

Such transactions (sometimes called operations with capital movement) include investment payments (including long and short-term credits), loans, and the purchase /sale of real estate and securities. Such transactions have to be registered with the Central Bank of Uzbekistan prior to being carried out.

In order to obtain hard currency, a company's authorized bank must, after internal approval of the application, submit an application for currency conversion to the Currency Exchange. The application must specify the exact uses of the hard currency; it cannot be an application for hard currency to be used for general unspecified purposes. A right to convert currency is granted on a case-by-case basis. However, before submitting the application, the company's bank must submit its expert opinion on the application to the Republican Currency Exchange for review. The decision taken by the Currency Exchange is based upon the amount of the country's hard currency reserves, the country's anticipated needs for those reserves, and the merits of the particular application. There is no assurance that the decision will be favorable, no matter how strong the merits. Moreover, in practice, companies engaged in importing consumer goods have been experiencing long delays in obtaining hard currency. This problem has been aggravated in the wake of the global financial crisis which has caused a lack of hard currency inflow to Uzbekistan currency reserves.

## **5. TAXATION**

### **5.1 Principal Taxes**

The main legislation governing taxation in Uzbekistan is the Tax Code, which entered into force on 1 January 2008. Current Uzbek taxes of most interest to foreign investors include the following:

#### **State Taxes:**

- Corporate profits (income) tax;
- Individual income tax;
- Value-added tax;
- Excise tax;

- Subsoil use tax;
- Water use tax;
- Payment to Road Fund;
- Social payment; and
- School tax.

### Local Taxes and Collections:

- Property tax;
- Land tax; and
- Miscellaneous taxes and collections.

## **5.2 Corporate Profits (Income) Tax**

### 5.2.1 Status of Taxpayers

Legal entities founded or registered in Uzbekistan are deemed to be residents of Uzbekistan for tax purposes. They are taxed on their profits gained from Uzbekistan and offshore sources.

Nonresident legal entities operating in Uzbekistan through a permanent establishment pay tax on profits from sources in Uzbekistan associated with the permanent establishment, reduced by the amount of deductions stipulated under the Tax Code in relation to such profit.

Nonresident legal entities' Uzbekistan-source profit which is not associated with a permanent establishment is subject to the tax at the source of payment (*i.e.* withholding tax) without deductions (see Section 5.2.3 below).

### 5.2.2 Applicable Tax Rates

The general corporate profits tax rate in 2009 is 10%.

Certain entities receive the following preferential corporate profits tax treatment:

- a 50% profits tax reduction where the company exports 30% or more of the total sales volume of its products, work or services; and

- a 30% profits tax reduction where the company exports from 15% to 30% of the total sales volume of its products, work or services.

Repatriation of profits of a permanent establishment of a nonresident legal entity is subject to a 10% tax.

A Presidential Decree of 20 June 2005<sup>8</sup> introduced a Unified Tax Payment for micro-firms and small businesses, with certain exceptions. The general rate of this Unified Tax Payment is 10%. In addition to a Unified Tax Payment, micro-firms and small businesses are subject to withholding tax, VAT on services rendered to nonresidents, excise tax, social payments and other certain taxes and collections.

### 5.2.3 Withholding Taxes

Uzbekistan-source income not connected to the activities of a permanent establishment in Uzbekistan is subject to withholding taxes. Such income is taxed at source irrespective of whether the payment was made within or outside Uzbekistan, and the taxable base is comprised of the aggregate income without deductions. Income which relates to activities or services performed outside Uzbekistan is not subject to withholding taxes. The table below summarizes the rates of withholding tax.

**Table 1: Withholding Tax Rates**

Income Source	Withholding Tax Rate
Dividend and interest	10%
Insurance premiums paid for insurance or reinsurance of risks	10%
Telecommunication and freight activities	6%
Royalties, rent, incomes from services provided, including management services, consulting fees, and other incomes except for those already taxed	20%

Withholding tax rates may be reduced by applicable international treaties (see Section 5.7 below).

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<sup>8</sup> Decree of the President of the Republic of Uzbekistan “On Additional Measures to Stimulate Development of Micro-Firms and Small Business” dated 20 June 2005, as amended.

## 5.2.4 Taxable Base

In calculating corporate profits tax, the taxable basis comprises total revenues from sales (of products, work or services, and other income) reduced by the amount of allowable deductions. Deductibility of certain costs is limited by law.

