

# Special Report

19th Annual Edition

## Some Fiscal Parameters of the Investment Climate in Select Countries of Eurasia

### Editor's Note

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This nineteenth annual Special Report seeks to shed light upon the critical role played by tax policy, law and administration in business formation and investment attraction and retention, factors which are vital for producing sustainable and equitable economic development in the countries of the Region. As a note of caution, Regional agglomerations can mask critical country differences; equally, national averaging can mask critical inter-sectoral impacts. Therefore, this Special Report seeks also to take into account that element when addressing relevant fiscal parameters of the investment climate, the improvement of which has continuously guided the programs of ITIC since the Center was inaugurated in the Russian Federation and Kazakhstan in 1993.

Currently, growth in the CIS Europe is at best uncertain, with weak investment reflecting various political and policy concerns; while growth in the CCA countries continues to hold up. Expert commentators agree on the need for economic policies to deliver if not re-start reforms, in order to increase investment and thereby raise the growth potential. The prospects for growth, now additionally clouded by fundamental geo-political considerations (e.g. Black Sea and South Caucasus sub-Regions), are reviewed below in the expert presentation by Oxford Economics (Sarah Fowler, Rain Newton-Smith).

Since the economies of the Region are now an essential part of the global economy while converging among themselves, even if at varying speeds, both the international tax system which is an integral element of that globalised economy and the national—and now in some cases regional—tax systems governing that integration, command examination in order to evaluate how tax impacts upon business formation and investment in those regional economies. In respect of the country and regional systems, we are particularly indebted to EY Russia for their contributions of hard data on the individual economies. In respect of the integration processes, assessments and evaluation of the likely impact on trade and investment performance and prospects lack consensus—although there is a consensus that complying with the complex fiscal regulatory regime presents a major operating challenge.

In examining some fundamental fiscal policy considerations, we have assembled expert commentary (Jeffrey Owens, Jack Mintz, Bev Dalby, Niloo Hojjati) addressing challenges and possibilities facing Regional governments—taking into account their individual endowments—as they seek to balance the need for increasing revenues while stimulating growth and enhancing competitiveness, to address the growing pressure for greater transparency and less onerous compliance, and make sense of calls for new taxes to advance non-revenue

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objectives. The continuing reorganisation of the international tax system, with its multiplying unilateral and plurilateral actions of which the OECD BEPS Project is perhaps only the most prominent element, has also seen action by Regional countries to intensify arrangements for tax information exchange and mutual assistance in tax matters.

Regional countries acknowledge the significance of tax for investment attraction and retention and the magnitude of the challenge it poses. Understandably in their appeals to investors, tax reform is trumpeted and regression muted. Thus, more positive rankings by international agencies are highlighted in official presentations, the less positive footnoted. Across the Region, as suggested by the results of regular enterprise surveys and other anecdotal evidence, the concern of investors-in-place lies at least as much with system complexity, with interpretation of law and obscurity of administration—hence with impact on management time and operational efficiency—as with formal tax rates or notional tax burden. For potential investors, tax competition can be an incentive, since express comparability of rates and burdens with e.g. OECD countries and favourable comparisons with other transitional Regions may not of themselves be such an attraction. In this regard, comparative international studies show over the last decade continued reform in the Region in respect of rates and compliance effort, with rates overall slightly below the global average—in some cases, significantly lower—and compliance effort greatly reduced, owing in large part to the widespread introduction of e-systems of filing. Post-Crisis, the pace of reform has however faltered.

As elsewhere if not everywhere, (non)compliance is a major challenge to the tax administration. The controversial issue of BEPS and MNEs has been alluded to above; but false entrepreneurship and bankruptcy along with (carousel) fraud and the shadow economy are principal sources of the tax “gap”. Successfully encouraging voluntary compliance could ensure that tax collection levels can be sustained while the tax administration’s costs could be reduced. Understanding and influencing the behaviour of taxpayers—making it easy to comply and difficult not to—is a critical objective.

Tax Commissioners, if not Tax Police, increasingly recognise that achieving good tax compliance requires a balance between service, enforcement, and measures which positively influence the attitude of taxpayers to paying tax. Engaging with taxpayers and using data and information to influence compliance—critical elements of “cooperative compliance”—is outlined by Asaf Asadov in the case of Azerbaijan.

Programs of concerned IGOs such as the World Bank Group, OECD and IOTA have a focus as much on administration as on policy, an approach developed further to the 2011 Report to the G-20 *Supporting the Development of More Effective Tax Systems* and showing some results in rising Tax-to-GDP ratios. The IMF “TADAT” is one of a number of institutional responses, which seek also to close the tax “gap” by targeting the key areas of low compliance. In this Special Report some TADAT parameters—e.g. Tax Dispute Resolution, Assessment of Risk—are examined in the cases of Georgia (Robin McCone) and Kazakhstan (Galiya Makazhanova). Ian Macdonald reviews the capacity-building priorities in executive and judicial institutions which are essential if national systems are to be capable of discharging these reforms.

In the context of their economic development requirements as well as their diversifying and dynamic trade and investment relations regionally and globally, issues of investment attraction and retention, revenue collection and compliance are necessarily commanding the priority attention of the political leadership in all the countries along the Silk Road and are the subject of continuous dialogue between taxpayers and tax collectors there. Regulatory activity remains intense, can be idiosyncratic compared with familiar international norms, and requires the closest attention by taxpayers. Possibly, a trend could be discernible in some jurisdictions towards a greater stability in tax policy and law, as those host authorities recognise the significance of that element for encouraging (re)investment and for facilitating compliance. The choice of instruments for achieving official objectives in respect of investment and compliance requires however the most careful consideration, lest it be counter-productive. In that process, ITIC stands ready to play its part.

# Challenges to Tax Systems: Balancing Revenue Needs with Competing Objectives

## The Experiment with Flat Taxes on Incomes

Dr. Jeffrey Owens, Distinguished Fellow, ITIC

As illustrated elsewhere in this Special Report, in the Ernst and Young Matrix of Tax Systems of Select Countries of Eurasia, a number of Eurasian jurisdictions have experimented with variants of a flat tax on incomes. For example, Finance Ministers in Russia, Belarus, Ukraine, Georgia and Kazakhstan have used their countries' move to a flat tax as a marketing tool to attract foreign investment.

Some "think tanks" in OECD countries have attributed these countries' economic progress to their adoption of flat taxes. Many politicians around the world, at least in the pre-Crisis period, felt obliged to present their tax reforms as a move to flatter taxes. Post-Crisis, "flat taxes" may be coming back into the discussions over tax reform and complicating official decisions on sound directions for tax systems in the future.

The most desirable tax systems are those characterised by relatively low rates applied to all sources of income, with few exceptions. Not only do they reduce tax-induced distortions while being simpler to administer and to comply with; in the long run they are also fairer to all segments of society. Why? Because broad based taxes offer fewer opportunities for tax planning which benefits the rich. The main driver of the tax reform debate should be how to move from complex and often high-rate tax systems that penalise economic activity to low rate, broad-based, administratively simple systems that raise revenue for public services without stifling private initiative.

The flat tax debate is confused from the start by the terminology. Ask most people what they understand by the term "flat taxes" and the answer is likely to be that everybody pays the same rate of tax. Depending on an individual person's degree of sophistication, he or she may add that such taxes are socially regressive. Clearly the term requires closer analysis.

A move to flat taxes generally reduces the effective tax rate on higher income groups and in some cases it may increase the effective tax rate in the lower income groups, thereby making the overall income tax system less progressive. A flat tax can however be designed to be progressive.

For example, some countries that currently operate a "flat tax" use different rates of tax- a zero rate bracket and one positive rate bracket- and have a generous standard relief which provides some progressivity. Russia, for example, has a very generous basic allowance which effectively removes a significant number of wage earners from the tax net and makes the tax progressive over a broad range of incomes. And in countries that have not adopted a single rate of income tax, the numbers of brackets has fallen, in most cases to three or fewer.

The real simplification that comes with a flat tax derives however from the eliminating of specific loopholes in the tax base. And, if a country aligns a single personal income tax rate with a single corporate tax rate, this further reduces the complexity of the overall tax system and eliminates incentives to engage in tax arbitrage between the corporate and personal income.

Flat taxes are not necessarily equivalent to low tax rates although the relevant Eurasia countries have gone for lower rates. This has produced a situation where their overall tax burden—as measured by the tax to GDP ratio—approximates to the OECD average of 34%. Generally speaking, if more people pay taxes because the tax base has been broadened, this may more than offset the revenue loss from the lowering of the tax rate.

If well administered, flat taxes can raise significant amounts of revenue for governments and reduce tax-induced distortions. However, in order to generate these benefits, governments need to accompany the move to flatter tax structures with a Reagan-type approach, being prepared to ruthlessly suppress all the special interest group benefits that crept into the tax codes. There has been mixed success with the elimination of exemptions and privileges and, while "flat taxes" have played their part in enhanced revenue-raising, many of the benefits attributed to them can in fact be traced to the (partial) removal of special-interest loopholes.

So, to what extent have their flat taxes contributed to the sustained growth rates witnessed in these economies? Undoubtedly, their tax reform—undertaken relatively early on in their Independence and in that first instance without the flat taxes element—has contributed to their very substantial investment attraction. Their sustained growth had however a "catching-up" quality that had less to do with the move to a flat tax rate than to a range of other investment location decision-making parameters. Thus, MNEs moved to these countries particularly for their natural resources, their skilled and educated workforces, and their comparatively low labour costs. Non-economic factors such as regime stability also have played a major role.

The move towards a flat rate income tax would offer governments the possibility to achieve a greater alignment of the personal income tax and social security contribution systems. In most OECD countries, for example, the link between these contributions and the benefits paid are increasingly weak. Contributions are just another form of taxation on wage income. Further, almost all of the employee contributions already resemble a flat tax: they are applied at a single rate to a broad tax base (gross earnings), although without a basic allowance and with a cap on the wage base. Aligning these contributions with the personal income tax would be easier if the government had introduced a flat rate personal income tax. This, in turn, would have the advantage that a broader range of income could be subject to the social security contributions and it would be easier to justify removing the cap on the contribution base. Both of these changes would improve the revenue yield and the fairness of these contributions.

In countries that have introduced a dual income tax under which capital income is subject to a flat (and generally lower) rate of tax, and wage income to a progressive schedule, it would be only a small step—and not necessarily revenue-negative—to move to a flat rate for wage income.

The debate over flat taxes will, however, be dominated by concerns over the way such taxes may reduce the overall progressivity of the personal income tax. Yet the progressivity of a tax system should not be judged upon whether one tax is regressive or progressive, but on whether the overall tax system helps reduce the growing inequalities in the distribution of income and wealth. Here governments need to be smarter in the way they use the tax system. Inheritance and gift taxes need to be tightened up; the taxation of capital gains more aligned with the taxation of ordinary income; Net Wealth Taxes could be brought back (in the mid-1980s 17 OECD countries had these taxes, today only 2), traditional taxes on land and buildings can be a powerful tool to tax higher income groups; special excises can be applied to the goods and services typically consumed by the wealthy (e.g. private planes, luxury hotels). If these measures are accompanied by better offshore compliance, the overall progressivity of the tax system would improve. Ideally, the real political debate on progression needs to move beyond the tax system to encompass what is the overall impact of government on the distribution of income and wealth? And to answer this question, you need to examine the impact of public expenditure, regulations (e.g. minimum wages) and taxes on households at different income levels. In this broader context we may be able to have a more balanced debate on the merits of moving towards flatter taxes levied on a broader base.

In trying to answer these questions countries may wish to look at the experience of Russia which has managed to get a good balance between the need to provide a competitive tax system, one which is fair and relatively simple to administer.

## Getting to the Right Resource Tax System

Dr. Jack Mintz, The James S. and Barbara A. Palmer Chair in Public Policy, University of Calgary

I have been struck by the creativity that governments show in developing resource taxes or royalties for extractive industries. The simplest structure is to apply a levy on the resource sales. The most complicated one is a levy on resource “profits” with rates varying with the rate of return on capital. Both of these extremes lead to either complexity or distortions undermining rent collections. Governments have the means to collect efficient, simple and fair resource levies that distort as minimally as possible exploration, development, extraction and processing decisions.

What are the objectives of resource levies? Let me first define a royalty paid by the extractive industry as compensation for the right to extract resources owned by the government. The royalty can be of any form. It could be a percentage of sales based on a wellhead or pit’s mouth price. It could be a percentage of economic profits earned by the resource producer. (Economic profits is the difference between revenues and the labour and capital costs incurred to develop the project including the required return paid to equity owners – whether the government or private producers). The role of royalties is to capture a share of the rents accruing to governments for their ownership in the extractive industry.

Governments also assess company income taxes and other business levies on the resource sector similar to that levied on other industries. Some specific provisions relate to extractive technology such as exploration and development but there is little reason to single out extractive industry with tax burdens any different than those of other industries when it comes to general company taxation. Taxes should be neutral to achieve the best allocation of resources across business activities so that businesses are best in position to determine the most economic investments in general.

Royalties, however, have a different purpose, which is an additional levy on the resource sector to collect rents. The government wishes to attract the most efficient producers to develop projects to maximize payments and other social benefits accruing to the government. Sometimes a government might decide to operate the resource company itself as a state-owned enterprise but this may be less efficient than attracting the best global producers operators.

When inviting a private producer, the government is entering into a principal-agent relationship. What principles are then involved in assessing a good royalty system?

The first principle is that a royalty should apply or capture rents that accrue to the resource owner, which is typically the government. This could imply a 100 percent tax on rents but might leave to less on the table for the producer who has options to invest in other countries.

The second principle, therefore, is for the resource royalty to be set so that the most efficient producer is attracted to develop the resource. This requires a competitive rate of return on capital to be offered to the producer who could otherwise invest elsewhere. Some economic rents are thus left to attract the most skilled producer.

And the third principle is assess a royalty that efficient in the sense of distorting as little as possible economic

decisions to maximize the rents that accrue to both the government and producer.

These three principles suggest that the best royalty is based on economic rents to maximize rents with producers receiving a competitive return to operate in the country and governments getting an appropriate share of rents.

For these reasons, it is advisable for governments to assess rent-based royalties on producers. An example is the cash flow tax, which is applied to rents, whereby the government applies the levy on revenues net of economic costs of exploration, development and extraction. Any unused deductions, typically at the beginning of the project, would be carried forward at a rate of interest (the carry forward rate could be as low as the government bond rate if the government shares most risks with the private producer).

This cash flow form of rent-based royalty is used in Canada (oil sands, British Columbia mining and Saskatchewan potash), Norway and United Kingdom offshore oil and gas, and Australia oil and gas. New Brunswick (Canada) has recently adopted this cash flow approach for shale gas.

An alternative is to collect a R-based royalty on “resource profits” defined as revenues less the current expenditures, depreciation of capital and total financing costs (both borrowing costs and minimal return needed to compensate equity owners to invest in the company). This so-called R-base approach is similar to the company income tax except that the full cost of financing capital, included imputed equity costs, are deductible.

Government leaders have often told me that the rent-based royalty is too complex compared to a royalty based on revenues. This is not true for several reasons.

First, the rent-based royalty often requires similar information as the company income tax (except for some important differences such as “ring-fencing” with costs attributed to a specific project). Actually, rent-based royalties are simpler since financial income and capital gains or losses need not be measured. Revenue-based royalties are not adjusted for costs – governments do not raise sufficient revenues during boom years and are pressured to reduce royalty rates during poor years since prices move too close to unit costs or below it.

Second, governments wanting to make sure they raise sufficient revenue could impose a minimum levy on revenues that is creditable against the rent-based royalty (any unused credits can be carried forward at a rate of interest to be applied against future rent-based royalties). A minimum royalty ensures some revenues are raised in early years by the government as well as limit planning that reduces the government’s take.

Third, no matter what the royalty scheme, a government is challenged in assessing the price used to determine sale’s revenues. What is typically observed is the market price (such as Brent oil prices) but the not the wellhead or pit’s mouth price at extraction before distribution and other costs are incurred to transport the product to the market. The key is to assess the appropriate transfer prices.

Governments should also avoid fancy schemes that relate rent-based royalties to the rate of return on capital that could lead to excessive capital investment when allowable returns are excessive. They should keep the royalty scheme simple to ensure that the highest rents are achieved. Of course, rent collection is the point for royalty systems. A rent-based approach with a minimum levy is most sensible.

## **The Challenge of Saving Natural Resources Revenues: An Overview of the Alberta Heritage Savings Trust Fund**

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Natural resources provide an important source of revenue for many regional and national governments. Resource revenue funds have been established by Alberta, Alaska, Chile, Kuwait, Norway, Timor-Leste, and other countries to help stabilize budgets from volatile revenue flows and to provide sustainable revenues for the future. In this article, we provide an overview of the Alberta Heritage Savings Trust Fund, which was one of the first such resource revenue funds to be established. The experience of the Alberta Heritage Savings Trust Fund (hereafter the Heritage Fund) may serve as a guide for countries that are contemplating establishing such funds or that are planning to reform an established fund.

The Heritage Fund, which was established in 1976, is the main vehicle for saving a portion of Alberta’s non-renewable resources revenues. The Heritage Fund was created with three objectives—saving for future generations, funding investments to strengthen and diversify the Alberta economy, and funding improvements to the quality of life of Albertans (Government of Alberta 2014 c). Initially, the Heritage Fund received an endowment of \$1.5 billion in cash and other financial assets and a commitment to include thirty percent of revenues generated from non-renewable resources collected by the Government of Alberta.<sup>1</sup> From the fiscal year 1976-77 to 1982-83, \$9.69 billion in non-renewable resource revenue was transferred to the Heritage Fund, which generated \$4.13 billion in investment income, of which \$1.6 billion was used to fund spending on capital projects. On March 31, 1983, the value of the fund was \$11.35 billion (in current dollars) or \$10,458 per capita (in 2013 dollars) or 19.2 percent of the provincial GDP.

In 1983-84, in response to a sharp decline in resource revenues, the Alberta Government reduced the percentage of resource revenues allocated to the fund to 10 percent, and by 1987-88 transfers of resource revenues to the Heritage Fund were terminated. At that time, all of the investment income from the Heritage Fund was transferred to the provincial government’s general revenue fund to finance its operating and capital expenditures, while funding of capital projects from the Heritage Fund continued. As a result, the Heritage Fund stagnated in nominal terms and shrank to \$6,350 per capita (in 2013 dollars) or 11.8 percent of the provincial GDP by March 31, 1996.

In 1996-97, the provincial government decided to index the Heritage Fund to inflation by reducing the transfer of investment income to the general revenue fund, while funding of capital projects was terminated. Since that time, the only major injection into the Heritage Fund occurred between 2005-06 and 2007-08 when \$3.9 billion dollars was transferred from the province’s operating surplus, in part to fund an advanced education endowment. As of March 31, 2013, the Heritage Fund was \$14.8 billion or \$ 3,680 per capita or 4.5 percent of the provincial GDP.

However, the Heritage Fund is not the only vehicle used by the Government of Alberta to manage its resource revenues. In 2003, the Government of Alberta created the Sustainability Fund, primarily for short term fiscal stabilization. In 2013, the Sustainability Fund, which has been renamed the Contingency Account, was valued at \$3.3 billion. In addition there is the Heritage Foundation for Medical Research (\$1.28 billion), the Heritage Science and Engineering Research (\$0.7 billion), the Heritage Scholarship Fund (\$0.7 billion) and the Cancer Prevention Legacy Fund (\$0.5 billion). The total in all funds on March 31, 2013 was \$21.4 billion or \$5,317 per capita or 6.6 percent of provincial GDP. However, when other financial assets and liabilities, including pension liabilities, are taken into account, the province's net financial assets were \$12.1 billion at the end of the 2013 fiscal year.

The responsibilities, investment strategy, and recent changes to the operation of the Heritage Fund are briefly described below. The Treasury Board and Finance Minister are responsible for the Heritage Savings Fund and its investments. Annual reports are released by the Minister to inform Albertans on the performance of the Fund each year. These annual reports are approved by a Standing Committee on the Alberta Heritage Savings Trust Fund which is comprised of representation from the major parties in the provincial legislature. This committee carries out annual public meetings throughout the province to collect the inputs of Albertans and to provide updates on the management of the Funds (Government of Alberta 2014 b).

The Treasury Board and Finance Minister determine the long term strategy of the Fund, develop the investment policy, and monitor the performance of all investments. The Alberta Investment Management Corporation (AIMCo) is responsible for the purchase and management of the investment portfolio, which consists of investments in public and private companies, real estate, bonds, mortgages, and infrastructure developments (Government of Alberta 2014 b).

In its 2014 budget, the Government of Alberta established two new "accounts" within the Heritage Fund, namely a social innovation account and an agriculture and food innovation account, in addition to the creation of the Alberta Future Fund. The Social Innovation account, in the amount of \$1 billion, will fund projects in the social and cultural sector in Alberta. The Agriculture and Food Innovation account, in the amount of \$200 million, will support agricultural research and innovation, as well commercialization activities in Alberta's agricultural industry. The Alberta Future Fund, with an initial capitalization of \$200 billion, will support "strategic investments which will provide long term benefits to the Alberta economy" (Government of Alberta 2014 a, 57). The 2014 Alberta budget has also established a new investment policy guideline for the Heritage Savings Fund to support innovation and economic diversification in Alberta through an allocation of a small percentage of Heritage Trust Fund assets (Government of Alberta 2014 a, 58).

As this overview has indicated, the Alberta Heritage Savings Trust Fund has played only a very limited role in saving the resource revenues of the province of Alberta because the province has only saved a small percentage, less than 10 percent, of its resource revenues in the form of financial assets. Rather, resource revenues over the last 40 years have been used to fund a relatively high level of public services at relatively low tax rates. For example, Alberta is the only province that does not levy a provincial sales tax. The investment income from the resource revenues that

were initially deposited in the Heritage Fund in the 1976-83 period have been used to fund the ongoing operations of the provincial government. More recently, the Government of Alberta has reverted to the policy that was adopted when the fund was established of earmarking portions of the fund for expenditures on economic and social development. It is legitimate to ask why a portion of the Heritage Fund income should be earmarked for these special projects that could, and probably should, be funded out the province's general revenue fund. With its low rate of savings in the form of financial assets and vacillating policy of using the Heritage Fund to finance special project or sectors, the Alberta experience shows many of the pitfalls that other jurisdictions around the world, that are in the process of creating resource or sovereign wealth funds, would do well to avoid.

1. Currently, one Canadian dollar is equal to \$0.92 US.

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# Horizontal Monitoring in the Republic of Azerbaijan: Transition to the Modern Model of the Concept of Tax Partnership Tax Control System

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## Background

The traditional tax control system is based on the principles of taxation established 50-60 years ago. This system is costly since closely exerting control in pursuit of reassurance of compliance imposes a great administrative cost for the tax administration. Therefore, over the last 10 years in the developed countries, modernization of tax control measures has been observed by implementation of fundamental changes in the system. The tax administrations of The Netherlands and Australia have played a leading role, with the overall process stimulated from 2008 onwards by the challenges of the financial crisis to all tax administrations to reduce costs and increase efficiency. Under this new approach to the tax control system, a large taxpayers could now be involved in a partnership with the Tax Administration utilising an information-based approach for intelligent analysis-based control techniques (e.g. risk assessment, e-audit). These techniques provide the bases for the necessary mutual trust and cooperation between the taxpayer and the tax authority.

In accordance with The Netherlands' Government official concept "The Future of Law-Based Society", NTCA launched in 2005 the concept of horizontal monitoring with large taxpayers. An official evaluation after two years' (2005-2006) operation was positive, as was the conclusion of taxpayers; hence NTCA decided to widen its application. Thus, horizontal monitoring agreements with large taxpayers, especially MNEs, totalled 20 in 2005 and 40 in 2006; thereafter, 40 in 2007, 50 in 2008 and 60 in 2009. In 2006, the ATO inaugurated a program for Australia's large taxpayers with an annual minimum turnover of AUD100 million. In 2008, the 50 largest taxpayers signed on, with one year agreements. Since 2006, HMRC's Large Business Department has conducted a new relationship program with companies having an annual turnover of not less than GBP200 million and involving substantial information exchange concerning the taxpayer's risk profile, its business, internal control system, and governance. In 2009-2010, the tax administration of the Republic of Korea (NTS) conducted a trial of horizontal monitoring, involving 40 Large Taxpayers with annual income of not less than 66 million euros and a strong internal control system (evidenced by three years' records--including the financial statements--of the business, organization and information about its investments). The focus in the developed countries on large taxpayers reflects not only their significant revenue contribution but also their powerful accounting systems, their own internal audit and tax risks control systems, as well as the statutory fiscal and governance responsibilities of their directors.

**In Azerbaijan**, the concept of horizontal monitoring has been realised through changes in the Tax Code (which entered into force in 2013) and the subsequent Cabinet of Ministers "Regulations for Tax Partnership Agreement" (decision #190, 19th July 2013). Pursuant to tax partnership, it is envisaged that the burden for taxpayers of on-site inspections will be reduced, since regular, complete and timely submission of required information should facilitate the conduct of audit and assist with the risk assessment. The discipline exhibited by entering into tax partnership could

enhance the taxpayer's social and commercial reputation while improved financial transparency could favourably influence credit ratings.

**In developed countries**, the review by the tax authorities of the tax payer Internal Control System (DNS) plays a special role in the audit analysis. The DNS is critical for combating with financial fraud driven by the owners or employees against shareholders, for managing staff financial and other operations, and monitoring and controlling accounting and information systems' transactions and operations. Prior to the signing of the horizontal monitoring agreement, the tax inspector reviews the monitoring results of the company's DNS data actually stored in the system and cross-checks the information obtained during the e-audit to confirm the reliability of taxpayer report. The utilisation by the taxpayer of (internationally) certified accounting and IT systems is essential. Incentives to fulfil the terms of the partnership agreement include a significant reduction of on-site audit time through the application of e-audit inspections; conversely, if defalcations would be found, cancellation of agreement plus risks of higher taxes and penalties accrued in the future, of reputational damage and negative impact on credit rating.

**In Azerbaijan**, the tax partnership agreement process involves primarily a selection of and support of disciplined (honest) the taxpayer. As a corollary, it envisages the taxpayer improving its accounting including the use of certified accounting software for establishing internal controls and operating systems for the analysis of own tax risks. The tax payers carry out the preparatory work, reach agreement with the tax authorities and then sign the agreement voluntarily, accepting full responsibility. Application of the concept involves the following key steps:

- the taxpayer notifies his intention to conclude an agreement;
- the tax authority checks the implementation of a taxpayer's tax liabilities;
- remaining issues between the taxpayer and the tax authorities (including the state budget, taxes, interest, penalties and other liabilities for financial debts) are solved;
- the taxpayer and the tax authority sign an agreement on the payment of taxes in a timely manner to control and minimize the tax risks;
- as the tax authorities do not have advance warning of the risks of transactions, the taxpayer checks and corrects errors before sending the declaration for acceptance by the tax authorities

Horizontal monitoring (the Tax Partnership) is of key strategic importance for the State's concept of imposing only the correct tax burden and developing with the business community relationships based on mutual cooperation and responsibility.

*The article from which this shorter version is abstracted was published in "Vergilar" newspaper of the Ministry of Taxes of the Republic of Azerbaijan.*

# Reforming Tax Appeals in Georgia: An Overview of PwC Research on Best Practices for Tax Appeal Councils

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## Preface

Ambiguities over the interpretation of the tax code and concerns over its consistent application have been among the biggest problems facing businesses in Georgia for many years. The Council of Tax Appeals (hereinafter “the council”) is crucial to giving businesses confidence in the tax system as, for many years, it has been one of the primary mechanisms for resolving disputes between taxpayers and the government. An alternative to the Council is to take disputes into the courts. However, in Georgia this was rarely used as the courts were not considered to be technically competent to professionally adjudicate disputes. In 2013, PwC conducted research to investigate best practice and business opinions about the council. This research was funded by the Open Society Georgia Foundation and the EU, and supported by the Minister of Finance and AmCham, the Business Association of Georgia, the Georgian Small and Medium Enterprise Association and the Georgian Bankers Association. The research included an international comparison that looked at the way the systems for dispute resolution operated in other countries, an online survey of 142 companies and semi-structured interviews with 23 companies. The full research can be provided on request from AmCham or PwC.\*

## Independence

One of the key concerns about the council is that it operates inside the Ministry of Finance (MoF) and is largely made up of existing MoF employees. PwC’s research showed that international examples were of little help in clarifying best practice as dispute resolution structures in other countries operate under a range of institutional structures, some of which closely align with the finance ministries and the tax authorities of those respective countries.

However, businesses generally do not like this operating arrangement. Slightly over half of interviewees said that they did not believe that the current system allowed for independent decision making and over 75 percent of that group believed this was the result of their institutional affiliation with the MoF. Two-thirds of respondents said that the Dispute Resolution Council should be fully separate from the MoF.

Nonetheless, there are practical challenges to securing independence of the council. First, the Georgian constitution excludes an entirely institutionally separate judicial or quasi-judicial “tax court.”. Second, the MoF has clearly stated it is not interested in this option. Finally, starting an entirely new institution may create bigger hurdles than creating greater independence inside the MoF.

Therefore, PwC’s research also looked at other ways in which greater independence could be created inside the current council structure, without formal separation from the MoF.

Four main mechanisms were considered as potential examples of best practice for securing greater independence and were tested by the survey. First, in Georgia the appointments to the council are made for indefinite terms, but PwC’s research found that in every case study, except Singapore, the members of the councils have fixed terms.

This is generally considered to create more independence as it liberates members from threat of dismissal. It was also supported by 85 percent of survey respondents with 28 percent wanting one year, 42 percent suggesting three years and 16 percent suggesting five year terms.

Second, in Georgia members have other professional positions at the same time as they work on the council. Restricting members of the council from holding other positions was used by California, Massachusetts and New Zealand as a mechanism for avoiding conflicts. Seventy-three percent of survey respondents believe that the council should be the sole occupation of its members. This could increase independence and could create a more clearly defined group for training and professional development.

Third, in all of the case studies, members of the council were protected from dismissal/prosecution when decisions were made in good faith.

Fourth, in Georgia, appointment to the council is done by the government. While there is no consistency of international best practice on this issue, 99 percent of surveyed companies did not agree that sole government appointment was the best method for appointments, with 65 percent of respondents expressing the view that the business community and government should together be responsible for appointments.

**Recommendation: As a result of all of this analysis, PwC recommended that full institutional independence from the MoF was not necessary. However, it felt that adopting fixed-term, sole-position appointments, with protection from dismissal and business involvement in appointments, could dramatically increase independence.**

## Transparency/Predictability

Lack of predictability in interpretation of the tax code has been a consistent problem of Georgia’s tax system for years. It is not only a problem for business planning but has also left the concern that the tax code might be selectively applied.

One problem that makes predictability and consistency of interpretation difficult is the lack of published guidance on the tax code, and particularly the lack of published guidance that is binding on future interpretation.

One way in which the council could help this situation, and improve the practicality and predictability of tax code interpretations would be to publish decisions and make past decisions binding for the future. There was no consistent international best practice on publication of results. Some kind of publication was generally popular with businesses. Fifty percent of survey respondents said that decisions should be made public generally (with protection of the identity of taxpayers) and the other half said that release should be subject to approval on the part of the taxpayer.

**Recommendation: Decisions should be public, but personal and commercial data should be private.**

## Efficiency

On the issue of efficiency, PwC's survey results were positive. Eighty-nine percent of those surveyed said that there was no formal problem with their applications, although some said that they had difficulty presenting full evidence. One-third complained about the execution of decisions. There was still space for improvement and the project as a whole recommends a range of technical modifications to improve efficiency and equity, including the use of a faster/simpler process for small claims and the use of expert witnesses.

**Recommendation: The system should be simplified for small claims and ease of providing evidence should be improved.**

Following its analysis, PwC have presented its findings to the Ministry of Finance, and all of their major recommendations have been accepted. AmCham and Investor.ge magazine will keep track of reforms moving forward.

*\*This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID), EWMI and EPF, within the Judicial Independence and Legal Empowerment Project. The report's contents are the responsibility of AmCham and do not necessarily reflect the views of USAID, the United States Government, EWMI or EPF.*

## Legal Precedents in the Consideration of Tax Disputes Involving Subsoil Users in the Republic of Kazakhstan

Galiya Makazhanova, Counsel, Grata Law Firm

The influence of the mining industry on the economy of our country is great. It is therefore difficult to overestimate the importance of tax legislation, which is designed on the one hand, to encourage the growth of investment in this sector of the economy, and on the other to contribute to building a socially oriented state.

An analysis of judicial precedents for the application of tax law allows us to gain an insight into how it may be applied, and helps identify problem areas that require legislative solutions.

The Supreme Court of the Republic of Kazakhstan conducts regular general reviews of judicial precedents in order to clarify matters which the courts have resolved using a rationale which is not entirely clear.

Such general reviews result in the adoption of regulatory resolutions. In the area of tax law, these resolutions were the Resolution of the Plenum of the Supreme Court of Justice No. 19, dated 20 December 1999 and the Regulatory Resolutions No. 5, dated 23 June 2006, and No. 1, dated 27 February 2013.

Let me focus on those provisions of the latest regulatory resolution that refer to, inter alia, subsoil-user tax payers, which were not included in the previous resolution.

The draft Resolution stated that the Instruction on the Application of the Risk Management System in order to Refund Excess Value Added Tax, approved by the Order of the Minister of Finance of the Republic of Kazakhstan No. 385, dated 29 July 2010, could not apply to tax law due to Article 2.1 of the Code of the Republic of Kazakhstan "On Taxes and Other Obligatory Payments to the Budget (Tax Code)", dated 10 December 2008 (hereinafter - the "Tax Code"). To be precise, the Tax Code never envisaged the adoption of such a regulatory resolution.

This rigid position of the Supreme Court prompted the Ministry of Finance to initiate an urgent petition in Parliament to supplement Article 625 of the Tax Code with paragraph 7, which stated that the criteria of risk and the procedure for applying the risk management system in order to confirm the amount of the excess value added tax (hereinafter - "VAT") claimed for refund will be determined by the Government of the Republic of Kazakhstan. In this regard, the clause regarding the above Instruction was removed from the draft Resolution.

Based on an analysis of the provisions of the Tax Code, the regulatory Resolution explains that the legislation of the Republic of Kazakhstan does not enable the tax authorities to file claims in the courts for damages caused by a crime. Furthermore it states that money for the compensation of such damages does not qualify as taxes and other obligatory payments to the budget.

Specific attention is given to the fact that as a result of a crime under Article 222 of the Criminal Code (evasion of taxes by companies), a legal entity is evading taxes and should therefore pay the tax debt. Once the tax obligation has been fulfilled, a legal entity shall have the right of recourse to a guilty individual to the extent of fines and penalties paid.

The regulatory Resolution clarifies that in considering claims from tax authorities for the liquidation of a legal entity due to the invalidation of its registration, it is required to distinguish between violations committed when establishing the legal entity and those committed when doing business.

This provision is significant since the satisfaction of such claims entails the exclusion of VAT from the setoff on transactions with legal entities liquidated under the ground above.

In recent years, the tax authorities are actively using a form of tax control such as in-house audit aimed to give a taxpayer the right to independently address and rectify the violations committed.

Accordingly, taxpayers began to apply to the courts with appeals against the notices issued as a result of the in-house audits. So, the question of whether such claims can be heard in courts has been raised. In light of this, the Tax Committee of the Ministry of Finance insists that the said notices cannot be challenged in court because they do not entail any legal consequences for the taxpayer.

However, the Supreme Court has decided that the notices of in-house audit are to be considered the actions of state authorities, which, under Article 279 of the Civil Procedural Code, can be challenged in court. In this case, it is based on the fact that such notices impose on the taxpayer a particular obligation (to submit either a tax declaration or clarification, or a complaint to a higher tax authority).

However, subject to Article 8.2 of the Law "On Administrative Procedures", once a taxpayer performs the said notice, it cannot subsequently be challenged by means of judicial process.

The Resolution contains a provision which states that it is illegal for the tax authority to initiate an unscheduled tax audit on the grounds stipulated by the Criminal Procedural Code, either by letter or resolution of the criminal prosecution authority sent prior to the initiation of a criminal case.

Judicial precedents have confirmed that it is legal for the tax authorities to refuse the refund of VAT turnovers taxable at a zero rate in connection with the payment of foreign currency revenue from exported goods in foreign banks, but not in second-tier banks of Kazakhstan. The emergence of court disputes on this issue has prompted the competent authority to make updates to the Tax Code that second-tier banks must be in the territory of the Republic of Kazakhstan.

Pursuant to the regulatory Resolution, the requirements of the legislation on export-import currency control shall not apply to Kazakhstani branches of non-resident legal entities, which according to the Law "On Currency Regulation and Currency Control" are non-residents. Therefore, the lack of information about the contract account number or the number and date of the transaction passport in the bank opinion on foreign currency receipt cannot be a ground for refusing the refund of VAT to non-residents.

