Tajikistan *Farhad Azizov**

An Overview of the Tax Regime

Contents

1. Introduction

Tajikistan is one of the smaller Central Asian states. It has an area of 143,000 square kilometers and a population of approximately 6.5 million, out of which approximately 700,000 live in the capital, Dushanbe. Tajikistan borders with Uzbekistan to the west, Kyrgyzstan to the north, China to the east and Afghanistan to the south. It is a mountainous landlocked country.

The national currency in Tajikistan is the Tajik Somoni (TJS).

The parliament has authority to legislate taxes, while limited taxing powers are devolved to local assemblies. The bulk of tax revenues administered and collected by the national government such as corporate income tax and land tax are channelled to local assemblies. The Tax Committee of the government of Tajikistan is generally responsible for the administration and collection of taxes.

At the national level, the tax system encompasses corporate income tax, individual income tax, minimum alternative tax, value added tax (VAT), excise tax, social tax, land tax, subsoil use tax, road users tax, the unified tax on agricultural producers, customs tax and other customs duties, sales tax (on cotton fibre and primary aluminum) and other national charges. Taxes administered at the local level are the tax on immovable property, tax on vehicle owners and retail tax.

The new Tax Code, introduced on 1 January 2005, presented a substantially reviewed version of the 1998 Tax Code.

The 2005 Tax Code applies to all taxes except customs duties, state charges and duties. The Tax Code also prescribes general administrative provisions in relation to the implementation of the tax system.

2. Corporate Taxation

2.1. Corporate income tax

Corporate profits derived by companies are subject to a corporate income tax (CIT). Dividends derived by resident corporate shareholders are exempt from tax, which effectively eliminates any cascade taxation in respect of intercorporate dividends. Dividends distributed to non-resident corporate shareholders and individual shareholders (both resident and non-resident) are subject to withholding tax.

CIT is levied on the worldwide income of a resident company.[1] For corporate tax purposes, a resident com-

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For other articles on the tax regimes of Central Asian countries, see Roustam Vakhitov, "Turkmenistan: An Overview of the Tax Regime", 11 *Asia-Pacific Tax Bulletin* 2 (2005), and Roustam Vakhitov and Lola Nasirova, "Uzbekistan: An Overview of the Tax Regime", 11 *Asia-Pacific Tax Bulletin* 4 (2005). **The author expresses his acknowledgement to Roustam Vakhitov for his contribution in the preparation of this article.**

1. The Tax Code operates using the term "enterprise" which is limited to joint-stock companies and limited liability companies incorporated under laws of Tajikistan or having their place of effective management in Tajikistan (henceforth referred to as "resident companies").

pany is a company established under laws of Tajikistan or a company which has its place of effective management in Tajikistan.

As simple partnerships lack legal personality, they are transparent entities and the income of a partnership is taxed in the hands of the partners.

Non-resident enterprises, regardless of their legal form, including those operating in Tajikistan through a permanent establishment (PE), are subject to CIT on income sourced in Tajikistan.

The tax year is the Gregorian calendar year. The tax period is the accounting period of 12 months, established for tax purposes.

2.1.1. Taxable income

In general, resident companies are taxed on their worldwide income. Taxable income includes:
- business income;
- investment income, i.e. interest, dividends, royalties;
- income from rent payments and the alienation of assets; and
- any other income, i.e. any net increase in the assets of the taxpayer (except share capital contributions) which is decreased by business and other expenses (e.g. finance expenses).

Capital gains are taxed as ordinary business income.

Certain categories of income are exempt from the taxable base. This includes the non-business income of not-for-profit organizations and the income of production enterprises with qualifying amounts of capital investment.

2.1.2. Deductions

In general, all substantiated expenses connected with the earning of income by a resident company, and paid by or accrued to the company during the tax period are deductible from the taxable income if they were incurred in the course of the business activity.

Representation expenses are not deductible. Business travel expenses are deductible subject to the ceiling established by the government on a periodic basis.

Donations to non-profit institutions are deductible up to a maximum of 5% of the taxable income in a calendar year. Certain expenses (e.g. interest) are deductible, subject to limits.

Interest paid on loans and finance leases is generally deductible. The deduction of interest expenses is limited to an amount which is three times the amount of the refinance rate prescribed by the National Bank in any given tax year. In addition, resident corporate borrowers are restricted from deducting interest paid to (i) corporate non-resident shareholders that have a direct or indirect share ownership of 25%, or to (ii) resident tax-exempt shareholders. This restricted amount is computed in the following manner:

resident borrower's interest income + 50% of its gross income (except interest income) – interest income and expenses

Valuation of inventory

The book value of inventory, including finished goods and work in progress, may be calculated in accordance to the taxpayer's accounting policies.

