

The background of the entire page is a photograph of a mosque. In the foreground, a large, ornate archway made of yellowish-brown bricks frames the view. Through the arch, a large, blue-tiled dome with intricate geometric patterns is visible against a clear blue sky. Below the dome, there is a smaller arched entrance with similar tilework. The scene is captured during the day, with warm lighting on the bricks and a cool blue on the dome and sky.

Deloitte.

Doing Business in Uzbekistan

Deloitte Uzbekistan, 2015

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This guide has been designed as a basic reference guide for companies and individuals interested in doing business in Uzbekistan.

The information in it is not exhaustive. Legislation and its interpretation change frequently in Uzbekistan and you should seek professional advice relating to your specific circumstances before making business decisions.

Deloitte accepts no responsibility for the consequences of acting on the basis of this guide without seeking such advice.

Notes

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Introduction to Uzbekistan



Mark Smith

Managing Partner, Deloitte Caspian Region

Mark spent his early career in Scotland before leaving for Almaty to head Deloitte's regional Financial Services audit group in 2007. Mark took over the Managing Partner role for the Caspian Region in 2012. His professional expertise line in the banking, insurance and manufacturing sectors, and he has provided audit services under IFRS, US GAAP and UK GAAP. Mark holds a Degree in Accounting and Marketing and is a Chartered Accountant (Scotland). Mark likes to travel and is a keen snowboarder and tennis player.

"The implementation of consistent and gradual reforms in different sectors of the economy, and investment guarantees provided by law have been recognised as the foundation for the economic achievements currently being seen in Uzbekistan. A business-friendly political and legal environment has been regarded as an important factor in a business and investment climate that supports macroeconomic stability and economic growth in Uzbekistan.

The adoption of state development programmes such as the State Investment Programme and Localisation Programme, as well as industry development programmes have been confirmed as one of the unique features of the government's strong intention to create a more favourable investment climate in Uzbekistan."

Deloitte in Uzbekistan



Andrew Weekes

Partner, Head of Audit, Caspian Region

Andrew has nearly 30 years of experience in the audit profession, including 20 years as a partner with Big Four firms in Asia. After joining Deloitte in Kazakhstan in 2004, he currently heads its regional audit practice, which incorporates Uzbekistan. He holds a Bachelor's Degree in Financial Administration and is a Chartered Accountant (Australia). He specialises in audit and assurance services, consultancy, risk management, policy development, due diligence and strategic analysis.

"Uzbekistan has been actively cooperating with the International Accounting Standards Board to implement International Financial Reporting Standards (IFRS). Pleasingly, we have observed a reduction in the differences between Uzbekistan National Standards of Accounting and IFRS. Added to this, following the recent presidential decree, we expect that all joint stock companies will transition to preparing annual financial statements, and having an external audit performed, in accordance with IFRS and International Standards of Auditing (ISA), respectively.

To me, these are particularly encouraging signs. The commitment of Uzbekistan's leadership to drive change, and to transform the financial reporting of corporations, will result in an increase in the quality of financial information, and lead to better corporate behaviour, improved comparability and transparency for the users of financial statements, and an appropriate platform to build accountable, responsible, fair and transparent corporate governance."

Uzbekistan offers ample investment opportunities as a result of its natural resources, growing consumer demand for goods and services, and its skilled workforce. Deloitte Uzbekistan is the one of five national Deloitte member firms operating in Central Asia. The integration of these member firms has enabled them to use the skills and experience obtained during their combined work across the whole region.

Deloitte provides services to Uzbekistan clients and investors in the country from its office in Tashkent. The firm offers a wide range of accounting, statutory and international auditing, tax consulting and legal services, financial advisory services as well as strategic analysis, risk management, and payroll and bookkeeping services.

Deloitte & Touche Audit Organization, LLC

75 Mustakillik Ave., Business Center "Inconel", Tashkent, 100000, Uzbekistan
Tel: +998 (71) 120 44 45/46 | Fax: +998 (71) 120 44 47
For additional information, please visit our Deloitte Uzbekistan website at: www.deloitte.uz

Almaty

Mark Smith

Managing Partner, Caspian Region
+7(727) 258 13 40 ext.4766
mar smith@deloitte.kz

Andrew Weekes

Partner, Head of Audit
+7(727) 258 13 40 ext.2797
aweekes@deloitte.kz

Vladimir Kononenko

Partner, Tax & Legal
+7 (727) 258 13 40 ext.2755
vkononenko@deloitte.kz

Tashkent

Erkin Ayupov

Managing Director, CPA
+998 (71) 120 44 45/46
erayupov@deloitte.uz

Talibjan Alimov

Director, Financial Advisory Services
+998 (71) 120 44 45/46
talimov@deloitte.uz

Andrey Tyo

Manager, Tax & Legal
+998 (71) 120 44 45/46
antyo@deloitte.uz

Bakhtiyor Sufiev

Senior Consultant, Tax & Legal
+998 (71) 120 44 45/46
bsufiev@deloitte.uz

Special tax regimes



Tax law stipulates special tax regimes for:

1. small businesses, which include:

- the patent special tax regime (for individual entrepreneurs not registered for VAT purposes only);
- the simplified tax regime, which is based on a single tax payment instead of a number of payments.

2. entities registered in SEZs

The simplified tax regime and the tax contract regime do not apply to financial and insurance institutions, investment funds, market makers and others.

To aid direct foreign investment, Uzbekistan operates a system of tax and customs concessions extending to specific industries or areas, for example, registering a company in an industrial zone. Deloitte helps investors chose the best business model for operations in Uzbekistan and analyses the best options for business development.

Investment in specific industries

Presidential Edict № УП-3594 dated 11 April 2005 provides tax concessions to production companies in the chemical and petro-chemical, engineering, light, food, alternative energy and other industries.

Eligible companies are exempt from:

- corporate profits tax;
- property tax;
- tax on social infrastructure improvements and development;
- obligatory National Road Fund contributions;
- integrated tax payments for micro-firms and small businesses.

The tax concessions in question are awarded based on amounts invested and apply for between 3 and 7 years, provided:

1. the companies in question are represented in all towns and rural areas of the country, except for Tashkent and Tashkent Oblast;
2. foreign investors make private direct investments without state grants;
3. foreign participants' interest in share capital is at least 33%;
4. foreign investments are made in freely convertible currency or in the form of new and modern production equipment;
5. at least 50% of income generated as a result of application of concessions is reinvested for further company development.

Investment in special economic zones

Special concessions have been approved to develop specific regions of Uzbekistan. To that end, the following Special Economic Zones have been created:

- Navoi Free Industrial and Economic Zone;
- Angren Special Industrial Zone;
- Jizzakh Special Industrial Zone.

