



## Tax Alert

### Key changes

#### Overview of key legislative changes in April-May 2018

##### Changes in Taxation

Joint Resolution of the Ministry of Finance, Ministry of Economy and State Tax Commission No. 1502-3 dated 5 April 2018 amends the procedure for granting single tax payment (STP) deferrals to newly created microfirms and small businesses. In the approved version of the document, the maximum deferral period is one year. To receive a tax deferral, eligible

companies should apply with their local tax service.

The Ministry of Finance and State Tax Committee in their joint Resolution No. 3001 dated 16 April 2018 approve the procedure for STP payers to calculate and pay land tax. Since 1 April 2018, the requirement to pay land tax extends to:

1. STP payers who have land plots covering a total area of more than 1 hectare
2. Non-commercial organisations, if they carry out entrepreneurial activity on a land plot of more than 1 hectare
3. Unified land tax payers, if they carry out activities not related to the production and processing of agricultural products, on a land plot of more than 1 hectare

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Land tax exemptions extend to corporate STP payers:

1. with land plots covering a total area of 1 hectare or less
2. exempt from corporate land tax in accordance with the Tax Code or presidential resolutions

Law No. ZRU-476 dated 18 April 2018 amends and supplements the Tax Code.

Since 19 April 2018, the STP taxable base has been reduced for tourism entities by the value of funds used to introduce software and information systems for online booking and tourist service sales.

From 1 June 2018, the STP rate for microfirms and small businesses generating revenue from organising mass entertainment events involving legal entities and individuals (including non-residents) licensed to perform concert-entertainment activities has been reduced from 30% to 5%.

Presidential Resolution No. UP-5444 dated 18 May 2018 offers waste management companies attracting direct private foreign investment exemptions from income and property taxes, STP and mandatory national road fund contributions. The duration of benefits depends on the volume of direct private foreign investment made. Foreign investments should be made without state guarantees. Overseas investors' share in authorised capital should be at least 33%, and in joint-stock companies - at least 15%. Foreign investments are made in the form of freely convertible currency or new modern technological equipment. At least 50% of income generated from the provision of the above exemptions should be

reinvested in further company development.

On 31 May 2018, the President signed a Resolution creating measures to improve the procedure for granting benefits and preferences, for example:

- tax and customs privileges and preferences ("benefits") are provided by laws and presidential acts on the whole for industries, areas of activity, territories, and should have a specific goal and guarantee clear social, economic and financial results
- temporary benefits are provided by presidential acts for up to three years, with the exception of cases provided for by international treaties
- individual benefits are provided by presidential acts, in exceptional cases, to implement socially significant projects in sectors where the private sector has shown no investment interest, with specific social or economic grounds, or in accordance with international treaties
- governmental and departmental decisions to grant benefits or approve imports into Uzbekistan may not be made with the application of customs benefits

### Changes in the tourism sector

Cabinet of Ministers Resolution № 365 dated 15 May 2018 approves mandatory criteria for investment projects to be implemented in free tourist zones. Preference will be

given to projects promising to build modern hotel complexes and other tourist facilities in tourist areas; create additional infrastructure for ancillary services; provide tourist transportation; attract leading global hotel chains, catering networks and others; or create a regional brand, creating new jobs. Entities operating in the free tourist zones enjoy all preferences and benefits foreseen for free economic zones participants, in particular they will be eligible for exemptions from land tax, profit tax, corporate property tax, STP for microfirms and small businesses, and compulsory social fund payments. Free economic zone participants are also exempt from customs payments (except for customs clearance fees) on equipment, raw materials, materials and components imported for own production needs.

On 24 May 2018 the President issued Decree No. UP-5447 allowing travel companies purchasing new vehicles to transport tourists with more than nine seats an exemption from the National Road Fund until 1 January 2022. New imported tourist-class vehicles are also exempt from customs payments, except for customs clearance fees (UP-5326 dated 3 February 2013). The exemption will remain valid until 1 January 2022.

### Licensing

A presidential resolution introducing measures to further reduce and simplify the licensing of entrepreneurial activities, and improve business conditions has cancelled 42 licensing and permit procedures, including the licensing of petroleum product sales through filling stations and oil change points; permits to operate as a customs broker; place external advertising and others. Licensing procedures, registration periods and the

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responsible state structures have all been reviewed. All licenses, except licenses related to the circulation of narcotics, psychotropic substances and precursors, and radiotelephone (cellular) communication and television and radio broadcasting licenses will be issued for an unlimited period. If the licensor fails to issue or refuse to issue a license within the license application deadline, the applicant will be entitled to carry out the declared activity.

