

Preface

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COUNTRY OVERVIEW	4
GENERAL STATISTICS.....	4
ECONOMIC STRUCTURE	5
BUSINESS OVERVIEW	6
LABOR LICENSING REQUIREMENTS	6
PROFIT REPATRIATION	6
CURRENCY REGULATIONS.....	6
LAND OWNERSHIP	6
ESTABLISHING A BUSINESS.....	6
TYPES OF BUSINESS PRESENCE	7
Joint stock companies.....	7
Limited liability companies	7
Partnerships	7
Other types of business presence.....	7
TAXATION	8
INTRODUCTION	8
STATUTORY TAX REGIME.....	8
CORPORATE TAXATION	9
PERMANENT ESTABLISHMENTS (PEs).....	9
PROFIT TAX.....	9
TAX RATES.....	9
DETERMINATION OF TAXABLE PROFIT	9
CAPITAL GAINS.....	9
LOSSES AND BAD DEBTS	10
INTEREST AND DIVIDENDS	10
DEPRECIATION CHARGES	10
TRANSFER PRICING RULES.....	10
DECLARATIONS AND PAYMENTS	10
INDIVIDUAL TAXATION	12
RESIDENCY RULES/ SCOPE	12
RATES	12
DETERMINATION OF TAXABLE INCOME	12
SOCIAL INSURANCE FUND CONTRIBUTIONS PAYABLE BY THE EMPLOYEE.....	12
CAPITAL GAINS AND INVESTMENT INCOME	12
DECLARATIONS AND PAYMENTS	13
VALUE ADDED TAX	14
SCOPE.....	14
RATE	14
VAT REGISTRATION	14
DETERMINATION OF TAXABLE BASE	14
REVERSE CHARGE VAT	15
DECLARATIONS AND PAYMENTS	15
OTHER TAXES AND FEES	16
EXCISE TAX.....	16

PROPERTY TAX	16
ROAD TAX.....	16
LAND TAX.....	17
SOCIAL FUND EMPLOYER CONTRIBUTIONS	17
ROYALTY	17
SIMPLIFIED TAX SYSTEM	17
INTEREST AND PENALTIES	18
IMPORT TAX	18
EXPORT TAX	18
WITHHOLDING TAXES	19
SCOPE.....	19
DOUBLE TAX TREATIES.....	19
ACCOUNTING AND REPORTING	21
DIFFERENCES BETWEEN AAL AND IAS.....	21
ACCOUNTING POLICIES	21
PROPERTY, PLANT AND EQUIPMENT (PPE).....	21
IMPAIRMENT OF ASSETS	21
DEFERRED TAXES	22
EQUITY	22
ERNST & YOUNG AZERBAIJAN	23
INTRODUCTION	23
SERVICES	23
BUSINESS ASSURANCE.....	23
TAX AND LEGAL.....	23
CONTACTS.....	24

Country Overview

General statistics

Population:	8.4 million
Territory:	87,000 square kilometer (approx. 34,000 sq. miles)
Neighboring states:	Russia, Iran, Armenia, Georgia, Turkmenistan.
Titular nationality:	Azerbaijani (85%)
Ethnic minorities:	Russian, Lezghi, Talysh, Tatar.
Capital:	Baku (pop. 1,900,000)
Other main cities:	Ganja (pop. 306,000), Sumgait (pop. 294,000)
Autonomy:	Nakhichevan Autonomous Republic (pop. 376,000)



Azerbaijan, formerly the Azerbaijanskaya S.S.R. within the USSR, regained its independence in 1991. It joined with 11 other republics to form the Commonwealth of Independent States (CIS) in 1993.

According to the Constitution of 12 November 1995, Azerbaijan is a secular, democratic presidential republic. The country is headed by a President who can be elected for no more than two consecutive five-year terms. Presently, Azerbaijan is governed by President Ilham Aliiev. The government (Cabinet of Ministers) is subordinate to the President, who appoints the prime minister and other ministers subject to the approval of the legislature. The highest legislative body is the single chamber 125-member Milli Majlis (National Assembly), which is elected for a five-year term. The Milli Majlis may not be dissolved by the President; however the President is able to veto its decisions.

Economic structure

Vast oil reserves determined the attraction of foreign investment to the Azerbaijani economy. Over 90 percent of all foreign investments are in the energy sector. Several major oil contracts have been signed since 1994. Turan News, a local news agency, has recently reported that investments made in Azerbaijan's economy in the year of 2006 amounted to 6.0 billion new manats (over USD 6.9 billion), which exceeded the index of 2005 by 10.7 %. Foreign capital investments totaled 3,2 billion new manats (over USD 3.7 billion), while inner capital investments amounted to 2.8 billion new manats (USD 3.2 billion), which constitute 53.9% and 46.1%, respectively. In comparison to 2005, the foreign investment decreased by 9.0% while the inner investment grew by 46.8%. The above figures have originally been reported by the State Statistical Committee. The leading foreign investors to date include: BP, Statoil, LukOil, and TotalFinaElf.

