



## Tax alert

### Overview of key legislative changes in August-September 2018

#### Audit activity

The President issued a resolution on 19 September 2018 creating a number of new rules and relaxing requirements for audit firms from 1 January 2019, such as a requirement to obtain a general audit license within three months of state registration. The minimum charter capital for audit firms has been cancelled and the requirement for the minimum number of auditor employees has been revised. They are also obliged to publish details on the Internet about obligatory audits, identifying the legal entities audited and the related auditor's report.

Similar data will now be posted on the State Tax Committee's website each year until 1 July. The application requirements for auditor candidates have also changed. Audit firms will have access to information on the audit of state-owned enterprises. From 1 January 2019, the document abolishes external auditor tender procedures for companies with a state interest of over 50%. Audit firms are only allowed to audit the same entity (either state-owned or private) for up to 7 consecutive years. The document expands the list of entities subject to obligatory audit as of 1

January 2020. All audits will be conducted exclusively according to international auditing standards issued by the International Federation of Accountants.

#### Accounting and taxation

The Minister of Finance (Order No. 1364-3 dated 20 August 2018) has amended National Accounting Standard No. 22 *Accounting for Assets and Liabilities denominated in Foreign Currency* from 21 November 2018, updating the list of foreign currency transactions. It also prohibits entities from setting prices (tariffs) for products (work or

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services) in foreign currency and settling in Soums. The approach to valuing assets acquired for foreign currency have been revised, while clarification has been given on which balance sheet items need to be revalued. The Standard provides recommendations on how to account for foreign exchange losses or gains accumulated before 1 January 2019. To avoid currency gains or losses, it also prohibits charter capital from being set in foreign currency. At the same time, foreign investors may pay their shares in foreign currency. Share amounts paid will be translated into local currency at the Central Bank exchange rate on the transfer date.

Cabinet of Ministers Resolution No. 670 dated 16 August 2018 regulates customs clearance (declaration) procedures; sales accounting; and the registration of rights to use software and information products. It applies to all Uzbekistan economic entities concluding transactions with digital products, which include electronic copies of intellectual property (digital goods), and those performing a certain action in an electronic data environment or a certain activity that does not have a tangible result, such as subscription services or the acquisition of cloud technology (digital services). Companies confirm transactions with digital products using electronic receipts, receipts for the acquisition of rights to digital products, and internal company documents, such as reports created by company officials, bank statements and accounting certificates. They are also entitled to keep related primary documents, such as electronic copies of offers, license agreements, invoices or other electronic documents received from counterparties, e-payment system screenshots and website log reports confirming the acquisition of digital goods, without counterparty

signatures. The methods for determining the customs value of digital products during customs clearance have also been revised.

The Cabinet of Ministers has issued Resolution No. 720 dated 10 September 2018 to approve additional measures to ensure the effective and rational use of natural resources and increase state budget revenue. It also stipulates a mandatory annual surveyor's report on mineral resources extracted during the year for all subsoil users, which should be submitted to regional mining and geological activity control inspectorates. An electronic subsoil user database of non-metallic minerals extracted will be created and integrated into tax authority databases by the end of 2018 and capable of accepting reports from 1 January 2019

### Changes in customs legislation

The Cabinet of Ministers has issued Resolution No. 605 dated 31 July 2017 to approve regulations governing the online customs declaration of goods. As we previously mentioned, since 1 July 2018, companies with foreign economic activity are entitled to complete and file customs declarations online without recourse to customs brokers. In addition, the list of permits to clear goods through customs has been reduced from 28 to 23 points.

The Cabinet of Ministers has issued Resolution No. 762 dated 25 September 2018 to simplify customs procedures around the processing of goods and vehicles arriving in Uzbekistan. It approves a simplified list of documents to be provided by owners of goods and vehicles for preliminary declaration purposes prior to their actual arrival in Uzbekistan.

The Cabinet of Ministers has issued Resolution No. 617 dated 3 August 2018 to approve a mechanism for the State Tax Committee and the State Customs Committee to work together to manage the in-house control of the targeted use of customs preferences and exchange details of goods imported into Uzbekistan and about importers.

