

# COVID-19 and Uzbekistan: State support for business and public

April 2020

During the course of March and April 2020, the Government of the Republic of Uzbekistan (the “Government”) has implemented a number of laws and measures, including:

- 19 March 2020:

Presidential Decree No. UP-5969 “On priority measures to mitigate the negative impact of coronavirus pandemic and global crisis to the economic sectors” (the “Decree 5969”);

The establishment of the Special Anti-crisis Fund of 10 trillion Uzbek Soums (“UZS”) (equivalent of 1 billion US Dollars (“USD”)) at the Ministry of Finance;

- 3 April 2020: Presidential Decree No. UP-5978 “On additional measures to support the public, economic sectors and businesses during the period of coronavirus pandemic” (the “Decree 5978”); and
- 27 April 2020: Presidential Decree No. UP-5986 “On additional measures to support the public and business entities during the coronavirus pandemic” (the “Decree 5986”).

These measures provide certain guarantees and protections, including deferred tax payments, decrease of tax rates, tax related waivers and exemptions, as well as liquidity support measures.

**Carolyn Lamm**

Partner, Washington, DC  
T +1 202 626 3605  
[clamm@whitecase.com](mailto:clamm@whitecase.com)

**Kamilla Azamat**

Partner, London  
T +44 20 7532 2313  
[kamilla.azamat@whitecase.com](mailto:kamilla.azamat@whitecase.com)

**Yokubjon Isakov**

Of Counsel, Tashkent  
T +998 90 3511232  
[isakov.yokubjon@whitecase.com](mailto:isakov.yokubjon@whitecase.com)

**Samariddin Shamsiev**

Associate, Tashkent  
T +998 90 1753501  
[samariddin.shamsiev@whitecase.com](mailto:samariddin.shamsiev@whitecase.com)

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## Liquidity support

On 14 April 2020, the Central Bank of the Republic of Uzbekistan (the “Central Bank”) has reduced the refinancing rate from **16% to 15%** to stimulate liquidity support for the economy due to financial crisis caused by the coronavirus pandemic.<sup>1</sup>

Under the Decree 5978, the Central Bank has:

- provided commercial banks with additional liquidity resources valued at **UZS 2.6 trillion** (equivalent of USD 260 million) by easing the requirements for mandatory reserves;
- introduced a special mechanism for providing liquidity to commercial banks with a period of up to three years valued up to **UZS 2 trillion** (equivalent of USD 200 million);
- allowed the deferral of loan repayments by businesses to commercial banks valued at **UZS 7.9 trillion** (equivalent of USD 790 million);
- allowed commercial banks to restructure loan repayments by businesses faced with financial hardships due to measures taken in Uzbekistan and other countries to combat COVID-19 and a sharp decline in economic activity valued at **UZS 7 trillion** (equivalent of USD 700 million); and
- allowed the extension of loan repayments by individuals and individual entrepreneurs due in the next six months of 2020 valued at **UZS 4.7 trillion** (equivalent of USD 470 million).

The Central Bank has also taken measures to create conditions and simplify procedures for:

- commercial loan repayment deferrals for businesses and individuals faced with financial hardships - until **1 October 2020**;
- waiver of penalties and enforcement measures in relation to overdue loans for borrowers adversely affected during the period of the quarantine measures introduced in the country.

Moreover, interest on loans accrued and deferred by commercial banks for payment will not be taxed.

## Measures supporting the business continuity

The Decree 5978 provides that, for the period until **1 October 2020**, the State Fund for Entrepreneurship Support will provide:

- a surety to secure the loans provided to businesses with positive credit history **up to 75%** of the relevant loan amount, but not more than **UZS 10 billion** (equivalent of USD 10 million);
- a compensation for interest expenses on loans granted to businesses in national currency; provided that the interest rate does not exceed 1.75 times the refinancing rate of the Central Bank; and
- a waiver of restriction on simultaneous provision of surety and compensation to the same borrower.

The Fund for Reconstruction and Development of the Republic of Uzbekistan has extended the maturity periods of loan resources, allocated to commercial banks for refinancing such loans, which have been deferred for repayment.

The Ministry of Finance has been instructed by the Government to extend the terms of sovereign guarantees granted under relevant loans, the payments of which has been extended.

The Ministry of Finance has also been instructed the Government to provide monthly support, on the account of the Anti-Crisis Fund, to local state authorities to replace the shortfalls incurred as a result of deferrals (installment plans) for the payments of property tax, land tax and tax for the use of water resources.

<sup>1</sup> [www.cbu.uz](http://www.cbu.uz)

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For the period until **1 October 2020**:

- a moratorium has been placed in relation to initiating bankruptcy procedures and declaring bankruptcy of businesses faced with financial hardships due to quarantine measures;
- the deadline for conducting an audit for the financial year 2019 for businesses subject to mandatory audit has been extended; and
- companies are allowed to hold their annual general meetings of shareholders for 2019, including by means of video conferencing.

