

June 2020

An up-to-the-minute guide to developments in the legislation of the Republic of Azerbaijan

In this issue, we would like to bring to your attention a brief overview of the following:

- ▶ Law on Amendments to the Tax Code

Amendments to the Tax Code to mitigate adverse effects of COVID-19 pandemic on particular sectors of economy and categories of taxpayers

On 2 June 2020 the President of Azerbaijan signed the Law on Amendments to the Tax Code of Azerbaijan. Enacted amendments are aimed to support particular sectors of economy, businesses and vulnerable categories of entrepreneurs that were affected by COVID-19 pandemic and the quarantine regime implemented in Azerbaijan starting from March 2020.

As a starting point a new definition of “temporary tax regime” was included to the Tax Code. “Temporary tax regime” is defined as *temporary rules and regulations on calculation and payment of taxes by all taxpayers or by specific segments thereof during certain period of time in connection with substantial changes in economic conditions driven by natural disasters, epidemic and epizootic outbreaks, major environmental and other disasters, as well as other developments in Global economic environment.*

Further a new Chapter XVIII titled “The temporary tax regime implemented in connection with substantial changes in economic conditions as a result of coronavirus pandemic” has been added to the Tax Code. Brief overview of the mentioned Chapter is provided below.

Persons covered

The new Chapter of the Tax Code applies to the subject of micro entrepreneurship as well as to all taxpayers engaged in the following types of business activities:

- ✓ Inland motorway transportation of passengers;
- ✓ Hotel business;
- ✓ Travel agencies and tourism operators;

- ✓ Delivery of goods, including food and non-food products*;
- ✓ Public catering (restaurants, cafes, bars etc);
- ✓ Entertainment (cinemas, stages, theaters, museums, exhibitions, concert halls etc.);
- ✓ Sports and health facilities (fitness, gym etc.);
- ✓ Preparatory and training courses, out-of-school education, psychological centres;
- ✓ Areas, the activities in which were fully or partially restricted as per decision of the Emergency response Headquarters in order to protect the health and safety of the population in connection with COVID-19 pandemic**.

* Not applicable to sellers of goods themselves

** Not applicable to the legal entities owned by the State, budgetary organizations and statutory bodies funded from the State budget or non-budgetary funds

Exemptions and reliefs under the amendments are not applicable to taxpayers that are listed as risky taxpayers and taxpayers carrying out fictitious transactions and may be applied only after the taxpayer has been unlisted as per decision of the tax authorities.

Reliefs and Exemptions

Introduced measures include *inter alia* the following tax concessions and holidays for the period of 1 year starting from 1 January 2020:

- ▶ All taxpayers engaged in the above-listed types of business activities are exempt from property and land taxes in full amount and from profit tax with respect to 75 percent of the profits;
- ▶ Taxpayers engaged in inland motorway passenger transportation that are payers of simplified tax are exempt from 50 percent of the simplified tax due by them;
- ▶ Taxpayers engaged in public catering that have elected to be simplified taxpayers are exempt from 50 percent of the simplified tax due by them;
- ▶ All taxpayers engaged in the above-listed activities that are eligible to be simplified taxpayers and elected to use this right as well as to those who may only be the payers of the simplified tax are exempted from 50 percent of the simplified tax due by them;
- ▶ Specific cases:
 - 50% exemption from withholding tax applied on rental fees paid to individuals leasing out immovable property to the taxpayers engaged in above-listed activities;



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- Profit tax exemption for aircraft used by air carriers for passenger transportation;
- Full exemption from import VAT of goods that are necessary to protect the health and cover the needs of the population during the temporary tax regime as per the list approved by the Cabinet of Ministers;
- Spoilage of food products acquired and produced by taxpayers engaged in public activities are not considered taxable events for the purpose of VAT until 1 January 2021;
- Unlimited deduction of documented expenses incurred in relation with necessary prophylactic and disinfectory measures taken by the taxpayer during the temporary tax regime.

As a result of application of the described exemptions, all amounts paid by the taxpayers on account of current tax payments as well as taxes paid for future periods will be re-calculated and all overpayments will be counted towards tax payments for future periods.

Administrative issues

In addition to the exemptions described above, amendments also include the following relief provisions to ease the administrative burden on taxpayers:

- ▶ Full exemption from making submission of advance tax calculations for 2020 for taxpayers engaged in business activities listed above as well as for taxpayers that did not have activities in the previous year but have the activities in the current year;
- ▶ Extension of the deadline for payment of profit and property taxes due for 2019 for taxpayers engaged in business activities listed above to 1 September 2020;
- ▶ Suspension of accrual of late payment interests for unpaid taxes, social insurance and unemployment insurance payments starting from 1 April 2020 until 1 January 2021 for taxpayers engaged in business activities listed above.



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