

Doing business in Uzbekistan

An introductory guide to
tax and legal issues

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned behind the 'Y'.

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Preface



This booklet is intended to provide useful practical guidance on legal and tax issues faced by foreign investors when starting a business in Uzbekistan. We hope that it will help investors to avoid common pitfalls and we have highlighted areas where some forethought and planning can enable problems to be avoided. Uzbekistan offers a wealth of opportunities and places great importance on encouraging foreign investment in key sectors of the economy.

This guide has four sections:

1. Welcome to Uzbekistan
2. Getting started
3. Overview of tax rules in Uzbekistan
4. Overview of other laws that affect business administration

This guide is a brief summary of the rules in force as of 1 January 2020. It is not a substitute for comprehensive professional advice, which should be sought before engaging in any significant transaction or investment. It should also be noted that this guide does not cover all taxes in Uzbekistan. We have focused here on the most common and important types of tax. It is therefore essential to seek separate advice as to the actual taxes applicable to any particular business.

We wish you every success in this exciting and dynamic environment.



1 Welcome to Uzbekistan



Highlights

Time

Uzbekistan's time zone is five hours ahead of Greenwich Mean Time (GMT).

The table below shows time differences between Tashkent and selected cities in the CIS and the world.

City	Hours ahead of or behind Tashkent (in winter)
Tokyo, Seoul	+4
Beijing, Hong Kong	+3
Nur-Sultan, Almaty, Bishkek	+1
Tashkent	0
Baku, Tbilisi, Yerevan	-1
Moscow, Minsk, Istanbul	-2
Kiev	-3
Paris, Frankfurt	-4
London	-5
New York	-10

Public holidays

The table below lists Uzbekistan's official public holidays.

Holiday	Date
New Year Holiday	1 January
International Women's Day	8 March
Navruz holiday	21 March
Day of Memory and Honour	9 May
Ramadan Eid	First day, e.g. 24 May*
Kurban Eid	First day, e.g. 31 July*
Independence day	1 September
Teachers' day	1 October
Constitution Day	8 December

* The dates of religious holidays in 2020 are indicated tentatively. The dates vary from year to year based on the lunar calendar.

Business hours

Uzbek offices are generally open from 9:00 am to 6:00 pm, Monday to Friday, and are closed Saturdays and Sundays.

Uzbekistan fact sheet

Capital	Tashkent
Administration	Uzbekistan consists of 14 administrative units: the Republic of Karakalpakstan, 12 provinces (viloyats) and the city of Tashkent
Bordering countries	Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Afghanistan
Land area	448,900 km ²
Population	34 million
Language	Uzbek
Central Bank	Central Bank of the Republic of Uzbekistan
Major cities	Tashkent, Samarkand, Bukhara, Khiva
Currency unit	Uzbekistan Soum (UZS)
Exchange rate as of 1 January 2020	USD 1 = UZS 9,507.56 EUR 1 = UZS 10,624.70 RUB 1 = UZS 153.17 CNY 1 = UZS 1,359.12

Sources: Official sites of the President of the Republic of Uzbekistan, the Central Bank of Uzbekistan and the State Statistics Committee of the Republic of Uzbekistan.



2 Getting started



2.1. Arriving in Uzbekistan

Should you require assistance in planning and managing your human capital needs, EY can advise on and assist with obtaining work permits for foreign employees, tax registration, and tax and legal compliance for expatriate individuals.

Temporary visas

In general, all foreign nationals and stateless persons are required to obtain a visa to enter Uzbekistan. However, the following individuals are not subject to general visa requirements and may enter Uzbekistan without a visa:

- ▶ Nationals of the following CIS countries: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Moldova, Russia, Ukraine and Kyrgyzstan (for stays of up to 60 days)
- ▶ Nationals of the following countries for stays up to 30 days: Andorra, Antigua and Barbuda, Argentina, Australia, Austria, Bahamas, Barbados, Belize, Belgium, Bosnia and Herzegovina, Brazil, Brunei, Bulgaria, Canada, Costa Rica, Chile, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, El Salvador, Estonia, Finland, France, Germany, Greece, Grenada, Guatemala, Honduras, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Latvia, Lithuania, Liechtenstein, Luxemburg, Malaysia, Malta, Mexico, Monaco, Mongolia,

Montenegro, Netherlands, New Zealand, Nicaragua, Norway, Panama, Poland, Portugal, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Romania, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Tajikistan, Trinidad and Tobago, Turkey, UAE, Vatican, United Kingdom

- ▶ Members of flight crews of foreign airlines operating regular flights to Uzbekistan (for the length of time between their flights into and out of Uzbekistan)
- ▶ Nationals of the People's Republic of China and Hong Kong (for stays of up to 7 days)

- ▶ Nationals of certain countries who hold diplomatic passports and have appropriate accreditation
- ▶ Holders of a red UN Laissez-Passer, a diplomatic travel document issued by the UN, are exempt from obtaining a visa for a stay up to 30 days. Holders of a blue UN passport are subject to simplified visa procedures: a visa will be issued within 2 days by the Ministry of Foreign Affairs upon presentation of an invitation letter by the host party.

Since visa requirements are subject to frequent change, individuals should check before planning a trip to Uzbekistan.



Business visas. Business visas are issued to foreign individuals arriving in Uzbekistan for business purposes (e.g. for a business trip or negotiations, to sign contracts or to attend conferences, symposiums, forums, exhibitions, concerts or cultural, scientific, sporting or other events).

