Uzbekistan Market entry 2024: Navigating tax and regulatory landscape

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pwc

Agenda

1. Overview of general tax regime
2. Transfer pricing
3. Common legal forms
4. Foreign exchange regulations
5. New Labor Code and individual taxation

Jamshid Juraev
Partner, Tax and Legal services

jamshid.juraev@pwc.com
m: +998 94 655 0401

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Overview of general tax regime

Overview of tax rates

Tax rate	2024
Corporate Income Tax	15% (0% - export, except raw materials)
Dividend WHT (non-residents)	10% (5% from Joint-Stock Companies)
VAT	12% (0% - export)
PIT	12%
Employers Social Tax	12%
Property tax	1.5%
Unified tax (for entities with annual revenue less than $80k)	4%

VAT refund - 30 days (expedited 7 days)

Overview of available tax benefits for certain activities

Special Economic Zones (SEZ)

22 SEZ

Exemption from:
- Land tax
- Property tax
- Water usage tax
- Customs duties for certain imported equipment, commodities, materials

CIT exemption (depending on the investments amount):
- 3 years – $3M-5M
- 5 years – $5M-15M
- 10 years – $15M+

FDI in certain manufacturing industries

Targeting industries, incl.:
- Textile
- Chemicals
- Metals
- Oil refinery
- Construction materials
- Food

Exemption from Land tax, Property tax and Water usage tax (depending on the investments amount):
- 3 years – $300k-3M
- 5 years – $3M-10M
- 7 years – $10M

Sectoral tax incentives & other highlights

10 year exemption from Land tax and Property tax for renewable energy producers

Exemption from customs duties and import VAT for with respect to importation of equipment included in the list of equipment, which have no analogues produced in the territory of Uzbekistan. Currently there are 678 positions in the list and there is a procedure for extension.

For certain sectors:
- Electrical and agricultural engineering:
  - 50%-reduction of CIT and property tax
- Exporters:
  - 0% CIT,
  - accelerated 7-day VAT refund (normally 30)
  - compensation of 50% of the transportation expenses
  - delayed payment of customs duties
- Textile:
  - Exemption from land and property taxes
  - Reduced CIT and PIT rates

IFRS:
- Mandatory for certain categories and large taxpayers (i.e. >$8 mln turnover)
- Optional for others
- Replaces local GAAP

IT Park tax regime

Tax benefits:

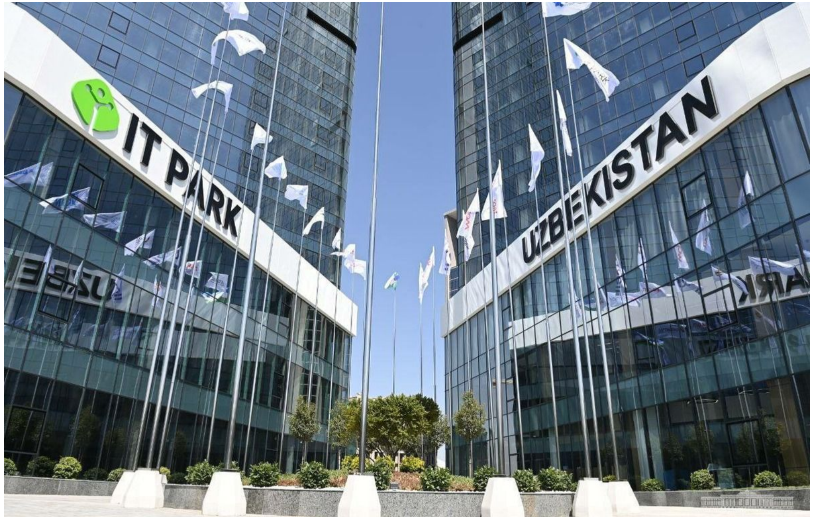
- Corporate Income Tax – EXEMPTION
- VAT – EXEMPTION
- Property Tax – EXEMPTION
- Land Tax - EXEMPTION
- Social Tax – EXEMPTION
- Customs Payments - EXEMPTION
- Personal Income Tax – 7.5% (vs 12%)
- Dividend WHT for non-residents – 5% (vs 10%)

