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LEGAL NEWSLETTER FOR DECEMBER 2019

Dear Clients and Partners,

In Uzbekistan, the most significant changes of December 2019 were in the areas of land law and taxation. Changes in land law relate to the land allocation procedures and forms of related documents. In taxation, it is a significant event that a revised version of the Tax Code was somewhat hastily adopted in the last week of December. Many new changes were introduced by this version of the Tax Code with a number of taxes, tax obligations and tax benefits having been abolished. Generally, however, the government's intention that has informed the changes is to significantly liberalize and simplify the taxation system to improve the country's investment climate.

Some notable changes also affected the road transport infrastructure sector, employment relations, and the bankruptcy and liquidation procedures. Additionally, a targeted legal act was adopted to reflect results of the President's December visit to Japan.

In the political dimension, there is some indication that more changes are planned for the banking industry and towards liberalization of the financial sector.

1. A LAND PRIVATIZATION EXPERIMENT IN SYRDARYA REGION

the procedure for privatizing non-agricultural land plots in Syrdarya region before the Law will come into force on March 1, 2020, for the whole country. Thus, on December 2, 2019, a Resolution of the Cabinet of Ministers enacting the Temporary Regulations on Land Privatization Procedures in Syrdarya Region were adopted. Individuals and legal entities being residents of Uzbekistan may participate.

The Regulations provide for a detailed description of the privatization mechanisms set by the Law: [buyout](#) (with regard to land plots with immovable property on them) and [e-auction](#) (with regard to vacant land plots). The Regulations set the respective application procedures, standard application forms, rules for evaluating land plots that will be privatized.

For more detailed information relating to the rules and procedures envisaged by the Law, follow the hyperlink at the beginning of this passage.

[*Resolution of the Cabinet of Ministers No. 963 of December 2, 2019*](#)

2. MORE TRANSPARENT LAND ALLOCATION PROCEDURES

In December, several legal acts in respect of the allocation of land plots were adopted. Changes introduced by the acts altered the land allocation mechanisms both for cases when land is allocated for agricultural purposes and when land is allocated for industrial purposes. The *Regulation on the Procedure for Renting Land of the State Forestry Fund* (the “**Regulation on Forest Lands**”) and the revised *Regulation on the Auction Procedures for Land Allocation for Business and Urban Development Purposes* (the “**Regulation on the Auction Procedures**”) are among the adopted acts.

General requirements. Starting from March 2020, it will become mandatory for khokimiyats to have land allocation decisions published on their official websites. Moreover, the Government will introduce a mechanism for preliminary public discussion of all construction/reconstruction projects in populated areas.

Lands for business and urban development activities. As for now, (i) the Regulation on the Auction Procedures applies only to non-agricultural land plots (with some exemptions), (ii) entities and individuals are entitled to propose the placement of a land plot where the construction of certain objects is intended

auctions will have to wait for half as much as before in order for an auction to start - 15 calendar days. Like before, the category of rights to land being sold through the online auction is the right of permanent use.

Forest lands. According to the Regulation on Forest Lands, forest lands may be provided for rent through a specialized auction for up to 50 years (applies to newly identified undeveloped forests lands that are not actually covered by forests); for growing forests, research, cultural, ecological and other purposes set by law for up to 50 years through the investment project implementation mechanisms (as provided by law); and for the implementation of a public-private partnership project for 3 - 49 years with the use of mechanisms envisaged by the legislation on public-private partnership.

[Presidential Decree No. PP – 4551 of December 13, 2019](#)

[Resolution of the Cabinet of Ministers No. 993 of December 13, 2019](#)

[Resolution of the Cabinet of Ministers No. 1023 of December 20, 2019](#)

3. OWNERSHIP CERTIFICATES FOR REAL ESTATE

By March 2020, the Government will introduce a procedure for issuing real estate cadastral certificates of a new type (in the form of a plastic card) within the territory of Tashkent city and Andijan, Fergana, Namangan regions. It is envisaged that such certificates will be provided to real property owners by the State Centers for Public Services in cases when the issuance of a new certificate is required by law (changes in ownership, changes to property, an acquisition of ownership rights, etc.).

