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Doing Business in Uzbekistan

Deloitte Uzbekistan 2019

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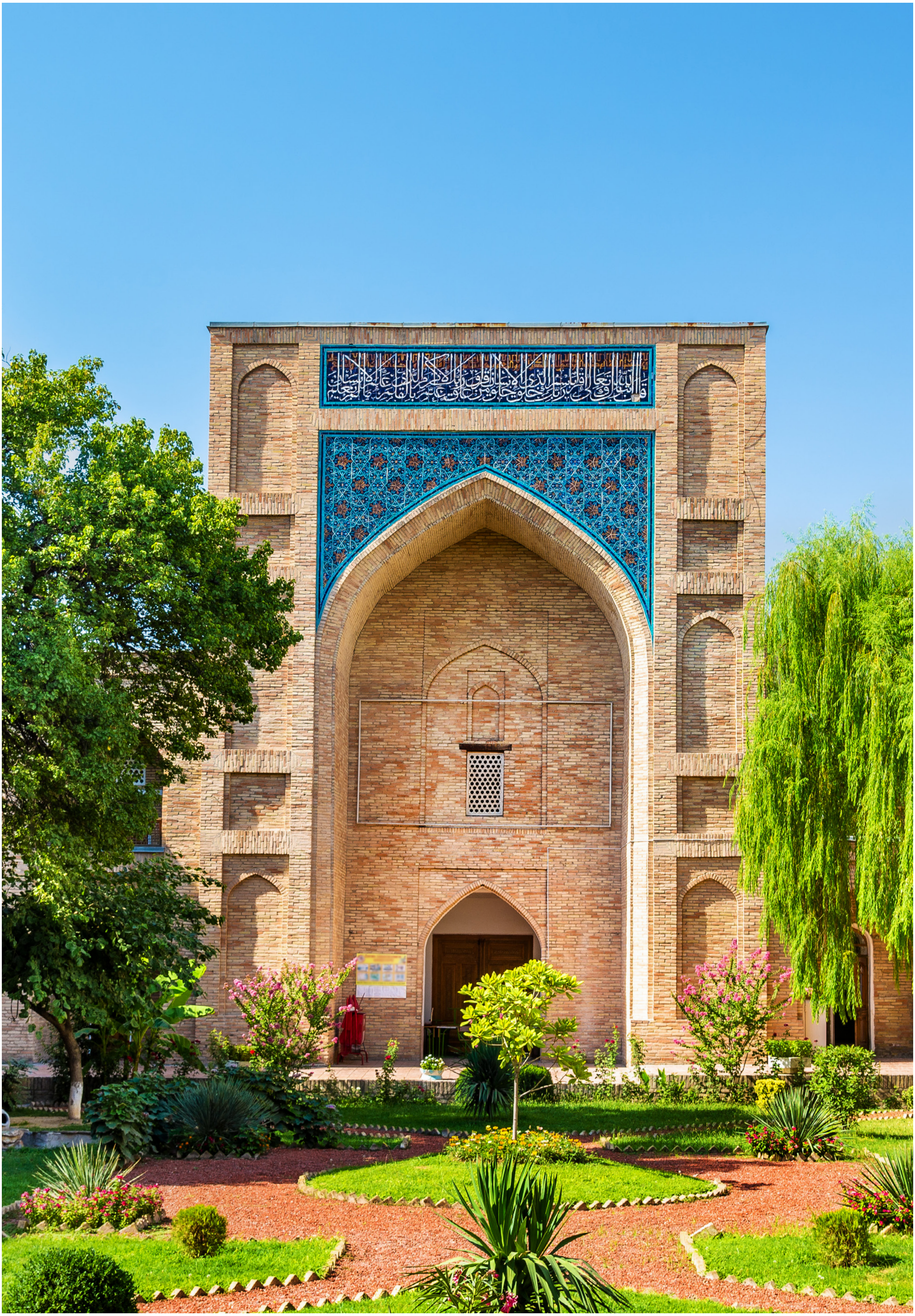
This guide has been designed as a basic reference guide for companies and individuals interested in doing business in Uzbekistan. The information in it is not exhaustive. Legislation and its interpretation change frequently in Uzbekistan and you should seek professional advice relating to your specific circumstances before making business decisions. Deloitte accepts no responsibility for the consequences of acting on the basis of this guide without seeking such advice.



Geography

Uzbekistan stretches 1,425 kilometres from west to east and 930 kilometres from north to south, bordering Turkmenistan to the southwest, Kazakhstan and the Aral Sea to the north, and Tajikistan and Kyrgyzstan to the south and east. It also shares a short border with Afghanistan to the south. Uzbekistan is a dry, double-landlocked country with intensely cultivated and irrigated river valleys.

Uzbekistan is divided into 12 regions and the autonomous Republic of Karakalpakistan. According to the State Statistics Committee, the total population at 1 January 2019 exceeded 33 million.

History

Uzbekistan history in terms of culture and art stretches back many centuries. In recent years, the country has found its place on the world stage due to its significant natural resources. The legendary Uzbek warrior Amir Temur conquered vast areas of Asia during the 15th century. The Khanates of Khiva and Kokand and the Emirate of Bukhara ruled the region during the 18th and 19th centuries. The 19th century saw a serious struggle between Russia and Great Britain for influence in Central Asia, but soon after the communist revolution in 1917, Soviet power was established in September 1919, and in May 1925, Uzbekistan became part of the USSR. Independence from the Soviet Union was declared on 31 August 1991, with the country reverting to being known as the Republic of Uzbekistan.

Political structure

Uzbekistan is a presidential republic with the Oliy Majlis (a parliament) consisting of the Legislative Chamber (a lower chamber) and the Senate (an upper chamber).

The Legislative Chamber consists of 150 members elected based on ballot voting for five years. Senate members are elected from each region of Uzbekistan, Karakalpakistan and Tashkent.

Sixteen members of the Senate are appointed by the President from people with outstanding experience, achievements and contributions in science, literature and art. The President, with Constitutional Court approval, is entitled to dissolve the Oliy Majlis.

There are five political parties in Uzbekistan: the Adolat Social Democratic Party, the National Democratic Party of Uzbekistan, the Democratic Party "Milliy Tiklanish", the Liberal Democratic Party "Movement of Entrepreneurs and Businessmen" and the Ecologic Party of Uzbekistan.

The Cabinet of Ministers is responsible for overall regulation of the national economy. Regulatory authority has been entrusted to the Ministry of Finance (fiscal and taxation policy), the Central Bank (banking regulation and monetary policy), the State Tax Committee (tax collection), the State Customs Committee (collection of customs payments), the Ministry of Economy (development and implementation of long-term social and economic strategy), the Ministry of Foreign Economic Relations, Investment and Trade (foreign trade and attraction of foreign investments), the Ministry of Communication and Information Technologies (IT and communication), the State Committee for Privatisation, Demonopolisation and Development of Competition (privatisation policy).

Uzbekistan is a member of the Commonwealth of Independent States (CIS), International Monetary Fund (IMF), World Bank Group, United Nations, Organisation of the Islamic Conference, Asian Development Bank, Islamic Development Bank, the Shanghai Cooperation Organisation and many other international organisations.

Economy

Despite the economic downturn in Russia, which has adversely affected exports, payments and investments, the Uzbekistan economy has continued its strong performance, with over 5.1% growth in 2018. The government recently adopted measures to develop public infrastructure; provide tax breaks for and small and medium-sized export companies; increase public sector salaries, and commercial bank recapitalisation.

The government has declared its full commitment to honour its IMF Article VIII obligations.

Since gaining independence in 1991, Uzbekistan has adopted an evolutionary reform strategy, with emphasis on state control, import reductions, and energy self-sufficiency.

