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Guide to doing business and investing in Uzbekistan

2014 edition

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The information in this Guide is based on taxation law and current practices. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the Guide.

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Uzbekistan profile and investment climate

Investor considerations

- Uzbekistan is situated in the centre of Central Asia
- Uzbekistan is double-landlocked
- Uzbekistan offers young and generally well-educated workforce
- Uzbekistan is a very attractive consumer market with about 30 mln population
- Transport and communication systems are well developed

Introduction

Map



Geography and climate

Uzbekistan is approximately the size of Morocco or California and has an area of 447,400 square kilometres (172,700 square miles). It is the 56th-largest country (after Sweden).

Uzbekistan stretches 1,425 kilometres (885 miles) from west to east and 930 kilometres (578 miles) 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, Uzbekistan is not only one of the largest Central Asian states but also the only Central Asian state to border all of the other four. Uzbekistan also shares a short border with Afghanistan to the south.

Uzbekistan is a dry, double-landlocked country of which 10% consists of intensely cultivated, irrigated river valleys. It is one of two double-landlocked countries in the world – the other being Liechtenstein; and although in the case of Uzbekistan this is less clear, since it has borders with two countries (Kazakhstan in the north and Turkmenistan in the south) bordering the landlocked but non-freshwater Caspian Sea from which ships can reach the Sea of Azov and thus the Black Sea, the Mediterranean Sea and the oceans.

The highest point in Uzbekistan is Mountain Adelunga at 4,301 metres (14,111 feet).

Uzbekistan is divided into 12 provinces (viloyats) with their 'capital' towns, 1 autonomous republic (Karakalpakstan), and 1 independent city (Tashkent).

Province	Capital City	Population, 2014 data
Tashkent City	Tashkent	2 352.9
Andijan Viloyat	Andijan	2 805.5
Bukhara Viloyat	Bukhara	1 756.4
Ferghana Viloyat	Ferghana	3 386.5
Jizzakh Viloyat	Jizzakh	1 226.8
Namangan Viloyat	Namangan	2 504.1
Navoi Viloyat	Navoi	901.1
Kashkadarya Viloyat	Karshi	2 895.3
Samarkand Viloyat	Samarkand	3 445.6
Sirdarya Viloyat	Gulistan	763.8
Surhandarya Viloyat	Termez	2 308.3
Tashkent Viloyat	Tashkent	2 725.9
Khorezm Viloyat	Urgench	1 684.1
Republic of Karakalpakstan	Nukus	1 736.5
Uzbekistan		30 492.8

Source: The State Committee on statistics of the Republic of Uzbekistan, latest available data for 2014

History

The Republic of Uzbekistan has an immensely rich heritage in terms of culture, art and natural resources. The monuments that remain throughout the country bear witness to a long and eventful history in which Alexander the Great, Genghis Khan and Tamerlane the Great all left their marks. The Uzbeks are descendants of nomadic Mongol tribes who mixed with the sedentary inhabitants of Central Asia during the 13th century. The Khanates of Khiva and Kokand and the Emirate of Bukhara ruled the region during the 18th and 19th centuries. Russia became increasingly interested in the region in the 18th century. This interest intensified in the 19th century as Russia and Britain competed for influence in a diplomatic and occasional military struggle known as "The Great Game". In 1865 Tashkent, the richest city in Central Asia fell to the Russians, and by 1873 the last of the region's powerful traditional rulers, the Khans in Khiva, had fled and Russia stood in control of the whole Central Asia.

The Central Asian territories initially supported the 1917 Bolshevik revolution in the hope that they could achieve independence from Russia. However, support soon turned to fierce opposition from the nationalist basmachi movement and the Soviet forces were forced to withdraw. Soviet power was re-established in September 1919, although armed opposition continued into the early 1920s. On 27 October 1924 the Uzbek Soviet Socialist Republic (UzSSR) was created, and in May 1925 became part of the Union of Soviet Socialist Republics (USSR). There had been little industrial development in Central Asia under Tsarist rule, although some raw materials were extracted. During World War II, Uzbekistan's industrial base was enlarged by the re-location of factories from the war-zone. Post-war Soviet development policies focused on the exploitation of the country's raw materials, with particularly heavy investment in the production of cotton. By the late 1980s the republic was producing 90% of the Soviet Union's cotton, a one thirds of its gold and half of its uranium.

The rise to power of President Mikhail Gorbachev and the greater political and cultural freedom permitted under glasnost (openness) allowed for the wider discussion of economic and ecological issues as well as previously unexamined aspects of Uzbek history. The poor state of the environment as a result of over-irrigation of the cotton crop and the high incidence of birth defects attributed to the indiscriminate use of pesticides were major sources of popular dissatisfaction. On 29 August 1991, 10 days after the collapse of the anti-Gorbachev coup in Moscow, an extraordinary session of the Supreme Soviet voted to declare the Republic independent, and changed its name to the Republic of Uzbekistan.

Direct presidential elections were held on 29 December 1991 and won by Mr Karimov with a reported 86% of the vote. A referendum was held simultaneously in which 98% of participants endorsed Uzbekistan's independence. Mr Karimov won a referendum in 1995, allowing him to

stay in office until 2000. He was further re-elected in the January 2000 presidential election. A referendum in January 2002 extended the presidential term in office from five to seven years. Mr Karimov was again re-elected in December 2007 for a 7-year term. In December 2011 the Senate of the Oliy Majlis of the Republic of Uzbekistan approved the Law "On introduction of amendments to article 90 of the Constitution of Uzbekistan", which envisaged the decrease of the presidential term to a five-years.

Government structure and legal system

According to the Constitution of 8 December 1992, Uzbekistan is a sovereign, democratic republic. The country is headed by President. The government (Cabinet of Ministers) is subordinate to the Oliy Majlis (Parliament) and the President, who appoints the Prime Minister, deputy Prime Ministers and ministers subject to the approval of the legislature.

The highest legislative body is the two-chamber Oliy Majlis, which is elected for a five-year term. The Legislative chamber (lower) consists of 150 members elected by Uzbek citizens based on ballot voting. Members of the higher chamber – the Senate – are elected from each region of Uzbekistan, the Republic of Karakalpakstan and Tashkent city, by six members from each territory. Sixteen members of the Senate are appointed by the President of the Republic of Uzbekistan out of the most competent citizens with outstanding achievements in and contributions to science, literature and art. The President, with the approval of the Constitutional Court, may dissolve the Oliy Majlis.

There are four officially recognised parties which are the People's Democratic Party, Social Democratic Party "Adolat", Democratic Party "Milliy Tiklanish" and Liberal Democratic Party "Movement of Entrepreneurs and Businessmen" and one movement – "Ecological Movement of Uzbekistan".

People

Population

Uzbekistan is Central Asia's most populous country. The population of Uzbekistan, reaching more than 30.4million people as of 1 January 2014 is concentrated in the south and east of the country and comprises nearly half the region's total population. Uzbekistan was one of the poorest republics of the Soviet Union; much of its population was engaged in cotton farming in small rural collective farms (shirkats). Nowadays, according to World Bank reports, the fraction of the rural population constitutes 64%. The population of Uzbekistan is relatively young: 25.3% of people are 14 or younger.

Uzbekistan is a heterogeneous society dominated by ethnic Uzbeks (80% of the total population). The largest ethnic minority groups are Russians (5.5% of the total

population), Tajiks (5%), and Kazakhs (3%). Many members of the minor ethnic groups have left the country since independence. For instance, many Jews emigrated to Israel or US, and a considerable number of ethnic Germans and Russians returned to their homelands. This has resulted in a loss of many valuable technical, industrial, and professional skills in the country. However, the situation has recently improved and currently Uzbekistan possesses a number of young professionals who received various educational degrees at universities worldwide through the state-funded educational programme “Iste’dod Foundation”.

Language

The official state language is Uzbek. However, quite a few people in Tashkent and largest cities (including Uzbeks) still use Russian as their native language. Besides, state organisations and businesses use both Uzbek and Russian as their business correspondence languages.

Like in many other countries of the former Soviet Union, English is widely educated in Uzbekistan. However, English-speaking population is mostly based in Tashkent.

In December 2012 President of Uzbekistan signed the Resolution “On measurements on further improvement of the system of studying of foreign languages”. In accordance with this Resolution teaching of foreign languages, mainly English, should begin from the first year at all general schools.

Religion

During the communist years, religious observance was strictly forbidden. Thousands of mosques were closed, observance of Ramadan banned, and wearing veils and sale of the Koran was forbidden. As a result, only a few Uzbeks have an in-depth knowledge of Islam, although the majority of them would describe themselves as Muslims and Islamic traditions run deep. Many mosques have re-opened, and veils are becoming more prevalent. Official government policy is opposed to the emergence of Islamic extremism in Uzbekistan, and has put pressure on the country's Muslim clergy to guard against a rise in extremism. Roughly 99% of Muslims in Uzbekistan are followers of the “Hanifism” wing of Islam, which is the most liberal school of Islam in terms of religious tolerance.

Education

Uzbekistan enjoys quite high literacy rate (among adults older than 15) which, in part, is attributable to the free and universal education system.

Basic public education consists of two levels – 9-year primary and secondary school and 3-year college/lyceum. University education can be obtained after completing the college education.

There are 65 higher educational entities in the country – State Universities in each regional centre are among them. In addition, several international universities are presented in Uzbekistan, including Westminster International University, branches of the Moscow State University, Russian University of Oil and Gas, Singapore Institute of Management, Turin Polytechnic University, INHA University in Tashkent.

There are also a number of technical colleges that are not considered as higher education.

Economy

General description

Uzbekistan has seen few effects from the global economic downturn due to its relative isolation from the global financial markets, and continued its strong performance, registering 8% growth in 2013. GDP growth was driven mainly by favourable trade terms for its key export commodities like copper, gold, natural gas, cotton, and government’s macro-economic management (World Bank file, 2013). Although the global financial crisis has hardly affected the domestic financial sector directly, it has slowed exports, remittances, and investment due to slower economic growth in Russia, Kazakhstan and certain other Uzbekistan’s large trading partners.

Uzbekistan is a country with a GNI per capita of USD 1,900 and PPP equivalent of USD 5,340 in 2013. Economic production is concentrated in commodities: Uzbekistan is now the world's sixth-largest producer and the world's fifth-largest exporter of cotton and the seventh world major producer of gold. It is also a regionally significant producer of natural gas, coal, copper, oil, silver and uranium.

Facing a multitude of economic challenges upon acquiring independence, the government adopted an evolutionary reform strategy, with emphasis on state control, reduction of import, and self-sufficiency in energy. The gradualist reform strategy has involved postponing significant macroeconomic and structural reforms.

The economic policies have repelled foreign investment, which is one of the lowest per capita in the CIS. For years, the largest barrier to foreign companies entering the Uzbek market has been difficulty in currency conversion. In 2003, the government accepted the obligations of Article VIII under the International Monetary Fund, providing for full currency convertibility. However, strict currency controls and tightening of borders have lessened its effects.

Inflation, though lower than in the mid-1990s, remained high up until 2003 (estimated 50% in 2002, 21.9% in 2003). Tight economic policies in 2004 resulted in drastic reduction of inflation, to 3.8% (while alternative estimates based on price of true market basket, put it at 15%). In 2013, the official inflation rate comprised 6.8%.

The latest estimate of the year-average consumer price index for 2013 was 10.1% (CIA Factbook).

The government of Uzbekistan restricts imports in many ways, including high import duties. Excise taxes are applied at high rates to protect locally produced goods resulting in total charges amounting to as much as 100 or even 150% of the actual value of the product, making imported products virtually unaffordable. Import substitution is an officially declared policy. A number of the CIS countries are officially exempt from the Uzbekistan import customs duties.

GDP

	2012	2013
GDP (USD)	51.98 billion	54.03 billion
GDP growth annual	8.2 %	8 %

Source: The State Statistics Committee, IMF

Uzbekistan was at the second place on the GDP growth rate among the CIS countries in 2013. More than half of the GDP (55.8%) was generated by micro-firms and private enterprise entities.

In 2013, the volume of industrial production grew by 8.87%, agricultural production increased by 6.8% and investment into fixed capital rose by 9.8% as compared to the previous year.

Transport

Tashkent, the nation's capital and largest city, has a 3-line subway built in 1977, and expanded in 2001 after 10 years of independence from the Soviet Union. Uzbekistan used to be the only country in Central Asia with a subway system (until opening of metro in Almaty in 2012) which is considered as one of the cleanest subway systems in the world. There are municipal operated trams and buses running across the city. Also there are many taxis, both private and company service taxis. Uzbekistan has car and bus producing plants, which produce modern vehicles. The car production is supported by the government. The train links are available. They connect many towns within Uzbekistan as well as with neighbouring ex-republics of the Soviet Union. After independence four fast running train systems have been established. Also, there is a sizeable aircraft plant that was built during Soviet era, Tashkent Chkalov Aviation Manufacturing Plant, or ТАПОиЧ in Russian. The plant originated during the World War II, when production facilities were evacuated south and east to avoid capture by advancing Fascist forces. Up until late 1980s, the plant was one of the leading aircraft production centres in USSR, but with collapse of Soviet Union its manufacturing equipment became out-of-date, and most of the workers were laid off. It used to produce more than 10 modifications of cargo aircrafts IL-76, wings for model "AN" heavy freight aircrafts, parts of control panel for Boeing and British Aerospace a passenger aircraft

model, turbo IL-114-100. However, in 2010 the Tashkent Economic court initiated bankruptcy proceedings on the plant due to overdue debts and brought external control. Effective from June 2012 the plant ceased production of aircrafts related products. Part of the manufacturing equipment was to be dismantled and sold. The plant started gradual switch to production of other types of products, such as household goods, spare parts to agricultural machinery, building structures etc.

Uzbekistan Havoyullari (Uzbek Airways) is the national aviation company established in 1992. The company offers regular flights to more than 40 cities in Asia, Europe and America. Frequent flyers may enjoy certain benefits, such as free tickets and class upgrades.

With establishment of the Free Industrial Economic Zone in the Navoi region, the Navoi Airport has become a logistics centre for international cargo transportation. It is managed by Korean Air.

New air terminal started its functions from 26 September 2011. All flights from Tashkent to local destinations are carried out from the new terminal "Tashkent-3", that meets international standards and has capacity of 400 passengers per hour.

There is also a national project for reconstruction of the Uzbek automobile road co-sponsored by the Asian Development Bank and the government of Uzbekistan. The reconstructed automobile road should become a highway to connect the major cities across the country.

Communications

Local telephone system is currently under extensive reconstruction by digitising old analogue lines. All regions of Uzbekistan are well-covered by the existing telephone system. National telecommunication operator "Uzbektelecom" has 50 points of sales, operating on the principle of "single window" across the country.

There are 4 cellular network providers in Uzbekistan, 2 GSM providers and 2 CDMA providers. The number of mobile phone service users exceeded 19.6 million subscribers by the end of 2013. Number of Internet users is rapidly growing every year, reaching about 9.81 million users by the end of 2013.

Foreign trade

In 2013 Uzbekistan's 5 main trade partners are Russia – 27.5%, China - 13%, Kazakhstan - 10.5%, Republic of Korea - 8.2% and Turkey - 4.7%. The main commodities of Uzbekistan that are exported include energy products, cotton, gold, mineral fertilisers, ferrous and non-ferrous metals, textiles, food products, machinery and automobiles (CIA World Factbook). The total export of Uzbekistan for the year 2013 was USD 15,08 billion and the total import amount was equal to USD 13.8 billion. The main import commodities of Uzbekistan are food

products, chemicals, metals (ferrous and non-ferrous), machinery and equipment.

Global financial crisis has slowed exports in recent years, but from the first quarter of 2010, the revenue growth and export markets began to pick up as a result of high commodity prices and reforms to ease tax burden, as well as good export performance of gold and natural gas supported the country's anti-crisis program's implementation (EIU country report).

The government prefers to export gas for hard currency instead of selling it at the domestic market at subsidised prices for local currency, as gas export earnings are vital for funding - industrial sector projects initiated by the government. Large trade surpluses mostly resulted due to increased prices for Uzbek gas exports. The foreign trade turnover increased by 9.8% in 2013 comparing to 2012.

Business environment

Investor considerations

- Economy is highly regulated by the state
- Low level of copyright protection
- Plenty of office space available

Business climate

Whilst there have been improvements in the recent years in the economic situation in the Republic of Uzbekistan, the economy of the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Republic of Uzbekistan and a low level of liquidity in debt and equity markets.

The overall business climate may be described as stable, but with a potential for rapid growth in the event of more radical reforms towards market economy and reduced state regulation of the economy.

The role of small business and private entrepreneurship in the country's GDP and economy is increasing. In 2013, this sector generated 55.8% of the GDP and created 76.7% of employments to the population.

Recognising the importance of the business community in general and private entrepreneurship in particular for the economy, the state constantly updates the legislation in attempts to decrease the tax and administrative burden on the business. Basic tax rate for single tax payment for micro-firms and small businesses, except for enterprises of trade and public catering, was kept at 6% in order to not to increase tax burden, support and stimulate development of small and private businesses.

On 7 February 2011, the President of Uzbekistan signed a resolution which is directed at expanding access to commercial bank loans, raw materials and state procurements for small and private businesses. In 2012 the International Financial Corporation provided the first trade credit line to "Asaka" bank in order to promote the growth of small business in Uzbekistan. The Government is also taking measures to improve investment climate of Uzbekistan reducing the number of statistical, tax and financial reports, as well as number of activities subject to licensing and permissive procedures, promoting electronic

submission of reports/payments to reduce time spent by businesses for tax filings.

Uzbekistan continues to implement Industrial Modernization and Infrastructure Development Program for 2011-2014 covering up to 500 large investment projects in industry sector for USD 50 billion. According to officials during these 5 years production output in machinery and automobile industry, chemical industry, food industry, pharmaceuticals sector and construction materials sector is expected to increase over twice.

Uzbek government constantly develops various tools aimed at improving the local business climate.

