Guide to doing business
And investing in Tajikistan

2011-2012 Edition

The information in this book is based on taxation law, legislative proposals and current practices, up to and including measures passed into law as of 1 July 2011. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.
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1. Tajikistan profile and investment climate

1.1 Introduction

Map

Geography and climate

Tajikistan is the smallest country of the Central Asia, and is located in its southeast part. It is ranked 95th as a country in terms of the total area of its territory of 143,100 square kilometres.

In the west and the north, Tajikistan borders with Uzbekistan and Kyrgyzstan, in the south with Afghanistan, and in the east, in its mountainous part, with China.

Tajikistan is a country of mountains and rivers. In fact, almost the entire territory of the republic (more than 90%) is occupied by mountains, which belong to the highest ranges – Pamir and Tien Shan with absolute heights from 300 metres to 7,495 metres. Pamir and Tien Shan are the places where rough mountain rivers are born. Tajikistan has more than 950 rivers over 10 km long, the largest of which are the Amu Darya and Syr Darya.

The climate of Tajikistan is moderate, continental, and dry. Winter temperatures in valleys are from 0°C to +2°C, high in the mountains - to -27°C. In the summer, the temperature in the valleys is from +23°C to +30, +35°C, in the mountains - from +4°C to +15°C. The most precipitation falls in winter and spring; the rains are rare in the summer and autumn. Tajikistan consists of 4 administrative divisions: 2 provinces (“viloyat”), 1 autonomous province, and the Region of Republican Subordination.

<table>
<thead>
<tr>
<th>Division</th>
<th>Capital City</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugd</td>
<td>Khujand</td>
<td>2,237,000</td>
</tr>
<tr>
<td>Region of Republican Subordination</td>
<td>Dushanbe</td>
<td>724,000</td>
</tr>
<tr>
<td>Khatlon</td>
<td>Qurghonteppa</td>
<td>2,676,000</td>
</tr>
<tr>
<td>Gorno-Badakhshan</td>
<td>Khorugh</td>
<td>206,000</td>
</tr>
</tbody>
</table>
History

The territory of what is now Tajikistan has been inhabited continuously since 4000 BC. It has been under the rule of various empires throughout history, the longest period of which was under the Persian Empire. Arabs brought Islam in the 7th century AD. The Samanid Empire Persians supplanted the Arabs and built the cities of Samarkand and Bukhara, which became the cultural centers of Tajiks (both of which are now in Uzbekistan). The Mongols would later take partial control of Central Asia, and later the land that today comprises Tajikistan became a part of the emirate of Bukhara.

In the 19th century, the Russian Empire began to spread into Central Asia, and eventually took control of Tajikistan. After the overthrow of Imperial Russia in 1917, guerillas throughout Central Asia waged a war against Bolshevik armies in a futile attempt to maintain independence. The Bolsheviks prevailed after a four-year war, in which mosques and villages were burned down and the population heavily suppressed. Soviet authorities started a campaign of secularization, whereby practicing Muslims, Jews, and Christians were persecuted, and mosques, churches, and synagogues were closed.

In 1924, the Tajik Autonomous Soviet Socialist Republic was created as a part of Uzbekistan, but in 1929 the Tajik Soviet Socialist Republic was made a separate constituent republic. The predominantly ethnic Tajik cities of Samarkand and Bukhara remained in the Uzbek SSR. In terms of living conditions, education and industry, Tajikistan was somewhat behind the other Soviet Republics. In the 1970s, dissident Islamic underground parties began to form and by the late 1980s, Tajik nationalists were calling for increased rights. Real disturbances did not occur within the republic until 1990. The following year, the Soviet Union collapsed, and Tajikistan declared its independence.

The nation almost immediately fell into a civil war that involved various factions fighting one another, these factions often being distinguished by clan loyalties. The non-Muslim population, particularly Russians and Jews, fled the country during this time because of persecution, increased poverty and better economic opportunities in the West or in other former Soviet republics. Emomali Rahmonov came to power in 1992, and continues to rule to this day. However, he has been accused of ethnic cleansing against other ethnicities and groups during the Civil War in Tajikistan. In 1997, a ceasefire was reached between Rahmonov and opposition parties (United Tajik Opposition). Peaceful elections were held in 1999, but they were reported by the opposition as unfair, and Rahmonov was re-elected by an almost unanimous vote. Russian troops were stationed in southern Tajikistan, in order to guard the border with Afghanistan, until the summer of 2005. Since the September 11, 2001 attacks, American and French troops have also been stationed in the country.

1.2 Government structure

In 1994, Tajikistan adopted a new constitution that restored the office of the president, transformed the Soviet-era Supreme Soviet into the Supreme Assembly (Majlisi Oli), recognized civil liberties and property rights, and provided for a judiciary that was not fully independent.

The Government is responsible for management of government activities in accordance with laws and decrees of the Supreme Assembly and decrees of the president. The president appoints the prime minister and the other council members, with the nominal approval of the Supreme Assembly. The Government includes prime minister, plus deputy prime ministers, fourteen ministers and chairmen of state committees.

The republic's legislature, the Supreme Assembly a bicameral parliament consisting of Majlisi Oli (higher chamber) and Majlisi Namoyandagon (lower chamber), is convoked for a term of five years. According to the 1994 constitution, any citizen at least twenty-five years of age is eligible for election to lower chamber and thirty-five years to higher. The Government includes prime minister, plus deputy prime ministers, fourteen ministers and chairmen of state committees.

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Below the republic level, provinces, districts, and cities have their own elected assemblies. In those jurisdictions, the chief executive is the chairman of a council of people's deputies, whose members are elected to five-year terms. The chairman is appointed by the president of the republic. The Supreme Assembly may dissolve local councils if they fail to uphold the law. For most of the late Soviet and early independence periods, Tajikistan had four provinces: Leninobod in the north, Qurgonteppa and Kulob in the south, and the Gorno-Badakhshan Autonomous Province in the southeast. The precise status of that latter region is unclear because separatists have declared it an autonomous republic and even the government does not always call it a province.
Beginning in 1988, Qurghonteppa and Kulob were merged into a single province, called Khatlon. (The two parts were separated again between 1990 and 1992.) A large region stretching from the west-central border through Dushanbe to the north-central border is under direct federal control.

1.3 Legal system

Legislative framework

The hierarchy of Tajikistani Legislation consists of:
- Constitution
- Decrees of the President of the Republic of Tajikistan
- Orders of the President of the Republic of Tajikistan
- Governmental resolutions
- Other legislative acts

Courts

Tajikistani Judicial Branch consists of a Constitutional court, Supreme Court, Supreme Economic Court, Gorno-Badakhshan Court, Gorno-Badakhshan Economic Court, District Courts, Economic District Courts and Economic Courts of Dushanbe City, Town and Micro-district Courts, Military Court and a Marital Court.

1.4 People

Population

Tajikistan has an approximate population of 7.53 million. Tajiks who speak the Tajik language are the main ethnic group, although there is a sizeable minority of Uzbeks, and a small population of Russians, whose numbers are declining due to emigration. Pamiris of Badakhshan are considered to belong to the larger group of Tajiks. Most of the population follows Sunni Islam, although a sizeable number of Shia is present as well. Bukharian Jews had lived in Tajikistan since the 2nd century BC, but today only a few hundred remain. There is also a small population of Yaghnobi people who have lived in the mountainous district of Sughd Viloyat for many centuries.

Language

The official language of Tajikistan is the Tajik language, while Russian is largely spoken in business and for government purposes.

Like in many other countries of the former Soviet Union, English is widely taught in Tajikistan.

However, the English-speaking population is mostly based in Dushanbe.