[Resolution of the Cabinet of Ministers No. 987 of December 12, 2019](#)

4. A REVISED VERSION OF THE TAX CODE

A revised version of the Tax Code has been adopted. A number of notable novelties have been introduced. Some of the most significant changes include:

- cancellation of previously granted benefits – as a number of special benefits and privileges have been abolished, (i) all the tax benefits of the old version of the Tax Code that have not been transferred to the revised version will remain effective till April 2020; (ii) all the tax benefits set in subordinate legal acts (e.g. Presidential Decrees or Resolutions of the

- the VAT and the excise tax – turnover of legal entities resulting from the sale of goods (services) purchased for the funds borrowed from foreign/international state financial institutions will not be subject to the VAT and the exercise tax;
- corporate governance – starting from January 2023, individuals or entities holding more than 25% of foreign company's shares (currently, more than 50%) will be regarded as persons in control of a foreign company;
- return of overcharged tax amounts – a mechanism that ensures timely return of excessively charged tax amounts has been introduced, including the obligation of the tax authorities to pay the interest on unreasonably retained amounts;
- tax inspections – the number of types of tax inspections has been reduced from 13 to 3;
- new risk analysis tools – all business entities will be divided into 3 categories based on their past tax payment records: entities with a low-risk of non-compliance (no tax inspections will be conducted), with a medium-risk of non-compliance (a desk audit will be conducted, but no financial or administrative fines will be applied, while such entities will be allowed to correct their tax returns), and entities with a high-risk of non-compliance (an on-site audit will be conducted and constant monitoring of compliance will be maintained by the tax authorities);
- some new rules in respect of the status of a permanent establishment;
- tax free shopping – a VAT refund will be offered to foreign individuals who have acquired goods in Uzbekistan.

[Tax Code of the Republic of Uzbekistan of December 30, 2019](#)

[Law No. ZRU-599 of December 30, 2019](#)

5. ELECTRONIC SYSTEMS IN EMPLOYMENT RELATIONS

As was previously mentioned in our newsletter, in January 2020, the Government will launch the electronic system “Single National Labor System” (SNLS) for administering employment relationships. The corresponding *Regulation* on the procedure for the registration of employment documentation in the SNLS has been adopted. In accordance with the Regulation, the registration is to be carried out by employers through their personal accounts on a [specialized website](#) with the use of their electronic digital signatures. Employers – expect for sole entrepreneurs – must assign a responsible person(s) (by taking the relevant decision in writing) who will have access to the

The following information is supposed to be contained in the SNLS:

- the structure of an entity and relevant distribution of workplaces – all employers must upload information pertaining to their offices and relevant job positions to their personal accounts. The information on vacant job positions (i.e. positions with no matching employment contracts being registered) may be made public by the Ministry of Employment and Labor Relations after a waiting period of 5 days;
- electronic employment contracts, including amendments and additions to them as well as the information about terminations and vacation periods;
- records of employees' professional experience – prior to the introduction of the system, all employers have had the obligation to keep such records in so called "labour books" of employees. Now, labour books will cease to exist in their hard copy and will be maintained electronically. Employers will no longer be required to keep records of experience for employees, as such information will be stored automatically, based on the data entered into SNLS.

Resolution of the Cabinet of Ministers No. 971 of December 5, 2019

6. BANKRUPTCY AND LIQUIDATION PROCEDURES

The Law on Bankruptcy and provisions of the Civil Code related the liquidation procedures have been amended and supplemented. The introduced changes may be summarized as follows:

- Bankruptcy – (i) the Law introduces a new concept of a "homogeneous group of creditors", which consists of creditors with similar requirements and having no priority in respect of each other, (ii) there are several categories of homogeneous groups with different levels of voting rights at creditors' meetings (iii) the procedures of judicial rehabilitation and the imposition of external management are no longer considered as bankruptcy procedures as they will be used by economic courts to restore solvency; (iv) the maximum term of consideration of bankruptcy cases in courts has been reduced from 2 months to 1 month.
- Liquidation – as a result of the adoption of a number of legal acts, including those adopted in December, the following changes have been introduced: (i) the overall maximum term of the liquidation procedures has been decreased from 12 to 9 months; (ii) it has been set that business entities may now be liquidated in the following 3 cases: based on a

inactive for 3 years after the state tax authorities had requested to consider them “dormant”, and based on the relevant court decision (that may be taken in cases where companies operate in contravention to law, including, for example, the operation without a license needed for its activities).

