

INPATRIATES

Azerbaijan

Tax facts for international assignees



INCOME TAX: WHO IS LIABLE/RESIDENCY

Azerbaijan tax residents are liable to personal income tax (PIT) on their total worldwide income, which is defined as gross income received from all sources (both Azerbaijani and non-Azerbaijani) during the calendar year, regardless of where the income was earned or paid, less allowable deductions. Non-residents are taxed on income received from sources in the Republic of Azerbaijan. Tax residency rules of existing tax treaties (currently >50) as well as Production Sharing Agreements (“PSA”s) and Host Government Agreements (“HGA”s), having force of law and applicable to the oil and gas industry, provide for periods of exemption from Azerbaijani taxation on the Azerbaijan-source income of non-residents. Though PSAs contain different tax residency rules related to foreign employees, individuals are generally considered tax residents if they physically spend more than 182 days in the Republic of Azerbaijan during a calendar year. Consequently, the details of any applicable PSA, HGA and tax treaty should always be examined before commencing work and throughout the period of operation in the Republic of Azerbaijan.

PIT on employment-related income is calculated by the employer and is deducted from employee’s salary each month. PIT must be paid within 20 days after the end of a reporting month and it is continuously reported within another regular tax filing (value-added tax return, simplified tax return or withholding tax return depending on the employer’s taxpayer status). Annual PIT filing is due not later than 31 January after the calendar year ends.

Individuals’ entrepreneurial income is subject to either simplified tax or PIT and individuals are obliged to register with the tax authorities before commencing their entrepreneurial activities.

Non-entrepreneurial income, where PIT has not been withheld at the source of payment, should be remitted (advance payments throughout the year and then the final payment) to the State Budget and reported through an annual tax filing no later than 31 March of the year following the reporting year.

SOCIAL AND UNEMPLOYMENT INSURANCE

Employment income of both Azerbaijani nationals and foreign individuals, excluding income of foreign employees hired by employers operating in the oil & gas sector under the existing PSAs, is subject to compulsory state social insurance contributions (“SIC”) and unemployment insurance charges (“UIC”). With certain exceptions, virtually all types of employment income are subject to SIC and UIC.

The employer is responsible for withholding and remitting SIC and UIC to the State Budget on the day that the employees’ salaries are paid but no later than the 15th day of the month following the month when the employment-related income was accrued.

Employers are also responsible for submitting a quarterly SIC report and a quarterly UIC report to the tax authorities in respect of SIC and UIC by the 20th of the month following the reporting quarter.

Alongside PIT, SIC and UIC reporting, there are a number of other regular and non-regular statutory reports that are submitted to statistics office and district employment center.

IMMIGRATION

Depending on a position hired, foreign nationals might be required to obtain a work permit and a temporary residence permit before commencing their employment in the Republic of Azerbaijan. Please consult with our lawyers at BDO Azerbaijan to ascertain visa, work permit and temporary residence permit requirements beforehand.

BREAKING RESIDENCY - EXIT PROCEDURES

Residency is determined based on physical presence test. There are no specific exit requirements in the Republic of Azerbaijan.

PERSONAL INCOME TAX (PIT) RATES

Landmark changes were made effective 1 January 2019 to the rates of PIT in respect of employment income of individuals working for taxpayer employers operating in the non-oil-and-gas industry and in the non-state sector. The criteria for taxpayers operating in the oil-and-gas industry and in the state sector were adopted by the Cabinet of Ministers of the Republic of Azerbaijan in February 2019. The new rates of PIT applicable to employers operating in the non-oil-and-gas industry and in the non-state sector for a seven-year period starting from 1 January 2019 are as follows (USD 1 = AZN 1.7 as of 30/04/2019):

Monthly taxable employment income of individuals working for taxpayers <u>NOT</u> operating in oil & gas industry or those pertaining to the NON-STATE SECTOR	PIT rate is two-fold:
Under AZN 8,000	0%
Above AZN 8,000	14% on the difference between the amount of employment income exceeding AZN 8,000 and AZN 8,000)

PIT rates have remained unchanged in respect of employment income of the individuals working for taxpayers operating in the oil and gas industry and those pertaining to the state sector:

Monthly taxable employment income of individuals working for taxpayers operating in <u>OIL & GAS INDUSTRY</u> or those pertaining to the STATE SECTOR	PIT rate is two-fold:
Up to AZN 2,500 (where AZN 200 is tax exempt income)	14 percent
Income exceeding AZN 2,500	AZN 350 plus 25 percent of the amount exceeding AZN 2,500

SOCIAL (SIC) AND UNEMPLOYMENT (UIC) RATES

Similar to PIT, employers are liable for paying SIC and UIC on employees' income at rates that depend on whether they are operating or not operating in the oil and gas industry or pertain to the state or non-state sector. For taxpayers who are operating in the oil and gas industry and those who pertain to the state sector SIC still apply at a rate of 22% (SIC) and 0.5% (UIC) of the gross payroll and other covered income, while, additionally, 3% (SIC) and 0.5% (UIC) are deducted from the employee's gross salary as the employee's portion of SIC and UIC. For taxpayers who are not operating in the oil and gas industry and do not pertain to the state sector SIC on their employees' income and gross payroll is calculated as follows:

Monthly employment income subject to SIC	Total SIC rate	Deducted from employee's gross salary (flat rate)	Paid by an employer on gross payroll (flat rate)	Rates of unemployment insurance charges
Up to AZN 200	25% =	3%	22%	0.5% deducted from employee's gross salary and 0.5% paid by an employer on gross payroll
Exceeding AZN 200	25% =	AZN 6 + (Income exceeding AZN 200 multiplied by 10%)	AZN 44 + (Income exceeding AZN 200 multiplied by 15%)	

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