## 5.2.5 Reductions

Taxable profit for corporate profits tax purposes may be reduced by the following amounts:

- Contributions to environmental and charitable funds - up to 1% of taxable profit;
- Costs allocated to the development, expansion and reconstruction of premises used for production purposes - up to 30% of taxable profit;
- Costs allocated to modernization of production and acquisition of new technological equipment, and repayment of loans taken for said purposes within three years of the date such costs are incurred; and
- Dividends due from shares (participation interests) in other legal entities if directed by the recipient to its own capitalization, investments and repayment of loans, if such dividends are paid between 1 January 2009 and 1 January 2014.

## 5.2.6 Deduction of Losses

For corporate profits tax purposes losses from the sale of fixed assets used in business activity for more than three years are deductible from the aggregate income. Losses may, with certain limitations, be carried forward for up to 5 years.

## 5.2.7 Depreciation

For corporate profits tax purposes, the maximum depreciation rates are as follows:

**Table 2: Depreciation Rates**

<b>Group of Fixed Assets</b>	<b>Depreciation Norm</b>
Cars, motorized tractor technology for use on roads, special tools, inventory, accessories, computers and computer equipment	20%
Trucks, buses, specialist vehicles and trailers, machinery, industrial equipment, forging and pressing machinery, construction and agricultural machinery, and equipment and office furniture	15%
Rail, sea, river and air transport, power and heating equipment, electric and turbine equipment, electricity transmission and communications devices, and pipelines	8%
Buildings, constructions and structures	5%
Depreciable assets not included in the above groups	10%

## 5.2.8 Declarations and Payments

The financial year is the calendar year for corporate profits tax purposes. Most legal entities are required to file a tax declaration and financial statements with the tax authorities by 15 February of the following year.

Representative offices of nonresident legal entities and EWFIs are required to file a tax return with the tax authorities by 25 March of the following year.

## 5.2.9 Tax on Repatriation of Income of Permanent Establishments

In addition to profits (income) tax, a permanent establishment of a nonresident legal entity must pay a 10% tax on all profit (income) which it transfers abroad. This tax may be reduced by double tax treaties to which Uzbekistan is a party.

## 5.3 Individual Taxation

### 5.3.1 Status of Taxpayers

Individuals who are physically present in Uzbekistan for 183 days or more in any calendar year (or during any other period of up to 12 months), are considered to

be residents of Uzbekistan for tax purposes. Resident taxpayers are subject to income tax on income gained from sources of their activity both in Uzbekistan and abroad. Nonresidents, however, are taxed only on their income from sources in Uzbekistan.

Certain types of income are exempt from taxation. Such income includes, *inter alia*, alimony, severance pay, and pension income.

### 5.3.2 Rates

Individual income tax is currently payable at the following rates:

<b>Taxable income (less the nontaxable minimum wage)</b>	<b>Tax</b>
Up to six times the minimum monthly wage (MMW) (approximately USD 120)	12%
From six (+1 Soum) to ten times the MMW (approximately USD 200)	Tax on 6 MMW + 17% of the excess
Ten times (+1 Soum) the MMW and greater	Tax on 10 MMW + 23% of the excess

It should be noted that the level of taxable income changes regularly as the nontaxable minimum monthly wage (MMW) is frequently revised. As of 1 January 2009, the minimum monthly wage is 28,040 Soums (approximately, USD 20).

The income tax rate for female employees whose employment involves work in hard or harmful conditions cannot exceed 20%.

Certain types of income (*e.g.*, dividends on shares (participation interests) in small businesses) are exempt from individual income tax.

### 5.3.3 Obligatory Contributions Payable to the Social Funds

As of 1 January 2009, employers are required to pay a unified social tax at a rate of 24%. The tax is distributed to the various social funds as follows:

**Table 3: Social Funds Contributions**

<b>Social Fund</b>	<b>Rate</b>
Pension Fund	23.6 % of the employee's gross salary (plus an additional 0.7% from receipts from products sold or the work and services rendered by that enterprise)
Employment Fund	0.2 %
Trade Union Federation Council	0.2%

The unified social tax is paid by employers.

Employees must pay contributions to the Pension Fund at the rate of 3.5% of salary. This requirement applies to Uzbek citizens and foreign nationals permanently residing in Uzbekistan. Other foreigners are exempt from those contributions. The employer is required to withhold these contributions from the employee's salary.

In accordance with the Law *On Accumulative Pension System*,<sup>9</sup> employers and employees working under a labor agreement must participate in the accumulative pension system, while individual businesses and farms without a legal entity status can join the system voluntarily. Employees participating in the accumulative pension system are entitled to receive accumulated contributions to the Pension Fund after they reach retirement age and meet other retirement criteria.

