Doing business in Uzbekistan
An introductory guide to tax and legal issues
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Preface

This booklet is intended to provide useful practical guidance on the legal and tax matters that investors should take care of when starting a business in Uzbekistan. In particular, we hope that it will help investors to avoid common pitfalls and will clarify areas where some forethought and planning will enable problems to be avoided. Uzbekistan offers many opportunities, and encouraging foreign investment in the main sectors of the economy is a key priority for the country.

This guide has four sections:

1. Welcome to Uzbekistan
2. Getting started
3. Overview of tax rules in Uzbekistan
4. Overview of other laws affecting business administration.

This guide is a brief summary of the rules in force as of 1 January 2019. It is not a substitute for comprehensive professional advice, which should be sought before engaging in any significant transaction or investment. It should also be noted that this guide does not cover all taxes in Uzbekistan. Here we cover only the most common and important ones, so advice should be sought as to the actual taxes applicable to any particular business.

We wish you every success in this exciting and dynamic environment.
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Photo: The fountain near the building of the Cabinet of Ministers of the Republic of Uzbekistan, Tashkent
Welcome to Uzbekistan

Fact sheet

Uzbekistan

Capital: Tashkent
Administration: Uzbekistan consists of the Republic of Karakalpakstan, 12 provinces (viloyats) and Tashkent city
Bordering countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Afghanistan
Land area: 448,900 km²
Population (1 January 2019): 33.3 million
Languages: Uzbek
Central bank: Central Bank of the Republic of Uzbekistan
Major cities: Tashkent, Samarkand, Bukhara, Khiva
Currency unit: Uzbekistan Soum (UZS)

Exchange rate as of 1 January 2019: USD 1=UZS 8,336.25, EUR 1=UZS 9,533.34, RUB 1=UZS 119.85, CNY 1=UZS 1,212.46

Official public holidays

<table>
<thead>
<tr>
<th>Holiday</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Year’s holiday</td>
<td>1 January</td>
</tr>
<tr>
<td>International Women’s Day</td>
<td>8 March</td>
</tr>
<tr>
<td>Navruz holiday</td>
<td>21 March</td>
</tr>
<tr>
<td>Day of Memory and Honor</td>
<td>9 May</td>
</tr>
<tr>
<td>Ramadan Eid</td>
<td>First day, e.g. 5 June*</td>
</tr>
<tr>
<td>Kurban Eid</td>
<td>First day, e.g. 12 August*</td>
</tr>
<tr>
<td>Independence Day</td>
<td>1 September</td>
</tr>
<tr>
<td>Teacher’s day</td>
<td>1 October</td>
</tr>
<tr>
<td>Constitution Day</td>
<td>8 December</td>
</tr>
</tbody>
</table>

* The tentative dates of the religious holidays are indicated for 2019. The dates vary from year to year based on the lunar calendar.

Sources: Official site of the President of the Republic of Uzbekistan, the Central Bank of Uzbekistan, The State Committee of the Republic of Uzbekistan on Statistics.

Time

Uzbekistan’s time zone is five hours ahead of Greenwich Mean Time (GMT).

Business hours

Uzbek offices are generally open from 9:00 AM to 6:00 PM, Monday to Friday, and closed Saturdays and Sundays.
Getting started

Arriving in Uzbekistan

Temporary visas

In general, all foreign nationals and stateless persons are required to obtain a visa to enter Uzbekistan. The general visa requirements do not apply to the following individuals:

- Nationals of the following CIS countries: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan (if up to 60 days), Moldova, Russia, Tajikistan (if up to 30 days) and Ukraine
- Based on a new visa-free regime (introduced from 10 February 2018) for stays up to 30 days of nationals of the following countries: Japan, Indonesia, Israel, Korea (South), Malaysia, Singapore and Turkey; as well as of crew members of aircraft of foreign airlines carrying out regular flights to Uzbekistan. Starting 1 February 2019, similar visa-free regime is applied to the nationals of the following countries: Australia, Austria, Argentina, Bosnia and Herzegovina, Vatican City, Luxembourg, Hungary, Brunei, Greece, Ireland, Iceland, Italy, Canada, Andorra, Liechtenstein, Monaco, Belgium, Denmark, Spain, Netherlands, Norway, Sweden, Latvia, Lithuania, Mongolia, New Zealand, Portuguese Republic, Republic of Bulgaria, Cyprus, Malta, Poland, San Marino, Serbia, Slovenia, Croatia, Chile, Romania, Slovak Republic, United Kingdom, Brazil, Finland, Montenegro, Czech Republic, Swiss Confederation, Estonia.
- Passengers in transit who continue their journey within 24 hours by the same or first connecting aircraft if they hold valid onward and return documentation and if they do not leave the airport’s transit area
- Nationals of certain countries holding diplomatic passports who have respective accreditation
- Nationals of countries with which Uzbekistan has respective intergovernmental agreements

The visa requirements are subject to frequent changes. Consequently, individuals should verify them before planning a trip to Uzbekistan.

Business visas

Business visas are issued to foreign individuals arriving in Uzbekistan for business purposes (e.g., a business trip, negotiations, to sign contracts, attend conferences, symposiums, forums, exhibitions and concerts as well as cultural, scientific, sports and other events).

Work visas

Work visas are issued to foreign individuals arriving in Uzbekistan for employment. A work permit and work license should be submitted to the Uzbekistan foreign affairs authorities in order to obtain a work visa. See the Work permits section for details.

