

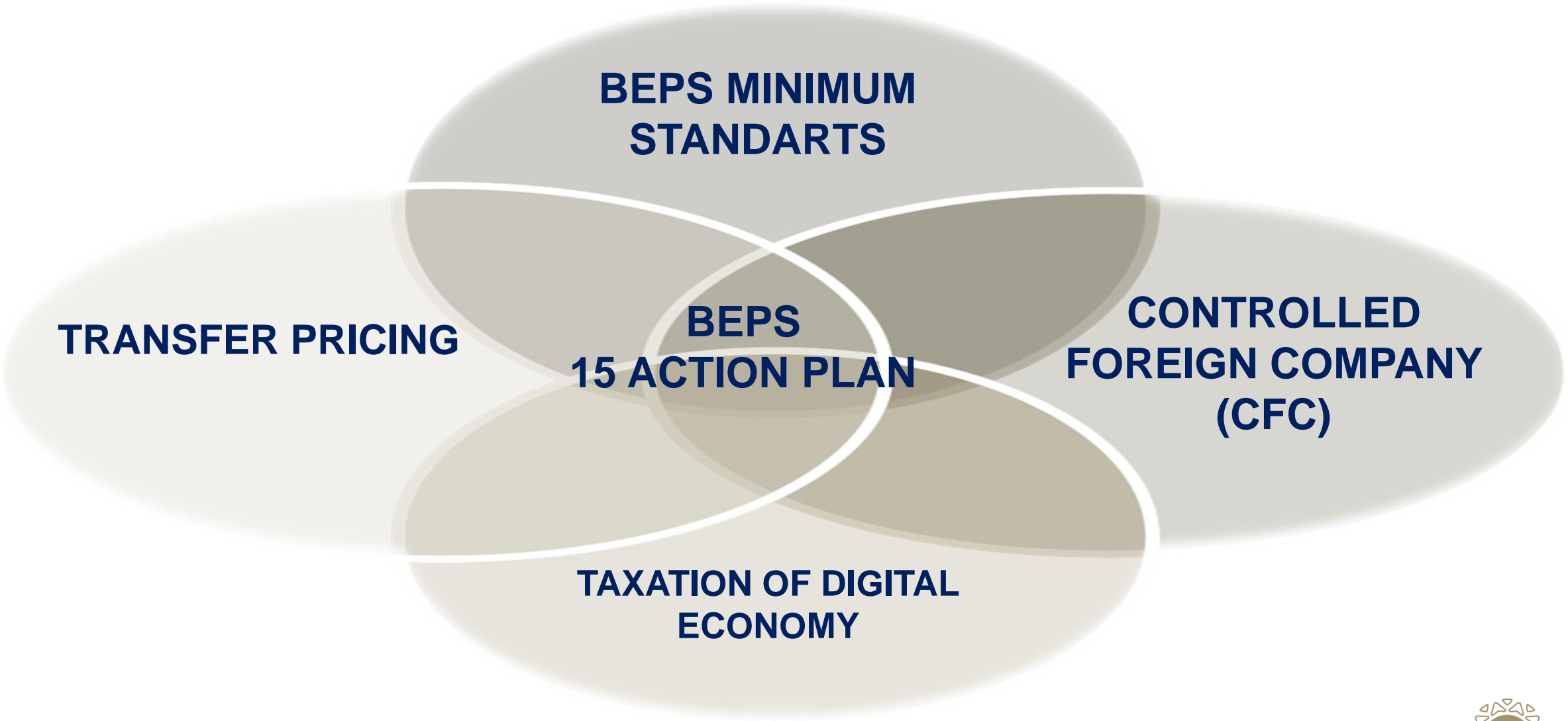


STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

ACTIVITIES PERFORMED AND FUTURE PERSPECTIVES IN AZERBAIJAN



22 MAY 2025





- The Law of the Republic of Azerbaijan dated October 11, 2022 - The Agreement concluded between the Republic of Azerbaijan and the **OECD on joining the Inclusive Framework** as an associate member of the BEPS project was approved by the President of the Republic of Azerbaijan
- On **December 16, 2022**, the Republic of **Azerbaijan joined the Inclusive Framework** as an associate member.
- **The Working Group** was established by the order of the State Tax Service dated 27.02.2023 in connection with the implementation of obligations arising from the accession of our country to the Inclusive Framework.