There is no doubt that the regulatory Resolution will lead to a more consistent and coherent application of tax law in the courts and will help improve the various parties' understanding of tax law.

However, it is impossible to clarify all the issues which arise in practice with just a single resolution.

Another urgent issue is the right of Kazakhstani branches to deduct managerial and general administrative expenses of the head office.

Last year, the Supreme Court heard a case regarding the claim of a German company which challenged the results of a tax audit of its branch, in particular, the accrual of corporate income tax due to the exclusion of the said costs from deductions.

The tax authority based its decision on the fact that, in violation of the Tax Code of 2001, these expenses were classified as deductions without an itemised breakdown.

With regard to this issue, the taxpayer explained that the financial reporting standards of the Federal Republic of Germany do not require an itemized breakdown of expenses with a breakdown of the amount of managerial and general administrative expenses in the profit and loss statement. In view of this, the taxpayer prepared and attached to the financial statements an expenses breakdown with detailed values of the said expenses of the head office. To confirm these amounts, there were audit reports from the international auditing firm - PricewaterhouseCoopers.

The copies of the above documents were provided for the tax audit.

Given these circumstances, the Supreme Court overruled the conclusion of the tax authority on the absence of an itemised breakdown, including managerial and general administrative expenses in the financial statements of the head office.

In the future, we can expect an increase in court disputes in connection with the enactment of the Rules of Application of Risk Management System in order to Confirm VAT Claimed for Refund approved by the Resolution of the Government No. 279, dated 27 March 2013. These Rules apply to all taxpayers, including those carrying out activities under subsoil use contracts.

It seems judicial precedents are often created as a result of the procedural activity of trial participants. If a party makes use of all the opportunities available under civil procedural laws and has supported its arguments with substantive points of law, there is every reason to believe that the court will give a favourable judgement.

# Refunds of Excess VAT Accumulated During Mineral Exploration in the Republic of Kazakhstan

Assel Ilyassova, Head of Tax Department, Grata Law Firm

Refunds of value added tax (VAT) incurred in connection with the export of goods<sup>2</sup> has lately become a pressing issue. Despite the fact that tax legislation clearly sets out the procedure for refunding excess VAT, in reality taxpayers encounter a number of obstacles. This article focuses on excess VAT accumulated during exploration prior to the export of minerals.

## The Rationale for Applying VAT to Exported Goods

Two opposing principles underpin indirect taxation<sup>3</sup> of cross-border trade: country of origin and country of destination. The vast majority of countries, including Kazakhstan, the CIS countries, and the European Union, charge VAT on the basis of country of destination. This system has well-recognised benefits in terms of customs control and customs valuation.

According to the country of destination method, exporting goods and the capital expenditure incurred during production of these goods are not subject to VAT in the country of origin. These goods are only subject to VAT in the country into which they are imported and where they are used.

When trade occurs between two countries, it gives rise to a potential double taxation scenario. The country of destination method is intended to avoid this. Furthermore, it places domestic producers on a level playing field with foreign producers, thus ensuring the competitiveness of exporting goods in the international market.

### The Country of Destination Principle in the Tax Code<sup>4</sup>

The country of destination principle is formalised in Articles 242 and 272 of the Tax Code and implemented in the following way.

#### *During production of exported goods*

Materials, equipment, work and services used in producing exported goods, including construction of facilities for production of exported goods, once they are purchased by the exporter, become subject to VAT at the current rate (12%). In other word, when materials, equipment, work and services are acquired, the exporter has to pay suppliers the price together with VAT, according to tax invoices. VAT is then offset and accumulated by the exporter prior to export. These obligations are contained in Articles 229, 231, 268 and 256 of the Tax Code.

#### *For the export of produced goods*

Export sales are subject to VAT at the rate of "0%", i.e. export goods are not subject to VAT, as stated in Article 242 of the Tax Code. This gives rise to excess VAT that can be offset against the assessed VAT.

Paragraph 2 of Article 272 states that the exporter has the right, at the start of the export process, to claim a VAT refund from the tax authorities of the amount paid during preparation for production and the actual production of the exported goods.

Thus, it is a mistake to regard the zero rate VAT on exports and the VAT refund as tax privileges or exemptions from the government to taxpayers. In fact, it is a means of enshrining the "country of destination" principle for applying VAT. The tax authorities, in essence, are returning tax previously paid by the exporter.

### *Article 272 of the Tax Code:*

The application of Article 272 is disputes between the tax authorities and taxpayers. A detailed analysis of this Article is provided below.

### *Paragraph 2 of Article 272 states:*

*"Excess value-added tax specified in the first part of subparagraph 1) of paragraph 1 of this Article, relating to goods, work and services purchased prior to January 1, 2009, except for excess related to the purchase of goods, work and services that are or will be used for the purposes of turnovers taxable at a zero rate, shall not be refunded...."*

This rule gives taxpayers the right to claim a refund of excess VAT related to turnover from export goods, including excess amounts incurred before 1 January 2009. The phrase "...will be used..." indicates that the exporter has the right to claim a VAT refund paid by the exporter during production of goods for export from Kazakhstan. For example, during mineral exploration the VAT paid by a subsoil user at the moment of purchasing materials, equipment, goods, work and services, can be refunded when the export of mineral resources begins.

Thus, according to Paragraph 2, the exporter may exercise his/her right to a refund of excess VAT if the following conditions are met:

- once the sale of export goods has occurred i.e. once the process has begun, the exporter has the right to submit a declaration to the tax authorities claiming a refund of excess VAT accumulated during production of the exported goods;
- if the excess VAT for refund is related to export turnovers - in other words, goods, materials, equipment, work and services used to produce exported goods and for which the exporter paid VAT (thereby giving rise to the excess VAT payment)

### *Paragraph 3 of Article 272 states:*

*"With regard to turnovers taxable at a zero rate, excess amounts of value-added tax to be offset against the assessed tax as stated in a declaration as a progressive total at the end of the reporting tax period shall be subject to refund, provided the following conditions are simultaneously met:*

- 1) *a payer of value-added tax permanently carries out sales of goods, work, services taxable at a zero rate;*
- 2) *if turnover from sales taxable at a zero rate were received and in relation to which a claim for refund of excess value-added tax is made, was not less than 70 per cent of total taxable sales turnover"*

The provisions of Article 272 cited above set out the extent to which excess VAT is refundable to the exporter, namely whether it may be refunded in its entirety or only in part. The amount of excess VAT for refund depends on whether export of goods is a consistent activity for the exporter. If the exporter constantly exports goods and the export turnover share exceeds 70% of the exporter's total sales turnover, then the entire amount of the excess VAT is refundable. If, on the date when the refund claim is made, the exporter does not meet

the criteria in paragraph 3 of Article 272, then only part of the excess VAT will be refunded. In this case, the amount of excess VAT is determined according to Paragraph 4 of Article 272.

#### **Paragraph 4 of Article 272:**

*“The Government of Kazakhstan shall establish criteria for classifying the sale of goods, work, and services taxed at a zero rate as permanent sales as specified in sub-paragraph 1) of paragraph 3 of this Article, and the procedure for calculating excess value-added tax to be refunded in the following circumstances:*

- 1) *in relation to turnovers taxable at a zero rate, in the case of non-observance of provisions established by paragraph 3 of this Article;*
- 2) *in relation to VAT specified in the second part of subparagraph 1) of paragraph 1 of this Article”*

Paragraph 4 of Article 272 is a reference rule that applies when the exporter does not meet the criteria specified in Paragraph 3 on the date a VAT declaration is submitted. If the exporter does not meet at least one of the conditions, the amount (share) of the refundable excess VAT is determined according to the “Rules for Determining Refundable Excess Value Added Tax, and Criteria for Classifying the Sale of Goods, Work, and Services Subject to Zero Rate VAT as Permanent Sales”, approved by the Government of Kazakhstan, No.373 of 20 March 2009.

Thus, if we apply Article 272 to a situation when a subsoil user has begun production and export of mineral resources from Kazakhstan, this Article allows the subsoil user to claim a refund of excess VAT accumulated during exploration, that is, before mineral export sales. Goods, materials, work, and services, as capital costs incurred during exploration, are used for field development in preparation for production and export.

Once the subsoil user starts exporting minerals, he is entitled to claim a refund of VAT incurred during exploration (in preparation for producing exports). Hence, in confirming the refundable excess VAT, it does not matter whether the excess VAT was amassed before or after the mineral exports began. An important condition, as noted above, is that the excess VAT claimed for refund relates to export turnovers. In other words, goods, materials, equipment, work, and services in connection with which VAT was paid by the subsoil user (leading to excess VAT) should be used for field development and extraction of raw minerals for export.

#### **The Tax Authorities’ Perspective**

The tax authorities believe that only excess VAT accumulated once goods have been exported is subject to refund. In other words, the tax authorities deny the exporter’s right to a refund of VAT paid during the production of goods (during exploration) that were subsequently exported. Thus the tax authorities, referring to Paragraph 3 of Article 272, mistakenly believe that only this rule establishes the exporter’s right to a refund of excess VAT, not taking into account the other paragraphs in Article 272 that classify VAT paid during production as refundable.

We believe this view is misguided since it fails to take into account Article 272.

It should be noted that this reflects recent practice. Under the previous Tax Code, VAT refunds were made for VAT accumulated during exploration. Thus Article 251 of the previous Tax Code<sup>2</sup> and Article 272 of the current Tax Code,

which both contain the exporter’s right to VAT refunds, do not significantly differ in their content.

We therefore believe VAT refund problems relate more to enforcement practices than to the legislation itself.

#### **Opinion of the Advisory Council**

The Advisory Council on Taxation works under the Government of Kazakhstan and its primary goal is to resolve ambiguities and inaccuracies in Kazakhstan tax law. During 2013 the Advisory Council issued two decisions regarding the interpretation of Article 272 of the Tax Code, which, in our opinion, are contradictory.

According to the decision of 31 January 2013, the Advisory Council confirmed the taxpayer’s right to refund excess VAT accumulated prior to zero turnovers. This decision was addressed to companies engaged in international shipping.

Let us recall that under the Tax Code, international shipping, as well as the export of goods, is subject to zero rate VAT. The procedure for refunding the excess VAT for shipping companies and exporters is single, i.e. the shipping companies refund the excess VAT from the budget also under a procedure prescribed in Article 272 of the Tax code.

Later on 17 October 2013 the Advisory Council issued another decision on the refund of excess VAT, where they explained that the procedure for refunding excess VAT accumulated in connection with field development prior to the export of goods, that is, prior to the zero turnovers, is not regulated in the tax law.

The Advisory Council confirmed that companies engaged in international shipping have the right to a refund of the excess VAT accumulated prior to the zero rate turnovers; however, they did not confirm this right in respect of subsoil users exporting minerals. The conditions and procedure for exercising the right to the refund of the excess VAT are regulated by Article 272 of the Tax Code, which stipulates the same conditions for all taxpayers, regardless of the nature of business.

Thus it seems the provisions of Article 272 of the Tax Code are unequally applied to entities, which contradicts principles enshrined in the Kazakhstan tax law and the Constitution.

#### **The Courts’ Stance**

The Supreme Court of Kazakhstan supports the tax authorities’ position. Reasons on which the judgements are based do not differ *per se* from the explanations of the tax authorities, i.e. the courts believe that only excess VAT accumulated once goods have been exported is subject to refund.

To summarize, the practice of the state bodies is not only illegal, but also results in double taxation of Kazakh domestic goods. Double taxation, in turn, leads to goods becoming uncompetitive on the world market. The obstacles to VAT refunds created by the tax authorities have an ultimately negative impact on Kazakhstan’s investment image. We firmly believe that one of the most important conditions to create an attractive economic climate in Kazakhstan is predictability and certainty in the field of taxation.

2 Refund of excess VAT to be offset against the amount of assessed VAT resulting from the acquisition of goods, works and services used for export turnovers will hereafter be referred to as “excess VAT”;

3 VAT is an indirect tax;

4 The Code of the Republic of Kazakhstan “On taxes and other obligatory payments to the budget” of 10 December 2008;

5 Code of the Republic of Kazakhstan “On taxes and other obligatory payments to the budget” of 12 June 2001.

# Capacity-Building – Finding Better Ways

Ian Macdonald, Tax Administration Consultant

This short article is designed to reinforce the importance of the continuing support and co-operation being provided for the tax administrations of the developing countries of Eurasia, whilst at the same time identifying the barriers that often exist to inhibit the successful adoption of strategies that will improve tax collection and taxpayer experience.

“Capacity Building” applies to **all** aspects of a tax administration’s efforts to improve their revenue collection and increase taxpayer compliance. Taxation rates are not the only consideration for inward investors, they will also be looking at how the tax administration functions; the levels of voluntary compliance (a measure of trust between the tax administration and taxpayers); the behaviour of tax officials and the range of taxpayer services. Governments also have to consider that taxation provides funding for government investment and delivery of public services, and effective tax administration policies improve the State’s ability to collect the right amount of tax at the right time.

Many developing countries seek assistance in making their tax administrations more effective, and yet in my experience there are clear barriers that inhibit many of the suggested changes being implemented. International organisations such as the OECD and World Bank have concerns that there is often a disappointing uptake by tax agencies to recommendations for change made by overseas experts, and there are several reasons for this.

Firstly, rigidity in the internal structure of a tax administration’s organization often inhibits the introduction of new ways of doing things. Pay structures and hierarchical issues sometimes mean that it is difficult to place the right people into specific new roles identified as necessary to deliver change. Embedded requirements that all tax officials should be educated to at least degree level can obstruct the selection of suitable tax officials, who may nevertheless have the precise competences to perform the role but fail to meet the educational requirements. Equally, existing levels of management may not allow for the appointment of tax officials to specific roles recommended as necessary to deliver improved taxpayer services. A reluctance to address the necessity for structural change is often the key inhibitor to the adoption of advantageous tax initiatives recommended by the OECD and World Bank.

Secondly, a failure to understand how to proactively influence taxpayers’ behaviour through improved taxpayer services and greater transparency. A key problem here is building trust between the tax administration and the citizen. Many countries are emerging from long periods of mutual antipathy between the tax authorities and potential taxpayers, and breaking down those barriers can be a long and difficult process. Listening and responding positively to the views of citizens is vital if a tax administration is to be successful in encouraging taxpayers to meet their obligations, and thus increase voluntary compliance.

Thirdly, there may be a reluctance to move away from a strong focus on enforcement, towards a consideration of how behaviour influences compliance in the taxpayer population. The traditional view for tax administrations has been that compliance can be achieved through a high risk of detection and sanctions for non-compliance. Increasingly, tax administrations are considering how human behaviour can influence compliance, recognizing that deterrence alone

is ultimately limited in its effects. Taxpayer behaviour is influenced, for example, through user-friendly e-services, tax law simplification, building proactive relationships with large businesses, increasing co-operation with tax intermediaries and generally making it easier to comply. The purpose is to build trust with honest taxpayers and at the same time, and most importantly, to use effective enforcement procedures to convince them that other taxpayers will also comply, because no one wants to be the last honest taxpayer!

Effective and sustained Capacity Building demands that these issues are addressed because strengthening tax institutions is an important element of state building, which helps to improve relationships between government and its citizens. More effective tax systems can therefore contribute to broader governance reforms in developing countries.

Tax administration strategies in developed countries have evolved over time, partly to reflect global changes in fiscal policies, but also in concert with the social and economic policies of liberal democratic societies. It is a mistake to believe that administration strategies successful in effecting better compliance and taxpayer services in these countries can be grafted on to taxation departments operating in newer emerging states.

Having participated as a “Tax Expert” in twinning and EU projects, as well as working full-time with the Intra-European Organisation of Tax Administrations (IOTA), I have experienced the joys and frustrations of introducing new ways of working in the countries of central and Eastern Europe. In my view the key element missing in the broad range of assistance for, and co-operation with, the tax administrations of Central and Eastern Europe, is the lack of continuing facilitation to help countries translate proposals for change into implementable and successful tax policy and administration.

International organisations have a role to play here, and I would like to see a greater engagement in the change process for those that have a continuing relationship with developing countries. IOTA, for example, could follow-up on project recommendations for change within member countries and provide on-going support through targeted workshops and case study forums, as well as facilitating contact between member countries to increase co-operation and support in introducing new administrative policies.

The pace of change is increasing, and tax administrations have to adapt fast to put in place systems and policies that meet the requirements of a modern state and attract inward investment. International assistance is available and with appropriate support a more flexible, taxpayer friendly environment can be achieved.

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

## Adjustments (Deductions) to Gross Profit

	Tax Payers	Object of Taxation	Gross Profit/ Income	Types of Income Taxed According to Special Rules	Deductible Reserves
<b>Armenia</b>	Both residents and non-residents.	Residents are liable to profits tax on their worldwide income. Non-residents are liable to profits tax on their Armenian-source profit only.	Revenue from sales of goods and services; revenue from sales of assets; interest; lease fees, royalties; dividends; insurance payments; assets received free-of-charge, other profit.	For foreign legal entities: <ul style="list-style-type: none"> <li>insurance compensation, reinsurance payments and income received from freight are taxed at a 5% rate;</li> <li>dividends, interest, royalties, rental fees, capital gains and other passive income are taxed at a 10% rate;</li> <li>other income from activities in Armenia and income from consulting, marketing, advertising, accounting, legal and other similar services provided by non residents outside Armenia to Armenian residents and to non residents' separate subdivisions in Armenia are taxed at 20% rate.</li> </ul>	Contributions for bad debt reserve in accordance with the requirements established by the Government
<b>Azerbaijan</b>	Enterprises carrying on activities in Azerbaijan, including enterprises with foreign investment and foreign legal entities operating through a permanent establishment.	Gross worldwide income (for Azerbaijani legal entities) or profit earned through a permanent establishment (for foreign legal entities) adjusted for certain items.	Trading profit (losses); capital gains (capital losses from the sale of assets can reduce gross income); profits from financial activities; other profit.	None	None for non-insurance companies.
<b>Belarus</b>	Belarusian organizations as well as foreign entities operating in the territory of Belarus through permanent establishments.	<ol style="list-style-type: none"> <li>For Belarusian organizations - the amount of profit from the sale of goods (works, services), property rights and non-sale income, reduced by the amount of non-sale expenses.</li> <li>For foreign companies operating in Belarus through permanent establishments - the amount of profit a foreign organization, obtained through a permanent establishment in the territory of Belarus, from the sale of goods (works, services), property rights and non-sale income, reduced by the amount of non-sale expenses</li> </ol>	The amount of profit from the sale of goods (works, services), property rights and non-sale income, reduced by the amount of non-sale expenses. Profits of the permanent establishment of a foreign organization may be determined by three methods: the direct method (as a general rule), indirectly (certain part of a foreign organization profit) or by comparison with other permanent establishments exercising similar activity in Belarus.	<p>Profit of organizations derived from production of laser and optical equipment if share of such equipment in the total production shall constitute at least 50% in terms of value.</p> <p>Profit of organizations - members of the scientific and technological association founded by the Belarusian State University in accordance with the law - with regard to a part of the proceeds from the sale of information technology and services for their development - 5%.</p> <p>Profits earned from sale of own-produced goods included in the list of high-tech products - 10%.</p> <p>Profits from sale of shares in the share capital (stocks) of organizations located in the territory of Belarus, or respective parts thereof - rate reduced by 50% (9%).</p> <p>Dividends, including dividends from sources outside Belarus - 12%.</p> <p>Profit of science and technology parks, technology transfer centers and residents of science and technology parks (except the CPT, calculated, withheld and remitted by tax agent) - 10%.</p>	Certain types of costs may be recognized through establishment of reserves for future expenses. Special provisions are stipulated for banks and insurance companies.

## CORPORATE PROFITS TAX: DETERMINATION OF TAXABLE PROFIT

### (Income) to Arrive at Taxable Profit (Income)

Tax Exemptions	Years of Loss Carry-forward (Back)	Basic Tax Rate	Tax Credits
<p>(I) Resident companies, listing ordinary shares on Armenian stock exchange till 31 December 2012 may reduce their corporate income tax by 50% (but not more than 300 million drams per year) for up to 3 years.</p> <p>(II) Legal entities engaged in production of agricultural products are exempt from the tax if income received from the sale of agricultural products exceeds 90% of total income.</p> <p>(III) Operator of a free economic zone is exempt from profit tax on activities implemented in free economic zone.</p> <p>(IV) Tax payers engaged in production of handmade carpets are exempt from profit tax on income received from sale of produced carpets.</p> <p>(V) The amount of annual profit tax for resident companies realizing Business Projects approved by Armenian Government (except for activities in trade and financial spheres) is reduced in the amount of additional salaries and other equal payments (but not more than 30% of current year's profit tax) accrued for new work positions created within the mentioned Business Projects. The tax incentive is applicable for Project launch and 2 consecutive years.</p>	5 (0). Not applicable to non-residents and to losses resulting from reformation, merger and acquisition transactions.	20% of taxable income. For investment funds - 0.01% of net assets.	Profits (income) taxes paid in foreign countries may be credited against Armenian tax imposed on the same income, limited to the amount of Armenian tax on the income.
Insurance proceeds, except for those which cover deductible losses.	5 (0)	20%	Tax withheld on dividends from other Azerbaijani enterprises. Foreign income tax may be credited against Azerbaijani tax imposed on the same income, limited to the Azerbaijani tax.
<p>The payers are eligible for different benefits.</p> <p>Such benefits include, inter alia, benefit on profit gained from securities; benefit for sale own-produced innovative products; benefit for organizations employing the disabled; benefit for production of baby foods; benefit for sale of own-produced high-tech products; special taxation regime in free economic zones; benefit for commercial organizations located in the middle-size towns, small towns, rural areas.</p>	10 (0)	18%. Certain payers may apply the reduced CPT rate: 5% - 12%.	The amount of tax paid outside Belarus may be offset against CPT, payable in Belarus on such income.

# Comparative Study

Mr. Richard Lewis, Tax Partner, EY Russia

	Tax Payers	Object of Taxation	Gross Profit/ Income	Types of Income Taxed According to Special Rules	Deductible Reserves
<b>Georgia</b>	Georgian enterprises and foreign enterprises carrying out activities through a permanent establishment in Georgia and/or generating income from sources in Georgia.	<ol style="list-style-type: none"> <li>1. Georgian enterprises: gross income less relevant deductions.</li> <li>2. Foreign entities with a permanent establishment (PE) in Georgia (other than entities carrying out international air transportation of passengers and/or cargo): gross income earned through a PE from Georgian sources less deductions. Foreign entities performing international air transportation of passengers and cargo with a PE in Georgia: income earned by a PE from Georgian sources during the calendar year divided by the total gross income received by the entity from Georgian and other sources and multiplied by taxable income.</li> <li>3. Foreign entities without a PE: gross income without any deductions at the source of payment and in case of property sale - gross income less expenses relating to the receipt of the income.</li> </ol>	Trading profit (losses); goods and services received without consideration; capital gains (losses); profits from financial activities; profit earned from sales of shares; profit earned from sale of property, other profit.	Profit received from oil and gas operations based on the "existing contract" defined under the Law of Georgia on "Oil and Gas" is subject to taxation at the rate of 10% if a contract was signed before 1 January 1998. Dividends and interest are taxable at source at 5%, while a 15% rate applies to interest received by non-residents registered in offshore countries (the list of offshore countries is determined by the Government Resolution). The taxation of non-resident's income at the source of payment: a 10% rate applies to the payments made on the basis of international telecommunication and international shipping services. A 4% rate applies to the income received from the oil and gas operations by the non-resident sub-contractors under the Law of Georgia on "Oil and Gas". Non-residents' income received from transferring property under leasing not related to a PE in Georgia and risk insurance and re-insurance services is exempted from taxation. Other paid amounts to non-residents, deemed to represent income received from a Georgian source are taxed at the rate of 10% at source, while 15% rate applies to non-residents registered in offshore countries.	None, except for banks and credit unions, insurance companies, leasing companies.
<b>Kazakhstan</b>	<p>Residents: Kazakh legal entities and other legal entities with a place of management in Kazakhstan.</p> <p>Non-residents: foreign legal entities operating through a permanent establishment and/or receiving income from sources in Kazakhstan.</p>	<p>Residents: aggregate annual income (worldwide) adjusted for deductible expenses and adjustments;</p> <p>Non-residents: income received through a permanent establishment adjusted for deductible expenses and adjustments, and/or income from sources in Kazakhstan.</p>	Profits from the sale of goods (work, services), assets, non-operating income and other income determined in accordance with International Financial Reporting Standards and the requirements of the legislation of the Republic of Kazakhstan concerning accounting and financial reporting, and also in accordance with transfer pricing legislation.	Income of non-residents from sources in Kazakhstan (from 5% to 20%), not related to a permanent establishment of such non-residents. Dividends, interest and royalties are taxed at 15%.	<p>Banks, except for the National Institute of Development, controlling interests of which belongs to national managing holding, have a right for deduction an amount of expenses on provisions (reserves), created in accordance with international financial reporting standards and requirements of the Republic of Kazakhstan on accounting and financial reporting legislation in order established by the National Bank of Kazakhstan in coordination with the authorized body.</p> <p>Subsurface users have the right to deduct amounts of allocations to an abandonment fund from aggregate annual income. Deductions may be made in the amount of allocations which the subsurface user actually made in the tax period to a special deposit account held with any bank in the Republic of Kazakhstan.</p>

## CORPORATE PROFITS TAX: DETERMINATION OF TAXABLE PROFIT CONTINUED

Tax Exemptions	Years of Loss Carry-forward (Back)	Basic Tax Rate	Tax Credits
<p>Profit of budgetary, international and charitable organizations, except for profit from economic activity; Grants, membership fees and donations received by an organization; Grants received by agricultural co-operative according to the Law of Georgian on "Grants" and membership contributions;</p> <p>Until 1 January 2017 income received from initial supply of agricultural products before their processing (i.e. change of commodity code), if such income does not exceed GEL 200,000 during a calendar year;</p> <p>Profit received from agricultural activities that is reinvested in agriculture within 3 years following the end of the respective tax year; Until 1 January 2017 income received by agricultural co-operative from initial supply of agricultural products before their processing (i.e. change of commodity code).</p> <p>Income of an International Financial Company (a company having a status of international financial company and engaged in financial activities) received from performance of financial operations and/or provision of financial services and/or sale of securities issued by non-resident persons;</p> <p>Gains received from sale of securities issued by an International Financial Company;</p> <p>Gains received from sale of free floating securities (debt or equity securities listed on stock exchange with free float rate in excess of 25% as of 31 December of the current and preceding reporting year, pursuant to the information provided by the issuer of these securities to the stock exchange);</p> <p>Georgian source income of a non-resident received from insurance and re-insurance services;</p> <p>Georgian source income of a non-resident received from leasing services not related with its PE in Georgia;</p> <p>Interest income and gains received from sale of bonds issued by the Government, National Bank of Georgia (the NBG) and International Financial Institution (the list of International Financial Institutions will be defined by the Government Resolution), and interest accrued on accounts with the NBG.</p> <p>Profit of Free Industrial Zone Company (a company having respective status and operating in a FIZ) received from activities allowable in a FIZ;</p> <p>Income of an investment fund received from supply of financial instruments, performance of financial operations and/or provision of financial services, if the investment fund is an International Financial Company;</p> <p>Income received from supply of IT of own production outside Georgia by a Virtual Zone Person (a legal entity having obtained a status of Virtual Zone Person and conducting IT activities).</p> <p>Profit of medical establishments (despite its organizational and legal form) received from medical activities which has been reinvested in rehabilitation of the establishment and/or provision for technical base within 3 years following the end of the respective tax year.</p> <p>Profit received by a Special Trade Company from permitted operations except gains received from the sale of fixed assets used in economic activities for more than two years.</p> <p>Until 1 January 2026 profit received by a Tourist Zone Entrepreneur (an entity registered under the Law of Georgia on "Development of Free Tourist Zones" that builds and operates a hotel) from providing hotel services. Income from the management of a gaming business (gaming machines salon, totalizator) , except for income received from system-electronic games.</p>	<p>5 or 10 (0); a loss cannot be carried forward if it is generated by International Financial Company, Free Industrial Zone Company and Special Trade Company.</p>	<p>15%.</p>	<p>Profit tax paid outside Georgia on income not earned from a Georgian source is creditable against Georgian tax assessed for that profit limited to the amount of such Georgian tax.</p>
<p>Tax preferences are granted:</p> <ol style="list-style-type: none"> <li>1. In deduction of cost of objects of preferences and (or) subsequent costs for reconstruction and modernization.</li> <li>2. To organizations engaging in activities on the territories of special economic zones.</li> </ol>	<p>10 (0)</p>	<p>20%. Permanent establishments of foreign legal entities are also subject to tax on net income at 15%.</p>	<p>Amounts of tax to be offset shall represent the lower of the following amounts:</p> <ol style="list-style-type: none"> <li>1) amount of tax actually paid in a foreign state from income received by the resident taxpayer from sources outside Kazakhstan;</li> <li>2) amounts of income tax from income from sources outside Kazakhstan, assessed in Kazakhstan.</li> </ol>

# Comparative Study

Mr. Richard Lewis, Tax Partner, EY Russia

	Tax Payers	Object of Taxation	Gross Profit/ Income	Types of Income Taxed According to Special Rules	Deductible Reserves
<b>Russia</b>	Russian companies, Russian companies, which are members of a consolidated group of taxpayers and foreign companies operating through permanent establishments and (or) receiving income from Russian sources.	For Russian companies which are not members of a consolidated group of taxpayers – income received, reduced by the amount of expenses incurred;  2) for foreign companies which carry out activities through permanent establishments – income received through those permanent establishments, reduced by the amount of expenses incurred by those permanent establishments;  3) for companies which are members of a consolidated group of taxpayers – the amount of the aggregate profit of the members of the consolidated group of taxpayers.	Profits (losses) from the sale of goods (work, services), fixed assets and other property, revenue from non-sale operations less expenses.	Dividends receivable by a Russian company are subject to 9% or 0% (if the dividends are deemed to be qualified); dividends payable by a Russian payer to a foreign company are subject to 15% income tax withholding. Royalty and interest payable to foreign companies are taxed at source at the rate of 20%. In compliance with certain requirements income from operations involving the sale or other disposal (including redemption) of participating interests in the charter capital of Russian companies and shares in Russian companies.	Bad debt reserves, reserves for warranty repair and warranty servicing, reserves against unused vacations, reserves for the payment of the annual bonus for long service, reserves for future expenses to be allocated for purposes associated with the social protection of disabled persons, reserves for future research and (or) development expenses, reserves for future expenses of non-commercial companies, reserves for fixed asset repairs, reserves for future costs associated with the completion of hydrocarbon extraction activities at a new offshore hydrocarbon deposit.
<b>Ukraine</b>	Ukrainian legal entities and foreign legal entities conducting business activity through permanent establishments or deriving income from Ukrainian sources.	Worldwide income less cost of goods sold, works performed, services rendered and other expenses in the reporting tax period, including depreciation charges (for Ukrainian legal entities);  profit earned through a permanent establishment (for foreign legal entities with a permanent establishment in Ukraine); or Ukrainian-sourced income (for foreign entities without a permanent establishment in Ukraine).	Income from the sale of goods, performance of works and rendering of services, dividends from nonresidents (with certain exceptions), interest, royalty, income from possession of debt claims, income from renting/leasing, cost of goods (works, services) that were received on a cost-free basis, profit from the sale of noncurrent fixed assets, property complexes, current assets and other income.	Nonresidents: income from freight - 6%, income from production and/or distribution of advertisement of a resident - 20% (payable at costs of the resident that orders such advertising), insurance payments and compensations - 0%/4%/12% (depending on insurance type).  Income from state securities and bonds or debt security that are backed with state or local guarantees that were sold or placed outside of the territory of Ukraine is not taxable. Interests, dividends, royalty and certain other kinds of Ukrainian-source income received by a non-resident are subject to withholding tax at the rate of 15%. Withholding tax rate of 15% can be reduced or eliminated by virtue of the respective Double Tax Treaty.  Ukrainian residents: dividends received from legal entities that are controlled by a taxpayer and are not non-residents that have offshore status are not taxable; profit from long-term life insurance and pension insurance - 0%. A Ukrainian dividend-paying company should accrue the advance corporate profit tax at the basic tax rate of the total dividend amount payable and pay it to the state budget (with certain exceptions). The advance corporate profit tax is paid by the dividend-paying company and may be credited against its current corporate profits tax payable.	Banks and non-banking financial institutions (excluding insurance companies, non-state pension funds, corporate investment funds and administrators of non-state pension funds) are entitled to deductible reserves.  The insurance reserve of banks cannot exceed 20% of the indebtedness under all types of loan transactions (excluding off-balance-sheet transactions, apart from guarantees).  The reserve is formed by funds in the correspondent accounts in other banks, purchased securities, other active banking transactions including interest and commissions accrued for all these transactions.  The insurance reserve of non-banking financial institutions cannot exceed 10% of debt claims. The insurance reserve shall be formed and written off by the bank independently in the amount and in the order stipulated by the methodology approved for banks by the National Bank of Ukraine, and for non-banking financial institutions by the State Commission for Regulation of Financial Services Markets and the National Securities and Stock Market Commission.  In some cases creation of reserve is compulsory for entities that do not qualify as banks or non-banking financial institutions. For example, the creation of a reserve for doubtful debts may be required to receive the right to tax deductions due to recognition of accounts receivable as bad.
<b>Uzbekistan</b>	Uzbek legal entities and foreign legal entities operating through a permanent establishment. (Foreign legal entities operating not through a PE are subject to withholding tax at source on their gross Uzbek source income at various rates up to 20%.)	Worldwide income (for Uzbek legal entities) or profits earned through a permanent establishment (for foreign legal entities).	Profit (losses) from the sale of goods (work, services); capital gains (certain capital losses are not deductible); income from non-sale transactions.	Dividends and interest paid to legal entities (except interest to Uzbek banks and credit unions) are taxed at the source of payment. Interest on State securities is tax-exempt. Profit from production sharing agreements are taxed according to relevant PSAs.	For insurance companies - 20% of income (up to 25% of charter capital); bad debt provision for banks in accordance with the rates set by the Central Bank; for other entities - debt on which the statute of limitations has passed (3 years).

