

Rödl & Partner

INVESTMENT GUIDE
UZBEKISTAN

Overview of Investment and Tax Regulatory Framework

2019

Giving guidance



Giving guidance

“Uzbekistan, a land with abundant in historical wonders and natural riches, is at the start of a new stage of economic development. The reforms with the distinct mission to improve the country’s lot economically, are widely being welcomed by many international experts and organisations.

Liberalisation reforms in economic and legal sectors are considerably opening up the country to foreign trade and investment, as if they are returning Uzbekistan to its roots, restoring its traditional role down the centuries as a trading hub.

Fresh investment climate and the creation of new free economic zones with tax incentives are attracting foreign investment to Uzbekistan as a country with new market opportunities.”

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Tashkent



Introduction

With the new president the Republic of Uzbekistan is becoming an increasingly attractive market for investment.

This brochure aims to give foreign investors, our current and potential clients the opportunity to become familiar with the framework conditions for investment and doing business in the Central Asian region.

Our team hopes that this guide will reveal all the main important framework conditions for investment. In case of individual questions, we will be glad to answer remaining questions as well in our office in Tashkent as in Almaty, where our second office in Central Asia located.

GEOGRAPHY AND CLIMATE

Uzbekistan has an area of 447,400 square kilometers (172,700 square miles). It is the 56th largest country (after Sweden).

Bordering Turkmenistan to the southwest, Kazakhstan and the Aral Sea to the north, and Tajikistan and Kyrgyzstan to the south and east, Uzbekistan is not only one of the largest Central Asian countries but also the only Central Asian country to border all of the other four. Uzbekistan also shares a short border with Afghanistan to the south.

Uzbekistan is a dry, double-landlocked country of which 10% consists of intensely cultivated, irrigated river valleys. The highest point in Uzbekistan is the Khazret Sultan, at 4,643 meters, in the Gissar Range (Surkhandarya Province).

Uzbekistan is divided into 12 provinces (viloyats) with their “capital” towns, one autonomous republic (Karakalpakstan), and one independent city (Tashkent).

GOVERNMENT STRUCTURE

Uzbekistan is a sovereign, democratic republic in accordance with its constitution. The country is headed by the President.

The government (the Cabinet of Ministers) is subordinate to the Oliy Majlis (Parliament) and the President, who appoints the Prime Minister, Deputy Prime Ministers and ministers subject to the approval of the legislature.

The highest legislative body is the two-chamber Oliy Majlis which is elected for a five-year term. The Legislative chamber (lower) consists of 150 members elected by Uzbek citizens based on ballot voting. Members of the higher chamber – the Senate – are elected from each region of Uzbekistan, the Republic of Karakalpakstan and Tashkent city, by six members from each territory. Sixteen members of the Senate are appointed by the President of the Republic of Uzbekistan out of the most competent citizens with outstanding achievements in and contributions to science, literature, and art. The President, with the approval of the Constitutional Court, may dissolve the Oliy Majlis.

LANGUAGES

The official state language is Uzbek. However, quite a few people in Tashkent and largest cities (including Uzbeks) still use Russian as their native language. Besides, Article 3 of the Law “On state language” states that citizens have the right to choose the language for international communication at their discretion. Organisations and businesses use both Uzbek and Russian as their business correspondence languages.

The English language is widely educated in Uzbekistan. However, the English-speaking population is mostly based in Tashkent.

In accordance with the Resolution of President No. ПП-1875 dated December 10, 2012 “On measurements on further improvement of the system of studying of foreign languages”, the teaching of foreign languages, particularly English, should begin from the first year at all general schools.

Legal System

Uzbekistan operates under a continental legal system, which is characterised by the codification of the rules of law, unified hierarchical system of sources of law and division into branches of law (criminal, civil, labor, family, administrative, etc.).

To be legally enforceable, legislation in Uzbekistan must be adopted in accordance with certain procedures and thereafter published. Legal acts can be adopted in the form of normative legal acts, non-normative legal acts or acts of a normative nature.

There is a hierarchy of normative legal acts:

1. Constitution;
2. Laws (Statutes);
3. Resolutions of Oliy Majlis (the Parliament);
4. Decrees and Resolutions of the President;
5. Resolutions of the Cabinet of Ministers;
6. Acts of the ministries, state committees, and other government authorities, which were registered with the Ministry of Justice;
7. Decisions of local municipalities (regional, city and district Khokimiyats).

In the event of a conflict between different types of normative legal acts, acts of higher stature shall prevail. A normative legal act adopted by a state body concerning a public relationship on which this relevant body has the specific authority to regulate has superior legal force over normative legal acts adopted by another State body of the same level.

