



Doing Business in Azerbaijan

2019

Tax and Legal

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Foreword

Dear Reader,

This guide has been prepared to provide a brief overview of Azerbaijan and its economy, as well as to introduce the tax and legal issues that are important for those planning to do business in Azerbaijan. In particular, there is a brief discussion of the benefits of investing in separate economic zones. Azerbaijani tax and civil legislation is continually developing and there is sometimes no clear answer to what might be considered a simple question. Therefore, court cases and practice are important sources for interpreting legislation. All information in this document was current as of January 2019.

The information included herein is for informational purposes only, and may not reflect the most current legal developments, judgements, or settlements. The information should not be construed as constituting legal or any other advice on any particular matter. KPMG Azerbaijan (“the Firm”) and the contributing authors expressly disclaim all liability to any party in respect of anything, and in respect of the consequences of anything, done or omitted to be done wholly or partially in reliance on the whole or any part of the contents of the Firm’s Doing Business in Azerbaijan guide. No client or other reader should act or refrain from acting on the basis of any matter contained in this guide without seeking appropriate legal or other professional advice on the particular facts and circumstances.

We would be pleased to provide you with updates on the material contained hereto, or with further information regarding a specific industry or area of Azerbaijani law in which you might have a particular interest.

About KPMG

KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. The company employs 207,000 outstanding professionals who work together to deliver services in 153 countries worldwide. KPMG has been working for 27 years in the CIS and has 4,600 professionals working in 24 offices across nine CIS countries.

KPMG has been operating in Azerbaijan since 1997 through a fully functioning office. In 2011 it completely renovated its premises and recruited professionals that are experts in financial and advisory services in Azerbaijan. KPMG Azerbaijan has over 130 professionals working for it, many of which have eight-to-20 years’ audit and advisory experience in Azerbaijan, Russia, Germany, Turkey, Georgia, and other countries.

In the CIS, KPMG now has offices in Baku, Moscow, Ekaterinburg, Kazan, Krasnoyarsk, Nizhny Novgorod, Novosibirsk, Perm, Rostov-on-Don, St. Petersburg, Almaty, Astana, Atyrau, Bishkek, Kyiv, Lviv, Tbilisi, and other regions, employing in total more than 4,000 people.



Introduction to Azerbaijan

Country facts

Capital:

Baku (population 2,725,000)

Area:

86,600 square kilometres

Population:

10 million

President:

Ilham Aliyev

Currency:

Azerbaijani Manat (AZN)

Neighboring countries:

Russia, Iran, Armenia, Georgia, Turkmenistan, Kazakhstan, Turkey

Titular nationality:

Azerbaijani (92%)

Ethnic minorities:

Russian, Lezghi, Talysh, Tatar, Kurds, Avars, Tat

Other main cities:

Sumgait (population 280,100); Ganja (population 313,300)

Autonomous regions:

Nakhichevan Autonomous Republic (population 452,831)

Investment climate

Azerbaijan is an oil-rich post-Soviet Union country situated in the Caspian Sea basin. It has oil & gas reserves, a developing industrial sector, and fertile agricultural land. Heavy (aluminium mining and refining, metallurgy, oil extraction and refining, etc.) and light industries (textiles, food processing, etc.) dominate the market. The country had a nominal GDP of AZN 18.1 billion in the first quarter of 2019, mainly from oil & gas operations and the non-oil economy. The country enjoyed rapid growth between 2007 and 2009, following completion of the Baku-Tbilisi-Ceyhan oil pipeline in May 2006; other drivers of the economy are the Baku-Novorossiysk and Baku-Supsa pipelines. After completion of the Southern Gas Corridor between Azerbaijan and Europe, revenues from gas exports are expected to increase.

In February 2015 the fall in oil prices put pressure on the foreign currency reserves of the Central Bank of the Republic of Azerbaijan (CBAR). The CBAR subsequently devalued the manat (AZN, the national currency), replacing a hard peg to the USD with a euro-dollar basket. The exchange rate has now stabilised at around 1 USD/1.7 AZN (for more information visit www.cbar.com).

A GDP surplus of 1.3% was witnessed in the first half of 2018, driven by exports and imports. Non-oil exports rose by 2.9%, due to strong performance in various fields of the economy.

The Azerbaijani economy is expected to expand in 2019, as a result of an increase in oil GDP revenue following the Shah Deniz-2 gas field coming on line.

The policy “Strategic Road Maps for the Domestic Economy and Main Sectors of the Economy” is expected to boost the development of the non-oil sector through fostering a sustainable and competitive environment, particularly in agriculture, logistics, and tourism. The policy was approved in December 2016 and the government is taking subsequent steps to achieve the goals set out in the document. Long-term economic development will depend on the diversification of the economy and non-oil sector, to what extent gas exports can be increased, and what happens with global oil prices.

The investment climate in Azerbaijan is developing steadily, although considerable challenges remain. The Nagorno-Karabakh conflict and a lack of foreign investment in the non-oil sector are dragging the economy down. Another major issue is corruption, both in the public and private sectors (a number of measures have been taken to combat this, such as the creation of ASAN – a one-stop window concept for government services to improve the work of customs officials).

The Azerbaijani Government has set as priorities the diversification of the economy, attracting foreign investment, integrating with global markets, and sustainable growth. Currency stability, crucial for investor confidence, is supported by USD 5.7 billion in CBAR reserves and USD 40 billion in oil fund reserves.

In order to facilitate diversification and finance export transactions, the government has established the Entrepreneurship Development Fund of the Republic of Azerbaijan (the successor of the National Entrepreneurial Support Fund). The fund primarily works to provide entrepreneurs with low-interest loans. 64.5% of its loans have been used to develop the agricultural sector, while the remaining 35.5% were assigned to other, non-oil industries during the first quarter of 2018.

In April 2016 the President of the Republic of Azerbaijan signed an order to establish a Centre for the Analysis of Economic Reforms and Communication. The main goals of the centre are to analyse and assess macro- and micro-economic activity and to provide solutions to improve overall economic stability in all areas, by analysing and implementing best international practices and improving existing domestic ones.

Living and working in Azerbaijan – useful tips

Learn Azerbaijani. The Azerbaijani language is the official language of Azerbaijan, however Russian is also commonly used, especially in large cities. Knowing these languages will not only help you in everyday communications (many street vendors, waiters, and shop assistants do not speak English), but also when doing business. Even if you hold meetings in English or use an interpreter, it can still be useful to know how things are being translated and whether anything is being missed out.

Cultivate personal relationships. Relationships are important when it comes to doing business. Supportive and open business relations help build strong enterprises and long-lasting friendships.

Personal safety should not be a concern. Baku and other cities are safe or safer than many other major Western cities. The country’s national culture and traditions encourage respect and tolerance towards people, particularly the elderly and visitors. That said, it is inadvisable to walk around unfamiliar areas of the country’s cities at night without a guide.

Mind the traffic!

Expats who hire a local driver for themselves and their children should choose someone that is competent and patient. Expats who drive themselves, or walk, should exercise caution, as drivers in cities have a reputation for sometimes driving recklessly.

Qualified medical services are available. While there are many qualified doctors in the country, expats often prefer doctors that speak English or their own native language. In general, medical personnel speak Russian and Azerbaijani, and in recent times private medical services have been widely introduced in the country.

Great cuisine. There are many good-quality restaurants, both in Baku and throughout the country.

If you are coming to stay

- An exemption from customs duties is available for people bringing household goods into Azerbaijan, provided that the quantities are within legal limits.
- Since 12 July 2016 tourists coming to visit Azerbaijan have been able to benefit from a tax-free system.
- Qualified (even English-speaking) domestic help can be easily found through other expats.
- English, French, and other foreign language schools cater for expat children in Baku (as well as some other cities), although you should be aware that the choice of school and the range of education on offer may not be as great as that in your home country.

Routine issues

- As an expat staying temporarily in Azerbaijan for more than 15 days, you must register upon arrival at your place of stay.
- To pay some bills, you must physically go to a bank and pay in cash. Cash machines are widespread.
- Car registration can take one-to-two days, or someone (a legal representative) can do it on your behalf if you grant them a power of attorney (although this may come with a fee and be time-consuming). The power of attorney can be granted for a period of up to one year.

While the above does not cover all aspects of living in Azerbaijan, it is sufficient to show that expats can and do live safely, successfully, and happily in the country, often with their families, and often for a lengthy period of time.





Starting a business

Overview of commercial legal entities

The procedures by which legal entities are established in Azerbaijan are mainly regulated by the Civil Code¹ and the Law “On State Registration and the State Register of Legal Entities”². In order to simplify the registration procedure for commercial legal entities, as well as branches and representative offices of foreign legal entities, President Ilham Aliyev signed an order in October 2007 according to which the registration of new commercial entities was simplified via the introduction of a one-stop shop principle. This allows commercial entities to be registered within two business days under a simplified application procedure. This period may be shorter for businesses with local investment. The Ministry of Taxes is the authorised body that registers commercial legal entities in the country.

Types of legal entities

Investors often encounter problems when choosing the type of legal entity to establish in order to conduct business in Azerbaijan. Azerbaijan’s civil legislation covers a number of types of commercial entity that can legally operate in the country. These comprise:

- representative offices and branches of foreign legal entities
- joint-stock companies: open (OJSC) and closed (CJSC) joint-stock companies
- an Azerbaijani subsidiary
- limited liability companies (LLC)
- additional liability companies (ALC)
- partnerships
- cooperatives

Representative offices and branches

Under Azerbaijani legislation, branches and representative offices of foreign legal entities are not considered to be legal entities. From a practical standpoint, branches and representative offices, in terms of their legal nature, are very similar. Civil legislation defines representative offices as divisions of a legal entity that represent and protect the interests of that legal entity in another country. However, a branch is a division of a legal entity that carries out all or some of the functions of that legal entity in another country, including representation and the safeguarding of its interests. Hence, under civil law, representative offices cannot be engaged in commercial activities.

The Constitutional Court of the Republic of Azerbaijan in its resolution on this issue ruled that if a foreign legal entity’s charter allows its representative offices in other countries to conduct commercial activities, then those representative offices can

¹ Civil Code of the Republic of Azerbaijan, effective 1 September 2000.

² Law of the Republic of Azerbaijan “On State Registration and the State Register of Legal Entities,” effective 31 January 2004.

perform commercial activities in Azerbaijan. Therefore, in practice, representative offices can perform the same activities as branches.

The relevant legislation does not distinguish between representative offices and branches. They are both subject to the same legal, tax, currency, and reporting requirements. The salaries of expatriate employees at branches and in representative offices can be paid by the head office into their overseas accounts.

Branches are free of any requirement to have charter capital. In addition, branches and representative offices cannot be reorganised (for example, via a merger, division, or acquisition).

Joint-stock company (“JSC”)

Under Azerbaijani legislation, JSCs operate with the purpose of issuing securities. They can be in the form of open and closed JSCs.

Open joint-stock companies

An open joint-stock company (OJSC) is a company that has its charter capital divided into a certain number of shares. OJSCs can be established by one or more individuals or legal persons and have their shares openly sold to the public and acquired by third parties, without restrictions. An OJSC’s shareholders are not liable for the company’s obligations; in fact, the liabilities shareholders face in OJSCs are limited by their shares, meaning that the liabilities can only extend to the amount that they have contributed to the charter capital.

An OJSC’s charter capital cannot be less than AZN 4,000. The general meeting of shareholders is the supreme supervisory body of an OJSC, and it must convene at least once a year.

The Charter / Acts of Incorporation of an OJSC must contain information on the name of the legal entity, its address, its main activities, and the de-registration rules governing the legal entity. It must also have information on the categories and size of its securities, their prices, and the amount of charter capital.

An OJSC is required to appoint an independent auditor to audit its annual financial reports, and the annual financial reports of OJSCs must be published.

In recent years, Initial Public Offerings (IPO) have become more popular for companies in Azerbaijan, and this has been one of the reasons behind the rise of the OJSC as a favoured form of legal entity within the business community in Azerbaijan.

Closed joint-stock companies

A CJSC shares a number of features with an OJSC, although there are also several distinctions between them. CJSCs differ because:

- their shares are circulated among its shareholders and also within a pre-determined group
- the minimum amount of charter capital is AZN 2,000
- shares in CJSCs can be sold to third parties if they are not bought by the CJSC’s other shareholders under pre-emptive rights
- CJSCs with over 50 shareholders must be reorganised into an OJSC within one year

An Azerbaijani subsidiary

Azerbaijani law does not give a legal definition for a “subsidiary”, although Azerbaijani legal entities established by foreign legal entities are considered subsidiaries. These subsidiaries, i.e. the Azerbaijani legal entity, are most commonly registered as limited liability or joint stock companies. Between these two, the former is considered the most preferable choice for conducting business.