Companies are entitled to concessions on the following taxes. The duration of those concessions depends on the volume of investment made:

- land tax;
- property tax;
- corporate profits tax;
- social infrastructure improvement and development tax.

As an additional stimulus, special rules to allow foreign currency payments have been introduced for companies registered in the above zones.

Companies are entitled not to apply tax law provisions that worsen their tax position.

In addition to general concessions applicable in all zones, special concessions apply in specific zones.



Dina Tasbulatova

Partner, Head of Financial Advisory Services, Caspian Region

Dina has been with Deloitte for nearly 10 years and is the partner in charge of the region's Financial Advisory Services department. She has more than 15 years of experience providing professional valuation services and holds a Diploma in Finance and Credit, is a Certified Financial Analyst (Level II), has a Kazakhstan state property valuation licence and a state licence to value intellectual property and intangible assets.

"The Uzbekistan Government is rightly regarded as business-friendly, having developed infrastructure, a skilled workforce and offering competitive operating costs. The government has long emphasised the importance of attracting foreign direct investment (FDI) to ensure sustainable economic growth and modernisation through the influx of foreign capital, technology and expertise. The Foreign Investment Law has provided an open and liberal FDI framework, including guarantees of national treatment, non-expropriation, the free repatriation of funds, and freedom of monetary transactions, and stability in legal relations, access to open-source information, observance of intellectual property rights and access to international arbitration. It also provides protection against adverse changes in investment, tax and customs law for the first 10 years after investment. The government is developing a number of programmes in an attempt to develop a fairer tax system, ease the tax burden on businesses, simplify tax procedures, encourage saving and investment and promote economic development in the country."

Tax administration



Alexei Voronkin

Partner, Financial Advisory Services, CIS

Alexei joined our team in 2003. He deals with corporate financial advisory services for real estate companies.

Alexei has substantial experience consulting in multiple industries, such as oil & gas, metallurgy and real estate. He has managed large-scale assignments, including business and asset valuation for financial reporting, restructuring, M&A, as well as real estate projects.

"Recent president-initiated developments to privatise a number of state-owned companies and value businesses have sent a positive signal to foreign investors wishing to work with the Uzbekistan business community in a number of various strategically important sectors of the economy.

Improvements to corporate governance principles, whether they be in the private or public sectors, have also been in the centre of recent reforms in Uzbekistan.

The protection of investor rights and interests serves as a great launch pad to attract foreign investments and ensure a fairer, objective and supportive business environment for investors. We believe that reforms in the field of corporate governance will yield their benefits well into the future."

Overview

The new Tax Code defines the following fundamental principles behind taxation in Uzbekistan:

- tax law in Uzbekistan is based on principles of the integrity, legality, obligation, determinacy and fairness of taxation and the tax system;
- all ambiguities and contradictions in Uzbekistan tax law will be interpreted in favour of the taxpayer;
- tax laws increasing rates or introducing new taxes or sanctions on taxpayers may not be applied retroactively;
- the presumption is that taxpayers act or fail to act within the law and are basically innocent of any infringement, placing the burden of proof on the tax authorities;
- the tax authorities are required to maintain the confidentiality of taxpayer-related information.

The enactment of the new Tax Code has greatly increased taxpayer rights and clearly defined the rights and obligations of the tax authorities, while also strengthening tax officials' responsibility for tax law violations.

Tax audits

According to the Tax Code, the tax authorities are entitled to carry out two main types of tax audits with regard to both individual and corporate taxpayers, namely desk tax audits and field tax audits.

Desk tax audits

Desk tax audits are generally carried out by the tax authorities in their own offices based on tax returns, financial statements and other relevant documentation filed by taxpayers.

Field tax audits

Field tax audits are carried out at a taxpayer's office or business premises at the initiative of the head of the auditing tax body.

A field tax audit may not last more than 10 calendar days, or 30 calendar days for "major taxpayers".

Limitations on tax audits

The Tax Code establishes certain provisions limiting the powers of the tax authorities in relation to tax audits. Field tax audits may be carried out only with respect to the three-year period ending on the audit start date. However, the statute of limitation for tax violations is five years from the date a violation takes place.

The tax authorities cannot conduct more than one field tax audit within a 12-month period.

Fines and late payment interest

The Tax Code stipulates the following sanctions for tax violations:

- a late payment of taxes is subject to 0.033% interest for each day payment remains in arrears. Total interest may not exceed total unpaid tax;
- the evasion of tax registration, i.e. operating without registering with the tax authorities, is subject to a fine of up to 50% of net revenue for the period.



Customs duties

Customs duties

Customs duties are governed by the Customs Code and the Customs Tariff Law. Import customs duties normally expressed as a percentage of the value of imported goods are known as "ad valorem" duties. Duties expressed as a set monetary amount per unit or kilogram are called "specific" duties. They may also be expressed as the greater of the two, or as "combined" duties.

Several "ad valorem" import duty rates currently apply in Uzbekistan. In the majority of cases, they range from 0%, 5%, 10%, up to 70%. Certain goods are exempt from import customs duties.

Import duty rates depend on the exact nature of the goods being imported. Goods are classified according to the International Harmonised System.

Basic rates are not constant and may vary depending on the country of origin of goods, the type of goods and, occasionally, on other factors.

Import value added tax

20% VAT is levied on the total customs value of imports, which includes customs duties.

Customs clearance fees

A customs clearance fee of 0.2% is levied on customs value as reflected in customs declarations.

Customs value

Customs value is defined as the invoice value, increased by:

- actual transportation, loading, unloading and insurance costs incurred up until the goods cross the Uzbekistan border;
- any commission and/or broker fees paid;
- fees for intellectual property rights to the goods, which must be paid as a condition for their import.

Most favoured nations

Uzbekistan is a member of the CIS and has a number of intergovernmental tariff concession agreements in place. China, USA and a number of other countries have most favoured nation status in Uzbekistan. Reduced import duties may apply to goods manufactured in countries that have entered into free trade agreements with Uzbekistan (e.g. Azerbaijan, Armenia, Belarus, Kazakhstan, Moldova, Tajikistan, Turkmenistan, Kyrgyzstan, and Ukraine). Tariff concessions will be granted if "direct purchase and shipment" rules are followed.

Export customs duties

Export customs duties are introduced seasonally, and are currently levied on some strategic products.

Customs regimes

A number of customs regimes exist that provide for either full or partial exemption from import duties and taxes. For example, full relief may be granted on goods that are imported into Uzbekistan for processing and which are then subsequently exported.

