**Controlled Foreign Companies (CFCs)** *(Article 39 of the Tax Code of Uzbekistan)*

*According to CFC rules – a foreign company* ***shall not be considered as a taxpayer in Uzbekistan****. Under these rules, the controlling entity – tax resident of Uzbekistan reflects CFC profit in its own tax base for income tax (for legal entities) and for personal income tax (for individuals).*

*The essence of this concept is to extend the jurisdiction of Uzbekistan to entities controlled in one way or another from Uzbekistan.*

The Tax Code of the Republic of Uzbekistan (hereinafter – the "Code") provides that for the purposes of taxation a controlled foreign company is a foreign legal entity that is subject to the following conditions simultaneously:

* The foreign business entity is a non-resident of Uzbekistan;
* The controlling entity of this entity is a [tax resident](https://spmag.ru/news/2016/02/15/kogo-schitat-nalogovym-rezidentom-rf) of Uzbekistan.

The CFC is any foreign company that is under the control of a taxpayer registered within the territory of Uzbekistan.

A controlling person is a person (individual or legal entity) that:

* Owns over 25% of the Charter Capital; until January 1, 2023 – 50%;
* Owns over 10 percent of the Charter Capital in an organization where the share of all persons recognized as tax residents of the Republic of Uzbekistan in that company exceeds 50 percent.

An individual may officially exercise control over the activities of the company in his/her own interests or those of his/her spouse or children under the age of 18.

Recognition in respect of a resident of the status of a person controlling a foreign company shall entail a number of obligations.

A person shall not be recognized as a person controlling a foreign company if its participation in the company is effected only through direct and/or indirect participation in one or several legal entities of the Republic of Uzbekistan that are issuers of securities that (or depositary receipts for which) have undergone the listing procedure and/or have been admitted to trading on stock exchanges that have a relevant license or are included in the list of foreign financial intermediaries, and if this person is not recognized as a controlling person in accordance with paras 5 to 12 of this Article. Foreign financial intermediaries are understood as foreign stock exchanges and foreign depository clearing organizations included in the list approved by the authorized body on development of the securities market of the Republic of Uzbekistan.

**Obligations of the controlling person**

The person who meets the above criteria shall:

* Send a [notification](https://spmag.ru/articles/uvedomlenie-ob-uchastii-v-inostrannyh-organizaciyah-2019) to the tax authority at the place of registration on participation in a foreign legal entity or on establishment of another foreign entity without formation of a legal entity. The period for sending such notification is 1 month from the moment the share appears;
* Annually send [notifications](https://spmag.ru/articles/poryadok-zapolneniya-uvedomleniya-o-kontroliruemyh-inostrannyh-kompaniyah) that specify all controlled foreign companies with an indication of shareholding in them. The notification must be submitted by March 20 of the year following the reporting year;
* In case of termination of participation in the CFC, the Tax Office of Uzbekistan should also be notified of this fact. The notification shall be sent within one month from the termination date.

In case of non-compliance with these requirements, the taxpayer shall be subjected to the tax liability provided for in the relevant provisions of the Tax Code.

The tax authority shall have the right to send a request for notification to the controlling person, as well as to provide explanations for the late performance of this obligation. The taxpayer shall have the opportunity to provide under this requirement the documentary evidence that he/she/it is not a controlling person.

**Taxes for controlled foreign companies**

Tax residents of the Republic of Uzbekistan shall be obliged to pay tax on retained earnings of controlled foreign companies according to the procedure established by the Code.

If a tax resident of the Republic of Uzbekistan is recognized as a controlling person of a controlled foreign company, he/she/it should include his/her/its retained earnings in its income subject to taxation under the Code.Legal entities shall include these retained earnings into the tax base of the income tax, and individuals shall include them into the tax base of the personal income tax.

These rules shall apply separately to each controlled foreign company by each of its controlling persons.

Retained earnings of controlled foreign companies shall be exempted from taxation in accordance with the Code if at least one of the following conditions is met in respect of that foreign company:

1) It is a non-commercial organization which – in accordance with the legislation of the foreign state (territory) in which it is established – does not distribute the profit (income) received between shareholders (participants, founders) or other persons;

2) It is an active foreign company or an active foreign holding company *(if the state (territory) of its permanent location is not included in the list of offshore jurisdictions);*

3) The effective rate of taxation of income (profit) for this foreign company for the period for which such company prepares – according to the legislation of the state (territory) of its permanent location – financial statements for the financial year is not less than 15 percent *(if the permanent location of such foreign company is a state with which there is an international treaty of the Republic of Uzbekistan on taxation issues);*

4) It is a bank or an insurance organization acting in accordance with the legislation of a foreign state (territory) on the basis of a license or other special permit to carry out banking or insurance activities *(if the place of permanent location of such foreign company is a state with which there is an international treaty of the Republic of Uzbekistan on taxation issues).*

*For reference: The conditions and general rules for taxation of profits of controlled foreign companies are set out in Chapter 26 of Section YII.*