

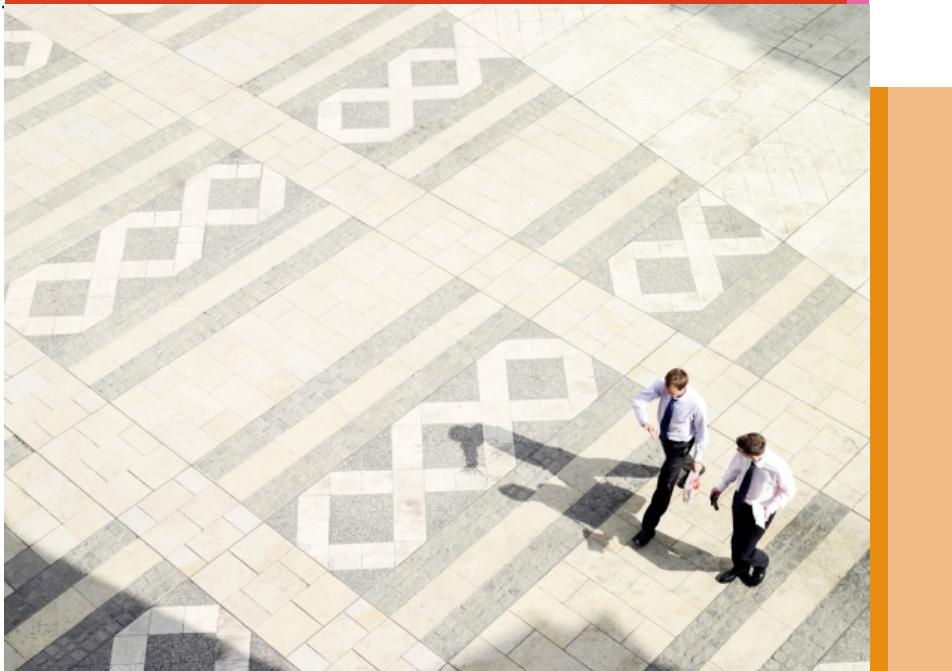
June 2012

# PwC Azerbaijan Times

## Issue №1

### Overview of this Issue:

- Tax on rent agreements
- Electronic registration of investment companies
- Changes in the Code of Administrative Offences and Criminal Code
- Update of double tax treaties, international agreements, protocols and declarations
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### Tax on rent agreements based on market price

The Constitutional Court heard the case initiated by the Cabinet of Ministers related to application of the market price on the property rental fee for withholding tax purposes and issued a resolution on 12 March 2012.

Article 124.1 of the Tax code states that rental fee for movable and immovable property is subject to withholding tax at 14%.

In practice, when tax authorities conclude that the rental fee is artificially lowered in the rent agreements in order to avoid paying taxes, they apply taxes based on the market price (according to Article 14 of the Tax Code) on the particular property instead of the rental fee

indicated in the rent agreement, or, alternatively, the tax authorities calculate tax based on the 'related information' pursuant to Article 67 of the Tax Code. The Resolution of the Constitutional Court, dated 12 March 2012, stipulates that the above decisions of the tax authorities have been often brought up and challenged in courts as cases of violation of contract freedom and usually, courts have ruled in favor of the taxpayers. However, the Cabinet of Ministers believes that the tax authorities have the right to apply the market price and when it is impossible to do so, to calculate tax due based on the 'related information'.

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By the Resolution of the Constitutional Court dated 12 March 2012, the application of market price by the tax authorities on the rent transactions does not violate the freedom of contract of taxpayers.

### **Electronic registration of local investment companies**

The "Law on changes to the Law on State registration and registry of Legal Entities" which came into effect on 25 January 2012 introduced the following changes to the Law:

- Founder(s) of local investment companies may register these companies electronically. Local investment companies are defined as limited liability companies established by the Azerbaijani citizens or legal entities incorporated in Azerbaijan;
- Two types of electronic registration have been defined: regular and rapid:
  - For regular electronic registration, together with the application form, the company incorporation documents confirmed by founder's signature should be filed. The state bodies are to email the application package receipt notice to the personal e-mail address of the applicant. Upon completion of registration of the local investment company, the registration documents are e-mailed to the e-mail address of the local investment company;
  - For rapid electronic registration the individual founder should fill in the application form and confirm the incorporation documents for submission with his/her signature. Upon completion of registration of the local investment company, the registration documents are e-mailed to the e-mail address of the local investment company within realistic time duration.

- In case the founders are legal entities they must possess a Tax Identification Number (VOEN) to register local investment companies electronically.

According to the Law, dated 21 January 2012, online state registration of legal entities is duty-free.