Goods may also be imported under "temporary import" regulations, which provide for either a full or partial exemption from import duties and VAT for two years. Once that period has expired, the goods must either be exported or transferred to a different customs regime.

Customs free zone regulations may be applied in certain Special Economic Zones (SEZ), resulting in exemptions from import duties and taxes on imported raw materials, components, etc. until the processed products are removed from the SEZ.



Erkin Ayupov

Managing Director, Deloitte Uzbekistan

Erkin has over nine years of extensive experience in the audit of both financial institutions and large multinationals in the CIS and UK. He spent three years in the Banking & Capital Markets group of Deloitte London before re-joining our CIS practice, eventually taking over the Managing Director role in the Tashkent office in 2014. His auditing experience lies in both IFRS and US GAAP accounting. Erkin holds a Degree in International Business and is a US Certified Public Accountant and Licensed Auditor of the Ministry of Finance of the Republic of Uzbekistan and Central Bank of the Republic of Uzbekistan.

"It is becoming increasingly obvious that many countries are striving to gain access to financial resources both domestically and internationally to bring substance to their economic and social development ambitions. Uzbekistan is no exception. Numerous government-backed initiatives that went live in 2015 are direct evidence of the government's recognition of the significant influence that corporate governance and financial transparency have on investor confidence and their decisions. A successful execution and completion of these initiatives will be a big step forward to further improving investment attractiveness in Uzbekistan by making it easier and less costly for investors to identify investment opportunities in Uzbekistan."



Talibjan Alimov

Director, Financial Advisory Services

Talibjan Alimov is the Director of Deloitte LLC, a newly launched financial advisory practice in Tashkent. He has more than 10 years of experience specialising in financial advisory services with international financial institutions, and extensive skills in business valuation, risk management, audit and internal controls.

His experience also includes independent business valuation of companies in accordance with National Asset Valuation Standards and International Valuation Standards, and project due diligence.

"One of the major factors behind successful investment in the Uzbekistan economy has been political and economic stability, and a developed regulatory and legal base. The business environment has been further enhanced by recent government efforts to create a "one-stop-shop" registration process, a simpler and less burdensome new tax code, to implement modern corporate governance practices and promote public-private sector dialogue.

Coupled with Uzbekistan's rich heritage and historical importance as an international player, I believe this should be a period of remarkable growth and success for the country and could well mark the dawn of a new age in economic achievement."

be paid by 1 June of the following tax year.

Tax returns should be filed with local tax authorities and report all income received during the tax year and specify every item, source, amount and date.

Taxable income — Taxable income includes wages and salaries (including work bonuses, one-off bonuses, annual additional holiday payments and others); benefits such as training, certain childcare services, catering and travel tickets or compensation for them; and "other income" (e.g. awards, prizes, cash awards from competitions, contests and others).

Healthcare benefits, inheritance, insurance premiums and repayments are all non-taxable.

Capital gains — Income derived by an individual from the sale of private property is taxable income.

Deductions and allowances — No.

Rates — Progressive rates from 0% to 23%.

Elimination of double taxation — Uzbekistan has entered into a number of bilateral double tax treaties, which, under certain conditions, enable individuals to avoid taxation of the same income under the tax systems of two countries by applying tax exemptions in one of the countries or reducing tax rates.

Moreover, according to tax law, personal income tax paid in foreign countries may be credited against Uzbekistan PIT, provided that documents confirming taxes paid in a foreign country are shown to the local tax authorities.

Tax paid in a foreign country should not exceed tax calculated on income in accordance with Uzbekistan tax law.

Other taxes on individuals

Capital duty — No.

Stamp duty — Stamp duty is levied on court claims, notary acts, the state registration of legal entities and licenses.

Capital acquisitions tax — No.

Real property tax — Land and property taxes are levied on individuals owning, possessing, renting or otherwise using land, and owning real estate. The taxable base is the area of land. Tax rates are determined regionally, and can vary anywhere between 1.3% and 2.2% of the value of real estate.

Inheritance/estate tax — No.

Net wealth/net worth tax — No.

Social security — Employers should withhold a 7%

pension fund contribution on a resident employees' gross salaries. Employee are also entitled to make voluntary pension fund contributions.

Administration and compliance

Tax year — Calendar year.

Filing and payment — Employment income and passive income are taxed at source. For other types of income, individuals should file income returns, with income assessed on the basis of that return. The filing date for "declared income" is 1 April and payment is due by 1 June of the year following the calendar year.

Fines — The fine for missing deadlines or not providing a tax return is ~US\$ 33-100. Late payment interest of 0.033% is charged for each day payment remains delayed.

Value added tax

Taxable transactions — VAT is levied on the supply of goods and services and import of goods.

Rates — The standard VAT rate is 20%. Certain services, such as passenger transportation (excluding taxi services); medical, educational, tourist and excursion services; and financial and insurance services are not subject to VAT. Exemptions are in place for certain equipment and items imported under individual agreements with the government. Goods exported for hard currency; the processing of certain goods for export and international transportation services are subject to zero-rated VAT.

Registration — Micro-firms and small businesses taxed according to the simplified system generally do not pay VAT, although they can opt to register and pay VAT voluntarily. Other legal entities should register with the local tax authorities within 10 days of state registration.

Filing and payment — The reporting period for VAT is the calendar year. Micro-firms and small businesses report and pay VAT quarterly before the 25th day of the month following the reporting period. Other legal entities report on monthly and pay VAT monthly before the 25th day of the month following the reporting period.

Source of tax legislation: Tax Code, Presidential and Cabinet of Ministers Decrees.

Tax treaties: Uzbekistan has entered into 50 tax treaties.

Tax authorities: State Tax Committee, State Customs Committee and the Ministry of Finance.



Thin capitalisation — No.

Controlled foreign companies — No.

Others — The authorities regulate monopolistic activity by listing monopolistic companies, defining anti-monopolistic sectors and monitoring prices.

Disclosure requirements — National Accounting Standards and legislation stipulate specific disclosure rules.

Administration and compliance

Tax year — The calendar year.

Consolidated returns — Consolidated returns are not permitted, generally speaking; each company should file its own return. Banks are required to file consolidated returns. However, bank branches should submit separate returns.

Filing requirements — Resident companies should file quarterly corporate profit tax returns by the 25th of the month following the accounting quarter, and an annual return on/before 15 February of the year following the reporting year. Uzbekistan companies with foreign investment should make quarterly corporate income tax payments of 1/3 of estimated total tax; file an annual return and make a final payment by 25 March after the close of the tax year.

Non-residents with a PE in Uzbekistan should file annual returns by 25 March of the year following the accounting year. If activities cease before the end of the calendar year, all relevant documentation should be filed within one month of that cessation of activity.