Depreciation

Depreciation of fixed business assets is compulsory and must be accounted for, regardless of whether or not the enterprise reports a profit or loss. Land is not depreciable. Fixed business assets are valued at their historic cost (i.e. purchase or manufacturing cost), plus cost of repairs, reconstruction, modernization and other improvements.

Depreciable assets are pooled in five groups. In general, the straight-line depreciation method is used. Currently, depreciation rates range from 7% to 20%. Costs of repairs are depreciable, subject to a limit of 10% for each given group of assets. Accelerated depreciation is allowed, subject to the ceiling of twice the depreciation rate accorded to the particular group of assets.

Reserves and provisions

The tax rules permit reserves for banks, credit partnerships, micro-credit deposit organizations and insurance companies. Provisions for bad debts are generally allowed. There are special rules governing the deduction of reserves resulting from certain loans or payouts from reserves made by insurance companies.

Losses

Losses may be carried forward for up to three years and can be offset against future taxable income. Losses may not be carried back.

Capital losses can be carried forward for up to three years, only if incurred on the alienation of assets used for non-business purposes, and can be offset against the future income derived from the alienation of other assets.

2.1.3. Social tax

Employers are required to pay social tax at the rate of 25% of the total payroll cost to the employer. The social tax is also due on amounts (other than salaries) paid to resident physical persons for services rendered in the course of the corporate taxpayer's business activity.

2.1.4. Rates

Currently, the CIT rate is 25%. A final withholding tax on interest is levied at the rate of 12%. There are no other withholding taxes on payments to resident companies.

The Tax Code also provides for a branch tax (an equivalent to tax on distributed dividends of a subsidiary) levied on the net income of the PE at 8% of after-tax profit.

There are no other income taxes. However, corporate taxpayers, including PEs in Tajikistan, are liable to a minimum alternative tax at 1% of gross income in the taxable year (less VAT and sales tax). A taxpayer is liable to pay this tax only if CIT payable is less than the minimum alternative tax. The amount of CIT due can be used to offset the amount of minimum alternative tax payable.

A corporate taxpayer can opt to pay tax using the simplified tax regime. This regime is available for companies where the gross income (less VAT and sales tax) does not exceed TJS 600,000.[2] The tax rate is 4% of the annual gross income less VAT and sales tax.

2.1.5. Dividends

Dividends include after-tax profit distributions (whether in money or in kind, including any disguised distributions) made by resident legal entities to shareholders in proportion to their shares, including proceeds from the redemption of shares and/or liquidation (less the costs of charter capital contributions).

Dividends are exempt from tax if paid to resident corporate shareholders. Dividends distributed to individual shareholders (resident and non-resident) and to non-resident corporate shareholders are subject to withholding tax.

2.1.6. Administration and payment of tax

Taxable income constitutes income derived during the calendar year.

Corporate income tax is calculated on a self-assessment basis and is paid in monthly advance instalments by the 15th day of the following month.

The advance payment is determined as the higher of 1% of the gross income of the reported month or 1⁄12 of the tax paid in the preceding year, multiplied by a factor of 1.1%. Alternatively, the taxpayer may elect to compute advance payments as gross income (before deductions) of the reported month multiplied by a special factor that is determined by the weighted amount of tax paid against the annual gross income in the preceding year.

The above advance payments can be offset against the minimum alternative tax and any excess thereof is payable by the taxpayer.

Upon computation of the final tax liability, any shortfall between the advance payments and the final tax liability must be paid when the annual tax return is filed before 10 April in the following year.

Under the simplified tax regime, corporate taxpayers are required to report on income received and make advance tax payments on a quarterly basis.

2.1.7. Advance rulings

The Tax Code generally allows for advance private rulings. A taxpayer is entitled to request from the tax authority information on taxes and respective normative acts. Rulings on the application of tax laws are issued by the lower chamber of the parliament and/or the government. Rulings on the application of sub-statutory acts of the tax legislation are issued by the Tax Committee. These rulings are binding on tax authorities for the applicant, provided that all details of the transaction have been fully disclosed and the transaction adheres to the details submitted in the ruling request.

2.2. Taxes on capital

Tajikistan does not impose a net worth tax. However, the following are taxes levied on land and immovable property.

Land tax

Land in Tajikistan is subject to national land tax. The tax is levied on corporate land users for the use of land parcels, for both limited and unlimited periods. The taxable base is the size of the land parcel and the tax rate is generally determined as a fixed amount per square metre or hectare, depending on the location and productivity of the land parcel.