### **Amendments to the Code of Administrative Offences**

Milli Majlis has ratified a law, dated 14 February 2012, confirming the introduction of a new offence into the Code of Administrative Offences of the Azerbaijan Republic. Under this new offence, officials and legal entities become subjects to the below penalties for failure to provide necessary information about the offered goods (works or services) to the consumers:

- Officials - AZN 200, and
- Legal entities – AZN 400.

### **Amendments to the Criminal Code**

The Law "On Amendments to the Criminal Code of the Azerbaijan Republic", dated 7 March 2012, has adopted the new amendments related to the criminal liability of legal entities and penalties.

Effective from 1 May 2012, legal entities will be subject to the criminal liability for the crimes committed by the following individuals in order to protect legal entity's interests:

- authorized individual representing the legal entity;
- authorized individual who has the right to make decisions on behalf of the legal entity;
- authorized individual having the supervisory authority over the legal entity's activity;

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- legal entity's employee (if the crime is committed as a result of misconduct of the supervisory responsibilities of the abovementioned persons).

Criminal liability of the legal entity does not indemnify the individual from being subjected to the criminal liability for the crime committed by him/her.

The liquidation of the legal entity is forbidden unless there is an effective court decision which has been executed considering criminal punishment measures for the legal entity and individual committed a criminal activity.

Below are the types of the criminal punishment measures which legal entities are subjects to:

- imposition of financial sanction;
- special confiscation;
- deprivation the legal entity from carrying out certain business activity;
- liquidation of the legal entity.

Together with the criminal penalties, the following issues are considered:

- nature and degree of the danger of the action to the society;
- amount of profit gained by the legal entity as a result of crime;
- number of crimes and seriousness of their consequences;
- aiding in revealing crimes and finding the criminals
- compensation of damages as a result of crime.

### ***Agreements, Protocols, Declarations – May, 2012***

#### **Azerbaijan, Bosnia and Herzegovina Initial Tax Treaty**

Following the negotiations between the Governments of Azerbaijan Republic and Bosnia and Herzegovina for the Double Tax Treaty, which are started at a February meeting in Baku, Azerbaijan and Bosnia and Herzegovina representatives initialed the treaty in Baku on 27 April, 2012. That is the first agreement of its type between these countries. The treaty is still has to be signed and ratified.

### ***April, 2012***

- Decree by President of the Republic of Azerbaijan on approval of documents signed on March, 2012 between the Republic of Azerbaijan and the Republic of Georgia:
  - Agreement on cooperation in the field of sports between the Governments of the Azerbaijan Republic and the Republic of Georgia
  - Memorandum of understanding on cooperation in the field of statistics between The State Statistics Committee of the Republic of Azerbaijan and the National Statistics Service of Georgia.
- Decree on approval of the Agreement on cooperation between the Ministry of Economic Development of the Republic of Azerbaijan and the Ministry of Economy of the Republic of Belarus;
- Decree on approval of the Memorandum of Understanding on cooperation in the field of industry and energy between the Ministry of Industry and Energy of the Republic of Azerbaijan and the Ministry of Economy, Trade and Energy of the Republic of Albania;
- Decree on approval of the Memorandum of Understanding on cooperation in the field of activities against landmines and landmine clearance between the Republic of Azerbaijan and the Republic of Croatia;
- Decree on approval of the Agreement on cooperation in the field of youth policy between the Ministry of Youth and Sports of the Republic of Azerbaijan and the Ministry of Youth, Employment and Labor of the

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Republic of Kyrgyzstan;

- Law on approval of the Agreement on mutual protection and exchange of confidential information between the Governments of the Azerbaijan Republic and Bulgaria;
- Law on approval of the Agreement on abolishment of visa requirements for citizens with diplomatic passports between the Government of the Azerbaijan Republic and the Government of the Republic of Lithuania;
- Law on approval of the Agreement on mutual assistance in the field of customs affairs between the Governments of the Republic of Azerbaijan and the Republic of Israel.

### **March, 2012**

- Law on approval of the Agreement on mutual allocation of land for the purpose of locating of diplomatic missions between the Governments of the Azerbaijan Republic and Russian Federation;
- Law on approval of the Agreement on mutual protection and exchange of confidential information between the Governments of Bulgaria and Azerbaijan;
- Law on approval of the Agreement on mutual assistance in the sphere of customs between the Government of Azerbaijan and Israel;
- Law on approval of the Agreement between the Government of Azerbaijan and Lithuania on exempting people with diplomatic passports from visa requirements.

