

Doing Business in the Kyrgyz Republic





Preface

This guide has been prepared by Baker Tilly Bishkek, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in the Kyrgyz Republic.

Baker Tilly International is a top 10 network of independent accounting and business advisory firms by combined fee income, and is represented by 126 firms in 147 countries and over 30,000 people worldwide. Its members provide high quality accounting, assurance, tax and financial business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. This guide in Russian language may be downloaded from www.bakertilly.kg

"Doing Business in the Kyrgyz Republic" has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Kyrgyzstan matters can be obtained from Baker Tilly Bishkek, contact details can be found at the end of this guide.

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1 Fact Sheet

Facts and figures as presented in sections 1 through 5 are correct as at October 2018.

Geography

| | |
|------------------|--|
| Location: | Central Asia |
| Area: | 199,951 km ² |
| Land boundaries: | China, Kazakhstan, Tajikistan and Uzbekistan |
| Coastline: | None |
| Climate: | Subtropical in the southwest (Fergana Valley); temperate in the northern foothill zone; dry continental to polar in the high Tien Shan Mountains |
| Terrain: | Tien Shan peaks with associated valleys and basins |
| Time zone: | GMT +6 |

People

| | |
|-------------|--|
| Population: | 6.2 million (2017) |
| Religion: | Muslim 75%, Russian Orthodox 20%, other 5% |
| Language: | Kyrgyz is the state language; Russian is the official language |

Government

| | |
|---------------------------|--------------------------------|
| Country name: | Kyrgyz Republic |
| Government type: | Parliamentary republic |
| Capital: | Bishkek |
| Administrative divisions: | Seven provinces and two cities |

Political situation

The unicameral parliament has 120 seats. The Head of State is the President, who is elected by popular vote for a single term of six years. The Head of Government is the Prime Minister, who is nominated by the parliamentary party with more than 50% of the seats. If there is no majority, the President chooses the party that will form a coalition majority and the government.

Economy

| | |
|-------------------|-----------------------|
| GDP – per capita: | US \$ 1,160 (2017) |
| GDP – real growth | 4.5% (2017) |
| Labour force: | 2.59 million (2017) |
| Unemployment: | 2.5% (April 2018) |
| Currency (code): | Kyrgyzstani Som (KGS) |



2 Business Entities and Accounting

2.1 Companies

The main company forms in the Kyrgyz Republic are the limited liability company and the joint stock company. Other business forms include additional liability companies, partnerships, sole proprietorships, and branches.

2.1.1 Limited liability companies

A limited liability company may be formed by one or more individuals and/or legal entities. The maximum number of participants is 30. A company with a single participant can not be the only member of the limited liability company. The capital of the company is divided into shares as determined by the company's founding documents. The liability of participants is generally limited to the extent of their contributions. Limited liability companies may not issue shares. Limited liability companies are administered by the general meeting of the participants, and are managed by an executive body comprised of one or more managers. An audit committee may be appointed by the general meeting of the participants.

2.1.2 Additional liability companies

An additional liability company may be formed by one or more persons. The capital of the company is divided into shares as determined by the company's founding documents. Participants have joint and several secondary liability or the debts and obligations of the company with their own property in equal multiple proportions to the value of their contributions as determined by the company's founding documents. In other respects, the provisions applicable to limited liability companies generally apply to additional liability companies.

2.1.3 Joint stock companies

A joint stock company may be formed by one or more individuals and/or legal entities. A company with a sole participant may not be a sole participant in a joint stock company. The maximum number of shareholders in a closed joint stock company is 50. There is no upper limit on the number of shareholders in an open joint stock company.

The liability of shareholders is generally limited to the value of their shares. An open joint stock company may issue its shares to the public. A closed joint stock company may not issue its shares to the public or offer them for sale to an unlimited range of persons. Joint stock companies are administered by the general meeting of the shareholders, and are managed by a board of directors and an executive body. A board of directors is not required if there are no more than 50 shareholders. An audit committee must also be appointed. If there are more than three shareholders, an accounting commission with at least three members must be appointed.

2.1.4 Company names and registration

The company name must indicate its organisational and legal form and may indicate type and nature of its activity.

Companies are subject to state registration and become separate legal entities upon registration.

2.2 Partnerships

2.2.1 General partnerships

A general partnership is defined as a partnership in which the participants (general partners) carry out business activities on behalf of the partnership in accordance with the partnership contract. Partners may be individual business persons and/or commercial organisations. Partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership.

2.2.2 Limited partnerships

A limited partnership is formed by general partners and limited partners. General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. The liability of limited partners is generally limited to the extent of their contributions. General partners may be individual business persons and/or commercial organisations. Limited partners may be individuals and/or legal entities. Limited partners may not take part in the management of the partnership.

