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© Objectives of the Center for Analysis of Economic Reforms and Communication is to develop proposals for realization of economic reforms based on analytical data by conducting analyses and researches on macro - and micro - economic levels directed to ensuring sustainable economic development of the country, as well as prepare mid – and long-term forecasts, provide government authorities and agencies with the same and organize promotion of the achievements made by the Republic of Azerbaijan in various sectors of the economy.



AMENDMENTS AND ADDITIONS ON THE TAX CODE

The Ministry of Taxes prepared the draft law with respect to implementation of the Presidential Order № 2257, dated on August 4, 2016 “on approval of tax reforms directions in 2016” and improvement of tax administration”. The draft law on amendments to the Tax Code of the Republic of Azerbaijan contains 201 amendments including 115 new articles, amendments to 83 existing articles, and removal of 3 articles.

Diverse economic reforms in Azerbaijan include *inter alia* introduction of efficient tax policy, advanced tax legislation and development of favorable tax environment. The country made significant achievements during previous periods in terms of the adoption of large-scale concept papers, strategies and programs, introduction of best practices in national tax legislation based on international cooperation, strengthening of institutional capacities and improvement of administration.

As part of initiated economic reforms and ongoing tax reforms implemented in the country, “Directions of reforms to be implemented in the field of taxation in 2016” was approved by the Executive Order of the President of Azerbaijan on “Directions of tax reforms to be implemented in 2016 and improvement of tax administration” issued on 4 August 2016, by which the Ministry of Taxes was tasked to improve tax administration and legislation in the country.

As the result of the implementation of these tasks, **7 rules and 4 administrative regulations** were approved by Collegial Decision of the Ministry and these normative acts were registered in State Registry of Legal Acts of the Republic of Azerbaijan. Moreover, several draft laws were developed based on evaluation of international best practices and opinion of international experts.

Reforms implemented under the presented draft laws cover important areas, such as **reducing amount of cash payments, levying taxes on e-commerce, transfer pricing, improving accounting policy to make it more transparent, simplifying tax administration, expanding rights of taxpayers, increasing level of tax services provided to taxpayers complying with requirements of tax legislation**. It is also worth to note that the

ministry, in order to increase level of tax services, has already launched an introduction of **“Green Corridor” principle** to serve well-disciplined taxpayers. As set forth by draft laws, it is also planned to introduce “Green Corridor” principle to the taxpayers, who maintained a transparent accounting.

To sum up, the presented normative documents are composed of draft amendments to Tax Code, Civil Procedural Code, Administrative Offence Code and Criminal Code, as well as the law on E-commerce, Law on State duty, law on enforcement and the draft law on Cashless payments.

The draft law on amendments and additions to the Tax Code of the Republic of Azerbaijan contains **201 amendments including 115 new articles, amendments to 83 existing articles, and removal of 3 articles**. 123 articles are associated with improvement of administration and introduction of transparent accounting policy. 34 articles provide provisions to expand taxpayers’ rights, while the remaining 8 articles are about reducing tax burden, as well as tax benefits and exemptions.

The draft laws cover primarily the following directions:

1. Calculation of VAT from trade additive in retail business to reduce tax burden

As known, since 1999, agricultural producers have been exempted from all other taxes, specified by the Tax Code, except for the land tax. Total value of these products is subject to VAT when they are traded in retail facilities of the shopping networks. In accordance with the effective legislation, value of VAT taxable transaction is defined on the basis of an amount which tax payer, without considering VAT, collects or has a right to collect from a

client or any other physical person. Since no other rules for defining the value of taxable VAT transactions, sales networks need to calculate VAT from total sales turnover, which in turn causes rises in retail prices.

In the light of the above mentioned, in order to incentivize small and medium enterprises, create business enabling environment for retail business and optimize tax burden, the draft law included provisions that calculate VAT from the difference between selling and purchase prices of agricultural products (i.e., from trade additive) imported to the Republic of Azerbaijan by retailers.

In addition, starting from January 1, 2017, the draft also envisages exemption from VAT the idle (toxic) assets for 3 years as part of restructuring and revitalization measures applied to banks in insolvency.

In addition, the draft included provisions such as exemption from profit tax (without term limit) for incomes of institutions providing mandatory medical insurance and health services recently established by Presidential Decrees and Orders. The draft also included 3-year VAT exemption for wheat import and sales, wheat flour purchase and selling and poultry meat selling.

Exemption from income tax for annual interest revenues of banks generated from deposits of physical persons, dividends paid for investment securities, as well as discount (obtained from the acquiring discounted traded bonds) and interest income was increased for 5 years (by February, 2021).

In addition, to reduce tax burden of businesses and stimulate export, the draft included amendments to tax refund period for over VAT payments during export transactions,

and decreased it from 45 days to 20 days. Besides, the draft contains provisions that facilitate compensation of over-payments of other persons who are involved in transactions subject to VAT with other tax obligations within 3 months and refund of the remaining amount within 20 days.

The abovementioned amendments will facilitate reduction of tax burden and efficient use of floating capital of taxpayers.

2. Identification of criterias distinguishing taxpayers dealing with wholesale and retail business

Calculation of VAT from trade additive in retail business, as well as introduction of electronic invoice, as tasked by the Executive Order, help to identify the scope of taxpayers involved in wholesale and retail business.

It is also worth to note that currently, wholesale businesses, in most cases, do not use serious reporting blanks when they submit goods, which causes certain difficulties in maintaining accounts by taxpayers and other persons who had joint business transactions. For this reason, the draft included concepts defining criteria that distinguishes taxpayers involved in wholesale and retail business. According to the draft, a wholesale is a trade transaction where goods are submitted for business purposes to buyer using invoice. Retail, however, is a trade transaction where goods are transferred to buyer based on a receipt or bill.

These amendments will help to prevent from conflict of view among taxpayers and tax authorities, as well as imposition of potential financial sanctions against them.

3. Introduction of electronic invoice (e-invoice)

Analysis of existing situation in the field of documentation of various transactions shows that, paper-based invoicing leads to several problems including tax evasions in the country.