Investment visa. From March 2019, an “investment visa” was introduced, which may be issued to shareholders/participants or founders of enterprises with foreign investments and to members of their families for a period of three years, at the end of which it may be extended.

In addition, foreigners who have invested at least USD 3 million in production or service industries in Uzbekistan and shareholders/participants or founders of enterprises with foreign investments may apply for a 10-year residence permit under a simplified procedure. A foreigner with a residence permit does not need to obtain visas and work permits to live and work in Uzbekistan.

Work visas. Work visas are issued to foreign individuals arriving in Uzbekistan for employment. A work permit and a work confirmation must be submitted to Uzbek foreign affairs authorities in order to obtain a work visa. See the “Work permits” section below for details.

Issuance of visas. Visas are issued abroad by Uzbekistan consulates (the Consular Department of the Embassy of Uzbekistan). Generally, business visas are issued based on a letter of invitation from a local Uzbek company, or a representative office of a foreign

company, submitted to the Consular Department of Uzbekistan.

Unless exempt from visas as mentioned above, citizens of the following countries are eligible to obtain an entry visa to Uzbekistan through the «E-VISA.GOV.UZ» system or to obtain tourist visas under simplified procedures at Uzbek consular offices: Albania, Algeria, Angola, Antigua and Barbuda, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Bolivia, Butane, Cambodia, Cameroon, Cape Verde, China (including Hong Kong), Colombia, Commonwealth of Dominica, Costa Rica, Cote d’Ivoire, Cuba, Dominican Republic, Ecuador, Egypt, El Salvador, Fiji, Gabon, Ghana, Grenada, Guatemala, Guyana, Honduras, India, Iran, Jamaica, Jordan, Kiribati, Kuwait, Laos, Lebanon, Macedonia, Maldives, Marshall Islands, Mauritius, Mexico, Micronesia, Morocco, Nauru, Nepal, Nicaragua, Oman, Palau, Panama, Paraguay, Peru, Philippines, Republic of Korea, Qatar, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Saudi Arabia, Senegal, Seychelles, Solomon islands, South Africa, Sri Lanka, Suriname, Thailand, Tonga, Trinidad and Tobago, Tunisia, Uruguay, USA, Vanuatu, Venezuela and Vietnam.

The electronic visa is valid for 90 days from the date of issue. The processing time for electronic visa applications is 2 (two) working days, excluding the day the application is submitted. The electronic visa is sent to the e-mail address of the foreign citizen as indicated in the application submitted via the «E-VISA.GOV.UZ» web portal.

2.2. Forms of legal presence available in Uzbekistan

There are a number of legal forms available for foreign and local investors wishing to establish a presence in Uzbekistan, including but not limited to joint stock companies, limited liability companies, representative offices, permanent establishments of foreign entities, etc.

Should you require more information on the nature and uses of various business forms in Uzbekistan, EY offers tax and legal advice on how to structure a business in Uzbekistan as well as a full range of company formation and registration services.

In this section we give details of the four types of business entity most commonly used by foreign investors.

2.2.1. Joint stock companies (JSCs)

A JSC is a legal entity that is separate and distinct from its shareholders. As a general rule, a JSC’s shareholders are not liable for the JSC’s liabilities. A JSC may have one or more shareholders.

Generally, there is no minimum charter capital requirement for a JSC. However, regulations governing certain licensed activities (e.g. banking and insurance) set minimum capital requirements for JSCs.

Since establishing a JSC is a time-consuming and highly regulated procedure, investors usually prefer to opt for an LLC when deciding on their form of presence in Uzbekistan. However, for certain types of businesses (such as banks) the JSC is the only available vehicle for establishing a presence in Uzbekistan.

2.2.2. Limited liability companies (LLCs)

Like a JSC, an LLC is a legal entity in which the participants are not liable for the company's liabilities and bear the risk of losses from the company's activities only to the extent of their contributions to the charter capital. An LLC may have one or more participants. An LLC may not be established by one entity that in turn has only one shareholder/participant, unless the former entity is a JSC.

The main difference between the two types of entity is that an LLC does not issue shares; instead, participants have ownership (participating) interests in the company. However, it is planned to allow LLCs to issue bonds (subject to similar requirements as bonds issued by JSCs) in order to provide other fundraising options.

As a general rule, as in the case of a JSC, there is no minimum capital requirement for an LLC. However, regulations governing certain licensed activities (e.g. insurance) may require LLCs to comply with the minimum capital requirements for those types of business.





2.2.3. Representative offices (RO)

An RO is a structural subdivision of a legal entity that is established at a different location from that of the legal entity. Since an RO is not itself a legal entity, rights and obligations are assumed by the legal entity that established it. It is explicitly stated in the law that an RO cannot carry on business activities. An RO is established exclusively to represent and protect the interests of the entity that established it, and its activities must be limited to marketing and non-transactional support for the head office. If any commercial activities are carried on through an RO, the RO's accreditation may be cancelled by the state authorities.

2.2.4. Branches/PEs

Uzbek law does not explicitly restrict/prohibit the establishment of branches in Uzbekistan by foreign entities. However, the registration and activities of branches of foreign companies are not regulated at all. In practice, therefore, the Uzbek authorities do not register branches of foreign legal entities. However, it is possible to register a permanent establishment ("PE") of a foreign legal entity for tax purposes in Uzbekistan. This is done purely for tax registration purposes for a specific project and does not constitute a legal form.