Limited liability companies (“LLC”)

LLCs are one of the most widely used types of company for performing commercial activities in Azerbaijan. A LLC is a legal entity that can be founded by one or more individual and/or legal entities. Members’ liabilities in LLCs are limited to their stakes, which means that their liabilities can only extend to the level of their contributions to the company’s charter capital. Moreover, while members of a LLC do not bear any liability towards its obligations, a LLC in turn does not have any obligations towards its members’ liabilities to third parties. A LLC is required to appoint an independent auditor to check its annual financial reports.

The share capital of a LLC comprises assets that guarantee the minimum amount of its creditors’ interests. Another distinctive feature of this legal form is its being exempt from a minimum capital requirement.

Moreover, the sale of stakes in a LLC to third parties is subject to other shareholders’ right of first refusal.

Additional liability companies (“ALC”)

An ALC is a legal entity that can be established by one or more persons, with its charter capital divided into a specific number of stakes, as defined in its charter. An ALC shares similar features with an LLC, although the exposure to an ALC company’s liabilities for its members can exceed their contributions, as regulated in the charter.

Partnerships

A partnership is a form of legal entity established by one or more members either in general or limited types, with its charter capital divided into a certain number of stakes. Such entities have a number of distinct features compared to other types of legal entities, in accordance with the requirements of their founders, liabilities, and corporate governance. Under the Civil Code, only entrepreneurs and/or commercial entities can establish general partnerships. In addition, partners in such entities continue to bear a liability towards it, even after leaving. Members (general partners) are also jointly and severally liable for the partnership’s liabilities.

Cooperatives

A cooperative is a voluntary union of members that can be founded by at least five individuals and/or legal entities with the purpose of satisfying the material and other needs of the participants through the consolidation of the participants’ material contributions. Cooperatives fall into various categories, including production and consumer cooperatives.

Membership of a cooperative

Members of a cooperative must make respective contributions to the share fund in full, prior to the state registration of the cooperative. If at the end of the fiscal year a cooperative reports financial losses, the members must cover them by making additional contributions no later than two months after the date that the annual balance sheet was approved. An individual that joins a pre-existing cooperative is liable for the cooperative's incurred obligations, unless the charter of the cooperative stipulates otherwise. Individuals are informed of such obligations prior to joining.

A cooperative's profit is divided among the members of the cooperative in proportion to their contributions. In addition, a cooperative's profit may be distributed to the cooperative's founders, used to settle creditors' debts or to pay dividends, or for other matters, as covered by the cooperative's charter.

Registration

LLC

An LLC is established through the adoption of a resolution or via a founders agreement at an incorporation meeting. The meeting also approves and adopts its charter. In order to operate as a legal entity, an LLC must register with the state authorities in Azerbaijan. To do this, an application package containing all required documents must be submitted to the Ministry of Taxes. LLCs are registered within two working days after the submission of all required documents to the registration body.

Also, LLCs established by Azerbaijani individuals, as well as legal entities, can be registered in one day by submitting an e-application.

JSC

A JSC is established through a meeting of incorporators, which adopts a resolution on the establishment of the company as well as its charter. JSCs, together with other commercial legal entities, are registered by the Ministry of Taxes two working days after submitting all required registration documents. Similar to the registration process for LLCs, to register JSCs in Azerbaijan the founder(s) should submit an application form with certain other documents, depending on whether the founders are individuals or legal entities, and foreign or local. However, unlike for LLCs, the full value of a JSC's shares must be paid prior to its registration. Furthermore, the shares of JSCs must be registered separately with the Financial Markets Control Chamber, and the JSC must also be registered within 30 business days at a central depository.

Branches or representative offices

The process by which branches and representative offices are registered is similar to that for legal entities: according to the Ministry of Tax one-stop shop principle, that is within two working days after all required documents have been submitted.

Branches and representative offices function on the basis of regulations that are similar to the charters of legal entities. All documents issued outside Azerbaijan must be certified and apostilled/legalised. However, the apostilles of some countries are not recognised in Azerbaijan (for example, Germany's), therefore, all documents that cannot be apostilled must be legalised. Also, all documents issued abroad in foreign languages must be translated into Azerbaijani and notarised by a notary public in Azerbaijan.

De-registration of companies

The process of liquidating and de-registering companies in Azerbaijan consists of two main stages.

Stage 1

This involves adopting a decision to liquidate the company (passing a “Liquidation Resolution”) by the founder(s) of the company. The founder(s) of the company resolves, among other decisions, to appoint a sole liquidator or a liquidation commission (the «Liquidator/Commission») and authorises it to carry out all necessary steps to de-register the company. In practice, a third party or parties are appointed by the Liquidator/Commission to perform all relevant actions pertaining to the company’s de-registration.

The Liquidator/Commission can issue to the third party (-ies) a power of attorney to take all necessary actions to de-register the company. Both the Liquidation Resolution and power of attorney should be notarised and apostilled if they were issued in a foreign country.

The first stage of the de-registration process also includes making an announcement in an official newspaper (the newspaper Taxes), which contains details about the procedure and the timing for claims from creditors. This must be done within 10 (ten) days after the date that the Liquidator/Commission is appointed. This information must be published on two more occasions at intervals of 15-20 days. Thus, in practice, the announcement gives the company’s creditors an opportunity to claim the repayment of their loans (i.e. the branch’s debt). Creditors have at least 60 days to submit their claims from the date of the first announcement. Notifications must also be sent to all known creditors at the same time as the announcement is made in Taxes.

In addition to the above documents, the head of the company must create an official document confirming the solvency of the company, or engage an independent auditor to provide a report on the solvency/insolvency of the branch at least 20 days prior to adopting the Liquidation Resolution.

The company’s stamp and respective application form must be submitted to the Ministry of Taxes (the “Registration Body”), together with abovementioned documents.

Once these documents have been submitted to the Registration Body, the latter must enter the submitted information into the State Register of Legal Entities within five days.

In addition, the Liquidator/Commission must submit final tax returns to the Ministry of Taxes within 30 days after the date that the Liquidation Resolution was adopted. The final tax returns should cover all activities, from the beginning of the year until the liquidation date.

An application letter, together with the Liquidation Resolution, must be submitted to the Social Protection Fund together with a request to the Ministry of Taxes to confirm that the company does not owe any debt(s) to the Fund. Once it is established that the company does not have any debts, the Fund will issue a letter (a «Clearance Letter») which must then be submitted to the Ministry of Taxes.

The following procedures must be performed at any time between the official liquidation announcement (i.e. Stage 1) and the submission of the final package of documents to the Registration Body (Stage 2):

- the termination of employment contracts with existing employees, which must be performed in accordance with labour law
- the closure of bank accounts: after the company's accounts have been closed, a letter from the relevant bank(s) should be obtained confirming this fact
- VAT de-registration

A tax audit is conducted by the Ministry of Taxes.

It may in practice take longer and require more efforts than are stated above to secure a successful outcome to the audits, as the inspector(s) may challenge the documents/payment orders/returns of the company, or require additional supporting documentation/evidence. It can take several months to complete an audit(s) and to finalise the de-registration process.

Upon the expiry of the 60 (sixty)-day period from the placement of the announcement, the Liquidator/ Commission will prepare and approve an interim liquidation balance sheet reflecting information about the assets of the company being liquidated, as well as a list of the claims that creditors and debtors can make within 10 (ten) days.

Any outstanding company obligations to creditors and to the state budget must be settled. The Liquidator/ Commission must initiate bankruptcy proceedings if a company's assets are insufficient to settle creditors' claims.

The Liquidator/Commission must split the remaining assets between the members (i.e. the founder(s)) of the company) within 10 (ten) days after the final liquidation balance is adopted.

Stage 2

The Liquidator/Commission must submit the following documents to the Registration Body within 10 (ten) days after the date that the assets were shared among the founder(s) of the company:

- the approved final liquidation balance
- a report outlining the asset distribution plan
- a document confirming that the distributed assets have been provided to the participants of the company
- the original Certificate of Incorporation as well as the regulations/charter of the company
- a stamp bearing the inscription "undergoing liquidation"
- clearance letters from the customs authorities and the Social Protection Fund
- clearance certificate (letter) on the non-existence of any administrative or criminal liability

The company's de-registration decision must be adopted by the Registration Body within 7 (seven) days after all required documents have been submitted.

Registration of changes

Under the Law “On State Registration and the State Register of Legal Entities”, changes made to the registration documents of legal entities, branches, or representative offices must be registered with the Ministry of Taxes. The application to register respective changes must be submitted within 40 (forty) days after the date that the changes were made. The respective changes must be included in the application form submitted together with the other documents certifying the changes.

Changes to the documents of legal entities, branches, or representative offices are binding once they are registered with the state. Legal entities, branches, or representative offices cannot perform any activities based on changes that were unregistered.

Recent legislative changes have raised fines for the non-submission to the Ministry of Taxes within 40 days of applications relating to changes to registration documents. Under the Code of Administrative Offences, respective fines of between AZN 2,500 and AZN 3,000 can be imposed.





Foreign investment

Foreign investment in Azerbaijan is chiefly regulated by the Law “On Safeguarding Foreign Investment”³ and the Law “On Investment Activity”⁴.

Foreign investment

Foreign investors can engage in any investment activity that is not prohibited by Azerbaijani law. Under the law “On Safeguarding Foreign Investment”, the following can act as foreign investors:

- foreign legal entities
- foreign citizens, stateless persons, and Azerbaijani citizens with permanent residence abroad, only if they are duly registered to perform economic activities in the state where they are citizens or temporarily residents
- foreign states
- international organisations

The following list provides the legal forms that foreign investments can take:

- participating in entities established jointly with legal entities and Azerbaijani citizens
- establishing enterprises wholly owned by foreign investors
- purchasing enterprises, proprietary facilities, buildings, structures, shares in enterprises, other shares, bonds, securities, and other kinds of property that, under Azerbaijani law, may be owned by foreign investors
- obtaining rights to use land and other natural resources, as well as other proprietary rights
- concluding agreements with legal entities and Azerbaijani citizens that provide for other forms of foreign investment

The legal system governing the foreign investor’s activity cannot be less favourable than that for Azerbaijani citizens and legal entities regarding their properties, property rights, and investment activities.

Legislation may prescribe restrictions and prohibitions on the territorial scope of an investment project related to defence, national security, or safeguarding the environment and the public.

A savings fund should be set up, comprising 25% of the charter capital from annual deductions. The size of the deductions and the currency are determined by the entity itself.

³ Law of the Republic of Azerbaijan “On Safeguarding Foreign Investment”, effective 15 January 1992.

⁴ Law of the Republic of Azerbaijan “On Investment Activity”, effective 13 January 1995.

Investment promotion certificates

Under legislative amendments made in April 2016 investors can, depending on the area of economic activity, the administrative territory, and the investment threshold, receive various tax and customs benefits through an investment promotion certificate. These include a 50% income tax exemption and a 100% property and land assets tax exemption, as well as exemptions from customs duties. The minimum investment requirements for each region can vary between AZN 0.2 and AZN 10 million.

The main criteria for qualifying for a certificate are as follows:

- an investment plan that contains information on the investment area, amount, and location
- confirmation of payment of 10% of the total investment amount
- a tax registration certificate

The investor has the right to contact the Ministry of the Economy to check compatibility with the other two criteria before investing the 10% amount, and the ministry must respond within five business days. The ministry then informs the Ministry of Taxes and the State Customs Committee within three days prior to issuing the certificate. Once issued, the certificate will entitle the investor to the above tax benefits for a period of seven years.

Safeguards for foreign investors

Under Azerbaijani legislation the following guarantees exist for foreign investments:

- Foreign investments enjoy full legal protection in the territory of the Republic of Azerbaijan. If there are any legislative changes that worsen the investment climate, then the legislation that was in force when the foreign investment was made will apply for a period of 10 years, and any new amendments will not apply.
- The nationalisation of a foreign investment is forbidden by law, with the exception of cases where a foreign investment has damaged the interests of the people and the state of Azerbaijan. Nationalisation is possible only through a resolution passed by the National Assembly. Confiscation is also possible; however, only due to a natural disaster, an epidemic, or any other force majeure situation and following a decision by the Cabinet of Ministers. In cases of both nationalisation and confiscation, foreign investors must be compensated.
- Foreign investors are entitled to repatriate profits, revenues, and other amounts received in connection with their investments, provided that all applicable Azerbaijani taxes have been paid.
- The income gained by foreign investors can be reinvested in the same currency that the original investment was made in, kept in Azerbaijani banks, and spent on purchasing foreign currency in accordance with CBAR rules.