To prevent such cases, the draft included provisions specifying e-invoicing when goods, works and services are provided among businesses. Furthermore, according to the new amendments in the draft, in the event of absence of invoice, e-invoice or electron tax bill-invoice, financial sanctions equal to 10 percent of purchased goods will be imposed on taxpayers who made for the first time in the calendar year. The amount of sanction will constitute 20 percent of purchased goods if taxpayer commits the same violation for the second time. The amount of financial sanction will constitute 40 percent of purchased goods, if the same offense is repeated for the third or more time in calendar year.

The draft law also includes a transitional provision on introduction of e-invoice for provided goods and services. For businesses involved in trade and (or) catering services with taxable transactions over 200.000 AZN during any month of 12 consecutive month starts from the 1st of April, 2017, while for all other legal entities and physical persons who are buyers of goods, works and services have to introduce e-invoice starting from the 1st of January, 2019.

The purpose of this amendment is to simplify documentation of transactions among businesses, ensure operational efficiency, reduce administrative costs, and prevent from conflict of view among taxpayers and tax authorities during any future tax enforcement measures and to ensure transparency.

4. Pre-calculation of tax obligations

Improper calculation of tax obligations

by businesses, for any reason, results in additional financial sanctions against such taxpayers. In order to prevent such cases, it is important to develop a mechanism that introduces pre-calculation of tax obligations for transactions that tax payers plan to conduct. This mechanism is mainly related to calculation of tax obligations for large-sum contracts prior to closing transactions as specified by those contracts. This would cause further calculation of additional taxes and financial sanctions against such taxpayers.

For this purpose, relevant provisions were included into the draft law to identify the rule for receiving consent of tax authorities prior to legal outcomes, which tax obligations could cause. Value of each such transaction should not be less than 10 million AZN and relevant state duty needs to be paid for adoption of such decision. In this regard, draft Law on amendments to the “Law on State duties of the Republic of Azerbaijan” has been prepared.

It is required to pay a state duty of 500 AZN for adoption of decision on pre-calculation of tax obligation.

It is worth to note that this mechanism has already been introduced in the legislation of countries such as Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Israel, Italy, Japan, the Netherlands, Spain, Turkey, Great Britain, United States and others.

5. Completion of in-house tax audit within 30 days

According to the effective legislation, in-house tax audit is conducted within 30 days from the day of submission to tax authority of documents necessary for calculation and payment of taxes by taxpayer. Cases, such as the failure

in submission of appropriate documents by taxpayer in due time or denial of carrying out necessary documentation cause extension of duration of in-house tax audit. To prevent such cases, it has been decided to complete in-house tax audit within 30 days based on submitted tax declarations.

For this purpose, the draft law included provisions prohibiting repeated in-house tax audit based on the same declaration after the expiry of 30 working day period.

It is also worth to note that introduction of automated system for processing of risks has been launched by tax authorities, which will further enable to complete in-house tax audit of declaration within 30 days.

After 30 days from the submission of declaration by taxpayer, 5 days prior notice about inconsistency discovered by tax authorities will be sent to taxpayer before conducting in-house audit, which is another factor that serves the protection of the taxpayers' rights.

6. Introduction of voluntary tax disclosure system

As known, unscheduled tax audit as set out in effective tax legislation could be carried out in case of signs when hiding (decreasing) taxpayers' incomes or taxable activities or assets are discovered by tax authority (based on any information with known source), despite the termination of in-site tax audit. In such cases, the amount evaded from tax is paid to public budget and additional financial sanction equal to 50 percent of evaded total amount is applied to that taxpayer. ***Introduction of provisions on voluntary tax disclosure, which is proposed to the existing tax code, will release taxpayers from imposition of such financial sanctions.***

Voluntary tax disclosure refers to voluntary declaration by tax payers of mistakes not discovered during tax audit, including miscalculation of taxable amount upon the completion of in-site tax audit conducted by a tax authority. In this regard, relevant amendments are proposed to the existing Tax Code, which allow taxpayers to submit declaration for periods covered by in-site tax audit on voluntary tax disclosure. Under that declaration, no ***interest and financial sanctions are imposed on taxpayers for the voluntarily disclosed taxable amount.***

It should also be noted that the similar provisions are reflected in legislation of the United States, most European countries and Turkey.

7. Cashless payments

According to the Executive Order, the draft Law of the Republic of Azerbaijan "On Cashless Payments" has also been prepared. The draft law specifies the concept of cashless payments, monthly amount of cash payments was limited to 30,000 AZN for VAT-registered businesses involved in trade and (or) catering services with taxable transactions over 200.000 AZN during any month of 12 consecutive months, while the amount of cashless payments for other taxpayers was limited to 15,000 AZN per month.

In addition, the draft law requires payments to be made on the cashless basis for the following: payment of administrative fines, financial sanctions, taxes, customs duties, collections, interests, debt payments for leasing transactions and credits, insurance payments, service fees and other duties, pensions, allowances, material assistance, compensations, fixed-line telephone services, education fees to government bodies, payments to the legal entities under state ownership or with control package owned by state, budget organizations

and public legal entities and tour agencies.

Furthermore, except for entities providing retail trade and catering services with the total transaction of 200,000 AZN in any month of 12 months period, salaries paid by all other persons (entities) should be based on cashless payments.

In the event of violation of the requirements of this draft law, financial sanctions equal to 10 percent of purchased goods will be imposed on taxpayers who made for the first time in the calendar year. The amount of sanction will constitute 20 percent of purchased goods if taxpayer commits the same violation for the second time. The amount of financial sanction will constitute 40 percent of purchased goods, if the same offense is repeated for the third or more time in calendar year.

Apart from the abovementioned, in order to limit cash dispensing from banks, a simplified tax with an interest rate of 1% will be deducted from legal entities and individual entrepreneurs for cash dispensing from banks as specified by the draft amendments to the Tax Code.

Restriction on cashless payments has been provided in legislation of countries such as France, Italy, Spain, Belgium, Czech Republic, Slovakia, Kazakhstan and others.

