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Flat personal income tax / 8% employee's social security contribution abolished/ Unified Social Payment rate reduced / 3.2% turnover tax abolished / Change in corporate income tax rates / New criterion for simplified tax regime / Reduction of property tax rate / Withholding tax rate on dividend and interest income reduced

Concept of tax reform



In this issue, we have summarised the most notable changes to tax legislation in accordance with recently approved concept of tax reform

Concept of tax policy reform

Presidential Decree of 29 June 2018 approves the Concept of Enhancement of Tax Policy of the Republic of Uzbekistan (Concept).

Concept is generally aimed at:

- reduction of tax burden;
- simplification of tax system through unification of taxes with similar tax base, reduction and simplification of tax reporting;
- simplification of tax legislation, elimination of contradictions,

strengthening of protection of rights and interests of bona fide taxpayers;

- ensuring stability of tax legislation and direct application of Tax Code by reducing references to by-laws, establishing rates of taxes and other obligatory payments in the Tax Code;
- improvement of tax administration, including improvement of tax control mechanisms, including implementation of modern technologies.

In accordance with the Concept the following changes are to be introduced as of 1 January 2019:

Payroll taxes

- Personal Income Tax (PIT) to be charged at a flat rate of 12% (currently, charged at progressive rates from 7.5% to 22.5%).
- The rate of contribution to the individual accumulative pension system to be decreased from 2% to 0.1%.
- Contribution to Non-Budget Pension Fund (PFC) to be abolished (current rate – 8%).
- Unified Social Payment (USP) shall generally be reduced from 25% to 12%. However, 25% USP will remain payable for by budget organisations and state enterprises, legal entities with state participation of at least 50%, as well as legal entities where at least 50% belongs to the latter.

Direct taxes

- Mandatory contribution to the designated state funds charged on turnover (current rate - 3.2%) to be abolished.
- Following changes are introduced to Corporate Income Tax (CIT) rate:
 - ✓ reduction of general CIT rate from 14% to 12%;
 - ✓ reduction of CIT rate for banks from 22% to 20%;
 - ✓ increase of CIT rate for mobile operators from 14% to 20% along with abolishment of taxation of excess profits.
- Different criterion to be introduced for taxpayers eligible for simplified tax regime. Thus, current headcount criterion to be replaced by the annual turnover threshold of UZS 1 bln. (approximately, USD 128,200 at the current exchange rate). Enterprises with annual turnover of more than UZS 1 bln. shall be subject to the standard tax regime.
- The rate of Unified Tax Payment under the simplified tax regime to be generally fixed at 4%.
- Property tax, land tax and water use tax to be extended to all entities, including enterprises paying taxes under the simplified tax regime.
- Property tax rate to be reduced from 5% to 2%.
- Income tax withheld at source of payment from dividend and interest income to be reduced from 10% to 5%. While it is not clear in the Decree, we understand that the reduced rate shall apply to dividend and interest income paid to both residents and non-residents of Uzbekistan.

Indirect taxes

- VAT rate to be kept unchanged at 20% for 2019. Concept envisages introduction of fully-fledged VAT credit system, narrowing the list of VAT exempt turnover, as well as reduction of VAT rate after 2019.
- Input VAT on capital items will be eligible for offset (previously, capitalised).

Decree also approves the structure of Working Groups that will be responsible for coordination of development of a new edition of the Tax Code of Uzbekistan (the draft to be prepared by 1 December 2018) and abolishment of inefficient tax and customs benefits and privileges (proposal on abolition to be prepared by 1 November 2018).

For convenience purposes, in the table below we have summarized main changes in tax rates.

Tax	Current regime	Proposed regime (as of 1 January 2019)
CIT	General rate – 14% Commercial banks – 22% Mobile operators – 14% on profit attributable to profitability lower than 20% and 50% rate on profitability higher than 20%	General rate – 12% Commercial banks – 20% Mobile operators - 20% regardless of profitability
Property Tax	5%	2% (extended to all taxpayers)
Mandatory Contribution to Designated Funds	3.2%	abolished
WHT on dividends and interest	10%	5%
Unified Tax Payment	5%	4% (Property tax, Land tax and Water use tax introduced for UTP payers)
Small entity criterion	Average annual headcount (25-200)	Annual turnover (approx. USD 129 thousand)
PIT	Up to 1 MMW ¹ – 0% From 1 to 5 MMW – 7.5% From 5 to 10 MMW – 16.5% More than 10 MMW – 22.5%	12%
USP	Large enterprises – 25% Small enterprises – 15%	12% - general rate 25% - for budget organisations and state enterprises / entities with state participation of certain level
Contribution to Non-budget Pension Fund	8%	abolished

¹ MMW – Minimum Monthly Wage. 1 MMW = UZS 172 240 (approximately USD 22)

Let's talk

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