Work done in the field of International Taxation



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

**Additions and
changes to
the Tax Code**



**Joining the BEPS
Inclusive
Framework within
the OECD**



**Application of
advance transfer
pricing agreement
(APA) mechanism**



**Conducting transfer
pricing
documentation
requirements**



**Transfer Pricing
audits and
calculations**



**Transfer pricing
control mechanism
based on risk-
analysis system**



**Taxation
mechanism of
Controlled Foreign
Company (CFC)**



**Making changes to
legislation and
administration in
order to conduct
joint audits**



Actions to be taken on implementation of minimum standards



Conducting work related to the analysis of tax reliefs granted to taxpayers and free economic zones located in the country

Organization of internal administration and international exchange related to the exchange of Tax Rulings



Determining the issues related to "Treaty shopping" in relevant agreements and domestic legislation



Carrying out work related to internal legislation, administrative regulations and quality control of information exchange related to the submission of country-by-country reports



Making changes to internal legislation and administration, and activities performed related to inspections, for the effective and timely handling of disputes arising from the application of double taxation and transfer pricing within the framework of MAP

Action 1: Tax Challenges Arising from Digitalisation



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

Obligation - Taxation of the digital economy is currently one of the most relevant topics in the field of taxation. As an associate member, our country also committed to implement taxation measures resulting from the digitalization of the economy by joining the October 8, **2021** Declaration.

Research - It is planned to start the implementation of the two-pronged plan (Two Pillar Solution) developed by the OECD within the framework of the Action 1 of BEPS in our country with the implementation of GloBE rules on Pillar 2. Studies are being continued on Pillar 1, which is in the form of a two-pronged plan and is expected to be implemented worldwide.



Measures taken in the direction of taxing on Digital Services

Primary legislation

- ▷ 33.8-1. The regulations for electronic tax registration, re-registration and de-registration, registration as a VAT payer, submission of VAT declarations, and payment of VAT of a non-resident who conducts electronic commerce through the Internet information resource (excluding permanent establishments as specified in Article 19 of this Code), are determined by the body (organization) designated by the relevant executive authority.
- ▷ 169.8. Services provided by a non-resident registered in accordance with the procedure specified in Article 33.8-1 of this Code are not subject to taxation for the purposes of this chapter. The tax obligation arising from these operations is calculated and paid by the non-resident in accordance with this Code.

Secondary legislation

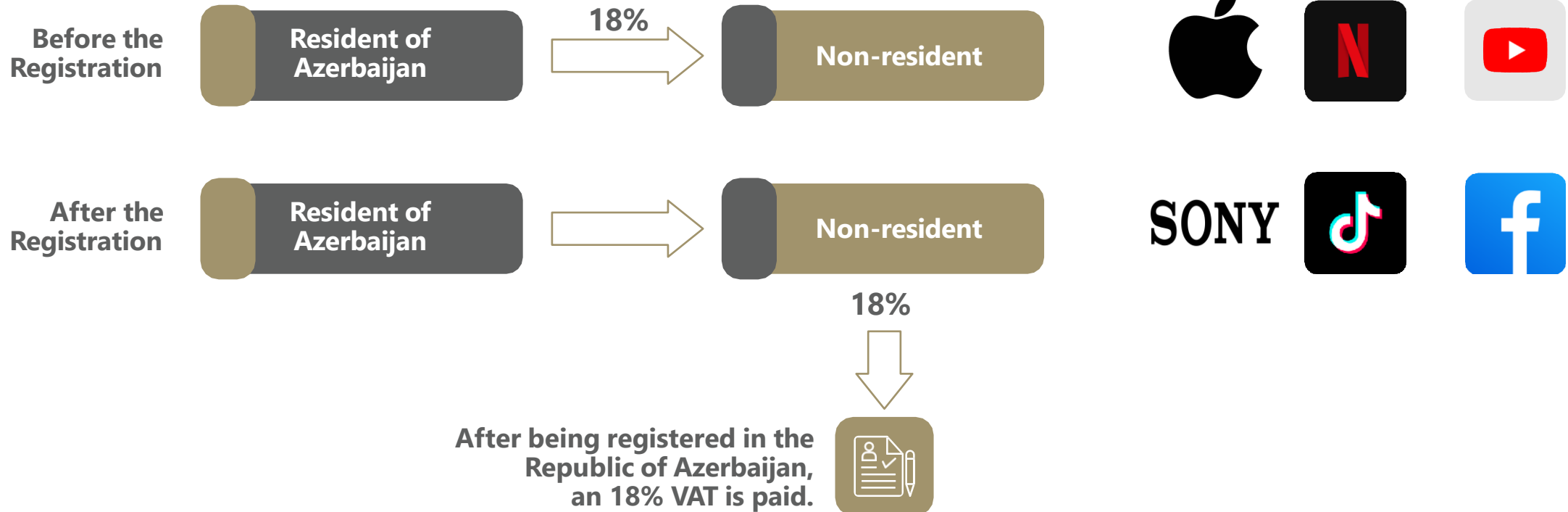
- ▷ "Regulations for electronic tax registration, re-registration, and de-registration, registration as a VAT payer, submission of VAT declarations, and payment of VAT by a non-resident who conducts electronic commerce through the Internet information resource" approved by the Cabinet of Ministers' Decision No. 387 dated October 30, 2023.
- ▷ Establishment of the VAT Portal to ensure simplified registration of non-residents.

