

Tax Alert

This tax alert discusses the following legislative changes for 2023:

- **Value added tax**
The tax rate has been reduced from 15% to 12%. The period of desktop audits to validate VAT refund amounts has been reduced from 60 to 30 days
- **Corporate income tax**
Profit from the export of goods or services has been taxed at 0% from 1 November 2022 irrespective of the share of export income in aggregate income
- **Excise tax**
Excise tax rates on the import and production of alcohol and tobacco products have been changed
- **Personal income tax and social tax**
The deadline for submitting annual tax returns has been changed
- **Corporate property tax**
The base tax rate has been increased from 0.5% to 0.6%
- **Property tax for individuals**
The property tax cap for immovable non-residential property belonging to individuals has been cancelled so as to create equal conditions for individuals and legal entities
- **Land tax**
In 2023, the land tax amount should be no more than 1.3 times higher than the amount of tax for the previous year
- **Water tax**
Water tax has been introduced for individuals holding agricultural land for farms
- **Subsoil tax**
The tax rate on iron has been reduced
- **Turnover tax**
Turnover tax rates have been unified through the establishment of a single 4% rate for all categories of taxpayers

The following changes to the taxation of legal entities and individuals have been in place since 2023 on the basis of Law of the Republic of Uzbekistan *On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of Main Tax and Budget Policy for 2023* No.3PY-812 dated 30 December 2022:

Value added tax

The tax rate was reduced to 12% from 1 January 2023.

The period of desktop audits to validate VAT refund amounts has been reduced from 60 to 30 days.

Benefits have been cancelled from 1 January 2023 for:

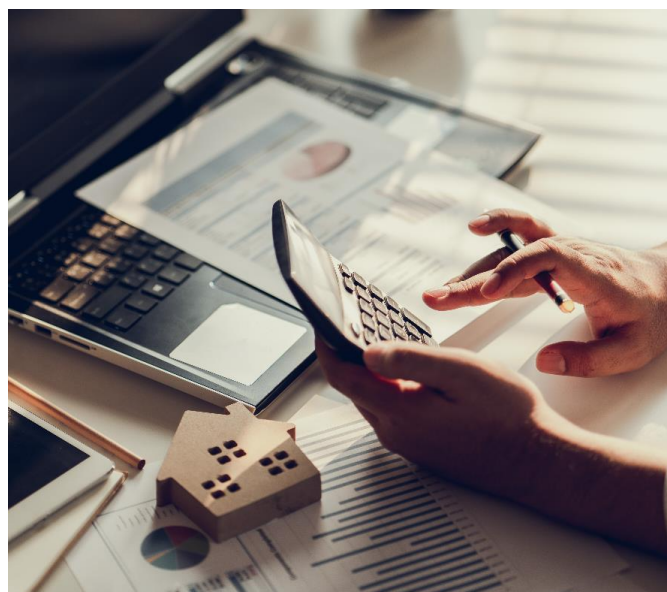
- geological services provided within the framework of annual state programs;
- turnover on the sale of postage stamps, marked postcards and envelopes;
- turnover from the realisation of budget-funded research and innovation work.

A procedure has been introduced stipulating that any VAT paid (due) on goods (services) received that has not been offset due to the suspension of a certificate, should be adjusted (offset) both for the taxpayer and for its customer for the period certificate suspension period.

Major taxpayers are entitled to an automatic offset VAT due from the budget against import VAT. Taxpayers participating in foreign economic activity, when registering a state customs declaration, should make a note of the payment of import VAT against VAT due for refund.

Excise tax

The excise tax rate on petroleum products, as well as tobacco and alcohol products will be increased by 10% from 1 February 2023.



From 1 January 2023, for alcoholic beverages, excise tax is calculated based on the proportion of ethyl alcohol. The unit of measurement for alcoholic beverages produced is 1 litre.

The excise tax rate has increased 500% from 1 January 2023 to UZS 7,450 per 1 litre of ethyl alcohol rectified from:

- raw food materials;
- the ether aldehyde fraction and ethyl alcohol head fraction;

Excise tax on imported alcohol and tobacco products has been reduced by 5% from 1 January 2023.