[Law No. ZRU – 594 of December 14, 2019](#)

[Law No. ZRU – 592 of December 11, 2019](#)

7. CHANGES IN THE RULES FOR PUBLIC PROCUREMENT

The President has signed the Decree that, among other things, envisages some new rules and procedures for public procurement and procurement of strategic companies. Along with the Decree, an action plan for converting public tender and competitive bidding procurement procedures into an electronic format has been approved and is expected to be implemented by May 2020.

Some novelties coming into force as of January 2020 include the following changes:

- public procurement procedures implemented through the public procurement online shop may now be carried out by choosing regions of suppliers (e.g. suppliers located in Karakalpakstan only, etc.);
- strategic companies (as listed in the [corresponding decree](#)) are now subject to the following amended procurement rules: (i) while carrying out a procurement procedure by choosing the best proposal (a special procurement procedure for certain types of goods, including those needed for ensuring national security), they must publish a procurement announcement on a [special website](#); such an announcement must remain active for at least 15 days; (ii) must reveal protocols of their selection committees on choosing the best proposal within the relevant procurement procedure on the special website for 2 days for public discussion; (iii) must register contracts concluded as a result of public procurement procedure in the relevant state register within 3 business days after the conclusion of such contracts; (iv) have the right to carry out procurement procedures through the online procurement shop and using the method of reverse auction following the thresholds and criteria set by law.

Presidential Decree No. PP – 4544 of December 5, 2019

8. UZBEKISTAN-JAPAN COOPERATION

Following the official visit of the President of Uzbekistan to Japan, the Presidential Decree summarizing outcomes of the visit has been adopted. Based on the approved Decree, several action plans aimed at intensifying the interstate economic and business cooperation and providing for a number practical steps in this regard have been approved. Thus, among other things: (i) a representative office of the Tashkent city municipality (*khokimiyat*) will be opened in Nigoya, Japan; (ii) representatives of other state bodies will also be established in Japan for promoting investment projects; (iii) it is envisaged that a double tax agreement between Uzbekistan and Japan will become effective soon.

It is also indicated in the Decree that the Government is planning to establish cooperation with (i) company Mitsubishi in the implementation of projects in renewables – the construction of solar and wind power plants, (ii) company Sumitomo for the modernization of international airports in Samarkand, Bukhara, Termez and Khiva, (iii) the Japan Oil, Gas and Metals National Corporation (JOGMEC) for the conduction of geological exploration works, (iv) Japanese banks SMBC and MUFG for the opening of credit lines to state-controlled Uzbek banks Asaka, the National Bank of Uzbekistan and Uzpromstroybank, (v) a number of Japanese entities for the implementation of the ongoing project for the provision of dialysis services, (vi) Japanese economic and legal consultants with regard to the intention of Uzbekistan to join the WTO.

In its last part, the Decree provides for an action plan on the implementation of a number of investment projects and commercial contracts. Some of the relevant investment projects are (i) 2 projects for the installation of combined-cycle gas turbines at the Navoi Thermal Power Plant, (ii) the second stage of the program for the modernization of the Uzbekistan's gas supply networks, (iii) a project for the application of co-generation technologies in 5 cities of the country, implying, among other things the attraction of targeted Japanese financing. Some of the relevant commercial contracts are long term contracts for the supply of uranium between the Navoi Mining and Metallurgy Combine and Marubeni Corp / Itochu.

