



Export and Investment Promotion Agency
of the Republic of Azerbaijan

SETTING UP A BUSINESS IN AZERBAIJAN



A LEGAL GUIDEBOOK
**FOR INTERNATIONAL
INVESTORS**

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1. Types of business entities in Azerbaijan

1.1. General overview

Azerbaijan offers range of options for foreign investors looking to establish businesses within its borders. Investors in Azerbaijan have multiple options when it comes to choosing a legal entity form for their business such as partnership, Limited Liability Company (LLC), Joint Stock Company (JSC), and cooperative, aligning with their business scope and preferences.

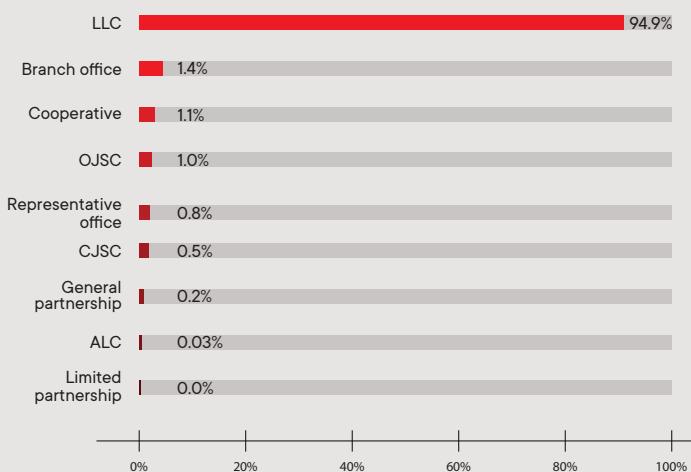
Here is a concise overview of the types of commercial legal entities encountered in Azerbaijan:



Investors also have the option to operate through branches or representative offices of their headquarters.

LLC and JSC are preferred due to their legal framework which offer enhanced protection to stakeholders.

This infographic illustrates the distribution of commercial entities operating in the economy as of January 1st, 2024:



1.2. Limited liability company

LLC stands as a separate legal entity with a fixed capital divided into participatory interests, established by individuals or legal entities termed as "Participants". LLC formation allows for involvement by one or more individuals and/or legal entities, excluding the participation of single-party commercial entities, all of whom contribute assets to the charter capital. Also, an LLC can be established with full foreign ownership, independent of the need for a local partner.

Participants bear no responsibility for the LLC's debts; they are only obligated to pay the capital interests they have committed to and fulfill any additional payment or performance obligations outlined in the LLC's charter. LLC does not issue shares; instead, ownership interests in LLC can be readily transferred to third parties.

As of now, LLC is not bound by a specific minimum charter capital requirement, although it is generally presumed that the charter capital should be enough to meet creditor claims. The charter capital may be paid by the Participants within three months following relevant state registration of an LLC.

1.3. Joint stock company

JSC is an entity structured with a defined capital, divided into shares, and established by one or more legal entities or individuals. Shareholders bear responsibility solely for the capital shares they have pledged to the JSC.

JSC is divided into two categories: “closed” and “open”. Closed JSC has non-negotiable shares and requires a minimum capital of AZN 2,000, while open JSC allows shares to be freely traded, with a minimum capital requirement of AZN 4,000. Complete payment of charter capital for JSC is a prerequisite for the registration to proceed.

Both LLC and JSC share numerous similarities, including the requirement of at least one founder, limited liability for shareholders/participants, identical treatment from the tax point of view and etc. However, LLC offers greater flexibility in structuring internal operations and is subject to fewer registration and reporting requirements than JSC. For instance, JSC requires the registration of securities and the disclosure of financial statements. Considering this, JSC can be categorized as a suitable legal structure for conducting particularly extensive investment activities in Azerbaijan. In the context of setting up joint ventures with local partners, LLC is generally regarded as the most appropriate choice.

1.4. Branch and Representative Office

Legally, branch and representative office are not standalone entities but rather extensions of the parent company that established them. This distinction holds significant implications for the status and relationship between the head office and the branch/representative office, as well as for any

decisions regarding their use as a corporate vehicle for investment-related issues.

A representative office is solely authorized to represent and advocate for the interests of the head office. Consequently, representative office is restricted from engaging in full-scale revenue-generating activities in Azerbaijan, but can undertake functions such as marketing or related tasks. In contrast, the branch office is permitted to participate in all commercial activities, mirroring those carried out by the head office, including tasks typically assigned to representative office.

While a branch office lacks separate legal status, it enjoys the autonomy to independently enter into contracts in Azerbaijan. The head office usually bears responsibility for all obligations lawfully assumed by its branch office.

From an investor's perspective, selecting a representative office over a branch one offers no tangible advantages, except in exceptionally rare cases within regulated industries. Notably, there are no disparities in the registration procedure, timelines or fees between the two mentioned forms. Likewise, there are no discrepancies in taxation, employment regulations or migration matters between branch and representative office.

