

## TAXES AND MANDATORY PAYMENTS TO THE STATE BUDGET OF THE REPUBLIC OF UZBEKISTAN

In accordance with Article 23 of the Tax Code system of taxation in the Republic of Uzbekistan is composed of taxes and other mandatory payments. All taxes and mandatory payments are divided into two groups – the republican taxes and mandatory payments and local republican taxes and mandatory payments. Below is the general information on the republican taxes and mandatory payments that are applied to legal entities-residents of the Republic of Uzbekistan.

### 1. Republican taxes and mandatory payments

Type of tax or mandatory payment	Tax (fee) rates and Object of taxation
<i>Taxes</i>	
Income tax for legal entities	Rate– 9% (generally applied); For commercial banks – 15%; For legal entities profiting from holding auctions and public events possessing licenses for concert activity – 35%. Object of Taxation– income or profit chargeable at the source of payment prior to deductions.
Value added tax (VAT)	Rate – 20%; Object of Taxation– taxable turnover or taxable import (depends on the type of transaction).
Excise tax	Rate – differentiates depending on the type of goods; Object of Taxation– transferred goods or importation of goods subject to excise tax.
Taxes and special payments for subsoil users: - subsoil use tax; - super profit tax; - bonuses.	<u>Tax for subsoil use:</u> Rate – differentiated depending on the type of extracted minerals; Object of Taxation– volume of production performance (extraction). <u>Tax for superprofit:</u> Rate – 50%; Object of Taxation– part of income (superprofit) determined as margin between net profit from sales and making-up price determined by the legislation. <u>Bonuses:</u> Rate: Subscription bonus <sup>1</sup> - from 100 to 10000 times minimum monthly salary <sup>2</sup> (depending on the type of minerals); Bonus of commercial discovery (encountering) <sup>3</sup> - 0,1%; Object of Taxation– single time (one-off) payment in the form of subscription bonus and bonus of commercial discovery (encountering).

<sup>1</sup> Subscription bonus – is a single-time fixed bonus of the subsoil user for the right of performance of surveying and exploration of minerals based on the appropriate license.

<sup>2</sup> Value of the Minimum monthly salary in the Republic of Uzbekistan is currently 62 920 Soum which is equivalent to around 35 US Dollars.

<sup>3</sup> Bonus of commercial discovery (encountering) – is the payment for each commercial discovery of minerals deposits on the parcel of subsoil allocated under the license. This also includes discovery of minerals in the process of additional surveying of deposits leading to increase of the initially determined mineral reserves.

Tax for use of water recourses	Rate – from 1,56 to 37,92 Soum per cubic meter depending on the profile of the water-user; Object of Taxation– the object of taxation is water recourses from surface and subsurface sources.
<i>Mandatory Payments</i>	
Mandatory payments to social security funds: - single social security payment; - insurance payments to the non-budgetary Pension Fund; - deductions to the non-budgetary Fund for Reconstruction, Renovation and Re-equipment (former School Fund); - mandatory deductions to the non-budgetary Pension Fund; - payment for utilization of the fully amortized (depreciated) equipment.	<u>Single social security payment:</u> Rate – 25%; Object of Taxation– salary fund. <u>Insurance payments to the non-budgetary Pension Fund:</u> Rate – 4,5%; Object of Taxation– salary fund. <u>Deductions to the non-budgetary Fund for Reconstruction, Renovation and Re-equipment (former School Fund):</u> Rate – 0,5%; Object of Taxation– tax object differentiates depending on the profile of legal entity. <u>Mandatory deductions to the non-budgetary Pension Fund:</u> Rate – 1,6%; Object of Taxation– value of chargeable objects depending on the type of enterprise. <u>Payment for utilization of the fully amortized (depreciated) equipment.</u> Rate - 0,25%. Object of Taxation– initial value of equipment.
Mandatory payments to the Republican Road Fund: - Mandatory deductions to the Republican Road Fund; - Charges to the Republican Road Fund.	<u>Mandatory deductions to the Republican Road Fund:</u> Rate – от 1 до 2,5% (depends on the profile of legal entity); Object of Taxation–tax object differentiates depending on the profile of legal entity. <u>Charges to the Republican Road Fund:</u> Rate – one-time charge (depends on the object of taxation); Object of Taxation– acquisition and/or temporary importation of autotransport means to the territory of the Republic of Uzbekistan or entry to and transit through the territory of Uzbekistan of foreign autotransport means.
State fee (stamp duty)	Rate – differentiated depending on the object of taxation; Object of Taxation – performance of official action by the state organ (registration, issuance of certain documents certifying or evidencing legal facts etc.)
Customs fees	Rate - differentiated depending on the object of taxation; Object of Taxation – transfer of goods and transport means through the customs border of the Republic of Uzbekistan (as well as other objects as are determined by the customs legislation). <u>Types:</u> - customs fee; - VAT; - excise tax; - customs fees (list of such fee and rates are provided in the applicable legislation).

The system of republican taxes and mandatory payments permits application of simplified taxation by certain types of qualified legal entities. This system of simplified

taxation is applied by *micro and small enterprises* and *individual entrepreneurs* and permits payment of a *single tax* instead of paying certain generally applied taxes and mandatory payments. This *single tax* rate varies depending on the quantity of employees of legal entities and on the sector of economy in which this entity or entrepreneur operates.

## 2. Local taxes and mandatory payments

Type of tax or mandatory payment	Tax (fee) rates and Object of taxation
<i>Taxes</i>	
Property tax (for legal entities)	Rate – 3,5%; Object of Taxation– book value of the property of the taxpayer.
Land tax	Rate – determined in Soums per 1 hectare, depending on the class of land; Object of Taxation– land parcels kept by legal entities with the right of ownership, possession, use or lease.
Tax for improvement and development of social infrastructure	Rate – differentiates depending on the type of goods; Object of Taxation– an income remaining with legal entity after deduction of income tax.
<i>Mandatory Payments</i>	
Fee for the right of retail trade with certain types of goods and rendering certain services	Rate – 8%; Object of levying – object of the fee for the right of retail trade with certain types of goods and rendering certain services are the goods and services predetermined by the applicable legislation.

The system of local taxes and mandatory payments also permits application of simplified taxation by certain types of qualified legal entities. This system of simplified taxation is applied by *agricultural enterprises* and permits payment of a *single land tax* (with certain exclusions) instead of paying certain generally applied taxes and mandatory payments. The determining factor for application of the single tax by *agricultural enterprises* is value of the land parcel. The *single tax* rate is 6%.

## 3. Taxation with Income Tax of legal entities non-residents of Uzbekistan

Performance of entrepreneurial activity in the Republic of Uzbekistan leads to taxation. The applicable legislation divides all legal entities operating in the Republic of Uzbekistan to legal entities-residents and legal entities-non-residents of Uzbekistan.

For the purposes of taxation non-residents shall be legal entities registered beyond the territory of the Republic of Uzbekistan. Non-resident enterprises of the Republic of Uzbekistan shall be taxed in the territory of Uzbekistan in a special order, depending on the nature of their income, specifically incomes deriving from the permanent establishment or non-relating to the latter. Performance by non-resident legal entity of activity with attributes of permanent establishment obligates the non-resident to register the permanent establishment<sup>4</sup> with local taxation bodies of Uzbekistan and enables the non-resident to make deductions permitted for the permanent establishments. At the same time if the non-resident's activity doesn't form permanent establishment but

<sup>4</sup> Definition of "permanent establishment" is applied for the purposes of tax control and shall not mean any form of legal entity.

relates to collection of indirect payments (dividends, royalty and other) it would not create the non-resident's obligation for registration with local taxation bodies of Uzbekistan.

The non-resident performing economic activity through the registered permanent establishment shall pay *income tax* at the rate of 10 percent from the amount of taxable income generated through the permanent establishment. In addition to the *income tax* the non-resident shall pay 10 percent tax from the non-resident's *net profit*.

Performance by the non-resident of economic activity non-relating to the permanent establishment shall be taxed at the source of payment<sup>5</sup> with the following rates:

Type of income	Tax Rate <sup>6</sup>
Dividends and interests	10 per cent
Insurance premiums on insurance agreements, co-insurance and reinsurance	10 per cent
Telecommunications in international communication, international carriages (freight income)	6 per cent
Income determined by Article 155 of the Tax Code, with the exception of income indicated above	20 per cent

<sup>5</sup> Taxation shall be made by way of withholding of the sum of tax at the source of payment (i.e. by the resident entity or the non-resident's permanent establishment) from the gross income (*without deductions of the non-resident*) of the non-resident.

<sup>6</sup> The tax base shall be counted as the non-residents income from the activity non-relating to permanent establishment.