Doing Business in UZBEKISTAN

Content

1. About Andersen Global

Andersen Global

Andersen Global® was established in 2013 as an association of legally separate, independent member firms, with a worldwide presence and comprised of professionals that share a common background and the same vision no matter the location where they are.

Our growth is a byproduct of the outstanding client service delivered by our people, the best professionals in the industry and our objective isn't to be the biggest firm, it is to provide best-in-class client services in seamless fashion across the globe.

> Outstanding client service has and will continue to be our top priority.

Our professionals are selected based on quality, like-mindedness, and commitment to client service and each and every one of the professionals that are a part of Andersen Global share our core values.

Andersen Global was established to create an enduring place – ONE FIRM where clients across the globe are afforded the best, most comprehensive tax and legal services provided by skilled staff with the highest standards.

Outstanding client service has and will continue to be our top priority.

2. Country Highlights

Uzbekistan stretches 1,425 kilometers from west to east and 930 kilometers from north to south, bordering Turkmenistan to the southwest, Kazakhstan and the Aral Sea to the north, and Tajikistan and Kyrgyzstan to the south and east. It also shares a short border with Afghanistan in the south. Uzbekistan is a dry, double-landlocked country with intensely cultivated and irrigated river valleys.

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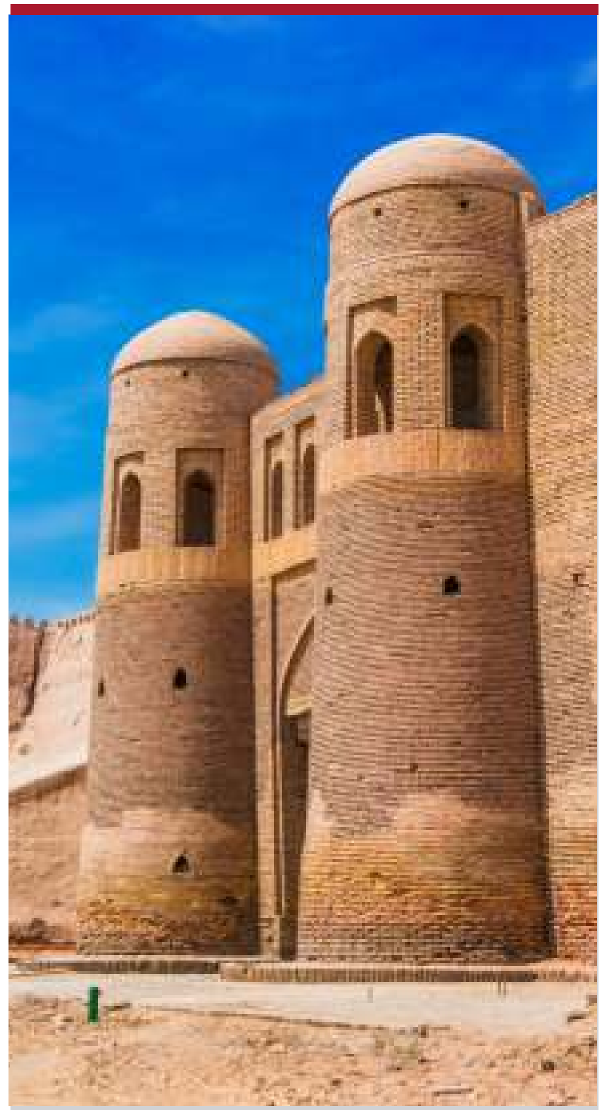

Uzbekistan is divided into 12 regions and the autonomous Republic of Karakalpakstan. According to the State Statistics Committee, the total population as of June 1, 2022 exceeded 35.2 million people.

Statistics about Uzbekistan

Capital	Tashkent
Population	34.38 million
Area	447,400 sq. km.
Government Type	Presidential Republic
Legal system	Civil law system
Currency	Uzbekistani Som (UZS)
Language	Uzbek
GDP (2021)1	USD $69.2 billion
FDI Inward Flow	USD $8.6 billion (2021)

3. Corporate Aspects

Depending on the nature of the business, establish a legal presence by setting up a local subsidiary, a branch-type presence, by entering into a joint venture or by maintaining a representative office for marketing and client support purposes.

