

Setting up your Business in Uzbekistan

Issues to consider



Although Uzbekistan is landlocked, it has a large internal market of 27 million, and it offers easy access to the entire Silk Road market of over 142 million people. Lying at the heart of Central Asia, Uzbekistan forms the hub of the region. The labour force of Uzbekistan possesses a number of important characteristics; it is ample, literate (almost 100 percent literacy), young and highly trainable. Lastly, the business environment is being improved by the recent efforts of the Government backed by private sector and business associations.

However there are a number of issues which you must consider when you are looking to set up your business in Uzbekistan. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment (a branch of your overseas business)

- Not a separate legal entity but an extension of the overseas parent company
- No limited liability or ring-fencing of the Uzbekistan operations
- If have a permanent establishment in Uzbekistan then profits from this PE are liable to Uzbekistan Corporation tax
- Must file **parent company accounts**, prepared under Uzbekistan Company Law, at Companies House for public inspection, even if these are not made publically available overseas

Limited Company:

- Provides limited liability and ring-fencing to Uzbekistan operations
- Gives a perception of a local business, with longevity
- Corporation tax to be paid on company profits
- The charter capital cannot be less than 50 times the MMW (Minimal monthly wage). Up to date the MMW is 90,530 Uzbek Soum (Official rate at 30.08.2013: 1 USD = 2,1516 Uzbek Soum)
- For the confirmation and auditing of the annual financial reports and accounts of an LC in which the state's interest is more than 50%, an external auditor nominated by GKI (State Property Fund) must be appointed.

Limited Liability Partnership:

- Members (partners) have limited liability
- The charter capital of a LLP may not be less than 50 times MMW

Setting up your Business in Uzbekistan

Issues to consider



- Profits are allocated to members who then pay Income Tax on these profits personally
- The tax residence of the member, and where the profits in the LLP originated will determine in what jurisdiction and how these profits are taxed

How much Corporation Tax will the business pay?

Current Corporation Tax rates in Uzbekistan is 9%

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.

What if we use Uzbekistan to set up our holding company?

The Uzbekistan's competitive tax legislation means that it is a very attractive place to set up a holding company.

In order to promote the state policy of self-sufficiency, Uzbekistan very strongly favors major foreign investments and discourages investments by small and medium-sized foreign investors.

To attract direct foreign investments, a number of free industrial economic zones ("FIEZ") are established in different regions of Uzbekistan. During the term of the FIEZ, a special tax, currency and customs regime shall be applicable to entities registered within the territory of the FIEZ.

These entities are exempt from land, corporate profits, property and infrastructure tax, unified tax payments (for micro firms), school tax and payment to the Road Fund:

- for 7 years where direct investments range between 3 million and 10 million Euro;
- for 10 years where direct investments are between 10 million and 30 million Euro; and
- for 15 years where direct investments exceed 30 million Euro.

What if we make cross-border transactions between group companies?

Uzbekistan follows internationally recognised **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

Setting up your Business in Uzbekistan

Issues to consider



Typical transactions between affiliated entities that are covered by TP regulations are:

- Sale and purchase of goods
- Provision of management services
- Property rental charges
- Transfer of intangible assets e.g. trademarks, patents
- Sharing of knowledge, expertise, business contacts etc.
- Provision of financial support e.g. inter-group loans and charging a “market” interest on loans

A business will need to prepare a Transfer Pricing Report proving the arm’s length basis of transactions. The report will include a functional and risk analysis, analysis of the adopted pricing model and benchmarking of the arm’s length basis.

What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Uzbekistan then they are subject to Uzbekistan tax laws. 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.

We would advise any new entrant to Uzbekistan or person who spends time working in Uzbekistan to take professional advice to determine whether they are Uzbekistan tax resident.

Current Personal Income Tax rates in Uzbekistan are:

Band of income (MMW)	Tax rate (%)
Up to 5 times	8
From 5 to 10 times	16
10 times and greater	22

(NB: rates are for the tax year to 30/08/2013)

Employers and employees also have to pay Uzbekistan social security, which is called Unified social tax:

Current Social Security rates are:

Employer	25%
Employee	6%

(NB: rates are for the tax year to 30/08/2013)



Setting up your Business in Uzbekistan

Issues to consider



It is the employers' legal responsibility to pay over employee's tax and social security deductions to the Pension Fund.

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%.

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.

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.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or [email](#) us directly.

Setting up your Business in Uzbekistan

Issues to consider



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The information in this document was prepared as at 1 June 2016