Penalties — Fines of 50 to 100 times the monthly minimum salary or 10% to 50% of revenue earned may be imposed for a failure to register. A late or missing return is punished by an administrative fine (~USD 33-100). Late payment interest is charged at 0.033% for the late payment of a tax liability.

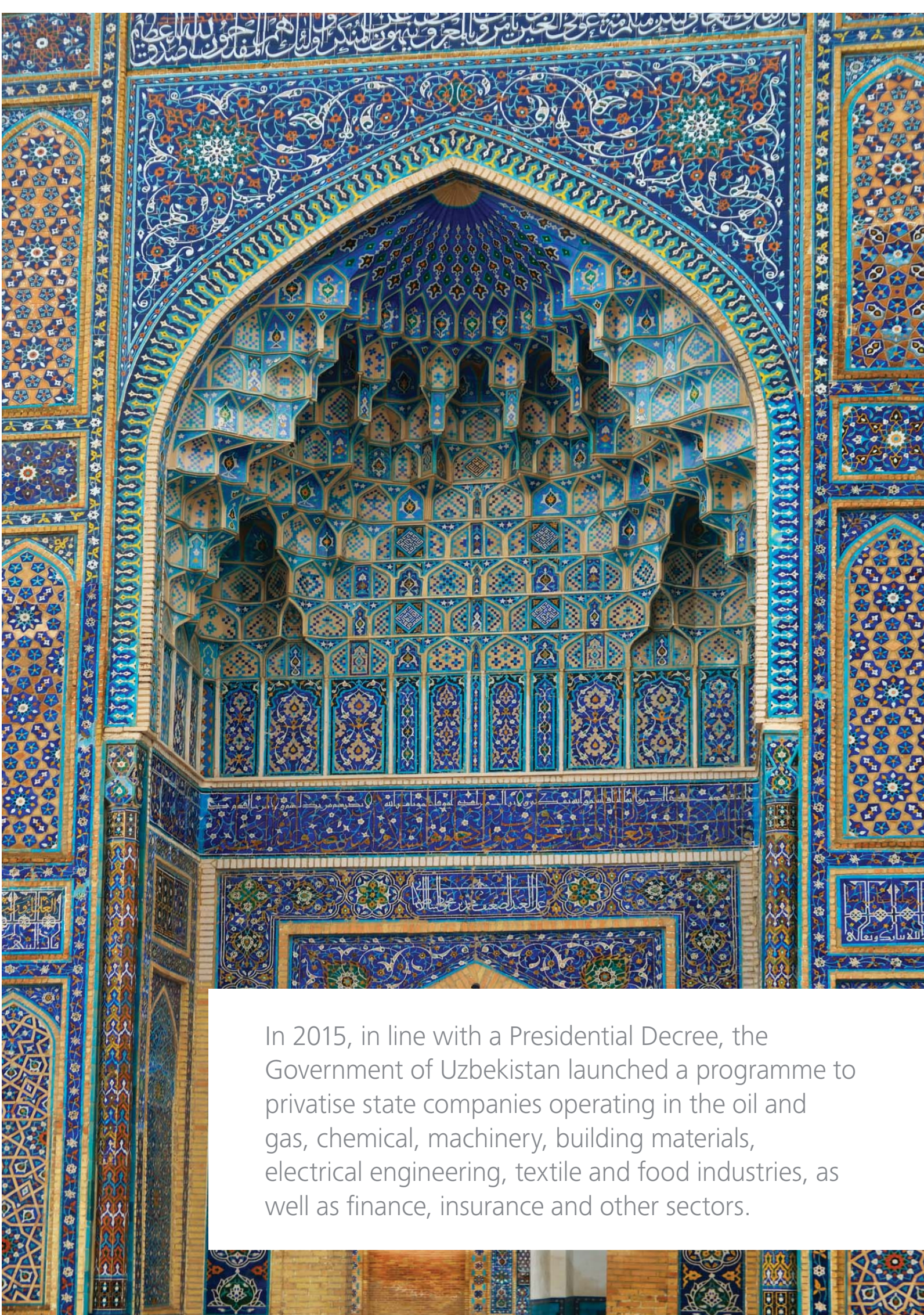
Rulings — No.

Personal taxation

Basis — Resident individuals are taxable on worldwide income; non-residents are taxed on income received in Uzbekistan only.

Residence — Individuals are regarded as resident if they are permanently domiciled in Uzbekistan or physically present in Uzbekistan for at least 183 days in any consecutive 12-month period.

Filing status — Joint filing is not permitted; spouses are taxed separately. Individuals required to file an income tax return should do so by 1 April of the year following the tax year. Total tax due based on a tax return should



In 2015, in line with a Presidential Decree, the Government of Uzbekistan launched a programme to privatise state companies operating in the oil and gas, chemical, machinery, building materials, electrical engineering, textile and food industries, as well as finance, insurance and other sectors.



payment of foreign profit tax is regarded as acceptable proof to receive the credit.

Holding company regime — No.

Incentives — Legal entities engaged in specific activities may be granted a temporary exemption from profit tax, property tax, certain social infrastructure taxes, unified tax payments and obligatory road fund payments. Additionally, companies expanding general production capacity, reconstructing industrial structures, modernising production facilities and equipment, etc., may be eligible to reduce their taxable base by deducting expenses incurred for five years.

Withholding tax

Dividends — Dividends paid to a resident or non-resident are subject to 10% withholding tax. The rate applicable to non-residents may be reduced under a tax treaty.

Interest — Interest paid to a resident or non-resident is subject to 10% withholding tax. The rate applicable to non-residents may be reduced under a tax treaty.

Royalties — Royalties and similar (e.g. lease payments) payments made to a non-resident are taxed at 20%. The rate applicable to non-residents may be reduced under a tax treaty.

Technical service fees — No.

Branch remittance tax — A branch and its head office are treated as independent entities, so any remittance from a branch to the head office is subject to 10% net profit tax.

Others — Non-residents are subject to withholding tax as follows: 10% for insurance, co-insurance and reinsurance premiums; and 6% on payments for international communications services and income from transportation and shipping services.

Withholding tax is applicable regardless of the form of payment, and includes payments in kind, or the mutual offset of buyer and seller liabilities.

Elimination of double taxation — Foreign legal entities need to satisfy Tax Code exemption requirements to claim double tax treaty benefits on Uzbekistan-sourced income. Non-residents should provide tax residence certificates confirmed by the competent authority in their country of residence to the beneficiary. The rule does not apply to all types of payments.

