Tax Alert

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Overview of the main changes to tax law in 2015

In this Tax Alert we discuss the most significant additions and amendments to tax and accounting law that have entered into force since the start of 2015. The majority of them were made to the following documents:

- Resolution of the President of the Republic of Uzbekistan № ПП–2270 dated 4 December 2014 *On Core Macroeconomic Index and Parameter Forecasts for the State Budget of the Republic of Uzbekistan for 2015*
- Law of the Republic of Uzbekistan № ЗРУ–379 dated 4 December 2014 *On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of Core Tax and Budget Policy for 2015*
- Edict of the President of the Republic of Uzbekistan № УП–4677 dated 9 December 2014 *On the Introduction of Amendments to Certain Edicts of the President of the Republic of Uzbekistan*

General Part of the Tax Code

The updates and additions cover the following issues:

1. Normative and legal acts enter into force from the date of their official publication, unless the acts themselves refer to a longer period. The official publication sources are Bulletin of the Oliy Majlis of the Republic of Uzbekistan, Collection of Legislation of the Republic of Uzbekistan, the Halq Suzi and Narodnoye Slovo newspapers, and official publications of the ministries, state committees, departments and local state authorities.
2. A part 5 of article 45 of the Tax Code has been in place since 1 January 2015 dealing with the electronic filing of tax reporting for businesses without voting rights. This provision applies to legal entities and individuals that have undergone state registration and that carry out business activities. Correspondingly, non-commercial organisations retain the right to file tax reporting personally, by mail or electronically.
3. Tax overpayments and the same for obligatory payments may be determined not only based on tax reporting but also by the tax and customs authorities:
    - after taxpayer audits
    - using data received after customs clearance and goods have been released from customs control
    - based on a valid court verdict, if, for example, an entity has been recognised as guilty of evading taxes or a payer has not filed reporting within the established deadline, and others
4. The procedure for recovering taxes payable from debtor arrears has been clarified. Taxpayers should file reconciliation reports for contra-settlements with debtors to recover tax and obligatory payment arrears against receivables. Previously, the question of filing acts and, subsequently, recovering overdue taxes against receivables were resolved by taxpayers themselves.
5. Amendments have also been made to the procedure for registering objects of taxation at their location. This means that legal entities should be registered for each object of taxation according to the location of its immovable property. In other words, companies with taxable property not only in the region where their business is registered, need to register in the regions where the property is located, in accordance with the procedure and within the deadlines defined by article 81 of the Tax Code.

Special Part of the Tax Code

Profit Tax

The rate for legal entities (apart from credit organisations) has been reduced from 8% to 7.5%.

The new wording of part 5 of article 130 of the Tax Code states that “a transfer of property and property rights to other entities enabling them to generate interest, royalties, rental income and also income from the assignment of a right to recourse are recognised as service income, if the total value of the income in question exceeds total income from the sale of goods (work or services). This provision does not extend to non-commercial organisations for which this income is always treated as other income”.

According to the amendments, from 2015 companies are no longer able to deduct property insurance costs for profit tax purposes.

An addition to article 155 of the Tax Code establishes a simplified procedure (without an application being filed with the tax authorities) for paying income to Uzbekistan non-residents without witholding or using a reduced profit tax rate. Instead of an application certified by the tax authorities, the basis for being able to make payments without withholding is a certificate of residency from a foreign partner (drawn up in accordance with legislation).

However, this procedure does not extend to income:

- from participation in joint activities based on a common partnership agreement (point 2 of part 3 of article 155 of the Tax Code)
- from the sale of goods belonging to a non-resident of Uzbekistan and sold by the non-resident itself, or by an Uzbekistan resident based on a commission agreement (point 4 of part 3 of article 155 of the Tax Code)

Personal Income Tax

A new personal income tax rate has been introduced for 2015 (“PIT”):

Taxable income	2015
Up to the minimum salary (valid from 2015)	0% of income
In 2015, from the minimum salary (+ 1 sum) to five times the minimum salary	8.5% of the amount exceeding the minimum salary
from five times (+ 1 sum) to ten teims the minimum salary	tax on five times the minimum salary + 17% from the amount exceeding five times the minimum salary
from ten times (+ 1 sum) the minimum salary and above	tax on ten teims the minimum salary + 23% from the amount exceeding ten times the minimum salary

A PIT “non-taxable minimum” has been introduced for 2015. Income up to one minimum salary will not be taxable. At the same time, the graded tax rates have been increased by 1%.

Property insurance premiums have been removed from business expenses not treated as personal income. In other words, if a company continues incurring expenses to insurance individuals’ property, then these expenses from 1 January 2015 will be recognised as material benefits’ income as per point 1 of article 177 of the Tax Code, which is subject to PIT, but not taxed by insurance contributions and the unified social payment.

The PIT concession for individuals’ salaries and other taxable income of individuals used to buy up state assets and purchase the shares of privatised companies has been abolished from 1 April 2015. It has been retained exclusively for dividends directed to the charter capital of the legal entities from which the dividends were received.

