Deloitte.

International Tax

Turkmenistan Highlights 2021

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Investment basics

Currency: Turkmenistan manat (TMT)

Foreign exchange control: All payments within Turkmenistan generally must be made in TMT, unless the entity making the payments is a contractor/subcontractor under the Petroleum Law. The purchase, sale, or exchange of foreign currency may be carried out only through authorized banks and currency exchanges. Currently, there is no mandatory requirement for nongovernmental entities (with foreign investments) to convert income received in foreign currency into TMT.

Accounting principles/financial statements: All enterprises, including branches and representative offices of foreign companies operating in Turkmenistan, must prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

Accounting (as well as financial reporting) should be maintained by contractors and subcontractors under the Petroleum Law, in accordance with the international practice used in petroleum operations and the applicable provisions of the relevant agreement.

Principal business entities: These are the joint stock company, business society, sole proprietorship, branch of a foreign corporation, and representative office.

Corporate taxation

Rates	
Corporate income tax rate	8% for resident nongovernmental entities; 20% (in general) for nonresidents and for all entities operating under the Petroleum Law
Branch tax rate	20% (in general)
Capital gains tax rate	8% for resident nongovernmental entities; 20% (in general) for nonresidents and for all entities operating under the Petroleum Law

Residence: Legal entities incorporated in Turkmenistan and having their management body located in Turkmenistan normally are treated as tax residents. Legal entities incorporated abroad normally are treated as nonresidents.

Basis: Resident companies are taxed on worldwide income. Nonresidents are taxed on income from Turkmen sources or income derived from carrying out a business in Turkmenistan.

Branches generally are taxed in the same way as resident legal entities, although the gross income of a branch for Turkmen tax purposes includes only the portion of its income that is derived from its activities in Turkmenistan and that is related to its permanent establishment (PE) in the country.

Taxable income: Businesses are subject to corporate income tax on trading profits and other taxable income. In general, expenses that are wholly and exclusively incurred for the purpose of the business and that are supported by documentation may be deducted within the statutory norms. The amount of taxable income is determined by subtracting all deductions provided for by the tax code from gross income.

Rate: The corporate profit tax rate is 8% for resident nongovernmental entities and 20% for other residents and for nonresidents with a PE in Turkmenistan, including contractors/subcontractors under the Petroleum Law. A 2% income tax rate applies to sole proprietorships. Nonresidents without a PE in Turkmenistan are subject to a 15% withholding tax on gross income.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Gross income of a resident legal entity includes dividend income. Dividends and other income from a share participation in a Turkmen legal entity are subject to 15% withholding tax. Where dividends and other income from a share participation in a legal entity previously have been taxed at source in Turkmenistan, such income may be deducted from gross income.

Capital gains: Capital gains are taxable in Turkmenistan at source.

Losses: Operating losses of a taxpayer may be carried forward and set off against future income for up to three years following the year in which the losses are incurred. The carryback of losses is not permitted.

Contractors operating under the Petroleum Law may carry forward operating losses for a period of 10 years from the time commercial production of hydrocarbon resources commences.

Foreign tax relief: Turkmenistan grants a foreign tax credit under its tax treaties. Foreign taxes paid by a resident taxpayer on foreign-source income may be credited against the Turkmen income (profits) tax liability, based on an appropriate certificate confirming the payment of foreign income tax.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: There are incentives for foreign investments and for companies operating in the special economic zones, mainly, the Avaza National Tourism Zone.

Compliance for corporations

Tax year: The tax year is the calendar year.

Consolidated returns: Consolidated returns are not permitted; each company generally must file a separate return.

Filing and payment: Profits tax returns must be submitted to the tax authorities in the place where the company is registered on a quarterly basis (or on a semiannual basis for local enterprises that keep simplified accounting) by the 25th day of the month following each quarter/half-year, and on an annual basis by 15 March of the year following the tax period.

Deadlines for a contractor/subcontractor under the Petroleum Law to submit its tax declarations and pay taxes due may be established by the relevant agreement.

Penalties: Interest is assessed for each calendar day that tax remains unpaid and is charged at a daily rate of 0.03% of the tax due. Penalties of up to 40% of underpaid tax and other obligatory payments to the budget may be applied.

