



Tax alert

Regulatory policy advisory document for the Draft Code of the Republic of Kazakhstan On Taxes and Other Obligatory Budget Payments

Dear friends,

In this issue, we review the tax policy concept for the new Tax Code to be adopted in October 2024.

The government will be using the tax policy concept as a guide to draft tax law proposals, such as revising tax rates for high-income sectors, reforming special tax regimes and the taxation of luxury items.

Tax administration

Tax administration service model

The authorities are continuing efforts to improve tax authority and taxpayer interaction through remote information access.

Measures are being taken to simplify tax administration and taxpayer access to state services, enabling taxpayers to meet their tax obligations more easily.

Improving tax incentives

As budget expense reporting treats tax incentives as state expenses, the authorities are looking to the experiences of other countries to analyse the effectiveness of tax incentives and tax incentive policy as a whole.

Tax incentives should be:

- clearly identifiable in legislation;
- closely regulated and controlled in terms of when they are provided;
- limited to keep state tax support expenses to a minimum.

CIT

Graduated CIT rates based on profitability and aggregate tax burden are being proposed to ensure a fairer approach to allocating the tax burden, i.e. they will be linked to sector profitability.

The legislator is also considering the possibility of allowing local administrative bodies to apply lower CIT rates in return for counter obligations from taxpayers.

A proposal has also been made to:

- retain the current flat CIT rate;
- review whether each current CIT tax incentive is needed.

International taxation

Inconsistencies have appeared in law-enforcement practices in recent years, which have led to attempts to adhere better to the following international standards:

- how income pertains to a permanent establishment;
- the creation date of permanent establishments;
- the definition of “related contracts”;
- the procedure for exempting dividends due to non-residents from tax, and the definition of “royalties” to ensure uniform application and rule out disputes;
- the start date of operations in Kazakhstan;
- the taxation and/or declaration of income earned by Kazakhstan nationals overseas;
- non-residents’ creation of permanent establishments;
- the application of international treaties (residency conditions, the definition of “ultimate beneficiary” and others).

The current Tax Code duplicates certain provisions by treating advance payments paid to non-residents as income if a tax treaty is not in place and the agreement with the non-resident is valid for more than two years and also if more than two years have passed since the payment was made.

Accession to the MLI will also result in significant tax risks when applying double tax treaties.

All of these issues will be discussed to help develop new tax policy approaches aimed at consolidating budget revenue.

VAT

The new draft Tax Code is looking at gradually increasing VAT from 12% to 16% or 20% from 2025 and setting differentiated rates for various sectors of the economy.

The legislator is also discussing retaining the current 12% VAT rate and allowing estimated VAT to be reduced instead of the reduced VAT rate.

The application of lower VAT rates means that goods eligible for those lower VAT rates will have to be clearly identified.

Another option being discussed is to reduce the current VAT rate, but also eliminating all VAT concessions (including VAT exemptions).

A final option being discussed is charging VAT on goods, work and services that were previously exempt, such as healthcare services, education and others.

Personal income tax (PIT)

A proposal has been made to replace the current fixed rate of tax with a progressive taxation scale based on income levels.

The idea behind the change is to make taxation fairer and redistribute income.

Subsoil use

A proposal has been made to abolish the 0.5 coefficient on mineral production tax rates for domestic oil sales from 2024.

An integrated oil and petroleum product market will be introduced from 1 January 2025 under the Treaty for Organising, Managing, Operating and Developing Integrated EAEU Oil and Petroleum Product Markets dated 9 December 2010.

Work is continuing on developing a new approach to stimulating investment.

Property tax

Taxation of vehicles and property belonging to individuals

The introduction of the EAEU integrated petroleum product market in 2025 will result in significant fuel and lubricant price increases and higher vehicle running costs. For that reason, the legislator is proposing to abolish vehicles tax, except for those vehicles with larger engines.

A proposal has been made to add the following taxes and payments to the vehicles tax burden:

- fuel and lubricant excise duties: the larger a vehicle engine is the higher the tax burden due to the greater use of fuel and lubricants;
- vehicles tax: the larger a vehicle engine, the greater the tax burden;
- a recycling charge and charge for first-time vehicle registration.

Property tax

With respect to property tax, the legislator intends to:

- revise the property tax base so that the estimated value of property is as close to market value as possible;
- link land tax to cadastre values.

Special tax regimes

The legislator has proposed:

- combining tax regimes with similar conditions;
- abolishing regimes not used;
- revising the conditions for the application of regimes based on the details of how they are actually applied;
- improving the “retail tax” regime.

One of the measures proposed may be to simplify the tax treatment of expenses by presenting information contained in State Revenue Committee databases.

Integration of excise duties on tobacco items

The EAEU Treaty envisages integrating the most sensitive excise duty rates, such as gradually increasing excise duties on cigarettes to 28 Euros in 2024, which is 20% lower than the indicative rate.

Measures will also be taken to revise the tax rate for tobacco consumption by introducing a new indicative tax rate.

To ensure it observes the Treaty, the new Tax Code will stipulate rates on cigarettes for five years.

Taxation of luxury items

International experience shows that people in the higher income level brackets pay higher luxury item taxes.

Raising tax deductions will help free a part of income from taxation.

A proposal has been made to increase taxable income, which should allow individuals to declare their actual income in full.

At the same time, discussions are being held to increase the tax burden on property recognised as luxury items, which will increase the burden on individuals in the higher income brackets.



If you would like to express your opinion or take part in any of the issues discussed in this alert, then please contact our Tax & Legal Department experts whose contact details are shown below.

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