

**BENEFITS FOR TECHNOLOGICAL PARKS' RESIDENTS INTRODUCED**

Effective 1 January 2023, the work permit exemptions and entitlement to temporary residence are available to:

- residents, including heads and deputies of resident entities of technological parks; and
- foreign experts in the field of information and communication technologies employed by such residents,

along with the following tax exemptions available (in ii-v below for the ten-year period from any accounting year in which the resident was so registered) to those persons with respect to revenues (gains) from system integration, software design and development, including related upgrade, maintenance, and training activities;

- i. 0% tax for monthly incomes of employees in the amount up to AZN8,000 and 5% beyond that until 2026, and 5% rate for any monthly income for seven years starting 2026;
- ii. business profit tax exemption;
- iii. exemption from the 10% withholding tax on dividends;
- iv. property tax exemption;
- v. land tax exemption; and
- vi. social tax exemption for non-nationals and opportunity to choose the social tax payment scheme by nationals employed by concerned residents, and their contractors.

**TAX CODE AMENDMENTS EFFECTIVE 1 JANUARY 2023**

By Law No 677-VIQD of the Republic of Azerbaijan, dated 9 December 2022, substantial amendments have been made to the Tax Code and became effective as of 1 January 2023. Some of those are cited below.

*The definition of the tax havens has changed to mean the countries or territories:*

- where the tax rate is equal to 75 percent or less of the Azerbaijani corporate income tax rate (20 percent); or
- which do not exchange information according to relevant standards within the framework of international agreements with the Republic of Azerbaijan; or
- where there is a law on confidentiality of information about financial information, or about companies that are given the opportunity to protect the secrecy of the actual owner of the property or the recipient of income (profit).

The profits of a controlled foreign corporation (the "CFC") will be taxed in Azerbaijan, if, among others, the corporate income tax actually paid by the CFC abroad equals to or is less than 75 percent of the Azerbaijani corporate income tax (20 percent).

*The procedures of opening and closing bank accounts for taxpayers have been facilitated and terms have been shortened.*

Accordingly, after the registration with the tax authority, taxpayers apply to banks, other credit organizations or the national operator of postal communication (persons conducting the bank operations) for opening of

bank accounts. The latter open the bank accounts and send the relevant information to the tax authority within one business day electronically. The opened account is automatically registered by the tax authority in real time based on the received information, and the registration notification is sent to the persons conducting the bank operations. The taxpayers are prohibited from conducting the bank transactions on the account until the registration notice is received.

When the bank accounts are closed, the persons conducting the bank operations should send information on this electronically to the tax authority within one business day from closing the account.

*The cooperation among the tax authorities of foreign states have been strengthened.*

In the cases stipulated in the international agreements to which Azerbaijan is a party, the representative of the tax authority of the foreign state may attend the onsite tax audit conducted in the local taxpayer. In the likely manner, the representative of the Azerbaijani tax authority may attend the onsite tax audit conducted in the taxpayer operating abroad.

*New financial sanctions have been introduced, whilst some sanctions have been harshened.*

A financial sanction in the amount of AZN40 is imposed on the taxpayer for a failure to submit the tax report within the specified period.

For a failure to submit the report by a resident entity included in the group of transnational companies (which is intended for the purposes of automated information exchange with the relevant authorities of foreign states), when the total revenue of the transnational group of companies in the financial year exceeds the AZN equivalent of EUR750 million, the financial sanction has been increased from AZN500 to AZN10,000.

*Exemptions have been introduced to income exempted from personal and corporate income taxes.*

The following, among others, are exempted from the personal income tax:

- dividend income of individuals, who are the participants of the legal entities producing agricultural products – for one year from 1 January 2023;
- the entire amount of in-kind prizes received in competitions and contests;
- the amount up to AZN4,000 of monetary prizes received in international competitions and contests (except sports) and the amount up to AZN200 of monetary prizes received in domestic competitions and contests (except sports); and
- the entire amount of prizes received in international sport competitions and the amount up to AZN50,000 received in domestic sport competitions.

The following, among others, are exempted from the corporate income tax:

- non-sales income of legal entities engaged in the production of agricultural products (including by industrial method), subsidies granted to legal entities from the state budget in connection with the production of agricultural products, as well as dividend income of legal entities, which are participants of the entities producing agricultural products – for one year from 1 January 2023; and
- payments made by attorneys and law bureaus to the Bar Association of the Republic of Azerbaijan in connection with obtaining stamps.

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