In relation to land parcels for housing purposes, progressive tax rates apply. The rate is adjusted based on the specific size of the land parcel, or bracket, and a higher rate applies on the excess above each bracket. In addition, the rates differ based on the four zones, consisting of administrative territories or several such territories (cities, regions, districts, villages) (see Table 1).

Table 1

Area (in sq. m)	Tax rate on the excess (in TJS)			
	I	II	III	IV
1 – 800	180	250	375	500
801 – 2000	360	500	750	100
over 2000	900	1250	1875	2500

Land outside the cities and villages is subject to fixed rates per hectare, which range from TJS 0.8 to TJS 93, depending on the type of land and the cadastre zones in which the land is situated. There are six cadastre zones[3] and the average rates are subject to government regulations. Gardens and vineyards are exempt from tax for a period of five years.

2. For VAT purposes, the registration threshold is one third of the above amount, i.e. the threshold is currently TJS 200,000 (which is approximately USD 60,000 at the time of writing).
3. The four zones are used for the purposes of land tax in cities and villages, while the six cadastre zones are for land tax outside cities and villages.

Tax rates for the current year are adjusted to reflect inflation, using a factor of 0.7%, for items provided for in the state budget.

Immovable property tax

This tax applies to buildings and fixtures, and the rates are determined with reference to the land tax rates and a multiplying factor. For tax purposes, immovable property is divided into three groups and the tax rates are as shown in Table 2.

Table 2

Group	Taxable property	Multiplying factor
1	Housing	10 to 20 times
2	Property used for the purposes of trading, public catering and consumer services activities	20 to 50 times
3	Other purposes	15 to 40 times

Based on the above range of multiplying factors that can be applied, the eventual application will depend on the location of the property, the purpose of use, the taxable base and other factors such as the materials used for construction, depreciation, etc.

The government can further increase the upper limit of the multiplying factor used for immovable property located in tourism and recreation zones. If so, the tax rate imposed can be up to:
- 100 times for Group 1;
- 200 times for Group 2; and
- 150 times for Group 3.

Unified tax on agricultural producers

Corporations, partnerships, production cooperatives and individual farmers producing and supplying agricultural products are subject to the unified tax on agricultural products. Persons subject to this tax are exempt from:
- VAT;
- road users tax;
- corporate income tax (income tax);
- minimum alternative tax; and
- land tax.

Tax is levied based on the size of the land at rates that range from TJS 3 to TJS 164 per hectare, determined by the government depending on the type of land parcel and the zone in which it is located. The taxpayer is responsible for the calculation of the estimate assessment and is required to notify the authorities by 1 March each year. The tax is paid in four instalments.

Tax on vehicle owners

Corporate and individual owners of the motor vehicles are subject to tax on motor vehicle owners. The taxable base is the engine power, identified in horse-power units. The tax rate applies to each horse-power unit. Rates are determined as a percentage by reference to the monthly minimum wage (MMW). The rate ranges from 2% to 11% of the MMW, depending on the type of motor vehicle, seat and loading capacity. Certain types of vehicles such as public transport vehicles, etc. are exempt from tax. The tax is reported on an annual basis and is paid at the time of the technical inspection of the motor vehicle, set by the Tax Committee, Ministry of Finance and the State Road Inspection.

2.3. International tax aspects: legal entities

2.3.1. Foreign income and capital gains of resident entities

Resident companies are subject to corporate income tax on their worldwide income, including capital gains.

Dividends from non-resident companies are exempt from tax. Capital gains on the sale of shares in non-resident companies are subject to tax as regular business income, and are subject to the normal corporate rate.

Taxes on land and immovable property are not levied on property located abroad.

Under the domestic legislation and tax treaties entered into by Tajikistan, a credit is granted for income tax paid abroad. The amount of the credit is, however, limited to the domestic tax levied on such income. No credit is granted for the underlying corporate income tax. In addition, excess credit cannot be carried forward.

As property owned outside Tajikistan is not subject to tax, no credit is granted for foreign taxes on capital.

2.3.2. Domestic income and capital gains of non-resident entities

Non-resident legal entities carrying on a business through a PE in Tajikistan are subject to CIT on the worldwide income derived through the PE. The taxable income of the PE is determined in the same manner as that of a resident company and CIT rates apply.

The definition of the term "permanent establishment" broadly follows the concept of the United Nations Model Double Taxation Convention between Developed and Developing Countries. However, there are certain deviations, including the absence of a minimum period for the following activities to constitute a PE.

The domestic definition of a PE also includes:
- a place of production, processing, packaging and supply of goods;
- place of management;
- a place related to any exploratory (including related supervisory and monitoring) activity;
- a place related to the use of slot machines, computer networks and communications channels, transport and other infrastructure; and
- a building site, assembly and installation object (including related supervisory and design activity).