Religion

Islam, the predominant religion of all of Central Asia, was brought to the region by the Arabs in the seventh century. Since that time, Islam has become an integral part of Tajik culture. Although Soviet efforts to secularize society were largely successful, the post-Soviet era has seen a marked increase in religious practice.

The majority of Tajikistan's Muslims adhere to the Sunni branch of Islam, and a smaller group belongs to the Shia branch of that faith. Among other religions, the Russian Orthodox faith is the most widely practiced, although the Russian community shrank significantly in the early 1990s. Some other small Christian groups now enjoy relative freedom of worship. There is also a small Jewish community.
By the end of the Soviet era, Tajikistan also was home to small numbers of people belonging to other Christian denominations, including Roman Catholics (most of whom were German), Seventh-Day Adventists, and Baptists. There also was a small Armenian minority, most of whose members belonged historically to the Armenian Apostolic (Gregorian) Church. Other religious groups included small numbers of Jews and Bahais. The number of adherents to these minority religions probably decreased sharply in the 1990s because of the wave of emigration from Tajikistan in the early independence period.

Education

Tajikistan has a high rate of literacy with an estimated 85% of the population having the ability to read and write. Soviet social policy created a modern education system in Tajikistan where nothing comparable had existed before. However, by the time the republic became independent the quality and availability of education had not reached the Soviet Union-wide average, still less the standards for Western industrial societies. After independence, the education system remained under the control of the Ministry of Education with full state funding.

Living standards

The living standards in Tajikistan are among the lowest in the world. About 66% of the population is engaged in agriculture.

1.5 Economy

General description

Shortly after its declaration of independence, the Tajikistan currency market faced a unique situation when cash payments were made with Russian rubles and non-cash payments were settled with hyper-inflated Soviet rubles. The difference between their values resulted in drastic damage to the Tajikistan economy. In mid-1995, the Tajikistan government introduced a Tajik ruble, underwent a conversion and denomination process, and established the Tajik Interbank Currency Exchange. This contributed to the reduction of inflation rates from 2100% in 1995 to 40% in 1996. The inflation rate was approximately 6.4% in 2010.

In 2010 GDP increased by 6.5% and was equal to 24.7, billion somoni (approximately USD 5,6bn).

In 2000, the national currency, the Somoni, was introduced. The average exchange rate in 2010 was S4.38: US$1.

Industry is represented by a large aluminum plant, hydropower facilities, and a few obsolete light industry and food processing factories. Consequently, Tajikistan's primary industrial output and export items are aluminum and textiles. Despite Tajikistan's substantial deposits of antimony, mercury, lead, zinc, silver, and rock salt, the mining sector is underdeveloped, represented by only a few exploited gold deposits. To encourage development of this sector, the Tajikistan government intends to simplify procedures for obtaining exploration and mining permits. Despite its mountainous territory, Tajikistan successfully grows grain, which comprises about 264% of the total agricultural production.

Economic control and regulation are primarily governed by the Ministry of Economy and Trade of the Republic of Tajikistan.

The structure of the Ministry of Economy and Trade:

- The Head office
- Real Economy Sectors Development Agency
- Legal Support Agency
- External Economical Cooperation Agency
- Market Analysis and Trade Regulation Agency
- Investment Policy Forecasting and Region Development Agency
- Finance and Accounting Agency
- Human Resources Agency
- Secretariat Agency
- Social Sphere Development Agency
- The Agency of Affairs

Transport

The railroad network of Tajikistan consists of three non-connected lines primarily in a west-east direction. Tajikistan has five airports. The main gateway to Tajikistan is the Dushanbe Airport. Tajikistan has oil and gas pipelines and limited waterways. Motorways are in poor condition. However, certain attempts are being made to restore them with the help of foreign contractors.
Communications

Because of geographical situation and predominantly mountainous area, communications in Tajikistan are poorly developed and not well maintained. The national network does not cover all towns. Cellular communication expansion almost reached 100%. Currently nine cellular communications operates in Tajikistan. Each year number of subscribers was grown by 20%.

Tourism

Tourism in Tajikistan is not well developed. However, the country adopted relevant legislation (in particular, a Law concerning Tourism and other Governmental agreements) that form a basis for the tourism infrastructure and regulates tourism business relations in the territory of Tajikistan.

1.6 Foreign trade

Based on data provided by the State Committee on Statistics of the Republic of Tajikistan, foreign trade reached 3,9 billion US dollars in 2010 (7.6% increase in comparison to 2009).

In fact, raw materials and energy resources dominate the export sector. There are goods of industrial output, cotton-fiber, juices and agricultural products.

Total export increased by 18% year on year and reached US $1.2 billion. Import reached US $ 2.7 billion (increase of 3.5% from 2009).

Natural gas, oil products, electricity and grain dominate the import

The largest trade partners of the Republic of Tajikistan are Turkey, Iran, Russia, China, Kazakhstan, Uzbekistan, and the Ukraine.
2. Business Environment

2.1 Business climate

Aims of government policy

On the one hand, the government is interested in encouraging business development; while on the other hand, bureaucratic practices and the soviet mentality negatively impact business. As an example, TajikStandart, the government agency in charge for licensing, certification, and other paperwork necessary for running a business, does not publish its fees and requirements. Therefore, business people are not fully aware of the administrative procedures and statutory start-up costs for businesses. This creates vast opportunities for corruption at various levels of authority.

One of the major aims of the state is to become a member of the World Trade Organization.

2.2 Free trade zones

The Government has set up two more free trade zones Sogd, Pyandj in addition to Ishkoshim and Dangara. Sodj and Pyndj are actively functioning economic zones.

2.3 International agreements

European Union, NATO

The Republic of Tajikistan is not a member of European Union or NATO.

However the Republic of Tajikistan is a member of:
- Commonwealth of Independent States (CIS)
- Eurasian Economic Community (EvrazEC)
- Shanghai Organization of Cooperation (ShOC)
- Organization of Economic Cooperation
- Organization for Security and Cooperation in Europe (OSCE)
- United Nations Organization (UN)
- World Health Organization (WHO)
- European Bank of reimplementation and development (EBRD)
- Organization of Islamic Conference (OIC)
- United Nations Educational, Scientific and Cultural Organization (UNESCO)

Islamic Educational, Scientific and Cultural Organization (ISESCO)
World Bank (WB)
International Monetary Fund (IMF)
International Financial Corporation (IFC)
International Development Association (IDA)
Multilateral Investment Guaranty Agency (MIGA)
World Meteorological Organization (BMP/WMO)
International Civil Aviation Organization (ICAO)
International Labor Office (ILO)
United Nations Industrial Development Organization (UNIDO)
International Fund for Agricultural Development (IFAD)
World Intellectual Property Organization (WIPO)
International Telecommunication Union (ITU)
International Postal Union (IPU)
International Organization for Migration (IOM)
International Civil Aviation Organization (ICAO)
Economic Cooperation Organization (ECO)
United Nations Economic Commission for Europe (UNECE)
International Road Traffic Organization (IRTO)
Food and Agricultural Organization (FAO)
Islamic Development Bank (IDB)
International Atomic Energy Agency (IAEA)
Others:
World Organization for Animal Health

2.4 Legal environment

Tajikistan legal system is continuously developing and covers most of the key areas impacting commerce. However, certain branches of law still remain uncharted territory.

