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Editor-in-chief

Dr. Vusal Musayev

PhD in Economics
University of London

www.vusalmusayev.com

dr.vusal.musayev@ereforms.org

**AZERBAIJAN
ECONOMIC
REFORMS
REVIEW**



SHOPPING FESTIVALS

Based on the Decree of the President of the Republic of Azerbaijan No 2295, dated 01 September 2016, the Ministry of Culture and Tourism will hold annual shopping festivals in Azerbaijan. Accordingly, in order to attract more tourists to our country and pique greater interest among tourists and local citizens in shopping festivals, it is envisaged that several privileges during retail sales at the time of the festival including tax privileges will be provided.

According to the Decree, the value added tax paid for the goods, which are purchased in the territory of the Republic of Azerbaijan and not intended for production or commercial purposes, will be refunded during the shopping festivals. This Rule will be applicable to all physical persons, including local citizens and foreign tourists. According to this Rule, in the event that the value of goods in the electronic tax invoice (VAT inclusive) exceeds 100 AZN, the value added tax will be subject to refunding. The VAT, which was paid for the purchased goods, will be refunded within their purchased date.

In this respect, "The Rule of refunding the value added tax paid for the goods which are purchased by physical persons in the territory of the Republic of Azerbaijan during shopping festivals and not intended for production or commercial purposes" was approved by Ilham Aliyev, the President of the Republic of Azerbaijan, based on the Decree dated February 20, 2017.

Generally, this Rule regulates the procedures of refunding the value added tax (VAT) paid for the goods, which are purchased by physical persons during shopping festivals and not intended for production or commercial purposes, pursuant to Article 165.4 of the Tax Code of the Republic of Azerbaijan. Except the goods that are listed below, the requirements of this Rule are applicable only to consumer goods, which are not intended for production or commercial purposes and are purchased during shopping festivals:

- Excisable goods;
- Food products;
- Medicines and medical accessories;
- Goods which are exempt of VAT within the country;

- Precious stones that have not been subject to framing, processing or classification;
- Precious metals in ingots;
- Transport vehicles and their spare parts.

Based upon the Decree, the approved Rule specifies physical persons, buyers, sellers, stickers, risks, risk assessment system, VAT kiosks, authorized banks, operators, unified database and others, as key definitions used for purposes hereof. The Rule envisages that the operator authorities will be given to the Tax Ministry of the Republic of Azerbaijan. The Operator authorities include the following:

- 1) Organizing the activities to formalize the sales of goods under circumstances that are specified in this Rule and VAT refunding;
- 2) Ensuring the creation and management of a software and a unified database to meet the following requirements:
 - Making out Electronic Tax Invoices (ETI) for the goods provided to buyers on condition of VAT refunding during shopping festivals, printing them out with a bar code, and communicating ETI data as specified;
 - Unifying ETI data based on the bar codes of ETSS that are provided by Buyers at VAT kiosks;
- 3) Keeping software functional at all times and ensuring its uninterrupted operation;
- 4) Organizing the operation of such VAT kiosks, in order to document VAT refunding for the goods purchased and ensuring that the opportunities to refund VAT paid for the goods, which are purchased at shopping festivals, are provided on their purchased date, through coordinating the number of the kiosks, their addresses and work schedules with the Ministry of Culture

and Tourism of the Republic of Azerbaijan;

- 5) Inspecting the goods depending on the outcome of risk assessments at VAT kiosks;
- 6) Determining the shape and application procedure of the sticker with the involvement of the Ministry of Culture and Tourism of the Republic of Azerbaijan.

The following items are related to the tasks that have to be performed by the Ministry of Taxes as specified in the Decree:

- to ensure that the authorized bank (banks) indicated in the Rule are determined within 15 days by considering the feedbacks of the Ministry of Culture and Tourism and in coordination with the Financial Market Supervision Chamber;
- to establish an infrastructure including a software and a unified electronic database with the aim of implementing VAT refunding system in Azerbaijan for goods, which are purchased by physical persons in the territory of the Republic of Azerbaijan during shopping festivals and are not intended for production or commercial purposes,
- to ensure that the above infrastructure is integrated into the electronic information system used by the tax authorities and an authorized bank (banks) prior to the start of the first shopping festival.