On May 26, 2000 the President of the Azerbaijan Republic signed a law regarding the Main Export Pipeline (MEP). The MEP, which connects Baku with the Turkish oil terminal in Ceyhan via Georgia, will be the main route for transportation of Azeri crude oil to the world oil market.

The Agreement on South Caucasus Pipeline (SCP) was executed on 29 September 2001 and was approved by the Law of the Azerbaijan Republic on 26 October 2001. The SCP is the main route for transportation of Azeri gas to the world market. In particular, the pipeline will be used to ship natural gas from the offshore Shah-Deniz gas field to Turkey.

The country has two oil refineries, with total technical capacity of 22 million tones of crude oil per annum. Five big petrochemical plants as well as two metallurgical plants are located in Sumgait, 28 kilometers from Baku. Industrial and agricultural production, after four years of decline has been stabilized from 1996. A five-fold increase in oil production is anticipated in the future.

The tight monetary stance of the central bank has continued to show success and as a result the value of the local currency, the Manat, has stabilized in comparison to the US dollar in the last years. The banking system consists of a little over forty banks including several foreign banks.

Business Overview

Labor licensing requirements

Foreign employees are required to have individual work permits issued by the Ministry of Labor and Social Security. The work permit is valid for one year and can be extended up to four times. After five years an individual must leave Azerbaijan for one year to be eligible for a new work permit. The management personnel of foreign companies and foreign entrepreneurs are exempt from requirement to obtain the work permits.

Profit repatriation

Under the Foreign Investment Laws, foreign investors are entitled to repatriate profits in convertible currency after the payment of any taxes and other fees that are due.

Currency regulations

The official currency of Azerbaijan, the New Manat, (AZN) is not a freely convertible currency in the international markets, but has been internally stable and convertible for the last six years. AZN was introduced from January 1st, 2006 and equals 5,000 old manats. Old manats will continue to be in circulation throughout 2006.

Export of a hard currency in the amount up to the equivalent of USD 10,000 is allowed free of tax, provided that these amounts are supported by relevant documentation. If such documentation is missing, a 1% fee is payable on an amount from USD 1,000 up to USD 10,000. In case the USD 10,000 threshold is exceeded, supporting documentation must be provided in any event.

Foreign companies and individuals may have both AZN and foreign currency accounts in a local bank. All settlements within Azerbaijan including payments of employee salary should be made in AZN with a few exceptions. A permission of the National Bank of Azerbaijan is required to conduct certain transactions in foreign currency.

Land ownership

The Law on Land Reform, which came into force in 1996, governs land ownership in Azerbaijan. Azeri citizens and legal entities are permitted to own land. Companies incorporated outside Azerbaijan and foreign individuals have only the right to lease land.

The owner of a privatized enterprise has the right to buy the plot of land on which the enterprise is located. Legal entities are able to purchase residential premises together with the land on which they are located.

Establishing a business

The Law on Protection of Foreign Investment (adopted on 15 January 1992) and Law on Investment Activity (adopted on 13 January 1995), collectively the “Foreign Investment Laws”, provide the legal framework for foreign investment in Azerbaijan. The Foreign Investment Laws discuss the types of entities in which foreign companies can invest, the conditions governing repatriation of profits and earnings, and the general rights and guarantees of foreign investors. Foreigners can invest in a business venture in Azerbaijan in a number of ways, such as:

- Establishing a fully owned subsidiary;
- Acquiring shares in an existing company;
- Establishing a joint venture with Azeri companies and individuals; and
- Entering into other acceptable forms of investment agreements.

Various registration requirements apply to foreign companies establishing a business presence in Azerbaijan. A special license to conduct business is required for companies operating in the telecommunications, sea and air transportation, insurance and other regulated industries. Foreign companies establishing a business are required to register with the Ministry of Justice. A registration is also required with the tax authorities, social funds and statistical agencies.

Types of business presence

The Civil Code of Azerbaijan and the Law on Protection of Foreign Investments provide for the following types of Azeri organizations in which a foreign company may participate:

- Open and closed joint stock companies (JSCs);
- Additional and limited liability companies (LLCs);
- General and limited partnerships;

Foreign companies may also open a representative office or a branch in Azerbaijan.

Joint stock companies

JSCs are regulated by the Civil Code of Azerbaijan. A JSC is established by at least one legal entity or physical person. A JSC owner's liabilities are limited to the amount of their contributions. JSCs fall into two categories – "closed" and "open" JSCs. Shares of closed JSCs are not freely transferable and the company must have a minimum capital of AZN 2,000. Shares of open JSCs are not subject to the transfer restriction but must have a minimum capital of AZN 4,000.