### Banking sector changes

On 1 August 2018, the procedure for registering and licensing banks was updated to include the "digital bank" concept. A digital bank is a bank or its structural subdivision providing banking services remotely using innovative banking technology (no cash services). The licensing procedure for digital banks does not differ from the standard procedure.

The Uzbekistan Central Bank has amended documents regulating banking activities in Uzbekistan, simplifying procedures to obtain bank loans and guarantees; as well as loan provision financing requirements.

It raised the refinancing rate by 2% to 16% from 25 September 2018 due to the probability forecast inflation figures for 2018 being exceeded. It is expected that the refinancing rate will be 16-17% by the end of 2018.

The Central Bank Board has issued Resolution No. 2014-4 dated 14 September 2018 to amend the bank registration and licensing procedure. It abolishes the maximum size of a single shareholder's interest (interest of a group of related shareholders) in a commercial bank's authorised capital (except for state interests). For banks with foreign capital participation, the minimum interest of foreign investors was reduced from 30% to 15%.

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In a Decree dated 19 September 2018 On Measures to Develop the National Payment System, the President has approved the Central Bank's proposal to establish a National Interbank Processing Centre. As such, the Central Bank will begin to license payment system activities, which will be regulated by the *Law On Payments and Payment Systems*. It is expected that future normative documents will cover definitions such as e-money and e-wallets..

### Business sector changes

On 1 August 2018, the President issued a decree to relax requirements for enterprises with foreign investment, reducing minimum authorised capital interest requirements from 30% to 15%. Owners are no longer have to be foreign legal entities, increasing the opportunities for overseas individuals to become investors. The minimum authorised capital for enterprises with foreign investment has been reduced from Soum 600 million to 400 million, while state duties for registering enterprises with foreign investments has been reduced by approximately 65%.

A draft law has been planned as a part of a programme of measures to increase the country's investment attractiveness (UP – 5495 from 1 August 2018) to reduce the minimum authorised capital of joint stock companies by 75% to Soum 400 million.

Presidential Decree No. PP-3931 dated 5 September 2018 provides a number of tax and customs privileges for non-state educational institutions. For example, until 1 January 2025 private educational institutions will be exempt from all taxes and obligatory state trust fund deductions (except for CAP), as well as single social payments from the

salaries of foreign teachers and specialists. The Decree also exempts imported educational and laboratory equipment, computer hardware and software, educational and scientific-methodological literature, equipment and material and technical resources from customs duties until 2025. Multi-entry visas and temporary residence permits will be issued to foreign teachers without state duties.

The Ministry of Finance, State Tax Committee and Central Bank have issued Resolution No. 2065-4 dated 7 September 2018 amending the procedure for wholesalers making single tax payments, inclusive of advance payments, so that 5% single tax advance payments will not be deducted from funds received from foreign exchange operations by servicing banks and from the sale of foreign currency previously converted on the foreign exchange market. The document also clarifies that taxpayers are will be of their obligation to make advance payments in writing or through their personal account. In the same manner, taxpayers may apply for a refund of UNP overpayments from the tax authority at the place of registration.

The government has adopted a resolution introducing measures to support innovation, whereby, the Foundation for the Support of Innovative Technology and Innovative Ideas will receive grants or interest-free loans for start-ups creating and commercialising local scientific developments. An innovative start-up accelerator and start-up incubator are being created within the Centre for Advanced Technology. Its residents will be exempt from land tax, income tax, corporate property tax, single tax payments, and customs payments on raw materials and components imported for their own needs (except

for customs clearance fees) until 1 January 2022.

On 11 September 2018, the President signed a decree introducing measures to ensure the accelerated implementation of regional entrepreneurial initiatives and projects. It also formed a Commission to Support and Develop Regional Entrepreneurship, as well as the relevant regional groups, and developed a procedure to auction empty state-owned facilities and land for the implementation of promising projects and with specific investment and social obligations. After choosing a potential project, businesses apply directly to a regional group working body or Public Service Centre. If necessary, regional groups are entitled to search for potential foreign investors to implement entrepreneurial initiatives and projects.