Note

All residents should pay 1% of gross income to Directorate of IT Park on a monthly basis, provide information on its activities on a quarterly basis and provide a copy of independent auditor's report annually

Other benefits:

- No Work Permits for foreign specialists
- IT visa for 3 years and simplified residence permit procedure
- Salary and dividends to non-resident employees and shareholders could be paid in foreign currency (within the amount of export revenues)
- Export of goods and services through e-platforms without export contracts
- IT Park assists with turn-key company registration
- Virtual office provided by IT Park (no requirement for physical office)



IT Park residents may perform various activities in IT sector including:

- Development of IT software
- IT consulting and education
- IT products modification and implementation
- Data processing and IT-outsourcing
- Development of equipment for data transmission systems, navigation, communication, etc.
- Web-design, cybersecurity and other

Tax administration

Risk assessment system

Low risk (1 – 29 points)
No tax audits

Average risk (30 – 80 points)
Desktop tax review may be conducted

High risk (81 – 100 points)
Fully-fledged tax audit
Rejection on VAT refund

Criteria for risk assessment:

- Tax burden
- Results of tax audit
- Multiple resubmissions of tax reports
- Losses reported for 2+ years
- Other confidential criteria

Sources for risk assessment:

- Tax & financial reports
- Media
- Info from tax audits
- Data from other state authorities or legal sources

Highlights

- Reassessment of risk level every 6 month
- Automated assessment: cross-checking of reported income and expenses in tax reports (e.g. CIT vs VAT)

Sustainability rating

Under Cabinet Resolution #55 dated 30 January 2024, certain incentives will available to business entities as of 1 April 2024 depending on their sustainability rating.

The following incentives are applicable to “AAA”-rated entities:

- Exemption from tax inspections (except for tax audits within the scope of criminal cases);
- Expedited VAT refund process (within 1 day) without statutory inspection procedures.

The following incentives are available to entities rated “A” or higher:

- Expedited refund of overpaid taxes (within 3 days), except for VAT;
- Consolidated accounting of VAT on import of goods and VAT on supply of goods and services.

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Transfer pricing: key aspects, compliance

TP rules - general provisions

General provisions

- Transfer pricing (TP) rules entered into force in Uzbekistan on 1 January 2022.
- Uzbek TP rules are generally based on the OECD guidance. According to these rules, prices applied in transactions between related parties should be applied as if they were conducted between independent parties (“arm’s-length” principle).
- TP scope covers both transactions between Uzbek tax residents and cross-border transactions.
- If tax authorities have grounds to believe that transfer pricing in a transaction between related parties led to understatement of taxable base, they may apply corresponding adjustments and impose a fine comprising 40% of understated liability.

TP rules - compliance

Key TP compliance considerations

- **Notifications on the controlled transactions** (group of transactions) made through a calendar year must be submitted to tax authorities within statutory deadlines for filing financial statements.
- Within the scope of TP regulation, the tax authorities may request **TP documentation** from taxpayers engaging in transactions that fall under TP scrutiny.
- These documents should cover, among others, information about counterparties, functions of parties to transactions, information about TP method applied etc.
- Tax authorities may request TP documentation starting from 1 June of the calendar year following the year in which these transactions took place. TP documentation should be provided in 30 days from the date of request.

In-scope transactions

<table>
<tr><th colspan="4">1. Between related parties – Uzbekistan residents</th></tr>
<tr><td>Domestic related party transactions</td><td>One party is applying special tax regime or is a SEZ Participant</td><td>One party is applying tax Incentive</td><td>Transaction with extracted mineral if subsoil use tax is calculated based on ad valorem rate</td></tr>
<tr><td>Total revenue from transactions exceeds UZS 5 bln. (about USD 450,000) during the calendar year</td><td colspan="3">Total revenue from transactions exceeds UZS 500 Mln (about USD 45,000) during the calendar year</td></tr>
</table>

<table>
<tr><th colspan="3">2. Cross-border</th></tr>
<tr><td rowspan="2">Any transaction between related parties</td><td colspan="2">Transactions with either related or non-related parties</td></tr>
<tr><td>Commodity cross-border trade:
• Non-ferrous and precious metals
• Fertilizers
• Hydrocarbon and oil products
• Cotton</td><td>“Offshore” transactions with parties resident in the black-listed jurisdictions (including “offshore” PEs of Uzbek companies)</td></tr>
<tr><td colspan="3">Recognized as controlled transactions for TP purposes without any materiality thresholds</td></tr>
</table>