VAT registration of non-residents on Digital Services



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

Register on VAT Portal (www.ecommerce.e-taxes.gov.az)





Action 3: Controlled Foreign Company (CFC)

- Development of legislative provisions to prevent the reduction of taxable profits through enterprises established in countries with preferential taxation. **Article 14-2** was added to the Tax Code in **2021** and the procedure for including the profit of a controlled foreign enterprise in the taxable income of a resident of the Republic of Azerbaijan
- Resolution No. 8 dated April 19, **2022** of the Collegium of the Ministry of Economy of the Republic of Azerbaijan "**CFC Rules**" was approved. In July 28, **2023**, previously noted resolution was amended and according to the amendment, a provision on "Inclusion of the profit of the controlled foreign enterprise in the taxable income of a person considered to be a resident of the Republic of Azerbaijan" was added to the Rules.

Action 3

Controlled Foreign Company

Reducing the incentive of taxpayers to shift income from a market country into foreign subsidiaries in a low-tax jurisdiction.



Action 4: Limitation on Interest Deductions

Activities performed:

- **In Article 110 of the Tax Code**, if the debts received from abroad are more than 2 times the net assets of the taxpayer, it is not allowed to deduct the interest calculated on the part of the debt that is more than twice the net assets (capital) from the income and the interest rate to be paid on foreign debts is deducted from the income, not exceeding 125 percent of the average level of interest on interbank loans. Thus, in this case, the issues related to interest deductions provided for in the Action Plan are regulated by the mentioned provisions of the Tax Code, and these requirements have been partially fulfilled.
- In September 2024, a draft proposal was prepared and submitted with the new version of Article 110.3 of the Tax Code (**EBITDA**).

Action 4

Limitation on Interest Deductions

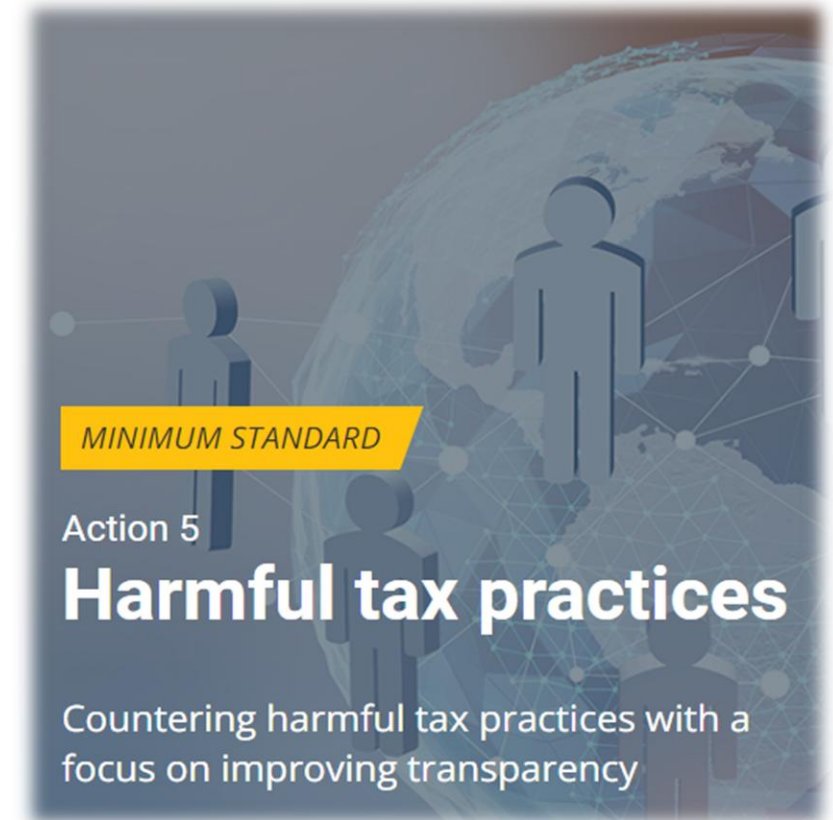
Establishing rules that link an entity's net interest deductions to its level of economic activity within the jurisdiction.