Permanent establishment and withholding tax — The Uzbekistan-sourced income of a foreign legal entity (FLE) that is not attributable to a permanent

establishment (PE) may be subject to withholding tax at source. For taxation purposes, an Uzbekistan entity or FLE with a registered PE making payments to an FLE without a PE should act as a tax agent. This implies an obligation to withhold tax from Uzbekistan-sourced income, as long as that income is not connected with an Uzbekistan PE. Failure to do so may lead to significant fines.

In addition to the above, withholding tax also applies to capital gains from the sale of immovable property and shares from one foreign entity outside of Uzbekistan to another.

Other corporate taxes

Capital duties — No.

Payroll tax — Micro-firms and small businesses make 15% unified social contributions (to pension, employment and professional trade union funds) based on employee salaries. The rate for other eligible companies is 25%.

Property tax — 4% property tax is levied on a legal entity’s fixed assets. Equipment not installed in due time is charged at the double property tax rate.

Social security — Companies pay 1.6% of their gross revenue (in addition to unified social contributions) to employee pension funds. Micro-firms and small businesses subject to general taxation regulations do not make pension, road and school fund contributions (from gross revenue) except those companies producing excisable goods and extracting mineral products.

Stamp duty — Stamp duty is levied on court claims, notary acts, the state registration of legal entities and licenses.

Transfer tax — No.

Others — 8% social infrastructure development tax is levied on an entity’s net profit (after corporate profit tax).

The road fund receives both obligatory deductions (calculated at 1.4% of gross revenue quarterly for micro firms and small businesses and monthly for others) and payments (on, for example, the import of vehicles or the use of foreign-registered vehicles).

School development fund payments are calculated quarterly for micro firms and small business at 0.5% of gross revenue.

Anti-avoidance rules

Transfer pricing — The tax authorities may apply market rates to revenue generated from related party transactions.

Taxation

General

Uzbekistan adopts the continental legal system in which Parliament is the sole authority authorised to establish laws. There is no court precedent doctrine in Uzbekistan and, therefore, court decisions tend to be regarded as recommendations only.

A new Tax Code entered into force from 1 January 2008 in an attempt to develop a fairer tax system, ease the tax burden on businesses, simplify tax procedures, encourage saving and investment and promote economic development in the country.

With the adoption of the new Tax Code, the main taxes applicable to investor activity are:

- corporate income tax;
- individual income tax;
- value added tax;
- excise duties;
- property tax;
- obligatory contributions to non-budget funds;
- land tax;
- tax withheld at the source of payment from non-residents' income;
- other duties and payments.

Corporate income tax and unified tax payments

Residence — An entity is resident in Uzbekistan if it has completed state registration procedures.

Basis — Resident companies are subject to profit tax on their local and worldwide trading income and other taxable income such as interest, royalties and rental income. Profit tax is also levied on the Uzbekistan-source income of non-residents operating through a permanent establishment. Non-commercial organisations are generally exempt from profit tax, except on profit derived from entrepreneurial activities.

The gross revenue of micro-firms and small businesses is subject to simplified (unified) taxation regulations, replacing profit tax, VAT (voluntary), property tax, land tax, social infrastructure development tax, and national road, school development and pension fund contributions.

Mining operations and related processing are subject to mining tax and excess profits tax (for specified items), and special fees ("subscription bonus", which is a one-off fixed payment for exploration and extraction rights and a "commercial exploration bonus," which is payable for each commercial exploration of a location).

Taxable income — Taxable income comprises business and investment income and is calculated as the difference between aggregate income and deductible expenses. In general, expenses incurred wholly and exclusively for business purposes are deductible. For other income sources, expenses may be deducted provided they are incurred wholly and exclusively in the generation of income.

Taxation of dividends — Dividends paid to residents and non-residents with a permanent establishment in Uzbekistan from profit that has been subject to Uzbekistan tax are exempt from profit tax (by way of a deduction from taxable income). Profit tax is not imposed on income derived from state securities.

Capital gains — Capital gains are treated as ordinary income and are subject to the standard profit tax rate. However, a capital gains tax liability arises only when the gain is attributed to the sale of shares for a higher price.

Losses — Losses (which should be based on financial year results) may be carried forward for five years (except for losses incurred while the taxpayer was exempt from profit tax). However, total losses carried forward in each subsequent year may not exceed 50% of taxable income for the current tax period. Losses may not be carried back.

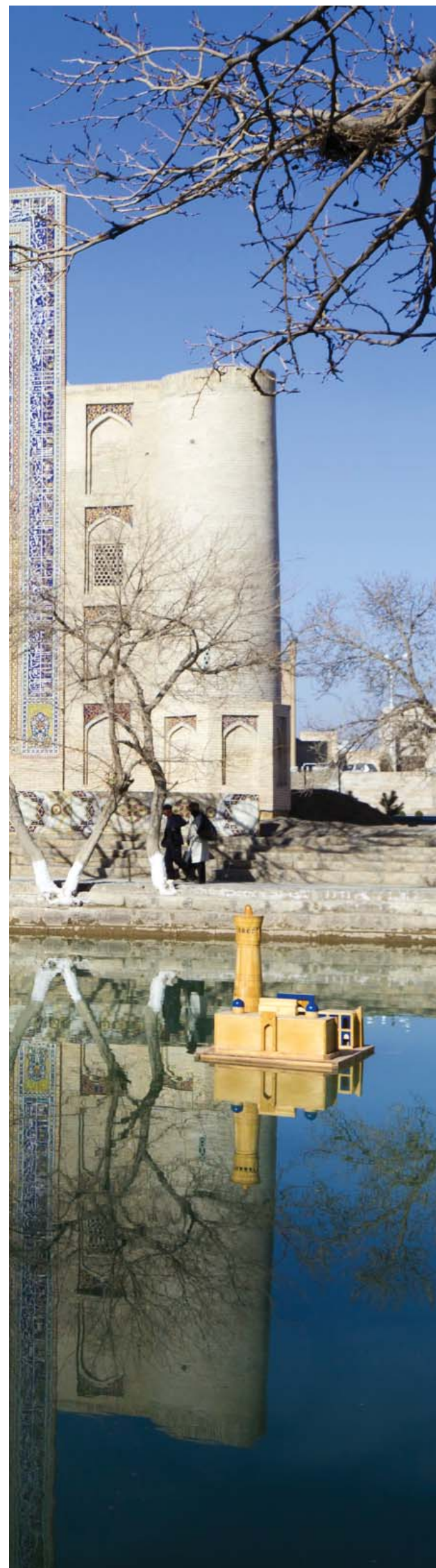
Rate — The general profit tax rate is 7.5%, with a 15% rate applicable to banks. In addition to general profit tax, non-residents with a permanent establishment in Uzbekistan pay net profit tax at 10% on their net income.

