



Summary on Recent Amendments on the Tax Code of Azerbaijan

According to the recent amendments to the Tax Code of the Republic of Azerbaijan (the “**Tax Code**”) the following updates came into force by January 1st 2024:

1. Risky taxpayers

A risky taxpayer, as per the amended terms in the Tax Code, is a person meeting specified risk criteria set by the Cabinet of Ministers of the Republic of Azerbaijan (the “**Cabinet of Ministers**”). The following financial sanctions are applied in case if a taxpayer is deemed as risky taxpayer within the framework of non-commodity transactions:

- For the first occurrence during the calendar year, a penalty of 10 percent is applied to the value of the non-commodity transaction.
- If such incidents are allowed for the second time in the calendar year, a penalty of 20 percent is imposed on the non-commodity transaction amount.
- In cases of three or more occurrences during the calendar year, a penalty of 40 percent is applied to the value of the non-commodity transaction.

2. Exemptions

2.1 Income Tax

According to the recent amendments to the Tax Code the following incomes of individuals are exempt from income tax:

- Gifts and part of the value of financial aid to pay tuition fees, one-time allowance up to 2500 manats, part of the value of inheritances up to 20000 manats;
- Dividend incomes of individuals who are participants in resident legal entities engaged in the production of agricultural products (including industrial methods) - for a period of 4 years starting from January 1, 2023;
- Up to 200 manats of the monthly interest income calculated by a local bank and a branch of a foreign bank in the Republic of Azerbaijan on national currency deposits of individuals in each bank (a branch of a foreign bank in the Republic of Azerbaijan);

- The full portion of interest income calculated by a local bank and a branch of a foreign bank in the Republic of Azerbaijan, when the national currency deposit of natural persons is placed in each bank (in the branch of the foreign bank in the Republic of Azerbaijan) for a period of 18 months or more and the amount of the deposit is paid no earlier than 18 months - for a period of 3 years;
- 75 percent of the income earned from entrepreneurial activities by individual entrepreneurs who are micro-business subjects with an average monthly number of paid employees not less than three and without debt for mandatory state social insurance contributions in the respective year.

2.2 Profit Tax

- According to the recent changes, the following profits of entities are exempt from tax:
 - Departments and organizations operating in the field of science, education, healthcare, sports and culture except for public legal entities created on behalf of the state, enterprises, that meet the criteria determined by the Cabinet of Ministers, which do not exceed 15 percent of the taxpayer's profit for the reporting year, as well as the part transferred to funds created for public and social purposes, whose list is approved by the President of the Republic of Azerbaijan, for a period of 5 years from January 1, 2024;
 - 75 percent of the profit obtained from the entrepreneurial activity of the cinematography enterprise, which is not a micro-business subject, which is registered in the Republic of Azerbaijan and carries out the production and dubbing of the film in the manner established by law - for a period of 3 years from January 1, 2024;
 - 75 percent of the profit obtained from the entrepreneurial activity micro-business subjects with an average monthly salary of not less than 3 persons and no debt for mandatory state social insurance contributions for the respective year.
- Additionally, dividends paid by a resident enterprise are taxed at the source of payment at the rate of 5 percent (previously 10 percent).
- As per recent amendments, the part of the fees and bonuses paid to the mediation organization regarding the mediation service provided by the mediators (acting on the basis of the civil-legal contract concluded with the mediation organization) is not included in the taxable income of the mediation organization.
- Futhermore, the exemptions applied to export incentives paid from the state budget have been abolished.

3. Value Added Tax (VAT)

- Entities engaged in public catering in Azerbaijan, with taxable transaction volumes that exceed AZN 200,000 within any month of a consecutive 12-month period, must now notify the tax authority in writing within 10 days from the beginning of the following month if they intend to continue their operations as simplified tax payers. Previously,

this article did not specify simplified tax payer status, and any entity that exceeded the AZN 200,000 threshold in a 12-month period was obligated to register as a VAT payer.

- b. Recent amendments extended the list of transactions that are exempt from VAT as following:
 - Interest paid for financial leasing operations;
 - Providing assets (main funds) through financial leasing agreements for activities that are either VAT-exempt or not eligible for VAT;
 - Services and works performed for the Central Bank of Azerbaijan, such as technical maintenance for treasury equipment, production, transportation, storage, insurance of currency symbols, auditing of production processes, expertise, upkeep and management of international gold and currency reserves, support services for information systems, and consulting services connected to the accomplishment of the Central Bank's goals and functions;
 - Medical services offered by educational medical institutions are exempt for a duration of three years starting from January 1, 2024;
 - Import of crude oil and natural gas within swap operations, supported by a document issued by the relevant executive authority, is also VAT-exempt for a period of three years from January 1, 2024.
- c. Coming to the VAT payments from taxable turnover, for a period of three years from January 1, 2024, medical institutions and private medical practitioners can deduct 50% of the turnover generated from cashless payments through POS terminals for medical services provided to the population. This deduction is applied to their total taxable turnover during the reporting period.
- d. Taxpayers engaged in the wholesale and retail sale of imported agricultural products have the right to offset the VAT paid on their imported agricultural products and to calculate the VAT from the full value of the transaction upon presentation of those products. For this purpose, those persons must submit the information form approved by the body (institution) determined by the relevant executive power body to the tax authority with which they are registered, about their choices from January 1, 2024 until the date they will import agricultural products.

4. Property Tax

- a. Credit institutions are exempt from property tax for properties acquired against issued credits for a duration of two years, starting from the year the property is added to the balance.
- b. In addition, property tax is subject to a 75% reduction for a period of three years beginning January 1, 2024, for properties utilized as hotels and sanatoriums located outside Baku, Sumgait, Xirdalan cities, and Absheron district, including Nakhichevan Autonomous Republic.