

# Rödl & Partner

## INVESTMENT GUIDE UZBEKISTAN

Overview of Investment and Tax Regulatory Framework

2022

# Giving guidance



## Giving guidance

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“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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# Content

<b>Introduction</b>	<b>6</b>
Geographic location and climate	6
Political system	6
Languages	7
<b>Legal System</b>	<b>8</b>
Arbitration courts	8
International commercial arbitration	9
Mediation	9
<b>Investment</b>	<b>10</b>
Changes in visa / migration legislation	10
Protection and promotion of investments	11
Direct private foreign investments	13
Investment incentives	15
<b>Public-private partnership</b>	<b>16</b>
<b>Free Economic Zones</b>	<b>18</b>
<b>Corporate law – the main types of commercial legal entities</b>	<b>19</b>
The concept of “judicial person”	19
Our recommendations	20
Limited and additional liability companies	20
Issue of corporate bonds	21
Constitutive documents	22
Representative offices and branches	22

Opening bank accounts	23
General requirements	24
Foreign nationals as a directors and officers of the company	24
<b>Labor law</b>	<b>26</b>
Minimum wage	26
Wage payments	26
Working hours	26
Paid vacation	27
Termination of employment agreements	27
Holidays	30
Employment of foreigners	30
<b>Licensing</b>	<b>32</b>
<b>Tax Legislation</b>	<b>33</b>
Taxation of juridical persons and individuals	33
Tax registration requirement	34
Special tax regimes	34
Value added tax	35
Invoice	36
Taxation of individuals	36
Convention for the avoidance of double taxation	37
<b>About us</b>	<b>38</b>
<b>Your contact persons</b>	<b>40</b>

# Introduction

## GEOGRAPHIC LOCATION AND CLIMATE

Uzbekistan has an area of 447,400 square kilometers. It is the 56<sup>th</sup> largest country.

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 country in region to border all of the other four. Uzbekistan also shares a short stretch of border with Afghanistan to the south.

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

The country is divided into 12 provinces (viloyats) with their central towns, 1 autonomous republic (Karakalpakstan), and 1 independent city (Tashkent).

Uzbekistan is a country with a sharply continental climate. The country has relatively low humidity. Most of the country receives little precipitation. Strong seasonal temperature fluctuations of up to 50°C are not uncommon.

## POLITICAL SYSTEM

Uzbekistan is a democratic republic. The highest legislative body is the two-chamber Parliament – Oliy Majlis which is elected for a five-year term. The Legislative chamber (lower) consists of 150 members. Members of the higher chamber – the Senate – are elected from each region of Uzbekistan, the Republic of Karakalpakstan and Tashkent city, with 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 country is headed by the President. The government (Cabinet of Ministers) is subordinate to the Oliy Majlis (Parliament) and the President, who appoints the prime minister, deputy prime ministers, and ministers to be approved by the legislature.

## LANGUAGES

The official state language is Uzbek. However, quite a few people in Tashkent and largest cities (including Uzbeks) still use Russian as their everyday 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. Organizations 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, namely young people, is mostly based in the capital.

In accordance with the Resolution of President No PP-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 in the country.

# Legal System

Uzbekistan operates under a continental legal system, which is characterized 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, legislative acts in Uzbekistan must be adopted in accordance with certain procedures and thereafter published.

The hierarchy of normative legal acts is as follows:

The hierarchy of normative legal acts is as follows:

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).

The Ministry of Justice is the State registration body entrusted with registering 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 state 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.

## INTERNATIONAL COMMERCIAL ARBITRATION

International arbitration is an alternative form of resolving commercial disputes and is of greater importance in international practice. In accordance with Presidential Decree No. ПП-4001 dated November 5, 2018, the Tashkent International Arbitration Center (TIAC) was established at the Chamber of Commerce and Industry of the Republic of Uzbekistan.

One of the main tasks of the center is to organize the resolution of disputes through international arbitration between commercial organizations located in different states, including foreign investors. Disputes, among other things, may be related to investments, intellectual property, as well as blockchain technologies.