Rulings: The tax authorities generally issue explanatory letters, but these are not binding

Individual taxation

Rates	
Individual income tax rate	10% (in general)
Capital gains tax rate	0% (in general)

Residence: Individuals are residents of Turkmenistan if they are physically present in Turkmenistan for 183 days or more in a calendar year, unless otherwise provided under an applicable tax treaty.

Basis: Resident individuals are taxed on their worldwide income; nonresidents are taxed only on Turkmen-source income.

Taxable income: Turkmen-source income includes income from employment and other activities carried on in Turkmenistan, and any other benefits received in this respect, regardless of the place of payment. Income derived by resident individuals is taxable regardless of the form in which it is received (i.e., cash, in kind, benefits, etc.). Income from the leasing or other use of property located in Turkmenistan is treated as income subject to taxation. Dividends and other benefits deriving from shareholdings in legal entities and interests in partnerships, and interest payable under any type of debt instrument, also are considered taxable income.

Rates: Employment income is taxed at a flat tax rate of 10% for both residents and nonresidents.

Capital gains: Gains arising from the sale of property owned by an individual are not included in the taxable base (with the exception of gains arising in the context of entrepreneurial activity from the disposal of property or from the sale of shares, bonds, and other securities or shareholdings in legal entities).

Deductions and allowances: Tax residents are allowed standard monthly deductions, such as a minimum salary deduction (TMT 50 per month per taxpayer and each dependent), deductions for the amount of voluntary pension fund contributions and medical insurance contributions, and some other deductions, subject to certain limitations.

Foreign tax relief: Turkmenistan grants a foreign tax credit under its tax treaties. Foreign taxes paid by a resident taxpayer on foreign-source income may be credited against the Turkmen income tax liability, based on an appropriate certificate confirming the payment of foreign income tax.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Joint filing is not permitted; individuals must file their own returns, if required.

Filing and payment: An individual receiving only employment income where tax is withheld at source generally is not required to file a tax return. If an individual receives taxable income from other sources, a return must be filed. If a return is required, it generally must be filed by the 25th day of the month following the reporting period (1 April of the year following the reporting period for an expatriate individual), with tax due paid by the 10th day of the second month following the reporting period (15 April of the year following the reporting period for an expatriate individual).

Penalties: Penalties for late payment of taxes and administrative fines for noncompliance apply.

Rulings: The tax authorities generally do not issue explanatory letters to individuals.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company (without PE in Turkmenistan)	Individual
Dividends	15%	10%	15%	10%
Interest	0%	0%/10%	15%	10%
Royalties	0%	10%	15%	10%
Fees for technical services	0%	10%	15%	10%

Dividends: A 15% withholding tax is levied on the gross amount of dividends paid to a resident or nonresident company and a 10% withholding tax is levied on dividends paid to a resident or nonresident individual, unless the rate on payments to a nonresident is reduced under an applicable tax treaty.

Interest: No withholding tax applies to interest paid to a resident company or a nonresident company with a PE in Turkmenistan, but the interest must be included as part of gross income for corporate income tax purposes. A 10% withholding tax is levied on interest paid to a resident individual; however, interest on banking deposits for individuals that are not entrepreneurs is exempt.

A 15% withholding tax is levied on interest paid to a nonresident company without a PE in Turkmenistan and a 10% withholding tax is levied on interest paid to a nonresident individual, unless the rate is reduced under an applicable tax treaty.

Royalties: No withholding tax applies to royalties paid to a resident company or a nonresident company with a PE in Turkmenistan, but the royalties must be included as part of gross income for corporate income tax purposes. A 15% withholding tax is levied on royalties paid to a nonresident company without a PE in Turkmenistan and a 10% withholding tax is levied on royalties paid to a resident or nonresident individual, unless the rate on payments to a nonresident is reduced under an applicable tax treaty.

Fees for technical services: No withholding tax applies to fees for technical assistance paid to a resident company or a nonresident company with a PE in Turkmenistan, but the fees must be included as part of gross income for corporate income tax purposes. A 15% withholding tax is levied on fees for technical assistance paid to a nonresident company without a PE in Turkmenistan and a 10% withholding tax is levied on fees for technical assistance paid to a resident or nonresident individual, unless the rate on payments to a nonresident is reduced under an applicable tax treaty.

Branch remittance tax: There is no branch remittance tax.

Other: A 15% withholding tax is levied on rental and leasing income from movable or immovable property used in Turkmenistan. A 15% rate also applies to income earned from the use or rental of (freight) ships and other transport vehicles used in Turkmenistan for international traffic (6% in the case of freight of sea ships or aircraft).