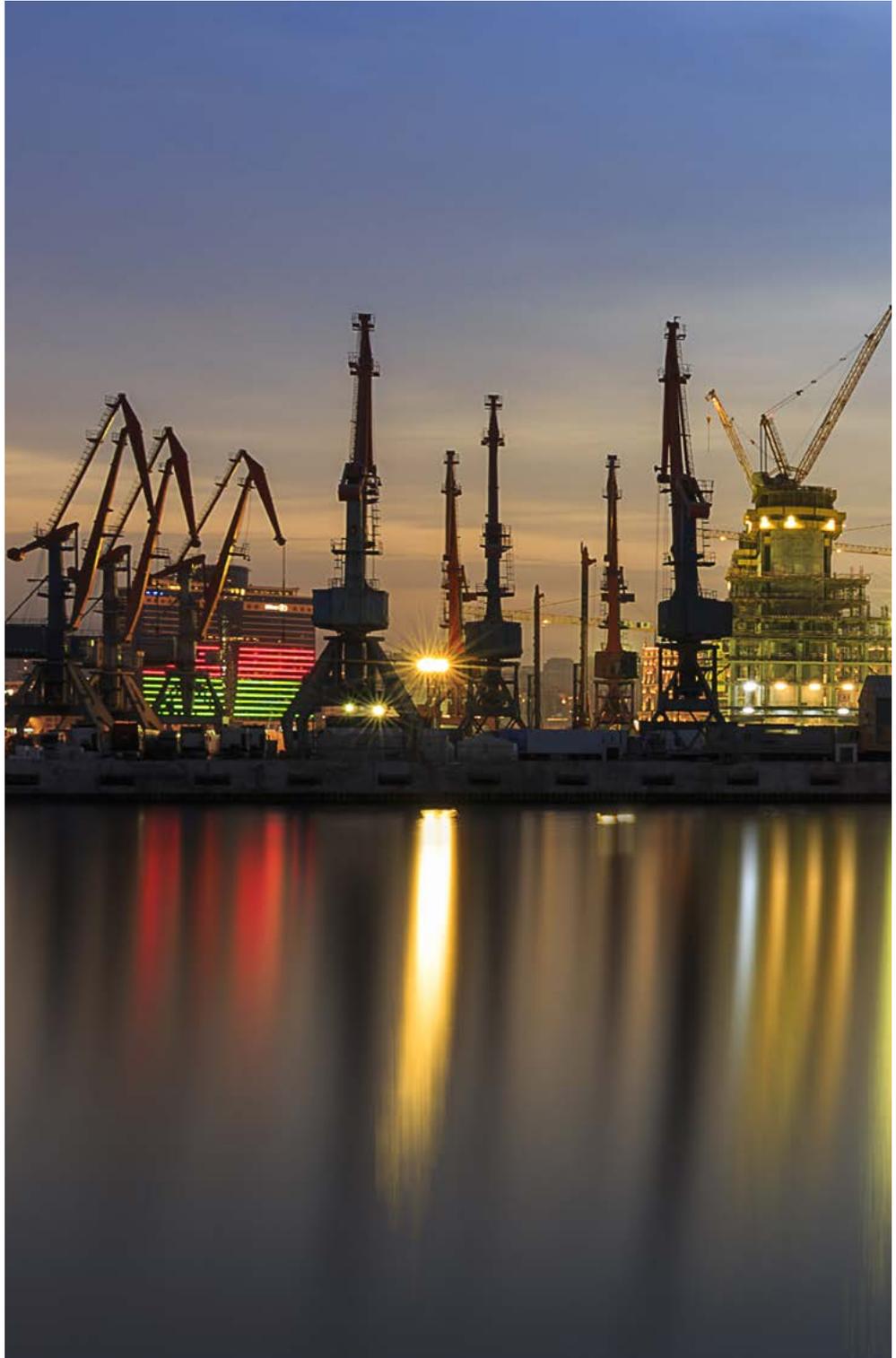
Entities that have received foreign investment can set up associations, concerns, consortiums, and other unions.

Legal entities that are fully owned by foreigners and those with a charter capital comprising more than 30% foreign investment can export manufactured products (works, services) without a license. In addition, an entity that has received foreign investment can import products (works, services) for their economic activity without a license.

Property brought to Azerbaijan as part of foreign investor savings in a joint venture or for an entity fully owned by foreigners is exempt from tax duties.

Bilateral investment treaties

Azerbaijan has concluded over 60 bilateral treaties on the mutual safeguarding of investments. And in November 2002 it signed with the OPEC Fund for International Development a multilateral treaty on the mutual safeguarding of investments, which was ratified on 9 December 2003.





Licensing requirements

Business activities that are licensable in the Republic of Azerbaijan are regulated by the Law “On Licenses and Permits”⁵ and the regulations “On the Issuance of Licenses”⁶. These introduced a number of simplifications to licensing procedures under the one-stop shop principle.

Under the above law, a license is defined as an official document that grants the right to legal entities and self-employed entrepreneurs to engage in commercial activities. A permit is defined as an official document that provides rights to perform respective actions related to conducting entrepreneurial activity, and can be in the form of approvals, certifications, or accreditations.

Global recognition of Azerbaijani licences, as well as the recognition of foreign licences in Azerbaijan, is possible under international agreements.

The list of activities that requires a license has been reduced significantly in areas relating to state security, natural reserves, the environment, and public health.

An application for licences can be submitted electronically and is processed within 10 business days. The license is non-transferable, meaning that it can be used by the licensee only.

An online licenses and permits portal was recently set up, and gives information on available licences and permits, the authorities issuing them, a description of details, the list of required documents, state fees, service fees, and information for individuals and legal entities.

A license (or permit) must contain information pertaining to the name of the issuing authority, its owner, and the field of permitted activity. Licences are classified under general and special types, with the general type granting the right to engage in a commercial activity without having to obtain a separate license for each sub-category.

In contrast, the holder of a special license will need to obtain a separate license for each sub-type of activity stipulated in the license. The suspension or termination of an activity indicated in a general license does not serve as a basis for terminating or suspending other activities contained in the license.

An application to renew a licence can be made upon there being changes in the field of activity of the entrepreneur, the re-organisation of an entity, or during the loss of the issued licence within 15 days.

Licences can also be suspended or terminated by the issuing authority if they are not used for their respective permitted purposes, and in other circumstances prescribed by law.

Presented below is a non-exhaustive list of activities that are licensable in the Republic of Azerbaijan, together with a corresponding list of the state authorities responsible for issuing the respective license:

⁵ Law of the Republic of Azerbaijan “On Licenses and Permits,” effective 1 June 2016.

⁶ Presidential Decree No. 713 “On Licensing Activities,” effective 23 December 2015.

Type of licensable activity	Executive authority
Toxic industrial waste:	Ministry of the Economy
Recycling; neutralisation	
Collection of raw, wild medicinal plants	Ministry of the Economy
Private medical activities	Ministry of the Economy
Pharmaceutical activities: production; wholesale; retail	Ministry of the Economy
Pharmaceutical precursors: production; import; export; transit	Ministry of the Economy
Educational activities	Ministry of the Economy
Communication services	Ministry of the Economy
TV and radio operations; satellite broadcasting	National Television and Radio Council
Elevator installations; fire-fighting activities; individual hunting organisations; construction and installation works; private veterinary medical activities; mining works	Ministry of the Economy
Manufacture of various types of seals and stamps	Ministry of the Economy
Stock exchange activity; joint-stock investment fund activities; investment company activities; clearing organisation activities; investment fund depository activity; the creation and sale issuance of security forms	Financial Markets Supervisory Authority
Banking activities and insurance activities	Financial Markets Supervisory Authority
Audit activities	Chamber of Auditors of the Republic of Azerbaijan
Private security activities	Ministry of Internal Affairs; The Azerbaijan State Security Service of the Republic of Azerbaijan (depending on the scope)
Activities related to the design and production of information protection	
The Azerbaijan State Security Service of the Republic of Azerbaijan	
Biometric technologies and their maintenance; the creation of personal data information resources and information systems and their maintenance	The Ministry of Transport, Communications and Advanced Technologies





Land ownership and other related rights

Under the Civil Code, ownership is a subject's right (i.e. a right belonging either to an individual or legal entity), recognised and protected by the state, to own, use, and dispose of property belonging to them at their own discretion. Thus, an ownership right is an aggregate of the following rights:

- the right to own, defined as the legally protected possibility of taking possession of a property
- the right to use, defined as the legally protected possibility of enjoying a property's useful features, and obtaining benefit from them (benefit from use may be expressed in the form of income, growth, or any other form)
- the right to dispose, defined as the legally protected possibility of determining the legal fate of a property

The Civil Code categorises land plots as immovable property. In particular, the code sets forth that land plots, as well as separate bodies of water, forests, long-standing harvested farmland, buildings, installations, and other real estate items closely attached to land, are considered immovable property. Under the Civil Code, the ownership rights to immovable property (including land plots) must be registered. In addition to ownership, the Land Code of the Republic of Azerbaijan recognises use and lease rights over land plots. The main difference between these two types of rights is that the lease term is determined through agreement between the respective parties, whereas the term for (gratuitous) use might be permanent, or for a period of up to 99 years. Moreover, as opposed to lease, (gratuitous) use does not entail any consideration to be paid to the property owner. Under Azerbaijani law, land can be used by foreigners only in the form of a lease. Regarding formalities, all relevant transactions are subject to notary certification, as well as state registration if the term of gratuitous use/lease exceeds 11 months. A land user or lessee can transfer (sell) their use/lease rights to a third party in accordance with the legislation of the Republic of Azerbaijan.

Documents confirming rights over land

Under the Land Code⁷, the granting to legal entities or individuals of rights to land plots owned by the state or its municipalities is performed based on a decree from an appropriate executive power and based on an agreement concluded between the parties.

The transfer of all rights to land plots in private ownership from one person to another is performed based on agreements concluded between the parties. The agreements should be notarised.

Rights to land plots (with the exception of lease and usage rights to land plots not exceeding 11 months) are registered in the State Registry of Immovable Property and are formalised in a respective registry extract.

In addition, the Land Code states that rights arising from the purchase of land plots in state ownership or owned by the state's municipalities, as well as rights obtained through the conclusion of deeds related to land plots and other immovable property, must be registered.

⁷ Land Code of the Republic of Azerbaijan, approved on 25 June 1999



Technology parks

Technology parks have been introduced to the Azerbaijan market to facilitate the sustainable development of the economy, expand the scope of information and communication technologies, conduct research, and discover new technologies. Under a Presidential Decree, the High-Tech Park was established⁸ – a hub containing information and communication technologies, space and telecommunication technologies, and infrastructure to create new and advanced technologies. Under a Presidential Decree⁹, technology parks can be created independently or by a scientific and educational institution. The first educational and scientific institution to establish a technology park was the Azerbaijan National Academy of Sciences, and another is set to be established in Mingachevir. In order to operate in a technology park, the legal entity or individual engaged in entrepreneurial activity should become a resident by obtaining a registration certificate, or become a resident of a technology business incubator, which are involved in developing new technical projects and receive support from a technology park. Also, the concept of a joint technology park has been introduced. These can be created on state, municipal, or private land plots. The cost of organising and managing the activity of joint technology parks is determined based on the respective shares of state and municipal and private proprietors.

Foreign trade

In order to make the business and investment environment of Azerbaijan as efficient and convenient as possible, a number of reforms have been introduced, with the main focus on increasing exports of local goods to traditional and new markets and introducing to international markets goods produced in Azerbaijan. Under a Presidential Order¹⁰, steps are to be taken to achieve these goals, such as creating a Digital Trade Hub in the Azerbaijan section of the online portal www.azexport.az. This portal assists persons registered as taxpayers in Azerbaijan in drafting and signing documents and agreements in an electronic format and conducting trans-border electronic services in real-time, and establishing electronic services that enable exporters to obtain the permits required to conduct export activities and export custom declarations in an electronic form. The portal also issues payments of export incentives from the state budget to persons exporting non-oil goods, as well as ASAN Imza electronic signature certificates.

⁸ Presidential Decree No. 736 of the Republic of Azerbaijan “On Establishing Advanced Technology Parks,” dated 5 November 2012

⁹ Presidential Decree No. 168 of the Republic of Azerbaijan “On Approving ‘Exemplary Regulations on Technology Parks’

¹⁰ Presidential Order No.1255 “On Additional Measures To Strengthen Azerbaijan’s Position, such as the Digital Trade Hub, and Broadening Foreign Trade Operations”, effective 24 February 2017.



Banking

Banking activity in Azerbaijan is regulated by the Law “On Banks”, the Law “On the Central Bank of Azerbaijan”, the Charter of Financial Market Supervisory Authority of the Republic of Azerbaijan (“FIMSA”), as well as other legislative acts and regulations. FIMSA is a public legal entity and is independent in its operations, and is in charge of the licensing, regulation, and effective and transparent supervision of securities, equity funds, insurance, credit institutions (bank, non-bank credit institutions, and the national postal services provider), and currency exchange and payment systems. Established in 2016, it has assumed all the functions of the Azerbaijani State Committee for Securities and State Insurance Supervision Service under the country’s finance ministry, as well as banking supervisory functions of the CBAR. Despite this, the CBAR is still responsible for certain types of activities, such as conducting monetary and foreign exchange policies, organising money circulation, setting official national currency exchange rates, and maintaining and managing gold and foreign exchange reserves.