Corporate income tax

From 1 November 2022, profit from the export of goods and services is taxable at 0%, of the share of export income in total income. From 1 January 2023, the 0% rate does not apply to profit received from the provision of services to Uzbekistan non-residents operating in Uzbekistan through permanent establishments starting.

The following categories of taxpayers are entitled to reduce the tax rate by 50%:

- turnover tax payers who switched to corporate income tax after 1 September 2022 – in the tax period following the year in which they transitioned to income tax, provided their annual aggregate income does not exceed UZS 10 billion in the reporting year when the reduced rate is used;
- taxpayers whose aggregate annual income has exceeded UZS 10 billion for the first time after 1 September 2022, but has not exceeded UZS 100 billion during the current and the next reporting period.

The reduced tax rate does not apply to subsoil use and excise tax payers. The reduced rate should not apply if the taxpayer is in liquidation or it has been revealed that a taxpayer has deliberately split income from the sale of goods (services) between two or more business entities to qualify for the reduced tax rate.

From 1 January 2023, if a foreign trade contract to purchase (sell) equipment stipulating installation and/or commissioning services and other similar services by a non-resident does not indicate the cost of services provided separately, then the non-resident's taxable income is determined based on the market value of the services (previously, 20% of the cost of equipment).

Given that stripping work at mineral deposits is performed for the future, it is transferred to a separate group of depreciation assets.

These expenses are deducted from total income in the form of depreciation, which should be no more than 33% of expenses accrued per year.

Non-residents operating through a permanent establishment are now eligible to apply a reduced tax rate in line with double tax treaties on dividends (subject to 10% net profit tax). If a tax treaty stipulate several reduced tax rates, the lowest tax rate will apply.

From 1 January 2023, taxpayers are entitled to provide the tax authorities with advance payment certificates by the 15th of the first month of the next quarter, based on expected profit for the current quarter.

Personal income tax and social tax

From 1 January 2023, the annual personal income tax deduction with respect to mortgages has been increased from UZS 15 million to 80 times the minimum wage (UZS 73.6 million). The requirement for the maximum mortgage amount has been abolished (previously not exceeding UZS 300 million).

Tax deductions for long-term life insurance premiums will be cancelled from 1 April 2023.

The personal income tax rate has increased by 10% for individual entrepreneurs paying a fixed tax.

Annual personal income tax and social tax returns should be filed by 15 February of the year following the reporting year.

Annual tax returns for 2022 should be filed by 15 February 2023.

The minimum lease rates for individuals have been increased by 10% on average for personal income tax purposes.

Corporate property tax

The reduced property tax rate for certain facilities (public railways, main pipelines, communication and power lines) has continued to increase gradually from 0.5% to 0.6% from 1 January 2023.

The deadlines for filing tax returns and paying taxes have been changed as follows:

- tax returns should be filed and tax paid by 1 March of the year following the reporting tax period, in the same period a final tax payment for the tax period is made, inclusive of account advance payments;
- a certificate of tax paid for the current tax period should be filed by 20 January of the current tax period;

- taxpayers of turnover tax should make advance payments by the 20th of the third month of each quarter.

Property tax for individuals

2022 tax rates have been increased by an average of 10% for the objects referred to in points 1-3 of part 1 of article 422 of the Tax Code.

Any tax calculated based on cadastral value in 2023 cannot exceed the 2022 tax amount by more than 1.3 times.

From 2023, the practice of capping the tax on the property of individuals against the previous year's amount for non-residential real estate has been cancelled.

Land tax

Basic land tax for non-agricultural land has been increased by an average of 10% from 1 January 2023.

In 2023 the reduction coefficient applied to tax rates for land occupied by individual facilities (article 429 of the Tax Code) will increase from 0.25 to 0.3.

The deadlines for filing tax returns and paying tax on agricultural land have changed from 2023:

- by 20 January of the current month — tax returns and certificates for non-taxable land plots owned by legal entities;
- by the 20th of the third month of each quarter — turnover tax due.