As arbitrators in the TIAC, along with specialists from among the citizens of Uzbekistan, qualified arbitrators who are citizens of foreign countries can be involved.

Moreover, in February 2021 the President of Uzbekistan signed “On international commercial arbitration” Law, which will enter into force in August 2021. This law will apply to international commercial arbitration commenced after the entry into force of this law in accordance with the arbitration agreement, regardless of when it was concluded. Based on the law, arbitration can be of two types, both institutional – permanent and isolated – ad hoc.

## MEDIATION

Institute of mediation, as one of the methods of dispute resolution, is at the first stage of its development in Uzbekistan. On January 1, 2019, the Law on Mediation ZRU-482 came into force. A mediation agreement may be concluded in writing as a clause in a contract, or as a separate agreement.

# Investment

## CHANGES IN VISA / MIGRATION LEGISLATION

In Uzbekistan there is a visa-free regime for 30 days from the date of entry into Uzbekistan for citizens of 76 following countries<sup>1</sup>:

Australia	Spain	Slovenia	Barbados
Austria	Netherlands	Tajikistan	Belize
Argentina	Norway	Croatia	Grenada
Bosnia and Herzegovina	Sweden	Chile	Dominican Republic
Vatican	Latvia	Romania	United Mexican States
Luxembourg	Lithuania	Singapore	Guatemala
Hungary	Malaysia	Slovakia	Honduras
Brunei, the Abode of Peace	Mongolia	United Kingdom	Costa Rica
Israel	New Zealand	Turkey	Cuba
Greece	United Arab Emirates	Brazil	Nicaragua
Ireland	Portugal	Germany	Panama
Iceland	Bulgaria	Finland	Trinidad and Tobago
Italy	Indonesia	France	El Salvador
Canada	Cyprus	Montenegro	Saint Vincent and Grenadines
Andorra	Korea	Czech Republic	Saint Lucia
Liechtenstein	Malta	Swiss Confederation	Commonwealth of Bahamas
Monaco	Poland	Estonia	Commonwealth Dominica

Belgium	San Marino	Japan	Federation of Saint Christopher and Nevis
Denemark	Serbia	Antigua and Barbuda	Jamaica

On the basis of bilateral international treaties and parity, bilateral visa-free regime without time limit is established for citizens of the following countries<sup>2</sup>:

Republic of Azerbaijan	Republic of Armenia	Republic of Kazakhstan	Russian Federation
Georgia	Republic of Belarus	Republic of Moldova	Ukraine

## PROTECTION AND PROMOTION OF INVESTMENTS

In Uzbekistan was adopted the Law “On Investments and Investment Activity” , which came into force on January 27, 2020. Among the important innovations was the consolidation of state support for investment and investment activities in the form of:

- incentives;
- allocation of centralized investments for co-financing of an investment project;
- providing financial, advisory and informational support.

Incentives, among others, may include:

- transfer of property rights and other property rights to the investor at a preferential or zero redemption value;
- concessions on taxes and payments;
- subsidizing of interest rates on loans obtained by the investor for the implementation of the investment project.

The volume of incentives and preferences depends on the volume of investment, location, sector of the investment project, expected social and economic effect and creation of new jobs, which are described below.

<sup>2</sup>See also: Ministry of Foreign Affairs of the Republic of Uzbekistan. “Visa of the Republic of Uzbekistan” URL: <https://m.mfa.uz/ru/consular/visa/>

At the same time, it is expressly forbidden to establish exclusive advantages, which may lead to the dominant position of the investor at the respective market. Therefore, it is important to take into consideration the dominance criteria before entering the market.

The law enshrines basic guarantees for investors, including guarantees against nationalization and requisitioning upon termination of investment activities, guarantees of repatriation of income in foreign currency, as well as guarantees of free use of profit.

There is also a guarantee to protect investments from future changes in the law, according to which 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 that improve the conditions for his investment.

