

International Tax Uzbekistan Highlights 2017



Investment basics:

Currency – Uzbekistani Soum (UZS)

Foreign exchange control – Cross-border transactions and related sales or purchases of foreign currency are unrestricted. Residents carrying out currency transactions related to capital flow must comply with the procedures established by the Central Bank of Uzbekistan. Payments within Uzbekistan must be made in the national currency, except as stipulated in legislation. Restrictions on the removal of foreign currency cash from the country by individuals depend on whether the individual is a resident or nonresident, and, for nonresidents, whether the amount exceeds the cash amount brought into Uzbekistan. The Central Bank and authorized banks are the only legal entities that may bring in or take out foreign currency cash or national currency.

Accounting principles/financial statements – National Accounting Standards (NAS) or International Financial Reporting Standards (IFRS) apply. Financial statements must be filed annually.

Principal business entities – These are the limited liability company, partnership and joint stock company.

Foreign companies can establish a joint venture legal entity with foreign capital/investment. Branches of foreign companies are not commonly used in Uzbekistan because branches are not considered independent legal entities under domestic law. Foreign companies that want to establish a legal entity in Uzbekistan must register with the Ministry of Justice if the charter capital of the company exceeds USD 150,000, and the share of foreign partners may not be less than 30%. Other legal entities must register with the local municipality.

Corporate taxation:

Residence – An entity is resident in Uzbekistan if it has completed the state registration procedure in Uzbekistan.

Basis – Resident companies are subject to profit tax on their local and worldwide trading profits and other taxable income such as interest, royalties and rental income. Profit tax also is levied on Uzbek-source income of nonresidents operating through a permanent establishment (PE). Noncommercial organizations generally are exempt from profit tax, except on profits derived from entrepreneurial activities.

Micro-firms and small entities are eligible for simplified (unified) taxation on gross revenue, which replaces the profit tax, VAT (which may be paid voluntarily), property tax, land tax, social infrastructure development tax and contributions to the republican road fund, school development fund and pension fund.

Mining operations and related processing are subject to a mining tax and an excess profits tax (for specified items) and special fees (a “subscription bonus,” a one-time fixed payment for exploration and extraction rights and a “commercial exploration bonus,” payable for each commercial exploration of a location).

Taxable income – Taxable income is comprised of business and investment income and is calculated as the difference between aggregate income and deductible expenses. In general, expenses and deductions that are wholly and exclusively incurred for the purpose of a business are allowable. For other income sources, expenses may be deducted provided they are incurred wholly and exclusively in the production of the income.

Taxation of dividends – Dividends paid out of profits that have been subject to Uzbekistan tax are exempt from profit tax (by way of a deduction from taxable income) in the hands of residents and nonresidents with a PE in Uzbekistan. Profit tax is not imposed on income derived from state securities.

Capital gains – Capital gains are treated as ordinary income and are subject to the standard rate of profit tax. However, tax liability on capital gains arises only when the gain is recorded on the books with regard to the sale of shares for a higher price.

Losses – Losses (which must be based on financial year results) may be carried forward for five years (except for losses incurred while the taxpayer was exempt from profit tax). However, the aggregate amount of losses carried forward in each subsequent year may not exceed 50% of taxable income of the current tax period. The carryback of losses is not permitted.

Rate – The general profit tax rate is 7.5%, with a 15% rate applicable to banks. Mobile operator companies are liable to pay additional income tax if the relevant profitability threshold is met.

Nonresidents with a PE in Uzbekistan also are liable to pay profit tax at 10% on a net basis.

The common unified tax rate is 5%. However, for a number of industries, the rate differs. Entertainment companies and companies with lease income (more than 60%) derived from the rental of sales outlets are taxed at 30%. There also are various set rates for trading and catering companies. The unified tax rate is lower for companies established in remote regions.

Surtax – No

Alternative minimum tax – An alternative tax mainly is applied to private entrepreneurs at tax rates ranging between 0.02 and 10 times the monthly minimum wage per month, depending on the type of activities.

Foreign tax credit – Foreign profit tax paid by an Uzbek resident company may be credited against Uzbek profit tax in accordance with an applicable tax treaty. A payment notification, a certificate from the foreign tax authorities or other document confirming payment of the foreign profit tax is acceptable proof to receive the credit.

Participation exemption – No, but see “Taxation of dividends,” above.

Holding company regime – No

Incentives – Legal entities engaged in specific activities may be granted a temporary exemption from profit tax, property tax, certain social infrastructure taxes, the unified tax payment and obligatory payments to the road fund. Additionally, companies that expand general

production capacity, reconstruct industrial structures, modernize production facilities and equipment, etc., may be eligible to reduce their taxable base by deducting expenses incurred over five years.

Software companies included in the special register of national software developers are granted certain tax exemptions.

The tax rates are decreased for exporters of products.

Withholding tax:

Dividends – Dividends paid to a resident or nonresident are subject to a 10% withholding tax. The rate applicable to a nonresident may be reduced under a tax treaty.

Interest – Interest paid to a resident or nonresident is subject to a 10% withholding tax. The rate applicable to a nonresident may be reduced under a tax treaty.

Royalties – Royalties and similar payments (e.g. lease payments) made to a nonresident are taxed at a rate of 20%. The rate applicable to a nonresident may be reduced under a tax treaty.

Technical service fees – No

Branch remittance tax – No

Other – Nonresidents are subject to withholding tax as follows: 10% for insurance premiums under insurance, co-insurance and reinsurance contracts; and 6% on payments for telecommunications services for international communications and income from transportation and shipping services.