2.5 Regulations for business

Competition policy

The competition policy of the state is based on the Law concerning Natural Monopoly, the Law concerning Competition and Limitation of Monopolistic Activity on Product Markets and other legislative acts.
**Price controls**

Based on the Tax Code, the state control over transfer pricing may be carried out in relation to cross-border and domestic transactions. In particular, the following transactions for the sale/purchase of goods (work, services) may be tested for conformity to market prices:

a) between related parties
b) barter transactions
c) cross-border transactions
d) in case when a transaction price applied by a taxpayer deviates by more than 30% from the market price during a short-term period (i.e., 30 calendar days before or after the date of shipment of goods, carrying out works, rendering services)

Due to rather extensive scope of transfer pricing regulations outlined above, it appears that literally any transaction may be subject to the tax authorities' transfer pricing tests.

The tax authorities are also entitled to reclassify a transaction for purposes of taxation if they determine that the substance of the transaction does not correspond to its form.

For purposes of transfer pricing, interdependent parties are defined under the Tax Code as parties that can exert influence on the conditions and economic results of a transaction. These specifically include:

- Parties participating in the same entity, if the participation share of each party is not less than 20% in that entity
- One party directly or indirectly participates in another party, if the participation share is not less than 20%
- One party is functionally subordinated to another party or one party is under control (direct or indirect) of another party
- Parties are subsidiary entities of the same legal entity or under direct or indirect control of a third party
- Parties directly or indirectly control a third party, if voting rights of each party are not less than 20%, and
- Parties are relatives or spouses

According to the Tax Code, the tax authorities should first apply the Comparable Uncontrolled Price method (i.e., its Tajikistan variation). If Comparable Uncontrolled Price method may not apply, then the tax authorities may use the Cost Plus method or Resale Price method or other methods based on procedures established by the Tajikistan government.

According to the Tax Code, the burden of proof is placed on the tax authorities whereby it is stated that for purposes of taxation the transaction price should be the price which is actually agreed by the parties of the transaction, unless the tax authorities may prove that the agreed price does not conform to the general market price level. However, in practice, burden of proof may ultimately fall on the taxpayer such that the tax authorities would make tax assessments and require the taxpayer to collect additional evidence that the applied prices conform to the market prices in order to appeal the assessments.

While Tajikistan legislation does not envisage formal advance pricing arrangements between taxpayers and the tax authorities, it contains a clause whereby the relevant authority, including the higher level tax authority, may provide written explanations to the taxpayers on the application of tax legislation. Such explanations if carried out in strict compliance are considered having binding legal power for the tax authorities and taxpayers.

Tajikistan legislation establishes transfer pricing documentation requirements.

**Consumer protection**

Consumer protection is based on the Law of the Republic of Tajikistan concerning Protection of the Consumers.

**Patents, trademarks and copyrights**

Issues concerning patents, trademarks and copyrights are regulated and protected by the legislation.

**Anti – dumping**

There is no special anti-dumping legislation in Tajikistan. However, certain anti-dumping provisions are included in the Law on the State Regulations of Cross-Border Activities.

**2.6 Property market**

Property market in the Republic of Tajikistan is a developing sphere of Tajikistani business. It includes several legal firms which provide realtor services for public and private clients.
3. Foreign Investment

3.1 Foreign Investment

Investment climate

The government encourages foreign investors to take part in privatization programs by passing the Law concerning Joint Stock Companies and the Law concerning Limited Liability Companies. The Law concerning Investments lists actions that can be taken by the state with respect to expropriation of property and provides for compensation with respect to such expropriation. However, there are no recent cases of expropriated property in Tajikistan.

Certain tax privileges in the form of a profits tax exemption for 2 to 5 years, depending on the level of investment, may be granted to qualifying investors who establish new production companies. Also, foreign investors who operate in free economic zones may be granted, on a case by case basis, privileges in the form of reduced tax rates of up to 50%, reduced fees for the use of land and other natural resources, a special customs regime, and simplified entry and exit procedures for foreign citizens.

Regulatory legislation

Regulation of investment issues is carried out in accordance with the legislation concerning Foreign Investments that protects foreign investors against nationalization and expropriation.

The major laws relevant to foreign investment:
- The Law of the Republic of Tajikistan concerning Investments.
- The Law of the Republic of Tajikistan concerning the Legal Status of Foreign Citizens in the Republic of Tajikistan.
- Governmental Resolutions and Decrees of Tajikistan Parliament

According to the Tajikistan Civil Code and the Law concerning Investments, foreign companies are allowed to invest in Tajikistan through acquisitions and mergers.

Restrictions on foreign investments

Tajikistan is focusing on the attraction of foreign capital. Tajikistan Legislation does not stipulate restrictions for direct investments, except for certain limitations in banking.

Investment incentives

Tajikistan legislation envisages with various tax privileges for investments by foreign companies.

Major investment sectors of the Tajikistan economy:
- Hydro - energy
- Mining of precious metals and stones, complex ore
- Development of telecommunications and other infrastructure
- Agricultural sector

The major investors to date include: Canada, USA, Great Britain, Korea, Germany, Switzerland, Italy, Hungary, and Russia, China.

Among the key foreign investors are Nelson Gold Corporation (mining of gold and silver), Gulf International Minerals (mining of gold fields), Kabul Textiles and Adjind International (textile industry).

Foreign exchange issues

The Tajik currency (somi) is not a freely convertible currency. The government controls foreign currency operations, including inflow, outflow and exchange of foreign currency. The payments among Tajik residents can be made in domestic currency only.

3.2 Privatisation

Background

The forms of the privatization of the state property:
- Auction sales
- Individual privatization projects

The Government of the Republic of Tajikistan defines and adopts the form and requirements of the privatization program.

Privatization legislation

Privatization issues are regulated by the following legislative acts:
- The Civil Code of the Republic of Tajikistan
- The Law concerning Privatization of the State Property in the Republic of Tajikistan
- Other relevant legislative acts

4. Banking, Finance and Insurance

4.1 Banking system

Banking market
Banking system consists of the National Bank of the Republic of Tajikistan and other banks (private, state banks and banks with foreign capital).

Banking activities in Tajikistan are regulated by the Constitution of the Republic of Tajikistan, the Law of the Republic of Tajikistan concerning Banks and Banking Activities, the Law concerning the National Bank of the Republic of Tajikistan and other state laws and legislative acts of the Tajikistani National Bank.

**National Bank of the Republic of Tajikistan**

The National Bank of Tajikistan is the central reserve bank of the Republic of Tajikistan and it is owned by the Republic of Tajikistan. The National Bank of Tajikistan is controlled by Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan (lower chamber of Parliament). Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan, approves Decrees of the President of the Republic of Tajikistan on the appointment and dismissal of the Chairman of the National Bank of Tajikistan and his deputies, and reviews the annual report and audit conclusion submitted by the National Bank of Tajikistan.

The National Bank is the controlling body that monitors the business activities of all banks located in Tajikistan.

The National Bank of Tajikistan can provide banking services to foreign, government, financial and banking institutions and also to international institutions where the National Bank of Tajikistan or the Republic of Tajikistan has membership. The National Bank of Tajikistan is able to represent the interests of the state and carry out the obligations and implement operations related to the participation of the Republic of Tajikistan in international institutions.

**4.2 Foreign currency market and foreign currency rules**

The foreign currency market is regulated by the Law concerning Currency Regulation and Control, Instructions and Resolutions of the National Bank and other legislative acts.

**4.3 Specialised financial institutions**

The National bank of the Republic of Tajikistan is the supreme financial institution of the whole Tajikistan banking system.

The office of the International Monetary Fund also has a role in monitoring banking activities in the Republic of Tajikistan.

**4.4 Investment institutions**

Tajikistan does not have modern investment institutions. Investments funds, pension funds or private equity funds are not well developed in Tajikistan. Foreign investments are made primarily as direct investments.

