

New Tax Code Provisions

On 10 June 2011, the Parliament of Azerbaijan (Milli Majlis) approved a number of amendments to the Tax Code which came into force on 7 July 2011:

A. The below paragraphs were added to Article 106 on “Deductions and Incentives” envisioning exemptions from profit tax:

1. Transfer of assets from the balance of one legal entity or its full resident subsidiary to its another full resident subsidiary in cases determined by the competent tax authority (Article 106.1.9).
2. Transfer of fixed assets from the balance of one legal entity to another legal entity at the decision of the competent authority (Article 106.1.10).
3. Transaction for alienation of assets, fixed assets and movable property to any party representing the Azerbaijan Republic in the Production Sharing Agreements (PSAs) and Host Government Agreements (HGAs) and other similar agreements according to these agreements (Article 106.1.11).

B. Article 164.1.14 is another new provision in the Tax Code. According to this provision, value of assets listed in Articles 106.1.-106.1.11 and supply of such assets in any way is exempt from VAT.

As an example for above, when foreign companies (Operating Companies, Contractor Parties, etc.) operating under PSAs, HGAs, etc. transfer goods, equipment, etc. to SOCAR (or its affiliates) under these Agreements and SOCAR (or its affiliates) transfers these goods, equipment, etc. to its another affiliate, tax implications were arisen. The above amendments should exempt profit tax and VAT implications on this transaction.

C. Amendment to Article 122 on “Withholding tax on dividends” introduces a new exemption stating that distribution of profits under PSAs, HGAs and other similar agreements as well as transfers of net profits of subsidiary entities in the full ownership of legal entities to the centralised funds of such legal entities and income of such legal entities is not subject to tax in cases envisaged by the competent authority.

D. Article 183.3 is also new and mentions that if the manufacturer or orderer of excise products are related persons and residents, owner of a product (orderer) is considered excise taxpayer.

Applying to the Tax Appeal Council via Internet

The Tax Appeal Council of the Ministry of Taxes (TAC) has introduced a possibility to apply via internet. TAC is the division in the Ministry of Taxes reviewing taxpayers' appeals, including appeals against tax audit reports and decrees of the tax authorities.

Electronic application shall be made by filing of an online application form from the link of the Ministry of Taxes website:

<http://taxes.caspel.com/2009/modul.php?name=apellyasiya&forma=elektron>

International Agreements, Protocols and Other Documents, 14 June 2011

- Protocol on cooperation between the Ministry of Foreign Affairs of Romania and Ministry of Foreign Affairs of Azerbaijan;
- Agreement on cooperation in the field of health and medicine between the Ministry of Health of Romania and Azerbaijan;
- Agreement on cooperation between the Ministry of Agriculture of Romania and Ministry of Agriculture of Azerbaijan;
- Agreement on cooperation in the field of environment security between Greece and Azerbaijan;
- The Program in the field of science, education and culture between Greece and Azerbaijan for 2011, 2012, and 2013 years;
- The Plan of Actions on cultural cooperation between the Ministry of Culture of Hashemite Kingdom of Jordan and the Ministry of Culture and Tourism of Azerbaijan;
- Agreement on cultural cooperation between Bulgaria and Azerbaijan;
- Mutual Memorandum on cultural cooperation between Iraq Republic and Azerbaijan;

Updates on Double Tax Treaty Agreements

Slovenia-Azerbaijan

On 10 June 2011, the Governments of Slovenia and Azerbaijan signed an Income and Capital tax treaty in Ljubljana.

Spain-Azerbaijan

Agreements on avoiding double taxation and mutual security of investments between Spain and Azerbaijan have been prepared. The officials of the Government of Spain will visit Baku for conclusion of the agreements.

Shafag-Asiman PSA ratified

As “*PwC Azerbaijan Times*” reported in the April 2011 edition, the Cabinet of Ministers of Azerbaijan approved the indemnities and obligations of the Shafag-Asiman Production Sharing Agreement (PSA) between BP and SOCAR. The Law published on 10 June 2011 in the *Azerbaijan* newspaper ratifies the PSA.

ACG PSA Appendix Approved

On 24 June 2011 the Milli Majlis adopted the Law approving of the Addendum I to the Agreement on exploration, joint development and production sharing of the Azeri, Chirag Fields and the Deep Water Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea.

The Appendix will allow SOCAR to increase its stake in the in the ACG PSA by purchasing part of BP's shares in the PSA (the shares previously purchased from Devon in 2010).

Azerbaijan Corporate Governance Standards

As a result of the joint collaboration of the Ministry of Economic Development of the Azerbaijan Republic and International Financial Corporation (IFC), the recommendations on corporate governance have been released and are available at <http://www.ifc.org/ifcext/acgp.nsf/Content/Conference> for the attention of businesses operating in Azerbaijan.

Correction: “*PwC Azerbaijan Times*” May 2011 edition referred to the “*Taxes*” newspaper released on 18 May 2011 which stated that IFC and the Ministry of Economic Development had joined together in the project of drafting of the Corporate Governance Code. Instead, the project was for drafting voluntary corporate governance recommendations (as referred to in the preceding paragraph), and not the Code.

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