These changes will enable the increase of the volume of cashless payments, improvement of financial state and liquidity banks, better regulation of cash turnover, introduction of transparent mechanisms in public expenditures, legalization of salaries and other payments and finally increase of international rating of the country.

8. Prevention of cases for artificial increase of expenditures (transfer evaluation)

The Article 14 of the Tax Code governs determination of market value of goods (works and services in transactions closed among parties for the taxation purposes. The existing tax of this Article allows tax authorities to control proper distribution of incomes and expenditures in transactions closed by resident taxpayers with other taxpayers established outside the borders of the country. To prevent such cases, relevant articles were included into the draft to levy taxes introducing transfer prices for revenues generated from transactions with entities (persons) established outside country borders, including offshore countries and territories.

The draft law also envisages to **apply transfer prices to transactions with a total value over 500,000 AZN** for each person mentioned above during the calendar year.

When amendments were prepared to the draft law in this direction, recommendations of the Organization of Economic Cooperation and Development (OECD) were examined. Moreover, comments of the international experts were also taken into consideration. Transfer pricing is applied in countries such as the member states of the European Union, United States and others.

9. Determination of tax obligations for physical persons as monthly fixed taxes

According to this amendment, the draft law sets out rules of payment of taxes in simplified manner as a fixed amount by physical persons dealing with some types of activity. Operation based on receipt for payment of taxable fixed amount was related to duties of simplified taxpayers, and the Code includes the list of those types of activities and the tax rate.

These types of activities included services

provided by masters of ceremonies, musicians, dancers, ashug professionals, as well as individual photo, audio and video services, repair of home appliances, services of nurses, individual drivers, cleaners in households, gardeners and others.

According to changes, persons fulfilling simplified tax obligations on the basis of receipts of payment for fixed amount should do not submit declarations to tax authority.

These changes will contribute to ***reduction of tax and administrative burden of low-income physical persons.***

10. Taxation of digital economy (e-commerce)

Another draft law is about amendments to the Law of the Republic of Azerbaijan on E-Commerce. This Law specifies several norms such as expansion of the scope of e-commerce, pocket money concept introduced widely in practice.

The Tax Code also envisages provisions specifying functioning mechanism of taxation of transactions made within digital economy.

The draft Law also includes provisions on VAT taxation to the recipients of works and services realized as e-commerce transactions, as well as lotteries, other contests and competitions held as e-commerce transaction.

According to these provisions, VAT should be calculated at the expense of buyer for the amount payable to non-residents by local bank, branches of foreign bank in the Republic of Azerbaijan or national operator of postal communication when payments are made by persons, who are not registered in tax authorities.

The abovementioned changes will help to ensure transparent tax control over taxpayers using e-commerce and remove discrimination between participants of resident and non-resident e-commerce.

11. Definition of borders for production and processing of agricultural products

As known, since 1999, producers of the agricultural products have been exempted from payment of all other taxes specified by the Tax Code, except for the land tax. It is worth to mention that these privileges are applied to persons who are directly involved in production of agricultural products. For resolution of contradictory views and disputes arisen in these areas, definitions such as production and sale of agricultural products were included into the draft as it became necessary to precisely identify the scope of tax privileges applied to producers of agricultural products.

Cattle and poultry breeding, generation of products when they are alive (in initial form, without converting to new product using as semi-product, without changing the chemical content, without canning), growing of planting products, including industrial method (including special broiler farm, automated barn systems) were also included into ***definition of the production of agricultural products.***

12. Provisions against mistreatment rights in tax legislation in line with international best practices

Some taxpayers evade paying taxes by introducing different schemes that allow mistreatment of rights granted under the tax legislation.

Concluding multistage agreements to decrease tax obligations based on exaggeration of costs via transferring them from one taxpayer to another could be an example for such schemes.

Considering the international best practices, it is planned to include into the tax legislation the provision against ill-use of rights in order to impose transparent taxation on taxable assets and prevent hiding the tax base. This experience is applied in countries such France, Germany, the Netherlands, Belgium and others. In the event of tax evasion scheme are discovered by tax authority, provisions reflecting the right of tax authorities to calculate taxes, as prescribed by the legislation, based on actual economic implication were included into the draft legislation.

13. Building tax control mechanisms on transactions made in countries with privileged taxation system

According to the Order, building efficient control mechanisms on transactions made in countries or territories with privileged taxation system (offshore zones) was also reflected as part of reform measures. Reason for introduction of such mechanisms are to identify persons who evaded taxes in the Republic of Azerbaijan from their income and profit using enterprises established in offshore zones, and ensure proper taxation of those transactions as stipulated by the relevant legislation.

For this purpose, the draft amendments included provisions, where payments made directly or indirectly by permanent representative offices of residents and non-residents in the Republic of Azerbaijan to entities, established (registered) in countries with privileged taxation regime, were related to incomes generated from Azerbaijan as the source. The provisions of the draft amendments also include withholding tax at source with an interest rate of 10 percent.

This change is one of the steps adopted internationally to fight against income transferred to offshore enterprises with evasion

from taxes. The similar provision is specified by relevant legislation of countries such as Latvia, Estonia, Kazakhstan and Georgia.

14. Expanding the scope of electronic audit

As known, one of the targets of public tax policies is to minimize direct contacts among businesses and tax authorities and facilitate relationship based on electronic communication.

In this regard, Tax Code included definition of electronic audit where it was defined as a tax audit conducted with direct and distant access to electronically maintained accounting data of taxpayers using special software programs, as well as provisions defining the method of conducting electronic audit by the decision of tax authority as stipulated by guidelines of relevant executive authority.

15. Achievement and maintaining high international ranking on the level of transparency and information exchange in the field of tax

As known, the Republic of Azerbaijan joined the Convention "On Mutual Administrative Support on tax issues" in 2003. This Convention specifies assistance in the field of taxes and automated exchange of information on revenues of taxpayers.

