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## Overview of this issue

- Law on amendments to the Tax Code of the Republic of Azerbaijan



Contact us for any questions related to the information included herein



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#### **Law on amendments to the Tax Code of the Republic of Azerbaijan**

On December 25, 2019 the Law of the Republic of Azerbaijan on Amendments to the Tax Code of the Republic of Azerbaijan was adopted. The law is effective from January 1, 2020.

#### ***Regulation of compulsory health insurance by the Tax Code***

Compulsory health insurance charges have been added to the issues regulated by the Tax Code.

Provision of health insurance services from compulsory health insurance fund are exempted from VAT on January 1, 2020 for 1 year period.

#### ***Procedure for allocation of expenses***

Taxpayer shall keep recording of income and expenses for taxable and tax-exempt transactions separately. In case of allocation of expenses is not possible, the allocation shall be based on revenue proportion.

#### ***Changes in the concept of provision of goods***

Alienation of residential and non-residential areas by persons engaged in building construction activities have been incorporated to the notion of provision of goods in the Tax Code.

#### ***Amendments related to VAT***

According to the Law, recognition of taxable turnover for VAT purposes mainly has been shifted to the cash basis method.

As a rule, in monetary transactions, i.e. cash and non-cash settlements, the time of the taxable transactions is the date when payment received. Whereas the time of VATable non-monetary transactions such as barter, in-kind transactions, as well as free-of-charge provision of goods, services and works will be considered the time when such non-monetary transactions are completed.

Sales of animal and poultry meat as well as the sales of feed and feed supplements used in livestock and poultry farms is exempted from VAT for the next 4 years starting from January 1<sup>st</sup> of 2020.

#### ***Cancellation of the electronic tax invoice***

Electronic tax invoicing is cancelled.

Taxpayers are expected to submit various types of electronic delivery notes depending on the nature of the transaction.

#### ***Additional obligation on banks***

Information on transactions carried out through the accounts of VAT registered taxpayers should be submitted by the banks to the respective executive authority by 10<sup>th</sup> of each month.

#### ***Risky taxpayers and transaction without substance concepts and related provisions***

Risky taxpayers and transaction without substance terms are considered to be added in the Tax Code.

A non-commodity transaction is an operation discovered in the course of tax control, designed to disguise another transaction, and in fact is formalized to generate profit without the provision of goods, works and services.

Criteria for identifying a risky taxpayer are expected to be published as a separate guideline.

The Law envisages the followings with regards to the taxation of risky taxpayers:



- Information about risky taxpayers not to be considered as a trade secret
- Tax authority has right to perform extraordinary tax audit and operative tax control
- Extension of period for refund of the overpaid tax from the state budget without consideration of the full completion of the operative tax control.

Documents related with the transactions without substance as well as electronic delivery notes issued by a risky taxpayer will not be treated as a basis for recovery of VAT from the state budget.

For the profit tax purposes, the value of goods delivered by risky taxpayers will be calculated based on the market price and related information.

#### ***Amendments related to registration and reporting***

Based on the amendments, below listed persons should be subject to centralized registration:

- Natural monopoly subjects;
- Enterprises with special tax regime;
- Taxpayers with average number of employees over 251 and more;
- Taxpayers with residual value of its fixed assets exceeding 5.000.000 manats.

The mentioned taxpayers are obliged to apply to the respective executive tax authority for centralized registration. Centralized registration of the taxpayer shall be implemented beginning from January of the following year in which the decision to perform centralized registration was made by this taxpayer.

#### ***Real-time cash register***

The taxpayers will be able to offset the costs incurred due to the installation of the Real-time cash register against the tax liability arising after the installation of this register to certain extend, provided that certain conditions have met.

#### ***The period covered by tax audits***

The three-year audit period stated in the Tax Code covers a three-year period preceding the date the when tax authority made a decision to conduct an onsite tax audit.

In case the relevant executive authorities of foreign countries have provided information on income derived abroad, tax audits may cover a period of 5 years preceding the date of decision of the tax authority to conduct the audit.

#### ***Taxpayers engaged in building construction activities***

Person engaged in building construction activities do not have right to be a simplified tax payer, except for those who have commenced but have not completed their construction works until January 1, 2020.

Persons engaged in the construction of the buildings must submit information on each building in the prescribed template to the tax authority until 20 January of each year.

#### ***Multinational corporations and reporting obligations***

The concept of a multinational corporations has been introduced and a corresponding reporting obligation has been established for these companies.

Multinational corporations refer to the group companies that are resident in two or more countries or a group of companies operating through their permanent establishments. Multinational corporation include subsidiaries and affiliates of the enterprise, as well as branches and representative offices.

If the total income of such group of companies for the fiscal year exceeds the manat equivalent of 750 million euros, an enterprise as well as a resident of the Republic of Azerbaijan belonging to that group is required to report an appropriate template. This threshold is referred to the information of financial statements of that group.

#### ***Exemptions applied to residents of the technology park***

For the residents of technology parks, it is envisaged to extend the defined tax exemptions in connection with profit, income, land and property taxes from 7 years to 10 years starting from the reporting year in which residents are registered in the industrial and technology park.



***Increase in excise tax rates***

With the exception of cognac and cognac products, excise rates on all alcoholic beverages, tobacco products, and energy (non-alcoholic or alcoholic) drinks are envisaged to be increased.

***Exemptions related to civil aviation***

Payment for rent or lease of aircrafts and aircraft engine from non-residents of the Republic of Azerbaijan who do not have permanent establishment in the Republic of Azerbaijan within the scope of this activity is exempted from VAT and WHT.