Limited liability companies

LLCs can be founded by one or more legal entities or individuals with founding members actually owning a portion of the capital of the enterprise. Each owner's liability is limited to the amount invested in the LLC. LLCs do not issue shares. Participation interest in LLCs can be freely transferable to third parties unless other terms are established under the Charter of the LLC.

Partnerships

General and limited partnerships are governed by the Civil Code of the Azerbaijan Republic. A general partnership is established by at least two legal entities or individual entrepreneurs with all partners having unlimited liability. A limited partnership is established by at least two legal entities or individual entrepreneurs with at least one partner having unlimited liability. Partnerships are not taxed at the partnership level.

Other types of business presence

Foreign companies may also operate in Azerbaijan without establishing a local legal entity by registering a branch or a representative office with the Ministry of Justice. Branches and representative offices are allowed to conduct commercial activities in Azerbaijan.

Taxation

Introduction

There are currently three separate and distinct tax regimes that are applicable in Azerbaijan. These are the statutory regime, the tax regime applicable to oil and gas companies operating under Production Sharing Agreements (PSAs) and the tax regime for companies working under the Host Government Agreements (HGAs) on the Main Export Pipeline and the South Caucasus Pipeline. The general profits tax regime is applicable to all entities operating in Azerbaijan outside the scope of the PSA and the HGA regimes. Foreign companies, which are deemed to have a permanent establishment in Azerbaijan, are taxable on income derived from commercial activities of the PE in Azerbaijan. Foreign companies receiving income from Azeri sources other than through a PE are subject to withholding tax on the amount of such income.

The PSAs regime is a description of the rules, which cover the twenty-five production sharing agreements that have been ratified by the Milli Majlis. The PSAs regime generally applies to all contractor parties in production sharing agreements and their direct and indirect foreign subcontractors. The HGA tax regime applies to enterprises working on the Baku-Tbilisi-Ceyhan oil export pipeline and the South Caucasus Pipeline. For a complete summary of the two tax regimes mentioned in this paragraph, please refer to our separate *Azerbaijan oil and gas tax guide*.

Statutory tax regime

The tax regime outlined below is based on the Tax Code that was implemented on January 01, 2001 and amended as of 1 January 2007. The main taxes and payments affecting foreign investors operating under the statutory regime are as follows:

- Corporate profit tax;
- Personal income tax;
- Value Added Tax;
- Withholding tax;
- Social Fund Contributions
- Other taxes and charges (e.g. excise tax, property tax, road tax, land tax, natural resource tax, and other local taxes and charges).

Corporate Taxation

Permanent Establishments (PEs)

The Tax Code defines a PE as an entity conducting commercial activities for 90 days in any twelve-month period. However, despite this definition, the Tax Code also provides that entities conducting exclusively any or all of the following specific activities will not create a PE in Azerbaijan:

- Storage and display of goods;
- Storage of goods for the purposes of processing by another entity and the subsequent export from Azerbaijan;
- Purchase of goods and collection of information;
- Performance of any other preparatory or auxiliary activities;

Foreign companies not creating a PE are subject to withholding tax (see below) at the source of payment on any taxable income received from Azeri sources.

Profit tax

The following entities are generally subject to profit tax in Azerbaijan:

- Azeri companies, with or without foreign ownership;
- Branches of foreign legal entities;
- Representative offices of foreign enterprises undertaking commercial activities in Azerbaijan.

Taxable profits include trading profit, capital gains, profits from financial activities and other profit items. Residents, including those entities with foreign investment, are taxable on worldwide profits. Non-residents are taxable only on profits from activities performed in Azerbaijan.

Tax rates

The general profit tax rate is 22 percent. An additional branch remittance tax of 10% applies to profit remittances from the branch to the head office. The taxable base is net profits after taxes.

Determination of taxable profit

The annual income disclosed in the company's Azeri statutory accounts is reduced for all business expenses except for those specifically disallowed by the Tax Code. The most significant items of non-deductible expenditures for tax purposes are:

- Repair expenses in excess of established limits (to be capitalized and expensed through depreciation);
- Entertainment, accommodation and meal expenses (except for meal expenses connected with provision of "therapeutic nourishment", milk and similar foodstuffs to employees which are deductible up to certain norms, which are yet to be introduced by the government);
- Business travel expenses in excess of statutory limits.

Capital gains

Capital gains arising from the disposal of tangible and intangible assets are calculated as the difference between the selling price and the net book value (depreciated value) of an asset (without VAT). Capital gains are included in taxable profit and are therefore taxed at the basic rate of 22%.

Losses and bad debts

Losses may be carried forward over the next three years without any restrictions on the amount of losses to be utilized in each year. Losses cannot be carried back. Bad debts may be deducted from taxable income only if recognized as having no value in the accounting books of the company and if they were reflected as income in previous periods.

Losses and bad debts recovered in the future periods shall be recognized as income in the period of their recovery.

Interest and dividends

Interest (except interest on loans paid to local banks or non-resident banks with PEs in Azerbaijan) and dividend income received from Azeri companies and PEs of foreign companies is subject to 10 percent tax at the source of payment.