Issuance of visas

Visas are issued abroad by Uzbekistan consulates (the Consular Department of the Embassy of Uzbekistan). Generally, business visas are issued based on a letter of invitation by a local Uzbekistan company, or a representative office of a foreign company, submitted to the Consular Service Department of Uzbekistan.

For more convenience in obtaining visas to Uzbekistan, starting from 15 July 2018 an electronic visa can be issued to a foreign citizen through the “E-VISA.UZ” system for entry and stay in the Republic of Uzbekistan for a period of 30 days with a single entry. The issued electronic visa is valid for 90 days from the date of its issue. The time for consideration of applications for registration and issuance of an electronic visa is two working days, excluding the day the application was filed. The issued electronic visa is sent to the e-mail address of the foreign citizen indicated when applying to the official web portal of the “E-VISA.UZ” system.

Registration

As a general rule, temporary stay of foreign citizens requires registration with the Uzbekistan internal affairs departments. Registration should be made within three (3) days, excluding holidays and weekends (Sundays).

Should you require assistance in planning and managing your human capital needs, EY can advise on and assist with obtaining work permits for foreign employees, tax registration, tax and legal compliance for expatriate individuals.
Forms of legal presence available in Uzbekistan

Foreign and local investors are allowed to do business in Uzbekistan through a number of legal forms, including but not limited to joint stock companies, limited liability companies, representative and branch offices, permanent establishments of foreign entities, etc.

In this section, we expand on the four types of business vehicles that the investors are mostly interested in.

Joint stock companies (JSCs)

A JSC is a legal entity that is separate and distinct from its shareholders. Its shareholders are not liable for a JSC’s liabilities in general. It may have one or more shareholders.

The minimum charter capital of a JSC is the equivalent of approx. UZS 400 million (approx. USD 48,000). The charter capital of a JSC should be formed with the funds collected by payments for shares issued.

Establishment of a JSC is a burdensome and formalistic procedure; this is why investors prefer the form of LLC when deciding on the form of presence (the law mandates the use of JSC as the form of business for the banking, investments and insurance activities).

Limited liability companies (LLCs)

An LLC is a company established by one or more individuals or legal entities with a charter capital whose size is determined by the foundation documents. An LLC may not be established by an entity with a single shareholding structure unless this entity is a JSC.

The participants in an LLC are not liable for its obligations, and, as a general rule, they bear the risk of losses from the company’s activities only to the extent of their personal contributions. The main difference between the two entities is that an LLC does not issue shares; instead, participants have ownership interests in the company.

The minimum charter capital for LLCs currently is approx. US$ 970. Participants’ interests are proportional to their contributions to the charter capital unless the foundation documents provide otherwise.

As a legal entity, an LLC is subject to state registration and taxation in its own name; i.e., it is not tax-transparent.

Representative offices

An RO of a legal entity is a structural subdivision of a legal entity that established it outside the location of the legal entity. An RO itself is not a legal entity. Thus, rights and obligations are assumed by the legal entity that established the RO. It is explicitly stated in legislation that an RO cannot carry out business activities. An RO is established exclusively to represent and protect the interests of an entity which established it and is limited to marketing and non-transactional support activities for the head office only. In case commercial activities are carried out through an RO, the RO may be terminated by the state body, which accredited it.

Branches

Uzbekistan law does not explicitly restrict/prohibit legal entities from establishing branches in Uzbekistan. However, the registration and activities of such branches are poorly regulated or not regulated at all. Therefore, in practice Uzbekistan authorities do not register branches of foreign legal entities.

However, there is a possibility to register a permanent establishment of a foreign legal entity for tax purposes in Uzbekistan (i.e. it is a pure tax registration and is not a legal form) for each particular project.

Should you require more information on the nature and uses of various business entities in Uzbekistan, EY offers tax and legal advice on how to structure a business in Uzbekistan as well as the full range of legal formation and registration or accreditation services.
Establishing a legal presence

As a rule, all legal entities and representative offices in Uzbekistan must be registered / accredited with the respective state authorities.

State registration of legal entities

State registration in Uzbekistan is carried out based on a “one-stop-shop” principle, which means that all registration documents should be submitted to the shared centres for the provision of public services to business entities (“One-Stop-Shop Center”). Upon submission of a complete set of documents, if the government authorities do not raise any issues, a legal entity should be registered with justice, tax and statistics authorities at once.

There is an option to submit documents to the One-Stop-Shop-Center via Internet through the “electronic government” web-portal in the form of an electronic document. This option is available only with the use of an electronic digital key. Therefore, in practice, legal entities established by foreign entities may not be registered through the electronic government, since only Uzbekistan legal entities can obtain an electronic digital key at the moment.

Uzbekistan legislation requires that a standard set of documents be submitted in order to complete the state registration of a legal entity.

Documents submitted to the One-Stop-Shop Center should be accompanied by a bank document confirming payment of the state registration fee (the amount of which depends on the type of the entity to be registered). It is essential to ensure that the above-mentioned documents have been duly signed, sealed, notarized and legalized or apostilled where necessary. Otherwise, the Uzbekistan government authorities may reject the documents, which will delay the registration process considerably. Pursuant to the Uzbekistan legislation, registration of a legal entity should take no more than 30 minutes. In practice it should not take longer, provided that the documents are in a good order and comply with the requirements of the Uzbekistan legislation.

Accreditation of representative offices

There is a separate procedure for establishing representative offices of foreign entities in Uzbekistan.

Representative offices of foreign legal entities are subject to accreditation with the State Investments Committee of the Republic of Uzbekistan (the “Registration Authority”). An RO is considered to be accredited from the date of issuance of a certificate of accreditation by the Registration Authority.