Action 5: Harmful Tax Practice (FHTP) minimum standard



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

- For the implementation of the Action Plan, the legislation of the Republic of Azerbaijan is being **reviewed by the OECD**, and provisions that may be considered **harmful tax norms** from the perspective of the legislation of other countries will be proposed for removal or amendment.
- Currently, the respective **Working Group** has developed statistical data on exemptions and reliefs provided for in the Tax Code and other relevant legislation that may be attributed to harmful tax practices, and relevant analyses are being conducted.



Action 6 : Prevention of tax treaty abuse

Action 15: Multilateral Instrument



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

Tasks completed:

- After joining the BEPS project, the Republic of Azerbaijan incorporated provisions from BEPS Action 6 (prevention of treaty abuse) into its double taxation agreements, including those signed with **Japan (2022), Slovakia (2023), and Turkey and Kyrgyzstan (2024)**.
- To apply BEPS Action 6 to existing treaties, Azerbaijan signed the Multilateral Instrument (MLI) on November 20, 2023. In its submitted list of reservations and notifications, Azerbaijan indicated that 53 treaties should fall under the MLI. As of now, **49 partner countries** have signed the **MLI**, and **41 have confirmed** their intention to apply relevant changes to treaties with Azerbaijan.
- The **MLI** was ratified by the Milli Majlis on May 31, 2024, and the Instrument of Ratification was submitted to the **OECD on September 24, 2024**. The Convention **entered into force for Azerbaijan on January 1, 2025**.
- Thus, BEPS Action 6 is now effectively implemented in most of Azerbaijan's double taxation agreements.

MINIMUM STANDARD

Action 6

Prevention of tax treaty abuse

Developing model tax treaty provisions and recommendations to prevent treaty abuse.

Action 15

Multilateral Instrument

Implementing the tax treaty-related BEPS recommendations to address vulnerabilities in existing tax treaties.

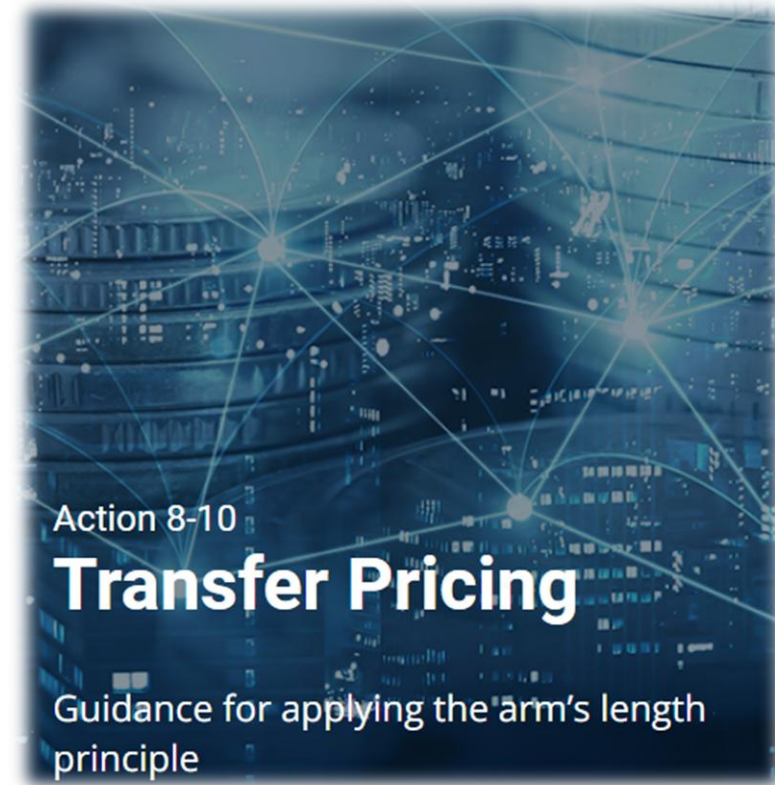
Action 8-10: Transfer Pricing



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

Work done:

- Within the framework of the project "Support to the STS of the Republic of Azerbaijan in the development of measures against transfer pricing and tax evasion" funded by the **European Union**, proposals were made to adapt the recommendations adopted by Europe and international organizations in this **field to local legislation**.
- So, in this framework, by making additions and changes to the Tax Code, a corresponding **Methodological Guide** was prepared.
- New issues and international experiences in practice in this field continue to be investigated.
- Additionally, the **Bureau Van Dijk** international database is used for the application of transfer pricing and the **Argus database** is used for the purpose of evaluating commodity products.



