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National Agency for Project Management presents Concept of Tax Reform

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Following the Presidential Decree on Measures for Radical Improvement of the Tax Legislation of February 13, 2018, the National Agency for Project Management under the President of Uzbekistan has prepared and presented a draft of the Concept of Tax Reform envisaging cardinal changes of the Uzbek tax system, including reduction of the tax burden and VAT rates, the merging or repeal of a number of taxes and obligatory payments as well as improvement of the tax administration. The reform has long been longed for by local businesses and experts with the messy and intricate tax system that is currently in place being heavily criticized. It has been highlighted that the current system has created an excessively complex system of taxation mechanisms for various types of businesses with competition and efficient tax planning being effectively undermined as well as represents an unbearable burden for the country's developing economy making entrepreneurs to flee to tax havens or to utilize multi-layered schemes for tax avoidance.

Some of the most radical proposals put forward by the Concept include:

1. Introduction of taxation thresholds, based on which the legal entities whose annual turnover is less than UZS 1 billion are to be considered as subjects of small business (with softer taxation and returns requirements being applied). Such entities will be allowed to pay VAT at the reduced rate of 5%.
2. Introduction of a system, where the sole proprietors whose annual turnover is higher than UZS 1 billion are caught by the generally taxation system, but are not required to reorganize into a legal entity (e.g. a limited liability company, a private company, etc.).
3. Abolition of the profit tax (14%, as of May 2018), payable by commercial legal entities even if no distribution of profits is made. It is proposed to merge the tax with the tax on dividends (10%, as of May 2018) so that a single payment at the rate of 25% is made where and if profits are distributed (i.e. the distributions only are subjected to the tax including indirect distributions e.g. a company makes payments for the benefit of its shareholder). This will not apply to banks and insurance companies.
4. Unification of rates and rules for the excise tax.
5. Abolition of mandatory payments (semi-taxes) to the off-budget state funds (3.2% in total, as of May 2018)
6. Significant reduction of the rate of VAT from 20% (as of May 2018) to 12%.
7. Gradual reduction of the property tax to 2.5% in 2019 and 1% in 2021 with the taxation of industrial buildings and constructions being also cancelled. At some point the property tax will be merged with the land tax into a single tax on real estate.

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8. Abolition of the dividend tax for small businesses.
9. Merger of taxes and mandatory payments related to individuals into a single profit tax: the mandatory contribution to the state pension fund (8%, as of May 2018), the unified social payment (15%, as of May 2018) and the personal income tax (22.5% in 2018) are expected to be merged into the personal income tax with the flat rate of 25%.

The proposed reforms are aimed at reducing the gap between taxes payable by small and larger businesses, attracting foreign investments, strengthening investors' rights and enhance general competitiveness of the economy. All the changes are expected to be mirrored in a draft of the new Tax Code that, in accordance with the aforementioned Presidential Decree, must be presented to general public in the third quarter of 2018. Considering the complexity and the amount of proposed changes, this deadline may, however, be extended with some additional changes being revealed later.