To protect locally manufactured goods, the state adopts a restrictive policy towards imports, manifesting itself in high import and excise duties and active import substitution.

The importance of cotton production and exports to the Uzbekistan economy is paramount, although it is production has decreased later 2.4 times in 2018 compared to 2017 according to the State Committee on Statistics. It is grown throughout the country, with the largest production areas in the Surkhandarya, Kashkadarya, Djizakh, Fergana Valley, Bukhara, Samarkand and Syrdarya regions.

Mining is another important economic sector, and after cotton, precious metals (including gold, silver, platinum and copper) are the country's second most significant export.

Value-added production is relatively important in many regions, for example an automobile assembly plant in Andijan (GM Uzbekistan), automobile power plant in Tashkent (GMPT), bus production plant in Samarkand (Isuzu) and automobile assembly plant in Khorezm (GM Uzbekistan).

Privatisation

On April 2019, adoption of the Presidential Decree №ПП-4300 initiated a large-scale privatization program. Indicating government's intention to liberalize the economy and increase its efficiency by selling its shares to potential foreign and local investors.

The decision approved the sale of shares of about 64 business entities in the chemical, oil and gas, engineering, banking and insurance sectors.

The Presidential Decree also approves a list of potential investment proposals for foreign investors and a list of public-private partnership projects to be developed in 2019.

Legal system

The Uzbekistan legal system represents itself as the civil law system and incorporates the Constitution of the Republic of Uzbekistan, Laws of the Republic of Uzbekistan protecting private property and guaranteeing owner rights; on investment activities; guaranteeing the freedom of entrepreneurial activity, the Civil Code of the Republic of Uzbekistan as well as other Codes regulating significant areas of business, Decrees of the President of the Republic of Uzbekistan, and Resolutions of the Cabinet of Ministers and other normative legal acts. Economic disputes, including intellectual property claims, can be settled in the Higher Economic Court or the Supreme Court. Arbitration is regulated by the Economic Procedural Code, the Law on arbitration courts, and the Law on the activities of commercial enterprises.

Banking system

Banking activities in Uzbekistan are carried out by banks established and licensed according to the Uzbekistan laws and regulated by the Central Bank of the Republic of Uzbekistan ("CBU"). The main purpose of CBU is to ensure stability of the local currency. CBU also establishes the rules for currency regulation and currency control, controls monetary policy,

regulates settlements between business entities and activities of local commercial banks, manages official foreign exchange reserves, and licenses banking and credit activities in Uzbekistan. CBU reports to the Senate of Oliy Majlis.

Commercial banks in Uzbekistan are usually established in the form of a joint stock company and can be split into three categories:

- banks with different levels of state ownership (the National Bank for Foreign Economic Activity, Uzpromstroybank, Agrobank, Halq Bank, Asaka Bank, Qishloqqurilishbank, Ipoteka Bank and Microkreditbank). This group accounts for more than 70% of the Uzbekistan banking system in terms of capital;
- private banks (Asia Alliance Bank, Trast Bank, Ipak Yoli Bank, Hamkorbank and others);
- commercial banks with foreign investment (Korean Development Bank of Uzbekistan, Savdogarbank and the Uzbekistan-Turkish Bank).

At present, there are 29 commercial banks operating in Uzbekistan with licences to perform all types of banking transactions, including international transactions in foreign currencies.

Stability of legislation

The Law on Guarantees and Protective Measures for the Rights of Foreign Investors protects against adverse changes in investment, tax and customs law within 10 years, starting from the date of registration of the legal entity. If tax law is adversely amended during that period, investors and investment targets are entitled to apply the more favourable tax conditions, including VAT, for 10 years starting from their incorporation date, if total investment amounts to more than US$ 5 million.

National treatment

The Law on Guarantees and Protective Measures for the Rights of Foreign Investors provides national treatment and non-discrimination guarantees for foreign investors.

Generally, Uzbekistan does not restrict investment in any sector; however, certain restrictions do exist on the foreign ownership of land and real estate.

In practice, access to markets, credit and other business operations is often impeded by the license and other regulatory requirements.

Nationalisation/expropriation

The current legal framework protects foreign investment against nationalisation and expropriation. Direct expropriation should be in the public interest and non-discriminatory and coupled with “prompt, adequate and effective” compensation, including lost profit. Any compensation made should be at market value with interest and denominated in freely convertible currency, although no procedures and instruments exist to ensure fair compensation.

Repatriation of profit

Foreign investors are entitled to repatriate profit, whether it be in the form of dividends, interest or other income.

Settlement of disputes

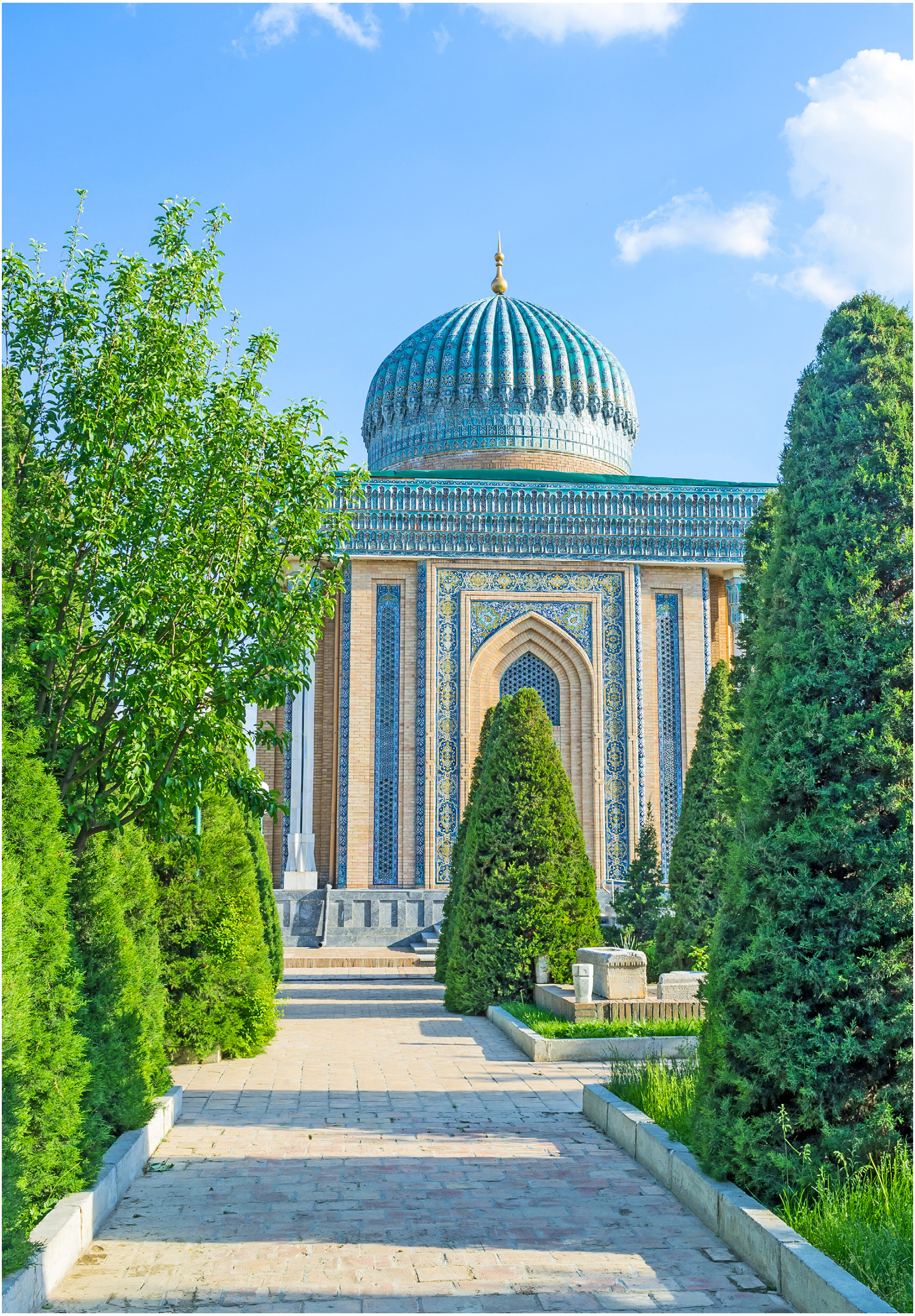
Under the Law on Guarantees and Protective Measures for the Rights of Foreign Investors, the parties involved in the investment dispute, by mutual agreement, may determine the body that is considering such a dispute, as well as the country of arbitration of the investment dispute.