Depreciation charges

The maximum depreciation rates for profits tax purposes are shown in the table.

Type of assets	Rate of depreciation (%):
Buildings	7
Equipment and computers	25
Means of transport	25
Livestock	20
Geological and exploration costs	25
Intangibles	10
All other assets	20

Depreciation rates are applied to the residual value of asset categories. Depreciation may be applied at a lower rate than the maximum rates. The balance resulting from using the lower rate may be claimed in future periods.

Transfer pricing rules

Transfer pricing rules are provided for use in cases of import and export operations, barter transactions, transactions between related parties and transactions where the used price varies from market prices by more than 30% within 30 days. While the Tax Code provides for some guideline on application of the transfer pricing rules, it is not comprehensive and there is a fair amount of uncertainty about the application of the transfer pricing rules at the time of writing this guide.

Declarations and payments

Corporate tax is calculated on a calendar year basis. All taxpayers shall submit their declarations no later than March 31st of the following year. The deadline may be extended for three months provided that tax is paid in full by the original due date.

Tax installments are due quarterly by the 15th of the month following each quarter. Tax installments are estimated as 1/4th of the tax payable for the previous calendar year or can be calculated as multiplication of the previous year tax payable to the ratio of quarterly income to the annual income

of the previous calendar year. Final payment of the balance is due no later than March 31st of the following year.

Individual Taxation

Residency rules/ Scope

A resident is defined as an individual who is physically present in Azerbaijan Republic for the period of 183 days or more in a calendar year. Individuals not meeting this test are considered to be non-residents.

Residents are taxed on their worldwide income, while non-residents are taxed only on their Azeri source income. Tax on Azeri source income is normally paid by deduction of tax at source, at progressive rates. Income from overseas source is assessed on a current year basis for residents.

Azeri source income is defined as any income from commercial activities and sources in Azerbaijan, and specifically includes any income from employment in Azerbaijan. Place of payment in determining the source of income is irrelevant.

Rates

Personal income is subject to the following marginal income tax rates:

Monthly taxable income	Tax rates
Up to AZN 1,000	14%
Over AZN 1,000	35% of the amount exceeding AZN 1,000 + AZN 140

Individuals whose monthly income is less than AZN 200, are exempt from tax on the portion of their income in the amount of AZN 30.

Determination of taxable income

Virtually all forms of compensation are taxable to an employee including hardship and cost of living allowances, payments by employer for employee's child's education and payment of taxes on behalf of an employee, unless they are specifically exempted. Such an exemption includes accommodation and meal expenses incurred by employer on behalf of employees provided that no tax deduction is taken for these expenses on the profit tax return.

Social Insurance Fund contributions payable by the employee

Both Azeri and Foreign nationals receiving income in connection with their work in Azerbaijan must contribute 3 percent of gross salary to the Social Insurance Fund. Contributions are withheld at source and remitted to the Fund by the employer.

Capital gains and investment income

Sales of movable assets are not generally liable to income tax unless the disposal relates to a business or other entrepreneurial activities.

Interest and dividend income received from Azeri companies is subject to tax at source at a rate of 10 percent. Interest and dividends on securities and deposits is exempted till 1 January 2010.

Declarations and payments

If a taxpayer's only income is from Azeri sources, which is subject to withholding tax at source, the individual is not required to complete an income tax declaration.

Both residents and non-residents must complete and file their income tax declarations no later than March 31st of the following tax year. Payment of tax must be made before the filing deadline. The deadline may be extended for three months provided that tax is paid in full by the original due date.

Value Added Tax

Scope

All companies involved in commercial activities and foreign companies importing goods and services in Azerbaijan are subject to VAT.

Rate

The standard rate of VAT is 18 percent.

VAT registration

There are detailed requirements for registration and accounting for VAT, with penalties for non-compliance. Companies with taxable transactions exceeding a certain threshold (currently approximately USD 26,000 per three consecutive months) must register as VAT payers. Also, companies engaged in construction of apartment complexes should separately register for VAT purposes and pay VAT under special rules. The rules however have yet to be determined by the decree of the Cabinet of Ministers.

Other companies carrying out business activity in Azerbaijan may register voluntarily. Only registered VAT payers may charge VAT or claim a credit for input VAT that they pay.

Determination of taxable base

VAT is levied on turnover derived from the supply of all goods and services including imports, unless they are zero-rated or specifically exempt. Barter and free transfer of goods and services are specifically included in the taxable base. Any excise taxes and customs duties paid are also included in the taxable base for VAT purposes.

Zero-rated goods and services include exports, transit and international transportation, purchase of goods and services rendered on projects funded by international loans and imports paid with foreign financial donations. Specifically exempt goods and services include:

- financial services;
- transactions connected with currency or securities' circulation;
- publications.

Generally goods are deemed to be imported or exported if they clear customs. When determining the treatment of exports and imports of services there are detailed place of sale rules, which need to be applied.