9. DEVELOPMENTS IN THE ROAD TRANSPORT SECTOR

The Presidential Decrees aimed at reforming the transportation and transport infrastructure sectors has been adopted. The changes envisaged by the Decrees may be summarized as follows:

- Projects for the roads construction / reconstruction – starting from January 2020, all contracts related to new projects for the construction, reconstruction or repair of roads, including contracts on technical supervision over the quality of related works, will have to be concluded after conducting tender bidding procedures based on the legislation on public procurement.
- Unbundling – starting from January 2020, the requirement that only a number of identified state-owned enterprises may be involved in the design, construction, reconstruction and/or repair of public roads, regional roads and bridges, will be cancelled. State-owned enterprises in the sector will no longer be controlled by the Committee on Roads under the Ministry for Transport, as they will be reorganized into limited liability companies and transferred to newly established state-owned holding company JSC “Yulkurilish”.
- PPP projects – the Government will initiate projects (i) for the construction of paid parking facilities (before July 2020), (ii) for the construction of toll roads and transportation facilities, a list of which is provided in the Annex 5 to the Presidential Decree No. 4545. Private participants of the project will be chosen on a tender basis.
- General improvements of the road network – (i) till September 2020, a strategy for the development of roads till 2030 will be adopted; (ii) by March 2020, a unified electronic database of country's roads will be created; (iii) new rules for the placement and operation of roadside objects will be developed.

[Presidential Decree No. PP- 4545 of December 9, 2019](#)

[Presidential Decree No. UP – 5890 of December 9, 2019](#)

10. REGULATION OF THE TOBACCO PRODUCTS PRODUCTION

The General Technical Regulation for Tobacco Products setting compulsory requirements for tobacco products sold within the territory of Uzbekistan has been amended. The corresponding changes will become effective starting from

warnings about smoking-related diseases, samples of which are attached to the Regulation. Special parameters with respect to the quality and placement of the images have been set in the Regulation. This requirement will also apply to imported tobacco products that are going to be resold within Uzbekistan. Previously, the Technical Regulation stipulated that cigarettes packs had to have approved medical alerts with no relevant specification in this regard having been set.

All affected entities will have 1 year to ensure compliance with the requirement. As it has been established before, the samples of the images provided in the Regulation will be updated once every 5 years.

Resolution of the Cabinet of Ministers No. 1034 of December 25, 2019

11. NEW RULES FOR THE CAPITAL MARKET

The Agency for the Development of the Capital Market has set a new rule for the trading in securities. From now on, “it is prohibited to trade in particular securities unless all of them have been placed in a prescribed manner”. In other words, securities being part of a new issue, may be transferred to a new owner only after the whole issue has been placed following the procedure set by law.

This requirement does not apply to securities issued before December 5, 2019, as well as to state securities.

Order of the Director of the Agency for the Development of the Capital Market No. 3199 of December 5, 2019

12. NEW REGULATIONS FOR CRYPTOCURRENCY

The *Rules for Crypto-Exchanges* have been approved. A number of obligations have been imposed on crypto- exchanges, including among other things, to keep separate records for each client and to back up all data on daily transactions. Further, according to the Rules, the following limitations have been set: (i) it has been explicitly prohibited to use crypto-assets as a means of payment; (ii) anonymous transactions with crypto-assets have been prohibited; (iii) residents of Uzbekistan are only entitled to sell crypto-assets. It is to note that crypto-assets are, in turn, defined as “a set of records on a blockchain that has value and an owner”.

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provisions on the cryptomining. It is envisaged that starting from March 9, 2020, higher tariff rates will apply to electricity consumers who are engaged in the cryptomining. The relevant consumer category tariff of each particular person or an entity engaged in the mining will be multiplied by 3 (that is the coefficient set by the Rules).

[Order of the Director of the National Agency for Project Management No. 3127-3 of December 20, 2019](#)

[Resolution of the Cabinet of Ministers No. 979 of December 9, 2019](#)

To ensure that we are addressing the topics that are most important to you, we would welcome your feedback and suggestions.

Have a good day!

Sincerely,
Kosta Legal Law Firm

Feedback



40a, Mustaqillik avenue,
Tashkent, 100000, Republic of Uzbekistan
www.kostalegal.com

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