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Tax Code Changes

On 22 November and 3 December 2013 the President of the Azerbaijan Republic signed the amendments to the Tax Code. The amendments entered into force on 31 December 2013 and include the following major changes:

• *Tax Exemptions and incentives*

The Tax Code is now the only legislative act that may grant tax exemptions and incentives. In the past, some other legislative acts would envisage certain tax exemptions and incentives (e.g., special laws on interest tax relief for individuals, tax incentives for agriculture).

As regards to the current valid laws stating the tax exemptions (e.g., PSAs),

according to the Constitution, only legal acts enhancing the conditions of legal and physical persons have the retroactive effect. Further, Article 2.7 of the Tax Code clearly sets out the precedence of PSA and HGA provisions over other laws.

As to future tax exemptions and incentives, according to the wording of the recent change to the Tax Code, they must be reflected in the Tax Code to be valid.

There is an ambiguity over the wording (and the intention) of the amendment, therefore, one could expect a certain period of uncertainty with regard to the past and future tax exemptions until the Government or Constitutional Court issues a further guidance or interpretation.

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- ***Translation of documents in the foreign language***

The tax authorities are now obligated to require from the taxpayers all documents in the foreign language to be translated into the Azerbaijani language and duly certified.

Therefore, it is important that the taxpayers be prepared to provide the Azerbaijani translation of the documents originating locally or overseas during tax audits and other cases when the tax authorities require.

- ***VAT Exemption***

Editorship, publication, and polygraphy for the issue of textbooks for educational institutions and children's literature are VAT exempt.

New Powers of the Ministry of Economy and Industry and Ministry of Communications and Information Technologies

The President of the Azerbaijan Republic passed Decree # 20, dated 15 November 2013, empowering the Ministry of Economy and Industry and Ministry of Communications and Information Technologies to determine the minimal amount of investment required for granting tax incentives for operation in industrial and technological parks, respectively.

Customs news

The Cabinet of Ministers passed Decision # 323, dated 8 November 2013, according to which, loans and debts, as well as goods imported at the expense of Azerbaijan's share in the projects financed by these loans and debts are no longer exempt from custom import fees. The Decision comes into force within 30 days after the date of publication that is 19 November 2013.

News on VAT exempted goods

1. Based on Decision #324 of the Cabinet of Ministers, the following goods are no longer exempt from VAT:

- goods intended for the organization of production in the investment program for the implementation of the approved contracts regarding the right to manage state institutions;
- goods and equipment brought under the 84th and 85th groups of goods that have an aggregate value up to 500 million manats for the construction of the steam – gas power plants in the capacity of 750 MW.

2. The Cabinet of Ministers passed Decision #325 which extended the exemption from VAT and customs duties on certain goods used in foreign economic activities for the purpose of promoting the non-oil sector from 3 to 6 years. The list of goods includes seeds, fertilizers, agricultural equipment and machinery, food processing machinery and packaging of goods, etc.