Special Tax Alert

Key changes December-January

Review of key changes to tax law in 2017

In December, Uzbekistan made amended several pieces of tax law to be enacted as of 2018, such as:

- President Resolution No. ПП-3454 dated 29 December 2017 forecasting the main macroeconomic indicators and parameters of the national budget for 2018
- Law No. ЗРУ-454 dated 29 December 2017 amending legislative acts in connection with the adoption of core tax and budget policy for 2018
- Law No. ЗРУ-455 dated 30 December 2017 amending legislative acts to improve tax administration
- Law No. ЗРУ-456 dated 3 January 2018 amending specific legislative acts to improve the efficiency of a number of state bodies, and adopt additional measures to protect public rights and freedoms
- Law No. ЗРУ-459 dated 9 January 2018 amending specific legislative acts

Many of the changes had been anticipated since the release of the Presidential Decree form 18 July 2017 outlining essential measures to improve tax administration, increase taxes and other obligatory payments. For instance, it introduced concepts such as major taxpayers and tax monitoring. From 1 January 2018, the document provided for the introduction of a specialised automated system to analyse tax violation risks and improve the selection of entities for tax inspection. The tax authorities will be responsible for registering and monitoring production levels for liquid products.

Important Tax Code changes

General part

The changes introduce new concepts such as "taxpayer personal account" and "major taxpayers". Personal accounts govern the exchange of documentation between the taxpayer and tax authorities.

The president outlined the new "major taxpayer" concept in Decree No. УП-5116 dated 18 July 2017, delegating the tax administration of major taxpayers to Karakalpakstan, oblast and Tashkent city tax departments. The legislators have not yet detailed the exact classification criteria for major taxpayers. However, draft guidelines propose that legal entities may be recognised as major taxpayers if they meet all three of the following requirements at the end of the previous tax period (calendar year):

1) taxes and other obligatory payments accrued for the tax period are at least 400 thousand times the minimum wage (“MW”)
2) trade turnover is at least 5 million times the MW
3) total asset value is at least 5 million times the MW

The tax authorities will review the previous tax period’s tax returns to determine whether an entity meets the above criteria. The MW amount will be the one valid at the end of the previous tax period. The State Tax Committee plans to approve the list of major taxpayers annually no later than one month before the beginning of the next tax period. The tax authorities will be entitled to offset overpaid taxes against accrued fines and interest without an application from the taxpayer, notifying the taxpayer of its actions within three days.

Under article 57, taxpayers are entitled to receive overpaid taxes within 15 working days of an application to the authorised bodies. However, before a refund can be made, applications should be agreed with the tax authorities.

Article 65 of the Tax Code has been amended to allow the tax authorities to file court liens for taxpayer assets in the event of the latter’s violation of tax obligations. Claims may be filed electronically or in writing, but should be signed by a senior tax authority officer at the taxpayer's place of tax registration.

Tax control procedures have been updated to include monitoring of reported and actual headcount (article 71-1 of the Tax Code) to assess the accuracy of the tax base. Monitoring can be initiated due to discrepancies revealed during a desk audit, information from companies and individuals, and data obtained from the relevant departments and ministries.

A new form of tax control - tax monitoring - was introduced on 1 January 2018 to facilitate information exchange between the tax authorities and legitimate taxpayers and assist in resolving current taxation issues. Chapter 12-1 of the Tax Code regulates tax monitoring, authorising the tax authorities to demand any documents, data and explanations it sees fit to confirm that taxes have been paid correctly, in full and on time. Tax monitoring, the trigger for which is sales revenue in excess of 70,000 MW, can be initiated at the taxpayer’s request in consultation with the tax authorities, and can take place at the local tax authorities’ premises. It may be terminated early, if needs be. Other planned tax reviews or desk controls will not be carried out for those periods covered by tax monitoring, except in those cases when tax monitoring is terminated ahead of schedule.

The above chapter introduces the concept of "reasonable opinion of the state authorities," which is a document reflecting an official position on tax law compliance, whether tax and obligatory payments are correct, complete and on time.

With the recent amendments, article 54 of the Tax Code allows the Cabinet of Ministers to grant tax holidays to legitimate corporate taxpayers experiencing temporary financial difficulties. Tax holidays envisage the deferral and/or instalment payment of taxes and other obligatory payments, and are granted for up to 24 months. Arrears can be repaid as a one-off payment or in stages. At the same time, deferrals may apply either to the full outstanding amount or part of it.

The tax authorities can now suspend the bank accounts of entities selling goods (work or services) without proper incoming sales documentation for up to five banking days. The concept of "selling goods (work or services) without proper incoming sales documentation" is explained in article 96 of the Tax Code, and can either be proved by a desk audit and/or documentation provided by individuals and legal entities.

Fines for the use of land plots without the appropriate documentation, or for using larger than registered land plots were amended from 1 January 2018 to:

- 4 times the amount of land tax due for legal entities
- 3 times the amount of land tax due for individuals

The customs authorities are now required to inform the tax authorities on a monthly basis of all export-import transactions, as well as the movement of goods, including those in the form of e-commerce, across the Uzbekistan customs border.

Starting from 1 January 2018, the tax authorities may recover outstanding taxes and other payments due discovered during a desk audit, unless the taxpayer can provide justification for the discrepancy.