2.3. Establishing a legal presence

As a rule, all legal entities and representative offices in Uzbekistan must be registered or accredited with the appropriate state authorities.

2.3.1. State registration

State registration in Uzbekistan is carried out via a "one-stop-shop" mechanism whereby all registration documents must be submitted to unified centres for the provision of public services to business entities ("**One-Stop-Shop Centre**"). On submitting a complete set of documents, provided that the authorities do not raise any

issues, the LLC will be registered with justice, tax and statistics authorities at the same time.

There is an option to submit documents to the One-Stop-Shop Centre electronically through the «e-government» web portal. This requires the use of an electronic digital key, which means that, in practice, legal entities established by foreign entities cannot yet be registered through the e-government portal, since only Uzbek legal entities are currently able to obtain an electronic digital key.

Uzbek law requires a standard set of documents, i.e. statutory documents prepared in Uzbek, to be submitted in order to complete the state registration of a legal entity.

Documents submitted to the One-Stop-Shop Centre must be accompanied by a bank document confirming payment of the state registration fee (the amount of which depends on the type of the entity to be registered). The above-mentioned documents must be duly signed, sealed, notarized and, where appropriate, legalized or apostilled. Otherwise, the Uzbek authorities may reject the documents, which would delay the registration process considerably. Under Uzbek law, the registration of a legal entity should take no more than 30 (thirty) minutes. In practice, it should not take much longer provided that the documents are in good order and meet the set requirements.

2.3.2. Accreditation of representative offices

There is a separate procedure for establishing representative offices of foreign entities in Uzbekistan. Representative offices of foreign legal entities are subject to accreditation with the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan (the "**Accreditation Authority**"). An RO is considered to be accredited from the date of issuance of a *certificate of accreditation* by the Accreditation Authority. Generally, accreditation is granted to an RO for a term of 1 to 3 years, which may be extended upon the company's request. In practice, the Registration Authority issues certificates of accreditation with a limited term not exceeding 1 year, subject to annual extension. As a rule, no major issues should arise with the extension of accreditation.

2.3.3. Location (legal address)

A legal entity's location is the address indicated in its foundation documents (the charter and, if there is more than one participant, the foundation agreement).

Under Uzbek law, the location of a legal entity is the place where its state registration takes place. The foundation documents may establish that the location of a legal entity is the place where its permanently operating governing body (i.e. its director or board of directors) is situated or the place where its main business is carried on.

The location affects a legal entity's registration and other legal matters, such as the determination of the court with which an appeal should be filed (appeals are usually filed with a court at the defendant's location) or the state revenue authority to which tax and other payments must be made.

Under Uzbek law, state authorities (including tax authorities) require legal entities and ROs to be present at the legal addresses indicated in their foundation documents and registration data held by the authorities.

If an entity is not actually present at its legal address, i.e. the tax authorities cannot find anyone representing the entity at the time of their visit, the entity may be penalized, i.e. its bank accounts may be frozen.

2.3.4. Opening a bank account – for companies and individuals

Bank accounts may be opened with a local bank in Uzbekistan in the national and foreign currency.

Uzbek legal entities (residents) may open and use foreign currency accounts with foreign banks outside Uzbekistan with the permission of the Central Bank of the Republic of Uzbekistan.

Foreign legal entities (non-residents) that carry on activities in Uzbekistan through representative offices and PEs may open and use bank accounts in Uzbekistan.

Overview of tax rules in Uzbekistan



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

3.1. Implementation of the new Tax Code of Uzbekistan

The new Uzbek Tax Code, which came into effect from 1 January 2020, introduced substantial changes and a number of new concepts compared with the previous version of the Code.

Among the main changes are: (i) the introduction of transfer pricing rules, the controlled foreign company concept and a tax consolidation regime for CIT purposes; (ii) the introduction of thin capitalization rules; (iii) the introduction of a general anti-abuse (substance-over-form) rule; and (iv) the extension of the definition of tax residency to include foreign companies that have their place of management in Uzbekistan.

However, it is stipulated that the transfer pricing, controlled foreign company and tax consolidation provisions (items under (i) above) will take effect from 1 January 2022.

3.2. Personal income tax and social tax

EY offers advice and support with all aspects of tax compliance for individuals and employers as well as payroll processing. EY also provides tax and legal assistance to high-net-worth individuals.

Taxpayers and residency

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

A resident is generally defined as:

- (i) an individual who is physically present in Uzbekistan for 183 days or more in any period of up to 12 months beginning or ending in a calendar year for which tax residency is determined
- (ii) an individual who is physically present in Uzbekistan for less than 183 days, but more than in any other state in a calendar year

Accordingly, non-residents are generally those individuals who do not meet the above-mentioned tests.



Taxable income

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, state pension income, etc.

Rates

General personal income tax is levied at a flat rate of 12% for residents, while for non-residents a flat rate of 20% applies.

Dividends and interest payable to tax-resident individuals are subject to tax at the rate of 5%, while for non-residents the tax rate for dividends and interest is 10%.