In the event of conflicts between the provisions of the Civil Code and the provisions of other codes and laws, which contain civil law provisions, the provisions of the Civil Code prevail. In relation to all other spheres of law, in the event that two legal acts of equal force contain conflicting provisions, then the specific legal act shall apply to the particular relations, provided that the relations are in the same field as the legal acts applied. If there is a conflict between general and specific norms set out within the same normative legal act, the specific norms shall apply. A new normative legal act has a higher legal force over a normative legal

act adopted previously by the same State authority regarding the same issue.

Legal acts that are adopted for the implementation of specific (one-time) organisational, supervisory or directive matters or considered for other one-time implementation are considered as non-normative legal acts.

The Ministry of Justice is the State registration body entrusted with entering all normative legal acts, acts of a normative character, decisions of the Oliy Majlis, Orders of the President and the Cabinet of Ministers and etc. All normative legal acts shall be officially published in Uzbek and Russian languages.

ARBITRATION COURTS

On January 1, 2007, the Law “On arbitration courts” No. 3PY-64, adopted on October 16, 2006, came into force. This Law introduced a new method for resolving disputes in the Republic of Uzbekistan. Whereas the previous the court system included economic, civil, administrative, criminal and military courts, starting from January 1, 2007 it began to include non-state arbitration courts.

The Law states that the decision of the arbitral tribunal is final and cannot be appealed. However, in case of violation of procedural rules or rules for the selection and appointment of arbitrators, the decision of the arbitral tribunal may be challenged in the relevant competent court. The Law also stipulates that all arbitration courts must be registered with the Ministry of Justice.

On November 5, 2018, the Tashkent International Arbitration Center (TIAC) was established under the Chamber of Commerce and Industry of the Republic of Uzbekistan in accordance with Presidential Decree No. ПП-4001 dated November 5, 2018. One of the main tasks of the center is to organise the resolution of disputes through international arbitration between commercial organisations located in different states, including foreign investors. Disputes, among other things, may be related to investments, intellectual property, and blockchain technologies.

CHANGES IN VISA LEGISLATION

Since February 10, 2018, a visa-free regime for 30 days from the date of entry into Uzbekistan for citizens of 7 countries (Israel, Indonesia, Republic of Korea, Malaysia, Singapore, Turkey, Japan) came into force in accordance with the Presidential Decree “On additional organisational measures for creating favorable conditions for the development of the tourism potential of the Republic of Uzbekistan”.

Further, from February 10, 2018, a simplified procedure for issuing tourist visas for citizens of 39 countries (the European Union, East Asia, the Middle East, India, Canada, New Zealand and the United States of America) was introduced. The requirement to provide a voucher or to apply to the Ministry of Foreign Affairs of the inviting legal or natural person has been abolished. Visa processing time has also been reduced to two days. Since July 15, 2018, a system has been introduced for issuing electronic tourist visas for foreign citizens, in respect of which a simplified procedure for issuing visas has been established. Also, from July 15, 2018, a short-term visa-free entry into Uzbekistan was introduced for a period of not more than 5 days for citizens of a number of states in transit through the international airports of the Republic of Uzbekistan.

In accordance with the Presidential Decree “On additional measures to accelerate the development of tourism in the Republic of Uzbekistan” dated February 1, 2019, a visa-free regime for a period of 30 days from the date of entry into Uzbekistan for citizens of 45 countries came into force. In addition, from February 1, 2019, the list of countries whose citizens have the possibility of obtaining an electronic entry visa has been expanded.

The Laws on Foreign Investment and on Guarantees and Measures for the Protection of Rights of Foreign Investors provide the legal framework for foreign investment in Uzbekistan. The Law defines the types of entities in which foreigners can invest, the conditions governing repatriation of profits and earnings, and the general rights and guarantees of foreign investors.

Investors – foreign states, international organisations, foreign legal entities and individuals may invest through:

- equity participation in the authorised funds and other property of business entities and partnerships, banks, insurance companies and other enterprises established jointly with legal entities and (or) individuals of the Republic of Uzbekistan;
- the creation and development of companies, partnerships, banks, insurance organisations and other organisations fully owned by a foreign investor;
- participation through the acquisition of property, shares and other securities;
- investing in the field of intellectual property, including copyright, patents, trademarks, utility models, brand names and know-how;
- acquiring concessions, including concessions for exploration, development, extraction or use of natural resources;
- acquiring the title to the objects of sale, as well as ownership and tenure rights to land (including lease agreements) and natural resources;
- acquiring the right to search, explore deposits and extract minerals from deposits in accordance with the production sharing agreement.

The Ministry of Economy and Industry makes investment proposals for the subsequent approval by the Cabinet of Ministers, which envisage attracting foreign investments and loans guaranteed by the government, as well as investment proposals exceeding 500,000 USD.

