

Privileges and Preferences for foreign direct investments

Foreign investments in the Republic of Uzbekistan enjoy the national treatment which provides foreign investors with conditions not less favorable, than corresponding conditions for investments, made by legal entities and natural persons of the Republic of Uzbekistan.

The legislation, alongside with the general guarantees and measures of protection of foreign investors, may envisage additional guarantees and measures of protection, including providing unconditional performance by partners.

In some cases on the basis of concluding investment agreement additional guarantees and measures of protection can be given to foreign investors at investment in:

-the priority sectors providing steady economic growth, progressive structural changes of a national economy;

-the priority projects providing strengthening and expansion of an export potential of the country, its integration into world economic relations;

-projects in sphere of small business oriented at processing of raw material and materials, production of consumer goods and services, providing population with employment.

In case the Government of the Republic of Uzbekistan provides the foreign investor with additional guarantees and measures of protection (privileges and preferences), without fail, the investment agreement shall be concluded.

The investment agreement shall be concluded on behalf of the Government of the Republic of Uzbekistan between the Ministry for Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan and the foreign investor.

Also, the state guarantees and protects the rights of the foreign investors carrying out investment activity within the Republic Uzbekistan.

In case the subsequent legislation of the Republic of Uzbekistan deteriorates investment environment to foreign investors, within ten years from the moment of investment, the legislation acted on date of investment shall apply. The foreign investor is entitled to apply at own discretion those provisions of the new legislation which improve investment environment.

The legislation stipulates the notifying order of use of a ten years' guarantee. Thus, at approach of deterioration investment environment, the foreign investor notifies the corresponding authorized body on application of a guarantee.

In particular, the newly established enterprises with foreign investment, in which the foreign investor's contribution in cash of not less than five million U.S. dollars, in case of changing tax laws may be used within 10 years from the date of state registration rules and regulations in the payment of income tax law those value-added tax (turnover of sales of goods and services), property tax, tax on improvement and development of social infrastructure, unified social tax, single tax, as well as mandatory contributions to the Republican Road Fund and reconstruction, repair and equipping of educational and medical institutions operating on the date of their registration.

Authorized agencies, which shall be notified of the application by a foreign investor guarantees are state organizations involved in state registration of legal entities - Ministry of Foreign Affairs, Ministry of Internal Affairs, Ministry for Foreign Economic Relations, Investments and Trade, the State Tax Committee of Uzbekistan and the servicing banks.

Notification to the foreign investor is the basis for the application of the authorized body for the foreign investor legislation in force at the date of investment

In the framework of investment projects worth over U.S. \$ 50 million and the share of foreign investors is not less than 50 percent of the construction of the necessary external, outside the production site, engineering and communication networks at the expense of budget funds and other domestic sources of funding

Taxed profit for legal entities is reduced for the amount of:

- means addressed to expanding of major production in the form of a new construction, reconstruction of buildings and erections used for production needs and payment of credits received for these purposes with deduction of depreciations calculated in a corresponding tax period, but not more than thirty (30) percent of taxed profit;

- means addressed for modernization and technological reequipping of production, obtaining of new technologic equipment, payment of credits issued for the above purposes, compensation of the cost of a leased object with deduction of imposed depreciation in a corresponding tax period. Reduction of taxed base is carried out within five (5) years starting from a taxed period in which the above expenses were carried out and on technologic equipment from the moment of putting it into operation. In case of realization and gratis transfer of new technological equipment within three (3) years from the moment of its obtaining, this privilege is annulled with the rehabilitation of duties on payment of income tax for the whole period of application of the privilege.

Moreover, the enterprises - domestic manufactures who export the produced goods (works, services) for the foreign currency, except raw materials, independently of the origin of production, are granted with:

-50 % reduction in the income (profit) tax – if the company exports not less than 30 % of total amount of sales of produced goods (works, services);

-30 % reduction in the income (profit) tax – if the company exports from 15 % up to 30 % of total amount of sales of produced goods (works, services);

From Value Added Tax (VAT) are exempted:

- turnover on realization of property realized in the order of privatization of public property;

- turnover on realization of goods (works, services) obtained by legal entities at the cost of loans (credits) provided by international and foreign representation financial organizations on contracts (agreements) signed with the Republic of Uzbekistan and received at the expense of grants;

- turnover on realization of property transferred as investment obligations in accordance with the contract between investor and authorized public agency on management of public property;