Generally, accreditation is granted to an RO for a term of 1 (one) to 3 (three) years, which can be extended upon the request of head office. In practice, the Registration Authority issues certificates of accreditation with a limited term not exceeding a 1 (one) year period, subject to annual extension. As a rule, there should be no substantial issues with extension of the accreditation.

It should be noted that it is planned to cancel the accreditation of ROs by transferring it to simplified registration procedure in the One-Stop-Shop Center for indefinite term starting from 1 April 2019.

Location (legal address)

A legal entity's location is the address indicated in its foundation (i.e., charter) documents.

Under Uzbek law, the location of a legal entity is determined by the place of its state registration. The foundation documents can establish that the location of a legal entity is in the same place as its operating governing body (i.e. its director or board of directors) or at the main place of its business activities.

The location plays an important part in a legal entity’s registration and other legal events, such as determining the court where an appeal should be filed (appeals are usually filed with a court in the defendant’s location) or the state revenue authority to which tax and other payments will be made.

Under Uzbek law, state authorities (in particular, the state revenue authorities) require legal entities and representative offices (“entities”) to be present at the legal addresses indicated in their foundation documents and the authorities’ registration data.

If an entity is not actually present at the legal address, i.e. the state tax authorities cannot find anyone representing this entity at the time of observation, such an entity may be penalized, i.e. its bank accounts may be frozen.

Opening a bank account – for companies and individuals

Bank accounts can be opened with a local bank in Uzbekistan in the national currency (Soum) and/or in a foreign currency pursuant to the rules established by the Central Bank of the Republic of Uzbekistan.

Uzbekistan legal entities can open and use accounts in the national currency and in a foreign currency with foreign banks outside Uzbekistan upon permission of the Central Bank of the Republic of Uzbekistan.
Work permits

As a general rule, a foreign citizen coming to Uzbekistan to work (i.e. hired by virtue of an employment agreement) can work in the country only upon obtaining confirmation of the right to work in Uzbekistan (“work confirmation”) issued in his/her name on the basis of the permit to hire foreign labor (“work permit”) to be obtained by an employer.

This rule applies to all foreign employees except for those who are specifically exempt, such as employees of a representative office of a foreign legal entity accredited with the State Investments Committee of the Republic of Uzbekistan or those individuals who are hired within the framework of intergovernmental treaties.

Although a work confirmation appears to be a personal work permit for a foreign citizen, it is the responsibility of the employer to apply for it. Neither a work permit nor a work confirmation may be transferred to other employers. Hence, a foreign employee’s employment and his/her work confirmation are attached to that specific employer.

The authorized government body that issues work permits and work confirmations is the Agency for External Labor Migration Matters (“Agency”). As a general rule, the Agency has thirty days to review an application package of documents and issue a work permit.

The same timeframe applies to work confirmations. In practice, when a company that is the employer applies for a work permit it should simultaneously apply for at least one work confirmation. In this case both documents should be issued within thirty days. In addition, the company that is the employer should take into consideration the amount of time and effort required for preparing and analyzing the necessary documentation.

A work permit is issued for a period of one year and may be extended for one year. According to Uzbekistan law, only Uzbekistan resident companies may apply for work permits and work confirmations. However, in practice there is no single interpretation or understanding of this provision in Uzbekistan.

In order to further create favorable conditions for the implementation of labor activities by qualified foreign specialists, to increase the investment attractiveness of the Republic of Uzbekistan and raise it to a completely new level, as well as to stimulate the attraction of competitive human resources, starting 1 December 2018 the requirement to obtain, as well as to extend the employer permits for the recruitment of highly qualified and qualified foreign specialists in the Republic of Uzbekistan is canceled.
Doing business in Uzbekistan
An introductory guide to tax and legal issues
Overview of tax rules in Uzbekistan

We describe the most significant taxes in Uzbekistan in the sections that follow. There are a number of other less significant or specific taxes such as excise taxes and a number of taxes on "subsurface users," i.e. oil, gas and mining companies. It is important to perform a thorough review of any proposed business activity to determine the actual taxes that apply to it.

Upcoming new Tax Code

The Presidential Decree on "The State Program for Implementation of Actions on Five Priority Directions for Development of the Republic Uzbekistan" stipulates development of the draft of new Tax Code during 2019. Information provided below is based on the current legislation of Uzbekistan effective for the year 2019.

Individual income tax and social contributions

Taxpayers and residency

Both residents and non-residents of Uzbekistan are subject to individual income tax. Residents are taxed on their worldwide income, while non-residents are taxed only on their Uzbek source income.

A resident is generally defined as an individual who is physically present in Uzbekistan for 183 days or more in any period up to 12 months ending in a calendar year. Accordingly, generally non-residents are those individuals who do not meet the abovementioned test.

Taxable income

The income of individuals consists of employment income, property income, in-kind income and other types of income. In general, all types of income including benefits-in-kind are taxable in Uzbekistan, unless they are specifically exempt. Income that is specifically exempt from tax includes alimony received, severance pay (up to a maximum amount) and state pension income.

Rates

General Uzbek individual income tax of residents is levied at a flat rate of 12% from 1 January 2019, while for nonresidents a flat rate of 20% is applied.

Dividends and interest payable to tax resident individuals are subject to tax at the rate of 5% from 1 January 2019, while for nonresidents the tax rate for dividends and interest is 10%.