The following activities will also constitute a PE:

- the provision of furnishing services which exceed 90 days in any 12-month period, through which employees or personnel are hired for such purposes;
- collection of insurance premiums, insurance and reinsurance through an authorized agent;
- participation in a simple partnership under laws of Tajikistan; and
- a registered branch of a non-resident corporation.

Non-resident companies without a PE in Tajikistan or which derive income from sources in Tajikistan that are not connected to the business of the PE are subject to final withholding taxes on certain types of income sourced in Tajikistan.

Deduction of management and general administrative expenses

Certain tax treaties provide for the deduction of management and general administrative expenses charged to the PE in Tajikistan. The domestic legislation provides guidelines for the attribution of head office costs to the PE. The prescribed methods include the proportional and direct methods.

Under the proportional method, deductible expenses are the actual expenses multiplied by a factor. The factor is the ratio of the company's total overhead costs in relation to the PE's turnover, or is the average of turnover, tangible assets, and payroll.

The direct method involves the deduction of costs which are directly attributable to the PE.

Taxes on capital

Non-resident companies which own property in Tajikistan are subject to land tax (see 2.2.) and immovable property tax.

2.3.3. Administration

A non-resident company carrying on a business through a PE is taxed on a self-assessment basis in respect of income derived through the PE. In general, the rules for resident companies in relation to assessment obligations and advance payments apply to non-residents.

2.3.4. Withholding taxes

Dividends and interest paid to non-resident companies are subject to a 12% final withholding tax on the gross amount, unless a tax treaty provides otherwise.

Payments for international freight services to a non-resident without a PE in Tajikistan are subject to a 6% withholding tax on the gross amount. Fees for telecommunications and international transport services, as well as insurance premiums are subject to a 4% withholding tax on the gross amount.

Other forms of payments made to non-residents, such as royalties, lease payments and services fees which are not connected to the PE in Tajikistan are subject to a 15% withholding tax on the gross amount.

2.3.5. Tax treaty chart

The chart shown in Table 3 contains the withholding tax rates that are applicable to dividend, interest and royalty payments made by legal entities resident in Tajikistan to non-residents under tax treaties in force as of 1 June 2007. Where, in a particular case, the tax treaty rate is higher than the domestic rate, the latter rate applies.

Table 3

Country	Dividends		Interest[1]	Royalties
	Individuals & companies (%)	Qualifying companies[2] (%)	(%)	(%)
Armenia[6]	10	–	10	10
Belarus	15	15	10	15
Germany	15	10[3]	0	5
Iran[6]	10	5	10	10
Kazakhstan	15	10[4]	10	10
Kyrgyzstan	15	55	10	
Moldova	10	5	5	
Pakistan[6]	10	–	10	10
Poland	15	5	10	10
Russia	10	5	10	0
Turkey	10	10	10	10
Ukraine	10	5[5]	10	10

1. Many tax treaties provide for an exemption for certain types of interest, e.g. interest paid to the state, local authorities, the central bank, export credit institutions or in relation to sales on credit. Such exemptions are not considered in this column.
2. Unless otherwise indicated, the lower rate applies if a corporate shareholder owns at least 25% of the voting stock or share capital of the company in Tajikistan, depending on the applicable treaty.
3. This rate applies if the company receiving the dividends owns at least 10% of the capital of the company paying the dividends.
4. This rate applies if the beneficial owner of the dividends is a company that directly holds at least 30% of the company paying the dividends.
5. This rate applies if the beneficial owner of the dividends is a company that directly holds at least 50% of the company paying the dividends.
6. Treaty not in force. At the time of writing, it could not be confirmed if the treaty had entered into force.

The government of Tajikistan is said to be in negotiations for treaties with the Czech Republic, Afghanistan, Indonesia,[4] Uzbekistan, Azerbaijan, Romania, Vietnam and Thailand.

By virtue of Tajikistan's membership in the Commonwealth of Independent States (CIS), the country has succeeded to the USSR's tax treaties with other countries. Based on the Minsk Declaration of 8 December 1991 and the Almaty Protocol of 21 December 1991, Tajikistan, and other CIS members, has agreed to honour the international agreements that had been entered into by the USSR (Art. 12 of the Declaration). This commitment was reconfirmed by Tajikistan in the CIS Agreement on Coordinated Principles of Tax Policy of 29 June 2001

4. The treaty between Indonesia and Tajikistan has been ratified by the parliament of Tajikistan.

and under Art. 4 of the agreement, it is stated that new tax treaties entered into by Tajikistan would replace the USSR's tax treaties.