Besides, relevant Treaty on implementation of tax claims was signed between the Government of the United States and the Government of the Republic of Azerbaijan.

According to the abovementioned Treaty, exchange of bank accounts of taxpayers, as well as transactions made using those bank accounts is conducted among the parties.

In order to fulfill requirements committed under international treaties, **provisions specifying**

rights and duties, as well as associated responsibilities of financial institutions, including banks have also been included in the draft of the Tax Code.

It is also worth to note that country report on Azerbaijan was placed for discussion in the meeting of Global Forum Evaluation Group held in Paris in September of this year and the Republic of Azerbaijan was awarded a score “largely compliant” with the approved decision of the Evaluation Group. This ranking was approved by Global Forum in October 28, 2016, and published in the official website of the Global Forum and OECD.

16. Utilizing notaries to withhold simplified tax at source for transactions made during formalization of land sale transactions

As known, according to the effective legislation, profit and income tax is levied on sale of land plots as a general rule. Improper indication of prices and lack of documents certifying purchase and costs causes difficulties in determination of tax obligation of persons who present this land plot during formalization of transactions. For this purpose, provisions specifying simplified taxation of land plots have been included into the draft amendments.

17. Improvement of legislation on enforcement of tax obligations

Draft law on amendments to the law **“On Enforcements” of the Republic of Azerbaijan**, specifies the following provisions: control over tax obligations received for enforcement by respective officials;

control over enforcement documents returned back;

provide possible assistance to enforcement officials with receiving tax obligations;

require enforcement officials to provide the relevant tax authority with the following, in order to maintain a proper accounting:

- a copy of decision on launching of enforcement measure with respect to court decision regarding withholding the tax obligation;
- enforcement documents returned back when enforcement was not possible.

This draft law also includes provisions on sale of properties **with a total value less than 5,000 AZN in shopping networks, including in the electronic commerce networks.**

Considering the case when relevant amendments are made to the Law of the Republic of Azerbaijan on “Enforcement”, more favorable conditions will be created to ensure enforcement of court decisions in a short period of time, as well as full collection and on time payment of taxes collected by the Ministry of Taxes of the Republic of Azerbaijan to the public budget.

Amendments to the Civil Procedural Code are necessary to ensure consistency with the Tax Code of the Republic of Azerbaijan. Court reviews application of tax authority as specified by Article 90.1 of the Tax Code in an order as specified by the Civil Procedural Code of the Republic of Azerbaijan.

In order to ensure full and effective collection of tax obligations to the public budget, several amendments were included into the draft of the Tax Code. These amendments will ensure much simpler and more effective implementation of the enforcement of court decisions.

18. Provisions associated with expansion

of tax base

It is also worth to note that several provisions associated with the expansion of tax base were included into the draft law on amendments to the Tax Code.

These amendments are the followings:

- increase the excise rates by 2-3 times applicable to yachts designed for rest and sport purposes, and other floating means designed for these purposes, motor vehicles with the size of engine over 2000 cubic centimeter, each gram of platinum and gold, 1 carat of diamond;
- include fur-skin goods into the excisable goods to levy an excise tax with an interest of 10 percent;
- levy property tax on legal persons who are simplified taxpayers;
- decrease amortization norm from 25 percent till 20 percent for machinery and equipment;
- Limit deduction from income by 40 percent of amortization calculated for assets purchased using investment expense of the public budget.

The abovementioned amendments to the Tax Code are considered as part of economic reforms carried out in the country.



FOOD SAFETY AGENCY

Establishment of Food Safety Agency, as one of the multiple steps to be taken for effective implementation of measures set by the Strategic Road Map, will play significant role in adapting the food safety system of the Republic of Azerbaijan with the requirements of international standards.

The food safety control system of the Republic of Azerbaijan significantly differs from international requirements and best practices. This system does not ensure complete food safety in the country. Food safety system of Azerbaijan needs to meet the requirements of the European Union and respective international organizations. It is also necessary to increase quality and safety of products and remove duplication in activities of different bodies involved in control of food safety in the country.

At present, State Committee for Standardization, Metrology and Patent is in charge of control over compliance of production of certified products with relevant standards, while the Ministry of Economy exercises control over compliance of products in the market with requirements of standards. Besides, several government authorities exert control over food stuffs at production level. State Phytosanitary Service is responsible for control of plants and plant products, while the State Veterinary Control Service exercises control over live animals and animal products. Furthermore, raw stuff necessary for production, as well as, overall production process are controlled by the Ministry of Health and State Committee for Standardization, Metrology and Patent. Once the product entered into the market, control power is passed to the State Service for Antimonopoly Policy and Consumer Rights' Protection under the Ministry of Economy. At

the same time, Ministry of Health exercises control over food stuffs in the market.

As presented above, food safety control system in Azerbaijan does not fully comply with up-to-date standards and many functions are duplicated by other government bodies. In particular, majority of food safety standards, sanitary and phytosanitary norms and rules had been developed during the Soviet Union, and they need to be improved according to the requirements of international standards. Inspection mechanisms during import-export transactions are among the areas that need improvements. It is necessary to bring procedures of inspection of products into line with the requirements of the World Trade Organization (WTO).

"Strategic Road Map on Production and Processing of Agricultural Products" approved by the Decree of 6 December 2016 of the President of the Republic of Azerbaijan, sets a goal to remove parallelism in obligations and functions of various government bodies involved in food safety control and build an effective regulation system. In this regard, establishment of the Food Safety Agency of the Republic of Azerbaijan by the Presidential Decree on "Additional measures to improve the food safety system in the Republic of Azerbaijan", dated 10 February, 2017, will contribute to the improvement of food safety system in the country.

The Food Safety Agency will facilitate the implementation of the following activities from 2018 onwards:

1. Normative regulation on safety of food stuffs (preparation and approval of sanitary norms and rules, as well as hygiene regulations) and analysis of risks in the Republic of Azerbaijan;
2. Carry out hygienic certification works, including issue quality certificate for food stuffs exported to foreign countries, as specified by the legislation;
3. Exercise public control in all stages of production in the field based on “farm to table” principle and in view of the risk levels.