Anti-avoidance rules

Transfer pricing: Transactions between related parties; transactions involving the exchange of goods, work, or services; and external trade deals are subject to the transfer pricing rules. The tax authorities are entitled to correct tax calculations where there is a divergence from the real market price of more than 20%. For contractors/subcontractors under the Petroleum Law, the divergence may not exceed 10%.

Interest deduction limitations: There are no interest deduction limitation rules.

Controlled foreign companies: There are no CFC rules.

Hybrids: There are no anti-hybrid rules.

Economic substance requirements: There are no economic substance requirements.

Disclosure requirements: There are no disclosure requirements.

Exit tax: There is no exit tax.

General anti-avoidance rule: There is no general anti-avoidance rule.

Value added tax

Rates	
Standard rate	15%
Reduced rate	0%

Taxable transactions: VAT is levied on the turnover of taxable operations from the supply of most goods (and works and services) in Turkmenistan, unless a specific exemption applies.

Rates: The standard rate is 15%. A zero rate applies to exported goods (except for gas, oil, and related processed products); the international transportation of passengers and cargo; and the sale of goods, works, and services intended for petroleum operations to contractors and subcontractors under the Petroleum Law. Exemptions exist for various operations.

Registration: Generally, there is no separate tax registration for VAT purposes; VAT registration is part of the overall tax registration. When a nonresident carrying on taxable operations in Turkmenistan is not registered with the tax authorities, the tax agent is required to calculate, withhold, and remit the appropriate VAT to the state budget with respect to acquired goods (or works or services). When calculation and withholding of taxes by a tax agent is not possible or no person can be recognized as a tax agent for a nonresident carrying on taxable operations in Turkmenistan that derives taxable income from sources in Turkmenistan, the legislation requires the nonresident company to obtain tax registration (e.g., a temporary registration).

Filing and payment: For VAT purposes, the tax period for legal entities is the calendar month. VAT declarations must be filed monthly by the 20th day of the following month. VAT collected for a particular month must be remitted to the state budget by the 25th day of the following month. A tax agent making a payment to a nonresident (that is not registered with the tax authorities) that carries out taxable transactions in Turkmenistan in relation to acquired goods (or works or services) must calculate, withhold, and remit the appropriate VAT to the state budget at the time of payment of the income. When such a payment is made from overseas, the VAT must be remitted by the tax agent within 15 days of the payment. The tax agent must file a report detailing the VAT withheld by the 20th day of the month following the month in which the payment was made.

A reverse charge mechanism applies in certain cases.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the national level.

Social security contributions: An employer is required to make a pension insurance fund contribution at a rate of 20% of local gross payroll, at its own expense.

There are no mandatory pension fund contributions by individuals; such contributions are made only on a voluntary basis.

Payroll tax: There is no specific payroll tax; however, in its capacity as a tax agent, an employer is required to withhold and remit individual income tax, city maintenance fees, and voluntary pension fund and medical insurance contributions on behalf of its employees to the appropriate authorities.

Capital duty: There is no capital duty.

Real property tax: Property tax applies to legal entities at a rate of 1% of the average annual net book value of fixed assets held for business purposes and the average annual value of tangible current assets used in business activities. Property tax is deductible for profits tax purposes.

A city maintenance fee of TMT 5 per month applies to individuals. Legal entities must pay the city maintenance fee at a rate of 1.5% of their profits.

Transfer tax: There is no transfer tax.

Stamp duty: There is no stamp duty, but the government may impose a levy on various legal actions, including the issuance of documents by state bodies.

Net wealth/worth tax: There is no net wealth/net worth tax.

Inheritance/estate tax: There is no inheritance/estate tax.

Other: Business entities engaged in subsurface use operations are subject to subsurface use tax, at rates ranging from 0%-50%. Other local taxes (advertisement tax, car park owner’s fee, vehicle sale tax, contributions to the agricultural fund, contributions to Ashgabat city development, etc.) may apply, depending on the nature of the taxpayer’s operations and its profitability.

Contractors and subcontractors under the Petroleum Law are not recognized as payers of subsurface use tax and other local taxes.

Tax treaties: Turkmenistan has concluded tax treaties with 39 countries.

Tax authorities: Ministry of Finance and Economy of Turkmenistan

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