However, Tajikistan has not officially terminated any tax treaty concluded by the former USSR and an official list of applicable tax treaties has never been issued. As such, it is unclear if the tax treaties concluded by the former USSR are applicable.

2.4. Anti-avoidance

The tax legislation of Tajikistan contains general anti-avoidance provisions on treaty shopping, transfer pricing, controlled foreign corporation and thin capitalization rules. Under the thin capitalization rules, there are limitations on the deductibility of interest paid to non-residents and resident tax-exempt shareholders (see 2.1.2.). See also 2.1.4. for branch profit tax provisions.

2.4.1. Transfer pricing

The Tax Code allows the tax authorities to challenge an agreed transfer price if the price deviates from the market price for similar goods or services by more than 30% in either direction. The challenge is also allowable in the following transactions:
– transaction between related parties;
– barter transaction; or
– foreign trade transaction.

The burden of proof that the prices do not comply with the arm's length principle rests with the tax authorities.

Related parties are defined as persons with a special relationship, and by virtue of that special relationship, they are able to influence the terms and economic results of the transaction. Parties which are deemed to have a special relationship include:
– an individual or a corporate shareholder with direct or indirect ownership of not less than 20% of the shares of the company;
– an individual subordinate to, or controlled by another individual;
– subsidiaries of the same company, or companies which are under the direct or indirect control of a third party;
– an individual or corporate shareholder that owns not less than 20% of the shares of a third company; and
– married couples or relatives, as defined in the Tax Code.

2.4.2. Controlled foreign corporation (CFC) rules

The Tax Code has CFC provisions which apply to foreign corporations controlled by resident individuals or corporations. Control is defined as direct or indirect ownership of more than 10% of the charter capital (or of the voting shares) of the foreign corporation.

Under the tax legislation of Tajikistan, a CFC is defined as a corporation that is resident in a jurisdiction:
– with preferential income tax rates, i.e. where the nominal tax rate is 30% less than the rate in Tajikistan; or
– with laws on confidentiality of financial information or laws otherwise permitting secrecy in relation to the beneficial owners of property and/or income.

Although the CFC provisions do not clearly define "tainted income", it is however referred to as the part of the CFC's income that is attributable (and thus taxable) to the resident shareholder.

2.5. Incentives

Capital investments

Exemptions from CIT are granted to qualifying companies engaged in the production of goods and the tax exemption is effective in the year following the incorporation of the company. The exemption period is dependent on the amount of capital investment as shown below:
– for investments of up to USD 500,000, the tax exemption period is two years;
– for investments between USD 500,000 to USD 2 million, the tax exemption period is three years;
– for investments between USD 2 million to USD 5 million, the tax exemption period is four years; and
– larger investments qualify for five years of tax exemption.

Hydro-energy sector

The Tax Code provides for a number of exemptions for companies engaged in the construction of hydropower stations in Tajikistan, for a stipulated time period. Upon obtaining the necessary approvals for exemption from the government, the companies are exempt from:
– VAT (on supplies related to the project approved by the government);
– road users tax;
– corporate income tax;
– minimum alternative tax;
– land tax;
– vehicle owners tax;
– immovable property tax;
– social tax on expatriates with direct involvement in the construction thereof; and
– state registration charges, on the registration of securities issued by private investors in connection with the construction of hydropower stations.

Cotton industry

Newly established enterprises engaging in the "full-circle" processing of cotton-fibre to the final product for export are exempt from:
– customs duties and VAT on imported goods;
– VAT on exports;
– corporate income tax;
– minimum alternative tax;
– land tax; and
– immovable property tax.

The exemptions are granted for a period of 12 years. The incentives are available upon application to the government.

Tolling arrangements

Products which are processed in Tajikistan may be subject to the tax on processed goods. The government has the discretion to determine the taxability of different categories of processed products, the taxable base (cost or units of processed product) and the tax rate. The tax rate may be set as a percentage or fixed amount.

3. Individual Taxation

Individuals are liable for taxes imposed at the national and municipal levels. Individual income tax is levied at the national level.

3.1. Individual income tax (IIT)

3.1.1. Taxable persons

Resident individuals are subject to tax on their worldwide income, whereas the tax liability of non-residents is limited to certain types of income from sources in Tajikistan. An individual is deemed to be a resident of Tajikistan for income tax purposes if he is present in Tajikistan for at least 183 days in any 12-month period.

Spouses are taxed separately on their income. Simple partnerships are transparent and income is taxed in the hands of the partners.

