

## Doing Business in Azerbaijan — Payroll Operations

### 1. Government requirements

#### Registration requirements

##### Registration of legal entities

Various registration requirements apply to foreign companies establishing a business presence in Azerbaijan. Registration of commercial legal entities and public legal entities are conducted according to the Law on State Registration and State Register of Legal Entities. Registration with other state authorities is not required, as this will be done by the Ministry of Taxes (MOT) based on the so-called “one-stop shop” principle. Non-commercial legal entities are registered with

the Ministry of Justice or the State Committee on Work with Religious Authorities. The fee for registration of Branch and Representative Offices of foreign legal entities is AZN220. Changes to registration details are free of charge.

#### Ongoing compliance requirements

##### Personal Income Tax (PIT)

Local and expatriate employees are mostly subject to the same tax rules in Azerbaijan. A resident for Azerbaijani PIT purposes is defined as any person who spends more than 182 days in a calendar year in Azerbaijan. Residents are taxed on their worldwide income whereas non-residents are only taxed on their Azerbaijani source income.

Payment of PIT is made through a withholding mechanism carried out by the employer. According to the applicable legislation, the employee's monthly income should be taxed at the following rates:

- Up to AZN2,500: 14% (applied to the salary amount less the minimum living wage determined for the given reporting year)
- Above AZN2,500: a total of AZN350 and 25% of the amount exceeding AZN2,500
- The payment is due by 20th of the month following the calendar month

No requirement for the personal filing of PIT from employment activity is envisaged under the Tax Code of Azerbaijan Republic (TCA). However, according to the TCA, the employer is obliged to file the annual PIT report to the tax authorities. The annual reporting deadline for the PIT report is 31 January following the reporting year. Additionally, please note that the employer should

also include PIT information in the value-added tax (VAT) or simplified tax reports on a monthly or quarterly basis, depending on the tax registration form.

## **2. Pension requirements**

### **Registration requirements**

#### **Compulsory state social insurance**

The registration of commercial legal entities at the State Social Protection Fund (SSPF) is carried out simultaneously during the registration process with a single registration body (i.e., the MOT) and no further actions are required.

The conclusion of an employment agreement itself entails the obligation to pay compulsory state social contributions, which are withheld at source and remitted to the SSPF by the employer, based on the Law on Social Insurance. Compulsory state social insurance contributions serve as a social insurance and condition for receiving a pension once the employee reaches retirement age. According to the Law on Labor pensions, retirement age set by the labor legislation is currently 60 for women and 63 for men with at least 12 years of social insurance contributions.

The registration for compulsory state social insurance contributions for individuals is carried out upon application and by the employer's submission of other documents to the SSPF within one month of the date of conclusion of the employment agreement. In order to register the paid social insurance contributions, the SSPF creates personal accounts with a unique Social Insurance Certificate Number for each employee, which are formalized with a Social Insurance Certificate presented to each employee.

### **Ongoing compliance requirements**

#### **Compulsory state social insurance contributions**

Pursuant to the Law on Social Insurance of the Republic of Azerbaijan, there are two elements of SSIC:

1. Payable by employee
2. Payable by the employer

The employer is obliged to withhold 3% social fund contributions from the employee's gross income. In addition, 22% social fund contributions calculated on the monthly gross salary are payable by the employer at its own cost. Basically, it is the PIT base, with certain adjustments, that is used for the calculation of social contributions in Azerbaijan.

The payment of SSIC should be made by the 15th of the month following the month of salary calculation. The reporting in this respect is done on a quarterly and annual basis. Quarterly reports should be submitted no later than the 20th of the month following the reporting quarter, and the annual report is due by 1 March of the year following the reporting year.

Reporting requirements to the state social insurance fund:

On the basis of the rules on the collection of compulsory state social insurance, the employer is obliged to file following reports:

- Quarterly Form B1 — information on the number of employees, total of accrued and paid gross salaries and social contributions during the quarter
- Annual Form B1 — information on the number of employees, total of accrued and paid gross salaries and social contributions during the year
- Annual Form B2 — for commercial organizations carrying out agricultural activity within the Republic of Azerbaijan
- Annual Form B3 — report on the calculation of social contributions for each employee

### **3. Employment obligations**

#### **Labor Law**

Labor relationships are regulated by the Labor Code of Azerbaijan (LCA), respective decrees of the cabinet of ministers, acts of the Ministry of Labor and Social Protection of the Population, and other related legal acts. The LCA presents the list of provisions that should be duly reflected in the Employment Agreement, including employee's labor conditions, i.e., working and rest hours, wage or salary and adjustments, duration of labor vacation, labor protection, and social and other types of insurance. Moreover, there are several restrictions set by the labor legislation with regard to minimum monthly salaries (i.e., AZN116), the minimum amount of annual vacation days (i.e., at least 21 calendar days), working hours, obligation of the employer to implement health and safety rules, and payments for overtime, etc.

Apart from the above, the Migration Code regulates the labor activity of foreigners and stateless persons in the Republic of Azerbaijan. Obtaining a work permit (with certain exemptions) and a temporary residence permit are requirements for foreigners and stateless persons who will be involved in employment in Azerbaijan.

The Ministry of Labor and Social Protection is the state authority responsible for implementing labor policy and supervising compliance with labor legislation.

## **4. Payroll requirements**

### **Salary and compensations**

The salary of the employee comprises wages and salaries, payments or benefits received by an individual in respect of employment. In general, any type of benefit represents taxable income to the individual. Notably, business-related expenses, as well as meals, accommodation, entertainment and other expenses of a social nature paid by an employer are exempt from taxation; however, these can be subject to social contributions.

### **Payslips**

- The LCA stipulates minimum requirements with regards to the format of payslips:
- The total amount of salary calculated
- Supplements to salaries, bonuses and other payments, their types and amounts
- Amounts deducted from salaries — description, type, reason and amount of deductions
- Amounts actually paid
- Parties' outstanding payables to one another and the amounts

### **Compensation schedule**

According to the LCA, monthly salaries should be divided into two parts (advance and remaining portions of the wage) and paid to employees twice a month with an interval not exceeding 16 days. Annual salaries should be paid not less than once a month. However, other payment terms for salaries may also be stipulated under the agreed employment contract. The employee's salary may be considered either on the basis of the amount of work performed or hourly tariff criteria which should be defined under the agreed employment contract.

## **5. Banking requirements related to payroll**

The LCA stipulates that salaries may be remitted to the employee's bank account or sent to a specified address via postal order at his or her discretion. If paying salaries by cash, the employer and employee should sign a record to confirm the amount of money that has been paid each pay period. Additionally, as per the local legislation, there are no specific requirements with respect to salary payments provided through the bank.

## **Foreign exchange control**

Under the LCA, salary, as well as supplements hereto, awards and other payments to employees should be made in the local currency, Azerbaijani manats (AZN).

Meanwhile, it should be noted that Production Sharing Agreements (PSAs) grant different exemptions for companies involved in oil and gas operations. For instance, these companies, under certain conditions, may pay the salary in foreign currency.