2.3 Branches and Representative Offices

A foreign company may generally conduct business activities in the Kyrgyz Republic through a branch. A branch may conduct the same activities as the parent company, including representation. A branch is not a separate legal entity.

A foreign company may establish a representative office in the Kyrgyz Republic. A representative office may not conduct business activities, but may conduct activities such as representing the parent company and protecting its interests. A representative office is not a separate legal entity.

Branches and representative offices (excluding those established in a free economic zone) are subject to state registration. Certain documentation must be submitted, including:

- Registration application in the form approved by the Government
- Decision of the foreign company to establish a branch or representative office, including full name, legal address and other registration information of the foreign company
- Two copies of the approved regulations for the branch or representative office
- Copies of the foreign company's constituent documents.

2.4 Sole Proprietorship

An individual may generally conduct business activities in the Kyrgyz Republic as a sole proprietorship. A sole proprietorship is not a separate legal entity, and the owner is liable for the debts and obligations of the business.

A sole proprietorship may undertake business activities under a patent issued by the tax authority. State registration of individual entrepreneurs was cancelled in January 2016. Tax registration of both (who work under patent and as individual entrepreneurs) is required and is treated as state registration.

2.5 Audit and Accounting Requirements

Legal entities operating in the Kyrgyz Republic and branches and representative offices of foreign entities in the Kyrgyz Republic are required to maintain accounting and financial statements in accordance with legislation.

Financial statements must include information about the financial position of the entity, the results of its operations, and any changes in financial position.

Financial statements of Islamic financial institutions shall be prepared in accordance with Islamic principles.

Financial statements must be prepared in accordance with the International Financial Reporting Standards (IFRS) (mandatory for public interest entities), or IFRS for SMEs. Consolidated financial statements must be prepared where required.

Financial statements must be prepared using the Kyrgyz currency unless an international agreement provides otherwise.

Certain entities are required to have their financial statements audited by an external auditor, including:

- Banks and other organisations licensed by the National Bank of the Kyrgyz Republic
- Insurance companies
- Public companies which make a public offering of securities
- Investment funds
- Private pension funds, and
- Other entities as determined by legislation.

2.6 Filing Requirements

Entities (excluding budgetary institutions) are generally required to submit their annual financial statements to the founders, participants, or property owners, and to other bodies as provided by legislation, within 60 days of the accounting year end (unless otherwise stipulated by legislation).

Entities of public interest are generally required to publish their annual financial statements and auditors' report (if applicable) within 90 days after the accounting year end, and by no later than 1 June.



3 Finance and Investment

3.1 Exchange Control

There are generally no foreign exchange controls.

Anti-money laundering legislation requires reporting persons, including banks and financial organisations and institutions, insurance and reinsurance companies, pension asset management companies, financial leasing companies, pawn shops, organisers and conductors of lotteries, and private pension funds, to identify their clients and to report suspicious transactions to the State Financial Intelligence Service.

3.2 Banking and Sources of Finance

The National Bank of the Kyrgyz Republic (NBKR) is responsible for (amongst others) monetary policy, price stability, payment systems, issuing banknotes, and the regulation and supervision of banks, finance institutions and credit institutions that are licensed by the NBKR. Commercial banks operating in the Kyrgyz Republic provide the majority of financial services. There are generally no restrictions on foreigners opening bank accounts in the Kyrgyz Republic (certain documentation and a minimum deposit may be required), or on accounts containing foreign currency. The Kyrgyz Stock Exchange (KSE) provides a marketplace for listing and exchanging securities.

3.3 Investment Incentives and Restrictions

The tax benefits are described in paragraph 5.7

There are generally no restrictions on foreign business investment in the Kyrgyz Republic. However, restrictions may apply in areas of defence, national security, health, and public morals.

4 Employment Regulations

4.1 General Employment Matters

4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in the Kyrgyz Republic (certain exclusions apply), including maximum weekly working hours, rest periods, paid annual leave entitlement, and public holiday entitlement.

A contract of employment may be indefinite or for a fixed duration not exceeding five years (unless otherwise provided for by legislation). A contract of employment must generally be concluded in writing and include:

- Date and place of the contract
- Details of the parties
- Place where the work is to be performed
- Name of the position, profession or occupation, including an indication of the qualifications in accordance with the staffing of the organisation or the specific work function
- Date of commencement of work
- Term of the employment contract
- Mode of operation
- Rights and obligations of the employer and the employee
- Remuneration, including basic salary, bonuses, allowances, incentive payments, and compensation for heavy, dangerous and harmful working conditions
- Reliable information about working conditions, compensation and benefits for employees working in difficult, hazardous or dangerous conditions
- Signatures of the parties.

A contract of employment may include a trial period of employment not exceeding three months in duration (six months for certain employees). The employer may terminate the contract of employment if the employee has not performed satisfactorily during the trial period by providing three days' written notice. An employee may terminate a contract of employment during the trial period by providing three days' written notice.