Action 13: (Transfer Pricing Documentation and Country-by-Country Reporting) – minimum standard



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

- The issue of Country-by-Country (CbC) reporting is regulated by Articles 13.2.83, 16.9 and 57 of the **Tax Code**, and the definitions, obligations and measures to be taken against violations have been determined.
- "Duration, form and procedure for filing the report to tax authority by resident entity of Azerbaijan Republic, which is an MNE group member" was approved by the STS with the decision No. 1 of the Collegium of the Ministry of Economy of the Republic of Azerbaijan dated to **April 28, 2020**.
- In addition, the forms of **Country-by-Country report and the notification** of this CbC report have been developed.
- «**Determination and application of transfer pricing**» rules was approved by STS of the Republic of Azerbaijan on January 27, **2017**. According to the latest amendment to Transfer Pricing rules 7 articles were added and the list of documents to be submitted (MF, LF, TP study and etc.) has been defined.
- Starting from **2025**, if the **Master and Local files** are not submitted within 60 days upon request by the tax authority, a financial penalty will be imposed.



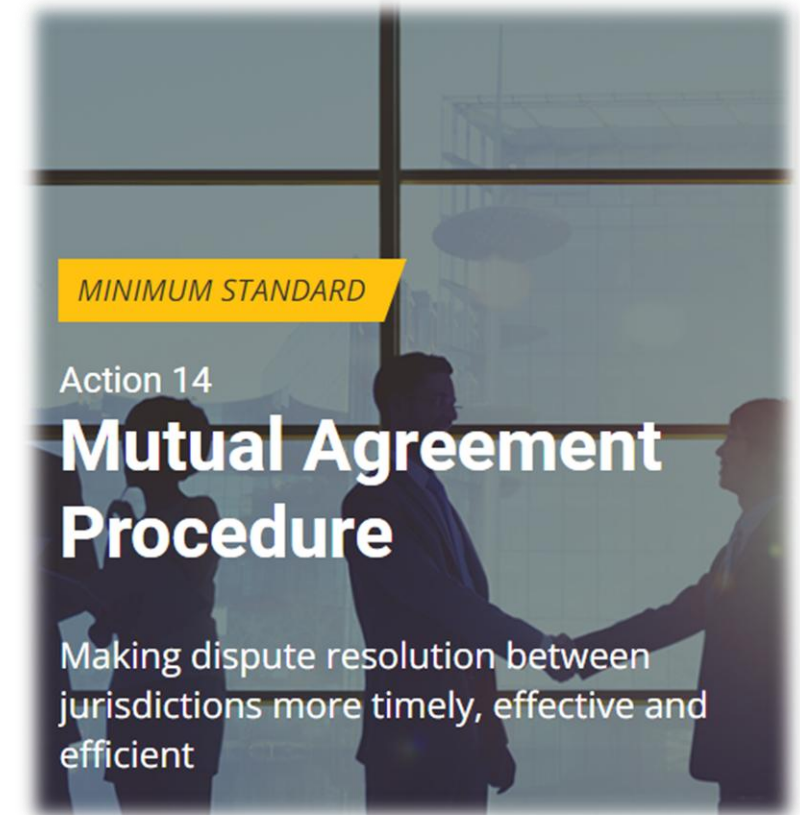
Action 14: Mutual Agreement Procedures

minimum standard



STATE TAX SERVICE
UNDER THE MINISTRY OF ECONOMY
OF THE REPUBLIC OF AZERBAIJAN

- Within the framework of Action Plan 14, **Guide on “Mutual Agreement Procedures (MAP)”** has been published.
- The "Annual Report" (Annual High Level Report) resented by the **OECD** was answered and annual statistics on MAP were presented Guidance on MAP based on DTAs has been approved and published on the official website of tax administration.



Thank you for your attention!

155 Heydar Aliyev Avenue,
Baku, AZ1029, Azerbaijan

Tel.: (+994 12) 403 89 70

Fax: (+994 12) 403 89 71

E-mail: office@taxes.gov.az

www.taxes.gov.az

