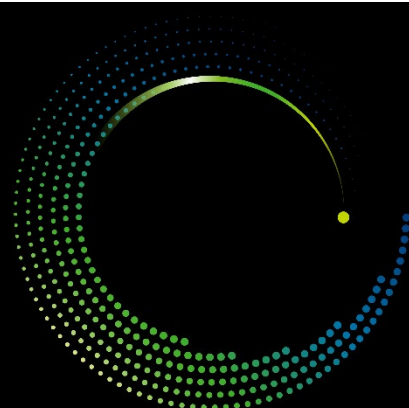


## International Tax Azerbaijan Highlights 2023

Updated January 2023



### 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 provided 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 prenegotiated 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.

Dividends received from resident legal entities registered with the tax authorities in the “liberated territories” (i.e., the Azerbaijan territories located in the Karabakh region previously occupied by Armenia) and operating directly in these territories are tax exempt for a period of 10 years as from 1 January 2023.

**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. 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 that keep records of income and expenses in the manner prescribed by the tax code.

In addition, 50% of the income of legal entities producing food products that will replace imported goods with locally-produced/processed goods will be exempt from profit tax for a period of seven years as from the year the list of eligible goods is approved.

Legal entities and individuals registered with the tax authorities in the liberated territories and operating directly in these territories (“residents of the liberated territories”) are exempt from profit tax for a period of 10 years as from 1 January 2023.

Residents should keep records of their income and expenses associated with exempt activities separate from their records for other types of activities carried out outside the liberated territories.

## 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 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 (see “Simplified tax” within “Other” under “Other taxes on corporations and individuals,” below) 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 a separate advance tax ruling for each transaction 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 plus 25% of amount exceeding AZN 2,500
Private sector employment	Up to AZN 8,000	0%
	Over AZN 8,000	AZN 350 plus 14% of amount exceeding AZN 8,000
Individual entrepreneurs		20%
<b>Capital gains tax rate</b>		Taxed at relevant individual income tax rate

**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 individual 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 the 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.

Residents of the liberated territories are exempt from individual income tax for a period of 10 years as from 1 January 2023.

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

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

**Rates:** Rates are progressive up to 25%. Employment income of up to AZN 8,000 per month is exempt from individual income tax for seven years as from 1 January 2019 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 individual income tax rate.

**Deductions and allowances:** Expenses incurred by an entrepreneur may be deducted in computing taxable income. These include one-time allowances to pay for medical treatment, including surgery within or outside Azerbaijan of up to AZN 10,000 and AZN 50,000, respectively, and financial aid of up to AZN 20,000 per calendar year to family members of servicemen and nonmilitary personnel killed or disabled as a result of military operations. In addition, 50% of the income of individual entrepreneurs producing food products that will replace imported goods with locally-produced/processed goods will be exempt from individual income tax for a period of seven years as from the year the list of eligible goods is approved.

**Foreign tax relief:** Individual income taxes paid outside Azerbaijan may be credited against taxes due in Azerbaijan. 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 tax on 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. Individual 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 a separate advance tax ruling for each transaction exceeding a value of AZN 10 million.

## Withholding tax

Rates				
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%

**Dividends:** Dividends paid to nonresidents are subject to a 10% withholding tax, unless the rate is reduced under an applicable tax treaty. A 10% rate also applies to dividends paid to residents.

**Interest:** Interest paid to nonresidents is subject to a 10% withholding tax, unless the rate is reduced under an applicable tax treaty. A 10% rate also applies to interest paid 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 an applicable tax treaty. A 14% rate also applies to royalties paid to resident individuals, but 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 when paid to nonresidents, unless the rate is reduced under an applicable tax treaty. There is no withholding tax on 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 a jurisdiction deemed to have a low-tax regime 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 more than 10% for wholesale trade activity, 20% for construction and production, and 30% for other spheres of activity from transactions involving similar or identical goods, works, 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.

Azerbaijan residents that are part of a multinational enterprise group 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 jurisdictions with which Azerbaijan has signed international agreements.

**Interest deduction limitations:** Thin capitalization rules apply where a company's foreign borrowing 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:** A foreign company that is not considered an Azerbaijan tax resident is defined as a controlled foreign company (CFC) and its profits are taxed in Azerbaijan if:

- An Azerbaijan resident, solely or jointly with a related resident or nonresident person, (i) owns, directly or indirectly, more than 50% of the voting rights in the foreign entity; (ii) holds more than 50% of the authorized capital of the foreign entity; or (iii) has the rights to more than 50% of the profits of the foreign entity;
- The profit tax actually paid by the foreign entity is 75% or less than the profit tax payable on this profit under Azerbaijan tax law; or
- More than 30% of the foreign entity's annual income comprises:

- Interest on financial assets;
- Royalties from intellectual property;
- Proceeds from sales of shares;
- Income from financial leasing;
- Income from insurance, banking, and other financial operations; or
- Income from goods and services that do not create any economic value.

