

NewsFlash

Tax&Legal

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Dear Readers,

This issue of NewsFlash outlines a brief overview of the tax amendments proposed in the Concept of a Draft Law On Amendments to Certain Legislative Acts of the Republic of Kazakhstan concerning Taxation and Improvement of the Investment Climate (hereinafter - the "Draft Law").

The Draft Law aimed at the improvement of the tax administration and creation of a favorable business and investment environment, and at the enhancement of tax collections to support the growing social sphere expenditures of the state.

To promote investment activities, the Draft Law proposes an introduction of three-year investment tax credits for the corporate income and property taxes.

The Draft Law implies a number of amendments to the **VAT** section of the Tax Code, namely:

- Imposition of VAT on sales of electronic services that foreign entities provide to individuals in Kazakhstan;
- Application of a zero-rated VAT to sales of services on refueling of aircrafts and cargo transshipment from railway to water transport;
- VAT exemption on dealers' sales of domestically produced vehicles and agricultural machinery;
- VAT exemption on in-country sales of new types of machinery and components for vehicles and agricultural machinery;
- VAT exemption on import of new types of machinery and raw materials for the production of components for vehicles and agricultural machinery;
- VAT exemption on regular transportation of passengers and luggage;
- Tax benefits for the production of cotton fiber, confectionery, and yeast and processing of sugar beet.

To improve taxation of the **finance sector**, the Draft law proposes:

- To exempt from taxation borrowers' income resulting from the debts forgiveness by mortgage companies (similar to the tax exemption procedures applicable to banks);
- To exempt from taxation capital gains that individuals' receive upon a realization of shares in mutual investment funds;
- To exempt from taxation investment income of the Insurance Payments Guarantee Fund;
- To extend Kazkommertsbank's tax benefits for one year to finalize the restructuring of bad loans.

With respect to **other taxes**, the Draft Law establishes:

- An increase of excise duty rates for beer, heated tobacco, nicotine-containing liquids, expensive alcohol and tobacco products;
- Unification of individuals' property and land taxes (a lump sum payment);
- Elimination of the land tax for owners of premises in apartment buildings.

In the area **of taxation of individuals**, the Draft Law:

- Allows a deduction of obligatory pension contributions for taxation of income under service contracts;
- Excludes the cost of uniform clothing from individuals' taxable income;
- Recognizes the earnings of members of the board of directors or other management unit as income subject to social tax;
- Regards the earnings of members of the board of directors or other management unit as employment income with application of all employment-related tax benefits;
- Substitutes the 90%-adjustment for low-paid employees with the reduction of taxable income.

To improve the **tax administration**, the Draft Law:

- Extends the list of data not constituting tax secrets;
- Details the list of organizations and third parties providing information to the tax authorities for the tax administration purposes;
- Extends the period of limitation to five years for large entities;
- Imposes filing obligations on individuals self-assessing personal income tax obligations;
- Includes a period covered by a so-called tax audit in the period of the tax authorities' comprehensive or targeted tax audits.

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