



## **Special Tax Alert**

### Uzbekistan Tax Policy Improvement Concept

## Review of 2018 key changes to tax law

In a Decree dated 29 June 2018, the president has approved a National Tax Policy Improvement whose goal is to reduce the tax burden on the economy; and eliminate imbalances in the tax burden between small and large businesses. The document simplifies tax reporting; abolishes a number of inefficient tax and customs breaks and introduces a procedure for permanent benefits in the Tax and Customs codes until 1 November 2018. A new draft version of the Tax Code will be introduced by 1 December 2018.

From **1 January 2019**, the tax policy will:

**- reduce personal income tax** with the introduction of a single flat-rate of 12% (with the abolition of the progressive income tax scale) and the allocation of 0.1% to individual pension savings accounts. At the same time, the current income tax exemption procedure for certain individuals of four times the minimum salary will remain unchanged.

**- abolish social security contributions** to the non-budgetary Pension Fund withheld from personal income at 8%.

**- change the procedure for calculating the Single Social Payment.** The Decree stipulates a Single Social Payment of 25%, which will apply to state-financed organisations and government enterprises; legal entities with a state share of 50% or more; legal entities in which 50% or more of the shares belong to a legal entity with a state share of 50% or more; and their structural departments. For all other legal entities, the Single Social Payment will be reduced from 15 to 12%.

**- cancel all mandatory payments to specialised state funds from corporate turnover.**

**- reduce corporate income tax** from 14 to 12%. For commercial banks the rate will be reduced from 22 to 20%. For mobile communication companies, the tax rate will increase from 14 to 20%. Excess profit tax will be cancelled.

**- reduce income tax on dividends and interest payable** from 10 to 5%.

**- recognise legal entities with annual turnover of less than UZS 1 billion as small businesses.** If taxpayers pass the established threshold, they will be recognised as major taxpayers and switch to the generally established taxation system. According to the Decree, the annual revenue threshold of 1 billion UZS will be revised at least once every 3 years.

**- reduce turnover tax for small businesses** from 5% to 4% with the possibility to pay VAT on a voluntary basis.

**- apply property tax, land tax and tax for the use of water resources to all business entities,** including small businesses, with a turnover (revenue) of up to 1 billion UZS.

**- reduce of property tax** from 5% to 2%. Property tax will be higher for legal entities, inefficiently using buildings, constructions and constructions in progress, including privatised assets (previous procedure preserved). The Decree prescribes a series of measures to introduce a property valuation mechanism for legal entities, taking into account international mass valuation experience.

**- improve the procedure for calculating and paying excess profit tax, by introducing revised royalty payments.**

**- retain current VAT** of 20% for legal entities, with the introduction of a full-fledged tax offset system and reduction of the number of concessions. The plan is to reduce the current VAT rate based on 2019 rates.

**- implement a full-fledged VAT offset system** specifying the VAT base. According to the Decree, taxpayers will be entitled to offset VAT in the cost of purchased fixed assets, construction in progress and intangible assets.

**- authorise the State tax Committee** will ensure tax and other mandatory payment are collected in full by legalising employment and increasing payroll.

**- unify excise tax and charges** from producers of alcoholic beverages and tobacco products, set per unit of production, with funds transferred to the national budget to finance activities.

## Key changes

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