An important innovation was the mechanism of dispute resolution. Earlier legislation envisaged an opportunity to choose either a state court of the Republic of Uzbekistan or arbitration<sup>3</sup>, but now the following mandatory measures and stages of dispute resolution have been established:

- a) peaceful negotiations to resolve disputes;
- b) mediation procedure, if the dispute has not been settled through peaceful negotiations;
- c) referring the dispute to the Economic Court of Uzbekistan if the previous two measures have not helped to resolve the dispute<sup>4</sup>.

If all the above measures failed to resolve the dispute, then the parties may refer the dispute to an international arbitration court, in accordance with a valid arbitration clause.

<sup>3</sup>Law of the Republic of Uzbekistan "On guarantees and measures to protect the rights of foreign investors" No. 611-I of April 30, 1998, Article 10

<sup>4</sup>Law of the Republic of Uzbekistan "On Investments and Investment Activity" No. ZRU-598 dated February 25, 2019, Article 63

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 authorized capital of the enterprise must be at least 400 million soum;
- the share of foreign investments must be at least 15% of the authorized capital.

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 government has declared that the process will be under strict monitoring of the presidential Administration. The parliament, on their part, hear quarterly reports from responsible officials and evaluate progress.

In order to create more favorable conditions for investors, the government has established a procedure for 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. The Ministry of Foreign Affairs has also introduced a visa type "VTD" (entry visa for compatriots), which is issued for a period of 2 years for natives of Uzbekistan and their families, if there are invitations from their relatives who are citizens of Uzbekistan and permanently residing on its territory.

## DIRECT PRIVATE FOREIGN INVESTMENTS

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

- income tax;
- property tax etc.

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 authorized 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.

Moreover, in accordance with 3PY-783 dated July 12, 2022, participants in special economic zones are exempt from paying income tax depending on the amount of investment they have made:

- in the amount of USD 3 million to USD 5 million – 3 years;
- in the amount of USD 5 million to USD 15 million – for 5 years;
- in the amount of USD 15 million and more – for 10 years.

## INVESTMENT INCENTIVES

The Uzbek legislation provides also certain tax incentives for 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.

There are also certain investment incentives in the area of energy saving technologies and renewable energy sources (hereinafter “RES”). In order to stimulate the use of RES, under the Law of the Republic of Uzbekistan “On Use of Renewable Energy Sources”, producers of energy from RES are exempt from payment of property tax for RES installations and land tax on land occupied by these installations (with a nominal capacity of 0.1 MW and more), as well as for solar power plants for a period of 10 years from the date of their commissioning<sup>5</sup>.



<sup>5</sup>Law of the Republic of Uzbekistan “On the use of renewable energy sources” No.ZRU-539 dated May 21, 2019, Article 14

# Public-private partnership

In order to develop and regulate relations in the field of public-private partnership, including concessions, was approved the Law “On Public-Private Partnership” No. 3PY-537 dated December 6, 2019. The authorized state body in the field of public-private partnership (hereinafter referred to as the “PPP”) is the PPP Development Agency under the Ministry of Finance of the Republic of Uzbekistan (hereinafter referred to as the “Authorized state body”).

A PPP project can be initiated by a state body (organization) (hereinafter referred to as the “public partner”) or an individual entrepreneur or legal entity (hereinafter referred to as the “private partner”). Approval of the concept of the PPP project, making changes and (or) additions to it is carried out:

- a PPP project with a total value of up to USD 1 million equivalent inclusive by the relevant state body (organization) independently;
- a PPP project with a total value of more than USD 1 million equivalent and up to USD 10 million inclusive by the relevant state body (organization) in agreement with the Authorized state body;
- a PPP project with a total value of over 10 million US dollars by the Cabinet of Ministers of the Republic of Uzbekistan.

The PPP agreement is concluded in two ways, this is through a tender or direct negotiations. When initiating a PPP project by a private partner, a one-stage tender is held, in other cases a two-stage tender.