The government guarantees investment protection. Investments and other assets of investors in Uzbekistan cannot be nationalised. This is reflected in the legislation providing that if subsequent legislation of the Republic of Uzbekistan worsens the investment conditions, then the legislation in force at the date of the investment is applied to foreign investors within ten years from the date of investment. A foreign investor has the right, at his discretion, to apply those provisions of the new legislation that improve the conditions for his investment.

The foreign investment regime of Uzbekistan particularly welcomes foreign investors producing goods in Uzbekistan for their further export, or those replacing goods that would otherwise be imported. Only those companies that meet the following requirements are recognized as enterprises with foreign investments and can enjoy the benefits provided by the legislation:

- one of the participants of the enterprise is a foreign legal entity;
- the size of the authorised capital of the enterprise must be at least 400 million soums;
- the share of foreign investments must be at least 15% of the authorised capital.

In the investment realm, the government is trying to balance the distribution of investments across all of Uzbekistan's regions. Each region has appointed officials responsible for attracting investment and executing investment projects. The process will be under strict monitoring of the presidential administration. The parliament, on their part, will hear quarterly reports from responsible officials and evaluate progress and even enact proposed punishments to officials not living up to expectations.

The government has come up with creative ways to attract investments, namely issuing residence permits valid for 10 years to foreigners investing at least \$3 million. The Ministry of Foreign Affairs will also plan to introduce "compatriot" visas and passports for individuals with family connections to Uzbekistan willing to visit, work, or invest in the country. In the meantime, the strategy makes it clear that the compulsory residence registration, propiska, for Uzbekistan citizens will not be abolished, but rather simplified.

DIRECT PRIVATE FOREIGN INVESTMENTS

Since July 1, 2005, local enterprises attracting investments in such sectors of the economy as textile industry, meat and dairy industry, etc., are exempt from payment of:

- income tax;
- property tax;
- a single tax payment.

The application of the above benefits is possible under the following conditions:

- the company is located in any region of the country, except Tashkent and Tashkent region;
- investment is made without the government's guarantee;
- the share of foreign participants in the authorised capital is not less than 33% and not less than 15% for joint stock companies;
- investment is carried out in a freely convertible currency or in the form of modern technological equipment;
- allocation of at least 50% of the income received as a result of the provision of these benefits during the term of their use for reinvestment in order to further develop the enterprise;
- investments are made in the economic sectors defined in Presidential Decree No. УП-4434 dated April 10, 2012.

These tax benefits are provided for the amount of private foreign direct investment:

- from 300 thousand USD to 3 million USD – for a period of 3 years;
- more than 3 million USD to 10 million USD – for a period of 5 years;
- more than 10 million USD – for a period of 7 years.

INVESTMENT INCENTIVES

The Uzbek legislation provides certain tax incentives to encourage manufacturers, importers and exporters of strategically important products.

Foreign companies carrying out oil & gas exploration works are granted with certain incentives that include exclusive exploration rights for territory with the possibility to engage in extraction either through a joint venture company or in terms of a concession. Such companies and their foreign contractors and subcontractors are exempt from payment of all forms of taxes and contributions to non-budget funds during the exploration period. The exemptions should also apply to customs payments on the import of equipment, material and technical resources and services necessary for the

exploration and related works. Furthermore, oil & gas extracting joint venture companies established with the participation of foreign companies that are involved in the exploration are granted a 7-year corporate income tax holiday starting from the date of commencement of extraction.



Free Economic Zones

In order to develop the country's economy, as well as to attract foreign investment, Uzbekistan has created several economic zones in different parts of the country:

FEZ of industrial branch:

- Free Economic Zone "Navoi";
- Free Economic Zone "Angren";
- Free Economic Zone "Jizzakh";
- Free Economic Zone "Urgut";
- Free Economic Zone "Gijduvan";
- Free Economic Zone "Kokand";
- Free Economic Zone "Hazarasp";
- Free Economic Zone "Syrdarya";
- Free Economic Zone "Namangan".

FEZ of pharmaceutical industry:

- Free Economic Zone "Nukus Farm";
- Free Economic Zone "Zomin Farm";
- Free Economic Zone "Boysun Farm";
- Free Economic Zone "Syrdarya Farm";
- Free Economic Zone "Kokonsai Farm";
- Free Economic Zone "Bostonlik Farm";
- Free Economic Zone "Parkent Farm";
- Free Economic Zone "Andijon Farm".

FEZ of agricultural sector:

- Free Economic Zone "Balik ishlab chiqarish";
- Free Economic Zone "Bukhoro-agro";

FEZ of tourism industry:

- Free Tourist Zone "Charvak".

Corporate forms

THE CONCEPT OF “JUDICIAL PERSON”

Uzbek law provides a concept of “judicial person” (legal entity) outlining general rules applicable to every organisational form of a company (except representative offices and branches). The Civil Code recognises a judicial person in any organisation that holds separate property under its ownership, business competence, or operative management, and is liable for its obligations with this property; and which can, moreover, acquire and exercise corporeal and personal incorporated rights in its name, bear obligations, sue and be sued.