Tax compliance

The tax year in Uzbekistan is the calendar year. A withholding obligation is placed on Uzbek legal entities and foreign legal entities operating in Uzbekistan through permanent establishments or representative offices ("tax agents"), which make salary-related payments to individuals and provide benefits to employees. The tax agents are responsible for the proper assessment of individual income tax, withholding and remittance of the tax to the budget. Tax agents are also obliged to file monthly reports on income assessed and paid to their employees and the related individual income tax withheld before the 25th day of the month following the reporting month, as well as an annual return along with annual financial statements.¹ The individual income tax should be paid to the budget at the time the income is paid, but no later than the deadline for submission of monthly reports.

A foreign citizen who becomes a tax resident of Uzbekistan is obliged to file an annual tax declaration before 1 April following the reporting year on his/her worldwide income earned. The tax assessed in the annual tax declaration (i.e. any resulting outstanding liability) shall be paid by the individual no later than 1 June following the reporting year. If foreign individuals who are tax residents permanently leave Uzbekistan, they are also obliged to file a ‘departure’ tax declaration no later than one month before departure and the resulting tax liability shall be paid within fifteen days of filing the ‘departure’ tax declaration.

Mandatory payments to social funds

Employer unified social payment (‘social tax’)

Employers are required to assess and pay the unified social payment at a current rate of 12% (the rate of 25% is for state entities and the entities with state ownership share of 50% or more) of the gross payroll (i.e. at the employer’s cost). The assessed mandatory payment shall be paid to the budget on a monthly basis (no later than the monthly tax return filing deadline). Similarly, a cumulative return shall be submitted to the tax authorities on a monthly basis no later than the 25th of the month following the reporting month, as well as an annual return along with annual financial statements.

¹ By 15 February following the reporting year (or by 25 March following the reporting year for companies with foreign investments and non-residents acting through a PE).
Employee pension fund contributions

Employers must make monthly mandatory contributions to individual accumulative pension accounts of local employees (foreign citizens without Uzbekistan residence permits are generally not subject to such contributions) at a rate of 0.1% of gross employment income of employees, while amounts of such contributions should be deducted from the amounts of accrued individual income tax payable. The individual accumulative pension fund contributions are reported in individual income tax return of the employer, which is to be submitted to the tax authorities on monthly basis no later than the 25th of the month following the reporting month, as well as an annual return along with annual financial statements.

Other individual taxes

Property tax

The property tax is imposed on buildings and apartments of individuals. The rates vary from 0.2% to 0.35% applied to the cadaster value of the property.

Land tax

An individual granted permanent possession of a land plot is subject to land tax at a fixed rate, depending on the location of the land. For example, in the city of Tashkent, the rates vary from UZS 356.8 (approximately US$ 0.043) to UZS 902.5 (approximately US$ 0.11) per square meter, depending on the location of the land plot.

Corporate income tax (CIT)

Payers

Taxpayers for CIT purposes are (i) Uzbek resident legal entities on income from worldwide sources, (ii) foreign legal entities that carry out activities in Uzbekistan through a permanent establishment (PE) or receive Uzbek source income.

Uzbek legal entities, with an annual turnover less than UZS 1 billion (approximately US$ 120,000) are eligible for simplified taxation regime instead of CIT (see the “Simplified tax regime” section).

Taxable income

Taxable income of Uzbek legal entities is determined as aggregated income less specifically set tax-deductible expenses incurred, taking into account tax relief (if applicable) and certain reductions defined in the Tax Code. The required standards of documentation (especially those supporting deductions) are particularly high in Uzbekistan.

Depreciation for tax purposes

To qualify as a fixed asset for tax purposes, an asset should be defined as such according to the legislation on accounting.

For tax purposes assets may be depreciated up to the maximum rates indicated in the following table:

<table>
<thead>
<tr>
<th>Type of fixed asset</th>
<th>Maximum depreciation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings, structures</td>
<td>3%</td>
</tr>
<tr>
<td>Trains, ships, airplanes</td>
<td>4%</td>
</tr>
<tr>
<td>Pipelines, communication equipment</td>
<td>8%</td>
</tr>
<tr>
<td>Electric power lines and equipment</td>
<td></td>
</tr>
<tr>
<td>Production machinery and equipment</td>
<td>15%</td>
</tr>
<tr>
<td>Cars, computers and office equipment</td>
<td>20%</td>
</tr>
<tr>
<td>Perennial plants</td>
<td>10%</td>
</tr>
<tr>
<td>All other assets</td>
<td>15%</td>
</tr>
</tbody>
</table>

Land, construction-in-progress, and certain other assets are not depreciated.

Intangible assets are amortized for tax purposes over the useful life of an asset, the life of the company or five years (if the useful life cannot be determined), whichever is less.

Tax rate and compliance

The regular CIT rate is 12% for the year 2019. This rate also applies to Uzbek enterprises with foreign participation and to PEs of foreign companies. For commercial banks, mobile telecommunication operators, for legal entities carrying out the production of cement (clinker) and production of polyethylene granules the CIT rate is 20%.

EY offers the following services in the area of corporate income tax:

- Advisory and structuring
- Help with the tax compliance of legal entities at every step of the process
- Tax review and due diligence services
- Other tax-related services
The tax period is a calendar year. CIT declarations must be filed quarterly by the 25th day of the month following the reporting quarter and an annual return along with annual financial statements. The final tax liability must be paid by the deadline for filing the tax declarations. Certification on quarterly estimates of the tax payable must be submitted to the tax authorities by the 10th day of the 1st month of the reporting quarter. Tax installment payments based on the estimates submitted to the tax authorities are required to be made by the 10th day of each month. Companies generating taxable income of less than 200 time the MMW per reporting quarter (approximately US$ 5,000) are subject to CIT based on actual quarterly profits and are not required to pay installments of CIT.