Resident individuals and legal entities are required to submit a CFC notification to the tax authorities by 31 March following the reporting year.

Additionally, in case the profits of a CFC are taxed in Azerbaijan, the tax amount already withheld from that profit (income) in the source jurisdiction may be offset against the taxes payable in Azerbaijan for the avoidance of double taxation.

**Hybrids:** There are no anti-hybrid rules.

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

**Disclosure requirements:** See “Transfer pricing,” above.

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

**General anti-avoidance rule:** There is no general anti-avoidance rule; however, the tax authorities have the right to impose taxes, interest, financial sanctions, and administrative penalties when an onsite tax audit uncovers a tax evasion scheme, considering a transaction’s actual economic indicators. The tax authorities also have the right to publish detected tax evasion schemes.

## Value added tax

Rates	
Standard rate	18%
Reduced rate	0%

**Taxable transactions:** VAT is imposed 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 or zero-rated.

There are VAT exemptions for, among other transactions, financial services; the importation and sale of books (except e-books) and textbook sets, as well as the importation and sale of rolls or sheets of paper related to their production (publication); editorial, publishing, and printing activities (excluding advertising services) related to the production of books (including e-books), as well as textbook sets; the leasing (renting) of agricultural machinery to agricultural producers, provided that title to the machinery (i.e., the right of ownership) is not transferred; the provision of agrotechnical services to agricultural producers; the importation and sale of electric cars; the importation and sale of hybrid cars with a production date of three years and an engine capacity not exceeding 2,500 cubic centimeters, but only for a period of three years as from 1 January 2022; and the sale of lottery tickets as an agent under a contract concluded with the seller of the tickets.

A 0% VAT rate applies to: (i) freight forwarding services related to international and transit cargo transportation; and (ii) the investment of fixed assets in the form of shares in the charter fund (capital) of an enterprise (if the shares are not exchanged directly for other property).

Residents of the liberated territories are exempt from VAT for a period of 10 years as from 1 January 2023 on the import of raw materials and materials for production activities approved by the body/institution appointed by the relevant executive authority.

**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.

The following portion of social insurance contributions paid from employment income by employers and employees engaged in the private sector (other than those engaged in the oil and gas operations of the liberated territories) is subsidized by the state: (i) 100% from 1 January 2023 through 31 December 2025; (ii) 80% from 1 January 2026 through 31 December 2028; (iii) 60% from 1 January 2029 through 31 December 2030; and (iv) 40% from 1 January 2031 through 31 December 2032.

The following also are subsidized by the state: (i) 100% of the mandatory state social insurance fee paid by the insured person who receives income from activities not related to employment; and (ii) 100% of the mandatory state social insurance fee paid by an individual operating on their own (without hiring an employee).

**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.

Employers and employees are required to make monthly mandatory medical insurance contributions (MMICs), calculated based on the employment income of the insured employee. The MMIC rate for both employers and employees is 2% on monthly income of up to AZN 8,000 and 0.5% on the excess.

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 imposed on the owners and users of land (whether resident or not), 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.

Residents of the liberated territories are exempt from land tax for a period of 10 years as from 1 January 2023.

**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

### Assets tax

An assets tax is imposed 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 to: (i) legal entities (from the date an investment promotion certificate is obtained); and (ii) small and medium-sized enterprises (SMEs) that are part of an SME cluster (from the date of registration). An exemption from assets 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.

Residents of the liberated territories are exempt from assets tax for a period of 10 years as from 1 January 2023.

Residents should keep records of their income and expenses associated with exempt activities separate from their records for other types of activities carried out outside the liberated territories.

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.

### Simplified tax

Legal entities and individuals engaged in entrepreneurial activities with taxable supplies up to AZN 200,000 in any consecutive 12-month period 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 individual income tax.



Residents of the liberated territories are exempt from simplified tax for a period of 10 years as from 1 January 2023.

Residents should keep records of their income and expenses associated with exempt activities separate from their records for other types of activities carried out outside the liberated territories.

**Tax treaties:** Azerbaijan has concluded over 50 tax treaties.

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

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