Legal entities are subject to state registration and the legal address (location) of a legal entity shall be determined by the place of its state registration, unless otherwise provided by the constituent documents. Moreover, a foreign legal entity needs to rent an office to complete the post-registration procedure.

Foreign investors may do business in Uzbekistan either by acting through foreign companies, by establishing representative offices or branches of foreign legal entities, or by incorporating legal entities in Uzbekistan.

The following major types of commercial legal entities may be formed under Uzbek corporate law:

- joint stock companies;
- limited liability companies and additional liability companies;
- general business partnerships and limited business partnerships;
- family-owned businesses;
- private enterprises;
- sole proprietorship;
- representative offices and branches.

RECOMMENDATIONS

As a matter of general practice, it is recommended to foreigners to incorporate a wholly foreign-owned entity (100% foreign shareholding) in the form of a limited liability company. The LLC

is the most suitable corporate form for foreign investors, as in contrast to a joint stock company this form has various advantages such as limited filing requirements, a simple corporate structure of management bodies and absence of tough government control form. In practice, there are no partnerships or ALCs registered in Uzbekistan, as from taxation perspective there is no difference between the corporate forms and residents and non-residents prefer to register joint stock companies and limited liability companies.

In this connection we will refrain from describing the features of joint stock companies, general and business partnerships, private and so-called family-owned enterprises and sole proprietorships.

In this section we will pay attention to the features of registration of legal entities (LLC, ALC) and of separate divisions of (foreign) legal entities.

LIMITED AND ADDITIONAL LIABILITY COMPANIES

A limited liability company (“LLC”) is a company established by one or more individuals or legal entities with a charter capital divided into shares whose size is determined by the foundation documents. In contrast to a joint stock company, shares in an LLC are not securities. The foundation documents of an LLC established by two or more entities are the foundation agreement and the company charter. If an LLC is established by one entity, the foundation document of an LLC would be only the charter.

The participants in an LLC are not liable for its obligations, and they bear the risk of losses connected with the company’s activities within the limits of the value of their personal contributions. Participants in the company who have not paid up their contributions in full are jointly and severally liable for its obligations to the extent of the unpaid part of the contribution of each of the participants. The liability of the company is limited to the extent of its assets.

The minimum number of the authorised charter is 40 MMW (approximately 1040 USD). Each member LLC must fully contribute

to the authorised charter within a period that is determined by the constituent documents and which cannot exceed one year from the date of state registration of the LLC.

The general meeting of participants, convened at least once a year, is the supreme governing body of the LLC. Its competence includes such issues as the definition of the main activities of the LLC, as well as the solution of financial issues. The management of the LLC's daily activities is carried out by the Director or the Board (collective executive body) elected at the GMS. The powers of the Board are specified in the constituent documents of the LLC. The LLC may also have a Supervisory Board (however, its presence is not required).

An Additional Liability Company ("ALC") is a company established by one or more individuals or legal entities with a charter capital divided into shares whose size is determined by the foundation documents. As with an LLC, an ALC cannot issue shares as securities. The foundation documents of an ALC are the same as in an LLC - the foundation agreement and the charter/or only the charter if an ALC is established by one person. An ALC has the same organisational structure as an LLC. The main difference is in the liability of the participants. Participants in an ALC have broader liabilities in comparison to an LLC, the liability of which is limited to the value of the participants' contributions. In contrast to an LLC, the foundation documents of an ALC may provide for the joint and several liabilities of its participants to be a multiple of their capital contributions. The liability may be limited by the charter. If one of the participants becomes insolvent (bankrupt), liability for the company's obligations is distributed among the other participants in proportion to their contributions unless the company's foundation documents provide otherwise.

CONSTITUTIVE DOCUMENTS

The constitutive documents of a company established by two or more persons are its foundation agreement and charter. If one person establishes the company, the constitutive document is only the charter. In case of contradictions between the foundation agreement and charter, the charter prevails. A foundation agreement is concluded among the participants to determine the process of

formation of a company and other information as required by law. A charter contains specific information on which the participants agreed upon and other information not contrary to law.

REPRESENTATIVE OFFICES AND BRANCHES

Representative offices of foreign companies are not considered as a separate legal entity (judicial person) according to the Civil Code. A representative office is defined as a separate subdivision of a legal entity and is prohibited from engaging in any commercial activity, except for foreign airline representative offices provided that they are registered as permanent establishments. A representative office acts on the basis of its “Regulation” similar to a by-law and is managed by an individual authorised by the headquarters under power of attorney. While the representative office of a foreign legal entity is accredited with the State Committee on Investments of the Republic of Uzbekistan, the representative office of domestic legal entities does not require such accreditation or registration. The regulation on the procedure of accreditation and activities of representative offices of foreign commercial organization in the Republic of Uzbekistan is prescribed by the Resolution of the Cabinet of Ministers No. 410 dated October 23, 2000. The state fee for accreditation of the representative office is USD 1,200 as effective January 1, 2012. Taxation of foreign companies, representative offices and their employees is carried out in accordance with Uzbek legislation.