The law also allows foreign investors involved in disputes with the State free access to international arbitration at the International Centre for Settlement of Investment Disputes or an arbitration tribunal established under arbitration procedures of the United Nations Commission for International Trade Law.

Exchange controls

Under the current currency control regulations in Uzbekistan, banks provide information to the state tax authorities regarding foreign exchange transactions conducted by their customers in the following cases:

- money was transferred for the import of goods (works, services) to non-residents in the states or territories providing preferential tax treatment and (or) not providing for the disclosure and provision of information during financial transactions (offshore zones);
- payment to non-resident counterparties for non-fulfillment of obligations and non-compliance with the delivery or payment terms stipulated by the export-import contracts;
- payment on import contracts for the performance of work or the provision of services, royalties, and the transfer of dividends or repatriation of profits to foreign founders;
- payment to non-residents for the sale by them of shares, shares in the charter capital of legal entities, residents of the Republic of Uzbekistan, and real estate located in the territory of the Republic of Uzbekistan;
- payment by a resident under a loan agreement to a non-resident (with the exception of loans issued by international financial institutions and foreign banks);
- transfer of funds abroad made by an individual - a resident of the Republic of Uzbekistan to the accounts of individuals, if the amount of the transfer during one calendar year exceeds the equivalent of 10 thousand US dollars;
- the receipt of funds from abroad on the accounts of an individual, a resident of the Republic of Uzbekistan, from a foreign legal entity.



Types of business presence

General

The majority of businesses in Uzbekistan are organised as limited liability companies, open and closed joint stock companies, partnerships, sole proprietorships, and representative offices of foreign companies. Companies may limit their presence to a permanent establishment (not a legal form and only for tax purposes). The most common types of business presence in Uzbekistan for foreign companies are:

- limited liability companies;
- joint stock companies;
- representative offices;
- permanent establishments.

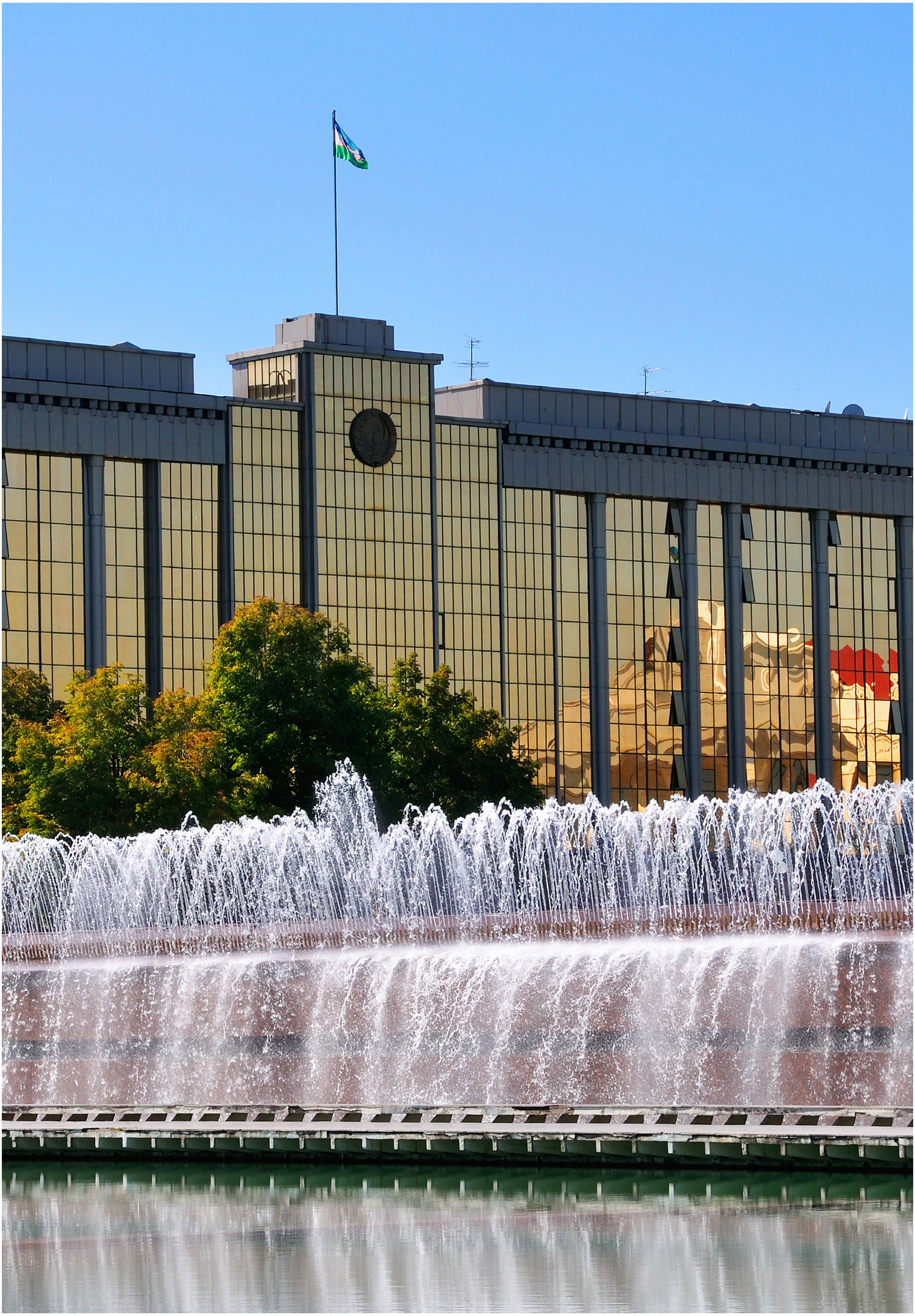
Limited liability companies

The most popular company type in Uzbekistan is the limited liability company (LLC). Recent legislation repealed the minimum capital requirement for an LLC. Participants in an LLC are not liable for its obligations and bear the risk of losses associated with the activities of the company up to the limit of the value of their contributions.

The main features of an LLC are as follows:

- it may engage in any activity not prohibited by domestic law and, accordingly, may obtain a license to do so when required;
- participants' liability is limited to their contribution to the company;
- it does not issue shares; instead participants contribute to charter capital. Participants may contribute by providing assets;
- it is managed through meetings of participants;
- participants elect an executive body (sole or collective);
- participants are entitled to leave the company and receive their share of net assets without the consent of other participants;
- participants enjoy pre-emptive rights to acquire fellow participants' contributions;
- an LLC with one participant may not act as the sole participant of another LLC;
- the number of participants may not exceed 50.

A foreign company may apply for the status of "Enterprise with Foreign Investment" and benefit from additional tax privileges if charter capital exceeds 400 million Uzbek soums and more than 30% of the company belongs to a foreign company or individual. However, Presidential decree lowered the percentage of the foreign ownership to 15%. This change has not been introduced to the law and is not in force until the moment the law is changed.



Joint stock companies

As in the case with LLC, the recent legislation repealed the minimum capital requirement for a joint stock company (JSC).