3.1.2. Taxable income

Tajikistan applies the worldwide income principle in taxing its residents. The Tax Code lists the following categories of taxable income:
– employment income;
– business income, which includes income from the sale of business assets; and
– non-business income, which includes dividends, interest, royalties, rental payments, forgiving of a debt, sale of non-business assets, etc.

As a rule, income tax is withheld at source at the time of payment. However, in the case of business and professional income, the income tax is levied by assessment. This procedure also applies in other cases where the tax is not withheld at source, e.g. in the cases of income paid in kind, income is paid by a person who does not qualify as a withholding agent, or foreign-source income.

At the end of the taxable period, a taxpayer whose income has not been taxed by final withholding is obliged to declare his worldwide income for assessment. After the computation of the final tax liability taking into account deductions or allowances, in the event that the tax previously withheld exceeds the final tax liability, a refund will be due to the taxpayer.

Only a limited number of deductions and allowances are granted, which include:
– interest on bank deposits;
– social security benefits; and
– capital gains from the disposal of immovable property (the principal place of residence in the last five years) and capital gains from movable non-business property.

3.1.3. Employment income

Salaries, wages and any other remuneration for employment under an employment contract are subject to income tax, which must be withheld by the employer.

As a rule, benefits in kind are taxable as employment income and are valued in accordance with provisions contained in the law.

Redundancy payments and state pensions are exempt from income tax. Payments received from voluntary pension schemes are taxable, and income tax is withheld at the time the pension is paid to the recipient.

There are no special rules on directors' remuneration derived by residents of Tajikistan, i.e. ordinary rules on employment income apply.

3.1.4. Business and professional income

An individual taxpayer deriving income from business activities is generally taxed on the profit from these activities, which is the difference between gross income derived from such activities in the calendar year and personal deductions and expenses related thereto. In general, the rules of corporate income taxation apply in determining deductible expenses.

Business and professional income is taxed on an official assessment basis. Any tax withheld by the person paying the income is credited against the final tax liability.

3.1.5. Investment income

Dividends derived from resident companies are subject to a 12% final withholding tax. Foreign dividends are taxed at the same rate. No deductions or allowances are granted from dividend income.

Interest is generally taxed by way of withholding. If the tax is not withheld at source, it is levied by assessment. In both cases, the applied tax rate is 12%.

Interest on bank deposits is generally exempt.

3.1.6. Capital gains

Capital gains derived within the framework of a business are included in business income. Income from the alienation of movable property is not taxable. In addition, income from the alienation of a residence is not taxable if it has been the principal place of residence of the taxpayer in the last five years.

3.1.7. *Personal deductions, allowances and exemptions*

Apart from expenses incurred in the course of acquiring business and professional income, taxpayers are eligible, on a monthly basis, for a deduction of the monthly minimum wage (MMW),[5] and the social tax paid.

Certain types of income are exempt from tax, including alimonies, inheritance, gifts (e.g. gifts received from companies, prizes received in national and international contests and competitions, subject to limitations), and income from the sale of individually procured agricultural products, certain insurance premiums and social security allowances.

3.1.8. *Rates*

IIT is generally withheld at source when the payment is made by withholding agents, i.e. resident legal entities, individual entrepreneurs and PEs of non-resident individuals and legal entities. (The IIT rates shown in Table 4 do not apply to the business income of individual entrepreneurs, who are required to apply the self-assessment procedure).

The income tax scale is progressive.

Table 4

Income multiples of MMW)	Tax rate on the excess (%)
MMW (e.g. TJS 0)	0
over MMW (e.g. TJS 1) – 100	8
over 100	13

A self-employed individual may opt to pay tax using a simplified tax regime. A list of business activities that qualify to use the simplified tax regime are specified by the government of Tajikistan.

Dividends from domestic and foreign sources are subject to a 15% withholding tax if paid by resident withholding agents, or otherwise levied by assessment.

3.1.9. *Administration and payment of tax*

The taxable period is the calendar year. The IIT is, in most cases, withheld at source at the time of payment. Because the tax is final, the taxpayer is not obliged to file a tax return. In the following cases, however, the income tax liability is calculated by way of an official assessment:
- income from which no tax has been withheld either exceptionally or because the payer does not qualify as a withholding agent;
- income of individual entrepreneurs, and other persons engaged in the provision of services;
- income from the sale of property; and
- foreign-source income.

The tax return and payment are generally due on 1 April after the end of the taxable period. An assessment will then be issued by the local tax authorities based on details disclosed in the return.

Individual entrepreneurs are required to report the income received and pay tax on a quarterly basis, by the 15th day of the following month.

The advance payment is determined as a quarter of the tax paid in the preceding year multiplied by a factor of 1.1%. Alternatively, advance payments can also be computed by using gross income (before deductions) of the reported quarter multiplied by a "special factor". This "special factor" is determined by the weighted average of tax payments and annual gross income in the preceding year.