Withholding tax (WHT) — other than individual income tax

Uzbek source income of a non-resident legal entity (without a PE) doing business in or with Uzbekistan is subject to WHT at the source of payment without any deductions.

Tax rates and compliance

<table>
<thead>
<tr>
<th>Type of income</th>
<th>Rate of WHT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest, dividends</td>
<td>10%</td>
</tr>
<tr>
<td>Insurance premiums under insurance, co-insurance, and reinsurance risk agreements</td>
<td>10%</td>
</tr>
<tr>
<td>Income from international transportation services and telecommunication</td>
<td>6%</td>
</tr>
<tr>
<td>Other income</td>
<td>20%</td>
</tr>
</tbody>
</table>

Most of the double tax treaties (DTT) concluded by Uzbekistan either provide for exemption from Uzbek WHT or allow the reduction of WHT rates to 0%-15%. However, specific requirements are to be met in order to apply the DTT provisions. Please refer to the Appendix hereto for the list of DTTs.

Withholding tax is remitted by the tax agents. The general rules are:

- The tax must be withheld and paid no later than the date the income is paid to the non-resident;
- The deadline for submitting the WHT return is no later than 25 calendar days following the reporting calendar quarter;
- No later than 30 days following the calendar year, the tax agent must provide a certificate with information about all entities which received income and the tax amount withheld.

Dividends and interest payable to Uzbek tax residents are subject to domestic WHT at the rate of 5%.

Taxable income

Taxable income includes but is not limited to:

- Dividends and interest;
- Income from the sale of property located in Uzbekistan: shares, stocks, real estate. Taxable income is defined as the surplus between the sale price and the original purchase price;
- Income from the sale of goods on the territory of Uzbekistan. Taxable income is defined as the surplus between the amount paid to foreigners and the original purchase price;
- Royalty;
- Lease fees;
- Insurance premiums;
- Telecommunication and freight fees;
- Fees for services rendered in Uzbekistan, etc.
Value added tax (VAT)

Payers and registration
VAT payers are (i) legal entities that have taxable turnover (output VAT), (ii) legal entities that are obliged to pay VAT on taxable turnover of non-residents (reverse-charge VAT), and (iii) legal entities and individuals involved in the import of goods into the territory of Uzbekistan (import VAT).

Starting from 1 January 2019, VAT payers are assigned with VAT registration numbers.

VAT is levied at a general rate of 20%.

VATable turnover
VAT is levied on turnover derived from the supply of goods and services, including imports, unless they are zero-rated or specifically exempt. Any excise taxes paid are included in the taxable base for VAT purposes.

VAT payable to the budget is generally determined as output VAT charged less allowed input VAT paid on expenses. Input VAT incurred in connection with the supply of exempt goods and services and non-business costs cannot be offset against any output VAT payable.

Fixed assets related input VAT rules
As of 1 January 2019, input VAT incurred on acquired fixed assets can be offset against output VAT in the following manner: (i) for immovable property used for entrepreneurial activities taxpayer may offset input VAT by equal instalments during the period of 36 calendar months, and (ii) for fixed assets (except immovable property and intangible assets) taxpayer may offset input VAT by equal instalments during the period of 12 calendar months. However, VAT incurred on the purchase of such assets before 1 January 2019 is not eligible for offset for taxpayers, which became VAT payers as of 1 January 2019.

Purchases of services from non-residents (reverse-charge VAT)
Under place-of-supply rules, certain services are deemed to be supplied in the location of the business activity of the purchaser of services. Where such services are rendered by a nonresident of Uzbekistan, the Uzbek purchaser of these services is required to self-assess and pay VAT to the budget via a reverse-charge mechanism. It is the obligation of the Uzbek purchaser of the services to pay reverse-charge VAT, which should be allowed to offset against output VAT once paid, subject to the general offset procedure.

Zero rating
Export sales of goods (except for exports of precious metals) for foreign currency, international transportation services, utilities services provided to individuals, and goods and services supplied for official use by diplomatic missions are taxed at a zero rate.

Exempt supplies
Turnover and imports exempt from VAT include:

- financial services;
- insurance services;
- goods (works and services) purchased by legal entities on account of a loan provided by international or foreign government financial institutions under international treaties with the Republic of Uzbekistan, as well as those purchased through grants;
- agricultural products of own production; etc.

VAT compliance
The VAT reporting period is a calendar month. The tax return filing and payments deadline is the 25th day of the month following the reporting month. The annual tax return should be submitted not later than the deadlines established for annual financial statements.
Simplified VAT regime and rates

Uzbek legal entities, with an annual turnover less than UZS 1 billion (approximately US$ 120,000) are eligible for simplified taxation regime instead of charging output VAT (see the “Simplified tax regime” section). However, such entities have a right to become VAT payers voluntarily.

Effective from 1 January 2019 till 1 January 2021, enterprises with an annual turnover less than UZS 3 billion (approximately US$ 360,000) have a right to apply a simplified regime for calculating and paying VAT.

Under simplified VAT regime, VAT payable to the budget is determined as the gross amount of output VAT without offset of input VAT.

Simplified VAT regime stipulates application of the following differentiated rates:

<table>
<thead>
<tr>
<th>Type of entity</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>For legal entities of all sectors of the economy (except for provided below)</td>
<td>7%</td>
</tr>
<tr>
<td>Construction organizations</td>
<td>8%</td>
</tr>
<tr>
<td>Retail and wholesale trade enterprises</td>
<td>6%</td>
</tr>
<tr>
<td>Catering, hotel industry</td>
<td>10%</td>
</tr>
<tr>
<td>Legal entities providing professional services (auditing services, consulting services, brokerage services, etc.)</td>
<td>15%</td>
</tr>
<tr>
<td>Legal entities engaged in the sale of agricultural products, with the exception of products of own production</td>
<td>4%</td>
</tr>
</tbody>
</table>

EY offers help with VAT risk identification and the calculation of VAT compliance costs as well as with cross-border VAT planning.
Certain other taxes

The following table summarizes certain other significant taxes.

