

DOING BUSINESS

IN AZERBAIJAN



The network
for doing
business

CONTENTS

1 – Introduction	3
2 – Business environment	4
3 – Foreign Investment	6
4 – Setting up a Business	7
5 – Labour	8
6 – Taxation	9
7 – Accounting & reporting	11
8 – UHY Representation in Azerbaijan	12



1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Azerbaijan has been provided by the office of UHY representatives:

UHY AUDIT LLC

AF Mall Business Centre, 7th Floor
43 S. Vurgun str.
AZ 1014
Baku

Phone +994 12 480 1353
Website www.uhy-az.com
Email office@uhy-az.com

You are welcome to contact Teymur Naghiyev (teymur.naghiyev@uhy-az.com) for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at June 2019.

We look forward to helping you do business in Azerbaijan.

2 – BUSINESS ENVIRONMENT

Azerbaijan, officially called the Republic of Azerbaijan, is the largest country in the Caucasus region, located at the crossroads of Western Asia and Eastern Europe.

The country is bounded by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Armenia to the west and Iran to the south. The exclave of Nakhchivan is bounded by Armenia to the north and east, and Iran to the south and west, while having a short borderline with Turkey to the northwest.

THE AZERBAIJAN CONSTITUTION AND GOVERNMENT

Azerbaijan is a secular and unitary constitutional republic. The structural formation of Azerbaijan's political system was completed by the adoption of the new constitution on 12 November 12 1995.

Azerbaijan is divided into 10 economic regions; 66 rayons (political districts) and 77 cities, of which 11 are under the direct authority of the republic. Moreover, Azerbaijan includes the Autonomous Republic of Nakhchivan.

POPULATION

Of a total population of 9,810,000 people (2017), nearly 52% were urban dwellers, with the remaining 48% rural population. 51% of the total population was female.

AREA

The territory of Azerbaijan is 86.6 square kilometres, including the Autonomous Republic of Nakhchivan.

CURRENCY

The national currency of Azerbaijan is the manat (AZN), where one AZN is equivalent to USD 1.7000 or to EUR 2.0928 (15.03.2018).

LANGUAGE

The official language is Azerbaijan, which belongs to the Turkish group of languages.

THE ECONOMY

The economy is constructed around the oil industry. 30% of gross domestic product (GDP) is derived from oil production. Service industries account for only 31.9.3% of GDP. According to the direction of the president, thanks to the income from the oil production, the non-oil sector of economy is developing. We can see this increase in service sectors such as tourism and transportation etc.

UNEMPLOYMENT

Within the last ten years, 600,000 work positions opened in Azerbaijan according to official figures. Unemployment is 4.9% of the active population.

PRICES AND INTEREST RATES

The official interest rate is 13%, which is high, considering Azerbaijan is a small country and the currency reserve is quite high. The interbank exchange rate is 16%, which is also high and one of the big issues with the economy.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In the last few years Azerbaijan exports have grown at a higher rate than average world trade and at a higher rate than the country's imports. Although Azerbaijan's foreign trade shows a surplus, 70% of exports are accounted for by oil and oil goods. Despite efforts of the government to diversify exports, the dominance of oil remains.

FINANCIAL INSTITUTIONS

Azerbaijan's banking sector still has some weaknesses. All assets of the banking sector are valued at around USD 22 billion, which is a very low valuation. Although demand in the capital market is high, banks' interest rates are high. Banks specialise particularly in credit and corporate services. The banking sector is controlled by the Central Bank of Azerbaijan.

STOCK MARKET

The Baku Interbank exchange is the coordinator of stock market participants. Government securities, public and corporate bonds and shares are mostly traded on the exchange.

3 – FOREIGN INVESTMENT

After the collapse of the USSR, Azerbaijan's huge oil and gas reserves created an attractive investment climate for foreign companies such as Exxon, BP, Shell, Total and Agip etc. to invest in the oil industry and to develop oil wells.

All Production Sharing Agreement (PSA) participants have tax and customs exemptions.

Direct investments are considered where investors take the form of a separate legal entity or branch of a foreign company. The investment can be valued in cash and assets.

There is no restriction in the purchasing of local financial institutions' shares. Owing to this, within previous years the European Bank for Reconstruction and Development (EBRD) purchased a 25% share in several banks.

4 – SETTING UP A BUSINESS

Since 2007, the registration of legal entities or business bodies became a much easier process owing to the application of a 'one window' system.

After applying with all the required documents, a company is registered within seven days.

There is no limitation of capital in the registration of the entity. But the capital should be paid up upon incorporation. The capital may be paid up in cash or in kind (equipment, land, stock, property etc.)

The cash contribution to capital has to be certified by a bank and any contribution in kind has to be independently valued by an appraiser.

The types of legal organisational forms of an entity are set out below:

- Limited Liability Company
- Joint Stock Company
- Closed Stock Company
- Partnership
- Comandit
 - A company where besides full members who are liable with personal assets for the activity of the company (unlimited liability), there are members who are liable only for the amount of their shares (limited liability).

5 – LABOUR

Labour relations in Azerbaijan are regulated by laws and labour contracts/collective agreements.

There are many laws regulating employment in Azerbaijan, but the Ministry of Labour and Social Defence is a major controlling state body for labour relations.

LABOUR AGREEMENT

Labour agreement includes all obligations, rights and duties of the parties. Hiring people without an agreement can lead to a large penalty and can result in a criminal conviction. Employment contracts also include a trial period, which is three months.

