

Tax Alert

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Tax & Legal
January, 2016

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Overview of the main changes to tax law in 2016

Amendments and additions were made to the following tax-related legislative acts in August and December 2015, to enter into force in 2016:

- Law № 3PY-391 dated 20 August 2015 *On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan to further improve the Protection of Private Property, Business Entities and to remove Barriers to their accelerate Development*
- Presidential Resolution № ПП–2455 dated 22 December 2015 *On Main Macroeconomic Forecasts and Parameters of the State Budget of the Republic of Uzbekistan for 2016*
- Law № 3PY–396 dated 29 December 2015 *On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan*
- Law № 3PY–398 dated 31 December 2015 *On the Introduction of Amendments and Additions to the Tax Code of the Republic of Uzbekistan in Connection with the Adoption of the Main Directions of Tax and Budget Policy for 2015*

This review has been drafted using the above normative and legal acts, and information from the Tax Committee on the most significant amendments to tax law.

General part

In 2015, a number of corrections were introduced to:

- simplify regulatory procedures;
- abolish the requirement for round stamps for small businesses;
- order of tax audit procedures;
- mitigate financial sanctions.

All normative acts have been brought into line with these amendments, including the Tax Code.

From 1 January 2016, if discrepancies cannot be supported or tax reporting is amended due to an in-house review, the tax authorities are entitled to apply to a court to suspend bank operations.

Deadlines for the recovery of tax liabilities have been amended. The tax authorities are now entitled to apply to a court to recover an individual's outstanding tax after the payment deadline has passed. Previously, the tax authorities were only able to do so up to 30 days after the payment deadline.

Financial sanctions for storing unrecorded goods has been reduced to 20% of the value of the unrecorded goods.

Special part of the Tax Code

Profits tax

The rates for legal entities and credit organisations remain at 7.5% and 15%. An additional 7.5% rate has been introduced for mobile operators depending on profitability levels. If the threshold is exceeded by 20%, profit is taxed at 50%.

Amendments have been made to articles 143, 147 and 173 of the Tax Code stipulating that additional vacation payments and material aid not referred to in point 16 of article 178 of the Tax Code are now included in incentive payments. These payments will be subject to income tax, the integrated social payment and insurance contributions.

If income tax has not been withheld at the source or international treaties not applied correctly, under the Tax Code, residents or permanent establishments of non-residents paid the outstanding tax for foreign partners. A mechanism for residents or permanent establishments to return taxes for foreign partners was in place. This mechanism has been abolished since 2016.

Individual income tax

In 2016, the following scale for individual income tax will be applied:

Taxable income	2016
Up to the minimum salary (valid from 2015)	0%
In 2015 from 1 (+ 1 sum) to 5 times the minimum salary	7.5% of the amount exceeding the minimum salary
from 5 (+ 1 sum) to 10 times the minimum salary	tax on 5 times the minimum salary + 17% on the amount exceeding 5 times the minimum salary
from 10 (+ 1 sum) the minimum salary and above	tax on 10 times the minimum salary + 23% on the amount exceeding 10 times the minimum salary

A minimum salary of 130,240 sums, which may not be amended during the year, will be used to calculate individual income tax for 2016.

The following amendments have been made to non-taxable income in article 179 of the Tax Code:

- amendments to point 1 cover material aid not subject to individual income tax
- a point 34 has been added exempting the income of foreign joint stock company employees received from management activities. It reflects the provisions of Presidential Decree № УП-4720 dated 24 April 2015 *On Measures to implement Contemporary Corporate Governance Methods in Joint Stock Companies*
- the addition of point 30 to paragraph 3 extends individual income tax exemptions on mortgage repayments and interest to developer family members (spouses, parents and children) acting as co-developers with respect to mortgages to build individual housing according to standard plans in rural areas. This amendment has been made in accordance with Presidential Resolution № ПП-2282 dated 7 January 2015 *On the Programme to build Individual Housing according to Model Plans in Rural Areas for 2015 and the Main Construction Parameters for 2016*.

The filing deadline for annual Individual Income Tax reporting for permanent establishments has been set at 25 March of the year following the reporting year.

Value added tax

Invoices may now be prepared in hard or soft copy form.

Before the amendments, article 227 allowed offset VAT to be refunded. This provision has been abolished and the excess may be carried forward to the next tax period and credited against future value added tax payments.

Excise tax

The amendments to articles 238, 239 and 240 of the Tax Code establish a procedure for filing excise tax statements and paying it in monthly instalments by the 10th of the following month. Current payments and the provision of excise tax certificate for the current tax period calculated based on proposed sales of excisable goods and the set rate have been abolished.

Excess profit tax

From 1 January 2016, the estimated prices of the taxable base for excess profit tax on polyethylen granules and clinker (except for clinker manufactured using alternative fuels – coal).

Corporate property tax

The base rate of property tax has been increased from 4% to 5%.

Tax on the development of social infrastructure

The current 8% rate has been retained.