<table>
<thead>
<tr>
<th>Nature of tax</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise tax; imposed on an extensive number of specified services and goods</td>
<td>Various</td>
</tr>
<tr>
<td>produced in Uzbekistan or imported into Uzbekistan; goods subject to tax</td>
<td></td>
</tr>
<tr>
<td>include oil and gas products, alcohol, tobacco, jewelry, silverware and cars.</td>
<td></td>
</tr>
<tr>
<td>Services subject to tax are mobile telecommunication services.</td>
<td></td>
</tr>
<tr>
<td>Property tax; imposed on the annual average depreciated value of immovable</td>
<td>2%</td>
</tr>
<tr>
<td>property and certain other assets; land is exempt</td>
<td></td>
</tr>
<tr>
<td>Subsurface use tax; imposed on the extraction of natural resources; tax</td>
<td>Sales 2.6% to 30%</td>
</tr>
<tr>
<td>imposed on the sale price of extracted natural resources and components and</td>
<td>Waste 0.78% to 9%</td>
</tr>
<tr>
<td>on waste derived from the extraction or processing of natural resources</td>
<td></td>
</tr>
<tr>
<td>Excess profits tax; imposed on the difference between the actual net sale</td>
<td>50%</td>
</tr>
<tr>
<td>price and the established threshold price for exported natural gas</td>
<td></td>
</tr>
<tr>
<td>Signing and commercial discovery bonuses for subsurface users; payable to the</td>
<td>Various</td>
</tr>
<tr>
<td>state budget through the tax authorities</td>
<td></td>
</tr>
<tr>
<td>Motor transport fee; imposed on purchases of cars and other vehicles</td>
<td>Various</td>
</tr>
<tr>
<td>Water use tax; general rates per cubic meter</td>
<td>Surface water UZS 120</td>
</tr>
<tr>
<td>(approximately US$ 0.014)</td>
<td>Underground water UZS 150</td>
</tr>
<tr>
<td>(approximately US$ 0.018)</td>
<td></td>
</tr>
<tr>
<td>Land tax; imposed at a fixed rate per hectare, and varies</td>
<td>Various. Example: rate in Zone 1 of</td>
</tr>
<tr>
<td>depending on the location, quality and purpose of the land plot</td>
<td>Tashkent is UZS 157,410,563 (approximately US$ 18,880) per hectare</td>
</tr>
</tbody>
</table>
For agricultural companies there is also a special regime for paying the Unified Land Tax, the tax base of which is the statutory land cost. The tax rate is set at 0.95% for 2019. The reporting period is a calendar year. The tax filing deadline is 1 May of the current year.

**Tax administration**

In Uzbekistan, the tax administration rules are complex, and penalties for even minor infringements can be significant.

**Tax returns**

Tax reports (including returns and calculations) are compiled and submitted by the taxpayer to the local tax authority for the registered address. Legal entities generally prepare and submit tax reports electronically.

**Tax audits**

Taxpayers are subject to tax audits, and it is vital to manage the tax audit process. There are various types and categories of tax audit.

Tax audits can cover any period within the tax statute of limitations, which is generally 5 years. Tax audits can be intrusive and time-consuming and may sometimes even result in criminal proceedings.

**Assessments**

Upon completion of a tax audit, the state tax authorities usually issue a tax audit act. (If no violations of tax law are discovered, an appropriate note is made in the tax audit act.) Based on the findings of such an act, the state tax authorities issue a decision of assessed amounts of taxes and other obligatory payments to the budget as well as related penalties and interest.

**Appeals**

Taxpayers have the right, within time limits, to appeal acts of the state tax authorities.

**Penalties and interest**

Interest is charged on late tax payments at the rate of 0.045% (if assessment of interest is done by the state tax authorities as a result of a tax audit – the late payment interest is charged at 0.06%) of the outstanding tax liability per each day of delay (i.e. at approximately 16.4%-21.9% per annum), but up to 100% of the outstanding tax liability.

Penalties for non-compliance with tax regulations applied in relation to legal entities include:

- The penalty for non-registration or late registration is:
  - if the activities are carried out for less than 30 (thirty) days without registration the penalty is 50 times the minimum wage, but no less than 10% of the net revenue received from such activities;
  - if the activities are carried out for more than 30 (thirty) days without registration the penalty is 100 times the minimum wage, but no less than 50% of net revenue received from such activities.

- The penalty for concealing revenue is 20% of the concealed revenue.

Etc.

There are also administrative fines that may be imposed on company officers for tax violations, as well as, in certain cases, criminal proceedings.

EY offers a comprehensive tax compliance service and tax reviews to assess in-house tax compliance risks, as well as onsite tax audit support and a full range of tax appeal services, including litigation.
Overview of other laws that affect business administration

**Employment regulations**

The Uzbekistan Labor Code and other labor regulations apply to both local and foreign citizens, including individuals without citizenship, working in Uzbekistan on the basis of employment agreements with their employers. In addition, employment relationships within organizations fully or partially owned by foreign legal entities or individuals are also regulated by Uzbek labor legislation.

An employment agreement with an employee should be concluded in written form. Terms of a labor agreement are determined by mutual consent of the employee and employer and should also reflect the terms established by the Labor Code and other respective labor regulations.

