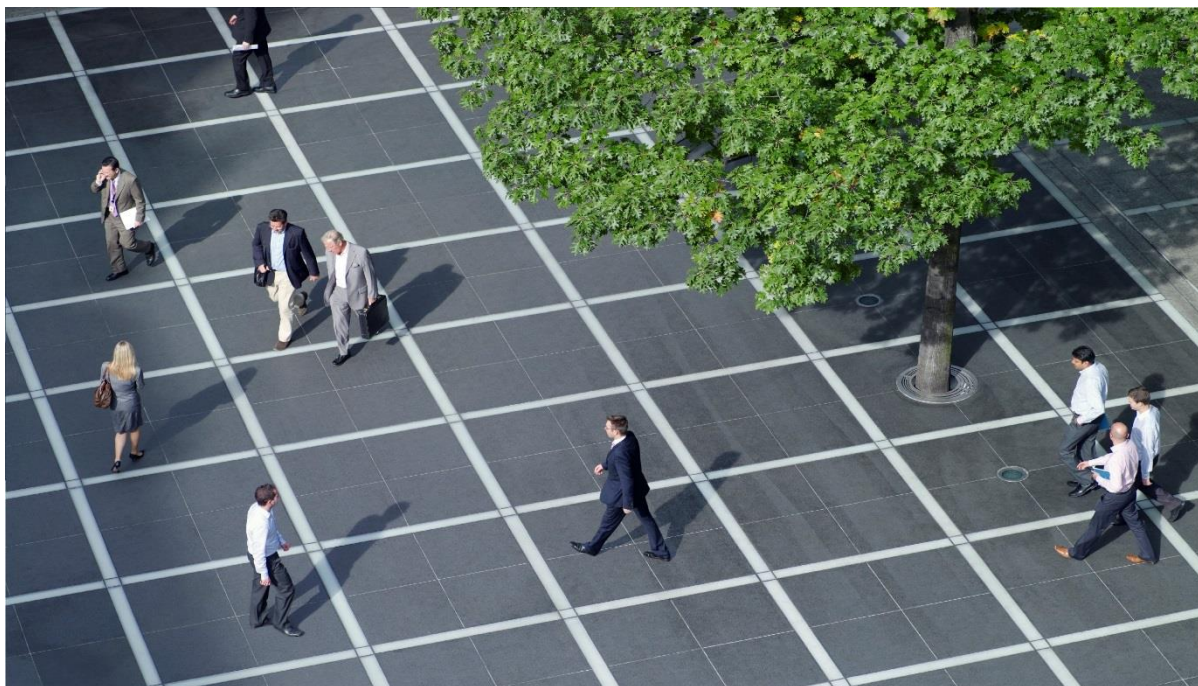


*Changes in tax rates / Abolishment of certain tax exemptions / Unification of certain taxes and obligatory payments / Expected tax reforms in 2018 / Amendments to Harmonised System / Payment of dividends in foreign currency / Additional statutory holidays in Uzbekistan*

# Changes in 2018



In this issue, we have summarised notable recent amendments in the Uzbek legislation

## ***Presidential Resolution No. IIII-3454 of 29 December 2017***

Presidential Resolution No. IIII-3454 of 29 December 2016 (Decree) revises rates of certain taxes and introduces some changes to the tax legislation. Below, we describe the most notable changes effective as of 1 January 2018.

- Corporate income tax (CIT) is unified with the infrastructure development tax (IDT). As a result of such unification the new CIT rates comprise:
  - ✓ Commercial banks – 22% (previously: CIT 15%, IDT 8%).

- ✓ Mobile operators – (i) 14% if profitability is lower than 20%; (ii) if profitability is higher than 20%, the CIT rate on profits exceeding 20% profitability level is 50%. (previously: CIT 7.5% (50% on excess profits), IDT 8%)
- ✓ Other entities – 14% (previously: CIT 7.5%, IDT 8%).

Decree further provides that legal entities provided with temporary exemption from payment of either CIT or IDT will have the right for the period of exemption's validity, to pay CIT at the rate of 50% of the standard rate. We note that the respective wording of the Decree may appear to be partially cancelling the exemption.

However, based on the clarification by an expert of a legal database provider - “NORMA”, the revised incentive should apply to taxpayers of both CIT and IDT that are provided with exemption only from one of the two taxes, in which case the revised wording helps resolving the continuity of the exemption in view of unification of the two taxes. Although the clarification appears reasonable, it only presents the independent expert’s view and is not binding. Thus, unless there is a legally binding document clarifying or refining the wording of the Decree there is a technical risk of adverse interpretation for entities considered the taxpayers of only one of the taxes and having full exemption from that tax (e.g. Permanent Establishments enjoying full CIT exemption under project specific government resolutions).

