

Ensuring VAT Compliance of Non-Resident Digital Service Providers

Administrative Practices in Azerbaijan & Emerging Gig Economy Challenges

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Legal Framework

Azerbaijan's VAT compliance regime for non-resident digital service providers is grounded in three key provisions of the Tax Code:

1

Art. 169.3

B2C electronic services are taxable in Azerbaijan – establishing the jurisdictional basis for VAT obligations.

2

Art. 169.8

VAT calculation and collection mechanism, including the role of banks as withholding agents.

3

Art. 33.8-1

Non-resident registration procedures – enabling simplified VAT registration without a permanent establishment.



VAT Collection via Payment Service Providers

INITIAL APPROACH – SINCE 2017

How the Mechanism Works

18% VAT is applied at the moment of payment through local payment service providers (PSPs). VAT is calculated on the amount payable to the non-resident and transferred directly to the state budget using consumer funds.

Scope & Current Application

Applies to B2C electronic services supplied by non-residents to individual consumers in Azerbaijan. The PSP withholding mechanism acts as a fallback control tool – triggered only when the non-resident supplier is not registered for VAT purposes.

Transition to Registration-Based VAT System

POLICY SHIFT: 2017 → 2023

Azerbaijan moved from a withholding-only model to a registration-based system, establishing direct compliance obligations for non-resident providers.

1

Legal Basis

Art. 33.8-1 enables simplified VAT registration with no permanent establishment required. **Art. 169.8** shifts VAT liability to the non-resident supplier.

2

Administrative Rules

Cabinet of Ministers Decision No. 387 governs registration, re-registration, deregistration, VAT return submission, and payment procedures.

3

Operational Model

A dedicated online VAT portal enables full digital compliance – registration, filing, and payment – all in one place. PSP withholding remains as a backup enforcement tool.

Scope & Definition of Digital Services

Included Services

Digital Content

E-books, music, audio & video materials

Software & Apps

Applications and virtual games

Online Platforms

Digital advertising and similar services

Exclusions (Recent Amendments)

- **Consulting, legal, financial, accounting, engineering & design services delivered via communication tools**
- **Real-time education and training services**
- **Online ticketing for cultural, sports, and entertainment events**

☐ **Focus is on automated digital services – traditional services delivered digitally are excluded to ensure a clear and targeted VAT scope.**

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Non-Resident VAT Portal

CORE COMPLIANCE TOOL



Full Online Functionality

Registration, VAT return submission, and payment – all completed online. No physical presence required.



User-Friendly Design

English-language interface accessible across jurisdictions, designed specifically for foreign taxpayers.



Administrative Role

Central tool for monitoring registrations, tracking filings and payments, and structured management of non-resident taxpayers.

TAX PAYER REGISTRY

General Tax Contacts Operations Tax vector Documents Acceptance

Person type

BUSINESS

Business name

TEST International Limited

Tradenname

TEST

Address

Paris, 2 rue

Country

France

City

Paris

Zip Code

FR58

Web Site

www.test.com

Achievements – Practical Results

First registered taxpayer: Apple Distribution International Ltd., demonstrating early voluntary compliance by a leading global digital service provider.

Total number of registered non-resident taxpayers: 9 companies to date.

List of registered non-resident digital service providers:

- Apple Distribution International Limited
- Adobe Systems Software Ireland Limited.
- Sony Interactive Entertainment Network Europe Limited.
- Elsevier BV.
- Hyperconnect LLC
- Tinder LLC.
- PPG DIGITAL SP. Z O.O..
- Epic Games Commerce GmbH.
- Contabo GmbH
- **Fully operational end-to-end digital VAT compliance system**, enabling registration, filing, and payment without the need for physical presence.
- **Improved VAT collection** from cross-border digital services.
- **Enhanced cooperation with global digital platforms**, encouraging voluntary compliance.
- **Increased transparency and trust** between the tax authority and taxpayers.



Importance of Payment Data

KEY CHALLENGE

The Data Gap Problem

- Digital services are primarily identified based on Merchant Category Codes (MCCs) assigned by banks.
- Banks determine whether payments to non-resident suppliers fall within the scope of Article 169.3 of the Tax Code.
- When a transaction is classified under relevant MCCs, an additional 18% VAT is withheld at the payment stage.
- The State Tax Service (STS) informs all banks when a non-resident supplier registers on the VAT portal, ensuring that withholding is no longer applied to payments made to that supplier.



Remaining Gap

- The non-withholding decision is based on MCC information provided by the registered non-resident.
- If the supplier fails to disclose all relevant MCCs, banks may continue to apply the 18% VAT withholding.
- This creates a compliance gap and may lead to double taxation or incorrect withholding.
- Enhancing MCC transparency and data exchange between banks, payment processors, and the STS is essential.

Gig Economy in Azerbaijan — The Reality

Rapid Growth

Azerbaijan is experiencing fast-growing participation in the gig economy — particularly influencers on TikTok, Instagram, and YouTube, and freelancers working through international platforms.



The Compliance Gap

- **Limited access to income data from digital platforms.**
- **No direct information exchange mechanisms with most platforms.**
- Reliance on the Convention on Mutual Administrative Assistance in Tax Matters to obtain income information from foreign jurisdictions.
- In practice, **income data is mainly obtainable for TikTok**, while information related to platforms such as **Booking, Bolt, and Uber** is often **not accessible**.

Ongoing & Planned Reforms

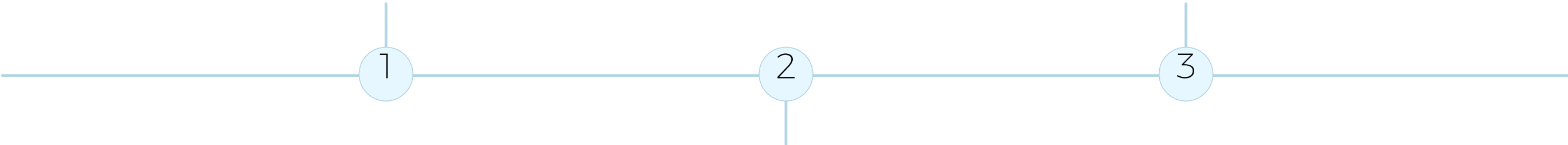
LOOKING AHEAD

Mandatory VAT Registration

Draft legislation proposes mandatory VAT registration for non-resident digital service providers from 2026, with a proposed threshold of ~USD 10,000 annual turnover.

Strengthened Data Integration

Amendments to Decision No. 387 will strengthen bank data integration and deepen platform cooperation for improved compliance monitoring.



Transition Period

A 6-month transition period is planned to allow providers to adapt to the new mandatory registration requirements.

Conclusion

Where Azerbaijan Stands

Azerbaijan has built a functional digital VAT system with strong administrative practice and a portal-based compliance model that is operational and growing in reach.

Key Priorities Ahead

The gig economy represents a major new challenge requiring a multi-pronged response:

- **International cooperation – exchange of information and mutual assistance**
- **Platform involvement – data sharing and voluntary registration**
- **Data-driven administration – transaction-level intelligence for accurate enforcement**