To perform banking activity a bank should be established by a minimum of three individuals and/or legal entities, in the form of an open joint-stock company. Currently, the minimal charter capital of a new bank is at least AZN 50 million.

Under law, banks should provide services based on the licenses issued to them by a banking supervisory agency. Bank licenses are issued for an indefinite period and should not be transferred to third parties. Together with licenses, the FIMSA also issues permits for opening bank subsidiaries, branches, and representative offices. Banks, in addition to core banking activities, can also be engaged in activities in other laws, with several exceptions. The prohibited activities for banks to engage in are as follows:

- wholesale and retail trade
- production
- transportation
- agriculture
- mining
- construction
- insurance



Secured transactions

Secured transactions in the Republic of Azerbaijan form an important part of the law and economy of the country. By enabling lenders to take a security interest in collateral, secured transactions law provides lenders with legal assurances in the event of defaults by borrowers. Assets used as collateral may be under the title of either the debtor or third parties. Pledges may cover actual demands or future obligations resulting from loan agreements, as well as bank credit agreements, purchase sale agreements, and the lease of property. Under law, the same property can be subject to more than one encumbrance. With the exception of certain cases, a change of ownership of collateral and its use or lease by third parties does not affect the encumbrance or the creditor's preferential right.

Encumbrances on immovable and movable assets subject to state registration are regulated under the Law "On Mortgages".

In addition, in May 2017 Azerbaijan enacted the Law "On the Encumbrance of Movables", which followed the UNCITRAL model law on secured transactions. This law governs the creation, prioritising, and enforcement of all private security interests. Security interests are defined in accordance with the UNCITRAL approach of including all types of rights over moveable property (except for movable property subject to state registration) in order to secure the payment or performance of an obligation, irrespective of the form of the transaction. To ensure third-party effectiveness, a security interest is publicised through either the registration or possession of the collateral, or control over the collateral. The Collateral Registry of movable property operates on a paid basis and is run by the Financial Markets Supervisory Authority. The adoption of the new law on movable encumbrances improves access to finance, boosting movable asset-backed lending, and also opens doors to businesses, which may not have assets such as real estate to obtain financing resources.



Litigation and arbitration

The judicial power in the Republic of Azerbaijan is vested in the Constitutional Court of the Azerbaijan Republic, the Supreme Court of the Azerbaijan Republic, Courts of Appeal of the Azerbaijan Republic, and ordinary and specialised law courts of the Azerbaijan Republic. Justice is administered in the form of constitutional, civil, administrative, and criminal proceedings.

Azerbaijan has a three-tier court system: courts of first instance, appellate courts, and a cassation court (the Supreme Court of the Republic of Azerbaijan). Courts of first instance comprise the district (city) courts of general jurisdiction, administrative-economic courts, serious crime courts, and military courts. District (city) courts hear cases on civil, labour, real estate disputes, tax, and other matters, where at least one of the parties to a dispute is a natural person without the status of a sole proprietor, or, in case of such status, where the dispute is not related to the carrying out of entrepreneurial activity by this natural person. In addition to these cases, administrative offences and misdemeanour crimes sanctioned with imprisonment terms of less than seven years and non-custodial sentences also fall under the jurisdiction of these courts. Administrative-economic courts hear cases on administrative and economic (commercial) disputes within their jurisdiction. Decisions of a court of first instance that have not entered into legal force may be appealed in Courts of Appeal. These courts conduct the appellate review of first instance court decisions and deal with the specific category of cases in the capacity of a first instance court. The Supreme Court has been established as a court of last resort to conduct appellate reviews of appellate court decisions. However, some specific categories of disputes exist, for which the Court of Appeal itself acts as a last resort. For example, Court of Appeal decisions on civil disputes involving claims of less than AZN 2,000 as well economic disputes involving claims of less than AZN 10,000 regarding property related allegations are final, and cannot be appealed at the Supreme Court.

The Constitutional Court adopts decisions on the correspondence of laws and other normative legal acts with higher legislation, as well as the constitution. The Constitutional Court of the Republic of Azerbaijan makes interpretations of the constitution and laws of the Republic of Azerbaijan, based on petitions from the relevant state authority. Moreover, any person that alleges that their rights and freedoms have been violated by a legal act of the Legislative and Executive can register a complaint with the Constitutional Court in order to restore their human rights and freedoms.

Under the Civil Procedure Code of the Republic of Azerbaijan, decisions of foreign courts are recognised and executed in the Republic of Azerbaijan if this is prescribed by Azerbaijani law or international agreements to which Azerbaijan is a party, as well as under the principle of reciprocity. Azerbaijani law also recognises the right of parties to settle disputes by means of international or domestic arbitration. The Law on International Arbitration, dated 18 November 1999, and the Civil Procedure Code of Azerbaijan, effective 1 September 2000, govern the enforcement of awards issued by an international commercial arbitration tribunal and other related issues. Also, Azerbaijan has ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Under the Code of Civil Procedure of the Republic of Azerbaijan, certain issues fall within the exclusive jurisdiction of Azerbaijani courts. Disputes related, inter alia, to property rights on real estate located in Azerbaijan, cases concerning the recognition of patents or other trademarks (or rights) registered (or an application for registration has been filed) in Azerbaijan, claims against shippers stemming from contracts of carriage, divorce proceedings between local and foreign citizens (both of whom are habitually resident in the Republic of Azerbaijan), cases relating to the existence of a legal person registered in Azerbaijan, or cases where a legal person seeks to revoke a decision fall within the exclusive jurisdiction of Azerbaijani courts. Therefore, although the parties are free to choose arbitration as a dispute resolution mechanism, any disputes regarding the above matters are considered by courts of the Republic of Azerbaijan and cannot be subject to arbitration. In the result, foreign arbitral awards or judgments covering so-called borderline issues indicated in this section cannot be recognised and enforced in Azerbaijan.

E-courts

As per latest amendments to Civil Procedure Code of the Republic of Azerbaijan¹¹, proceedings in economic disputes, including sending and accepting applications, complaints and other documents and delivery of court documents to the court and process participants are carried out exclusively through electronic cabinet in the “Electronic Court” Information System.¹¹ Civil dispute claims with the amount up to AZN 2,000

(two thousand) and economic dispute claims with the amount up to AZN 10,000 (ten thousand) are considered minor claims and application regarding such claims are sent through electronic cabinet in the “Electronic Court” Information System in the courts where “Electronic Court” Information System were applied.

¹¹ Law №1436-VQD dated 28.12.2018 “On the amendments to Civil Procedure Code”





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Strategic road maps

The sustainable and competitive development of the non-oil sector in Azerbaijan is a priority within the country's economic policy. In this regard, the President has signed Decree No. 1897, «On the Primary Areas of Strategic Road Maps for the Domestic Economy and the Main Sectors of the Economy»¹², to help ensure the sustainability of economic policy and reforms implemented in the country, provide an in-depth analysis of the current state of the economy, and elaborate new economic strategies and initiatives. Under the decree, strategic road maps have been drafted that cover 12 main economic fields:

- A Strategic Roadmap for the Domestic Economy of the Republic of Azerbaijan
- A Strategic Roadmap for the Development of the Oil & Gas Industry (including Chemical Products) in the Republic of Azerbaijan
- A Strategic Road Map for the Production and Processing of Agricultural Products in the Republic of Azerbaijan
- A Strategic Roadmap for the Production of Consumer Goods in Small- and Medium-sized Enterprises in the Republic of Azerbaijan
- A Strategic Roadmap for the Development of Heavy Industry and Machine-building in the Republic of Azerbaijan
- A Strategic Road Map for the Development of a Specialised Tourist Industry in the Republic of Azerbaijan
- A Strategic Road Map for the Development of Logistics and Trade in the Republic of Azerbaijan
- A Strategic Road Map to Provide Affordable Housing in the Republic of Azerbaijan
- A Strategic Road Map on Vocational Education and Training in the Republic of Azerbaijan
- A Strategic Road Map for the Development of Financial Services in the Republic of Azerbaijan
- A Strategic Road Map on the Development of Telecommunication and Information Technologies
- A Strategic Road Map on the Development of Utility Services (electricity and heating energies, water and gas)

Strategic road maps are made up of an economic development strategy and action plan for 2016-2020, a long-term concept for the period up to 2025, and a view on the post-2025 period. Projects were openly debated and numerous comments and suggestions from stakeholders, including civil society organisations and citizens, were taken into consideration when drafting the final document.

¹² Presidential Decree No. 1897 "On the Primary Areas of Strategic Road Maps for the Domestic Economy and the Main Sectors of the Economy", effective 17 March 2016.



State digital payments expansion programme

The 2018-2020 state digital payments expansion programme in the Republic of Azerbaijan (“State Programme”)¹³ was developed with the aim of significantly increasing digital payments among citizens, business entities, and state structures, thereby diminishing cash transactions and making more flexible the financing options available within the banking sector. As a result of the programme’s implementation it is projected that economic transactions will become transparent, and cash transaction costs reduced. The list of measures to be taken under this programme include:

- preparing a Competition Code
- creating areal clusters (business associations) in various sectors
- effecting a gradual transition from a simplified tax system to a VAT system involving different rates
- implementing a Unified Accounting System
- implementing new digital payment technologies
- creating a 24/7/365 immediate payment system

¹³ Presidential Order No. 508 “On Approving the Expansion of Digital Payments in the Republic of Azerbaijan in 2018-2020”, effective 27 September 2018.



Special economic zones

New special economic zones have been established in accordance with the Law “On Special Economic Zones”¹⁴, with a view to strengthening Azerbaijan’s position as a logistics and transport hub and creating a multifunctional transport infrastructure. In these zones entrepreneurial activities benefit from a special, favourable legal system. The following activities are prohibited:

- the production, preservation, or sale of prohibited or restricted goods
- the extraction of minerals from the earth
- the extraction and processing of precious metals, oil, oil products, and natural gas
- broadcasting activities
- the production of alcoholic drinks and tobacco products

In order to operate in a special economic zone, legal entities and individuals should become residents by signing a memorandum of association with the zone’s administration, registering, and receiving a respective certificate.

Residents benefit from a favourable customs system; at the same time:

- Import duties and VAT do not apply to goods imported from outside the customs zone of Azerbaijan (except for excisable goods).
- Customs duties and taxes do not apply to the export of goods imported from outside the customs zone of Azerbaijan to a special economic zone and then exported to outside the customs zone of Azerbaijan.
- Customs duties and taxes do not apply to the export of goods produced in the special economic zone.
- Customs duties and taxes do not apply to the import of goods from a special economic zone that imported such goods from outside the customs zone of Azerbaijan.
- Customs duties and taxes do not apply to goods produced or processed in a special economic zone and which are temporarily imported into the customs zone of Azerbaijan for the purpose of repairing, finishing, and exhibiting samples of products and for other similar purposes.
- Customs duties and taxes do not apply to goods imported and exported between special economic zones in Azerbaijan.

The favourable tax system allows registered residents to pay 0.5% tax (simplified tax) on revenue earned from the sale of goods, performing works, provided services, as well as non-sales income.

The investments, revenue, and income of special economic zone residents performing entrepreneurial activities are guaranteed by the state, and residents can transfer abroad funds that have been legally obtained. When creating a special economic zone, the state guarantees that the special legal system will be in effect throughout the entire period of the zone’s activity.

¹⁴ Law of the Republic of Azerbaijan “On Special Economic Zones,” effective 6 June 2009.

Alat Free Economic Zone

The Alat Free Economic Zone (“Free Zone”) has been established for the purpose of conducting entrepreneurial and investment activities¹⁵. Free Zone legislation is enforced on the territory of the Free Zone, and takes precedence if any discrepancies arise with Azerbaijani legislation.

The authorised body of the Free Zone is accountable for the activities of the Free Zone and its responsibilities include supervision and control over the activities of Free Zone residents, legal entities, and administrative entities, its territory, all property and assets, as well as all other matters relating to the strategic objectives of the Free Zone.

The authorised body of the Free Zone, administrative entities of the Free Zone, Free Zone legal entities and their employees, and Free Zone residents are exempt from all the taxes related to activities on the territory of Free Zone.

No custom duties or taxes are levied on goods, works, and services imported into the Free Zone.

The related authorised body sets out internal regulations, covering the customs requirements with regards to imported and exported goods, works, services, and matters related to them. Regulations on the incorporation, operation, and licensing of legal entities in the Free Zone, as well as migration procedures, are to be adopted by the authorised body of the Free Zone. This body is also responsible for the establishment of an arbitration centre or any other institution for the resolution of disputes.