For instance, Presidential Decree No.VII-4609 of 7 April 2014 establishes a number of measures aimed at attracting investments and improving the business environment in Uzbekistan:

- As of 1 June 2014 it is prohibited to penalise businesses for violation of legislation regulating relationships with regulators/ state authorities if such legislation is not published on the official websites of the respective regulators/ authorities.
- Moratorium on tax audits is prolonged till 1 January 2017 in respect of small enterprises that pay taxes in a timely manner and demonstrate sustainable growth and profitability (except for liquidation audits, inspections within criminal investigation, and those associated with the use of state funds and centralised resources).
- State tax authorities are no longer allowed to "freeze" transactions on bank accounts of a company without a court decision due to non-submission of tax and financial reports and absence of the company at the registered legal address.
- As of 1 July 2014 the average number of employees for small enterprises operating in labour-intensive industries, in particular in

construction materials industry, food and light industries, is increased from 100 to 200 employees.

International agreements

Uzbekistan is a member of the United Nations (since 2 March 1992), the Euro-Atlantic Partnership Council, Partnership for Peace, and the Organisation for Security and Cooperation in Europe (OSCE). It belongs to the Organisation of the Islamic Conference (OIC) and the Economic Cooperation Organisation-- comprised of the five Central Asian countries, Azerbaijan, Turkey, Iran, Afghanistan, and Pakistan.

In 1999, Uzbekistan joined the GUAM alliance (Georgia, Ukraine, Azerbaijan and Moldova), which was formed in 1997 (making it GUUAM); yet in 2005, the Government of Uzbekistan gave an official notice of withdrawal from the organisation.

Uzbekistan is also a member of the Shanghai Cooperation Organisation (SCO) and hosts the SCO's Regional Anti-Terrorist Structure (RATS) in Tashkent. Uzbekistan also joined the Central Asian Cooperation Organisation (CACO) in 2002, which has dissolved in January 2006. In 2006 Uzbekistan joined the Eurasian Economic Community and temporarily withdrew from membership in 2008.

There are representative offices of IMF, World Bank, EBRD, ADB in Uzbekistan participating (directly or co-funding) in many social and investment projects.

Regulations for business

Uzbekistan has a highly regulated economy with a vast number of regulatory authorities.

Regulatory authorities

The principal regulatory authorities are the Cabinet of Ministers (responsible for the overall regulation of the economy), the Ministry of Finance (responsible for fiscal and taxation policy), the Central Bank (responsible for regulation of banks and monetary policy), the State Tax Committee (responsible for collection of taxes), the State Customs Committee (responsible for collection of customs payments), the Ministry of Economy (responsible for development and implementation of long-term social and economic strategies of the state) and the Ministry of Foreign Economic Relations, Investment and Trade (responsible for foreign trade and attraction of foreign investment).

Competition policy

Competition is governed by the Law on Competition. The Law is applied to cases when activities of state agencies, legal entities and/or individuals adversely

affect the competition in the Uzbek market, and sets a number of measures to prevent such adverse influence. Control over adherence to the Law previously used to be enforced by the Anti-Monopoly Committee. As of November 2012, the control was shifted to the newly established Committee on Privatization, Demonopolisation and Competition Development (Committee on Competition) established in the result of merger of the Anti-Monopoly Committee with the State Property Committee.

Price controls

The state controls purchase prices for strategically important goods, such as cotton, gold, oil, etc.

Prices for utilities and telephone communication are also controlled by the government, as these are provided by the state-owned companies.

Consumer protection

Uzbek legislation provides for consumer protection (Law of the Republic of Uzbekistan "On Protection of Consumers' Rights" of 26 April 1996). There is also a Federation of societies on protection of consumers' rights in Uzbekistan.

Consumers may apply for protection of their rights to the above Federation or Committee on Competition either in paper, through the phone or special online resources. Such applications appear to have high resolution rate. For example, as per information provided by Federation during the first six months of 2014 around 3,600 complaints (applications) were filed and 92.6% from them were resolved positively.

Patents, trademarks and copyrights

Uzbekistan has signed international conventions in patent and/or copyright protection. However, in practice, there are still a lot of publicly sold products of video, audio and software piracy.

Uzbekistan is a signatory to the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on Trademarks Protection, and the Patent Cooperation Treaty.

In 2011 the State Patent Agency and Uzbek Republican Copyright Agency were re-organised into the Agency on intellectual property, which started to represent Uzbekistan in the World Intellectual Property Organization and other international and regional organizations in the sphere of intellectual property.

Mergers and Acquisitions

Certain types of mergers and acquisitions are subject to approval by the Committee on Competition. Such

mergers and acquisitions include those that result in the creation of financial & industrial groups, holding companies, as well as creation of companies that would dominate the market.

Property market

Uzbek real estate market rapidly grew over the years through 2008. However the global financial crisis has adversely impacted the real estate sector of Uzbekistan leading to a drop of demand for purchase/rent of housing and office space.

Current annual price for office space rent in Tashkent (capital city) varies approximately from USD 100 to USD 300 per square metre depending on location.

Apartment or house can be purchased by Uzbek nationals and foreign citizens who reside in Uzbekistan on a permanent basis and have an appropriate residence permit.

Uzbek state property is managed by the Committee on Competition. The main directions of the Committee on Competition are deepening of economic reforms, acceleration of denationalisation and privatisation processes, provision of development and support to private entrepreneurship in the republic, antimonopoly regulation, development of competition, consumer protection and regulation of bankruptcy and insolvency processes.

Foreign investment and privatisation

Investor considerations

- Uzbek legislation provides for a number of tax incentives for foreign investors, especially in oil & gas industry
- Exporters may enjoy reduced corporate income tax and property tax rates
- Additional guarantees and preferences may be provided to foreign investors under investment agreement
- Development of Free Industrial Economic Zone Navoi and two new Special Industrial Zones - in Angren and in Djizzak

Foreign investment

Investment climate

Uzbekistan has adopted a policy of import substitution and export orientation. The multiple exchange rate system and the highly over-regulated trade regime has led to both import and export declines since 1996, although imports have declined more than exports, as the government squeezed imports to maintain hard currency reserves. High tariffs and border closures imposed in the summer and fall of 2002 led to massive decreases in imports of both consumer products and capital equipment. Uzbekistan's traditional trade partners are CIS states, notably Russia, Ukraine, Kazakhstan, and the other Central Asian countries. Non-CIS partners have been increasing in importance in recent years, with Korea, China, Japan, Malaysia and Turkey being the most active. In 2013 and beginning of 2014 Uzbekistan greeted a number of high-level officials from, China, US, South Korea, Spain, France, Kazakhstan, Japan, Turkey, India, Turkmenistan, Latvia and other countries. During these visits the parties discussed potential cooperation and investment opportunities.

Investment context

The Laws on Foreign Investments and on Guarantees and Measures for the Protection of Rights of Foreign Investors adopted on 30 April 1998, the "Foreign Investment Laws", provide the legal framework for foreign investment in Uzbekistan. The laws define the types of entities in which foreigners can invest, the conditions governing repatriation of profits and earnings, and the general rights and guarantees of foreign investors. Foreigners can invest in a business venture in Uzbekistan in a number of ways, including by:

- acquiring share in an existing company by participating in auctions or tenders organised under the privatisation programme

- acquiring share in an existing company by direct negotiation with the owners of the shares or by purchasing shares on the stock market
- forming a joint venture company with an Uzbek enterprise or individual
- establishing a new, wholly owned company, or any other form that does not contradict Uzbek legislation.

To qualify for definition of an enterprise with foreign investment, the enterprises should have following characteristics:

- their charter capital is USD 150,000 or more
- at least one of the participants is a foreign legal entity, and
- foreign investor(s) own at least 30% of the total charter capital.

Effective 1 July 2002, the amended criteria for the status of an enterprise with foreign investment is used for enterprises with the participation of foreign capital newly established in the Republic of Karakalpakstan and Khorezm region. The minimum charter capital to meet the criteria for such enterprises shall be USD 75,000, as opposed to the above standard minimum limit. This measure is intended to stimulate investment to these distant regions of Uzbekistan.

Investment protection

Under the Foreign Investment Laws, investments cannot be nationalised or confiscated without the payment of compensation. The Foreign Investment Laws also provide for protection against adverse changes in the law for a 10-year period following registration. This 10-year guarantee had been widely challenged in the past by the tax authorities so that it would not apply to taxation changes, i.e. introduction of new taxes and/or increase of tax rates or taxable objects.

Such different interpretation of the 10-year guarantee resulted in amendment of the text in the Foreign Investment Laws, which changed the whole concept of the foreign investment protection. Thus, from 17 September 2005 the 10-year guarantee is to apply in the following cases:

- increase of income (withholding) tax rate on dividends payable to foreign investors
- introduction of additional requirements that (i) complicate the procedure for repatriation or (ii) decrease the amount of income (profit) repatriated by foreign investors, except for certain cases when such repatriation is banned due to financial insolvency of enterprises with foreign investments, protection of creditors' rights, criminal or administrative sanctions imposed on individual foreign investors or other reasons for halting such repatriation based on the court decision
- introduction of limitations on the size of investment, including the increase of the minimum size of charter capital for enterprises with foreign investments
- introduction of limitations on the share of foreign investors in charter capitals of Uzbek enterprises, and
- introduction of additional procedures for visas of foreign investors, as well as other additional requirements on foreign investment.

If foreign investor decides to exercise the guarantee it should file a written notification with the relevant state authority depending on the nature of the adverse legislation change under concern. Such notification serves as a basis for relevant state authority to apply the legislation that had been effective at the date of investment.

If the state authority disagrees with the notification it may apply to the Ministry of Justice of the Republic of Uzbekistan for legal expertise on the validity of application of the guarantee by the foreign investor. The state authority may also apply to the court on invalid application of guarantee by the foreign investor.

Profit repatriation

Under the Foreign Investment Laws, foreign investors are entitled to repatriate profits in convertible currency after the payment of applicable taxes and other fees. However, at the time of writing practical issues remain with respect to currency conversion if there is no own foreign currency available to pay dividends.

Currency exchange rates

The government introduced currency convertibility on 15 October 2003, lifting many of the restrictions on the purchase of hard currency and unifying the exchange rate of UZS. Since unifying the exchange rate, the government has allowed the currency to depreciate against the US dollar by a monthly average of 0.3% in nominal terms. However, since January 2010 the UZS has been falling by a monthly average of 0.4-1.1%.

Effective 1 February 2013:

- Sale of foreign currency to individuals – residents of Uzbekistan, is carried out by authorized banks via non-cash international plastic cards.
- Sale of foreign currency to individuals – non-residents is carried out in the amount not exceeding the amount of previously converted foreign currency (to be confirmed by the certificate of the prescribed form).

Official exchange rate is UZS 2,383.98 for 1 USD as of 30 October 2014.

Investment incentives

There used to be a number of tax incentives available to investors and enterprises with foreign investment. Some of these incentives were set in the general tax legislation; some of them were granted on a case-by-case basis, mostly in respect of investments made to key industries. The case-by-case incentives were provided by the Government through issuing enterprise specific decrees.

Effective 1 June 2006, all “non-compliant” and permanent incentives with respect to payment of taxes, customs and other mandatory payments provided earlier by decisions of the Government to enterprises with foreign investments, were abolished. The enterprises which happened to lose the tax incentives had to apply to the Cabinet of Ministers, so that the latter re-considers granting the incentives.

The Uzbek legislation still provides for certain tax incentives to encourage manufacturers, importers and exporters of strategically important products.

On 10 April 2012 the President of Uzbekistan signed a decree "On additional measures to stimulate direct foreign investment". Based on the decree above, enterprises with foreign capital in which the foreign investor's contribution in cash is not less than USD 5 mln are covered by a ‘grandfathering clause’ protecting them from adverse changes in the tax legislation for the period of 10 years from the date of state registration with respect to corporate income tax, value-added tax (turnover on sale of goods, works

and services), property tax, tax on the improvement and development of social infrastructure, unified social tax, unified tax payment, as well as mandatory contributions to the Republican Road Fund and the Fund on Reconstruction, Capital Repair and Equipment of Educational Institutions and Medical Institutions.

Incentives for Oil & Gas exploration and extraction companies

Foreign companies carrying out oil & gas exploration works are granted with certain incentives that include exclusive exploration rights for a territory with the possibility to engage in extraction either through a joint venture company or on terms of a concession. Such companies and their foreign contractors and subcontractors are exempt from payment of all forms of taxes and contributions to non-budget funds during the exploration period. Additionally, exemptions should apply to customs payments on the import of equipment, material and technical resources and services necessary for the exploration and related works.

Enterprises and organisations – residents of Uzbekistan – supplying materials and rendering services to such foreign companies are exempt from value-added tax.

Furthermore, oil & gas extracting joint venture companies established with participation of foreign companies that are involved in the exploration are granted a 7-year corporate income tax holiday starting from the date of commencement of extraction.

Incentives for carrying out export activities

Enterprises exporting goods (works, services) of their own production for freely convertible currency may apply reduced rates of corporate income tax as follows:

- If export share in total sales ranges from 15% to 30%, the effective rate shall be reduced by 30%.
- If export share in total sales is 30% or more, the effective tax rate shall be reduced by 50%.

This incentive is applied likewise in regards to property tax. Thus:

- If export share ranges from 15% to 30%, the property tax rate is reduced by 30%.
- If export share ranges from 30% and higher, the property tax rate is reduced by 50%.

The incentive in both cases is subject to a restriction that it does not apply to wholesale / retail sale or

intermediary companies, nor to revenues from the export of specific items such as cotton fibre, oil, gas, precious metals, etc.

Producers can also defer the payment of their import VAT in respect of material and technical resources used for production of goods to be exported. The deferral is granted for up to 90 days without application of any interest.

Investment relief

The taxable profits may be reduced by the amounts of expenditure that qualify as “investments” less the total annual depreciation charge. The term “investments” for the purposes of the relief is defined broadly and includes any investments to develop entity’s own production base, such as the purchase or construction of business premises, plant and machinery, or settlement of loans used for this purpose. The aggregate tax relief for “investment” expenditure is generally limited to 30% of taxable profits.

Tax incentives for entities with foreign investment

Additional tax concessions are available for production entities with a substantial foreign investment component. To qualify for the concession, an enterprise should meet the criteria of an enterprise with foreign investment as described in the section **Investment context** above.

Thus, foreign investors may import free of import duties goods for their own production and their personal needs and for personal needs of foreign citizens working in Uzbekistan in accordance with labour agreements established with foreign investors.

Newly established enterprises in the Republic of Karakalpakstan and Khorezm region that qualify as enterprises with foreign investment based on the adjusted criteria as described above are also eligible for the above exemption.

Effective 1 July 2005, the following tax incentives have been offered to **direct** foreign investors. The statutory definition of direct private foreign investments is investments made by foreign non-governmental legal entities, foreign citizens, persons without citizenship and citizens of Uzbekistan permanently resident abroad.

Enterprises attracting private foreign investments are exempt from corporate income tax, property tax, infrastructure development tax, unified tax payment (for micro-firms and small enterprises), as well as contributions to the Republican Road Fund. Exemption is applicable to main business activity only.

The above tax incentives are granted if the following, without limitation, conditions are met:

- the enterprises are located in any city or rural area settlement of Uzbekistan except Tashkent region and Tashkent city
- republic of Uzbekistan does not provide sovereign guarantees for such foreign investment
- share of foreign capital of enterprises should not be less than 33%
- investment should be made in hard currency or new/modern technological equipment, and
- not less than 50% of the respective tax savings should be reinvested for further development of enterprises.

Other developments in the foreign investment legislation of Uzbekistan are commented in relevant tax sections of this Guide.

Additional Guarantees and Preferences to Foreign Investors

In August 2005 Decree of the Cabinet of Ministers introduced a new concept within the foreign investment legislation. Thus, if a foreign investor is granted additional guarantees and protective measures (incentives and preferences), other than those already provided by the general legislation, an investment agreement must be concluded between the Government and this foreign investor. The Government in such investment agreement would be represented by the Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan (MFERIT).

Investment agreement should include, without limitation, the following provisions:

- period and terms of the agreement validity
- rights and obligations of the investor in respect of the amount of investment, level of production, guaranteed level of localisation of production and quality of produce, level of export of goods and services of own production, repayment of attracted loans guaranteed by the Government of the Republic of Uzbekistan, compliance with the ecology protection legislation, rational usage of natural resources, compliance with the labour legislation and safety measures, and other aspects of production activities
- rights and obligations of the Government of the Republic of Uzbekistan including obligations of providing additional guarantees and security measures

- schedules and dates for preparation of business plan, conclusion of sub-contracts, funding sources, time-line of project implementation, regulation on technical supervision over the project implementation
- procedures and deadlines for submission of reports by the investor on execution of the obligations
- responsibilities of parties for failures to comply with the terms of the investment agreement, and
- procedures for introduction of amendments to the agreement or its termination, procedures and place of disputes resolution.

The draft investment agreement should be pre-agreed with MFERIT. Before filing the draft investment agreement, the foreign investor should obtain approvals of the agreement terms and conditions from the Ministry of Justice, Ministry of Finance, Ministry of Economy and the State Tax Committee. Once the investment agreement is finalised by MFERIT and the foreign investor, it is filed with the Cabinet of Ministers for the latter's approval.

Free Industrial Economic Zone in the Navoi region (Navoi FIEZ)

Navoi FIEZ has been created for a preliminary term of 30 years with opportunity for prolongation. During that period special customs, foreign currency and tax regimes will be in force within its territory, as well as a simplified procedure for issuing works permits for non-residents who come to work in the Navoi FIEZ.

Legal entities registered in the Navoi FIEZ are allowed to make payments in foreign currency within the territory of the Navoi FIEZ and to local Uzbek suppliers for goods, works and services outside of the territory; use preferable conditions and means of payments for exported and imported goods.

Furthermore, legal entities registered with the Navoi FIEZ are exempt from land tax, property tax, corporate income tax, infrastructure development tax, unified tax payment (for small companies), contributions to the Road Fund and Fund on Reconstruction, Capital Repair and Equipment of Educational Institutions and Medical Institutions, provided that the amount of their direct investments are:

- from EUR 3 mln to EUR 10 mln – exemption is valid for 7 years.
- from EUR 10 mln to EUR 30 mln – exemption is valid for 10 years (in the following five years, the income tax and unified tax payment rates are set at half the effective general rate).