## Tax benefits

The Decree 5969, the Decree 5978, and the Decree 5986 (together the “Decrees”) have introduced the following tax reductions (benefits) for businesses:

- for the period from 1 April 2020 to 1 October 2020:
  - the minimum amount of social tax for individual entrepreneurs is reduced to **50%** of the base calculated amount (“BCA”) per month;
  - the amount of mandatory payments for wholesalers of alcoholic beverages is reduced from **5 to 3%**; and
  - fees for the right to retail sale of alcoholic products by catering enterprises are reduced by **25%** of the amounts set under law.
- tax rates for the use of water resources in volumes required for irrigation of agricultural land are reduced **by 50%** of the rates set for 2020. This is an important measure given that Uzbekistan’s economy is significantly based on agriculture;
- imposing interest on property tax, land tax and tax for the use of water resources, as well as enforcement of tax debt collection in relation to businesses experiencing temporary hardships has been suspended;
- businesses have been provided with tax deferral (installment) plan for the due payments of property tax, land tax and tax for the use of water resources without any interests applied for **a six-month period** based on relevant application;
- for the period from **1 April 2020 to 31 December 2020**, VAT payers with monthly turnover not exceeding UZS 1 billion (the equivalent of USD 1 million) and applying electronic invoices are entitled to calculate and pay VAT on a quarterly basis;
- calculations of a fixed personal income tax and social tax for individual entrepreneurs affected by the quarantine measures have been suspended for the period of the quarantine measures, subject to notifications of the relevant tax authority through the online personal tax platform;
- the Government has granted the right to interest-free deferral (installment plan) for taxes until **31 December 2020** for small businesses suspended and (or) whose revenue has dropped by more than **50%** compared to monthly average for the first quarter of 2020, with notification of tax authorities:
  - without submitting an application to local authorities on due payments of sales tax, property tax, land tax, and tax for the use of water resources - with their subsequent payment in equal installments within 12 months;
  - due social tax being paid in equal installments within six months.

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The Government has also introduced the following tax benefits for the tourism sector given that it got significantly impacted by the quarantine measures. For the period from **1 April to 31 December 2020**, tour operators, travel agents and hotels, JSC “Uzbekistan Airways” (the national airline company of Uzbekistan) and its structural divisions, JSC “Uzbekistan Airports” and State Enterprise “Uzaeronavigation Center” are exempt from property tax and land tax with social tax rate reduced to **1%**.

In addition, import of construction materials, as well as special equipment and consumable spare parts to be used for the construction and functioning of medical and quarantine facilities to combat coronavirus pandemic **are exempted** from customs payments, including value-added tax (“VAT”). Import of express tests for coronavirus has been exempted from customs fees. These exemptions apply until **31 December 2020**.

Until **31 December 2020**, if a loan is obtained at no interest, the borrower has been allowed not to include a ‘deemed interest’ (considered as income from such loan and interest calculated applying the Central Bank’s refinancing rate) in accruing the corporate income tax and sales tax. This exemption provides businesses with access to tax-free loans which is very important during the crisis.

The Government, under the Decree 5986, has also provided certain tax benefits for businesses that contribute to special foundations and their regional branches, as noted below, for the period from **1 April 2020 to 1 October 2020**:

- gratuitous transfers to the “Mahalla” (“Community”) Charitable Public Foundation of Uzbekistan, the Kindness and Support Foundation, “Uzbekistan Mehr-shafqat va salomatlik (“Mercy and Health”)” Public Foundation, as well as donations to individuals in need of social support (as filed so by local authorities) of:
  - cash and goods (services) shall be considered as deductible expenses in calculating income tax; and
  - goods (services) shall be exempt from VAT and not considered for the purposes of sales tax.

The Government has established that the gratuitous assistance (cash, goods/services) provided by public foundations, as noted above, as well as donations by legal entities and/or individuals shall not be considered as income for individuals in need of social support (as filed so by local authorities) receiving such donations.

## Waivers and exemptions

Under the Decrees, in addition to the tax benefits, the Government has also eased a number of the administrative requirements and granted certain extensions, including:

- the deadline for 2019 annual income declarations for individuals is extended until **1 August 2020**;
- the deadline for payment of property tax and land tax for individuals is extended until **15 October 2020**;
- the accrual and payment of tourist fee is suspended for the period from **1 April 2020 to 1 July 2020**;
- tax audits of businesses (except for criminal and liquidation cases) have been suspended until **1 January 2021**;
- the penalties for overdue receivables from foreign trade operations of businesses have been suspended until **1 October 2020**;
- the medical drugs, items and other medical products prepared at pharmacy outlets have been permitted for wholesale until **1 October 2020**;
- the accrual and collection of lease payments for the lease of state property by businesses, required to suspend their activities because of quarantine measures, have been suspended **for the period of the quarantine measures in the country**;

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- the payment period for administrative fines levied on persons placed under the quarantine (*except for fines levied for the violation of quarantine rules*) has been extended for the period until the **end of quarantine period in the country**;
  - individuals have been granted the right to an interest-free deferral (installment plan) of tax payments, accrued on income from personal real estate leased to individuals and commercial real estate leased to businesses affected during the quarantine period, until **1 April 2021**; and
  - the application of increased rates of property tax and land tax (including due interests) for unused production facilities and non-residential buildings, including those identified before 1 April 2020, has been suspended for the period from **1 April 2020 to 31 December 2020**.