The PIT concession on individuals' salaries and other taxable income used to pay property insurance premiums to legal entites with a license to perform insurance activities has been abolished from 1 April 2015.

Due to an addition to point 1 of article 187 of the Tax Code, certificates on the following types of income are no longer filed with the tax authorities:

- in the form of dividends and interest
- taxable at the minimum PIT rate
- taxable at the maximum PIT rate based on a written application from an individual

Value Added Tax

A new concession has been introduced, in accordance with a Cabinet of Ministers resolution, exempting turnover from the sale of real estate built by commercial banks using own funds from VAT.

The VAT concession on imported medical (veterinary) items made in Uzbekistan has been abolished *(previously it did not extend exclusively to the import of ready medicines produced in Uzbekistan)*.

Thus, the concession has been retained for:

- raw materials imported for the production of medicines and medial (veterinary) items
- ready medicines and medical (veterinary) items not produced in Uzbekistan

After the amendments, domestic gas will be subject to 20% VAT. The abolishment of the zero rate for gas sales to the public will not lead a price rises as a single price has been set for all consumers inclusive of VAT and excise duties.

JSCB Microcreditbank has also been made exempt from VAT on the sale of assets recovcered in its favour, until 1 January 2018.

The new wording of article 223 states that the reporting period:

- for microfirms and small business paying value added tax is the quarter
- for taxpayers that are not microfirms and small businesses is the month

Tax on the Use of Water Resources

The tax on the use of water resources has been increased by 20% for 2015 irespective of the water sources (underground or surface) for power stations, utilities companies and companies in all sectors of the economy.

A new taxpayer group has been created in – corporate soft drink producers, for which the following rates have been introduced:

- water for production purposes – 10,000 sum per m3
- water for other purposes – for businesses in all sectors of the economy – 61.9 sum and 78.6 sum (from surface and underground sources, respectively)

An addition has been made to part 2 of article 264 of the Tax Code:

"Taxpayers whose tax on the use of water resources liability arose during the tax period should file a tax certificate within 30 days of the date the tax liability arose".

The new wording also includes taxpayers whose tax on the use of water resources arose during the tax period. They also need to file a tax certificate with the tax authorities at the location of water consumption within 30 days of the date the tax became due.

Tax on Corporate Property

The amendments to article 271 of the Tax Code match those made to articles 79, 81 and 84, - immovable property (land and real estate) should be registered with the tax authorities where the objects are located. Consequently, property tax statements are filed and the tax paid according to the location of the immovable property. In addition, the new wording takes into account taxpayers whose property tax liability rose during the tax period.

JSCB Microcreditbank's property tax concession has been extended until 1 January 2018.

Corporate Land Tax

Land tax rates for 2015 have been indexed at an average of 15%.

The fist land yax payment stage (before 1 July of the reporting year - 20% of the annual amount) has been abolised. In other words, land tax will be paid in two stages:

- before 1 September of the reporting year – 30% of the annual tax amount
- before 1 December of the reporitng year – 70% of the annual tax amount

Tax on the Development of Social Infrastructure

The amendments state that the taxable base for tax on the development of social infrastructure should be reduced by funds received in the form of insurance compensation (insurance amount) under insurance agreements, and amounts outstanding to the budget and state targeted funds that have been written off in accordance with legislation.

Unified Social Payment and Insurance Contributions

The rate for the unified social payment has been differentiated for:

- microfirms and small businesses – 15%
- for all remaining payers –25%

Social insurance contribution rates have been increased by 0.5% to 7% for 2015.

The unified social payment concessions for the 503 – Uzbekistan Children's Villages and companies employing handicapped individuals have been kept at 7% and 4.7% of payroll for handicapped persons.

Point 4 of the appendix to Presidential Edict N УП-4677 9 December 2014 has made amendments so that newly created small businesses make unified social payments exclusive of the minimum unified social payment for 6 months from the date of their state registration, and if they build facilities for their own personal needs during that period – until the end of 6 months from the date an act of commission is approved, but no more than one year from the date of their state registration.

Unified Tax Payment

The rates have changed for:

- construction organisations – 5% (in 2014 - 6%)
- wholesale and retail trading companies - 5% (in 2014 joint trade was not highlighted separately, the unified tax was calculated separately and paid according to the rates for wholesale and retail trade)

For 2015, the procedure for paying the unified tax has been retained, inclusive of the minimum amounts. However, the unified tax for payers with taking into account threefold land tax has been increased (indexed) for 2015.

The minimum unified tax payment for 2015 is based on the minimum salary of 118,400 sum.

Amendments have also been made so that small business status is retained if headcount levels are exceeded due to the hiring of college graduates, but by no more than 50%.

According to the new wording of part 2 of article 354 of the Tax Code, payers who have transitioned from the unified tax to generally established taxes are exempt from current payments of profit tax, tax on the development of social infrastructure for the first quarter of the year in which they transitioned to the general tax regime.

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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