

# PwC Azerbaijan's COVID-19 Alert

## Special Edition - Issue № 15

6 May 2020

### Draft law on amendments to the Tax Code and to the Law on Social Insurance

According to the Action Plan approved by the Cabinet of Ministers on April 4, 2020, the Ministry of Economy has prepared a draft proposal on the provision of tax benefits and holidays to businesses (including small and medium enterprises) operating in areas affected by the pandemic.

The draft proposals were discussed at the meeting of the Milli Majlis on May 1, 2020, and the amendments to the Tax Code and the Law on Social Insurance are currently in the second reading.

#### 1. Amendments to the Tax Code

According to the Draft Law, due to significant changes in economic conditions as a result of the spread of the coronavirus pandemic temporary tax regime has been established and the Chapter XVIII will be added to the Tax Code.

##### On the areas directly affected by the pandemic

From January 1, 2020, for the period of one year, the following exemptions and privileges will be applied to taxpayers operated in the areas directly affected by the pandemic (list added - Note 1):

- Full amount on property and land taxes (**100%**);
- Profit (income) is exempted in the amount of **75%**;
- **50%** of the simplified tax amount for taxpayers engaged in catering and passenger transportation, which are payers of the simplified tax is exempted.
- Reduction of the withholding tax rate on **real estate lease** from individuals from **14% to 7%**;
- Aircraft used by air carriers for passenger transport activities are exempt from property tax;
- Spoilage of food products purchased and prepared by taxpayers engaged in catering activities is not considered as a VATable operation;
- Exemption from **current tax payments and issuance of certificates** related to current tax payments for a period of 1 year;
- Extension of the deadline for payment of the last tax for 2019 until September 1, 2020;
- Extension of accrued profit (income) and property taxes for taxpayers who are not micro-business entities until September 1 of the current year and payment of accrued tax no later than September 1, 2019.
- Postponement of **calculation of interest** on unpaid taxes, compulsory state social insurance and unemployment insurance premiums from April 1, 2020 to January 1, 2021;
- Extension of the right to choose the simplified tax method for 2020 by persons engaged in public catering activities registered for VAT from April 20 to September 1.

##### For micro entrepreneurs:

- 50% discount on simplified tax (tax rate is reduced from 2% to 1%);
- Provision of tax holiday on submission of simplified tax reporting and reports on profit and property taxes for the 1st and 2nd quarters of 2020 and payment of accrued tax to the budget until September 1 of the current year.

##### For all entrepreneurs:

- Expenditures made on necessary preventive measures, including disinfection, carried out by the taxpayer in order to prevent the epidemic and protect the life and health of the population and documented in accordance with the Tax Code shall be deductible without any restrictions;
- Temporary exemption from VAT of certain types of products necessary for food and medical needs of the population.

#### Note 1: Areas of activity affected by the pandemic

- Domestic (intercity and inter-district, intra-city and intra-district) passenger transport by road (including taxis);
- Activities of hotels and other hotel-type facilities as accommodation facilities;
- Tour operator and tour agent activities;
- Transportation and (or) delivery of goods on order, including food, food and non-food items from sellers to buyers;
- Public catering activities;
- Organization of exhibitions, stage, recreation and entertainment (game), cinema, theater, museum and concert halls;
- Activities of sports and health facilities;

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- Activities of training (education) and professional development courses, out-of-school educational institutions, psychological centers;
- Other areas of activity that are fully or partially restricted by the Cabinet of Ministers in order to ensure the health and safety of the population in connection with the spread of the coronavirus pandemic.

**Note 2:** These tax exemptions and privileges do not apply to taxpayers engaged in non-commodity and (or) risky transactions. (except for the period when no non-commodity and (or) risky transactions are carried out)

### 2. Amendments to the Law on Social Insurance

#### Entrepreneurial activity

Mandatory state social insurance contributions for the insured who receives income from the entrepreneurial activities and not related to employment is determined as following percentages of the minimum monthly salary\*:

- From April 1, 2020 to January 1, 2021 - **25%** in construction and trade, **15%** in other areas \*\*;
- From January 1, 2021 to January 1, 2026 - **50%** in construction and trade, **25%** in other areas \*\*.

\* Current minimum monthly salary = 250 AZN

\*\* The following coefficients (multipliers) are applied by regions:

- 100% in the Baku city;
- 90% in the cities of Sumgayit and Ganja;
- 80% in other cities;
- 60% in administrative territorial units and settlements, which are the administrative center of district administrative territorial units;
- 50% in rural areas

#### Self-employed individuals

Until January 1, 2026, Compulsory state social insurance premium for individuals engaged in below activities individually (without hiring) \* is determined as following percentages of minimum monthly salary:

- For individuals engaged in hosting, music, dancing, comedy and other similar activities at weddings, parties and other events - **5%**,
- For activities in the field of photography, audio-video services (excluding photo studios)- **5%**,
- Shoemaker, cobbler - **3%**,
- Repair of watches, televisions, refrigerators and other household appliances- **3%**,
- Housekeepers in private houses and apartments, care for patients, the elderly and children, nanny, personal driver, household cleaning, gardener, cook, security guard and catering individuals (waiters)- **3%**,
- On the activity of painting workshops- **3%**,
- For individuals engaged in hairdressing- **3%**,
- For individuals engaged in tailoring- **3%**.

\* The amount of monthly social insurance contribution is determined by applying the following coefficients:

- In the Baku city (including villages and settlements) - 2.0;
- in Absheron district, Sumgayit and Ganja cities - 1.5;
- In other cities and regions - 1.0.

#### Agriculture sector

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

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

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### Passenger and cargo transportation

Until January 1, 2026, the social insurance premium will be calculated at **6%** of the minimum monthly wage for taxpayers carrying out passenger and cargo transportation by road vehicles, which received the "Badge of Distinction" in accordance with the Tax Code.

### Lawyers, freelance accountant and auditors

Social insurance burden of this category of individuals determined in the amount of **10%** applied to the net income (earned gross income less expenses).

### Exemptions

The following types of income are exempt from compulsory state social insurance:

- Income received by the insurer as a result of incurring social expenses in the benefit of the employees, including funds paid to the third parties.
- Reimbursement of actual business trip expenses, as well as per diems to members of the floating crew other business expenses\*;

*\* Such expenses include:*

*Expenses related to the transportation of guests to and from the meeting place, the organization of banquets for guests in public catering facilities, as well as the cost of preparing ready meals for these events and the fees of interpreters involved in the meetings.*

**Note:** Royalty income, excluding copyright fees, is exempt from compulsory state social insurance.

### Contact us for any questions related to the information included herein

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