### 5.3.4 Declaration and Payments

A resident individual in receipt of income that is not from his principal place of work (whether from sources in Uzbekistan or abroad) is required to submit a declaration of aggregate annual income to the tax agency at his place of permanent residence no later than 1 April of the year following the year in which the income was received. Individuals who, in the previous calendar year, have only received income from their employment at their principal place of work, service or study, are not required to submit declarations of the income received in that year.

A foreign individual who becomes a resident before 1 April of any year must submit a declaration of income for the previous year. Should the foreign individual terminate

<sup>9</sup> Law of the Republic of Uzbekistan "On Accumulative Pension Security of Citizens" dated 2 December 2004.

his or her activity and leave Uzbekistan within a calendar year, a declaration of income actually received must be submitted no later than one month before his or her departure.

An individual receiving rent payments must submit a declaration of income and expenditure:

- Within 5 days of the end of the first month from the date on which such income arose; and
- By 15 January of the year following the accounting year.

## **5.4 Other State Taxes**

### **5.4.1 Value-Added Tax**

Value-added tax (“VAT”) is a tax on the value added in the course of the production, sale, and import of goods, work, and services. VAT is payable on turnover related to the sale, export, and import of goods, work, and services. The VAT rate is 20%.

### **5.4.2 Excise Tax**

The types of goods subject to an excise tax, and the applicable rates of this tax are determined by the Cabinet of Ministers.

The excise tax is not levied on the export of goods, work, and services, except to those countries that impose the same tax regime on goods, work, and services exported to Uzbekistan.

Excise tax on exports and imports is discussed in Section 10 below.

### **5.4.3 Subsoil Use Tax**

The Cabinet of Ministers establishes the rates of a subsoil use tax which applies to entities which produce minerals. The rates of this tax vary depending on the type of minerals produced.

#### 5.4.4 School Tax

A Resolution of the Cabinet of Ministers of 28 December 2004 requires all legal entities to pay a tax equal to 1% (reduced by VAT and applicable excise tax amounts) of their annual turnover to the Non-budgetary Fund for School Education Development.

#### 5.4.5 Road Tax

Every legal entity in Uzbekistan must generally pay 1% (with certain variations for different businesses) of their annual turnover to the Road Fund. This tax is intended for development of roads and highways in Uzbekistan.

#### 5.4.6 Water Use Tax

The Cabinet of Ministers fixes the rates of a water use tax. This tax applies to legal entities that use water in their activities for production and technical needs.

### 5.5 Local Taxes and Collections

Both legal entities and individuals are subject to numerous local taxes and collections including those discussed below.

#### 5.5.1 Property Tax

A corporate property tax applies at the rate of 3.5% on the annual average depreciated value of:

- all fixed capital assets; and
- all intangible assets.

There are a number of tax exemptions and benefits. For example, export-oriented entities enjoy the following preferential property tax treatment:

- a 50% property tax reduction where the company's exports represent 30% or more of the total sales volume of its products, work, or services;
- a 30% property tax reduction where the company's exports represent 15% to 30% of the total sales volume of its products, work, or services.

The property of representative offices of foreign legal entities is exempt from property tax.

Property of individuals is taxed at a rate of 0.5%.

## 5.5.2 Land Tax

The land tax is paid at the rates fixed by the Decree of the President of Uzbekistan and varies depending on the type of land.

## 5.5.3 Miscellaneous Taxes

Various local taxes, charges, and fees are payable in the autonomous Republic of Karakalpakstan, the viloyats, and the City of Tashkent including the following:

**Table 4: Local Tax Rates**

<b>Taxes</b>	<b>Marginal rates</b>
Tax on use of gasoline and diesel	120 Soums (approximately, USD 0.09) per liter
Tax on use of gas	120 Soums (approximately, USD 0.09) per kg
Infrastructure development tax	8% of the net profit of the enterprise
Licensing fee on the right to trade spirits	5 MMW (approximately, USD 100) per month of trade
Charge for the right to trade in jewelry and precious metal products	3.5 MMW (approximately, USD 70) per month of trade
Charge for right to render toll parking services	8 MMW (approximately, USD 160) per month

## 5.6 Penalties

Breaches of tax legislation may result in the following penalties (among others):

- in the event of concealing of income (profit), a fine in the entire amount of income (profit) concealed will be imposed on the taxpayer;
- a penalty of 1% per day on the relevant tax due is applied for a failure to file (or for late or incomplete filing of) tax returns. This penalty is limited to a total of 10% of the tax due;

- for engaging in licensed type of activity without a license, a fine in the amount equal to all income (profit) gained from such activity; and
- a penalty of 0.05% of total taxes due is applied for each day of delay in payment of taxes and fees.