To establish a subsidiary or a joint-venture company, there are a number of company type choices. The most commonly used forms by foreign businesses are Joint Stock Companies (JSC or *Aksiyadorlik Jamiyati*) and Limited Liability Companies (LLC or *Mas'uliyati Cheklangan Jamiyat*). Either type of company can be wholly owned by a foreign investor (except for certain reserved business areas such as the media), irrespective of the country of origin. In the following table you can see the key differences between the types of companies.

Criteria	JSC	LLC
Minimum Capital Requirement	No (except for certain reserved licensed activities, e.g. banks and microcredit organizations)	No (except for certain reserved licensed activities, e.g. banks and microcredit organizations)
Minimum and Maximum Number of Shareholders	1 – indefinite	1 – 50
Is it necessary to issue and register company shares at the stock exchange?	Yes	No
Is it mandatory to have a supervisory board in addition to executive directors?	Yes	Optional
Can you sell the company's shares through the stock exchange?	Yes	No
Can you sell the company's shares outside of the stock exchange?	No	Yes
Are shareholders liable for the company's debts and obligations after the shareholders have fully paid up the shares?	No	No

A Limited Liability Company (LLC) is the most popular type of company due to the relative simplicity of its formation and flexible rules on corporate governance, raising capital and other matters. A joint-stock company (JSC) is generally recommended as a legal form only in cases where you are planning a public offering of the company's shares.

Non-Corporate Forms of Business

Foreign-registered companies can conduct business in Uzbekistan without having to incorporate a subsidiary or a branch, on the basis of direct contracts with local partners. In such cases, such non-resident foreign companies may perform work or services without assuming any corporate form by registering their taxable permanent establishment on an ad hoc basis.

4. Payroll Charges and Labor Rights

Payroll Taxes

Since 2019, a flat 12% personal income tax and 12% social tax have been in place.

Basic Obligations as an Employer

If you are an employer in Uzbekistan, you should:

- e-Register employment contracts online with the Single National Labor System
- Use the job titles that comply with the Classification of Positions and Professions
- Provide each employee with a job description
- Approve internal regulations of the company
- Set up a personal file for each employee
- Keep employment work records for each employee online with the Single National Labor System
- Ensure safe working conditions
- Obtain and maintain mandatory insurance for employer's liability
- Apply for work permits to employ foreign persons
- Archive labor documentation

Main Rules

Labor Code: The Labor Code is the main regulatory law for employment. The employment conditions stipulated in an employment contract that do not meet the minimum requirements of the law are void. As a result, the drafted new edition of the Labor Code has been developed and its latest version was published for discussion in September 2020. The draft introduces a number of amendments, including new provisions on personal data protection of employees, social partnership in the labor sector and professional training of employees.

> Employment contracts may be made for either an indefinite or fixed term.

Employment Contracts: Employment contracts may be made for either an indefinite or fixed term. A definite-term employment contract is concluded when the parties are not able to conclude an indefinite-term employment agreement based on the nature of the work, its conditions or the employee's interests. A definite-term employment agreement can also be concluded with the head of the company, deputy head or chief accountant, and in other cases provided by law.

Vacation: Paid annual vacation cannot be less than 15 business days. Extended vacation can be agreed in the employment agreement or other internal corporate policies of the employer.

Sick Leave: Any employee is entitled to sick leave. The allowance for employee's temporary disability (sick leave) is paid by the employer at its expense. In case of prolonged illness, the employee is subject to a special medical expert commission, which examines and formally makes a conclusion regarding the employee's ability to continue work. Based on such conclusion, the employee may become entitled to disability status.

Maternity and Childcare Leave: Female employees who have a child are entitled to paid maternity leave for a period of 126 days. Maternity allowance is paid by the employer for the period of maternity leave (70+56=126 days) based on the employee's wage. Childcare leave is then paid by the employer at the monthly rate of 2 BCU (approximately USD $40) for a period of two years. The employee may work part time during the childcare leave. In this case, she is paid her part-time wage plus the childcare allowance.

Pensions: Pensions for citizens and permanently residing non-citizens are provided by the state. The retirement age is 55 for women (provided that the employment record is equal to 20 years) and 60 years for men (provided that the employment record is equal to 25 years).