Other taxes on corporations:

Capital duty – No

Payroll tax – A company must make a unified social contribution (for purposes of the pension, employment and professional trade union funds) calculated on the salary of an employee at a rate of 15% for micro-firms and small entities and 25% in other cases.

Real property tax – A 5% property tax is levied on fixed assets of a legal entity. Equipment not timely installed is levied at a double property tax rate.

Social security – A company must contribute 1.6% of gross revenue to the pension fund (in addition to the unified social contribution). Micro-firms and small entities using the general taxation regime are not contributors to the pension, road and school funds (from gross revenue), except for companies producing excisable goods and extracting mineral products.

Stamp duty – Stamp duty is levied on claims submitted to courts, notarial actions, state registration of legal entities and various licenses.

Transfer tax – No

Other – An 8% social infrastructure development tax is levied on an entity's net profit (after corporate profit tax).

The road fund receives both obligatory contributions (estimated quarterly for micro-firms and small entities and on monthly basis for others, at 1.4% of gross revenue) and other payments (on, for example, the import of vehicles or the use of foreign-registered vehicles).

A levy applied to the school development fund is estimated quarterly for micro-firms and small entities, at a rate of 0.5% of gross revenue.

Anti-avoidance rules:

Transfer pricing – The tax authorities may implement a market rate on revenue derived in related party transactions.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – Some disclosure rules apply under NAS.

Other – A state body carries out special controlling functions to regulate monopolistic activities of entities (e.g. a listing of monopolistic companies, determination of anti-monopolistic sectors and the monitoring of prices).

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – In general consolidated returns are not permitted; each company (taxpayer) must file its own return. However, banks are required to file a consolidated return, but their branches must submit separate returns.

Filing requirements – Resident companies must file a quarterly return of corporate profit tax no later than the 25th day of the month following the accounting quarter, and an annual return must be filed on/before 15 February following the reporting year. A payment equal to one-third of the estimated tax must be paid quarterly by Uzbek companies with foreign investment; the annual return and final payment are due by 25 March after the close of the tax year.

Nonresidents that have a PE in Uzbekistan must file an annual return by 25 March of the year following the accounting year, calculating the profit tax due and reporting on the nature of the entity's activities. If the activities terminate before the end of the calendar year, the relevant documents must be filed within one month after termination.

Penalties – Penalties may be imposed for failure to register an activity; the fine is 50 to 100 times the monthly minimum wage or 10% to 50% of earned revenue. A late or missing return is subject to administrative penalties (approximately USD 33 to USD 100). In addition, a 0.033% fine is charged for the late payment of tax liability.

Rulings – No

Personal taxation:

Basis – Resident individuals are taxable on worldwide income; nonresidents are taxed only on income received in Uzbekistan.

Residence – An individual is resident if he/she is domiciled in Uzbekistan on a permanent basis or physically present in Uzbekistan for at least 183 days in any consecutive 12-month period.

Filing status – Joint filing is not permitted; spouses are taxed on a separate basis.

Taxable income – Taxable income includes wages and salaries (including work awards, one-time bonuses, annual additional payments for holidays, etc.); benefits such as training, certain childcare services, catering and travel tickets or related compensation; and "other income" (e.g. awards, prizes, cash awards from competitions, contests, etc.).

The following income is nontaxable: healthcare benefits, inheritances, insurance premiums and repayments, etc.

Capital gains – Income derived by an individual from the sale of private property is taxable income.

Deductions and allowances – No

Rates – Progressive rates from 0% to 23%

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on claims submitted to courts, notarial actions, state registration of legal entities and various licenses.

Capital acquisitions tax – No

Real property tax – Land and property taxes may be levied on individuals owning, possessing, renting or otherwise using land and owning real property. The taxable base is the area of the land and the tax rate is determined by regional quotations, with a property tax rate between 1.7% and 2.9% applied to the value of the real property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The employer must withhold an 8% contribution to the pension fund from a resident employee's gross salary. An employee also can contribute to a voluntary pension savings fund.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Employment income and passive income are taxed by withholding at source. For other types of income, an individual must submit an income declaration, with income assessed on the basis of the declaration. Filing for such "declared income" is due by 1 April and the payment deadline is 1 June of the year following the calendar year.

Penalties – The breach of deadlines or failure to provide a tax declaration is subject to an administrative duty (approximately USD 33 to USD 100). A 0.033% penalty is imposed for each day payment is delayed.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services and the import of goods.

Rates – The standard rate is 20%. Certain services are not subject to VAT, including: transport for passengers (excluding taxi services); medical, educational, tourist and excursion services; and financial and insurance services. Exempt items include certain technological equipment and certain imported property under individual agreements with the government. Supplies that are zero-

rated include goods exported for hard currency; services for processing certain goods bound for export; and international transportation.

Registration – Micro-firms and small-size enterprises that are subject to simplified taxation generally are not payers of VAT, although they can opt to register and pay VAT on a voluntary base. Other legal entities must register with the local tax authorities within 10 days following registration with the state.

Filing and payment – VAT follows a calendar year. Micro-firms and small-size enterprises report and pay VAT quarterly before the 25th day of the month following the reporting period. Other legal entities report on a monthly basis and pay VAT on a monthly basis before the 25th day of the month following the reporting period.

Source of tax law: Tax Code, Decrees of the President and Cabinet of Ministers

Tax treaties: Uzbekistan has concluded over 50 tax treaties.

Tax authorities: State Tax Committee, State Customs Committee, Ministry of Finance

Contact:

Andrey Tyo (antyo@deloitte.uz)

Bakhtiyor Sufiev (bsufiev@deloitte.uz)

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