A branch is a separate subdivision of a legal entity that can carry out all or part of its activities including business activity generating income. Similar to representative offices, branches operate under special branch regulation which defines the framework of the branch’s operations. While a branch of a domestic legal entity is not required to register, a branch of a foreign legal entity is formed in essentially the same manner as a company with foreign ownership and is subject to the same registration procedures.

OPENING BANK ACCOUNTS

The newly registered legal entity must open bank account in Uzbek bank to carry out monetary operations. The procedure is regulated

by the Resolution of the board of the Central Bank of the Republic of Uzbekistan on the instruction on bank accounts opened in Uzbekistan No. 7/2 dated March 16, 2009. Uzbek banks usually ask their potential clients to provide corporate documents of the legal entity (Charter, foundation agreement, certificate of state registration, etc.), an extract from the trade register as well as a power of attorney for the client's representative (all of them must be notarized and apostilled or certified in the country of origin if it is foreign legal entity). Such documents are required by the banks for compliance with internal procedures for the study of the client (Know-Your-Client) or to check the client for compliance with the anti-corruption legislation of the Republic of Uzbekistan.

GENERAL REQUIREMENTS

The primary requirement is that the company must have a general director and the chief accountant. These officers bear administrative and criminal liability on behalf of the company, as under Uzbek criminal and administrative law, only individuals can be liable, not legal entities (i.e. companies).

FOREIGN NATIONALS AS A DIRECTORS AND OFFICERS OF THE COMPANY

Any foreign national who are employed by the local company, including directors and officers, must obtain a confirmation that gives the right to a foreign citizen to work in the country prior to the actual employment. The timeline for obtaining a work permit per each foreign individual is on average equals to one-month period. Pursuant to the local employment law, the company must initiate this procedure by preparing necessary documents to the local Migration Agency. Prior to applying for foreign nationals' work confirmation, the company must first obtain a permit authorizing the company to hire foreign nationals.

Particularity of employment of foreign citizens will be discussed in the chapter about the Labor Legislation.

Employment

The Labor Code (1995) (as amended) is the principal legal act regulating employment relations in Uzbekistan. The Code prescribes minimum rights and obligations which must be observed in employment relationships.

According to Article 75 of the Code, an individual employment contract may be concluded: (1) for an indefinite term; (2) for a fixed period not exceeding five years; (3) for the period needed to complete certain work.

If the term is not stipulated in an employment agreement, it shall be deemed to have been concluded for an indefinite term.

MINIMUM WAGE

According to the Labor Code of Uzbekistan remuneration of work cannot be lower than the Minimum Wage adjusted by the Legislation. The minimum wage is set for the calculation of taxes, duties, mandatory payments and social benefits. The amount of the minimum wage is periodically established by Presidential Decrees. The Presidential Decree No. УП-5765 “On the increase of the amounts of salaries, pensions, scholarships, and social allowances” dated July 12, 2019, has established the monthly minimum wage in the amount of 223 000 Uzbek Soums (approximately 26 USD).

WAGE PAYMENTS

The amount of wages shall be established by agreement between the employer and the employee. Wages may not be lower than the minimum amount established by law and may not be restricted by any maximum figure.

Payment dates shall be established by the collective agreement or other local regulatory acts and cannot be less than once every half a month. In exceptional cases for certain categories of employees, the Government of Uzbekistan may establish different payment terms.

Salaries in Uzbekistan may be paid in Uzbek Soums only, except for cases where the salary is paid into a foreign employee's account abroad.

WORKING HOURS

As provided in Article 115 of the Labor Code, the normal duration of work for an employee shall not exceed 40 hours per week. In case of a six-day working week, the length of daily work may not exceed 7 hours, and in the case of a five-day working week – 8 hours. A rest break shall be at least one hour on a working day.

The length of daily work (shift) on the eve of public holidays (non-working days) shall be reduced for all employees by at least 1 hour.

In some cases, a shift of up to 12 hours may be considered. Wherein the legislation obliges the employer to pay an additional overtime payment.

An individual may be employed subject to a probationary or trial period. The probationary period makes up usually three months. Either party may terminate the employment contract during the probationary period by giving three days' notice.

PAID VACATION

Employees are provided with the main annual vacation for at least 15 working days. An employee becomes eligible for an annual paid vacation after having worked six months continuously.

Certain categories of employees shall be provided prolonged annual vacation (persons under 18 years of age, disabled persons of the I and II disability groups and other categories as provided by law).