Any additional tax, or refund of tax, due by reference to actual income for the year is due for payment by 1 April of the following year.

3.1.10. *Social tax*

Social tax is levied on employees at 1% of the gross employment income. Employers are subject to social tax at the rate of 25% of the total payroll cost. Tax is also due on amounts (other than salaries) paid to resident persons for services rendered.

Self-employed persons are also subject to social tax at the rate of 20% on income. For this purpose, income constitutes the amount declared by the taxpayer (which may not necessarily be connected to income assessed for income tax purposes). However, this income amount may not be less than the average annual salary determined by the Statistics Agency. Certain categories of self-employed persons are exempted from social tax liabilities.

3.2. Taxes on capital

Individuals are subject to the immovable property tax and land tax, which is levied in a manner similar to that accorded to companies (see 2.2.).

3.3. Inheritance and gift tax

There is no inheritance and gift tax in Tajikistan. Inheritances are exempt from income tax. Although gifts are exempt from tax, certain forms of gifts which exceed stipulated thresholds can be seen as disguised remuneration.

3.4. International tax aspects: individuals

Resident individuals are subject to tax on their worldwide income, including foreign-source business income, dividends, interest and royalties, and on their worldwide capital gains. Foreign-source income is generally treated in the same manner as domestic income.

5. The minimal wage is specified by the government and adjusted periodically. In several post-Soviet Union countries, the amount is used as a reference to establish monetary value (amounts are normally not specified as a fixed amount in domestic currency units but for example as, five minimal wages) in order to avoid frequent adjustments due to inflation. Currently the MMW in Tajikistan is TJS 20, approximately USD 6.

Tajikistan unilaterally grants double taxation relief in the form of an ordinary foreign tax credit for foreign tax. The credit is limited to the amount of the domestic tax payable on the same item of income (see 2.3.1.).

The income of non-residents, including expatriates, is exempt from income tax if they are present in Tajikistan for less than 90 days in the tax year and their income is paid by a non-resident employer and not by a PE in Tajikistan.

3.4.1. *Taxes on income and capital gains of non-residents*

Non-residents are subject to tax on their income sourced in Tajikistan, including:
- dividends, interest and royalties;
- rental income from the letting out of property;
- capital gains from the disposal of immovable property;
- income from the disposal of shares and other securities;
- employment income and income from the performance of independent services;
- income from transportation and related services; and
- any other income if the relevant activity has taken place in Tajikistan.

All income derived by non-resident individuals is taxed at the rate of 15%. In general, the tax is withheld at source as a final tax, and it should be noted that exemptions available for residents (see 3.1.2.) also apply to income derived by non-residents.

Property located in Tajikistan and owned by non-residents is taxed in the same manner as property owned by resident individuals.

4. Indirect Taxes

4.1. Value added tax (VAT)

VAT is levied on supplies of goods and services at all stages of supply. Input VAT is deductible in computing the final tax liability so that, in effect, only the value added is taxed.

Taxable persons

For VAT purposes, the definition of taxable persons includes legal entities and partnerships established under laws of Tajikistan, non-resident entities and individuals engaged in business. The above taxable persons are required to register for VAT if taxable transactions in any 12-month period exceed TJS 200,000, or if taxable goods are imported into Tajikistan. Exemptions are available for small businesses and under certain special tax regimes.

Taxable base

VAT is levied on the domestic supply of goods and services and on the importation of goods.

The taxable amount is the sales price (or the fair market price, whichever is lower), excluding the VAT itself, but including any excise tax, if applicable.

Tax rate

The standard rate is 20%.

VAT exempt supplies

The list of exempt goods and services is extensive and includes the following:
- sale, lease or disposal of certain immovable property;
- financial services;
- religious and ritual services;
- medical services;
- primary education, secondary education and vocational training;
- supply and/or import of goods in relation to humanitarian aid;
- supply of goods to the penitentiary system;
- printed matter including newspapers and magazines, fiction, child literature, scientific and technical textbooks;
- designated goods by the government for children and the handicapped;
- recreational services;
- domestic supply of primary aluminium and cotton fibre;
- import of designated agricultural equipment, medicine, medical and pharmaceutical equipment;
- import of technological equipment under a capital contribution scheme, subject to a minimum period of four years;
- import of goods for designated construction projects; and
- international transport services.

Zero-rated supplies

A zero rate applies to the export of goods, which is subject to documentary evidence being provided by the exporter.