A contract of employment may be terminated in certain circumstances, including by agreement between the parties, expiration of the contract of employment, by the initiative of the employer or the employee, or in circumstances beyond the control of the parties. An employee may terminate a contract of employment by providing two weeks' written notice. An employer may terminate a contract of employment in certain circumstances, including liquidation of the business, repeated failures by the employee to undertake work duties without good reason, or a single gross violation by the employee of work duties.

4.1.2 Pensions and other benefits

Social security contributions generally provide associated benefits.

4.2 Visas

Citizens of around 80 countries do not generally require a visa for short term visits to the Kyrgyz Republic.

Visas available for entry into the Kyrgyz Republic include:

- Tourist visa
- Business visa
- Private visa
- Investment visa
- Diplomatic visa
- Ordinary visa
- Employment visa
- Student visa
- Permanent residence visa

For further information on Kyrgyz Republic visa requirements, visit www.mfa.gov.kg.

Foreigners may not generally own agricultural land in the Kyrgyz Republic. Other forms of real property (excluding land in border areas) may generally be acquired for a fixed term.

4.3 Trade Unions

Employees may be represented by trade unions and their associations, and by other elected representatives of workers. Representatives of employees may negotiate and conclude collective agreements with representatives of employers.



5 Taxation

5.1 Income Tax

Domestic organizations and individual entrepreneurs, as a rule, are subject to taxation in respect of their world income. Foreign organizations and non-resident individuals carrying out activities through a permanent establishment in the Kyrgyz Republic are generally taxed with respect to income received from a source in the Kyrgyz Republic, taking into account the provisions of the relevant tax agreement.

The standard rate of income tax is 10%. A 0% rate applies to mining companies that perform sale gold ore, concentrate, alloy and refined gold. Such taxpayers are required to pay a monthly income tax on (i) revenue (excluding VAT and sales tax) from the sale of gold-bearing alloy and / or refined gold and (ii) the value of gold (at world prices in accordance with the procedure established by the Government) in gold-bearing ores and concentrates. The tax rate varies from 1% to 20%, depending on the price of gold.

Some activities, organizations and companies are exempt from income tax, including agricultural producers. From January 1, 2017 to December 31, 2021, the income tax rate for leasing companies is 5%.

Small and medium enterprises (as defined in the legislation) may use a simplified procedure for determining the tax base for income tax purposes. Small business subjects can choose a simplified system of taxation.

Taxable income usually includes any taxable capital gains. Certain capital gains are not included in taxable income, including income from increased value of securities held on the day of implementation in the listing of stock exchanges in the highest and next to the highest listing categories.

Losses from the sale of securities can only be credited against the proceeds from the sale of other securities. Any unused losses from the sale of securities can be carried forward for up to five years. Unused losses associated with economic activity, can usually be carried forward for up to five years. The legislation does not provide for compensation for damages.

Group consolidation for tax purposes is not applicable in the Kyrgyz Republic; therefore, losses can not be set off against the profits of another group company.

The tax year is a calendar year.

The annual income tax return, as a rule, must be filed before March 1 of the next year. Upon application of the taxpayer, the tax authorities can extend the filing deadline for a maximum of 30 days. Extending the deadline for filing a declaration does not change the deadline for payment of a tax liability.

Taxpayers (with the exception of exempt entities and entities subject to zero-rate taxation) are required to submit quarterly settlements and make preliminary payments for income tax from the second quarter of the year. The quarterly report and payment must be made before the 20th day of the second month of the next quarter. The accounting periods are the first quarter, the first half of the year and the nine months of the tax year. The amount of the advance payment is 10% of the accounting profit calculated for the corresponding accounting period, minus the amount paid in the previous reporting period (if applicable). The final amount of the profit tax must be paid before the filing of the annual tax return.

5.2 Individual income tax

Citizens of the Kyrgyz Republic and resident individuals who have a permanent residence permit or repatriate status are usually subject to taxation in respect of their world income.

Individuals who are non-residents and not citizens of the Kyrgyz Republic are taxed in respect of income received from a source in the Kyrgyz Republic, taking into account the provisions of the relevant tax agreement.

Income tax applies to the taxable income of an individual at a rate of 10%. Taxable income, as a rule, includes any taxable capital gains, except for exempted types of income, for example, income from the sale of movable or immovable property used for personal purposes and not purchased for commercial use.

The value of property and services received by an individual from close relatives through donation or inheritance is not taxed (unless such assets are obtained as a result of economic activities).

There is no luxury tax in the Kyrgyz Republic.

5.3 Costs and taxes related to employment

5.3.1 Financial benefits

The material benefit is not subject to a separate type of tax, but is to be included in the total annual income of an individual and is subject to income tax, with the exception of exempted types of benefits.