- in excess of EUR 30 mln – exemption is valid for 15 years (in the following ten years, the income tax and unified tax rates are set at half the effective general rate).

Another exemption provided to legal entities registered with the Navoi FIEZ is a relief from customs payments (except for customs clearance fees) on imported equipment, raw materials and spare parts required for production of the goods for export for the whole period of the Navoi FIEZ functioning. The customs payments on raw materials and spare parts imported for production of goods for the Uzbekistan domestic market are levied in the amount of 50% of the effective general rates (except customs clearance fees) with a payment deferral for up to 180 days, unless the Uzbek legislation provides a more preferable regime.

Legal entities established in the Navoi FIEZ are also covered by a ‘grandfathering clause’ protecting them from adverse changes in the tax legislation. This clause does not apply though to legislative acts regulating taxation of excisable goods.

In accordance with the report of the Ministry of Economy and State Statistic Committee of Uzbekistan 12 enterprises operate in Navoi FIEZ as of second quarter 2013. Volume of production during the 1 quarter 2013 has reached UZS 18.7 billion. Moreover, 8 investment projects with total cost of over USD 58 mln are being implemented.

Special Industrial Zone in Angren (Angren SIZ)

Angren SIZ was established in 2012. The term of operation will be 30 years with opportunity for prolongation. During this period special customs and tax regimes will be in force within its territory.

Resolution grants exemptions for legal entities registered within the SIZ “Angren” from corporate income tax, property tax, infrastructure development tax, unified tax payment (for small companies), contributions to the Road Fund, provided that the amount of their direct investments are:

- from USD 300,000 to USD 3 million – exemption is valid for 3 years.
- from USD 3 million to USD 10 million USD – exemption is valid for 5 years.
- over USD 10 million– exemption is valid for 7 years.

Legal entities registered with the SIZ “Angren” would also benefit from a relief from customs payments (except for customs clearance fees) on imported equipment, raw materials and spare parts that are not

produced in Uzbekistan, imported to the territory of the SIZ “Angren” for implementation of projects, as per the lists approved by the Cabinet of Ministers.

Implementation of 10 investment project for total amount of USD 200 mln is currently in progress. Moreover, necessary documents for implementation of additional 21 projects are being prepared.

Special Industrial Zone “Djizzak”

In accordance with Presidential Decree No.VII-4516 of 18 March 2013 new Special Industrial Zone “Djizzak” is to be created in Djizzak region (SIZ “Djizzak”) for a preliminary term of 30 years with potential prolongation. During that period special customs and tax regimes and benefits will be in force within its territory.

Decree provides exemption for legal entities registered with the SIZ “Djizzak” from corporate income tax, property tax, infrastructure development tax, unified tax payment (for small companies), contributions to the Road Fund, provided that the amount of their direct investments are:

- from USD 300,000 to USD 3 million – exemption is valid for 3 years.
- from USD 3 million to USD 10 million – exemption is valid for 5 years.
- over USD 10 million USD – exemption is valid for 7 years.

Legal entities registered with the SIZ “Djizzak” would also benefit from a relief from customs payments (except for customs clearance fees) on imported equipment, raw materials and spare parts that are not produced in Uzbekistan, imported to the territory of the SIZ “Djizzak” for implementation of projects, as per the lists approved by the Cabinet of Ministers.

As of second quarter 2013 Administrative council of SIZ “Djizzak” has approved 93 promising projects for further study of their implementation in SIZ “Djizzak”.

Land privatisation

Although according to the Land Code of the Republic of Uzbekistan land is the sole property of the state, on 24 July 2006 Presidential Decree was issued on “privatisation of land plots occupied by property of legal entities and/or individuals”.

The Decree enforced the right of legal entities – residents of the Republic of Uzbekistan – to privatise, as of 1 January 2007, the land plots where the buildings of these legal entities are located (and the adjacent area). Privatisation by legal entities is voluntary and based on the market value of the land.

Otherwise, the legal entities which do not privatise the land plots (and the adjacent area) would continue use of the land on a long-term rent basis. The long-term rent cannot be less than 30 years and more than 50 years.

As regards privatisation of land for the individual housing purposes, the Decree enforced this right to individuals – residents of the Republic of Uzbekistan – as of 1 January 2008. Privatisation by individuals can be:

- voluntary, in respect of the land plot owned by individuals (upon the right of permanent use or life-long inheritance) and occupied (according to the state land cadastre) as at the Decree date – such land is to be privatised based on its market value
- voluntary, in respect of the land plots on sale for individual housing construction – such land is to be privatised through auctions, and
- mandatory, in respect of the land plots occupied by the existing individual housing constructions which are sold or donated (unless donated to close relatives) – such land is to be privatised based on its market value.

However, there has been no guidance for practical implementation of the Decree. Hence, the legal entities and individuals continue using the land plots on the terms existed prior to the Presidential Decree.

Banking, finance and insurance

Investor considerations

- Certain operations related to “movement of capital” are subject to licensing by the Central Bank of Uzbekistan
- Banking, credit union and leasing services are growing
- There are subsidiaries of few foreign banks in Uzbekistan providing banking services
- Money laundering legislation is undergoing certain changes
- Exporters are required to sell 50% of proceeds in foreign currency to bank, unless specifically exempt

Banking system

Banking market

Banking system in Uzbekistan is regulated by the Central Bank of Uzbekistan. The Central Bank is a non-commercial fully state owned entity empowered to control monetary policy, regulate settlements between the business entities and activities of the Uzbek commercial banks, manage gold and currency resources of the republic, license banking and credit activities. The Central Bank reports to the Senate.

As of 1 January 2014, the Central Bank of Uzbekistan has reduced the refinancing rate from 12% to 10%, its first reduction since mid-2006. The reduction of refinancing rate is intended to reduce interest rates in monetary markets, thus, reducing cost of loans in the economy.

The following operations related to the movement of capital are subject to licensing by the Central Bank:

- attraction of loans in foreign currency from non-resident entities
- opening of deposits in foreign currency in foreign banks, financial institutions and non-bank entities
- direct or portfolio investment in foreign currency to foreign enterprises, purchase of shares of foreign enterprise, and
- other non-current (long-term) transactions in foreign currency.

The banking sector can be divided into distinct groups:

- state controlled banks – National Bank of Uzbekistan for Foreign Economic Activity (NBU), UzPromstroybank, Agro Bank (ex. Pakhta Bank), Asaka Bank, Halk Bank (People’s Bank), Qishloq Qurilish Banki, etc

- banks with foreign investment –Uzbek - Korean Development Bank, Uzbekistan-Turkish Bank, Saderat Bank, Savdogar Bank, and
- medium and smaller size private banks Hamkor Bank, Kapital Bank, etc.

Money laundering

In August 2004 the Republic of Uzbekistan enforced the Law for prevention of legalisation of income from criminal activities and financing of terrorism (amended as of 22 April 2009). The Law defines preventive measures, such as: control by a special state authority, internal control and client acceptance checks by the entities involved in money/assets transfer operations (e.g. banks, insurance companies, leasing companies, notary offices, etc.).

Thus, entities involved in money/assets transfer operations should perform client acceptance checks and other internal control procedures to identify suspicious transactions. Such cases should be reported to the special state authorities (department for addressing tax and currency crimes and preventing legalisation of income from criminal activities under the Prosecutor General’s Office of Uzbekistan).

The following transactions are also subject to reporting to the special committee:

- transactions where one of the parties is a person permanently or temporarily residing in a country which is not a participant of the international cooperation group for prevention of legalisation of income from criminal activities and financing of terrorism, and
- transactions performed by a person (legal entity or individual), which is suspected in terrorism, or which is a shareholder of an entity that is suspected in terrorism.

In late 2009 there were a series of legislative acts issued to provide for practical implementation of this Law. These documents set rules for banks, insurance and audit companies, as well as non-bank credit and real estate organisations to perform certain acceptance checks and report on any suspicious transactions to competent authorities.

New Rules of internal control on prevention of legalisation of income, received from criminal activity and terrorist financing were approved by the Resolution of the Board of the Central Bank and the Prosecutor General's Office in November 2013.

According to these rules a number of additional verification measures were introduced. Verification measures included personal identification, verification of powers, identification of the bank client's owner and review of business transactions/documents of bank clients on a constant basis.

Foreign currency market and foreign currency rules

All Uzbek enterprises including enterprises with foreign investment (except for small size enterprises meeting certain criteria and some entities specific exemption criteria), are required to convert 50% of their hard currency revenue receipts into UZS through the domestic foreign exchange market. Conversion must be arranged through a bank authorised to undertake such activity.

All companies participating in foreign trade are obliged to present to the authorities monthly statistic reports on export and import of goods (works, services) and on movement of hard currency associated with export-import operations. On the basis of these statistic reports, the Ministry of Economy, Ministry of Foreign Economic Relations, Investments and Trade and Ministry of Finance together with the Central Bank establish and monitor fulfilment of forecasted export-import operations and mandatory sale of hard currency proceeds.

Settlements between businesses may only be performed through bank transfers, regardless of the type of business. Settlements for goods (works, services) in Uzbekistan are allowed in UZS only. An enterprise's right to hold petty cash is restricted; it may only withdraw cash from its bank accounts for two specific purposes: for the payment of wages and to cover certain allowances for business trips. Uzbek enterprises are prohibited from holding bank accounts outside the country without obtaining prior approval from the Central Bank. Uzbek nationals are not allowed to hold bank accounts outside of

Uzbekistan, unless they are physically on a (long-term) trip.

Uzbek nationals are allowed to export foreign currency in equivalent of up to USD 2,000 in cash without any approval. A bank certificate is required for export of foreign currency in the equivalent of between USD 2,000 to USD 5,000. Any amounts of foreign currency exported in excess of the equivalent of USD 5,000 are subject to special permission of the Central Bank. Foreign individuals are allowed to export hard currency from Uzbekistan but only up to the amount initially declared at the customs upon arrival in the country or withdrawn from their USD bank account in Uzbekistan.

There used to be certain limitations in the Uzbek currency control legislation restricting access of the enterprises to foreign currency conversion. However, beginning 1 October 2002 (after certain import regulations were introduced in the summer 2002), most of the restrictions were loosened. Since then, the enterprises were able to convert UZS to USD for the purpose of importing goods provided that certain requirements are met. Such requirements include timeliness and completeness of payment of applicable import taxes and duties, presence of certificates of conformity for the imported goods and strict observance of trade rules, such as mandatory registration with respective authorities, use of cash-register machines, mandatory labelling of certain listed goods in the Uzbek language, etc.

Conversion was also available for other purposes, e.g. paying out dividends, interest on loans, etc.

However, in practice, conversion remained a long and bureaucratic process involving heavy documentation, and it could take considerable period of time to receive foreign currency in exchange for UZS.

The converted funds should be deposited at the special bank account with an authorised bank. If the purchased foreign currency is not used within seven days after the purchase, it would be unconditionally sold back to the authorised bank for subsequent sale at the local interbank foreign currency trade session.

Monitoring of foreign currency transactions

Recently approved Regulation on monitoring of foreign currency transactions carried out by legal entities and individuals, in general, reinforces existing legislation in this area with introduction of certain changes. Thus, in accordance with the Regulation commercial banks shall provide information to state tax authorities on foreign exchange transactions carried out by their customers and having certain signs/characteristics, including:

- execution of payment for imported goods/services made to non-residents registered in 'black listed' countries (countries with favourable taxation regime) or payments to non-residents' accounts in the banks located in 'black listed' countries. Previously, banks had to report in cases where import contract envisaged payments in favour of non-residents registered in the 'black listed' countries
- payment of fines for breaching contractual obligations under import contract
- payment for provision of services, royalties, as well as payment of dividends and repatriation of income
- payment to non-residents for the sale of the shares (stock) in the charter capital of legal entities - residents of Uzbekistan and for the sale of real estate located in Uzbekistan
- payment by the resident made under the credit/loan agreement. Previously, reporting had to be made if such credit/loan agreement envisaged payment of interest (and additional payments) exceeding for a year 20% of the principal amount, and
- receipt of funds to the bank accounts of individual-resident of Uzbekistan from foreign legal entity.

Uzagrosugurta, Kafolat, Alfa Invest, SZAO INGO Uzbekistan (ex. Standard Insurance Group), Kapital Sugurta.

Specialised financial institutions

A number of international financial institutions cooperate with Uzbekistan and have presence in Tashkent. These include Asian Development Bank (ADB), Islamic Development Bank (IDB), World Bank Group (WB), European Bank for Reconstruction and Development (EBRD) and International Monetary Fund (IMF). Depending on their priorities and investment programmes, these institutions participate in various projects in Uzbekistan.

Leasing is another form of financing for private companies which has been fast developing in the last few years. The Uzbek legislation offers a number of tax benefits for leasing companies and leased assets.

There is one stock exchange located in Tashkent. It is regulated by the Law on securities market. Activity of stock exchange is subject to licensing.

Currently, the Uzbekistan securities market is not mature with limited functions such as facilitating privatisation process and circulating of secondary securities.

The number of insurance companies is increasing. Among 34 companies currently operating in Uzbekistan, the biggest players are: Uzbekinvest,

Importing and exporting

Tips for importers/exporters

- Import/export of certain types of goods is subject to the state quotas
- Consumer goods are subject to certification and Uzbek language labelling
- Consumer goods should be sold within 12 months from the date of customs clearance
- Technological equipment under qualifying certain criteria may be exempt from the customs payments
- A local customs broker is essential to obtain speedy customs clearance
- Special packaging is advisable to withstand clearance delays

Trends in customs policy

Foreign enterprises can trade directly with an Uzbek individual or enterprise, or they can use the services of a foreign trade agent.

Although the government maintains non-tariff controls over exports and imports, it has said that it intends to shift the emphasis to customs tariffs. In this regard mandatory registration of import contracts with the Ministry of Foreign Economic Relations, Investment and Trade (MFERIT) has been abolished as a measure to further liberate foreign trade. Moreover, as of January 2013 mandatory registration of import contracts with customs authorities is abolished.

Furthermore, the procedure of registration of foreign trade contracts with banks for monitoring purposes has also been abolished as of 1 September 2014.

In consequence of this amendment:

- business entities are supposed to provide information on their foreign trade contracts electronically through a Unified Online Portal for Government Services by using their electronic signatures;
- monitoring on foreign trade contracts of entities is carried out by currency control bodies and authorised banks through Unified Electronic Informational System on Foreign Trade Operations;
- contracts registered with the banks prior to 1 September 2014, should be deregistered by the banks and all information on such contracts should be entered into the Unified Electronic Informational System on Foreign Trade Operations.

Import restrictions

Import of goods into Uzbekistan is subject to obligatory certification. 'Certificate of quality compliance' is to be issued by "Uzbekstandart" State Agency, responsible for standardisation, metrology and certification. Along with application for the certificate of quality compliance an importer should present a set of documents describing origin of goods, country of export, compliance with safety requirements.

Export/import of certain goods is subject to licensing. Such licenses are issued by state agencies authorised by the Cabinet of Ministers. The Cabinet of Ministers may also establish quantitative restrictions (quotas) for exports and imports of certain categories of goods. Quotas are allocated on a competitive or auction basis. The list of such goods subject to licensing and quotas as well as the process of obtaining licenses and allocations of quotas is determined by the Cabinet of Ministers.

Imported consumer goods are subject to mandatory labelling in the Uzbek language.

As of 1 July 2013 certain imported consumer goods subject to obligatory labelling in the Uzbek language; such labelling should be done by producers (previously, the Uzbek language labelling could have been made by the importer of goods).

The labeling requirement applies, among others, to:

- certain food items
- alcoholic and non-alcoholic beverages
- cigarettes
- certain types of medicines
- personal hygiene and cleaning products
- household appliances, and
- toys.

Labelling requirements do not apply to imported consumer products not intended for resale or production/commercial use.

As of 1 July 2010, the Cabinet of Ministers adopted a new order providing that imported consumer goods should be sold within 1 year from the date of customs clearance. Sale of imported goods upon expiry of 12 months from the customs clearance date will be considered a violation of trade rules.

Customs payments

Classification of goods

Uzbekistan is a member of the International Convention on harmonised system of coding goods, which was enforced for Uzbekistan as of 1 January 2000. As of 1 October 2012 the new version (2012 version) of the harmonised system of coding goods was introduced.

According to the Customs Code of the Republic of Uzbekistan when goods (and transport vehicles) are imported to Uzbekistan, the following customs payments are charged:

- customs duty
- value added tax (VAT)
- excise tax (on excise-liable goods), and
- customs levies, including the customs clearance fee.

The customs payments are to be paid by an importer or a customs broker.

Customs payments are charged on:

- the customs value of the goods – for customs duty, excise tax and customs levies, and
- the customs value of the goods, plus applicable customs duty and excise tax (on excise-liable goods) – for VAT.

In contrast to the import customs payment, export of goods (works, services) is not subject to customs duties that were abolished in 1997.

In accordance with the Tax Code of the Republic of Uzbekistan, excise tax is not assessed on exports, except for export of certain goods, the list of which is determined by the Cabinet of Ministers, unless otherwise provided by inter-governmental agreements of the Republic of Uzbekistan.

VAT on export of goods (except precious metals) for freely convertible currency, unless otherwise provided by intergovernmental agreements, is charged at zero rate. Export to the countries that are parties to the bilateral agreements "On Principles of Indirect

Taxation for Exported and Imported Goods" (currently Kazakhstan, Kyrgyzstan, Azerbaijan and Moldova), is zero-rated, regardless of the currency of payment and type of goods exported.

Valuation methods (Transfer Pricing at Customs)

The customs value is determined by any of the following valuation methods:

- valuation at the contract value (of imported goods)
- valuation at the value of imported identical goods
- valuation at the value of imported similar goods
- valuation based on subtraction of values
- valuation based on addition of values, and
- reserve method valuation.

The common valuation method for determining the customs value of the imported goods is valuation at the contract value, whereby the customs value is deemed the price paid/payable for the imported goods as at the moment of customs clearance.

Tariff rates

Excise tax is charged as percentage of declared customs value of the imported item or at fixed amounts (e.g. cigarettes). The rates depend on the type of imported items and may deviate significantly.