Tax compliance

The tax year in Uzbekistan is the calendar year. A withholding obligation is placed on Uzbek legal entities, individual entrepreneurs (where applicable), foreign legal entities operating in Uzbekistan through permanent establishments or representative offices, etc. ('tax agents') which make salary-related payments to individuals and provide benefits to employees. Tax agents are responsible for the proper assessment, withholding and remittance of personal income tax. Tax agents are also obliged to file monthly reports on income paid to their employees and tax withheld thereon by the 15th of the month following the reporting month and must submit an annual return together with their annual financial statements¹. Personal

income tax must be paid to the budget at the time income is paid, but not 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 return not later than 1 April following the reporting year on his/her worldwide income. The tax assessed in the annual tax return (i.e. any outstanding liability) must be paid by the individual not 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 return not later than one month before departure and the resulting tax liability must be paid within fifteen days of filing the 'departure' tax return.

Individual entrepreneurs with annual revenue below UZS 100 million (approx. USD 10,500) must also pay personal income tax on the basis of an annual return or pay a fixed tax. The amounts of the fixed tax vary based on the type and location of activity.

Mandatory payments to social funds

Social tax

Employers are required to assess and pay social tax at the current rate of 12% (25% in the case of state-funded organizations) of gross payroll (i.e. at the employer's expense). The assessed amount of social tax must be paid to



¹ Not later than 15 February following the reporting year (or not later than 25 March following the reporting year for companies with foreign investments and non-residents operating through a PE).

the budget on a monthly basis (not later than the monthly tax return filing deadline). Similarly, a cumulative return must be submitted to the tax authorities on a monthly basis not later than the 15th of the month following the reporting month, and an annual return must be submitted together with the annual financial statements.

Employee pension fund contributions

Employers must make monthly mandatory contributions to individual funded pension accounts of local employees (foreign citizens without Uzbekistan residence permits are generally not subject to such contributions) at the rate of 0.1% of their gross employment income. These contributions are deductible from amounts of personal income tax payable by tax agents.

Other individual taxes

Property tax

The property tax is imposed on buildings and apartments possessed by individuals. The rates vary from 0.2% to 2% 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 410.3 (approximately USD 0.043) to UZS 1,037.9 (approximately USD 0.11) per square metre per annum, depending on the location of the land plot.

3.3. Corporate income tax (CIT)

EY offers the following services in the area of corporate income tax:

- ▶ *Advisory and structuring*
- ▶ *Assistance with tax compliance of legal entities at every step of the process*
- ▶ *Tax review and due diligence services*
- ▶ *Other tax-related services*

Payers

Taxpayers for CIT purposes are (i) Uzbek resident legal entities on income from worldwide sources, (ii) foreign legal entities that carry on activities in Uzbekistan through a permanent establishment (PE), (iii) individual entrepreneurs with an annual revenue over UZS 1 billion (approximately USD 105,000) or who become CIT payers on a voluntary basis, etc.

Uzbek legal entities with an annual turnover less than UZS 1 billion (approximately USD 105,000) are eligible for simplified taxation (revenue tax) instead of CIT and output VAT (see the “Revenue tax” section).

Taxable income

Taxable income of Uzbek legal entities is determined as aggregate income less qualifying tax-deductible expenses, with account taken of tax reliefs (where applicable) and deductions provided for in the Tax Code and other legal acts. The required standards of documentation

(especially documents used to support deductions) are particularly high in Uzbekistan.

Depreciation for tax purposes

To qualify as a fixed asset for tax purposes, an asset must be defined as such under accounting legislation.

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

Type of fixed asset	Maximum depreciation rate
Buildings, structures	3%
Trains, ships, aeroplanes	4%
Pipelines, communications equipment, power lines and equipment	8%
Production machinery and equipment	15%
Cars, computers and office equipment	20%
All other assets	15%

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

Intangible assets are amortized for tax purposes over the useful life of the asset or five years (if the useful life cannot be determined).

Investment deduction

Taxpayers are allowed to make an investment deduction amounting to:

- ▶ 10% of the cost of new production equipment, expenditure on the



modernization and retrofitting of production facilities, etc.

- ▶ 5% of expenditure on the expansion of production through the new construction or reconstruction of buildings and structures used for production purposes

Thin capitalization

The new Tax Code introduced thin capitalization rules effective from 1 January 2020. If the controlled liability of a taxpayer (i.e. loans provided by entities classed as related parties) is more than three times greater than the taxpayer's internal capital (more than 13 times in the case of banks and leasing organizations), the thin capitalization rules must be applied and

interest expenses above the calculated thresholds must be treated as non-deductible for CIT purposes.

Tax rate and compliance

The regular CIT rate is 15% for the year 2020. This rate also applies to Uzbek enterprises with foreign participation and PEs of foreign companies. For commercial banks, mobile telecommunications operators, legal entities that manufacture cement (clinker) or polyethylene granules, and markets and shopping malls, the CIT rate is 20%. For taxpayers included in the National Register of E-commerce Entities that sell goods and services online, the CIT rate is 7.5%. Meanwhile, taxpayers that carry on activities in the social sphere,

certain producers of agricultural goods, exporters (insofar as profit from exports is concerned), et al. are subject to CIT at 0% (if certain conditions are met).

The tax period is a calendar year. Quarterly CIT returns must be filed not later than the 20th of the month following the reporting quarter and an annual return must be filed not later than the 1 March of the following year.

The final tax liability must be paid by the deadline for filing tax returns. Companies with revenue of more than UZS 5 billion (approximately USD 526,000) in the preceding calendar year must pay monthly advance payments not later than the 23rd of each month of the reporting period.

3.4. Withholding tax (WHT) (other than personal income tax)

Uzbek source income of a non-resident legal entity (without a PE) doing business in or with Uzbekistan is subject to WHT at the source of payment before deductions.

