



In Uzbekistan, the energy sector is concentrated in the hands of two monopolies, Uzbekenergo and Uzbekneftegaz, with mineral resources and rare-earth minerals concentrated at metallurgy plants, which the government intends to upgrade through a number of sponsored programmes, and with the active assistance of foreign contractors and suppliers. To facilitate this, the government will be creating certain conditions to attract foreign investment.

This brochure summarises the main points that companies participating in the upgrade programmes should focus on. It also highlights some of the issues around investing in the extraction industry.

### **Construction and upgrade projects**

Upgrade and construction projects tend to be financed by developers, local banks, the Fund for the Reconstruction and Development of Uzbekistan or loans received from international financial institutions. To ensure efficient state contribution in any such project, the government issues resolutions or decrees to provide individual tax and customs privileges differing in terms of duration, the taxes they cover and the entities entitled to apply them.

According to local law, if services are provided in Uzbekistan, tax may be applied at the source of payment. This will not be the case if a double taxation agreement can be applied.

Long-term participation in a project (more than 183 days in a 12-month period), or

in construction, assembly and assembly facilities can lead to the creation of a permanent establishment. However, a double tax treaty may treat permanent establishments differently.

Companies are required to register with the tax authorities even if they are tax exempt. Failure to register could result in fines of up to 50% of revenue received, and administrative fines on management. Generally speaking, permanent establishments can function as separate units, but are subject to restrictions due to a lack of legal entity status. Once a project for which a permanent establishment has been created ends, the permanent establishment is closed.

In some cases, excess tax may be withheld at the source. Current law prescribes specific actions to return any such tax during a period of limitation.

If a full-fledged legal entity is registered, it may be eligible for the benefits provided to local companies.

### **Investment in the oil and gas industry**

Direct investment in the oil and gas industry gives rise to a number of benefits and concessions, such as the common benefits available to most investors, the advantages offered by production sharing agreements or specialised benefits for the oil and gas industry. Major projects may be exempt from many taxes and customs payments at the exploration stage, but any decision to award exemptions or tax relief is made on a case-by-case basis, depending on investment size and timing, and strategic necessity.

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Should you have any questions about the information provided above or any other questions regarding operations in Uzbekistan, please do not hesitate to contact any of our team members.

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