The latest wording of the Joint Stock Companies Law has removed the terms open and closed joint stock companies. Joint stock companies may have an unlimited number of shareholders. With its elaborate disclosure requirements, the JSC is the only form of legal entity whose shares may be openly traded.

The main features of a JSC are:

- it is entitled to engage in any type of activity not prohibited by domestic law and, accordingly, may obtain a license to do so when required;
- it is governed by shareholders through shareholder meetings, which must be held at least once a year;
- one of the responsibilities of shareholder meetings is to elect an executive body (sole or collective).

Representative offices

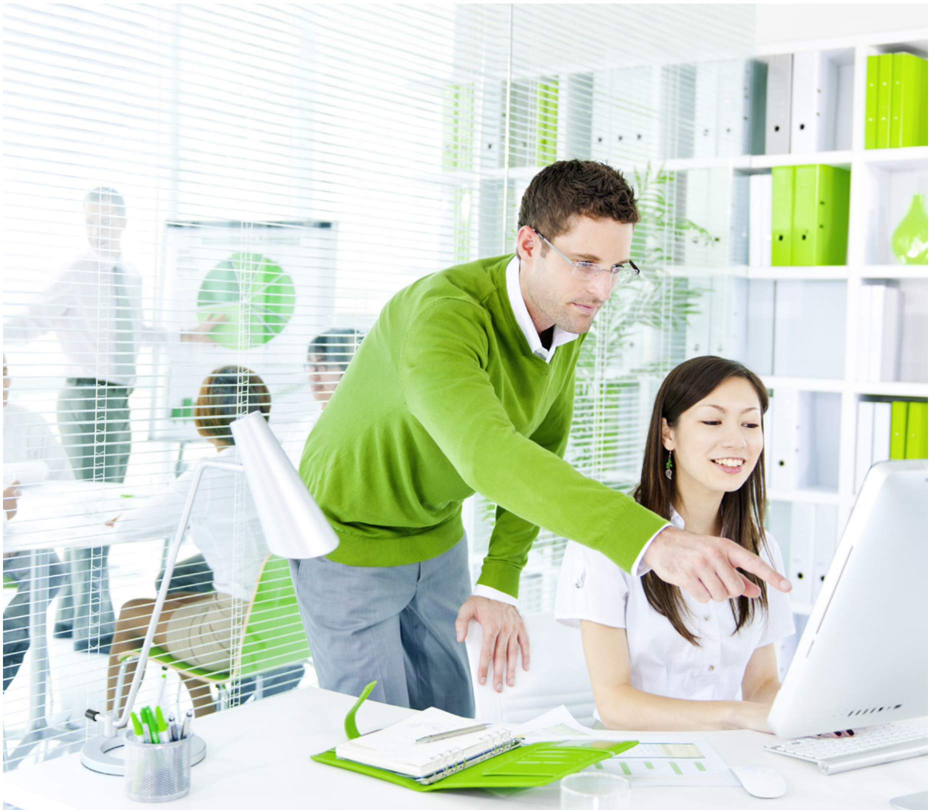
A foreign company may set up a representative office in Uzbekistan to represent its interests there.

Representative offices are not recognised as separate legal entities and may be established for representative purposes only (for example, marketing and information gathering) and may not carry out business activity. The State Committee on Investments of the Republic of Uzbekistan is responsible for registering representative offices.

Permanent establishments

Many foreign companies are involved in projects to upgrade, reconstruct or build facilities in Uzbekistan, which under domestic legislation are recognized as those foreign companies' Permanent Establishments for taxation purposes.

The term "Permanent Establishment" in Uzbekistan is recognized as any place through which a non-resident carries out business in Uzbekistan, including activities performed through an authorized person. For instance, the term includes:



- business activities lasting more than 183 calendar days during any successive twelve-month period;
- any place of activity connected with the extraction of natural resources such as mines, oil and gas wells or quarries;
- any place associated with activities (including control or supervisory) on oil or gas pipelines; exploration and (or) exploitation of natural resources; installation, assembly, commissioning, start-up and (or) maintenance of equipment;
- construction, assembly or installation project sites, and work progress monitoring services at these sites;
- any place where activities related to the operation of slot machines (including consoles), computer networks and communication channels, amusements, transport or other infrastructure activities are performed;
- any activities performed under a contract between a non-resident and Uzbek legal entity, under which the Uzbek legal entity represents non-resident's interests in Uzbekistan, including acting on behalf of the non-resident, and regularly concluding contracts on behalf of the non-resident in Uzbekistan;
- any place where non-resident carries activities related to the production, assembly, packaging or sale of goods.

The term "permanent establishment" is used solely for non-resident's tax registration and has no legal status.

Tax law differentiates between registration and further tax payment and compliance obligations. For example, based on special government resolutions, companies participating in upgrade or renovation projects are entitled to tax and customs concessions. However, this does not exempt non-resident companies from registering with tax authorities when their activities fall under the definition of "permanent establishment". Tax law stipulates significant financial penalties affecting overall project viability if registration deadlines are missed.

Employment regulations

General

The Labour Code, adopted on 21 December 1995, applies to all employment relations in Uzbekistan and is binding for all employers and employees, including Uzbekistan nationals, foreign nationals, stateless persons and employees of foreign international organisations and legal entities. The Government has developed the draft of the new Labour Code.

Employment agreements

Employment relations are formalised in an employment agreement between employers and employees.

Employment agreements should contain specific provisions found in the Labour Code.

Employment agreements may be in place for either an indefinite or fixed term. Indefinite term employment agreements are the default option under the Labour Code while fixed-term agreements may only be concluded if certain legislative requirements are met. Employees are entitled to enter into employment agreements with several employers simultaneously.

The Labour Code also covers the termination of employment agreements. Employees can terminate their employment at any time by giving two weeks' prior written notice to their employer.

Employees should be notified regarding the termination of their employment agreement at least two months in advance when their employment is terminated due the change in the nature of production and services provided by the company, change of ownership or due to the liquidation of the company or employee reaching the retirement age.

Upon termination of the employment agreement due to other reasons, the employee should be notified at least two weeks in advance.

The employee will be compensated corresponding to the length of the notice period.

Employment visas and permits

The employment of foreign nationals in Uzbekistan is governed by immigration and labour law.

An entity of a foreign company in Uzbekistan can only employ foreign nationals if:

- The employer has obtained a permit to hire foreign workers;
- The employer has obtained an individual work permit for the foreign national.
- A simplified procedure for attraction of foreign labor in respect of highly qualified and qualified foreign specialists is adopted since December 1, 2018.
- Bilateral visa-free system is established with: Kyrgyzstan (up to 60 days), Tadjikistan (up to 30 days), Azerbaijan, Armenia, Kazakhstan, Georgia, Moldova, Russia and Ukraine.
- Visa-free entry up to 30 days is introduced for residents of 84 countries, including Canada, France, Germany, the United Kingdom and Japan.
- Residents of 77 countries, such as the USA, China, South Africa, India, are subject to a simplified procedure for entry via electronic visa.
- "Investment visa" is introduced for investors and their family members for a period of three years.
- Under the simplified procedure the founders (investors) of enterprises with foreign investments who have invested at least 3 million USD may apply for a residence permit.

Taxation

General

Uzbekistan adopts continental legal system in which Parliament is the sole authority authorized to establish laws. There is no court precedent doctrine in Uzbekistan and, therefore, court decisions tend to be regarded as recommendations only.

Uzbekistan Tax Code entered into force from 1 January 2008 in an attempt to develop a fairer tax system, ease the tax burden on businesses, simplify tax procedures, encourage saving and investment and promote economic development in the country.