Investors, entrepreneurs, residents, and legal entities of the Free Zone and their employees are entitled to conduct transactions in any currency and to transfer without limitation funds abroad.

The working languages of the Free Zone are Azerbaijani and English, and additional languages can be used in case of necessity.

¹⁵ Law of the Republic of Azerbaijan “On Special Economic Zones,” effective 6 June 2009.





Intellectual property

Introduction

Under Azerbaijani law, intellectual property rights include the rights to creative and scientific works, public performances, television programmes, databases, computer programs, and traditional cultural expressions.

Legislation

In Azerbaijan, relations concerning intellectual property rights are primarily regulated in accordance with local sources of legislation, such as:

- The Law “On Trademarks and Geographical Indications”¹⁶
- The Law “On Patents”¹⁷
- The Law “On Copyrights and Related Rights”¹⁸
- The Law “On the Provision of Intellectual Property Rights and Combatting Piracy”¹⁹
- Regulations “On the Registration of Trademark Contracts”²⁰
- Regulations “On Recognising Well-known Trademarks in Azerbaijan”²¹
- The Law “On the Regulation of Customs Regulations Covering Items of Intellectual Property Crossing Customs Borders”²²

In addition, Azerbaijan has acceded to the following conventions, which seek to safeguard intellectual property rights:

- The Paris Convention On Safeguarding Industrial Property, 1883 (joined 2016)
- The Madrid Agreement Concerning the International Registration of Trademarks, 1892 (joined 1995)
- Protocol to the Madrid Agreement Concerning the International Registration of Trademarks, 1989 (joined 2006)
- The Berne Convention for Safeguarding Literary and Artistic Works, 1886 (joined 1998)
- The Patent Cooperation Treaty, 1970 (joined 1995)
- The Eurasian Patent Cooperation Treaty, 1995 (joined 1995)
- The Convention Establishing the World Intellectual Property Organization, 1970 (joined 1995)

¹⁶ Law of the Republic of Azerbaijan “On Trademarks and Geographical Indications”, effective 12 June 1998.

¹⁷ Law of the Republic of Azerbaijan “On Patents”, effective 25 July 1997.

¹⁸ Law of the Republic of Azerbaijan “On Copyrights and Related Rights”, effective 5 June 1996.

¹⁹ Law of the Republic of Azerbaijan “On the Provision of Intellectual Property Rights and Combatting Piracy”, effective 07 October 2012.

²⁰ Decree No. 139 of the Cabinet of Ministers of the Republic of Azerbaijan “On Regulations On the Registration of Trademark Contracts”, effective 15 September 2009.

²¹ Decree No. 145 of the Cabinet of Ministers of the Republic of Azerbaijan “On Regulations On the Recognition of Well-known Trademarks in Azerbaijan”, effective 18 September 2009.

²² Law of the Republic of Azerbaijan “On Approving the Decree “On the Regulation of Customs Regulations Covering Items of Intellectual Property Crossing Customs Borders””, effective 12 February 2002.

Trademarks

In accordance with applicable legislation, the following can be registered as trademarks: words, personal names, letters, numerals, figurative elements, the shape of the goods or their packaging, combinations of colours, as well as any combinations of these items. The legislation also prescribes circumstances wherein trademarks cannot be registered. For example, trademarks not having any distinguishing characteristics; trademarks reflecting the type, quality, amount, purpose, value, as well as the place and time of productions of goods and services.

Foreign legal entities and individuals may file a trademark application only through a patent attorney, unless they engage in entrepreneurial activity in Azerbaijan. The list of necessary documents should be submitted to the respective authority, which then conducts a preliminary examination (to be conducted within a month after the submission of the application), and then a more comprehensive examination (to be conducted within six months after receipt of the result of the preliminary examination).

The validity of the trademark is 10 years from the moment of submitting a respective application to the state registration authority. This period can be extended for further periods of 10 years. In addition, the non-use of a trademark for a period of five years may lead to the annulment of its registration at the request of an interested party.

Patent protection of inventions, industrial designs, and utility models

Legal protection is granted to new, creative, and beneficial inventions. An invention is considered to be authentic if it is original in nature. Respective legislation stipulates a list of items that are not considered to be inventions, such as scientific theories, mathematical calculations, and computer algorithms/programs.

Utility models that are new and applicable within the industry are granted legal protection. A utility model is considered new if a significant part of it consists of not commonly known or recognised information.

Industrial designs consist of artistic-constructive schemes that describe the appearance of an object, and can be presented in the form of a picture or model, or both. Legal protection is granted to industrial designs that are original. For example, the following cannot be considered industrial designs: printing products, architecture subjects (with the exception of small architectural items).

Patent protections with respect to inventions are valid for 20 (twenty) years, and for utility models and industrial designs 10 (ten) years after the date of submitting the application form to the relevant state authority.

Copyright

Under Azerbaijani law scientific, fictional, and cultural works are considered to be subjects of copyright law. They can exist in a written, verbal, voice recorded, visual, or physical form.

There is no need for a work to be formally registered in order for it to be eligible for copyright protection. Ideas, processes, working methods, or mathematical concepts do not qualify for copyright protection. Copyright protection only applies to works in a tangible form of expression.

The right to copyright is established on its date of creation and is enforced within the lifetime of the author and for 70 (seventy) years after their death, with the exception of cases stipulated by law. A copyright (except for moral rights) can be transferred by an author through agreement or inheritance.





Labour law

Introduction

Labour matters in the Republic of Azerbaijan are regulated by the country's Labour Code ("Labour Code"), as well as other applicable legislation.²³

The Labour Code defines an employer as being an owner, or a person appointed by an owner as the head of an enterprise, that has the authority to enter into, terminate, or amend employment agreements with employees. The working conditions provided by an employer must not be less favourable than those set forth in labour law.

Minimum wage and the currency of salaries

An employee's salary cannot be lower than the minimum monthly wage, which in 2019 stood at AZN 180 (approximately USD 106).

The Azerbaijani manat (AZN) is the official currency in Azerbaijan, and hence all salaries of employees engaged in labour activity are paid in AZN.

Employment agreements and procedures

Under Azerbaijani law, in order to perform labour activities an employee should first sign an employment agreement with an. Employment agreements are divided into two categories in terms of duration: for a fixed term and for an unlimited period. If the fixed-term employment agreement lasts for a period of more than five years, it should be deemed to be an agreement executed for an unlimited period.

The employment agreement should contain mandatory provisions, such as: the full name and address of the employee; the identification document details of the employee; the employer's name, the taxpayer identification number (TIN); the insurer registration number (IRN); the legal address of the employer; the mutual obligations of the parties to the employment agreement; the employment contract's term, and other mandatory provisions stipulated by the Labour Code.

A labour book is a document that constitutes an official record of an employee's employment history.

An employer must make an appropriate record in the labour book of an employee if the person's employment lasts for longer than five days. The labour book plays a key role in establishing the employee's rights to state-provided pension benefits. Employees entering into an employment contract (with the exception of cases where a contract is concluded for the first time) must provide the employer with their labour books. However, this requirement does not apply to forced migrants, refugees, foreigners, or stateless persons. Also, the employer should create a labour book for the employee if it is the latter's first position.

²³ Labour Code of the Republic of Azerbaijan, effective 1 July 1999.

Probationary periods

Probationary periods can be stated in employment contracts and cannot exceed a period of three months. In some cases probationary periods do not apply, for example for employees who are younger than 18, employees that were appointed as a result of winning a competition, pregnant women, women raising a child under the age of three and men independently raising a child under the age of three, recent graduates taking up their first position, persons elected to certain paid positions, and persons entering into an employment agreement for a period of up to two months.

Working weeks

The regular number of hours per working week in Azerbaijan is 40, although this can be reduced for some groups; for example, employees aged under 16 should not work for more than 24 hours a week, while employees in the 16-18 age category, first- and second-degree disabled employees, as well as pregnant women, women with a child aged under 18 months, and single parents raising a child under the age of three should not work for more than 36 hours a week. Employees work in accordance with the schedule indicated in their employment agreement and for not more than a total of 12 hours in one day. As a rule, overtime cannot be enforced unless it is necessary for national defence purposes, public safety, to guarantee the supply of public utilities, or for a select number of other situations. Overtime cannot extend beyond the limits set forth in the Labour Code. For each hour of overtime an employee must be compensated at a rate that is at least double their normal hourly rate.

Holidays

The Labour Code provides for 14 public holidays and one day of mourning. If one of these official non-working days falls on a day-off (a Saturday or Sunday), then the first day of normal business following the official non-working day becomes a non-working day. Work on official public holidays and other non-working days qualifies for a higher rate of pay. It is prohibited for an employee to work during public holidays that are not a working day or during a National Day of Mourning. Exceptions are 1) employees performing work that is necessary for national defence purposes or to prevent or to immediately respond to a social or natural disaster or an industrial accident, or restoring order after there has been an accident; 2) the performance of work that is of vital public interest, such as the supply of water, gas, heat, lighting, and sewage facilities, 3) the performance of work at production facilities where work cannot be interrupted; 4) transportation; 5) public catering; 6) communications.

The following days are holidays in the Republic of Azerbaijan:

- New Year (1 and 2 January)
- Women’s Day (8 March)
- Victory Day (9 May)
- Republic Day (28 May)
- Day of National Salvation of the Republic of Azerbaijan (15 June)
- Armed Forces Day of the Republic of Azerbaijan (26 June)
- National Independence Day (18 October)
- Day of the National Flag of the Republic of Azerbaijan (9 November)
- Constitution Day (12 November)
- National Revival Day (17 November)
- Azerbaijan World Solidarity Day (31 December)
- Novruz Bayram (five days)
- Gurban Bayram (two days)
- Ramadan Bayram (two days)

Annual paid leave

Under the Labour Code annual paid leave is provided for each working year of an employee, and starts from the first working day, while the right to annual paid leave commences six months after a person has begun their employment.

The minimum amount of annual paid leave is 21 (twenty-one) calendar days, although some special categories of employees are entitled to a minimum of 30 (thirty) calendar days per year.

Additional days to annual paid leave are provided in a number of cases:

- due to the working conditions of certain types of jobs, as specified in legislation: a minimum of six calendar days of additional paid leave
- seniority:
 - seniority of five-to-10 years: two additional calendar days
 - seniority of 10-to-15 years: four additional calendar days
 - seniority of over 15 years: six additional calendar days
- women with children
 - with two children aged under 14: two additional calendar days
 - with two-or-more children aged under 14 and women with a disabled child: five additional calendar days

Employees aged under 16 are eligible for 42 calendar days’ holiday per year; employees aged 16 to 18 are eligible for 35 calendar days.

Legislation also prescribes annual paid leave for such categories of employees as teachers and researchers, persons that exhibited exceptional courage in defence of the country, employees with physiological ailments, and certain professions within the entertainment industry and other establishments.

Rules applying to annual paid leave

At the employee's request and with the consent of the employer, holiday time may be divided and granted in segments, provided that one of the segments consists of at least two calendar weeks. An employee's request for annual paid leave should be made at least five days before the first day of the respective leave.

Sick leave

The employer pays compensation for the first 14 days of sick leave. Compensation for additional days is provided by the State Social Protection Fund. Sick leave is provided based on a respective certificate issued by a doctor, and can be extended for up to three (but no more than six) days (extensions are allowed in accordance with additional procedures stipulated in law).

Maternity leave

Women are entitled to paid maternity leave for 70 calendar days prior to childbirth and 56 days (70 in cases of the birth of more than one child and for difficult births) after childbirth. Women working in agriculture are entitled to a longer maternity leave term, depending on the conditions of childbirth.

A respective maternity allowance is paid by the State Social Protection Fund, not the employer.

Cost of employment

On behalf of their employees, employers are required to pay social security contributions at a rate of 22% of salaries. In addition, employers must insure their employees against occupational illness and workplace injury. Depending on the industry and the occupational hazards involved, insurance premiums for this mandatory coverage vary from 0.2 to 2.0 percent of an employee's annual gross salary.

On behalf of its employees, an employer is obliged to withhold income taxes, as well as certain social contributions, at a rate of 3% of the employee's salary.

From 2019, the social contributions of employees working in the non-oil and non-state sectors will be calculated as follows for a period of seven years (Table 1).

Table 1

Monthly gross income	Social insurance rate	
	For employers	For employees
Up to AZN 200 (around USD 117)	22%	3%
Over AZN 200	AZN 44 + 15% of the amount exceeding AZN 200	AZN 6 + 10% of the amount exceeding AZN 200

In addition, under the Law "On Unemployment Insurance" the employer and employee are obliged to pay 0.5% of the calculated salary fund of the employer and 0.5% of the employee's salary (withheld by the employer), respectively.