2. Registration of the most optimal corporate structures

2.1. Choosing an optimal corporate structure

LLC and branch office are commonly favored by foreign investors for their investment activities in Azerbaijan.

By opting for an LLC, investors gain specific legal protection, operational adaptability, tax advantages, simplified market access and etc. Meanwhile, establishing a branch office allows investors to conduct their investment activities under the auspices of their foreign parent company, ensuring consistency in branding, policies, and operations. This fosters a cohesive corporate identity and streamlined

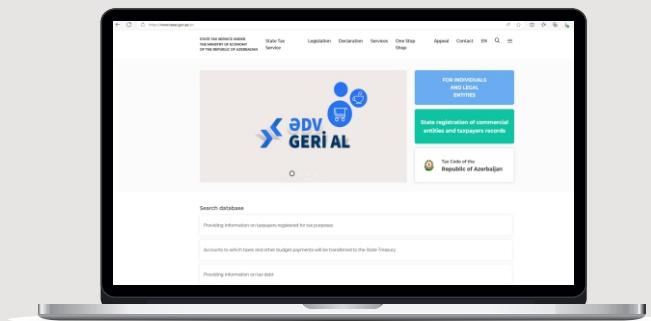
business practices between the parent company and its Azerbaijani branch.

Based on the provided-above information, the subsequent segment of this Guidebook will focus on the essential procedures for registering an LLC and a branch office in Azerbaijan. For a more comprehensive understanding of the distinctions between an LLC and a branch office, please refer to **Annex I**, which provides detailed information on these entities.

2.2. “One Stop Shop” registration

An LLC and a branch office operating in Azerbaijan must be formally registered. Without registration, a company is not permitted to engage in various business activities within Azerbaijan, such as holding a bank account or clearing goods through customs.

As of January 1, 2008 a “One Stop Shop” registration was introduced to streamline the registration process and reduce bureaucracy. “One Stop Shop” registration streamlined the registration process by eliminating the need for businesses to interact with multiple governmental bodies. Investors now only need to register with the State Tax Service under the Ministry of Economy <https://www.taxes.gov.az/en>



After submitting the necessary documents, the state registration with the State Tax Service is usually completed within a maximum of two days for a newly established entity or a branch office.

2.3. Necessary registration documents

2.3.1. For an LLC

An LLC registration typically requires the submission of the following documents by its Participants:

- A copy of the articles of association;
- A copy of the certificate of registration;
- A copy of the ID for director with his/her residential address;
- A copy of the resolution signed by Participants on establishment of the LLC, approval of its charter and appointment of its director;
- A copy of the Power of Attorney from Participants and director authorizing lawyers to issue a resolution, sign the articles of association and file an application for registration;
- An application form on setting up of the LLC signed by or on behalf of Participants;
- Articles of association in Azerbaijani approved by or on behalf of Participants;
- A proof of payment of the charter capital;
- A proof of payment of the state duty;
- LLC's legal address in Azerbaijan.

2.3.2. For a branch office

The registration of a branch office typically requires the submission of the following documents:

- A copy of the head office articles of association;
- A copy of the head office certificate of registration;
- A copy of the head office resolution establishing the branch and appointing the branch director;
- A copy of the Power of Attorney issued by the head office to the branch director;
- A copy of the ID of the branch director with his/her residential address;
- A copy of the Power of Attorney from the head office and branch director authorizing lawyers to issue a resolution, sign the branch regulation and file an application for registration;
- An application form for registration of the branch signed by or on behalf of the head office;
- Branch's regulation in Azerbaijani approved by or on behalf of the head office;
- A proof of payment of the state duty;
- Branch's legal address in Azerbaijan.



2.4. Procedural and substantive formalities

All documents originating from outside Azerbaijan must undergo either apostillation or legalization procedures, depending on the country of origin. Failure to fulfill these requirements will result in the State Tax Service refusing to accept the documents. Furthermore, in the case of documents originating from overseas and consisting of multiple pages, they should be securely bound together using a ribbon or a clip. Additionally, the legalization or apostille stamp must be affixed in a manner that clearly denotes its application to the entire document binder, rather than individual pages.

With the exception of passports and similar identification documents, all other paperwork must be

translated into Azerbaijani before submission to the State Tax Service. If a document is translated from its original language into English outside of Azerbaijan, it must be certified in the country where the translation was completed.

Last but not least: physical presence of a director of an LLC or a branch office is not mandatory during the registration process provided that they deliver relevant Power of Attorney. Following registration, their presence is required for certain purposes, such as obtaining e-signature for tax and accounting operations, securing a residential permit, and establishing bank accounts, although the latter can be remotely facilitated through reputable banks without their physical attendance.

