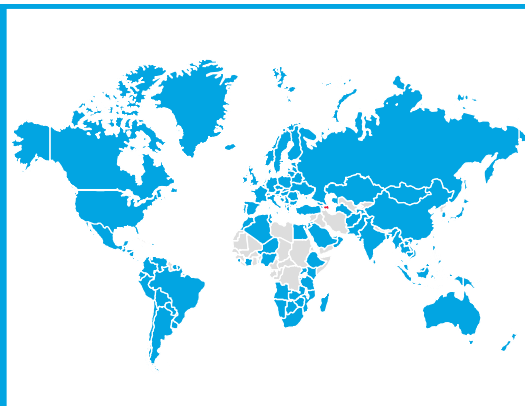


EXPATRIATES

Azerbaijan

Tax facts for International Assignees



INCOME TAX: WHO IS LIABLE/RESIDENCY

Azerbaijan tax residents are liable for 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 and must be paid within 20 days after the end of a reporting month. PIT is submitted under a quarterly Common Employee Income Tax return to the tax authorities by the 20th of the month following the reporting quarter.

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.

SOCIAL, UNEMPLOYMENT AND MEDICAL INSURANCE

Employment income of both Azerbaijani nationals and foreign individuals is subject to compulsory state social insurance contributions (“SIC”), compulsory medical insurance (“CMI”) and unemployment insurance charges (“UIC”). With certain exceptions, virtually all types of employment income are subject to SIC, UIC and CIM.

The employer is responsible for withholding and remitting SIC, UIC and CIM 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 responsible for submitting a quarterly Common Employee Income return to the tax authorities in respect of PIT, SIC, UIC and CMI by the 20th of the month following the reporting quarter.

Alongside quarterly Common Employee Income return, there are numerous 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 the visa, the work permit and the temporary residence permit requirements beforehand.

BREAKING RESIDENCY - EXIT PROCEDURES

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

INCOME TAX RATES AND SOCIAL SECURITY CONTRIBUTIONS

Income tax 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 NOT 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 OIL & GAS INDUSTRY 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), UNEMPLOYMENT (UIC) AND MEDICAL (CMI) INSURANCE RATES

Similar to PIT, employers are liable for paying SIC, UIC and CMI 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%)	

Since 1 January 2022, CMI is calculated at the rate of 2% from a part of the monthly gross salary not exceeding AZN 8,000 and at the rate of 0.5% deducted from the part of gross salary exceeding AZN 8,000 employees working whether for oil and gas or non-oil and gas industry and pertain to the state or non-state sector, while, additionally, the same are deducted from monthly gross payroll as the employer's portion.

Monthly employment income subject to CMI	CMI rate is two-fold
Up to AZN 8,000	2%
Income exceeding AZN 8,000	AZN 160 + (Income exceeding AZN 8,000) multiplied by 0.5%

For further information and to register for future updates contact expat@bdo.global

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