<table>
<tr><th>3. With PEs of foreign companies</th></tr>
<tr><td>Any transactions between PE of the foreign company and its related parties (both with residents and non-residents of the Republic of Uzbekistan)</td></tr>
<tr><td>Recognized as controlled transactions for TP purposes without any materiality thresholds</td></tr>
</table>

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Common legal forms for business

Special features on performing activities of foreign entities

Foreign entities considering a project in Uzbekistan may proceed with its activities via either a permanent establishment (PE) or an Uzbek legal entity (ULE). In the table below we briefly summarize key points to consider prior the decision on registration of either of them:

Key features	PE of foreign legal entity	ULE
Legal status	Operationally similar to a branch Not a separate legal entity, only a tax status	Separate legal entity
Tax regime	General (CIT, VAT, WHT, payroll, etc.) + 10% tax on PE's net profits (may be reduced under the DTT’s dividends article)	General (CIT, VAT, WHT, payroll, etc.), some tax incentives may be allowed
Terms of activities	Shorter-term operations, e.g. one-off project or a number of occasional projects in single location	Long-term business presence
Financial reporting and financial audit	N/A, but subject to tax compliance	Applicable
Currency control	Receipt of revenues in foreign currency via FLE's foreign bank account	Transactions within UZ in UZS only

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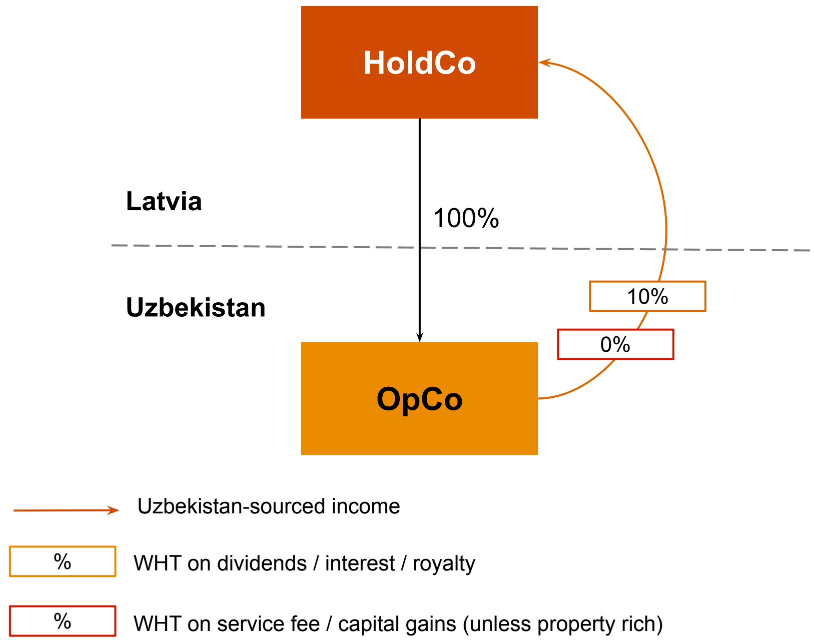
Key features	PE of foreign legal entity	ULE
Profit repatriation	Without limitations	Without limitations upon payment of withholding tax (standard rate is 10%, could be reduced by DTT)
Allocation of general and administrative expenses of FLE	Deductible under DTT	Via service agreements
Other expenses	Deductible if connected with the profit generating activity	
Withholding tax	Interest, insurance – 10% Telecom, freight - 6% Royalty, services, other income – 20%	Interest, dividends, insurance – 10% Telecom, freight - 6% Royalty, services, other income – 20%
Transfer pricing regulations	Applicable	

Key considerations of crossborder taxation



Uzbekistan-sourced income and WHT rates

Statutory rates

- Dividends, interest and insurance premiums- 10%;
- Capital gains, royalties and business income - 20%;
- Telecom and freight - 6%.

Uzbekistan has signed 55 DTTs, 54 of which are effective at the moment. Below is an overview WHT rates under Uzbek Latvian DTT.