It is also worth to note that Food Safety Commission was established under chairmanship of Ali Ahmadov, Deputy Prime Minister, in order to ensure operation of the agency as specified in the Presidential Decree. Minister of Economy of the Republic of Azerbaijan, Minister of Health of the Republic of Azerbaijan, Minister of Agriculture of the Republic of Azerbaijan, chairman of the State Committee for Standardization, Metrology and Patent of the Republic of Azerbaijan, chairman of the State Committee for Property Issues of the Republic of Azerbaijan and the chairman of the State Food Safety Agency of the Republic of Azerbaijan were appointed as the members of

this Commission. The Commission is ordered, within 4 months, to submit its proposals on draft charter, structure and general number of staff of the Agency, to the President of the Republic of Azerbaijan. According to the Presidential Decree, January 1, 2018 is set as the expiry date of Commission’s operation.

According to the mentioned Decree, within 6 months, the draft law on “Food safety” based on the best international experience should be presented to the President by the Cabinet of Ministers of the Republic of Azerbaijan. Besides, the Cabinet of Ministers, together with the Agency will develop the draft of the “State program on food safety control in the Republic of Azerbaijan in 2018 – 2025” to present it to the President of the Republic of Azerbaijan. The following tasks will be set as the priorities in the draft of the state program:

- to ensure compliance of normative legal acts on food safety control, including standards, phytosanitary and veterinary norms and regulations with the International Plant Protection Convention (IPPC), as well as with the standards and requirements of Codex Alimentarius Commission and World Organisation for Animal Health;
- to ensure compliance of food products conformity evaluation (approval) system with relevant international requirements;
- to conduct risk grouping of food products

(lower, medium and high risk groups) and identify risk evaluation criteria based on best international experience;

- to improve control system of genetically modified organisms and their reproductions;
- develop and implement control system and mechanisms for production of food products based on “farm to table” approach and in view of risk levels associated with each product;
- strengthen staff’s capacity in the field of food safety;
- strengthen and modernize material–technical supply with regard to safety of food products (expand laboratory network and international accreditation of laboratories).

It is also worth to mention that Presidential Decree on “Additional measures to improve the food safety system in the Republic of Azerbaijan”, dated 10 February, 2017 enabled identification of precise division of power to remove duplication among various government bodies. According to the Decree, the Ministry of Agriculture of the Republic of Azerbaijan will be responsible for state control in the fields of veterinary, plant protection and quarantine (excluding the products of animal and plant origin and raw stuffs), while the control of safety of food products, such as the products of animal and plant origin and raw stuffs will

be exercised by the Food Safety Agency. In order to remove the duplication of powers of government authorities and institutions involved in control in this field, the Cabinet of Ministers, together with the Ministry of Agriculture and the Agency will prepare proposals within 4 months to present them to the President of the Republic of Azerbaijan.

Besides, State Committee on Property Issues, together with the Agency should resolve issues such as material-technical supply for organization of Agency’s functioning, and take an inventory of state property of other public authorities and institutions capable to serve the Agency to implement its operation and prepare proposals on transfer of that property to the Agency to submit the President of the Republic of Azerbaijan within 5 months.

At the same time, it should be noted that the Food Safety Agency will be Azerbaijan’s National Focal Point for Codex Alimentarius Commission, which will further strengthen the activities in this field.

With the establishment of Food Safety Agency, which will exercise single control function, food safety control system and its transparency will be further improved, while duplication and ineffective organization will be removed. Besides, Establishment of the Food Safety Agency will also facilitate successful implementation of actions listed in the “Strategic Road Map on Production and Processing of



Digital Trade Hub of Azerbaijan

President of the Republic of Azerbaijan issued a Decree to expand export potential and competitiveness of non-oil sector with special emphasis on preservation of its high growth rate, harmonize legal and infrastructure basis of existing electronic commerce transactions, further strengthen the leading position of the Republic of Azerbaijan as a key digital trade hub in the region.

The Decree sets several important steps to be taken towards more easy and favorable e-commerce for businesses. According to the Decree, a section “Azerbaijan Digital Trade Hub” will be created in the www.azexport.az portal, an internet portal that proved itself and enables foreign business partners of the Azerbaijani entrepreneurs to prepare and sign documents and agreements electronically, and perform electronic services in real-time.

Thus, a platform is created to receive electronically all types of permits based on “Single window” principle, which are required to carry out export transactions of exporters, who submit goods produced in the Republic of Azerbaijan using e-commerce.

The Decree sets measures necessary to achieve mutual recognition of electronic signatures with various countries, which will facilitate e-commerce transactions executed by entrepreneurs, and pursue promotion of “ASAN signature”, one of innovative products of the country accepted at global level.

In order to implement responsibilities set by the Decree, the following has been identified as measures for implementation: study of different markets, sector-based analysis of legislation of potential export partners, provision of practical and consulting services to entrepreneurs.

The Decree creates concrete tasks for public bodies involved in foreign trade, which is characterized as an important step towards increased transparency and accountability in the field of entrepreneurship development.

Expected tendencies include promotion of “ASAN signature” and recognition of electronic signature, including positive impact caused by digital platforms on the increase of indicators of foreign investment flow.

It is also planned to improve legislation,

where necessary, in support of the above activities. Apart from the abovementioned, the Center for Analysis of Economic Reforms and Communication (hereinafter referred to as “Center”) was appointed as an institution responsible for establishment of the section “Digital Trade Hub of Azerbaijan”. Besides, the Centre will pursue introduction of “Single window” platform for issuance of electronic permits.

In addition, the existing www.azexport.az internet portal (hereinafter referred to as “Portal”) will enable real-time data exchange among integrated public information resources, making payment for realized commerce transactions, and widely spread electronic wallet will be established for this purpose.

The Decree also sets integration of electronic signatures into the Portal. It should be noted that the Decree attaches special attention to the protection of data and sets separate tasks to ensure the protection.

One of the unique attributes of the portal will be its arrangement based on public–private partnership principle and corporate governance standards.

