



Changes in taxation of subsoil users

On 6 October 2021, President of Uzbekistan signed a Decree #YII-6319 'On measures to further incentivise geological exploration and enhancement of subsoil users' taxation'

Decree YII-6319 envisages following changes to be enforced as of **1 January 2022**.

- Special procedure is introduced for tendering of subsoil rights for geological exploration and/or production in respect of previously explored fields having significant commercial potential (i.e. hydrocarbons, precious metals, non-ferrous, rare and radioactive metals and other types of minerals).

At this, the cost of subsoil rights acquired replaces commercial discovery and signing bonuses, which are to be abolished.

- Land plots allotted for exploration works are not subject to Land Tax.
- An annual license fee is introduced for the use of subsoil for geological exploration. It is calculated based on the allotted area and types of minerals, in the amounts established by legislation.

Legal entities carrying out geological exploration works, as well as their contractors and subcontractors shall be exempt from:

- periodic customs payments on temporary importation of special exploration equipment for the period of prospecting, exploration and development of deposits;
- customs duty on importation of equipment, material and technical resources, and special equipment not produced in Uzbekistan and required for carrying out prospecting, exploration and development works (as per an approved lists).

Exemption from customs payments provided earlier by the Presidential Decree YII-2598 to foreign entities engaged in exploration works is extended to local entities involved in exploration works.

VAT refund to legal entities engaged in exploration activities to executed within a maximum of 30 days (60 days under a general rule).

As of 1 October 2021:

- the rate of excise tax on export of natural gas is reduced to 0%;
- legal entities are exempt from customs duties on import of natural gas to Uzbekistan.

Moreover, as per the Decree YII-6319, the following, inter alia, amendments are expected as of 1 January 2022:

- reduction of subsoil use tax (royalty) rate for oil and natural gas - to 10% (currently, 20% for oil and 30% for gas), gold and copper - up to 7% (currently, 10%), tungsten - up to 2.7%, uranium - up to 8% (currently, 10%);
- introduction of a rent tax for subsoil users engaged in extraction of oil, natural gas, gas condensate, as well as precious, non-ferrous, rare and radioactive metals at new fields;
- exemption on new oil and gas wells from property tax in the first two years starting from the month of their commissioning, and 50% rate reduction for the consequent three years;
- reduction of taxable base for subsoil use tax (royalty) calculated at extraction of oil, natural gas and certain types of minerals for the period from 1 January to 31 December 2021, by the amount of expenses related to transportation and processing;
- unification of subsoil use tax (royalty) rates for non-metallic minerals;
- enterprises with foreign investments - payers of rent tax will be allowed to maintain tax accounting in US dollars.

At the end of October 2021, a draft law on amendments to the Tax Code (Draft Law) was published for discussions at the Special Public Portal on Discussions of Legislative Acts. The Draft Law introduces changes to the Tax Code as proposed by the Decree YII-6319 to be effective as of 1 January 2022.

Draft Law, inter alia, introduces details on the new 'Special Rent Tax on Extraction of Minerals' (Rent Tax). Below, we provide a brief summary of the main aspects of this tax. Full text of the Draft Law can be provided at your request.

Taxpayers

- Legal entities extracting precious, non-ferrous and radioactive metals, rare and rare-earth elements, as well as hydrocarbons (natural gas, gas condensate and oil).
- Legal entities operating under Production Sharing Agreements are not viewed as payers of Rent Tax.

Taxable object

- Taxable object for Rent Tax comprises of a 'rent income' received by taxpayer from sale of extracted metals or hydrocarbons.
- Rent income is defined as the difference between the revenue from sales of respective products (net of VAT and excise tax) and expenses directly related to their extraction. The transfer pricing regulations should be taken into account for revenue calculation purposes.

- Expenses directly related to extraction of metals or hydrocarbons consist of capital and operating expenses necessary and sufficient for extraction of metals or hydrocarbons, deductible in the tax period when such costs are incurred.

Taxable base

- Taxable base comprises the amount of rent income. If there is a rent loss, the taxable base shall be nil.
- Taxable base is calculated separately for each licensed subsoil plot (group of licensed plots).
- Taxable base is calculated on a cumulative basis starting from the beginning of the tax year.
- Enterprises with foreign investments engaged in extraction of metals and hydrocarbons may determine taxable base in US dollars. In such case, taxable base indicated in foreign currency is converted into national currency at the exchange rate of the Central Bank of Uzbekistan established as at the date of tax filing.
- Expenses of the first tax period may include historical costs, including those incurred after 1 January 2021.



If you are interested in additional information, please contact PwC specialists working as part of a group serving your company, or to any of the persons listed.

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Tax rates

- The minimum tax rate comprises 25 percent of the taxable base.
- During competitive bidding (tender) for the right to use a subsoil plot for geological exploration or extraction, the organizer or participants have a right to propose a higher Rent Tax rate to be paid.

Tax reporting and payment

- Tax period for Rent Tax is a calendar year. Reporting period is a quarter.
- Tax reports are filed by taxpayers at the end of each reporting and tax period within the following deadlines:
 - ✓ if no taxable base (i.e. rent loss) - once a year not later than 1 March of the year following the reporting year, otherwise
 - ✓ quarterly, on a cumulative basis, not later than the 20th day of the month following the reporting period, and for annual report not later than 1 March of the year following the reporting period.
- Tax is paid quarterly not later than the 20th day of the next month, and for annual payments not later than 1 March of the year following the reporting one.