Expatriate workers

Expatriates wishing to work in Azerbaijan are required to register at their residence address (for periods of stay exceeding 15 days) and consequently to obtain a work permit in order to perform labour activity. Work permits are issued by the State Migration Service for periods of three-to-six months or for up to one year. The heads of representative offices and branches of foreign legal entities (and their deputies) are not required to obtain work permits to work in Azerbaijan. In contrast to a work permit, a residence permit is compulsory for anyone wishing to live and work in Azerbaijan.

Following amendments to the Migration Code in May 2016, the founders and deputy founders of local legal entities are also exempt from obtaining a work permit.





General tax information: Azerbaijan

General tax information: Azerbaijan

The Republic of Azerbaijan currently has three tax systems in place:

1. A statutory (Tax Code) system.
2. A system for companies (oil & gas) working under production sharing agreements (PSAs).
3. A system for companies operating under host government agreements (HGAs).

List of main statutory system taxes

- corporate income tax
- personal income tax
- value-added tax
- property tax
- withholding tax
- social fund contributions
- other taxes

Corporate income tax

Taxpayers: Both residents and non-residents are subject to income tax in Azerbaijan. For Azerbaijani residents, their worldwide income is taxable. For non-residents, income generated from sources in Azerbaijan is taxable.

Permanent establishments (PE): The Tax Code defines a PE as an entity that conducts commercial activities for not less than 90 days, cumulatively, in any 12-month period. However, despite this definition, the Tax Code also provides that entities solely conducting any or all of the following activities do not qualify as a PE in Azerbaijan:

- the storage and display of goods
- the storage of goods for processing by another entity and subsequent export from Azerbaijan
- the procurement of goods and the collection of information
- the performance of any other preparatory or auxiliary activities

Foreign companies that do not create a PE are subject to withholding tax at the source of payment on any taxable income from Azerbaijani sources.

Tax base: The taxable base is net profit, i.e. income minus deductible expenses.

Tax rate: The profit tax rate in Azerbaijan is 20%. An additional branch remittance tax of 10% applies to profit remittances from the branch to the head office. The taxable base is net profit after taxes.

Deductible expenses: Expenses resulting from entrepreneurial activities, except for non-deductible and/or limited expenses, can under the Tax Code be deducted from the gross income earned from conducting these activities. Expenses not connected

with income-earning activities, personal expenses, and entertainment expenses are non-deductible.

Financial sanctions, administrative penalties, and calculated interest amounts stipulated by other legislative and regulatory acts (excluding interest, fines, and payments for material damages incurred due to the late fulfilment of obligations, and other similar fines incurred via civil contracts) are non-deductible.

The Tax Code also prescribes rules and limitations for the following deductions: interest payments subject to limitations, bad and doubtful debts, insurance reserve funds, scientific research and experimental designs, the depreciation of fixed and intangible assets subject to limitations, repairs subject to limitations, insurance payments, geological explorations, and the extraction of natural resources.

Depreciation: All assets with residual values of over AZN 500 and with a useful life of over one year should be capitalised and expensed through de-preciation. The depreciation rates adopted by Azerbaijani law depend on the category to which an asset belongs. The following are the maximum depreciation rates by category for the most common groups of assets:

Annual depreciation rates:

Buildings, constructions, and installations	7%
Equipment and machinery	20%
Hi-tech computers and servers	25%
Means of transport	25%
Livestock	20%
Geological and exploration costs	25%
Intangibles	10%, or proportionally to the useful life (if known)
All other assets	20%
Assets purchased for state entities through a state budget investment	Rates over *40%

These depreciation rates are applied to the residual value of their asset categories. Depreciation may be applied at rates lower than the maximum rates listed above. The leftover balance resulting from using the lower rate can be claimed in future periods.

Taxpayers, except for VAT payers, whose transactions do not exceed AZN 200,000 in a consecutive 12-month period can deduct depreciation expenses by multiplying the above rates by a coefficient of two.

Small entrepreneurship subjects can deduct depreciation expenses by multiplying the above rates by a coefficient of 1.5.

Payment and reporting: Taxpayers are required to make quarterly advance (current) tax payments, calculated either:

- i. at 25% of the previous year's tax liability, or
- ii. by multiplying the amount of their income in the current quarter by the weighted tax coefficient of the gross income for the previous year. The formula below explains this calculation in more detail:

Current (advance) profit tax = "current quarter's gross income" x (last year's profit tax / last year's gross income).

An annual profit tax declaration is due no later than 31 March of the following reporting year. This deadline can also be extended by three months, provided that the tax is paid in full by the original due date.

Transfer pricing

Transfer prices are prices determined between the persons cited below and they must be compliant with the prices defined in comparable transactions conducted under similar conditions between the parties (other than controlled persons).

Transfer prices can apply to transactions between the following persons:

- Azerbaijani residents and related-party non-resident persons
- transactions between the PE of non-residents in Azerbaijan and a non-resident, or any representative offices, branches, divisions or any non-resident related-party of this non-resident in other countries
- transactions between an Azerbaijani resident or the PE of a non-resident in Azerbaijan, as well as persons established (registered) in offshore zones

If comparable data on separate transactions are unavailable and/or it is not possible to obtain information from official sources on the price at which goods were provided, the transfer price is determined by referring to one of the following methods:

- the subsequent sale price method
- the cost-plus method
- the level of profit method
- the allocation of profit method

Transfer prices only apply to operations with a value exceeding AZN 500,000.

Taxpayers conducting such operations must submit a relevant certificate to the tax authorities no later than 31 March of the following year.

Personal income tax

Taxpayers: Both residents and non-residents are subject to personal income tax.

Azerbaijani residents are taxed on their worldwide income, while non-residents are taxed only on their Azerbaijani-sourced income. Tax on Azerbaijani-sourced income is normally paid by deducting the tax at source, and at progressive rates. Income from overseas sources is assessed on a current-year basis for residents.

Residents:

- Physical persons staying in Azerbaijan for more than 182 days in the calendar year.
- If the individual was present in Azerbaijan for less than 183 days in a calendar year and was not present for more than 182 days in another country:
 - the individual will be resident in Azerbaijan if the individual has a permanent place of residence in Azerbaijan but not in another country; or
 - if the individual has a permanent place of residence in Azerbaijan and another country, or has no permanent place of residence, the individual will be resident in Azerbaijan if the individual's place of main interest is in Azerbaijan; or
 - if it is not possible to determine where the individual's place of main interest is located, the individual will be resident in Azerbaijan if their normal place of residence is in Azerbaijan; or
 - if it is not possible to determine where the individual's place of normal residence is located, the individual will be resident in Azerbaijan if they are an Azerbaijani citizen.

Non-residents:

- Diplomats, their family members, and the personnel of international organisations registered in Azerbaijan (e.g. the UN), provided that they do not perform business activities in the country.
- Diplomatic representations, consulates, and other official representatives of foreign countries, international organisations, and branches and representative offices of foreign legal entities not performing business activities.
- Other persons not covered by the term “resident”

PIT rates:

In general, PIT rates for employee income are calculated according to Table 2.

Table 2

Monthly taxable income	Tax rates
Up to AZN 2,500 (around USD 1,470)	14%
Over AZN 2,500	AZN 350 + 25% of amounts exceeding AZN 2,500

From 2019, employees working in the non-oil & gas and non-state sectors, and earning up to AZN 8,000 per month, will be exempt from PIT for a period of seven years (Table 3).

Table 3

Monthly taxable income	Tax rates
Up to AZN 8,000 (around USD 4,700)	0%
Over AZN 8,000	14% of amounts exceeding AZN 8,000

The criteria for activities in oil and gas industry and state sectors are as following:

- State Oil Company of Azerbaijan Republic and the entities included to its structure, as well as the contractors and operating companies under PSAs, major pipeline agreements and such other related agreements, in full staff, notwithstanding their types of activity;
- Foreign and local subcontractors, of which annual income (without expenses) earned within previous calendar year for the goods, work and services provided to the abovementioned persons is more than the 50% of the aggregate annual revenue. This criteria for the subcontractors established during the year shall be applied on the basis of the months they provide goods, work and services to the abovementioned persons;
- Public legal entities established on behalf of the state, budget organizations, the institutions and authorities financing from state budget and other state funds, as well as the legal entities, which the state directly or indirectly possesses the 51 or more percent of shares or stakes of.

The portion of employment income equivalent to AZN 200 is exempt from taxation if the monthly income of the individual gained at the principal place of work is less than AZN 2,500.

The annual taxable income of individuals from non-entrepreneurial activity is subject to a 14% rate of tax.

The taxable income of individuals engaged in entrepreneurial activities is subject to a 20% rate of tax.

Declaration and payments: If a taxpayer’s only income is from Azerbaijani sources, and if such sources are subject to withholding tax at source, then the individual is not required to complete an income tax declaration.

Both residents and non-residents must complete and file income tax declarations no later than 31 March of the following tax year. Tax payments must be made by the filing deadline.

The deadline for income tax declarations can be extended by three months, provided that the respective tax is paid in full by the original due date.

Value-added tax

Commercial activities carried out in Azerbaijan, as well as the import of goods and certain services provided by non-residents to Azerbaijani residents, are subject to VAT.

Rate: The standard rate is 18%, although some transactions are exempt or carry a rate of zero.

Registration: Taxpayers must register for VAT purposes if turnover in a consecutive 12-month period exceeds AZN 200,000. Furthermore, if the total value of one transaction or contract exceeds AZN 200,000, the taxpayer must register for VAT purposes before starting its activities. The Tax Code also permits voluntary VAT registration.

Where services are provided by non-resident entities that are not VAT registered in Azerbaijan, the resident must self-assess a reverse-charge VAT and remit it to the state budget.

VAT deposit account: All payers of VAT are required to make their VAT payments through designated bank accounts called VAT deposit accounts. Only VAT payments made through these accounts can be credited against output VAT. This VAT is then claimable by the payer of the VAT (subject to the fulfilment of other requirements).

Failure to remit VAT later than the day of payment of the principal amount for the goods (services, works) is subject to financial sanctions of 50% of the overdue VAT amount.

Electronic VAT invoices: All payers of VAT are required to issue electronic VAT invoices. The general format, details, and requisites of these, as well as the issue procedures, amendments, and invoice cancellations, are specifically set forth in the regulations on Electronic VAT invoices.

Output VAT: Once an entity is registered as a VAT payer, it is required to charge VAT for its goods, performed work, or services rendered in Azerbaijan. VAT charges should be made on electronic VAT invoices.

The place of sale of goods is considered to be the place where the goods are passed to the purchaser. For goods that require transport, the place of supply is considered to be where the transport journey of the goods began.

The Tax Code defines the place of the provision of services for some service types. For advertising and consulting services, as well as data processing and similar services, the place of provision of services is defined as the place of incorporation or location of the entity receiving the work or services.

Input VAT: In general, input VAT paid to customers (and reverse charge VAT) can be credited against output VAT.

Excess VAT: (the positive difference between input and output VAT) may either be refunded or offset against other taxes. Tax refunds are difficult to receive in practice, although offsetting against other taxes (e.g. profit tax) is usually permitted by the tax authorities.

Declaration and payments: Declarations should be filed and VAT should be remitted monthly, by the 20th of the following month. Output VAT is recognised on an accrual basis, while input VAT is recognised on a cash basis. VAT on imported goods is paid separately at the point of customs clearance.

Property tax

Property tax is levied at the rate of 1% on the average annual residual value of fixed assets, including buildings, machinery, and equipment (excluding vehicles). The taxable base is calculated as the average of the value at the beginning and end of the year. For profits tax purposes, property tax is deductible.

The following are specifically exempt from property tax:

- facilities that are used for environmental preservation, fire protection, or civil defence purposes
- product-conveying pipelines, railways and motorways, communication and power transmission lines, and irrigation system facilities
- vehicles discussed in the “Road Tax” section
- properties belonging to educational, health, sport, and cultural institutions used only for officially designated purposes

Declaration and payments: Taxpayers are expected to submit declarations by no later than 31 March of the following year. The tax due is payable in quarterly instalments by the 15th of the second month of the calendar quarter, at a rate of 20% of the property tax due for the previous year.

Withholding tax

A foreign legal entity that is not a taxpayer in Azerbaijan is subject to withholding taxes on income derived from sources in Azerbaijan at the following rates:

- 4%: insurance payments
- 6%: telecommunications and international transport services; freight income
- 10%: dividends
- 10%: interest
- 14%: lease payments
- 14%: royalties
- 10%: other income from Azerbaijani sources
- 10%: payments to entities established in countries or territories with a beneficial taxation system

Parties making the above payments to non-resident entities are required to withhold taxes at the above rates and then remit the taxes to the state budget.

Withholding tax returns are submitted on a quarterly basis by the 20th of the month following the reporting quarter.