Annex I
LLC versus Branch office

	LLC	Branch office
Organizational Structure	<ul style="list-style-type: none"> • Separate legal entity • Azerbaijani resident 	<ul style="list-style-type: none"> • Subdivision of the head office • Azerbaijani resident
Ownership	<ul style="list-style-type: none"> • No nationality requirement • LLC can be established by an individual or legal entity 	<ul style="list-style-type: none"> • Can only have one owner
Management	<ul style="list-style-type: none"> • Sole director or collegial (the board) • Supreme body: General Assembly of Participants 	<ul style="list-style-type: none"> • In common practice, a single director is often appointed by the head office and operates under the authority granted to him/her through a POA issued by the head office
Registration	<ul style="list-style-type: none"> • Takes for a maximum of 2 (two) business days 	<ul style="list-style-type: none"> • Takes for a maximum of 2 (two) business days
Liability	<ul style="list-style-type: none"> • Participants' liability is limited to the amount of charter capital 	<ul style="list-style-type: none"> • The head office bears complete responsibility for its branch's activities
Charter Capital	<ul style="list-style-type: none"> • No stated financial limit but the amount is assumed to be adequate to the nature and scale of business 	<ul style="list-style-type: none"> • No charter capital requirement
State Duty	<ul style="list-style-type: none"> • State duty for registration is AZN 15 (~USD 9) 	<ul style="list-style-type: none"> • State duty for registration is AZN 300 (~USD 177)
Labor and Migration	<ul style="list-style-type: none"> • Director is exempt from work permit • Foreign individuals holding at least 51% ownership interest are exempt from work permit for any position within the entity • Other expats must obtain work permit • All needs to have a local employment contract 	<ul style="list-style-type: none"> • Director and deputies are exempt from work permit • Expats not subject to Azerbaijan labor law if employment agreements signed abroad • Employees may have an employment contract with the head office.
Tax Status	<ul style="list-style-type: none"> • Deemed resident and subject to taxation for all taxable activities 	<ul style="list-style-type: none"> • Deemed resident and subject to taxation for all taxable activities

Corporate Profit Tax	<ul style="list-style-type: none"> • 20% on profit (revenue after deduction of business costs) • 5% for micro-businesses generating less than AZN 200,000 (USD 117,647) annually • 0% for businesses engaged in agricultural production. 	<ul style="list-style-type: none"> • 20% on profit (revenue after deduction of business costs)
Dividend Tax	<ul style="list-style-type: none"> • 5% on net profit after corporate profit tax • Net proceeds after dividend tax not subject to tax 	<ul style="list-style-type: none"> • 5% remittance tax on net profit after corporate profit tax • Tax Treaties often set lower tax rate • Net proceeds after remittance tax not subject to tax
VAT	<ul style="list-style-type: none"> • 18% 	<ul style="list-style-type: none"> • 18%
State Social Protection Fund (SSPF)	<ul style="list-style-type: none"> • AZN 6 + 10% for the amount exceeding AZN 200 salary payment (paid by employee) • AZN 44 + 15% for the amount exceeding AZN 200 salary payment (paid by employer) 	<ul style="list-style-type: none"> • AZN 6 + 10% for the amount exceeding AZN 200 salary payment (paid by employee) • AZN 44 + 15% for the amount exceeding AZN 200 salary payment (paid by employer)
Personal Income Tax (paid by nationals and expats)	<ul style="list-style-type: none"> • 0% up to AZN 8000 (USD 4,705) • 14% applicable to the amount exceeding AZN 8000 	<ul style="list-style-type: none"> • 0% up to AZN 8000 (USD 4,705) • 14% applicable to the amount exceeding AZN 8000
Unemployment insurance fee	<ul style="list-style-type: none"> • 1% (employer and employee pay 0.5% respectively) 	<ul style="list-style-type: none"> • 1% (employer and employee pay 0.5% respectively)
Mandatory health insurance payments	<ul style="list-style-type: none"> • Up to AZN 8000 payment: 2% (employer and employee pay 2% respectively) • Over AZN 8000 payment: 2% from the amount up to AZN 8000 (employer and employee pay 2% respectively) and 0.5 from the amount excessing AZN 8000 (employer and employee pay 0.5% respectively) 	<ul style="list-style-type: none"> • Up to AZN 8000 payment: 2% (employer and employee pay 2% respectively) • Over AZN 8000 payment: 2% from the amount up to AZN 8000 (employer and employee pay 2% respectively) and 0.5 from the amount excessing AZN 8000 (employer and employee pay 0.5% respectively)

Disclaimer

The information provided in this Guidebook does not constitute legal advice.

Legal advice should always be sought before taking any legal action based on the information provided.

This Guidebook provides information based on the legislation effective as of **April 1st, 2024**.

We stand ready to provide comprehensive support ensuring your seamless integration into our investor-friendly economic landscape. We offer assistance ranging from regulatory guidance to market intelligence. Join us in shaping the future of business in our dynamic nation.



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