Examples of excise tax rates on goods imported in the Republic of Uzbekistan are as follows:

- fruit/vegetable juices (except for pineapple and citrus) – 70%, but not less than USD 1 per 1 litre
- mineral water – 100%, but not less than USD 1 per 1 litre
- Cigarettes – USD 18.2 per 1,000 cigarettes
- air conditioners – 20%
- pet food – 70%
- oil and oil products – 20%
- vehicles – from USD 2.4 to USD 7.2 per cubic centimetre of engine
- vehicle spare parts – 20%
- furniture – 50%.

VAT is charged on all imports at the standard rate of 20%.

The customs duty rates vary from 0% to 30% depending on the type of goods.

Fixed rates are also set for certain goods as minimum, e.g. malt beer rate is 30% but not less than USD 0.7 per litre. Examples of the customs duty rates are as follows:

- alcohol – 30% but not less than USD 1 per litre
- cigarettes – 30% but not less than USD 3 per 1,000 cigarettes
- clothing – 10%-30%
- foodstuff – 5%-30%
- household appliances – 30%
- furniture – 10%-30%, and
- motor vehicles – 30% plus USD 1.8-3 per cubic centimetre (depending on the engine volume).

Application of the customs duties also depends on the country of origin of imported items, in particular:

- No import customs duties are applied to import of goods originated from members of the CIS Free Trade Zone convention (i.e. Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine).
- Import customs duties are applied at the standard rates to import of goods originated from countries which have been granted most favoured nation status:

Europe	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, United Kingdom, Cyprus, Malta, Slovenia
Asia	Bangladesh, China, India, Indonesia, Iran, Japan, Jordan, South Korea, Malaysia, Pakistan, Singapore, Turkey, Saudi Arabia, Vietnam
America	USA
Africa	Egypt

- Import customs duties are payable at double the standard rates on imports from all other countries.

Effective 1 June 2002, there is a special procedure to apply to goods and products imported by individuals for commercial needs. Customs authorities define whether goods and products are imported for commercial needs, which is critical since no customs

duty would apply to imports for personal needs provided that such imports do not exceed the equivalent of USD 1,000 per person. This norm however does not apply to imports by individuals from neighbouring countries; such imports are subject to a significantly lower norm.

Individuals importing goods and products for commercial needs are subject to state registration as individual entrepreneurs operating without establishing a legal entity with the right to perform import and export operations.

Tolling

Goods imported to Uzbekistan for processing and further re-export are to be cleared under the special customs regime 'processing in the territory of the Republic of Uzbekistan'. Goods imported under this regime are to be processed under the customs supervision.

After the imported goods have been processed in Uzbekistan, they should be re-registered under another customs regime along with the products of their processing, i.e. for re-export or free circulation in Uzbekistan. If the importer failed to re-register as appropriate within 1 months (after the completion of processing), the goods and products of their processing may be withdrawn by the state.

Payment

The import customs payments are made during the customs clearance of goods.

Producers can also defer the payment of their import VAT in respect of material and technical resources used for export-oriented production. The deferral is granted for up to 90 days without application of any interest.

Import relief

There are certain exemptions from the customs duties and import VAT, for instance:

- Goods imported by individuals within the norms of duty-free import are exempt from import duty and VAT
- property imported for production needs by enterprises with foreign investment with foreign participation in the equity not less than 33% is exempt from customs duty for the period of 2 years from the state registration of this enterprise
- medicines and medical equipment that cannot be locally produced are exempt from import duty and VAT
- goods imported by foreign legal entities whose total direct investment to Uzbekistan have

comprised USD 50 mln and more are exempt from customs duty, provided that the imported goods are of their own production and are not in the list of consumer goods

- goods imported by foreign investors for their personal needs (and for personal needs of foreign citizens residing in Uzbekistan in accordance with labour contracts with the foreign investors) are exempt from customs duty, unless these goods are in the list of consumer goods, and
- technological equipment named in a special list is exempt from customs duty starting from 10 April 2007. The list contains over 90 groups of items listed in sections 7, 8, and 9 of the harmonised coding system applied in Uzbekistan. The list specifically mentions that customs incentives are applicable to spare parts to technological equipment provided that such spare parts are supplied along with the equipment in accordance with the contracts.

As of 1 April 2013 in order to apply benefits on customs payments, an importer-legal entity should provide a copy of export customs declaration for confirmation customs value of imported goods.

Documentation and procedures

Registration of import/export contracts

The following import contracts are subject to obligatory expertise with the Ministry of Foreign Economic Relations, Investment and Trade (MFERIT):

- financed from the state budget
- financed by the loans attracted or guaranteed by the Republic of Uzbekistan, or
- concluded by business entities with at least 50% of the charter capital held by the state which do not have sufficient hard currency resources.

MFERIT is also authorised to perform obligatory registration of export contracts for the export of certain listed goods (military, jewellery, uranium, metals, crude oil, cotton yarn), unless such goods are exported through the commodity exchange or by the companies-producers.

The list of documents required for the MFERIT registration/expertise includes:

- standard application
- original of the contract and its copy
- legal opinion on the contract commenting on its compliance with the requirements of the

Uzbek legislation in cases when the contract value exceeds 200 times the minimum monthly wage (MMW) which is approximately USD 9,000 at the time of writing, and

- contract pricing substantiation with relevant supporting documents.

Contracts for the import of certain goods (as per the list set by the legislation) are also subject to pre-shipment inspection which is to be performed by special consulting companies accredited with the state standardisation agency “Uzstandart”. Such expertise is not required for contracts with the value less than USD 10,000 and contracts for the import of goods subject to licensing.

Customs cargo declaration

All goods imported in / exported from the Republic of Uzbekistan, as well as electricity crossing the customs border of Uzbekistan and oil/gas transported through the pipelines are subject to customs clearance with completion of a standard customs cargo declaration.

The customs cargo declaration should be completed and filed with the customs authorities prior to or within 15 days after the respective goods arrive(d) at the customs territory of Uzbekistan.

As mentioned earlier in this section, the customs authorities may challenge the declared value of the goods. In this case they would determine the customs value based on any of the valuation methods.

There were few legislative acts issued in 2011 abolishing certain permit obtaining procedures, e.g. procedure for obtaining a ‘passport of import transaction’ and certificate on registration of import/export contracts; obtaining of registration card of import operations were abolished etc.

Preliminary/periodic customs declarations

Resolution of the State Custom Committee issued in January 2013 provides an opportunity to submit **preliminary** customs declaration, i.e. submit declaration prior to actual arrival of imported goods to Uzbekistan. Another Resolution of the State Customs Committee also issued in January 2013 provides that **periodic** customs declarations can be filed in cases where similar goods are regularly imported by the same person, i.e. if the same type of goods are imported more than one time within 60 (sixty) calendar days from the same consignor to the same consignee under the same contract/terms.

Both Resolutions provide that preliminary/periodic customs declarations cannot be applied in respect of goods:

- prohibited for importation to Uzbekistan
- subject to licensing, or
- that require obtaining a permit from authorities (except for certificate of conformity, sanitary, veterinary certificates etc.).

Customs regimes

The Uzbek Customs Code stipulates 15 customs regimes:

1. free circulation (import), when goods are imported for free circulation in Uzbekistan with no obligation of further re-export; these goods are subject to the customs payments
2. re-import, when goods previously exported from Uzbekistan are re-imported to the republic with no customs payments charged
3. export, when goods are exported from Uzbekistan with no obligation of further re-import
4. re-export, when previously imported goods are re-exported (on certain conditions, the import customs payments can be refunded)
5. transit, when goods are passing the customs territory of Uzbekistan under the customs supervision with no customs payments charged
6. temporary import (export), when goods are imported (exported) to Uzbekistan on a temporary basis with obligation for re-export and partial/full exemption from the customs payments
7. temporary storage, when imported goods are stored prior to their clearance under another regime (not to exceed in general 2 months) with no customs payments charged
8. customs (bonded) warehouse, when imported goods or goods to be exported are placed to a warehouse under the customs supervision with no customs payments charged
9. free customs zone, when goods are imported for use within specific zones with no customs payments charged
10. free warehouse (is similar to the free customs zone regime)
11. duty-free shop, when imported goods are placed to and sold from specialised shops with no customs payments charged
12. processing on the customs territory, when goods are imported for processing under the customs supervision with no customs payments charged if the goods or products of their processing are further re-exported
13. processing outside of the customs territory, when goods are exported from Uzbekistan for processing with no customs payments charged (the goods and products of their processing are

subject to re-import to Uzbekistan and clearance under the free circulation regime subject to the customs payments)

14. destruction, when imported goods are destroyed under the customs supervision with no customs payments charged, and
15. refusal in favour of the state, when the importer refuses the goods in favour of the state with no customs payments charged.

Business entities

Investor considerations

- Foreign investment can be made in the form of participation in charter capital (equity) of business entities and partnerships, banks, insurance companies and other entities established jointly with Uzbek legal entities or individuals
- Foreign investment can be made in the form of acquisition of concession rights including rights for exploration and development of natural resources
- Foreign investments can be made in the form of acquisition of a right for exploration, prospecting and mining of mineral resources under production sharing agreements
- New edition of the Law on Joint Stock Societies was introduced in 2014 One-window registration of companies
- 'Branch' option of the legal set up is not available for foreign companies
- Dividends or profits distribution is restricted in cases when "net assets" are less than charter capital

Legal framework

The Uzbek company law system consists of the Civil Code and a series of separate laws governing joint-stock societies, limited liability societies, business partnerships and private enterprises.

Commercial activity of business entities is also subject to the law on legal contractual basis of activities of business entities setting the requirements for contracts preparation, conclusion and fulfilment.

Forms of business entities

Foreign investors may choose from a number of different forms of organisation to conduct business and business-related activities in Uzbekistan, including: limited liability societies, joint stock societies, partnerships, subsidiaries, representative offices and branches of foreign enterprises.

According to the Civil Code of the Republic of Uzbekistan, founders/participants of a legal entity or owners of its property are generally not responsible for liabilities of the legal entity. Such responsibility arises when these persons' or a parent entity's actions have led to insolvency (bankruptcy) of this legal entity.

Open joint stock societies, entities with state participation and enterprises engaged in insurance, banking, stock and commodity exchanges, investment funds and other financial institutions are subject to mandatory annual audit by an independent audit company.

Limited liability societies

Limited liability societies are governed by the Law on Societies, #310-II of 6 December 2001, enforced from 1 March 2002. Limited liability societies are

considered separate legal entities and may be established by one or several founders. The founders' financial liability is generally limited to their contribution to the owners' equity (capital) of the company.

The equity capital cannot be less than 40 times the MMW. The equity capital should be contributed within a term defined by foundation documents not to exceed one year from the date of state registration.

A limited liability society does not issue shares, but divides its charter capital amongst its participants.

A limited liability society may decide to distribute profits on a quarterly, semi-annual and annual basis. Distribution is restricted in a number of cases, without limitation: when the charter capital has not been paid in full; if at the moment of profits distribution the society qualify as insolvent (or would qualify as such as a result of profits distribution); if at the moment of profits distribution the net assets of the society are less (or would be less as a result of profits distribution) than its charter capital and reserves.

Joint stock societies

Joint stock societies are governed by the Law on Joint Stock Societies and the Protection of Shareholder Rights of 26 April 1996. Joint Stock Societies are considered separate legal entities and may be established by one or several founders.

New edition of the Law on Joint Stock Societies and Protection of Shareholder's Rights (Law) was introduced with effect from 7 May 2014. We have summarised the most notable amendments below.

- The new edition of the Law no longer contains distinct concepts of open and closed joint stock societies (JSS).
- JSS is granted with the right to determine the place of its location in accordance with its Charter (previously it was based on the place of state registration). In addition JSS is now obliged to have an email address and inform the state registration authorities if it changes.
- Pre-emptive right can be provided based on the Charter if the number of JSS' shareholders does not exceed 50. The term of exercise of the pre-emptive right of the shareholders and (or) JSS to repurchase the shares is reduced to a minimum of 10 and maximum of 30 days from the date of written notice of the exiting shareholder (previously, from 30 to 60 days).
- The decision of the Constituent Assembly should be formalised by the protocol signed by all founders of JSS. In JSS with a single founder Constituent Assembly is not conducted.
- The term for preparation and approval at the General Meeting of Shareholders of the Regulation on the Supervisory Board, Executive Body and the Audit Committee (Auditor) is decreases to 3 months from the date of state registration (previously, 6 months).
- The Law defines that the Charter Capital (authorised fund) of JSS comprises of the nominal value of shares acquired by the shareholders expressed in the national currency of the Republic of Uzbekistan.
- Minimum Charter Capital remains at the level of equivalent of USD 400,000 at the Central Bank exchange rate. However, the maximum nominal value of a share is established as UZS 5,000.

The equity capital should be contributed within a term defined by foundation documents not to exceed one year from the date of state registration.

There is no concept of a "shelf" company in Uzbekistan. The financial liability of shareholders is generally limited to their contribution to the owners' equity (capital) of the company.

Joint stock societies must create a reserve fund. The declared reserve fund cannot be less than 15% of the entity's charter capital and the annual allocation to it should not be less than 5% of the entity's net profits until the reserve fund equals the amount declared in the charter. Joint stock societies can use the reserve fund only for limited purposes (e.g. recovery of losses,

redemption of debentures, payment of dividends on preferred shares).

A joint stock society may decide to distribute profits on a quarterly, semi-annual and annual basis. Decision for paying quarterly, semi-annual and annual dividends is passed at the general shareholders meeting at the recommendation of the supervisory board. The amount of dividends cannot exceed the amount recommended by the supervisory board. Dividends cannot be paid if it may worsen the financial position of the society.

Dividends are paid from the net profits of the society for a respective period and/or undistributed profits for prior periods. Dividends on preferred shares may also be paid from the reserve fund.

Partnerships

Partnerships are governed by the Law on Partnerships, #308-II of 6 December 2001. Partnerships are considered to be legal entities.

The minimum charter capital is established to be not less than 50 times the MMW. The foundation capital should be contributed within a term defined by foundation documents not to exceed one year from the moment of state registration.

Profits and losses of a partnership are distributed among its partners in a proportion to their respective participation share in the charter capital, unless otherwise established in the foundation agreement. Profits cannot be distributed if the net assets of the partnership are less than its charter capital.

There are two types of partnership - limited partnerships and general partnerships - both must have at least two founders. A limited partnership must have at least one general partner, who has unlimited liability for partnership debts. The liability of other partners is limited to the amount of their investment. In a general partnership, all partners have unlimited liability. Both types of partnership are taxed in the same manner as companies.

Subsidiaries

According to the Civil Code of the Republic of Uzbekistan, subsidiaries are viewed as separate legal entities. A subsidiary is established by a parent economic society, provided that the latter, by force of its participation in the charter fund or appropriate agreement may influence decision-making process of the subsidiary. A subsidiary does not hold responsibility for any liability of its parent.

Representative offices

Representative offices of foreign companies are not viewed as separate legal entities in accordance with the Civil Code of the Republic of Uzbekistan. These are used to gather information, to establish business contacts, conduct marketing research, etc. The representative offices are prohibited from engaging in any commercial (income-generating) activity.

As of 1 January 2012 the Regulation on accreditation and activities of representative offices of foreign companies in the territory of Uzbekistan was amended to allow the representative offices of foreign airline companies to carry out commercial activities provided that they additionally register as permanent establishments.

Effective 1 January 2012 accreditation of the representative office is performed for a fee in the amount of USD 1,200.

Branches

According to the Civil Code, branches of legal entities can carry out all the functions of a legal entity, without constituting a separate one. Branches of Uzbek legal entities are generally established in remote (from the head office) location(s) to allow local presence; they operate under special branch regulation which is developed by the principal entity. The regulation defines the framework of the branch's operation; it stipulates that the branch is not a separate legal entity and does not have own assets, balance sheet, etc.

However, in practice, this business form is not applied to foreign legal entities. It may be due to a lack of legislative guidance in respect of registering a branch of an entity which does not, by its own, have a registration in Uzbekistan.

Foreign legal entities

A foreign legal entity (FLE) may perform certain business activities in Uzbekistan without establishment of an Uzbek legal entity.

If their activities meet criteria established for Permanent Establishment (PE), they should register with tax authorities as tax payers. PE is a pure tax status without any legal form of ownership.

PE is generally subject to corporate income (profits) tax charged in the same manner as applicable for Uzbek legal entities and certain other taxes described further in this Guide.

PEs of FLEs are allowed to open and operate bank accounts in Uzbekistan commercial banks.

Joint activities

Contracts governing joint activities are not considered to have a separate legal identity but may be used to facilitate certain business purposes.

Registration requirements

Enterprises have to apply to a relevant state authority responsible for its statutory registration. Following the statutory registration with the relevant authority, the latter becomes responsible for the subsequent registration of the enterprise with tax and statistics authorities, Road Fund, Labour, Employment and Social Security Departments and receiving permission from the Ministry of Internal Affairs for the enterprise to produce a seal and a stamp.

Registration responsibilities are split among the Ministry of Justice, Khokimiyats (local authorities) and Central Bank of districts and cities.

The Ministry of Justice is responsible for the registration of audit and insurance organisations, exchanges, enterprises with foreign investments and market places (bazaars) created in Tashkent.

Khokimiyats of districts and cities are responsible for the registration of all subjects of entrepreneurship, including enterprises with foreign participation¹, except for those to be registered by the Ministry of Justice.

Central Bank is responsible for the registration of commercial banks and representative offices of foreign banks.

The total period of registration of the enterprise with all the subsequent registration with tax and other authorities may vary from 7 days to 1 month depending on the complexity of each case.

State registration of enterprises with foreign investment is subject to a registration fee of 5 times the MMW plus USD 500. Joint stock societies established with state participation are exempt from the state registration fee.

Representative offices must be accredited with the MFERIT. Similar to the incorporation of enterprises with foreign investment, the accreditation of representative offices is not in theory a long process to pass. However, in practice the registration takes approximately one month. Accreditation lasts for up to three years, normally with prolongation carried out on an annual basis.

¹ Companies with participation of foreign capital, which do not meet criteria set for enterprises with foreign investments (please refer to criteria described in the Investment context section above).

Production sharing agreements

Law on Production Sharing Agreements (PSA) specifies definitions and terms under which foreign investors may enter into PSAs.