## CORPORATE PROFITS TAX: DETERMINATION OF TAXABLE PROFIT CONTINUED

Tax Exemptions	Years of Loss Carry-forward (Back)	Basic Tax Rate	Tax Credits
None	<p>10 (0)</p> <p>Not applicable to losses which a taxpayer incurred during a period when its income was taxed at the rate of 0%</p>	<p>20% (2% to the federal budget and 18% to the regional budget).</p> <p>Regional authorities can reduce their tax rate to 13.5%.</p> <p>0% to the federal budget - for organizations - participants of regional investment projects.</p> <p>0% tax rate applies to profits of companies performing education and medical activities, of companies which are residents of a technology development or a tourism and recreation special economic zone, of companies which have acquired the status of participant in project "Skolkovo" if they satisfy certain criteria, agricultural goods producers, and fishing organizations which meet the specified criteria.</p>	<p>Withholding taxes paid in foreign countries may be credited against Russian tax imposed on the same income, limited to Russian tax.</p>
<p>Full tax exemption applies to (if certain conditions are met):</p> <ul style="list-style-type: none"> <li>profit from the sale of special children's food;</li> <li>profit of companies and organizations that were created by public organizations of disabled persons;</li> <li>profit received as international technical aid for the construction of the shelter of the Chernobyl Nuclear Power Station;</li> <li>profit of companies that operate in the field of the power industry;</li> <li>income from transactions with assets of mutual funds and real estate funds;</li> </ul> <p>80% of the corporate profit received from the sale of power efficient equipment and materials and 50% of the profit received from implementation of power efficient projects.</p> <p>Temporary tax exemption applies to (if certain conditions are met):</p> <ul style="list-style-type: none"> <li>Till 1 January 2015 the profit of publishing houses, publishing organizations and polygraph companies;</li> <li>Till 1 January 2016 the profit of taxpayers if their income from each reporting tax period in totality from the beginning of the year does not exceed UAH 3 million and if the wages of employees accrued for each month are not less than two minimal salaries (2 x UAH 1,218 as of 1 January 2014);</li> <li>Till 1 January 2020 profit from business activities on production and use of methane of coal deposits; bio-fuel producers;</li> <li>Till 1 January 2021 profit from provision of hotel services; of light industry companies; of shipbuilding, aircraft industry; of machine-building companies for the agro-industrial complex.</li> <li>Till 1 January 2023 Tax Code provides reduced tax rates (0% till 31 December 2017, 8% from 1 January 2018 till 31 December 2022) for profits derived from the investment projects in the priority industries, the list of which is established by the Cabinet of Ministers of Ukraine.</li> </ul> <p>Profit of entities belonging to the software products industry is taxed at a 5% rate (with certain exceptions)</p>	<p>The effective provisions of the Tax Code provide for tax losses carry forward without time limits, but with certain exceptions and restrictions, such as:</p> <ol style="list-style-type: none"> <li>1) It is prohibited to carry forward tax losses which arose prior to 1 January 2014 from operations with securities in reporting periods of 2014.</li> <li>2) Tax losses which arose 31 December 2011 by resident taxpayer with income in 2011 more than UAH 1 mln, is reflected in tax returns for 2012-2015 by 25% annually, with the possibility of further carry forward without limitation.</li> </ol>	<p>18% (from 1 January 2014 till 31 December 2014)</p> <p>17% (from 1 January 2015 till 31 December 2015)</p> <p>16% (from 1 January 2016 and further)</p>	<p>Taxpayer is eligible to offset (credit) taxes paid overseas from incomes earned in foreign jurisdictions against Ukrainian tax but within the amount of tax payable in Ukraine. Capital gains taxes, indirect taxes and certain other taxes are not eligible for such offset (credit). A tax offset (credit) is available provided it is stipulated by an applicable double tax treaty and upon condition that the tax payer has in place the tax authorities' written confirmation.</p>
<p>Certain companies employing disabled people (over 50% of staff), certain city public transportation, etc. Certain tax holidays/exemptions available for certain foreign direct investments.</p>	<p>5(0). Tax losses can be carried forward for 5 years. However, the amount of carried forward losses cannot exceed 50% of current year taxable profits. Losses incurred during the profits tax exemption period cannot be carried forward.</p>	<p>The general profits tax rate is 8% (for commercial banks 15%, etc.). (For the purposes of calculating profits tax of a PE of a foreign legal entity, the amount of taxable profit may not be less than 10% of total expenses directly related to income earned in Uzbekistan regardless of where such expenses were incurred.) There is also a local social infrastructure development tax of 8% on net profit for Uzbek legal entities, the base is statutory accounting profit less corporate income tax. PEs of foreign legal entities are subject to branch profits tax of 10% on net profit in addition to profits tax.</p>	<p>A tax credit is allowed for foreign tax paid (in accordance with international treaties), but it is limited to the lower of actual tax paid and the Uzbek tax that would have been paid on the foreign-source income.</p>

# Comparative Study

Mr. Richard Lewis, Tax Partner, EY Russia

	<b>Method of Calculating Profit (Loss) from Sale of Goods (Work and Services)</b>	<b>General Rule for Composition of Deductible Production Expenditures</b>	<b>Composition of Sales Expenditures</b>	<b>Valuation of Inventory</b>	<b>Methods of Fixed Assets Depreciation</b>
<b>Armenia</b>	Difference between gross income and the deductions allowed under the profits tax law. Income and expenses are accounted by the accrual method. For investment funds the taxable base is net assets.	All documented expenses connected with the receipt of income are deductible, with the exception of expenses incurred for the acquisition of fixed assets, their installation and other expenses of a capital nature, as well as expenses that are non-deductible.	Packaging, storage, transportation, loading, advertising, etc.	FIFO.	Fixed assets are depreciated on a straight-line basis. Threshold for useful life for profit tax purposes is: buildings - 20 years; hotels - 10, assembly lines, robot equipment - 3; computers and calculating devices - 1; other fixed assets - 5. Fixed assets valued less than 50,000 drams are to be depreciated within 1 year.
<b>Azerbaijan</b>	Annual income reduced by all business expenses connected with earning of such income except for those which are specially disallowed.	All expenditures connected with the receipt of income, except for capitalizable costs which are deductible through depreciation.	Not specified in the legislation. Presumably includes packaging, storage, transportation, loading, advertising.	Lower of either acquisition cost or market price at the date of acquisition; FIFO; LIFO; Average cost.	Depreciated by group method on a reducing balance basis, using the depreciation rates set by the Government.
<b>Belarus</b>	Positive (negative) difference between proceeds from sale of goods (works, services), property rights (except for fixed assets, intangible assets), reduced by the amount of taxes and fees paid from proceeds, and costs of production and sale of goods (works, services, property rights) calculated for taxation.	Documented valuation of natural resources, raw materials, fuel, energy, fixed assets, intangible assets, labor and other costs, recognized in the balance sheet and used in production and sale of goods (works, services), property rights.	Costs for packaging, shipping, storage, on the maintenance of the premises, facilities, equipment, advertising, and other similar costs.	Cost-per-unit; average value; FIFO	The following methods of depreciation are allowed: <ul style="list-style-type: none"> <li>• straight-line;</li> <li>• nonlinear (direct method of the sum of numbers of years; return method of the sum of numbers of years; reducing balance method)</li> <li>• production method.</li> </ul>

## CORPORATE PROFITS TAX: DETERMINATION OF PROFIT (LOSS) FROM SALE OF GOODS (WORK AND SERVICES)

Methods of Intangible Assets Amortization	Deductions Subject to Certain Limitations	Non-deductible Items	Non-deductible Items Subject to Capitalization
<p>Intangible assets are amortized on a straight-line basis. The amortization period of intangible assets for tax purposes is specified by the taxpayer on the basis of the possible useful life. In case of impossibility to determine the useful life, it is set at 10 years, though it should not exceed the period of the taxpayer's activity.</p>	<p>Expenses not deductible from gross income, if exceeding specified limits established by the Government:</p> <ul style="list-style-type: none"> <li>• payments above limits for pollution of the environment;</li> <li>• advertising, marketing (market analysis, promotion) outside Armenia;</li> <li>• training and retraining of staff outside Armenia;</li> <li>• expenses for meal and uniform for employees;</li> <li>• business trip expenses;</li> <li>• representation/hospitality;</li> <li>• maintenance of residential for the elderly, nurseries, leisure and sport institutions;</li> <li>• interest above the Central Bank's double rate, etc.</li> </ul>	<p>Foreign exchange losses and expenses not connected with the company's economic activity. Penalties and fines paid to the state or municipal budgets.</p> <p>For companies other than financial institutions interests from borrowings or loans in case those borrowings or loans are provided to third parties free of interests.</p> <p>Rent payments if the rented property is provided to third parties for gratuitous use.</p> <p>Expenses identified in the reporting year for the period more than for the three directly preceding years, etc.</p>	<p>Expenses of a capital nature are added to fixed assets' net book value. The differentiation of expenses between current and capital is made on the basis of criteria defined by the Government.</p>
<p>Amortized by group method on a declining balance basis at a rate of 10% per annum, or useful life method (25% for geological surveying and exploration).</p>	<p>Business trips, interest and repair expenses, therapeutic nourishment, milk and similar products provided to employees.</p>	<p>Representative and meal expenses and various other expenses that are not deemed to be connected with the company's economic activity.</p>	<p>Repair expenses in excess of certain statutory limits.</p>
<p>Straight-line basis, non-linear basis (except for trade names, trademarks), production method</p>	<p>Expenses are not deductible if they exceed established limits: social payments to employees in the amount exceeding those specified in the legislation; business trips expenses above established norms; expenses on reimbursements of fuel and energy resources costs made over established norms; losses from shortages or (and) spoiling of property exceeding established norms of wastage, etc.</p>	<p>Non-deductible are expenses that do not relate to production and sale of goods (works, services), property rights.</p> <p>For instance, the following expenses are non-deductible: for the construction, equipment, and maintenance of objects not involved in entrepreneurial activity; social payments to employees, in cash and in kind in amount exceeding amounts stipulated in the legislation etc.</p>	<p>Cost of modernization, renovation, equipping etc.</p>

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

	Method of Calculating Profit (Loss) from Sale of Goods (Work and Services)	General Rule for Composition of Deductible Production Expenditures	Composition of Sales Expenditures	Valuation of Inventory	Methods of Fixed Assets Depreciation
<b>Georgia</b>	Income from the sale of goods (work, services) less deductible expenses.	All documented expenses connected with the receipt of income are deductible, with the exception of expenses of a capital nature, as well as expenses that are non-deductible. Expenses incurred for the acquisition of fixed assets, their installation and other capital expenditure is deductible gradually in the form of depreciation charges, unless a full depreciation method is used by a taxpayer. Taxpayers can deduct from gross income a) benefits received in the form of a supply without consideration of goods/services in the calendar year when such goods/services are used in economic activity subject to any restrictions set by the Tax Code; b) VAT accrued on a distribution without consideration for advertising purposes of goods having independent consumer characteristics. The Minister of Finance of Georgia may define a) certain circumstances when the expenses do not need to be documented; b) or the list of documents certifying the expenditure irrespective of the fact that they may not satisfy the general requirements. A Virtual Zone Person may deduct expenses related to the receipt of gross income from a supply of IT of own production in and outside Georgia in proportion to the income received from supplies made in Georgia in its total gross income.	Not specified in the legislation. Presumably includes packaging, storage, transportation, loading, advertising.	Individual valuation, FIFO, Weighted Average.	Depreciations are not assessed on land, works of art, museum items, historical objects (except for buildings), fixed assets with a value below GEL 1,000, biological assets (animals and plants). Fixed assets with a value below GEL 1,000 can be fully deducted from gross income in the year of their exploitation and expenditure on biological assets - in the year when it was incurred. Fixed assets are depreciated by groups on a reducing balance basis, using the annual depreciation rates set by the Tax Code (5%; 8%; 15%; 20%). Special rules apply to leased assets. The Tax Code envisages an alternative approach for depreciation deductibility. Namely, in connection with fixed assets, other than those contributed to the capital of an entity or leased out under a finance lease, a taxpayer is entitled to deduct the cost of purchase (production) of such assets fully. Such fixed assets are not included in the book value of the groups mentioned above. If taxpayers employ this alternative method, they must use it in the future for all purchased (produced) fixed assets and are not entitled to change it within 5 years. Repair expenses on rented fixed assets (if not defined by the rent agreement and respectively not reducing rental payments) create a separate group of assets depreciating at 15%. Upon the expiration and/or termination of the rent agreement, the remaining balance value of this group is annulled and is not subject to deduction from gross income. Further, return of rented fixed asset back to lessor is not considered as supply.
<b>Kazakhstan</b>	Income from the sale of goods (work, services) less deductible expenses.	Expenses related to the performance of the activity aimed at generation of income and supported by documents.	Sales expenditures are not separately defined in the Tax Code.	Accounting of inventory for tax purposes should be done in accordance with International Financial Reporting Standards and domestic legislation concerning accounting and financial reporting.	Declining balance method with maximum depreciation rates for four groups of assets (10 - 40%).
<b>Russia</b>	Revenues from sales of goods (work, services) less deductible costs.	Costs are deemed to be deductible if they are economically justified (aimed at receiving income) and documented. The Tax Code provides an open list of expenses which are deductible for tax purposes. For expenses incurred in Russia, documents adhering to Russian statutory documentation standards must exist.	Cost of goods (work and services), packaging, storage, delivery, loading, advertising expenses, consulting or similar services, management services, legal services, etc.	Method of valuation on the basis of the value of a unit; on the basis of the average value; FIFO and LIFO.	Ten groups of depreciable assets are established for depreciation purposes depending on the useful life. Only the straight-line method may be used for buildings, installations, transmission devices with a useful life over 20 years (groups 8-10). Both straight-line and reducing balance methods may be used for other assets.  If a reducing balance method was chosen by a company, depreciation will be determined for each depreciation group of fixed assets as a whole. If the straight-line method is applied, depreciation is determined for each fixed asset.  A depreciation allowance of 10% of capital expenditures can be deducted as a lump-sum amount immediately (for fixed assets in the third - seventh depreciation groups and with useful life in the range of three to twenty years depreciation allowance may be up to 30% of capital expenditures). The depreciation allowance should be clawed back if assets were sold to an affiliated party within five years after they were put into use.

## CORPORATE PROFITS TAX: DETERMINATION OF PROFIT (LOSS) FROM SALE OF GOODS (WORK AND SERVICES) CONTINUED

Methods of Intangible Assets Amortization	Deductions Subject to Certain Limitations	Non-deductible Items	Non-deductible Items Subject to Capitalization
<p>Intangible assets with a value below GEL 1,000 can be fully deducted from gross income in the year when the respective expense was incurred. Amortization is applied on a straight-line basis in proportion to useful life. If it is impossible to define useful life, then intangible assets are amortized at 15% as a separate group on a reducing balance basis. Expenses incurred to purchase or produce intangible assets are not capitalized if they had previously been deducted from gross income.</p>	<ol style="list-style-type: none"> <li>1. Interest expenses: the deduction cannot exceed annual 24% if the loan is received from any entity other than a licensed banking or microfinance institution; Deduction of interest is further limited for those companies in which at least 20% of shares is owned directly or indirectly by entities exempt from profit tax: the amount of interest deduction shall not exceed 50% of sum of gross income and interest income reduced by allowed deductions (other than interest deductions). Thin capitalization occurs when the "debt-to-equity" ratio exceeds 3/1 or 5/1 in case of a leasing company. In case of thin capitalization a company is not allowed to deduct paid and/or payable interest expenses from its gross income. At the same time, thin capitalization rules do not restrict deduction of interest expenses on the debt below the established ratio. Thin capitalization rules do not apply to financial institutions, entities with gross income not exceeding GEL 200,000 and if interest expenses do not exceed 20% of the taxable income before deduction of interest expenses;</li> <li>2. Doubtful debts can only be deducted in case they have been previously reflected in gross income and have been written off in accounting records;</li> <li>3. Expenses for scientific research, project design, or experimental design, with the exception of expenditures for the acquisition of fixed assets, their installation, and other outlays of a capital nature;</li> <li>4. Representative expenses can be deducted in the amount of 1% of an entity's gross income;</li> <li>5. Charitable expenses: the deduction cannot exceed 10% of difference between gross income and deductible expenses, excluding charity;</li> <li>6. Depreciation charges for fixed assets used in economic activity are deductible only in accordance with the rates and conditions set forth by the Tax Code;</li> <li>7. Fixed assets capital repair expenses are only deductible in the amount of 5% of the balance of the corresponding group of fixed assets at the end of the preceding tax year. However, such expenses are fully deductible if a person applies full depreciation method.</li> </ol>	<p>Significant non-deductible expenses include expenses related to "non-economic" activity, other than charitable expenses; entertainment expenses; expenses related to receipt of income exempt from profit tax; expenses on goods/services supply of which is outside the scope of profit taxation, other than gratuitous supply to the state and/or local Government; expenses on goods/services purchased from Micro Business (an individual with a status of micro business); profit tax paid in and outside of Georgia, as well as fines and penalties paid or payable to the budget.</p>	<ol style="list-style-type: none"> <li>1. Capital repair expenses (not current repair expenses) in excess of 5% of the net book value of the asset category to which the repairs were made. However, such expenses are fully deductible if a person applies full depreciation method;</li> <li>2. Repair expenses on rented fixed assets (if not defined by the rental agreement and respectively not reducing rental payments) should be capitalized and even upon the expiration and/or termination of the rental agreement, the remaining balance value of this group is annulled and is not subject to deduction from gross income;</li> <li>3. Expenditures on geological surveying and work for preparation of extraction of natural resources are deductible from gross income in the form of depreciation charges on a reducing balance basis using the annual 20% depreciation rate and shall be recorded as a separate group. The above shall apply to the expenditures on intangible assets, incurred by a taxpayer for obtaining the right to conduct a geological survey of, to process or exploit the natural resources, other than intangible assets for which it is possible to define the useful life and to deduct pro rata to the reporting period.</li> </ol>
<p>Declining balance method at a rate not exceeding 15%.</p>	<p>Interest expenses and representation expenses.</p>	<ul style="list-style-type: none"> <li>• expenses not related to the receipt of income;</li> <li>• expenses not confirmed by documents;</li> <li>• penalties and late payment interest;</li> <li>• other.</li> </ul>	<p>Expenses for geological study and preparatory works incurred by sub-surface users. These expenses are deductible from aggregate annual income in the form of amortization charges from the moment of commencement of extraction following a commercial discovery of minerals.</p>
<p>Straight-line method, default annual rate is 10%.</p> <p>For some types of intangible assets the taxpayer may independently determine the useful life, which may not be less than two years.</p>	<p>Deductibility of representational expenses is limited to 4% of payroll costs. Costs for advertising through mass media, exterior advertising and costs for participation in exhibitions are deductible without limits. Other advertising costs are deductible if they do not exceed 1% of sales revenue. The maximum deductible interest on rouble loans is calculated using the Central Bank refinancing rate (the current rate is 8,25%) increased by a factor of 1.8 and the maximum deductible interest on debts in foreign currency is calculated using the Central Bank refinancing rate decreased by a factor of 0.8.</p> <p>Thin capitalization limitations exist.</p>	<p>The following expenses are not taken into account in determining the tax base, in particular: dividends, contributions to charter capital, tax penalties and fines which are collected by the State authorities; payments for excess emissions of pollutants into the environment etc.</p>	<p>Cost of repair works increasing historic costs of assets (e.g. reconstruction, modernization etc.).</p>

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

	<b>Method of Calculating Profit (Loss) from Sale of Goods (Work and Services)</b>	<b>General Rule for Composition of Deductible Production Expenditures</b>	<b>Composition of Sales Expenditures</b>	<b>Valuation of Inventory</b>	<b>Methods of Fixed Assets Depreciation</b>
<b>Ukraine</b>	Total worldwide income less the cost of goods sold, works performed, services rendered and other expenses of the reporting tax period, including depreciation charges	All documentally supported expenses which are related to the taxpayer's business activity are generally deductible, except for those explicitly disallowed or restricted by the tax legislation.	Sales-related costs are deductible except for those explicitly disallowed or restricted according to tax legislation.	Methods which are allowed for use in financial accounting are also applicable for tax purposes, i.e.: Identified cost of the relevant inventory unit; Average-weighted cost; FIFO; Normal losses method; Sales cost.	<p>16 groups of fixed assets. Depreciation should be accrued during the term of useful life of the object, but not less than the statutory minimum term. Depreciation is accrued according to the method chosen by the taxpayer (with certain exceptions).</p> <p>Depreciation of fixed assets should be accrued according to the following methods:</p> <ol style="list-style-type: none"> <li>1) straight-line method</li> <li>2) declining balance value method</li> <li>3) accelerated diminution of depreciated cost</li> <li>4) cumulative method</li> <li>5) production method</li> </ol> <p>The Tax Code determines 16 groups of fixed assets and minimum terms of their beneficial use:</p> <p>group 1: land plots - depreciation is not accrued</p> <p>group 2: capital expenses on improvement of lands not connected with construction - 15</p> <p>group 3: buildings - 20 constructions - 15 communicators - 10</p> <p>group 4: machines and equipment - 5 including electronic and computer equipment - 2</p> <p>group 5: vehicles - 5</p> <p>group 6: tools, devices, stock (furniture) - 4</p> <p>group 7: animals - 6</p> <p>group 8: perennial plantations - 10</p> <p>group 9: other fixed assets - 12</p> <p>group 10: library stock - (minimum term is not established)</p> <p>group 11: noncurrent tangible assets of small value - (minimum term is not established)</p> <p>group 12: temporary constructions - 5</p> <p>group 13: natural resources - depreciation is not accrued</p> <p>group 14: returnable containers - 6</p> <p>group 15: object of hiring-out - 5</p> <p>group 16: long-term biological assets - 7</p> <p>Depreciation charges for the reporting quarter are determined as the amount of depreciation costs for three months.</p> <p>The Tax Code also establishes special depreciation methods for costs of mineral resources extraction.</p>
<b>Uzbekistan</b>	Sales revenue less deductible expenses.	Expenses are deductible for profits tax purposes if justified and documented. The Tax Code provides a list of expenses which are deductible.	Transportation, insurance, storage, advertising, and certain other expenses.	Historic cost; FIFO; average cost	Generally straight-line method, using depreciation rates not exceeding those set by the Tax Code.

## CORPORATE PROFITS TAX: DETERMINATION OF PROFIT (LOSS) FROM SALE OF GOODS (WORK AND SERVICES) CONTINUED

Methods of Intangible Assets Amortization	Deductions Subject to Certain Limitations	Non-deductible Items	Non-deductible Items Subject to Capitalization
<p>6 groups of intangible assets. Amortization is accrued according to the method chosen by a taxpayer during the term of useful life.</p> <p>Amortization of fixed assets is accrued according to the following methods:</p> <ol style="list-style-type: none"> <li>1) straight-line method;</li> <li>2) declining balance value method;</li> <li>3) cumulative method;</li> <li>4) production method.</li> </ol> <p>The term of useful life shall be determined according to the document that established the ownership rights to the intangible asset (i.e., title document) and shall not be less than the established by law minimum term:</p> <p>group 1 - right of use of natural resources - according to the title document (minimum term is not established)</p> <p>group 2 - right of property use - according to the title document (minimum term is not established)</p> <p>group 3 - right to commercial signs - according to the title document (minimum term is not established)</p> <p>group 4 - right to commercial property objects - according to the title document, but not less than 5 years</p> <p>group 5 - copyright and associated rights - according to the title document, but not less than 2 years</p> <p>group 6 - other intangible assets - according to the title document (minimum term is not established)</p> <p>If the title document does not establish the term of the right of use, the term is established by the taxpayer itself, but should not be less than 2 years and not more than 10 years of continuous use.</p>	<p>Expenses on repairs and improvement (modernization, reconstruction, etc.) of fixed assets repairs expenses may be deducted for up to 10% of the NBV of fixed assets at the beginning of the fiscal year (any excess amount is capitalized);</p> <p>The following limits are established on expenses deductibility:</p> <p>warranty expenses - for the amount that equals the level of warranty replacements accepted/made public by the taxpayer;</p> <p>expenses on purchase of engineering services in an amount not exceeding 5 % of the customs value of the equipment imported;</p> <p>85% of the cost of goods (works, services) purchased from non-residents that have offshore status;</p> <p>expenses on royalties accrual in favour of a non-resident (if certain conditions are met, and certain exceptions may apply) and purchase of consulting, marketing, advertising services in an amount that does not exceed 4% of income from the sales return of the previous year;</p> <p>fees for membership in employers' organizations - 0.2% of annual payroll expenses.</p>	<p>All expenses not related to the taxpayer's business activities or not supported by primary documents;</p> <p>Expenses on purchase of engineering works (services) from a non-resident that has offshore status or is not the beneficial recipient of this payment for services;</p> <p>Royalties payable to an entity which does not qualify as a beneficial owner of those royalties;</p> <p>Royalties payable to an entity which is not subject to taxation with respect to royalties in the country of its residence</p> <p>Royalties payable with respect to intellectual property objects whose owner is a resident of Ukraine;</p> <p>Royalties payable to a non-resident that has offshore status;</p> <p>Consulting, marketing or advertising services from a non-resident that has offshore status.</p> <p>Expenses on payment of certain taxes:</p> <p>Corporate Profit Tax;</p> <p>Personal Income Tax that is deducted from payments of these incomes and some other taxes;</p> <p>Value Added Tax (for VAT payers if a taxpayer is entitled to VAT credit);</p> <p>Cost of trading licences (included in reduction of the taxpayer's tax liability).</p> <p>Some other expenses:</p> <ul style="list-style-type: none"> <li>• management fees payable to the governing bodies of associations/holding companies that are separate legal entities, etc.</li> <li>• penalties and fines arising from a breach of contract obligations (both contractual and those applied by the decision of the state authorities);</li> <li>• in other cases prescribed in the Tax Code.</li> </ul>	<p>Expenses on acquisition or construction of assets intended for use for more than one year which value exceeds UAH 2.5k.</p> <p>Financial expenses on production (building) of qualifying assets are capitalized into the value of such assets.</p> <p>Expenses on repair and improvement (modernization, reconstruction, etc.) of fixed assets exceeding 10% of the NBV of all fixed asset groups at the beginning of the fiscal year.</p>
<p>Generally straight-line method over useful life. Where useful life cannot be determined - over 5 years.</p>	<p>Voluntary insurance expenses (with some exceptions); representation expenses; business trip expenses; charitable contributions; etc.</p>	<p>Litigation costs, losses on fixed assets disposal (except for assets used for more than 3 years), fines/penalties, etc.</p>	<p>Acquisition or construction of fixed assets and intangible assets; start-up costs, etc.</p>

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

## CONTRIBUTIONS FOR THE REPLACEMENT OF THE MINERAL RAW MATERIAL BASE

	Taxpayers	Object of Taxation	Tax Base	Tax Rate	
				Oil, Gas & Gas Condensate	Other Minerals
<b>Armenia</b>	Not applicable.				
<b>Azerbaijan</b>	Not applicable.				
<b>Belarus</b>	Please refer to "Mineral Extraction Tax"				
<b>Georgia</b>	Legal or physical person or any organization without legal status engaged in activities subject to licensing for the use of natural resources.	Natural resources extracted in Georgia, including minerals, water, timber, and naturally occurring flora and fauna.	Weight, volume and unit of the resources extracted.	GEL 21 per tonne of oil, GEL 2 per 1,000 m3 of gas.	Depends on the type of the mineral.
<b>Kazakhstan</b>	Not applicable.				
<b>Russia</b>	Not applicable.				
<b>Ukraine</b>	Please refer to "Mineral Extraction Tax"				
<b>Uzbekistan</b>	(Subsurface use tax.) Legal entities and individuals, extracting mineral resources from subsurface (and from waste) as well as processing of mineral resources (in certain cases).	(Subsurface use tax.) Volume of extracted/produced natural resources or useful components.	(Subsurface use tax.) Extracted/produced minerals at average sales value.	(Subsurface use tax.) Natural gas - 30%; Gas condensate - 20%; Oil - 20%; Utilized natural gas - 9%; Subsoil gas - 2.6%, etc.	(Subsurface use tax.) 3% - 24% (from waste - 30% of the rate for the main natural resource); etc.

## ROYALTY

	Types of Licence	Tax Payers	Object of Taxation	Tax Base	Tax Rate
<b>Armenia</b>	Permit for exploitation and usage of subsurface and natural resources.	Legal entities and individuals.	Sale of mining products.	Revenue from sales of mining products.	Royalties are calculated in accordance with the following formula: $R(\%) = 4 + [E / (\text{Rev} * 8)] * 100$ , where R - Royalty in % E - Earnings Before Tax Rev - Revenue from sale of production net of VAT (calculated in accordance with the procedures established by the Government).
<b>Azerbaijan</b>	See "Mineral Extraction Tax".				
<b>Belarus</b>	Activities which impact the environment: 1. turnover of ozone-depleting substances; 2. use of substances of 1 - 3 Hazard category, waste disposal.	Not applicable. Please refer to "Mineral Extraction Tax"			
<b>Georgia</b>	1. Licence for extraction of minerals; 2. Licence for the usage of subsoil sites; 3. General licence for the usage of oil and gas: a) Licence for oil and gas prospecting; b) Licence on oil and gas extraction. 4. General licence for usage of forests: a) Licence for wood production ; b) Licence for hunting economy; 5. Licence for fishing. 6. Licence for usage of a radio frequency spectrum;	See contributions for the replacement of the mineral raw material base.			
<b>Kazakhstan</b>	From 1 January 2009 Royalty was replaced by Mineral Extraction Tax (see MET).				
<b>Russia</b>	1. Right to carry out geological study. 2. Right to develop deposits. 3. Right to use the waste products of mining. 4. Right to use subsurface resources for purposes which are not associated with the extraction of commercial minerals and related processing industries. 5. Right of sampling mineral, paleontological, and other geological materials for collection purposes. 6. Right of establishment of specially protected geological features.	Royalties for extraction of minerals were replaced by Mineral Extraction Tax.			
<b>Ukraine</b>	Transportation of oil, oil products by a pipeline, transportation of natural, oil gas (methane) of coal fields by pipelines and their distribution. 1. Licence on transportation of oil by pipelines; 2. Licence on transportation of oil products by pipelines; 3. Licence on transportation of natural, oil gas and gas (methane) of coal fields by pipelines; 4. Licence on distribution of natural, oil gas and gas (methane) of coal fields. Other permits: • Special permit for the use of oil and gas resources (geological study of oil and gas resources, pilot commercial development of deposits for further extraction of oil and gas, extraction of oil and gas, construction and operation of underground constructions not associated with extraction of minerals, including underground storages for the oil or gas and constructions for burial of waste from oil and gas industry and associated waters); • Special permits for use of resources at certain places (geological study, construction and operation of geological territories, creation of geological territories and objects with scientific, cultural or sanitary importance, for performing works envisaged in a product sharing agreement)	Payers of royalties are business entities that use pipelines and provide (organize) services on transportation of commodities by pipelines of Ukraine.  Payer of royalties for transit of natural gas at the territory of Ukraine is a business entity authorized by the Ukrainian government, which provides (organizes) services on its transit at the territory of Ukraine.  Apart from payment of these royalties, the Tax Code of Ukraine envisages a fee for subsoil use (please refer to "Mineral Extraction Tax" section).	Oil and oil products: • actual volumes, which are transported at the territory of Ukraine in tax (reporting) period.  Natural gas and ammonia: • sum of multiplication of (i) distances of relevant routes of the transportation agreed between a payer of royalties and the customer for a relevant tax (reporting) period and (ii) volumes of natural gas and ammonia transported by each route of transportation.	Volume of transported products or sum of multiplications of distances of routes and volumes of transported products.	Tax rates: a) UAH 1.67 for transit transportation of 1,000 cubic meters of natural gas per each 100 kilometers of the distance of relevant routes of its transportation; b) UAH 4.5 for transportation of 1 tonne of oil by oil pipelines; c) UAH 4.5 for transportation of 1 tonne of oil products by oil pipelines; d) UAH 5.1 for transit transportation of 1 tonne of ammonia per each 100 kilometers of relevant routes of its transportation.  In case of change in tariffs adjustment coefficients apply to royalty rates. They are calculated in the order established by the Ukrainian government, except for the rate on transit transportation of natural gas.
<b>Uzbekistan</b>	See Contributions for mineral replacement (subsurface use tax). In practice the Government established royalty rates for certain investment projects. The base and rates are defined on a case-by-case basis.				

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

## EXCISE DUTY ON OIL

	Tax Payers	Object of Taxation	Tax Base	Tax rate
<b>Armenia</b>	Legal entities (including branches and representatives of foreign legal person) and individuals importing or producing excisable goods.	Import into or sale (by producers-prepackers) of oil in Armenia.	1) Oil - Volume of oil sold or imported. 2) Meter Oil - Sale price/customs value of the weight.	1) Oil - 27,000 drams per tonne. 2) Motor Oil - 10%, but not less than 400 per kg
<b>Azerbaijan</b>			Not applicable.	
<b>Belarus</b>			Not applicable.	
<b>Georgia</b>	Oil producers. Oil importers and exporters. The excise taxpayer on goods produced in Georgia with customer's raw materials is the producer of these goods.	Supply of oil, supply of goods produced in Georgia from customer's raw materials, usage of excisable goods of own production in the production of non-excisable goods, import and export.	Weight of oil and oil products.	GEL 120 per tonne for gas; GEL 400 per tonne of oil products; GEL 150-250 per tonne of oil distillates - light, medium, heavy. Export of goods is exempt with the right to reclaim input excise tax.
<b>Kazakhstan</b>	Legal entities and individuals producing or importing crude oil, gas condensate.	Crude oil, gas condensate.	Volume (quantity) of produced or imported crude oil, gas condensate.	0 tenge
<b>Russia</b>			Not applicable.	
<b>Ukraine</b>			Not applicable.	
<b>Uzbekistan</b>	Oil producers. Oil importers.	Oil produced and sold/transferred. Oil imported.	Value of the oil produced and sold/transferred at net selling price. Customs value of the oil imported.	Oil produced and sold/transferred - none. Oil imported - 20%.

## EXCISE DUTY ON NATURAL GAS

	Tax Payers	Object of Taxation	Tax Base	Tax Rate
<b>Armenia</b>			Not applicable.	
<b>Azerbaijan</b>			Not applicable.	
<b>Belarus</b>			Not applicable.	
<b>Georgia</b>	Gas producers. Gas importers and exporters (other than natural gas delivered through a pipeline). Suppliers of natural gas condensate and/or natural gas to means of transport. The excise taxpayer for goods produced in Georgia with customer's raw materials is the producer of the goods.	Supply of natural gas condensate and natural gas (other than pipeline gas), supply of goods produced in Georgia from customer's raw materials to a customer, usage of excisable goods of own production in the production of non-excisable goods, import and export.	Volume of natural gas condensate and/or natural gas.	GEL 80 per 1,000 m <sup>3</sup> for natural gas condensate and natural gas, other than for pipeline gas. Export of goods is exempt with the right to reclaim input excise tax.
<b>Kazakhstan</b>			Not applicable.	
<b>Russia</b>			Not applicable.	
<b>Ukraine</b>			Not applicable.	
<b>Uzbekistan</b>	Gas producers. Gas importers.	Gas produced and sold/transferred. Gas imported.	Value of the gas produced and sold/transferred at net selling price. Customs value of the gas imported.	Gas produced and sold/transferred - 25% (liquefied gas - 26%). Gas imported - none.

## EXCISE LEVY ON AUTOMOBILE FUEL

	Tax Payers	Object of Taxation	Tax Base	Tax Rate
<b>Armenia</b>	Taxpayers importing or producing (prepacking) petrol and diesel fuel.	Import into or sale (by producers-prepackers) of petrol and diesel fuel in Armenia.	1) Petrol - the weight of petrol. 2) Diesel - the weight or customs value of diesel fuel.	1) Petrol - 25,000 drams per tonne. 2) Diesel fuel - 10% of customs value, but not less than 32,500 drams per tonne.
<b>Azerbaijan</b>	Persons producing or importing fuels.	Production and importation of oil products.	Value of the fuel produced and sold at selling price including excise tax. Customs value of the fuel imported.	3%-72%
<b>Belarus</b>	Organizations, individual entrepreneurs, individuals producing, selling or importing fuel	Sales of goods made in Belarus, import of excisable goods, sales of imported goods	Amount of fuel (in tonnes)	Excise rate (Belarusian roubles): Petrol: not conforming to class 3, 4 or 5 3962600 roubles per tonne class 3 3825300 roubles per tonne class 4 3536700 roubles per tonne class 5 2300500 roubles per tonne Diesel fuel: not conforming to class 4 or 5 2293100 roubles per tonne class 4 1930600 roubles per tonne class 5 1695800 roubles per tonne Diesel fuel with methyl air fatty acids 350900 roubles per tonne Ship fuel 2293100 roubles per tonne Gas hydrocarbonic liquefied, used as the automobile fuels (1000 liters): PBA, PAS brands 198400 roubles PT, BT brand and other brands 374400 roubles Gas natural fuel compressed, used as automobile fuel 1000 cubic meters 374400 roubles Oil for diesel and (or) carburetor (injector) engines (1 tonne) 2308300 / 2419200
<b>Georgia</b>	Fuel producers.  Fuel importers and exporters.  The excise taxpayer for goods produced in Georgia with customer's raw materials is the producer of the goods.	Supply, supply of goods produced in Georgia from customer's raw materials to a customer, usage of excisable goods of own production in the production of non-excisable goods, import and export.	Weight of oil products.	Petrol - GEL 250  Diesel - GEL 150  Export of goods is exempt with the right to reclaim input excise tax.
<b>Kazakhstan</b>	Individuals and legal entities producing, selling or importing petrol or diesel fuel (except for aviation fuel).	Petrol (except aviation fuel) and diesel fuel.	Volume (quantity) of petrol or diesel fuel (except for aviation fuel) produced, sold or imported.	Rates for producers: Petrol - 4,500 tenge (US\$ 24.7) per tonne (for wholesale), 5,000 tenge (US\$ 27.4) per tonne (retail sale and own consumption). Diesel fuel - 540 tenge (US\$ 3) per tonne (for wholesale), 600 tenge (US\$ 3.3) per tonne (retail sale and own consumption). Rates for importers: Petrol - 4,500 tenge (US\$ 24.7) per tonne. Diesel fuel - 540 tenge (US\$ 3) per tonne. Rates for individuals and legal entities: Petrol - 0 tenge - (for wholesale), 500 tenge (US\$ 2.7) per tonne (retail sale and own consumption). Diesel fuel - 0 tenge - (for wholesale), 60 tenge (US\$ 0.3) per tonne (retail sale and own consumption).
<b>Russia</b>	Companies and entrepreneurs which produce or import excisable goods.	Sale/transfer of excisable goods without consideration; transfer of produced excisable goods for processing as customer-supplied materials; import of excisable goods. Non-excisable operations:  -export, as well as the sale of excisable goods which have been placed under the export customs procedure beyond the boundaries of the territory of the Russian Federation with account taken of losses within the limits of the norms of natural loss;  -import into a port in a special economic zone.	The tax base is determined as: 1) the volume of sold (transferred)/imported excisable goods in physical terms; the value of sold (transferred)/imported excisable goods.	Petrol: not conforming From 1 January to 31 December 2014 to class 3, 4 or 5 11,110 roubles per tonne class 3 10,725 roubles per tonne class 4 9,916 roubles per tonne class 5 6,450 roubles per tonne Diesel fuel: not conforming to class 3, 4 or 5 6,446 roubles per tonne class 3 6,446 roubles per tonne class 4 5,427 roubles per tonne class 5 4,767 roubles per tonne Motor oils for diesel and (or) carburetor (injection) engines 8,260 roubles per tonne Straight-run petrol 11,252 roubles per tonne Domestic heating fuel 6,446 roubles per tonne
<b>Ukraine</b>	Business entities and individuals which produce or import excisable goods (including oil products and condensed gas) and some others.	<ul style="list-style-type: none"> <li>Sale of excisable goods (including oil products and condensed gas) produced in Ukraine or import of oil products;</li> <li>Import of excisable goods (including oil products and condensed gas) into the customs territory of Ukraine;</li> <li>Some other transactions.</li> </ul>	The weight of sold or imported excisable goods (including oil products and condensed gas)	Light distillates - EUR 182 per tonne; Special petrol (depending on the type) - EUR 182 - EUR 198 per tonne; Motor petrol (depending on the type) - EUR 30 - EUR 198 per tonne (in some cases increasing coefficients may apply); Middle distillates - EUR 182 per tonne; Kerosene (depending on the type) - EUR 19 - EUR 182 per tonne; Condensed gas - EUR 44 per tonne; Heavy distillates (gasoil) - EUR 46 - EUR 98 per tonne; Biodiesel and its mixtures (containing oil or oil products in the amount that is not less than 70%) - EUR 46 per tonne; Masut - EUR 46 per tonne.
<b>Uzbekistan</b>	Fuel producers. Fuel importers.	Fuel produced and sold/transferred. Fuel imported.	Value of the fuel produced and sold/transferred at net selling price. Customs value of the fuel imported.	Fuel produced and sold/transferred - petrol (UZS 321,430 - 408,890 per tonne), diesel (UZS 273,400- 284,250 per tonne), jet fuel (UZS 50,580 per tonne), engine oil - (207 000 UZS per tonne) . Fuel imported - 20% (distillates 30%).

