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International Tax
Turkmenistan Highlights 2017

Investment basics:

Currency – Turkmenistan manat (TMT)

Foreign exchange control – All payments within Turkmenistan generally must be made in TMT, unless the entity making the payments is a contractor/subcontractor under the Petroleum Law. The purchase, sale or exchange of foreign currency may be carried out only through authorized banks and currency exchanges. Currently, there is no mandatory requirement for nongovernmental entities (with foreign investments) to convert income received in foreign currency into TMT.

Accounting principles/financial statements – All enterprises, including branches and representative offices of foreign companies operating in Turkmenistan, must prepare their financial statements in accordance with the national accounting standards of Turkmenistan, with the exception of companies operating under the Petroleum Law.

Enterprises operating in Turkmenistan are subject to the national accounting standards developed on the basis of IFRS. Accounting (as well as financial reporting) should be maintained by contractors and subcontractors under the Petroleum Law, in accordance with the international practice used in petroleum operations and the applicable provisions of the relevant agreement.

Principal business entities – These are the joint stock company, business society, sole proprietorship, branch of a foreign corporation and representative office.

Corporate taxation:

Residence – Legal entities incorporated in Turkmenistan and having their management body located in Turkmenistan normally are treated as tax residents. Legal entities incorporated abroad normally are treated as nonresidents.

Basis – Resident companies are taxed on worldwide income. Nonresidents are taxed on income from Turkmen sources or income derived from carrying out a business in Turkmenistan.

Taxable income – Businesses are subject to corporate income tax on trading profits and other taxable income. In general, expenses that are wholly and exclusively incurred for the purpose of the business and that are supported by documentation may be deducted within the statutory norms. The amount of taxable income is determined by subtracting all deductions provided for by the tax code from gross income.

Taxation of dividends – Gross income of a resident legal entity includes dividend income. Dividends and other income from a share participation in a Turkmen legal entity are subject to income tax withholding. Where dividends and other income from a share participation in a legal entity previously have been taxed at source in Turkmenistan, such income may be deducted from gross income.

Capital gains – Capital gains are taxable in Turkmenistan at source.

Losses – Operating losses of a taxpayer may be carried forward and set off against future income for up to three years following the year in which the losses are incurred. The carryback of losses is not permitted.

Contractors operating under the Petroleum Law may carry forward operating losses for a period of 10 years from the time commercial production of hydrocarbon resources commences.

Rate – The corporate profit tax rate is 8% for resident nongovernmental entities and 20% for other residents, including contractors/subcontractors under the Petroleum Law. A 2% income tax rate applies to sole proprietorships.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Turkmenistan grants a foreign tax credit under its tax treaties. Foreign taxes paid by a resident taxpayer on foreign-source income may be credited against the Turkmen income (profits) tax liability, based on an appropriate certificate confirming the payment of foreign income tax.

Participation exemption – No

Holding company regime – No

Incentives – There are incentives for foreign investments and for companies operating in the special economic zones, mainly, the Avaza National Tourism Zone.

Withholding tax:

Dividends – A 15% withholding tax is levied on dividends paid to a nonresident, unless the rate is reduced under an applicable tax treaty.

Interest – A 15% withholding tax is levied on interest paid to a nonresident, unless the rate is reduced under an applicable tax treaty.

Royalties – A 15% withholding tax is levied on royalties paid to a nonresident, unless the rate is reduced under an applicable tax treaty.

Technical service fees – A 15% withholding tax is levied on technical assistance fees paid to a nonresident, unless the rate is reduced under an applicable tax treaty.

Branch remittance tax – No

Other – A 15% withholding tax is levied on rental and leasing income from movable or immovable property used in Turkmenistan. A 15% rate also applies to income earned from the use or rental of (freight) ships and other transport vehicles used in Turkmenistan for international traffic (6% in the case of freight of sea ships or aircraft).

Other taxes on corporations:

Capital duty – No

Payroll tax – In its capacity as a tax agent, an employer is required to withhold and remit individual income tax, city maintenance fees and voluntary pension fund and medical insurance contributions on behalf of its employees to the appropriate authorities.

Real property tax – Property tax applies to legal entities at a rate of 1% of the average annual net book value of fixed assets held for business purposes and the average annual value of tangible current assets used in business activities. Property tax is deductible for profits tax purposes.

Social security – An employer is required to make a pension insurance fund contribution at a rate of 20% of local gross payroll, at its own expense.

Stamp duty – No, but the government may impose a levy on various legal actions, including the issuance of documents by state bodies.

Transfer tax – No

Other – Business entities engaged in subsurface use operations are subject to subsurface use tax, at rates ranging from 0%-50%. Other local taxes (advertisement tax, city maintenance fee, car park owner's fee, vehicle sale tax, contributions to the agricultural fund, etc.) may apply, depending on the nature of the taxpayer's operations.

Contractors and subcontractors under the Petroleum Law are not recognized as payers of subsurface use tax and other local taxes.

