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The key features of the amendments are:

(A) The Law on amendments to the Civil Code, being effective from 28 December 2018, clarifies conditions of fiduciary duties of representatives of the legal entities; the rules of convene of general meetings of participants (founders) in the limited liabilities companies (hereinafter referred to as “LLC”), as well as defines criteria for special importance transactions in respect to LLC and brings additional duties for participants (founders) of LLC regarding transfer of shares.

- Thus, the condition of *act of omission and negligence* has been excluded from Article 49.4 of the Civil Code and, as a result, any person acting on behalf of the legal entity, as well as members of the management (board of directors and executive body) shall be deemed liable for damages to the company or its shareholder in the cases provided by Article 49.4 of the Civil Code, including the cases of conclusion of unfair deals *or deals causing damages* for the

shareholders (partners). The Article 49.6 of the Civil Code has also been amended and currently the shareholder (participant) holding a stake (shares) in the amount of not less than 10 percent (previously - 5%) of the charter capital of a legal entity shall, in the event of circumstances provided for in Article 49.4 of the Civil Code or if there are substantial suspicions regarding the occurrence of such circumstances, have the right to demand from a person acting on behalf of the legal entity all documents or information that are available in the legal entity and are related with these circumstances (without specifying any particular document), in order to review these documents (information);

- New Article 87.10 has been added to the Civil Code according to which any transaction amounting to more than 50% of the value of the net assets of LLC shall be considered as being of *special importance transaction*. The general meeting of participants of LLC takes a decision on conclusion of special importance transactions;
- Rules on convene of general meetings of LLC has been stipulated by the amendments. According to new Articles 91.1-4, 91.1-5, 91.1-6, 91.1-7 and 93.7 of the Civil Code a general meeting of LLC shall be deemed valid in case of participation of the holders of *more than 50%* of shares of LLC. If there is no quorum, a general meeting to be convened again with no amendments to agenda, where a general meeting is valid if holders of 50% of shares of LLC participate in the meeting. If there is no quorum in a general meeting convened anew, a general meeting

to be convened again and shall be deemed valid in case of participation of the holders of 25% of shares of LLC. Where LLC has sole participant, all decisions shall be adopted by himself in written.

**(B)** Laws on amendments to the Law on State Registration of Legal Entities and State Register has been adopted on 30 October 2018 (published on 04 December 2018) and 28 December 2018.

- According to the amendments, application for state registration of legal entity shall be signed both by founder(s) and legal representative(s) of legal entity, or by the person(s) appointed by them. The similar requirement is envisaged for electronic registration where founder(s) and legal representative(s) are not the same persons. Commercial legal entity shall provide information on its legal address only, while there is still a requirement for non-commercial entity to provide relevant document confirming its legal address.
- Legal representative(s) of LLC with local investments shall in 2 working day after state registration by means of strengthened electronic signature, inform relevant state body on commencement of business activity of such LLC.

**(C)** According to the amendments to the Labor Code conclusion of employment agreement for the first time with the person(s) indicated in an application for the purposes of electronic state registration of LLC with local investments is deemed registered on the basis of the information provided by the Ministry of Taxes by means of electronic registration system. Labor relations and employment agreement come into force from the moment state registration certificate, extract from state register and charter of LLC with local investments sent to its electronic cabinet (personal electronic page created on electronic registration system of the Ministry of Taxes for the purposes of reciprocal exchange of information and documents which is accessible by means of electronic signature

certificate or password provided by the Ministry of Taxes).

**(D)** The Law on amendments to the Tax Code, being effective from 01 January 2019, inserts new categories of entrepreneurs to be exempted from income, profit and property tax, provides tax exemptions for salaries to reduce tax duties of businesses and introduces reduced and unified simplified tax and withdraws simplified tax of certain category of entrepreneurs as well as brings number of amendments to administrative and other taxes provisions. This issue describes main amendments related to micro and small entrepreneurs.

The new categories of entrepreneurs are:

**a. Micro and small entrepreneurs.**

Criteria for micro and small entrepreneurs are determined by the Order of Cabinet of Ministers dated December 21, 2018. 75% of income and profit of micro entrepreneurs are exempt from tax as well as they are exempt from property tax and allowed apply 2 coefficients for amortization. Micro entrepreneurs are individual entrepreneurs and legal entities having medium annual employees between 1-10 people and annual income not more than 200 thousand manat. Small entrepreneurs are individual entrepreneurs and legal entities having employees between 11-50 people and annual income between 200 thousand – 3 million manat. Exemptions for small entrepreneurs are described infra under Startups.

**b. Startups** are micro and small individual entrepreneurs and legal entities having an innovative business and obtains “Startup” certificate from SME Development Agency. Startups are exempt from income and profit tax for three years from the date of “Startup” certificate. Criteria for startups will be determined by Cabinet of Ministers within 3 months according to the Decree of the President dated December 20, 2018.

