

## REFORMS IN THE TAX SYSTEM OF THE REPUBLIC OF AZERBAIJAN

Ministry of Taxes of the Republic of Azerbaijan has always been committed to conducting reforms in the field of taxation aimed at reducing tax burden, strengthening of tax control, promoting favorable business climate and foreign investments, as well as providing comprehensive taxpayer services in Azerbaijan. This document highlights major reforms undertaken in tax policy and administration in the years 2015/2016.

According to amendments, taxpayers involved in the construction of buildings are granted with the right to become a simplified taxpayer. Under previous law a person engaged in the construction of buildings would pay both simplified and VAT tax at the same time. Now, once making choice in favor of simplified tax regime, legal entities will be exempted from VAT, profit and property taxes, whereas individuals will benefit from VAT and income tax exemption.

According to another amendment, volume of taxable operations generating obligation for the submission of application on registration for VAT purposes has been increased from the previous 120 000 manats to 200 000 manats. This change provides taxpayers with an opportunity to continue their business activity under simplified tax regime if the volume of their taxable operations is under 200 000 manats.

Entities, involved in trading and (or) public catering activities, whose volume of taxable transactions in any month (months) during a consecutive period of 12 months exceeds 200,000 manats, are granted with the right to become the payer of simplified tax at the rates of 6% and 8% respectively. Thus, the abovementioned category of taxpayers will be immune from the obligation to register for VAT purposes even if they exceeded the threshold of 200 000 manats.

Individuals and legal entities who have been granted an investment promotion certificate in a manner prescribed by the law, are exempt from VAT, property and land tax, as well as from 50 percent of their income for the period of 7 years from the date of receipt of that certificate. Where the entity who has received the investment promotion certificate supplies (sells) industrial and other taxable objects by the end of the grace period provided in the Tax Code, the tax reliefs to a new entity who has obtained economic and other taxable objects and have undertaken to launch and proceed the production of goods (work and services) in compliance with existing investment project, are applied for the rest of the given period.

Tax incentives in the agricultural sector have been applied on a regular basis with the law adopted in 1999. Later those incentives were incorporated in the Tax Code and the

period of concessions granted to the individuals and legal entities involved in the production of agricultural goods, has been extended until 1 January, 2019. Moreover, according to the latest amendments to the Tax Code, import and sale of wheat, production and sale of wheat flour and bread have been exempted from VAT until 1 January, 2017.

Income from annual interest being paid by banks, as well as income from an issuer-paid dividend, discount and interest on investment securities shall not be subject to income tax within a 3-year period starting from 1 February 2016.

Import, on the basis of the document approved by the Ministry of Economy, of all kinds of goods by the resident of Garadagh Industrial Park involved in shipbuilding activity for the purposes of the same activity is exempt from VAT over the period of 5 years beginning from 1 May 2016.

Also, provision of goods, works and services to the resident of Garadagh Industrial Park involved in shipbuilding activity by contractor and to the contractor by subcontractor who has a signed contract with that contractor for the purposes of this activity is taxed at zero (0) rate VAT over the period of 5 years beginning from May 1, 2016.

Import and sale of following items have been exempted from VAT:

- breeder animals;
- seeds and seedlings;
- mineral fertilizers, pesticides;
- equipments for seed breeding, poultry and beekeeping, as well as laboratory equipments and machines for cleaning, sorting or calibration of seeds, grains and legumes;
- direct agricultural irrigation and other facilities, vehicles, equipment and techniques;
- import of veterinary drugs used for prevention, diagnosis and treatment of agricultural animals and birds.

Since June 2016, "Tax Free" system was introduced in Azerbaijan. Foreigners and stateless persons visiting Azerbaijan, who are over the age of 14 will be able to take the advantage of these opportunities while shopping and will be able to refund 12 % of paid VAT amount.

While purchasing goods at TAX FREE labeled shop foreign citizen must inform a salesperson on his/her intention to benefit from TAX FREE, then present passport confirming citizenship to the salesperson to fill in the electronic-invoice enabling VAT refund. The salesperson after filling in passport details will provide 2 copies of signed and stamped e-invoice. The e-invoice, along with other information, will contain the amount of paid VAT, as well as the expiry date of VAT refund. In order to benefit from TAX FREE, the cost of

purchased goods per one e-invoice must be not less than 300 manats including VAT. The goods should be taken out of the territory of the country within 90 days from the purchase date.

Foreign citizen can receive payment on foreign or local currency, depending on the chosen method.

Ministry of Taxes launched "Centralized risk management" tool with the purpose of taxpayer assessment on risk criteria and centralizing risk management.

"Centralized risk management" tool enables e-management of tax evasion cases, more precise risk and tax capacity assessment on the basis of modern technologies. The tool is effective in verification of every tax evasion case in a more accurate manner revealed either via electronic or other means, as well as ensuring correct assessment and selection of appropriate tax control measure.

As tax control measures are selected through "Centralized risk management" tool, this will allow tax administration to ensure centralized tax control over tax verification measures. Thus it will prevent tax administration from initiating tax verification cases not based on relevant risk criteria, as well as those cases which do not fall under the risk of tax evasion.

In 2015 and 2016 the Ministry of Taxes has undergone a number of structural changes aimed at qualitative implementation of its functions, more efficient use of human resources capacity, and achieving agility in tax administration. Thus former Department of Tax Audit and Baku City Tax Department was merged into newly established Baku Tax Department under the Ministry of Taxes. Also, Tax Department No 1 under the Ministry of Taxes was established with a view to render tax services to the taxpayers placed under special regime and non-commercial entities.

Measures have been continued towards optimization of organizational units within the Ministry of Taxes' Headquarters as well. Thus with the aim of improving tax administration and more efficient implementation of functions new Call Center Department under the Ministry of Taxes was established. Moreover, previously separate Tax Audit Head Department and Operative Control Department was merged into Tax Audit and Operative control Department, whereas International relations Department and Tax Monitoring at Financial Institutions Department merged into the International cooperation and Tax Monitoring at Financial Institutions Main Department.

Along with it, Head Department for Analysis of Tax Crimes and Tax Debt Enforcement was established with the aim of improving better recovery of outstanding tax debts into the state budget and achieving more efficiency in this field, whereas Head Department dealing with Regional Tax Bodies and Tax Risks Analysis and Control Head Department were

established with a view to achieve an enhanced control over regional tax bodies and ensure full scale payments by the taxpayers.

All recent reforms and positive changes undertaken in the fields of tax policy and administration resulted in the improving of Azerbaijan's ranking in international business reports. Thus, Azerbaijan improved its Starting Business ranking in the Doing Business Report 2016 by rising from the 11th to the 7th place among 189 countries.

Reforms towards creation of favourable tax environment for business are still to continue in the following years.