**4.5 Capital markets**

**Stock exchange**

While Tajikistan has adopted the legal basis for trading shares and the stock exchange, there is significant room for development. Apart from shares, the Tajik Central Stock Exchange trades in foreign currency.
5. Importing and Exporting

5.1 Trends in customs policy

Customs policy is based on the Customs Code of the Republic of Tajikistan and other legislative documents.

5.2 Import restrictions

Although Tajikistan declares adherence to the principles of free trade, the legislation of Tajikistan envisages methods for tariff and non-tariff (quota) regulations.

5.3 Customs duties

Classification of goods

Tajikistan generally follows the CIS classification of goods (“TN VED”).

Tariff rates

- Ad valorem rate – calculated as a percentage of the customs value of the declared goods
- Specific rate – calculated based on a specified statutory amount per 1 unit of the declared goods
- Combined rate – contains both types of rates

The applicable rates established by the government range from 0% to 15%.

Excise tax

Excise tax on certain imported goods is paid at customs.

VAT

Import VAT is paid during customs clearance. Certain exemptions may apply.

Processing fee

A customs processing fee range from approximately USD 10 to USD 450 depending on customs value.

5.4 Temporary import relief

The Customs Code envisages customs privileges and exemptions from customs duties for certain imported goods. Customs privileges are provided for foreign diplomatic and international organizations. 5.5 Customs duties incentives

Contributions to capital

Contributions to the charter capital for certain types of equipment are exempt from import VAT.

5.6 Warehousing and storage

The Tajik Customs Code generally envisages bonded and free warehouse customs regimes. Goods can be placed into free warehouses for unlimited period of time. The free warehouse regime generally refers to a free customs zone. With respect to bonded warehouse goods can be placed for two months, with maximum extension period up to four months.

5.7 Re-exports

Re-export can be done within six months. Goods to be re-exported are generally exempt from import payments.

6. Business entities

6.1 Legal framework

Company law

Company activities in Tajikistan are governed by Civil Code of the Republic of Tajikistan, the Law concerning Joint Stock Companies, the Law
concerning Limited Liability Companies and other legislative acts.

Commercial law

The Civil Code of the Republic of Tajikistan and other relevant legislative acts regulate the procedures in respect of the foundation, liquidation, restructuring and licensing of a business entity and other related issues.

6.2 Forms of business entities

Civil law of the Republic of Tajikistan stipulates the following main forms of business entities:
- Joint Stock companies (Public and private forms)
- Limited liability companies
- Other forms of partnerships

6.3 Joint Stock Company

Formation procedures

An application to form a Joint Stock Company should include:
- Letter of application
- Decision of a founder (minutes of meeting of founders) regarding legal entity foundation
- Copy of a identification card of a head of established company
- Copies of identification cards of company founders
- Copy of legal registration document of the company or record from list of foreign companies (if founders are foreign legal entities)
- Reference from corresponding body (if entity is mass media)
- Receipt on payment of the state fee

Capital structure

Authorized capital consists of the stipulated number of shares devisable by ten, each share having an equal value.

The authorized capital should be not less than 1,000 somoni (approximately USD 228) for a closed joint stock company and no less than 5,000 somoni (approximately USD 1,140) for an open joint stock company.

The hierarchical structure of the company is based on the following:
- Shareholders meeting (the supreme body)
- Board of directors and supervisory council (if stipulated by the Charter)
- Executive Directors
- Auditing committee

Liquidation

The voluntary liquidation of a company is carried out by a liquidating commission appointed by the company, and in the case of a mandatory liquidation, it is carried out by a commission appointed by the court.

A company is considered fully liquidated once the liquidation has been registered in the State Register.

Books, records and statutory audits

Joint Stock Company must engage a specialized firm for inspection and confirmation of the annual statements. The independent auditing firm must sign the financials disclosed in the annual report and confirm that they represent a true statement given the information available about the company’s performance.
6.4 Limited Liability Company

Formation procedures

The foundation of a limited liability company is regulated by the Law concerning Limited Liability Company.

The foundation of a limited liability company is regulated also by the Law concerning Investments, if founders are foreign representatives.

List of documents for formation procedures is the same as for joint stock company.

Capital structure

The capital consists of the participation interest of the shareholders and shall be at least 400 times the minimum wage (approximately USD 3650).

Relationship of shareholders, directors and officers

The hierarchical structure of the company is based on the following:

- General shareholders meeting (the supreme body)
- Executive body
- Board of directors and supervisory council (if stipulated by the Charter)
- Auditing committee

Liquidation

The limited liability company may be liquidated in accordance with the provisions of the Civil Code, the Law concerning Limited Liability Companies and the Charter of the company.

The limited liability company may be also liquidated under a court decision.

Books, records and statutory audits

The accounting and financial activity of the company are governed by the provisions of the Law concerning Accounting and Financial Statements and other relevant legislative acts. Shareholders of the limited liability partnership may engage independent auditor if they decide that such procedure is required.

6.5 Partnerships and joint-ventures

Formation procedures

For a U.S. or a foreign company willing to sell its products through a local firm without establishing a joint venture, registration is not required. Such partnership may be established by a consortium or partnership agreement with a registered local firm. A local firm will handle issues related to the import, certification, customs and taxes.

The following documents should be submitted in two copies to the Ministry of Justice (or its regional branches) when forming a Limited Liability Partnership:

- A letter of application
- Charter of the company
- Agreement to establish the company (if more than one founder)
- Minutes of the meeting to establish the company. The minutes must include the following items: (i) articles of incorporation, (ii) decision on approval of the incorporation documents, (iii) decision on appointment of the executive body of the entity
- Reference from the state registrar (if founders are legal entities)
- Documents confirming the legal address (reference letter from city’s district government)
- Documents confirming the chartered capital
- Receipt for payment (or copy of the payment order) of the state fee

Capital structure

According to the Law on Limited Liability Companies the minimum chartered capital of the firm should be at least 400 units of minimum wage – USD 3650. The registration fee is 100 units of minimum wage – USD 915.
6.6 Branches

Branch of a foreign corporation

The application for the registration of an accredited representative office or a branch of a foreign legal entity must contain the following documents:
- Application from a legal entity requesting the registration of its branch or accredited representative office
- Decision of an authorized body of the legal entity, containing (i) decision to establish the accredited representative office or branch, (ii) approval of its regulations, (iii) appointment of a chief of accredited office or branch
- Copy of identification document of the head of the branch or representative office (or copy of identify card of authorized person)
- Power of attorney issued to the head of the accredited representative office or a branch
- Legalized copy of document, which confirms the registration and legal position of foreign legal entity
- Receipt or a payment order to confirm payment of the state fee, approximately USD 230

Above documents must be translated into official language of Republic of Tajikistan and be notarized.
6. Labour relations and social security

7.1 Labour market

Proportion of unemployed population in capable working age against busy population comprises 74%.

7.2 Labour relations

Employer/employee relations

The relations between employer and employee are based on a Labor Contract.

Unions

The labor union of a company consists of all employees. Their rights shall be stipulated by the Charter of a company and Labour Contracts. The legislation also includes some provisions in respect of the rights of the labor union.

The Labour Code

The Labor Code of the Republic of Tajikistan is the primary legislative act that regulates the labor relations in the country.

7.3 Working conditions

Salaries and wages

Average monthly wages in 2010 was approximately $85 which remains very low by western standards.

Working hours

40 hours per week

Paid holidays

24 calendar days

Equal opportunities

The Law on Equal Rights of Men and Women regulates relations with the purpose of ensuring equal rights of men and women in the social, political, and cultural spheres, and in any other sphere, and the Law has the objective of eliminating discrimination on the basis of gender.