	Dividends	Interest	Capital gains	Royalties	Business Income
UZ-LV DTT*	10%	10%	0% / 20%	10%	0%

Most favored nation regime is available

Key considerations of crossborder taxation

Statutory requirements for application of DTT benefits

- **Tax residency certificate** - apostille / legalisation
- **Beneficial ownership** - a set of documents to confirm beneficiary entitlement of a nonresident recipient

Other international tax considerations

- Not an OECD Member State
- In 2022 joined OECD Global Forum on Transparency and Exchange of Information for Tax Purposes
- Joined BEPS Inclusive Framework in 2023

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Foreign exchange regulations - key aspects

Foreign exchange control regulations

National currency

All tariffs, prices for goods, works, and services, as well as charter capital requirements for legal entities in the territory of the Republic of Uzbekistan, and state duties and fees* are determined exclusively in Uzbek soums (UZS)

It is **prohibited** to link prices for goods, works, and services in the territory of the Republic of Uzbekistan to foreign currencies and conventional units **

* except for the consular fees

** except for the projects involving foreign investments attracted under PPP agreements and investment treaties with the government of the Republic of Uzbekistan, based on decisions of the President of the Republic of Uzbekistan

Accounts in foreign banks

Local legal entities can open accounts in foreign banks (usually for major investment projects) only based on (1) decisions of the President or the the Cabinet of Ministers of the Republic of Uzbekistan or (2) international treaties.

ULEs shall report to the tax authorities and Central Bank on:

- opening of foreign bank account (including its subsequent closing),
- any changes in the account details
- balances and turnover on the accounts on quarterly basis

Purchase and sale of foreign currency by residents and non-residents on current international operations, as well as for the purposes of repatriation of direct investments and income of non-residents are carried out without restrictions

Foreign exchange control regulations

Currency control

The purchase and sale of foreign currency is carried out exclusively through local authorised commercial banks

The following capital movement transactions can be carried out only with the respective decision by the President, the Cabinet of Ministers of the Republic of Uzbekistan or based on an international agreement:

- transfer of funds in the amount of more than USD 10,000 for foreign investment activities;
- granting credits and loans in the form of cash, goods, and leasing facilities to non-residents by residents;
- transfer of funds of residents from local bank accounts to accounts (deposits) in foreign countries;
- transfer of funds of residents from local bank accounts to overseas for purchase of real estate

The following transactions may be subject to monitoring by banks and state authorities:

- transfer of funds for the import of goods (works or services) to non-residents registered or holding bank accounts in offshore zones;
- payment of fines to non-residents by residents for not fulfilling obligations under export-import contracts;
- payments made under import contracts, royalty payments;
- payment to a non-resident by a resident under a loan agreement;
- transfer of dividends or repatriation of profits to foreign shareholders;
- payment to non-residents for the sale of stock and shares in the charter capital of ULE and immovable property located in the territory of the Republic of Uzbekistan;