Branch tax (a tax on the net profit of a non-resident’s PE): In addition to the profit tax paid by the non-resident’s PE, each amount transferred from the PE’s net profit to the non-resident is taxed at a rate of 10%.

Income received in countries with a beneficial taxation system: Moreover, if a resident directly or indirectly holds more than 20% of the charter capital or has more than 20% of the voting shares of a non-resident entity earning income in countries with a beneficial taxation system, such income of the resident is included in its taxable income in Azerbaijan.

Countries or territories with a beneficial taxation system are listed below:

Andorra	Liberia
Anguilla	Liechtenstein
Antigua and Barbuda	Maldives
Aruba	Isle of Man
The Netherlands Antilles	Marshall Islands
Bahamas	Montserrat
Bahrain	Monaco
Bermuda	Macau (China)
British Virgin Islands	Nauru
Belize	Niue
Barbados	Panama
Gibraltar	Palau
Jersey	Seychelles
Dominica	Saint Kitts and Nevis
Hong Kong (China)	Samoa
Cayman Islands	Saint Vincent and the Grenadines
Cook Islands	Saint Lucia
Costa Rica	Turks and Caicos Islands
Guernsey	Vanuatu
Grenada	Virgin Islands (US)

The above list is updated by the respective executive authority each year.

Social fund contributions

Employers and employees are responsible for making payments to the Social Insurance Fund. The employer pays 22% of an employee's gross salary, and the employee pays 3% of their gross salary. This 3% is withheld from the gross salary by the employer.

Other taxes

Mining tax - Legal entities and individuals engaged in the recovery of minerals, crude oil, and natural gas in Azerbaijan are required to pay mining tax. The rate varies for crude oil, natural gas, and minerals, from 3% to 26% of the wholesale price, and for non-minerals from AZN 1 to AZN 10 per each m².

Excise tax - Excise goods produced in or imported into Azerbaijan are subject to excise tax, unless the goods are specifically exempt.

The following goods are excisable and subject to excise tax:

- spirits, beer, and all other types of alcoholic beverages
- tobacco products
- petroleum products
- passenger vehicles (except for specially marked, special-purpose motor transport and equipment)
- leisure and sports yachts
- all imported jewellery, together with products made from precious metals and processed, sorted, framed, and fixed diamonds

- fur/leather products
- energy drinks
- buses (except for those using compressed gas)
- liquids for electronic cigarettes

Land tax - Land tax is calculated as a fixed payment for land, regardless of the results of the economic activity of landowners and users.

Resident and non-resident physical persons, as well as Azerbaijani and foreign companies, can be registered after obtaining documents proving their right to own or use land plots.

Road tax - Legal entities engaged in the production or import of automobile fuel, diesel fuel and liquid gas and expatriates are obliged to pay road tax. The respective rate varies, depending on the vehicle engine capacity, weight carried, and the wholesale fuel price per litre.

Simplified tax - This tax is mostly aimed at small enterprises, as well as construction sector entities. Persons not registered for VAT purposes and whose volume of taxable income for 12 consecutive months is AZN 200,000 or less are entitled to pay simplified tax. Simplified tax is charged at 2% of the gross revenue of small enterprises.

Also, a different rate of tax is applied for the following activities:

- 8% for public catering services
- 1% for cash withdrawals from bank accounts by legal entities and individual entrepreneurs.

Persons engaged in the construction of buildings, residential and non-residential areas of building under construction (except for those owned by the state), including areas of detached, private, individual residential and holiday homes intended for sale, are subject to a simplified tax system. Under the Tax Code, the total area of each floor of a constructed building is subject to taxation.

Persons engaged in constructing buildings and persons selling residential and non-residential areas under their ownership should pay simplified tax at the rate of AZN 45 and AZN 15, respectively, per square metre of the taxable item, multiplied by the rates set by the Cabinet of Ministers, which are determined by city and district zones.

Taxpayers qualifying for a simplified tax system must submit to the tax authorities a declaration on the amount of tax due no later than by the 20th of each month following the reporting period, and make respective tax payments to the state budget within the same period.

Customs

Import taxes: Three main types of calculation exist for import taxes:

Ad valorem – calculated as a percentage of the cost of imported goods. This rate can vary between 0% and 15%, depending on the type of goods.

Specific – calculated at a fixed rate paid per imported unit.

Combined – calculated as a combination of both.

Depending on the value of imported goods, customs may charge from AZN 10 to AZN 550 in customs processing fees. In addition, depending on the goods imported, certain seasonal and special/anti-dumping import taxes may apply. Any goods on which a tax may apply must be declared verbally or in writing (either a full or short declaration). If the customs authorities determine that the declared value of goods does not correspond to the value of identical goods, then it may be necessary to recalculate the tax.

Export taxes: Most exports of goods are exempt from custom duties; however, export tax applies to a prescribed list of goods.

There are various amendments currently being made to customs legislation to ease the customs clearance procedure and to automate customs procedures in general.

Double taxation treaties

The rate of withholding tax varies under existing double taxation treaties, depending on the contents of a particular treaty. The maximum rates of withholding tax under existing double taxation treaties are shown in the table below.

	Double taxation treaty	Tax rate for dividends (%)	Tax rate for interest (%)	Tax rate for royalties (%)
1	Austria	5/10/15	0/10	5/10
2	Belgium	5/10/15	0/10	5/10
3	Belarus	15	0/10	10
4	Bosnia and Herzegovina	10	0/10	10
5	Bulgaria	8	0/7	5/10
6	Canada	10/15	0/10	5/10
7	China	10	0/10	10
8	Croatia	5/10	10	10
9	Czech Republic	8	0/5/10	10
10	Denmark	5/15	0/8	5/10
11	Estonia	5/10	0/10	10
12	Finland	5/10	0/10	5/10
13	France	10	0/10	5/10
14	Georgia	10	0/10	10
15	Germany	5/15	0/10	5/10
16	UK	10/15	10	5/10
17	Greece	8	8	8
18	Hungary	8	8	8
19	Iran	10	10	10
20	Italy	10	10	5/10
21	Israel	15	0/10	5/10
22	Japan	15	10	10
23	Kazakhstan	10	0/10	10
24	Korea	7	0/10	5/10
25	Kuwait	0/5/10	0/7	0/10
26	Latvia	5/10	0/10	5/10
27	Lithuania	5/10	0/10	10
28	Luxembourg	5/10	10	5/10
29	Macedonia	8	0/8	8
30	Malta	8	0/8	8
31	Moldova	8/15	10	10
32	Montenegro	10	0/10	10
33	Netherlands	5/10	10	5/10
34	Norway	10/15	10	10

	Double taxation treaty	Tax rate for dividends (%)	Tax rate for interest (%)	Tax rate for royalties (%)
35	Pakistan	10	10	10
36	Poland	10	10	10
37	Qatar	7	0/7	5
38	Romania	5/10	0/8	10
39	Russia	10	0/10	10
40	San Marino	5/10	0/10	5/10
41	Saudi Arabia	5/7	7	10
42	Serbia	10	0/10	10
43	Slovenia	8	0/8	5/10
44	Sweden	5/15	0/8	5/10
45	Switzerland	5/15	0/5/10	5/10
46	Tajikistan	10	0/10	10
47	Turkey	12	0/10	10
48	Ukraine	10	10	10
49	United Arab Emirates	5/10	0/7	5/10
50	Uzbekistan	10	0/10	10
51	Vietnam	10	0/10	10

Double taxation treaties with the following countries have been signed, but are still not in effect:

- Spain, signed on 23 April 2014
- Jordan, signed on 5 May 2008

Tax systems for companies working under production sharing agreements (PSAs)

PSAs were ratified by the Parliament of Azerbaijan as law, with their provisions overriding those of the statutory legislation of Azerbaijan where this legislation contradicts or is inconsistent with the provisions of the PSAs. Each PSA and its tax protocols set forth specific taxation rules. Below we outline the taxation rules under Azerbaijani, Chirag, and Gunashli PSA.

Currently, 22 ratified PSAs and two ratified HGAs exist, with each having an exclusive tax system. PSA tax systems can be applied to each contracting party (signatory to the PSA), operating companies, and subcontractors (especially foreign subcontractors). Also, tax protocols providing guidance on paying taxes or filing reports are negotiated with the Azerbaijani Government. PSAs have their own separate tax system in Azerbaijan in cases where they were ratified by the National Assembly and granted the force of law.

Profit tax

The individual liability of a contractor party for profit tax is based on the contractor party's separate share of items of income and deductions, consolidated with the profits or losses of its PE in the Republic of Azerbaijan.

Profit tax is imposed on the taxable profit of each contractor party for a calendar year, at a fixed rate of 25%.

Taxable profit/(loss) for a calendar year is calculated for each contractor party as follows:

- sales income
- other income
- expenses
- amortisation
- interest costs
- balance profit/(loss)
- brought forward losses
- taxable profit/(loss)

In calculating balance profit/loss, sales income is defined as the amount of income derived from sales of petroleum produced during hydrocarbon activities by the contractor party during the calendar year. In the event that petroleum is exchanged or swapped, then the sales income is defined as the amount of income derived during the calendar year by the contractor party from the sale of the petroleum received in the exchange or swap. For the purpose of calculating balance profit/loss, sales income is determined by applying, for arm's-length sales, the actual price achieved by the contractor party.

Other income does not include amounts received from the sale of petroleum or immovable assets, loans received, tax refunds, and amounts received that are not freely at the disposal of and do not increase the wealth of the contractor party.

Expenses are deducted in full in the calendar year in which they are incurred. This includes the full amount of wages and other amounts paid to all employees, all social insurance contributions, all exploration and appraisal costs, all costs associated with drilling dwells, all pipeline tariffs incurred, all payments made under a lease agreement, all insurance costs, and all personnel training costs. This also includes an allocable portion, in light of services rendered in respect of hydrocarbon activities, of wages and salaries paid to managers and employees abroad, and the general and administrative overhead costs of the central services of each contractor party and affiliates working for the contractor party, located abroad, as well as indirect costs incurred by the central services abroad for the contracting party. The allocable portion of such costs with respect to this contract for each contractor party for the calendar year is equal to the amount determined using the designated formula.

Amortisation deductions are calculated as follows:

- equipment and all capital assets other than those described below: 25% per calendar year on a declining-balance basis
- Permanent office: 2.5% per calendar year on a straight-line basis
- Temporary office: 5% per calendar year on a straight-line basis

Each contractor must, beginning in the first calendar year in which it estimates that it will earn a taxable profit, pay an estimated profit tax for each calendar quarter, based on its estimate of its taxable profit for the quarter and the preceding calendar quarters in the calendar year. The estimated profit tax is paid not later than 25 days after the end of the relevant calendar quarter and is accompanied by a calculation in the appropriate form.

Upon filing the final PTR (profit tax return) for a calendar year, estimated profit taxes paid with respect to the calendar quarters during such a calendar year are credited against the final profit tax as calculated on the profit tax return. Any overpayment is refunded to the contractor party within 10 days after submitting its final PTR for such a calendar year (or, if the contractor party chooses, credited against the following calendar quarter's or quarters' estimated profit tax payment(s)), and any underpayment is paid by the contractor party within 10 days after submitting the final PTR. In any event, the final profit tax for a calendar year, as calculated in the PTR, is payable no later than by 25 April of the following calendar year.

Withholding tax

Payments to foreign subcontractors (FSC) for work and services

A foreign subcontractor is a subcontractor that is (i) an entity or organisation incorporated, legally created, or organised outside the Republic of Azerbaijan, or (ii) a physical person or individual that is a citizen of a country other than the Republic of Azerbaijan.

Under the Protocol on the Taxation of Foreign Subcontractors, FSCs are obliged to withhold tax from gross taxable payments (less reimbursable expenditure) to corporate foreign sub-contractors in respect of work or services provided to them by the corporate foreign sub-contractor in the Azerbaijani Republic at rates of from five to 10 percent.

Reimbursable expenditure is expenditure that does not create profit when separately reflected in a contract or payment document. These expenses include expenditure on travel and accommodation, and they must be supported by provisions in contracts and/or original receipts or copies of original receipts.

In the above protocol, work and services means any activity performed in Azerbaijan by any legal entity for any other legal entity (including the provision of raw materials and the elements necessary for the performance of work and services which, as a result, cease to be independent units and are no longer provided separately). Work and services include the following activities: design works, geological research, exploration, production, drilling, extraction, modernisation, construction, engineering, and various types of technical activities; leasing immovable property; administrative, technical, legal, bookkeeping, and advertising; transport, procurement, logistics, and communications; IT support and security services; consulting and financing activities; and training and other similar activities. Work and services do not include goods or separately provided raw materials.

Goods means any tangible or intangible property (assets), including electricity and thermal energy, gas, and water.