Entities not registered with the tax authorities in a timely manner are subject to the following sanctions:

- where activities were performed for any period for up to 30 days without registration with the tax authorities, a penalty of 50 times the MMW (approximately, USD 1,000) (but not less than 10% of income) becomes due; and
- where activities were performed for more than 30 days without registration with the tax authorities, a penalty of 100 times the MMW (approximately, USD 2,000) (but not less than 50% of income) becomes due.

Where a taxpayer commits several breaches of tax legislation, financial sanctions are applied separately in respect of each breach.

## **5.7 Double Taxation Treaties**

As of 1 January 2009, Uzbekistan is a signatory to double taxation treaties with 46 countries, 45 of which are currently in effect. A foreign legal entity which is entitled to receive a full or partial tax exemption under a double taxation treaty must submit to the Uzbek tax authorities, among other things, an official legalized tax residency certificate in the country which concluded the relevant double taxation treaty with Uzbekistan. The documents may be submitted to the tax authorities either prior to the payment of tax or within a year of payment becoming due. A foreign bank institution seeking tax exemption under a double taxation treaty is not required to file a certificate of residency provided that its residency can be identified through publicly available information.

Below is a table listing countries with which Uzbekistan has entered into double taxation treaties, showing dates of signing and entering into force, and indicating the reduced rates of income tax applicable under the treaties in relation to certain categories of income.<sup>10</sup>

**Table 5: Double Taxation Treaties**

<b>Country</b>	<b>Date of Signing</b>	<b>Date of Entering into Force</b>	<b>Dividends<sup>11</sup> (%)</b>	<b>Interest (%)</b>	<b>Royalties (%)</b>
Austria	14/07/00	1/08/01	5 / 10 15	10	5
Azerbaijan	27/05/96	2/11/96	10	10	10
Belarus	22/12/94	11/01/97	15	10	15
Belgium	14/11/96	8/08/99	5 / 10 15	10	5
Bulgaria	24/11/03	21/10/04	10	10	10
Canada	17/06/99	14/09/00	5 / 10 15	10	10

<sup>10</sup> The reduction of income tax rates under most treaties is allowable only upon satisfaction of certain conditions. For example, income tax in relation to royalties under the treaty with the Netherlands may be reduced only if the recipient is the actual owner of royalties. Therefore, the relevant treaty and circumstances at hand must be examined in each particular case in order to ascertain whether a certain category of income is subject to taxation at a reduced rate.

<sup>11</sup> Under certain treaties, the rate of tax in relation to dividends may vary depending on the amount of the charter capital (voting stock, share, interest, etc.) held by the recipient of dividends in the company paying them. For example, under the treaty with the Netherlands, the rate of income tax on dividends should be 5% of the gross amount of dividends if the beneficial owner of the dividends holds directly or indirectly at least 25% of the charter capital of the company paying the dividends; in all other cases the dividends will be taxed at the rate of 15%. Therefore, the relevant treaty and circumstances at hand must be examined in each particular case in order to determine the applicable tax rate with respect to dividends. Following a slash in the table we indicate the minimum amount of the charter capital that must be owned by the recipient of dividends in order to use the reduced rate of tax indicated before the slash; after that we indicate the tax rate which is applicable if the recipient owns less than the mentioned minimum amount of the charter capital.

Country	Date of Signing	Date of Entering into Force	Dividends	Interest (%)	Royalties (%)
China	3/07/96	3/08/96	10	10	10
Czech Republic	2/03/00	15/01/01	10	5	10
Egypt	21/09/99	Not in force	Not available ("n/a")*	n/a*	n/a*
Finland	9/04/98	7/02/99	5 / 10 15	5	5-10 (depending on the type of IP rights )
France	22/04/96	1/10/03	5 / 10 10	5	0
Georgia	28/05/96	20/10/97	5 / 25 15	10	10
Germany	7/09/99	14/12/01	5 / 25 15	5	3-5 (depending on the type of IP rights)
Greece	1/04/97	15/01/99	8	10	8
Hungary	17/04/08	4/07/08	n/a*	n/a*	n/a*
India	29/07/93	25/01/94	15	15	15
Indonesia	27/08/96	11/11/98	10	10	10
Iran	26/04/02	18/01/05	8	10	5
Israel	15/09/98	9/03/99	10	10	5-10 (depending on the type of IP rights )
Italy	21/11/00	26/05/04	10	5	5
Japan	18/01/86	18/01/86	15	10	0-10 (depending on the type of IP rights )
Kazakhstan	12/06/96	21/03/97	10	10	10
Korea	11/02/98	25/12/98	5 / 25 15	5	2-5 (depending on the type of IP rights )
Kuwait	19/01/04	3/05/06	5 / 25 10	8	20
Kyrgyzstan	24/12/96	17/03/00	5	5	15
Latvia	3/07/98	23/10/98	10	10	10
Lithuania	18/02/02	11/11/02	10	10	10