The Republic of Uzbekistan, in order to protect the interests of a private partner and (or) a creditor (creditors), under a PPP agreement, may provide the following types of support:

- subsidies, including those allocated to ensure a guaranteed minimum income for a private partner from the implementation of a PPP project;
- contributions in the form of assets and property necessary for the implementation of the PPP project;
- funds from the budgets of the budgetary system of the Republic of Uzbekistan, directed to pay for the consumption or use of a certain amount or part of goods (works, services) produced or supplied in the process of implementing a PPP project;
- provision of budgetary loans, loans, grants, credit lines and other types of financing;
- additional guarantees by mutual agreement in order to ensure the fulfillment of obligations by investors;
- tax benefits and preferences, as well as other benefits;
- other guarantees and (or) compensation<sup>6</sup>.

<sup>6</sup>Law of the Republic of Uzbekistan “On the public-private partnership” No.ZRU-537 dated May 10, 2019, Article 38

# Free Economic Zones

In order to develop the country's economy, as well as to attract foreign investment, Uzbekistan has created 22 economic zones in different parts of the country:

FEZ of industrial branch:	FEZ of pharmaceutical industry:
Free Economic Zone "Navoi";	Free Economic Zone "Nukus Farm";
Free Economic Zone "Angren";	Free Economic Zone "Zomin Farm";
Free Economic Zone "Jizzakh";	Free Economic Zone "Boysun Farm";
Free Economic Zone "Urgut";	Free Economic Zone "Syrdarya Farm";
Free Economic Zone "Gijduvan";	Free Economic Zone "Kokonsai Farm";
Free Economic Zone "Kokand";	Free Economic Zone "Bostonlik Farm";
Free Economic Zone "Hazarasp";	Free Economic Zone "Parkent Farm";
Free Economic Zone "Termez";	Free Economic Zone "Andijon Farm".
Free Economic Zone "Namangan";	
Free Economic Zone "Sirdarya";	
Free Economic Zone "Chirokchi".	

FEZ of agricultural sector:	FEZ of tourism industry:
Free Economic Zone "Balik ishlab chiqarish";	Free Tourist Zone "Charvak".
Free Economic Zone "Bukhoro-agro";	

# Corporate law – the main types of commercial legal entities

## THE CONCEPT OF “JUDICIAL PERSON”

Uzbek law provides a concept of “judicial person” (legal entity) outlining general rules applicable to every organizational form of a company (except representative offices and branches). The Civil Code recognizes a judicial person in any organization 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 must have a legal address, and therefore to rent an office to complete the post-registration procedure.

Foreign investors may do business in Uzbekistan either by acting through foreign companies (and, if necessary, notifying the permanent tax offices), 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 or additional liability companies;
- general business partnerships and limited business partnerships;
- so-called family-owned businesses;
- so-called private enterprises;
- sole proprietorship;
- representative offices and branches.
- representative offices and branches.

## OUR RECOMMENDATIONS

As a matter of our general practice, it is recommended to foreigners to register a wholly foreign-owned entity (further – LLC) in the form of a limited liability company. The LLC is the most suitable corporate form for foreign investors. 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. Therefore non-residents prefer to register limited liability company.

## LIMITED AND ADDITIONAL LIABILITY COMPANIES

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

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 participants 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.

Since 2019, the general requirement for the mandatory minimum amount of the authorized capital was abolished. The minimum amount of the statutory fund (authorized capital) of a company may be determined only in the areas where a license is required. The statutory fund must be fully formed within one year from the date of registration.

The supreme governing body of the LLC is the general meeting of participants, convened at least once a year. 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 (sole executive body) or the Board (collective executive body) elected at the general meeting of participants. 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 (further – “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 organizational 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. Unlike a LLC, the founders of a ALC are jointly and severally liable for the company's obligations. 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.

## ISSUE OF CORPORATE BONDS

LLCs and ALCs have the right to issue and place corporate bonds in the manner prescribed by law. The issue of bonds by a legal entity is carried out by decision of the supervisory board of the issuer, unless otherwise provided by the charter of the legal entity. Placement of securities can be carried out in the form of:

- private placement of securities (closed subscription among a previously known limited number of investors without public announcement and advertising campaign);

- public offering of securities (open subscription among an unlimited number of investors with an advertising campaign).

