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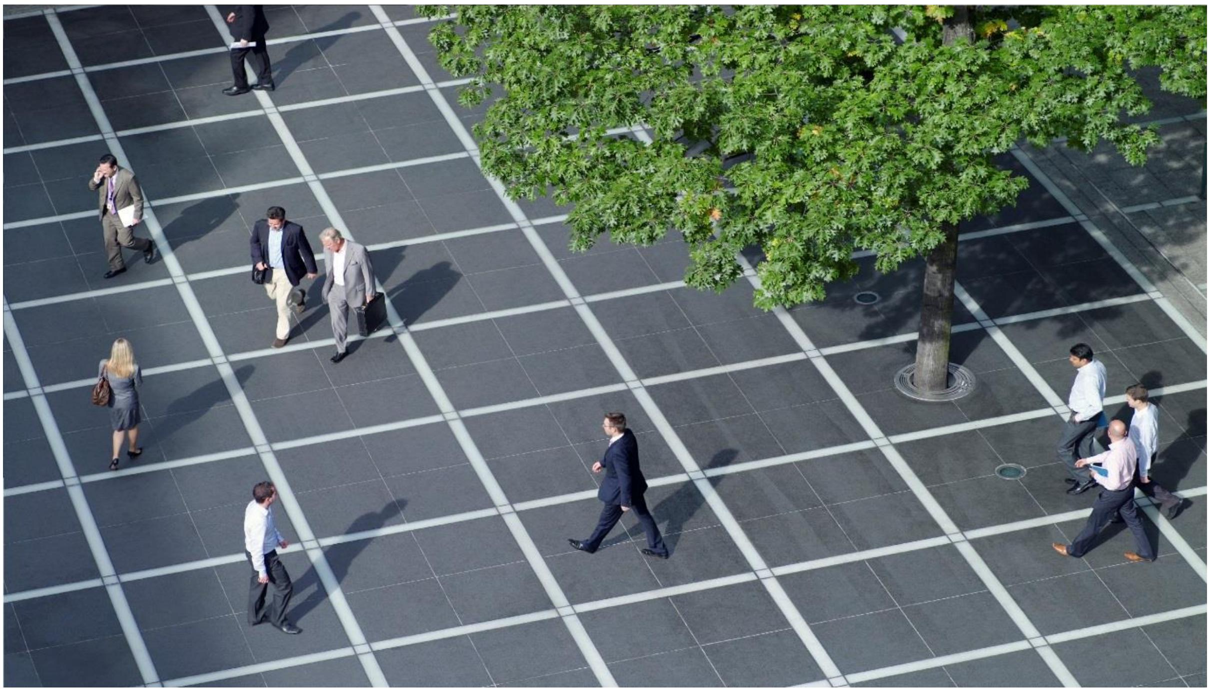
Tax Changes in 2019



In this issue, we have summarised the most notable changes to tax legislation in accordance with the Law No. ЗРУ–508 of 24 December 2018

The Law of the Republic of Uzbekistan No. ЗРУ–508 of 24 December 2018 (Law) introduces changes to the tax legislation in line with the Tax Reform Concept approved in June 2018. That said, the Law only amends the existing edition of the Tax Code, while a new Tax Code is expected to be enacted by 1 July 2019.

As anticipated, the changes include:

- New criteria for simplified tax regime.
- Flat rate of personal income tax.
- Abolishment of 8% employee contribution to Pension Fund.
- Termination of 3.2% obligatory contribution to the designated state funds charged on turnover.
- Reduction of Unified Social Payment's rate.
- Changes in Corporate Income Tax rates.
- Reduction of property tax rate and withholding tax rates on dividend and interest for residents.
- Introduction of the tax rates on major taxes into the Tax Code (previously, approved annually by Resolution of the President).

Below, we provide some details on the changes above and summarise other notable amendments to the Tax Code effective as of 1 January 2019.

Personal Income Tax

Personal Income Tax (PIT) will be charged at a flat rate of 12% (previously, charged at progressive rates ranging between 7.5% and 22.5%).

New flat rate will also apply to certain types of income that previously were subject to the minimal tax rate of 7.5%, including rent income, capital gain from sale of personal real estate etc.

Dividends and interest income received by individuals – residents of Uzbekistan – will be subject to taxation at 5% (previously, 10%).

PIT reports should now be filed on a monthly basis (previously, reported quarterly) and contain breakdown on employment income, property income, benefits-in-kind for each employee.

