	• One of the most significant updates is that the amount paid by an employer to any third party related to the provision of meal to employees is not subject to mandatory SIC. It means that this exemption will be applicable to instances where meal is provided by external suppliers.
• Lump sums paid on termination of a labor contract due to the reduction in the number of personnel, staff cuts or death of an employee.	• As to new amendments such income also include lump-sum payments upon termination of a labor contract due to employer liquidation .
• Insurance fee paid by an employer to an insurance company in Azerbaijan Republic under the life insurance contract awarded for the period of more than three years, and any amounts paid to the insured upon expiration of the three year period from the effective date of life insurance contract.	Controversial point related to application of exemption under a life insurance contract is eliminated. Moreover, an amount that is not subject to compulsory SIC under a life insurance contract is now limited to 50 percent of an employee's monthly income. The mentioned clause has been edited as follows: • Insurance payments made by insurer to Azerbaijani insurance company from income of insured person not exceeding 50% of that persons total income in accordance with the contract on life and retirement insurance concluded for a period not less than three years, any payments to insured person and beneficiary upon expiration of three year period from the effective date of the contract on life endowment and retirement insurance
• Value of items or money received as prizes in competitions and contests	• As per the new amendments money prizes from betting, lotteries and other competitions and contests have been added to the list of similar exempt from mandatory SIC



deloitte.az

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 264,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.