

Setting up your Business in Tajikistan

Issues to consider

The Republic of Tajikistan is located in Central Asia, bordering with countries such as the People's Republic of China, the Republic of Uzbekistan, the Republic of Kyrgyzstan and the Islamic Republic of Afghanistan. The Republic of Tajikistan ranks third in the world in the area of fresh water. Tajikistan has a very advanced agricultural production of raw cotton and subsequent processing on fiber and yarn, vegetable and fruit crops. The Government of the Republic of Tajikistan is working to improve the investment climate.

However there are a number of issues which you must consider when you are looking to set up your business in Republic of Tajikistan. 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 Republic of Tajikistan operations
- If have a permanent establishment in Republic of Tajikistan then profits from this PE are liable to Tajikistan Corporation tax

Open joint stock company — OJSC

- An unlimited number of shareholders
- Shares may be openly traded
- The minimum charter capital is set at TJS 5,000 (approximately USD 568)
- The shareholders are not liable for its obligations and accept the risks of losses within the limit of their respective stakes
- Have to file accounts for public view
- Accounts require auditing

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Closed joint stock company — CJSC

- Limited to a maximum of 50 shareholders
- Shares are only distributed among its founders or another predetermined group of persons
- May not conduct an open subscription of shares to an unlimited group of persons
- The minimum charter capital may not be less than TJS 1,000 (approximately USD113)
- Shareholders enjoy pre-emptive rights over any shares offered for sale by a withdrawing shareholder
- No obligation for accounts to be published

Limited liability company — LLC

Does not issue shares

"Participants" contribute to its charter capital; financing is also possible in the form of contributions to the company's property

The equity participation of the owners is determined by their capital contribution

The minimum charter capital may not be less than TJS 500 (approximately USD 57)

The number of participants may not exceed 30

No obligation for accounts to be published

How much Corporation Tax will the business pay?

Current Corporation Tax rates in Tajikistan is 23%, but not less than 1% of gross income. Taxable profit is calculated as income net of expenses.

(NB: rates are for the tax year to 31/12/2017)

Foreign legal entities are liable for profit tax on their business income only if their business activities create a permanent establishment (branch, representative office etc.). For permanent establishments of non-residents, there is additional 15% from net income.

For newly registered Legal Entities - 6% from gross income (until its income exceeds 1,000,000 somoni [113,636 USD] during 12 consecutive months).

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

Tax rates for dividends income are:

0%	Dividends received by Resident Legal Entity from another Resident Legal Entity, where it owns shares
12%	Dividends payable by Resident Legal Entity*

**Dividends taxable are not included in the gross income of their beneficiary and are not subject to further taxation.*

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

Tajikistan 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.

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

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

Both resident and non-resident individuals are subject to Tajikistan income tax. Neither the individual’s domicile nor citizenship is relevant. Tajikistan tax residency is established if an individual is physically present in Tajikistan for at least 183 calendar days during a 12-month rolling period. This 12-month period is not interrupted by brief trips outside Tajikistan (i.e. lasting less than six months). A final determination of an individual's tax residency status is made based on whether 183 or more days have been spent in Tajikistan in the calendar year (or during any other period of up to 12 months).

Current Personal Income Tax rates in Tajikistan are:

13%	From the income of the residents of the Republic of Tajikistan
25%	From the income of the non-residents of the Republic of Tajikistan

(NB: rates are for the tax year to 31/12/2017)

Current Social Security rates are:

1%	State pension Fund (withhold from the salary of employee)
25%	Social Insurance Fund (paid by employer)

(NB: rates are for the tax year to 31/12/2017)

It is the employers' legal responsibility to pay over employee's tax and social security deductions to the Tajikistan pension fund.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a "goods and services tax" on supplies made, the standard rate of which is 18% (there is additional 5% VAT for some activities). If a business makes taxable supplies in excess of 1,000,000 somoni [113,636 USD] during 12 consecutive months, it must be registered for VAT.

Taxpayers follow a "classical" input-output VAT system, whereby the VAT payer generally accounts for VAT on the full sales price of the transaction and is entitled to recover input VAT incurred on inventory costs and other related business expenses.

How else can we compensate our employees?

Tajikistan has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Pensions, private medical insurance, life and disability cover are now commonplace benefits provided by many Tajikistan businesses to their workforce.

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

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