Termination of employment

Labor contract may be terminated based on the following:
- by mutual decision of the parties
- upon request of the employee
- upon request of the employer
- termination of the contract under circumstances independent of the parties’ requests

7.4 Social security system

A rate of 25% shall be applied to the total salaries of employees for the social tax payable to the budget by insured parties (employers) and a rate of 1% shall be applied for the social tax payable by insured persons (employees). Resident individuals involved in entrepreneurial activities are taxed at the rate of 20% of income.

7.5 Foreign personnel

Living conditions

Foreign citizens and persons without citizenship, living in the Republic of Tajikistan, can work at enterprises, organizations and institutions or carry out other labor activity based on and in the procedure set out for citizens of Republic of Tajikistan, except for cases defined by legislation of Republic of Tajikistan.
Restrictions on employment

Labor legislation of the Republic of Tajikistan is effective for persons - non-citizens of the Republic of Tajikistan, working by labor agreement (contract) at enterprises in the territory of the Republic of Tajikistan, if not otherwise specified by the legislation of the Republic of Tajikistan or by international agreement with participation of the Republic of Tajikistan.

Fiscal registration

Travelers staying in Tajikistan three days or longer must, within three days of arrival in Tajikistan, obtain registration stamps at the Ministry of Foreign Affairs (MFA) or the Ministry of Internal Affairs (OVIR), depending on whether the purpose of the visit to Tajikistan is for official or personal travel. Immigration authorities may deny the departure of travelers who failed to register their visas until they pay a fine and obtain the registration stamps at the MFA or OVIR.
7. Accounting and audit requirements

8.1 Accounting

Introduction of International Financial Reporting Standards

Accounting and audit requirements of the Tajikistan is governed by Law on Accounting and Financial Reporting. Present law is assigned for all organizations despite their legal form, including non-resident legal entities.

Legal entities are required to prepare financial statements in accordance with International Financial Reporting Standards or National Accounting Standards.

Public companies are required to prepare financial statements in accordance with International Financial Reporting Standards. Preparation of financial statements for financial institutions (banks, financial organizations and micro credit agencies) is regulated by National Bank of Tajikistan.

Significant differences between Tajikistan accounting standards and IFRS

Accounting policies and practices are being revised in light of the legal requirement that companies adopt IFRS/IAS. Such revised accounting policies should be adopted by the Boards of Directors of companies, and disseminated to all the accounting units with clear instructions on how to introduce and follow the new policies and procedures.

8.2 Audit requirements

Personnel of audit firms shall be comprised of:

- at least 70% of Tajikistan citizens
- at least 75% of Tajikistan citizens (if the manager of the audit company is a foreign citizen)
- at least 70% of certified auditors

Standards for audits required by law

The standards are stipulated by the Law of the Republic of Tajikistan concerning Audit Activity and the Law concerning Licensing for Special Categories of Activities.

The audit standards are ratified by the Government.
8. Tax System and Administration

9.1 Tax System

Administration of the tax system

Tax system is administered by the Tax Committee of the Government of Tajikistan and by its district offices (collectively referred to as the tax authorities). The tax authorities register taxpayers, control reporting and payment of taxes and conduct tax audits. Taxes related to certain cross border transactions are administered by the customs authorities.

Registration requirements

In general, the tax code requires the tax registration of all residents (Tajik legal entities and individuals) and non-residents (both individuals and legal entities) that have a permanent establishment in Tajikistan.

9.2 Direct and indirect tax burden

The direct tax burden is represented primarily by income taxes. Indirect taxes include VAT, sales taxes and excise tax.

9.3 Principal taxes

The principal taxes in Tajikistan include:

- Income tax from individuals
- Income tax from legal entities
- Minimum income tax
- VAT
- Social tax
- Excise
- Property tax
- Sales tax

9.4 Legislative framework

Statute law

Tax legislation of Tajikistan is based on the constitution, international treaties, civil code, the tax code and diverse statutes which are issued by the Parliament. Other government agencies, to the extent of their competence, may issue their statutes related to taxation.

Case law

Tajikistan does not follow case law.

9.5 Income tax

Concepts of income tax

Income tax is generally applicable to worldwide income of residents and Tajikistan source income of non-residents.

The Tax Code establishes general corporate income tax rate of 15% and 25% for enterprises operating in transport, communication, banking and service sectors. There is no separation for ordinary income, capital gains or passive types of income (except for non-residents’ income). Individuals are taxed on a progressive scale at the marginal rates.

Classes of taxpayer

Income tax is applicable to both individuals and legal entities. Another class of income tax payers is permanent establishments of non-residents. Finally, non-residents with no permanent establishment in Tajikistan are generally taxed through withholding at different rates depending on the nature of the income.

The Tajik tax system does not envisage the concept of conduit entities.

Taxable income

In computing taxable income, both individuals and legal entities are allowed to make certain deductions. For individuals, these are miscellaneous deductions such as a calculation index, social payments received etc. For legal entities the allowed deductions are all costs related to earning income, including depreciation and amortization of fixed assets. Certain expenses are specifically limited or disallowed.

Tax year

The tax code prescribes a calendar year as the tax year.

9.6 Tax treaties

Tajikistan has double tax treaties with the following countries: Azerbaijan, Armenia, China, Czech
Republic, Germany, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Pakistan, Poland, Russia, Turkey, Turkmenistan, India and Ukraine.

9.7 Tax returns and payments

Tax returns are prepared by taxpayers and may be filed in hard copy (i.e. personally or via post) and electronically (in fact this system is not available but likely to be introduced in 2011). Tax returns are generally due within a certain period of time after the end of the reported tax period. Payments are also generally due after the end of the tax period, except for income tax of legal entities which is payable in installments.

9.8 Assessments

Generally, assessments are made by taxpayers. The tax authorities may make additional assessment based on any available information (e.g. based on the findings of tax audits).

9.9 Appeals

Taxpayers may appeal to the higher level of tax authorities’ hierarchy and/or to the court. Taxpayer has a right to appeal to the higher level within 30 calendar days from the day of receipt of tax audit act, notification or another decision.

9.10 Withholding taxes

Withholding taxes are assessed primarily on dividends, interest payable to resident legal entities and payments to non-residents if they are considered Tajikistan source income. Individual income taxes on salaries are also paid primarily through withholding at the source of payment.

9.11 Tax audits

Tax audits are conducted by the tax authorities. Tax audits may be documentary and raid. Documentary tax audits may be further subdivided into comprehensive (i.e. covering all taxes), thematic (covering only specific type of taxes) or cross–check (covering only transactions with a particular counterparty). Comprehensive and thematic audits may be conducted once a year.

9.12 Penalties

Failing to file a tax return

The fine for failure to file a tax return ranges from a minimum amount of 1 calculation index, which is for tax penalties purposes currently 35 somoni (USD 8), to a maximum fine of 100 calculation indices, or 3,500 somoni (USD 799). The amount of the fine depends on the taxpayer’s category (individual, entrepreneur, legal entity) and should be assessed based on each 10 days of delay.

Assessment in absence of tax return

In the absence of tax returns the tax authorities are entitled to assess the taxes based on any information available.

Understated tax liabilities

Fines may be assessed in the amount of 10% to 20% of the understated tax liabilities.

Tax evasion and significant understatement of tax liabilities

In the case of tax evasion the tax authorities have a right to assess fine in range of minimum amount of 1 calculation index, which is for tax penalties purposes currently 35 somoni (USD 8), to a maximum fine of 200 calculation indices, or 7,000 somoni (USD 1,600), depending on type of taxpayer. In severe cases, a violation may be considered as criminal offence.
Failure to withhold and pay tax

A fine for failure to withhold and remit tax may be assessed in the range of minimum amount of 3 calculation indices (USD 24), to a maximum fine of 200 calculation indices, or 7,000 somoni (USD 1,600), depending on type of tax agent liable to withhold and pay tax.

