

# AZERBAIJANI TAXES

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# Azerbaijani Taxes



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# Tax Code



- Tax Code effective 2001
- Post 2001: substantive refining tax system
- Adoption of 2005-2007 State Program for Improvement of Tax Administration: emphasis shifts on streamlining tax compliance and control procedures
- Improvements continue as a part of e-government formation program and initiative
- “Post-Oil” Era

# Tax Code



- State, Autonomous Republic, and Local Taxes
- All taxes are those listed in Tax Code
- Profits Tax (CIT) – 20%
- VAT – 18% or 0%
- Individual Income Tax – progressive taxation, three brackets: 0%, 14%, and 25%
- Social Security Charge – 22% payable by employer, 3% payable by employee
- Property Tax – 1% (if paid by entities)
- Subsoil Use Taxes
- Excise Tax
- Land Tax
- Highway Tax
- Simplified Tax (4% or 2% on gross proceeds)

# Special Tax Regimes



- Commercial Agreements Approved into Law
- PSAs (most notably, in oil and gas) and Host Government Agreements
  - exemptions differ between contractors and subcontractors:
    - contractors are subject to:
      - the profits tax
      - profits tax is typically included in the government's take of profit oil
      - bonus payments
      - acreage fees
    - subcontractors (except under major pipeline agreements) are subject to:
      - the withholding tax
      - VAT at 0%
  - only resident employees are subject to income tax

# Special Tax Regimes



- Export of Oil and Gas infrastructure
  - Azerbaijani businesses have an option to be taxed under 5% tax on gross proceeds with no withholding taxes applicable to dividends, interest, or PE net profit, exempt from the property and land taxes
  - as with other exports from Azerbaijan, export of oil and gas infrastructure from Azerbaijan is subject to VAT at 0%
- Agriculture
  - income of individuals is exempt from personal income tax, highway tax does not apply to vehicles engaged in agriculture
  - termed exemption to agricultural sector from profits tax, simplified tax, VAT, and property tax
  - reduced rate of social charge applies to personal income from agriculture

# “Post-Oil” Era

- Generally, Beginning 2015
  - Increase of threshold for mandatory VAT registration
  - VAT-free imports of fixed assets objects of a [financial] leasing agreement
  - Increase of mining tax rates
  - Extension of tax base of individuals disposing of assets
  - Incentives include extension of exemptions to residents of industrial parks from customs duties and value added tax for all their imports (as opposed to previous exemptions applicable to certain imports (e.g., technologies)) for a five year period with effect from 1 May 2016
  - Starting May 2016, any supplies by contractors and subcontractors directly engaged in activities in industrial parks are subject to the value added tax at “0” per cent for five years
  - Foreigners engaged by residents and their immediate contractors and subcontractors in activities in industrial parks are excluded from persons covered by the mandatory state social insurance for the term of five years starting also 1 May 2016

# Role of Taxes in Economy

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- Share of oil revenues in GDP of Azerbaijan for January through May 2016 is 35.8% or 93% of 2015 (down from, e.g., 56% in 2010) while the share of agriculture is 6.2% (up from 2.5% in 2013 and down from 9.3% in 2010)
- Tax exemptions can generally be considered effective
- Percentage of tax revenues in Azerbaijani GDP is 7.7% (up from 6.7% in 2013)
- Cannot be considered high when compared to developed countries (can be as high as 50% of GDP) or OECD “unweighted” average of roughly 34%
- Azerbaijan is doing relatively well when compared to average tax burden in oil-producing countries where tax revenues can be as low as 1% of the GDP or non-existing



# Double Taxation Avoidance Treaties

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- 47 Effective Treaties (40 in 2013)
- USSR Treaties Not Recognized Except Specifically Agreed
- Treaties with Most Popular “Onshore” Jurisdictions
- Treaty with UAE by Far Most Favorable
- Implementation Procedures
  - Advance Clearance
  - Refund

# Double Taxation Avoidance Treaties

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- Residents
- PE
- Exemption from Withholding Tax Except for
  - Dividends
  - Interest
  - Royalties
- Possibly, Exemption from Branch Profits Tax
- Procedural Matters

# Other Agreements

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- Tax Compliance Cooperation and Mutual Assistance Agreements (also, multilateral within CIS)
- Agreement on Cooperation and Information Exchange in Combatting Tax Evasion
- Agreements on Principles of Indirect Taxation upon Export and Import of Goods (Works and Services)/Bilateral Trade
- Cooperation Agreement between Tax Authorities

# Trade in Goods

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- Forms of Foreign Supplies in Azerbaijan
  - No Presence
  - Presence through Intermediaries (Dealerships and Similar), Various Sales Structures
    - Commissionaire Structure – Ownership Remains with Principal
    - For VAT Purposes, Owner is Commissionaire – Removes Complexities where Principal is Non-Resident
  - “Self”-Presence – PE
  - Full Presence – Subsidiary

# Questions & Comments?



Thank you!