



## MECHANISM OF TAX INCENTIVES AND HOLIDAYS FOR BUSINESSES OPERATING IN AREAS AFFECTED BY THE PANDEMIC

The draft amendments to the Tax Code and the “Social Insurance” Law: The package submitted to the Milli Majlis

## Mechanism of tax incentives and holidays for businesses (including small and medium enterprises) operating in areas affected by the pandemic:

### 1. Within the framework of tax legislation:

#### 1.1. Industries directly affected by the pandemic\*

- A full exemption from property and land taxes **for a period of 1 year from 1 January, 2020**
- Taxpayers will receive a number of tax benefits **for a period of 1 year from 1 January, 2020**, depending on the method of taxation they choose;
  - a. For payers of profit (income) tax it is envisaged to provide tax benefits in **the amount of 75%** of the profit (income).
  - b. For taxpayers engaged in public catering and passenger transportation, which are payers of the simplified tax: **50% discount** on the simplified tax amount.

Activity	Current rate	Rate offered
Public Catering	8%	4%
Passenger transportation (except taxi)- for each seat*	1.8 AZN	0.9 AZN
Passenger transportation (taxi)- for each seat*	9 AZN	4.5 AZN

\* Coefficients are applied depending on the area of activity.

- Reduction of the WHT for the real estate lease from individuals from 14% to 7%;
- Exemption from current tax payments and issuance of certificates related to current tax payments for a period of 1 year;
- Extension of the deadline for payment of profit (income) and property taxes for 2019 by non micro-entrepreneurship entities until 1 September, 2020;
- Extension of the deadline for payment of the taxes for 2019 until 1 September, 2020;
- Postponement of calculation of interest on unpaid taxes, compulsory state social insurance and unemployment insurance premiums from 1 April, 2020 to 1 January, 2021;
- Extension of the right to choose the simplified tax method for 2020 by persons engaged in public catering activities registered for VAT from 20 April to 1 September.

#### \*Such areas of activity include the following areas

- ✓ Activities of hotels and other hotel-type facilities considered as accommodation facilities;
- ✓ Tour operator and travel agent activities;
- ✓ Public Catering activities;
- ✓ Domestic (intercity and inter-district, intra-city and intra-district) passenger transportation by road (including taxis);
- ✓ Transportation and (or) delivery of goods on orders, including food, food and non-food products from sellers to buyers;
- ✓ Organisation of exhibitions, stage, recreation and entertainment (game), cinema, theater, museum and concert halls;

- ✓ Activity of sports and health facilities;
- ✓ Activity of training (education) and professional development courses, out-of-school educational institutions, psychological centers;
- ✓ Other activities that are fully or partially restricted by the Cabinet of Ministers in order to ensure the health and safety of the population in connection with the spread of the coronavirus pandemic.

## 1.2. Irrespective of the effects of the pandemic

### For micro entrepreneurs:

- 50% discount on simplified tax (tax rate is reduced from 2% to 1%);
- Extension of deadlines for submission of simplified tax returns for the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2020 and reports on profit and property taxes as well as payment of accrued tax to the budget until 1 September of the current year.

### For all entrepreneurs:

- Deduction of expenses for the necessary preventive measures, including disinfection, carried out by the taxpayer in order to prevent the epidemic and protect the life and health of the population;
- Temporary exemption from VAT of certain types of products necessary for food and medical needs of the population.
- The import of necessary medical equipment and medical accessories, as well as certain types of food to meet the food needs of the population, including food for children, will be exempted from VAT on a temporary basis.

## 2. Within the framework of social insurance legislation

### 2.1. For insured persons deriving income from non-employment activities:

- Calculation of mandatory state social insurance premium from April 1, 2020 to January 1, 2021 by the amount of min. monthly wage for entrepreneurial activity (considering application of differential interest rates by region)
  - *25% in construction and trade,*
  - *15% in other areas*
- Calculation of mandatory state social insurance premium from January 1, 2021 to January 1, 2026 in the amount of min. monthly wage for entrepreneurial activity (considering application of differential interest rates by region)
  - *25% in the construction sector,*
  - *15% in other areas*

### 2.2. Agriculture sector:

- Mandatory state social insurance contributions for each family member of individuals using agricultural lands owned by them, depending on the area of land calculated by the amount of the minimum monthly wage (=250 AZN). It is also planned to replace the submission of social insurance reports by landowners with a fixed receipt.
- - *up to 5 hectares - in the amount of 2%;*

- from 5 to 10 hectares - in the amount of 6%;
- more than 10 hectares - in the amount of 10%

*\*Current legislation provides for a basic social insurance premium of 6% of the minimum wage for each able-bodied family member, regardless of the size of the land.*

### **2.3. Lawyers, freelance accountants and auditors**

- The project envisages determining the social insurance burden of this category of persons in the amount of 10% after deduction of expenses.

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