Furthermore, one of the key tasks facing the Tax Ministry is to physically inspect the goods based on a risk assessment system in accordance with the requirements of this Rule and address other matters pursuant to the Decree in order to ensure the security of the data gathered in the unified electronic database and end-to-end information exchange, mitigate risks and facilitate the procedures relating to VAT refunding.

As specified in the Decree, the works to be performed jointly by the Ministry of Culture and Tourism of the Republic of Azerbaijan and the Ministry of the Republic of Azerbaijan will encompass:

- undertaking promotion and awareness activities related to the introduction of the VAT refunding system for the goods, which are purchased by physical persons in the territory of the Republic of Azerbaijan during shopping festivals and not intended for production or commercial purposes, including the broadcast of video commercials through mass media and shopping outlets that will be connected to the system;
- defining the shape and application method of the sticker specified in the Rule, holding training and awareness seminars for the officers of the Ministry of Taxes of the Republic of Azerbaijan, who are involved in VAT refunding system in order to ensure that such festivals are held to the highest standard.

As specified in the Decree, the Ministry of Finance of the Republic of Azerbaijan will ensure the implementation of the following activities:

- 1) Refunding of VAT to be paid by buyers during shopping festivals by reducing actual VAT revenues, which are received by the government budget through the Ministry of Taxes of the Republic of Azerbaijan, in proportion to the refunded amount;
- 2) Receiving the approval within fifteen days including agreeing the feedbacks received from the Ministry of Taxes of the Republic of Azerbaijan;
- 3) Fixing the minimum amount to be transferred to the authorized bank as a prepayment for the purposes of this Rule within two months' period and ensuring that the

above amount is paid by taking the sequence of specified actions.

Moreover, the Decree reflects measures to support the Ministry of Taxes of the Republic of Azerbaijan and the Ministry of Culture and Tourism of the Republic of Azerbaijan with respect to the execution of duties by all central and local executive authorities and relevant governmental bodies pursuant to the Decree.

It should be noted that, once the sales of such goods are authorized during shopping festival, whenever the buyer approaches a payment outlet to pay for the cost of goods being purchased by them, the seller will confirm whether the buyer intends to use his right of VAT refunding. In the event that the buyer is willing to use his right of VAT refunding, the seller will provide him with general information on the requirements of this Rule.

In the event that the buyer is a foreign citizen or a person without citizenship, in addition to the requirements of this Rule, the seller will provide the buyer with general information on "the Rule of refunding the value added tax to be paid by foreign citizens and persons without citizenship for the goods, which are purchased in the territory of the Republic of Azerbaijan and are not intended for production or commercial purposes", which was approved by the Decree of the President of the Republic of Azerbaijan No 985 dated July 12, 2016. At their own disposal Foreigners or persons without citizenship, who act in the capacity of the Buyer, can request the refunding of the VAT paid for the purchased goods within the framework of the requirements of this Rules or the requirements of "the Rule of refunding the value added tax to be paid by foreign citizens and persons without citizenship for the goods which are purchased in the territory of the Republic of Azerbaijan and are not intended for production or commercial purposes".

It should be noted that in case the buyer does

not express his willingness to use his right of VAT refunding, the seller will make out a ETI by using the electronic tax invoice system on the website of the Internet Tax Department of the Ministry of Taxes of the Republic of Azerbaijan, in a form approved by the Cabinet of Ministers of the Republic of Azerbaijan that reflects the below data, and will forward such data to the unified database in a real time mode:

- ETI series, number and date;
- Seller's name, surname, business entity's address and Tax ID number;
- Buyer's name and surname;
- Series and number of the document proving the buyer's identity;
- Name of the buyer's country of citizenship (or name of the country of a person without citizenship);
- Name of sold goods, their quantity, unit price and the amount of VAT within that price;
- Due refunding date of VAT paid for the goods that are purchased against such ETIs;
- Details of the buyer's bank card (or an account) – at the buyer's request;
- Additional information and details of the operator and authorized bank;
- Address of the VAT kiosk nearest to the seller's business entity.