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

## EXCISE LEVY ON TOBACCO

	Tax Payers	Object of Taxation	Tax Base	Tax rate
<b>Armenia</b>	Taxpayers importing or producing (packaging) tobacco products (Tobacco industrial substitutes, cigars, cigarillos, cigarettes).	Import or sale (by producers, including packagers) of tobacco products in Armenia	1) For tobacco industrial substitutes - the weight  2) For cigars, cigarillos and cigarettes - units imported or produced	1) For tobacco industrial substitutes - 1500 drams per kg.  2) For cigars, cigarillos and cigarettes*  *It should be noted that fixed payments are applied to tobacco products, which replace:  - VAT, Excise Tax and Customs duty for imported tobacco  - VAT and Exise Tax for produced tobacco  The following rates are applied:  2.1) cigars - 550,000 drams per 1000 pcs in case of importation, 300,000 drams per 1000 pcs in case of production  2.2) cigarillos - 15,000 drams per 1000 pcs in case of importation, 11,000 drams per 1000 pcs in case of production  2.3) cigarettes - 8,000 drams per 1000 pcs in case of importation, 7,000 drams per 1000 pcs in case of production  2.4) unfiltered cigarettes containing tobacco - 3,250 drams per 1000 pcs in case of importation, 1,950 drams per 1000 pcs in case of production
<b>Azerbaijan</b>	All enterprises and individuals engaged in the production of excise goods in the Republic of Azerbaijan or the importation of such goods into the Republic of Azerbaijan and residents of the Republic of Azerbaijan who are engaged in the production of excise goods, directly or via a contractor, outside the Republic of Azerbaijan and are not registered for tax purposes at the location of production are payers of excise tax.	Objects of taxation are the following transactions:  - the release of excise goods produced in the territory of the Republic of Azerbaijan outside the boundaries of the building in which they were produced;  - with respect to imported goods  - release of excise goods out of the control of customs services Authorities in accordance with the Customs Code of the Republic of Azerbaijan	Tax base for tobacco products produced in the territory of the Republic of Azerbaijan is the compensation received, or receivable, by the taxpayer from a customer or any other person (including barter proceeds). The amount of such compensation cannot be less than the wholesale market price of the goods (excluding excise tax and VAT). Tax base for imported tobacco products is volume of so imported goods.	Excise tax rates for products produced in Azerbaijan and goods imported are subject to different tax rates. All kinds of tobacco products produced in Azerbaijan are subject to tax at the rate of 12.5 % of compensation amount (tax base). Once imported tobacco products are subject to excise tax of 1.8 US\$ per 1000 items of the product.
<b>Belarus</b>	Organizations, individual entrepreneurs, individuals producing, selling or importing tobacco	Sales of goods made in Belarus, import of excisable goods, sales of imported goods	Tobacco weight (in kilograms) or the amount of tobacco products (in units)	Excise rate (Belarusian roubles):  Tobacco:  Cigars -19700 roubles per piece  Cigarillos - 294900 per 1,000 pcs  Filter cigarettes at retail price (groups)  Up to 400000 roubles (I group) 125000  From 400000 up to 550,000 roubles (II group) 215000  From 550000 roubles (III group) 250000  Cigarettes without filter 93800  Pipe tobacco, smoking (1 kg) 339000
<b>Georgia</b>	Tobacco producers.  Tobacco importers and exporters.  The excise taxpayer for goods produced in Georgia with customer's raw materials is the producer of the goods.	Supply, supply of goods produced in Georgia from customer's raw materials to a customer, usage of excisable goods of own production in the production of non-excisable goods, import and export.	Weight or amount of tobacco products.	Cigars - GEL 0.9 per piece  Cigarillos – GEL 1 per 20 pcs  Filter cigarettes – GEL 0.75 per 20 pcs  Cigarettes (non-filter) - GEL 0.2 per 20 pcs  Pipe tobacco - GEL 20 per kg.*  Other - GEL 20 per kg.*  Chewing tobacco and snuff - GEL 20 per kg.  *Is taxed only in primary packaging up to a net weight 500 grams.
<b>Kazakhstan</b>	Individuals and legal entities producing, selling or importing tobacco products.	Tobacco products	Volume (quantity) of tobacco products produced, sold or imported.	Cigars - 475 tenge (US\$ 2.6) per 1,000 pcs.  Cigarillos - 3,700 tenge (US\$ 20.3) per 1,000 pcs.  Cigarettes with filter - 3,000 tenge (US\$ 16.5) per 1,000 pcs.  Cigarettes without filter - 3,000 tenge (US\$ 16.5) per 1,000 pcs.  Tobacco (except for pharmaceutical products containing nicotine) - 3,800 tenge (US\$ 20.9) per kilogram.

## EXCISE LEVY ON TOBACCO

	Tax Payers	Object of Taxation	Tax Base	Tax rate
<b>Russia</b>	Companies and entrepreneurs which produce or import excisable goods.	<p>Sale/transfer of excisable goods without consideration; transfer of produced excisable goods for processing as customer-supplied materials; import of excisable goods.</p> <p>Non-excisable operations:</p> <ul style="list-style-type: none"> <li>• export, as well as the sale of excisable goods which have been placed under the export customs procedure beyond the boundaries of the territory of the Russian Federation with account taken of losses within the limits of the norms of natural loss;</li> <li>• import into a port in a special economic zone.</li> </ul>	The tax base is determined as: 1) the volume of sold (transferred)/imported excisable goods in physical terms; the value of sold (transferred)/imported excisable goods.	<p>The excise tax rates on tobacco from 1 January till 31 December 2014 are:</p> <ol style="list-style-type: none"> <li>1) Cigars - 85 roubles per 1 piece;</li> <li>2) Cigarillos, bidis, kreteks - 1,280 roubles per 1,000 pcs;</li> <li>3) Cigarettes, papirosy - 800 roubles per 1,000 pcs + 8,5% of the assessable value calculated on the basis of the maximum retail price, but not less than 1,040 roubles per 1,000 pcs;</li> <li>4) Tobacco (excluding tobacco which is used as a raw material for the production of tobacco products) - 1,500 roubles per 1 kg</li> </ol>
<b>Ukraine</b>	<ol style="list-style-type: none"> <li>1) Legal entities and individual entrepreneurs producing (including from customer-supplied raw materials) tobacco goods, tobacco and its industrial substitutes (hereinafter the "excisable goods") in Ukraine</li> <li>2) Legal entities and individual entrepreneurs importing excisable goods into Ukraine.</li> <li>3) Individuals (residents and non-residents) importing excisable goods in amounts subject to taxation under the customs laws.</li> <li>4) Legal entities and individual entrepreneurs selling confiscated or derelict excisable goods.</li> <li>5) Legal entities and individuals violating conditions of the customs regimes providing for exemption from taxation.</li> </ol>	<p>The following operations with the excisable goods are subject to taxation:</p> <ul style="list-style-type: none"> <li>• sale (except for export) of excisable goods produced in Ukraine;</li> <li>• sale (transfer) of excisable goods for self-consumption purposes;</li> <li>• import of excisable goods into Ukraine (except for re-import of products to be returned to their producer due to identified deficiencies);</li> <li>• sale of confiscated or derelict excisable goods.</li> </ul>	<p>Depending on the object of taxation and type of excisable goods, the tax base may be as follows:</p> <ul style="list-style-type: none"> <li>• weight, volume or value (according to the maximum retail prices without VAT including the excise tax as declared by the producer of imports) of sold excisable goods produced in Ukraine or imported into Ukraine.</li> </ul>	<p>Ad valorem rates (based on maximum retail prices) and specific rates (calculated per unit of measurement of the excisable goods) for tobacco goods, tobacco and its industrial substitutes.</p> <p>UAH 217.60 per 1 kg (net) for tobacco and tobacco substitute, tobacco waste, smoking tobacco, chewing and snuff tobacco, cigarettes and cigarillos.</p> <p>Specific rates for cigarettes are as follows:</p> <ul style="list-style-type: none"> <li>• UAH 77.50 per 1,000 pcs for non-filter cigarettes, cigarillos;</li> <li>• UAH 173.20 per 1,000 pcs for filter cigarettes</li> </ul> <p>The ad valorem rate for cigarettes is 12% for 1,000 pcs regardless of their type.</p> <p>There is a minimum excise tax liability (including ad valorem and specific rates) for cigarettes:</p> <ul style="list-style-type: none"> <li>• non-filter cigarettes, cigarillos: UAH 101.60 per 1,000 pcs;</li> <li>• filter cigarettes: UAH 231.70 per 1,000 pcs</li> </ul>
<b>Uzbekistan</b>	Companies which produce or import tobacco.	Tobacco produced and sold/transferred. Tobacco imported.	Value of tobacco produced and sold/transferred at net selling price. Customs value of tobacco imported.	Tobacco imported - cigars, cigarillos (US\$ 0.42 per piece), cigarettes (US\$ 18.2 per 1000 pcs). Tobacco produced and sold/transferred - cigarettes (UZS 8,423 - UZS 17,451 per 1,000 pcs).

# ComparativeStudy

Mr. Richard Lewis, Tax Partner, EY Russia

## EXCISE LEVY ON ALCOHOL

	Tax Payers	Object of Taxation	Tax Base	Tax rate
<b>Armenia</b>	Taxpayers importing or producing alcohol (beer, grapes or other wine, spirit (except for brandy spirit) and alcoholic beverages).	Import or sale (by producers, including packagers) of alcohol in Armenia.	Sale price/customs value or the weight	<ul style="list-style-type: none"> <li>Beer - 30% but not less than 105 drams per litre;</li> <li>Grape wine, fruit and berry wines - 10%, but not less than 100 drams per litre;</li> <li>Vermouth and other grape wine containing herbal and aromatic extracts - 50% but not less than 750 drams per litre;</li> <li>Other beverages (apple cider, pear cider (except for fruit and berry wine) - 25%, but not less than 270 drams per litre;</li> <li>Alcoholic beverages - 50% but not less than 500 drams per litre*</li> </ul> <p>*for beverages containing more than 40% alcohol - additional 7.5 drams per each percentage point exceeding 40%. For beverages containing less than 9% alcohol the tax is 50% but not less than 100 drams per litre.</p>
<b>Azerbaijan</b>	All enterprises and individuals engaged in the production of excise goods in the Republic of Azerbaijan or the importation of such goods into the Republic of Azerbaijan and resident of the Republic of Azerbaijan who are engaged in the production of excise goods, directly or via a contractor, outside the Republic of Azerbaijan and are not registered for tax purposes at the location of production are payers of excise tax	<p>Objects of taxation are the following transactions:</p> <ul style="list-style-type: none"> <li>the release of excise goods produced in the territory of the Republic of Azerbaijan outside the boundaries of the building in which they were produced;</li> <li>with respect to imported goods</li> <li>release of excise goods out of the control of customs services authorities in accordance with the Customs Code of the Republic of Azerbaijan</li> </ul>	Tax base is volume of alcoholic products (per litre).	<p>Excise tax rates for products produced in Azerbaijan and goods imported are subject to different tax rates. Below are the tax rates for a number of alcoholic products produced in Azerbaijan:.</p> <ol style="list-style-type: none"> <li>spirit (including not denaturalized ethylic alcohol with at least 80% of alcohol in the composition; not denaturalized ethylic alcohol with less than 80% of alcohol in the composition) – AZN 0,8 per litre;</li> <li>vodka, fortified drinks and fortified drink products, liqueur and liqueur products - AZN 0,5 per litre;</li> <li>cognac and cognac products- AZN 0,2 per litre;</li> <li>champagne - AZN 0,2 per litre;</li> <li>wines and wine products - AZN 0,1 per litre;</li> <li>beer (except for near beer) and other drinks containing beer - AZN 0,08 per litre;</li> </ol> <p>The excise tax rates for alcohol products imported into Azerbaijan may range from 1 US\$ per litre to 6 US\$ per litre depending on the product type.</p>
<b>Belarus</b>	Organizations, individual entrepreneurs, individuals producing, selling or importing alcohol	Sale of the goods made in Belarus, import of excisable goods, sale of the imported goods	Volume (in litres) sold (transferred) excisable goods	<p>Excise rate (Belarusian roubles): from January 1 to June 30 / from July 1 to December 31</p> <p>Alcoholic products with amount of ethyl alcohol of 7% and more (except alcohols) 1 litre of the absolute ethyl alcohol</p> <p>fruit wines, fortified vintage, improved quality and special technology, wine from fruits and containing in end product</p> <p>berries, natural wines, including sparkling, champagne, carbonated and effervescent, cider, beer and beer cocktail alcohol solutions) 119700 / 133000</p> <p>Fruit wines fortified vintage, improved quality and special technology 68300 / 87900</p> <p>Natural fruity wines, ciders from fruits and berries 900 / 950</p> <p>Natural wines including sparkling, champagnes, carbonated and fizzy 5400 / 5700</p> <p>Alcoholic drinks with amount of ethyl alcohol more than 1.2% and less than 7% (alcoholic natural drinks, other alcoholic drinks),</p> <p>wine with amount of ethyl alcohol from 1.2% to 7%, ciders (except ciders from fruits and berries) 72600 / 76100</p> <p>alcoholic natural drinks (one hundred percent of ethyl alcohol contained in finished product)</p> <p>other alcoholic drinks, wine with amount of ethyl alcohol from 1.2% to 7% 119700 / 133000</p> <p>ciders (except cider from fruits and berries) 3000 / 3200</p> <p>Beer, beer cocktail: beer with normative (standardized) amount of ethyl alcohol from 0.5% to 7% 3300 / 3500</p> <p>beer with normative (standardized) amount of ethyl alcohol from 7% and higher 6600 / 7000</p> <p>beer cocktail 3300 / 3500</p>
<b>Georgia</b>	<p>Alcohol producers.</p> <p>Alcohol importers and exporters.</p> <p>The excise taxpayer for goods produced in Georgia with customer's raw materials is the producer of the goods.</p>	Supply, supply of goods produced in Georgia from customer's raw materials to a customer, usage of excisable goods of own production in the production of non-excisable goods, import and export.	Volume of alcoholic products.	Depends on the type of alcoholic product and can range from 1 to 5 GEL per litre.

## EXCISE LEVY ON ALCOHOL

	Tax Payers	Object of Taxation	Tax Base	Tax rate
<b>Kazakhstan</b>	Individuals and legal entities producing, selling or importing alcohol products.	Alcohol products	Volume (quantity) of alcohol products produced, sold or imported.	<p>Rates for different types of spirit range from 1 tenge to 1000 tenge (US\$ 5.5) per litre.</p> <p>Cognac, brandy produced from cognac spirit of home manufacture) - 250 tenge (US\$ 1.4) per litre (100% spirit).</p> <p>Wine - 35 tenge (US\$ 0.2) per litre.</p> <p>Wine materials that are sold or used for ethyl and alcohol products - 0 tenge per litre.</p> <p>Other wine materials - 170 tenge (US\$ 0.9) per litre.</p> <p>Beer - 26 tenge (US\$ 0.14) per litre.</p> <p>Beer with ethanol not more than 0.5% - 0 tenge per litre.</p>
<b>Russia</b>	Companies and entrepreneurs which produce or import excisable goods.	<p>Generally, the following operations are deemed to be an object of taxation:</p> <ol style="list-style-type: none"> <li>1) sales and transfer in Russia of produced alcohol;</li> <li>2) import of alcohol into Russia and other territories under its jurisdiction. The transfer into containers of alcoholic products and beer when carried out as part of the overall process of the production of those goods, and any forms of blending of goods in places where they are stored and sold (with the exception of public catering organizations) as a result of which excisable goods are obtained, are equated with production.</li> </ol> <p>Generally, the following operations are exempted from taxation: 1) export of alcohol with account taken of losses within the limits of the norms of natural loss; 2) import of alcohol into a port special economic zone from elsewhere in Russia; 3) transfer within the structure of one organization of wine, grape, fruit, cognac, Calvados and whisky distillates manufactured by the taxpayer in order for them to undergo aging and blending with a view to the subsequent production (bottling) of alcoholic products by the same organization.</p>	The tax base is determined as: 1) the volume of sold (transferred)/imported excisable goods in physical terms; the value of sold (transferred)/imported excisable goods.	<p>The excise tax rates on alcohol from 1 January till 31 December 2014 are:</p> <p>Alcoholic products with an ethyl alcohol content by volume exceeding 9% (excluding beer, wines and wine-based beverages) - 500 roubles per litre of anhydrous ethyl alcohol contained in the excisable good; Alcoholic products with an ethyl alcohol content by volume of up to 9% inclusively (excluding beer, wines and wine-based beverages) - 400 roubles per litre of anhydrous ethyl alcohol contained in the excisable good; Wines and wine-based beverages, cider, perry, mead - 8 roubles per litre; Sparkling wines - 25 roubles per litre; Beer - from 0 roubles to 31 roubles per litre depending on the volume of normative (standardized) ethyl alcohol content in the product.</p>
<b>Ukraine</b>	<ol style="list-style-type: none"> <li>1) Legal entities and individual entrepreneurs producing (including from customer-supplied raw materials) ethanol and other spirit distillates, alcoholic beverages, beer (hereinafter the "excisable goods") in Ukraine</li> <li>2) Legal entities and individual entrepreneurs importing excisable goods into Ukraine.</li> <li>3) Individuals (residents and non-residents) importing excisable goods in amounts subject to taxation under the customs laws.</li> <li>4) Legal entities and individual entrepreneurs selling confiscated or derelict excisable goods.</li> <li>5) Persons exempted from taxation or taxed at the rate of 0% violating their obligation to use excisable goods for a certain defined purpose</li> <li>6) Legal entities and individuals violating conditions of the customs regimes providing for exemption from taxation.</li> </ol>	<p>Objects of taxation are the following transactions with excisable goods:</p> <ul style="list-style-type: none"> <li>• Sale (except for export) of the excisable goods produced in Ukraine;</li> <li>• Sale (transfer) of the excisable goods for self-consumption purposes;</li> <li>• Import of excisable goods into Ukraine (except for re-import of products to be returned to their producer due to identified deficiencies);</li> <li>• Sale of confiscated or derelict excisable goods;</li> <li>• Loss of the excisable goods exceeding the rates of natural loss (currently the rates are not established).</li> </ul>	<p>Depending on the object of taxation the tax base is as follows:</p> <ul style="list-style-type: none"> <li>• capacity (in litres) of the sold excisable goods produced in Ukraine or imported on the customs territory of Ukraine;</li> <li>• capacity (in litres) of non-produced excisable goods, which could have been produced from the volume of lost raw materials where the excess of the natural loss rate was due to the producer's fault</li> </ul>	<p>There are specific rates of excise tax (calculated per unit of measurement of excisable goods) for ethanol and other spirit distillates, alcohol beverages and beer.</p> <p>The rates per litre are as follows:</p> <p>UAH 0.87 for malt beer</p> <p>UAH 0.01 for natural wines</p> <p>UAH 2.86 for natural wines with added alcohol and fortified wine</p> <p>UAH 4.16 for sparkling wine, carbonated wine</p> <p>UAH 2.86 for vermouth and other natural wines with plant or aromatic extracts</p> <p>UAH 0.50 for cider and perry (without added spirit)</p> <p>UAH 56.42 (per litre of 100% spirit) for other fermented beverages (with added spirit) and mixtures of fermented beverages with alcohol beverages (with added spirit)</p> <p>UAH 56.42 (per litre of 100% spirit) for undenatured ethanol (concentration of spirit is 80% or more), ethanol and other spirit distillates and alcoholic beverages received through distillation, undenatured, of any concentration.</p> <p>UAH 56.42 (per litre of 100% spirit) for undenatured ethanol (concentration less than 80%) and other spirit distillates and alcohol beverages received through distillation, liquares and other beverages containing spirit.</p>
<b>Uzbekistan</b>	Alcohol producers. Alcohol importers.	Alcohol produced and sold/transferred. Alcohol imported.	Value of alcohol produced and sold/transferred at net selling price. Customs value of alcohol imported.	<p>Alcohol produced and sold/transferred - vodka, cognac (UZS 32,700 - 53,881 per decalitre), ethanol (UZS 3,637 per decalitre), wine (UZS 5,492-56,587 per decalitre), beer (UZS 3,570 per decalitre).</p> <p>Alcohol imported - vodka and other (US\$ 7 per litre), ethanol (65%), cognac (US\$ 14.5 per litre), wine (US\$ 6 per litre), beer (100%, not less than US\$ 1,3 per litre).</p>

# Comparative Study

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	VAT	Sales Tax	Assets Tax
<b>Armenia</b>	20% on taxable supplies. 0% on export sales, transit carriage and processing services.	<ul style="list-style-type: none"> <li>• 3.5% on trading activity and production;</li> <li>• 10% on rent payments, interests, royalties and income from asset disposal;</li> <li>• 20% on notary activity;</li> <li>• 5% on other income.</li> </ul>	<p>For buildings: tax base is cadastral value, progressive tax rate is applied from 0% to 1.0% depending on the type and cadastral value of property.</p> <p>For transport facilities: from 100 to 1000 drams per horsepower depending on the type of the vehicle and its age.</p> <p>Land tax is defined for owners of land and permanent users of State land, based on cadastral value of land. Progressive tax rate is applied from 0.5% to 1.0% depending on the type and value of land (15% of estimated net profit in case of agricultural lands, etc.) 15 % of cadastrally determined net profit</p>
<b>Azerbaijan</b>	18% (on goods sold and services rendered within Azerbaijan, including imported goods).	None	1% of average annual net value of fixed assets.
<b>Belarus</b>	20% (for sales of goods (works, services), property rights in the territory of Belarus, import of goods to the territory of Belarus). Preferential rates of 0%, 10% are established for particular goods and services.	None	<p>Real estate tax:</p> <p>Objects of the RET: permanent structures (buildings, constructions), their parts, the parking places which are property or being under economic authority or operating control or operational administration of payers; permanent structures (buildings, constructions), their parts, the parking places which are subject to the state registration, listed on the account (recorded on the balance sheet) of payers, before their state registration; buildings, constructions and harnesses forming part of excess incomplete construction of payers.</p> <p>Natural persons pay a tax real estate at a rate - 0,1%. The organizations pay at a rate of 1%, and in case of objects of above permitted incomplete construction - at a rate of 2%.</p> <p>Land tax:</p> <p>Objects of the land tax: land plots which are in a private ownership, lifelong inherited possession or temporary use of natural persons, and also accepted by natural persons by inheritance; land plots which are in per private ownership, continuous or temporary use of organizations; the land plots provided in temporary use and in due time not returned according to legislation, unauthorized occupied, used other than for their designated purpose.</p> <p>Rates of land tax are differentiated depending on categories of lands and established in two types: as a percentage and in the form of a fixed payment per hectare.</p>
<b>Georgia</b>	18% on supplies of goods and services in Georgia and import of goods. The Tax Code provides a list of VAT-exempt goods and services with or without the right to reclaim input VAT.	None	Up to 1% of the annual average net book value of fixed assets, uninstalled equipment, construction in progress, and assets transferred under leasing. The rate is established by the local authorities. Land is taxed based on specific rules.

## OTHER SIGNIFICANT TAXES

Road Users' Tax	Housing Tax	Emergency Fund Contribution	Export Duty	Import Duty	Tax on the Sale of Fuel and Lubricants
None	None	None	None	0% or 10% of the customs value of imported goods.	None
Non-resident enterprises and non-resident individuals that own motor vehicles that enter Azerbaijan territory and use them for passenger and cargo transportations or motorcars, buses and other motor vehicles in Azerbaijan. Tax rates vary depending on the vehicle type and period of presence in the country.	None	None	30% of the difference between the contract price (after deduction of export expenses) and the wholesale price of certain goods produced in Azerbaijan as regulated by the Government.	0 - 15% of the customs value of imported goods.	None
<p>State duty</p> <p>Payers are legal entities and individuals - owners of vehicles.</p> <p>The state duty is paid not only by car owners, but also by owners of motorcycles and motor scooters.</p> <p>The amount of this payment varies ranging from 5 to 25 basic units (1 basic units - 130 000 BYR) and depends on the type of vehicle, its owner (whether legal or natural person), and also on the allowed maximum mass of the vehicle.</p>	None	None	<p>Export duties exist for certain products. Rates are set as an absolute amount or a percentage of the customs value, including, but not limited to:</p> <ol style="list-style-type: none"> <li>1. Crude oil - 386,3 US\$ per 1000 kg;</li> <li>2. Straight-run gasoline - 347,6 US\$ per 1000 kg;</li> <li>3. Diesel - 251 US\$ per 1000 kg;</li> <li>4. Unprocessed timber - 100 Euro for 1 cubic meter.</li> </ol>	Various rates. Established as a fixed amount or as a percentage of the customs value.	See Excise levy on automobile fuel
None	None	None	None	<p>Import tax rate applicable to the customs value of goods is fixed at 0%, 5% or 12% or per physical unit of goods (beverages are taxed at EUR 0.2-EUR 3 per litre or 100 litres depending on alcohol content);</p> <p>The service fee of the Revenue Service for customs clearance is set per declaration: GEL 100 per declaration with the value up to GEL 3000; GEL 300 per declaration with the value between 3,000 - 15,000; GEL 400 per declaration with the value above GEL 15,000.</p>	None

# Comparative Study

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	VAT	Sales Tax	Assets Tax
<b>Kazakhstan</b>	<p>Tax base: income from sales of goods, (work, services) if place of supply is Kazakhstan, except for exempt turnover specified in the Tax Code, import of goods.</p> <p>12% - basic rate.</p> <p>0% - export of goods and international transportation services.</p>	<p>No Sales Tax.</p> <p>Subsurface users also have to pay (depending on the contract):</p> <ol style="list-style-type: none"> <li>1. Signature bonus;</li> <li>2. Commercial discovery bonus;</li> <li>3. Payment for compensation of historical costs;</li> <li>4. Excess profits tax.</li> </ol> <p>Besides there are also other taxes in Kazakhstan:</p> <ol style="list-style-type: none"> <li>1. Vehicle tax;</li> <li>2. Land tax;</li> <li>3. Payment for environmental emissions;</li> <li>4. Rent tax on exports of oil, gas condensate and coal.</li> <li>5. Property tax</li> <li>6. Gambling tax</li> <li>7. Social tax</li> </ol>	<p>Tax base for legal entities is the annual average residual value of:</p> <ol style="list-style-type: none"> <li>1) buildings, structures which pertain to such in accordance with classification established by authorized state bodies in the area of technical regulation and accounted as fixed assets or investments into real estate in accordance with international financial reporting standards and requirements of legislation of the Republic of Kazakhstan on accounting and financial reporting;</li> <li>2) buildings, structures which are objects of concession in accordance with the contract of concession.</li> </ol> <p>Buildings and parts of buildings transferred to individuals for a long-term lease with a buy-out right, if such buildings and parts of buildings are accounted for in accordance with IFRS and the legislation on accounting for long-term receivables. In this case, the tax base for such objects of taxation should be defined as the amount of long-term receivables as of 1 January of the tax reporting period in accordance with IFRS and domestic accounting law.</p> <p>Base tax rate: 1.5%;</p>
<b>Russia</b>	<p>18% - basic rate; 0% - export of goods; 10% - sale of certain food products, children's goods, certain periodic publications and related services, specific medical goods both of domestic and foreign origin, and breeding stock import and sales.</p>	<p>None</p>	<p>2.2% - maximum rate which may be established by the regional authorities on the net book value of real estate and movable property registered before 1 January, 2013 as fixed assets.</p>
<b>Ukraine</b>	<p>20% (to be reduced to 17% from 1 January 2014) on supply of goods and services in Ukraine and import of goods to Ukraine;</p> <p>0% - on export of goods (with certain exceptions) and services of international transportation and related services.</p> <p>The Tax Code establishes a wide range of VAT-exempt transactions.</p>	<p>None</p>	<p>Land tax:</p> <p>For agricultural lands: 0.03 – 0.1% of the estimated monetary value of the land plot.</p> <p>For non-agricultural lands: 1% of estimated monetary value of land plots for land plots that are provided with official valuation and UAH 0.28-3.95 for 1 m<sup>2</sup> of land plots that are not provided with an official valuation and depending on the population of the places where the land plot is located (except for land plots for which separate tax rates are established).</p> <p>Tax on real estate other than a land plot.</p> <p>The tax applies to dwelling real estate over 120 m<sup>2</sup> (for an apartment) or 250 m<sup>2</sup> (for a residential building).</p> <p>Residential real estate exceeding this size is taxable at a rate of up to 2.7% of the minimum salary rate (UAH 1,218 as of 1 January 2014) per 1 m<sup>2</sup> of the residential place.</p>
<b>Uzbekistan</b>	<p>20% on the supply of all goods and services, unless they are zero-rated or specifically exempt; imported goods and services, unless they are specifically exempt.</p>	<p>Tax on the consumption by individuals of petrol, diesel, liquid gas and compressed gas in the amount of UZS 265 per litre of petrol and diesel and UZS 180 per litre of liquid gas, and UZS 220 per m<sup>3</sup> of compressed gas (on sales to individuals only).</p>	<p>Property tax - 4% on the value of fixed assets.</p>

## OTHER SIGNIFICANT TAXES CONTINUED

Road Users' Tax	Housing Tax	Emergency Fund Contribution	Export Duty	Import Duty	Tax on the Sale of Fuel and Lubricants
None	None	None	<p>Export duties are established with respect to exports of certain goods, in an absolute amount or as a percentage of the customs value e.g.:</p> <ol style="list-style-type: none"> <li>1. Crude oil - US\$ 80 per tonne;</li> <li>2. Petrol, light, average and certain heavy distillates - US\$ 168.88 per tonne;</li> <li>3. Heavy distillates and oil bitumen- US\$ 112.59 per tonne.</li> </ol>	Various rates, expressed as a fixed amount or as a percentage of the customs value.	See excise levy on automobile fuel.
None	None	None	<p>Various. For oil export duty is established on a monthly basis. The export duty rate for crude oil for February 2014 is US\$ 386.30 per tonne. For East Siberian and North Caspian fields granted a preferential export duty of US\$ 190.30 per tonne. Export duties on petroleum products are established at a rate of 66% of crude oil export duty, export duty on straight-run and merchandise petroleum - 90% of the export duty on crude oil, export duties on diesel fuel - 65% of the export duty on crude oil.</p> <p>For gas, 30% of customs value. Export duty on LNG is 0%.</p>	Various	None
None	None	None	<p>Scrap ferrous metals: EUR 10.0 per tonne; scrap alloyed ferrous metals and scrap of nonferrous metals: 15%;</p> <p>live cattle: 20%; leather raw materials: 24%;</p> <p>seeds of certain oil plants: 10% of the customs value;</p> <p>These rates decrease on an annual basis because of the entry of Ukraine into the WTO.</p> <p>natural gas: 35% (but not less than UAH 400 per tonne).</p>	Various rates. Established as a fixed amount or as a percentage of the customs value.	<p>Environmental tax applies to the amount of fuel sold or imported, except for:</p> <ul style="list-style-type: none"> <li>• volume of fuel exported from Ukraine, reexported and/or in the customs regime of processing;</li> <li>• masut or heating oil used in the process of heat or electric energy producing.</li> </ul> <p>The tax is collected for emissions of pollutants by mobile sources of pollution and is charged by tax agents every quarter on the basis of the amount of the fuel actually sold.</p> <p>In 2014 tax rates are UAH 35.25-108.10 per tonne depending on the type of fuel.</p>
1.4% of sales revenue (net of VAT and excise).	None	Reconstruction, capital repair and equipment of educational institutions Fund contribution at a rate of 0.5% of sales revenue (net of VAT and excise tax). Pension Fund contributions on sales at a rate of 1.6% of revenue (net of VAT and excise tax).	None	Various	(See "Sales Tax").