Presidential Decree dated 12 May 2018 introduces measures to radically increase advocacy effectiveness and expand lawyer powers; and the licensing of advocacy from 1 July 2018. Lawyers will have to apply for individual licenses, for example criminal, civil or economic, for each specialisation instead of the current common license. The list of types of advocacy will also be expanded. Lawyers will be able to settle disputes out of court, mediate and even act as arbitrators. Only courts will have the authority to cancel attorney licenses.

From 1 August 2018, commercial organisations (consulting firms and companies) will not need an attorney license to provide legal advice. However, any such organisations will not be able to represent clients in court.

### Changes in the banking sector

Regulations for the use of national currency corporate bank cards by legal entities (No. 1470-2 dated 3 April 2018) have been amended so that corporate cards can be used to pay state duties and other charges in courts and other state bodies. Legal entities can use corporate cards to pay all expenses related to their activities, except to transfer salaries and equivalent payments such as

pensions, allowances, scholarships and dividends.

Central Bank Board Resolution No. 2707-2 dated 3 April 2018 amends regulations for the maximum risk per borrower or group of interrelated borrowers, whereby the value of a currency deposit provided as collateral has decreased from 125% to 105% of the credit balance. For accounting, statistical and other currency transaction reporting purposes, and to calculate customs and other mandatory payments, foreign currency deposits are subject to revaluation from now on each time the Central Bank changes Sum exchange rate.

Central Bank Board Resolution No. 2709-2 dated 25 April 2018 amends the requirements for liquidity management of commercial banks and clearly defines the concept of "bank liquidity" as meaning a bank that can meet all obligations on time and in full without unforeseen losses. Banks also need to guarantee the financing of asset growth.

The bank instant liquidity ratio has been reduced to 10%, after varying between 10 and 20%. A concept of "major debt" has also been introduced to mean the debt of one or several related entities that exceeds 5% of level I bank capital (own funds). Liquidity report content requirements have been revised to include a liquidity forecast for the next 30 calendar days. Central Bank securities were included in the list of liquid assets.

Central Bank Board Resolution No. 3003 dated 1 May 2018 approved a new version of the Instruction for local banks to organise cash circulation, which excludes specific deadlines for banks to issue cash to pay advance and salaries to budget organisations, and pay monetary

allowances to servicemen. "Cash" will be issued in accordance with the terms stipulated by collective agreements and local company acts, in consultation with banks. For entities not depositing their revenue on a daily basis, petty cash balances will be set taking into account their average daily receipts and cash collection terms. Legal entities are no more obliged to prepare and submit quarterly cash orders to forecast their cash turnover.

Presidential Resolution No. PP-3694 dated 4 May 2018 regulates organisational issues relating to the People's Bank and Microcreditbank, including increasing their share capital in 2018-2019 to improve profitability. The People's Bank will receive a 37.5% stake in statutory fund of UzPaynet LLC. After the voluntary liquidation of UzPaynet, a structural subdivision of the People's Bank will be created to receive payments from individuals to meet their monetary obligations to suppliers. The People's Bank and Microcreditbank will be exempt from all taxes until 1 January 2023, with all savings used to increase the Ministry of Finance share, and exempt from customs payments (except for customs clearance fees) on imported banking equipment and machinery not produced in Uzbekistan, according to an approved list.

The People's Bank will issue, at the request of social payment recipients, international payment cards to make the payments in national currency on the basis of international payment systems.

### Free Economic Zones

On 29 March 2018, the President signed Resolutions No. N°PP-3635 and PP-3636 to create small industrial zones ("SIZ") in

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Kashkadarya and Surkhandarya Provinces on the basis of unused production areas, state assets and businesses with state interest. A total of 7 SIZ will be formed in Kashkadarya Province, and 9 in Surkhandarya Province. State assets at the SIZ will be provided to business entities for 10-year leases. Land will be provided in the SIZ to implement investment projects, a prerequisite for which will be to create and preserve jobs. The Fund for Reconstruction and Development will open two credit lines in commercial banks of US\$ 25 million to purchase imported equipment for Kashkadarya Province investment projects and US\$ 50 million for Surkhandarya Province project.

The President signed a resolution on 12 April 2018 to aid the creation of the Sirdarya Free Economic Zone at the Jizzakh Free Economic Zone in Sirdarya Province and at the Yangier small industrial zone. The Sirdarya Free Economic Zone was established for 30 years and may be extended. Investment will focus on advanced processing; storage and packaging of fruit, vegetables and agricultural products; the textile, footwear, leather goods, chemical, food, electrical engineering, agricultural machinery, construction material and other industries.