Country	Date of Signing	Date of Entering into Force	Dividends	Interest (%)	Royalties (%)
Luxembourg	2/07/97	1/09/00	5 / 25 15	10	5
Malaysia	6/10/97	10/08/99	10	10	10
Moldova	30/03/95	28/11/95	5 / 10 15	10	15
Netherlands	18/10/01	27/05/02	5 / 25 15	10	10
Pakistan	22/05/95	12/09/96	10	10	15
Poland	11/01/95	29/04/95	5 / 20 15	10	10
Portugal	11/01/01	20/02/03	10 / 30 15	10	10
Romania	6/06/96	17/10/97	10	10	10
Russia	2/03/94	27/07/95	10	10	0
Singapore	24/07/08	12/09/08	n/a*	n/a*	n/a*
Slovakia	6/03/03	20/10/03	10	10	10
Switzerland	3/04/02	15/08/03	5 / 20 15	5	5
Thailand	23/04/99	21/07/99	10	10 (for financial institutions)	15
Turkey	8/05/96	30/09/97	10	10	10
Turkmenistan	16/01/96	27/11/96	10	10	10
Ukraine	10/11/94	13/08/95	10	10	10
United Kingdom	15/10/93	10/06/94	5 / 10 10	5	5
United Arab Emirates	26/10/07	20/12/07	n/a*	n/a*	n/a*
Vietnam	28/03/96	16/08/96	15	10	15
* The text of the Treaty has not been published yet and therefore no information as to the rates was available at the time of preparing of this brochure.					

## **5.8 Export and Import Taxes**

### **5.8.1 Export Duties**

Customs duties were abolished on the export of all kinds of goods, work, and services from 1 November 1997.

The Tax Code provides that VAT is imposed on goods exported from Uzbekistan at a rate of 0%.

An excise tax is not imposed on excisable goods exported by manufacturers except for certain goods determined by the Government.

### **5.8.2 Import Customs Duties**

Import customs duties are only applicable to those goods determined by the Government. Customs duties are paid in Soum before or during customs clearance of the goods. The amount of duty to be paid is generally calculated on the basis of the contract price.

Property brought into Uzbekistan by an EWFI for its own needs is exempt from customs duties, provided that the share of foreign investment in the EWFI comprises not less than 33% of its charter capital. The personal property of an EWFI's foreign employees is also exempt from customs duties.

### **5.8.3 VAT on Imports**

A 20% VAT applies to most goods and materials imported into Uzbekistan.

The VAT is paid in Soum before or during customs clearance of the goods. Generally, the taxable base is the customs value of imported products plus customs duties and excise tax (where it applies).

Most equipment and materials imported by legal entities (including nonresidents of Uzbekistan) using funds, loans, or grants provided by international and foreign governmental, financial, and economic organizations under treaties or agreements concluded by Uzbekistan are exempt from the VAT. Imported technological equipment included on a specified list is also exempt from VAT on import. However, should exempted equipment be sold or transferred free of charge within three years from the date of import, VAT on import would apply retroactively.

#### 5.8.4 Excise Tax on Imports

An excise tax is imposed on certain types of imported goods; the rate of this tax varies depending on the type of goods.

## 6. EMPLOYMENT

### 6.1 Introduction

The employment of nationals and foreign citizens in Uzbekistan is regulated by the *Labor Code*.<sup>12</sup> Labor relations are regulated by collective agreements and individual employment contracts. Employment contracts must meet the standards prescribed by Uzbek law. Foreign and local companies may hire employees directly, without using employment or recruitment agencies.

### 6.2 Workbooks

Uzbek nationals must provide an employer with a workbook containing their personal details and a record of their past and current work history. The workbook is issued for the purpose of determining the amount to be paid from the State Social Insurance Fund for an employee's temporary illness or disability, and for determining an employee's rights to a state pension. Where an employee does not have a workbook, the employer is obliged to supply a new one within five days of commencing employment.

### 6.3 Probationary Period

An employment contract may include a probationary period which cannot exceed three months.

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<sup>12</sup> Labor Code of the Republic of Uzbekistan dated 21 December 1995, as amended.