



TAXATION AND CUSTOMS ISSUES

INDUSTRY AND LEGAL UPDATE

KALIKOVA &
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Information for effective business solutions

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Industry Update

26 February 2016

STS to provide telephone consultations on how to correctly report future export and import operations

State Tax Service of the Kyrgyz Government has launched a hotline within its call-centers to answer any questions on how to report any future movement of goods across the borders of the EAEU member states. The hotline number is 194 and it is open from 9 am till 6 pm.

«The hotline will give qualified answers to various questions such as who should report, how to report, which data should be reported, which office should be contacted in case of the loss of or damage to the report, which liability arises for reporting inaccurate or incomplete data», STS commented.

According to the new procedure, from March 10, 2016, importers and exporter will report to tax authorities of Kyrgyzstan on any movement of goods across the borders of the EAEU member states.

www.24.kg

16 February 2016

Preliminary survey of pilot project on administration of social security contributions shows good results

Legal Update

A. New legislation

27 January 2016

Procedure for preliminary reporting of trade operations in goods with EAEU member states

The Government of the Kyrgyz Republic issued Resolution № 38 of January 27, 2016 approving the Procedure for preliminary reporting of movement of goods for business purposes as part of the trade with the Eurasian Economic Union member states. Preliminary reporting must be completed within 30 days prior to the cross-border movement of goods. A taxpayer must prepare a report in three copies and submitted it to a tax authority at the place of its tax registration.

The Government of the Kyrgyz Republic also approved the List of goods moved by individuals for personal use, which does not require reporting to the tax authorities. In such case, such goods are treated as goods moved by individuals for personal use not for production or other business purposes, insofar as they do not exceed any quantitative limits or frequency (periodicity) of their movement.

It should be noted that the Government suspended Resolution № 38 by its Resolution № 113 of March 5, 2016 until the development of the most effective mechanism of registration of goods moved across the borders as part of the trade with the EAEU member states.

"Preliminary survey of the pilot project on the administration of social security contributions showed good results" Zamirbek Osmonov, Chairman of State Tax Service of the Government of the Kyrgyz Republic reported.

State Tax Service of the Government of the Kyrgyz Republic was appointed as the competent authority for collection of social security contributions starting from December 1, 2015. The first phase of the project was started in two pilot districts - Oktyabrsky district of Bishkek city and Sokuluk district of Chui region.

Preliminary survey showed that the first phase involving the registration of individual entrepreneurs with no employees through single-windows service centers of tax authorities in the above two districts had positive results. Thus, over the first two months of operations (December 2015 and January 2016), in the Oktyabrsky district, the STS Office sold 6,558 insurance policies worth of KGS 6,258,000, while in the Sokuluk district, the STS Office sold 1,390 insurance policies worth of KGS 706,7000 to individual entrepreneurs with no employees.

The second phase of the pilot project starting on March 1, 2016 will cover individual entrepreneurs with employees, land share owners other than members of peasant (husbandry) farms and non-corporate peasant (husbandry) farms.

The third phase starting on May 1, 2016 will cover legal entities and corporate peasant (husbandry) farms.

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14 January 2016

STS starts registration of individual entrepreneurs

From January 1, 2016, State Tax Service (STS) will perform the functions of National Statistical Committee (NSC) relating to registration of individual entrepreneurs. This was announced by STS Deputy Chairman Kubanychbek Kumashov at the STS press-conference.

He also added that this would create benefits for people who want to engage in entrepreneurial activity. In particular, now they can register both for statistical and for tax purposes in one place, i.e. the tax authority. Also, an individual entrepreneur can choose the tax authority which will perform registration: either at the place of permanent

26 January 2016

Amendments proposing temporary exemption from VAT on import of grain and supplies of flour

The act proposing new amendments to tax legislation was signed into law on January 26, 2016.

The amendments introduced temporary VAT exemption for import of grain (HS code 1001) intended for processing directly by the importer. Supplies of flour produced by the importer from this grain are also exempt from VAT. These exemptions will be effective till September 1, 2018.

The act was published in Erkin Too newspaper No. 7-8 and will become effective on the 15th day from the date of official publication.

31 December 2015

Amendments proposing to raise VAT registration limit, to abolish sales tax on export, to maintain tax privileges for food processing industry, etc.

The act proposing amendments to certain legislation of the Kyrgyz Republic (Tax Code, enacting law) was signed into law on December 31, 2015.

Under this act, from January 1, 2016:

- sales tax on export and sale of goods, works, or services outside Kyrgyzstan shall be abolished;
- VAT registration limit shall be raised from KGS 4 million to KGS 8 million.