PIT should be paid along with submission of documents to the servicing bank for salary payment. As of 1 January 2019 deadline for remittance of PIT cannot be later than the date of submission of PIT return.

Social charges on payroll

Individual Pension Fund Contribution (PFC) of 8% will be abolished as of 1 January 2019.

Unified Social Payment (USP) is generally reduced from 25% to 12%. However, 25% USP will remain payable by state organisations, legal entities with state participation of at least 50%, as well as legal entities where at least 50% belongs to the latter.

As of 1 January 2019, USP also extends to certain new categories of taxpayers, including individual entrepreneurs and their employees, members of family enterprises, farming enterprises, artisans etc.

Corporate Income Tax

Changes to the Corporate Income Tax (CIT) rates are summarised in the table below:

Taxpayers	Current rate	Rate as of 1 Jan 2019
General rate for legal entities, except for those shown below	14%	12%
Commercial banks	22%	20%
Mobile communication operators	14% on profit attributable to profitability lower than 20% and 50% rate on profitability higher than 20%	20% regardless of profitability
Legal entities producing: – cement (clinker) – polyethylene granules	14%	20%

Rate of income tax withheld at the source of payment from dividend and interest income paid to **residents** is reduced from 10% to 5%. Tax rates applicable to income paid to non-residents, including dividends, interest, royalties, telecommunication fees and other income remain unchanged.

Deductibility of expenses

Currently, the list of deductible expenses is closed, while non-deductible expenses are provided in an open list (i.e. all expenses which are not explicitly mentioned as deductible are treated as non-deductible). As of 1 January 2019, list of non-deductible expenses is going to be closed, while the list of deductible expenses – open. This should allow avoiding situations where certain types of business expenses are treated as non-deductible since they are not listed as deductible.

Limits on deductibility of certain types of expenses are abolished. Thus, the following expenses will be fully deductible:

- representative expenses (currently, limited to 1 % of turnover);
- per diems during business trips (currently, deducted within established norms);
- voluntary insurance (currently, limited to 2 % of turnover);
- compensation of harm to health caused to employees (currently, specific limits are established depending on type of compensation).

Following expenses, without limitation, are now treated as non-deductible:

- charity and sponsorship payments, irrespective of the recipient (currently, there is a defined list of recipients);
- expenses on events that are not related to business operations of taxpayer (i.e. events on health protection and recreation);
- taxes paid on behalf of non-residents and other taxpayers, as well as taxes and other obligatory payments accrued during tax audits.

Certain depreciation caps have been changed as outlined in the table below:

Fixed asset	Current rate	Rate as of 1 Jan 2019
Buildings and structures	5%	3%
Railway, river and air transport	8%	4%

Property Tax

Property tax rate is reduced from 5% to 2%.

To increase efficiency of property usage, the Property Tax rate is doubled for equipment not installed in due timeframe and for overdue construction-in-progress. As of 1 January 2019 micro-firms and small entities are also considered as payers of Property Tax irrespective of the turnover or headcount.

Unified Tax Payment (UTP)

The existing headcount criterion for eligibility for simplified tax regime is replaced by the turnover threshold. Generally to qualify as Unified Tax Payment (UTP) payer, the annual turnover should not exceed UZS 1 bln. (approximately, USD 120k). Besides legal entities the following entities with turnover of up to UZS 1 bln. have been included into the list of UTP payers:

- individual entrepreneurs,
- family businesses,

- non-commercial organisations in relation to income generated from commercial activity.

General rate of UTP is reduced from 5% to 4% as of 2019.

As of 1 January 2019, UTP payers shall also be responsible for payment of Property Tax, Land Tax, and Water Use Tax (previously, not paid by UTP payers).

VAT

As of 1 January 2019, all entities with turnover exceeding UZS 1 bln. (approx. USD 120k) are considered as VAT payers. Entities with turnover of up to UZS 3 bln. will have an option to apply a 'simplified VAT' mechanism (detailed in the next section).

Input VAT related to fixed assets, intangible assets and construction-in-progress will be eligible for offset (previously, capitalised). Thus, for immovable property used in entrepreneurial activity, the input VAT may be offset in equal portions through 36 months. Input VAT related to purchase of other fixed assets and intangible assets – in equal portions through 12 months.

Legal entities that become subject to VAT (e.g. by switching to standard tax regime due to exceeding annual turnover threshold, or/and by becoming VAT payers voluntarily), will have a right to offset input VAT related to leftover inventory, long term assets and finished goods in stock.

As expected, VAT rate remains unchanged at 20%. However, VAT should now be reported on a monthly basis by all taxpayers, including micro and small enterprises.