The contract can be drawn up for an unlimited period, for one year or less. After working six months, employees have the right to take vacation. Vacation is compulsory, but if for some reason the employee cannot take vacation, the vacation fee is paid for without any restriction in time.

SOCIAL SECURITY

According to Azerbaijan law all employees have to pay 3% of the salary for social security purpose and 0.5% for employment insurance to the State Social Defence Fund from his salary. Also the company is obliged to pay 22% of the salary fund for Pension purpose and 0.5% for employment insurance to the same state Fund.

6 – TAXATION

According to the Tax Code of the Republic of Azerbaijan, there are several taxes:

- Corporate income tax
- Personnel income tax
- VAT
- Property tax
- Excise tax
- Simplified tax (sale tax)
- Inheritance and gifts.

BASIS OF TAXATION

Liability to taxation is decided by the residency of companies or individuals, by the location of assets and source of income. Residents of Azerbaijan are liable to pay income tax on income earned within the territory of Azerbaijan and outside. Non-residents are liable only for Azerbaijan sourced income.

Azerbaijan has tax treaty agreements with 14 countries. Payments of some taxes in those countries, upon submission of confirmatory documents, are credited by the Azerbaijan tax authorities.

An individual is considered resident for the entire year if he/she is in Azerbaijan for 184 days of more in one calendar year.

CORPORATION TAX

The current general corporate tax rate in Azerbaijan is 20% (for the year 2017). If turnover does not exceed AZN 200,000 for the last 12 months, then the company becomes a simplified tax payer, which is 4% from sales. It ranges within the regions from 2–4% for supporting regional development.

An annual tax report is submitted by 31 March of the following year. However, tax liabilities have to be fulfilled beforehand.

There are some restrictions in expenses used against income, for instance regarding limits to do with business trips (economy class ticket costs, hotel expenses etc.), asset repairs, corporate party expenses etc.

WITHHOLDINGS AND PREPAYMENTS

Non-operating income from interest and dividends is subject to 10% withholding at source.

Non-operating income for non-residents from rents and royalties is subject to 10% withholding at source. Payments for international transportation are subject to 6% and reinsurance payments to foreign partners are subject to 4% at source.

INDIVIDUAL INCOME TAX

Individual income tax varies depending on the monthly income amount. If the wage or salary is less than AZN 2,000, then the tax rate is 14%. If the salary is more than AZN 2,500, then the amount due is 350 plus 25% on income which exceeds AZN 2,500.

There are some exemptions for the income of disabled people, war participants and veterans etc.

VALUE ADDED TAX

Income earned and sourced in Azerbaijan is subject to VAT, which is 18%. Exports are not subject to tax. Some products, such as corn, are subject to 0% VAT.

EXCISE TAX

Excise tax is due on certain special products, such as tobacco and alcohol. It ranges depending on the amount.

PROPERTY TAX

Companies and individual entrepreneurs are payers of property tax, which is 1% of the balance value of fixed assets.

MUNICIPAL TAX ON LAND, PROPERTIES

Municipal taxes are levied only on citizens. Depending on land categories, the tax amount varies. Corporates are not tax payers to municipalities.

7 – ACCOUNTING & REPORTING

According to the Tax Code, all companies are obliged to submit an annual tax return (Balance sheet attached) by 31 March.

Because of differences between tax accounting and financial accounting, companies have to keep double accounting books.

Since 2008, according to the new law on accounting, all companies have to transfer accounting records into the new National Accounting Standards based on International Financial Reporting Standards (IFRS).

As pioneers, the top 20 state companies were selected for applying these new standards. All accounts are drawn up in Azerbaijani manats as statutory.

Auditing is a licensed activity in Azerbaijan and regulated by the Chamber of Auditors of the Republic of Azerbaijan. The chairman and deputy chairman of the Chamber are elected by the President of Azerbaijan. After receiving an audit licence, an auditor can start auditing activity as an individual or as part of an audit firm.

8 – UHY REPRESENTATION IN AZERBAIJAN

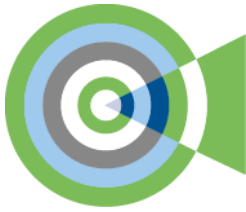
CONTACT DETAILS

UHY AUDIT LLC
AF Mall Business Centre, 7th Floor
43 S. Vurgun str.
AZ 1014
Baku
Azerbaijan
Tel: +994 12 480 1353
www.uhy-az.com
Email: office@uhy-az.com

Year established:
Number of partners: 5
Total staff: 19

CONTACTS

Liaison contact: Teymur Naghiyev
Position: Managing Partner
Email: teymur.naghiyev@uhy-az.com



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at www.uhy.com to find contact details for all of our offices, or email us at info@uhy.com for further information.

UHY is an international network of legally independent accounting and consultancy firms whose administrative entity is Urbach Hacker Young International Limited, a UK company. UHY is the brand name for the UHY international network. Services to clients are provided by member firms and not by Urbach Hacker Young International Limited. Neither Urbach Hacker Young International Limited, the UHY network, nor any member of UHY has any liability for services provided by other members.

UHY AZAUDIT LLC (the "Firm") is a member of Urbach Hacker Young International Limited, a UK company, and forms part of the international UHY network of legally independent accounting and consulting firms. UHY is the brand name for the UHY international network. The services described herein are provided by the Firm and not by UHY or any other member firm of UHY. Neither UHY nor any member of UHY has any liability for services provided by other members.

© 2019 UHY International Ltd