Tax Residence of Foreign Employees: After 183 calendar days, a foreign person working in Uzbekistan becomes a tax resident in Uzbekistan and then becomes subject to the same tax rules as residents.

Employment Dispute: Employment disputes are settled in civil courts. Employees are exempted from court fees when they apply to courts with claims arising from labor relations. Employment disputes can be resolved by the means of mediation as well.

Working Hours: A standard working week is 40 hours (normal hours). Any time worked over 40 hours is classified as overtime and must be paid at a double rate of the normal hourly rate.

Personal Data: Employees' personal data should be processed with the employees' prior consent and in compliance with data protection laws.

Single National Labor System: An interdepartmental hardware and software system, the Single National Labor System, was introduced in 2020. Employers have to do the following in the System:

- Register labor relations, including the conclusion, amendment and termination of employment contracts
- Maintain the staffing table in the System
- Generate and maintain data on the employment of individuals in the electronic workbook

5. Uzbekistan Taxes Overview

In general, businesses operating in Uzbekistan pay taxes either under the standard tax regime or special tax regime. General tax regime envisages payment of range of taxes, including the following:

- Corporate income tax (CIT), including withholding tax
- Value added tax (VAT), including VAT on imported goods/ services
- Personal income tax (PIT)
- Social tax (ST)
- Property tax
- Land tax
- Water use tax
- Excise tax
- Subsurface use tax

For certain categories of taxpayers following special tax regimes are established by the Tax Code:

- Turnover tax
- Special tax regime for participants in production sharing agreements (PSA)
- Special tax regime for participants of special economic zones (SEZ) and special categories of taxpayers

An optional *simplified tax* regime is available for legal entities with annual turnover less than 1 billion Uzbek UZS (UZS), which is approximately USD $90,785 as of June 4, 2022, and individual entrepreneurs with turnover ranging from UZS 100 million to UZS 1 billion (USD $9,078 to USD $90,785). Under this regime, turnover tax is paid in lieu of CIT and VAT. Certain taxpayers are not eligible for application of turnover tax such as importers, producers of excise-liable goods, legal entities engaged into subsurface extraction, sale of petrol, and diesel and gas fuel.

PSA is an agreement envisaging provision to foreign investors exclusive rights for exploration, prospecting and extraction of minerals in the area specified by agreement. PSA may contain various tax incentives for foreign investors, their subcontractors and employees.

Special tax regime for the participants of SEZ implies a special taxation mechanism, including tax and customs incentives, and special currency control rules for a specific period of time depending on the size of investment.

There are special tax incentives for legal entities, established with attraction of foreign direct private investments and specialized on the production of certain goods (provision of certain services) as per the approved list of economic sectors.

Legislative acts introducing new taxes, abolishing tax incentives or in other ways worsening the position of investors, shall become effective not earlier than in three months after their official publication. Tax-related legislative acts, amending rates of taxes and other payments, shall be enacted from the first day of the month following the month of their official publication, unless a later date is indicated.

6. Corporate Income Taxes

Corporate Income Tax	Legal entities having taxable income, non-residents acting in Uzbekistan via PE	Taxable profit calculated as a difference between gross revenue and deductible expenses. The taxable base can be reduced by an amount of losses, accumulated in previous periods	• General rate - 15% • Other rates may apply depending on type of activity, like 20% for cement and polyethylene granules production, mobile communication services, banks, markets and shopping malls

7. Indirect Taxes

Legal entities producing or importing excise-able goods (such as cigarettes, petrol, alcohol drinks) are subject to excise tax. Rates vary from 15% to 70%, depending on the type of goods produced or imported. The taxable base is determined as the value of produced or imported goods, excluding VAT. Excise tax is reported monthly.

Excise tax is charged for provision of mobile communication services and sale of petrol, diesel, liquefied gas and compressed gas to final consumers. Also, the combined excise tax for production of cigarettes was implemented (the excise tax rate would include a fixed rate element and an ad valorem rate element).

The excise tax rate on mobile communication services was reduced to 10% as of January 1, 2022, and mobile communication services are not subject to excise tax starting January 1, 2023.

