



## Azerbaijan Tax News Prepare for a Changing Landscape

The President of the Republic of Azerbaijan has signed the Law “On changes to the Tax Code” on 7 December 2015. The changes will be effective from 1 January 2016. Below is the summary of the main changes introduced by the law.

### New Law on amendments and changes to the Tax Code

- Taxation of persons engaged in trading and catering activities
- Taxation of winnings from sports gambling
- Changes in personal income tax
- New exemptions from property tax
- Increase in mining tax rates
- New rights of the state tax authorities
- Taxation of the income of persons engaged in construction
- Taxation of the income from the sale of immovable property
- Changes in the registration and deregistration rules for value added tax purposes
- New exemptions from value added tax on imports

### Taxation of persons engaged in trading and catering activities

According to the changes to the Tax Code, persons engaged in trading and catering activities would be entitled to register as simplified taxpayers at the following rates, regardless of their taxable turnover:

- For trading activities – 6%;
- For catering activities – 8%.

Catering activities are defined as the provision of edible products to consumers produced (cooked) at a remote site or in the territory where the supplier operates.

Persons engaged in trading and catering activities will also be subject to specific penalty rates for non-compliance with the cash settlement rules stipulated by the Tax Code. The rates are as follows:

- First offense during a calendar year – AZN 2,000;

- Second offense during a calendar year – AZN 4,000;
- Third or more offense during a calendar year – AZN 6,000.

The penalty rates for violating the cash settlement rules remain unchanged for taxpayers who are not engaged in trading and catering activities.

#### Taxation of winnings from sports gambling

A 10% withholding tax is being introduced on winnings from sports gambling. These winnings were previously tax exempt. Withholding and paying the tax to the state budget will be the responsibility of those persons paying the winnings. Reporting period for the withholding tax of winnings from sports gambling will be a calendar month.

#### Changes in personal income tax

As a result of the amendments, taxpayers with a monthly income from employment of up to AZN 2,500 will now be allowed a tax exemption in the amount of living wage of the able bodied population (AZN 146 per month) effective from 1 January 2016. Previously, only taxpayers with a monthly income of up to AZN 250 qualified to this exemption.

Additionally, income from the disposal of immovable property will be subject to a simplified tax at pre-determined rates rather than included in personal income tax.

#### Changes in taxable base of property tax

According to the amendments, legal entities would be exempt from property tax with regard to satellites and other space objects that they own.

#### Increase in mining tax rates

In accordance with the amendments, mining tax rates, which are calculated based on each cubic meter of excavated mineral resources, will approximately double.

#### New rights of the state tax authorities

With the changes, the tax authorities will gain the right to seek a court decision to temporarily prevent individuals or company executives from leaving the country if the person or company has an unpaid tax debt, including any applicable financial sanctions or interest.

The amendments also enable the tax authorities to have operative (current) control over any excised goods.

It is also important to note that according to new amendments to the Criminal Code and the Code of Administrative Offences, administrative and criminal liability was established for violating a number of regulations related to turnover of excised goods.

#### Taxation of income of persons engaged in construction

Persons engaged in the construction of buildings will be entitled to register as simplified taxpayers voluntarily according to the changes. Previously such registration was mandatory. However, it will not be possible to change the selected taxation method for a particular construction project until its completion.

Simplified tax for construction of buildings will be calculated at a rate of AZN 45 multiplied by the location zone rate, which varies from 0.5 to 4.0. The rate for non-residential buildings is 1.5 regardless of location.

Taxpayers that have commenced construction works before the changes will take effect will be able to maintain their previous taxation method by notifying the tax authorities and other respective state authorities.

#### Taxation of income from sale of immovable property

According to the amendments, income from sale of residential and non-residential property, including property acquired from persons engaged in construction, will be subject to a simplified tax.

The simplified tax will be calculated at a rate of AZN 15 per square meter multiplied by the location zone rate, which varies from 0.5 to 4.0. The rate for non-residential buildings is 1.5 regardless of location.

Personal income from disposal of residential property that an individual has owned and was registered at for at least five years would be exempt from taxation.

Public notary approving the contract of the sale of residential and non-residential property will be responsible for calculating, withholding and remitting the simplified tax amount to the State Budget within one banking day. The notary will also be responsible for filing a monthly tax return with the tax authorities no later than 20th day following the reporting month.

#### Changes in registration and deregistration rules for VAT purposes

Persons engaged in business activities with taxable turnover more than 200,000 AZN within any consecutive 12-months period will be liable to submit an application for VAT registration. Previously the threshold for mandatory registration was 120,000 AZN.

Accordingly, minimum amount of taxable turnover, which entitles a taxpayer to cancel the VAT registration, was increased from 60,000 to 100,000 AZN.

#### New exemptions from VAT

The amendments also add to the list of goods that are exempt from VAT upon import. Some of the new exemptions include fixed assets imported for financial leasing and goods imported into special economic zones, with the exception of excised goods.

#### New Amounts of the Living Wages for 2016

On 7 December 2015, the President of the Republic of Azerbaijan signed a Decree "On Approval of the Law on the living wage for 2016".

According to the Law, living wages in Azerbaijan are set as follows:

- AZN 136 for the main socio-demographic groups of population;
- AZN 146 for able bodied population;
- AZN 115 for pensioners;
- AZN 117 for children.

The Law comes into force from 1 January 2016.

#### Law on the 2016 State Budget

On 7 December 2015, the President of the Republic of Azerbaijan signed a Law "On State Budget of the Republic of Azerbaijan for the year 2016" and a resolution on implementation of the Law.

#### Tax & Legal Department

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