Sirdarya Free Economic Zone participants are subject to tax and customs concessions and special currency rules in accordance with points 3, 4 and 5 of Presidential Resolution No. UP-4853 dated 26 October 2016. Swift connection to utilities has also been guaranteed.

Cabinet of Ministers Resolution No. 308 dated 26 April 2018 also creates two small industrial zones in Khorezm Province at Zaungur village from assets of the former Mahsus Kurilish Mechanization concern, and

in Beshmargan village from empty cannery buildings and structures belonging to the former Mahsusintersavdo LLC.

SIZ state-owned real estate will be leased to entrepreneurs for 5 years at a 0% interest with the subsequent transfer of ownership under certain conditions.

### Changes in the alternative energy sector

The President has signed Resolution No. PP-3687 dated 28 April 2018 to develop investment in renewable energy sources.

SkyPower Global is investing US\$ 1.3 billion in the creation of 1,000 mW of solar photovoltaic facilities in the country, which will be purchased by Uzbekenergo.

Land has been allocated Tashkent, Samarkand, Navoi, Jizzakh, Surkhandarya and Kashkadarya Provinces to realise the project.

Foreign investors, their project organisations (regional subsidiaries) and subcontractors involved in the project enjoy tax and customs concessions, for example customs duty exemptions on equipment imports; and corporate income tax, property tax and VAT exemptions. Overseas experts working on projects will not be charged consular or other fees for entry visas. They will also be exempt from state duties for registering, issuing and renewing multi-entry visas.

### Changes in customs legislation

The president signed a Resolution on 12 April 2018 introducing measures to improve the activities of the State Customs Bodies, such as institutional changes, which involved developing and implementing an automated risk management system for the

selective customs control of goods, a system to monitor customs posts ensuring an evaluation of the uniform application of legislation, the effectiveness of customs procedures, the correct HS code classification of goods and determining their customs value.

A procedure has been introduced from 1 July 2018 whereby the customs authorities no longer issue permits to change the customs treatment of imported goods or change haulage routes. Identical goods (according to physical characteristics, quality, manufacturer or HS code) will be cleared through customs within the framework of a single foreign trade contract using periodic declarations. The resolution also introduces the preliminary declaration of imported goods before their actual arrival in Uzbekistan. The customs authorities will also license duty-free shops, free and customs warehouses. The option will be made available to complete and file customs declaration with the customs authorities in real time, without recourse to customs brokers.

The state customs authorities has been charged with developing and submitting a draft new edition of the Customs Code by 1 November 2018, which should consider the:

- the liberalisation of customs law; transparency and simplification of customs procedures; accessibility in the perception of norms and the exclusion of the possibility of their different interpretation
- the creation of a mechanism to encourage entities with foreign operations to comply with customs law

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- the implementation of international treaties; generally recognised principles of international law; the recommendations and standards of international organisations
- the experience of developed countries in customs administration, including tariff regulation and customs controls

### Changes in the construction sector

The president signed a Resolution dated 2 April 2018 introducing measures to improve public administration in construction and Resolution No. 3646 dated 2 April 2018 introducing measures to create a new Ministry of Construction activities on the basis of Goskomarkhitektstroy, whose key tasks will be to:

- follow unified research and technology policy in urban planning and construction surveying
- prepare proposals on the main areas of state urban planning policy; develop long-term and medium-term state programmes for the development of architectural and construction activities
- coordinate project and construction activities; review town planning documentation
- improve and update the regulatory and legal framework for urban planning and development; coordinate the development of departmental building codes and rules; standardise design and construction, and

the production of building materials and products

The Ministry will also be in charge of the construction license process, which will be simplified.

The resolution also covers taxation and abolishes the requirement to maintain a Register of Construction and Assembly Organisations, which was an obligatory document in accordance with Cabinet of Ministers Regulation No. 97 dated 18 April 2014. According to Presidential Resolution No. PP-2137 dated 3 March 2014, organisations in the register were exempt from customs payments on imported construction equipment and equipment, and corporate income tax for three years from the date of their inclusion. However, the resolution does not specify whether the above benefits will remain in force following the cancellation of the requirement to maintain the register.

The president signed a Resolution on 22 May 2018 introducing additional measures to improve the procedure for implementing design and construction work in capital construction.