# ComparativeStudy

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	Employment Fund	Social Insurance Fund	Medical Insurance Fund	Paid by Employer on Gross Salary	
				Pension Fund	Excess Wages Tax
<b>Armenia</b>	None	None	None	None	None
<b>Azerbaijan</b>	None	22% of gross wages for all employees including foreigners.	None	None	None
<b>Belarus</b>	None	28% of the total amount of payments of all types, calculated before deduction of taxes, in cash and (or) in kind, paid to employee from all bases, irrespective of financing sources, but no more than the average salary in Belarus multiplied by 4	Individuals pay obligatory insurance contributions for temporary disability, pregnancy and childbirth, etc. The contribution is paid at 6% of the total amount of payments of all types, calculated before tax, in cash and (or) in kind, paid to employee from all bases but no more than the average salary in Belarus multiplied by 4	Individuals working full time at underground works, at works with especially harmful and especially severe conditions of work, at works with harmful and severe conditions of work; workers of separate professions according to the legislation of Belarus are subjects to professional pension insurance.  Contributions are paid from payments of all types in monetary or natural value. The base is limited to the triple size of an average salary of workers in Belarus. Contribution on professional pension insurance are not paid on the same types of payments on which obligatory insurance contributions are not paid.  The rate of contributions to professional pension insurance is from 1.5% to 4.8%.	None
<b>Georgia</b>	None	Abolished from 1 January 2008.	None	None	None
<b>Kazakhstan</b>	<p>The tax legislation of Kazakhstan does not establish any payments to employment fund and medical insurance fund.</p> <p>However, the tax legislation of Kazakhstan establishes social tax and obligatory social insurance contributions.</p> <p>The tax base for social tax is employer's expenses paid to employees in the form of income and income of foreign personnel.</p> <p>Social tax rate: 11%.</p> <p>Compulsory social insurance contributions: employer's expenses paid to employees in the form of income less obligatory pension fund contributions (with some exceptions).</p> <p>Rate: 5% (but not more than 9,983 tenge (US\$ 55) per calendar month).</p>			Kazakh law stipulates mandatory professional pension contributions to the Unified Pension Accumulation Fund. Mandatory professional pension contributions carried out at own expense for the benefit of workers with harmful (extra harmful) conditions, workers professions approved by the Government of Kazakhstan. The rate is 5% of monthly income, with exception of certain types of income.	None
<b>Russia</b>	Abolished	Social contributions are payable at the rate of 30% on employees' annual income. The maximum tax base for each employee is 624 000 RUR per year. The amount exceeding the cap is taxable at 10%. The rate may be decreased for particular taxpayers (residents of special economic zones, producers of agricultural products, private entrepreneurs, etc.)			None
<b>Ukraine</b>	<p>Unified Social Contribution rates are the following:</p> <p>36.76%-49.7% for employers (depending on the class of professional risk at work);</p> <p>2%-3.6% for employees.</p>				See "Increased PIT rate"
<b>Uzbekistan</b>	Unified social payment at the rate of 25% of the payroll of employees.				None

## OTHER SIGNIFICANT TAXES: PAYROLL RELATED TAXES

		Paid by Employee	
Other	Pension Fund	Income Tax	Other
None	None	<p>Levied (withheld at source by tax agents) on national and foreign individuals at the following rates:</p> <p>Amount of income is:</p> <p>(i) up to 120,000 drams - 24.4%;</p> <p>(ii) from 120,000 drams to 2,000,000 drams - 29,280 drams plus 26% of the amount exceeding 120,000 drams;</p> <p>(iii) over 2,000,000 drams - 518,080 drams plus 36% of the amount exceeding 2,000,000 drams.</p>	None
None	3% of gross salary to all national employees (withheld by the employer).	Subject to marginal tax rates from 14% to 25% on non-entrepreneurial income (deducted at source by the employer). Entrepreneurial income of the physical individuals not establishing a legal entity - 20%	None
Obligatory insurance contributions for accidents at the work place and occupational illnesses are paid to BRUSP "Belgosstrakh". The contribution is paid at 0,6% of the wage fund.	1% of the total amount of payments before tax, in cash and (or) in kind, paid to employee from all bases, irrespective of financing sources, but no more than an average salary in Belarus multiplied by 4	<p>Objects of personal income tax: 1. Income of tax residents of Belarus from sources both in Belarus, and outside Belarus; 2. Income of individuals who are not tax residents of Belarus, received from sources in Belarus.</p> <p>Standard tax rate - 12%. Income gained by individuals from the Hi-Tech Park residents on the basis of employment contracts - 9%.</p> <p>Withholding Tax: In most cases personal income tax is calculated, withheld and transferred to the budget by tax agents.</p>	None
None	None	<p>Taxpayers are resident and non-resident individuals on income received from Georgian sources only.</p> <p>The rate is 20%.</p>	None
None	10% of the gross income of an employee (but not more than 1,497,450 tenge (US\$ 8,227.7) per calendar month).	<p>Tax base - income less obligatory pension contributions and minimum monthly salary 19,966 tenge (US\$ 109.7).</p> <p>The tax rate is 10%.</p>	None
None	Abolished	<p>13% - basic rate for residents and for foreign employees who have a status of highly qualified specialists</p> <p>30% - for income of non-residents' Russian-source income;</p> <p>9% - for income received in the form of dividends by residents;</p> <p>15% - for income received in the form of dividends by non-residents.</p>	None
None	See Unified Social Contribution	<p>Standard rate is 15% for income in the form of salary, other incentive and compensation payments or other payments and rewards.</p> <p>Increased rate: 17% for income exceeding tenfold the minimum salary amount (10 x UAH 1,218 as of 1 January 2014). The increased rate applies to the exceeding amount.</p> <p>Double rate: 30% for awards and winnings (with certain exceptions).</p> <p>Reduced rate: 10% applies to the salary of miners</p> <p>Exempt from tax: gifts (also prizes to winners and finalists of sport competitions), if their value does not exceed 50% of the minimal salary as of 1 January 2014 (0.5 x UAH 1,218), except for cash receipts; interests on the current or deposit account (till 1 January 2015).</p> <p>Special tax rules apply to income in the form of heritage, dividends, income from the sale of real estate and immovable property.</p> <p>The Tax Code established social privileges on PIT for certain categories of taxpayers (with many children, disabled persons, students and others).</p> <p>Ukrainian residents have the right to a tax credit if they incur certain kinds of expenses during a year (e.g., expenses on mortgage, education, medical treatment and some others).</p>	None
None	6.5%	7.5% - 22%	Contribution to individual cumulative pension accounts at a rate of 1% of income. (Payable by the employer, but deducted from individual income tax withheld.)

# Comparative Study

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	Tax Payers	Object of Taxation	Tax Base
<b>Azerbaijan</b>	All companies and individuals engaged in the extraction of mineral resources in Azerbaijan.	Mineral resources extracted from the subsurface of Azerbaijan.	Depending on the type of mineral, wholesale price or m3 of extracted mineral.
<b>Belarus</b>	Organizations and individual entrepreneurs engaged in extraction of natural resources.	Extraction of natural resources subject to taxation (including but not limited to):  Potassium salts (in terms of potassium oxide), rock salt; oil; iron ores; peat with humidity of 40%; sapropels with humidity of 60%; thin oak; amber; brown coal (in terms of reference fuel); combustible slates (in terms of reference fuel).	The tax base for the tax on extraction (withdrawal) of natural resources, except for potassium salts, is defined as the actual amount produced (withdrawn) natural resources.  The tax base for the tax on extraction (withdrawal) of natural resources in relation to the potassium salt is determined by:  1. the actual amount produced (withdrawn) potassium salt (in order to apply the tax rate established in a fixed amount);  2. as multiplication of the actual volume of sales of potassium salts and the weighted average price of 1 ton of potassium salts from Belarus (in order to apply the tax rate established in percentage).
<b>Kazakhstan</b>	Subsurface users performing production of oil, minerals, underground waters and therapeutic mud, including extraction of useful minerals from technogenic mineral formations within the framework of each concluded subsurface use contract.	Crude oil, including gas condensate - physical volume of crude oil, gas condensate and natural gas produced by the taxpayer during tax period.  Mineral resources contained in mineral raw materials, except for common mineral resources - physical volume of reserves of mineral resources contained in mineral raw materials (taxable volume of extinguished reserves).  Common mineral resources, underground water and therapeutic mud - physical volume of common mineral resources, underground water and therapeutic mud produced by the subsurface user during the tax period.	Crude oil production, including gas condensate - value of crude oil, including gas condensate and natural gas produced by the taxpayer during the tax period.  Production of mineral resources contained in mineral raw materials, except for common mineral resources - value of taxable volume of extinguished reserves of mineral resources contained in mineral raw materials during the a tax period.  Production of common mineral resources, underground water and therapeutic mud - value of volume of common mineral resources, underground water and therapeutic mud produced by the subsurface user during the tax period.
<b>Russia</b>	Companies and private entrepreneurs which are users of subsurface resources.	1) commercial minerals extracted from the subsurface in Russia on a site of subsurface resources which has been granted to the taxpayer for use in accordance with the legislation of the Russian Federation;  2) commercial minerals recovered from mining waste (losses);  3) commercial minerals extracted from the subsurface outside Russia where such extraction is carried out in territories which are under the jurisdiction of Russia (or which are leased from foreign states or used on the basis of an international agreement).	The tax base is determined as the value of extracted commercial minerals, The tax base in the case of the extraction of coal and hydrocarbons (except extraction from new offshore deposits) is determined as the quantity of extracted commercial minerals expressed in physical terms. The value of extracted commercial minerals, determined separately for each type of extracted commercial minerals.

## Tax Rate

Crude oil - 26%; natural gas - 20%; other minerals - 3% applied to wholesale price, or from US\$ 0.6 to US\$ 7 per m3.

The tax rates are defined either as a certain fixed amount for unit of volume or weight of the extracted mineral resources, or as a percentage of the value (price) of the extracted mineral resources.

Special rates are fixed for oil, potassium salt etc.

Crude oil, including gas condensate : 5% - 18%, natural gas: 10%.

Mineral resources contained in mineral raw materials, except for common mineral resources: 0% - 18.5%.

Common mineral resources, underground water and therapeutic mud: 2.5% - 10.6%.

0% (0 RUR): normative losses of commercial minerals; associated gas.

Commercial minerals which are not listed below - from 3.8% to 8%.

MET is not payable for oil extracted from oil deposits located:

- a) partly or fully in Yakutia, the Irkutsk Oblast and Krasnoyarsk Territory (all in Eastern Siberia) up to the cumulative extraction level of oil of 25 million tonnes, but not for more than ten or 15 years depending on the type of the licence issued to an extracting company;
- b) partly or fully to the north of the Arctic Circle within the boundaries of the internal sea waters and the territorial sea and on the continental shelf of Russia up to the cumulative extraction level of 35 million tonnes but not for more than ten or 15 years depending on the type of the licence issued to an extracting company;
- c) partly or fully in the Sea of Azov and the Caspian Sea up to the cumulative extraction level of 10 million tonnes but not for more than seven or 12 years depending on the type of the licence issued to an extracting company;
- d) partly or fully in the territory of the Nenets Autonomous District and on the Yamal peninsular in the Yamalo-Nenets Autonomous District up to the cumulative extraction level of 15 million tonnes but not for more than seven or 12 years depending on the type of the licence issued to an extracting company.
- e) partly or fully in the Black Sea up to a cumulative extraction level of 20 million tonnes, but for no more than 10 or 15 years, depending on the type of licence issued to the extracting company
- f) partly or fully in the Okhotsk Sea up to a cumulative extraction level of 30 million tonnes, but for no more than 10 years, depending on the type of licence issued to the extracting company
- g) partly or fully to the north of 65 degrees north latitude or partially within the boundaries of the Yamalo-Nenets Autonomous District, except for subsurface areas located wholly or partially on the Yamal Peninsula in the Yamalo-Nenets Autonomous District up to a cumulative extraction level of 25 million tonnes, but for no more than 10 or 15 years, depending on the type of licence issued to the extracting company

The tax rate of 0% (0 roubles) is not used during production of hydrocarbons at a new offshore hydrocarbon deposit.

MET is not payable for extracted super-viscous oil (more than 200 mPa x s).

Oil: Tax rate is 493 roubles per tonne multiplied by a coefficient reflecting movements in world oil prices (Cp), a coefficient reflecting the level of depletion of a particular subsurface site (Cw), a coefficient (Cr) which reflects the magnitude of reserves, a coefficient (Ce) which reflects the degree of difficulty of the recovery of extractable oil and "Crd" a coefficient reflecting the level of depletion of a particular hydrocarbon reservoir.

$C_p = (P-15) \cdot R / 261$ , where P is the average price level of Urals oil for the tax period in US dollars per barrel and R is the average value for the tax period of the exchange rate of the US dollar to the rouble as established by the Russian Central Bank.

Cw: a)  $0.8 \leq \text{depletion rate} \leq 1$   $C_w = 3.8 - 3.5 \cdot (N/V)$  where N is the amount of cumulative oil extraction according to the State balance of reserves of commercial minerals for the calendar year preceding the accounting year in which the coefficient Cw is applied; V is the initially available oil reserves. b) depletion rate > 1  $C_w = 0.3$ ; c) in other cases  $C_w = 1$ .

Cr: a) From 1 January 2012 the calculation will be adjusted to include a coefficient Cr which reflects the magnitude of reserves. This coefficient is intended to reduce the rate applicable to deposits with initial extractable oil reserves less than 5 mln. tonnes and whose depletion of reserves as of 1 January 2011 (or 1 January of the year when the extraction licence is granted if the licence was issued after 1 January 2011) is less than 5%.  $Cr = 0.125 \cdot V_z + 0.375$  where Vz represents initially extractable oil reserves expressed in millions of tonnes (rounded off to three decimal places); b) If the initial extractable oil reserves are 5 million tonnes or more and (or) the depletion of reserves more than 5%, the value of Cr will be 1. c) If the amount of cumulative oil extraction exceeds the figure for initially extractable oil reserves used in the formula, the coefficient 1 is applied to the excess amount.

Ce may equal 0, 0.2, 0.4, 0.8 or 1, depending on factors such as where the oil is extracted, and the permeability of and net pay for the reservoir and may be applicable from 10 to 15 years. The reduced coefficient applies during certain period in case the level of depletion of specific reservoir is less than 1% and under certain conditions. If Ce for a particular hydrocarbon reservoir is less than 1, then the Cw for subsurface area will be equal to 1.

Crd is similar to Cw, but is calculated for a particular reservoir and not for subsurface area as a whole.

Gas condensate: MET is payable at the rate of 647 roubles per tonne of extracted gas condensate. A zero tax rate is envisaged for gas condensate extracted jointly with natural gas used for LNG production from subsurface sites that lie wholly or partially on the Yamal Peninsula in the Yamalo-Nenets Autonomous District for an accumulated volume of extracted oil as follows: gas condensate up to 20 million tonnes for a maximum period of development of the reserves of the relevant subsurface site of 12 years starting from the first day of the month in which extraction starts. From 1 July, 2014 the indexation will be changed to the calculation based on the formula for calculating MET on gas condensate.

Gas: 700 roubles per 1,000 m3 of extracted natural fuel gas. Companies which are not owners of the Unified Gas Supply System and are not more than 50% directly/indirectly owned by such owners may apply the following reducing coefficients: 0.673 in 2014 (resulting in an effective rate of  $700 \times 0.673 = 471.1$  roubles). MET is not payable on natural gas reinjected to maintain reservoir pressure (to facilitate the extraction of gas condensate).

A zero tax rate is envisaged for extracted natural gas used for LNG production from subsurface sites that lie wholly or partially on the Yamal Peninsula in the Yamalo-Nenets Autonomous Okrug for an accumulated volume of extracted natural gas up to up to 250 billion cubic meters for a maximum period of development of the reserves of the relevant subsurface site of 12 years starting from the first day of the month in which extraction starts. From 1 July, 2014 the indexation will be changed to the calculation based on the formula for calculating MET on natural gas production of all types of hydrocarbon deposits.

Coal: anthracite - 47 roubles per tonne, coking coal - 57 roubles per tonne, brown coal - 11 roubles per tonne, other coal - 24 roubles per tonne

# Comparative Study

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	Tax Payers	Object of Taxation	Tax Base
<b>Ukraine</b>	<p>A. Legal entities and individual entrepreneurs that obtained special permits for using subsoil for the purposes of commercial activity on extraction of mineral resources</p> <p>B. Legal entities and individual entrepreneurs using subsoil for the purposes not related to extraction of mineral resources (storage of gas, oil, oil products, wine products; cultivation of mushrooms etc.)</p>	<p>A. Volume of the extracted mineral resources or volume of recovered (depleted) mineral reserves, if the mineral deposit is used for extraction of mineral resources</p> <p>B. Capacity of the subsoil space used by the tax payer for the purposes not related to extraction of mineral resources</p>	<p>A. Value of the extracted mineral resources (if the subsoil is used for extraction of mineral resources)</p> <p>B. Capacity unit of the used subsoil space (if the subsoil is used for the purposes not related to extraction of mineral resources)</p>

### Tax Rate

#### A. Payments for using the subsoil for extraction of mineral resources.

Depending on the type of mineral resources, the tax rates are defined either as a certain fixed amount for one unit of volume or weight of the extracted mineral resources, or as a % of the value (price) of the extracted mineral resources. For certain types of mineral resources (e.g., coal, peat, iron ore) the law at the same time establishes the minimal amount of tax in Ukrainian Hryvnias per unit. For hydrocarbons, the law provides for a special mechanism of determination of price of mineral resources for the purposes of taxation.

The following rates are established for certain types of mineral resources:

antracite - 0.5% of value, but not less than UAH 5.33 per 1 tonne;

gold ore - 5% of value, but not less than UAH 15.98 per 1 tonne

oil and condensate (if occurs at a depth of less than 5,000 m) - 39% of value\*;

oil and condensate (if occurs at a depth of more than 5,000 m) - 17% of value\*;

natural gas (depending on the type of gas and extraction depth - above/below 5,000 m) - from 11% to 25% of value\*\*;

mineral subsurface water (depending on the type) - from UAH 9.47 to UAH 39.30 per 1 m3;

The rates of the payments for using subsoil for extraction of mineral resources may be increased or decreased based on the adjusting multipliers established by the Tax Code depending on the type of mineral resources and conditions of their extraction.

#### B. Payments for subsoil use not related to extraction of mineral resources:

for storage of natural gas and gaseous products - UAH 0.28 per 1,000 m3 of active capacity per year;

for storage of oil and other liquid oil products - UAH 0.28 per 1 m3 per year;

for other purposes - UAH 0.33-1.10 per 1 m2 per year.

*\* Under the production sharing agreements regarding oil and condensate extracted in Ukraine, its continental shelf, and the exclusive (maritime) economic zone of Ukraine, payment for using the subsoil for extraction of mineral resources applies at the rate of 2% of the value of extracted mineral resources.*

*\*\* Under the production sharing agreements regarding natural gas, including gas dissolved in oil (oil (associated) gas), ethane, propane, butane, gas (methane) of coal mines, gas of slaty strata, gas of central bay type, gas of collectors of dense rocks extracted in Ukraine, its continental shelf, and the exclusive (maritime) economic zone of Ukraine, payment for using the subsoil for extraction of mineral resources applies at the rate of 1.25% of the value of the relevant extracted mineral resources.*

Note: The maximum rates established by the double tax treaties apply to income payable from the country if they do not exceed the rates established by that country for income payable to non-treaty countries.

# Armenia

Country	Dividends (%)	Interest (%)	Royalties (%)
Austria	5/15 (e)	0/10	5
Belarus	10/15 (h)	0/10(l )	10
Belgium	5/15 (e)	0/10 (m)	8
Bulgaria	5/10 (a)	0/10 (l)	10
Canada	5/15 (g)	0/10 (n)	10
China	5/10 (d)	0/10 (o)	10
Estonia	5/15 (d)	0/10 (p)	10
Croatia	0/10(bb)	10	5
Czech Republic	10	0/5/10 (cc)	5/10(dd)
Cyprus	0/5(ff)	0/5 (gg)	5
Finland	5/15(d)	0/5 (q)	5/10 (r)
France	5/15 (b)	0/10 (s)	5/10 (c)
Germany	15	0/5	0
Georgia	5/10 (d)	10	5
Greece	10	10	5
Hungary	5/10(d)	0/5/10(hh)	5
India	10	0/10 (t)	10
Iran	10/15 (d)	0/10 (u)	5
Ireland	0/5/15 (e)	0/5/10 (jj)	5
Italy	5/10 (k)	0/10 (v)	7
Kazakhstan	10	0/10(ii)	10
Kuwait	0/5 (ll)	0/5 (ll)	10
Latvia	5/15 (d)	0/10 (p)	10
Lebanon	5/10 (d)	0/8 (l)	5
Lithuania	5/15 (d)	0/10 (p)	10
Moldova	5/15(d)	10	10
Luxembourg	5/15(f)	0/10 (ee)	5
Netherlands	5/15 (e)	0/5 (s)	5
Qatar	5/10(i)	0/5 (n)	5
Poland	10	5	10
Romania	5/10 (d)	0/10 (w)	10
Russia	5/10 (a)	10	0
Slovenia	5/10(d)	0/10 (mm)	5
Spain	0/10(bb)	5	5/10(dd)
Switzerland	5/15(j)	0/10 (x)	5
Syria	10	0/10 (l)	12

Country	Dividends (%)	Interest (%)	Royalties (%)
Thailand	10	0/10 (y)	15
Turkmenistan	5/15 (d)	10	10
Ukraine	5/15 (d)	0/10 (z)	0
United Arab Emirates	0/3 (aa)	0	5
United Kingdom	0/5/15/10(kk)	0/5(o)	5
Non treaty countries	10	10	10

- a) The 5% rate applies if the beneficial owner of the dividends directly owns at least 25% of the capital of the company paying the dividends.
- b) The 5% rate applies if the beneficial owner of the dividends is a company which holds directly or indirectly 10% of the capital of the company paying the dividends.
- c) The 5% rate applies to royalties paid for the use of, or the right to use, any copyright.
- d) The lower rate applies if the beneficial owner of the dividends owns at least 25% of the capital of the company paying the dividends.
- e) The 5% rate applies if the dividends' beneficial owner is a company (except a partnership) which holds directly 10% of the capital of the company paying the dividends. The 15% rate applies in other cases.
- f) The 5% rate applies if the dividends' beneficial owner is a company which holds directly 10% of the property of the company paying the dividends.
- g) The 5% rate applies if the beneficial owner of the dividends has directly invested more than US\$ 100k or the equivalent in another currency in the capital of the payer and holds directly at least 25% of the capital of the company paying the dividends.
- h) The lower rate applies if the beneficial owner of the dividends owns at least 30% of the capital of the company paying the dividends.
- i) The lower rate applies if whenever the invested capital exceeds US\$ 100k.
- j) The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends and the foreign capital invested exceeds 200k Swiss francs or its equivalent in any other currency at the moment when the dividends become due.
- k) The 5% rate applies if the beneficial owner is a company which has owned directly at least 10% of the capital of the company paying the dividends (this share should be at least US\$ 100k or its equivalent in other currency) for a period of at least 12 months preceding the date the dividends were declared.
- l) The 0% rate applies if interest is paid to the Government of the other Contracting State including regional and local authorities or Central Bank.
- m) The 0% rate applies if the following circumstances exist:
  - i) The interest is connection with the sale on credit of any industrial, commercial or scientific equipment or of any capital goods by an enterprise to another enterprise;
  - ii) The interest on a loan of any nature – not represented by bearer instruments – granted by a banking enterprise;
  - iii) The interest paid to the other Contracting State or to its political or administrative-territorial subdivisions or local authorities.
- n) The 0% rate applies if interest is paid in respect of indebtedness of that State or of a political or administrative-territorial subdivision or local authority thereof shall, if the interest is beneficially owned by a resident of the other Contracting State.

The interest arising in one Contracting State and paid to another Contracting State shall be taxable only in the latter State if it is paid in respect of a loan made, guaranteed or insured or a credit extended, guaranteed or insured by the competent authorities of the Contracting States.

# Double Tax Treaties

## Withholding Tax Rates

- o) The 0% rate applies to interest arising in a Contracting State and derived by the Government of the other Contracting State, a political subdivision, a local authority and the Central Bank thereof or any financial institution wholly owned by that Government.
- p) The 0% rate applies to interest arising in a Contracting State, derived and beneficially owned by the Government of the other Contracting State, including local authorities thereof, the Central Bank or any financial institution wholly owned by that Government, or interest derived on loans guaranteed by that Government.
- q) The 0% rate applies to interest arising in Contracting State if the interest is paid to the Government of another Contracting State, or a local authority or a statutory body thereof, Central Bank or other competent authorities, which are wholly or mainly owned by the Government or any other institution, as may be agreed from time to time between the competent authorities of the Contracting States.
- r) The 5% rate applies to royalties paid for the use of, or the right to use, any computer software, patent, trademark, design or model or plan, any secret formula or process, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies to royalties paid for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, or tapes for television or radio broadcasting.
- s) The 0% rate applies to interest the recipient of which is resident and the beneficial owner of the interest and provided that one of the following conditions has been met:
  - i) such person is one of the Contracting States, one of its territorial political subdivisions or local authorities, or one of their public-law corporations, including the central bank of that State; or such interest is paid by one of those States, territorial political subdivisions, local authorities public-law corporations;
  - ii) such interest is paid by means of debt-claims or loans secured or insured or financed by a Contracting State or by another person acting on behalf of a Contracting States;
  - iii) such interest is paid by reason of the credit sale of industrial, commercial or scientific equipment, or by reason of the credit sale of goods or merchandise or the supplying of services by one enterprise to another enterprise; or
  - iv) such interest is paid by reason of loans of every kind granted by a bank.
- t) The 0% rate applies to interest arising in a Contracting State, provided that it is derived and beneficially owned by:
  - i) The Government, a political sub-division or a local authority of the other Contracting State in the case of India the Reserve Bank of India or in the case of Armenia the Central Bank of Armenia;
  - ii) Any other institution as may be agreed upon from time to time between the competent authorities of the Contracting States through exchange of letters.
- u) The 0% rate applies to interest arising in a Contracting State and derived by the Government, ministries, other Government al institutions, municipalities, Central Bank and other banks wholly owned by the Government of the other Contracting State, shall be exempt from tax.
- v) The 0% rate applies to interest if:
  - i) The payer of the interest is the Government of that Contracting State, or a local authority thereof, or
  - ii) The interest is paid to the Government of the other Contracting State or local authority thereof or any agency or instrumentality (including a financial institution) wholly owned by that other Contracting State or local authority thereof, or
  - iii) The interest is paid to any other agency or instrumentality (including a financial institution) in relation to loans made in application of an Agreement concluded between the Governments of the Contracting States, or
  - iv) The interest is paid on a loan of any nature - not represented by bearer instruments - granted by a banking enterprise.
- w) The 0% rate applies to interest if it is derived and beneficially owned by the Government of the other Contracting State, a local authority or an administrative-territorial unit thereof or any agency or bank unit or institution of the Government, a local authority or an administrative-territorial unit or if the debt-claims of a resident of the other Contracting State are warranted, insured or directly or indirectly financed by a financial institution wholly owned by the Government of the other Contracting State.
- x) The 0% rate applies to interest arising in a Contracting State and paid to a resident of the other Contracting State who is the beneficial owner thereof:
  - i) In connection with the sale on credit of any industrial, commercial or scientific equipment;
  - ii) On any loan of whatever kind granted by a bank.
- y) The 0% rate applies to interest if it is paid to the Government of the other Contracting State, an authority created therein, the Central Bank of that other Contracting State, or the Export-Import Bank of Thailand.
- z) The 0% rate applies to interest if:
  - i) The Government of the other Contracting State, or political subdivisions or local authorities thereof, or any other bodies of such Government, political subdivisions, or local authorities, is the beneficial owner of this interest; or
  - ii) The beneficial owner of this interest is the National Bank of Ukraine or the Central Bank of Armenia, or any entity which guarantees State export or import credits, or any other entity to which the relevant rights have been delegated in accordance with the laws of a Contracting State.
- aa) The 0% rate applies to dividends paid to the Government of the other Contracting State, a political subdivision or financial institution.
- bb) The 0% rate applies if the actual owner of the dividends is a company that directly or indirectly holds at least 25% of the capital of the company paying the dividends at a minimum during 2 years before payment and such dividends aren't subject to tax in other Contracting State.
- cc) The 0% rate applies to interest if it is paid:
  - i) to the Government of the other Contracting State, a political subdivision or a local authority thereof, to the Central Bank of that other State or any financial institution owned or controlled by the Government of the other State; or
  - ii) in connection with a loan or a credit guaranteed or insured by the Government of the other Contracting State, the Central Bank of that other State or any financial institution owned or controlled by that Government;  
The 5% rate applies to interest paid in connection with a loan or a credit of whatever kind granted by a bank.
- dd) The 5% rate applies to royalties paid for any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting.  
The 10% rate applies to royalties paid for any patent, trade mark, design or model, plan, secret formula or process and computer software, or any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- ee) The 0% rate applies if:
  - i) The interest is paid to that State, a local authority or a statutory body thereof,
  - ii) The interest is paid by the State in which the interest arises or by a local authority or statutory body thereof,
  - iii) The interest is paid in respect of a loan, debt-claim or credit that is owed to, or made, provided, guaranteed or insured by that State or a local authority or export financing agency thereof,
  - iv) The interest is paid in respect of a loan of any kind granted by a bank.
- ff) The 0% rate applies if the capital invested by the actual owner of the dividends exceeds EUR 150k. The 5% rate applies in all other cases.
- gg) The 0% rate applies to interest if it is paid:
  - i) to the other Contracting State, a political subdivision or a local authority thereof, to the Central Bank or any other state authority of the other State; or
  - ii) in connection with a borrowing provided or guaranteed by the other Contracting State, a political subdivision or a local authority thereof, the Central Bank or any other state authority of the other State;
- hh) The 0% rate applies to interest if it is paid:
  - i) to the Government of the other Contracting State or a local authority thereof, to the Central Bank of that other State or any financial institution owned or controlled by the Government of the other State; or
  - ii) in connection with a borrowing or a credit guaranteed or insured by the Government of the other Contracting State, the Central Bank of that other State or any financial institution owned or controlled by that Government;
  - iii) The 5% rate applies to interest paid in connection with a borrowing or a credit of whatever kind granted by a bank.
- ii) The 0% rate applies to interest arising in a Contracting State if the interest is paid to and received by the other Contracting State, central or local authorities thereof, the Central (National) Bank of the other State or any other institution, as may be agreed from time to time by the competent authorities of the Contracting States.

## Armenia continued

- jj) The 0% rate applies to the gross amount of the interest if it is paid to a Contracting State or a local authority thereof, including the Central Bank of a Contracting State or any institution, agency or fund wholly owned by a Contracting State. The 5% rate applies to the gross amount of the interest if it is paid in respect of a loan of any kind granted by a banking enterprise.
- kk) Dividends are exempt from tax in the Contracting State of which the company paying the dividends is a resident if the beneficial owner of the dividends is a pension scheme. Except as provided above such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but the tax so charged shall not exceed:
- 5% of the gross amount of the dividends if the beneficial owner is a company which is a resident of the other Contracting State and holds, directly or indirectly, at least 25% of the share capital of the company paying the dividends and has invested at least one million pounds sterling (or the equivalent amount in any other currency) in the share capital of the company paying the dividends at the date of payment of the dividends;
  - 15% of the gross amount of the dividends where dividends are paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax;
  - 10% of the gross amount of the dividends in all other cases.
- ll) The 0% rate applies if the beneficial owner of the dividends is the Government of the other Contracting State or any governmental institution or other entity thereof,
- mm) The 0% rate applies to interest if:
- the payer of the interest is the Government of that Contracting State or a political subdivision or a local authority or Central Bank thereof;
  - the interest is paid to the Government of the other Contracting State or a political subdivision or a local authority or Central Bank thereof;
  - the interest is paid in respect of a loan made, approved, guaranteed or insured by the institution of the other Contracting State on account of that State as authorized in accordance with special domestic law on insurance and financing of international business transactions.

Armenia has also concluded double tax treaties with Egypt, Indonesia, Tajikistan but these treaties are not yet in force.

## Azerbaijan

Country	Dividends (%)	Interest (%)	Royalties (%)
<b>Austria</b>	5/10/15 (a)	0/10 (h) (i) (j) (k)	5/10 (r)
<b>Belarus</b>	15	0/10 (l)	10
<b>Belgium</b>	5/10/15 (b) (c) (cc)	0/10 (i) (m) (n)	5/10 (s)
<b>Bosnia and Herzegovina</b>	10	10 (h)	10
<b>Bulgaria</b>	8	0/7 (h) (i)	5/10 (v)
<b>Canada</b>	10/15 (dd)	0/10 (h) (o)	5/10 (t)
<b>China</b>	10	0/10 (i) (l)	10
<b>Croatia<sup>1</sup></b>	5/10 (e)	0/10 (h) (i)	10
<b>Czech Republic</b>	8	0/5/10 (i) (n) (p)	10
<b>Estonia</b>	5/10 (f)	0/10 (h)	10
<b>Finland</b>	5/10 (d)	0/10 (h) (i) (j) (k)	5/10 (v) (w)
<b>France</b>	10	0/10 (h) (i) (q)	5/10 (u)
<b>Georgia</b>	10	0/10 (n)	10
<b>Germany</b>	5/15 (e)	0/10 (i) (n)	5/10 (v) (x)
<b>Greece</b>	8	0/8 (ii)	8
<b>Hungary</b>	8	0/8 (h) (i) (j)	8
<b>Iran</b>	10	0/10 (h)	10
<b>Italy</b>	10	0/10 (i) (j) (k)	5/10 (v)
<b>Japan</b>	15	0/10 (h) (i)	10
<b>Kazakhstan</b>	10	0/10 (n)	10
<b>Korea (South)</b>	7	0/10 (h) (l)	5/10 (v)
<b>Latvia</b>	5/10 (f)	0/10 (h) (k) (l)	5/10 (y)
<b>Lithuania</b>	5/10 (f)	0/10 (i) (l)	10
<b>Luxembourg</b>	5/10 (hh)	0/10 (i) (k) (n)	5/10 (r)
<b>Macedonia</b>	8	8 (l) (ll)	8
<b>Moldova</b>	8/15 (g)	0/10 (h)	10
<b>Netherlands</b>	5/10 (d)	0/10 (h) (i) (j) (k)	5/10 (r)
<b>Norway</b>	10/15 (ee)	0/10 (n)(jj)	10
<b>Pakistan</b>	10	10	10
<b>Poland</b>	10	0/10 (h)	10
<b>Qatar</b>	7	0/7 (l)	5
<b>Romania</b>	5/10 (f)	0/8(i) (l)	10
<b>Russia</b>	10	0/10 (n)	10
<b>Serbia</b>	10	0/10 (h)	10
<b>Slovenia</b>	8	0/8 (h) (kk) (ll)	5/10 (v)

# Double Tax Treaties

## Withholding Tax Rates

Country	Dividends (%)	Interest (%)	Royalties (%)
<b>Switzerland</b>	<b>5/15 (z)</b>	<b>0/5/10 (h) (i) (k) (p) (aa)</b>	<b>5/10 (bb)</b>
<b>Tajikistan</b>	<b>10</b>	<b>0/10 (h) (i)</b>	<b>10</b>
<b>Turkey</b>	<b>12</b>	<b>0/10 (l)</b>	<b>10</b>
<b>UAE</b>	<b>5/10 (ff)</b>	<b>0/7 (h) (gg)</b>	<b>5/10 (v)</b>
<b>Ukraine</b>	<b>10</b>	<b>0/10 (ii)</b>	<b>10</b>
<b>United Kingdom</b>	<b>10/15 (ee)</b>	<b>0/10 (ii) (jj)</b>	<b>5/10 (s)</b>
<b>Uzbekistan</b>	<b>10</b>	<b>0/10 (n)</b>	<b>10</b>
<b>Non treaty country</b>	<b>10</b>	<b>10</b>	<b>14</b>

- a) 5% of the gross amount if the beneficial owner is a company which holds directly at least 25% of the capital of the payer and the participation exceeds US\$ 250k or an equivalent amount in any other currency. 10% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 25% of the capital of the company paying the dividends and the participation exceeds US\$ 100k or an equivalent amount in any other currency.
- b) 5% of the gross amount of the dividends if the beneficial owner is a company which holds, directly or indirectly, at least 30% of the capital of the paying company and has invested at least an amount equivalent to US\$ 500k in the company paying the dividends at the date of payment of the dividends.
- c) 5% of the gross amount of the dividends if the beneficial owner is a company which has invested at least an amount equivalent to US\$ 10mln in the company paying the dividends at the date of payment of the dividends.
- d) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends and the participation in that company exceeds EUR 200k or its equivalent in the national currencies of the Contracting States.
- e) 5% of the gross amount if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends and the participation in that company exceeds EUR 150k or its equivalent in the Azeri mantas.
- f) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.
- g) 8% of the gross amount of the dividends if the recipient is the beneficial owner and has invested at least US\$ 250k.
- h) 0% if the payer or the recipient of the interest is a Contracting State itself, a statutory body, an administrative territorial subdivision or a local authority thereof or the Central Bank of a Contracting State.
- i) 0% if the loan in respect of which the interest is paid, guaranteed or insured by, a Contracting State itself, a statutory body, an administrative territorial subdivision or a local authority thereof or the Central Bank of a Contracting State.
- j) 0% if the interest is paid in respect of a loan which has been approved by the Government in the Contracting State where the payer of the interest is a resident.
- k) 0% if the interest is paid with respect of an indebtedness arising on the sale on credit of any merchandise or industrial, commercial or scientific equipment to an enterprise of the other Contracting State.
- l) 0% if the interest is derived and beneficially owned by the Government or the Central Bank of the other Contracting State.
- m) 0% if the interest is on commercial debt-claims - including debt-claims represented by commercial paper - resulting from deferred payments for goods, merchandise or services supplied by an enterprise.
- n) 0% if the interest is paid to the other Contracting State, a political or administrative-territorial subdivision or a local authority thereof or any agency or instrumentality thereof.
- o) 0% if the interest arising in Azerbaijan is paid to a resident of Canada in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by Export Development Canada.
- p) 5% if the interest is paid in connection with a loan or a credit of whatever kind granted by a bank.

