

## International Tax Azerbaijan Highlights 2021

Updated January 2021



### Recent developments

For the latest tax developments relating to Azerbaijan, see [Deloitte tax@hand](#).

### Investment basics

**Currency:** Azerbaijani Manat (AZN)

**Foreign exchange control:** There are no restrictions on the import or export of capital. Supporting documentation, including tax payment documents and bank statements, must be submitted when cash withdrawals exceed amounts previously imported into the country. Amounts may be repatriated in any currency, and both residents and nonresidents can hold bank accounts in any currency.

**Accounting principles/financial statements:** IFRS is required (except for micro and small enterprises). Contractors operating under production sharing agreements (PSAs), risk service agreements (RSAs), or host government agreements (HGAs) in the oil and gas industry are required to maintain books in US dollars in accordance with the principles of generally accepted international petroleum industry accounting. Financial statements must be prepared annually.

**Principal business entities:** These are the limited liability company, open/closed joint stock company, general partnership, limited partnership, cooperative, and branch and representative office of a foreign company.

### Corporate taxation

#### Rates

<b>Corporate income tax rate</b>	20% (ordinary profit tax rate)
<b>Branch tax rate</b>	20%, plus 10% branch remittance tax
<b>Capital gains tax rate</b>	20%

**Residence:** An entity that is incorporated in Azerbaijan is considered resident; branch offices and representative offices of foreign legal entities are considered nonresident.

**Basis:** Residents are taxed on worldwide income; nonresidents are taxed only on Azerbaijan-source income.

**Taxable income:** Profit tax is imposed on a company's operating profits, computed as the difference between total taxable income and deductible expenses. Normal business expenses are deductible in computing taxable income.

Companies operating in the oil and gas sector are governed mainly by PSAs, RSAs, or HGAs, but projects not covered by such agreements are taxed in accordance with the rules in the tax code.

**Rate:** Azerbaijan legal entities are subject to a 20% profit tax on their worldwide income. Nonresidents are taxed on Azerbaijan-source income at the same rate. PSA and RSA contractors that carry out business in Azerbaijan in connection with petroleum operations pay profit tax at pre-negotiated rates of 20% to 32%. In lieu of profit tax, foreign subcontractors operating under PSAs and RSAs pay withholding tax at rates ranging from 5% to 10% of the gross payments received as consideration for work or services performed in Azerbaijan. The tax is deducted by the payer and is a final tax for the foreign subcontractor. In accordance with new PSAs and RSAs, foreign subcontractors who have a registered presence in Azerbaijan must pay profit tax in accordance with the provisions of the tax code. Tax is imposed on the taxable annual profit of each main exporting pipeline (MEP) participant relating to MEP project activities at a flat rate of 27%.

**Surtax:** There is no surtax.

**Alternative minimum tax:** There is no alternative minimum tax.

**Taxation of dividends:** Dividends received from Azerbaijan companies and permanent establishments of foreign companies in Azerbaijan are exempt from profit tax; they are subject only to a 10% withholding tax.

**Capital gains:** Capital gains are treated as normal income and taxed at the ordinary profit tax rate.

**Losses:** Losses may be carried forward for five years. The carryback of losses is not permitted.

**Foreign tax relief:** Corporate income taxes paid outside Azerbaijan may be credited against Azerbaijan tax due. Excess foreign tax credits may not be offset against a resident taxpayer's Azerbaijan tax liabilities on any domestic-source income, nor may they be carried forward or back.

**Participation exemption:** There is no participation exemption.

**Holding company regime:** There is no holding company regime.

**Incentives:** The tax code provides for a 50% exemption from profit tax for legal entities holding an investment promotion certificate. The exemption is valid for seven years from the date of obtaining the certificate. Certain other incentives also may be available for legal entities and individuals holding an investment promotion certificate. As from 1 January 2019, profit tax exemptions also are available for: i) 50% of the income from the disposal of shares and participations held for at least three years; ii) profits of micro or small enterprise start-ups for three years after the start-up certificate is obtained; and iii) 75% of the profits of micro enterprises.