Input VAT

The VAT legislation allows a credit for input VAT incurred on business-related goods or services. However, a credit is only allowed for VAT-able and zero-rated supplies while VAT-exempt supplies are not creditable. In relation to mixed supplies consisting of exempt and taxable goods, a certain share of the creditable input tax is allowed and is determined on the basis of the proportion of the taxable supplies to the total supplies. Alternatively, if the input tax for the items can be identified separately, it is determined on the basis of such identification.

Non-residents

A withholding mechanism applies for collecting VAT on goods and services supplied by non-resident taxable persons with no presence in Tajikistan to taxable persons registered in Tajikistan. The withholding mechanism imposes a VAT withholding requirement on the recipient of the supply in Tajikistan. This input VAT may be credited against output VAT.

Grants and loans made by foreign governments to the government of Tajikistan are VAT-exempt.

Relief

Taxpayers whose proportion of zero-rated supplies exceeds 70% are entitled to a refund of the balance between the input and output tax.

Refund of input VAT is also available, on a reciprocal basis, for diplomatic, consular and other such missions and their accredited staff for goods and services supplied for official purposes or the use of the staff in such missions.

4.2. Excise tax

Excise tax is levied on spirits, beverages, soft drinks, processed tobacco and its substitutes, mineral fuel, oil and its products, bitumen and mineral waxes, tyres, motor vehicles and jewellery.

Taxable persons

For the purposes of excise tax, a taxable person is a physical or corporate person engaged in the production or import of products subject to excise tax.

Taxable base

Excise tax is levied on the cost of goods sold, or the cost of imported goods.

For goods produced domestically, the taxable base does not include any applicable VAT, excise and sales tax. The taxable base for imported goods is valuation for customs purposes and any applicable customs fees and taxes. The rate, however, should not be less than the market price and excludes VAT.

Excise tax paid on the purchase of raw materials is deductible from excise tax due on the sale of finished products produced from the same raw materials. For income tax purposes, excise tax paid is deductible.

4.3. Tax on road users

Corporate and individual taxpayers with gross revenue exceeding TJS 600,000 are subject to a tax on road users, which is levied on the cost of goods and services at the rate of 2%. Retail tax and VAT are excluded from the cost base. State bodies, religious and cultural organizations are exempt from the tax. The tax is administered in a manner similar to VAT.

4.4. Sales tax on cotton fibre and primary aluminium

This tax is levied on the processing, supply and export of cotton fibre and primary aluminium. Some processed goods, however, may be taxed under the special tolling regime. Taxable persons are corporations and individuals.

The taxable base is the cost of the taxable goods which are either supplied, pledged, sold on forward terms, supplied for processing or exported. The cost of the taxable goods is determined based on the valuation on international or regional exchanges chosen by the government.

Taxes are levied at the rate of 10% on cotton fibre and 3% on primary aluminium. Tax is paid in advance, prior to the supply or export.

The sales tax paid is creditable, whereby the tax paid on purchases of raw materials is deductible from VAT due on the domestic supply of taxable goods produced from these materials. (For income tax purposes, this sales tax is deductible.)

4.5. Retail tax

Retail tax is levied on individual and corporate persons engaged in the sale of retail goods and receiving payment in cash. The taxable base is the market price and includes VAT and excise tax. The rate is 3% and must be reported and paid on a quarterly basis by the 15th day of the following month after the quarter end.

5. Subsoil Use Taxes

Special taxes are levied on the use of subsoil by corporate and physical persons. This regime applies to specific taxpayers who have entered into a contract for the use of subsoil. The Tax Code provides for two types of subsoil use taxes, i.e. bonuses and royalties.

5.1. Bonuses

Bonuses are fixed amounts payable in cash at rates set in accordance with the subsoil contract. They include the subscription bonus, bonus on commercial exploration and bonus of excavation.

The inclusion in the contract of any of the above bonuses or their combination is largely determined by the economic efficiency of the project and the terms governing the contemplated use of subsoil.

5.2. Royalties

Royalties are fixed amounts payable in cash or in kind (as a share of production) and provided for each kind of mineral.

The taxable base is the volume of mineral extraction or the volume of primary product determined by the weighted average price of supply less indirect taxes. The prices of gold, silver and platinum are determined based on the average price of the metal on the London Metal Exchange in the year. For common minerals, the average price is determined using the cost-plus method with a 10% profit element.

As a general rule, tax rates are set in the contract on a case-by-case basis, subject to the minimum rate of 0.5%. For common minerals and subsoil waters, rates are set by the government and are the same for all subsoil users. For gold, silver and platinum, a fixed rate is used which applies for the entire duration of the contract. The progressive scale is used for hydrocarbons, with rates applying throughout the contract period or with varying rates for each year.