The excise tax rate on export of natural gas is reduced to 0% as of October 1, 2021.

It is planned to introduce single excise tax rate on both locally manufactured and imported petrol. Imported gasoline is subject to an excise tax rate of 5%.

In addition, it is planned to abolish the excise tax on liquefied gas, which is now 30% and reduce the excise tax on polyethylene granules from 20% to 10%, as well as the introduction of excise tax on the import of polyethylene granules.

Excise tax rates are planned to be indexed (increased) by an average of 10% as of June 1, 2022.

8. Property Taxes

Property Tax	• Legal entities of Uzbekistan with taxable property in the territory of Uzbekistan • Non-residents with immovable property on the territory of Uzbekistan	• Average annual net book value of immovable property • For non-residents, average annual value of such property	• 2% • Double rate may apply in certain cases

9. Double Taxation Treaties

As of January 1, 2021, Uzbekistan has effective double taxation treaties with 54 countries. 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 (or apostilled) 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 the payment becoming due. A foreign banking institution seeking a 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.

On the next page is a table listing the countries with which Uzbekistan has effective double taxation treaties, showing the dates of signing and entering into force.

No.	Country	Date of Signing	Date of Entering into Force
1	Austria	July 14, 2000	August 1, 2001
2	Azerbaijan	May 27, 1996	November 2, 1996
3	Bahrain	June 5, 2009	October 14, 2010
4	Belarus	December 22, 1994	January 11, 1997
5	Belgium	November 14, 1996	July 8, 1999
6	Bulgaria	November 24,2003	October 21, 2004
7	Canada	June 17, 1999	September 14, 2000
8	China	July 3, 1996	July 3, 1996
9	Czech Republic	March 2, 2000	January 15, 2001
10	Estonia	September 28, 2012	December 23, 2013
11	Egypt	September 5, 2018	March 25, 2019
12	Finland	April 9, 1998	February 7, 1999
13	France	April 22, 1996	October 1, 2003
14	Georgia	May 28, 1996	October 20, 1997
15	Germany	September 7, 1999	December 14, 2001
16	Greece	April 1, 1997	January 15, 1999
17	Hungary	April 17, 2008	January 29, 2009
18	India	July 29, 1993	January 25, 1994
19	Indonesia	August 27, 1996	November 11, 1998
20	Iran	April 26, 2002	January 18, 2005
21	Ireland	July 11, 2012	April 17, 2013
22	Israel	September 15, 1998	March 9, 1999
23	Italy	November 21, 2000	May 26, 2004
24	Japan	December 19, 2019	October 17, 2020

No.	Country	Date of Signing	Date of Entering into Force
25	Jordan	November 22, 2010	July 13, 2011
26	Kazakhstan	June 12, 1996	April 21, 1997
27	Korea	February 11, 1998	December 25, 1998
28	Kuwait	January 19. 2004	May 3, 2006
29	Kyrgyzstan	December 24, 1996	March 17, 2000
30	Latvia	July 3, 1998	October 23, 1998
31	Lithuania	February 18, 2002	November 11, 2002
32	Luxembourg	July 2, 1997	September 2, 2000
33	Malaysia	October 6, 1997	August 10, 1999
34	Moldova	March 30, 1995	November 28, 1995
35	Netherlands	October 18, 2001	May 27, 2002
36	Oman	March 30, 2-09	June 20, 2009
37	Pakistan	May 22, 1995	September 12, 1996
38	Poland	January 11, 1995	April 29, 1995
39	Romania	June 6, 1996	October 17, 1997
40	Russia	March 2, 1994	July 27, 1995
41	Saudi Arabia	November 18, 2008	November 1, 2010
42	Singapore	July 24, 2008	November 28, 2008
43	Slovakia	March 6, 2003	October 20, 2003
44	Slovenia	February 11, 2013	November 8, 2013
45	Spain	July 8, 2013	September 19, 2015
46	Switzerland	April 3, 2002	August 15, 2003
47	Tajikistan	March 9, 2018	June 6, 2018
48	Thailand	April 23, 1999	July 21, 1999

No.	Country	Date of Signing	Date of Entering into Force
49	Turkey	May 8, 1996	September 30, 1997
50	Turkmenistan	January 16, 1996	November 27, 1996
51	Ukraine	November 10, 1994	July 13, 1995
52	United Kingdom	October 15, 1993	June 10, 1994
53	United Arab Emirates	October 26, 2007	February 25, 2011
54	Vietnam	March 28, 1996	August 16, 1996

10. Export & Import of Goods

Export Duties

Customs duties do not apply to exports of any products. VAT on exports is charged at a rate of 0%. An excise tax is not imposed on excisable goods (with certain exceptions) exported by manufacturers.