In particular, the Law stipulates that subsurface plots to be explored under a PSA shall generally be limited to those plots that have not been proven to have natural resources stores. The proven natural resources stores may be included in the PSA only in cases when there is a lack of financial and technical means for the exploration of such stores provided that this is useful for the republic's economy.

The Law also specifies procedure for entering a PSA. As a general rule, subsurface plots should be provided under PSA on a competitive bid basis. However, the Cabinet of Ministers of the Republic of Uzbekistan may adjust the procedure in certain cases, e.g. when the bid for the field is participated in by one foreign investor only. Activities under PSA are subject to licensing with the Cabinet of Ministers. The license is issued for the period of PSA validity.

Among the key terms of performing activities under a PSA, there is a requirement that audits of financial

and economic activity and implementation of the proposed budget be performed as of the end of financial year at the expense of the foreign investor.

Reasonable expenses of foreign investors would be reimbursed in the form of products. The reimbursement should begin in the year when the commercial extraction is launched. Reasonable expenses that are not reimbursed in the current calendar year can be reimbursed in the following years within the period of duration of the agreement subject to a limit to be set by the agreement. The term 'reasonable' shall not include taxes, insurance of business or other risks, investor's selling expenses, fines and penalties.

Taxation of foreign investors under PSA is governed by the Tax Code. Thus, the foreign investors will only pay: income (profits) tax, land tax, signing bonus and commercial discovery bonus, water use tax, unified social payment, subsurface use tax and excise tax.

Customs payments shall not apply to import of goods, works and services required for the purpose of PSA, nor to the export of the investor's share of production.

Labour relations and social security

Investor considerations

- To hire foreign employees a company in Uzbekistan must obtain a foreign labour license of the Agency on Foreign Labour Migration under the Ministry of Labour and Social Protection; once the license is available, the employer is to obtain work permits for each foreign employee
- There are quantitative limitations on foreign personnel attracted to work in Uzbekistan
- Taxpayer's identification number should be obtained by foreign employees when they are deemed residents of Uzbekistan for tax purposes
- Employer social security contribution accounts for 25% of payroll cost in 2014, including payroll of expatriate personnel

Labour market

Employment conditions for Uzbek national staff and foreign personnel is governed by the Uzbekistan Labour Code, the Law on Employment in Uzbekistan and other normative acts, collective agreements and employment contracts.

Employment contracts

Written employment contracts are compulsory and are usually valid for an unlimited period. Fixed-term contracts, either for five years or less, or for the duration of a project, are possible under certain conditions. A contract may include a three-month probation period during which an employee may be dismissed without a reason.

Dismissals

Notice of dismissal should be made in writing by employers at least two months before dismissal in case of staff reduction or liquidation of the employer, or at least two weeks before dismissal in case when the employee does not meet the job requirements due to insufficient qualification or health condition.

Notice of dismissal under a fixed-term contract must be provided within one week after the last day of the contract, otherwise the contract will be regarded as having been confirmed and the appointment made permanent.

Labour agreement may be terminated at the employee's or employer's initiative. In case of dismissal by the employer, decision for the dismissal should be explained by one of the following reasons: staff reduction (liquidation of the employer), failure to meet job requirements (due to insufficient qualification or health condition), regular under-performance of job duties, one-off case of gross misconduct, termination of the agreement with a part-timer with hiring a full-time employee, or termination due to change of owner/management of the employer.

It is recommended that job descriptions be given to all staff, and that they be informed of the disciplinary procedures in force at the enterprise.

Leave, work hours and benefits

The Labour Code specifies the minimum benefit requirements, although most foreign enterprises usually offer more advantageous packages.

The minimum paid annual vacation is 15 working days. Certain categories of employees (underage workers, handicap employees) may receive extended paid annual vacation of up to 30 working days.

Women are guaranteed up to 126 days (140 days in cases of hard delivery or birth of two and more children) of paid maternity leave. Women are entitled to a one-off maternity allowance which is paid by the employer. After the maternity leave women may take a child care leave for up to two years and receive monthly "child allowance". Women may also take an additional unpaid child care leave till child becomes 3 years old. They may also choose to work part-time or from home for up to two years after the birth for reduced pay. Leave for statutory holidays, paternity leave and family bereavement leaves is also mandatory.

The regular work week is 40 hours. For each hour of overtime work, an employee must be compensated at least at double of his/her normal hourly rate. There are 9 official public holidays in Uzbekistan (please refer to Annex B).

Uzbekistan enterprises must pay their Uzbekistan employees in UZS. As of 1 September 2014 the minimum monthly salary is set equal to the first level of the Unified tariff scale of wages, i.e. UZS 266,504.3 (approximately USD 112) at the time of writing.

Unions

Employees have the right to strike and may join labour unions. Yet, the incident of strikes is very low. The rights and functions of trade unions are determined by the Labour Code and a collective agreement which is concluded between the employer and the trade union on behalf of the employees.

The collective agreement provisions are binding for the employer and the employees. Compliance of the employer/employees with these provisions can be inspected by the Ministry of Labour and Social Protection.

Social security

Employees' contributions

Like most other CIS countries, compulsory social security charges are calculated and paid by employees and employers on wages. In addition to personal income tax (as described in the relevant section of this Guide), employees are required to pay the following amounts, charged as a percentage of their salaries:

- 6.5% to the Pension Fund, 1% to the Trade Union Federation Council (if an individual is a member of any trade union).

Foreign personnel residing in Uzbekistan (i.e. those who have permanent residency permit and permanent registration) are subject to social charges to the Pension Fund. Other foreign personnel are exempt from the social charges, unless the benefits resulting from such social contributions are to be claimed. Such benefits include: pension, unemployment allowance, disability allowance etc.

Employers' contribution

Employers are subject to unified social payment assessed on total payroll cost related to local and expatriate staff. This payment is collected by the tax authorities. The rate of unified social payment for 2014 is 25%. [It is expected that this rate will be reduced in 2015 to 15% for micro-firms and small-size companies offering a considerable saving which is prescribed to be utilised for modernisation of production and stimulation of staff.]

The payment should be distributed by tax authorities as follows:

- Pension Fund – 24.8%
- Employment Fund – 0.1%, and
- Trade Union Federation Council – 0.1%.

Besides paying their own payroll tax liability, employers are required to withhold tax liability of

their staff at source and remit the amount of personal income tax and other deductions (6.5 and 1%) to the district tax authorities.

Employers must file quarterly reports on personal income tax, unified social payment and pension fund contribution with the tax authorities at place of registration. Payments of personal income tax must be made on the same date when cash for salary is withdrawn from the bank; unified social payment and pension fund contribution are due no later than 10th day of the following month.

As of 1 January 2012 income of foreign personnel paid to non-resident legal entities as part of secondment fees under personnel provision agreements is subject to unified social payment. Taxable base for calculation of unified social payment on such income shall be the actual income of the foreign personnel provided, but not less than 90% of the secondment fee payable under the personnel provision agreement.

Cumulative pension system

Effective 1 January 2005, the Uzbek pension system was supplemented with a new cumulative pension mechanism. This mechanism implies obligatory withholding by employers of 1% from the employees' monthly employment income. However, this amount withheld will decrease personal income tax liability calculated from the same monthly employment income.

Individuals or employers may also make voluntary contributions to the cumulative pension fund. The contributions (both obligatory and voluntary) are accumulated and maintained by the Halq (People's) Bank of Uzbekistan.

Beneficiaries of the accumulated pension can withdraw their pension funds when they reach pension age determined by the legislation. The withdrawal would be allowed based on a pension certificate to be issued by a social security department at the place of permanent residency.

The accumulated pension can be withdrawn prior to the pension age in case (i) of beneficiary's death when his/her accumulated pension funds are inherited as per relevant legislation; or (ii) if an individual emigrates from the Republic of Uzbekistan.

Foreign personnel

Work permit and visas

Foreigners wishing to work for an Uzbek enterprise (such enterprise should obtain a foreign labour license prior to hiring foreign manpower) must possess a valid entry visa and work permit. Foreign nationals working for a representative office of a foreign

enterprise are not required to obtain work permit, instead they should obtain an individual accreditation card from MFERIT. Entry visa can be obtained from a consular department of an Uzbek embassy in a foreign country (where there is an Uzbek embassy).

Work permits are to be issued by the Agency on Foreign Labour Migration under the Uzbek Ministry of Labour.

Obtaining a work permit is subject to a state duty of 10 times the MMW (approximately USD 450). The work permit is generally issued within one month. Validity of the work permit is normally up to one year, with possible renewal.

After the work permit is issued the inviting Uzbek enterprise should apply to the Ministry of Internal Affairs for an 'E2'-type working visa. The 'E2' visa cost depends on duration of the intended stay and country of residence of the foreign national.

In order to obtain the visa the inviting Uzbek enterprise would present a copy of the work permit and standard application indicating personal information on the foreign national and the enterprise's details (e.g. registration certificate and permission to recruit foreign employees). The 'E2' visa is generally issued within two weeks.

In case if foreign national is in Uzbekistan at the moment of filing documents for work permit, such documents are accepted if one of the following visa types is available: labour visa "E", business visas "B-1", "B-2" or service visa "S-3".

For foreign nationals accredited with the MFERIT, an accreditation card is a sufficient ground for working in Uzbekistan, and neither work permit nor foreign labour license is required. The "accredited" foreign nationals would obtain a 'B1'-type working visa issued by the Ministry of Internal Affairs.

Foreign nationals arriving to work in Uzbekistan may be accompanied by their family. Dependents would get their entry visa along with the business visa issued to the foreign national; documents for all family members are submitted to the consular department of an Uzbek embassy in a foreign country along with the documents for the foreign national.

The foreign national would further obtain the 'E2' (with work permit) or 'B1' (with accreditation) working visa. Dependents would also get special type working visa which generally allows them to work in Uzbekistan on certain conditions.

Restrictions on employment of foreign nationals

The Agency on Foreign Labour Migration under the Uzbek Ministry of Labour and Social Protection sets quantitative limitations for attracting foreign personnel.

For instance, such limitation for works under PSA is set at 20% of the total number of employees, and attracting more foreign personnel is subject to a condition that there should be no qualifying specialists in the local population.

Fiscal registration number

Foreign nationals, including persons without citizenship, are subject to mandatory registration and obtaining a taxpayer's identification number (TIN) if their stay in Uzbekistan is 183 days and more in any consecutive twelve-month period ending in the current tax year, i.e. if they become residents of Uzbekistan for personal income tax purposes.

TIN should be obtained from a local tax authority at place of residence.

Accounting and audit requirements

Investor considerations

- Lack of reliable information
- Substantial differences between Uzbek accounting legislation and International Financial Reporting Standards
- Local accountants are not sufficiently qualified in International Financial Reporting Standards
- Independence of local audit firms is an issue
- Strict regulation of the banking activities by the Central Bank of Uzbekistan

Accounting

Introduction of International Financial Reporting Standards

The transition to International Financial Reporting Standards (IFRS) is not legally enforced in the country. However, all the banks operating in the country are legally bound by the Central Bank of Uzbekistan (CBU) to produce IFRS financial statements on an annual basis, while it may be complex for some of the local accountants who have been working for a long time with a different set of accounts and principles and might need time to change their accounting mindset.

Statutory accounting reports are still essentially produced to enable the authorities to assess the tax liability of an enterprise, and accounting is primarily a matter for the legal classification of transactions and provision of supporting documentary evidence. Accountants are not expected to exercise the degree of professional judgement that is a feature of western accounting practice. Most potential investors restate the accounts of the enterprises in which they are considering investing in accordance with IFRS or another national or group standard so as to portray an understandable and meaningful financial position of an enterprise.

Accounting principles in Uzbekistan

Non-financial entities

Accounting and reporting procedures are regulated by the accounting legislation of Uzbekistan, including National Accounting Standards of the Republic of Uzbekistan (NAS), which are published by the Ministry of Finance of the Republic of Uzbekistan. When introduced NAS were based on International Accounting Standards (IAS); however, they are not fully updated for the changes in IFRS.

Banks

Accounting and reporting procedures are regulated by the CBU instructions as stipulated by Law #154-I On

Central Bank of Uzbekistan of 21 December 1995 and Law #216-I On banks and banking activities of 25 April 1996.

Insurance companies

Accounting and reporting procedures are regulated by the accounting legislation of Uzbekistan, including NAS. Specifics of accounting for income and expenses are regulated by Regulation on Cost composition #1517 of 18 October 2005. Insurance reserves are regulated by Regulation on Insurance reserves of insurers establishing a methodology of calculation and procedure of formation and placement of insurance reserves by insurers (registered with the Ministry of Justice under #1882 of 15 December 2008).

Statutory requirements

Accounting legislation imposes strict requirements for maintenance of books and records, e.g. all records must be supported by original source documents. In practice tax authorities do not place any reliance on audited statutory accounting reports. Requirement for annual audits is regulated by Law #78-II On Audit activities of 26 May 2000.

Significant accounting differences between Uzbekistan standards and IFRS

Although NAS were based on IAS, statutory accounting framework substantially differs from IFRS. The following are the examples of the areas of key differences between the Uzbekistan standards and IFRS, including accounting for and disclosure of:

- financial instruments
- impairment of assets
- investments in subsidiaries, associates and joint ventures, and
- deferred tax.

Profile of the accounting profession

Auditing practice is regulated by the auditing legislation of Uzbekistan, including National Standards on Auditing (“NSA”). Main regulatory and licensing bodies are the Ministry of Finance that issues statutory general audit license and CBU that issues statutory banking audit license. It is mandatory to hold both licenses to perform bank audits.

Local audit firms’ services are usually limited to audit of statutory accounting reports, while one of the purposes of such audits is to provide assurance over an entity’s tax liability assessment.

Chart of accounts

Uzbekistan accounting legislation provides for two types of chart of accounts: chart of accounts for commercial banks registered by the Ministry of Justice under #773-17 of 13 August 2004 and NAS #21 Chart of accounts for companies registered by the Ministry of Justice under #1181-1 of 12 November 2003.

Audit requirements

There is NSA #70 Auditor’s report and auditor’s opinion registered by the Ministry of Justice under #1016 of 10 March 2001 that sets core requirements for the content and form of auditor’s report and opinion. Auditor’s report is a document summarising audit findings and recommendations.

In April 2007 there was a new set of requirements for audit companies introduced by President’s Resolution. These included: minimum charter capital and shareholding requirements, minimum number of auditors with local qualification certificate, obligatory rotation of the audit firm after three consequent years.

As per the Uzbek legislation, annual audit is mandatory for the following types of entities:

- joint stock societies
- banks and credit unions
- insurance companies
- investment funds
- charity and other social funds financed by voluntary contributions of legal entities and individuals
- non-budget funds financed by obligatory contributions of legal entities and individuals
- business entities with state share in their equity, and
- stock and commodity exchanges.

Tax system and administration

Investor considerations

- Current Tax Code is enforced as of 1 January 2008, latest changes introduced on 4 September 2014
- Form driven tax environment
- General tendency towards decreasing the tax burden, although position of the tax authorities in practice is to collect more taxes
- Network of 52 signed double tax treaties, 50 of which are in effect

Tax system

The fundamentals of the current Uzbekistan tax system were established as part of a key series of tax reforms introduced during 1991. Since then the tax system has been modified on numerous occasions and remains one of the complex aspects of the Uzbekistan business environment.

The most notable modification of the tax system in the past few years is the introduction of a new Tax Code as of 1 January 2008 (amended as of 4 September 2014). The Tax Code has unified the underlying principles of taxes and obligatory payments charged in Uzbekistan and practical guidance on calculation and payment which had been previously set out by specific instructions on each tax.

State Tax Committee

The Uzbekistan State Tax Committee (STC) is the focal government authority responsible for administering the tax system, issuing instructions on the application of tax laws and providing guidance to taxpayers. Main Tax Departments of Tashkent, Republic of Karakalpakstan and 12 regions are direct subordinates of the STC. There are also local tax authorities – Inspectorates.

Registration requirements

Legal entities are required to register for tax purposes with local structural divisions State Tax Inspectorates of the STC at the district of the legal entity's location (legal address). These local State Tax Inspectorates are responsible for collecting taxes and insuring the taxpayer's compliance with the tax legislation.

Direct and indirect tax burden

Contributions to designated state funds comprise the significant share in the state budget. Government estimates for the last three year indicate this share to be in the range from 37.5% to 42.9% of the state budget.

There are three major obligatory contributions levied on the taxpayer – contributions to Road Fund, Pension Fund and Non-budget Fund on Reconstruction, Capital Repair and Equipment of Educational and Medical Institutions.

These charges normally represent a considerable tax burden, as the underlying taxable base for all three contributions is the taxpayer's net revenue (revenue net of VAT and excise tax). The cumulative rate of the above three contributions is 3.5% in 2014 (Pension Fund- 1.6%, Educational Institutions Fund- 0.5%, Road Fund- 1.4%).

Indirect tax group is another major contributor to the state budget. The share of indirect tax contributions has not changed significantly over the past two years. This group includes the following indirect taxes:

Indirect Taxes	State budget share* (actual)	
	2012	2013
Total	54.5%	56.7%
VAT	31.1%	31.9%
Excise	16.6%	17.6%
Customs duty	4.0%	4.3%
Car petroleum and gas consumption tax	2.8%	2.8%

*Share of state budget excluding contributions to designated state funds

Direct taxes are not such significant state revenue drivers as indirect taxes and contributions to the state funds. The major direct tax contributor remains personal income tax.

Direct Taxes	State budget share* (actual)	
	2012	2013
Total	28.3%	26.9%
CIT, WHT	5.2%	4.4%
Unified Tax Payment	6.4%	6.7%
Personal Income Tax	12.0%	11.5%
Fixed Taxes	1.7%	1.8%
Infrastructure Development tax	2.9%	2.5%

*Share of state budget excluding contributions to designated state funds

Another important group is 'resource' and 'property' taxes. This group includes the following taxes:

Resource and property taxes	State budget share* (actual)	
	2012	2013
Total	17.3%	16.4%
Subsurface use tax	10.5%	9.3%
Property tax	3.8%	4.3%
Land tax	2.5%	2.5%
Water use tax	0.4%	0.4%

*Share of state budget excluding contributions to designated state funds

In general, the Government tends to decrease the direct tax rates. The turnover charges (obligatory contributions to the state funds) remain the key discouraging factor in taxation of business entities.