Special part

Profit tax

The recent amendments have abolished infrastructure improvement and development tax and combined it with profit tax. Profit tax rates for 2018 are 14% and 22% for credit organisations. The general profit tax rate for mobile operators has been changed to 14% plus 50% for profits above the 20% profitability threshold.

The definition of export sales revenue below cost has been changed, so that for taxation purposes, sales revenue is the actual sales price of goods based on a decision of the special authorised body on commodity exports at global market prices, including those below cost. A similar procedure applies for VAT purposes.

Some expenses have been reclassified from article 147 "Non-Deductible Expenses" to article 145 "Other Expenses". Audit, training, retraining and staff development expenses; contributions to non-state pension funds and payments for fully worn-out equipment in service are now deductible.

Profit tax for permanent establishments has also been revised, for instance, maximum expenses for tax purposes has been reduced from 10% to 7%, with the tax on net profit (10%) abolished. Permanent establishments pay income tax at a rate of 14%.

Personal income tax

Recent changes have affected real estate values for tax purposes. The term "inventory value" has been replaced by "cadastral value," as the basis for calculating property income on a real estate sale. Property income for individuals is defined as the amount a property's selling value exceeds its acquisition cost. If documentation is not available to support the acquisition cost, income is recognised as the value of assets sold, and for real estate - the difference between the cadastral value and the sale price.

Personal income tax rates have been revised, with the upper limit being reduced by 0.5%. A fixed MW of 172,240 Soum will be used to calculate personal income tax for 2018.

Taxable income	Rates for 2018
Below the MW	0%
From 1-5 MW	7.5% on the amount above the MW
From 5-10 MW	16.5% on the amount over 5 MW
Over 10 MW	22.5% on the amount exceeding 10 MW

From 1 January 2018, mandatory contributions to individuals' savings accounts has increased to 2%. The

mechanism for making personal income tax deductions has been retained.

Obligatory contributions to specialised state funds

Obligatory deductions to the Pension Fund, National Road Fund and Fund for the Development of the Material and Technical Base of Educational and Medical Institutions have been combined into a single "Obligatory Deduction to Specialised State Funds" of 3.2% of 2018 net revenue.

Unified social payment and compulsory social insurance fund contributions

Unified social payment remains unchanged at:

- 15% for microfirms and small enterprises
- 25% for other payers

Social insurance contributions will also remain unchanged at 8% in 2018.

Corporate property tax

A clarification was made regarding the definition of non-resident taxpayers owning real estate in Uzbekistan. If the owner of immovable property cannot be located, the taxpayer is the entity holding and (or) using it.

The taxable base for property tax has been revised to include:

- real estate, including that received under a financial lease (lease) agreement
- construction projects not completed on time
- equipment that has not been put into operation within the prescribed period

The standard rate is 5%. However, equipment that has not been installed and construction objects not completed within a specific deadline will be taxed at a double rate.

A number of concessions in article 269 of the Tax Code reducing the property tax base have been abolished, for example, operational search system hardware for telecommunications networks, machines and equipment in operation for less than 10 years.

Article 271 is supplemented with the following content: "For construction in progress not completed by the deadline in design estimates, and in the absence of an established standard construction period - within 24 months from the start of construction on land allocated for business activities , property tax is three times the established rate according to regional state architectural and construction supervision inspectorates, except for those cases required by law. This procedure also applies to businesses that have not met obligations to organise the production of goods and services at a completed facility within 12 months, as well as those entities that purchased the facilities referred to in this section. The procedure for identifying the start and end of the construction period is determined by law. Legal entities applying simplified taxation procedures pay property tax according to the procedure established by part two of this article on facilities identified by regional state architectural and construction supervision inspectorates."

Personal property tax

From 1 January 2018, individual will pay property tax on their assets based on their cadastral value, as determined by law.

Corporate land tax

Land tax statements should be filed as at 1 January by 10 January, and no longer 15 February, as was previously the case. Payment of 1/12 of the annual amount should be made before the 10th of each month.

Unified tax payment

The general 5% rate has been retained for 2018.

From 1 January 2018 unified taxpayers owning more than 1 hectare of land will owe land tax on the entire area, with the procedure for calculating and paying unified tax, inclusive of the minimum unified tax payment, cancelled.

The changes specify that procurement organisations will pay unified tax on turnover at the established rate.

As noted earlier, legal entities owning construction in progress and unused production areas and paying unified tax will be subject to standard tax rates from the month after the authorised body confirms the non-implementation of an investment project.

From 1 January 2018, irrespective of their headcount, non-profit organisations are entitled to pay unified tax on their income from commercial activities in the manner prescribed for micro-firms and small businesses.

Other changes

The subscription fee charged by mobile companies for telephone numbers has increased from 2,500 sums to 4,000 Soum.

A presidential decree has cancelled localisation programme benefits, including for projects under implementation. Profit tax, property tax and unified tax breaks for export companies have also been abolished.

Foreign higher educational institutions accredited in Uzbekistan are exempt until 1 January 2023 from all taxes and obligatory contributions to specialised state funds within the framework of their educational activities in Uzbekistan, as well as unified social payments and personal income tax on the payroll of foreign employees.

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