Tax agents

Any tax-registered entity that pays Uzbek source income to a foreign company is potentially a tax agent with the responsibility to withhold tax from the gross amount of the Uzbek source income of the non-resident (without deductions).

Taxable income

Taxable income includes, but is not limited to:

- ▶ Dividends and interest
- ▶ Income from the sale of property located in Uzbekistan: shares, stocks (except for stocks traded on a stock exchange), and real estate. Taxable income is defined as the amount by which the sale price exceeds the original purchase price
- ▶ Income from the sale of goods in the territory of Uzbekistan via a commission agency agreement or other similar agreement. Taxable income is defined as the excess of the amount paid to foreign entities over the original purchase price

- ▶ Royalties
- ▶ Lease payments
- ▶ Insurance premiums
- ▶ Telecommunications and freight charges
- ▶ Fees for services, etc.

Tax rates and compliance

Type of income of non-residents	Rate of WHT
Interest, dividends	10%
Insurance premiums under insurance, co-insurance, and reinsurance agreements	10%
Income from international transportation and telecommunications services	6%
Other income	20%

Interest on certain loans made by financial institutions and certain types of income of banks are subject to 0% WHT.

Most double tax treaties (DTT) concluded by Uzbekistan either provide for exemption from Uzbek WHT or provide for the reduction of WHT rates to 0%-15%. However, specific requirements must be met for DTT provisions to be applied. Please refer to the Appendix hereto for the list of DTTs.

Withholding tax is withheld and remitted by tax agents. The general rules are:

- ▶ Tax must be withheld and paid not later than the date following the day the income was paid to the non-resident

- ▶ A WHT return must be filed not later than the 20th of the month following the calendar month in which income was paid to the non-resident

Dividends payable to Uzbek tax residents are subject to domestic WHT at the rate of 5%. Starting from 1 January 2020, interest payable to Uzbek tax resident companies is not subject to domestic WHT (with certain exceptions); instead, it is included in the aggregate income of the interest recipient and assessed to CIT.

3.5. Value added tax

EY offers help with VAT risk identification, VAT compliance support and cross-border VAT planning.

Payers and registration

VAT payers are (i) Uzbek legal entities on a general basis, (ii) individual entrepreneurs whose annual revenue exceeds UZS 1 billion (approximately USD 105,000) or who register as VAT payers on a voluntary basis, (iii) foreign legal entities that sell goods or services in the territory of Uzbekistan if the place of supply is deemed to be Uzbekistan (e.g. electronic services sold to individuals via the Internet), (iv) foreign legal entities operating in Uzbekistan through a PE, and (v) legal entities and individuals that import goods into Uzbekistan (import VAT), etc. VAT payers are assigned a VAT registration number.

As from 1 October 2019, the standard rate of VAT is 15% (previously 20%).



VATable turnover

VAT is levied on turnover derived from the supply of goods and services in Uzbekistan (based on the place of supply rules) and imports into Uzbekistan, unless they are zero-rated or specifically exempt. Any excise tax paid is included in the taxable base for VAT purposes.

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

Input VAT rules relating to fixed assets

Starting from 1 January 2020, input VAT incurred on purchasing fixed assets may be offset against output VAT in full (previously, it could be offset gradually in equal instalments over a period of 12 or 36 months depending on the type of fixed assets). However, the new rule does not apply to VAT on fixed assets purchased before 1 January 2019.

Purchase of services from non-residents (reverse charge VAT / withholding VAT)

Under the place of supply rules, services are deemed to be supplied at the location of the business activity of the purchaser of the services, except for certain specified services. Where such services are rendered by a non-resident, the Uzbek purchaser of the services is considered as a tax agent for VAT

purposes, i.e. the Uzbek purchaser has an obligation to assess VAT based on the VAT-inclusive price of the services and withhold and remit VAT to the budget on behalf of the non-resident. However, if the contract for the supply of services does not take into account Uzbek VAT, the purchaser of the services is required to self-assess and pay VAT to the budget on top of the price of the services (reverse charge VAT). That VAT may be offset against output VAT in the normal manner.

Zero rating

Export sales of goods for foreign currency, international transportation services and utility services provided to individuals are generally taxed at a zero rate.

Exempt supplies

VAT-exempt supplies and imports include:

- ▶ financial services
- ▶ insurance services
- ▶ goods and services purchased by legal entities using a loan provided by international or foreign government financial institutions, provided that such exemption is provided for in the loan agreement, etc.

VAT compliance

The VAT tax period and reporting period is a calendar month. VAT returns must be filed and VAT due must be paid not later than the 20th of the month following the reporting month.

VAT on electronic services supplied by non-residents to individuals

Starting from 1 January 2020, a non-resident company that supplies electronic services to individuals living in Uzbekistan via the Internet (B2C) must register as a VAT payer in Uzbekistan,

calculate Uzbek VAT based on turnover from those services (if the place of supply is deemed to be Uzbekistan), file quarterly VAT returns (electronically) and pay the calculated amount of VAT to the Uzbek tax authorities.

3.6. Other taxes

The table below summarizes other significant taxes.