> Import customs duties are only applicable to those goods specified by the President.

Import Customs Duties

Import customs duties are only applicable to those goods specified by the President. Customs duties are paid in Soums before or during the customs clearance of the goods. The amount of duty to be paid is generally calculated on the basis of the contract price and depends on the customs code of the relevant product.

Property brought into Uzbekistan by an EWFI for its own needs is exempt from customs duties for two years after its state registration, provided that the share of foreign investment in the EWFI comprises not less than 33% of its charter capital.

Transfer Pricing

The Tax Code introduces a detailed transfer pricing regulation which took effect on January 1, 2022. Previously there was no such regulation. Some of the main aspects of the new rules are summarized below:

- For tax purposes, a controlled transaction should be on market terms. There are two types of controlled transactions:
  - A transaction between related parties with the amount exceeding 5 billion Soums (approximately USD $223,000) (in certain specific cases - 500 million Soums).
  - Cross-border transactions with oil, oil products, precious and non-ferrous metals, and certain other types of products (the full list of which should be approved by the State Customs Committee) or transactions where one of the parties is established in a designated offshore jurisdiction. These transactions may be between related and unrelated parties.
- Information on controlled transactions should be submitted to the tax authorities on an annual basis.
- The Tax Code provides for a list of sources of information which should be used to determine the market price (quotations of commodity exchanges, etc.).
- If the tax authorities determine that there is a deviation between the transaction price and the market price, they may adjust the transaction price accordingly and assess unpaid/underpaid taxes and impose fines and penalties. The transfer pricing rules provide for the following methods of determining market price: comparable market price method,

resale price method, costs plus method, comparable profitability method and profit split method.

- At the request of the State Tax Committee, the taxpayer should submit transfer pricing documentation in relation to a specific transaction (such as justification of the used price determination method). Such a request cannot be made before June 1 of the year which follows the year in which the transaction was executed.

- Transfer pricing audits may be conducted only by the State Tax Committee and may be initiated generally not later than four years from the date on which the relevant transaction was reported. It is possible to sign an advance pricing agreement with the State Tax Committee which sets forth, among other things, the methodology of determining the price in relation to specific products.

11. Low Tax Jurisdiction (LTD) and Privileged Tax Regime (PTR)

According to the tax code of the Republic of Uzbekistan, for certain categories of taxpayers on the territory of the Republic of Uzbekistan, the following special tax regimes are established:

- VAT
- A special procedure for taxing participants in production sharing agreements
- A special procedure for taxation of participants in special economic zones and certain categories of taxpayers
- A special procedure for taxation of certain territories of the Republic of Uzbekistan

A special taxation procedure for participants in special economic zones and certain categories of taxpayers is established for a certain period, depending on the investments made and the fulfillment of other conditions stipulated by law or investment agreements.

Special tax regimes may provide for exemption from the payment of certain taxes, the use of reduced tax rates and other tax benefits.

12. Tax Penalties

Breaches of tax legislation may result in the following penalties (among others):

- In the event of the concealment of income (profit), a fine of 20% of the amount of income (profit) concealed will be imposed on the taxpayer
- A late submission of tax returns may result in a penalty in the amount of 1% for each day of delay (but not exceeding 10%) from the amount of respective tax due under the relevant return
- A late payment of tax is subject to late payment interest for each date of delay calculated as 1/300 of the Central Bank of Uzbekistan refinancing rate multiplied by the amount of tax due
- A failure to register as a taxpayer (a VAT payer of eservices) is subject to a penalty in the amount of 5% (but not less than 5 mln Soum) from the revenue accrued during the period from the date when the registration had to be done under the law and the date of actual registration

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