Value-added tax

Exemption from VAT (that is, a zero rate of VAT) on all goods, work or services performed under PSAs apply to FSCs, as PSAs stipulate that, "Sub-contractors are exempt (zero (0) percent rate) from value-added tax in connection with hydrocarbon activities". This applies to the following:

- goods, works, or services supplied to or by it
- exports of petroleum and all products processed or refined from such petroleum
- imports and acquisitions of goods (excluding tobacco, foodstuffs, and alcohol), works, and services

The zero rate of VAT applies to both input and output VAT (i.e. supplies made by or to the FSC under the PSA).

To confirm the zero VAT rate, the FSC should apply and obtain a zero rate VAT certificate from the Azerbaijani Tax Authorities. The Tax Ministry issues certificates within 30 days after receiving an application from a FSC.

Personal income tax (PIT)

In general, in accordance with PSAs, resident expatriate employees are subject to Azerbaijani personal income tax only on income received as a direct result of being employed in Azerbaijan.

Under the Protocol of the Azeri Chirag Gunashli (ACG) PSA on the Taxation of Employees and Physical Persons, the tax residency of expatriate employees is determined based on the following criteria:

1. "Ordinary Business Purpose" expatriate employees. The above protocol does not define the term "ordinary business purpose," however these employees are understood to be persons with a primary place of employment outside of Azerbaijan.
This person becomes a tax resident in Azerbaijan if they are present in the republic for a period exceeding 30 consecutive or 90 cumulative days in a calendar year. They are liable to pay Azerbaijani tax on their taxable income as a result of being employed in Azerbaijan for time periods exceeding 30 consecutive or 90 cumulative days (i.e. on income earned on the 31st or 91st day onwards).
2. "Rotators" are defined as persons that are present in Azerbaijan "on a routine basis for regularly scheduled periodic employment as their primary place of employment and which employment is not incidental to the exercise of that primary place of employment outside of Azerbaijan." These individuals are considered to be tax resident if they are present in Azerbaijan for periods cumulatively exceeding 90 days in a calendar year, and are liable to pay Azerbaijani personal income tax on all taxable income directly earned from employment in Azerbaijan, including taxable income earned during their first 90 days of employment in the country.

Each local employee's and tax-resident foreign employee's Azerbaijani personal income tax liability is calculated at the tax rate set forth in the Azerbaijani Republic's Tax Code, as outlined below:

PIT rates

The same PIT rates as under the statutory system apply (see above for details).

Reporting / payment requirements

Operative companies, contractor parties, and FSC are liable to withhold and pay personal income taxes on behalf of each tax-resident expatriate employee and to remit them to the Azerbaijani state budget no later than 10 days following the end of the reporting month.

Operative companies, contractor parties, and FSC must also submit quarterly declarations for its tax-resident expatriate employees within 20 days after the end of a reporting quarter.

Social fund contributions

According to the PSA, operative companies, contractor parties, and FSC are required to make contributions to the Social Insurance Fund, together with similar payments (including contributions to pension, recruitment, social insurance, employment, and medical funds), only for employees that are Azerbaijani citizens. Thus operative companies, contractor parties, and FSC are liable for payments to the Social Insurance Fund for their employees that are Azerbaijani citizens. Operative companies, contractor parties, and FSC pay 22% of a citizen's gross salary, while the citizen pays 3%.

Import and export duties and taxes

Contractor parties and subcontractors have the right, tax free, to import into and re-export from the Republic of Azerbaijan all equipment, materials, and goods in relation to its activities conducted under the PSA. Such imports and exports are subject only to the following customs service (procedural)/documentation fees:

Declared shipment value in USD	Duty
USD0-USD100,000	0.15% of value
USD100,001 - USD1,000,000	USD150 plus 0.10% of any value over USD100,001
USD1,000,001 - USD5,000,000	USD1,050 plus 0.07% of any value over USD1,000,001
USD5,000,001 - USD10,000,000	USD3,850 plus 0.05% of any value over USD5,000,001
Over USD10,000,000	USD6,350 plus 0.01% of any value over USD10,000,000

In order to enjoy the above customs exemptions, contractor parties and subcontractors should apply for and obtain an import/export exemption certificate from the State Customs Committee.

Reporting requirements

Once the FSC has registered with the Tax Ministry, the PSA requires that it submit the following reports:

- value-added tax returns (quarterly)
- reports on withholdings from foreign sub-contractors (quarterly)
- statistical committee reports (monthly, quarterly)
- social funds reports (quarterly)
- personal income tax declarations (quarterly and annually)

Should the FSC be engaged in activities other than those agreed in the PSA, then the FSC will be required to submit a separate set of reports for each activity.

Industrial and science parks

Following the success of oil & gas projects, the government announced policies to develop the non-oil sector. And in 2013, the total value of foreign investment recorded in Azerbaijan was 10 times higher than in 2001.

The Sumgait Technology Park (STP), launched by Azerbaijani President Ilham Aliyev in December 2011, is a groundbreaking project in this area. The STP is a complex of factories and plants that manufacture various types of products, and which benefit from pooled know-how and resources. The STP is a unique project in the region, and is capable of meeting the demands of both domestic and foreign markets.

More than 4,500 people are currently employed in production and construction/installation activities at the STP, and once all the planned plants have been launched over 10,000 more are expected to be employed, thereby significantly improving living standards.

Another important development, the High-Tech Park (HTP), was launched as part of the development concept Azerbaijan 2020: Vision of the Future, which aims to transform the economy from being oil-based to knowledge-based, through developing a sustainable and competitive environment for information and computer technology firms. The HTP is wholly owned by the Azerbaijani Government, and reports to the Ministry of Communications and Information Technology.

The Sumgait Chemical Industrial Park (SCIP), overseen by the Ministry of the Economy, comprises territories earmarked for the production of agricultural, medical, consumer, construction industry, electronics and automotive chemicals, polymers, and industrial equipment.

The residents (legal entities or individuals) of industrial and science parks (Parks) created under decrees from respective executive bodies are exempt from the following taxes, for periods of seven years from the date on which they are registered in Parks:

- profit tax for profit generated by legal entities in Parks
- property tax applicable to assets located in Parks
- land tax
- import VAT on the import of various types of equipment (including technical equipment) for the development and construction of infrastructure and production areas, as well as scientific research and conducting experiments and construction activities

The executive organisation and operators of Parks are exempt from the following taxes:

- profit tax: the amount of taxable profit invested in the construction and maintenance of infrastructure in Parks
- import VAT on the import of various equipment (including technical equipment) for the development and construction of infrastructure and production areas, as well as scientific research and conducting experiments / construction-related activities
- property tax applicable to assets located in Parks
- land tax
- customs duties on imported equipment, etc., upon confirmation documents issued by the relevant state authority being presented

In addition, the income of physical persons (that have not registered as legal entities) carrying out activities in a Park is exempt from taxation (with the exception of personal income tax, which applies to salaries).

Investment certificates

Exemptions and privileges related to personal income tax: annual interest income paid from the deposits of individuals in local banks and the branches of foreign banks in the Republic of Azerbaijan, as well as dividends paid by the issuers of investment securities, discounts, and interest are exempt from income tax for 3 (three) years from 1 February 2016.

- In addition, 50% of profit generated by individual entrepreneurs that have obtained investment promotion certificates are exempt from income tax for a period of seven years from the date on which the certificates were obtained.
- Exemption from profit tax: the profit of entities that have obtained investment promotion certificates is exempt from 50% of income tax for a period of seven years from the date on which the certificate was obtained.
- Exemption from VAT: any entity or individual entrepreneur that has obtained an investment promotion certificate is exempt from VAT for a period of seven years from the date on which the certificate was obtained upon the import of equipment, technological equipment, and devices approved by the relevant executive authority.
- Exemption from property tax: any entity or individual entrepreneur that has obtained an investment promotion certificate is exempt from property tax for a period of seven years from the date on which the certificate was obtained.

- Exemptions from land tax: any entity or individual entrepreneur that has obtained an investment promotion certificate is exempt from property tax for a period of seven years from the date on which the certificate was obtained.
- Technology and technical equipment imported by entities and individual entrepreneurs engaged in investment activity, as well as by resident entities and individual entrepreneurs in industrial or science parks for the purpose of constructing production areas within industrial or science parks, and for conducting scientific research and development work in accordance with various official approvals, are exempt for a period of seven years.

Miscellaneous

Non-cash settlements

The Azerbaijani Law “On Non-Cash Settlements” was brought in in early 2017.

Non-cash settlements

- Settlements made via a transfer from one person’s bank account to another’s via a payment tool (payment cards, orders, etc.) and payment means (mobile phones, computers, etc.). For a transfer between tax-registered parties to qualify as being a non-cash settlement, the transfers must be made using this method only.
- Settlements carried out via payment terminals.
- Settlements made via a direct cash transfer to the vendor’s bank account.

Limits on cash settlements

- Taxpayers registered for VAT purposes and those engaged in trading or catering services whose taxable turnover exceeds AZN 200,000 in any month during one consecutive 12-month period are eligible to make cash settlements for up to AZN 30,000 during a calendar month. This limit has been in effect since 1 January 2017.
- Other taxpayers are eligible to make cash settlements of up to AZN 15,000 during a calendar month. This limit has been in effect since 1 April 2017.

Financial sanctions for violating cash settlement limits

Taxpayers are subject to the following financial sanctions in the event of violating the Azerbaijani law on “Non-Cash Settlements”:

- 10% of the amount exceeding the limits, if the violation is occurring for the first time
- 20% of the amount exceeding the limits, if the violation is occurring for the second time
- 40% of the amount exceeding the limits, if the violation is occurring for the third or more times

Non-cash settlements of payments

- payments of taxes, customs duties, administrative penalties, and financial sanctions levied by the authorities
- payments of debts related to leasing transactions and loans
- salaries, pensions, scholarships, financial aid, benefits, compensation, and indemnity paid by individuals (except for individuals with taxable operations of less than AZN 200,000 in any month during a consecutive 12-month period)
- payments of stationary phone services and utility expenses
- payments and reimbursements of funds bearing no interest (except for cases where the funds are provided by individuals that are not registered as taxpayers) and other allocations

Advanced tax rulings

An advanced tax ruling refers to the advance determination by the tax authorities of potential tax liabilities and the legal results arising from the application of tax legislation to operations.

In order to benefit from an advanced tax ruling, an application form, together with all necessary documents, should be submitted to the tax authorities. The official duty to be paid is AZN 500 and the decision is valid for three years.

A decision on an advanced tax ruling can be rejected in the following cases:

- the information declared in the application form and documents is incompliant with legislation
- the taxable operation declared in the application form has already been completed, or the tax authorities or a court has made a decision on the operation
- the cost of the taxable operation is less than AZN 10,000,000

The decision on the application for an advanced tax ruling for the stated operation is legally binding on both the taxpayer and the tax authority, provided that the taxpayer performs the respective operation. However, the taxpayer is not obliged to perform the operation for which the decision on the application of an advanced tax ruling is adopted.

Accounting

Accounting regulations are set forth in the March 1995 law “On Accounting”. In 2004 the Azerbaijani Government took steps to improve the transparency of financial reporting, accelerate the economy’s integration into the global financial system, and bring the national reporting and accounting system up to international standards.

The June 2004 Law “On Accounting” prescribes the implementation of International Financial Reporting Standards (IFRS) in organisations engaged in commercial activities in Azerbaijan. This law defines which types of organisations are required to adopt various accounting standards.

Public interest entities are defined as credit organisations, insurance companies, private pension funds, and legal entities with stock market listings. Entities that meet at least two of the following criteria are also considered to be public interest entities:

1. they have revenue of or exceeding AZN 30 million (around USD 17.6 million)
2. they have an average headcount of at least 1,200
3. they have a total balance sheet of or exceeding AZN 100 million (around USD 59 million)

All public interest entities in Azerbaijan must adhere to IFRS. Commercial organisations are required to follow either IFRS or the National Accounting Standards for Commercial Organizations (NASCO).

Small businesses are allowed to follow simplified accounting rules, as approved by the Ministry of Finance. Alternatively, they may choose to follow the NASCO. Small businesses are defined by assessing the size of their business in their specialist area of operations. For example, in the industry and construction sphere, an entity with fewer than 40 employees and an annual turnover of less than AZN 200,000 is considered to be a small business.

NASCO regulations are largely based on the 2006 version of IFRS. The use of IFRS and NASCO standards became mandatory for commercial entities and public interest entities on 1 January 2008. These standards have also been in force for non-commercial organisations since January 2009.

The transition period is specified as one year for small businesses, two for public interest entities, and three for non-commercial / non-governmental entities. The Civil Code contains general provisions on financial reporting and audit requirements for legal entities. Open JSCs and limited liability companies are required to use an independent auditor to audit their annual financial statements (open JSCs are also required to publish annual accounting reports and balance sheets). Depending on the value of the assets on the balance sheet, or of annual revenues, companies are obliged to have their balance sheets audited.





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