The Decree tasks respective bodies to facilitate the issuance of electronic signature, including “ASAN signature” to non-residents through diplomatic representative offices and consulates of the country, and ensure mutual recognition of electronic signature, including the “ASAN signature” with foreign countries.

The respective information will be placed in websites of the diplomatic representative offices and consulates of the Republic of Azerbaijan, as specified by the Decree, and regular promotional measures will be taken in this respect.

The created electronic services envisages to

integrate information resources of the State Customs Committee into the portal. These electronic services will facilitate real-time completion and submission of export customs declarations, as specified by agreements concluded through the portal. Besides, the electronic services will enable real-time cancellation of the outcome of customs control.

Once the Portal is operationalized, the Ministry of Economy of the Republic of Azerbaijan will be able to receive electronically via the Portal the applications submitted for receipt from public budget of payment for export promotion. The Ministry of Economy will also be commissioned to integrate, to certain extent, the issuance of permits, their duplicates and attachments, as well as re-documentation, suspension or cancellation of permits using “Licenses and permits” portal.

The Ministry of Taxes will also integrate into the Portal its information resources in order to facilitate access to information on Taxpayers, Identification Number of physical and legal persons during export transactions made through the Portal.

In order to accelerate financial transactions, the Chamber for Control of Financial Markets of the Republic of Azerbaijan was commissioned to issue upon the electronic request of the Ministry of Economy of the Republic of Azerbaijan the information on authenticity of document certifying transfer of amount to the bank account of exporters in the Republic of Azerbaijan actuality, attached to application submitted for payment of costs of export promotion via the Portal. The information should be issued within one working day from the date of receipt of the application.

Provision of additional professional support to entrepreneurs was also reflected by the Decree. According to the Decree, in the

“ASAN Service” centers, entrepreneurs will be provided services, such as consulting services in preparation of business plans and contracts for exporters, assistance in study of foreign markets and in implementation of promotional activities.

In addition, The Cabinet of Ministers of the Republic of Azerbaijan was commissioned to take necessary measures to bring national legislation regulating electronic commerce into line with the requirements of international standards and to join UN Convention on Use of electronic communication in international agreements to improve legal framework on mutual recognition of electronic signature, including “ASAN Signature” certificate at international level.

Furthermore, several government bodies were tasked to issue permits, their duplicates and supplements, as well as re-document, suspend, restore and cancel permits using the “Licenses and permits” portal. Besides, the Centre for Analysis of Economic Reforms and Communication was tasked to issue permits, their duplicates and supplements, as well as re-document, suspend, restore and cancel permits based on introduction of “Single Window” system until the “Licenses and permits” portal becomes operational.



SHOPPING FESTIVALS

Based on the Decree of the President of the Republic of Azerbaijan No 2295, dated 01 September 2016, the Ministry of Culture and Tourism will hold annual shopping festivals in Azerbaijan. Accordingly, in order to attract more tourists to our country and pique greater interest among tourists and local citizens in shopping festivals, it is envisaged that several privileges during retail sales at the time of the festival including tax privileges will be provided.

According to the Decree, the value added tax paid for the goods, which are purchased in the territory of the Republic of Azerbaijan and not intended for production or commercial purposes, will be refunded during the shopping festivals. This Rule will be applicable to all physical persons, including local citizens and foreign tourists. According to this Rule, in the event that the value of goods in the electronic tax invoice (VAT inclusive) exceeds 100 AZN, the value added tax will be subject to refunding. The VAT, which was paid for the purchased goods, will be refunded within their purchased date.

In this respect, "The Rule of refunding the value added tax paid for the goods which are purchased by physical persons in the territory of the Republic of Azerbaijan during shopping festivals and not intended for production or commercial purposes" was approved by Ilham Aliyev, the President of the Republic of Azerbaijan, based on the Decree dated February 20, 2017.

Generally, this Rule regulates the procedures of refunding the value added tax (VAT) paid for the goods, which are purchased by physical persons during shopping festivals and not intended for production or commercial purposes, pursuant to Article 165.4 of the Tax Code of the Republic of Azerbaijan. Except the goods that are listed below, the requirements of this Rule are applicable only to consumer goods, which are not intended for production or commercial purposes and are purchased during shopping festivals:

- Excisable goods;
- Food products;
- Medicines and medical accessories;
- Goods which are exempt of VAT within the country;
- Precious stones that have not been subject

- to framing, processing or classification;
- Precious metals in ingots;
- Transport vehicles and their spare parts.

Based upon the Decree, the approved Rule specifies physical persons, buyers, sellers, stickers, risks, risk assessment system, VAT kiosks, authorized banks, operators, unified database and others, as key definitions used for purposes hereof. The Rule envisages that the operator authorities will be given to the Tax Ministry of the Republic of Azerbaijan. The Operator authorities include the following:

- 1) Organizing the activities to formalize the sales of goods under circumstances that are specified in this Rule and VAT refunding;
- 2) Ensuring the creation and management of a software and a unified database to meet the following requirements:
 - Making out Electronic Tax Invoices (ETI) for the goods provided to buyers on condition of VAT refunding during shopping festivals, printing them out with a bar code, and communicating ETI data as specified;
 - Unifying ETI data based on the bar codes of ETIs that are provided by Buyers at VAT kiosks;
- 3) Keeping software functional at all times and ensuring its uninterrupted operation;
- 4) Organizing the operation of such VAT kiosks, in order to document VAT refunding for the goods purchased and ensuring that the opportunities to refund VAT paid for the goods, which are purchased at shopping festivals, are provided on their purchased date, through coordinating the number of the kiosks, their addresses and work schedules with the Ministry of Culture

and Tourism of the Republic of Azerbaijan;

5) Inspecting the goods depending on the outcome of risk assessments at VAT kiosks;

6) Determining the shape and application procedure of the sticker with the involvement of the Ministry of Culture and Tourism of the Republic of Azerbaijan.