There is a specific requirement that foreign citizens coming to Uzbekistan are allowed to work only upon obtaining a work confirmation for the right to work in Uzbekistan, issued in his/her name on the basis of a work permit to hire foreign labor obtained by the employer. It is the responsibility of the employer to apply for it.

Employment agreements may be for a fixed or indefinite term. An employment agreement may establish a probation period that in general should not exceed three months.

**Banking regulations**

The banking system of Uzbekistan consists of the Central Bank of the Republic of Uzbekistan and commercial banks. Banking operations in Uzbekistan must be licensed by the Central Bank of the Republic of Uzbekistan.

International financial institutions also operate in Uzbekistan to a certain extent, providing financing to local businesses in the form of loans or equity investments.

The Government is now developing new legislation to establish a more favorable framework for the investors coming to Uzbekistan including those in the banking sector.

**Currency regulations**

Currency law states that cross-border transactions can be in any currency. However, transactions within Uzbekistan should only be in Soum, the national currency of the Republic of Uzbekistan (subject to certain exceptions). Currency operations may be subject to registration with subsequent monitoring, depending on the substance of the operations.

The President of Uzbekistan issued a decree (the "Decree") on 2 September 2017 to liberalize certain aspects of Uzbekistan's currency regime, effective 5 September 2017. Also, the Central Bank of the Republic of Uzbekistan effectively devalued the local currency, the Soum, on 4 September 2017.

The Decree provides that Uzbek legal entities may purchase foreign currency in commercial banks for payments to fulfill their obligations under the following types of international transaction: imports of goods, works and services, repatriation of profits, repayment of loans, payment of travel expenses, and other non-commercial transfers.

The Decree further provides that individuals who are Uzbekistan residents may sell foreign currency at exchange points. In addition, they may purchase foreign currency at commercial banks provided that the purchased foreign currency is deposited on an international payment card and used abroad.

The Decree also cancelled the requirement for the mandatory sale of foreign currency export proceeds. Prior to the Decree, certain portion of revenue from exporting certain goods and services was subject to mandatory conversion.

The Decree places restrictions on the use of foreign currency in Uzbekistan. It specifically prohibits payments in foreign currency for goods (works and services), except for payments by international payment cards pursuant to international practice. Prices and tariffs for goods (works and services) and the minimum charter capital requirements for local companies may only be set in local currency. Furthermore, state duties and other mandatory payments may be levied in Soum only.

It is expected that the new draft Law on Currency Regulation and Currency Control is to be developed and adopted during the year 2019.

EY offers employment law services, including the preparation of standard legal documents and consultancy on performance and reward planning.

EY has a team of law professionals who can advise on these matters.
EY in Uzbekistan

EY was one of the first international advisory firms to commence operations in Tashkent with the opening of its office in 1995. Our firm in Uzbekistan is part of our EMEIA practice, encompassing Europe, the Middle East, India and Africa. In Uzbekistan, EY has an office in Tashkent.

Supporting our clients in a dynamic landscape

At EY, we know that businesses in emerging markets need innovative thinking and practical advice in order to succeed. We support our clients by facilitating their sustainable development strategy and creating new growth opportunities in today’s dynamic economic environment.

Our major services

- Assurance
- Tax & Law
- Transactions
- Advisory

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Appendix

Double tax treaties

The following table lists the withholding rates under Uzbekistan’s tax treaties.