Nature of tax	Rate
Excise tax: imposed on a specific range of services and goods produced in Uzbekistan or imported into Uzbekistan. Goods subject to tax include oil and gas products, alcohol, tobacco, jewellery, and silverware. Services subject to tax include mobile telecommunications 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 is 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%
Signing and commercial discovery bonuses for subsurface users: payable to the state budget through the tax authorities	Various
Motor vehicle levy: imposed on sales/purchases of cars and other vehicles	Various
Water use tax: standard rates per cubic metre	Surface water UZS 140 (approximately USD 0.015) Underground water UZS 170 (approximately USD 0.019)
Land tax: imposed at a fixed rate per hectare; varies depending on the location, quality and purpose of the land plot	Various Example: rate in Tashkent Zone 1 is UZS 181,022,147 (approx. USD 19,000) per hectare



3.7. Revenue tax

Legal entities with an annual turnover (revenue) not exceeding UZS 1 billion (approximately USD 105,000) may choose to pay revenue tax (instead of CIT and output VAT). Individual entrepreneurs whose annual revenue is over UZS 100 million (approximately USD 10,500) but less than UZS 1 billion are also eligible to pay revenue tax.

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

Revenue tax rates established for the year 2020 vary depending on the type of business and location, e.g. from 1%² (for wholesale/retail trading in very remote areas) up to 25% (pawnshops, brokerage houses). The standard rate is 4%.

The reporting period for revenue tax is a calendar quarter. The tax return filing deadline is the 15th of the month following the reporting period. The annual tax return must be submitted not later than 15 February of the following year.

3.8. Tax administration

The tax administration rules in Uzbekistan are complex, and penalties for even minor infringements can be severe.

EY offers comprehensive tax compliance and tax due diligence services to assess in-house tax compliance risks, as well as on-site tax audit support and a full range of tax appeal services.

² For certain taxpayers 0% revenue tax is applied (e.g. taxpayers whose sole participants are public associations of disabled persons, etc.).

Tax accounting policy

Starting from 1 January 2020, taxpayers are required to have a Tax Accounting Policy, which they may draw up in any form.

Tax returns

Tax reports (including returns and calculations) must be compiled and submitted by the taxpayer to the local tax authority for their registered address. Legal entities and individual entrepreneurs 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 tax authorities usually issue a tax audit report. If no violations of tax law are discovered, a note to that effect is made in the tax audit report. Otherwise, based on the findings of the report, the tax authorities issue a decision to impose audit-based assessments of taxes and other obligatory payments plus applicable penalties and interest.

Appeals

Taxpayers may, within set time limits, file appeals against decisions of tax authorities in the following order:

1. appeal to a higher tax authority
2. appeal to a court (only after step 1 has been completed, unless the decision being contested was issued by the highest tax authority - the State Tax Committee)

Penalties and interest

Interest is charged on late tax payments at one three-hundredths (1/300) of the refinancing rate set by the Central Bank of Uzbekistan (approximately 0.053% based on the refinancing rate effective as of 1 March 2020) for each day of the delay.

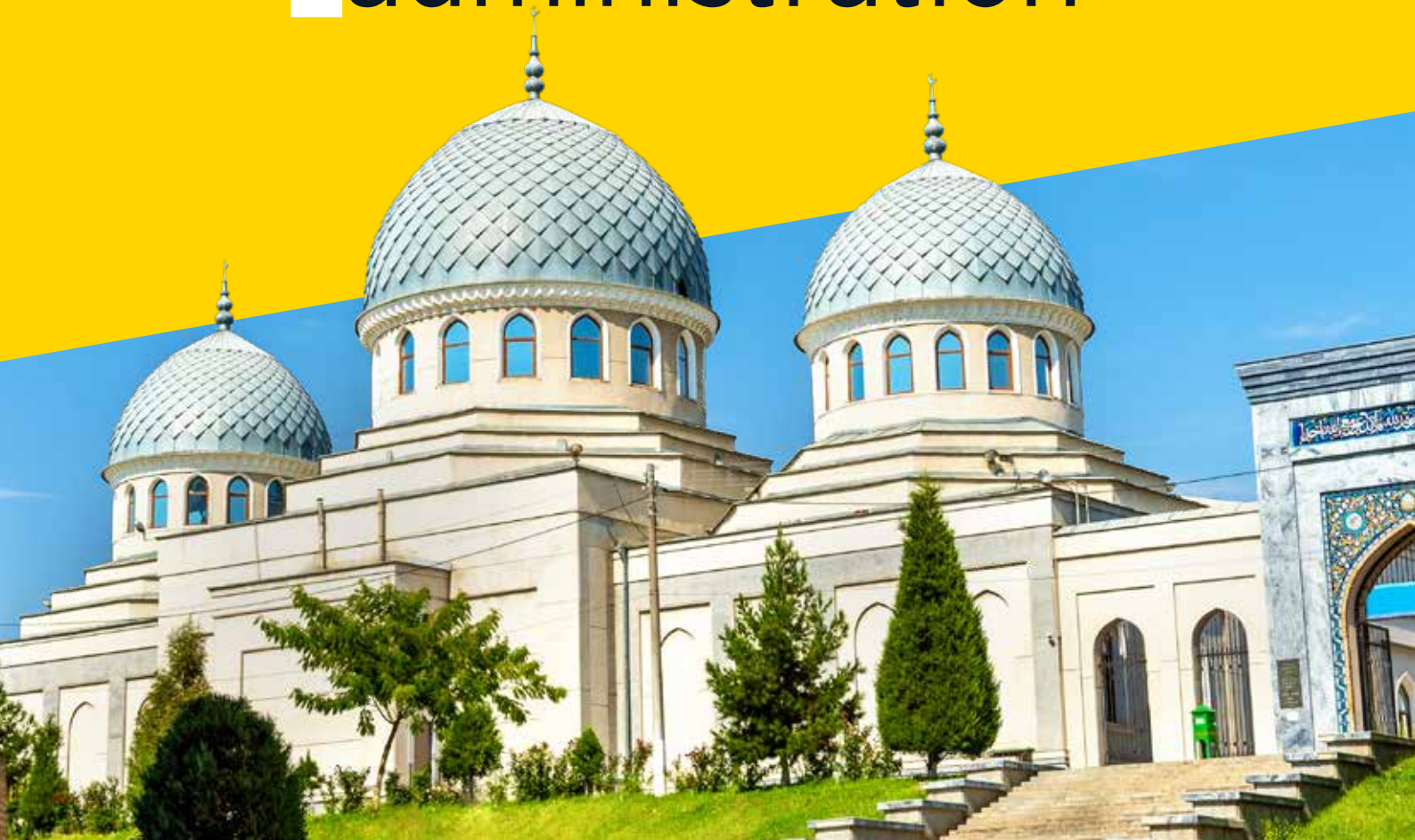
Penalties imposed on legal entities for tax violations include the following:

- ▶ The penalty for non-registration or late registration by a foreign legal entity carrying on activities leading to a permanent establishment in Uzbekistan is 10% of income earned from the date on which the activities began, but not less than UZS 10 million (approximately USD 1,050)
- ▶ The penalty for late registration as a VAT payer is 5% of revenue received from the registration date required by tax law to the date of actual registration, but not less than UZS 5 million (approximately USD 525)
- ▶ The penalty for the understatement of tax liability is 20% of the additionally assessed tax liability
- ▶ The penalty for concealing revenue is 20% of the concealed revenue, etc.

In addition, administrative fines may be imposed on company officers for tax offences. In certain cases, they may also face criminal proceedings.



4 Overview of other laws that affect business administration



4.1. Employment regulations

The Uzbek Labour Code and other labour regulations apply to both local and foreign citizens, including stateless persons, working in Uzbekistan on the basis of employment agreements with their employers. Furthermore, employment relationships within organizations that are fully or partially owned by foreign legal entities or individuals are also regulated by Uzbek labour law.

An employment agreement with an employee must be concluded in written form. The terms of an employment agreement are determined by mutual consent of the employee and employer and must also comply with the requirements established by the Labour Code and other relevant labour regulations.

Employment agreements may be concluded for a fixed or indefinite term. An employment agreement may establish a probation period, which should not generally exceed 3 (three) months.

4.2. Work permits

As a general rule, a foreign citizen who comes to Uzbekistan to work (i.e. who has been hired under an employment agreement) may work in the country only after obtaining confirmation of the right to work in Uzbekistan (“**work confirmation**”) issued in his/her name

on the basis of the permit to hire foreign labour (“**work permit**”) obtained by the employer.

This rule applies to all foreign employees except for those who are specifically exempt, such as employees of ROs accredited by the Accreditation Authority (up to 5 (five) employees) or individuals hired within the framework of intergovernmental treaties.

Although a work confirmation may appear to be a personal work permit for a foreign citizen, it is the responsibility of the employer to apply for it. Neither a work permit nor a work confirmation may be transferred to other employers. Hence, a foreign employee's employment and his/her work confirmation are attached to

that specific employer. Furthermore, only local legal entities and individuals may apply for work permits and work confirmations.

Documents required to obtain a work permit and work confirmation must be submitted to a One-Stop-Shop Centre, after which the documents are transmitted to the government body responsible for issuing work permits and work confirmations – the Agency for External Labour Migration Matters (the “**Agency**”). As a rule, the Agency has 15 (fifteen) days to review the application and issue a work permit.

The same timeframe applies to work confirmations. In practice, when an employer applies for a work permit it should simultaneously apply for at least





one work confirmation. In this case both documents should be issued within 30 (thirty) days.

A work permit is issued for a period of 1 (one) year and may be extended.

In order to create favourable conditions for the attraction of qualified foreign specialists, increase the investment appeal of the Republic of Uzbekistan and stimulate the attraction of competitive human resources, qualified and highly qualified foreign specialists (experts) may be granted work confirmations for up to 3 (three) years with an unlimited number of extensions.

EY offers a range of legal, tax, payroll and work permit services to help you structure your operations in Uzbekistan efficiently from a human resources perspective and ensure compliance with tax, payroll and labour regulations. Depending on your needs, we are able to offer assistance ranging from per-request advisory services to complex structuring advice and complete outsourcing of the HR and payroll function.

4.3. Banking regulations

The banking system of Uzbekistan consists of the Central Bank of the Republic of Uzbekistan and commercial banks. Banking operations in Uzbekistan must be licensed by the Central Bank of the Republic of Uzbekistan.

International financial institutions also operate in Uzbekistan to a certain extent, providing financing to local businesses in the form of loans or equity investments.

The minimum charter capital for banks is set at UZS 100 billion (approximately USD 10.5 million).

Foreign banks, foreign financial institutions and banking institutions with good investment ratings can open subsidiary banks or participate in the capitals of local banks subject to certain requirements. Other non-financial foreign entities face stricter requirements, such as a minimum rating requirement for the entity and its country and a 50% limit on their ownership interest in the bank.

EY has a team of professionals who can advise on setting up a bank in Uzbekistan and relevant compliance requirements and provide full support with the financing of local businesses by international financial institutions.