The bonds do not give their owners the right to participate in the management of the issuer and the bonds are issued in non-documentary form.

## 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 agree upon and other terms not contrary to law.

## REPRESENTATIVE OFFICES AND BRANCHES

Representative offices of foreign companies are not considered as a separate legal entity (judicial person). 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 registered as permanent establishments.

A representative office acts on the basis of its "Regulation", approved by the parent company. The representative office is headed by the Head of the representative office, who acts on the basis of the foreign firm's power of attorney and the Regulations on the representative office, which reflect its competence.. Although the representation of local legal entities does not require accreditation or registration, the representation of a foreign legal entity is subject to accreditation with the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan. 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 the accreditation

of a representative office is 48 times the base settlement value – 14,400,000 Uzbek sums (about 1,300 US dollars) from June 1, 2022<sup>7</sup>. Usually accreditation is for 1 year, in practice accreditation is possible for up to 3 years.

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 an account with any local commercial bank to carry out monetary operations.<sup>8</sup> 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.

<sup>7</sup>Note. The base settlement value is a fixed amount of money established by a presidential decree and is used to calculate the amount of state duties (hereinafter referred to as the "BSV"). From June 1, 2022, 1 BSV – 300,000 sums.

<sup>8</sup>Resolution of the Board of the Central Bank of the Republic of Uzbekistan "On instructions for bank accounts opened in Uzbekistan" No. 7/2 dated March 16, 2009

## GENERAL REQUIREMENTS

The primary requirement is that the company must have a General director and the chief accountant. General Director is a person authorized to act on behalf of the company without a power of attorney and is fully responsible for the organization of the legitimate activities of the company.

## 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.

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



Tashkent



# Labor law

The Labor Code (1995) is the principal legal act regulating employment relations in Uzbekistan.

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, which from June 1<sup>st</sup> 2022 is 920,000 sums (about 83 USD).

## WAGE PAYMENTS

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 soum 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.

The employment contract may provide to a probationary or trial period. The maximum probationary period is 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 with a duration of thirty calendar days (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.

Dismissal procedures 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 organization 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;

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;

5. 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;
6. 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 holidays (non-working days) under the legislation of Uzbekistan:

- January 1 – New Year’s Day;
- March 8 – International Women’s Day;
- March 21 – Navruz Holiday;
- May 9 – Day of Remembrance and Honors;
- September 1 – Independence Day;
- October 1 – Teacher and Mentor’s Day;
- December 8 – Constitution Day;
- The first day of the religious festival of “Ruza Hayit” (Eid al-Fitr);
- The first day of the religious festival of “Kurban Hayit” (Eid al-Adha).

In accordance with the Presidential Decree additional nonworking days can be established:

## EMPLOYMENT OF FOREIGNERS

To perform work activities foreign citizens must obtain a confirmation that gives the right to the foreign citizen to perform work activities in Uzbekistan. The work permit shall be obtained by the company-employer.<sup>9</sup> The confirmation is issued by the Agency for External Labor Migration under the Ministry of Employment and Labor Relations of the Republic of Uzbekistan (hereinafter referred to as the “Migration Agency”).

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 employee’s passport, an application, etc. The Migration Agency reviews the documents and makes a decision on issuing a labor permit or refusing it within 15 working days.

The cost of issuing the work permit 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 BSV;
- for qualified specialists and compatriots – 2 BSV;
- for other foreign citizens – 30 BSV.

The confirmation is generally issued within one month and its validity is up to 1 year (3 years for Chinese citizens), with the possibility of an unlimited number of extensions, but not more than for 1 year for each case.

In addition, foreign citizens are subject to mandatory registration and obtaining a personal identification number of a natural person (PINFL), which from July 1, 2021 replaces the taxpayer identification number (TIN) and acts as the only identifier of persons in the provision of all state, banking, social and other services (for more details see the section on taxation of individuals).

