

## International Tax Kyrgyzstan Highlights 2017



### Investment basics:

**Currency** – Kyrgyzstan Som (KGS)

**Foreign exchange control** – Kyrgyzstan has a liberal exchange system, and there generally are no restrictions on converting or transferring funds associated with cross-border transactions into freely usable currency at the legal, market-clearing rate. Foreign exchange is widely available, and the KGS is freely convertible at banks and exchange offices.

**Accounting principles/financial statements** – All companies in Kyrgyzstan must use IFRS.

**Principal business entities** – These are the limited liability company, open and closed joint stock company, partnership, sole proprietorship, branch and representative office of a foreign company.

### Corporate taxation:

**Residence** – A legal person is a resident in Kyrgyzstan if it is established according to the laws of Kyrgyzstan or its management bodies are located in Kyrgyzstan.

**Basis** – Resident companies are taxed on worldwide income. Nonresident entities are subject to tax only on Kyrgyz-source income and on income received by a permanent establishment in Kyrgyzstan.

**Taxable income** – Taxable profit is defined as accounting profit, subject to certain adjustments in accordance with the provisions of the Kyrgyz Tax Code. Income includes sales income (i.e. total proceeds from the sale of goods, work, services and property rights) and nonsales income. A list of nonsales income is provided in the Tax Code and includes dividends, interest, royalties, leasing income, etc.

Substantiated expenses connected with the earning of income are deductible in computing taxable income.

**Taxation of dividends** – Dividends received by a resident legal person from another domestic company are exempt from the corporate income tax. Dividends received from a nonresident company are included in regular income and taxed at the general tax rate.

**Capital gains** – Capital gains derived by a resident are taxed as normal income at the general tax rate.

**Losses** – Losses incurred by a taxpayer as a result of its economic activities may be carried forward for up to five calendar years. The carryback of losses is not permitted.

**Rate** – The standard corporate income tax rate is 10%. For leasing companies, the rate is 5% for the period from 1 January 2017 through 31 December 2021. A 0% rate applies to corporate entities engaged in mining of gold ore, concentrate, alloy and gold refining, as well as to certain domestic companies that use new equipment solely for production and sell goods of their own production (provided the domestic companies comply with certain criteria determined by the Tax Code).

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – A foreign tax credit is granted for tax paid abroad on foreign income, provided there is a tax treaty with the country in which the tax was paid. The amount of the credit will not exceed the amount of Kyrgyz tax due on the same income.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Incentives are available for investments in priority economic sectors relating to business activities in special economic zones.

The profit tax for agricultural and processing businesses that comply with certain criteria, preschool organizations

and private medicine cardio surgery businesses is 0%. Companies operating in a high-tech park may enjoy a profit tax exemption, VAT and sales tax exemptions, a reduced 12% rate of social security contributions and a reduced 5% rate of personal income tax for their employees.

**Other** – Special taxes are levied on subsoil users that hold licenses to engage in exploration and development of the subsoil in Kyrgyzstan.

#### Withholding tax:

**Dividends** – Dividends that are paid to a nonresident entity or individual are subject to a 10% withholding tax, unless the rate is reduced by a tax treaty.

**Interest** – Interest that is paid to a nonresident entity or individual is subject to a 10% withholding tax, unless the rate is reduced by a tax treaty.

**Royalties** – Royalties that are paid to a nonresident entity or individual are subject to a 10% withholding tax, unless the rate is reduced by a tax treaty.

**Technical service fees** – Technical service fees that are paid to a nonresident entity or individual are subject to a 10% withholding tax, unless the rate is reduced by a tax treaty.

**Branch remittance tax** – No

#### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No. The employer must withhold personal income tax on employment income and remit it to the state.

**Real property tax** – A real estate tax is levied on the owner of immovable property. The rate is 0.35% for residential property and 0.8% for property used in business activities.

Land tax is levied annually on the use of a plot of land, with the rate depending on the location and use of the land.

**Social security** – An employer must make a contribution to various funds in respect of remuneration paid to employees working under employment contracts. The aggregate contribution rate is 17.25% of an employee's gross salary and represents a 15% contribution to the pension fund, a 2% contribution to the compulsory medical insurance fund and a 0.25% contribution to the healthcare fund.

**Stamp duty** – No stamp duties are established by the law, but according to the regulations of the Kyrgyz government, the authorities may impose a levy on

various legal actions, such as the issuance of documents by state bodies.

**Transfer tax** – No

#### Anti-avoidance rules:

**Transfer pricing** – Transactions between related parties must be at arm's length. Kyrgyzstan's transfer pricing rules generally follow the OECD guidelines and allow the tax authorities to review the prices used by taxpayers in "controlled transactions."

**Thin capitalization** – No restrictions

**Controlled foreign companies** – No

**Disclosure requirements** – No

#### Compliance for corporations:

**Tax year** – Calendar year

**Consolidated returns** – Consolidated returns are not permitted; each entity must file a separate return.

**Filing requirements** – A company must make quarterly advance payments of tax based on revenue received during the previous reporting period. An advance payment for the reporting quarter is calculated as 10% of actual net accounting profit. The quarterly payments must be remitted by the 20th day of the month following the reporting quarter.