Interest for late payments

Interest penalties may apply to late tax payments in the amount of 0.08% of the underpaid tax amount, for each day of tax underpayment.

Voluntary disclosures

Taxpayers are allowed to make changes to prior period tax returns within the statute of limitations (3 years). No fines should apply to corrections in this case.

9.13 Advance tax clarifications

Advance tax clarifications (like private letter rulings) are not envisaged in the Tajikistan tax system.
10. Taxation of Corporations

10.1 Corporate tax system

Taxable entities

Generally, all Tajik legal entities are subject to taxation in Tajikistan.

Dividends

Dividends in Tajikistan are subject to 12% withholding income tax.

Territoriality

Tajik residents are taxed on their worldwide income. Non-residents are subject to income tax in Tajikistan only on Tajikistan source income.

Representative offices

Representative offices are generally considered taxable permanent establishments, unless an applicable double tax treaty stipulates otherwise.

Permanent establishments

Non-residents operating through a permanent establishment are generally subject to the same income tax provisions. In addition to income tax, permanent establishments are subject to branch profit tax at the rate of 8% of net profit after income tax, unless a lower rate is prescribed by an applicable double tax treaty.

10.2 Incentives

Tax incentives include tax free special economic zones and an exemption from income tax for taxpayers that have made a certain amount of investments.

10.3 Taxable income

Tax base

Income tax is assessed at 15% (except for enterprises operating in transport, communication, banking and service sectors which are taxed at 25%) on the taxable income which is the difference between gross income and allowed deductions.

Accounting period

The tax year is a calendar year.

Accounting methods

Taxpayers may use the accrual or cash method. For certain taxpayers only the accrual method is allowed.

Business profits

The tax code does not separate taxation of business profits and other types of income (e.g., capital gains or passive types of income).

Accounting for income

Income may be accounted under the accrual or cash method.

Inventory valuation

Inventory accounting for tax purposes generally follows inventory accounting for financial reporting purposes.

Passive income

In general, passive income is taxed as business profits. Interest may be subject to withholding tax which can be applied as credit.

Securities

Capital gains on securities in general are taxed as business profits.

Exempt income

Among income specifically exempt from income tax are dividends paid in-country.

10.4 Deductibility of expenses

Business expenses

In general, all business expenses are allowed as a deduction if the expenses are connected with the
earning of income, not of a capital nature, and supported by proper documentation.

Accounting for expenses

Expenses can be accounted under either the accrual or cash method.

Depreciation

The deduction for costs related to fixed assets generally is made through depreciation and amortisation at rates ranging from 7% to 20%, using the declining balance method.

Interest

Deductibility of interest is generally limited to 3 times the refinancing rate of the National Bank of Tajikistan (currently 9%). For certain entities additional limitations may apply.

Bad and doubtful debts

Bad and doubtful debts are deductible when they are written off for financial reporting purposes.

Royalties and service fees

There are no special limitations for the deductibility of royalties or service fees.

Leasing

Leasing fees are deductible, unless the lease qualifies for financial lease. Under a financial lease, the cost of leased property is deductible through depreciation.

Employee remuneration

Employee remuneration is deductible in full.

Insurance premiums

Insurance premiums are deductible in full.

Charity contributions

Charity contributions are limited to 10% of taxable income.

Taxes

Taxes paid to the budget of Republic of Tajikistan and other states are deductible except for:

- income tax from individuals
- income tax from legal entities
- penalties and fines
- minimum income tax

Other deductions

Among other deductions specifically mentioned in the tax code are research and development, repair expenses, intangible assets acquisition and geological and geophysical expenses.

Losses

Losses are carried forward for 3 years.

Non-deductible expenses

Non-deductible expenses specifically determined by the tax code, include penalties and fines to the budget, meals and entertainment, personal expenses, passenger vehicles, and non-business expenses.

10.5 Related party transactions

Related party transactions may be subject to transfer pricing control described in the Price Control section above.
10.6 Foreign exchange

Foreign exchange gains are taxable.

10.7 Tax computations

General aspects

Tax is computed by applying the statutory 15% rate to taxable income (25% for enterprises operating in transport, communication, banking and service sectors), which is calculated as gross income decreased by allowed deductions. In Tajikistan, there is a minimum income tax on company income at the rate of 1% of aggregate annual income. Corporate income tax is taken into account for minimum income tax. If corporate income tax is less than minimum income tax on company income, then corporate income tax should not be paid. Only a positive difference between corporate income tax and minimum income tax should be paid. Nonetheless, minimum income tax should be paid in full amount.

Consolidation

Consolidation is not allowed.

Tax Credits

Taxpayers are allowed for a tax credit for income tax paid outside Tajikistan. Tax credit allowable for income tax is limited to the amount assessed based on rates and rules under Tajikistan tax legislation.

10.8 Other taxes

Excise tax

Excise tax is assessed on beverages, tobacco products, fuel, tires, passenger automobiles, jewelry, gambling and lotteries, except for lotteries issued by Ministry of Finance. Starting from 1 January 2011 mobile excise tax at 3% was introduced into Tax Code. Excise tax rates are established by the government.

Tax on sales

Import of lint cotton and smelt on the territory of Tajikistan are subject to tax on sales. Tax on sales is set as 10% from stock exchange price for lint cotton and 3% from stock exchange price for smelt.

Retail sales tax

Persons, realizing goods as a retailer are obliged to pay retail sales tax. Tax on retail sales is calculated as 3% from free market price, where free retail market price is free retail price increased by amount of tax.

Road Tax

Tax base for calculating road tax is deductions of reporting year multiplied by the 2% tax rate (0.5% for trade companies). If actual deductions do not exceed 70% of gross income, the tax base for road tax would be 70% of gross income.

Land tax

Land tax is paid based on the area of the land plot and varies depending on the location. The tax ranges from TJS 180 to TJS 500 (approximately USD 41-114) per hectare depending on the location of the land plot.

Real Estate Tax

Real property tax applies to immovable real property such as buildings, houses and flats. The tax rate is calculated by multiplying the land tax rate by a relevant coefficient (from 15 to 60), which depends on the purpose of real property. Immovable property situated in the place of resort is calculated by multiplying the land tax rate by a relevant coefficient (from 20 to 250).

Transport Tax

Transport tax is computed as a percentage of the calculation index applied for horse power of the vehicle engine. The percentage ranges from 2.5% to 13.75%.

Environmental taxes

Environmental tax is regulated by Law concerning other payments to budget. The level of environmental fees is set by local authorities.

Special pension fund charges

Pension fund charges are included in the social tax paid by employers.
10.9 Branch versus subsidiary

While operating through a branch may be more tax efficient and more convenient from the currency control perspective, a subsidiary should provide limited liability and sometimes can be the only possibility to obtain necessary operational licenses.
11. Taxation of individuals

11.1 Territoriality and residence

Tax residence

All Tajik citizens are considered tax resident in Tajikistan. In addition, foreigners who are present in Tajikistan for more than 182 days in a consecutive 12-month period are also considered residents.

Registration

Individuals who are tax residents in Tajikistan should undergo tax registration with the tax authorities at the place where they live.

11.2 Taxable income

Tajikistan residents are taxed on their worldwide income, while non residents are taxed only on the Tajikistan source income on a progressive scale ranging from 8% to 13%.

Income from employment

Income from employment is taxed through withholding by the employer.