Under the current tax legislation, Uzbekistan-resident companies, e.g. LLC may choose to apply for simplified or general taxation regimes, depending on the scale of their business. Legal entities applying simplified taxation regime pay unified tax payment (out of revenue), which substitutes corporate income tax and VAT.

General taxation system provides for the payment of all taxes and obligatory payments effective in Uzbekistan.

Main taxes applicable to investors' activity are:

- Corporate Income Tax;
- Personal Income Tax;
- Value Added Tax;
- Excise duties;
- Property tax;
- Unified Social Payment;
- Land tax;
- Tax withheld at the source of payment from non-residents' income (WHT);
- Other duties and payments.

Corporate Income Tax and Unified Tax Payment

Residence — an entity is resident in Uzbekistan if it has completed state registration procedures.

Basis — Resident companies are subject to corporate income tax on their local and worldwide trading income and other taxable income such as interest, royalties and rental income. Corporate income tax is also imposed on the Uzbekistan-source income of non-resident companies operating through a permanent establishment. Non-commercial organizations are generally exempt from corporate income tax, except on income derived from entrepreneurial activities.

Micro-firms and small businesses with an annual turnover less than UZS 1 bn. (approximately USD 105,000) may choose to apply simplified taxation regime. Gross revenue of companies under simplified regime is subject to unified tax payment, which replaces corporate income tax and VAT. However, companies under simplified taxation regime may still opt to pay VAT voluntarily.

Companies, engaged in mining operations and related processing are subject to subsoil use tax and excess profits tax (for specified items). Mining companies also pay "subscription bonus" — a one-off fixed payment granting rights for exploration and extraction activity and a "commercial discovery bonus," a one-off payment, which is payable for each commercial discovery of mineral resources.

Taxable income — Taxable income comprises business and investment income and is calculated as the difference between aggregate income and deductible expenses. In general, expenses incurred wholly and exclusively for business purposes are deductible. For other income sources, expenses may be deducted provided they are incurred wholly and exclusively in the generation of income.

Taxation of dividends and interest — Dividends and interest received are not treated as income as they are already taxed at source of payment. Dividends and interest paid to residents are subject to 5% WHT. Corporate Income Tax is not imposed on income derived from state securities.

Capital gains — Capital gains are treated as ordinary income and are subject to standard corporate income tax rate.

Losses — Losses (which should be based on financial year results) may be carried forward for up to five years (except for losses incurred during the period when the taxpayer was exempt from corporate income tax). However, total losses carried over in each subsequent year may not exceed 50% of taxable income for the current tax period. Losses may not be carried back.

Rate — Current Corporate Income Tax rate is set at 12%, with a 20% rate applicable to banks and mobile operators. However, beginning from January 1, 2020 the rate will be increased and set at 15%.

Unified tax payment rate is fixed at 4%. However, the rate may differ depending on the type of company's activity and its location. For example, companies with income derived from the rent of property are subject to unified tax payment at 30%. Different rates have been set for trading and catering companies. Unified tax payment rate is lower for companies located in remote regions.

Surtax — No.

Alternative minimum tax — Individual entrepreneurs with an annual turnover less than UZS 100 mln are subject to alternative minimum tax at rates ranging between 0.25 and 4 times the monthly minimum wage amount (MWA), depending on the type of activities. When the annual turnover is between UZS 100 mln and UZS 1 bln individual entrepreneurs become subject to Unified Tax payment. Individual entrepreneurs with an annual turnover above 1 bln pay standard taxes.

Foreign tax credits — Foreign profit tax paid by Uzbekistan resident company may be credited against corporate income tax in accordance with an applicable tax treaty. Payment notification, a certificate from foreign tax authorities or other document confirming payment of foreign profit tax is regarded as acceptable proof to receive the credit.

Holding company regime — No.

Incentives — Legal entities engaged in specific activities may be granted a temporary exemption from corporate income tax and unified tax payments. Additionally, taxable base for CIT may be reduced for up to 30% by the expenses on modernization, technological and technical re-equipment and expansion of production facilities by new construction, reconstruction of buildings and facilities used for production activity as well as for the repayment of loans and finance lease payments. Such companies may be eligible to reduce their taxable base by deducting expenses incurred within 5 years, and in terms to new technological equipment- within 5 years from the date of commissioning.

Withholding tax (WHT)

Uzbek source income of a non-resident legal entity (without a PE) doing business in or with Uzbekistan is subject to WHT at the source of payment without any deductions.

Tax agents

Any tax-registered entity that pays Uzbekistan source income to a foreign company is potentially a tax agent, who is responsible to withhold tax from the gross Uzbekistan source income of a non-resident (without deductions).

Taxable income

Taxable income includes but is not limited to:

- Dividends and interest;
- Income from the sale of property located in Uzbekistan: shares, stocks, real estate. Taxable income is defined as the surplus between the sale price and the original purchase price;
- Income from the sale of goods on the territory of Uzbekistan;
- Royalty;
- Lease fees;
- Insurance premiums;
- Telecommunication and freight fees;
- Fees for services rendered in Uzbekistan, etc.

Dividends — Dividends paid to a non-resident are subject to 10% WHT.

Interest — Interest paid to a non-resident is subject to WHT at 10%.

Royalties — Royalties and similar (e.g. lease payments) payments to non-residents are taxed at 20%.

Income from international transportation services and telecommunication — WHT rate is 6%.

Other income — is subject to WHT at 20%

WHT rate applicable to non-residents may be reduced under a tax treaty.

Branch remittance tax — None.

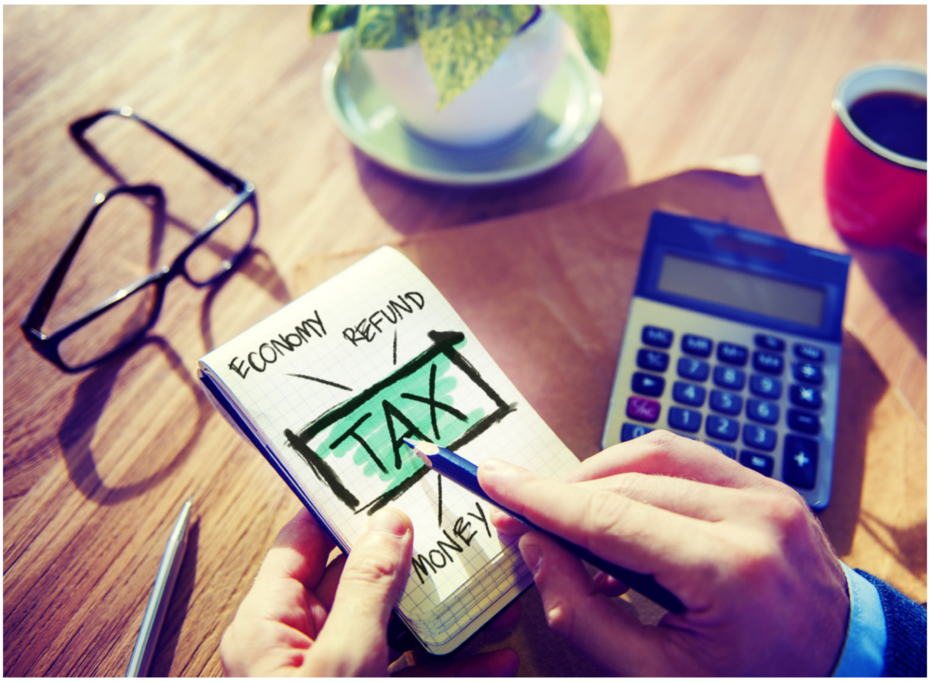
Elimination of double taxation — To claim for double tax treaty benefits non-resident entities need to follow certain DTT clearance procedures. They need to provide tax residence certificates confirmed by the competent authority in home country to the Uzbek entity paying income. DTT benefits do not apply to all types of payments.

