Overview of Tax Rules in Uzbekistan in 2019

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In the sections that follow, we describe the most significant taxes in Uzbekistan. There are a number of other less significant or specific taxes, such as excise taxes and a number of taxes on "subsurface users" (i.e. oil, gas, and mining companies). It is important to perform a thorough review of any proposed business activity in order to determine the actual taxes that apply to it.

Upcoming New Tax Code

The Presidential Decree on "The State Program for the Implementation of Actions on Five Priority Directions for the Development of the Republic of Uzbekistan" stipulates the development of a draft of a new Tax Code during 2019 (to be introduced from 1 January 2020). The information provided below is based on the current legislation of Uzbekistan effective for the year 2019.

Individual Income Tax and Social Contributions

Taxpayers and Residency

Both residents and nonresidents of Uzbekistan are subject to individual income tax. Residents are taxed on their worldwide income, while nonresidents are taxed only on their Uzbek-source income.

A resident is generally defined as an individual who is physically present in Uzbekistan for 183 days or more in any period up to 12 months ending in a calendar year. Accordingly, nonresidents are generally those individuals who do not meet the above-mentioned test.

Taxable Income

The income of individuals consists of employment income, property income, in-kind income, and other types of income. In general, all types of income, including benefits in kind, are taxable in Uzbekistan unless they are specifically exempt. Income that is specifically exempt from tax includes alimony received, severance pay (up to a maximum amount), and state pension income.

Rates

General Uzbek individual income tax for residents has been levied at a flat rate of 12 per cent since 1 January 2019, while for nonresidents, a flat rate of 20 per cent is applied.

Dividends and interest payable to tax resident individuals are subject to tax at the rate of 5 per cent from 1 January 2019, while for nonresidents, the tax rate for dividends and interest is 10 per cent.

Tax Compliance

The tax year in Uzbekistan is the calendar year. A withholding obligation is placed on Uzbek legal entities and foreign legal entities operating in Uzbekistan through permanent establishments ("PEs") or representative offices ("tax agents") which make salary-related payments to individuals and provide benefits to employees. Tax agents are responsible for the proper assessment of individual income tax, withholding the tax, and the remittance of the tax to the budget. Tax agents are also obliged to file monthly reports on the income assessed and paid to their employees and the related individual income tax withheld before the 25th day of the month following the reporting month, as well as an annual return along with annual financial statements.[1] The individual income tax should be paid to the budget at the time the income is paid, but no later than the deadline for the submission of monthly reports.

A foreign citizen who becomes a tax resident of Uzbekistan is obliged to file an annual tax declaration of his/her worldwide earned income before 1 April following the reporting year. The tax assessed in the annual tax declaration (i.e. any resulting outstanding liability) must be paid by the individual no later than 1 June following the reporting year. If foreign individuals who are tax residents permanently leave Uzbekistan, they are also obliged to file a 'departure' tax declaration no later than one month before departure, and the resulting tax liability must be paid within 15 days of filing the 'departure' tax declaration.

Mandatory Payments to Social Funds

Employer Unified Social Payment ("Social Tax")

Employers are required to assess and pay the unified social payment at a current rate of 12 per cent (a rate of 25 per cent (likely till 31 December 2019) applies to state entities and to entities with a state ownership share of 50 per cent or more) of the gross payroll (i.e. at the employer's cost). The assessed mandatory payment must be paid to the budget on a monthly basis (no later than the monthly tax return filing deadline). Similarly, a cumulative return must be submitted to the tax authorities on a monthly basis no later than the 25th of the month following the reporting month, as well as an annual return along with annual financial statements.

Employee Pension Fund Contributions

Employers must make monthly mandatory contributions to the individual accumulative pension accounts of local employees (foreign citizens without Uzbekistan residence permits are generally not subject to such contributions) at a rate of 0.1 per cent of the gross employment income of employees, while the amounts of such contributions should be deducted from the amounts of accrued individual income tax payable. The individual accumulative pension fund contributions are reported in the individual income tax return of the employer, which as mentioned above must be submitted to the tax authorities on monthly basis no later than the 25th of the month following the reporting month, as well as an annual return along with annual financial statements.

Other Individual Taxes

Property Tax

Property tax is imposed on the buildings and apartments of individuals. The rates vary from 0.2 per cent to 0.35 per cent applied to the cadastral value of the property.

Land Tax

An individual granted permanent possession of a land plot is subject to land tax at a fixed rate depending on the location of the land. For example, in the city of Tashkent, the rates vary from UZS 356.8 (approximately US$ 0.038) to UZS 902.5 (approximately US$ 0.096) per square metre depending on the location of the land plot.

Corporate Income Tax ("CIT")

Payers

For CIT purposes, taxpayers are 1) Uzbek resident legal entities with income from worldwide sources and 2) foreign legal entities that carry out activities in Uzbekistan through a PE or receive Uzbek-source income.

Uzbek legal entities with an annual turnover of less than UZS 1 billion (approximately US$ 106,000) are eligible for a simplified taxation regime instead of CIT (see "Simplified Tax Regime" section).

Taxable Income

The taxable income of Uzbek legal entities is determined as aggregated income less specifically set tax-deductible expenses incurred, taking into account tax relief (if applicable) and certain reductions defined in the Tax Code. The required standards of documentation (especially those supporting deductions) are particularly high in Uzbekistan.

Depreciation for Tax Purposes

To qualify as a fixed asset for tax purposes, an asset should be defined as such according to the legislation on accounting.

For tax purposes, assets may be depreciated up to the maximum rates indicated in the following table:

Type of fixed asset	Maximum depreciation rate
Buildings, structures	3%
Trains, ships, airplanes	4%
Pipelines, communication equipment, electric power lines, and equipment	8%
Production machinery and equipment	15%
Cars, computers, and office equipment	20%
Perennial plants	10%
All other assets	15%

Land, construction in progress, and certain other assets are not depreciated.

Intangible assets are amortised for tax purposes over the useful life of an asset, the life of the company, or 5 years (if the useful life cannot be determined), whichever is less.

Tax Rate and Compliance

The regular CIT rate is 12 per cent for the year 2019 (likely to become 15 per cent from 1 January 2020). This rate also applies to Uzbek enterprises with foreign participation and to the PEs of foreign companies. For commercial banks, mobile telecommunication operators, and legal entities carrying out the production of cement (clinker) or the production of polyethylene granules, the CIT rate is 20 per cent.

The tax period is the calendar year. CIT declarations must be filed quarterly by the 25th day of the month following the reporting quarter, and an annual return must be submitted along with annual financial statements.

The final tax liability must be paid by the deadline for filing tax declarations. Certification on the quarterly estimates of the tax payable must be submitted to the tax authorities by the 10th day of the first month of the reporting quarter. Tax instalment payments based on the estimates submitted to the tax authorities are required to be made by the 10th day of each month. Companies generating a taxable income of less than 200 times the specified base value ("SBV") per reporting quarter (approximately US$ 4,730) are subject to CIT based on actual quarterly profits and are not required to pay instalments of CIT.

Withholding Tax ("WHT") — Other than Individual Income Tax

The Uzbek source income of a nonresident legal entity (without a PE) doing business in or with Uzbekistan is subject to WHT at the source of payment without any deductions.

Tax Agents

Any tax-registered entity that pays Uzbekistan source income to a foreign company is potentially a tax agent that is responsible to withhold tax from the gross Uzbekistan source income of a nonresident (without deductions).

Taxable Income

Taxable income includes, but is not limited to, the following:

- Dividends and interest
- Income from the sale of property located in Uzbekistan: shares, stocks, real estate. Taxable income is defined as the surplus between the sale price and the original purchase price.
- Income from the sale of goods in the territory of Uzbekistan. Taxable income is defined as the surplus between the amount paid to foreigners and the original purchase price.
- Royalties
- Lease fees
- Insurance premiums
- Telecommunication and freight fees
- Fees for services rendered in Uzbekistan, etc.

Tax Rates and Compliance

Type of income	Rate of W
Interest, dividends	10%
Insurance premiums under insurance, co-insurance, and reinsurance risk agreements	10%
Income from international transportation services and telecommunication	6%
Other income	20%

Most of the double tax treaties ("DTTs") concluded by Uzbekistan either provide for exemption from Uzbek WHT or allow the reduction of WHT rates to 0 to 15 per cent. However, specific requirements have to be met in order to apply the DTT provisions. Please refer to the Appendix for a list of DTTs.

Withholding tax is remitted by the tax agents. The general rules are as follows:

- The tax must be withheld and paid no later than the date the income is paid to the nonresident.
- The deadline for submitting the WHT return is no later than 25 calendar days following the reporting calendar quarter.
- No later than 30 days following the calendar year, the tax agent must provide a certificate with information about all entities which received income and the tax amount withheld.

Dividends and interest payable to Uzbek tax residents are subject to domestic WHT at the rate of 5 per cent.

Value Added Tax (VAT)

Payers and Registration

VAT payers are 1) legal entities that have a taxable turnover (output VAT), 2) legal entities that are obliged to pay VAT on the taxable turnover of nonresidents (reverse-charge VAT), and 3) legal entities and individuals involved in the import of goods into the territory of Uzbekistan (import VAT).

Effective from 1 October 2019, entities and entrepreneurs engaged in the import of goods automatically become VAT payers regardless of the amount of turnover. At the same time, entities and entrepreneurs importing goods for the first time are required to register as VAT payers from the first day of the month following the month of the conclusion of the import contract.

Starting from 1 January 2019, VAT payers are assigned VAT registration numbers.

From 1 October 2019 onwards, VAT will be levied at a general rate of 15 per cent (previously, the rate was 20 per cent).

VATable Turnover

VAT is levied on turnover derived from the supply of goods and services, including imports, unless they are zero rated or specifically exempt. Any excise taxes paid are included in the taxable base for VAT purposes.

VAT payable to the budget is generally determined as output VAT charged less allowed input VAT paid on expenses. Input VAT incurred in connection with the supply of exempt goods and services and non-business costs cannot be offset against any output VAT payable.

Fixed Assets Related Input VAT Rules

As of 1 January 2019, input VAT incurred on acquired fixed assets can be offset against output VAT in the following manner: 1) for immovable property used for entrepreneurial activities, the taxpayer may offset input VAT by equal instalments during a period of 36 calendar months, and 2) for fixed assets (except immovable property and intangible assets), the taxpayer may offset input VAT by equal instalments during a period of 12 calendar months. However, VAT incurred on the purchase of such assets before 1 January 2019 is not eligible for offset for taxpayers that became VAT payers as of 1 January 2019.

Purchases of Services from Nonresidents (Reverse-Charge VAT)

Under place-of-supply rules, certain services are deemed to be supplied in the location of the business activity of the purchaser of services. Where such services are rendered by a nonresident of Uzbekistan, the Uzbek purchaser of these services is required to self-assess and pay VAT to the budget via a reverse-charge mechanism. It is the obligation of the Uzbek purchaser of the services to pay reverse-charge VAT, which once paid should be allowed to be offset against output VAT subject to the general offset procedure.

Zero Rating

Export sales of goods (except for exports of precious metals) for foreign currency, international transportation services, utilities services provided to individuals, and goods and services supplied for official use by diplomatic missions are taxed at a zero rate.

Exempt Supplies

Taxable income includes, but is not limited to, the following:

- Financial services
- Insurance services
- Goods (works and services) purchased by legal entities on account of a loan provided by international or foreign government financial institutions under international treaties with the Republic of Uzbekistan, as well as those purchased through grants

VAT Compliance

The VAT reporting period is a calendar month. The tax return filing and payments deadline is the 25th day of the month following the reporting month. The annual tax return should be submitted no later than the deadlines established for annual financial statements.

Simplified VAT Regime and Rates

Uzbek legal entities with an annual turnover less than UZS 1 billion (approximately US$ 106,000) are eligible for a simplified taxation regime instead of being charged output VAT (see the "Simplified Tax Regime" section). However, such entities have a right to become VAT payers voluntarily.

Effective from 1 January 2019 until 1 January 2021 (likely until 1 January 2020 when it is now intended to be abolished), enterprises with an annual turnover less than UZS 3 billion (approximately US$ 318,020) have the right to apply a simplified regime for calculating and paying VAT.

Under the simplified VAT regime, VAT payable to the budget is determined as the gross amount of output VAT without the offset of input VAT.

The simplified VAT regime stipulates the application of the following differentiated rates:

Type of entity	Rate
For legal entities of all sectors of the economy (except for those provided below)	7%
Construction organisations	8%
Retail and wholesale trade enterprises	6%
Catering, hotel industry	10%
Legal entities providing professional services (auditing services, consulting services, brokerage services, etc.)	15%
Legal entities engaged in the sale of agricultural products, with the exception of products of own production	4%

Certain Other Taxes

The following table summarises certain other significant taxes.

Nature of tax	Rate
Excise tax: imposed on an extensive number of specified services and goods produced in Uzbekistan or imported into Uzbekistan; goods subject to tax include oil and gas products, alcohol, tobacco, jewellery, silverware, and cars. Services subject to tax are mobile telecommunication services.	Various
Property tax: imposed on the annual average depreciated value of immovable property and certain other assets; land is exempt	2%
Subsurface use tax: imposed on the extraction of natural resources; tax imposed on the sale price of extracted natural resources and components and on waste derived from the extraction or processing of natural resources	Sales 2.6% to 30% Waste 0.78% to 9%
Excess profits tax: imposed on the difference between the actual net sale price and the established threshold price for exported natural gas	50%
Signing and commercial discovery bonuses for subsurface users: payable to the state budget through the tax authorities	Various
Motor transport fee: imposed on sales/purchases of cars and other vehicles	Various
Water use tax: general rates per cubic metre	Surface water UZS 120 (approximately US$ 0.013) Underground water UZS 150 (approximately US$ 0.016)
Land tax: imposed at a fixed rate per hectare and varies depending on the location, quality, and purpose of the land plot	Various. Example: rate in Zone 1 of Tashkent is UZS 157,410,563 (approximately US$ 16,690) per hectare

Simplified Tax Regime

Effective from 1 January 2019, only legal entities with an annual turnover (revenue) not exceeding UZS 1 billion (approximately US$ 106,000) are eligible for the simplified tax regime. The simplified tax regime stipulates payment of a unified tax payment (“UTP”) instead of CIT and output VAT.

The tax base for the UTP is generally gross revenue (with some adjustments).

The multiple UTP rates established for the year 2019 vary depending on the type of business and location (e.g. from 1 per cent (for wholesale/retail trading in very remote areas) up to 30 per cent (for entities renting out property, except financial leasing companies)), while the general UTP rate is 4 per cent.

The reporting period for the UTP is a calendar quarter. The tax return filing deadline is the 25th day of the month following the reporting period. The annual tax return is submitted no later than the deadlines established for annual financial statements.

For agricultural companies, there is also a special regime for paying the Unified Land Tax, the tax base of which is the statutory land cost. The tax rate is set at 0.95

per cent for 2019. The reporting period is the calendar year. The tax filing deadline is 1 May of the current year.

Tax Administration

In Uzbekistan, the tax administration rules are complex and the penalties for even minor infringements can be significant.

Tax Returns

Tax reports (including returns and calculations) are compiled and submitted by the taxpayer to the local tax authority for the registered address. Legal entities generally prepare and submit tax reports electronically.

Tax Audits

Taxpayers are subject to tax audits, and it is vital to manage the tax audit process. There are various types and categories of tax audit.

Tax audits can cover any period within the tax statute of limitations, which is generally 5 years. Tax audits can be intrusive and time consuming and may sometimes even result in criminal proceedings.

Assessments

Upon completion of a tax audit, the state tax authorities usually issue a tax audit act. (If no violations of tax law are discovered, an appropriate note is made in the tax audit act.) On the basis of the findings of such an act, the state tax authorities issue a decision of assessed amounts of taxes and other obligatory payments to the budget as well as related penalties and interest.

Appeals

Taxpayers have the right, within time limits, to appeal acts of the state tax authorities.

Penalties and Interest

Interest is charged on late tax payments at the rate of 0.045 per cent (if the assessment of interest is done by the state tax authorities as a result of a tax audit, the late payment interest is charged at 0.06 per cent) of the outstanding tax liability per each day of delay (i.e. at approximately 16.4 to 21.9 per cent per annum), up to 100 per cent of the outstanding tax liability.

The penalties for noncompliance with tax regulations applied in relation to legal entities include the following:

- The penalty for non-registration or late registration is as follows:

  - If the activities are carried out for less than 30 days without registration, the penalty is 50 times the specified base value but no less than 10 per cent of the net revenue received from such activities.

  - If the activities are carried out for more than 30 days without registration, the penalty is 100 times the specified base value but no less than 50 per cent of the net revenue received from such activities.

- The penalty for concealing revenue is 20 per cent of the concealed revenue.

There are also administrative fines that may be imposed on company officers for tax violations, as well as, in certain cases, criminal proceedings.

Disclaimer

This article has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Appendix

Double Tax Treaties

The following table lists the withholding rates under Uzbekistan's tax treaties.

No.	Country	Dividends, %	Interest, %	Royalties, %
1	Austria	5/15(a)	10	5
2	Azerbaijan	10	10	10
3	Bahrain	8	8	8
4	Belarus	15 (l)	10	15
5	Belgium	5/15 (a)	10	5
6	Bulgaria	10	10	10
7	Canada	5/15 (a)	10	5/10 (e)
8	China	10	10	10
9	Czech Republic	5/10 (b)	5	10
10	Estonia	5/10 (b)	5	10
11	Finland	5/15 (a)	5	0/5/10 (f)
12	France	5/10 (a)	0/5 (d)	0
13	Georgia	5/15 (b)	10	10
14	Germany	5/15 (b)	5	3/5 (g)
15	Greece	8	10	8
16	Hungary	10	10	10
17	India	10	10	10
18	Indonesia	10	10	10
19	Iran	8	10	5
20	Ireland	5/10 (a)	5	5
21	Israel	10	10	5/10 (h)
22	Italy	10	5	5
23	Japan (k)	15 (l)	10	0/10 (i)
24	Jordan	7/10 (b)	10	20
25	Kazakhstan	10	10	10
26	Korea (South)	5/15 (b)	5	2/5 (j)
27	Kuwait	5/10 (b)	8	20

No.	Country	Dividends, %	Interest, %	Royalties, %
28	Kyrgyzstan	5	5	15
29	Latvia	10	10	10
30	Lithuania	10	10	10
31	Luxembourg	5/15 (b)	10	5
32	Malaysia	10	10	10
33	Moldova	5/15 (a)	10	15
34	Netherlands (m)	5/15 (b)	10	10
35	Oman	7	7	10
36	Pakistan	10	10	15
37	Poland	5/15 (c)	10	10
38	Romania	10	10	10
39	Russian Federation	10	10	0
40	Saudi Arabia	7	7	10
41	Singapore	5	5	8
42	Slovak Republic	10	10	10
43	Slovenia	8	8	10
44	Spain	5/10 (b)	5	5
45	Switzerland	5/15 (c)	0/5(d)	5
45	Tajikistan	5/10 (b)	10	10
46	Thailand	10	10/15 (l)	15
47	Turkey	10	10	10
48	Turkmenistan	10	10	10
49	Ukraine	10	10	10
50	United Arab Emirates	5/15 (b)	10	10
51	United Kingdom	5/10 (a)	5	5
52	Vietnam	15 (l)	10	15
53	Non-treaty countries	10	10	20

(a) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the payer of the dividends.

(b) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 25% of the payer of the dividends.