From July 1, 2016:

- sales tax for VAT-taxable and VAT-exempt goods, works, or services paid by bank transfer shall be 0% (except for banks and mobile operators, for whom sales tax shall be 2% and 5% respectively);
- single tax under simplified tax system for goods, works or services paid by bank transfer shall be reduced twice as much.

Under this act, existing tax incentives shall be prolonged (maintained) till September 1, 2018, in respect of profit tax and VAT for food processing

registration or at the principal place of business.

Registration will be performed by the tax authorities within 5 business days.

Registration of individual entrepreneurs with the tax authorities will not create problems for NSC relating to collection and processing of statistical data. The tax authority will transfer all necessary information to NSC.

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30 December 2015

Three companies submit bids for provision of alcohol and tobacco excise stamp services

On December 23, STS unsealed tender bids for the provision of services relating to manufacture and supply of excise stamps for alcohol and tobacco products in the Kyrgyz Republic and abroad. The tender was conducted by way of one-stage electronic public procurement.

According to the STS press-service, the bids were submitted by three companies: Garsu Pasaulis CJSC (Vilnius, Lithuania), Siberian Manufacture of Security Papers and Other Precision Printed Products CJSC (Novosibirsk, Russia) and Holographic Industry CJSC (Minsk, Belarus).

Tender results will be known after review of tender bids and examination of sample excise stamps.

Apart from the manufacture and supply of excise stamps, the winning bidder will introduce the information system for registration and control of excise stamps.

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28 December 2015

Ministry of Economy proposes to introduce elements of tax on luxury items

On December 28, the press-service of the Ministry of Economy stressed on the need to introduce elements

enterprises which process agricultural products.

Other amendments to the Tax Code deal with the definition of entrepreneurial activity, export of goods, works or services, payments made by cash and by bank transfer.

B. Proposed legislation

9 February 2016

Amendments on filing Uniform Tax Returns (UTR)

A bill proposing amendments to some legal acts of the Kyrgyz Republic (Tax Code, Law Promulgating Tax Code) was introduced to the Parliament.

The bill proposes among other things the following amendments in respect of filing the UTR:

- to extend the list of the persons required to file the UTR so that it includes municipal employees and individuals having permanent resident or Kairylman immigration status;
- to postpone the time frames for filing the UTR (general declaration) until 2019;
- to abolish the right to file a family tax return.

The bill is available for review [here](#).

27 January 2016

Bill proposing to institute moratorium on tax inspections

A bill proposing to institute a moratorium on tax inspections was introduced to the Parliament on January 27, 2016.

The purpose of the bill is to reduce administrative burden on business entities and to increase their number. This decision has been necessitated by the economic crisis having the long-lasting adverse effects. By this moratorium the Government will greatly support entrepreneurs.

The bill proposes to suspend tax audits (onsite and desk audits), except those initiated by the foreign tax authorities in the framework of criminal

of tax on luxury items.

It is proposed to gradually abolish the sales tax and instead to raise the property tax for certain types of property, namely, for Group 1 (residential houses and apartments) and for Group 4 (motor vehicles).

Thus, for Group 1, property tax rates will be set depending on the area of the taxable property. For example, the residential property over 200m² will be taxed at 0.5% instead of 0.35%, while the residential property over 300 m² will be taxed at 0.8% instead of 0.35%. The existing criteria for setting the property tax rates for Group 1, such as space area, length of operation, type of materials, will remain the same.

For Group 4, property tax rates will be set depending on the length of operation and the year of manufacture.

It is supposed that the new rates will primarily apply to owners of large mansions and elite automobiles.

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24 December 2015

Policies to reduce tax inspections prove beneficial for small businesses

In 2014, the tax authorities inspected 83% of large taxpayers. This was reported by IFC international consultant Denis Vorontsov on December 24 at the presentation of findings from an assessment of tax compliance costs for businesses in Kyrgyzstan.

The study shows that the scope of tax inspections has slightly dropped to 54% in 2014. Nevertheless, every year, more than half of all taxpayers face the necessity of undergoing inspections by the tax authorities.

«The scope of tax inspections depends on the tax regime and scale of a taxpayer. Large taxpayers operating under general tax regime accounted for 83% of all inspected entities in 2014 (compared to 86% in 2012). In 2014, there were inspected 52% of legal entities, 55% of individual entrepreneurs, 48% of micro, 52% of small and 72% of medium enterprises», Denis Vorontsov reported.