Azeri VAT legislation generally allows a credit for input VAT incurred on commercial related goods or services. However, a credit is allowed only if VAT is paid to suppliers by bank transfer. A credit is not allowed for input VAT incurred in the supply of VAT exempt goods and services (such input VAT can only be claimed as a deduction for profits tax purposes). If input VAT exceeds output VAT, the excess input VAT may be carried forward or offset against certain other tax liabilities. Taxpayers may also request tax authorities for a refund of the excessive input VAT.

VAT incurred on the purchase of fixed and intangible assets is not capitalized as part of the asset's cost, but offset against output VAT.

Reverse charge VAT

Foreign companies providing services in Azerbaijan without establishing a PE are subject to VAT for taxable supplies in Azerbaijan. In these cases, VAT applies through the reversed charge mechanism. In other words it is self assessed by the recipient of the services and remitted to the Budget.

Declarations and payments

Declarations should be filed and VAT should be remitted monthly by the 20th of the following month. Output VAT is recognized on an accrual basis while input VAT is recognized on a cash basis. VAT on imported goods is paid separately at the point of customs clearance.

Other Taxes and Fees

Excise tax

Excise taxes for domestically produced hydrocarbon products range from 8.0 percent to 101.0 percent, alcoholic beverages from AZN 0.08 to AZN 0.8 per liter and for tobacco products 12.5 percent. Excise tax and VAT shall not be included in the taxable base.

Excise taxes for imported hydrocarbon products range from US\$1 per ton to US\$250 per ton, tobacco products US\$5 per 1,000 pieces and alcoholic beverages from US\$0.05 per liter to US\$3 per liter. Taxable base (excluding excise tax and VAT) is the higher of the value declared at the customs and the market wholesale price.

In addition, effective from 1 January 2007 imported automobiles, and yachts will also become subject to excise taxes. The tax rates for these goods vary from 0.15 AZN – 1 AZN per sm³ of engine capacity.

When producing excisable goods from excisable supplies, any excise tax paid on the supplies may be deducted from the excise tax due on the finished product.

Declarations should be filed and payment should be made monthly by the 20th of the following month. Excise tax is deductible for profits tax purposes.

Property tax

Property tax is levied at the rate of 1 percent on the average annual residual value of fixed assets including buildings, machinery and equipment (excluding vehicles). The taxable base is calculated as the average of the value in the beginning and the end of the year. Property tax is deductible for profits tax purposes.

The following are specifically exempt from property tax:

- social, cultural and sport facilities;
- environmental protection and security assets;
- vehicles subject to Road Tax, communication lines and power transmission networks.

Taxpayers are expected to submit their declarations no later than March 31st of the following year. The tax due is payable in quarterly installments by the 15th of the second month of the calendar quarter in the amount of 20 percent of the property tax due for the previous year.

Road fund tax

Road fund tax previously only applied to foreign vehicles engaged in transportation business upon entering in Azerbaijan at the rates dependant on the type of the vehicle and its load. The tax is collected by the customs authorities at the border.

Starting January 1st, 2005, vehicles used locally for any purposes are also subject to Road fund tax based on the following annual rates:

- For cars with an engine volume of up to 2,000 cubic centimeters – 0.01 AZN per 1 cubic centimeter;
- For cars with an engine volume exceeding 2,000 cubic centimeters – 0.02 AZN per 1 cubic centimeter;

- For buses and other vehicles - 0.02 per 1 cubic centimeter.

Road fund tax and respective tax declaration for vehicles used locally must be paid/filed no later than March 31st of the following year.

Land tax

Companies using land are generally subject to a land tax calculated as 0.1-10 AZN as applied to every 100 square meters. The land tax is deductible for profits tax purposes. Taxpayers are required to submit their declarations annually by May 15th. The tax due is payable twice a year, not later than August 15th and November 15th of the year.

Social fund employer contributions

Employers are required to make contributions to the Social Insurance Fund in the amount of 22% of the gross payroll of local and foreign employees. These contributions are made at the expense of the employer and are deductible for profit tax purposes. Relevant reporting should be filed quarterly by the 20th of the following month.

Royalty

All companies and individuals engaged in the extraction of mineral resources are subject to a royalty tax at the appropriate rate in addition to any land tax due. Royalty tax is deductible for profits tax purposes. The tax is applied to the wholesale price of the oil, natural gas and all types of mining resources at the rates ranging from 3 percent to 26 percent. For all other taxable mineral resources royalty tax is calculated based on a certain ratio of the conventional financial unit per cubic meter of the mineral.

Taxpayers are required to submit their declarations monthly by 20th of the following month. The tax due is payable monthly by 20th of the following month.