(c) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 20% of the payer of the dividends.

(d) The 0% rate applies to interest with respect to the following:

- Loans made, guaranteed, or insured by the government of the other contracting state or an instrumentality or agency thereof
- Sales on credit of industrial, commercial, or scientific equipment
- Sales on credit of merchandise between enterprises
- Bank loans

(e) The 5% rate applies to royalties paid for certain cultural works (with exceptions) as well as for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial, or scientific experience (know-how), with exceptions.

(f) The 0% rate applies to royalties for the use of, or the right to use, computer software, patents, designs or models, or plans. The 5% rate applies to royalties paid for the use of, or the right to use, secret formulas or processes, or for information concerning industrial, commercial, or scientific experience (know-how). The 10% rate applies to royalties paid for trademarks or certain cultural works.

(g) The 3% rate applies to royalties paid for the use of, or the right to use, copyrights of scientific works, patents, trademarks, designs or models, plans, or secret formulas or processes, as well as for the disclosure of industrial, commercial, or scientific knowledge. The 5% rate applies to royalties paid for certain cultural works.

(h) The 5% rate applies to royalties paid for certain cultural works (with exceptions).

(i) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic, or scientific works, including motion picture films.

(j) The 2% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment.

(k) These are the withholding tax rates under the USSR-Japan treaty, which is honoured by Uzbekistan.

(l) The domestic withholding tax rate for dividends and interest in Uzbekistan is 10%. Consequently, the withholding tax rate of 15% for dividends and interest under treaties does not apply to payments made by Uzbek companies.

(m) Under the Protocol to the Netherlands-Uzbekistan double tax treaty, withholding tax rates may potentially be reduced to zero if certain conditions are met.

List of Countries with Preferential Tax Regimes

Approved by Decree No. 2467 of the State Tax Committee, State Customs Committee, and Central Bank directors on 12 June 2013 (as amended on 7 November 2017).

1. Andorra

2. Antigua and Barbuda

3. Bahamas

4. Barbados

5. Bahrain

6. Belize

7. Brunei Darussalam

8. Vanuatu

9. United Kingdom of Great Britain and Northern Ireland (only with regard to the following areas):
   1) Anguilla
   2) Bermuda Islands
   3) British Virgin Islands
   4) Montserrat
   5) Gibraltar
   6) Chagos Island
   7) South Georgia and South Sandwich Islands
   8) Turks and Caicos Islands
   9) Cayman Islands

10. Individual administrative units of United Kingdom of Great Britain and Northern Ireland:
    1) Channel Islands (Guernsey, Jersey, Sark)
    2) Isle of Man

11. Grenada

12. Djibouti

13. Dominican Republic

14. Ireland (only with regards to Dublin and Shannon)

15. Cyprus

16. People's Republic of China, only as regards the special administrative regions of:
    1) Siangan (Hong Kong)
    2) Aomyn (Macau)

17. Costa Rica

18. Cook Islands (New Zealand)

19. Liberia

20. Lebanese Republic

21. Liechtenstein

22. Mauritius

23. Malaysia (only with regard to Labuan Island)

24. Maldives

25. Malta

26. Marshall Islands

27. Nauru

28. Netherlands Antilles

29. Niue (New Zealand)

30. United Arab Emirates (only with regards to Dubai)

31. Panama

32. Republic of Portugal (only with regards to Madeira Islands)

33. Samoa

34. Seychelles

35. Saint Kitts and Nevis

36. Saint Lucia

37. Saint Vincent and the Grenadines

38. United States of America (only with regard to the following areas):
    1) US Virgin Islands
    2) Puerto Rico
    3) Wyoming State
    4) Delaware State

39. Tonga

40. Fiji

41. France (only with regard to the following areas):
    1) Kerguelen Islands
    2) French Polynesia

42. Sri Lanka

43. Jamaica

44. Palau (Pacific Ocean)

Endnotes

1. By 15 February following the reporting year (or by 25 March following the reporting year for companies with foreign investments and nonresidents acting through a PE). T