Water tax

Tax rates for 2022 have been increased by an average of 10% from 1 January 2023.

Changes have also been made to deadlines for:

- filing tax returns for Uzbekistan legal entities and making final tax payment for the tax period, inclusive of advance payments — by 1 March of the year following the reporting tax period;
- serving tax payment notices — by 1 March of the year following the tax period.

Agricultural enterprises have two tax payment deadlines:

- 1 October — 70% of the annual tax amount determined by the tax authorities based on the volume of water used by the enterprise in the previous tax period for irrigating agricultural land and breeding fish;
- 15 October — the remaining tax amount.

Subsoil use tax

A procedure has been introduced for precious, non-ferrous and radioactive metals, as well as rare and rare earth elements (“metals”) whereby:

- the object of taxation is the actual sales volume of mined (extracted) metals;
- the tax base is the value of the actual sales volume of mined (extracted) metals;
- the tax rate for iron is reduced from 5% to 2%.

Turnover tax

The standard turnover tax rate for all taxpayers has been set at 4% from 1 January 2023.

From 2023, taxpayers can choose voluntarily to pay a fixed amount of tax of:

- UZS 20 million per annum for taxpayers whose aggregate annual income has not exceeded UZS 500 million;
- UZS 30 million for taxpayers whose annual aggregate income is above UZS 500 million, but has not exceeded UZS 1 billion.

Fixed tax is paid in equal monthly instalments by the 15th of the month following the calendar month.

To switch to fixed tax payments, taxpayers should apply to their local tax authority no later than 10 days before the beginning of the next month. Taxpayers switching to fixed tax payments for the first time are entitled to apply to the tax authorities by 25 January 2023.

Newly created taxpayers are entitled to choose to pay a fixed tax amount when they register.

Taxpayers can reject the fixed tax mechanism from the beginning of the next tax period.

When switching to the fixed tax mechanism during the tax period, the amount of tax is determined by dividing the fixed amount by 12 and multiplying the result.

If during the tax period a taxpayer's aggregate income exceeds UZS 500 million, the tax amount is recalculated from the month the threshold was exceeded until the end of the current tax period.

Dividends paid by a payer of fixed turnover tax are not subject to corporate income tax and personal income tax.

In addition, according to Law No. 06/04-32/4304, which entered into force on 1 January 2023

From 1 April 2023, concessions for property imported to an enterprise with at least 33% foreign investment for its own production needs have been cancelled, unless otherwise stipulated by investment agreements between the foreign investor and authorised body for the state regulation of investment and investment activities before 1 January 2023.

Payers of VAT and corporate income tax with aggregate income of UZS 10 billion are now entitled to make instalment payments for up to 6 months.

At the same time, interest-free payment instalments are provided once during the calendar year.

The 0% customs duty rate for certain goods imported into Uzbekistan has been extended until 1 January 2024.

Taxes (interest and fines) paid in excess by or collected in excess from a legal entity in liquidation can be offset against other tax liabilities.

Tax benefits provided to budget organisations on income from the sale of goods (services) have been extended until 1 January 2024.

How to contact us:

If you have any questions about the information contained in this alert or any other questions about doing business in Uzbekistan, please contact us.

Tashkent

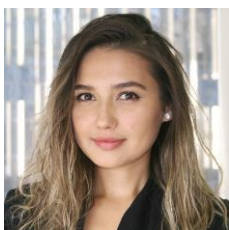
LLC Audit Organization "Deloitte and Touche"

Mustaqillik Avenue 75, 100000,

Tashkent, Republic of Uzbekistan

Tel.: +998 (78) 120 44 45/46

Fax: +998 (78) 120 44 47



Partner, Tax and Legal

Tel.: +7 (727) 258 13 40

aabdaliyeva@deloitte.kz



Ainash Alpeissova

Senior Manager, Tax and Legal

Tel.: +998(78)120 44 45 (ext 6422)

aalpeissova@deloitte.uz



Umida Zakirova

Manager, Tax and Legal

Tel.: +998 (78)120 44 45 (ext 6121)

uzakirova@deloitte.uz

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's more than 345,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities