Opening business in Tajikistan: key practical considerations

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Why Tajikistan?

Geographical location (borders China, Uzbekistan, Kyrgyzstan, and Afghanistan providing access to markets of Central and South Asia, and CIS, Eurasian integration hub, Traditional transit route for cross Asian trade. “Silk Road”);

Political and economic stability;

Friendly relations with all great powers and neighbors;

Russian language is the unofficial second language;

Strong political will of the President and the Government to attract foreign investment;

System of Guarantees and Preferences for Investors (equal right of domestic and foreign investor, legal protection of investors, right of using and transferring revenues abroad, intellectual property rights, etc.);

Why Tajikistan?

There is substantial lack of budget funds for financing, therefore a high demand for investments in infrastructure;

Free trade zones (advantageous geographical location, tax and customs benefits);

Low cost of labor and utilities (e.g., average monthly wage is: USD 200);

Visa-free entry for foreign citizens from 69 countries, including several OECD members;

Natural Resource Endowment (rich water resources, over 400 deposits of natural resources (gold, silver, iron, bismuth, wolfram, granite, etc.);

High-Level Political Commitment (a consultative council on improvement of investment climate under the president has been established);

Diverse Investment Opportunities (hydropower, mining, deep processing of cotton fibers and primary aluminum, agriculture).

Legal forms for doing business in Tajikistan:

The laws of Tajikistan provide several forms for doing business in Tajikistan for foreign legal entities and individuals. Among these options, the most frequently chosen forms because they offer more flexibility vis-à-vis corporate housekeeping, general compliance matters and maintaining the closely held nature of the business are:

1. **Limited Liability Company** (preferred by most) - a company founded by one or more participants, the charter capital of which is divided into shares. Participants are not liable for the obligations of the company and bear the risk of losses associated with the activity, within the value of the contributions made. The number of participants should not exceed thirty.

2. **Branch Office** (second preferred option) - is a separate subdivision performing all or part of the functions of the company, including the functions of a representative office.

3. **Representative Office** - is a separate subdivision representing and protecting company's interests.

The timeframe for registering a company, branch or representative office with foreign participation takes up to one and half months, even though by law it should be done within five days. This is due to the fact that the documents are thoroughly considered by the higher divisions of the Tax Committee.

There is also the option of establishing a joint stock company, however this option is rarely considered and is not recommended due to the fact that it requires dealing with securities and related laws and authorities. Unfortunately, the laws governing securities issues have not been developed in recent years, and since there are very few joint-stock companies in Tajikistan, the procedures are not streamlined, therefore, many difficulties may arise, and it will be time and resource consuming endeavor.

Registering a business can be a daunting task, as there are requirements that at first glance are not so obvious without consulting the registering authority or local law firm, for more information please follow this link.

Taxation and Customs

On 1 January 2022, a Tax Code in new edition came into force. The new Tax Code provides for many changes, in particular the reduction of tax rates.

The Tax Code establishes that legal entities are subject to either **a general or simplified taxation regime**, which is applied only in relation to specific categories businesses as well as businesses whose annual turnover does not exceed TJS 1 mln.

General (VAT)

1. Income tax: (i) for activities for the production of goods - 13%; (ii) for the activities of financial institutions and mobile companies – 20%, (iii) for other types of activity – 18%.
2. VAT - (i) standard rate – 15%; (ii) construction works, hotel services and catering services – 7% (iii) sale of domestic agricultural products production, processing of agricultural products, educational services and activities for the provision of medical services in medical sanatoriums and resorts – 5%.
3. Tax on dividends - 12%.
4. Tax on net profit (other than tax on income) of a foreign branch or representative office - 15%.
5. Land and property tax - depends on the size and location.
6. Transport tax - depends on the engine power.

Simplified

1. Taxpayers can choose one of the two taxation options, and the tax rate will depend on the chosen option:

   Tax on gross income – 6%.

   Taxation on the principle of "income minus costs":

   - for activities for the production of goods – 13%;
   - for all other types of activity – 18%.
2. Dividends tax – 12%.
3. Tax on net profit (other than tax on income) of a foreign branch or representative office – 15%.
4. Land and property tax - depends on the size and location of the property.
5. Transport tax - depends on the engine power.

An important point to note (that can be confusing for foreigners) is that any funds received to the account of a branch or representative office, including from the parent company (regardless of the purpose of the funds), will be considered income and therefore taxed. The statute of limitation period according to the Tax Code is 5 years.

Tajikistan has entered into bilateral treaties to avoid double taxation several countries, including Russia.

Currency regulations / Banking

- In general, Tajikistan foreign currency regulations are not overly restrictive;
- All payments between residents of Tajikistan must be exclusively in local currency (Somoni);
- All companies are required to notify the National Bank of Tajikistan as well as Tax Committee when opening bank accounts abroad;
- Residents are required to notify the National Bank of Tajikistan when granting and receiving loans from non-residents for a period of more than 12 months;
- Residents and non-residents can open and maintain bank accounts in local and foreign currency;
- There are no restrictions or limitations placed on foreign investors in converting, transferring, or repatriating funds associated with an investment (e.g. remittances of investment capital, earnings, loan or lease payments, royalties);
- The website of the National Bank of Tajikistan.

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