



Horizontal monitoring in Kazakhstan: Pilot project

Horizontal monitoring - a tax administration model that allows taxpayers to minimize risks in the framework of tax control and involves providing the tax authority with access to the data of accounting systems in exchange for exemption from traditional control measures

The State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (hereinafter - "SRC") is currently implementing a pilot project to introduce horizontal monitoring of taxpayers



Stages and timing of the pilot project

Stage 1. Pre-design work (up to 18 months)

- Submission of an application for participation in pre-design work to the SRC on a voluntary basis and in any form
- Conclusion of the Cooperation Agreement with SRC

Stage 2. Implementation of a pilot project (until December 31, 2023)

- Submission of an application for concluding an Agreement on a pilot project on horizontal monitoring to the SRC within one month before the completion of the pre-design work
- Conclusion of an Agreement on a pilot project for horizontal monitoring with SRC with the possibility of early termination by agreement of the parties



Legal and regulatory framework

January 1, 2019 - The provisions of the tax legislation of the Republic of Kazakhstan on horizontal monitoring came into effect

July 1, 2020 - The Rules for conducting a pilot project on horizontal monitoring were approved by an Order of the acting Minister of Finance of the Republic of Kazakhstan No. 648

February 23, 2021 - Amendments and additions were made to Order No. 648 by Order of the Minister of Finance of the Republic of Kazakhstan No. 138



Interaction with SRC

The pilot project is carried out both remotely and on-site at the participant's location



The main benefits of a horizontal monitoring pilot project for taxpayers

- Refund of excess VAT in a simplified regime in the amount of 80%
- Payment of penalties at a reduced base rate of the National Bank of the Republic of Kazakhstan
- Improvement of internal control systems / procedures in relation to tax accounting
- Exclusion from monitoring of large taxpayers from the date of conclusion of the Agreement on a pilot project of horizontal monitoring
- Improving reputation and investment attractiveness
- Provision by the SRC of preliminary clarifications on the application of tax legislation, including with respect to contemplated transactions
- Consideration of violations revealed by the results of desk control by the special division of the SRC together with a participant in the pilot project

About 25 countries of the world successfully apply the horizontal monitoring concept based on the principles of trust, transparency and mutually beneficial cooperation

Participation in a pilot project for horizontal monitoring in Kazakhstan

On a voluntary basis



Commercial organizations that meet the following criteria at the date of application for conclusion of a Cooperation Agreement:

Fixed assets (FA)

the sum of FA value balances at the end of the tax period for the year preceding the year in which the application for the conclusion of the Cooperation Agreement is submitted is at least 325,000 times the MCI (≈ 950 million tenge or 2,2 million US dollars)

Taxes

the amount of taxes and mandatory payments to the budget (excluding VAT refund) is at least 1 billion tenge for the year preceding the year in which the application for the conclusion of the Cooperation Agreement is submitted (≈2.3 million US dollars)

IT systems

maintenance of financial and tax accounting using software designed to further automation

Financial statements

availability of financial statements for the financial year preceding the period in which the application for the conclusion of the Cooperation Agreement is submitted, which is confirmed by the audit report of a large international audit organization, if any

Internal control system

availability of an internal control system

Level of risk

low or medium level of risk according to the risk management system as of the date of filing an application for conclusion of a Cooperation Agreement



Agents (operator) and (or) subsoil user (subsoil users) specified in the production sharing agreement (contract) operating in an oil and gas condensate or sea field, as well as their subsidiaries or related companies



Organizations implementing investment priority projects

On a mandatory basis



Taxpayers, the controlling stake of which belongs to the national management holding, or legal entities affiliated with them, as well as legal entities, 50 percent of shares or more of which belong to such legal entities

The horizontal monitoring pilot project is being implemented within the following timeframes:

- in the field of telecommunications - **from August 1, 2020 to December 31, 2023;**
- in the field of gas transportation - **from July 1, 2021 to December 31, 2023;**
- in the electric power industry, including management (parent) companies - **from April 1, 2021 to December 31, 2023;**
- mining industry - **from April 1, 2021 to December 31, 2023;**
- in the field of cargo transportation, aviation and oil transportation, oil production and oil refining industries - **from January 1, 2022 to December 31, 2023.**



Taxpayers included in the register of authorized economic operators

How can “Deloitte” help?

“Deloitte” concluded a Memorandum of Understanding and Cooperation with the SRC on issues related to the implementation of horizontal monitoring in Kazakhstan.

We will be happy to provide more detailed information on any questions you may have after reading this bulletin, as well as provide our complex service support when entering horizontal monitoring.

Contacts of the key members of the horizontal monitoring team in Kazakhstan:

Yeldos Syzdykov

Director

ysyzdykov@deloitte.kz

Karina Kalimzhanova

Manager

kkalimzhanova@deloitte.kz



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities. DTTL (also referred to as “Deloitte Global”) and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 330,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.