

Azerbaijan Tax News Doing the right things

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Rules on presentation, reporting period and publication of annual financial statements for commercial organizations

On 27 May 2010 the Cabinet of Ministers of Azerbaijan Republic adopted a decree #97 on "Rules on Presentation, Reporting Period and Publication of Annual Financial Statements and Consolidated Financial Statements of Commercial Organizations" ("the Decree"). The Decree is based on the "Law on Accounting" and regulates activities of all commercial organizations except credit institutions and small entrepreneurship entities. According to the Decree all commercial organizations are required to submit annual financial statements and consolidated financial statements to their parent companies or founders not later than 30th of April and 30th of June respectively of the following year.

One of the important novelties is that commercial organizations including subjects of natural monopoly, the organizations to which the Decree applies and which receive subsidies and subventions from the budget with state warranty as well as the organizations to which grant funds are conferred etc. are required present their annual financial statements and consolidated financial statements to the Ministry of Finance if requested by the latter. According to the Decree reporting periods are specified as follow:

- For commercial organizations - 1 January - 31 December (inclusive);
- For commercial organizations established before 1 October, the first reporting period shall be the period from date of registration to 31 December of the same year;
- For commercial organizations established after 1 October, the first reporting period shall be the period from the date of state registration to 31 December of the following year.

New tax protocols to Azeri-Chirag-Gunashli Production Sharing Agreement

New tax protocols for the Azeri-Chirag-Gunashli Production Sharing Agreement and template tax returns became effective from 1 April 2010. Tax returns have been prepared in accordance with statutory tax returns.

The main changes made to the protocols are as follows:

Value Added Tax Protocol – Each VAT exemption certificate issued to a sub-contractor will be valid for the term of the sub-contractor's contract but not more than for the period of one year (three years in the previous edition). If required by the tax authorities, the sub-contractor shall submit a copy of the signed and effective contract and the amendments, extensions made to it.

Protocol Concerning Taxation of Foreign Subcontractors – As per the new protocol reimbursable expenses include not only travel and accommodation expenses, but also all other expenses that are not part of the main profit generating business activity.

Protocol Concerning Taxation of Employees And Physical Persons - Definition for a "permanent employee" has been introduced. Permanent employee is a person working under employment agreement with an employer or its representative in Azerbaijan in appropriate working place permanently located in Azerbaijan and earning income from this employment. A permanent employee becomes a tax resident after the ninetieth day of the presence in Azerbaijan within a calendar year. Such a person is liable for Azerbaijan personal income tax on all income earned as a direct result of his or her employment in Azerbaijan during the calendar year, including income earned during the ninety days of employment in Azerbaijan before such person has become a tax resident.

One of the novelties is that employers are required to provide the tax authorities with summary of PIT payments for resident foreign employees together with IV Quarter PIT report not later than 20th of January (1 February in the previous edition).