Principal taxes

The main taxes affecting foreign investors in 2014 are the following:

- CIT, including income tax withheld at the source of payment (withholding tax), and infrastructure development tax
- value-added tax and turnover charges
- personal income tax and other payroll charges
- customs duties, and
- other taxes and charges (e.g. subsurface use tax, excise tax, property tax, net profits tax for permanent establishments, excess profits tax for subsurface users, land tax, water use tax and other local taxes and charges).

Legislative framework

Uzbekistan tax legislation is based on the statute law. The main document regulating taxation is the Tax Code of the Republic of Uzbekistan. The Tax Code unified main taxation principles and the practical aspects of taxation. Separate instructions for calculating and payment of each tax effective prior to

the introduction of the new Tax Code have been abolished, (except for one on the Educational and Medical Institutions Fund contribution which is still governed by a separate regulation).

Taxes and obligatory payments are established by the Tax Code. Legislative acts dealing with tax matters should be consistent with the Tax Code provisions, otherwise they should be amended to comply with the Tax Code or would be viewed as invalid. The Tax Code defines that taxation is based on the legislation effective at the moment when respective tax liabilities arise. Legislative acts cannot be applied retroactively, unless they soften or eliminate liabilities.

The Tax Code stipulates that all un-removable contradictions in the tax legislation should be treated in favour of taxpayers.

Tax treaties

In accordance with the Tax Code, international tax treaties of the Republic of Uzbekistan prevail over the Uzbek domestic tax legislation.

Uzbekistan has effective double tax treaties with 50 countries.

In order to apply the provisions of a double tax treaty one should undertake certain procedures provided by the local legislation. An approval of relevant tax authorities has to be obtained before the provisions of the double tax treaty can be exercised. Normally, the taxpayers have the rights to apply for withholding tax exemption, reduction of tax rate or refund of overpaid tax based on the provisions of particular double tax treaty.

However, the tax authorities might be quite reluctant to approve the tax reliefs per double tax treaty provisions.

As of 1 January 2014 income of nonresidents in the form of dividends, interest and royalty is to be paid without withholding of tax at source or with application of a reduced withholding tax rate as provided by the tax treaty, provided that there is a tax certificate confirming that nonresidents are registered for tax purposes in the state with which Uzbekistan has the effective tax treaty. Previously, such exemption / rate reduction used to be granted through a preliminary approval by the Uzbek tax authorities.

Tax returns and payments

The Uzbekistan tax legislation provides different filing requirements for different taxes and taxpayers. Generally, filing requirements can be divided into two groups: i) simplified tax regime; ii) standard tax

regime. The tax returns are independently compiled and filed by the taxpayers.

Simplified tax regime

Under the simplified tax regime, applicable to micro-firms, small enterprises and entities carrying out specific activities (e.g. catering, trading), the filing requirements are minimal. Such entities are subject to Unified tax payment and submit quarterly tax returns not later than 25th day of the month following the reporting quarter.

In addition, subjects of the simplified tax regime have to file annual tax return by 15 February of the year following the reporting year.

Unified tax payments are based on the assessments made by the taxpayers in the tax returns. Payments are remitted to the tax authorities by micro firms and small enterprises not later than the filing deadlines described above. Other entities subject to unified tax payment shall remit monthly payments no later than 25th day of the following month.

As of 1 January 2009, privatised micro-firms and small companies – payers of the Unified tax payment – with sales turnover for the last two quarters being less than ten times the amount of property tax and land tax that could have been charged under the standard tax regime are to switch to the standard tax regime and pay all taxes in the established order. As of 1 July 2011 a minimum amount of Unified tax payment due was introduced. The minimum amount comprises triple amount of land tax charged on taxable land used by the taxpayer.

Standard tax regime

Taxpayers in this category have to deal with rather complex filing requirements. Standard tax regime entails payment of an array of taxes and obligatory contributions, most of which have different filing and payment deadlines and procedures. Some taxes, such as CIT and Property tax, require filing of provisional tax returns and payment of tax advances, whereas other taxes are reported and paid on the basis of the taxpayer's actual assessments. For the purpose of this Guide, we only discuss the taxes that represent significant tax burden for taxpayers.

CIT is reported on a quarterly basis. Provisional quarterly return is submitted by 10th day of the first month of the reporting quarter. Based on the provisional return, taxpayers make advance payments of 1/3 of the reported amount by 10th day of each month in the reporting quarter. Enterprises with foreign investments file final quarterly returns by 25th day of the month following the reporting quarter and final annual return by 25 March of the year following the reporting year. Should the CIT advance payments

deviate by more than 10% from the actual tax liability declared based on the quarterly report, the tax authorities may impose late payment interest on the difference (if the amount of the advance payments is less than the actual liability).

CIT and net profits tax payable by permanent establishments should be reported once a year (without advance payments) before 25 March of the year following the reporting one. Taxes are paid within a month from the reporting deadline.

VAT returns are submitted on a quarterly basis by 25th day of the month following the reporting quarter. VAT return of the taxpayer should be supplemented with a register of VAT invoices in respect of goods (works/services) purchased and sold in the reporting year. The payments by micro firms and small enterprises are made not later than filing deadlines. Other entities make monthly payments not later than 25th day of the following month.

As of 1 January 2013 **Property tax** is reported on an annual basis. Taxpayers submit provisional annual tax return by 10 January of the reporting year. Advance payments of 1/4 of the annual amount of the provisional return are made quarterly by micro firms and small enterprises not later than 25th day of the month following each third month. Advance payments of 1/12 of the annual amount of the provisional return are made by other entities monthly not later than 10th day of each month. Final annual return is submitted by 25 March (for enterprises with foreign investment) or by 15 February (for other taxpayers) of the year following the reporting year. Permanent establishments of the foreign legal entities should submit information on taxable property to the tax authorities by 25 January following the reporting year. As of 1 January 2010, the property tax is to be computed based on that information by the tax authorities within 10 days after the submission date.

Obligatory contributions (Turnover charges) are made to non-budget designated funds and are equated to taxes. As of 1 January 2013 tax returns on the Turnover charges are filed on a quarterly basis – by 25th day of the month following the reporting quarter. Payments are made – by micro firms and small enterprises – along with the return submission; and by other taxpayers - on a monthly basis by 25th day of the following month.

Micro firms and small enterprises paying taxes under the standard tax regime (except enterprises producing excisable goods and extracting mineral products subject to subsurface use tax) are not subject to obligatory contributions to Pension Fund and Road Fund.

Overpaid taxes

In the event of overpayment of taxes by taxpayer (when tax amount paid exceeds the tax liability), the enterprise has the right to appeal to the relevant local tax authority for offset of the overpaid amount against penalties (related to this tax), current liabilities on other taxes or future tax liabilities.

If the overpayment has not been fully settled through the offset, it can be claimed for refund from the budget. The claim for refund should be in written form and supported by a confirmation from the tax authorities. The overpayment should be refunded within 30 days after the claim filing.

Withholding taxes

A foreign legal entity receiving income from Uzbek sources without creation of a permanent establishment in Uzbekistan is subject to income (profits) tax withholding at source at the rates provided in Appendix C with no deductions of expenses.

According to the Tax Code, the following types of income, without limitation, are viewed as subject to Uzbek income tax withholding:

- dividends, interest
- income of foreign legal entities from joint activity in Uzbekistan (simple partnership)
- capital gains
- royalty income
- rental/sub-rental fees
- insurance premium
- telecommunication fees
- income from transportation, freight-forwarding services
- fines and late payment interest for breach of contractual obligations
- property received free of charge, and
- other income from provision of services in the Republic of Uzbekistan.

Uzbek legal entity, as well as FLE carrying out activity in Uzbekistan via PE, paying out the income to non-resident (withholding agent) are obliged to withhold the tax and remit it to the state budget not later than the time of income payment (except for banks that are permitted to remit the tax to the state budget before the 5th day of the month following the month when the payment is made).

New article “Specifics of taxation of income of non-residents of Uzbekistan received from alienation of property” was added to the Tax Code. This article

shall apply in cases when shares (participation interest) in charter capital of an Uzbek company or real estate are sold by one nonresident to another nonresident company or individual.

The obligation on withholding and payment of tax on income resulting from such disposal is imposed on the buyer that would be viewed as tax agent. Taxable basis shall comprise the difference between the sales price and the acquisition price (in case the acquisition price cannot be determined, it would be the inventory value of the asset to be subtracted from the sales price).

The rates of withholding tax may be reduced under the terms of double tax treaties as described in the relevant section of this Guide.

Tax Audits

Scheduled statutory tax audits are to be carried out once in three years (once in four years for micro-firms, small enterprises) by the tax authority of the district where the enterprise is registered, i.e. district Tax Inspectorates. However, in certain cases the tax audit is undertaken by the STC, which is the highest tax authority.

Tax authorities should notify the taxpayer in writing on planned tax audit not less than 30 days prior to start of the audit, indicating the period and subject of the audit.

The tax audits are aimed at verification of the tax returns submitted by the taxpayer. Normally the tax authorities would review the accounting records, copies of tax returns and source documents as required.

There can also be un-scheduled tax audits – e.g. in case of liquidation of the enterprise, and counter tax audits – to review transactions with the enterprise’s supplier/customer which is under the scheduled tax audit.

In case of tax breaches revealed during tax audits, taxpayers should remove tax violations and pay respective taxes/obligatory payments and late payment interest within 30 days after the tax authority’s decision is released. If accomplished within the deadline, the tax authority’s decision on applying penalty may be cancelled. If not accomplished, the unpaid taxes/obligatory payments and late payment interest are to be withdrawn from 1 – the taxpayer’s bank accounts (by issuing tax liability claim without acceptance), 2 – taxpayer’s debtors (by issuing tax liability claim on the debts payable to taxpayer), 3 – taxpayer’s property (by issuing tax liability claim upon decision of the court).

Another form of monitoring accuracy and completeness of fulfilment of tax liabilities imposed by the tax authorities is 'cameral control', which is performed at the time of tax returns submission. The tax authorities may require the taxpayer to amend the tax return(s) if they have revealed mistakes or inconsistencies therein. The amended tax returns should be filed within 10 days.

Penalties

Fines and interest may be applied if a taxpayer is found to have breached the tax regulations. For example:

- Failure to register for tax purposes results in the fine of 50 times the MMW but not less than 10% of net revenue received from such activity without registration (in case of late registration by no more than 30 days from the prescribed date) and 100 times MMW but not less than 50% of net revenue received from activity without registration, (in case of late registration by more than 30 days from the prescribed date).
- The entire amount of concealed or understated revenue from sales of goods and services is subject to confiscation.
- Interest is charged for late payment at the rate of 0.033% (prior to October 2011 the interest rate was 0.05%) of the outstanding liability per day.
- Reflection in an invoice of VAT amount by a supplier which is not the VAT payer leads to imposition of a fine to the supplier equal to 120% of the VAT amount shown.
- For the failure to use cash register machines and terminals for prepaid plastic cards (where use of terminals is obligatory) when selling goods or providing services, as well as failure to issue checks, receipts, etc. required by regulations, the fine is levied in the amount of up to 50 MMW. If the same is repeated within one year from the date when the first fine was imposed, the fine is levied in the amount of up to 100 MMW. Use of technically inadequate or manipulated cash machines, as well as refusal to accept settlement by prepaid plastic card is subject to the fine of up to 200 MMW.
- Use of land plots in excess of plot square defined in appropriate documents is fined at 2 times higher rate for legal entities and 1.5 times higher rate for individuals of the land tax amount.
- Taxpayer's bank accounts could be "frozen" for the following reasons: (i) failure to submit within 15 days after due date of tax and/or financial returns by the taxpayer, and (ii)

absence of the taxpayer at its legal address. As of September 2014 tax authorities have been limited in right to 'freeze' taxpayers' bank accounts, whereas it can only be done upon a court decision.

If taxpayer (legal entity) is in dispute with the assessment of tax liabilities and financial sanctions, a claim can be filed to the higher tax authority, i.e. the STI.

Taxpayer may also file a claim with the court. Filing the claim with the court or higher tax authority would suspend withdrawal of the tax liabilities and sanctions in dispute; these can be executed, if at all, by the court decision, which should be issued within 30 days or decision of the higher tax authority. When filing the claim with the court or higher tax authority, the taxpayer should notify the tax authorities accordingly.

As of October 2013, penalties previously applied to legal entities in the following cases have been excluded from the Tax Code:

- Failure to maintain accounting or inadequate maintenance of accounting. Responsibility for such law breach is shifted onto responsible officer(s) of the taxpayer (under Administrative Code).
- Carrying out activities without the respective license. Similarly, responsibility for such law breach is shifted onto responsible officer(s) of the taxpayer (under Administrative and/or Criminal Code).

Taxation of corporations

Investor considerations

- Five-year tax loss carry forward
- Operating losses are generally not deductible for CIT
- Transfer pricing adjustments can be made by the tax authorities in related parties' commercial and financial arrangements
- Obligatory contributions to designated funds assessed from turnover are significant
- Special taxes for subsurface users

Corporate tax system

Taxable entities

The following entities are generally subject to CIT in Uzbekistan:

- Uzbek legal entities, including entities with foreign investments, and
- Foreign legal entities carrying on activity in Uzbekistan via permanent establishment or receiving income from sources in Uzbekistan.

Territoriality

Uzbek legal entities, including entities with foreign investment and their branches outside the Republic are taxable on worldwide profits. FLEs carrying out their activity in Uzbekistan are only taxable on their profits from activities performed in the Republic of Uzbekistan.

Permanent Establishments / Branches

The concept of PE in Uzbekistan is used solely for tax purposes. PEs of FLEs are not considered as separate legal entities. Requirements for registration of PEs of foreign legal entities extend to tax registration only, as such may allow the tax authorities to tax profits of FLEs attributable to their PEs in Uzbekistan. As of 1 January 2010, PEs are allowed to operate bank accounts and have official stamps.

In general, for tax purposes a PE of FLE in Uzbekistan is deemed to be any place of entrepreneurial activity in the territory of Uzbekistan, including activity through an authorised person. The Uzbek PE would also be deemed as existing as a result of entrepreneurial activities carried on in Uzbekistan for 183 days and longer during any consecutive 12-month period.

PEs are subject to CIT (8%) as normal Uzbek enterprises with certain peculiarities as discussed further. CIT basis of PEs also income net profits (i.e.

profits retained after payment of CIT) and this part is taxed at 10%.

Branches of Uzbek legal entities are generally taxed at the head office level, except for local taxes, such as property tax or land tax. As noted earlier in this Guide, the branch concept is not applied for FLEs.

Taxable income

Taxable profits include trading profit, capital gains, profits from financial activities and other profit items.

The taxable profit of an Uzbek enterprise is based on statutory accounting profits, adjusted for specific items. All Uzbek enterprises are required to maintain their accounts in accordance with accounting regulations that primarily facilitate tax accounting. The list of expenses that may be deductible for tax purposes is also set by the legislation. According to the Law on Accounting, as from 1 January 1998 enterprises must account for both revenue and expenditure on an accrual basis. This norm also extends to the tax accounting. The accounting period for both tax and statutory accounting purposes is a calendar year.

Tax treatment of entities with foreign investment is broadly similar to other Uzbek legal entities.

A FLE that is considered to have a taxable PE in Uzbekistan is subject to taxation in respect of the portion of profits relating to the business activity in Uzbekistan. In order to determine the portion related to the activity in Uzbekistan, the PE is obliged to maintain limited book-keeping records.

If a foreign enterprise derives income from sources in Uzbekistan, but does not carry on activities that lead to creation of an Uzbek taxable PE, it becomes subject to CIT through withholding at source (please refer to the relevant section of this Guide). Income from services provided outside Uzbekistan is not

considered as Uzbek-sourced income, and thus, is not subject to income tax withholding.

Effective 1 January 2010, when determining taxable income of a FLE carrying on activities in Uzbekistan via PE, taxable base should not be less than 10% of total expenses directly related to income generating activities in the Republic of Uzbekistan through the PE, whether incurred in or outside Uzbekistan.

Deductibility of expenses

Most types of expenses are deductible for tax purposes. PEs are eligible to deduct expenses incurred outside of Uzbekistan if they directly relate to their business in Uzbekistan. The Tax Code sets an additional list of non-deductible expenses for PEs which includes, among others: royalty and other payments for the use of assets or intellectual property of the FLE (head office); commission fees charged by the head office; interest on loans provided by the head office; management or administration costs incurred by the head office outside of Uzbekistan.

Capital gains / losses

Capital gains arising from the disposal of tangible and intangible assets are calculated as the difference between the selling price and the net book value (depreciated value) of an asset. The capital gain is included in taxable profits, and capital losses are deductible only if the disposed asset had been used for business purposes for three or more years.

Staff remuneration

Salary paid to contracted employees is generally deductible. Material assistance (except for cases when it is paid due to production injury or death of a close relative), certain in-kind benefits are not deductible even if they are stipulated in the labour contracts.

Taxes

All taxes, levies and obligatory charges to state (republican and local) budget and non-budgetary funds are deductible for tax purpose, except for infrastructure development tax and net profits tax (for PEs) which are assessed on profits after the payment of CIT.

Depreciation

For tax purposes, depreciation/amortisation is calculated with application of rates defined by the Tax Code. If accelerated depreciation method is used in accounting, the difference between the accounting depreciation and tax depreciation is deferred to future periods as a temporary difference.

Depreciation is calculated from the month following the month when the asset was put into use until it is

fully depreciated, disposed or written off. The maximum annual depreciation rates applicable to different types of fixed assets and intangibles are outlined in the table below.

Depreciable item	Rate
Buildings and other structures:	5%
Cars, tractors, special equipment, computers and related hardware:	20%
Lorries, buses, special cars and trucks, industrial machinery and equipment, agricultural machinery and equipment, oil extraction and mining equipment, office furniture:	15%
Railway, river and air transport vehicles, thermo-technical equipment, turbines, electric and diesel drives, power supply and communication lines, pipelines:	8%
Depreciable assets not mentioned above:	15%
Intangible assets:	Please see below

Intangible assets, including leases and other property rights, are amortised over the asset's useful life or the period of activity of the enterprise, whichever is the shorter. Where an asset's useful life cannot be determined, the asset would be amortised over five years.