4.4. Currency regulations

Currency law allows cross-border transactions to be carried out in any currency of the parties' choice. However, transactions within Uzbekistan must take place only in soums, the national currency of the Republic of Uzbekistan (subject to certain exceptions).

Currency operations may be subject to registration and subsequent monitoring, depending on the substance of the transactions.

Generally, legal entities are allowed to purchase foreign currency from commercial banks in order to fulfil their obligations under the following types of international transactions: imports of goods, work and services, repatriation of profits, including dividends, repayment of loans, payment of travel

expenses, and other non-commercial transfers. Individuals may also buy and sell foreign currency at banks subject to certain limitations.

However, the law specifically prohibits payments in foreign currency in the territory of Uzbekistan for goods, work and services, except for payments made using international payment cards in accordance with international practice. Prices and tariffs for goods, work and services sold locally and the charter capitals of local companies may only be set in local currency. In addition, state duties and other mandatory payments may be charged, withheld and paid only in soums.

On 23 October 2019, amendments were made to the law "On Currency Regulation and Currency Control" (the "**Currency Law**") to the effect that exchange rates would be determined

solely by market mechanisms. Other notable changes include the following:

- ▶ There are no longer any limits on amounts of foreign currencies that may be brought into Uzbekistan. Individuals may take foreign currency cash out of Uzbekistan up to the equivalent of UZS 100 million (approximately USD 10,500).
- ▶ Resident individuals may now open foreign currency accounts and use foreign payment cards.
- ▶ Currency repatriation requirements have been established.
- ▶ Resident legal entities may open foreign bank accounts only if permitted by decisions of the President or the Government of Uzbekistan or under international treaties and agreements.



5 EY in Uzbekistan



EY was one of the first international advisory firms to commence operations in Tashkent with the opening of its office in 1995. Our firm in Uzbekistan is part of our EMEA practice, encompassing Europe, the Middle East, India and Africa. In Uzbekistan, EY has an office in Tashkent.

Supporting our clients in a dynamic landscape

At EY, we know that businesses in emerging markets need innovative thinking and practical advice in order to succeed. We support our clients by facilitating their sustainable development strategy and creating new growth opportunities in today's dynamic economic environment.

Our major services

- Assurance
- Tax & Law
- Transactions
- Advisory

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For more information on how EY can help you find your bearings in Uzbekistan's tax and legal and business terrain, please contact one of the following EY leaders:

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6 Appendix



A.1. Double tax treaties

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

Payee resident in	Dividends (I), %	Interest (I), %	Royalties, %
Austria	5/15 (a)	10	5
Azerbaijan	10	10	10
Bahrain	8	8	8
Belarus	15 (l)	10	15
Belgium	5/15 (a)	10	5
Bulgaria	10	10	10
Canada	5/15 (a)	10	5/10 (e)
China	10	10	10
Czech Republic	5/10 (b)	5	10
Egypt	5/10 (b)	10	12
Estonia	5/10 (b)	5	10
Finland	5/15 (a)	5	0/5/10 (f)
France	5/10 (a)	0/5 (d)	0
Georgia	5/15 (b)	10	10
Germany	5/15 (b)	5	3/5 (g)
Greece	8	10	8
Hungary	10	10	10
India	10	10	10
Indonesia	10	10	10
Iran	8	10	5
Ireland	5/10 (a)	5	5
Israel	10	10	5/10 (h)
Italy	10	5	5
Japan (k)	15 (l)	10	0/10 (i)
Jordan	7/10 (b)	10	20
Kazakhstan	10	10	10
Korea (South)	5/15 (b)	5	2/5 (j)
Kuwait	5/10 (b)	8	20

Payee resident in	Dividends (I), %	Interest (I), %	Royalties, %
Kyrgyzstan	5	5	15
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg	5/15 (b)	10	5
Malaysia	10	10	10
Moldova	5/15 (a)	10	15
Netherlands (m)	5/15 (b)	10	10
Oman	7	7	10
Pakistan	10	10	15
Poland	5/15 (c)	10	10
Romania	10	10	10
Russian Federation	10	10	0
Saudi Arabia	7	7	10
Singapore	5	5	8
Slovak Republic	10	10	10
Slovenia	8	8	10
Spain	5/10 (b)	5	5
Switzerland	5/15 (c)	0/5 (d)	5
Tajikistan	5/10 (b)	10	10
Thailand	10	10/15 (l)	15
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	10	10	10
United Arab Emirates	5/15 (b)	10	10
United Kingdom	5/10 (a)	5	5
Vietnam	15 (l)	10	15
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. On 19 December 2019, Japan and Uzbekistan signed the Japan - Uzbekistan treaty. Once in force and effective, the new treaty will replace the Japan - former USSR treaty in relations between Japan and 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.



A.2. List of countries with preferential tax regimes

Approved by Decree No. 2467 of the State Tax Committee, State Customs Committee and Central Bank directors of 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 with regards to:
 - 1) Siangan (Hong Kong)
 - 2) Aomyn (Macao)
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)





About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY works together with companies across the CIS and assists them in realizing their business goals. 5,500 professionals work at 19 CIS offices (in Moscow, Ekaterinburg, Kazan, Krasnodar, Novosibirsk, Rostov-on-Don, St. Petersburg, Togliatti, Vladivostok, Almaty, Atyrau, Nur-Sultan, Baku, Bishkek, Kyiv, Minsk, Tashkent, Tbilisi, Yerevan).

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