The unified tax rate is 6%. However, the rate differs for a number of industries. For example, IT, construction, publishing companies, and industrial enterprises pay 5%, while entertainment companies and companies with lease income (more than 60%) derived from the rent of sales outlets at 30%. Different rates have been set for trading and catering companies. The unified tax rate is lower for companies established in remote regions.

Surtax — No.

Alternative minimum tax — Individual entrepreneurs are subject to alternative minimum tax at rates ranging between 0.04 and 10 times the monthly minimum salary per month, depending on the type of activities.

Foreign tax credits — Foreign profit tax paid by an Uzbekistan resident company may be credited against Uzbekistan profit tax in accordance with an applicable tax treaty. Payment notification, a certificate from foreign tax authorities or other document confirming



Geography

Uzbekistan stretches 1,425 kilometres from west to east and 930 kilometres 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. It also shares a short border with Afghanistan to the south. Uzbekistan is a dry, double-landlocked country with intensely cultivated and irrigated river valleys.

Uzbekistan is divided into 12 regions and the autonomous Republic of Karakalpakstan. According to the State Statistics Committee, the total population at 1 January 2015 exceeded 30 million.

History

Uzbekistan history in terms of culture and art stretches back many centuries. In recent years, the country has found its place on the world stage due to its significant natural resources. The legendary Uzbek warrior Amir Temur conquered vast areas of Asia during the 15th century. The Khanates of Khiva and Kokand and the Emirate of Bukhara ruled the region during the 18th and 19th centuries. The 19th century saw a serious struggle between Russia and Great Britain for influence in Central Asia, but soon after the communist revolution in 1917, Soviet power was established in September 1919, and in May 1925, Uzbekistan became part of the USSR. Independence from the Soviet Union was declared on 29 August 1991, with the country reverting to being known as the Republic of Uzbekistan.

Political structure

Uzbekistan is a presidential republic with a parliament (Oliy Majlis) consisting of a lower legislative chamber and an upper senate.

The Legislative Chamber consists of 150 members elected based on ballot voting for five years. Senate members are elected from each region of Uzbekistan, Karakalpakstan and Tashkent. Sixteen members of the Senate are appointed by the president from people with outstanding experience, achievements and contributions in science, literature and art. The president, with Constitutional Court approval, is entitled to dissolve the Oliy Majlis.

There are five political parties in Uzbekistan: the Adolat Social Democratic Party, National the Democratic Party of Uzbekistan, Milliy Tiklanish, the Liberal Democratic Party "Movement of Entrepreneurs and Businessmen" and the Ecological Movement of Uzbekistan.

Employment regulations

The Cabinet of Ministers is responsible for overall regulation of the national economy. Regulatory authority has been entrusted to the Ministry of Finance (fiscal and taxation policy), the Central Bank (banking regulation and monetary policy), the State Tax Committee (tax collection), the State Customs Committee (collection of customs payments), the Ministry of Economy (development and implementation of long-term social and economic strategy), the Ministry of Foreign Economic Relations, Investment and Trade (foreign trade and attraction of foreign investments), the Ministry of Communication and Information Technologies (IT and communication), the State Committee for Privatisation, Demonopolisation and Development of Competition (privatisation policy).

Uzbekistan is a member of the Commonwealth of Independent States (CIS), International Monetary Fund (IMF), World Bank Group, United Nations, Organisation of the Islamic Conference, Asian Development Bank, Islamic Development Bank, the Shanghai Cooperation Organisation and many other international organisations.

Economy

Despite the economic downturn in Russia, which has adversely affected exports, payments and investments, the Uzbekistan economy has continued its strong performance, with over 8% growth in 2015. The government recently adopted measures to develop public infrastructure; provide tax breaks for and small and medium-sized export companies; increase public sector salaries, and commercial bank recapitalisation.

The government has declared its full commitment to honour its IMF Article VIII obligations.

Since gaining independence in 1991, Uzbekistan has adopted an evolutionary reform strategy, with emphasis on state control, import reductions, and energy self-sufficiency.

To protect locally manufactured goods, the state adopts a restrictive policy towards imports, manifesting itself in high import and excise duties and active import substitution.

The importance of cotton production and exports to the Uzbekistan economy is paramount. It is grown throughout the country, with the largest production areas in the Surkhandarya, Kashkadarya, Djizakh, Fergana Valley, Bukhara, Samarkand and Syrdarya regions. Uzbekistan produces approximately three million tonnes of cotton per year and is the seventh largest producer in the world.

Mining is another important economic sector, and after cotton, precious metals (including gold, silver, platinum and copper) are the country's second most significant export.

Value-added production is relatively important in many regions, for example an automobile assembly plant in Andijan (GM Uzbekistan), automobile power plant in Tashkent (GMPT), bus production plant in Samarkand (Isuzu) and automobile assembly plant in Khorezm (GM Uzbekistan).

Privatisation

In 2015, in line with a Presidential Decree, the Government of Uzbekistan launched a programme to privatise state companies operating in the oil and gas, chemical, machinery, building materials, electrical engineering, textile and food industries, as well as finance, insurance and other sectors.

The aim of the programme is to boost short-term foreign investment in Uzbekistan; increase the level and role of private assets in the economy; ensure the modernisation and technological renewal of production processes and promote the manufacture of products with overseas demand.

It outlines the disposal of over 660 idle state-owned and non-core enterprises with their subsequent sale at public auction to new private, but professional, owners, willing to invest in unprofitable, low-profit and economically insolvent businesses.

Legal system

The Uzbekistan legal system incorporates the Constitution, Laws protecting private property and guaranteeing owner rights; on investment activities; guaranteeing the freedom of entrepreneurial activity, the Civil Code, Presidential Decrees, and Resolutions of the Cabinet of Ministers and other normative acts. Economic disputes, including intellectual property claims, can be settled in the Higher Economic Court or the Supreme Court. Arbitration is regulated by the Economic Procedural Code, the Law on arbitration courts, and the Law on the activities of commercial enterprises.

Banking system

Uzbekistan has a two-tier banking system governed by the Central Bank, which is authorised to control monetary policy, regulate settlements between business entities and activities of local commercial banks, manage official foreign exchange reserves, and license banking and credit activities in Uzbekistan. The Central Bank of Uzbekistan reports to the Senate.

General

The Labour Code, adopted on 21 December 1995, applies to all employment relations in Uzbekistan and is binding for all employers and employees, including Uzbekistan nationals, foreign nationals, stateless persons and employees of foreign international organisations and legal entities.

Employment agreements

Employment relations are formalised in an employment agreement between employers and employees. Employment agreements should contain specific provisions found in the Labour Code.