- Personal income tax (PIT) rates are reduced from 17% to 16.5% and from 23% to 22.5%, respectively.
- The rate of contributions to the individual accumulative pension system increases from 1% to 2%. Please be reminded that this is not an additional contribution and merely reduces PIT payable to the state budget.
- Rates of fixed tax for individual entrepreneurs are decreased for majority types of activities. For example, fixed tax rate for retail of non-food goods is decreased from 10 MMW<sup>1</sup> to 7 MMW; freight services using vehicles with capacity of up to 8 tons is decreased from 3 MMW to 2 MMW.
- Excise tax rates for production of alcoholic drinks and cigarettes (and certain other goods) are increased. For example, excise tax for production of cigarettes is increased more than twice from UZS 37,432 to UZS 84,222 for 1,000 cigarettes, excise tax for production of cognac is increased by about 27% from UZS 58,265 to UZS 73,997 for 10 litres. At the same time, excise tax rate for production of vegetable oil is decreased. For example, excise tax rate for edible oil decreased by 50% from UZS 919,448 to UZS 459,724 per 1 tonne. Moreover, excise tax rates for vehicles produced by JSC “General Motors Uzbekistan” is decreased from 29% to 5%.
- Land tax rates for legal entities and individuals and water use tax rates for individuals are raised approximately by 15%.
- Property tax rate for individuals decreases from 1.7% to 0.2%. Tax rates for individuals owning flats and houses in cities with the total area of more than 200 and 500 square metres decreases from 2.1% to 0.25% and from 2.9% to 0.35% respectively. We understand that such considerable decrease in the property tax rates is due to change of the definition of the taxable base from inventory value to cadastral value, which is normally higher.
- Petrol and diesel consumption tax decreases twice from UZS 465 to UZS 232.5 per 1 litre. However, compressed gas consumption tax increased by about 15% from UZS 275 to UZS 305 per 1 cubic meter.
- Mandatory contributions to designated funds (Pension Fund, Road Fund and Educational/Medical Institutions Fund) are unified into a single contribution – Mandatory contribution to the State funds with a decreased rate of 3.2% charged on turnover (previously, combined rate for three contributions was 3.5%).
- Decree establishes that the total amount of taxes and mandatory payments payable by legal entities providing freight services per one vehicle, regardless of the taxation regime applied, shall not be less than the fixed tax paid by individual entrepreneurs providing similar services.
- Non-commercial entities are provided a right to pay unified tax payment (UTP) in relation to income from commercial activities, regardless of headcount.

<sup>1</sup> MMW is set as Uzbek Soum 172,240 (approx. USD 21) as of 1 December 2017.

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Previously, such entities had to pay taxes on income from commercial activities using standard taxation regime.

- Monthly fee payable by mobile operators for each customer number is increased from UZS 2,000 to UZS 4,000.
- Foreign higher education institutions (FHEI), having accreditation in Uzbekistan, are exempted from payment of all taxes and mandatory contributions on their educational activity until 1 January 2023. Moreover, income of foreign employees of such FHEIs is not subject to unified social payment and PIT.
- Decree prescribes Ministry of Finance, State Tax Committee, State Customs Committee, Ministry of Economy and National Agency on Project Management under the President to propose until 1 July 2018 changes aimed at decreasing of the rate of value added tax (VAT) to be balanced by abolishment of certain VAT incentives and widening the taxpayer base.
- Number of tax incentives are abolished effective 1 April 2018, including:
  - ✓ tax incentives provided to entities, involved in localisation programs, including currently impemented localisation projects, and
  - ✓ rate reduction for corporate income tax, property tax and UTP for exporters.
- Excessive notarization fee applied for transactions with new vehicles (i.e. newer than 1 year) is abolished.
- Obligation on employers to cover maternity allowance is further extended until 1 January 2019.
- UTP payers that have land plots with total area exceeding 1 hectare are now subject to land tax. At the same time, requirement to calculate minimum amount of UTP (not less than 3 times of the land tax) is abolished for such taxpayers.
- Decree also prescribes various governmental agencies to propose until 1 July 2018 draft Concept of tax and budget policy reform, based on international best practices and ensuring transparency of bugdeting process.

### ***Amendments to the Harmonised System (HS) of goods' classification***

Presidential Resolution No. IIII-3448 of 28 December 2017 introduces new edition of HS codes for foreign economic activities as of 1 January 2018. New edition is based on the harmonised international classification of goods as updated in 2017.

### ***Payment of dividends in foreign currency***

Resolution of the Central Bank of Uzbekistan of 23 November 2017 registered by the Ministry of Justice under #511-9 introduces following changes into the Order of maintaining bank accounts in foreign currency:

- the list of payments in foreign currency that can be made by Uzbek legal entities is supplemented to include 'payment of dividends'.
- foreign currency in the bank accounts of individual entrepreneurs can now be used to make payments for import of goods (works, services).

In accrodance with the clarification issued by the Central Bank of Uzbekistan dividends in foreign currency can be paid out without any restrictions, including payments to individuals and legal entities – residents of Uzbekistan.

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### ***Additional statutory holidays in Uzbekistan***

Presidential Decree No.VII-5290 of 18 December 2017 provides for additional statutory days off in 2018 during celebration of national holidays, including:

- 2 January in addition to 1 January;
- 20 March in addition to 21 March;
- 31 August in addition to 1 September.

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PwC would also like to remind you of approaching deadlines for annual tax filings for PERMANENT ESTABLISHMENTS and INDIVIDUALS.

PERMANENT ESTABLISHMENT tax filing dates for 2017 returns are as follows:

- Property Tax – 25 January 2018;
- Land Tax – 15 February 2018;
- Corporate Income Tax – 25 March 2018.

PERSONAL INCOME TAX (PIT) return for 2017 is due before 1 April 2018. In accordance with the Tax Code, Uzbek PIT is paid by tax residents - on their worldwide income, and by non-residents – on their income received from Uzbek sources. An individual is deemed to be a tax resident if he/she spends 183 days and more during any 12-month period ending in the reporting year. The Tax Code further states that if a foreign national has become tax resident prior to 1 April of the year following the reporting one (i.e. has arrived in Uzbekistan prior to October 2017 and stayed through 1 April 2018), he/she is required to file a PIT declaration for the reporting year (i.e. 2017).

Please feel free to contact us with queries on the annual tax filing requirements or in case you need support on other tax issues.

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## ***Let's talk***

For a deeper discussion of how this issue might affect your business, please contact:

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