Property tax — 2% property tax is levied on immovable property owned by a legal entity. Equipment not installed in due time or construction in progress not duly finished are subject to Property tax at the double rate.

Land Tax — Land tax is payable by legal entities (including non-resident legal entities) owning land plots or having the right to use land. Legal entities become liable to Land Tax beginning from the next month from the date they acquired the right to own or use land plots. The tax rate varies depending on the location and soil quality of the land

Payroll tax — Payroll-related taxes include Personal Income Tax, Contributions to Individual Pension Accounts and Unified Social Payment. The calculation and payment of these taxes are the responsibility of the employer.

Personal Income Tax — For local employees a flat 12% tax rate of PIT applies. PIT rates for foreign personnel will depend on tax residency status. PIT rate for non-resident foreign specialist is 20%. For a resident foreign specialist a rate of 12% applies.



Contributions to Individual Pension Accounts — these contributions apply only to local employees or foreign specialists, who voluntarily wish to participate in Uzbek Pension Scheme. Tax rate is 0.1% of employment income amount.

Unified Social Payment — is a special payment made by an employer to the Specialized State Fund. This payment is employer's contribution and is not withheld from the employees' salary. Unified Tax Payment tax rate is 12% of an employee's gross salary.

Stamp duty — Stamp duty (state duty) is an obligatory payment charged for performance of legal actions and/or issuance of legal documents. The following actions, among others, are subject to stamp duties: filing claims, performing notary actions, civil registration, state registration of a legal entity and sole entrepreneur, obtaining special licenses or permits to carry out certain activities.

Transfer tax — No.

Value added tax

Taxable transactions — VAT is levied on the supply of goods and services and import of goods.

Rates — Beginning from October 1 standard VAT rate was decreased from 20% to 15%. Certain services, such as passenger transportation (excluding taxi services); medical, educational, tourist and excursion services; and financial and insurance services are not subject to VAT. Exemptions are in place for certain equipment and items imported under individual agreements with the government. Goods exported for hard currency; the processing of certain goods for export and international transportation services are subject to zero-rated VAT.

Registration — Companies under simplified taxation regime generally do not pay VAT, although they can opt to register and pay VAT voluntarily. Other legal entities should register as VAT payers during state registration.

Filing and payment — The reporting period for VAT is the calendar year. Legal entities report and pay VAT monthly before the 25th day of the month following the reporting period.

Customs duties

Customs duties

Customs duties are governed by the Customs Code and the Customs Tariff Law. Import customs duties normally expressed as a percentage of the value of imported goods are known as "ad valorem" duties. Duties expressed as a set monetary amount per unit or kilogram are called "specific" duties. They may also be expressed as the greater of the two, or as "combined" duties.

Several "ad valorem" import duty rates currently apply in Uzbekistan. In the majority of cases, they range from 0%, 5%, 10%, up to 70%. Certain goods are exempt from import customs duties.

Import duty rates depend on the exact nature of the goods being imported. Goods are classified according to the International Harmonized System.

Basic rates are not constant and may vary depending on the country of origin, type of goods and, occasionally, other factors.

Import value added tax

15% VAT is levied on the total customs value of imports, which includes customs duties.

Customs clearance fees

A customs clearance fee of 0.2% is levied on customs value as reflected in customs declarations.

Customs value

Customs value is defined as the invoice value, increased by:

- actual transportation, loading, unloading and insurance costs incurred up until the goods cross the Uzbekistan border;
- any commission and/or broker fees paid;
- fees for intellectual property rights to the goods, which must be paid as a condition for their import.

Most favored nations

Uzbekistan is a member of the CIS and has entered into a number of intergovernmental tariff concession agreements. China, USA and a number of other countries have most favoured nation status in Uzbekistan.

Reduced import duties may apply to goods manufactured in countries that have entered into free trade agreements with Uzbekistan (e.g. Azerbaijan, Armenia, Belarus, Kazakhstan, Moldova, Tajikistan, Turkmenistan, Kyrgyzstan, and Ukraine). Tariff concessions will be granted if "direct purchase and shipment" rules are followed.

Export customs duties

Export customs duties are introduced seasonally, and are currently levied on some strategic products.

Customs regimes

There are a number of customs regimes providing for either full or partial exemption from import duties and taxes. For example, full relief may be granted on goods that are imported into Uzbekistan for further processing and subsequent export.

Goods may also be imported under “temporary import” regulations, which provide for either a full or a partial exemption from import duties and VAT for two years. Once that period has expired, the goods must either be exported or placed under a different customs regime.

Customs free zone regulations may be applied in certain Free Economic Zones (FEZ), resulting in exemptions from import duties and taxes on imported raw materials, components, etc. until the processed goods are removed from the FEZ.

Anti-avoidance rules

Transfer pricing — Transfer pricing concept in the current Uzbek Tax Code is limited to a few paragraphs stating that tax authorities may adjust prices used by related parties if these prices differ from the prices that would have been used in transactions with independent parties. The government of Uzbekistan appears willing to develop transfer pricing legislation and plans to integrate transfer pricing rules into a new Tax Code to take effect as of January 1, 2020.The rules shall focus on the transfer pricing transactions between related parties and shall include the arm’s-length concept.

Thin capitalization — Current Uzbek legislation does not provide for any thin capitalization rules. Thin capitalization rules are planned to be introduced in the new Tax Code.

Controlled foreign companies — Current Tax Code does not provide any rules for controlled foreign companies. However, the situation should change with the introduction of the New Tax Code as of January 1, 2020.

Disclosure requirements — National Accounting Standards and legislation stipulate specific disclosure rules for Joint-Stock companies.

Administration and compliance

Source of tax legislation: Tax Code, Presidential and Cabinet of Ministers Decrees.

Tax treaties: Uzbekistan has entered into 50 tax treaties.

Tax authorities: State Tax Committee, State Customs Committee and the Ministry of Finance.

Tax year — The calendar year.

Consolidated returns — Consolidated returns are not permitted, generally speaking each company should file its own return. Banks are required to file consolidated returns. However, bank branches should submit separate returns.

Filing requirements — Resident companies should file quarterly corporate income tax returns by the 25th of the month following the accounting quarter, and an annual return on/before 15 February of the year following the reporting year.

Non-residents with a PE in Uzbekistan should file annual returns by 25 March of the year following the accounting year. If activities cease before the end of the calendar year, all relevant documentation should be filed within one month of the cessation date.

Penalties and interest

Interest is charged on late tax payments at the rate of 0.045% (if assessment of interest is done by the state tax authorities as a result of a tax audit — the late payment interest is charged at 0.06%) of the outstanding tax liability per each day of delay but up to 100% of the outstanding tax liability.

Penalties for non-compliance with tax regulations applied in relation to legal entities include:

1. The penalty for non-registration or late registration is:

- if the activities are carried out for less than 30 (thirty) days without registration the penalty is 50 times the minimum wage, but no less than 10% of the net revenue received from such activities;
- if the activities are carried out for more than 30 (thirty) days without registration the penalty is 100 times the minimum wage, but no less than 50% of net revenue received from such activities.

2. The penalty for concealing revenue is 20% of the concealed revenue.

There are also administrative fines that may be imposed on company officers for tax violations, as well as, in certain cases, criminal proceedings.

Rulings — No.

Personal taxation

Uzbekistan tax residents are taxed on their worldwide income, whereas tax non-residents are taxed only on their Uzbekistan-source income that is non-taxable at source.

Residence — A foreign individual is considered an Uzbekistan tax resident if he/she permanently resides in Uzbekistan or is present in the country for more than 183 calendar days (including both arrival and departure days) in any consecutive 12-month period ending in the current tax year.

Filing status — Joint filing is not permitted; spouses are taxed separately. Individuals required to file a declaration on personal income should do so by 1 April of the year following the tax year. Total tax due based on a tax return should be paid by 1 June of the following tax year.