## Other administrative support

In accordance with the Decrees, the Government has also provided certain reliefs to export businesses, allowing to:

- export goods with no payment guarantee while having an overdue receivables **not exceeding 10%** of the total exports of goods for the reporting year; and
- conduct one-off operations in 2020 on the import of technological equipment and raw materials in exchange for repayment of overdue receivables under the foreign trade operations.

The amount of material assistance, exempt from personal income tax, paid to employees has been increased from **4.22 to 7.5 times** the minimum wage in 2020.

Starting from 1 April 2020, the mandatory **100%** advance payment requirement for the supply of gas and electricity has been reduced **to 30%**.

## Conclusions

The Government has implemented a myriad of laws and urgent measures to provide an adequate support to individuals and businesses in Uzbekistan, including exemptions, deferrals and waivers through the tax and fiscal policies regimes, banking system, and special Anti-Crisis Fund.

We encourage our Clients to consider support measures provided under the Decrees with due legal attention. In addition, White & Case has carried out a comprehensive analysis of global governmental responses to the coronavirus pandemic. These vary considerably from country to country and are being updated and amended regularly. We have also pulled together a global response team.

For useful information on coronavirus pandemic, please consult the Coronavirus section of [www.whitecase.com](http://www.whitecase.com).

## ANNEX I

The Government has introduced certain financing support, tax and other relief measures to support the liquidity of companies and ensure business continuity. The key applicable measures are described below.

Support measures	Beneficiaries	Effective period
Deferrals of loan repayments	all businesses and individuals	until 1 October 2020
Suspension of initiating and declaring bankruptcy of businesses by state authorities	all businesses	until 1 October 2020
Extension of deadline for a 2019 audit	all businesses	until 1 October 2020
Reduction of tax rate by 50% for agricultural use of water resources	all businesses and individuals	from 1 January 2020 to 31 December 2020
Interest free deferral of payments of sales tax, property tax, land tax, and tax for use of water resources	all businesses	six months upon application
Exemptions from customs payments including VAT for import of construction materials, express tests for coronavirus, as well as special equipment and consumable spare parts to be used for the construction and functioning of medical and quarantine facilities to combat coronavirus pandemic	all businesses	until 31 December 2020
Exemption from applying a deemed interest rate (15%) for interest-free loans	all businesses	until 31 December 2020
Income tax deduction and exemption from VAT for businesses	all businesses	from 1 April 2020 to 1 October 2020

that contribute to special charity foundations and their regional structures		
Suspension of tax audits	all businesses	until 1 January 2021
Suspension of increased land tax and property tax rates applicable for unused non-residential buildings and production facilities	all businesses	from 1 April 2020 to 31 December 2020
Suspension of tourist fee accrual	hotels	from 1 April 2020 to 1 July 2020
Suspension of penalties for overdue receivables from foreign trade operations	exporters	until 1 October 2020
Permission for wholesale of medical drugs and medical products at pharmacy outlets	manufacturers of medical products	until 1 October 2020
Permission to pay VAT on a quarterly basis	VAT payers with monthly turnover not exceeding UZS 1 billion (USD 1 million.)	from 1 April 2020 to 31 December 2020
Exemption from property tax and land tax	tour operators, travel agents and hotels, "Uzbekistan Airways", "Uzbekistan Airports", "Uzaeronavigation Center"	from 1 April 2020 to 31 December 2020
Reduction of social tax rate from 12-25% to 1%	tour operators, travel agents and hotels, "Uzbekistan Airways", "Uzbekistan Airports", "Uzaeronavigation Center"	from 1 April 2020 to 31 December 2020
Interest-free deferral plan for: <ul style="list-style-type: none"> <li>sales tax, property tax, land tax, and tax for the use of water resources - with their subsequent payment in equal installments within 12 months; due social tax being paid in equal</li> </ul>	small businesses	until 31 December 2020

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installments within six months.		
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White & Case LLC, Tashkent

Komila Khudayberdieva, Office Manager  
13 Amir Temur Avenue  
100047 Tashkent  
Uzbekistan

Tel: +998 71 140 81 01  
Fax: +998 71 140 80 99  
Email: [komila.khudayberdieva@whitecase.com](mailto:komila.khudayberdieva@whitecase.com)

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