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1. Changes to the PSA Protocols

The changes to the PSA Protocols have been recently agreed with the state authorities. The changes are effective as of 1 October 2009.

The changes have been introduced to several PSA Protocols and they mainly relate to reporting requirements. Below we discuss the changes to the different Protocols in greater detail.

Protocol concerning taxation of foreign employees and physical persons

- As amended, the Protocol envisages the new term "Permanent Employee" defined as any individual working under an individual employment agreement (contract) with employer or its representative in the Republic of Azerbaijan (representative office, branch or permanent establishment) in an appropriate working place permanently located in the territory of Azerbaijan Republic and earning income from this employment. Taxation of Permanent Employees should be the same as taxation of the Rotators, i.e., they will be taxable from the first day of physical presence in Azerbaijan upon reaching the 90 days' threshold;
- For the purposes of quarterly compliance "Personal Income Tax return" is replaced with "Declaration on taxes withheld at the source from payments of employment income". The Declaration is a more detailed and complicated report, which contrary to the previously submitted return, reflects the breakdown of salaries and taxes by months.
- Information on the total amount of personal income tax (PIT) paid on income of the expatriate employees during the year will be reported in annual attachments to the PIT Declaration for the 4th quarter. Such reporting form would be replacing standard Annual Notification previously required for submission.

Protocol concerning taxation of foreign subcontractors

- Declaration on payments to foreign subcontractors and taxes withheld from such payments should be completed in the payment currency indicating AZN equivalent on the date of payment to the State Budget. This innovation will eliminate the problem with the exchange rate difference between the reported and paid amounts which was previously encountered when transferring the funds in foreign currency to the State Budget.
- Each Foreign Subcontractor shall notify the Tax Authority where it is registered of the letter on subcontractors' responsibilities within 5 days of the first month following the completion of the quarter and attach the copy of this letter after having it submitted in the form prescribed in the Appendix 4.

Protocol concerning Value Added Tax (VAT)

The main changes introduced to the Protocol concerning VAT are as follows:

- In case if, for some reason, the tax authorities refuse to issue the certificate, a written notice of refusal should be issued within 30 days from receiving a

written application;

- Term of validity of the certificate is reduced from 3 to 1 year from the date of its issuance;
- Certificates presented to vendors should be approved by a seal and a reference letter must be provided along with it;
- A specific wording has been added to the protocols, stating that a copy of the certificate received by the supplier of goods (works and services) shall be applied only to activities performed under the PSA;
- The list of vendors who were presented the certificate should be submitted by the certificate holder by means of filing the Attachment 8 of VAT Declaration no later than the twentieth of the month following the end of the reporting period on VAT.

2. Implementation of Rules on Electronic VAT Invoices (the “Rules”)

The Rules have been adopted by the Cabinet of Ministers of the Republic of Azerbaijan on 28 September 2009. The Rules are effective as of 1 January 2010. Under these Rules, the VAT payers should compulsorily use the VAT invoices in an electronic form. The details, general format and provisions on recording of the electronic VAT invoices are specifically prescribed by the Rules.

3. Changes to the Rules on Issuance of a Temporary Residence Permit to Foreign and Stateless Persons

The Cabinet of Ministers has introduced changes to the Rules on Issuance of a Temporary Residence Permit to Foreign and Stateless Persons. The changes concern grounds on which / cases where foreign and stateless persons may be granted a permit to temporarily live in Azerbaijan. In particular, a minimum amount of investment into the Azerbaijani economy has been risen from AZN 300.000 to AZN 500.000, and a minimum amount of deposit with Azerbaijani banks has been increased from AZN 15.000 to AZN 50.000.

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