Taxable income — Taxable income includes wages and salaries (including work bonuses, one-off bonuses, annual additional holiday payments and others); benefits such as training, certain childcare services, catering and travel tickets or compensation for them; and "other income" (e.g. awards, prizes, cash awards from competitions, contests and others).

Healthcare benefits, inheritance, insurance premiums and repayments are all non-taxable.

Capital gains — Income derived by an individual from the sale of private property is taxable income.

Deductions and allowances — No.

Rates — Flat rate of 12 % for residents, and 20% for non-residents.

Elimination of double taxation — Uzbekistan has entered into a number of bilateral double tax treaties, which, under certain conditions, enable individuals to avoid taxation of the same income under the tax systems of two countries by applying tax exemptions in one of the countries or reducing tax rates.

Moreover, according to tax law, personal income tax paid in foreign countries may be credited against Uzbekistan PIT, provided that documents confirming taxes paid in a foreign country are shown to the local tax authorities.

Tax paid in a foreign country should not exceed tax calculated on income in accordance with Uzbekistan tax law.

Other taxes on individuals

Capital duty — No.

Stamp duty — Stamp duty is levied on court claims, notary acts, state registration of legal entities and licenses.

Capital acquisitions tax — No.

Property tax — The property tax is imposed on buildings and apartments of individuals. The rates vary from 0.2% to 0.35% applied to the cadaster value of the property.

Land tax is levied on individuals owning, possessing, renting or otherwise using land. Tax rates are fixed, depending on the location of the land.

Inheritance/estate tax — No.

Net wealth/net worth tax — No.

Administration and compliance

Tax year — Calendar year.

Filing and payment — Employment income and passive income are taxed at source. For other types of income, individuals should file personal income returns, with income assessed on the basis of that return. The filing date for "declared income" is 1 April and payment is due by 1 June of the year following the calendar year.

Tax administration

Overview

The Tax Code defines the following fundamental principles behind taxation in Uzbekistan:

- tax law in Uzbekistan is based on principles of integrity, legality, obligation, determinacy and fairness of taxation and tax system;
- all ambiguities and contradictions in Uzbekistan tax law will be interpreted in favor of the taxpayer;
- tax laws increasing rates or introducing new taxes or sanctions on taxpayers may not be applied retroactively;
- presumption is that taxpayers act or fail to act within the law and are basically innocent of any infringement, placing the burden of proof on the tax authorities;
- tax authorities are required to maintain the confidentiality of taxpayer-related information.

Tax audits

According to the Tax Code, the tax authorities are entitled to carry out two main types of tax audits with regard to both individual and corporate taxpayers, namely desk tax audits and field tax audits.

Desk tax audits

Desk tax audits are generally carried out by tax authorities in their own offices based on tax returns, financial statements and other relevant documentation filed by taxpayers.

Field tax audits

Field tax audits are carried out at a taxpayer's office or business premises at the initiative of the head of the auditing tax body.

A field tax audit may not last more than 10 calendar days, or 30 calendar days for "major taxpayers".

Limitations on tax audits

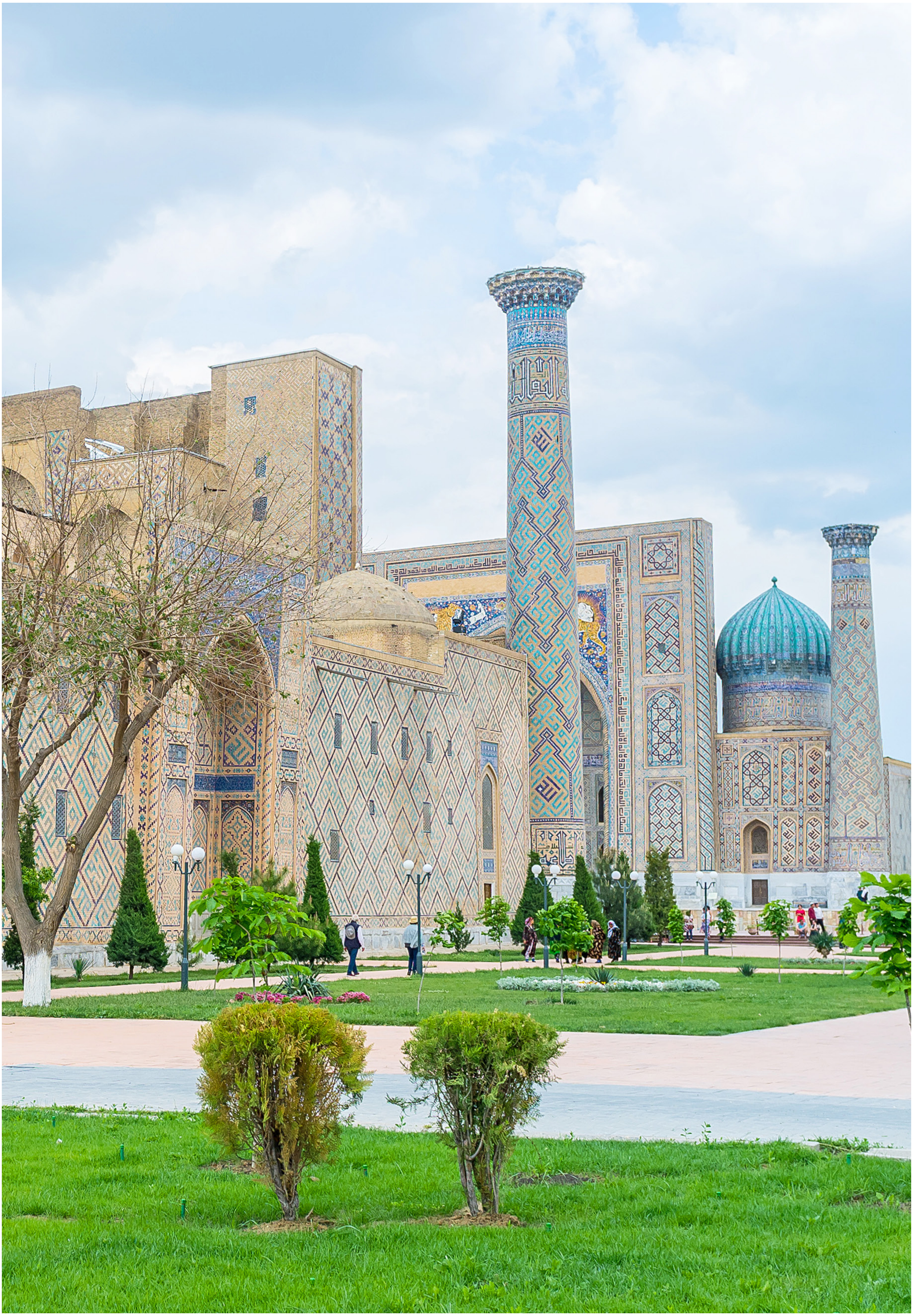
The Tax Code establishes certain provisions limiting the powers of tax authorities in relation to tax audits. Field tax audits may be carried out only with respect to the three-year period ending on the audit start date. However, the statute of limitation for tax violations is five years from the date a violation takes place.

Tax authorities cannot conduct more than one field tax audit within a 12-month period.

Fines and late payment interest

The Tax Code stipulates the following sanctions for tax violations:

- a late payment of taxes is subject to 0.045% interest for each day payment remains in arrears. Total interest may not exceed total unpaid tax;
- evasion of tax registration, i.e. operating without registering with the tax authorities, is subject to a fine of up to 50% of net revenue for the period.