Employment agreements may be in place for either an indefinite or fixed term. Indefinite term employment agreements are the default option under the Labour Code while fixed-term agreements may only be concluded if certain legislative requirements are met. Employees are entitled to enter into employment agreements with several employers simultaneously.

The Labour Code also covers the termination of employment agreements. Employees can terminate their employment at any time by giving two weeks' prior written notice to their employer.

Employees should be notified personally at least two months in advance they are to be terminated due to staff redundancies or company liquidation.

Employees should receive compensation of no less than two months' average salary when employment is terminated due to company liquidation, staff redundancies or company reorganisation.

Employment visas and permits

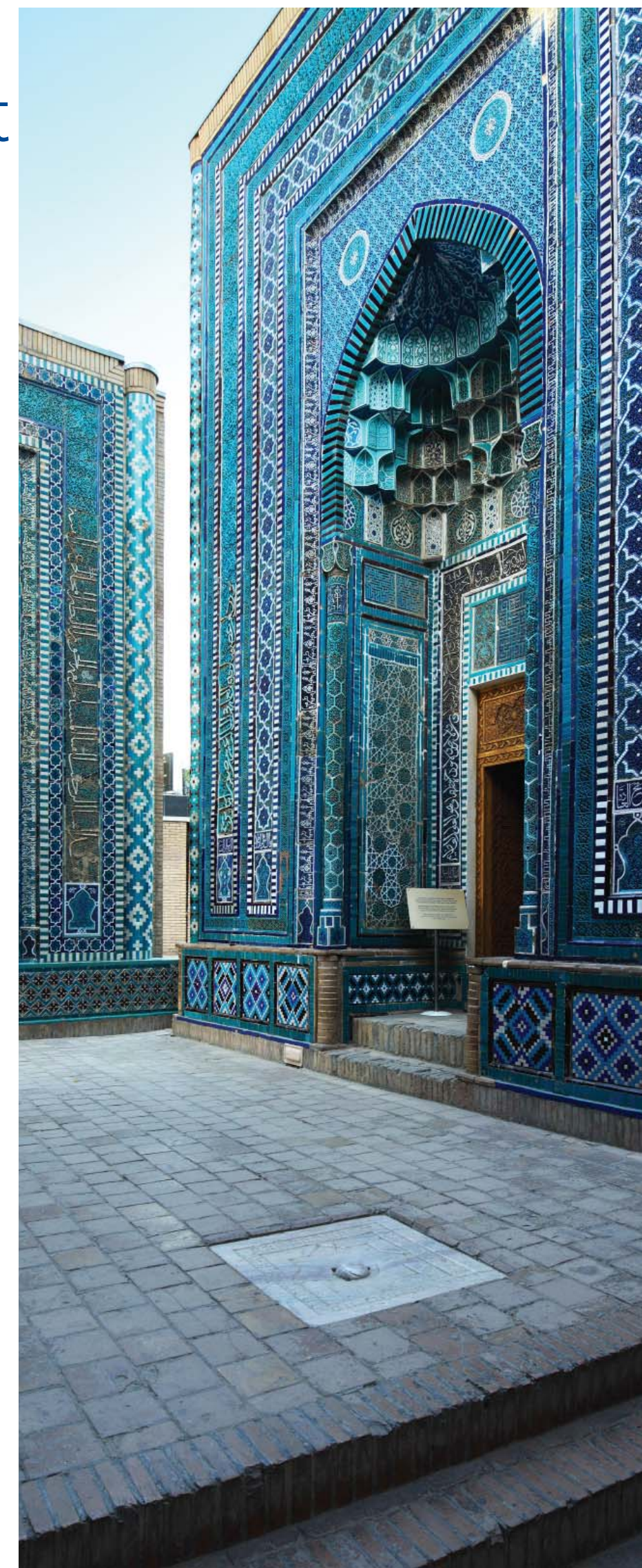
The employment of foreign nationals in Uzbekistan is governed by immigration and labour law.

An entity of a foreign company in Uzbekistan can only employ foreign nationals if:

- the employer has obtained a permit to hire foreign workers;
- the employer has obtained an individual work permit for the foreign national.

In practice, to employ a foreign national, an employer should demonstrate a special need for the foreign national that cannot be met by employing Uzbekistan nationals.

An Uzbekistan representative office of a foreign company should obtain special accreditation cards for any foreign nationals it employs.



Joint stock companies may have an unlimited number of shareholders. With its elaborate disclosure requirements, the JSC is the only form of legal entity whose shares may be openly traded similar to those of a western “public” company.

The main features of a JSC are:

- it is entitled to engage in any type of activity not prohibited by domestic law and, accordingly, may obtain a license to do so when required;
- it is governed by shareholders through shareholder meetings, which must be held at least once a year;
- one of the responsibilities of shareholder meetings is to elect an executive body (sole or collective).

Representative offices

A foreign company may set up a representative office in Uzbekistan to represent its interests there. Representative offices are not recognised as separate legal entities and may be established for representative purposes only (for example, marketing and information gathering) and may not out carry business activity. The Ministry of Foreign Relations, Investments and Trade is responsible for registering representative offices.

Permanent establishments

Many foreign companies are involved in upgrade, reconstruction or construction projects in Uzbekistan, and in doing so create permanent establishments for taxation purposes.

The term “Permanent Establishment” in Uzbekistan is recognised as any place through which a non-resident carries out business activities in Uzbekistan, including activities performed through an authorised individual. For instance, the term incorporates:

- business activities that last more than 183 calendar days during any successive 12-month period;
- any place of activity connected with the production of natural resources such as mines, oil and gas wells or quarries;
- any place where activities (including control or supervisory) are associated with oil or gas pipelines; the exploration and (or) exploitation of natural resources; the installation, assembly, commissioning, start-up and (or) maintenance of equipment;
- construction, assembly or installation project sites, and services to monitor work progress at these sites;
- any place where activities related to the operation of slot machines (including consoles), computer networks and communication channels, amusements, transport or other infrastructure activities are performed;
- business activities performed through an entity based on a contract with a non-resident to represent its interests in Uzbekistan, including by acting in Uzbekistan on behalf of the non-resident, and regularly use its authority to conclude contracts on behalf of the non-resident;
- any place whose activities are related to the production, assembly, packaging or sale of goods;
- This list is not exhaustive and it is worth remembering that double taxation treaties/agreements may contain different definitions of “permanent establishment”.

The term “permanent establishment” is used solely to determine an organisation’s tax status and has no legal value.