«The study also shows that the scope of the Social Fund inspection has slightly dropped but the number of inspected entities is still high representing more

proceedings on charges of tax evasion supported by documentary evidence, for the period from April 1 till December 31, 2016.

The bill is available for review [here](#).

13 January 2016

Amendments proposing to change rates of voluntary patent-based tax

On January 13, 2016, tax amendments proposed by the Ministry of Economy were put up for public debate.

Thus, it is proposed to amend the Tax Code by adding a definition of inflation ratio. Inflation rate is a rate annually approved by the Government for the next calendar year based on changes in price of goods, works or services in the Kyrgyz Republic in the previous calendar year.

According to the proposed amendments, the amount of the voluntary patent-based tax for the next year must be adjusted on the basis of the inflation rate depending on type of activity. The inflation rate must be approved by the Government by April 1 of the current year based on the previous year results and must be officially published. If the inflation rate for the next calendar year is not approved, the inflation rate for the previous year must apply.

It is also proposed to increase the possible validity period up to 360 days. Thus, taxpayers may acquire patents valid for 1, 2, 15, 30, 90, 180 or 360 consecutive days. In such case, patents valid for 90 days will be eligible for 5% discount, patents valid for 180 days will enjoy 10% discount and patents valid for 360 days will be granted 20% discount.

The bill is available for review [here](#).

12 January 2016

Parliament to consider changes to land tax

The bill proposing amendments to the Tax Code was introduced to the Parliament on January 12,

than 50% of all taxpayers. In 2014, the Social Fund inspected almost each third taxpayer which accounts for 30% of all taxpayers, compared to 43% in 2012. The reduced frequency of the Social Fund inspections in 2014 is typical for all taxpayers, but the maximum reduction is observed in the category of entrepreneurs operating under simplified tax regime. This category of taxpayers is least interesting for the Social Fund in terms of inspections and the share of inspected entities among them has dropped more than twice as much since 2012: from 35% in 2012 to 15% in 2014», Denis Vorontsov noted.

<http://www.knews.kg/>

23 December 2015

Tax authorities bill mobile operators millions of dollars for unpaid tax

State Tax Service was sued by SkyMobile (Beeline), Nur Telecom (O!), ElKat and Saima Telecom mobile operators for charging VAT on exempt supplies.

The dispute between STS and mobile operators arose after unscheduled inspections on the basis of which STS charged VAT on guest roaming, interconnection and international transit traffic services provided over two years.

Prior to October 2012, under Article 247 of the Tax Code, such services were exempt from VAT. But on October 6, 2012, Parliament passed the new legislation (Act №169) whereby this provision was overruled. Operators were very surprised by this decision as it is not only contradicting best practices in setting tariffs but is also directly violating the International Telecommunication Union (ITU) Radio Regulations treated as a treaty and binding on all ITU members, including Kyrgyzstan. This opinion was supported by the Ministry of Foreign Affairs, Ministry of Finance, and Ministry of Economy, to which operators turned for advice and from which they received official response stating that under the ITU Radio Regulations, Kyrgyzstan cannot charge VAT on the above services.

The main argument put forward by STS was that Kyrgyzstan was not a member of the ITU. Despite a blatant absurdity of this statement it was upheld by the Bishkek City Interdistrict Court.

Therefore, at the end of October 2015, the Association of Telecom Operators referred their concerns to the President, Government and Prime Minister of the country. In response, the Executive

2016.

It is proposed to exempt land plots occupied by strategic facilities used in the generation or transmission of electric power, including land plots occupied by flood zone, from land tax.

The bill is available for review [here](#).

29 December 2015

Amendments to VAT on jet fuel supplies

The bill proposing amendments to the Tax Code was introduced to Parliament on December 29, 2015.

The bill imposes a zero VAT for refilling entities on supplies of jet fuel as onboard supplies for refilling of aircraft engaged in international air transport.

This bill also proposes to increase the period of submitting the copies of documents evidencing the export of excisable goods to the tax authorities from 90 to 180 days.

The bill passed first reading on February 10, 2016.

The bill is available for review [here](#).

Office of the President held a meeting with the representatives of the Ministry of Finance, Ministry of Economy, Ministry of Foreign Affairs, Ministry of Transport and Communications, STS and Association of Telecom Operators. The meeting resolved, among other things, that Kyrgyzstan had been a full-fledged member of the ITU since 1994 and should obey the Constitution and Convention of the ITU and its Regulations».

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If you have any comments, please contact Maksim Smirnov at mimirnov@k-a.kg

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