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# The Law on Amendments to the Tax Code of the Republic of Azerbaijan

Considering the Action Plan approved by the Decree of the Cabinet of Ministers dated April 4, 2020, tax incentives and holidays to enterprises operating in areas affected by the pandemic are provided by the amendments to the Tax Code of the Republic of Azerbaijan.

"On July 02, 2020, the President of the Republic of Azerbaijan signed a Decree about the implementation of the Law #90-VIQD of the Republic of Azerbaijan "On Amendments to the Tax Code of the Republic of Azerbaijan" dated May 08, 2020."

*Amendments cover the following areas within the framework of tax legislation:*

- ▶ newly added and amended concepts;
- ▶ tax incentives for taxpayers working in different tax regimes;
- ▶ other incentives for taxpayers operating in areas affected by the coronavirus pandemic;
- ▶ tax incentives for micro-entrepreneurs;
- ▶ incentives for all entrepreneurs;
- ▶ tax exemptions in the field of imports.

According to the Amendments, in addition to the special tax regime, temporary tax regime can be applied:

| Previous version  | Amended version   |
|---|---|
| 4.5. In accordance with this Code special tax regime can be applied on the territory of the Republic of Azerbaijan. | 4.5. In accordance with this Code <u>special and temporary tax regimes</u> can be applied on the territory of the Republic of Azerbaijan. |

The definition of temporary tax regime is included in Article 4.5 of the Tax Code as follows:

| A new concept   |
|---|
| 4.5. <u>A temporary tax regime</u> is a temporary procedure for calculating and paying taxes over a period of time in relation to all or some business entities due to significant changes in economic conditions as a result of natural disasters, epidemics, epizootics, major environmental and other accidents, as well as events in the global economic environment. |

The definition of sale of goods with export note is included in Article 13.2.84. of the Tax Code as follows:

| A new concept |
|---------------|
|               |

13.2.84. sale of goods with export note – sale of goods by manufacturers to exporters for the purpose of export of goods in accordance with the procedure established by the body (institution) determined by the relevant executive authority.

The following provision is added to Article 165.1 for application at zero (0) rate VAT:

165.1.9. sale of goods with export notes in accordance with the procedure established by the body (institution) determined by the relevant executive authority.

Chapter XVIII on the temporary tax regime applied due to significant changes in economic conditions as a result of the spread of the coronavirus pandemic is added to the Tax Code. This Chapter includes the following Articles:

- ▶ General provisions for improving the financial situation of taxpayers (Art. 222)
- ▶ Tax reports and current tax payments (Art. 223)
- ▶ Exemptions and privileges (Art. 223)
- ▶ Application of simplified tax (Art. 223)

The areas of activity under Chapter XVIII are as follows:

- ▶ Operation of hotels, motels, hostels and similar facilities, which are considered accommodation facilities.
- ▶ Activities of tour operator and tour agent;
- ▶ Public catering activities;
- ▶ Passenger transportation (including taxi) activities within the country (within cities and within districts, inter town and inter district) by car transport;
- ▶ Transportation and (or) delivery of goods on orders, including dishes, food and non-food products;
- ▶ Organization of exhibitions, operation of stage, recreation and entertainment (game), cinema, theater, museum and concert halls;
- ▶ Operation of sports and health facilities;
- ▶ Activities of training (education) and professional development courses, out-of-school educational institutions, psychological centers;

Other areas of activity that are fully or partially restricted by the by the decision of the body (institution) determined by the relevant executive authority in order to ensure the health and safety of the population in connection with the spread of the coronavirus pandemic (except for state-owned legal entities, budget organizations, other state bodies (institutions) financed from the state budget and extra-budgetary state funds).

From January 1, 2020, taxpayers in areas directly affected by the coronavirus pandemic to be *fully exempted from property and land taxes for a period of one year.*

### **Tax incentives for taxpayers working in different tax regimes**

In addition to exempting areas affected by the coronavirus pandemic from property and land taxes, taxpayers operating in those areas receive a number of tax benefits for a period of one year from January 1, 2020, depending on the method of taxation they

choose.

For payers operating under the profit (income) tax regime:

- ▶ tax incentive in the amount of 75% of the profit (income) is provided;

For taxpayers engaged in catering and passenger transportation, which are payers of the simplified tax:

- ▶ 50% incentive on the simplified tax amount is provided.

| <b>Tax rate and amount by the type of activity</b>       | <b>Current rate</b> | <b>Offered rate</b> |
|--|---------------------|---------------------|
| Public catering sector                                   | 8 %                 | 4 %                 |
| Passenger transportation (except taxi) - for each seat * | AZN 1,8             | AZN 0,9             |
| Passenger transportation (taxi) - for each vehicle *     | AZN 9               | 4,5 AZN             |

\*Coefficients are applied depending on the area (territory) of activity.

#### **Other incentives for taxpayers operating in areas affected by the coronavirus pandemic**

Exemptions in areas of economic activity affected by the coronavirus pandemic reduce the tax and administrative burden on taxpayers:

- ▶ reducing the WHT rate at the source of payment for real estate lease from individuals from 14% to 7%;
- ▶ exemption from current tax payments and issuance of certificates of current tax payments for a period of 1 year,
- ▶ extension of the deadline for paying the final tax for 2019 until September 1, 2020;
- ▶ prolongation of payment of calculated income (profit) and tax on property of taxpayers who are not subjects of micro entrepreneurship until September 1, 2020;
- ▶ postponement of calculation of interest on unpaid taxes, mandatory state social insurance contributions and unemployment insurance contributions from April 1, 2020 to January 1, 2021;
- ▶ extension of the right of persons engaged in catering activities registered in VAT to choose the simplified tax method for 2020 from April 20 to September 1.

#### **Tax incentives for micro entrepreneurs**

*All micro-entrepreneurs are provided with benefits, regardless of whether they are affected by the coronavirus pandemic:*

- ▶ 50% incentive on simplified tax (tax rate reduced from 2% to 1%);
- ▶ the report on simplified tax for the first and second quarters of 2020 and reports on taxes on income (profit) and property, as well as tax holidays for payment of calculated tax to the budget until September 1, 2020;

- ▶ the period of full or partial restriction of the relevant activities is not included in the validity period of receipts received by taxpayers who are individually engaged in receiving fixed receipts, and paid taxes are included in future payments.

### **Incentives for all entrepreneurs**

*A number of tax benefits and exemptions are provided to all enterprises:*

- ▶ deduction of expenses for necessary preventive measures, including disinfection, carried out by the taxpayer in order to prevent the epidemic and protect the life and health of the population;
- ▶ a temporary exemption from VAT on some types of products necessary for food and medical needs of the population.

### **Tax exemptions in the field of imports**

*A temporary exemption from VAT is provided for:*

- ▶ Medical equipment and accessories necessary in the fight against the coronavirus pandemic;
- ▶ Some types of food related to meeting the needs of the population for food;
- ▶ Food for children.

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