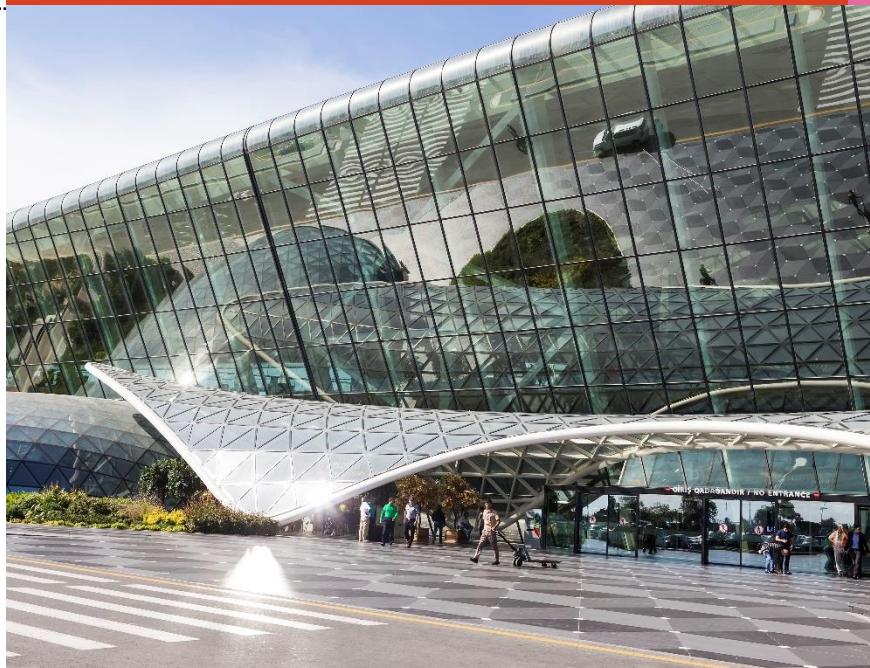


PwC Azerbaijan Times

Issue №37, Breaking news

Overview of this Issue:

- **Tax Code Amendments**
- **2017 Tax Code Amendments Awareness Session**



For any questions related to the information included herein, please contact

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Tax Code Amendments

On 23 December 2016, the Azerbaijan President signed the law introducing changes to the Tax Code. These changes will be effective from 1 January 2017.

Significant changes are summarized below.

Transfer pricing

The transfer pricing concept is introduced to the Tax Code.

Taxes may be computed based on the transfer price for transactions concluded between the following persons:

- a resident and a non-resident in a related party relationship;
- a permanent establishment of a non-resident and such non-resident or any representative office, branch office or other unit of such non-resident in other countries;
- a resident and (or) a permanent establishment of a non-resident and persons established (registered) in a country with a favourable tax regime.

In such cases, corporate income (personal income) tax is computed based on the transfer price regardless of the actual value of the transaction.

The transfer price is determined based on the following methods:

- Resale price method;
- Cost plus method;
- Comparable profit method;
- Profit split method.

The methods are used only if it is established that no comparable information exists or it is not possible to obtain information on the price of the goods in transactions between other persons.

The taxpayer must notify the tax authority of transactions subject to transfer pricing where the total amount exceeds AZN 500,000 per annum.

Advance tax ruling

A taxpayer may apply to the tax office to determine its tax liability in advance for transactions of at least

PwC Azerbaijan Times

Issue №37, Breaking news

AZN 10,000,000 (ten million). The state duty for such application is AZN 500.

Withholding Taxes

Taxation of payments to countries with favourable tax regimes

Direct or indirect payments to a person in a country with a favourable tax regime are considered income from an Azerbaijani source and subject to 10 % withholding tax.

The list of countries concerned is determined annually.

Transfers to digital wallet

Banks and the national operator of the postal service must deduct 10% withholding tax from funds transferred by residents to digital wallets.

According to changes to the Law on E-trade, digital wallets refer to software (not considered a bank or credit organization) to carry out electronic payments.

Value Added Tax

Taxation of agricultural products

Only trade mark-ups applied in the retail sale of agricultural products produced in Azerbaijan are subject to VAT.

Exemption from VAT

The following transactions are not subject to VAT for 3 years from 1 January 2017:

- Import and sale of wheat as well as production and sale of flour and bread;
- Sale of non-performing assets as part of restructuring and rehabilitation of insolvent banks;
- Sale of poultry meat.

Refund of VAT

The time period for refund of VAT is reduced from 45 days (after receipt of the application) to 20 days.

Compliance requirements for financial institutions

Provisions on tax monitoring by financial institutions are introduced. In accordance with international treaties on exchange of information, financial institutions must submit information about financial transactions in Azerbaijan to the competent authorities of foreign countries by submitting e-reports.

VAT on purchase of e-commerce services

Payments to a non-resident person, not registered for VAT, for e-commerce services and works are subject to VAT.

Where a person not registered for tax makes payment to a non-resident for such services (excluding hotel and air ticket arrangement services), the local bank executing the payment should pay the VAT from funds of the buyer. The VAT is not creditable.

Non-cash settlements

Cash withdrawals

Simplified tax is calculated at 1% for cash withdrawals by legal entities and sole traders.

Financial sanctions for conducting cash operations over prescribed limits

A supplier of goods (work, services) is subject to certain financial sanctions for conducting cash operations over prescribed limits.

According to the law on non-cash settlements (signed on 23 December), cash settlements are limited to the following amounts:

PwC Azerbaijan Times

Issue №37, Breaking news

- Up to AZN 30,000 / calendar month - for VAT registered taxpayers and taxpayers engaged in trade and (or) public catering services whose taxable supplies exceed AZN 200,000 in any 12 month period;
- Up to AZN 15,000 / calendar month - for other taxpayers.

Voluntary tax disclosure

Voluntary tax disclosure refers to situations where notification of a tax liability, not been discovered during a field tax audit, is made the tax authorities after the audit. In this event, the taxpayer pays only the tax due (i.e. without payment of a financial sanction).

Electronic delivery note

An e-delivery note is required for the sale of goods and services between businesses as follows:

- From 1 April 2017- for VAT registered taxpayers and taxpayers engaged in trade and (or) public catering services whose taxable supplies exceed AZN 200,000 in any 12 month period;
- From 1 January 2018- for all other taxpayers;

Excise Tax

Excise tax rates applicable to cars, yachts and other vehicles are increased.

2017 Tax Code Amendments Awareness Session

The changes to the Tax Code have provoked mixed reactions. PwC Azerbaijan will organise 2017 Tax Code Amendments Awareness Session, scheduled for 10 January, 2017. The event will be held in Boulevard Hotel, Baku from 09.00 till 13.00. We will be presenting our views and discussing the opportunities and challenges the changes create.