



TAXATION: HIGHLIGHTS OF 2023 AMENDMENTS

During 2023, considerable amendments were made to the Tax Code. Acts introducing the amendments are dated 24 February (Law No. 829-VIQD), 7 March (Law No. 838-VIQD), 16 June (Law No. 922-VIQD), 6 July (Law No. 937-VIQD), 14 July (Law No. 975-VIQD), and 5 December (Law No. 1033-VIQD), respectively, the latter being passed as a part of the annual state budgeting process. The adjustments cover tax administration, accounting practices, and tax reliefs, including various exemptions.

Effective August 2023, to facilitate licensing, activity registration, and overall control of qualifying persons by the Central Bank, the tax authorities must provide upon its request the following (in addition to those provided previously): (i) extracts from the state register, charters, and information of shareholders and executives of commercial entities; (ii) information of entities in which individuals, commercial entities, and their shareholders are participants, including shareholding in such entities; and (iii) information of the profits (income and losses) of individuals and commercial entities, their executives, shareholders, and entities in which they participate.

The stipulation mandating leased assets to be bespoke for a lessee and remain unused by others post-lease has been revoked. Should a financial lease lessee reassign the lease, treatment of the transaction as a financial lease may survive the assignment. When a financial lease does not meet conditions prescribed by the Tax Code, it can be reclassified as an operating lease (including after termination of it).

New regulations introduce escalating financial penalties for high-risk taxpayers assessed as a percentage of a value of sham transactions they engage in during a year: (i) ten percent for the first violation, (ii) 20 percent for the second, and (iii) 40 percent for third and subsequent violations. This provision will take effect when the procedures for adding to and removing from the list of high-risk taxpayers are implemented (expected in three months starting January, which deadline is unlikely met).

The deadline for the land tax returns has changed to no later than 31 January of the year following the reporting year, previously set at 15 March, with a 30-day submission period following the presentation of the liquidation balance for entities. Land tax prepayments must be made in equal amounts by 15 August and 15 November, accounting for half of the prior year's tax amount, with new or previously non-taxable entities paying 50 percent of the annual tax for acquired land.

Now, taxpayers engaged in public catering with taxable transactions over AZN200,000 in any month during a consequent twelve-month period, intending to continue as the simplified taxpayers, must apply to tax authorities within ten days of the start of the month after their transactions exceed this threshold.

The road tax hike for transportation of hazardous goods, previously applied to owners of vehicles registered in foreign countries entering, exiting, or transiting through the territory of the Republic, as well as to those operating such vehicles, has been repealed. The repeal is related to the elimination of the issuance of permit forms at border checkpoints, with corresponding abolition of the respective state duties, per Law No. 830-VIQD amending Law No. 223-IIQ, *On State Duty*. Now, the lower limit of the hike applicable to freight trucks, trailers, and semi-trailers, depending on the number of axles and duration of stay, is set at USD0.30 for the range of 41 to 51 tons.

Currently, taxpayers engaged in freight transport do not pay taxes, in particular the simplified tax, compulsory state social insurance or compulsory health insurance for receiving the Distinguishing Sign.

Tax exemptions for payments towards export promotion funded by the state budget previously applicable in relation to the corporate and personal income and simplified taxes under the Tax Code have been repealed.

Interest on individual deposits in national currency generated by banks is exempt from the personal income tax per an institution where: (i) the monthly interest income amount does not exceed AZN200; or (ii) the deposit is committed for at least 18 months. The corporate income tax benefits for non-sales revenues of entities engaged in agricultural production, state-funded subsidies for such entities, and dividend income for their shareholders are extended until 1 January 2027. Importantly, dividend income paid by Azerbaijani tax resident enterprises is now subject to five percent as opposed to ten percent previously applicable.

By amendments, fees and rewards paid to mediators under civil law agreements with mediation institutions, related to mediation services, are not subject to the corporate income tax.

Following the 5 December amendments, the State Tax Service, under Order No. 2417040100051900 of 2 February 2024, introduced new rules and forms for tax returns, including Annex 2 of the Withholding Tax Declaration, which now includes details of (i) a type of property (movable or immovable) rented and (ii) reference number of consent letter in response to DTA-03.

As of January 1, 2023, for three years, media subjects are exempt from the value added tax (VAT) and simplified and personal and corporate income taxes.

The sale of passenger cars manufactured in Azerbaijan is exempt from the VAT for a period of ten years starting 1 May 2023.

Also, as of 2024 through 2026, 50 percent of revenue from non-cash payments via POS terminals for medical services by medical institutions and private practitioners is deductible from vatable income.

Beginning March 2023, for a period of five years, manufacturing, sale, and importation of all types of equipment, their parts, personal armored protective clothing, tools, explosives, and pyrotechnic materials in relation to clearing liberated as well as other territories affected by war from mines, including the import of technologies for their production, as well as mine detection dogs are exempt from the VAT.

As of 2024, the additional VAT exemptions apply in relation to: (i) interest under a financial lease; (ii) an otherwise non-vatable provision of assets under a financial lease; and (iii) services and work for the Central Bank. VAT benefits with a three-year duration starting January 2024, include: (i) medical services provided by educational medical institutions and (ii) the import of oil and natural gas in swap transactions.

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Republic of Azerbaijan

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