Expenses related to geological exploration and developmental works necessary for the extraction of natural resources will be deductible for CIT purposes through depreciation at the rate of 15% per annum.

For statutory accounting purposes fixed assets can be depreciated using one of the following methods:

- straight-line
- production method.

In cases of intensive use of assets or substantial effect of scientific and technical progress, the following methods can also be applied:

- double declining balance method, or
- sum-of -the -years digits method.

Lease

Tax treatment is different for operating and capital lease. For tax purposes, the criteria for lease to consider as operating or capital are defined by the Tax Code. A capital lease is treated by a lessee as a purchase of a fixed asset and is subject to the normal depreciation regime, whereas the fixed asset under operating lease is accounted for by the lessor and the lessee deducts lease payments for tax purposes.

Interest

Interest expense is deductible except for interest on overdue and deferred loans or when such interest is subject to capitalisation, e.g. interest on loans attracted for the purchase/lease of fixed assets that is to be included in the value of such fixed assets.

Losses

Losses arising from sale of goods (works/services) below cost are non-deductible. Production wastes and defects, losses resulting in force-majeure circumstances are generally deductible. Losses from fixed assets disposal can also be deducted, if the fixed asset has been used for three and more years.

Loss carry forward

Tax losses (excess of deductible expenses over aggregate income) can be carried forward for the period of up to five years in equal amounts to reduce taxable income (profits) in the years following the reporting period when such loss occurred. The gross amount of losses to be accounted for in each following year cannot exceed 50% of taxable income (profits) of the current year. Losses incurred in more than one calendar year are recoverable in the order of their occurrence. Losses incurred in the period when the taxpayers were exempt from CIT cannot be recovered in the following periods.

Non-deductible items

The following types of expenses might be treated as partially/fully non-deductible, without limitation: entertainment costs, voluntary insurance expenses are restricted to (low) limits that are based on an enterprise's turnover; in-kind benefits provided to employees, bad debt provisions, tax penalties and other fines, etc.

Related party transactions

As of 1 January 2010 a transfer pricing concept was reintroduced in the Tax Code. Thus, the tax authorities may adjust prices used by interrelated parties in cases when these prices differ from the prices which would have been set for independent customers/suppliers. Interrelated parties are defined as foreign parent companies and their Uzbekistan subsidiaries, Uzbek parent companies and their subsidiaries abroad, as well as Uzbek companies and foreign companies that have the same shareholders.

There should be further guidelines elaborated by the state authorities for practical implementation of the concept.

Foreign exchange

According to the current accounting regulations, taxpayers have option either to recognise exchange

losses as expense when incurred or defer such recognition on the balance sheet until the loss is in fact realised along with settlement of related hard currency balance sheet items.

Tax computations

CIT liability is computed by adjusting the income before tax for non-deductible items, incentives and allowances and applying the effective tax rate, which could be reduced per applicable incentives.

Group consolidation for the purpose of CIT computation and reporting is not allowed.

Other taxes

Uzbek enterprises are also subject to several other taxes.

Depending on the business activity carried on by the enterprise the below mentioned taxes may or may not represent significant tax burden for taxpayers.

Enterprises under a simplified tax regime are not subject to these other taxes except for subsurface use tax and excise taxes.

Excise tax

Excise tax is to be paid by all individuals and enterprises that produce, import or export certain products. The Cabinet of Ministers of Uzbekistan established the list of products subject to excise taxes and the applicable rates.

The following are examples of excise-liable goods produced in Uzbekistan and applicable rates in 2014: cognac, vodka and other strong alcohol drinks – up to UZS 3,270 per 1 litre, beer – UZS 357 per 1 litre, cigarettes with filters – UZS 17,451 per 1,000 cigarettes, cigarettes without filters – UZS 8,423 per 1,000 cigarettes, petrol – UZS 321,430 – 408,890 per 1 tonne (depending on the petrol type), diesels – UZS 273,400 per 1 tonne, natural gas - 25%, jewellery – 25%, General Motors Uzbekistan cars – 29%. As of 1 January 2012 retail trade of golden jewellery is subject to excise tax of USD 10 for 1 gram of gold. Products sold for export are exempt from excise tax, except for goods specifically listed by the Cabinet of Ministers of Uzbekistan as subject to excise. Examples of such goods with respective excise tax rates, as set by Resolution of the Cabinet of Ministers #554 of 31 December 1999, are: cigarettes 50%, alcohol 50%, paper 50%, construction materials 50% home electronic appliances 50%, General Motors Uzbekistan cars EUR 3 per 1 cubic centimetre etc. These goods if exported by the manufacturers and their official distributors for hard currency are not subject to export excise tax.

Certain goods imported in the Republic of Uzbekistan are also subject to import excise tax. For examples of import excise rates please refer to the relevant section of this Guide.

Property tax

Under the current legislation, property tax is imposed on both individuals and enterprises. The property tax rate in 2014 is 4% for legal entities.

The tax is assessed on residual value of the fixed assets adjusted for the effect of revaluation, which should be performed on an annual basis as at 1 January, value of overdue construction-in-progress and equipment not installed in due time. As of 1 January 2012, for the purposes of property tax, a definition of 'construction in progress' is introduced as objects not fully constructed within the timeframe defined by construction documents; in the instances where such timeframe is not specified - within 24 months from the beginning of construction. The effective rate is doubled for equipment not installed in due time. As of 1 January 2013 intangible assets are excluded from the list of taxable property for the purposes of property tax.

As of 1 January 2014, the list of non-taxable property was amended to exclude the following: property of legal entities used for needs of cultural, preschool and secondary institutions; property of agricultural enterprises; communication satellites; and property received under a financial lease arrangement.

At the same time, the list was reworded to read that non-taxable property shall include machinery and equipment in use no more than 10 years (previously, it included new technological equipment – for the period of 5 years).

FLEs are also subject to property tax at the same rate of 4%. Taxable base is determined as: for FLEs operating in Uzbekistan via a permanent establishment – fixed assets recorded in the books as per the Uzbek accounting standards and real estate owned by the FLEs; and for FLEs without permanent establishment – real estate owned by the FLEs and located in Uzbekistan. Information on taxable property should be submitted by PEs to tax authorities by 25 January following the reporting year. As of 1 January 2010, the property tax is to be computed based on that information by the tax authorities within 10 days after the submission date.

Individuals pay the tax at the rate of 1.2% of the property's value. Moreover individuals, owning flats and houses in cities, with the total areas more than 200 and 500 square metres respectively, are subject to property tax at the rates of 1.4% and 1.8%.

As of 1 January 2011, to encourage timely replacement of outdated equipment, a charge of 0.25% of the equipment historic value would be collected from legal entities (except for micro-firms and small enterprises) for exploitation of fully depreciated equipment.

Newly opened enterprises are exempt from property tax for a period of two years from the date of their registration, unless such enterprises have been created on the basis of production facilities and assets of existing enterprises. There is also the rate reduction benefit available to companies engaged in production and export of goods (work, services). Property tax exemption is also available in respect of leased property – for a period of lease; and new technological equipment – for a period of up to 5 years.

Land tax

Individuals and enterprises, including foreign legal entities operating in Uzbekistan via a permanent establishment, owning land plots or rights to their use are subject to land tax. It is applied to taxpayers on the basis of fixed fees established and based on the quality, location and level of water supply to each piece of land. Exemption is provided in respect of land plots allocated for construction under the projects included in the Strategic Investment Programme of the Republic of Uzbekistan; this exemption is granted for a period of the construction.

As of 1 January 2014, new amended rates of land tax were introduced. Most of the new rates represent an increase compared to the 2013 rates. For instance, land tax rates imposed on companies in Tashkent range from UZS 15 mln per hectare of land to UZS 75 mln per hectare of land depending on the zone where the company is located. As of 1 January 2014 land in Tashkent is divided into five zones (instead of fourteen zones previously used) for land tax purposes.

Water-use tax

Enterprises using water (including PEs) in their production are subject to water-use tax. The tax rate is set by the Cabinet of Ministers and depends on the source of the water (i.e. surface or underground). Effective 1 January 2014 new amended rates of water tax were established. Enterprises (except for hydro stations, utility companies, agricultural companies and individual entrepreneurs) will now pay UZS 51.6 per 1 cubic metre for using surface water and UZS 65.5 per 1 cubic metre of water used from underground source.

Obligatory contributions (equated to taxes)

As mentioned earlier in this chapter these obligatory contributions are made to non-budget designated

funds. These are generally assessed on the company's turnover (net of VAT and excise, where applicable) at the following rates:

- Road Fund – 1.4%
- Educational and Medical Institutions Fund – 0.5%, and
- Pension Fund – 1.6%.

The taxable base (and tax rate in exceptional cases) for these obligatory contributions may differ depending on the type of activity of a company.

Infrastructure development tax

Infrastructure development tax is not deductible for CIT purposes as it is assessed on profits after payment of income (profits) tax. This tax is charged at a maximum rate of 8% which in most cases is the effective rate.

There are also taxes and levies established at local levels, i.e. by the local state authorities (Khokimiyats of cities and regions).

Taxation of subsurface users

In addition to standard taxes, subsurface users (i.e. legal entities and individuals exploring and extracting natural resource) are subject to subsurface users' specific taxes, as listed below.

Subsurface use tax (Royalty)

Subsurface use tax is charged on volume of produced (extracted) natural resources that are ready for sale or transfer (including free of charge) and consumption for internal purposes. Taxable base is determined as average weighted sales price.

Business activity	Tax rate examples
Extraction of natural resources	natural gas 30%, precious stones 24%, oil 20%, gold 5%, silver 8%
Utilisation of by-products received during the extraction of natural resources	30% of tax rate applicable to main natural resources extracted

Excess profits tax

Excess profits tax is assessed on the excess profit being the variance between the net sales revenue and revenue that would have been earned at the fixed price set by the legislation. Excess profits tax is not payable by entities operating under production sharing agreements.

The list of natural resources and goods subject to excess profits tax includes: copper, cement, natural gas, polyethylene granules, clinker. Excess profits tax is paid at 50% of the taxable base.

Signing and commercial discovery bonuses

These are one-off payments to the state budget. The signing bonus is payable for the right to engage in exploration and extraction of natural resources. The rate of payment of signing bonus ranges from 100 to 10,000 MMW (approximately USD 4,500 to USD 450,000) depending on the type of minerals. The commercial discovery bonus is paid for each field where a subsurface user discovers the natural resources. Commercial discovery bonus is paid at the rate of 0.1% of the proved reserves' value.

Taxation of individuals

Investor considerations

- Number of days residence criterion
- Non-residents are taxed at source at 20%
- Personal income tax rate reduction in the last few years
- Entrepreneurial income is subject to fixed tax (versus personal income tax)
- 1 April is the filing deadline for personal income tax return for the preceding year

Territoriality and residence

In accordance with the Uzbek Tax Code, an individual permanently residing in the Republic of Uzbekistan or staying in Uzbekistan for 183 days (or more) in any consequent twelve-month period ending in tax year becomes resident in the Republic of Uzbekistan for Personal income tax (PIT) purposes. Residents are generally taxed in Uzbekistan on their worldwide income. Non-residents are taxed on the income received from Uzbekistan sources.

Taxable income

Taxable income includes employment income, income from property, income in the form of material benefit and other income.

Certain expenses incurred by legal entities are not viewed as income of individuals, such as, without limitation:

- costs related to transportation of employees to/from the work place
- relocation costs (when an employee is transferred to another work place) including transportation and accommodation
- compensation payments (within statutory norms), e.g. for use of private cars for business purposes
- compassionate payments
- per diem allowances within statutory norms; actual transportation/accommodation in full (if supporting documents are available), and
- meal and transportation costs or respective allowances provided by employers.

Employment income

Employment income consists of the following:

- all payments accrued and paid to individuals under employment or civil contracts
- motivation payments, e.g. annual bonuses, professionalism and tutorship allowances, long-service premiums
- compensation payments, e.g. hardship and overtime allowances, per diems exceeding statutory norms, and
- payments for time-off, e.g. various vacation pays, time for qualification courses attendance, material assistance.

Income from property

Property income received by an individual includes income in the form of interest/dividends/royalty, rental income, income from sale of property in private ownership. As of 1 January 2014 income of individuals from sale of non-residential premises and recurring sale of residential property shall be subject to PIT, if sale takes place more than 1 time (previously more than 2 times) in a consequent 12 months' period. Minimum PIT rate of 8% is applied to income from lease of property, gifts from individuals (other than close relatives) in the form of shares and stock, and to income of individuals from sale of immovable property other than occasional sale of residential property.

Income in the form of material benefit

Income in the form of material benefit includes the following, without limitation:

- payments for goods/services made by employers in favour of their employees (kindergarten fees, utilities, food allowance, recreation costs)
- gifts, goods (works or services) donated, and
- discounts to employees for goods (works or services) produced.

Other income

Other income includes, without limitation, alimony, scholarship, material assistance received from charity foundations, prizes, lottery winning and grants.

Non-taxable income/deductions

The following is a representative list of items exempt from personal taxation:

- state pensions
- payment by employer for medical treatment (however, medical insurance paid by employer is taxable)
- compensation for work-related injuries
- business trip allowance within the established norms
- insurance coverage received
- money and property inherited
- bank interest from deposits with banks
- dividends reinvested in the same entity (i.e. payer of dividends)
- part of salary (or other taxable income) that is paid for an employee's self-education or education of his/her children under 26 in Uzbek higher education institutions
- long-term life and property insurance premiums if these are paid to legal entities that have an Uzbek insurance licence
- income received gratuitously from close relatives in the form of shares and stock, and
- income of individuals received in connection with their involvement into agricultural works for harvesting of raw cotton.

Taxation of foreign nationals

Under the Tax Code, no special rules apply to expatriates. In calculating Uzbek tax liability, for reporting purposes, expatriates who are normally remunerated in foreign currency should convert their foreign currency receipts into UZS at the official exchange rate on each payment date.

Double taxation

As mentioned earlier in this Guide, international tax treaties of the Republic of Uzbekistan prevail over the Uzbek domestic tax legislation. Uzbekistan has concluded a number of Conventions for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital.

Therefore, residents of treaty countries working in Uzbekistan may take advantage of treaty protection.

Depending on provisions of particular double tax treaties tax, credit or exemption may be claimed by such non-residents. Please note that in order to utilise the reliefs available by virtue of the Double Tax Treaties, non-residents may need to present a certificate from relevant tax authority proving their tax residency in their home country in the relevant reporting period, as well as documents confirming the receipt of income and payment (abroad) of related PIT from the income received from the Uzbek sources.

Tax compliance

Obligations of withholding agents

In accordance with tax legislation, Uzbek legal entities, FLEs operating in Uzbekistan via a PE and representative offices of FLEs – the withholding agents – that pay out employment income are responsible for withholding PIT and remitting it to the relevant tax authority. Employer is also responsible for reporting the amounts of income paid and PIT withheld on a quarterly basis.

Withholding agents should also withhold PIT in few other cases, including payment of (service) income paid to non-residents.

Withholding agent paying benefits in-kind to a non-employee individual may pay the benefit without deducting PIT at source upon written application of that individual. In this case, the individual is obliged to pay PIT through filing annual PIT declaration.

Income received under labour agreements by foreign nationals who have not become residents for Uzbek PIT purposes is subject to taxation at source of payment at the rate of 20%.

Tax returns

Tax return is to be filed by Uzbek residents, if/once they earn:

- property income including income from intellectual property rights
- income from 2 and more sources
- benefits-in-kind received from non-principal employer
- income received from sources outside of Uzbekistan, or
- income received from other sources that are not tax agents.

PIT return is to be filed by 1 April following the year of reporting/residence.

Foreign nationals that become residents for Uzbek PIT purposes are required to file annual PIT

declarations, even if all their income has been taxed in Uzbekistan through withholding at source of payment. In case if a taxpayer did not submit the annual PIT declaration, the tax authorities may assess and claim settlement of his/her PIT liability at the maximum 22% rate based on information that they have on this taxpayer.

If a foreign national becomes a tax resident in Uzbekistan prior to 1 April of the current reporting year, he should submit a declaration on the income earned during the previous reporting year. For instance, an expatriate has not become tax resident in Uzbekistan as of 31 December 2014 but will become so by 1 April 2015, he/she would be required to file the annual PIT return for the calendar year 2014 (as non-resident).

When a foreign national – tax resident – leaves Uzbekistan for good, he/she should submit the declaration at least one month before departure, unless he/she leaves Uzbekistan prior to 1 February, in which case he/she can leave without filing.

PIT liability as per the tax return should be settled by 1 June of the year following the reporting year.

Value Added Tax

Investor considerations

- Unless exempted or zero-rated, VAT is levied on all commercial transactions of business entities
- Input VAT on fixed assets and intangible assets is to be capitalised (not eligible for offset)
- Input VAT related to the production of exempt turnover is not recoverable
- ‘Place of supply’ rule is applied in respect of determining taxable turnover for VAT

Introduction

VAT, as all other taxes, is regulated by the Tax Code and is closely tied to the direct tax legislation.

Like the Soviet legislation, the Uzbekistan Tax Code distinguishes between goods, works and services rather than just goods and services. However, this is not an important distinction for VAT purposes as works and services are treated similarly.

Scope of VAT

VAT-able turnover includes, without limitation:

- transfer of title for goods, provision of works and services (e.g. shipment of goods, free of charge transfer of goods/works/services, barter)
- transfer of goods/works/services by one structural division to another, when these are separate taxpayers
- transfer of goods for lease or rent, and
- transfer of intellectual property rights.

Free of charge transfer of fixed and intangible assets, as well as transfer of goods for tolling are not viewed as taxable turnover for VAT. As per the new Tax Code, transfer of goods (provision of works and services) ‘for own needs’ may be treated as expenditure; thus, it should not be viewed as taxable turnover for VAT, unless such expenditure is non-deductible for CIT purposes.

The standard rate of VAT is 20%, which applies to all taxable sales of goods, works and services. There is a zero rate on qualifying exports and certain internal supplies, which is discussed later in this chapter.