Income from independent activities

Income from independent activities is taxed as if individuals were legal entities, unless election is made to be taxed under special regimes available to individuals.

Income from property and property rights

Income from property and property rights is taxed as income from independent activities.

Income from capital

Income from capital is taxed as income from independent activities.

Income from insurance

Income from insurance is generally exempt.

Other income

Other income is taxed at the progressive scale from 8% to 13%.

11.3 Non-taxable income

Among income specifically excluded from taxation are gifts from other individuals, prizes and gifts from government not exceeding 100 MCI, winnings from state securities not exceeding 50 MCI, state pensions, aliments, welfare, gain on the sale of real property, insurance payments and other payments.

11.4 Deductions

Business

Individuals who are treated as legal entities are allowed basically the same business deductions as legal entities.

Non-business

Individuals are allowed to deduct one calculation index and social tax only in respect of main place of employment.

Personal allowances

The tax code also envisages miscellaneous personal allowances for certain groups of people (veterans, disabled, etc). Generally, individuals are allowed to deduct one calculation index and social tax.

Social security contributions

Individuals are required to pay social tax which is 1% of the salary. The employer is obliged to make social tax payments assessed on the same tax base at the rate of 25%. Resident individuals involved in entrepreneurial activities are taxed at the rate of 20% of income.
11.5 Taxation of non-residents

Double taxation

Non-resident individuals are taxed on their Tajikistan source income. Taxation is primarily administered through withholding, though in certain limited instances non-resident individuals are required to make a self assessment. Under certain conditions or where provisions of a double tax treaty are available, non-resident individuals may be exempt from taxation in Tajikistan. Employment income of the non-residents is taxable at 25%.

11.6 Tax compliance

Obligations of withholding agents

In general, withholding agents are required to report and make withholdings from the payments to individuals.

Tax returns for individuals

The following individuals are required to file tax returns before 1 April of the year following the taxable year: individuals who have income which is not taxed at the source, individuals who have foreign bank accounts, individuals who are citizens of Tajikistan which are working in embassies and certain other individuals as may be required by the law.

11.7 Tax credits

Taxpayers are allowed for a tax credit for individual income tax paid outside Tajikistan. Tax credit allowable for individual income tax is limited to the amount assessed based on rates and rules under Tajikistan tax legislation.
12. Value Added Tax (VAT)

12.1 Introduction

VAT is generally assessed on taxable turnover, which includes goods and services. The current VAT rate is 18%. Individuals and businesses are required to register as VAT payers when the established threshold of taxable turnover is exceeded. Please see section registration for details.

12.2 Scope of VAT

Place of supply for goods

For goods, the place of supply is determined as the initial point of transportation.

Place of supply for services

Services are generally considered to be provided at the place of the business of the service provider or the actual place where services are rendered. However, for certain types of services, such as consulting and accounting, the services are considered provided at the location of the buyer.

Import VAT

Goods imported to Tajikistan are generally subject to import VAT. Certain exceptions may apply. In 2011, VAT on pharmaceuticals products at the rate of 5% introduced, which are previously were exempt from import VAT.

12.3 Zero-rating

The export of most goods from Tajikistan is subject to zero rate VAT, except for raw cotton, lint cotton, jewellery, precious metals and stones.

12.4 Exempt supplies

Generally, the tax code exempts the following from VAT: goods and services that are not provided in Tajikistan under the place of supply rules, sale, transfer or rent of real property, financial services, medical services, publishing, and certain other goods and services based on listapproved by government of Tajikistan.

12.5 Taxable amount

The taxable amount of VAT is the value of goods and services.

12.6 Not allowed for offset VAT

In general, VAT paid on passenger vehicles, geological services, meals and entertainment, on amortized fixed assets, and intangible assets, and improperly documented input VAT is not allowed for offset.

12.7 VAT incentives

The tax code exempts from import VAT the supply of certain types of equipment, national and foreign currency, natural resources (gold, silver, platinum and other) raw materials, and goods related to aluminum production, lint cotton as well as other supplies.

12.8 Simplification measures

Individuals and business with low turnover, not exceeding the threshold, are not required to register as VAT payers.

12.9 VAT compliance

Registration

Individuals and businesses are required to register as VAT payers when the established threshold is exceeded in the preceding 12 months. The threshold is established in local currency (200 thousand somoni or about USD 46 thousand).

Accounting requirements

There are no special accounting requirements for VAT payers.

Information in VAT invoice

VAT invoice should contain names of the supplier and buyer, their tax identification numbers, address, number and date of VAT registration certificate of supplier, description of goods and services supplied, taxable turnover, excise tax, VAT, date, and number. The VAT invoice should be issued in four copies.

Export VAT invoice should contain information that VAT invoice relates to export operations, country and
destination point and applicable VAT rate on export operation.

**VAT liability**

The VAT liability is determined as the difference between VAT assessed on the turnover and deductible input VAT.

**Reverse charge VAT**

Services provided by non-residents not registered in Tajikistan which, under the place of supply rules, are considered provided in Tajikistan are subject to VAT in Tajikistan through withholding from payment.

**Returns and payments**

VAT returns together with issued and received invoices, are filed monthly, not later than the 15th day of the month following the reporting month. Payments are due by the same date.

**Refunds**

A VAT refund is generally available for qualified exporters if input VAT exceeds assessed VAT.
13. **PricewaterhouseCoopers in Tajikistan**

PricewaterhouseCoopers was created in 1998 through the merger of two firms - Price Waterhouse and Coopers & Lybrand - each with its historical roots going back some 150 years. PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 155,000 people in 150 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders. In Central Asia, we operate as a global organization capitalizing on our breadth and depth of knowledge fully shared. With the aid of modern technology, we are able to draw upon the combined world-wide knowledge and experience from our offices all over the globe for the benefit of our clients. It is essential that we have the right resources committed to you, so we deliver a consistent, coordinated, high-quality service on even the most complex international engagement. We do this through PricewaterhouseCoopers’s integrated worldwide network of country firms, which are collectively managed to global quality standards by our leadership team. But it is the way we leverage our network of firms, skills, and minds that really makes the difference to your business. We bring you the best thinking and the most relevant experience by working together across industries, service lines, and national boundaries. The collective geographic and functional knowledge of our global network benefits not only our largest multinational clients, but also benefits many middle-markets and smaller companies who can take advantage of our deep industry knowledge and international experience.

**Office PricewaterhouseCoopers:**
Please contact our Almaty office.
050059 Kazakhstan, Almaty
34 Al-Farabi Ave, 4th floor

Tel: + 7 (7272) 330-3200
Fax: + 7(7272) 244-6868

**Government websites:**
http://www.president.tj
http://www.stat.tj
http://met.tj/en/
http://www.andoz.tj
http://www.mfa.tj/

**Business groups**

**Other useful addresses and websites**

http://exportdir.tj
http://www.nbt.tj
### Appendix 1 – Tax rates

#### Income Tax from Legal Entities

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard rate</strong></td>
<td>15%</td>
</tr>
<tr>
<td><strong>Certain taxpayer’s rate</strong></td>
<td>25%</td>
</tr>
<tr>
<td><strong>Minimum income tax</strong></td>
<td>1%</td>
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</table>

#### Branch Profit Tax

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard rate</strong></td>
<td>8%</td>
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</table>

#### Depreciation rates

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buildings and other structures</strong></td>
<td>7%</td>
</tr>
<tr>
<td><strong>Tractors, special instruments and tools, computers and related hardware, electronic and communication equipment.</strong></td>
<td>20%</td>
</tr>
<tr>
<td><strong>Lorries, buses, special cars and trucks, industrial machinery and equipment, agricultural machinery and equipment, office furniture</strong></td>
<td>15%</td>
</tr>
<tr>
<td><strong>Railway, river and air transport vehicles, thermo-technical equipment, turbines, electric and diesel drives, power supply and communication lines, pipelines</strong></td>
<td>8%</td>
</tr>
<tr>
<td><strong>Depreciable assets not mentioned above</strong></td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Payroll Taxes