The annual corporate income tax return is due by 1 March of the following year, and any tax due must be paid in full by that date.

**Penalties** – The tax code sets out sanctions that may be imposed for tax violations. Late payment of tax is subject to interest at 0.09% for each day of arrears. The total amount of interest may not exceed the amount of unpaid tax. A taxpayer that understates its tax liabilities will be subject to fines at 50%-100% of the understated tax amount.

**Rulings** – The tax authorities generally issue nonbinding rulings of an explanatory nature.

#### Personal taxation:

**Basis** – Individuals who are tax resident are taxed on their worldwide income, whether paid in cash or in kind, and on imputed income received during the calendar year. Nonresidents pay tax only on Kyrgyz-source income.

**Residence** – An individual is considered to be a tax resident of Kyrgyzstan if he/she is physically present in Kyrgyzstan for at least 183 days during a period of 12 consecutive months ending within the current tax period.

**Filing status** – An individual return or a family tax return is permitted.

**Taxable income** – Taxable income includes income from employment, income from management services and passive income, such as dividends, interest, royalties, etc. Taxable income is defined as gross income, less allowable deductions and exemptions. For personal income tax purposes, gross income is defined as all income, whether received in cash, in kind or in the form of work and services received by a taxpayer.

**Capital gains** – Capital gains derived by a resident are taxed as normal income at the general tax rate.

**Deductions and allowances** – A standard monthly deduction of KGS 650 is granted to a taxpayer for each month of his/her accumulated income during the calendar year. An additional monthly deduction of KGS 100 is granted each month for each of a taxpayer's dependents. Taxpayers also are allowed to deduct contributions made to the state pension fund and to nonstate pension funds, at a maximum rate of 8% of total taxable income.

**Rates** – 10%

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – No, but the authorities may impose a levy on various legal actions, such as the issuance of documents by state bodies.

**Capital acquisitions tax** – No

**Real property tax** – A real property tax is levied on the owners of immovable property. The rate is 0.35% for residential property and 0.8% for property used for business activities.

Land tax is levied annually on the use of a plot of land, with the rate depending on the location and use of the land.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – The employee must contribute 10% of gross remuneration. The employer also must make a contribution to various funds in respect of remuneration paid to employees who are working under employment contracts.

#### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – Tax on employment income is withheld by an employer and must be remitted to the state no later than the 15th day of the month following the month in which income is paid.

An individual who is required to file an income tax return must do so by 1 April of the year following the tax year, and tax must be paid at that time.

**Penalties** – The tax code sets out sanctions that may be imposed for tax violations. Late payment of tax is subject to interest at 0.09% for each day of arrears. The total amount of interest may not exceed the amount of unpaid tax. A taxpayer that understates its tax liabilities will be subject to fines at 50%-100% of the understated tax amount.

#### Value added tax and sales tax:

Kyrgyzstan levies both a VAT and a sales tax.

**Taxable transactions** – VAT is charged on most sales of goods, performance of work and provision of services in Kyrgyzstan, including those supplied free of charge. VAT also is imposed on most imports into Kyrgyzstan, excluding those from countries that are members of the Eurasian Economic Union. Transfers of property rights and certain self-supplies, such as transfers of goods and services produced by a taxpayer for internal consumption, also are subject to VAT.

Legal entities, whether domestic or foreign, operating in Kyrgyzstan through a permanent establishment and individual entrepreneurs are liable to pay sales tax. Sales tax is levied on the realization of goods, performance of work and provision of services, with the tax base being the value of goods sold, work performed or services rendered, less VAT and sales tax.

**Rates** – The standard VAT rate is 12%. A 0% rate applies to exports of goods, except gold alloy and refined gold; international transport of passengers, baggage and cargo, except for railway transport; transit flight services and services related to international transportation, except for international railway transportation; and services relating to the power supply of pumping stations. Certain supplies (e.g. financial and insurance services, and supplies of land) are exempt from VAT.

For sales of VATable and VAT-exempt goods and services paid in cash, the sales tax rate is 1% for commercial activities and activities related to the processing of agricultural products, and 2% in all other cases (the rate is 0% for VATable and VAT-exempt goods that are paid via a noncash payment). For sales of other goods and services paid in cash, the sales tax rate is 2% for commercial activities and 3% in all other cases. Sales tax at 5% applies to service fees of cellular companies, and 2% applies for banks.

**Registration** – A business entity carrying out economic activities must be registered for VAT purposes in

Kyrgyzstan if its total turnover exceeds KGS 8 million during a period of 12 consecutive months or less.

No special registration is required for sales tax purposes.

**Filing and payment** – Payers of VAT are required to file monthly VAT returns and pay the corresponding VAT due to the budget no later than the 25th day of the month following the tax period. A register of VAT invoices issued and VAT invoices on goods (work, services) purchased during the tax period should be submitted along with the VAT returns.

Taxpayers are required to report and remit their sales taxes on a monthly basis, by the 20th day of the month following the reporting month.

**Source of tax law:** Tax Code of the Kyrgyz Republic

**Tax treaties:** Kyrgyzstan has concluded more than 20 tax treaties with foreign states.

**Tax authorities:** State Tax Service

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