## Compliance for corporations

**Tax year:** The tax year is the calendar year.

**Consolidated returns:** A legal entity may file a consolidated return that includes the taxable income and deductible expenses of its branch offices.

**Filing and payment:** The profit tax return is due by 31 March (inclusive) following the end of the tax year. Other tax returns are filed on a periodic basis (monthly, quarterly, and annually).

Legal entities and entrepreneurs that are registered for VAT purposes and simplified taxpayers paying employment income to individuals must submit quarterly tax declarations to the tax authorities.

**Penalties:** Penalties apply for late filing, failure to file, or tax avoidance or evasion.

**Rulings:** A taxpayer may apply for an advance tax ruling for each transaction (separately) exceeding a value of AZN 10 million.

## Individual taxation

Rates		
Individual income tax rate	Taxable income	Rate
Oil and gas industry employment	Up to AZN 2,500	14%
	Over AZN 2,500	AZN 350 + 25% of amount exceeding AZN 2,500
Private sector employment	Up to AZN 8,000	0%
	Over AZN 8,000	AZN 350 + 14% of amount exceeding AZN 8,000
Individual entrepreneurs	20%	
<b>Capital gains tax rate</b>		Same as above

**Residence:** Unless otherwise provided in an applicable tax treaty, individuals generally are considered to be tax resident if they are physically present in Azerbaijan for a period of more than 182 cumulative days in a calendar year (regardless of nationality).

**Basis:** Azerbaijan residents are subject to income tax on taxable income, which is defined as gross income received from all sources, regardless of where the income was earned or paid, less allowable deductions.

A 50% exemption from personal income tax is granted to individuals who hold an investment promotion certificate for seven years from the date of obtaining the certificate.

A 75% exemption is granted for income of entrepreneurs participating in micro enterprises, and income from innovative activities of entrepreneurs participating in micro or small enterprises is exempt from taxation for three years from the date a start-up certificate is obtained.

Nonresidents are subject to Azerbaijan income tax on Azerbaijan-source income.

**Taxable income:** Taxable income includes income from employment, income from entrepreneurial activities, and passive income. Certain income, such as property inherited from family members, alimony, etc., is exempt.

**Rates:** Rates are progressive up to 25%. Employment income of up to AZN 8,000 per month is exempt from personal income tax for seven years for private sector employees (other than those working in the oil and gas industry). The excess and any investment income are taxed at a rate of 14%. Individual entrepreneurs are taxed at a 20% rate.

**Capital gains:** Capital gains are treated as normal income and taxed at the ordinary personal tax rate.

**Deductions and allowances:** Expenses incurred by an entrepreneur may be deducted in computing taxable income.

**Foreign tax relief:** Individual income taxes paid outside Azerbaijan may be credited against Azerbaijan tax due. Excess foreign tax credits may not be offset against a resident taxpayer's Azerbaijan tax liabilities on any domestic-source income, nor may they be carried forward or back.

## Compliance for individuals

**Tax year:** The tax year is the calendar year.

**Filing status:** Each taxpayer must file an individual tax return; joint returns are not permitted.

**Filing and payment:** Tax returns are due by 31 March following the tax year. However, a tax return for employment income withheld at source is filed by the employer on a quarterly basis by the 20th day of the month following the end of the reporting quarter. Payers of the simplified tax and VAT must submit the tax return on a quarterly basis by the 20th day of the month following the end of the reporting quarter. Personal income taxes, which generally are withheld by the employer, must be remitted to the state budget within 20 days of the following month.

**Penalties:** Penalties apply for late filing, failure to file, or tax avoidance or evasion.

**Rulings:** An individual entrepreneur may apply for an advance tax ruling for each transaction (separately) exceeding a value of AZN 10 million.

## Withholding tax

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	10%	10%	10%	10%
Interest	10%*	10%*	10%	10%
Royalties	0%	14%	14%	14%
Fees for technical services	0%	0%	10%	10%

\* Subject to certain rules and exemptions.

