

Tax and legal alert

Concerns about a sales tax regime replacing VAT in 2017

Special edition



Background

Under the 100 steps for institutional reforms, President Nazarbayev spoke about the need to improve the system of indirect including considering replacement of Value Added Tax ("VAT") with Sales Tax.

PwC is concerned about this initiative. There are several reasons why Sales Tax is problematic including its absence in OECD member countries except the US, its inflationary effects, its distortionary effect on the economy, the difficulties of enforcement.

We are working actively to disseminate this view.

In detail

Nonetheless, we believe it important to outline our understanding of the current line of thinking on Sales Tax.

It would be introduced in 2017 and would be levied on all stages of production and distribution. The tax paid at each stage would not be offset-able: it would be accumulated as a cost.

The taxable basis would be the:

- *Value of goods, works and services delivered within Kazakhstan,*
- *Value of goods imported to Kazakhstan. Exports would not be subject to Sales Tax. But exporters would not be eligible for a refund of accumulated Sales Tax.*

The envisaged tax rate varies from 3 to 5%.

A draft law is expected to be available for public discussion in 2016.

We assume that if difficulties associated with VAT are resolved, Sales Tax may not be implemented.

Further actions: how can PwC help you?

We will continue to monitor developments. If however you would like to understand the implications of Sales Tax in more detail, we would be pleased to meet. Relevant topics include:

- *Impact on your supply chain and pricing,*
- *Technology (investments in system configuration to comply with Sales Tax),*
- *Contracts with vendors (direct and indirect) and your customers,*
- *Design of tax function within your organization and related internal control,*
- *Assessment of VAT balances on transition to Sales Tax.*

Let's talk

For a more detailed discussion, please contact any of the below PwC team members:

Michael Ahern, Partner

michael.ahern@kz.pwc.com

Elena Kaeva, Partner

elena.kaeva@kz.pwc.com

Dana Tokmurzina, Manager

dana.tokmurzina@kz.pwc.com

Svetlana Ceban, Senior Manager

svetlana.x.ceban@kz.pwc.com

PwC Kazakhstan

34 Al-Farabi Ave.

Building A, 4th floor

Almaty, Kazakhstan, 050059

Tel.: +7 (727) 330 32 00

Fax: +7 (727) 244 68 68

www.pwc.kz

6 Sary-Arka Str.

Business Centre "Arman", 16th floor

Astana, Kazakhstan, 010000

Tel.: +7 (7172) 55 07 07

Fax: +7 (7172) 55 07 08

www.pwc.kz