The requirement to obtain a confirmation does not apply to:

- foreign citizens who have invested in the Republic of Uzbekistan in the amount of at least 8,500 times the base settlement value established in the Republic of Uzbekistan at the time of investment – the amount of investment varies from year to year;
- employees of permanent missions of foreign states, representations of international intergovernmental organizations and governmental organizations of foreign states that have passed accreditation, as well as other persons with diplomatic status;
- specialists recruited to work in the field of tourism at the request of the State Committee of the Republic of Uzbekistan for the Development of Tourism, for a period of up to three months;
- founders of foreign and joint ventures, including top managers, for a period of up to three months;
- employees who carry out their activities remotely (online) while abroad.

# Licensing

Certain activities can only be carried out on the basis of a special license issued by authorized licensing authorities. In particular, the following activities are subject to licensing:

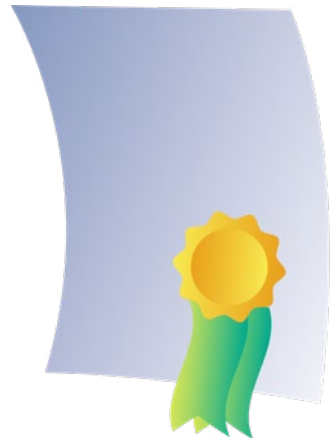
- Medical activity;
- Pharmaceutical activity;
- Design, construction, repair of bridges and tunnels;
- Banking activities / financial services;
- Design, construction and operation of high-risk facilities and potentially hazardous industries.

At the same time, certain types of activities were excluded from the list of licensed activities. From January 1, 2021, licensing is no longer subject to, in particular, such activities as:

- Auditing activities;
- Activities of investment funds;
- Appraisal activity;
- Real estate activity;
- Activities for the operation of bridges and tunnels;
- Activities for the reproduction of audiovisual works, phonograms and computer programs;
- Activities for the extraction of precious and rare earth metals, precious stones;
- Activities in urban and suburban, as well as intercity transportation of goods by road etc.

Licenses for the right to carry out certain types of activities are issued without limitation of their validity period. In relation to certain licensed types of activities, the legislation may determine a limited license validity period, but not less than five years.

From January 1, 2021, the provision of services for the registration of licenses, permits and the sending of notifications has been transferred to the online format on the special information system "License".





# Tax Legislation

## TAXATION OF JURIDICAL PERSONS AND INDIVIDUALS

The tax system in Uzbekistan is regulated by the provisions of the Tax Code. More recently, as of January 1, 2020, the Tax Code has been enacted, replacing the previous Tax Code edition.

A feature of the tax legislation of Uzbekistan is the fact that excise tax rates can be revised not by the Tax Code, but by the decision of the President of the Republic of Uzbekistan during the year, based on the dynamics of prices and the volume of sales of products, including when importing. The remaining tax rates are set by the Tax Code. In addition, regulatory legal acts establish various lists, that are necessary for the purposes of calculating taxes, for example, lists of types 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.

The Uzbekistan State Tax Committee (STC) is the central government authority responsible for administering the tax system, issuing clarifications 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.

The following taxes and fees are established on the territory of the Republic of Uzbekistan:

- value added tax;
- excise tax;
- income tax;
- personal income tax;
- tax for the use of subsoil;

- special rent tax on mining;
- tax for the use of water resources;
- property tax;
- land tax;
- social tax.

For 2021, the main tax rates are set in the following amounts:

- VAT – 15%;
- income tax – 15%, for certain categories of taxpayers – 20%;
- personal income tax – 12%;
- tax on property of legal entities – 1,5%;
- land tax for lands of agricultural purpose – 0.95%;

## TAX REGISTRATION REQUIREMENT

All legal entities are subject to registration with the tax authorities at the place of their location and the location of their separate subdivisions. If a legal entity includes separate subdivisions located on the territory of Uzbekistan, then registration is carried out with the tax authorities at the location of each separate subdivision.

Registration with the tax authorities of a foreign legal entity at the place of its activity through an accredited branch and (or) representative office is carried out on the basis of information provided by the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan.

In other cases, registration of a foreign legal entity is carried out on the basis of an application that must be submitted to the tax authority no later than thirty days from the date of the beginning of its activities in the territory of the Republic of Uzbekistan.