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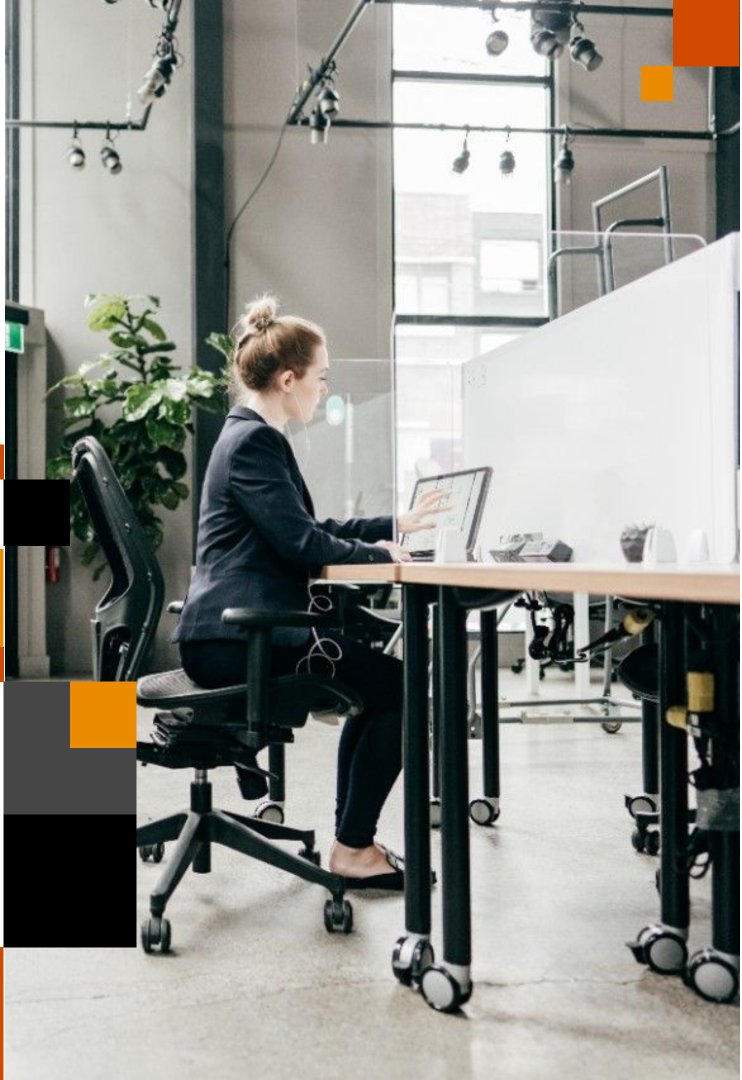
New Labor Code and individual taxation



Provisions of the Labor Code effective from April 30, 2023

Salary payment currency

Salaries are paid in **national currency** (Uzbek soums). Exceptions to this rule may be established by law.

Payment in kind is **prohibited**, except in cases established by the Cabinet of Ministers of the Republic of Uzbekistan.

Engaging foreign employees

Foreign citizens have the right to carry out labor activities on the basis of **a work permit** or **accreditation**

It is **prohibited** to enter into an employment contract with a foreign citizen without a valid work permit or accreditation.

Minimum duration of vacation

The minimum duration of labor leave is **21 days**. While on leave, the employee retains the place of work and average earnings.

Termination of an employment contract with an employee at the initiative of the employer while on vacation is **not allowed.**

The concept of a tax resident

A tax resident is an individual who stays in Uzbekistan for 183 days or more during any consecutive 12-month period beginning or ending in the tax period

A foreign citizen can also be considered a resident if he/ she stays in Uzbekistan for less than 183 days, but more than in any other country

Tax residents are taxed on the world-wide income while non-residents only in respect of Uzbekistan sourced income

Deadlines for filing returns and paying taxes

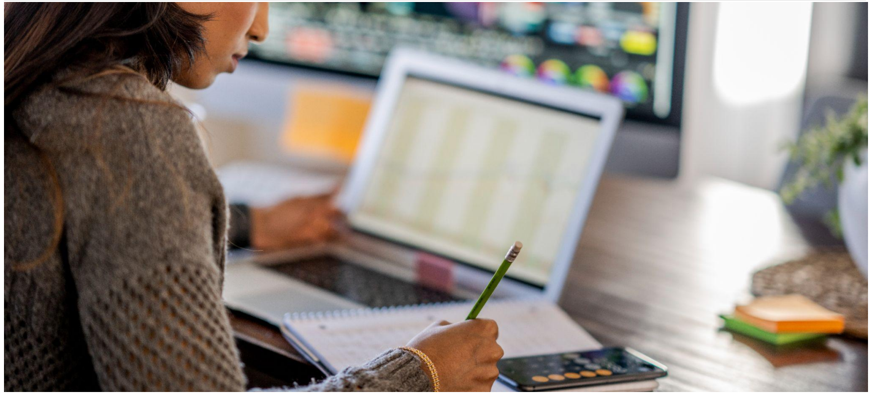
Tax residents of the Republic of Uzbekistan	The tax return is due **1 April** following the reporting year Payment deadline is **1 June** following the reporting year
Residents of the Republic of Uzbekistan who cease their activities and exit Uzbekistan	A “departure” declaration is due **1 month before the departure.** The deadline for paying income tax obligations is **15 days before departure.**

Responsibility

Financial liability of an individual

A fine of 20% of the amount of unpaid tax;

An administrative fine of 3 basic units (about 80 US dollars).



Thank you!