The following items are related to the tasks that have to be performed by the Ministry of Taxes as specified in the Decree:

- to ensure that the authorized bank (banks) indicated in the Rule are determined within 15 days by considering the feedbacks of the Ministry of Culture and Tourism and in coordination with the Financial Market Supervision Chamber;

- to establish an infrastructure including a software and a unified electronic database with the aim of implementing VAT refunding system in Azerbaijan for goods, which are purchased by physical persons in the territory of the Republic of Azerbaijan during shopping festivals and are not intended for production or commercial purposes,

- to ensure that the above infrastructure is integrated into the electronic information system used by the tax authorities and an authorized bank (banks) prior to the start of the first shopping festival.

Furthermore, one of the key tasks facing the Tax Ministry is to physically inspect the goods based on a risk assessment system in accordance with the requirements of this Rule and address other matters pursuant to the Decree in order to ensure the security of the data gathered in the unified electronic database and end-to-end information exchange, mitigate

risks and facilitate the procedures relating to VAT refunding.

As specified in the Decree, the works to be performed jointly by the Ministry of Culture and Tourism of the Republic of Azerbaijan and the Ministry of the Republic of Azerbaijan will encompass:

- undertaking promotion and awareness activities related to the introduction of the VAT refunding system for the goods, which are purchased by physical persons in the territory of the Republic of Azerbaijan during shopping festivals and not intended for production or commercial purposes, including the broadcast of video commercials through mass media and shopping outlets that will be connected to the system;

- defining the shape and application method of the sticker specified in the Rule, holding training and awareness seminars for the officers of the Ministry of Taxes of the Republic of Azerbaijan, who are involved in VAT refunding system in order to ensure that such festivals are held to the highest standard.

As specified in the Decree, the Ministry of Finance of the Republic of Azerbaijan will ensure the implementation of the following activities:

- 1) Refunding of VAT to be paid by buyers during shopping festivals by reducing actual VAT revenues, which are received by the government budget through the Ministry of Taxes of the Republic of Azerbaijan, in proportion to the refunded amount;

- 2) Receiving the approval within fifteen days including agreeing the feedbacks received from the Ministry of Taxes of the Republic of Azerbaijan;

3) Fixing the minimum amount to be transferred to the authorized bank as a prepayment for the purposes of this Rule within two months' period and ensuring that the above amount is paid by taking the sequence of specified actions.

Moreover, the Decree reflects measures to support the Ministry of Taxes of the Republic of Azerbaijan and the Ministry of Culture and Tourism of the Republic of Azerbaijan with respect to the execution of duties by all central and local executive authorities and relevant governmental bodies pursuant to the Decree.

It should be noted that, once the sales of such goods are authorized during shopping festival, whenever the buyer approaches a payment outlet to pay for the cost of goods being purchased by them, the seller will confirm whether the buyer intends to use his right of VAT refunding. In the event that the buyer is willing to use his right of VAT refunding, the seller will provide him with general information on the requirements of this Rule.

In the event that the buyer is a foreign citizen or a person without citizenship, in addition to the requirements of this Rule, the seller will provide the buyer with general information on "the Rule of refunding the value added tax to be paid by foreign citizens and persons without citizenship for the goods, which are purchased in the territory of the Republic of Azerbaijan and are not intended for production or commercial purposes", which was approved by the Decree of the President of the Republic of Azerbaijan No 985 dated July 12, 2016. At their own disposal Foreigners or persons without citizenship, who act in the capacity of the Buyer, can request the refunding of the VAT paid for the purchased goods within the framework of the requirements of this Rules or the requirements of "the Rule of refunding the

value added tax to be paid by foreign citizens and persons without citizenship for the goods which are purchased in the territory of the Republic of Azerbaijan and are not intended for production or commercial purposes".

It should be noted that in case the buyer does not express his willingness to use his right of VAT refunding, the seller will make out a ETI by using the electronic tax invoice system on the website of the Internet Tax Department of the Ministry of Taxes of the Republic of Azerbaijan, in a form approved by the Cabinet of Ministers of the Republic of Azerbaijan that reflects the below data, and will forward such data to the unified database in a real time mode:

- ETI series, number and date;
- Seller's name, surname, business entity's address and Tax ID number;
- Buyer's name and surname;
- Series and number of the document proving the buyer's identity;
- Name of the buyer's country of citizenship (or name of the country of a person without citizenship);
Name of sold goods, their quantity, unit price and the amount of VAT within that price;
- Due refunding date of VAT paid for the goods that are purchased against such ETIs;
- Details of the buyer's bank card (or an account) – at the buyer's request;
- Additional information and details of the operator and authorized bank;
- Address of the VAT kiosk nearest to the seller's business entity.

ETIs will be printed out in two copies reflecting a bar code and both of them will be issued to the buyer. Thus, ETIs issued will bear the seller's signature and affixed seal proving that the transactions have been carried out at the sales point on condition that VAT will be refunded.

It is envisaged that the buyer will execute the following sequence of actions at VAT kiosk in order to refund VAT paid for the goods that have been purchased during the shopping festival:

- The Buyer will hand over ETIs for the purchased goods to tax officers at VAT kiosks;
- Automated risk assessment will be performed after the tax authority identifies ETI data in the unified database;
- The relevant software will confirm whether the tax authority must examine the goods based on the results of risk assessment. In the event that goods are required to be examined, the buyer will hand over such goods to the tax officer for this purpose. The tax officer will match the presented goods with the data which is incorporated into the unified database and, following the examination results, will make a confirmation note in the ETIs submitted by the buyer for the VAT amount to be refunded; then the tax officer will return it to the buyer by affixing a seal and forward this information to the authorized bank in real time mode by confirming the ETI in the unified database;
- In the event that the buyer is not requested to present his goods for examination based on risk assessment results, the ETI reflecting the final VAT amount to be refunded will be confirmed by the tax officer's seal and this information will be forwarded to the authorized bank in real time mode.