- q) 0% if the loan is in connection with the sale and the conditions of such sale are customary in such Contracting State.
- r) 5% if the patent, the design or model, the plan, the secret formula or process, or the information concerning industrial, commercial or scientific experiences, in consideration of which these royalties are paid, is not older than 3 years.
- s) 5% in respect of any copyright of literary or artistic work (including cinematograph films, and films or tapes for radio or television broadcasting).
- t) 5% if the royalties are for the use of, or the right to use, computer software or any patent or for information concerning industrial, commercial or scientific experience (but not including any such royalty provided in connection with a rental or franchise agreement).
- u) 5% to royalties in respect of copyright of literary or artistic work, cinematography films and tapes broadcast via TV or radio.
- v) 5% in the case of payments for the use of, or the right to use, any computer software, patent, trade mark, design or model or plan; for the use of, or the right to use, any secret formula or process, or for information concerning industrial, commercial or scientific experience (know-how).
- w) 10% in the case of payments for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting.
- x) 10% in the case of payments for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting, as well as the right to use names, portraits or any similar copyrights.
- y) 5% for the use of, or the right to use, industrial, commercial or scientific equipment.
- z) The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the company paying the dividends and has invested in the first-mentioned State an amount of at least US\$ 200k its equivalent in any other currency.
- aa) 5% applies in connection with the sale on credit of any merchandise by one enterprise to another enterprise.
- bb) 5% of the gross amount of royalties paid in respect of a patent, design or model, plan, secret formula or process, or information concerning industrial, commercial or scientific experiences.
- cc) 10% of the gross amount of the dividends if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the company paying the dividends and has invested at least an amount equivalent to US\$ 75k in the company paying the dividends at the date of payment of the dividends.
- dd) 10% of the gross amount of the dividends if the beneficial owner is a company that controls directly or indirectly at least 10% of the voting power in the company paying the dividends.
- ee) 10% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 30% of the capital of the company paying the dividends, and has invested in the aggregate in that State an amount no less than equivalent to US\$ 100k.
- ff) 5% if the beneficial owner is the Government of a contracting state, administrative-territorial or political subdivisions or local authorities; any Governmental institution created in that contracting state under public law such as Central Bank, a corporation, fund, authority, foundation, agency or other similar entity.
- gg) 0% if interest is paid or derived by the State Oil Fund of Azerbaijan or the Abu Dhabi Investment Authority and Abu Dhabi Fund for Economic Development.
- hh) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 30% of the capital of the company paying the dividends, and has invested in the aggregate in that State an amount no less than equivalent of US\$ 300k.
- ii) 0% if the interest arising in one Contracting State is paid to the Government of another Contracting State.
- jj) 0% if the interest arising in one Contracting State and paid to the residents of the other Contracting State, and the loan in respect of which the interest is made, guaranteed or insured, or any other debt-claim or credit guaranteed or insured by the Guarantee Institute for Export Credits of the Contracting State other than Azerbaijan / National or International Bank of Azerbaijan.
- kk) 0% if the interest is paid in respect of a loan made, approved, guaranteed or insured, on behalf of the Republic of Slovenia, by the SID Bank (Slovenian Export and Development Bank) Inc. Ljubljana which is authorized under the domestic legislation of the Republic of Slovenia on insurance and financing of international business transactions.
- ll) 0% if the interest is paid to the State Oil Fund of the Republic of Azerbaijan.

1. Effective from 1 January 2014.

# Belarus

Country	Dividends (%)	Interest (%)	Royalties (%)
Armenia	10/12 (a)	0/10 (v)	10/15 (tt)
Austria	5/12 (e)	0/5/10 (gg)	5/15 (uu)
Azerbaijan	12	0/10 (v)	10/15 (tt)
Bahrain	5	0/5 (vv)	5
Belgium	5/12 (e)	0/10 (z)	5
Bulgaria	10/12 (ww)	0/10 (v)	10/15 (tt)
China	10/12 (ww)	0/10 (u)	10/15 (tt)
Croatia	5/12 (e)	10	10/15 (tt)
Cyprus	5/10/12 (d)	5/10 (xx)	5/15 (uu)
Czech Republic	5/10 (jj)	0/5 (vv)	5
Denmark (q)	12	0	0
Egypt	12	10	15
Estonia	10/12 (ww)	0/10 (s) (vv)	10/15 (tt)
France (q)	12	0/10 (r)	0
Finland	5/12 (e)	0/5/10 (hh)	5/15 (uu)
Germany	5/12 (dd)	0/5/10 (ee)	3/5/15 (ff)
Hungary	5/12 (e)	5	5
India	10/12 (g)	0/10 (bb) (vv)	15
Iran	10/12 (g)	0/5/10 (v) (xx)	5/15 (uu)
Ireland	0/5/10 (oo)	5	5
Israel	10/12 (ww)	0/5/10 (t)	5/10/15 (cc)
Italy	5/12 (e)	0/8/10 (mm)	6/15 (zz)
Japan (q)	12	0/10 (ss)	0/10/15 (n)
Kazakhstan	12	0/10 (v)	15
Korea (North)	10/12 (ww)	0/10 (s) (v)	10/15 (tt)
Korea (South)	5/12 (e)	0/10 (p)	5
Kyrgyzstan	12	0/10 (v)	15
Kuwait	0/5 (x)	0/5 (v)	10
Latvia	10/12 (ww)	0/10 (s) (vv)	10/15 (tt)
Lebanon	7.5	0/5 (v)	5
Lithuania	10/12 (ww)	0/10 (s) (vv)	10/15 (tt)
Macedonia	5/12 (e)	10	10
Malaysia (q)	12	0/10 (s) (v) (bb)	10/15 (o)
Moldova	12	0/10 (bb)	15
Mongolia	10/12 (ww)	0/10 (nn)	10/15 (tt)
Netherlands	0/5/12 (e) (w)	0/5 (yy)	3/5/10 (f)
Oman	0/5 (ii)	0/5 (ii)	10

Country	Dividends (%)	Interest (%)	Royalties (%)
Pakistan	10/12 (g)	0/10 (s) (v) (bb)	15
Poland	10/12 (a)	0/10 (bb)	0
Qatar	5	0/5 (v)	5
Romania	10/12 (ww)	0/10 (v)	15
Russian Federation	12	0/10 (v)	10/15 (tt)
Saudi Arabia	5	5	10
Slovak Republic	10/12 (g)	0/10 (v)	5/10/15 (i)
Slovenia	5	0/5 (pp)	5
South Africa	5/12 (e)	0/5/10 (l)	5/10 (m)
Spain (q)	12	0	0/5 (y)
Sweden	5/10/12 (b)	0/5/10 (rr)	3/5/10/15 (c)
Switzerland	5/12 (e)	0/5/8/10 (aa)	3/5/10/15 (c)
Syria	12	10	15
Tajikistan	12	0/10 (bb)	15
Thailand	10	0/10 (qq)	15
Turkey	10/12 (g)	0/10 (v)	10
Turkmenistan	12	0/10 (v)	15
Ukraine	12	10	15
United Arab Emirates	5/10 (j)	0/5 (s)	5/10/15 (k)
United Kingdom (q)	0	0	0
United States (q)	12	0	0
Uzbekistan	12	0/10 (v) (bb)	15
Venezuela	5/12 (e)	0/5 (kk)	5/10 (ll)
Vietnam	12	0/10 (v)	15
Yugoslavia	5/12 (e)	8/10 (h)	10/15 (tt)
Non treaty countries	12	10	15

- The 10% rate applies if the recipient owns more than 30% of the capital of the payer company. The 12% rate applies in all other cases.
- The 5% rate applies if the recipient owns more than 30% of the capital of the payer company. The 10% rate applies in all other cases if the recipient is the actual owner of dividends. The 12% rate applies in all other cases.
- The 3% rate applies to amounts paid for the use of, or the right to use, patents and secret formulas or processes or for information concerning industrial, commercial or scientific experience. The 5% rate applies to amounts paid for the use of, or the right to use, industrial, commercial or scientific equipment. The 10% rate applies if the recipient is the actual owner of royalty. The 15% rate applies in all other cases.
- The 5% rate applies if the recipient has invested at least 200,000 ECU (Euros) in the share capital of the payer. The 10% rate applies if the recipient owns more than 25% of the capital of the payer company. The 12% rate applies in all other cases.

# Double Tax Treaties

## Withholding Tax Rates

- e) The 5% rate applies if the recipient owns at least 25% of the capital of the payer company. The 12% rate applies in all other cases (however, for the Netherlands, also see footnote [w]).
- f) The 3% rate applies to amounts paid for the use of, or the right to use, patents, brand names, designs, models, plans and secret formulas or processes, or for information related to industrial, commercial or scientific expertise. The 5% rate applies to payments for the use of, or the right to use, industrial, commercial or scientific equipment (including vehicles). The 10% rate applies to amounts paid for the use of, or the use, or the right to use, copyrights of literary, artistic or scientific works, including motion pictures and films or tapes used for television and radio broadcasting. The 15% rate applies in all other cases.
- g) The 10% rate applies if the recipient owns more than 25% of the capital of the payer company. The 12% rate applies in all other cases.
- h) The 8% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- i) The 5% rate applies to amounts paid for copyrights of works of literature, art or science, including motion pictures, films, tapes and other means of transmitting images or sounds. The 10% rate applies to amounts paid for the following:
- Patents, trademarks, designs, drafts, models, schemes and secret formulas or processes
  - Information concerning industrial, commercial or scientific experience
  - The use of, or the right to use, industrial, commercial or scientific equipment, or means of transportation
  - The 15% rate applies in all other cases.
- j) The 5% rate applies if the actual owner of the dividends is a company that owns US\$100,000 or more in the company paying the dividends. The 10% rate applies in all other cases.
- k) The 5% rate applies to amounts paid for the following:
- The use of, or the right to use, copyrights of scientific works, patents, brand names, designs, models, plans and secret formulas or processes
  - The right to use information related to industrial, commercial or scientific equipment or vehicles
  - Information related to industrial, commercial or scientific expertise
- The 10% rate applies to amounts paid for the use of, or the right to use, copyrights of literary or artistic works, including motion pictures or films and tapes used for television or radio broadcasting. The 15% rate applies in all other cases.
- l) The 0% rate applies if the recipient of the interest income is the government or a government authority. The 5% rate applies if the recipient of the interest income is a bank or other financial institution. The 10% rate applies in all other cases.
- m) The 5% rate applies to amounts paid for industrial, commercial or scientific equipment, or vehicles. The 10% rate applies in all other cases.
- n) The 0% rate applies to amounts paid for the use of, or the right to use, copyrights of works of literature, art or science, including motion pictures, films or tapes for television or radio broadcasting. The 10% rate applies to amounts paid for the following:
- The use of, or the right to use, patents, trademarks, designs, drafts, models, schemes and secret formulas or processes
  - Information concerning industrial, commercial or scientific experience
  - The use of, or the right to use, industrial, commercial or scientific equipment
- The 15% rate applies in all other cases.
- o) The 10% rate applies to amounts paid for the following:
- The use of, or the right to use, patents, brand names, designs, models, plans, secret formulas or processes, or copyrights of scientific works
  - The use of, or the right to use, industrial, commercial or scientific equipment
  - The use of, or the right to use, information related to industrial, commercial or scientific expertise
- The 15% rate applies to amounts paid for the use of, or the right to use, copyrights of motion pictures or magnetic tapes for television and radio broadcasting, or of literary and artistic works.
- p) The 0% rate applies if the interest income is derived from sales on credit of industrial, commercial or scientific equipment or if the recipient of the interest income is the government or central bank. The 10% rate applies in all other cases.
- q) Belarus honors the double tax treaty entered into by the former USSR and this country. The table lists the tax rates under the treaty.
- r) The 0% rate applies to interest on bank and commercial loans. The 10% rate applies in all other cases.
- s) The 0% rate applies to interest on loans guaranteed by the government.
- t) The 0% rate applies if the recipient of the interest income is the government or central bank. The 5% rate applies if the recipient of the interest income is a bank or other financial institution. The 10% rate applies in all other cases.
- u) The 0% rate applies if the interest is paid to the government, the central bank, local agency or body (including a financial institution) that fully belongs to the state or governmental body. The 10% rate applies in all other cases.
- v) The 0% rate applies if the recipient of the interest income is the government or central bank. The higher rates apply in all other cases.
- w) The 0% rate applies if either of the following conditions is satisfied:
- The recipient owns more than 50% of the capital of the payer company and its capital contribution is at least 250,000 ECU (Euros).
  - The recipient owns more than 25% of the capital of the payer company and its capital contribution is guaranteed or insured by the government.
- x) The 0% rate applies if the recipient of the dividends is the government or central bank. The 5% rate applies in all other cases.
- y) The 0% rate applies to amounts paid for the use of, or the right to use, copyrights of works of literature, music, art or science other than motion pictures or films and tapes for television or radio broadcasting. The 5% rate applies in all other cases.
- z) The 0% rate applies if any of the following conditions is satisfied:
- The loan is approved by the government.
  - The interest income is derived from sales on credit of industrial, medical or scientific equipment or from service supply contracts.
  - The loan relates to industrial, medical or scientific equipment or service supply contracts, it is guaranteed by the government, and it is aimed at supporting exports.
- The 10% rate applies in all other cases.
- aa) The 0% rate applies if any of the following conditions is satisfied:
- The loan is approved by the government.
  - The interest income is derived from sales on credit of industrial, medical or scientific equipment.
  - The interest income is derived from government securities.
- The 5% rate applies to interest on loans granted by banks. The 8% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- bb) The 0% rate applies if the loan is approved by the government.
- cc) The 5% rate applies to amounts paid for copyrights of works of literature, art or science, except motion pictures, or for the right to use industrial, commercial or scientific equipment or means of transportation. The 10% rate applies if the recipient is the actual owner of royalty. The 15% rate applies in all other cases.
- dd) The 5% rate applies if the recipient owns more than 20% of the capital of the payer company and contributes at least 81,806.70 Euros to the share capital of the payer. The 12% rate applies in all other cases.
- ee) The 0% rate applies to the following interest payments:
- Interest arising in Belarus and paid to the government of Germany, Deutsche Bundesbank, Kreditanstalt für Wiederaufbau or Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern
  - Interest paid with respect to a loan guaranteed by the Hermes-Deckung if the recipient of the interest income is the government or central bank of Belarus.
- The 5% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- ff) The 3% rate applies to amounts paid for the following:
- The use of, or the right to use, copyrights of scientific works, patents, brand names, designs, models, plans and secret formulas or processes
  - The right to use information related to industrial, commercial or scientific expertise
- The 5% rate applies to amounts paid for the use of, or the right to use, copyrights of literary and artistic works, including motion pictures and films or tapes used for television or radio broadcasting or for the use of, or right to use, all types of equipment and transportation. The 15% rate applies in all other cases.

## Belarus continued

- gg) The 0% rate applies if any of the following conditions is satisfied:
- The loan is approved by the government.
  - The recipient of the interest income is the government or central bank.
  - The interest paid on the loan or credit is guaranteed or secured by the government (including the Osterreichische Kontrollbank Aktiengesellschaft).
- The 5% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- hh) The 0% rate applies if the recipient of the interest income is the government, the central bank, the Finnish Fund for Industrial Cooperation (FINNFUND) or Finnish Export Credit (FINNVERA). The 5% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- ii) The 0% rate applies if the recipient of the dividends is the government, central bank or the Governmental General Reserve Fund of Oman. The 5% rate applies in all other cases.
- jj) The 5% rate applies if the recipient owns at least 25% of the capital of the payer company. The 10% rate applies in all other cases.
- kk) The 0% rate applies if any of the following conditions is satisfied:
- The recipient of the interest income is the government or a government authority.
  - The interest is paid on loans guaranteed by the government.
  - The interest is paid on loans aimed at promoting exports or connected to the supply of all types of equipment and transport vehicles by an enterprise of the other contracting state.
  - The interest is paid with respect to sales of all types of equipment and transport vehicles.
- The 5% rate applies in all other cases.
- ll) The 5% rate applies if the royalties are paid for the use of, or the right to use, the following:
- Scientific copyrights, software or trademarks
  - All types of equipment and transport vehicles
- The 10% rate applies in all other cases.
- mm) The 0% rate applies if any of the following conditions is satisfied:
- The interest is paid by the government or a government authority.
  - The interest is paid to the government or a government authority, local agency or body (including a financial institution) that fully belongs to the state or governmental body.
  - The interest is paid to any other agency or body (including a financial institution) on loans provided with respect to the application of an agreement entered into between the contracting states.
- The 8% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- nn) The 0% rate applies if the loan is provided to the government or central bank. The 10% rate applies in all other cases.
- oo) The 0% rate applies if the recipient of the dividends is one of the following:
- National Treasury Management Agency of Ireland
  - National Reserve Pension Fund of Ireland
  - Any other organization, including an agency or institution, that is fully or mainly owned by the government
- The 5% rate applies if the recipient owns at least 25% of the capital of the payer company. The 10% rate applies in all other cases.
- pp) The 0% rate applies if the recipient or payer of the interest income is the government, a local authority or central bank. The 5% rate applies in all other cases.
- qq) The 0% rate applies if the recipient of the interest income is the government, central bank or an institution with capital that is fully owned by the government or local authorities. The 10% rate applies in all other cases.
- rr) The 0% rate applies in the following cases:
- The payer or the payee of the interest income is the government, a political and administrative division, a local government body, or the central bank
  - Loan is approved by the government
  - Loan is granted and guaranteed by the state financial body to promote export, if a lending is provided or guaranteed on preferential terms
  - Loan is granted by a bank to promote export
- v) Interest is paid on debt that arises in the event of a sale on credit terms of any merchandise or industrial, business or scientific equipment.
- The 5% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- ss) The 0% rate applies if the recipient of the interest income is the government, central bank, other government agency or a financial institution. The 10% rate applies in all other cases.
- tt) The 10% rate applies if the recipient is the actual owner of royalty. The 15% rate applies in all other cases.
- uu) The 5% rate applies if the recipient is the actual owner of royalty. The 15% rate applies in all other cases.
- vv) The 0% rate applies if the recipient of the interest income is the government or local government body, the central bank or other government company or financial institution. The higher rate is applies in all other cases.
- ww) The 10% rate applies if the recipient is the actual owner of dividends. The 12% rate applies in all other cases.
- xx) The 5% rate applies if the recipient is the actual owner of interest. The 10% rate applies in all other cases.
- yy) The 0% rate applies in the following cases:
- The payer or the payee of the interest income is the government, a political and administrative division, a local government body, or the central bank
  - Loan was approved by the government
  - Loan was provided, guaranteed or insured by the government, the central bank or other body under state control
  - Loan was provided or guaranteed by a financial institution to promote development, or interest is paid on a loan or lending designed to acquire industrial, business, commercial, medical or scientific equipment.
- zz) The 6% rate applies if the recipient is the actual owner of royalty. The 15% rate applies in all other cases.

# Georgia

# Double Tax Treaties Withholding Tax Rates

Country	Dividends (%)	Interest (%)	Royalties (%)
Armenia	5/10 (a)	10	5
Austria	0/5/10 (b)	0	0
Azerbaijan	10	0/10 (c)	10
Bahrain	0	0	0
Belgium	5/15 (d)	0/10 (e) (f) (g) (h)	5/10 (i)
Bulgaria	10	0/10 (j)	10
China	0/5/10 (b)	0/10 (k)_	5
Czech Republic	5/10 (l)	0/8 (k) (m) (n)	0/5/10 (o)
Denmark	0/5/10 (p) (q)	0	0
Egypt	0/10 (kk)	0/10(kk)	10
Estonia	0	0	0
Finland	0/5/10 (s)	0	0
France	0/5/10 (t)	0	0
Germany	0/5/10 (u)	0	0
Greece	8	8	5
Hungary	0/5 (ll)	0	0
India	10	10	10
Iran	5/10 (a)	0/10 (v)	5
Ireland	0/5/10 (w)	0	0
Israel	0/5 (x)	0/5 (nn)	0
Italy	5/10 (y)	0	0
Kazakhstan	15	0/10 (z)	10
Kuwait	0/5 (oo)	0	10
Latvia	5/10 (aa)	0/5 (pp)	5
Lithuania	5/15 (bb)	0/10 (r)	10
Luxemburg	0/5/10 (b)	0	0
Malta	0	0	0
The Netherlands	0/5/15 (cc)	0	0
Norway	0/5/10 (mm)	0	0
Poland	10	0/10 (dd)	10
Qatar	0	0	0
Romania	8	0/10 (ee)	5
San Marino	0	0	0
Serbia	5/10 (a)	0/10 (qq)	10
Singapore	0	0	0
Slovakia	0	5	5
Slovenia	5	0/5 (rr)	5
Spain	0/10 (ff)	0	0
Switzerland	0/10 (ff)	0	0
Turkey	10	10	10
Turkmenistan	10	0/10 (dd)	10
Ukraine	5/10 (y)	0/10 (q) (gg)	10
United Arab Emirates	0	0	0

Country	Dividends (%)	Interest (%)	Royalties (%)
United Kingdom	0/15 (hh)	0	0
Uzbekistan	5/15 (ii)	0/10 (jj)	10
Non treaty countries	5	5	10

- a) The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.
- b) The 0% rate applies if the beneficial owner is a company which holds directly or indirectly at least 50% of the capital of the company paying the dividends and has invested more than EUR 2mln (or its equivalent in Georgian currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the company paying the dividends and has invested more than EUR 100k (or its equivalent in Georgian currency) in the capital of the company paying the dividends.
- c) The 0% rate applies if the interest arising in a Contracting State is paid to the Government of the other Contracting State or the representative body of that Government.
- d) The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company paying the dividends.
- e) The 0% rate applies if the interest is paid on commercial debt-claims, including debt-claims represented by commercial paper, resulting from deferred payments for goods, merchandise or services supplied by an enterprise.
- f) The 0% rate applies if the interest is paid in respect of a loan made, guaranteed or insured or a credit extended, guaranteed or insured within the framework of a public scheme the objective of which is to promote the export .
- g) The 0% rate applies if the interest is paid on loans of any nature, not represented by bearer instruments, granted by a banking enterprise.
- h) The 0% rate applies if the interest is paid to the other Contracting State.
- i) The 5% rate applies if the beneficial owner is an enterprise of the other Contracting State.
- j) The 0% rate applies if the interest arising in a Contracting State is paid to the Government of the other Contracting State or a statutory body thereof, or to the National Bank of that other State.
- k) The 0% rate applies if the interest arising in a Contracting State is derived and beneficially owned by the Government of the other Contracting State, political subdivision, a local authority and the Central Bank thereof or any financial institution wholly owned by that Government.
- l) The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.
- m) The 0% rate applies if the interest arising in a Contracting State is derived and beneficially owned by a resident of the other Contracting State in connection with the loan or credit guaranteed by the Government of that other State.
- n) The 0% applies if the interest arising in a Contracting State is paid in connection with the sale on credit of any industrial, commercial or scientific equipment.
- o) The 0% rate applies if the recipient is the beneficial owner of the royalties on any copyright of literary, artistic or scientific work except for computer software and including cinematograph films, and films or tapes for television or radio broadcasting. The 5% rate applies if the recipient is the beneficial owner of the royalties on any industrial, commercial or scientific equipment. The 10% rate applies if the recipient is the beneficial owner of the royalties on any patent, trade mark, design or models, plan, secret formula or process and computer software, or for information concerning industrial, commercial or scientific experience.
- p) The 0% rate applies if the beneficial owner is a company which holds directly or indirectly at least 50% of the capital of the company paying the dividends and has invested more than EUR 2mln (or its equivalent in Danish or Georgian currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the company paying the dividends and has invested more than EUR 100k (or its equivalent in Danish or Georgian currency) in the capital of the company paying the dividends.

## Georgia continued

- q) The 0% rate applies if the interest arising in a Contracting State is derived and beneficially owned by the Government of the other Contracting State or any agency or instrumentality thereof.
- r) The 0% applies if the interest arising in a Contracting State is derived and beneficially owned by the Government of the other Contracting State, including its political subdivisions and local authorities, the Central Bank or any financial institution wholly owned by that Government, or interest derived on loans guaranteed by that Government.
- s) The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 50% of the capital of the company paying the dividends and has invested more than EUR 2mln (or its equivalent in Georgian currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends and has invested more than EUR 100k (or its equivalent in Georgian currency) in the capital of the company paying the dividends.
- t) The 0% rate applies if the beneficial owner is a company which holds directly or indirectly at least a 50% of the capital of the company paying the dividends and has invested more than EUR 3mln (or its equivalent in Georgian currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least a 10% of the capital of the company paying the dividends and has invested more than EUR 100k (or its equivalent in Georgian currency) in the capital of the company paying the dividends.
- u) The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 50% of the capital of the company paying the dividends and has invested more than EUR 3mln (or its equivalent in any currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends and has invested more than EUR 100k (or its equivalent in any currency) in the capital of the company paying the dividends.
- v) The 0% rate applies if the interest arising in a Contracting State is derived by the Government, ministries, other Governmental institutions, municipalities, Central Bank and other banks wholly owned by the Government of the other Contracting State.
- w) The 0% rate applies if the beneficial owner is a company which controls directly or indirectly at least 50% of the voting power in the company paying the dividends and has invested at least EUR 2mln (or its equivalent in Georgian currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly at least 10% of the voting power in the company paying the dividends and has invested more than EUR 100k (or its equivalent in Georgian currency) in the capital of the company paying the dividends.
- x) The 0% rate applies if the beneficial owner is a company (except for partnership) that holds directly at least 10% of the capital of the payer of the dividends. The 5% rate applies in all other cases.
- y) The 5% rate applies if the beneficial owner is a company which holds at least 25% of the capital of the company paying the dividends.
- z) The 0% applies if the interest arising in a Contracting State is paid on treasury bonds, debt-claims or any other similar claims to the Government of the other Contracting State, the Central Bank, the administrative-political subdivision or the local authority of that State.
- aa) The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends and the value of this investment is not less than US\$ 75k.
- bb) The 5% rate applies if the beneficial owner is a company (except partnership) that owns at least 25% share in the capital of the payer of the dividend and if the total value of the recipient's investment is at least EUR 75k.
- cc) The 0% rate applies if the beneficial owner is a company which holds directly or indirectly at least 50% of the capital of the company paying the dividends and has invested more than US\$ 2mln (or its equivalent in Euro or Georgian currency) in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the company paying the dividends.
- dd) The 0% rate applies if the interest arising in a Contracting State is paid to the Government of the other Contracting State or the National (Central) Bank of that State.
- ee) The 0% applies if the interest arising in a Contracting State is paid on debt-claim of the Government of the other Contracting State, its National (Central) Bank or any other bank or institution of that Government, authorized to make, guarantee or insure credits on behalf of the Government of that State.
- ff) The 0% rate applies if the beneficial owner of the dividends is a company (except for partnership) which holds directly at least 10% of the capital of the company paying the dividends.
- gg) The 0% rate applies if the interest arising in a Contracting State is paid to and beneficially owned by a resident of the other Contracting State in respect of loan granted, guaranteed or insured or any other debt-claim or credit guaranteed or insured by an authorized body in the name of the other Contracting State.
- hh) The 15% rate applies if the dividends are paid out of income derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle that distributes most of this income annually and if the income from such immovable property is exempt from tax. The 0% rate applies in all other cases.
- ii) The 5% rate applies if the actual recipient is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.
- jj) The 0% rate applies if the interest arising in a Contracting State is paid to the Government of the other Contracting State or an authorized body of that Government.
- kk) The 0% rate applies if the beneficial owner is the Government of the other Contracting State, where
- i) in the case of Georgia includes the Government of a local authority, the National Bank of Georgia and any other governmental agencies, political subdivisions, or institutions of Georgia as may be specified and agreed to in an exchange of letters between the competent authorities of the Contracting States; and
- ii) in the case of Egypt includes the Central Bank of Egypt, the Social Insurance Fund of Egypt, the National Investment Bank and political subdivision, local authority, a statutory body, or any institution wholly or mainly owned by the Government of Egypt as may be agreed from time to time between the competent authorities of the Contracting States.
- ll) The 0% rate applies if the beneficial owner is a company (other than a partnership that is not liable to tax) which holds directly at least 25% of the capital of the company paying the dividends for an uninterrupted period of at least 12 months prior to the decision to distribute the dividends. The 5% rate applies in all other cases.
- mm) The 5% rate applies if the beneficial owner is a company (or a partnership) which holds directly at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases. Where dividends are derived and beneficially owned by the Government of a Contracting State, such dividends shall be taxable only in that State.
- nn) The 0% rate applies to pension fund and a recipient of interest on corporate bonds traded on a stock exchange in other state and issued by a company that is a resident of that state. The 5% rate applies in all other cases.
- oo) The 0% rate applies if the beneficial owner of the dividends is a company which has invested in the payer more than US\$3 million (or the equivalent amount in Georgian lari). The 0% rate also applies when dividends beneficially owned by the government of a Contracting State or its local authority, national or central bank, or any government agency or financial institution, which will be determined through exchange of letters between the competent authorities of the Contracting States. Such dividends shall be taxable only in that State. The 5% rate applies in all other cases.
- pp) The 0% rate applies to a recipient of interest on any loan or credit of any kind granted by a bank. The 5% rate applies in all other cases.
- qq) The 0% rate applies when a recipient of the interest is
- i) the government or political subdivision or local authorities, or
- ii) central or national bank, or
- iii) a financial institution, which is wholly or partially owned by the Government, or political subdivisions or local authorities.
- rr) The 0% rate applies when
- i) the payer or the recipient of the interest is the Government or a political subdivision or a local authority or Central Bank of the Contracting State; or
- ii) the interest is paid in respect of a loan made, approved, guaranteed or insured by institution which is authorized in accordance with internal law on insurance and financing of international business transactions.

Georgia has signed and ratified tax treaties (but they have not yet entered into force) with Portugal and Croatia. Tax treaties are initialed with Cyprus, Lebanon, Oman, Sweden, Liechtenstein and Iceland.

Tax treaty negotiations are underway with Belarus, South Korea, Jordan, Montenegro, Saudi Arabia, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Columbia, Moldova, Mongolia, Morocco, New Zealand, Peru, The Philippines, Tajikistan, Uruguay, Brazil, Cuba, Ecuador, Canada and South Africa.

# Kazakhstan

Country	Dividends (%)	Interest (%)	Royalties (%)
Armenia	10 (l)	10 (l)	10 (l)
Austria	5/15 (r)	10 (b)	10 (l)
Azerbaijan	10 (b)	10 (b)	10 (b)
Belarus	15 (o)	10 (l)	15 (n)
Belgium	5/15 (c)	10 (l)	10 (l)
Bulgaria	10 (b)	10 (b)	10 (b)
Canada	5/15 (i)	10 (l)	10 (l)
China	10 (b)	10 (b)	10 (b)
Czech Republic	10 (l)	10 (l)	10 (l)
Estonia	5/15 (j)	10 (b)	15 (q)
Finland	5/15 (k)	10 (l)	10 (l)
France	5/15 (c)	10 (b)	10 (b)
Georgia	15 (o)	10 (l)	10 (l)
Germany	5/15 (j)	10 (l)	10 (b)
Hungary	5/15 (h)	10 (b)	10 (b)
India	10 (b)	10 (l)	10 (b)
Iran	5/15 (p)	10 (b)	10 (b)
Italy	5/15 (c)	10 (b)	10 (b)
Japan	5/15 (v)	10 (l)	10 (l)
Korea	5/15 (e)	10 (b)	10 (b)
Kyrgyzstan	10 (l)	10 (l)	10 (l)
Latvia	5/15 (j)	10 (b)	10 (b)
Lithuania	5/15 (j)	10 (b)	10 (b)
Luxembourg	5/15 (w)	10 (l)	10 (l)
Malaysia	10 (l)	10 (l)	10 (l)
Moldova	10/15 (t)	10 (l)	10 (l)
Mongolia	10 (b)	10 (b)	10 (l)
Netherlands	5/15 (c)	10 (b)	10 (l)
Norway	5/15 (r)	10 (b)	10 (l)
Pakistan	12.5/15 (f)	12.5 (m)	15 (n)
Poland	10/15 (d)	10 (b)	10 (l)
Romania	10 (b)	10 (b)	10 (b)
Russia	10 (b)	10 (b)	10 (l)
Singapore	5/10 (u)	10 (l)	10 (l)
Slovakia	10/15 (s)	10 (b)	10 (b)
Spain	5/15 (r)	10 (l)	10 (l)
Sweden	5/15 (k)	10 (b)	10 (b)
Switzerland	5/15 (r)	10 (b)	10 (l)
Tajikistan	10/15 (s)	10 (b)	10 (b)
Turkey	10 (b)	10 (b)	10 (b)
Turkmenistan	10 (l)	10 (l)	10 (l)
UAE	5/15 (r)	10 (l)	10 (l)
Ukraine	5/15 (g)	10 (b)	10 (b)
United Kingdom	5/15 (a)	10 (b)	10 (b)

# Double Tax Treaties Withholding Tax Rates

Country	Dividends (%)	Interest (%)	Royalties (%)
USA	5/15 (e)	10 (l)	10 (l)
Uzbekistan	10 (b)	10 (b)	10 (l)
Non treaty countries	15	15	15
Non treaty countries with preferential tax regime (per list)	20	20	20

- a) 5% of the gross amount of the dividends if the beneficial owner is a company which controls directly or indirectly at least 10% of the voting power in the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- b) If the recipient is the beneficial owner of the dividends (interest, royalties) the tax so charged shall not exceed 10% of the gross amount of the dividends (interest, royalties).
- c) 5% of the gross amount of the dividends if the beneficial owner is a company, which holds directly or indirectly at least 10% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- d) 10% of the gross amount of the dividends if the beneficial owner is a company which holds directly or indirectly no less than 20% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- e) 5% of the gross amount of the dividends if the beneficial owner is a company which owns at least 10% of the voting stock of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- f) 12.5% of the gross amount of the dividends if the beneficial owner is a company which holds directly or indirectly no less than 10% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- g) 5% of the gross amount of the dividends if the company has actual right for dividends, and this company owns at least 25% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- h) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- i) Except in the case of dividends paid by a non-resident-owned investment corporation that is a resident of Canada, 5% of the gross amount of the dividends if the beneficial owner is a company which controls directly or indirectly at least 10% of the voting power in the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- j) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- k) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the voting power of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- l) If (the recipient and) the beneficial owner of the dividends (interest, royalties) is a resident of the other Contracting State, the tax so charged shall not exceed 10% of the gross amount of the dividends (interest, royalties).
- m) If the recipient is the beneficial owner of the interest, the tax so charged shall not exceed 12.5% of the gross amount of the interest.
- n) If the recipient and the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed 15% of the gross amount of the royalties.
- o) If the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed 15% of the gross amount of the dividends.
- p) 5% of the gross amount of the dividends if the recipient is a company (other than a partnership) which holds directly at least 20% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.

## Kazakhstan continued

- q) If the recipient is the beneficial owner of the royalties the tax so charged shall not exceed 15% of the gross amount of the royalties.
- r) 5% of the gross amount of the dividends if the beneficial owner is a company which 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.
- s) 10% of the gross amount of the dividends if the beneficial owner is a legal entity which holds directly at least 30% of the capital of the legal entity paying the dividends. 15% of the gross amount of the dividends in all other cases.
- t) 10% of the gross amount of the dividends if the beneficial owner is a company, which holds directly at least 25% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- u) 5% of the gross amount of the dividends if the beneficial owner is a company which holds no less than 25% of the capital of the company paying the dividends. 10% of the gross amount of the dividends in all other cases.
- v) 5% of the gross amount of the dividends if the beneficial owner is a company that has owned directly or indirectly, for the period of six months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.
- w) 5% of the gross amount of the dividends if the beneficial owner is a company, which holds directly at least 15% of the capital of the company paying the dividends. 15% of the gross amount of the dividends in all other cases.

Treaties with Serbia, Slovenia, Kuwait, Saudi Arabia and Qatar are currently under negotiation.

## Russian Federation

Russian legislation currently states that the double tax treaties of the former USSR are still valid.