- provision of services on contract for financial lease (leasing), with regards to interest income of the tenant in life (leaser);

- import of the technological equipment, imported to the territory of the Republic of Uzbekistan along with the list approved in accordance with the with the legislation and spare parts under conditions if their delivery is envisaged by conditions of contracts for delivery of technological equipment. In case of realization and gratis transfer of imported technological equipment for export within three (3) years from the moment of its import, this privilege is annulled with the rehabilitation of duties on payment of value added tax for the whole period of application of the privilege;

- import of goods imported as investment obligations in accordance with the contract between investor and authorized public agency on management of public property;

- import of raw products, materials and half-finished products imported for use in domestic production by the enterprises with foreign investments, specialized on the manufacture of child footwear.

When estimating the property tax for legal entities, the tax base shall be reduced by the cost of:

- equipment obtained for 5-year credit from the moment of putting it into practice, but not more than the term established for the reimbursement of the credit;

- leased property for the period of lease contract duration;

- new technological equipment reinstalled for implementation for the period of five (5) years. In case of realization and gratis transfer of new technological equipment within three (3) years from the moment of its obtaining (import), this privilege is annulled with the rehabilitation of duties on payment of property tax for the whole period of application of the privilege;

Moreover, the enterprises - domestic manufactures who export the produced goods (works, services) for the foreign currency, except raw materials, independently of the origin of production, are granted with:

- 50% reduction in the property tax – if the company exports not less than 30% of total amount of sales of produced goods (works, services);

-30% reduction in the property tax – if the company exports from 15% up to 30% of total amount of sales of produced goods (works, services).

From property tax for legal entities are exempted:

- newly established undertakings within two years from the moment of registration. The mentioned incentive is not applied to the enterprises, created on the basis of manufacturing capacities and capital assets of the liquidated (re-organized) enterprises, their separated divisions, and legal entities created under the existing enterprises, in case if they are working on the rented equipment.

From the customs duties also are exempted:

- the property imported by foreign investors and enterprises with foreign investments in the Republic of Uzbekistan for own industrial needs;

- the goods imported by foreign legal entities, which made direct investments into economy of the Republic of Uzbekistan for a total sum of more than USD 50 million provided that the imported goods are goods of their own production;

- the goods, works and the services intended for work under the Production Sharing Agreement and imported into the Republic of Uzbekistan according to project documentation by the foreign investor or other entities, participating in performance of works under the Production Sharing Agreement, and also goods exported by the investor belonging to him/her according to the Production Sharing Agreement;

- technological equipment imported to the territory of the Republic of Uzbekistan along with the list approved in accordance with the with the legislation and spare parts under conditions if their delivery is envisaged by conditions of contracts for delivery of technological equipment. In case of realization and gratis transfer of imported technological equipment for export within three (3) years from the moment of its import, this privilege is annulled with the rehabilitation of duties on payment of value added tax for the whole period of application of the privilege.

Along with the customs and tax privileges established for all enterprises of the Republic of Uzbekistan, there are a number of benefits to enterprises following sectors of the economy, attracting foreign direct investment:

Enterprises attracting direct private foreign investment and specializing in production of radio electronic devices and production of computers' components, light industry, silk industry, industry of building materials, Industrial production of poultry meat and eggs, food industry, meat and milk industry, processing and preserving of fish and fish products, chemical and petrochemical industry, medical industry and production of medicals for veterinary use, production of packaging materials, construction of power plants based on alternative sources of energy, coal industry, Production of electrical ferroalloys and hardware for production purposes, machinery and metalworking, machine tool and instrument industry, glass and porcelain industry, microbiological industry, toy industry are exempted from payment of profit tax imposed on legal entities, property tax, tax imposed on improvement and development of social infrastructure, unified tax payment imposed on micro companies and small enterprises, as well as from mandatory deductions to the Republic Road Fund.

According to the Decree of the President of the Republic of Uzbekistan No.2454 "On additional measures to attract foreign investors in joint stock companies" dated December 21, 2015, the above-mentioned tax benefits applicable to joint-stock companies in which the share of foreign investors is more than 15 percent.

Aforesaid tax privileges are granted on condition that a volume of direct foreign investment is as follows:

- from USD 300 thousand to USD 3 million - for 3 years;
- over USD 3 million to USD 10 million - for 5 years;
- over USD 10 million - for 7 years.

Moreover, foreign investors' dividend income on shares held by them in joint-stock companies are exempt from taxation until January 1, 2020.