Once the buyer has passed the inspection at VAT kiosk, based upon the ETI confirmed the

by tax officer's seal, the authorized bank will refund the due VAT amount in cash in national currency on the date when such goods are purchased or, not later than 10 business days, will transfer it to the bank card or an account (in national or foreign currency for foreigners and persons without citizenship). In the event that VAT refunding is transferred to the bank card (or an account) at the buyer's request, the buyer will drop a copy of his ETI, reflecting the details of the bank card (or an account) owned by the buyer as stipulated in this Rule, into a dedicated box that will be installed at VAT kiosk for this purpose. E-TIs which reflect the details of the buyer's bank card (or an account) will be confirmed by the authorized bank in the unified database and the refundable amount (after determining the foreign currency equivalent and referring to the respective exchange rate fixed by the authorized bank on the VAT refunding date) will be transferred to the buyer's bank card (or an account) after deducting 20% for operator services and service fees for bank transactions.

The authorized bank will submit the data on VAT amounts, which are refunded during the shopping festival based on this Rule, to the Tax Ministry of the Republic of Azerbaijan and the Ministry of Culture and Tourism of the Republic of Azerbaijan within 5 business days from the date when such goods are purchased. The Tax Ministry of the Republic of Azerbaijan, in its turn, will submit its feedback on the above to the Ministry of Finance of the Republic of Azerbaijan once the specified period is finished.

Upon receiving the feedback from Ministry of Taxes, the Ministry of Finance of the Republic of Azerbaijan will ensure that such an amount is transferred to the authorized bank within 3 business days at the expense of reducing the actual VAT revenue, which is received by the state budget through the Tax Ministry of the

Republic of Azerbaijan, in proportion to the same amount.

In the event that the buyer decides to return the goods purchased, the seller will take back the hardcopy version of the ETI, which was issued to the buyer, and will make relevant notes in the electronic database by cancelling that ETI. In the event that the buyer returns the goods after VAT refunding, the seller will reimburse the price of goods to the buyer by deducting the VAT amount.



STATE EXAM CENTRE: CHANGES IN REGULATIONS OF STUDENT ADMISSION EXAMS

Presidential Executive Order, dated 24 February 2017, on additional measures with respect to organization of student admission to higher and secondary vocational education facilities, made several changes in this area to further strengthen social welfare of people and stimulate student admission to higher and secondary vocational education facilities.

Development of education is one the key priorities set under socio-economic policies of the government. To realize this priority, the government has taken significant steps in the recent years.

Development of education paves the way for improved welfare of population and higher level of individual life in the country. Education helps people to absorb technologies more quickly, take a well-deserved place in the labor market, get involved in education process throughout the whole lifetime, have a healthy lifestyle and take proper position with respect to environment.

The role of education in modernization of social-economic life is not just limited to economic factor evolved from skills and capacities of those who get education. Skills and capacities generated during the education process, as well as moral-ethical norms and values help all educated people to become a worthy member of society, and develop that person into an exemplary colleague, family member and citizen achieved thanks to the above knowledge and skills.

In the light of the above, the Republic of Azerbaijan needed to take new measures towards more responsive education system to human capital development calls and approximate quality indicators of general education to European standards. To achieve this goal, Azerbaijan managed to improve legal framework and introduce information-communication technologies in education facilities.

At the same time, strategic road maps on national economy and key sectors of the economy approved by the Presidential Decree № 1138, dated on December 6, 2016 specified key strategic targets and priorities for the following directions: improve talent development

in view of international best practices, build competitive system with higher labor productivity and international recognition, which helps to discover and attract potential talented young people and supply country economy with innovative labor force.

In addition, it was one of the reform areas identified by the government to build education management system necessary for improvement of the quality of education. By the Presidential Decree № 860 dated 11 April, 2016, State Exams Centre of the Republic of Azerbaijan was established to arrange admission to high and secondary vocational education facilities regardless of their organizational-legal and ownership form. The reason for this Decree was to bring students admission to education facilities into the line with international best practices and develop education to become key factor of economic development, as specified by "State Strategy for development of education in the Republic of Azerbaijan".

State Exam Centre of the Republic of Azerbaijan is a public entity responsible for the following activities:

- organization of centralized contests for admission of citizens to public service, with an emphasis of transparency of the process;
- final assessment (attestation) of those who are educated at general education level, organization of student admission at centralized level to secondary vocational education facilities, to undergraduate and master degree programs at higher education facilities (main education and residency), and to master degree program offered by the National Academy of Sciences of the Republic of Azerbaijan.

In order to fulfill its duties, the center operates independently in close cooperation with gov-

ernmental and non-governmental bodies, international and local organizations, and other legal and physical persons.

Presidential Executive Order, dated 24 February 2017, on additional measures with respect to organization of student admission to higher and secondary vocational education facilities, made several changes in this area to further strengthen social welfare of people, ensure that people are capable to continue their education regardless of their material conditions and stimulate student admission to higher and secondary vocational education facilities.

According to the Order, fee for participation in exams organized by the State Exam Center of the Republic of Azerbaijan to get admitted into secondary vocational education facilities and into bachelor degree program of higher education at higher education facilities is defined in accordance with prices set by the Tariff Council of the Republic of Azerbaijan.

The State Exam Centre of the Republic of Azerbaijan, within 15 days from the deadline of application, should submit the Ministry of Finance of the Republic of Azerbaijan the list of prospective students whose participation in exams is paid from public budget. The Ministry of Finance of the Republic of Azerbaijan, in accordance with the other part of the Order, should transfer the payment calculated on the basis of the list corresponding to the prices set by the Tariff Council of the Republic of Azerbaijan using the financial resources allocated under the Presidential Decree dated 27 December, 2017 on "Introduction of the public budget of the Republic of Azerbaijan for 2017".

It is also worth to note that to further strengthen social welfare of population and stimulate people with insufficient welfare conditions, the relevant Presidential Order enables prospective

students applied for higher education and secondary vocational education facilities to participate in exams at the expense of public budget for the first time.

The above mentioned Order aims to create enabling environment for those who wish to continue their secondary vocational and high education. Besides, the Order helps to stimulate education, increase equal opportunities and level of education in the country.



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