In the course of termination of an employment agreement, an employee shall be paid compensation for all unused annual vacations.

TERMINATION OF EMPLOYMENT AGREEMENTS

By western standards, it is difficult to dismiss an employee in Uzbekistan. There is no concept of “at-will employment”. An employee may be dismissed only for certain reasons, which are specified in the Labor Code. Uzbek legislation leaves no other dismissal option but through termination of the employment agreement.

Dismissal procedures based on various liquidation grounds are rather complicated and time-consuming. Some employers consider termination of employment on the basis of a mutual (written) agreement with their employees. Under Article 97 of the Labor Code, an employer and employee are free to reach agreement on termination of their employment relationship at any time and are free to choose any date as the termination date. Termination of employment based on such mutual agreement is comparatively simple. This particular option of terminating contracts is the most attractive from the perspective of an employer.

No notice period is required to terminate employment on this ground. Although the employer will not be legally required to pay any severance to the employee, the parties are free to agree that the employer will pay a certain amount to the employee as compensation for such termination of employment.

A fixed-term employment agreement is regarded as terminated upon the expiry thereof. If after the expiry labor relations continue and neither of the parties requires termination thereof within one week, the agreement shall be deemed extended for an indefinite term.

An employment agreement concluded for the period of absence of an employee whose job (position) has been retained shall terminate from the date such employee returns to work.

An employer is responsible for serving a two-month notice prior to termination of a fix or indefinite term contract and an employee must sign to acknowledge the receipt. This period may be reduced only with the consent of the employee. Termination of

an employment agreement concluded for an indefinite term or a fixed-term prior to the expiry date on the initiative of the employer must have reasonable grounds. The reason for terminating an employment agreement shall be one of the following:

1. changes in the technology or organisation of production and labor, reduction of production volumes entailing changes in personnel (staff), changes in the nature of work, or liquidation of the enterprise;
2. the employee's inability to cope with the work due to insufficient qualifications or for health reasons;
3. systematic violation by the employee of his labor duties. Systematic violation of labor duties shall mean a repeated disciplinary breach within a year of the date of being held responsible for a disciplinary or material breach or the imposition of sanctions stipulated in legislative and other regulatory acts relating to labor for a previous violation of labor duties;
4. a single gross violation by the employee of his labor duties. The list of single gross violations of labor duties which may entail termination of an employment agreement with the employee shall be defined (1) by in-house rules and regulations; (2) by an employment agreement between the owner of the enterprise and the enterprise's director, his deputy or chief accountant (managerial staff); (3) by disciplinary regulations and codes in respect of certain categories of employees;
5. The issue of whether the employee's violation of his labor duties was gross shall be decided in each separate case on the basis of the gravity of the breach committed and the consequences which such breach entailed or might entail;
6. termination of an employment agreement with an employee for whom it is their second job on the grounds of employing a different employee for whom it is their only or main job, or due to restrictions for using employees for whom it is their second job due to labor conditions;
7. termination of an employment agreement with the director, his deputy or chief accountant of the enterprise in connection with a change in ownership within three months of change in ownership.

Employees cannot waive their statutory right, including the right to file a claim against the employer for wrongful dismissal or other breach of their employment rights. Any kind of agreement to this effect will be unenforceable.

HOLIDAYS

The following days are considered as holiday days (non-working) under the laws of Uzbekistan:

- 1 January – New Year;
- 8 March – International Women’s Day;
- 21 March – Navruz;
- 9 May – Memory Day;
- 1 September – Independence Day;
- 1 October – Teacher’s Day;
- 8 December – Constitution Day;
- The first day of the religious holiday “Ramadan Khayit” (Id-al-Fitr);
- The first day of the religious holiday “Kurban Khayit” (Eid al-Adha).

In accordance with the presidential decree No. УП-5574 dated November 12, 2018 “On the establishment of additional non-working days during the celebration of official dates and the postponement of weekends in 2019”, the following additional non-working days are established:

- Wednesday 2 January;
- Friday March 22;
- Monday 2 September.

In addition, the following weekends are postponed:

- from Saturday 5th of January to Thursday 3rd of January;
- from Saturday 1 June to Thursday 6 June;
- from Saturday, September 7 to Tuesday, September 3;
- from Saturday, December 28 to Tuesday, December 31.

EMPLOYMENT OF FOREIGNERS

The latest procedure for the attraction of foreign nationals for work in Uzbekistan is regulated by the Resolution of the Cabinet of Ministers No. 244 dated March 25, 2019. According to the resolution, foreign citizens must obtain an individual work permit and the confirmation that gives the right to the foreign citizen to work in Uzbekistan. The work permit shall be obtained by the company-employer. Both the work permit and confirmation are issued by the Agency on Foreign Labor Migration under the Ministry of Labor Relations of the Republic of Uzbekistan.