### **February, 2012**

- Law on approval of the Joint Declaration between the Government of the Azerbaijan Republic and the Government of the Republic of Kazakhstan;

▪ Law on approval of the Agreement on allocation of land plots for construction of buildings of diplomatic representatives on mutual basis between the Government of Azerbaijan Republic and Government of the Republic of Kazakhstan;

▪ Law on approval of the Agreement on Sea Trade Shipping between the Government of the Azerbaijan Republic and the Government of the Republic of Kazakhstan;

▪ Law on approval of the Agreement on liquidation of the visa requirements for citizens with diplomatic, official and business passports between the Government of the Azerbaijan Republic and the Government of the Republic of Columbia;

▪ Decree on documents signed on November 11, 2011 between the Azerbaijan Republic and the Republic of Hungary:

- Agreement on cooperation and mutual assistance in case of emergency situations between the Governments of Azerbaijan and Hungary;

- Agreement on cooperation in the military field between the Ministry of Defense of the Azerbaijan Republic and the Ministry of Defense of the Republic of Hungary;

- Memorandum of understanding on cooperation between the Ministry of Internal Affairs of Azerbaijan Republic and the Ministry of Internal Affairs of the Republic of Hungary;

- Memorandum on cooperation in the field of tax administration between the Ministry of Taxes of Azerbaijan Republic and the Ministry of National Economy of the Republic of Hungary;

- Memorandum of understanding on cooperation between the Ministry of Justice of Azerbaijan Republic and the Ministry Justice of the Republic of Hungary.

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- Memorandum of understanding on cooperation between the Ministry of Justice of Azerbaijan Republic and the Ministry Justice of the Republic of Hungary;
- Memorandum of understanding on technical cooperation in the field of meteorology between the State Committee on Standardization, Metrology and Patent of the Azerbaijan Republic and the Department of Trade and Licensing of the Republic of Hungary;
- Memorandum of understanding on cooperation between the Ministry of Justice of Azerbaijan Republic and the Ministry Justice of the Republic of Hungary;
- Memorandum of understanding on technical cooperation in the field of meteorology between the State Committee on Standardization, Metrology and Patent of the Azerbaijan Republic and the Department of Trade and Licensing of the Republic of Hungary;
- Decree on approval of the Agreement on cooperation in the field of standardization between State Committee on Standardization, Metrology and Patent of the Azerbaijan Republic and the Committee on Standardization of the Republic of Poland;
- Law on approval of the Agreement on mutual protection and promotion of investment between the Government of the Azerbaijan Republic and the Government of the Republic of Turkey;
- Law on approval of the Agreement on mutual protection and promotion of investment between the Government of the Azerbaijan Republic and the Government of Montenegro;
- Law on approval Agreement on economic cooperation between the Government of Azerbaijan Republic and the Government of Montenegro;
- Decree on approval of the Memorandum of understanding on cooperation in the field of information exchange between the Government of Azerbaijan Republic and the Qatar Government;
- Law on approval of the Agreement on mutual protection of confidential information between the Governments of Azerbaijan and Georgia;
- Decree on approval of the Memorandum on cooperation between the Ministry of Labor and Social Protection of Azerbaijan Republic and the Ministry of Labor and Social Policy of the Republic of Bulgaria;
- Decree on the Agreement on economic and technical cooperation between the Government of the Azerbaijan Republic and the Government of the Republic of Serbia.

### ***Azerbaijan expands its presence in Switzerland and Australia***

The Parliament of Azerbaijan passed law, dated 6 April 2012, on opening of the Embassy in the Federation of Australia (Canberra City).

Milli Majlis passed the law on 14 January 2012 on establishment of the Embassy of the Republic of Azerbaijan in Bern, the Swiss Confederation.

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### Join PwC Alumni Club!

If you are a former employee of the PwC network anywhere in the world, and would like to join the PwC Azerbaijan Alumni Club, please provide us your details in the online [Registration Form](#) at this link <http://www.pwc.com/az/en/alumni/index.jhtml>

PwC Alumni Club is an organization of, by and for the alumni community of PwC that gives an opportunity for former employees to stay in touch with each other and PwC. Via our alumni network we aim to keep you in touch with your former colleagues and friends as well as the Firm.

Through the PwC Alumni program, you can learn about our latest services and offerings, as well as enjoy special offers that we gladly arranged for the PwC Alumni Club members.

So, if you are an alumnus of PwC Azerbaijan get in touch with us now !

Please, contact Nargiz Muradova, Human Capital Manager at [nargiz.muradova@az.pwc.com](mailto:nargiz.muradova@az.pwc.com), if you have any questions about the Club.

### PwC Resource Update

#### **CEE Banking Banana Skins 2012**

Macro-economic risk is the most significant banana skin globally and in CEE Paul Cunningham, PwC Financial Services Leader for CEE comments on the most serious risks for the CEE banking sector. This year we have received 64 responses from the CEE region, including Russia and Ukraine. Of the 10 major risks identified in the Region, 9 of these were also the major global risks, which

demonstrate the increasing interdependency of the outlook for the Region on global trends and issues. The top risk, macro-economic risk reflects concerns regarding the Eurozone debt crisis in particular and demonstrates that this risk is feared not just by banks in EU countries and countries in which much of the banking sector is owned by banks in other EU countries, but also the impact that disorderly default would have on global markets.

