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Tax and customs incentives for subsoil users in Uzbekistan

On 6 October 2021, the President of the Republic of Uzbekistan signed the Decree “On measures for further stimulation of geological exploration works and improvement of the taxation procedure of subsoil users” No.УП-6319 (the “Decree No.УП-6319”).

According to the Decree No.УП-6319, starting from 1 January 2022, there will be introduced a special procedure on the competitive bidding for the right to use the subsoil plots for geological exploration or mining of hydrocarbons, precious, non-ferrous, rare and radioactive metals, other types of mineral resources on the previously explored subsoil plots.

At the same time, the sales amount is considered as the bonus sum for the right to use the subsoil plots. The organizers or participants of the competitive bidding process are entitled to propose increased tax rates for some types of taxes for the extraction of minerals in accordance with the procedure established by law.

From 1 January 2022, there will be abolished:

- ▶ the land tax on legal entities for the land allotted for exploration;
- ▶ the commercial discovery bonus and subscription bonus for mining rights, geological survey and exploration activities.

Moreover, there will be introduced an annual license fee for the use of subsoil plots for geological exploration, which shall be calculated on the basis of the allocated area and the types of mineral resources. We expect the amount of the annual license fee to be determined by the end of this year.

Entities engaged in exploration, including contracting and subcontracting entities shall be exempted from:

- ▶ customs payments for the temporary importation of the special equipment necessary for carrying out geological exploration for the period of prospecting, exploration and exploitation of deposits;
- ▶ customs payments for the import of equipment, material and technical resources and special equipment, which is not produced in the Uzbekistan, necessary for prospecting, exploration and exploitation of deposits on the basis of lists formed in accordance with established procedure.

The Decree No.УП-6319 also establishes that from 1 October 2021:

- ▶ excise tax rate is set at 0 per cent for the export of natural gas;
- ▶ legal entities are exempted from customs payments when importing natural gas.

In the addition to the measures indicated above, the Decree No.УП-6319 indicates to draft a law to amend and supplement the Tax Code, with following changes taking effect from 1 January 2022:

- ▶ reduction of the subsoil tax rates to 10 per cent for oil and natural gas, 7 per cent for gold and copper, 2.7 per cent for tungsten and 8 per cent for uranium;

- ▶ introduction of a tax on rent income for subsoil users producing oil, natural gas, gas condensate, precious metals, non-ferrous metals, rare metals and radioactive metals in new deposits, taking into account the capital expenditure of subsoil users;
- ▶ abolishment of the property tax for new oil and gas wells in the first two years, starting from the month of their operational commissioning, and in the next three years, a 50 per cent reduction in the tax rate;
- ▶ unification of taxes on subsoil use for non-metallic minerals;
- ▶ granting the right to conduct tax accounting in US dollars to enterprises with foreign investments - payers of tax on rental income.

Furthermore, the Decree No.УП-6319 provides that the incentives on customs payments, provided by paragraph 3 of clause 4 of the Presidential Decree No.УП-2598 dated April 28, 2000 to foreign companies, engaging in prospecting for oil and gas, now also applies to domestic enterprises engaged in prospecting and exploration of hydrocarbon deposits.

In particular, these incentives include:

- ▶ the exclusive right to conduct prospecting and exploration works on a certain territory, followed by the development of any of the deposits discovered in the indicated territory by setting up a joint venture or on a concession basis;
- ▶ the preemptive right to provide a new territory for the continuation of prospecting and exploration works in case that resources of industrial value are not identified in the territories specified in the contract for these works;
- ▶ the right of ownership and unimpeded export, stipulated by the constituent documents of the joint venture or the concession agreement, of a part of the produced hydrocarbons, as well as the products of their processing on a tolling basis;
- ▶ a guarantee to reimburse the actual costs of prospecting and exploration work when discovering fields of industrial value, in cases of transferring them for further development to the Joint Stock Company Uzbekneftegaz;
- ▶ the exemption from income tax (excepting the interest received from funds deposited with commercial banks), property tax from legal entities, land tax from legal entities, tax for the use of water resources, for the period of exploration;
- ▶ exemption from customs payments (except for value added tax and customs clearance fees) when importing equipment, material and technical resources and services necessary for the conduct of prospecting, exploration and other related work.

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