Country	Dividends (%)	Interest (%)	Royalties (%)
Albania	10	10	10
Algeria	5/15 (aaa)	15/0 (zz)	15
Argentina	10/15 (aa)	0/15 (nnn)	15
Armenia	5/10 (a)	0/10(qqq)	0
Australia	5/15 (nn)	10	10
Austria	5/15 (b)	0	0
Azerbaijan	10	0/10 (ss)	10
Belarus	15	10	10
Belgium	10	0/10 (t)	0
Botswana	5/10 (ll)	10	10
Brazil	10/15 (bbb)	0/15 (ccc)	15
Bulgaria	15	0/15 (k)	15
Canada	10/15 (c)	10	0/10 (d)
Chile	5/10 (yy)	15	5/10 (mmm)
China	10	10	10
Croatia	5/10 (e)	10	10
Cuba	5/15 (lll)	10	5
Cyprus	5/10 (f)	0	0
Czech Republic	10	0	10
Denmark	10	0	0
Egypt	10	0/15 (g)	15
France	5/10/15 (i)	0	0
Finland	5/12 (h)	0	0
Germany	5/15 (j)	0	0
Greece	5/10 (yy)	7	7
Hungary	10	0	0
Iceland	5/15 (jj)	0	0
India	10	0/10 (ww)	10
Indonesia	15	0/15 (k)	15
Iran	5/10 (ll)	7.5	5
Ireland	10	0	0
Israel	10	10	10
Italy	5/10 (l)	10	0
Japan	15	10	10 (m)
Kazakhstan	10	10	10
Kuwait	5	0	10
Kyrgyzstan	10	10	10
Lebanon	10	5	5

# Double Tax Treaties Withholding Tax Rates

Country	Dividends (%)	Interest (%)	Royalties (%)
Latvia	5/10 (ooo)	5/10 (dd)	5
Lithuania	5/10 (pp)	10	5/10 (qq)
Luxembourg	5/15 (n)	0	0
Macedonia	10	10	10
Malaysia	15	15	10/15 (o)
Mali	10/15 (p)	0/15 (tt)	0
Mexico	10	10/0 (zz)	10
Moldova	10	0	10
Mongolia	10	10 (vv)	20 (q)
Morocco	5/10 (r)	10	10
Namibia	5/10 (e)	10	5
Netherlands	5/15 (s)	0	0
New Zealand	15	10	10
North Korea	10	0	0
Norway	10	0/10 (uu)	0
Philippines	15	15	15
Poland	10	10	10
Portugal	10/15 (u)	0/10 (v)	10
Qatar	5	0/5 (mm)	0
Romania	15	0/15 (xx)	10
Saudi Arabia	0/5 (jjj)	0/5 (kkk)	10
Singapore	5/10 (ggg)	0/7.5 (hhh)	7.5
Slovak Republic	10	0	10
Slovenia	10	10	10
South Africa	10/15 (w)	10	0
South Korea	5/10 (x)	0	5
Spain	5/10/15 (y) (z)	5 (z)	5 (z)
Sri Lanka	10/15 (aa)	10	10
Sweden	5/15 (bb)	0	0
Switzerland	0/5/15 (cc)	0	0
Syria	15	10	4.5/13.5/ 18 (kk)
Thailand	15	0/10 (iii)	15
Tajikistan	5/10 (ll)	0/10 (oo)	0
Turkey	10	0/10 (rr)	10
Turkmenistan	10	5	5
Ukraine	5/15 (ee)	10	10
United Arab Emirates	0 (ppp)	0 (ppp)	20-
United Kingdom	10	0	0
United States	5/10 (ff)	0	0

Country	Dividends (%)	Interest (%)	Royalties (%)
Uzbekistan	10	0/10(oo)	0
Venezuela	10/15 (ddd)	5/10 (eee)	10/15 (fff)
Vietnam	10/15 (gg)	10	15
Serbia and Montenegro	5/15 (hh)	10	10
Non treaty countries	15	15/20 (ii)	20

- a) The 5% rate applies if the resident of the other Contracting State holds directly at least 25% of the capital of the payer. The 10% rate applies to other dividends.
- b) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) holds directly at least 10% of the capital of the payer of the dividends and if the participation exceeds US\$ 100k. The 15% rate applies to other dividends.
- c) The 10% rate applies if the beneficial owner of the dividends owns at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 15% rate applies to other dividends.
- d) The 0% rate applies to royalties for the following: copyrights of cultural works (excluding films and television rights); the use of computer software; and the use of patents or information concerning industrial, commercial or scientific experience, if the payer and the beneficiary are not related persons. The 10% rate applies to other royalties.
- e) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer more than US\$ 100k or the equivalent amount in local currency. The 10% rate applies to other dividends.
- f) The 5% rate applies to dividends if the beneficial owner has directly invested in the capital of the company not less than the equivalent of EUR 100k. The 10% rate applies to other dividends.
- g) The 0% rate applies if the recipient of the interest is the other Contracting State or a bank that is more than 51%-owned by the other Contracting State. The 15% rate applies to other interest payments.
- h) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 30% of the capital of the payer of the dividends and if the foreign capital invested exceeds US\$ 100k or its equivalent in the national currencies of the Contracting States at the moment when the dividends become due and payable. The 12% rate applies to other dividends.
- i) The 5% rate applies if the recipient of the dividends has invested in the payer at least FF 500k or the equivalent amount in other currency and if the beneficiary of the dividends is a company that is exempt from tax on dividends in its State of residence. The 10% rate applies if only one of these conditions is met. The 15% rate applies to other dividends.
- j) The 5% rate applies to dividends paid to corporations that hold a 10% greater interest in the capital of the payer and have invested in the payer at least EUR 80k or the equivalent amount in rubles. The 15% rate applies to other dividends.
- k) The 0% rate applies if the recipient of the interest is the Government of the other Contracting State, including local authorities thereof, a political subdivision or the central bank. The 15% rate applies to other interest payments.
- l) The 5% rate applies to dividends paid to corporations that hold at least 10% of the capital of the payer and have invested in the payer at least US\$ 100k or the equivalent amount in other currency. The 10% rate applies to other dividends.
- m) The rate is 0% for royalties for copyrights of cultural works.
- n) The 5% rate applies if the beneficial owner of the dividends is a company which holds directly at least 10% of the capital of the payer and has invested in the payer more than EUR 80k or the equivalent amount in rubles. The 15% rate applies to other dividends.
- o) The 15% rate applies to royalties for copyrights, including film and radio broadcasts. The 10% rate applies to other royalties.
- p) The 10% rate applies if the recipient of the dividends has invested more than FF 1mln in the payer. The 15% rate applies to other dividends.

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## Russian Federation continued

- ) Royalties are subject to tax in the country of the payer in accordance with that country's law.
- r) The 5% rate applies if the beneficial owner of the dividends owns at least US\$ 500k of the capital of the payer. The 10% rate applies to other dividends.
- s) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested at least ECU 75k or an equivalent amount in local currency. The 15% rate applies to other dividends.
- t) The 0% rate applies if the recipient of the interest is the Government of the other Contracting State including local authorities thereof, an instrumentality of that State that is not subject to tax in that State or the central bank. The 10% rate applies to other interest payments.
- u) The 10% rate applies if the beneficial owner is a company that, for an uninterrupted period of two years before the payment of the dividends, owned directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
- v) The 0% rate applies if the interest is derived and beneficially owned by the other Contracting State, a political or administrative subdivision or a local authority thereof or any institution specified and agreed to in an exchange of notes between the competent authorities of the Contracting States in connection with any credit granted or guaranteed by them under an agreement between the Governments of the Contracting States. The 10% rate applies to other interest payments.
- w) The 10% rate applies if the beneficial owner of the dividends owns at least 30% of the capital of the payer and has directly invested at least US\$ 100k in the charter capital of the payer. The 15% rate applies to other dividends.
- x) The 5% rate applies to dividends paid to corporations that hold at least 30% of the capital of the payer and have invested in the payer at least US\$ 100k or the equivalent amount in local currency. The 10% rate applies to other dividends.
- y) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) has invested at least ECU 100k in the capital of the payer and if the country of residence of the beneficial owner of the dividends does not impose taxes on the dividends. The 10% rate applies if one of these conditions is met. The 15% rate applies to other dividends.
- z) The treaty does not provide relief for Spanish companies receiving dividends, interest or royalties from Russian sources if more than 50% of the Spanish company is owned (directly or indirectly) by non-Spanish residents.
- aa) The 10% rate applies if the beneficial owner of the dividends owns at least 25% of the capital of the payer. The 15% rate applies to other dividends.
- bb) The 5% rate applies to corporations that hold 100% (at least 30% if the recipient corporation is a part of a joint venture) of the payer and have invested in the payer at least US\$ 100k or the equivalent amount in local currency. The 15% rate applies to other dividends.
- cc) The 0% rate applies if the recipient of the dividends is:
  - a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement, disability and survivors' benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State; or
  - the Government of the other State, a political subdivision or local authority thereof, or
  - in the case of Russia - the Central Bank of the Russian Federation (Bank of Russia);
  - in the case of Switzerland - the Swiss National Bank.
 The 5% rate applies if the recipient of the dividends is a corporation that holds at least 20% of the capital of the payer and if, at the time the dividends become due, the amount of the recipient's investment exceeds CHF 200k. The 15% rate applies to other dividends.
- dd) The 5% rate applies to loans of any kind granted by a bank or other financial institution of a Contracting State to a bank or other financial institution of the other Contracting State. The 10% rate applies in all other cases.
- ee) The 5% rate applies to dividends paid to corporations that have invested in the payer at least US\$ 50k or the equivalent amount in local currency. The 15% rate applies to other dividends.
- ff) The 5% rate applies to dividends paid to corporations holding at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 10% rate applies to other dividends.
- gg) The 10% rate applies to dividends paid to shareholders that have invested at least the equivalent of US\$ 10mln in the payer. The 15% rate applies to other dividends.
- hh) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least US\$ 100k or the equivalent amount in local currency. The 15% rate applies to other dividends.
- ii) The 15% rate applies to interest on certain types of State and municipal securities; the 20% rate applies to other interest.
- jj) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least US\$ 100k or an equivalent amount in local currency. The 15% rate applies to other dividends.
- kk) The 4.5% rate applies to royalties paid to entities for copyrights of cinematographic films, programs and recordings for radio and television broadcasting. The 13.5% rate applies to royalties paid to entities for copyrights of works of literature, art or science. The 18% rate applies to royalties paid to entities for patents, trademarks, designs or models, plans, secret formulas or processes and computer software, as well as for information relating to industrial, commercial or scientific experience.
- ll) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer. The 10% rate applies to other dividends.
- mm) The 0% rate applies if the recipient of the interest is the other Contracting State or local authorities and Governmental agencies of that State. The 5% rate applies to other interest payments.
- nn) The 5% rate applies to dividends paid to corporations that hold at least 10% of the capital of the payer and have invested in the payer at least A\$ 700k or an equivalent amount in local currency and if dividends paid by a Russian company are exempt from tax in Australia. The 15% rate applies to other dividends.
- oo) The 0% rate applies if the following circumstances exist:
  - The interest is derived and beneficially owned by the other Contracting State, a political or administrative subdivision or a local authority thereof;
  - The interest is derived and beneficially owned by the central bank or a similar institution specified and agreed to in an exchange of notes between the competent authorities of the Contracting States; or
  - The interest is derived with respect to the deferral of payment under commercial credits.
 The 10% rate applies to other interest payments.
- pp) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least US\$ 100k or the equivalent amount in other currency. The 10% rate applies to other dividends.
- qq) The 0% rate applies to royalties for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- rr) The 0% rate applies to interest paid to the other Contracting State or the Central Bank or Vneshtorgbank Rossii or the Turkish Eximbank. The 10% rate applies to other interest.
- ss) The 0% rate applies if interest arises in one Contracting State and is paid to the Government of the other Contracting State including local authorities.
- tt) The 0% rate applies if the following circumstances exist:
  - The interest paid by the Contracting State, a political or administrative subdivision or a local authority thereof;
  - The interest is owned by the other Contracting State, a political or administrative subdivision or a local authority thereof;
  - The interest is paid to other institution under specified credits in accordance with agreement.
- uu) The 0% rate applies if the following circumstances exist:
  - The interest is derived and beneficially owned by the other Contracting State, a political or administrative subdivision or a local authority thereof;
  - The interest is derived and beneficially owned by the Russian Central Bank or Vneshtorgbank Rossii or the Central Bank of Norway, Norway Institute of warranty export credits, AO Exportfinance (or other similar institute which may time by time collaborate with the competent authorities of the Contracting States);
  - The interest is derived with respect to the commercial credit, deferral payment for goods, products, equipment and services;
 The 10% rate applies to other interest payments.
- vv) The 0% rate applies to interest paid to the Government of Contracting State, Central Banks or Bank of Trade and Development of Mongolia or Vneshtorgbank Rossii;

# Double Tax Treaties

## Withholding Tax Rates

ww) The 0% rate applies if a Contracting State is a payer; interest is paid to the Government of the other Contracting State including local authorities or Central Bank or other authorities on credits granted to them.

The 10% rate applies to other interest payments.

xx) The 0% rate applies to interest paid to the Government of the Contracting State, Central Banks, Vneshtorgbank Rossii or Romania's Eximbank. The 15% rate applies to other interest payments.

yy) The 5% rate applies if the beneficial owner of the dividends directly owns at least 25% of the payer's equity. The 10% rate applies to other dividends.

zz) Interest payable on loans provided by a State or its representative body is exempt.

aaa) The 5% rate applies if the beneficial owner of the dividends directly owns at least 25% of the payer's equity. The 15% rate applies to other dividends.

bbb) The 10% rate applies if the beneficial owner of the dividends directly owns at least 20% of the capital of the company paying the dividends. The 15% rate applies to other dividends.

ccc) The 0% rate applies if the recipient of the interest is the Government of the other Contracting State, a political subdivision or the agent (including financial institutions) wholly owned by that Government or political subdivision. The 15% rate applies to other interest payments.

ddd) The 10% rate applies if the beneficial owner of the dividends (except for a partnership) directly owns at least 10% of the capital of the company paying the dividends and has invested in this company not less than the equivalent of US\$ 100k. The 15% rate applies to other dividends.

eee) The 5% applies to the amount of the interest for banks. The 10% rate applies to other interest payments.

fff) The 10% rate applies to fees for technical assistance. The 15% rate applies to other interest payments.

ggg) The 5% rate applies if the beneficial owner of the dividends directly owns at least 15% of the capital of the company paying the dividends and has invested in this company not less than the equivalent of US\$ 100k. The 5% rate also applies if the beneficial owner of the dividends is the Government of the other Contracting State. The 10% rate applies to other dividends.

hhh) The 0% rate applies if the recipient of the interest is the Government of the other Contracting State. The 7.5% rate applies to other interest payments.

iii) The 0% rate applies to interest paid to the Government of the other Contracting State, to the local authority established in that Contracting State, to the Central Bank of the other Contracting State or the Export-Import Bank of Thailand. The 10% rate applies if the recipient of the interest is:

- i) a Russian resident - any organization which has a licence for banking operations;
- ii) a Thai resident – any financial institutions (including insurance companies).

jjj) The 0% rate applies if the beneficial owner of dividends is:

- i) the Government, a political or administrative sub-division or local authority of the other Contracting State; or
- ii) the Central Bank of the other Contracting State; or
- iii) other Governmental agencies or financial institutions as may be specified and agreed to in exchange of notes between the competent authorities of the Contracting States; or
- iv) a company which is a resident of the other Contracting State and is controlled or at least 25% of its capital is owned directly by the Government or a Governmental institution or other entity thereof.

The 5% rate applies to other dividends.

kkk) The 0% rate applies if the following circumstances exist:

- i) the payer of the income from debt-claims is the Government of that Contracting State or a local authority thereof; or
- ii) the income from debt-claims is paid to the Government of the other Contracting State or local authority thereof or any agency or instrumentality (including a financial institution) wholly owned by that other Contracting State or local authority thereof; or
- iii) the income from debt-claims is paid to any other agency or instrumentality (including a financial institution) in relation to loans made in application of any agreement concluded between the Governments of the Contracting States.

lll) The 5% rate applies to other interest payments. The 5% rate applies if the beneficial owner of the dividends (except for a partnership) holds directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.

mmm) The 5% rate applies to royalties for the use of, or the right to use, any industrial, commercial or scientific equipment. The 10% rate applies to other royalties.

nnn) The 0% rate applies if the recipient of the interest is the Government or the Central Bank of the other Contracting State. The 15% rate applies to other interest payments.

ooo) The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends and has invested at least US\$ 75k or its equivalent in the national currencies of the Contracting States. The 10% rate applies in all other cases.

ppp) The 0% rate applies to dividends or interest paid to the Government of the other Contracting State, their financial and investment institutions.

qqq) The 0% rate applies if the actual recipient of the interest is the Government or the Central Bank of the other Contracting State. The 10% rate applies to other interest payments.

Double tax treaties with Georgia and Oman have been ratified but are not in force.

The double tax treaty with Malta is under consideration of the State Duma.

Russia is negotiating tax treaties with Bangladesh, Bahrain, Madagascar, Nigeria, Taiwan, Estonia, Mauritius, Ethiopia, Barbados, Bosnia and Herzegovina, Ecuador, Fiji, Hong Kong, The Seychelles, Laos and Tunisia.

New treaties with Belgium and China are under consideration of the Russian Government. A new treaty with Kuwait dated 3 August 2010 has been prepared.

# Ukraine

Ukraine honours the double tax treaties of the former USSR, except for treaties that have been superseded by new treaties concluded directly by Ukraine or renounced by the other party to the treaty.

Country	Dividends (%)	Interest (%)	Royalties (%)
Algeria	5/15 (d)	0/10 (e)	10
Armenia	5/15 (d)	0/10 (mm)	0
Austria	5/10 (d)	0/2/5 (h)	0/5 (k)
Azerbaijan	10	0/10 (e)	10
Belarus	15	10	15
Belgium	5/15 (d)	0/2/10 (h) (aa)	0/10 (k) (aa)
Brazil	10/15 (d) (ee)	0/15 (ff)	15
Bulgaria	5/15 (d)	0/10 (mm) (z)	10
Canada	5/15 (d) (tt)	0/10 (e) (z) (uu)	0/10 (f)
China (bb)	5/10 (d)	0/10 (mm)	10
Croatia	5/10 (d)	0/10 (mm)	10
Czech Republic	5/15 (d)	0/5 (mm)	10
Cyprus	0/5/15 (ggg)	0/2 (fff)	0/5/10 (hhh)
Denmark	5/15 (d)	0/10 (mm) (vv)	0/10 (g)
Egypt	12	0/12 (mm)	12
Estonia	5/15 (d)	0/10 (mm)	10
Finland	0/5/15 (m)	0/5/10 (n)	0/5/10 (l)
France	0/5/15 (a)	0/2/10 (j)	0/10 (r)
Georgia	5/10 (d)	0/10 (e) (z)	10
Germany	5/10 (d)	0/2/5 (nn)	0/5 (k)
Greece	5/10 (d)	0/10 (e)	10
Hashemite Kingdom of Jordan	10/15 (jj) (ww)	0/10 (mm) (ww)	10 (ww)
Hungary	5/15 (d)	0/10 (e) (z)	5
India	10/15 (d)	0/10 (mm)	10
Indonesia	10/15 (d) (xx)	0/10 (mm) (z)	10
Iran	10	0/10 (mm)	10
Israel	5/10/15 (d)	0/5/10 (dd)	10
Iceland	5/15 (d)	0/10 (e) (z)	10
Italy	5/15 (d)	0/10 (e)	7
Japan	15	0/10 (mm)	0/10 (ii)
Kazakhstan	5/15 (d) (tt)	0/10(e)	10
Korea	5/15 (d)	0/5 (mm)	5
Kuwait	0/5 (gg)	0	10

Country	Dividends (%)	Interest (%)	Royalties (%)
Kyrgyzstan	5/15 (d)	0/10 (mm)	10
Latvia	5/15 (d)	0/10 (mm) (z)	10
Lebanon	5/15 (d)	0/10 (mm)	10
Libya	5/15 (d)	10	10
Lithuania	5/15 (d)	0/10(mm) (z)	10
Macedonia	5/15 (d)	0/10 (e) (z)	10
Malaysia	15	0/15(e) (z)	10/15 (c)
Moldova	5/15 (d)	0/10 (e) (z)	10
Mongolia	10	0/10 (rr)	10
Morocco	10 (ee)	0/10 (ss)	10
Netherlands	0/5/15 (i)	0/2/10 (j)	0/10 (k)
Norway	5/15 (d)	0/10 (oo)	5/10 (x)
Pakistan	10/15 (d)	0/10 (aaa)	10
Poland	5/15 (d)	0/10 (e) (z)	10
Portugal	10/15 (q)	0/10 (e) (yy)	10
Romania	10/15 (d)	0/10 (mm)	10/15 (s)
Russian Federation	5/15 (o)	0/10 (mm) (z)	10
Saudi Arabia	0/5/15(eee)	0/10(fff)	0/10(ddd)
Singapore	0/5/15 (pp)	0/10 (qq)	7,5
Slovak Republic	10	10	10
Slovenia	5/15 (d)	5	5/10 (hh)
South Africa	5/15 (d)	0/10 (mm) (yy)	10
Spain	15	0	0/5 (b)
Sweden	0/5/10 (d) (t)	0/10 (u)	0/10 (v)
Switzerland	5/15 (d)	0/10 (p)	0/10 (ii)
Syria	10	0/10 (e)	15
Tajikistan	10	0/10 (mm)	10
Thailand	10/15 (d)	0/10/15 (w)	15
Turkey	10/15 (d)	0/10 (mm)	10
Turkmenistan	10	0/10 (e)	10
United Arab Emirates	0/5/15 (y)	0/3 (e)	0/10 (k)
United Kingdom	5/10 (d) (zz)	0 (cc)	0 (cc)
United Mexican States	0/5/15(bbb)	0/10(ccc)	0/10(ddd)
USA	5/15 (d)	0	10
Uzbekistan	10	0/10 (mm)	10

# Double Tax Treaties

## Withholding Tax Rates

Country	Dividends (%)	Interest (%)	Royalties (%)
Vietnam	10	0/10 (mm)	10
Yugoslavia (Serbia and Montenegro)	5/10 (d)	0/10 (mm)	10
Non treaty countries	15	15	15

- a) The 0% rate applies to dividends paid to companies which are the beneficial owners of these dividends and if either of the following additional conditions is satisfied: (i) these companies hold directly or indirectly at least 50% of the capital of the payer of the dividends and they have invested at least FF 5mln in the capital of the payer; or (ii) their investments in the payer are underwritten or insured by the other State, its central bank, or any other person acting on behalf of that other State. The 5% rate applies to dividends paid to companies that own at least 20% of the capital of the payer, than the payer is a resident of Ukraine, 10% of the capital of the payer, when the payer is a resident of France. The 15% rate applies to other dividends.
- b) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights for literary, dramatic, musical or artistic works. The higher rate applies to other royalties.
- c) The 10% rate applies to the following: payments for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes; payments for copyrights of scientific works; payments for the use of, or the right to use, industrial commercial or scientific equipment; and payments for industrial, commercial or scientific experience. The 15% rate applies to payments for the use of, or the right to use, cinematographic films, or tapes for radio or television broadcasting, and to payments for copyrights of literary or artistic works.
- d) The lower rate applies to dividends paid to companies owning a minimum percentage of the capital of the payer (under the treaties, this percentage ranges from 10% to 50%). The higher rate applies to other dividends.
- e) The 0% rate applies to interest paid to or by Government institutions of the Contracting States or to entities authorized by Government institutions. The higher rate applies to other interest.
- f) The 0% rate applies to payments for the use of, or the right to use, computer software. The 10% rate applies to other royalties.
- g) The 0% rate applies to payments for the use of, or right to use, secret formulas or processes, or for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- h) The 0% rate applies to interest paid to the State or an agency owned or controlled by the State and to interest paid to a resident of a Contracting State with respect to a loan or other debt claim or credit granted, guaranteed or insured by public entities owned or controlled by the State. The 2% rate applies to interest on loans from banks or financial institutions and to interest with respect to sales on credit of merchandise or services between enterprises or sales of industrial, commercial or scientific equipment. The higher rate applies to other interest.
- i) The 0% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 50% of the capital of the payer of the dividends and have made an investment in the capital of the payer of at least US\$ 300k or the equivalent in the currencies of the Contracting States. The 0% rate also applies to dividends paid to companies whose investment in the capital of the payer is guaranteed or insured by Government institutions or an agency or instrumentality owned or controlled by the Government. The 5% rate applies to dividends paid to companies owning at least 20% of the payer. The 15% rate applies to other dividends.
- j) The 0% rate applies to interest paid to the State or an agency owned or controlled by the State or to Central Bank and to interest paid to a resident of a Contracting State with respect to a loan or other debt claim or credit granted, guaranteed or insured by public entities owned or controlled by the State. The 2% rate applies to interest on loans from banks or financial institutions and to interest with respect to sales on credit of merchandise or services between enterprises or sales of industrial, commercial or scientific equipment. The higher rate applies to other interest.
- k) The 0% rate applies to payments for the use of, or the right to use copyrights of scientific works, patents, trademarks, designs or models, plans, and secret formulas or processes, as well as to information concerning industrial, commercial or scientific experience. The higher rate applies to other royalties.
- l) The 0% rate applies to royalties paid for the use of, or the right to use, computer software, patents, designs or models, or plans. The 5% rate applies to royalties paid for the use of, or right to use, secret formulas or processes, as well as for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works including cinematographic films, and films or tapes for television or radio broadcasting, or trademarks.
- m) The 0% rate applies to dividends paid to companies if they hold directly at least 50% of the capital of the payer and if either of the following additional conditions are satisfied: they have made an investment of at least US\$ 1mln in the capital of the payer or the Finnish Guarantee Board has issued an investment guarantee for the capital invested. The 5% rate applies to dividends paid to companies owning at least 20% of the capital of the payer. The 15% rate applies to other dividends.
- n) The 0% rate applies if the interest is paid to the State of Finland, or a local authority or a statutory body thereof, the Bank of Finland, the Finnish Fund for Industrial Co-operation Ltd (FINNFUND) or the Finnish Export Credit Ltd or any similar institution. The 0% rate also applies to interest paid to a resident of Finland on a loan guaranteed by any of the bodies mentioned in the preceding sentence or by the Finnish Guarantee Board. The 5% rate applies to interest related to commercial credit. The 10% rate applies to other interest.
- o) The 5% rate applies to dividends paid to companies that have invested at least US\$ 50k in the capital of the payer or an equivalent of amount in the currencies of the Contracting States. The 15% rate applies to other dividends.
- p) The 0% rate applies to the following types of interest: interest paid to Government institutions; interest on loans granted by banks; and interest paid with respect to sales on credit of merchandise, or industrial, commercial or scientific equipment. The 10% rate applies to other interest.
- q) The 10% rate applies to dividends paid to the beneficial owner if, for an uninterrupted period of two years before the payment of the dividend, the beneficial owner owned directly at least 25% of the capital stock of the company paying the dividends. The higher rate applies to other interest.
- r) The 0% rate applies to payments for the use of, or the concession of the right to use, pieces of software, patents, brand name or trademarks, designs or models, plans, formulas, or secret processes, as well as for information related to obtained experience (know-how) in the industrial, commercial or scientific domain. The 10% rate applies to other royalties.
- s) The 10% rate applies to royalties paid for the use of or the right to use, patents, trademarks, designs or models, secret formulas or processes, as well as for information concerning industrial, commercial or scientific experience. The 15% rate applies to other royalties.
- t) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the voting power of the payer of the dividends and if at least 50% of the voting power of the company that is the beneficial owner of the dividends is held by residents of the beneficial owner's Contracting State.
- u) The 0% rate applies to interest paid on loans guaranteed or insured by a Government, as well as to interest with respect to indebtedness arising on sales on credit by enterprises of merchandise or industrial, commercial or scientific equipment to an enterprise of another Contracting State, unless the sale or indebtedness is between related persons. The 10% rate applies to other interest payments.
- v) The 0% rate applies to royalties paid for patents concerning industrial and manufacturing know-how or processes, agriculture, pharmaceuticals, computers, software, building constructions, secret formulas or processes, as well as for information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- w) The 0% rate applies to interest derived by the Government, a political subdivision or a local authority, central bank of a Contracting State or other financial institution established and owned by the Government to promote trade and investment, as well as to interest paid to residents of a Contracting State with respect to debt-claims guaranteed or insured by the Government, a local authority thereof, the central bank or other financial institution established and owned by the Government to promote trade and investment. The 10% rate applies to interest paid on loans granted by banks or other financial institutions, including investment banks, savings banks and insurance companies. The 15% rate applies to other interest payments.
- x) The 5% rate applies to royalties paid for the use of, or the right to use, patents, plans, secret formulas or processes, as well as for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- y) The 0% rate applies to dividends paid to the Government, a political subdivision or local authority, central bank or other State financial institution. The 5% rate applies to dividends paid to companies owning at least 10% of the capital of the payer.

## Ukraine continued

- z) The 0% rate also applies to interest paid with respect to loans made, guaranteed or insured on behalf of the State by its authorized organ or other debt-claims or credits guaranteed or insured on behalf of the State by its authorized organ.
- aa) A discrepancy exists between the Ukrainian and English texts of the Belgium treaty with respect to the withholding tax rates for interest and royalties. In the Ukrainian version, the highest treaty rate is 5%, while in the English version it is 10%. The English version prevails in accordance with Paragraph (e) of the protocol to the treaty.
- bb) The treaty does not apply to Hong Kong (Siangan) Special Administrative Region.
- cc) Interest and royalties paid to a UK resident shall be taxable only in the UK if such resident is the beneficial owner of interest or the royalties and is subject to tax in respect of these in the UK.
- dd) The 0% rate applies to interest paid in relation to any loan granted by the Government of Israel including its political subdivisions and local authorities, the Central Bank or any financial instrumentality of that Government. The 5% rate applies to interest paid on any loan of whatever kind granted by a bank. The 10% rate applies to the interest in all other cases.
- ee) Where a resident of a Contracting State has a permanent establishment in other State, this permanent establishment may be subject to a tax withheld at source in accordance with the law of that other State. However, such a tax cannot exceed 10% of the gross amount of the profits of that permanent establishment determined after the payment of the corporate tax related to such profits.
- ff) Interest arising in a Contracting State and paid to the Government of the other Contracting State, a political subdivision thereof or any agency (including a financial institution) wholly owned by that Government or political subdivision shall be exempt from tax in the first mentioned State, unless the following rule applies. Interest from securities, bonds or debentures issued by the Government of a Contracting State, a political subdivision thereof or any agency (including a financial institution) wholly owned by that Government shall be taxable only in that State.
- gg) The 0% rate applies to dividends paid to the Government, a political subdivision or local authority or central bank; or other State financial institution (if separately agreed). The 5% rate applies to other dividends.
- hh) The 5% rate applies for the use of, or the right to use, any copyright of scientific work, any patent, trade mark, design or model, plan, secret formula or process, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 10% rate applies for the use of, or the right to use, any copyright of literary or artistic work, including cinematograph films, and films or tapes for radio or television broadcasting.
- ii) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights for literary or artistic works, including cinematographic films and films for television and radio broadcasting. The higher rate applies to other royalties.
- jj) The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.
- kk) The 0% rate applies if interest is derived by Government, including local authorities thereof, a political subdivision, the Central Bank or any financial institution controlled by the Government.
- ll) The 0% rate applies if interest is received and really held by Government or its political subdivision or interest is paid in respect of loan made, guaranteed or insured or in respect of any other debt-claim or credit guaranteed or insured on behalf of the State by its authorized organ.
- mm) The 0% rate applies to interest paid to or by Government institutions of the Contracting States or to entities authorized by Government institutions or to Central Bank. The higher rate applies to other interest.
- nn) The 0% rate applies to interest paid to the State or an agency owned or controlled by the State and to interest paid to Central Bank, a resident of a Contracting State with respect to a loan or other debt claim or credit granted, guaranteed or insured by public entities owned or controlled by the State. The 2% rate applies to interest on loans from banks or financial institutions and to interest with respect to sales on credit of merchandise or services between enterprises or sales of industrial, commercial or scientific equipment. The higher rate applies to other interest.
- oo) The 0% rate applies to interest paid to the State or an agency owned or controlled by the State and to interest paid to Central Bank, a resident of a Contracting State with respect to a loan or other debt claim or credit granted, guaranteed or insured by public entities owned or controlled by the State, or to interest on loans from banks or financial institutions and to interest with respect to sales on credit of merchandise or services between enterprises or sales of industrial, commercial or scientific equipment. The higher rate applies to other interest.
- pp) The 0% rate applies to dividends paid to the Government, Central Bank or any other institution or body agreed upon by the Contracting States. The 5% rate applies to dividends paid to companies owing at least 20% of the payer of dividends. The 15% rate applies in all other cases.
- qq) The 0% rate applies to interest paid to the Government, Central Bank or any other institution or body agreed upon by the Contracting States. The 10% rate applies in all other cases.
- rr) The 0% rate applies to interest paid in respect of bond, debenture or other similar obligations of the Government, a political subdivision or a local authority of the Contracting State or to the Central Bank. The 10% rate applies in all other cases.
- ss) The 0% rate applies to interest paid to the Government, the Central Bank of the Contracting State, its political subdivision or any financial institution wholly owned by the Government of a Contracting State as may be agreed between the competent authorities of the Contracting States.
- tt) Tax imposed on the earnings of a company attributable to a permanent establishment in a Contracting State in addition to the tax which would be chargeable on the earnings of a company which is a national of that State shall not exceed 5% of the amount of such earnings.
- uu) The 0% rate also applies to interest arising in a Contracting State and paid to a resident of the other Contracting State that was established and operated exclusively to administer or provide benefits under one or more pension, retirement or other employee benefits plans if the following conditions are satisfied:
- The recipient is the beneficial owner of the interest and is generally exempt from tax in the other State.
  - The interest is not derived from the carrying on of a trade or a business or from a related person.
- vv) The 0% rate also applies to interest paid with respect to indebtedness incurred in connection with the sale on credit of industrial, commercial or scientific equipment by an enterprise that is resident of one Contracting State to an enterprise resident in the other Contracting State, unless the sale or indebtedness is between associated enterprises.
- ww) The treaty rates do not apply to residents of a Contracting State who perform their activity outside of this State if the income and profits of such persons is exempt from tax or are taxed at a substantially lower rate in this State.
- xx) If a resident of the Contracting State has a permanent establishment in other State, such permanent establishment may be subject to a withholding tax in other State. However, this tax may not exceed 10% of the amount of the profits of that permanent establishment after payment of the corporate tax on the profits.
- yy) The 0% rate also applies to interest paid to an institution (including a financial institution) with respect to a loan made under an agreement between the Governments of the Contracting States.
- zz) The reduced rates apply if the beneficial owner of the dividends is subject to tax with respect to such dividends.
- aaa) The 0% rate applies to interest derived and beneficially owned by the Government, a political subdivision, a local authority or central bank of the Contracting State.
- bbb) The 0% rate applies to dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- ccc) The 0% rate applies to interest arising in a Contracting State and paid to a resident of the other Contracting State, provided that
- i) the beneficial owner is a State, political subdivision, or the central bank of the State;
  - ii) the interest is paid by any entities mentioned in sub-paragraph "i";
  - iii) interest arising in Ukraine and paid on loans with a term of not less than three (3) years, provided with guarantees or insured, or are paid on loans which are provided for such period with a warranty or insurance of Banco de México, Banco Nacional de Comercio Exterior, S.N.C., Nacional Financiera, S.N.C. or Banco Nacional de Obras y Servicios Públicos, S.N.C., or other institution which may be decided by the competent authorities of the Contracting States;
  - iiii) interest arising in Mexico and paid on loans with term of not less than three (3) years, which are provided for such period with the warranty or insurance, or is paid on loans which are provided for such period with a warranty or insurance of the competent authority of Ukraine or any other institution of which may be decided by the competent authorities of the Contracting States. In all other cases 10% applies.

# Double Tax Treaties

## Withholding Tax Rates

- ddd) The 0% rate applies to royalties arising in a Contracting State and paid to a resident of the other Contracting State. The 10% rate applies to royalties if the beneficial owner of the royalties is a resident of the other Contracting State.
- eee) The 0% rate applies to dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State. The 5% rate applies if the beneficial owner (resident of the other Contracting State) owns directly at least 20% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- fff) Income from debt-claims arising in the State and paid to a resident of the other Contracting State may be taxed in that other State (rate of 0%). The higher rate applies if the beneficial owner of the income from debt-claims is a resident of the other State.
- ggg) The 0% rate applies to dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State. The 5% rate applies if the beneficial owner (resident of the other Contracting State) holds at least 20% of the capital of the company paying the dividends or has invested at least EUR100K in the capital or other rights of the company paying the dividends. The 15% rate applies in all other cases.
- hhh) The 0% rate applies to royalties arising in a Contracting State and paid to a resident of the other Contracting State. The 10% rate applies to royalties if the beneficial owner of the royalties is a resident of the other Contracting State. The 5% rate applies to royalties arising from any copy-right of scientific work, trademark, patent, secret formula, process or information concerning industrial, commercial or scientific experience.

Ukraine has also ratified a double tax treaty with Cuba but this treaty is pending. Ukraine has also signed treaties with Luxembourg, Ireland and Malta, but the Parliament of Ukraine has not yet ratified them. Ukraine is negotiating double tax treaties with Guinea, Sri Lanka and Tunisia.

# Uzbekistan

Uzbekistan does not honour the treaties concluded by the former USSR except for that with Japan.

Country	Dividends (%)	Interest (%)	Royalties (%)
Austria	5/15 (a)	10	5
Azerbaijan	10	10	10
Bahrain	8	8	8
Belarus	15	10	15
Belgium	5/15 (a)	10	5
Bulgaria	10	10	10
Canada	5/15 (a)	10	5/10 (b)
China	10	10	10
Czech Republic	5/10 (d)	5	10
Finland	5/15 (a)	5	0/5/10 (c)
France	5/10 (a)	0/5 (j)	0
Georgia	5/15 (d)	10	10
Germany	5/15 (d)	5	3/5 (h)
Greece	8	10	8
Jordan	7/10 (d)	10	20
Hungary	10	10	10
India	10	10	10
Indonesia	10	10	10
Israel	10	10	5/10 (b)
Iran	8	10	5
Italy	10	5	5
Japan	15	10	0/10 (i)
Kazakhstan	10	10	10
Korea	5/15 (d)	5	2/5 (e)
Kuwait	5/10 (d)	8	20
Kyrgyzstan	5	5	15
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg	5/15 (d)	10	5
Malaysia	10	10	10
Moldova	5/15 (a)	10	15
Netherlands	5/15 (d)	10	10
Oman	7	7	10
Pakistan	10	10	15
Poland	5/15 (f)	10	10
Romania	10	10	10
Russia	10	10	0

Country	Dividends (%)	Interest (%)	Royalties (%)
Saudi Arabia	7	7	10
Singapore	5	5	8
Slovakia	10	10	10
Switzerland	5/15 (f)	0/5 (j)	5
Thailand	10	10/15 (g)	15
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	10	10	10
United Arab Emirates	5/15 (d)	10	10
United Kingdom	5/10 (a)	5	5
Vietnam	15	10	15
Non treaty countries	10	10	20

- The 5% rate applies if the beneficiary owns at least 10% of the capital of the distributing company.
- The 5% rate applies to royalties for certain cultural works as well as for the use of, or the right to use, computer software or any patent or for information concerning industrial, commercial or scientific experience (know-how).
- The 0% rate applies to royalties for the use of, or the right to use, any computer software, patent, design or model, or plan. The 5% rate applies to royalties for the use of, or the right to use, any secret formula or process, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies to royalties for certain cultural works or any trade mark.
- The reduced rates apply if the beneficiary owns at least 25% of the capital of the distributing company.
- The 2% rate applies to royalties for the use or the right to use industrial, commercial and scientific equipment.
- The 5% rate applies if the beneficiary owns at least 20% of the capital of the distributing company.
- The 10% rate applies if interest is received by financial institutions (including insurance companies).
- The 3% rate applies to royalties for the use of, or the right to use, copyrights of scientific works, patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience. The 5% rate applies to royalties for certain cultural works.
- The 0% rate applies to royalties for the use of, or the right to use, copyrights of literature, art and scientific works, including motion picture films.
- The 0% rate applies to interest: on a loan made, guaranteed or insured by the Government of the other State or an instrumentality or agency thereof; on the sale on credit of industrial, commercial or scientific equipment; on the sale on credit of merchandise by one enterprise to another enterprise; on any bank loan.

