



OVERVIEW OF SIGNIFICANT CHANGES TO THE TAX AND SOCIAL INSURANCE LEGISLATION

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Mechanism of tax incentives and holidays for enterprises operating in areas affected by the pandemic in Azerbaijan are provided by the amendments to the Tax Code of the Republic of Azerbaijan

According to 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.

The Law on Amendments to the Tax Code of the Republic of Azerbaijan dated May 08, 2020 was approved by the President of the Republic of Azerbaijan on June 2, 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;**
- **import tax exemptions.**

➤ **Newly added and amended concepts**

According to the Amendments, in addition to the *special tax regime*, also a new tax regime, i.e. *temporary tax regime* can be applied in Azerbaijan:

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 <i>special and temporary tax regimes</i> 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. <i>A temporary tax regime</i> 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 into 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. 224)*
- *Application of simplified tax (Art. 225)*

The areas of activity under Chapter XVIII (“COVID-19 affected areas”) are as follows:

1. Operation of hotels, motels, hostels and similar facilities, which are considered accommodation facilities.
2. Activities of tour operator and tour agent;
3. Public catering activities;



4. Passenger transportation (including taxi) activities within the country (within cities and within districts, inter town and inter district) by car transport;
5. Transportation and (or) delivery of goods on orders, including dishes, food and non-food products;
6. Organization of exhibitions, operation of stage, recreation and entertainment (game), cinema, theater, museum and concert halls;
7. Operation of sports and health facilities;
8. Activities of training (education) and professional development courses, out-of-school educational institutions, psychological centers;
9. 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 operating in COVID-19 affected areas 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, taxpayers operating in COVID-19 affected areas receive a number of following tax benefits for a period of one year from January 1, 2020, depending on the method of taxation they choose.

1. For taxpayers operating under the profit (income) tax regime:

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

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

- 50% incentive on the simplified tax amount is provided

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

Exemptions in COVID-19 affected areas reduce the tax and administrative burden on taxpayers:

- reducing the withholding tax rate from 14% to 7% for lease of real estate from individuals;
- extension of the deadline for paying the final profit (income) tax and property tax for 2019 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.

➤ **Tax incentives for micro entrepreneurs**

All micro-entrepreneurs are provided with benefits, regardless of COVID-19 affected areas:

- 50% incentive on simplified tax (tax rate reduced from 2% to 1%);
- Deadline for payment and filing tax returns on simplified tax for the first and second quarters of 2020 as well as income (profit) and property taxes is extended until September 1, 2020.

➤ **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.

➤ **Import tax exemptions**

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 the needs of the population for food;
- Food for children.

The Law on Social insurance of the Republic of Azerbaijan is amended

According to 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.

The Law on Amendments to the Law on social insurance of the Republic of Azerbaijan dated May 08, 2020 was approved by the Order of the President of the Republic of Azerbaijan dated June 2, 2020.

In order to reduce the social insurance burden, the rates of mandatory state social insurance fees for insured persons deriving income from activities not related to employment are as follows:

<p>Calculation of contributions on mandatory state social insurance fees from April 1, 2020 to January 1, 2021 by the amount of the minimum monthly salary for entrepreneurial activities as 25% in construction and trade areas, 15% in other areas, considering the application of the following differential interest coefficients by regions:</p>	<p>100% in Baku city; 90% in Sumgayit and Ganja cities, 80% in other cities, 60% in administrative territorial units and settlements, which are the administrative center of district administrative territorial units, 50% in rural areas.</p>
<p>Calculation of contributions on mandatory state social insurance fees from January 1, 2021 to January 1, 2026 by the amount of the minimum monthly salary for entrepreneurial activities as 50% in construction area, 25% in other areas, considering the application of the following differential interest coefficients by regions:</p>	<p>100% in Baku city; 90% in Sumgayit and Ganja cities, 80% in other cities, 60% in administrative territorial units and settlements, which are the administrative center of district administrative territorial units, 50% in rural areas.</p>

Social insurance burden of employees with a fixed receipt and badge of distinction

Taxpayers carrying out passenger and cargo transportation by automobile vehicles receiving the “Distinction Badge” in accordance with the procedure established by the Tax Code of the Republic of Azerbaijan pay mandatory state social insurance fees in the amount of 6% of the minimum monthly wage.

Reducing social burden of individuals working in agricultural area

Individuals using agricultural land owned by them, regardless of whether they have more or less land, is regularly provided with a basic social insurance fee of **6% of the minimum salary for each able-bodied family member.**

Mandatory state social insurance fee for each family member of individuals using agricultural lands owned by them, depending on the area of land, is calculated at the following rates of the minimum monthly salary:

- **Up to 5 hectares** - in the amount of **2%**;
- **From 5 to 10 hectares** - in the amount of **6%**;
- **More than 10 hectares** - in the amount of **10%**.

Optimization of the social insurance burden of attorneys, independent accountants and independent auditors

Mandatory state social insurance fees for members of the bar association (attorneys), independent auditors and independent accountants were paid in the amount of **20% of gross income**.

Mandatory state social insurance fees for members of the bar association (attorneys), independent auditors and independent accountants to be paid in the amount of **10%** after deducting expenses from their income.