Download full report at this link [http://www.pwc.com/ua/en/survey/assets/Banana\\_skins\\_2012\\_CEE.pdf](http://www.pwc.com/ua/en/survey/assets/Banana_skins_2012_CEE.pdf)

#### ***Transfer pricing requirements around the world***

PwC's International Transfer pricing 2012 report covers transfer pricing issues in nearly 70 countries worldwide and offers a summary of specific requirements in each of the key countries with transfer pricing rules. It explains why it's vital for every company to have a coherent transfer pricing policy that is responsive to the rapidly changing markets in which they operate. Download full report at this link

[http://www.pwc.com/internationaltp?WT.mc\\_id=email\\_2-12\\_GOU-ITP.2012](http://www.pwc.com/internationaltp?WT.mc_id=email_2-12_GOU-ITP.2012)

#### ***Clarifying the rules: Sustainable transfer pricing in the financial services sector***

If you are responsible for managing financial services inter-company transactions you will recognize how much of a challenge it can be trying to keep up-to-date with new or revised transfer pricing regulations. This PwC's publication is intended as a supplement to International Transfer Pricing 2012 and provides the technical industry overlay to jurisdictional rules and practice, and offers the most recent and leading comprehensive treatise dedicated solely to transfer pricing issues facing the banking/capital markets, asset management and insurance sectors.

You are welcome to download the report here <http://www.pwc.com/gx/en/tax/transfer-pricing/sustainable-transfer-pricing-in-the-financial-services-sector.jhtml>

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### ***Fighting economic crime in the financial services sector***

The financial services industry continues to be the fraudsters' target of choice with 45% of financial services organizations suffering frauds last year. While traditional types of economic crime remain prevalent, cybercrime has become the second most common fraud reported in this sector. In the report at the link below we analyze the current fraud landscape and focus on the increased regulatory interest in fighting economic crime:

[http://www.pwc.com/gx/en/economic-crime-survey/industry-supplements/fighting-economic-crime-in-the-financial-services-sector.jhtml?WT.rss\\_f=PwC+global+pages&WT.rss\\_ev=a&WT.rss\\_a=Fighting+economic+crime+in+the+financial+services+sector](http://www.pwc.com/gx/en/economic-crime-survey/industry-supplements/fighting-economic-crime-in-the-financial-services-sector.jhtml?WT.rss_f=PwC+global+pages&WT.rss_ev=a&WT.rss_a=Fighting+economic+crime+in+the+financial+services+sector)

### ***Delivering results through talent: The HR challenge in a volatile world***

To be successful HR has to be a true partner to the CEO – helping to shape the priorities and plans of the business. We conducted 1,258 interviews with CEOs in 60 countries in 2011 and are happy to share with you their thoughts on the talent issues impacting their businesses reflected throughout our report: <http://www.pwc.com/gx/en/hr-management-services/delivering-results-through-talent/index.jhtml>

### ***Metals Deals: Forging Ahead 2012 Outlook and 2011 Review***

PwC's Global Metals Deals annual review takes a look at the M&A landscape over the past year identifying the key themes and important drivers of deals activity. This year, we open our report with our discussion of the

outlook for the year ahead and identify some of the main themes we expect to be at work at this link

<http://www.pwc.com/gx/en/metals/mergers-acquisitions/forging-ahead-2012-outlook-2011-review.jhtml>

### ***Transportation & Logistics 2030, Volume 5: Winning the talent race***

The fifth volume of the PwC T&L 2030 series at <http://www.pwc.com/tl2030> is a multi-faceted analysis of talent management in the transportation and logistics industry worldwide. It also contains strategies to help transportation and logistics companies improve their talent management.

### ***Water: challenges, drivers and solutions***

Ahead of the World Water Forum, PwC has published a report on the dynamics and patterns of water management to support the development of models for tomorrow. Water has become one of the leading modern day challenges in this early part of the third millennium as increases in population, human activity and climate changes have made water a scarce resource. You are welcome to read the full report at this link [http://www.pwc.com/gx/en/sustainability/publications/water-challenges-drivers-and-solutions.jhtml?WT.rss\\_f=PwC+global+page&WT.rss\\_ev=a&WT.rss\\_a=Water%3A+challenges%2C+drivers+and+solutions](http://www.pwc.com/gx/en/sustainability/publications/water-challenges-drivers-and-solutions.jhtml?WT.rss_f=PwC+global+page&WT.rss_ev=a&WT.rss_a=Water%3A+challenges%2C+drivers+and+solutions)