



Special Tax Alert

Uzbekistan Tax and Fiscal Policy Improvement Concept

One of the most significant legislative events in Uzbekistan in recent months has been Presidential Order No. P-5214 of 13 February 2018 detailing organisational measures to radically improve tax law, and which incorporates an instruction to draft a Tax and Fiscal Policy Improvement Concept by 1 April 2018, and introduces a draft new Tax Code by 1 July 2018.

A draft Tax and Fiscal Policy Improvement Concept was published on 28 March 2018, and on 29 March 2018, the President's National Project Management Agency held a meeting to discuss it, and at which, the Concept developers outlined the main directions of the proposed tax reforms.

As the document is still only a draft version, it may yet be amended.

Main taxation system reforms

- **Corporate profit tax** will be abolished, except for commercial banks and insurance organisations. Tax of 25% will be due solely on dividends payable.
- **VAT will be reduced from 20% to 12% and will be payable by all categories of taxpayers**, including individual entrepreneurs who have passed the **VAT registration threshold of 1 billion soums**. An efficient tax offset system will also be created. Turnover on the sale of local agricultural and certain food products will be exempt from VAT to prevent consumer price rises.
- **The review and abolishment of inefficient VAT concessions**, including on the import of goods.
- **The cancellation of all mandatory payments from corporate turnover (revenue) to specialised state funds.**
- **The merging of personal income tax, the unified social payment and social security**

fund payments into a single flat-rate 25% personal income tax.

- **The abolishment of the simplified taxation system.** It will, however, be retained for single land tax and fixed tax on certain types of individual entrepreneurial activity will be retained. The types of business activities permitted for individual entrepreneurs are due to be reviewed.
- A system will be introduced whereby legal entities with **annual turnover of less than UZS 1 billion** will be recognised as **small businesses**. The eligible entities will not pay VAT and will be subject to 5% turnover tax
- **Individual entrepreneurs with** annual turnover exceeding the revenue threshold for small business (UZS 1 billion) will switch to the general taxation system. No change in organisational and legal form is required.
- **Property tax** will be reduced for legal entities **gradually** from 2.5% in 2019 to 1% in 2021. Industrial buildings and structures will be exempt from property tax.
- **Excise duties** will be gradually aligned for locally manufactured and imported excisable goods.
- Improvements will be made to the tax treatment of non-resident legal entities.
- **The tax treatment of water and subsoil users will be improved with the abolishment of excess profit tax**, the unification and simplification of tax base calculations, and a switch to royalty payments.

Main tax administration reforms

- Implementation of an electronic VAT administration system
- Improvements in document management procedures
- The introduction of electronic documents
- A switch from field tax audits to desk checks
- The development and approval of key tax audit regulations
- A review of current fines and a stress on liability for tax violations; the implementation of a transparent calculation mechanism for fines and interest.
- The development and approval of a procedure for granting targeted tax benefits, monitoring and assessing benefits already in place, and for cancelling them if used incorrectly.
- Radical improvements to internal tax audits within the state tax authorities, and the introduction of internal control systems to counteract corruption.
- The introduction of a pre-court settlement mechanism for tax disputes, and the creation of an independent interdepartmental expert council.
- The introduction of cash registers enabling real-time reporting to the tax authorities on all sales transactions, and the monitoring of the movement of goods.
- The establishment of control mechanisms and improvements in transfer pricing taxation:
 - price controls by the tax authorities
 - the creation of pricing methods for transfer pricing purposes
- Improvements to and the simplification of mechanisms for returning and offsetting overpaid taxes and other mandatory payments.
- Improvements to international cooperation and the implementation of advanced international initiatives to manage

Key Changes

information exchange and prevent tax evasion.

- Control measures against price and interest rate manipulation: transfer pricing and thin capitalisation.
- Fighting offshore companies: controlled foreign corporations (CFC), beneficial owners, tax residence for legal entities
- Joining advanced international tax initiatives (OECD conventions, double tax treaties, and the automatic exchange of tax information- CbCr, BEPS)

Key Changes

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