Taxable persons

VAT taxable persons include all legal entities and their branches engaged in entrepreneurial activity in Uzbekistan, importers of VAT-liable goods/works/services and legal entities that are subject to reverse charge VAT (taxable turnover of

foreign suppliers). For legal entities under the simplified tax regime payment of VAT is optional. VAT is not paid by the legal entities undertaking certain non VAT-able activities.

Individuals are not required to charge and account for VAT.

Place of supply for goods

Goods are viewed as shipped in Uzbekistan – thus subject to VAT – when goods are located in Uzbekistan and do not leave the country as a result of the sale, and/or goods are located in Uzbekistan at the moment of shipment/transportation.

Place of supply for works/services

The place of supply of works and services between an Uzbek resident supplier and Uzbek resident customer is always Uzbekistan.

As regards provision of the works/services where one party is an Uzbek resident and the other is non-resident, the place of supply would differ depending on the works/services type. Thus, the place of supply of consulting, data-processing, engineering services would normally be deemed the place where the buyer of the services is located. The same rule would apply to provision of personnel – if such personnel are working at the buyer’s office, and services of foreign telecom operators.

The list of services related to movable property for the purposes of determining ‘place of supply’ has been specified to include installation, assembly, processing, re-processing, repair and technical maintenance.

Services that are deemed as provided outside of Uzbekistan (based on the place of supply rule) are not deemed as taxable turnover for VAT.

Import VAT

Goods, works and services imported into Uzbekistan are subject to import VAT.

VAT on importation of goods is charged at the time of customs clearance. Taxable base is comprised of the customs value of the goods, plus excise tax and import duty, if applicable. The responsibility for calculation and reporting lies with the state customs authorities.

As regards works and services, VAT is accrued, paid and reported by the entity receiving such works and services, provided that the works/services are viewed as supplied in Uzbekistan according to the 'place of supply' rule.

Import contracts for procurement of equipment, machines, mechanisms, components and spare parts, which include installation and/or commissioning works, training and other services as well as payment of royalties, should separately indicate cost of such services and royalties.

Zero rating

The principles are similar to those employed in the EU's Sixth Directive but the scope of zero-rating is somewhat more limited. Supplies that are zero-rated include:

- goods, works and services sold for official use by diplomatic and similar representations and for the personal use of their staff (unless they are Uzbek citizens)
- goods exported for hard currency (except export of precious metals)
- public utilities
- transit transportation of foreign goods through Uzbekistan, as well as international transportation of passengers, goods, mail etc, and
- processing of goods under the customs regime "processing on the customs territory of Uzbekistan" (when the goods/products are further re-exported).

In order to zero rate a supply of goods for export, the supplier must hold the following documentation:

- copy of the relevant supply contract
- customs cargo declaration, and
- documents supporting the shipment of the goods to the destination country.

Exempt supplies

Contrary to zero rate supplies, the input VAT related to the production of exempt turnover is not eligible for offset. Supplies that are exempt without credit include but are not limited to the following:

- municipal public passenger transport services (excluding taxis)
- most banking services
- insurance and reinsurance transactions
- issue and transfer of loans
- lease payments
- printed materials generated by publishing houses, newspapers and magazines, book trade organisations, etc.
- television and cinematography
- technological equipment imported for approved projects in so far as the equipment had been listed in a feasibility study approved by the relevant government body
- imported medicines (as of 1 January 2011, exemption is not applicable for the types of medicines that are produced locally) and medical products (as per approved list), and
- medical, sanatoria and health resort, tourist-excursion services.

Taxable amount

In general, the taxable value of a supply is the price paid, which is normally assumed to be exclusive of VAT. It will, where applicable, include the value of any excise due and, in the case of imported goods, excise tax and customs duty levied.

The tax base is generally the turnover from the sales of goods, works or services except those that are VAT-exempt.

Where goods, works or services are sold below cost, the tax authorities have authority to revalue the transaction to their cost.

When a fixed asset is sold, VAT is charged only on the amount of any excess between the asset's sale price and its accounting net book value in the person's accounts, determined in accordance with Uzbek accounting standards. VAT is not chargeable if the fixed asset is sold for an amount equal to or less than its net book value.

For VAT purposes, market valuation will also apply to any transfer of goods, works or services for no consideration. Tax authorities can, in theory, revalue any supply deemed to be made at below market value. Where a discounted price is charged, the legislation is open to interpretation as to what value applies for VAT purposes. A safe approach would be to account for VAT on the basis of the supply's market value.

As regards importation of goods VAT is assessed on the customs value of the imported goods determined in accordance with the customs legislation. Normally,

the customs value is determined as the invoice value of imports including freight, insurance and other similar expenses. However, based on the Law of the Republic of Uzbekistan on Customs Tariffs the customs authorities have the right to determine the customs value of imported goods independently using one of the following valuation methods:

- value of deals with identical goods
- value of deals with similar goods
- 'subtraction of costs'
- 'addition of costs', or
- 'reserve method'.

VAT on imported works and services is accrued on the value of services provided, which is documented in the act of competition of works/services.

Non-recoverable input VAT

Apart from input VAT related to production of exempt turnover, VAT incurred on purchases relating to non-business use is not recoverable either. Expenses that relate to both business and non-business activities should be directly attributed between the two to the greatest extent possible. There is no stipulated method for making a business/non-business apportionment and this can be negotiated with the tax authorities on a case-by-case basis. The only requirement is that the apportionment should be fair and reasonable.

In order to demonstrate its entitlement to a VAT deduction a person should keep all original documents relating to the relevant expenses.

Input VAT on fixed and intangible assets is not eligible for offset and should be capitalised in the cost of assets. Input VAT on imported goods assessed but unpaid due to a specific import VAT exemption (purposeful exemption) will be eligible for offset.

VAT compliance

Registration

A single, general tax registration encompasses VAT registration. There is no separate VAT registration requirement in Uzbekistan.

Records

All source documents must be kept, including:

- commercial invoices
- VAT invoices
- related contracts, and
- customs documents.

The general rule is that a partially exempt person should maintain separate accounting for its taxable and exempt supplies.

The VAT records must be kept for at least five years and may be kept abroad but the originals of all documents and records should be readily available at the request of the tax authorities.

Whilst an entity may choose to keep records electronically, it must also keep the original hard copy versions for VAT record-keeping purposes.

Information in VAT invoice

It is vital that a supplier of goods, works or services issues a VAT invoice or 'Schet Factura' according to the prescribed format, as only then is the VAT on the invoice recoverable by the customer. The following information must be included on a VAT invoice:

- name
- address and tax identification number of both supplier and buyer
- description of the goods, works or services
- quantity of the goods, works or services
- selling price
- the rate and amount of VAT, and
- the rate and amount of excise tax.

A VAT invoice should be issued at the time of the dispatch of goods or at the time of the acceptance of services or works. For continuous supplies, an invoice for the apportioned part of the supply should be issued at least once a month.

A full VAT invoice should normally be issued in all cases except for the following:

- if goods are sold directly to individuals, in which case a receipt can be issued which does not have all the requirements of a VAT invoice
- when banks charge for the VAT exempt services, in which case a bank statement replaces VAT invoice
- when insurance companies charge for VAT exempt service, in which case insurance policy replaces VAT invoice, and
- when goods are imported/exported, in which case customs export declaration replaces VAT issue.

Returns and payments

The VAT accounting period is the calendar year. Reporting and filling of VAT should be made

quarterly. Each return is cumulative and covers the period from the beginning of the fiscal year (1 January) to the end of the reporting quarter.

Taxpayers are required to file VAT returns by the 25th day of the month following the reporting quarter. Payment of VAT due shall be made: for micro-firms and small companies - quarterly by the filing deadline, and, for other VAT payers - monthly by the 25th day of the following month; final annual return is submitted by 25 March (for enterprises with foreign investment) or by 15 February (for other taxpayers) of the year following the reporting year. As of 1 January 2013 all VAT-payers are also required to supplement VAT returns with the registers of tax invoices in respect of purchased and sold goods, works and.

Payments of VAT due should be made by the filing deadline by micro firms and small enterprises, and by 25th day of the following month for all other taxpayers.

Refunds

Excess of input VAT over output VAT is generally credited against future VAT liabilities. If such excess is a result of zero rate VAT supply, the overpayment should be refunded within 20 days from the written application of the taxpayer. However, the actual refund can be received if the taxpayer has no outstanding liabilities on other taxes. There is a set of documents that should be filed along with the application for refund.

Introduction to PricewaterhouseCoopers

PricewaterhouseCoopers worldwide organisation

PricewaterhouseCoopers (www.pwc.com), the world's largest professional services network of member firms, helps its clients build value, manage risk and improve their performance. Drawing on the talents of more than 195,000 people in 157 countries, PricewaterhouseCoopers provides a full range of business advisory services and 22 industry-specialised practices to leading global, national and local companies as well as to public institutions.

These services include audit, accounting and tax advice; management, information technology and human resource consulting; financial advisory services including mergers and acquisitions, business recovery, project finance, and litigation support; business process outsourcing services; and legal services provided through a global network of affiliated law firms.

PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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Assurance and Advisory Services

- Audits conducted in accordance with International Standards on Auditing (ISA) and National Standards
- Statutory Audit Services
- Business Investigations and Plans
- Conversion of accounts to IFRS and various national GAAP
- Due Diligence reviews
- Evaluation of foreign investment options
- Internal control system testing, reviews and direction on corrective measures
- Other technical accounting services
- Internal audit services – Outsourcing and Co-sourcing, and
- Agreed upon procedures.

Tax Services

- International tax planning and structuring
- Local tax planning
- Bookkeeping, HR/payroll administration and tax compliance services
- Tax compliance reviews before state tax inspections
- On-site assistance during state tax inspections
- Assistance in appeals process: identification/research of arguments, drafting appeals
- Correspondence with the Ministries, Tax and Customs Authorities
- Assistance with expatriate taxation and compensation issues
- Assistance with customs issues
- After-tax cash flow models
- Review of contracts and other legal documents regarding tax considerations
- PSA negotiations, with accompanying Tax Regulation drafting and negotiation
- Value-added tax optimisation
- Assistance with tax registration
- Civil code and labour code assistance, and
- HRS Compensation Surveys, HR consulting.

Appendices

Appendix A – Tips for the business visitor

Visitors' visas	Entry Visa Work Permit Working visa
Currency	Uzbek Sum (UZS, tiyin) Internally the national currency is symbolised as “CYM” and externally “UZS “could be used.
International time	GMT +5
Business hours	Working hours: 9 am – 6 pm
Statutory holidays	31 December – 1 January – New Year 8 March – International Women’s day 21 March – Navruz 9 May – Memory day 1 September – Independence day 1 October – Teacher’s day 8 December – Constitution day Two religious holidays are Kurban Hayit and Ramazan Hayit – the dates of these holidays are changing year by year.
Weights and measures	kilograms and grams kilometres, metres and centimetres
Dates and numbers	11 January 2014: day, month, year (11/01/14)
Numbers	To denote thousands of the monetary units usually commas are used and to denote fraction – periods, e.g. UZS 1,500.59.

Appendix B – Major tax rates (other rates are mentioned in the Guide)

Corporate Income Tax

	2012	2013	2014
Standard rate	9%	9%	8%

Infrastructure Development Tax

	2012	2013	2014
Rates	8%	8%	8%

Depreciation rates

	2012	2013	2014
Buildings and other structures	5%	5%	5%
Cars, special equipment, computers and related hardware	20%	20%	20%
Lorries, buses, special cars and trucks, industrial machinery and equipment, agricultural machinery and equipment, office furniture	15%	15%	15%
Railway, river and air transport vehicles, thermo-technical equipment, turbines, electric and diesel drives, power supply and communication lines, pipelines	8%	8%	8%
Depreciable assets not mentioned above	15%	15%	15%

Personal Income Tax

	2012	2013	2014
Up to 5 minimum statutory wage*	9%	8%	7.5%
From 5 to 10 minimum statutory wage	16%	16%	16%
In excess of 10 minimum statutory wage	22%	22%	22%

* The 2014 annual minimum statutory wage for PIT calculation purposes is UZS 1,153,260

Payroll Taxes

	2012	2013	2014
(Employees') Pension fund contribution	5.5%	6%	6.5%
Professional Union fund contribution (voluntary)	1%	1%	1%
(Employers') Unified social payment	25%	25%	25%

Withholding Tax

	2012	2013	2014
Dividend and interest	10%	10%	10%
Insurance and reinsurance premiums	10%	10%	10%
International transport and telecommunications	6%	6%	6%
Royalties, rents, lease income, management fees and other income	20%	20%	20%

Obligatory Contributions

	2012	2013	2014
Road Fund	1.4%	1.4%	1.4%
Educational and Medical Institutions Fund	0.5%	0.5%	0.5%
Pension Fund	1.6%	1.6%	1.6%

Appendix C – Withholding taxes

Country	Dividends %	Interest %	Royalties %
Austria	5 ² /15	10	5
Azerbaijan	10	10	10
Bahrain	8	8	8
Belarus	15	10	15
Belgium	5 ² /15	10	5
Bulgaria	10	10	10
Canada	5 ¹ /15	10	5 ^{3,4,6} /10
China	10	10	10
Czech Republic	5 ⁸ /10	0 ⁹ /5	10
Estonia	5 ⁸ /10	5	10
Finland	5 ¹ /15	5	0 ⁶ /5 ⁵ /10 ⁴
France	5 ² /10	0 ⁷ /5	0
Georgia	5 ⁸ /15	0 ⁹ /10	10
Germany	5 ⁸ /15	0 ⁹ /5	3 ^{3,5,10} /5 ⁴
Greece	8	0 ⁹ /10	8
Hungary	10	0 ⁹ /10	10
India	10	0 ^{7(a,b)} /10	10
Indonesia	10	10	10
Iran	8	10	5
Ireland	5 ² /10	5	5
Israel	10	10	5 ⁴ /10
Italy	10	0 ⁹ /5	5
Japan	15	0 ⁷ /10	0 ⁴ /10 ^{3,5,6,10}
Jordan	7 ⁸ /10	10	20
Kazakhstan	10	0 ⁷ /10	10
Kuwait	5 ⁸ /10	0 ⁹ /8	20
Kyrgyzstan	5	5	15
Latvia	10	0 ^{7(a,b)} /10	10
Lithuania	10	0 ^{7(a,b)} /10	10
Luxembourg	5 ⁸ /15	0 ^{7(d)} /10	5
Malaysia	10	0 ⁹ /10	10
Moldova	5 ¹ /15	0 ⁹ /10	15
(The) Netherlands	0 ¹³ /5 ⁸ /15	0 ¹⁴ /10	0 ¹⁴ /10
Oman	0 ⁹ /7	0 ⁹ /7	10
Pakistan	10	0 ⁹ /10	15

Poland	5 ¹¹ /15	0 ^{7 (a)} /10	10
Romania	10	0 ^{7 (a, b)} /10	10
Russia	10	0 ^{7 (a, b, c)} /10	0
Saudi Arabia	7	7	10
Singapore	5	5	8
Slovak Republic	10	10	10
South Korea	5 ⁸ /15	5	2 ¹⁰ /5
Switzerland	5 ¹¹ /15	0 ⁷ /5	5
Thailand	10	0 ^{7 (a, b)} /10 ¹² /15	15
Turkey	10	0 ^{7 (a)} /10	10
Turkmenistan	10	0 ⁹ /10	10
Ukraine	10	10	10
United Arab Emirates	0 ^{7 (a)} /5 ⁸ /15	0 ^{7 (a)} /10	10
United Kingdom	5 ¹ /10	5	5
Vietnam	15	0 ^{7 (a, b)} /10	15

1. Where the beneficial shareholder owns not less than 10% of the voting shares.
2. Where the beneficial owner holds at least 10% of the capital of the paying entity.
3. Where royalties are paid for patents, trademarks, know-how, etc.
4. Where royalties are paid for copyrights on literature, cinema, musical works, etc.
5. Where royalties are paid for secret formulas, processes, or know-how.
6. Where royalties are paid for computer software, patents, designs, models, or plans.
7. Where one of the following conditions is met:
 - a. recipient is a local authority or corporate body constituted under public law, including the central bank of the state, or interest is paid by the local authorities or corporate bodies
 - b. interest is paid in respect to debt claims or loans, guaranteed, insured, or aided by the state or on behalf of the state
 - c. interest is paid in respect to credit sales of industrial, commercial, scientific equipment of goods and merchandise or provision of services by an enterprise to another enterprise, or
 - d. interest is paid in respect to a loan of any kind granted by a bank.
8. Where the beneficial shareholder owns no less than 25% of the capital of the paying entity.
9. Where the recipients of the interest are governments of contracting states or any governmental body (such interest is exempt from WHT).
10. Where royalties are paid in respect to use or the right to use industrial, commercial, or scientific equipment.
11. Where the beneficial shareholder owns no less than 20% of the voting shares.
12. Where the interest is received by any financial institution (including insurance companies).
13. Under the provisions of the Netherlands' Company Tax Act and the future amendments thereto, a company that is a resident of the Netherlands is not charged to Netherlands company tax with respect to dividends the company receives from a company that is a resident of Uzbekistan.

If and as long as the Netherlands, under its national legislation, levies no withholding tax on interest or royalties paid to a resident of Uzbekistan, the withholding tax rate for interest and royalty income paid at source in Uzbekistan shall be reduced to zero percent (Uzbekistan, Republic of - Corporate WWTS Extract & Review 04-2014)

Appendix D – Useful sources of information

Government websites

www.stat.uz

www.gov.uz

www.mfer.uz

www.minjust.uz

www.mfa.uz

www.cbu.uz/

www.mineconomy.uz

www.press-service.uz

Sources of statistical indicators used in this Guide:

www.stat.uz

www.cia.gov/library/publications/the-world-factbook/geos/uz.html

<http://data.worldbank.org/country/uzbekistan>

<http://www.investuzbekistan.uz>

Business groups

American Chamber of Commerce (AmCham)

Chamber of Commerce and Industry of Uzbekistan

Other useful addresses and websites

www.uzreport.com

www.uzinfoinvest.uz

www.uzdaily.com