Uzbekistan has also concluded double tax treaties with Estonia, Egypt, Ireland, Portugal and Slovenia, but these treaties are not yet in force.

# APPENDIX

## Growth Prospects of Select Countries of Eurasia 2014

Sarah Fowler, Economist, Oxford Economics  
 Rain Newton-Smith, Head of Emerging Markets, Oxford Economics

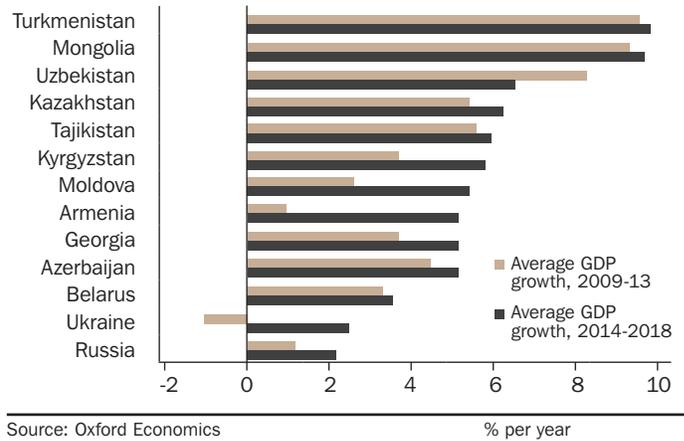
### Highlights

Growth in the Caucasus and Central Asia region slowed from 3.4% in 2012 to 2.0% last year and we expect it to slow further to just 1.0% this year, hit by the sharp increase in political tensions between Russia and the Ukraine. As the chart below shows, from January to mid-March the ruble lost more than 10% of its value against the US\$. The ruble has since recovered some of that loss but remains more than 5% down against the US\$ this year. Kazakhstan devalued its currency by more than 15% in February to maintain the competitiveness of its exports.

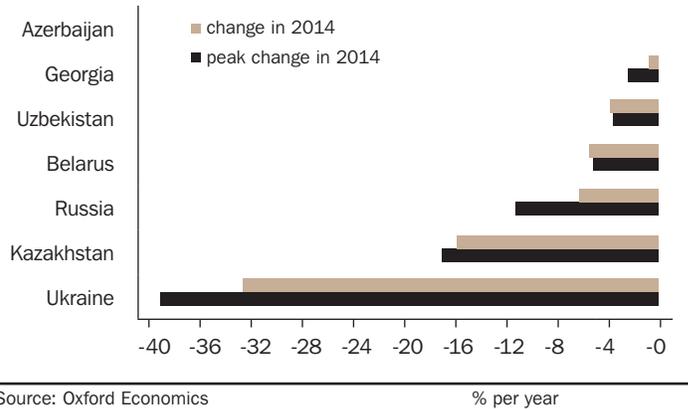
And downside risks are high as the political situation in Ukraine remains tense, with a lingering risk of military conflict with Russia. If conflict between the two countries disrupts gas supplies to Europe, this would force up prices and would be likely to push the Eurozone, Poland, Hungary and Turkey into recession. Russia would be the biggest loser thanks to massive capital flight and the resulting financial stress.

As the chart below shows, ten of the countries in the region are expected to grow by at least 5% from 2014-2018 but these countries need to take advantage of this solid expansion to diversify their economies, bolster their public finances and implement reforms to improve infrastructure, ease the cost of doing business and enhance the provision of social security.

### Real GDP growth in Eurasia



### Eurasia: Exchange Rates

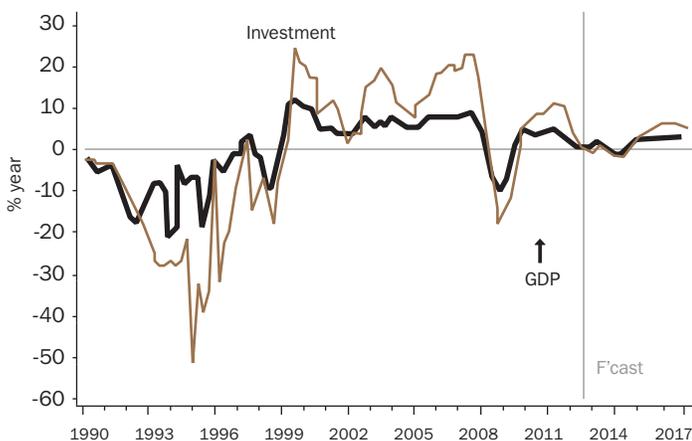


## Russia

We now expect GDP growth of just 0.3% this year and 1.4% in 2015 after the latest monthly indicators pointed to a fall in GDP in Q1. We expect Russia to remain in recession in Q1-Q3, with only a sluggish recovery thereafter and no support from monetary policy this year. Given this background the government may seek to relax fiscal policy to stimulate growth. Our baseline forecast assumes no escalation of the crisis in Ukraine and no significant economic sanctions being imposed by the West. Investment will remain the weakest part of the economy. As well as lower investment by state enterprises, private investment will be undermined by tighter credit conditions in domestic and foreign markets and deteriorating business confidence in response to Russia's worsening relationship with the EU and the US.

The central bank raised the policy rate by 0.5% in late April, following on from March's 1.5% point rise, as part of its efforts to drive inflation back down to 6% and below. Given the hawkish stance of the central bank, we do not expect any cut in rates before 2015. To try to counter the tightening in monetary conditions, the Ministry of Economic Development proposes to stimulate the economy through more expansionary fiscal policy. This may have some positive effect in the short term given a significant output gap, but the impact will be limited as nominal increases in government spending often fail to translate into higher spending in real terms.

### Russia: GDP and investment



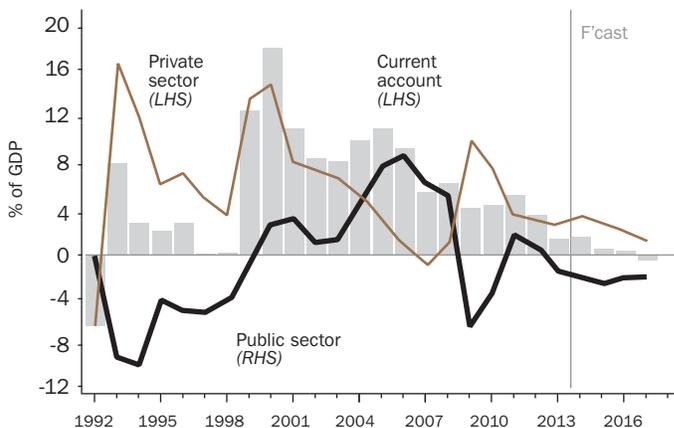
Source: Oxford Economics

## Kazakhstan

With industrial production remaining relatively weak, particularly as the Kashagan oilfield stays offline, we expect growth to be mainly driven by fiscal stimulus, much of this financed from the National Oil Fund, and focused on infrastructure as well as social spending. We expect GDP growth to slow to 5% this year, below the government target of 6%, with the economy affected by uncertainty over the Ukrainian crisis. Growth is forecast to accelerate to 6.5% in 2015 on the back of the strengthening global economy, including the EU and Russia, some pick-up in oil production and continued fiscal stimulus including investment ahead of Expo 2017.

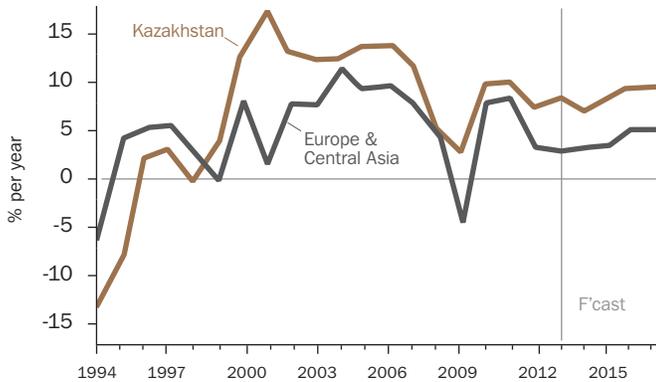
Inflation jumped to an 13-month high of 6.5% in April, reflecting the impact of the devaluation of the KZT against the US\$ in March. The devaluation came in response to rouble weakness in Russia – Kazakhstan's main trading partner – as part of the investor retreat from emerging market assets as well as a worsening balance of payments position. But the scale of the response also reflects an attempt to deter further speculation about devaluation as the KZT has been broadly unchanged against the US\$ for five years. Our base case sees no further devaluation this year, but the inflation rate is likely to accelerate further, reaching a high of 9% later in the year, reflecting the continuing impact of devaluation, as well as a 10% increase in public wages, record low interest rates, fiscal stimulus and rising local food prices. The budget deficit is expected to rise from 2.1% of GDP in 2013 to 2.8% of GDP this year. Government spending is forecast to surge by some 20% following measures announced to help mitigate the devaluation, including the large increase in public sector wages and pensions rising by 9-14%.

### Russia: Sectoral balances



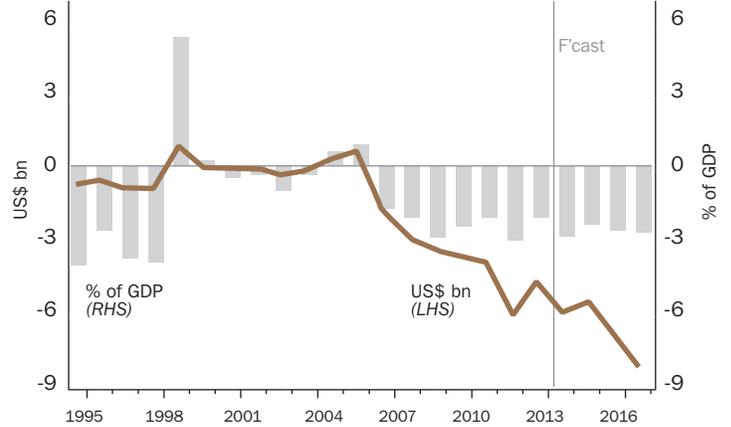
Source: Oxford Economics

## Kazakhstan: Real GDP growth



Source: Oxford Economics / World Bank

## Kazakhstan: Government budget balance



Source: Oxford Economics / Havar Analytics

## Azerbaijan

The pace of economic growth was disappointing in Q1, with GDP rising by just 2.5%. The rate of non-oil growth held up reasonably well at 8.8%, in line with our forecast for the full year of 2014 but the hydrocarbon sector shrank again in Q1, although much of this fall reflects base effects as Q1 2013 oil production was still very high. Oil output is forecast to be flat this year, but we remain reasonably optimistic about growth prospects. After a 5.8% rise in 2013, we expect GDP to grow 5.2% this year. Non-oil GDP will expand by a respectable 9% this year despite some modest fiscal consolidation. We expect the economy to grow by 5% over the medium term.

Oil production is close to peaking and will fall steadily over the long term, highlighting the need for progress towards the 2020 goal of boosting non-oil private sector growth and doubling GDP per capita. This includes investing for the future, with a focus on knowledge-based sectors, structural reforms and saving oil revenues. But geopolitical risks must be monitored, possibly arising from potential renewed conflict with Armenia over the disputed enclave territory of Nagorno-Karabakh, an issue highlighted by the recent annexation of Crimea by Russia.

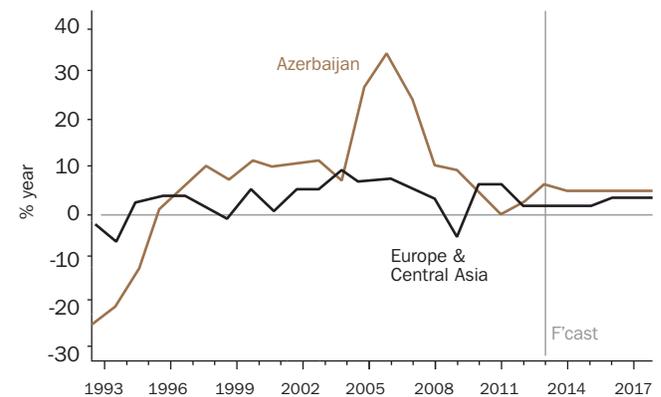
## Armenia

The European Bank of Reconstruction and Development estimate the economy grew by 3.5% last year, down from 7.2% growth in 2012 as investment was subdued and external demand was constrained by sluggish demand in the EU and Russia. We expect these headwinds to persist so similar growth is seen this year though the risks are to the downside.

## Belarus

Growth in 2014 is forecast at just 2%, well below the official target of 3.3% as exports and investment are struggling to recover from the 2012-13 downturn, particularly given the worsening growth prospects in Russia. Improved relations with Moscow have averted the immediate risk of further BYR weakness, but the wide external deficit will only decline very gradually as subdued Russian demand holds down industrial exports. While FDI is rising, difficulty attracting sources beyond Russia to sectors outside minerals and metals remains a risk to external deficit financing.

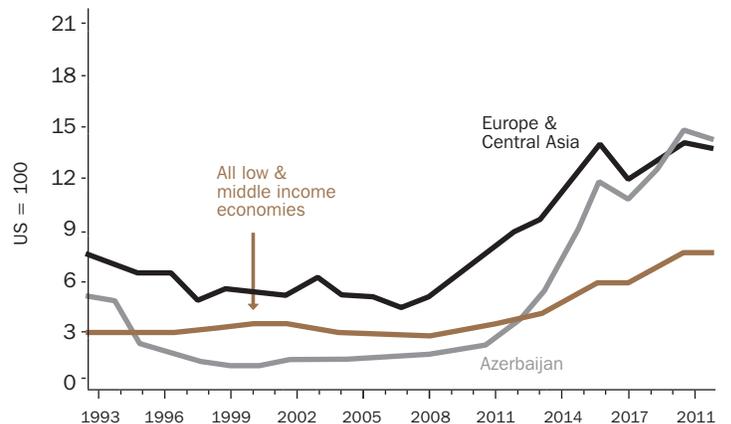
## Azerbaijan: Real GDP growth



Source: Oxford Economics / World Bank

## Azerbaijan: GDP per capita\* (US\$)

\*Calculated using market exchange rates



Source: Oxford Economics / World Bank

## Georgia

The economy grew by 2.5% last year, despite export curbs, budget tightening and restraint on domestic investment and consumption ahead of elections. With FDI already recovering, trade barriers clearing and domestic demand set to pick up, GDP growth is forecast to accelerate this year, and then climb above 5% in the medium term. Political risks remain high, however, despite the prime minister's Georgian Dream party cementing its hold on power with Giorgi Margvelashvili's presidential election win in October. And any interruption to FDI would force a slowdown in growth, by making the current account deficit difficult to finance. Faster GEL depreciation, if triggered by financing problems, would strain an economy whose foreign debt is around 80% of GDP.

## Kyrgyzstan

GDP growth rebounded to 10.5% in 2013 after a 0.9% decline in 2012, mainly reflecting a near doubling in gold output. Non-oil GDP growth remained fairly robust, with most service sectors strong. We expect growth to slow somewhat to 6% this year and 5.5% in 2015. The main reason will be a stabilisation of gold output but there will also be an impact from slower Russian growth. The main downside risks relate to renewed political instability and reduced investment by Russia and China.

## Moldova

We expect real GDP grew by around 6.0% in 2013 and we forecast GDP growth of 5.2% in 2014 and a broadly similar pace throughout 2015-17. However the economy is vulnerable. We expect the current account to remain in significant deficit in 2014, and to improve only very modestly in 2015-17 as remittances from Moldovans working abroad rise steadily. Moreover, FDI inflows cover less than half of the current account deficit so if tensions in global markets cause capital flows to exit "riskier" countries or the Russian economy were to slump (cutting remittances), then the Moldovan currency would depreciate significantly, leading to pressure on interest rates and higher inflation. Adding to the danger, the country also has a significant amount of external debt, equal to about 83% of GDP in 2013, and a high dependence on imported goods.

## Mongolia

Mongolia is one of the fastest growing economies in the world, benefiting from a huge endowment of natural resources and a long border with China. But the macroeconomic situation has grown more unstable. The external and government imbalances remain large and FDI licensing rules were tightened last year. FDI inflows fell from US\$4.5bn in 2012 to US\$2bn in 2013, far short of the current account deficit of US\$3.2bn and putting downward pressure on the currency. The togrog fell by 16% against the US\$ during 2013 despite official support (foreign reserves almost halved in 2013).

GDP growth eased to 11.6% in 2013. However, output of gold and copper rose by more than 50% last year after the US\$6bn Oyu Tolgoi gold and copper mine began production in June 2013. We expect growth of 9-10% pa in the coming few years. But despite this rapid growth, Mongolia remains very under-developed and the economy needs to diversify beyond resources. Moreover, even in the latter sector there are problems; power supply reliability is an issue for Oyu Tolgoi, while plans to develop the Tavan Tolgoi coal field, one of the world's largest untapped coal mines, have been subject to delays.

## Tajikistan

GDP growth last year was 7.4%, broadly unchanged from 2012 and consumption remained the main driver. Growth is forecast to slow to 6.2% this year and then to 5.5% in 2015. Weaker activity in Russia will hit remittances with a lag, while both aluminium and cotton production will fall, due in large part to lower international prices. The dependence of the economy on remittances and these two commodities leaves it vulnerable to further large price declines and to prolonged weakness in the Russian economy.

## Turkmenistan

GDP grew by just over 10% in 2013, underpinned by robust growth in the non-hydrocarbon economy and supported by strong public investment. Double-digit growth is forecast to continue in the next few years, reflecting continued heavy public sector investment to diversify the economy and to develop human capital and infrastructure under the Programme of Socio-Economic Development. Strong growth will also be supported by rising hydrocarbon exports, particularly to China. Gas exports to China, which are already over half Turkmenistan's total gas shipments, are scheduled to double by 2020. The main downside risks to this strong growth outlook relate mainly to possible weakness in energy prices, as well as geo-political risk and a sharper downturn in Chinese growth.

## Ukraine

Political tensions, rising inflation and budget changes required to secure a new IMF deal will mean that the economy shrinks in 2014, by about 2%, after stagnating in both 2012 and 2013. And short-term political risks remain very high. Elections are due to be held in the Ukraine on May 25. Slow growth is forecast to resume in 2015 as exports revive, with farmers benefiting from improved EU access and industry beginning to expand again as alternative energy sources start to soften the impact of Russian gas price rises. Lessening strains on private consumption and easing political tensions are expected to see stronger GDP growth from 2016.

## Uzbekistan

GDP growth remained robust at 8% in 2013, only slightly down from 2012. The expansion was broad based, and the main drivers were heavy public investment in industry, housing and infrastructure. In addition, relaxed monetary policy, strong remittances and a stable banking system were all supportive.

We expect GDP growth to slow to 6.5% this year, which would be the weakest rate since 2003. This reflects the downturn in growth in both Russia and China, which in turn will hit trade and remittances. It is also due to lower commodity prices for most key commodity exports, including oil, gold and metals. However, the impact of these adverse external developments, as well as weaker emerging markets more generally, is mitigated by the country's policy of autarky. This means that the economy is largely insulated from developments in international financial markets, given its low degree of openness and limited foreign investment flows.

The current account has remained in significant surplus for over 10 years, foreign reserves including the Fund for Reconstruction and Development (FRD) are very large, and gross external debt is low. There is ample fiscal space too, thanks to previous budget surpluses. But inflation is high and we forecast little change, with only a gradual decline from around 10% this year to 7.5% in 2017.

## Eurasia: Growth Prospects % Annual GDP Growth

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Russia</b>	8.5	5.2	-7.8	4.5	4.3	3.4	1.4	0.3	1.4	3.1	3.0	2.9
<b>Kazakhstan</b>	8.9	3.3	1.2	7.3	7.5	5.0	6.0	5.0	6.5	7.0	6.5	6.0
<b>Azerbaijan</b>	25.0	10.8	9.3	4.9	0.1	2.2	5.8	5.2	5.3	5.1	5.0	5.0
<b>Armenia</b>	13.7	6.9	-14.2	2.2	4.7	7.2	3.5	3.6	4.4	5.2	5.2	5.1
<b>Belarus</b>	8.6	10.2	0.2	7.7	5.6	1.7	1.3	2.0	3.1	4.0	4.3	4.3
<b>Georgia</b>	12.3	2.4	-3.8	6.3	7.1	6.2	2.5	4.7	5.1	5.3	5.4	5.1
<b>Kyrgyzstan</b>	8.5	8.4	2.9	-0.5	6.0	-0.9	10.5	6.0	5.5	6.0	6.0	5.5
<b>Moldova</b>	3.1	7.8	-6.0	7.1	6.4	-0.8	6.0	5.2	5.5	5.5	5.5	5.5
<b>Mongolia</b>	10.2	8.9	-1.3	6.4	17.5	12.3	11.6	10.1	9.7	9.5	9.4	9.2
<b>Tajikistan</b>	7.8	7.6	4.0	6.5	2.4	7.5	7.4	6.2	5.5	6.0	6.0	6.0
<b>Turkmenistan</b>	11.0	14.7	6.1	9.2	14.1	8.0	10.2	11.0	11.0	10.0	9.0	8.0
<b>Ukraine</b>	7.6	2.3	-14.8	4.1	5.2	0.2	0.1	-2.0	1.5	3.9	4.5	4.5
<b>Uzbekistan</b>	9.5	9.0	8.1	8.5	8.3	8.2	8.0	6.5	6.5	6.5	6.5	6.5

Source: Oxford Economics

## CONTRIBUTORS

### Dr. Asaf Asadov

In the last 20 years, Dr. ASADOV occupied different top manager positions in the private sector and public administration of Azerbaijan being involved in the development and supervision of different projects in areas of strategy planning, modernization of organizations, performance measurement and knowledge management. Since 2004 to the present he has been the Advisor to the Minister of Taxes of the Republic of Azerbaijan and Deputy Head of Performance Evaluation Board of the Ministry of Taxes.

He was the Project Leader of E-audit Twinning Project implemented with the Netherlands Tax and Custom Administration during 2011-2013 and at the present he is Project Leader of new Twinning Project in area of Human Resources Development which will be realized jointly with Spanish and French Tax Administrations.

### Mr. Beverley Dahlby

Bev Dahlby is a Distinguished Fellow and Director of the Tax and Economic Growth Program at the School of Public Policy at the University of Calgary. Bev has served as a policy advisor to the federal and provincial governments in Canada on the reform of business taxation, the fiscal equalization program, and saving non-renewable resource revenues. His international experience includes advisory work for the IMF, the Thailand Development Research Institute, and the World Bank.

### Ernst & Young

In 1989, Ernst & Young was the first professional services firm to establish operations in the CIS. With clients ranging from multinational companies to national companies, Ernst & Young is the leading business advisor to companies entering and doing business in this market. Ernst & Young's CIS offices—located in Moscow, St Petersburg, Ekaterinburg, Kazan, Krasnodar, Novosibirsk, Togliatti, Vladivostok, Yuzhno-Sakhalinsk, Astana, Almaty, Atyrau, Baku, Kyiv, Donetsk, Tashkent, Tbilisi, Minsk, Bishkek and Yerevan—are staffed by national and international experts in audit, financial advisory, and other business-related services. The services available in the CIS are supported by a global network of offices, providing ideas, information, and resources from around the world to help resolve clients' business issues. Ernst & Young co-chairs the Foreign Investment Advisory Councils in the Russian Federation, the Republic of Belarus and the Republic of Ukraine, as well as the Prime Minister's Investment Council and the Tax Working Group of the Foreign Investors Council in the Republic of Kazakhstan.

### Ms. Sarah Fowler

Sarah Fowler joined Oxford Economics as an economist in 2009. She is part of the macroeconomic forecasting team and is responsible for monitoring and forecasting the economies of Indonesia, Singapore and the Philippines. She also reports the data for the emerging markets weekly publication and works on a number of consultancy projects, focusing on emerging markets. Prior to joining Oxford Economics, Sarah worked for AllianceTrust, spending two years on the Management Training Programme before joining the economics team where she was responsible for monitoring and forecasting developments in emerging markets. She holds the Investment Management Certificate and was educated at the University of Bristol, where she gained a BSc in Economics and subsequently an MSc in Economics.

### Grata Law Firm

GRATA Law Firm was founded on 22 April 1992. It is one of the leading Eurasian law firms with more than 100 lawyers and a network of branches in Kazakhstan (Almaty, Astana, Aksay, Aktau, Atyrau, Aktobe, Ekibastuz, Karaganda, Kostanay, Kyzylorda, Pavlodar, Temirtau, Uralsk, Ust-Kamenogorsk), Russia (Moscow), Azerbaijan (Baku), Kyrgyzstan (Bishkek), Tajikistan (Dushanbe), Uzbekistan (Tashkent), as well as representatives in Canada (Vancouver), Netherlands (Amsterdam), Mongolia (Ulaan-Baator), United Kingdom (London) and USA (New York).

### Ms. Niloo Hojjati

Niloo Hojjati is a research assistant with the Extractive Resource Governance Program at the School of Public Policy, University of Calgary. She obtained her Master's degree in Public Policy in November 2013, with her capstone focusing on the Potential application of Small Modular Reactors (SMRs) for electricity generation in the Northwest Territories. She also has a Bachelor's degree in Economics from the University of Calgary. Currently, she is working on several projects which support research and outreach activities of the Extractive Resource Governance Program.

### Ms. Assel Ilyassova

In 2003, Assel graduated from the Kazakh Humanitarian and Law Institute (Almaty, Kazakhstan) with a Bachelor's degree. In 2009, she received a Master's Degree in Law from City University (London, UK). In September 2009, Assel underwent training with the Tax Department of Eversheds International Law Firm (London, UK). At present, Assel is a Partner and the Head of the Tax and Customs Law Department at GRATA Law Firm, having joined the firm in 2006. Previously, Assel worked in the Almaty City Tax Authority as a Senior Tax Inspector in charge of legal support of the Tax Committee, including representation of its interests in court. In 2004, Assel was declared the best officer of the Almaty City Tax Committee and in 2006, the highest performing employee of GRATA Law Firm.

### International Tax and Investment Center (ITIC)

ITIC is an independent non-profit research and education foundation with offices in Azerbaijan, Brazil, Iraq, Kazakhstan, the Philippines, Russia, Thailand, Ukraine, the United Arab Emirates, the United Kingdom and the United States. Organized in 1993, the ITIC serves as a clearing-house for tax and investment policy information and as a leading knowledge center accessible by key policy makers in the Regions of Africa, Asia Pacific, Eurasia, and MENA.

### Mr. Richard Lewis

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Tax Partner, EY Russia, has worked in EY's Moscow office for 25 years. He specializes in corporate taxation and advises mostly multinational clients on a wide range of tax issues, focusing on the energy industry.

### **Mr. Ian Macdonald**

Is a Tax Administration Consultant with experience of working in many Eurasian countries. The majority of his career was with H.M. Revenue & Customs (UK) where he undertook technical, managerial and strategic roles within the department. He has worked as a Tax Expert in Lithuania, Georgia, Serbia and Kazakhstan, as well as spending four years as a Technical Taxation Expert with the Intra-European Organisation of Tax Administrations (IOTA) in Budapest. He now regularly lectures at the Yangzhou Tax Academy of the State Administration of Taxation (SAT), China.

### **Mr. Galiya Makazhanova**

Galiya graduated from the Kazakh State University, in Legal Studies. Galiya joined GRATA in September 2013. Before that, she was a Judge in the Supreme Court of the Republic of Kazakhstan for over 15 years. Galiya also worked as the Chairman of the Civil Board of the Almaty regional court and Judge of the Mangyshlak and Atyrau regional courts. Galiya has over 32 years' worth of experience as a judge. Galiya has extensive experience in addressing complex civil cases. In the Supreme Court of the Republic of Kazakhstan she focused on the consideration of economic and financial cases, including tax disputes. Galiya is the author of three regulatory resolutions of the Supreme Court on tax legislation. She participated many times in various scientific conferences, round table discussions and forums.

Law Practice:

- Legal Proceedings
- Tax Law
- Customs Law
- Environmental Law

### **Mr. Robin McCone**

Heads the PwC tax practice in Georgia and Armenia. He joined PwC in 1999, spending ten years in Hungary and two years in the USA before moving to Georgia in September 2011. In PwC Hungary, Robin was the director of the International Tax Structuring and Corporate Tax Groups, advising Hungarian and international companies in the areas of income tax and international tax planning with a focus on financing, licensing and holding structures. He was also responsible for structuring, implementing and the ongoing maintenance of Hungarian ITS structures. With PwC USA, Robin was the leader of the CEE Desk in New York. His role was to act as a central point of contact and high-level advisor for US colleagues and clients who had or planned establishing operations in any of the 31 countries that make up the Central Europe and Commonwealth of Independent States region. Robin was involved in provision of advice to MNC's in environmental matters arising from Kyoto mechanisms as well as the EU Trading System in Hungary. He is founding member in the CEE region of PwC's Climate Change Network that deals with opportunities arising in this area. Before joining PwC, Robin was a barrister and solicitor working in various legal firms in New Zealand assisting clients mainly operating in the banking and insurance sector.

### **Dr. Jack M. Mintz**

Dr. Jack M. Mintz was appointed the Palmer Chair in Public Policy at the University of Calgary in January 2008 and Director of the School of Public Policy.

Widely published in the field of public economics, he was touted in a 2004 UK magazine publication as one of the world's most influential tax experts. He serves as an Associate Editor of International Tax and Public Finance and the Canadian Tax Journal, and is a research fellow of CESifo, Munich, Germany, and the Centre for Business Taxation Institute, Oxford University.

He also serves on the boards of Imperial Oil Limited, Morneau Shepell and the Social Sciences and Humanities Research Council of Canada.

Dr. Mintz held the position of Professor of Business Economics at the Rotman School of Business from 1989-2007 and Department of Economics at Queen's University, Kingston, 1978-89. He was a Visiting Professor, New York University Law School, 2007; President and CEO of the C. D. Howe Institute from 1999-2006; Clifford Clark Visiting Economist at the Department of Finance, Ottawa; and Associate Dean (Academic) of the Faculty of Management, University of Toronto, 1993 – 1995. He was founding Editor-in-Chief of International Tax and Public Finance, published by Kluwer Academic Publishers from 1994 – 2001.

He chaired the federal government's Technical Committee on Business Taxation in 1996 and 1997 that led to corporate tax reform in Canada since 2000. He also has served as chair of the Alberta Financial and Investment Policy Advisory Commission in 2007 that reviewed saving policy of the Alberta government.

Dr. Mintz has consulted widely with the World Bank, the International Monetary Fund, the Organization for Economic Co-operation and Development, federal and provincial governments in Canada, and various businesses and nonprofit organizations.

Dr. Mintz received the Queen Elizabeth Diamond Jubilee Medal in 2012 for service to the Canadian tax policy community. Alberta Venture magazine has twice recognized him as one of the fifty most influential Albertans in 2008 and 2010 and the Financial Post as one of the five most influential Canadians in regulation in 2012.

## CONTRIBUTORS

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Visiting Professor, Centre of Austrian and International Tax Law, Vienna University of Business and Economics and Distinguished Fellow, International Tax and Investment Center, was formerly (until 2012) Director, OECD Centre for Tax Policy and Administration, Paris. Jeffrey focuses his attention on questions of tax policy and tax administration, with particular emphasis on international taxation and related domestic issues. He had established a major taxation program at the OECD and extensively developed the OECD contacts with non-member countries. Jeffrey completed his doctoral work at Cambridge University in the United Kingdom in 1973. In addition to his economic degrees, he is a qualified accountant. He continued an academic career (Visiting Professor at the American University of Paris, Bocconi University, Italy and Queen Mary's College, London) alongside his career as an International Civil Servant. His earlier work dealt with the development of international currency markets and the implications for monetary policies. He has made numerous contributions to professional journals, has published a number of books and has been the author of many OECD publications on taxation. Jeffrey's position at the OECD and his frequent participation in international conferences, have provided him with a unique international perspective on tax policy.

### Oxford Economics

Oxford Economics - formerly Oxford Economic Forecasting - was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world's leading providers of economic analysis, advice and models, with over 300 clients including **International Organisations** (World Bank, OPEC, ADB); **Government departments** (HM Treasury UK, the US Department of Treasury, US Office of Transnational Issues; Ministries of Finance in, for example, Saudi Arabia, Slovakia, Bulgaria, Azerbaijan, Turkey, Egypt; the Economic Development Board Libya; and tourism boards in the EU, US, Abu Dhabi, Dubai and the Caribbean); **Central banks** (ranging from the UK and Spain to Chile, Hong Kong, Korea and Thailand); and **a large number of multinational blue-chip companies across the whole industrial spectrum** (including, for example, IBM, Intel, BP, Shell, Unilever, HSBC, Banco Santander, Swiss Re, DaimlerChrysler, Boeing). Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 70 professionals based in Oxford, London, Belfast, Paris, the UAE, Singapore and Philadelphia, and through its close links with Oxford University and a range of partner institutions in Europe and the US.

### PwC

The world's largest professional services organisation helps its clients build value, manage risk and improve their performance. PwC firms world-wide provide industry-focused assurance, tax and advisory services to enhance value for their clients. PwC has been serving clients in Georgia since 1996, and in September 2005, opened an office in Tbilisi which now employs more than 40 professional staff. Local knowledge coupled with the strong network of global resources allows delivery of tailored solutions to complex business problems in the Georgian environment. PwC has demonstrated its commitment to the Caucasus region by growth in its professional staff and commitment to their professional training—in internationally-recognised accounting qualifications, International Financial Reporting Standards (IFRS) and its global advisory and audit methodology. PwC provides advice and assistance to corporations, government bodies and banks. Its services are organised into three lines—advisory, assurance, and tax – each staffed with qualified, experienced professionals and leaders in the profession. These resources, combined with a global leadership structure, enable PwC to provide the support which business needs.

### Mr. Rain Newton Smith

Rain Newton-Smith is Head of Emerging Markets at Oxford Economics, responsible for coordinating the macro forecasts for emerging markets. She analyses and monitors developments in China and works on a range of bespoke consultancy projects on rapidly growing markets. She also uses Oxford Economics' global model to produce "what if" scenarios, including global risk scenarios and the impact of a banking-sector crisis in China. Rain joined Oxford Economics from the Bank of England, where she had a variety of roles over the course of nine years. These included analysing the supply-side determinants of the UK economy, preparing the international forecast for the Monetary Policy Committee and working as a research advisor to Richard Lambert, a former member of the MPC. In 2004, Rain started a two year secondment as an advisor to the UK Executive Director at the International Monetary Fund in Washington DC, where she worked on global financial stability issues and economic development in the Middle East. Rain returned to the Bank to lead a team on risk assessment, contributing to the Bank of England's Financial Stability Report. Rain studied Politics, Philosophy and Economics at Oxford University and holds an MSc in Economics from LSE with a focus on international trade. In 2010, Rain was selected as one of Management Today's 35 Women Under 35. She was honoured as a Young Global Leader by the World Economic Forum in 2012.

### Mr. Douglas Townsend

Townsend is a UK-based consultant specializing in trade and investment with the emerging markets of the former Eastern Bloc. He is secretary of the Caspian Minerals Tax Committee (CMTC) Houston/Astana/Baku/Moscow and project director, Kazakhstan Minerals Tax Academy Astana and Azerbaijan Minerals Tax Academy Baku. Previously he was Australian Ambassador (Kazakhstan, Hungary, Switzerland, Côte d'Ivoire, Senegal), Australian Investment Commissioner Europe and Australian Disarmament Negotiator.

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