To unify the procedure for making current profit tax payments and current payments on tax for the development of social infrastructure, article 300 has been amended so that taxpayers with a taxable base for the reporting period of up to 200 times the minimum salary do not make current payments.

Integrated social payments and insurance contributions

Integrated common social payment rates have remain unchanged:

- for micro-firms and small businesses – 15%
- for all other payers – 25%

The social insurance contribution rate has increased by 0.5% to 7.5% for 2016.

The individual income tax exemption of the salaries of joint stock company foreign employees hired to management positions extends to social contributions and payments.

The additions and amendments to articles 309 and 310 of the Tax Code stipulate:

- a transition from quarterly tax reporting and payment of integrated social payments and insurance contributions to monthly, by the 25th of the month following the reporting month, and for year end – by the filing deadline for annual financial statements with payment made by the statement filing date
- non-residents operating in Uzbekistan through a permanent establishment filing a statement of integrated social payments and insurance contributions for year-end by 25 March of the year following the reporting year

Common tax payment

The CTP base rate is now 5% (2015 - 6%).

An addition to article 354 entitles legal entities whose main (core) activity at the end of the previous year is trade and catering, to transfer voluntary value added tax payment from the start of the reporting year, without having to file written notification to their local state tax service.

State duties

The following points have been added to the article regulating exemptions from state duties due in courts:

37) owners – with respect to court appeals against resolutions of the state and other authorities, self-regulatory bodies, the actions (inaction) of their officials with respect to violations of their rights and legal interests related to private property

38) legal entities acting as the building owner in the construction of individual accommodation under an agreement with an individual developer in rural areas, using standard plans – with respect to lawsuits to resolve disputes with individual developers regarding the construction of individual accommodation according to standard plans in rural areas

39) commercial banks that by law are responsible for issuing concessional loans to build individual accommodation in rural areas under standard plans – with respect to lawsuits to recover overdue concessional loan repayments

The article, which regulates exemptions from state duties in economic courts, has been adopted with the following subpoints:

30) owners – with respect to court appeals against the resolutions of state and other bodies, self-regulatory bodies, the actions (inaction) of their officials with respect to violations of their rights and legal interests related to private property

31) claimant and defendant – with respect to the application of legal retaliation

Concessions

The concessions stipulated by the following have been extended until 1 January 2018:

- point 3 of Presidential Resolution № ПП-1050 dated 28 January 2009 *On Additional Measures to stimulate the Expansion of the Production of Domestic Non-Food Items*, dealing with the exemption of companies specialising in the production of non-food items from profit tax and property tax, the single tax payment for microfirms and small businesses, obligatory National Road Fund contributions
- point 3 of Presidential Resolution № ПП-733 dated 21 November 2007, regarding textile industry companies' exemption from property tax
- point 5 of Cabinet of Ministers Resolution № 141 dated 25 March 2004, to permit Uzbekengilsanoat companies to purchase semi-finished products (yarn, fabric, knitted cloth and cotton waste) for freely convertible currency (inclusive of 0% VAT) on the domestic market at prices lower than global prices at the contract conclusion moment

The concessions stipulated in point 8 of Presidential Resolution № ПП-1047 dated 26 January 2009 *On Additional Measures to expand the Production of Food Items and supply the Domestic Market* have been extended until 1 January 2021.

In accordance with appendices № 35 and 36 to Presidential Resolution № ПП-2455 dated 22 December 2015, amendments have been made to abolish or amend certain Presidential decrees and Cabinet of Ministers resolutions.

In particular, the following have been abolished from 1 January 2016:

- point 7 of Cabinet of Ministers Resolution № 166 dated 29 April 1996 *On Measures for the State Support of the Development of Light and Local Industry*, stipulating the exemption of companies operating in the Uzbeklegprom and Makhallii Sanoat corporation systems in which a foreign investor's interest is more than 50%, from profit tax, provided the entire tax amount is reinvested to develop and expand the production of consumer goods, primarily children's
- point 4 of Cabinet of Ministers Resolution № 349 dated 22 July 2004 *On Measures to implement Quality Control Systems in Companies that comply with International Standards* and point 7 of Appendix № 1 to Cabinet of Ministers Resolution № 168 dated 17 June 2009 *On the Introduction of Amendments to and Recognition of Certain Governmental Resolutions as having lost their Force due to the Abolishment of Tax Concessions*, stipulating a reduction in the taxable income of legal entities when assessing profit tax on investment amounts used to implement and support quality control systems
- paragraph 3 of point 1 of Presidential Resolution № ПП-433 dated 3 August 2006 *On Additional Measures for the Further Development of a Credit Card Settlement System. The to reduce системы безналичных расчетов на основе пластиковых карточек»* prescribing the reduction of the effective tax rates for Income Tax and Unified Tax Payment by 5% based on the using of plastic cards.

How to contact us:

Should you have any questions about the information in this issue of our Tax Alert or any other questions regarding business operations in Uzbekistan, please do not hesitate to contact any of our team members.

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