Simplified VAT

Until 1 January 2021, legal entities with annual turnover not exceeding UZS 3 bln., including enterprises paying taxes under simplified tax regime, have a right to apply Simplified VAT regime.

Generally, eligible taxpayers shall, until 1 February, notify respective tax authority on selection of Simplified VAT.

Simplified VAT regime envisages application of differentiated VAT rates from 4% to 15% depending on type of activity as shown in the table below:

Taxpayers	VAT rate (%)
General rate for legal entities, except those shown below	7
Construction enterprises	8
Retail and wholesale activities	6
Catering and hotel services	10
Providers of professional services (e.g. audit, tax consulting, brokers, consulting, etc.)	15
Sales of agricultural products, except for sales of own produced goods	4

Please note that the Simplified VAT regime does not envisage offset of input VAT.

Taxpayers engaged in several activities subject to different Simplified VAT rates, should keep separate accounting for each activity. If the annual turnover of the Simplified VAT payer exceeds UZS 3 bln., it becomes subject to the standard VAT regime (i.e. 20% VAT rate and offset of input VAT).

Simplified VAT payers should issue VAT invoices to their customers indicating VAT rate charged. If the customer is under the standard VAT regime, it can offset the input VAT based on the VAT invoice issued by the Simplified VAT payer.

Similarly to standard VAT regime, reporting and tax payments under Simplified VAT regime should be made monthly.

Excise Tax

List of taxable objects for Excise Tax purposes has been supplemented by the following:

- Sale of petrol, diesel and gas to final consumers (Excise Tax replaces Petrol and Diesel Consumption Tax).
- Provision of mobile communication services.

Please also note that taxpayers are no longer eligible to offset input Excise Tax paid at purchase/ importation of goods.

Tax Audits

New types of tax audits have been introduced to replace scheduled and non-scheduled tax audits as follows:

- Audits conducted under consent of the authorised state body on coordination of inspections of enterprise's activities (i.e. audit of financial and economic activities of the taxpayer; audit conducted based on the application of individuals and legal entities claiming the taxpayer's breach of the legislation or based on the outcomes of the risk analysis run by the tax authorities).
- Audits conducted upon notification of the authorised state body on coordination of inspections of enterprise's activities (i.e. audit conducted due to liquidation of a legal entity; audit to eliminate facts of production and sale of prohibited goods/services).

Please be advised that regulation on carrying out tax audits of non-commercial organisations, non-residents of Uzbekistan carrying out activities through permanent establishment, as well as representative offices and branches of foreign legal entities shall be established by the State Tax Committee separately.

The Law also increases the duration of short term tax audits to 10 working days (previously, 1 working day).

Moreover, concept of 'Thematic Express Analysis' is introduced. Thus, tax authorities may visit taxpayers to conduct Thematic Express Analysis based on the results of 'cameral control' for verification of the information provided by taxpayers and eligibility to apply tax and customs incentives reflected in tax reports. Duration of the Thematic Express Analysis should not exceed 7 calendar days. During this Analysis taxpayers are allowed to voluntarily rectify the tax violations.

Penalties and fines

Tax authorities have been given the right to suspend bank operations of legal entities in the event of: (i) absence of taxpayer at the place of registration; (ii) taxpayer's failure to submit tax and financial reports, or failure to provide justification on discrepancies or adjustment to tax reports based on the cameral control. Please be advised that currently, court decision is required for tax authorities to suspend bank operations.

The rate of late payment interest (LPI) has increased from 0.033% to 0.045% per each day of delay (which is in line with the increased annual refinancing rate of 16%). However, if additional taxes are accrued during tax audit, the LPI is charged at 0.06% per day.

Other changes

The Law grants the Cabinet of Ministers an authority to provide incentives on taxes and other obligatory payments in certain cases (such cases are not specified). Currently, as per the Tax Code, incentives can be provided only by Tax Code, other laws of Uzbekistan and by decisions of the President.

In addition, Large Taxpayers shall submit tax reports to the special Interregional State Tax Inspectorate for Large Taxpayers, regardless of the location of the taxpayer.

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

CORPORATE INCOME TAX (CIT) return filed by PERMANENT ESTABLISHMENT for 2018 is due by 25 March 2019.

PERSONAL INCOME TAX (PIT) return for 2018 is due before 1 April 2019. 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 2018 and stayed through 1 April 2019), he/she is required to file a PIT declaration for the reporting year (i.e. 2018).

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

Let's talk

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

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