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<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees’ Social Tax</strong></td>
<td>1%</td>
</tr>
<tr>
<td><strong>Employers’ Social Tax</strong></td>
<td>25%</td>
</tr>
<tr>
<td><strong>Individual entrepreneurs’ Social Tax</strong></td>
<td>20%</td>
</tr>
</tbody>
</table>

#### Withholding Tax

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dividend and interest</strong></td>
<td>12%</td>
</tr>
<tr>
<td><strong>Insurance and reinsurance premiums</strong></td>
<td>4%</td>
</tr>
<tr>
<td><strong>International transport and telecommunications</strong></td>
<td>4-6%</td>
</tr>
<tr>
<td><strong>Royalties, rents, lease income, management fees and other income</strong></td>
<td>15%</td>
</tr>
</tbody>
</table>

#### Income Tax from Individuals

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Up to 1 calculation index</strong></td>
<td>0%</td>
</tr>
<tr>
<td><strong>From 1 calculation index to 100 somoni (approximately USD 23)</strong></td>
<td>8%</td>
</tr>
<tr>
<td><strong>In excess of 100 somoni</strong></td>
<td>13%</td>
</tr>
<tr>
<td><strong>Non-resident’s income</strong></td>
<td>25%</td>
</tr>
</tbody>
</table>

* The current calculation index is 40 somoni (approximately USD 9)

#### Other Taxes

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Road Tax</strong></td>
<td>0.5% -2%</td>
</tr>
<tr>
<td><strong>Transport Tax</strong></td>
<td>2.5-13.75%**</td>
</tr>
</tbody>
</table>

** of calculated index

#### Indirect Taxes

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VAT</strong></td>
<td>18%</td>
</tr>
<tr>
<td><strong>Retail sales tax</strong></td>
<td>3%</td>
</tr>
<tr>
<td><strong>Excise Tax</strong></td>
<td>***</td>
</tr>
<tr>
<td><strong>Sales Tax (lint-cotton)</strong></td>
<td>10%</td>
</tr>
<tr>
<td><strong>Sales Tax (aluminium)</strong></td>
<td>3%</td>
</tr>
</tbody>
</table>

* Established by the government and varies depending on the type of the goods.
Appendix 2 – Withholding tax

Withholding Tax Rates Between Kazakhstan and Treaty Countries
(The letters in parentheses refer to the notes below)

<table>
<thead>
<tr>
<th>Types of income at source of payment</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends and interest</td>
<td>12</td>
</tr>
<tr>
<td>Insurance and reinsurance premiums</td>
<td>4</td>
</tr>
<tr>
<td>International transport and telecommunications</td>
<td>4 to 6</td>
</tr>
<tr>
<td>Royalties, rent, lease income, management fees, and other income</td>
<td>15</td>
</tr>
</tbody>
</table>

In accordance with the DTTs as of 1 January 2010, the rate of WHT may be reduced as follows:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>1.5.1 Dividends (%)</th>
<th>1.5.2 Interest (%)</th>
<th>1.5.3 Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No treaty</td>
<td>12</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Armenia</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>5/10 (Note 1)</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>5/15 (Note 2)</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>India</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10/15 (Note 3)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>5/15 (Note 4)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Latvia</td>
<td>0/5/10 (Note 5)</td>
<td>7</td>
<td>5/10 (Note 6)</td>
</tr>
<tr>
<td>Moldova</td>
<td>5/10 (Note 7)</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5/10 (Note 7)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Poland</td>
<td>5/15 (Note 8)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Russia</td>
<td>5/10 (Note 9)</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td>10 (Note 10)</td>
<td>10</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Ukraine</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>
Notes

1. A rate of 5% of the gross amount of the dividends if the recipient is an enterprise (except a partnership) that directly holds at least 25% of the capital of the company paying the dividends; 10% of the gross amount of the dividends in all other cases.

2. A rate of 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends; 15% of the gross amount of the dividends in all other cases.

3. A rate of 10% of the gross amount of the dividends if the beneficial owner is a legal entity and directly holds no less than a 30% stake in the company paying the dividends; 15% of the gross amount of the dividends in all other cases.

4. A rate of 5% of the gross amount of the dividends if the beneficial owner is a company that holds at least 50% of the share capital of the company paying the dividends; 15% of the gross amount of the dividends in all other cases.

5. A rate of 0% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 75% of the capital of the company paying the dividends; 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends; 10% of the gross amount of the dividends in all other cases.

6. A rate of 5% of the gross amount of the royalties paid for the use of or the right to use software, or industrial, commercial, or scientific equipment; 10% of the gross amount of the royalties in all other cases.

7. A rate of 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the share capital of the company paying the dividends; 10% of the gross amount of the dividends in all other cases.

8. A rate of 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the share capital of the company paying the dividends; 10% of the gross amount of the dividends in all other cases.

9. A rate of 5% of the gross amount of the dividends if the beneficial owner is a person who holds directly at least 25% of the share capital of the company paying the dividends; 10% of the gross amount of the dividends in all other cases.

10. Interest arising in Tajikistan and paid to the government of Turkey or to the Central Bank of Turkey shall be exempt from Tajikistan tax; interest arising in Turkey and paid to the government of Tajikistan or to the National Bank of Tajikistan shall be exempt from Turkish tax.

Tax administration

Returns

The Tax Code prescribes a calendar year as the tax year. Annual CIT declarations are due by 1 April in the year following the tax year-end.

Taxpayers are required to submit their estimated calculation of monthly advance payments of CIT.

Payment of tax

With respect to CIT, advance payments are due every 15th day of the month. Payment of any outstanding CIT liabilities is required not later than 10 April following the reporting tax period.

The settlement of minimum income tax should be done by 10 April following the reporting tax period in case it exceeds CIT liability.
Fines and interest penalties

The fine for failure to file a tax return ranges from a minimum amount of 1 calculation index (CI), which is currently TJS 35 (approximately USD 7.6), to a maximum fine of 100 CI, or TJS 3,500 (approximately USD 761). The amount of the fine depends on the taxpayer's category and should be assessed based on each ten days of delay. In the absence of tax returns, the tax authorities are entitled to assess taxes based on any information available.

Fines may be assessed in the amount of 10% to 20% of the understated tax liabilities. In severe cases, a violation may be considered a criminal offence.

A fine for failure to withhold and remit tax may be assessed in the amount of 3 to 200 CI (approximately TJS 1,225 – 7,000 (USD 266-1 522)) of the tax not withheld.

Interest penalties may apply to late tax payments in the amount of 0.08% of the underpaid tax amount, for each day of tax underpayment.

Statute of limitation

Taxpayers are allowed to make changes to prior period tax returns within the statute of limitations (three years). No fines should apply to corrections in this case.

Other issues

Accounting system

In accordance with the governmental Resolution of the Republic of Tajikistan concerning International Standards of Financial Statements, the Ministry of Finance of the Republic of Tajikistan shall adopt the International Financial Reporting Standards (IFRS) through a step-by-step approach. Starting from 2011 juridical legal entities should apply IFRS.

Accounting policies and practices are being revised in light of the legal requirement that companies adopt IFRS and International Accounting Standards. Such revised accounting policies should be adopted by companies’ boards of directors and disseminated to all the accounting units with clear instructions on how to introduce and follow the new policies and procedures.