### Free economic zones

On 20 August 2018, the President signed Decree No. UP – 5517 dated 20 August 2018 to establish a free economic zone ("FEZ") in Namangan Oblast's Chust District for 30 years, with the option to extend that period. Special tax, customs and foreign exchange rules apply in the FEZ together with a standard package of benefits and preferences. The Namangan FEZ was established to create new modern production facilities in advanced fruit and processing, storage and packaging; agricultural products, textiles, footwear and leather haberdashery, food, electrical engineering, machine building and automotive, and building materials.

### Exemptions and concessions

The Cabinet of Ministers issued Resolution No. 684 dated 24 August 2018 to provide additional support to grain-processing enterprises and expand their export potential by

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processing imported grain. Flour for export should not exceed 75% of imported grain. For grain processing enterprises, the resolution revises the methodology used to calculate VAT, providing exemptions from mandatory state trust fund contributions (3.2%) until the end of 2018. Likewise, wheat, barley, corn, and millet imported by grain processing enterprises are exempt from customs duties until 1 January.

## Healthcare

On 24 September 2018, the President issued Decree No. PP-3948 to improve the procedure for the state registration and circulation of medicines, approving a list of countries whose medical product registration certificates will be recognised in Uzbekistan. From 1 November 2018, there will no longer be any requirement to issue registration certificates (duplicates) for medical products. Instead, commercial and state entities can apply online for confirmation of registration from the State Register of Medicines, Medical Devices and Equipment. The standard registration term will be unlimited.

On 18 September 2018, the Cabinet of Ministers issued Resolution No. 738 outlining measures to further improve the system for providing the population with pharmaceutical products, and as such a pilot version of the system for monitoring and recording the movement of pharmaceutical products will be launched from 1 July 2019.

## General issues

The President issued Resolution PP-3924 on 28 August 2018 outlining measures to improve the procedure for the permanent and temporary registration of foreign nationals and stateless persons. It also provides a list of categories of persons arriving

from other countries eligible for permanent residence permits in the Republic of Karakalpakstan and the various oblasts of Uzbekistan (except for Tashkent Oblast).

The President signed Resolution No. PP-3917 on 22 August 2018 outlining measures to ensure the openness of budget data and active public participation in budget processes, and introducing a new procedure for forming and executing the state budget. From 2019, the general public will begin to participate in the allocation of budget funds. From 2020, the state and trust fund budgets will be approved by law together with a detailed breakdown of information prepared in accordance with advanced international standards. Accounts Chamber conclusions on draft budgets, the main directions of tax and budget policy, the results of external audits and the evaluation of annual reports on their execution will be published.

On 8 August 2018, the President signed a resolution approving a concept for improving rule-making activities and introducing new requirements for the legal regulation of social relationships. State authorities are entitled to initiate the drafting and adoption of laws, presidential and Cabinet of Ministers resolutions only when they do not have the statutory or administrative authority to resolve issues raised. Laws, presidential and governmental resolutions apply from the moment they enter into force, which is the date of official publication, if they themselves do not specify a later date. The resolution also creates a commission charged with organising a complete inventory of the legislative base and revising regulatory legal acts. A pilot Unified Electronic System to develop and

coordinate Draft Regulatory Acts should be in place by early 2019.

From 1 January 2019, the Collection of Legislation of the Republic of Uzbekistan, Vedomosti of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, the Collection of Resolutions of the Cabinet of Ministers of the Republic of Uzbekistan and Collection of International Treaties of the Republic of Uzbekistan will no longer be published and transferred to the National Legislation Database. A number of copies will continue to be printed for archives and information resource centres, and at the request of individuals and legal entities.

The President signed a resolution on 20 September 2018 to establish an Interdepartmental Commission to counter the legalisation of income derived from criminal activities, the financing of terrorism and the financing of the proliferation of weapons of mass destruction. The Commission will be responsible for assessing risks, developing proposals for improvements to state policy in this area, implementing related FATF recommendations and international documents, and analysing law enforcement practices and causes of offenses.

Prosecutor General Order No. 3067 dated 7 September 2018 approves a statute outlining a temporary procedure for the authorities to approve and conduct inspections of commercial entities, which will be subsequently replaced by the Law On State Control over the Activities of Commercial Entities.



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