Construction project reviews are no longer licensed activities. At the same time, the National Project Management Agency (NPMA) Accreditation Centre is responsible for accrediting persons reviewing construction projects and issuing licenses to develop architectural and urban planning documentation. The Ministry of Construction in conjunction with the NPMA issues licenses for other construction activities. The NPMA is also authorised to simultaneously allow contractors (including overseas contractors) to implement turnkey projects ("Engineering Procurement Construction") according to the "fast-

track" method - simultaneous design, procurement and construction work, without having to obtain a license or permit. At the same time, these projects should be included in state development programmes, while EPC contractors are fully responsible for project quality.

### Changes in the notary sector

Presidential Resolution No. PP-3741 dated 25 May 2018 on measures to further improve the notary system as an institution of preventive justice introduces a number of notary-related innovations to come into force on 1 January 2019. The resolution approves additional notary actions to certify transactions based on the "one-stop-shop" principle. Notaries will now be able to receive and check:

- the permanent residency details of individuals
- biometric and passport data
- the details of immovable property, including disposal restrictions and seizure
- the details of persons who have agreed to privatise housing
- details on legal entities
- information on the availability / absence of utilities arrears

The information collection process will be automated.

The obligatory notarisation of lease agreements and free use of immovable property has been abolished since 1 January. At the same time, lease agreements will have to be registered with the tax authorities. The process for signing

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wills, transactions, applications and other documents on behalf of an incapacitated person should be accompanied by an audio and video recording. Notaries will be entitled to scan fingerprints and compare them with biometric passport data to identify persons applying for a notarial act. Notaries will be accepting bankcards for payments.

## General issues

In Resolution No. PP-3643 dated 30 March 2018 the president set up the National Project Management Agency Accreditation Centre on the basis of the Uzstandart accreditation centre to monitor conformity assessment bodies, testing and calibration laboratories, and manage a centralised a database of previously issued accreditation certificates.

Law No. ZRU-472 *On Public Procurement* was adopted dated 9 April 2018 to determine state-owned entities making procurements, as well as their rights and obligations. The law extends to:

- a) state customers, which are divided into budget and corporate customers
- b) entities participating in procurement procedures - Uzbekistan residents and non-residents participating in procurement procedures as bidders to make a state procurement
- c) state tender winners, with which a contract has been concluded
- d) the purchasing commission, which is a permanent collegial body authorised to select procurement procedure winners
- e) the operator of the public procurement information portal, which is a specially authorised to organise and conduct procurement procedures, place applications and other details of

state procurements and their results on the relevant website

The law approves a number of procurement procedures, such as e-shops, price reduction electronic auctions, tenders and single source state procurements.

The state procurement process is open and all information will be published on a special website. Procurement procedures will be monitored and controlled by the Accounting Chamber, the Prosecutor General's Office, the NPMA and the Ministry of Finance, and overseen by the public, self-government bodies, NGOs and the media.

The president has signed Resolution No. PP-3673 dated 18 April 2018 introducing measures to accelerate the integration of departmental information systems and implementation of innovative projects. The document introduces:

- online cash registers allowing budget revenue increases by expanding taxpayer accounting and increasing control over tax receipts
- a government mobile communication system, reducing state telecommunication service, security and control funds
- an identity card system (ID-card) containing each citizen's unique identification number and personal data, and which is used to identify a person when receiving government services, and which replaces the current domestic system of passports, birth certificates and other identity documents, except for driver's licenses

- a vehicle registration system that replaces existing numbers with international formats, cancels paper vehicle documents and links relevant information to vehicle owner ID cards

On 14 May 2018, the president signed a Resolution introducing measures to accelerate the development of e-commerce, and in which he instructed the relevant departments to develop and approve a procedure to allow subscribers to retain a number when switching to a different mobile network by the end of 2018. The payment procedure and processing of payment documents has been simplified taking into account minimum legislative requirements.

Goods or services worth up to US\$ 3 thousand and sold through e-commerce may be exported without entering details into the Unified Electronic Information System of Foreign Trade Operations and submitting a freight customs declaration, in accordance with the postal service rules.

Cabinet of Ministers Resolution No. 379 dated 21 May 2018 lists major transactions and services that require mandatory preliminary verification of utility debts and court orders. The list includes 21 types of major transactions and individual financial and credit services, international passenger transportation services and public services. Banks have been recommended to introduce the inspections into their practice when issuing loans and providing other financial and credit services. Checks are carried out through Enforcement Bureau databases. Individuals and businesses applying to conclude a transaction or receive a service are checked for electricity, natural gas,

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water supply and disposal debts, and outstanding court orders of a material nature. If payments are periodic (for example, alimony), checks are carried out only with the registration of an exit sticker and the sale of air and rail tickets abroad (temporary exit restrictions).

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