**Dividends:** Dividends paid to nonresidents are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. The same rate applies to residents.

**Interest:** Interest paid to nonresidents is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. The same rate applies to residents, subject to certain rules and exemptions.

**Royalties:** Royalties paid to nonresidents are subject to a 14% withholding tax, unless the rate is reduced under a tax treaty. The same rate applies to resident individuals. However, there is no withholding tax on royalties paid to resident companies.

**Fees for technical services:** Although Azerbaijan tax law does not specifically address technical service fees, such fees generally are subject to a 10% withholding tax for nonresidents. There is no withholding tax for technical service fees paid to residents.

**Branch remittance tax:** Net profits remitted to the foreign head office of a branch are subject to a 10% withholding tax.

**Other:** Direct or indirect payments made by Azerbaijan residents to persons registered in one of the countries and territories deemed to have low-tax regimes are subject to an additional withholding tax of 10%.

## Anti-avoidance rules

**Transfer pricing:** Transactions between related parties must be on arm's length terms. The tax authorities may adjust the contract price: i) in barter or import-export transactions; ii) in transactions between related persons (as defined in the tax code); iii) where the price deviates by 30% or more from transactions involving similar or identical goods, work or

services, taking into account conditions that would affect market price; iv) where the property is insured for a value exceeding its net book value; and v) where a monthly lease fee is paid for immovable property (other than housing).

Transfer pricing rules apply to cross-border controlled transactions with associated parties. Controlled transactions exceeding AZN 500,000 per counterparty per calendar year must be reported to the tax authorities by 31 March of the year following the reporting year.

Azerbaijani residents that are part of a multinational enterprise (MNE) with annual consolidated group revenue exceeding EUR 750 million are required to submit a report to the tax authorities for the purpose of ensuring automated information exchange with the competent authorities of countries with which Azerbaijan has signed international agreements.

**Interest deduction limitations:** Thin capitalization rules are introduced as from 1 January 2019 where the foreign borrowing of a company is at least twice its net asset value (the foreign leverage ratio). The interest paid attributable to the portion of the debt exceeding the ratio is not tax-deductible.

**Controlled foreign companies:** An Azerbaijan resident that holds, directly or indirectly, more than 20% of the charter capital or voting shares of a foreign legal entity that receives income from a low-tax jurisdiction must include its proportionate share of that foreign entity's income in its taxable income. A foreign jurisdiction is considered a low-tax jurisdiction if the tax rate is 50% or less than the rate in Azerbaijan, or if the country has laws on the confidentiality of information about companies, or laws that allow secrecy of financial information or information on the actual owner of property or income (property) recipient.

**Hybrids:** There are no rules regarding hybrids.

**Economic substance requirements:** There are no economic substance requirements.

**Disclosure requirements:** See "Transfer pricing," above.

**Exit tax:** There is no exit tax.

## Value added tax

Rates	
Standard rate	18%
Reduced rate	0%

**Taxable transactions:** VAT in Azerbaijan is similar to that in most European VAT systems, with tax levied on the supply of most goods and services and on the import of goods. VAT payers are entitled to recover the amount of VAT paid on purchases (input VAT) that exceeds the VAT received from their taxable supplies (output VAT).

**Rates:** The standard VAT rate is 18%, although some transactions are exempt (e.g., financial services) or zero-rated.

**Registration:** Taxpayers must register for VAT purposes if turnover in a consecutive 12-month period exceeds AZN 200,000. If the total value of one transaction or contract exceeds AZN 200,000, the taxpayer must register for VAT purposes before commencing activities. The tax code also permits voluntary registration for VAT purposes. Where services are provided by nonresident entities that are not registered for VAT purposes in Azerbaijan, the local entity must self-assess a reverse-charge VAT and remit the tax to the state budget.

**Filing and payment:** VAT must be reported on a calendar-month basis. VAT payers are required to submit VAT returns no later than the 20th day of the month following the reporting month and must calculate the VAT due to the state budget by reducing their output VAT liability by any input VAT credit.

## Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals.

**Social security contributions:** Both employers and employees are required to make social insurance contributions. Such contributions for employed individuals are withheld by the employer; self-employed individuals must register and pay their own contributions.

**Employer portion:** For a seven-year period as from 1 January 2019, the social insurance contribution rates payable by employers on behalf of private sector employees (other than those working in the oil and gas industry) are 3% on the first AZN 200 of gross salary and 10% on the excess.

**Employee portion:** For a seven-year period as from 1 January 2019, the social insurance contribution rates payable by private sector employees (other than those working in the oil and gas industry) are 22% on the first AZN 200 of gross salary and 15% on the excess.

Foreign nationals working under PSAs, RSAs, and HGAs are exempt from social insurance contributions.

**Payroll tax:** A 1% unemployment insurance contribution is payable, 0.5% paid by the employer on the gross payroll and 0.5% withheld by the employer from the gross salary of the employee.

Medical insurance is mandatory as from 1 January 2020. Employers and employees are required to make monthly medical insurance contributions as from 1 April 2020, calculated based on the employment income of the insured employees at the following rates:

<b>Rates</b>			
<b>CMIC rates</b>	<b>Monthly income</b>	<b>Employer portion</b>	<b>Employee portion</b>
Oil and gas industry	Up to AZN 8,000	2%	2%
	Over AZN 8,000	AZN 160 + 0.5% of amount exceeding AZN 8,000	AZN 160 + 0.5% of amount exceeding AZN 8,000
Private sector	Up to AZN 8,000	1%*	1%*
	Over AZN 8,000	AZN 80* + 0.5% of amount exceeding AZN 8,000	AZN 80* + 0.5% of amount exceeding AZN 8,000

\* Reduced rate effective through the end of 2021; as from 1 January 2021, the rate will be the same as in the oil and gas industry.

Foreign nationals working under PSAs, RSAs, and HGAs are exempt from the medical insurance contributions.

**Capital duty:** There is no capital duty.

**Real property tax:** An annual land tax is levied on the owners and users of land (whether or not resident), with the amount of tax depending on the location and use of the land.

Legal entities holding an investment promotion certificate are exempt from land tax for seven years from the date of obtaining the certificate.

**Transfer tax:** There is no transfer tax.

**Stamp duty:** There is no stamp duty.

**Net wealth/worth tax:** There is no net wealth tax or net worth tax.

**Inheritance/estate tax:** There is no inheritance tax or estate tax.

**Other:** An assets tax is levied on owners of fixed assets, with some exceptions. For individuals, the rate depends on the type of asset.

A seven-year exemption from assets tax on relevant fixed assets is granted for: i) legal entities (from the date an investment promotion certificate is obtained); and ii) small and medium-sized enterprises (SMEs) that are part of a SME cluster (from the date of registration). An exemption from asset tax also applies to legal entities and individual entrepreneurs participating in micro enterprises for fixed assets with a residual value at the beginning of the year of up to AZN 1 million.

Individuals holding an investment promotion certificate are exempt from assets tax for relevant fixed assets for seven years from the date the certificate is obtained.

Legal entities and individuals engaged in entrepreneurial activities with taxable supplies up to AZN 200,000 in any consecutive 12-month period and that are not registered as VAT payers may pay a simplified tax. The simplified tax is 2% of gross revenue.

Individual entrepreneurs that pay the simplified tax are exempt from profit tax, VAT, assets tax, and personal income tax.

**Tax treaties:** Azerbaijan has signed 54 tax treaties, 47 of which are effective. Azerbaijan has not signed the OECD multilateral instrument (MLI).

**Tax authorities:** State Tax Service under the Ministry of Economics

Contact us:

**Nuran Kerimov**

Email: [nkerimov@deloitte.az](mailto:nkerimov@deloitte.az)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 330,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) 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 representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2021. For information, contact Deloitte Global.