Free economic zones

The law on free economic zones[1], passed in 1996, envisaged the establishment of free trade zones, including consigned warehouses, customs-free zones, and zones for the processing, packing, sorting, and storage of goods. For businesses that invest in these zones the government promised various incentives, including tax holidays; a special customs, currency, and tax regime; a simplified procedure for entering, staying, and leaving; and provisions by which non-residents can receive labor licenses.

In October 2016 the President signed a Decree (hereinafter — the "Presidential Decree 2016") unified the legal and economic status of these zones and renamed them as Free Economic Zones (FEZ). The decree identifies the following directions for further development of FEZs[2]:

- establishing unified and most favorable conditions for foreign investors;
- attraction of Foreign direct investments (FDI) to create modern production with high level of local sourcing, ensuring deep processing of local mineral resources and production of competitive products with high added value, promotion of industrial specialization of free economic zones and development of industrial cooperation;
- gradual transition to a "all services in one place" principle in all free economic zones that provides for rendering all types of public services, including licensing procedures;
- development of production, engineering-communication, transport and social infrastructure, as well as development of modern infrastructure to provide high-quality logistics services;
- organization of training opportunities in higher and secondary special professional educational institutions with regard to current and future needs of FEZs for a skilled labor force.

List of Free Economic Zones:

- Navoi FEZ;
- Angren FEZ;
- Jizzakh FEZ;
- Urgut FEZ;
- Gijduvan FEZ;
- Kokand FEZ;
- Namangan FEZ;
- Hazarasp FEZ;
- Termez FEZ;
- Nukus-pharm FEZ;
- Zomin-pharm FEZ;
- Kosonsoy-pharm FEZ;
- Sirdaryo-pharm FEZ;
- Boysun-pharm FEZ;
- Bustonlik FEZ;
- Parkent-pharm FEZ;
- Andijon-pharm FEZ;
- Charvak FTZ;
- Balik FEZ;
- Sirdaryo FEZ;
- Buhoro-agro FEZ.

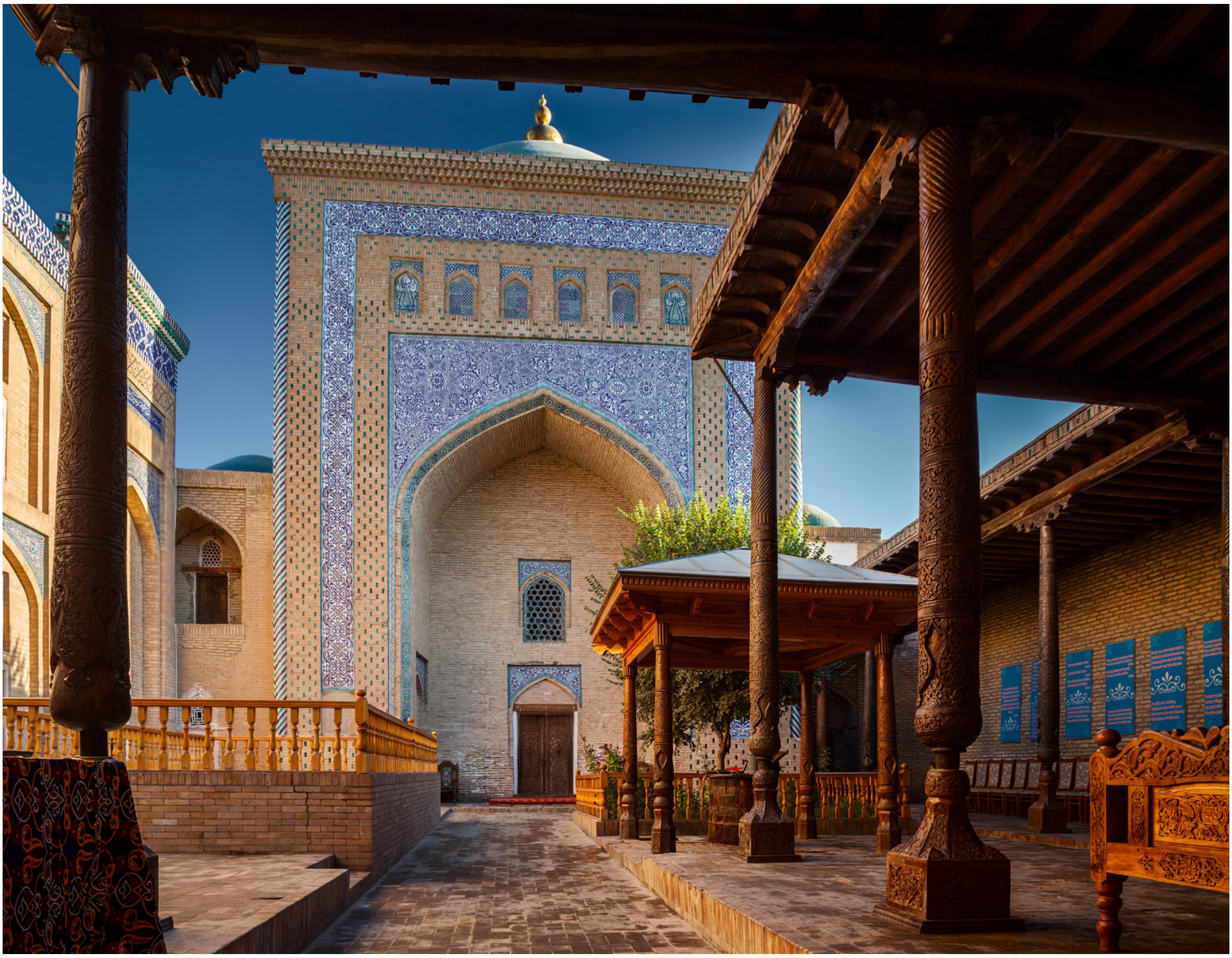
In accordance with the Presidential Decree, enterprises-participants of FEZs are exempt from payment of:

- land tax, income tax, property tax for legal entities and unified tax payment for microfirms and small enterprises;
- customs payments (except for customs clearance fees) for equipment, raw materials and components imported for their own production needs;
- customs payments (except for customs clearance fees) for construction materials not produced in the Republic and imported within the framework of projects, according to approved lists.

Benefits in FEZs are granted for a period from 3 to 10 years depending on the amount of investments made, including the equivalent (USD):

- from 300 thousand to 3 million dollars — for a period of 3 years;
- from 3 million to 5 million dollars — for a period of 5 years;
- from 5 million to 10 million dollars — for a period of 7 years;
- from 10 million dollars and above — for a period of 10 years, with application of the profit tax rate and the Unified tax payment in the amount of 50% below the current rates for the next 5 years.

[1]The Law of the Republic of Uzbekistan "On Free Economic Zones" №220-I dated 25.04.1996
[2]The Decree of the President of Uzbekistan "On additional measures on activation and extension of activities of Special Economic Zones" №УП-4853 dated 26.10.2016



The enterprises participating in FEZ are exempt from paying customs duties (except for customs clearance fees) on imported raw materials, materials and components used in production of goods for export.

Special incentives for production companies attracting direct private foreign investments

Presidential Decree № УП-3594 dated 11 April 2005 provides for tax concessions to production companies in the chemical and petro-chemical, consumer goods, food, alternative energy and other industries which attract direct private foreign investments.

At that, qualifying companies are exempt from:

- corporate profits tax;
- property tax for legal entities;
- unified tax payment.

Tax concessions in question are awarded based on investment amounts and apply for between 3 and 7 years, provided:

- the qualifying companies are located in all towns and rural areas of the country, except for Tashkent and Tashkent Region;
- foreign investors make direct private investments without state guarantees;
- foreign participants' share in the charter capital of the qualifying Uzbek entity should be at least 33% (at least 15% — for JSC);
- foreign investments are made in freely convertible currency or in the form of a new and modern production equipment;
- at least 50% of income generated as a result of application of the concessions is reinvested for further company development.

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