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>Dividends, %</th>
<th>Interest, %</th>
<th>Royalties, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Austria</td>
<td>5/15 (a)</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Azerbaijan</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Bahrain</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>Belarus</td>
<td>15 (l)</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>5</td>
<td>Belgium</td>
<td>5/15 (a)</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Bulgaria</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Canada</td>
<td>5/15 (a)</td>
<td>10</td>
<td>5/10 (e)</td>
</tr>
<tr>
<td>8</td>
<td>China</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>9</td>
<td>Czech Republic</td>
<td>5/10 (b)</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>10</td>
<td>Estonia</td>
<td>5/10 (b)</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Finland</td>
<td>5/15 (a)</td>
<td>5</td>
<td>0/5/10 (f)</td>
</tr>
<tr>
<td>12</td>
<td>France</td>
<td>5/10 (a)</td>
<td>0/5 (d)</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Georgia</td>
<td>5/15 (b)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>14</td>
<td>Germany</td>
<td>5/15 (b)</td>
<td>5</td>
<td>3/5 (g)</td>
</tr>
<tr>
<td>15</td>
<td>Greece</td>
<td>8</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>16</td>
<td>Hungary</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>17</td>
<td>India</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>18</td>
<td>Indonesia</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>19</td>
<td>Iran</td>
<td>8</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>20</td>
<td>Ireland</td>
<td>5/10 (a)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>21</td>
<td>Israel</td>
<td>10</td>
<td>10</td>
<td>5/10 (h)</td>
</tr>
<tr>
<td>22</td>
<td>Italy</td>
<td>10</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>23</td>
<td>Japan (k)</td>
<td>15 (l)</td>
<td>10</td>
<td>0/10 (i)</td>
</tr>
<tr>
<td>24</td>
<td>Jordan</td>
<td>7/10 (b)</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>25</td>
<td>Kazakhstan</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>26</td>
<td>Korea (South)</td>
<td>5/15 (b)</td>
<td>5</td>
<td>2/5 (j)</td>
</tr>
<tr>
<td>27</td>
<td>Kuwait</td>
<td>5/10 (b)</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>28</td>
<td>Kyrgyzstan</td>
<td>5</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>29</td>
<td>Latvia</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>30</td>
<td>Lithuania</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>31</td>
<td>Luxembourg</td>
<td>5/15 (b)</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>32</td>
<td>Malaysia</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>33</td>
<td>Moldova</td>
<td>5/15 (a)</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>34</td>
<td>Netherlands (m)</td>
<td>5/15 (b)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>35</td>
<td>Oman</td>
<td>7</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>36</td>
<td>Pakistan</td>
<td>10</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>37</td>
<td>Poland</td>
<td>5/15 (c)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>38</td>
<td>Romania</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>39</td>
<td>Russian Federation</td>
<td>10</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>40</td>
<td>Saudi Arabia</td>
<td>7</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>41</td>
<td>Singapore</td>
<td>5</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>42</td>
<td>Slovak Republic</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>43</td>
<td>Slovenia</td>
<td>8</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>44</td>
<td>Spain</td>
<td>5/10 (b)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>45</td>
<td>Switzerland</td>
<td>5/15 (c)</td>
<td>0/5(d)</td>
<td>5</td>
</tr>
<tr>
<td>46</td>
<td>Tajikistan</td>
<td>5/10 (b)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>47</td>
<td>Thailand</td>
<td>10</td>
<td>10/15 (l)</td>
<td>15</td>
</tr>
<tr>
<td>48</td>
<td>Turkey</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>49</td>
<td>Turkmenistan</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>50</td>
<td>Ukraine</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>51</td>
<td>United Arab Emirates</td>
<td>5/15 (b)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>52</td>
<td>United Kingdom</td>
<td>5/10 (a)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>53</td>
<td>Vietnam</td>
<td>15 (l)</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>53</td>
<td>Non-treaty countries</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
</tbody>
</table>
(a) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the payer of the dividends.
(b) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 25% of the payer of the dividends.
(c) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 20% of the payer of the dividends.
(d) The 0% rate applies to interest with respect to the following:
   • Loans made, guaranteed or insured by the government of the other contracting state or an instrumentality or agency thereof
   • Sales on credit of industrial, commercial or scientific equipment
   • Sales on credit of merchandise between enterprises
   • Bank loans
(e) The 5% rate applies to royalties paid for certain cultural works (with exceptions) as well as for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experience (know-how), with exceptions.
(f) The 0% rate applies to royalties for the use of, or the right to use, computer software, patents, designs or models, or plans. The 5% rate applies to royalties paid for the use of, or the right to use, secret formulas or processes, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies to royalties paid for trademarks or certain cultural works.
(g) The 3% rate applies to royalties paid for the use of, or the right to use, copyrights of scientific works, patents, trademarks, designs or models, plans, or secret formulas or processes, as well as for the disclosure of industrial, commercial, or scientific knowledge. The 5% rate applies to royalties paid for certain cultural works.
(h) The 5% rate applies to royalties paid for certain cultural works (with exceptions).
(i) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including motion picture films.
(j) The 2% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment.
(k) These are the withholding tax rates under the USSR-Japan treaty, which is honored by Uzbekistan.
(l) The domestic withholding tax rate for dividends and interest in Uzbekistan is 10%. Consequently, the withholding tax rate of 15% for dividends and interest under treaties does not apply to payments made by Uzbek companies.
(m) Under the Protocol to the Netherlands-Uzbekistan double tax treaty, withholding tax rates may potentially be reduced to zero if certain conditions are met.
Appendix

List of countries with preferential tax regimes

Approved by Decree No. 2467 of the State Tax Committee, State Customs Committee and Central Bank directors of 12 June 2013 (as amended on 7 November 2017).

1. Andorra
2. Antigua and Barbuda
3. Bahamas
4. Barbados
5. Bahrain
6. Belize
7. Brunei Darussalam
8. Vanuatu
9. United Kingdom of Great Britain and Northern Ireland (only with regard to the following areas):
   1) Anguilla;
   2) Bermuda Islands;
   3) British Virgin Islands;
   4) Montserrat;
   5) Gibraltar;
   6) Chagos Island;
   7) South Georgia and South Sandwich Islands;
   8) Turks and Caicos Islands;
   9) Cayman Islands.
10. Individual administrative units of United Kingdom of Great Britain and Northern Ireland:
    1) Channel Islands (Guernsey, Jersey, Sark);
    2) Isle of Man.
11. Grenada
12. Djibouti
13. Dominican Republic
14. Ireland (only with regards to Dublin and Shannon)
15. Cyprus
16. People’s Republic of China, only as regards the special administrative regions of: 
    1) Siangan (Hong Kong);
    2) Aomyn (Macau).
17. Costa Rica
18. Cook Islands (New Zealand)
19. Liberia
20. Lebanese Republic
21. Liechtenstein
22. Mauritius
23. Malaysia (only with regard to Labuan Island)
24. Maldives
25. Malta
26. Marshall Islands
27. Nauru
28. Netherlands Antilles
29. Niue (New Zealand)
30. United Arab Emirates (only with regards to Dubai)
31. Panama
32. Republic of Portugal (only with regards to Madeira Islands)
33. Samoa
34. Seychelles
35. Saint Kitts and Nevis
36. Saint Lucia
37. Saint Vincent and the Grenadines
38. United States of America (only with regard to the following areas):
    1) US Virgin Islands;
    2) Puerto Rico;
    3) Wyoming State;
    4) Delaware State.
39. Tonga
40. Fiji
41. France (only with regard to the following areas):
    1) Kerguelen Islands;
    2) French Polynesia.
42. Sri Lanka
43. Jamaica
44. Palau (Pacific Ocean)
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