**SME Cluster Company and participant of SME cluster.** SME Cluster Company is a legal entity certified by the SME Development Agency in consultation with Ministry of Taxes. SME Cluster Company is exempt from profit tax as well as they are exempt from property tax and VAT for import of technological equipment for production with approval of SME Development Agency.

Criteria for SME Cluster Company will be determined by the President. Participant of SME cluster is micro, small and medium sized individual entrepreneur and legal entity certified by SME Development Agency and capital oriented expenditures of income or profit from the contract with SME Cluster Company is exempt from tax.

Category	Legal Entity	Indiv.	Criteria	Exemption	Term	Other Exemptions
Micro	+	+	+	Inc./Profit 75%	-	Property, Amartiz. 2 coefficient
SME Cluster	+	-	-	Profit 100%	7	VAT for import of technological equipment
Startup	+	+	-	Inc./Profit 100%	3	-

Summary of criteria, eligibility, exemptions and term of exemptions for new categories  
Structure of taxing small and medium businesses changes by the introduction of the above listed new categories and exemptions provided for them and by reducing simplified tax to 2 percent but withdrawing simplified tax, among others, from entrepreneurs who does not render services and/or sell goods to the public but to the businesses (except transportation businesses under clause 218.4.1 and those individuals under 220.10), production businesses having more than 10 employees, wholesalers, businesses requiring licenses (except building construction and businesses providing services on compulsory insurance). Simplified tax remains mostly for retail and restaurants and food services businesses. Introduction of those new categories covers those who are withdrawn from simplified tax at least as a micro entrepreneur and additionally micro entrepreneurs will be able to offset their costs.

An entrepreneur having annual turnover up to 200 thousand manat who was eligible for simplified tax were paying 4 percent tax from the general income in Baku without deducting costs (1000 manat income x 4% tax = 40manat). The micro entrepreneur having the same amount of income will pay 20 percent income tax only from 25 percent of income after deducting allowable costs (1000 manat income - 75% exemption x 20% tax = 50manat (this example does not consider deducting costs).

(E) On the 28<sup>th</sup> of December 2018, President of the Republic of Azerbaijan signed Law on amendments to the Civil Procedure Code of the Republic of Azerbaijan. The main purpose of this Law is to improve judicial proceedings on civil (and economical) cases by simplifying the procedural rules.

According to the Law, the following changes have been made to the Civil Procedure Code:

- (i) Introduction of Electronic Judicial information system in civil and economical cases – Basically, judicial proceedings in civil and economic disputes will be conducted through the Electronic Judicial information system. Judicial proceedings, including filing an application to the court, receipt of applications, complaints and other documents, as well as delivery of court documents to the process participants will be carried out through the electronic cabinet created in the electronic information system. E-signatures and certified e-signatures will be used for electronic document circulation in the "electronic court" information system;
- (ii) Simplified procedure for minor allegations – A separate chapter has been introduced for minor allegations /claims up to two thousand manat for civil cases and claims up to ten thousand manat small claims). The application will be submitted to the court for court order. In the courts where "electronic court" information system is applied, the application is forwarded to the persons involved in the civil case, as well as by the e-cabinet created by the Electronic Judicial information system by persons participating in the case. The amendments introduces the instances of inadmissibility of cases for simplified review and if the court does not refuse the case on the grounds of inadmissibility within five business days, then resolution on the settlement of that case should be made within 30 (thirty) working days from the day the application is filed. In the event that no appeal has been filed, the resolution comes into force 1 (one) month after its adoption;
- (iii) Content of the Court notice – As per the amendments made, a court shall send a notice in writing to the persons participating in the case explaining their procedural rights and responsibilities. In addition, a court shall submit all documents and information related to the circumstances referred to in Article 49.4 of the Civil Code of the Republic of Azerbaijan (legal entity or person acting on its behalf) to the person (parties) participating that have at least 10 per cent of shares (stocks) in the charter capital of a legal entity.;
- (iv) Introduction of E-payment – State fee shall be paid only through electronic payment systems;
- (v) Court Resolution in-absentia – In courts where the "electronic court" information system is available, the judge shall submit the court resolution in absentia with its e-signature in electronic cabinets for the persons participating in the case no later than 10 (ten) days from the date of the resolution by electronic signature;
- (vi) Court Ruling in E-court – Information on the court ruling made where the "electronic court" information system is applied shall be posted on the "E-Judicial" information system, confirmed by the electronic signature of the judge on the same day. The judge issues an e-signature within 5 (five) days after issuing the court ruling, and ensures that it is placed in the Electronic Judicial information system;
- (vii) Chairperson's responsibility to provide notice in writing regarding the parties' procedural rights and duties – The Chairman of the court shall explain to the parties their right to appeal to the jury to resolve the dispute and its consequences. The court should explain their rights and responsibilities at the request of persons participating

in the proceedings. The extract, reflecting the basic information (summary) and conclusion of the resolution should be officially given to

the parties on the day of the announcement.

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