Tax law differentiates between registration and further tax execution responsibilities. For example, based on special government resolutions, companies participating in upgrade or renovation projects are entitled to tax and customs concessions. However, this does not exempt companies whose activities fall under the definition of “permanent establishment” from having to register with the authorities. Tax law stipulates significant financial penalties that may affect overall project viability if registration deadlines are missed.

Commercial banks in Uzbekistan can be split into three categories:

- joint stock banks with different levels of state ownership (the National Bank for Foreign Economic Activity, Uzpromstroybank, Agrobank, Halk Bank, Asaka Bank, Qishloqqurilishbank, Ipoteka Bank and Mikroreditbank). This group accounts for more than 70% of the Uzbekistan banking system in terms of capital;
- private joint stock banks (Asia Alliance Bank, Trast Bank, Ipak Yoli Bank, Hamkorbank and others);
- commercial banks with foreign investment (Korean Development Bank of Uzbekistan, Savdogarbank and the Uzbekistan-Turkish Bank).

At present, there are 26 commercial banks operating in Uzbekistan with licences to perform all types of banking transactions, including international transactions in foreign currencies.

Free Industrial and Economic Zone

The Law on free economic zones, passed in 1996, establishes free trade zones, including bonded warehouses, customs-free zones, and zones for the processing, packing, sorting, and storage of goods.

In 2008, the president issued a decree creating a 30-year free industrial and economic zone (FIEZ) in Navoi Region, offering customs, currency and tax holidays, simplified administrative and work permit procedures for the entire period the FIEZ remains active. Companies registered in it are exempt from most taxes for 7 years if their direct investment exceeds Euros 3 million; 10 years if it exceeds Euros 10 million; and 15 years if investment exceeds Euros 30 million. After a tax holiday expires, companies with direct investment exceeding Euros 10 million are entitled to 50% income tax and unified tax reductions for 10 years (over Euros 30 million). Companies registered in the Navoi FIEZ are entitled to:

- customs payment exemptions for the entire FIEZ operational period on the import of equipment, raw materials and components used in the manufacture of export-oriented goods (except for customs clearance charges);
- a 50% reduction of custom payments (except for customs clearance charges) on imported raw materials and components used in the production of goods for domestic consumption.

In April 2012, the president issued a Decree creating a special industrial zone (SIZ) in Angren, Tashkent Region, where companies are exempt from custom payments (excluding customs clearance charges) and enjoy

corporate income tax, property tax, social infrastructure development tax, unified tax payment, road tax and mandatory National Road Fund contribution holidays.

These exemptions and tax holidays are valid for 3 years if direct investment exceeds US\$ 300 thousand; 5 years if it exceeds US\$ 3 million; and 7 years if it exceeds US\$ 10 million. Customs payment exemptions are granted on imported components and materials not produced in Uzbekistan Exemptions. Exemptions are in place while the SIZ operates (30 years from the date of establishment). The government has committed to allocate US\$ 59.4 million for infrastructure development in the SIZ.

In March 2013, the president issued a Decree creating the Jizzakh SIZ in Jizzakh Region, with a branch in Syrdarya Region. The Jizzakh SIZ offers the same tax and customs concessions as the Angren SIZ.

Stability of legislation

The Foreign Investment Law protects against adverse changes in investment, tax and customs law for the first 10 years after investment.

If tax law is adversely amended during that period, investors and investment targets are entitled to apply the more favourable tax conditions, including VAT, for 10 years from their incorporation date, if total investment amounts to more than US\$ 5 million.

National treatment

Investment Law provides national treatment and non-discrimination guarantees for foreign investors. Generally, Uzbekistan does not restrict investment in any sector; however, certain restrictions do exist on the foreign ownership of land and real estate.

In practice, access to markets, credit and other business operations is often impeded by licensing and other regulatory requirements.

Nationalisation/expropriation

The current legal framework protects foreign investment against nationalisation and expropriation. Direct expropriation should be in the public interest and non-discriminatory and coupled with “prompt, adequate and effective” compensation, including lost profit. Any compensation made should be at market value with interest and denominated in freely convertible currency, although no procedures and instruments exist to ensure fair compensation.



Type of business presence

Repatriation of profit

Foreign investors are entitled to repatriate profit, whether it be in the form of dividends, interest or other income.

Settlement of disputes

The Investment Law allows foreign investors involved in disputes with the State free access to international arbitration at the International Centre for Settlement of Investment Disputes or an arbitration tribunal established under arbitration procedures of the United Nations Commission for International Trade Law.

Exchange controls

The national currency, the Soum (UZS) is not freely traded outside of Uzbekistan. Local companies operating in Uzbekistan face restrictions in converting UZS into US\$, particularly when making payments to foreign suppliers.

In addition, all Uzbekistan entities including those with foreign investment (except for small businesses that meet specific exemption criteria) are required to convert 50% of their hard currency revenue receipts into UZS through banks authorised to make those transactions.

Regulations in place to monitor foreign currency transactions carried out by legal entities and individuals require commercial banks to provide information to the tax authorities on specific foreign exchange transactions carried out by their clients.



General

The majority of businesses in Uzbekistan are organised as limited liability companies, open and closed joint stock companies, partnerships, sole proprietorships, and representative offices of foreign companies. Companies may limit their presence to a permanent establishment (not a legal form and only for tax purposes). The most common types of business presence in Uzbekistan for foreign companies are:

- limited liability companies;
- joint stock companies;
- representative offices;
- permanent establishments.

Limited liability companies

The most flexible company type in Uzbekistan is the limited liability company (LLC). Under current law, the minimum capital requirement for an LLC is 40 times the minimal wage (~US\$ 2,000). In general, owners' equity participation is determined based on their capital contribution, unless otherwise agreed by them.

The main features of an LLC are as follows:

- it may engage in any activity not prohibited by domestic law and, accordingly, may obtain a license to do so when required;
- participants' liability is limited to their contribution to the company;

- it does not issue shares; instead participants contribute to charter capital. Participants may contribute by providing assets;
- it is managed through meetings of participants;
- participants elect an executive body (sole or collective);
- participants are entitled to leave the company and receive their share of net assets without the consent of other participants;
- participants enjoy pre-emptive rights to acquire fellow participants' contributions;
- an LLC with one participant may not act as the sole participant of another LLC;
- the number of participants may not exceed 50.

A foreign company may apply for the status of "Company with Foreign Investment" and benefit from additional tax privileges if charter capital exceeds US\$ 150 000 and more than 30% of the company belongs to a foreign company or individual.

Joint stock companies

The minimum charter capital of a joint stock company (JSC) is US\$ 400,000, all of which needs to be paid in. The latest wording of the Joint Stock Companies Law has removed the terms open and closed joint stock companies.