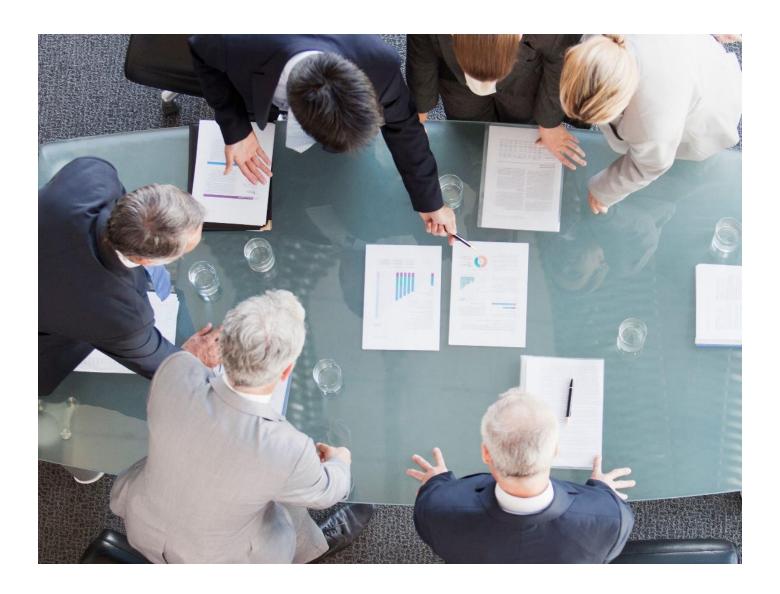
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**Special Tax Alert**Uzbekistan Tax Policy Improvement Concept

## 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.

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