## SPECIAL TAX REGIMES

For certain categories of taxpayers, special tax regimes are provided:

1. value added tax;
2. a special procedure for taxation of participants in production sharing agreements;
3. a special procedure for taxation of participants in special economic zones and certain categories of taxpayers.

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

## VALUE ADDED TAX

The following are recognized as taxpayers of value added tax:

1. legal entities of the Republic of Uzbekistan, whose total income for the tax period (one calendar year) does not exceed one billion soum;
2. individual entrepreneurs, whose income from the sale of goods (services) for the tax period exceeds one hundred million soum, but not more than one billion soum.

Value added tax does not apply to the following categories of payers regardless of their income:

1. legal entities and individual entrepreneurs importing (importing) goods through the customs border of the Republic of Uzbekistan;
2. legal entities producing excisable goods (services) and (or) persons engaged in the extraction of minerals;
3. legal entities – agricultural producers if they have irrigated agricultural land with an area of fifty hectares or more;
4. legal entities selling gasoline, diesel fuel and gas;
5. legal entities carrying out activities for the organization of the lottery
6. a trustee – a participant in a simple partnership, who is entrusted with the conduct of the affairs of a simple partnership – for activities carried out within the framework of a simple partnership agreement etc.

The tax rate for the payment of value added tax is determined by type of activity, and the base rate is 4%.

## INVOICE

When selling goods (services), entrepreneurs are required to issue invoices that are necessary for VAT refunds. According to the latest names in legislation, the invoice is issued in electronic form. It is allowed to issue an invoice with a paper form in the established cases, for example, when taxpayers perform business transactions related to state secrets.

For foreign legal entities that provide services in electronic form, an exception is established; they are exempted from the obligation to issue invoices.

An invoice is a document of a strictly established form, the form of an invoice and the procedure for filling it out are approved by the State Tax Committee of the Republic of Uzbekistan.

In accordance with the legislation of the Republic of Uzbekistan, taxpayers must annually submit financial statements to statistics and other government bodies.

## TAXATION OF INDIVIDUALS

Taxpayers of personal income tax (hereinafter in this section – taxpayers) are:

- individuals – residents of the Republic of Uzbekistan;
- individuals – non-residents of the Republic of Uzbekistan, receiving income from sources in the Republic of Uzbekistan.

The personal income tax rate depends on whether the person is a resident in accordance with the legislation of Uzbekistan. Tax residents are individuals who actually stay in the republic for more than 183 calendar days in aggregate during any consecutive 12-month period. An individual can be recognized as a tax resident of the Republic of Uzbekistan before the expiration of a twelve-month period, if this person submits a long-term employment contract or other document confirming the fulfillment of the conditions for residence. The period of actual stay of an individual

in the Republic of Uzbekistan is not interrupted for periods of his departure outside the territory of the Republic of Uzbekistan for short-term (less than six months) treatment or training. For a resident of the Republic of Uzbekistan, the tax rate is 12%, dividends and interest are taxed at a rate of 5%.

Income of an individual – a non-resident of the Republic of Uzbekistan, received from a source of income in the Republic of Uzbekistan:

- income received under employment agreements (contracts) and agreements of a civil nature – 20 %
- dividends and interest – 10 %;
- income from the provision of transport services in international transport (income from freight) – 6 %;

Personal income tax is withheld by the so-called tax agent, who is responsible for withholding tax until it is paid and paid to the tax authorities of Uzbekistan. In the case of an employment relationship, the employer acts as a tax agent.

## 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 50 countries.

The application of international tax law should always be cross-checked by an experienced tax consultant before going on the market. Consideration should be given to the local practice of the tax authorities in Uzbekistan.

We will be glad to accompany and support you carrying out your investment activities on the Uzbek market and will be happy to answer any legal and tax questions that you may have.

# About us

As attorneys, tax advisers, management and IT consultants and auditors, we are present with more than 100 own offices in around 50 countries. Worldwide, our clients trust our more than 5,500 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 confined to 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 realise our 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

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