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Amendments to the Tax Code of Azerbaijan

Significant changes have been made to the Tax Code of the Republic of Azerbaijan by adopting Law “on Amendments to the Tax Code” dated 30 November 2018, effective as of January 1st, 2019 (“Amendment Law”).

1. PERSONAL INCOME TAX

According to the Amendment Law, starting from January 1, 2019 for the 7 years period, personal income tax rates for non-oil and gas sectors and non-public sector will be as follows:

	Taxable monthly income	PIT rate
1	up to AZN 8,000	0%
2	over AZN 8,000	14% of the amount exceeding AZN 8,000

Personal income tax rates for oil and gas sectors and public sector was not affected by the Amendment Law and remained the same i.e.:

	Taxable monthly income	PIT rate
1	Up to AZN 2,500	14%
2	Over AZN 2,500	AZN 350 + 25% of the amount exceeding AZN 2,500

New amendments do not provide any criteria for determining oil and gas activities and non-public sector. According to Presidential decree dated 20 December 2018, the respective criteria shall be determined by the Cabinet of Ministers within 1 months period. In cases where the taxpayer is involved in oil and gas and non-oil and gas activities simultaneously, the company shall keep separate accounting records for those employees working in multiple sectors. In case if the company fails to keep separate accounting records, then all employees will be subject to the income tax rates indicated for the oil and gas and public sector (i.e. higher rate).

2. SOCIAL SECURITY CONTRIBUTIONS

It should be also noted that starting from January 1, 2019 for the 7 years period, social security contribution rates for non-oil and gas activities and non-public sector will be as follows:

Accrued monthly income	SSC rate		
	Total	From insured (employees)	From insurers (employers)
AZN 200	25%	3%	22%
Over AZN 200	25%	10% of the amount exceeding AZN 200 plus 6 AZN	15% of the amount exceeding AZN 200 plus AZN 44

SSC rates for oil and gas sectors and public sector remains the same, i.e.:

Accrued monthly income	SSC rate		
	Total	From insured (employees)	From insurers (employers)
N/A	25%	3%	22%

3. SIMPLIFIED TAX

For your information, simplified tax regime in Azerbaijan applies if (i) a taxpayer is not registered for VAT purposes and (ii) his taxable turnover does not exceed AZN 200,000 threshold during any month (months) of consecutive 12-months period. Simplified tax regime is also applied to persons who are engaged in public catering business even if an entity's turnover exceeds AZN 200,000.

The Amendment Law limits the applicability of simplified tax regime in Azerbaijan. Under the Amendment Law, the following persons cannot be eligible to qualify as the simplified taxpayers (Art. 218.5.8-13):

- Persons who are engaged in production activity having employees' number more than 10;
- Persons who are engaged in wholesale trading activity;
- Persons who provide services to taxpayers (i.e. individual entrepreneurs and legal entities) rather than to individuals (population) who are not registered with tax authority;
- Persons who are engaged in sale of gold, gold jewellery and diamond products;
- Persons who are engaged in sale of leather and fur products;
- Persons who are engaged in licensable activity (except for building construction and services on compulsory insurance contracts).

In addition, simplified tax rate in Baku was reduced from 4% to 2%.

4. EXCISE

In general, excise rates were increased by adopting the Amendment Law. Energy drinks were also included into the list of excised products.

	Excised Products	Excise rate
1	Alcoholic energy drinks	AZN 2 per litre
2	Non-alcoholic energy drinks	AZN 3 per litre
3	Cigars	AZN 1 per one unit
4	Liquids for electronic cigarettes	AZN 20 per litre

5. PROFIT TAX

The Amendment Law also provides some Profit Tax exemptions for micro businesses. According to Resolution #556 of Cabinet of Ministers dated 21 December 2018, micro business is a business with (i) the number of employees from 1 to 10 and (ii) annual income up to or equivalent of AZN 200,000. Article 106.1.20 of the Tax Code provides 75% exemption on the profit of micro business legal entities. Additionally, micro businesses are exempted from the payment of property tax, pursuant to the Amendment Law (Art. 199.14, Tax Code).

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