To obtain confirmation, the employer applies to the Migration Agency and submits the required documents, including a draft employment contract between the employee and the employer, a copy of the passport, a certificate of absence of HIV diseases, etc. the Migration Agency examines the documents and decides to issue a confirmation within 3 weeks to 1 month.

Obtaining a work permit is subject to a state fee of 50 times of MMW (approximately USD 1300). The confirmation fee varies depending on the category of the foreign employees:

- for highly qualified specialists as well as teachers and specialists who work in universities and Presidential schools – 1 MMW;
- for qualified specialists and compatriots – 2 MMW;
- for other foreign citizens – 30 MMW.

The work permit and confirmation are generally issued within one month and validity of them are up to one year with possible renewal (not more than for 1 year in each case).

Moreover, foreign citizens are subject to mandatory registration and obtaining a taxpayer's identification number (TIN) if they stay more than 183 days or more in any consecutive twelve-month period ending in the current tax year (if they become residents of Uzbekistan for personal income tax purposes).

Taxation

The tax system in Uzbekistan is regulated by the provisions of the Tax Code. The current Tax Code has been effective since January 1, 2008, replacing the previous Tax Code that had been in effect since 1997. The peculiarity of the tax legislation of Uzbekistan is that the tax rates are established not by the Tax Code but by the decisions of the President of Uzbekistan annually. The tax rates for 2019 are established in Presidential Decree No. ПП-4086 dated December 26, 2018. Additionally, regulatory legal acts establish necessary lists for tax calculations, for example, lists of activities subject to simplified taxation. Therefore, regulatory legal acts are an important part of the tax legislation since the final amount of tax to be paid depends on them while the Tax Code establishes the general rules and taxation as well as their features for some categories of taxpayers.

The Uzbekistan State Tax Committee (STC) is the central government authority responsible for administering the tax system, issuing instructions on the application of tax laws and providing guidance to taxpayers. The main tax departments of Tashkent, Republic of Karakalpakstan and 12 regions are direct subordinates of STC. There are also local tax authorities – Inspectorates.

Legal entities are required to register for tax purposes with local structural divisions of State Tax Inspectorates of the STC at the district of the legal entity's location (legal address). These local State Tax Inspectorates are responsible for collecting taxes and ensuring the taxpayer's compliance with the tax legislation.

Taxation of legal entities is determined depending on their turnover:

- Legal entities with turnover up to 1 bln UZS (simplified taxes);
- Legal entities with turnover from 1 to 3 bln UZS (simplified VAT);
- Legal entities with turnover over 3 bln UZS (general taxes).

Whereby, legal entities with a turnover of up to 1 billion soums have the right to voluntarily pay simplified VAT or general taxes, and legal entities with a turnover of 1 to 3 billion soums have the right to voluntarily pay general taxes.

COMPARATIVE TABLE ON TAXES

No	Type of tax	Tax payers		
		Legal entities with turnover up to 1 bln UZS (simplified taxes) have right to voluntarily pay the simplified VAT or general taxes →	Legal entities with turnover from 1 to 3 bln UZS (simplified VAT) have right to voluntarily pay the general taxes →	Legal entities with turnover over 3 bln UZS (general taxes)
1	Profit tax	Profit tax is not applicable	Basic tax rate - 12% for commercial banks - 20% 20% for legal entities: those producing the cement (clinker); those producing the polyethylene particles; which basic activity is the mobile services.	
2	Profit tax of legal entities withheld at source (WHT)	Dividends and interests imposed with tax in case of payment: to the residents - at a rate of 5%; to non-residents - 10%		

3	VAT - Value Added Tax	VAT of taxable import of goods and works (services) provided by non-resident - 20%	Construction companies - 8%; Trade - 6%; Public catering and hotel industry - 10%; Professional services - 15%; Sales of agricultural products - 4%; Others - 7% VAT on taxable import of goods and works (services) provided by non-resident - 20%	On taxable goods (works and services) turnover - 20%; On taxable import of goods - 20%.
4	UNP - Unified Tax Payment	Basic rate - 4%; Trade - from 1% to 4%; Public catering - from 4% to 8%; Others (customs brokers, pawnbrokers, brokerage offices, leasing activities, procurement agencies, mass entertainment events) - from 4% to 25%.	Unified Tax Payment is not applicable	

5	PIT - Personal Income Tax	Income of an individual person, a resident of the Republic of Uzbekistan, except for income paid in the form of dividends and interests – 12%. Income paid in the form of dividends and interests – 5%. Income of an individual person, non-resident of the Republic of Uzbekistan received from the income source in the Republic of Uzbekistan: dividends and interests - 10%; Income received from transportation services during the international transportations (freight revenue) - 6%; Income received under the employment agreements (contracts) and civil law agreements - 20%
6	USP – Unified Social Payment	State-funded organization and state-owned enterprises and others – 25%; All other payers – 12%.
7	Property tax	Tax rate – 2%
8	Land Tax	Rates shall be established by the Presidential Decision and vary based on the location (Appendix No. 16 to the Governmental Decree 4086 dated December 26, 2018).
9	Water re-sources use tax	Rates shall be established by the Presidential Decision (Appendix No. 14 to the Governmental Decree 4086 dated December 26, 2018).
10	Excise Tax	Rates shall be established by the Presidential Decision (Appendix No. 19 to the Governmental Decree 4086 dated December 26, 2018):
11	Taxes and special payments for subsoil users	Rates shall be established by the Presidential Decision (Appendix No. 10 to the Governmental Decree 4086 dated December 26, 2018).