Anti-avoidance rules:

Transfer pricing – Transactions between related parties; transactions involving the exchange of goods, work or services; and external trade deals are subject to the transfer pricing rules. The tax authorities are entitled to correct tax calculations where there is a divergence from the real market price of more than 20%. For contractors/subcontractors under the Petroleum Law, the divergence may not exceed 10%.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each company generally must file a separate return.

Filing requirements – Profits tax returns must be submitted to the tax authorities in the place where the company is registered on a quarterly basis (or on a semiannual basis for enterprises that keep simplified accounting) by the 25th day of the month following each quarter/half-year, and on an annual basis by 15 March of the year following the tax period.

Deadlines for a contractor/subcontractor under the Petroleum Law to submit its tax declarations and pay taxes due may be established by the relevant agreement.

Penalties – Interest is assessed for each calendar day that tax remains unpaid, and is charged at a daily rate of 0.03% of the tax due. Penalties of up to 40% of underpaid tax and other obligatory payments to the budget may be applied.

Rulings – The tax authorities generally issue explanatory letters, but these are not binding.

Personal taxation:

Basis – Resident individuals are taxed on their worldwide income; nonresidents are taxed only on Turkmen-source income.

Residence – An individual is a resident of Turkmenistan if he/she is physically present in Turkmenistan for 183 days or more in a calendar year, unless otherwise provided under an applicable tax treaty.

Filing status – Joint filing is not permitted; each individual must file his/her own return, if required.

Taxable income – Turkmen-source income includes income from employment and other activities carried on in Turkmenistan, and any other benefits received in this respect, regardless of the place of payment. Income derived by resident individuals is taxable regardless of the form in which it is received (i.e. cash, in kind, benefits, etc.). Income from the leasing or other use of property located in Turkmenistan is treated as income subject to taxation. Dividends and other benefits deriving from shareholdings in legal entities and interests in partnerships, and interest payable under any type of debt instrument, also are considered taxable income.

Capital gains – Neither gains arising from the sale of property owned by an individual (with the exception of gains arising from the disposal of property in the context of entrepreneurial activity), nor gains arising from the sale of shares, bonds and other securities or shareholdings in legal entities are included in the taxable base.

Deductions and allowances – Tax residents are allowed standard monthly deductions, such as a minimum salary deduction (TMT 50 per month per taxpayer and each dependent), deductions for the amount of voluntary pension fund contributions and medical insurance contributions and some other deductions, subject to certain limitations.

Rates – Employment income is taxed at a flat tax rate of 10% for both residents and nonresidents.

Other taxes on individuals:

Capital duty – No

Stamp duty – No, but the government may impose a levy on various legal actions, including the issuance of documents by state bodies.

Capital acquisitions tax – No

Real property tax – No. Property tax applies only to legal entities. There also is a city maintenance fee of TMT 2 per month.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – No, there are no mandatory pension fund contributions by individuals; such contributions are made only on a voluntary basis.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – An individual receiving only employment income where tax is withheld at source generally is not required to file a tax return. If an individual receives taxable income from other sources, a return must be filed. If a return is required, it generally must be filed by the 25th day of the month following the reporting period (1 April of the year following the reporting period for a nonresident individual), with tax due paid by the 10th day of the second month following the reporting period (15 April of the year following the reporting period for a nonresident individual).

Penalties – Penalties for late payment of taxes and administrative fines for noncompliance apply.

Value added tax:

Taxable transactions – VAT is levied on the turnover of taxable operations from the supply of most goods (and works and services) in Turkmenistan, unless a specific exemption applies.

Rates – The standard rate is 15%. A zero rate applies to exported goods (except for gas, oil and related processed products); the international transportation of passengers and cargo; and the sale of goods, works and services intended for petroleum operations to contractors and subcontractors under the Petroleum Law. Exemptions exist for various operations.

Registration – There is no separate tax registration for VAT purposes; VAT registration is part of the overall tax registration. When a nonresident carrying on taxable operations in Turkmenistan is not registered with the tax authorities, the tax agent is required to calculate, withhold and remit the appropriate VAT to the state budget with respect to acquired goods (or works or services).

Filing and payment – For VAT purposes, the tax period for legal entities is the calendar month. VAT declarations must be filed monthly by the 20th day of the following month. VAT collected for a particular month must be remitted to the state budget by the 25th day of the following month. A tax agent making a payment to a nonresident (that is not registered with tax authorities) that carries out taxable transactions in Turkmenistan in relation to acquired goods (or works or services) must calculate, withhold and remit the appropriate VAT to the state budget at the time of payment of the income. When such a payment is made from overseas, the VAT must be remitted by the tax agent within 15 days of the payment being made. The tax agent must file a report detailing the VAT withheld by the 20th day of the month following the month in which the payment was made.

A reverse charge mechanism applies in certain cases.

Source of tax law: 2004 Tax Code of Turkmenistan, as amended

Tax treaties: Turkmenistan has concluded tax treaties with 34 countries.

Tax authorities: State Tax Service

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