ETIs will be printed out in two copies reflecting a bar code and both of them will be issued to the buyer. Thus, ETIs issued will bear the seller's signature and affixed seal proving that the transactions have been carried out at the sales point on condition that VAT will be refunded.

It is envisaged that the buyer will execute the following sequence of actions at VAT kiosk in order to refund VAT paid for the goods that have been purchased during the shopping festival:

- The Buyer will hand over ETIs for the purchased goods to tax officers at VAT kiosks;
- Automated risk assessment will be performed after the tax authority identifies ETI data in the unified database;
- The relevant software will confirm whether the tax authority must examine the goods based on the results of risk assessment. In the event that goods are required to be examined, the buyer will hand over such goods to the tax officer for this purpose. The tax officer will match the presented goods with the data which is incorporated into the unified database and, following the examination results, will make a confirmation note in the ETIs submitted by the buyer for the VAT amount to be refunded; then the tax officer will return it to the buyer by affixing a seal and forward this information to the authorized bank in real time mode by confirming the ETI in the unified database;
- In the event that the buyer is not requested to present his goods for examination based on risk assessment results, the ETI reflecting the final VAT amount to be refunded will be confirmed by the tax officer's seal and this information will be forwarded to the authorized bank in real time mode.

Once the buyer has passed the inspection at VAT kiosk, based upon the ETI confirmed the by tax officer's seal, the authorized bank will refund the due VAT amount in cash in national currency on the date when such goods are purchased or, not later than 10 business days, will transfer it to the bank card or an account (in national or foreign currency for

foreigners and persons without citizenship). In the event that VAT refunding is transferred to the bank card (or an account) at the buyer's request, the buyer will drop a copy of his ETI, reflecting the details of the bank card (or an account) owned by the buyer as stipulated in this Rule, into a dedicated box that will be installed at VAT kiosk for this purpose. E-TIs which reflect the details of the buyer's bank card (or an account) will be confirmed by the authorized bank in the unified database and the refundable amount (after determining the foreign currency equivalent and referring to the respective exchange rate fixed by the authorized bank on the VAT refunding date) will be transferred to the buyer's bank card (or an account) after deducting 20% for operator services and service fees for bank transactions.

The authorized bank will submit the data on VAT amounts, which are refunded during the shopping festival based on this Rule, to the Tax Ministry of the Republic of Azerbaijan and the Ministry of Culture and Tourism of the Republic of Azerbaijan within 5 business days from the date when such goods are purchased. The Tax Ministry of the Republic of Azerbaijan, in its turn, will submit its feedback on the above to the Ministry of Finance of the Republic of Azerbaijan once the specified period is finished.

Upon receiving the feedback from Ministry of Taxes, the Ministry of Finance of the Republic of Azerbaijan will ensure that such an amount is transferred to the authorized bank within 3 business days at the expense of reducing the actual VAT revenue, which is received by the state budget through the Tax Ministry of the Republic of Azerbaijan, in proportion to the same amount.

In the event that the buyer decides to return the goods purchased, the seller will take back the hardcopy version of the ETI, which was

issued to the buyer, and will make relevant notes in the electronic database by cancelling that ETI. In the event that the buyer returns the goods after VAT refunding, the seller will reimburse the price of goods to the buyer by deducting the VAT amount.



/iqtisadiislahat



(+994)12 5213318



info@ereforms.org



Baku, Neftchilar av, 24

<http://iqtisadiislahat.org>

<http://ereforms.org>

<http://ecoreform.az>