CONVENTION FOR THE AVOIDANCE OF DOUBLE TAXATION

As of January 2019, Uzbekistan has signed conventions and agreements for the avoidance of double taxation with more than 40 countries including Austria, Azerbaijan, Bahrain, Belarus, Belgium, Bulgaria, Vietnam, Germany, Greece, Georgia, Israel, India, Indonesia, Iran, Iraq , Jordan, Italy, Kazakhstan, Kyrgyzstan, Canada, China, Korea, Kuwait, Latvia, Lithuania, Luxembourg, Malaysia, Moldova, Mongolia, Netherlands, Pakistan, Poland, Russian Federation, Romania, Saudi Arabia, Singapore, Slovakia, Slovenia, Spain, Sultanate of Oman, United Kingdom of Great Britain and Northern Ireland, United Arab Emirates, Hungary, Thailand, Turkmenistan, Ukraine, Finland, France, Czech Republic, Switzerland, Japan; and one of which has not yet entered into force with Portugal.

We will be glad to accompany and support you carrying out your investment activities on the Uzbek market.

* The article was prepared by Anvar Ikramov in collaboration with Islombek Baratov

About us

As attorneys, tax advisers, management and IT consultants and auditors, we are present with 109 own offices in 49 countries. Worldwide, our clients trust our 5,120 colleagues.

The history of Rödl & Partner goes back to its foundation as a solo practice in 1977 in Nuremberg. Our aspiration to be on hand wherever our internationally-active clients are led to the establishment of our first, own offices, commencing with Central and Eastern Europe in 1991. Alongside market entry in Asia in 1994, the opening of offices in further strategic locations followed, in Western and Northern Europe in 1998, USA in 2000, South America in 2005 and Africa in 2008.

Our success has always been based on the success of our German clients: Rödl & Partner is always there where its clients see the potential for their business engagement. Rather than create an artificial network of franchises or affiliates, we have chosen to set up our own offices and rely on close, multidisciplinary and cross-border collaboration among our colleagues. As a result, Rödl & Partner stands for international expertise from a single source.

Our conviction is driven by our entrepreneurial spirit that we share with many, but especially German family-owned companies. They appreciate personal service and value an advisor they see eye to eye with.

Our 'one face to the client' approach sets us apart from the rest. Our clients have a designated contact person who ensures that the complete range of Rödl & Partner services is optimally employed to the client's benefit. The 'caring partner' is always close at hand; they identify the client's needs and points to be resolved. The 'caring partner' is naturally also the main contact person in critical situations.

We also stand out through our corporate philosophy and client care, which is based on mutual trust and long-term orientation. We rely on renowned specialists who think in an interdisciplinary manner, since the needs and projects of our clients cannot be separated into individual professional disciplines. Our one-stop-shop concept is based on a balance of expertise across the individual service lines, combining them seamlessly in multidisciplinary teams.

WHAT SETS US APART

Rödl & Partner is not a collection of accountants, auditors, attorneys, management and tax consultants working in parallel. We work together, closely interlinked across all service lines. We think from a market perspective, from a client's perspective, where a project team possesses all the capabilities to be successful and to realise the client's goals.

Our interdisciplinary approach is not unique, nor is our global reach or our particularly strong presence among family businesses. It is the combination that cannot be found anywhere else – a firm that is devoted to comprehensively supporting German businesses, wherever in the world they might be.

Your contact persons

DR. ANDREAS KNAUL

Partner, Lawyer

Managing Partner in Russia and Central Asia

T +7 495 9335 120

andreas.knaul@roedl.com

MICHAEL QUIRING

Partner, Attorney at law

Local branch manager in Kazakhstan
and Uzbekistan

T +7 727 3560 655

michael.quiring@roedl.com

ANVAR IKRAMOV

Senior Laywer

Executive director of Rödl & Partner
in Tashkent, Uzbekistan

T +9 989 3392 1454

anvar.ikramov@roedl.com



UZBEKISTAN

○ TASHKENT

Raschidov Str. 16
Business Center "POYTAXT"
Office B714
Tashkent 100017



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www.roedl.com/uzbekistan