5.3.2. Expenditure on social insurance

Employers and employees are required to pay social insurance contributions, including contributions to pensions, health insurance and a recovery fund. The rate for employers is 17.25% of the total wage fund, the rate for employees is 10%.

5.4 Taxes at source on income paid to non-residents

Below are the tax rates at source on income paid by organizations to non-residents

| | Rate |
|--|--|
| Dividends | 10%. Dividends of a foreign organization received in the form of a portion of profits subject to income tax at a rate of 0 percent are taxed at the source at a zero rate |
| Interest | 10%. Interest income on securities listed in the listing of the stock exchange of the Kyrgyz Republic for the highest and next categories of listing is exempt from taxation |
| Royalties | 10% |
| Work and services | 10% |
| Insurance payments | 10% under compulsory insurance or reinsurance contracts; in other cases - 5% |
| Telecommunication or transport services in international communications and transport between the Kyrgyz Republic and other states | 5% |

When paying income to recipients, residents of countries with which the Kyrgyz Republic has concluded agreements on the avoidance of double taxation, the tax rates at the source may be reduced in accordance with the terms of agreement.

5.5 Value Added Tax (VAT) and sales tax

5.5.1 VAT

In the Kyrgyz Republic, VAT, as a rule, is subject to the supply of goods, works and services and taxable imports.

The standard VAT rate is 12%. A 0% rate applies to certain deliveries, including the export of goods (with the exception of exports of metal containing ores, concentrates, alloys and refined metals), selected international transport services and services related to international transportation. Deliveries of residential buildings and land plots; agricultural products; public services; separate medical products; financial and insurance services; transport services, as well as export of works and services are exempt from VAT.

Subjects are required to register for VAT if the taxable turnover of goods, works or services will exceed 8 million soms for consecutive 12-month period or in a period not exceeding 12 months. Subjects to which the requirement to register VAT is not applied, can, as a rule, register on a voluntary basis.

Registered entities, as a rule, have the right to offset VAT paid when buying goods, works and services subject to certain conditions and restrictions.

5.5.2 Sales Tax

The sales tax is paid by domestic companies, permanent establishments of foreign companies and individual entrepreneurs, taking into account exemptions. Sales tax is usually levied on sales of goods, works and services, except for VAT and sales tax. In certain circumstances, different tax bases are used to calculate the tax. Sales tax rates vary depending on factors such as the type of activity and the fact that VAT is applied to the supply of goods, works and services. With non-cash payment for goods, works and services, the sales tax rate is 0%, except for mobile communication services and financial services rendered by banks

5.6 Other Taxes

5.6.1 Property Tax

The annual property tax is usually levied on the taxable value of the property at the following rates (including exemptions):

| Property | Tax rate |
|--|---|
| Group 1: houses, apartments and country houses intended for temporary or permanent residence, which are not used in business activities | 0.35% |
| Group 2: houses, apartments, country houses, guesthouses, holiday homes, sanatoriums, resorts, commercial, administrative, industrial and other capital facilities intended and / or used in business activities | 0.8% |
| Group 3: temporary structures of metal and other structures, such as kiosks and containers, intended and / or used in business | 0.8% |
| Group 4: vehicles, including self-propelled machines and mechanisms | It varies depending on factors such as type of vehicle and its durability |

5.6.2 Land Tax

The annual land tax is usually levied on the owners of land rights, subject to certain exemptions. The tax base is the area of the land plot. Tax rates vary depending on the location and destination of the site.

5.6.3 Taxes on subsoil users

Subsoil use taxes include a bonus and royalties related to the right to use / utilization of natural resources. Separate exemptions are provided.

5.6.4 Excise Tax

Excise tax applies to certain goods, including ethyl alcohol, alcoholic and non-alcoholic beverages, tobacco products and petroleum products.

5.7 Tax breaks

5.7.1 Research and Development

Expenses for research, design and project work related to the economic activities of a taxpayer can be deducted from taxable income.

5.7.2 Free economic zones

Organizations established in the free economic zone (FEZ) are entitled to benefits, including exemption from all taxes in respect of certain activities (unless otherwise provided by law). The annual fee in the amount of 0.1% to 2% of the proceeds from the sale of goods, works and services is payable to the General Directorate of FEZ.

5.7.3 High Technology parks

Organizations registered in the High Technology Park are exempt from income tax, VAT and sales tax. A lowered income tax rate of 5% applies to employees and individual entrepreneurs-residents of the High Technology Park.

5.7.4 New production equipment

Some large manufacturing enterprises that use new equipment apply zero income tax rate for five consecutive tax periods. This exemption does not apply to certain activities, including the production of alcohol or tobacco products.

5.7.5 Other Tax benefits

Other tax benefits may be available to certain domestic and foreign investors.

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