



Special tax alert

Key changes
December 2018

Key changes

Review of key tax law changes in 2018

In December, the following pieces of tax law were amended to enter into force in 2019:

- Law No. 3PY-508 dated 24 December 2018 amending legislative acts in connection with the adoption of core tax and budget policy for 2019
- Presidential Resolution No. GG-4086 dated 26 December 2019 forecasting the main macroeconomic budget indicators and parameters for 2019 and budget guidelines for 2020-2021

Important Tax Code changes

General part

A number of Tax Code articles dealing with tax control have been amended or reworded.

The tax authorities are now authorised to inspect and interview taxpayers to obtain information on taxable objects, which is then used to adjust tax reports. Short-term tax audits should not exceed 10 working days. The legislator has reworded "Scheduled Investigations" and "Tax Audits" articles in the Tax Code and amended those dealing with targeted express investigations. The current Tax Code refers to two types of tax audit:

- those agreed with the authorised body
- those conducted in accordance with the notification procedure

The changes introduce the concept of "microfirms and small enterprises," which are legal entities that meet established criteria in terms of headcount.

Tax late payment interest has increased from 0.033% to 0.045% per day. The late payment interest on arrears discovered by the tax authorities during an audit has increased to 0.06% per day.

Specific part

Profit Tax:

Profit tax changes mainly relate to rates and deductible and non-deductible expenses. For example:

- the previous deduction limit of 1% of sales revenue, inclusive of VAT and excise duties, has been abolished for representative expenses
- per diems are now fully deductible
- the premiums for voluntary employee insurance are now fully deductible
- all compensation paid for work-related injuries, occupational illness or any other injury is now fully deductible
- company costs related to urban development work have been reclassified as non-deductible
- the fee for operating fully worn-out equipment is no longer deductible

Amendments have been made to the definitions of a number of non-deductible expenses:

- sponsorship and charity aid, regardless of the recipient, is non-deductible
- legal fees are now deductible
- only losses from the disposal of fixed assets are treated as non-deductible. Losses from the disposal of other property are now deductible

The following have been made non-deductible:

- taxes paid for non-residents of Uzbekistan and other persons
- taxes and other obligatory payments assessed according to audit results
- expenses for activities not related to a taxpayer's business activities (health, sports and cultural events, recreation and others)
- assisting trade union committees

Annual depreciation limits for buildings and structures were reduced from 5% to 3%.

Income tax has been set at 12% for 2019. For credit organisations, cement and polyethylene pellet manufacturers and mobile operators, the tax rate is 20%.

From 2019, both legal entities and individuals will continue to be taxed on their dividends and interest at the source. However, the rate for resident individuals and legal entities will decrease from 10% to 5%. The rate for non-residents will remain at 10%.

Tax rates on all other income will remain unchanged.

Personal Income Tax:

The changes also affect personal income tax. The current 4-step tax scale has been replaced by a flat rate of 12%. Personal income tax filing deadlines have been changed to monthly.

From 1 January 2019, obligatory contributions to individual savings pension accounts have been reduced to 0.1%. The mechanism for deducting such contributions from personal income tax has been retained.

Value Added Tax

In 2019, VAT will remain unchanged at 20% and 0% when exporting and selling goods (work or services) to certain categories of recipients.

Businesses with an annual turnover of 1-3 billion Soum are entitled until 1 January 2021 to choose the simplified or usual procedure for calculating and paying tax. The simplified mechanism abolishes the mechanism for offsetting VAT and sets a reduced tax rate ranging from 4% to 15%, depending on the type of activity.

In 2019, all businesses with annual turnover exceeding 3 billion Soum in the previous tax period will transition to the general taxation procedure and be registered to pay VAT.

A full-fledged VAT offset system has been introduced, specifying the taxable base for VAT. Taxpayers are entitled to offset VAT included in the cost of acquired fixed assets,

Key changes

construction in progress and intangible assets. The taxable base for fixed assets will be based on the cost of sale, but no lower than their residual (book) value, exclusive of VAT.

The taxable base for VAT when transferring property to financial lease, including leasing, will now be based on the asset's disposal value, exclusive of VAT.

The VAT reporting deadline has been changed from quarterly to monthly from 1 January 2019. All payers should file statements on the accrual basis and pay tax monthly by the 25th day of the month following the reporting period, and for the year - on the filing deadline for annual financial statements.

Obligatory payments to specialised social funds

Obligatory payments to state trust funds now include only the Unified Social Payment and Motor Transport Fees. Obligatory deductions to state trust funds of 3.2%, and individual contributions to the non-budgetary Pension Fund of 8% have been cancelled.

Unified social payments

Unified Social Payment rates have changed:

- for budget organisations, state enterprises or enterprises with a state interest - 25%
- for other payers - 12%

Individual entrepreneurs, resellers and family-owned businesses that have not set up a legal entity and that had previously paid insurance premiums in multiples of MWA, will now make a single social payment in the same amount.

Corporate property tax

The tax rate for corporate property has been reduced to 2%. From 1 January 2019, microfirms and small enterprises pay corporate property tax, regardless of headcount and sales turnover. Single property tax payers are exempt from corporate property tax.

Equipment not installed within the normative time frame and construction projects not completed within the normative time frame will be subject to higher property tax rates.

Fixed tax for legal entities

The fixed tax for legal entities, which was previously paid for activities related to children's gaming machines and vehicle temporary, has been abolished. Entrepreneurs engaged in these activities will now pay income tax based on their individual tax treatment.

Unified Tax Payment ("UTP")

From 1 January 2019, only legal entities whose 2018 annual turnover did not exceed 1 billion Soum will be eligible for UTP. At the same time, the number of UTP payers is currently rising due to the increase in individual entrepreneurs.

The UTP base rate has decreased to 4%. All UTP payers with the relevant object of taxation are obliged to pay:

- property tax
- land tax
- tax on the use of water resources

UTP payers still have the option to pay VAT on a voluntary basis if they have turnover subject to VAT.

UTP payers whose gross revenue exceeded 1 billion Soum during the year will transition to the general tax system.

Excise duties

Payments for subscriber numbers have been reduced from 4,000 to 2,000 Soum. At the same time, 15% excise tax has been introduced together with the right to deduct payment for the subscriber number.

Excise duties on sales of gasoline, diesel and natural gas have been introduced to replace tax on the consumption of gasoline, diesel fuel and natural gas.

Corporate land tax

Corporate land tax rates have been revised. Land tax statements are

filed by 10 January and the tax is charged from 1 January of each tax period. Land tax is paid by:

- microfirms and small enterprises - by the 10th of the first month of the quarter in the amount of ¼ of the annual land tax amount due
- taxpayers not related to microfirms and small businesses - by the 10th of each month, in the amount of 1/12 of the annual land tax amount due

Key changes

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