Simplified tax system

Companies and individual entrepreneurs that are not required to register for VAT purposes are subject to the simplified tax regime, under which tax is levied at 4% for companies and individual entrepreneurs conducting business in Baku and 2% for companies and individual entrepreneurs conducting business in the other regions of Azerbaijan. The taxable base is gross income received from sales of goods, provision of works and services. Legal entities working under the simplified tax regime are exempt from property tax.

Any taxpayer engaged in transportation of passengers and cargos (except for international transportation) will be subject to a simplified tax at established tax rates and will need to obtain what is referred to as a “distinctive number”. Taxpayers not involved in local transportation businesses and having vehicles for their own use will need to obtain a “special distinctive number” to differentiate themselves from the simplified taxpayers. Both the distinctive numbers and special distinctive numbers should be issued by the Ministry of Transportation at no cost within 2 or 5 days, respectively, after an application is submitted.

Taxpayers under the simplified tax regime submit their declarations quarterly by 20th of the following month. Tax due is payable quarterly by 20th of the following month.

The simplified tax regime is not applicable to credit and insurance organizations, investment funds, taxpayers producing excisable goods, securities’ market participants, taxpayers receiving income

from leasing of property and taxpayers owning property in the amount of more than approximately 1.2 million US Dollars.

Additionally, based on the most recent amendments to the Tax Code, which are effective from 1 January 2007, companies engaged in construction of apartment complexes also fall within the category of simplified tax payers. As a result such construction companies should pay a fixed amount of tax. Special rules on calculation of this tax for construction companies are expected to be introduced by the decree of the Cabinet of Ministers. Based on the currently available information, the tax rates under this regime will vary depending on the district/ region where the construction site is located.

Interest and penalties

There are certain interest and penalties applicable for failure to comply with the tax legislation. For example, interest on outstanding tax liabilities accrues at a rate of 0.1 percent per day. The following is a list of some of the penalties may also be applicable:

Offence	Penalty
Failure to register as a taxpayer with the tax authorities	AZN 40
Failure to file declarations	AZN 40
Understatement of tax liability	25 percent of understated tax
Payments from petty cash while bank accounts are imposed tax sanctions or penalties by the tax authorities	20 percent of expenses paid from petty cash
Failure to notify tax authorities on changes in a taxpayer's registration documents	AZN 40

The statute of limitation period for a tax law violation is set as three years.

Import tax

The maximum rate of the import tax is now 15%. Goods temporarily imported by enterprises for use in their own production for a period of less than a year and not for the purpose of deriving income are exempt from import tax.

Customs charges of 0.15% or 0.3% of the value of declared goods (if goods cleared for customs after regular working hours or outside customs territory) are payable on the customs value of imported goods as a customs processing fees.

Export tax

Exports of most goods are free from Export tax.

Withholding Taxes

Scope

Withholding tax is applicable to the repatriation of profits and other cross-border payments to foreign companies not related to a PE in Azerbaijan. The tax is payable at the following rates:

Nature of payment	Rate of withholding (%)
Insurance premiums	4
International communication and freight fees	6
Dividends and interest, including the interest element of financial lease payments	10
Management fees and fees for other services performed or deemed to be performed on the Azeri territory but not connected with an Azeri permanent establishment	10
Rents and royalties	14

Profits remittance to the head office derived from a permanent establishment in Azerbaijan are subject to a branch remittance tax at 10 percent.

Double tax treaties

The rate of withholding tax may be reduced by double tax treaties. However, a mechanism on advance tax clearance under double tax treaty is not provided.

Under the existing double tax treaties the rate of withholding tax varies depending on the contents of the particular treaty. The maximum rates of withholding tax taking into account current double tax treaties are shown in the following table.

Payee resident in	Dividends (%)	Interest (%)	Royalties (%)
Austria	5/10/15 (a)	0/10 (h) (i) (j) (k)	5/10 (s)
Belarus	15	0/10 (l)	10
Belgium	5/10/15 (b) (c)	0/10 (i) (m) (n)	5/10 (t)
Canada	10/15	0/10 (h) (o)	5/10 (u)
China	10	0/10 (i) (l)	10
Czech Republic	8	0/5/10 (i) (n) (p)	10
Finland	5/10 (d)	0/10 (h) (i) (j) (k)	5/10 (w) (x)
France	10	0/10 (h) (i) (r)	5/10 (v)
Georgia	10	0/10 (n)	10
Germany	5/15 (e)	0/10 (i) (n)	5/10 (w) (y)
Kazakhstan	10	0/10 (n)	10
Latvia	5/10 (f)	0/10 (h) (k) (l)	5/10 (z)
Lithuania	5/10 (f)	0/10 (i) (l)	10
Moldova	8/15 (g)	10	10
Norway	10/15	10	10
Poland	10	10	10
Romania	5/10 (f)	0/8(i) (l)	10
Russian Federation	10	0/10 (n)	10
Turkey	12	0/10 (n)	10
Ukraine	10	10	10
United Kingdom	10/15	10	5/10 (t)

Uzbekistan	10	0/10 (n)	10
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Notes:

- a. 5% of the gross amount if the beneficial owner is a company which holds directly at least 25% of the capital of the payer and the participation exceeds USD 250k or an equivalent amount in any other currency;
- b. 5% of the gross amount of the dividends if the beneficial owner is a company which holds, directly or indirectly, at least 30% of the capital of the payer and has invested at least an amount equivalent to USD 500K in the payer at the date of payment of the dividends;
- c. 5% of the gross amount of the dividends if the beneficial owner is a company which has invested at least an amount equivalent to USD 10,000K in the payer at the date of payment of the dividends;
- d. 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the payer and the participation in the payer exceeds EUR 200K or its equivalent in the national currencies of the Contracting States;
- e. 5% of the gross amount if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the payer and the participation in the payer exceeds EUR 150K or its equivalent in the Azeri mantas;
- f. 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the payers;
- g. 8% of the gross amount of the dividends if the beneficial owner is a company and the participation in the payer is at least USD 250K;
- h. 0% if the payer or the recipient of the interest is a Contracting State itself, a statutory body, an administrative territorial subdivision or a local authority thereof or the Central Bank of a Contracting State
- i. 0% if the loan in respect of which the interest is paid is made, guaranteed or insured by, a Contracting State itself, a statutory body, an administrative territorial subdivision or a local authority thereof or the Central Bank of a Contracting State;
- j. 0% if the interest is paid in respect of a loan which has been approved by the Government in the Contracting State where the payer of the interest is a resident;
- k. 0% if the interest is paid with respect of an indebtedness arising on the sale on credit of any merchandise or industrial, commercial or scientific equipment to an enterprise of the other Contracting State;
- l. 0% if the interest is derived and beneficially owned by the Government or the National Bank of the other Contracting State;
- m. 0% if the interest is on commercial debt-claims - including debt-claims represented by commercial paper - resulting from deferred payments for goods, merchandise or services supplied by an enterprise;
- n. 0% if the interest is paid to the other Contracting State, a political or administrative-territorial subdivision or a local authority thereof or any agency or instrumentality thereof;
- o. 0% if the interest arising in Azerbaijan and paid to a resident of Canada if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by Export Development Canada;
- p. 5% if the interest is paid in connection with a loan or a credit of whatever kind granted by a bank;
- r. 0% if the loan is in connection with the sale and the conditions of such sale are customary in such contracting state;
- s. 5% if the patent, the design or model, the plan, the secret formula or process, or the information concerning industrial, commercial or scientific experiences, in consideration of which these royalties are paid, is not older than 3 years;
- t. 5% in respect of any copyright of literary or artistic work (including cinematograph films, and films or tapes for radio or television broadcasting);
- u. 5% if the royalties are for the use of, or the right to use, computer software or any patent or for information concerning industrial, commercial or scientific experience (but not including any such royalty provided in connection with a rental or franchise agreement);
- v. 5% to royalties in respect of copyright of literary or artistic work, cinematography films and tapes broadcasted via TV or radio;
- w. 5% in the case of payments for the use of, or the right to use, any computer software, patent, trade mark, design or model or plan; for the use of, or the right to use, any secret formula or process, or for information concerning industrial, commercial or scientific experience (know-how);
- x. 10% in the case of payments for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting;
- y. 10% in the case of payments for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting, as well as the right to use names, portraits or any similar copyrights;
- z. 5% for the use of, or the right to use, industrial, commercial or scientific equipment.

Treaties with Italy, Pakistan and Luxembourg are in the ratification stage. Azerbaijan has initiated tax treaties with Bulgaria, Denmark, Estonia, Kuwait, Netherlands, Oman, Qatar, Sweden, Serbia and Montenegro. It is negotiating tax treaties with Greece, Hungary, India, Iran, Kyrgyzstan, Saudi Arabia, San Marino and United Arab Emirates.

Accounting and Reporting

Azerbaijani accounting system is much governed by the accounting legislation and Civil Code.

All entities registered in Azerbaijan (Azeri Legal entities, representative offices and branches) are required to maintain their books and records on the territory of Azerbaijan, in local currency, and in accordance with the Azerbaijan accounting legislation (AAL). This includes the use of a mandatory, and quite rigid, chart of accounts. In most cases this will necessitate the employment of a full-time, experienced Azeri chief accountant.

A new Law on Accounting that has been adopted recently charges the Cabinet of Ministers with the task of publishing new National Accounting Standards (NAS), which are yet to be developed. The Law stipulates that all significant entities including credit institutions, insurance companies, investment funds and commercial organizations meeting certain criteria will be subject to International Financial Reporting Standards (IFRS). Others (except for small private businesses) will have the choice of using either the IFRS or NAS. Small private business will have the right to choose between the NAS or a simplified method of accounting.

The period of transferring to the new accounting standards for significant entities and other commercial organizations is from January 1, 2008. In accordance with the Law during the transition period companies should follow the rules provided by the old accounting legislation. As such currently companies should continue using the old Law on Accounting and the statutory chart of accounts.

