

## International Tax Uzbekistan Highlights 2018



### 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 joint stock company, limited liability company and partnership. Branches of foreign companies are not commonly used in Uzbekistan because they are not considered independent legal entities under domestic law.

Foreign companies can establish a joint venture legal entity with foreign capital/investment. The entity's charter capital must be at least UZS 600 million and the foreign partner's share must be at least 30%. All 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 the country.

**Basis** – Resident companies are subject to profit tax on their domestic 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 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, and contributions to the road, school development and pension funds.

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 a business are allowable. For other income sources, expenses may be deducted if 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 a gain is recorded on the books arising from 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 14%, with a 22% rate applicable to banks. Mobile operator companies are liable to pay additional income tax if the relevant profitability threshold is met.

The common unified tax rate is 5%, although the rate is different for certain industries. 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 0.5 and seven times the monthly minimum wage, 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 sufficient 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 and the unified tax payment. Additionally, companies that incur capital expenditure to expand general production capacity, reconstruct industrial structures, modernize production facilities and equipment, etc., may deduct that expenditure (net of depreciation) from the taxable base over a five-year period (up to a maximum of 30% of the taxable base each year).

Favorable tax and customs regimes are available to companies registered in special industrial and free economic zones.

#### **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 applicable rate 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 as 15% of the employee's salary for micro-firms and small entities and 25% in other cases.

**Real property tax** – A 5% property tax is levied on immovable assets of a legal entity. The rate is doubled on machinery delivered but not installed by the due date and construction in progress with overdue deadlines.

**Social security** – A company must contribute 3.2% of gross revenue to the "republican" funds (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

#### **Anti-avoidance rules:**

**Transfer pricing** – The tax authorities may adjust revenue derived from related party transactions to reflect the market rate.

**Thin capitalization** – No

**Controlled foreign companies** – No

**Disclosure requirements** – Some disclosure rules apply under NAS.

**Other** – A state body carries out special control 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 22 to USD 150). A 0.033% fine is charged for late payment of a tax liability for each day that payment is delayed.

**Rulings** – No

#### Personal taxation:

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

**Residence** – An individual is resident if he/she is domiciled in Uzbekistan on a permanent basis or is 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.).

Income from healthcare benefits, inheritances, insurance premiums and repayments, etc., is nontaxable

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

**Deductions and allowances** – No

**Rates** – Progressive rates up to 22.5%

#### 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 for land is the area and the tax rate is determined by the government for each region. A property tax rate of between 0.2% and 0.35% applies to the cadastral value of 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, with payment made by 1 June of the year following the calendar year.

**Penalties** – Failure to meet deadlines or failure to provide a tax declaration is subject to administrative penalties (approximately USD 22 to USD 150). A 0.033% fine is charged for late payment of a tax liability for each day that payment is delayed.

## Value added tax:

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

**Filing and payment** – VAT reporting and filing follows the calendar year. Micro-firms and small-size enterprises 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 basis. Other legal entities must

register with the local tax authorities within 10 days following registration with the state.

**Rates** – The standard rate is 20%. Certain services are report and pay VAT quarterly before the 25th day of the month following the reporting period. Other legal entities report monthly and pay VAT monthly 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

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