In practice, foreign companies participating in the various PSAs are exempted from following AAL, and are instead allowed to maintain their books in accordance with generally accepted industry practices.

Differences between AAL and IFRS

AAL differ substantially from IFRS and generally accepted accounting principles in other countries (e.g., the United States). A summary of the most significant differences is as follows.

Accounting policies

AAL do not require detailed disclosure of accounting policies used in the preparation of the financial statements or footnote disclosures that provide additional information, analysis and clarification of the financial statements.

Property, plant and equipment (PPE)

Property, plant and equipment is maintained under the historical cost convention (at acquisition price or cost of production including transportation and assembly costs) as modified by the revaluation of assets. At various times since 1992, PPE was revalued in accordance with Government decrees (most recently in 1996).

Indexes used for these revaluations did not necessarily properly account for the changes in the value of Manat nor did they result in the value of the underlying fixed assets to which they were applied being revalued to a current market value. Revaluations of property, plant and equipment are generally not required under IAS and US GAAP.

Impairment of assets

AAL does not permit the recording of an allowance against the carrying value of an impaired asset. This includes setting up an allowance for tangible assets as well as inventories, accounts receivable and other assets.

IAS requires, among other things, that long-lived assets and certain identifiable intangibles that are held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, allowances may be made upon the carrying value of short-term assets (for example, accounts receivable) when it is likely that the full carrying value of the asset will not be recovered.

Deferred taxes

Deferred tax assets and liabilities under IAS are recorded for the expected future tax consequences of existing differences between financial reporting and tax reporting basis of assets and liabilities, and loss or tax credit carry forwards. Under AAL rules, there are no provisions regarding deferred tax accounting.

Equity

In the balance sheet of an Azeri company equity is represented by charter capital, paid-in-excess capital, reserve capital, appropriated earnings, social funds and retained earnings for the current and previous years. Deductions can be made directly from reserve funds for non-tax deductible expenses.

Under IAS, equity is generally represented only by capital stock, additional paid-in capital and retained earnings for the current and previous years.

Ernst & Young Azerbaijan

Introduction

Ernst & Young have been undertaking projects in Azerbaijan continuously since 1993. The Ernst & Young organization was the first of the international accounting and tax consulting networks to establish a member firm in the Republic of Azerbaijan. Our office in Baku, the capital, opened in 1994. A team of over 64 staff is led by an audit partner Jody Campbell, a Member of the American Institute of CPAs and a tax partner Erlan Dosymbekov.

Services

Ernst & Young Azerbaijan, in conjunction with partners and staff from other members of the Ernst & Young organization, provide audit, accounting and tax consulting services to international and local clients in Azerbaijan. A number of major assignments have been undertaken in the country relating to inbound investment, enterprise and sector restructuring, and public policy.

Business assurance

Ernst & Young has been licensed to conduct audits in Azerbaijan since 1994. During this time we have gained unparalleled experience. We currently have four auditors who have obtained the status of certified public accountant in the USA and several others currently taking the CPA and ACCA examinations. We provide US GAAP and IFRS audits for many companies including BTC, SCPC, AGSC, Garadagh Cement, BP, Statoil, State Oil Fund of Azerbaijan Republic (SOFAR), Azpetrol, Azertrans, Crescent Beach and Azeurotel to mention only a few.

We also provide audit services to numerous companies operating in Azerbaijan under production sharing agreements (PSAs). We audit the cost recovery reports and profit tax returns for all PSAs in which BP Amoco is the operating company. We also perform the audit of LukOil's PSAs and perform the profit tax return audits for numerous contractor parties which own interests in various PSAs.

Our statutory audit clients include companies such as Azeri MI, Caspian Shipyard Company and Caspian Drilling Company, all being joint ventures with the State Oil Company of the Azerbaijan Republic (SOCAR).

We also provide accounting advice and other business assurance services for foreign and Azeri companies preparing accounts in accordance with IFRS, US GAAP and UK GAAP.

Tax and legal

Ernst & Young is recognized as the leading tax advisor in Azerbaijan. With our department combining an expatriate tax partner, Erlan Dosymbekov, with local tax managers and tax consultants, Ernst & Young advises on all aspects of corporate and personal tax planning and compliance. We have provided advice on local and international tax issues to a number of international enterprises that have made, or are considering making, investments in Azerbaijan. Our areas of expertise include international tax planning, transaction structuring, expatriate tax affairs, local tax compliance, and currency and foreign exchange planning. Our impressive client base speaks for itself. The firm has established good contacts with key state authorities and is in a position to facilitate negotiations between potential investors and the authorities. This continues to be a key service in a legislative environment that is ever changing and open to interpretation. The firm's tax practice receives technical support and a wider perspective on tax affairs in the former Soviet Union through its links with the rest of the Ernst & Young network.

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