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МЕЖДУНАРОДНОГО
ФИНАНСОВОГО ЦЕНТРА

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Opportunities for International Tax Planning

The current international trend in tax planning is to rely less on artificially structured tax arrangements (tax shelters), but rather to genuinely restructure the business in such a way that it then naturally operates with a better tax efficiency.

Kyrgyzstan has never been known as a tax haven or an international finance centre. Not many of those who professionally design international tax planning solutions know that this country can be a very useful element in making international holding and financial arrangements more tax efficient.

Unlike classic offshore centres, such as the BVI or the Seychelles, where one would hardly establish a real business (only hang a brass plate), Kyrgyzstan is a country where it makes much sense setting up a genuine economic presence, and tax benefits would only complement the business benefits of operating there.

In Kyrgyzstan a number of factors uniquely useful to an international business are combined:

- **Corporate profit tax rate is 10%.** The rate is comparable with the taxation level in many developing countries, but in Kyrgyzstan many scenarios exist where this rate will be significantly diminished or even be zero.
- The banking system of the country **is open to non-residents**. There are no exchange controls. Capital may flow freely, only AML checks are applied.
- If a proper local office is required, rent of high quality premises is cheap and readily available, and local staff able to man the operations of an international business can easily be hired, at the fraction of the cost of, say, Zurich or Cyprus.
- Should you need a base to do business with the countries of the Customs Union, Kyrgyzstan is optimal because it is fully integrated with the Customs Union in terms of duty-free trade, Russian language is the second official one (any official or business document may be drawn up in Russian and no translation into Kyrgyz is required), and the country's notariat is fully recognized in Russia without legalization or an apostille.
- Kyrgyzstan is a member of the convention supporting legalization with apostille.
- Going public in Kyrgyzstan brings significant benefits (in more detail about this please read here). The local stock exchange is recognized in Russia enabling the issuer to obtain the Russian (secondary) listing without the Russian regulator's approval. There are zero tax rates on capital gains and income from securities listed in primary listing categories. The exchange is open to listing startup companies, and their listing can even be combined with an ICO (more about it here). If you list debt securities at the local exchange to fund a business in Russia, Russian law exempts interest on such funding from its withholding tax, even if the debt holders are offshore.

Briefly about Kyrgyzstan's tax system

In general, the tax legislation of Kyrgyzstan is much simpler and more liberal than that of Russia and other countries of the region. Although the Government constantly looks for new sources of revenue, any aggressive increase of the tax burden would be politically unacceptable: traditions of popular opposition to intrusive actions of the Government are too strong in Kyrgyzstan.

Corporate taxes

The **corporate profit** tax has a non-progressive rate of **10%**. It is diminished to zero in certain cases, such as for a manufacturing (including reprocessing / finishing / packaging) business which has attained the sales of around 2,5 million USD per annum and has hired enough local employees to pay a cumulative amount of the income tax on their salaries of over 2,200 USD per month. There is no withholding tax on dividends paid by such enterprises either. Agricultural producers enjoy the **zero rate** without any qualification. Producers of certain exportable IT services (such as development of software or running an outsourcing support centre) may use the **zero rate** available through the «High Technologies Park» regime. The business of leasing enjoys a **5%** profit tax rate.

VAT is applied at **12%**, but this tax strictly relates to domestic sales and importation of certain goods. Financial services and capital transfers are exempt from the VAT.

Withholding tax has a general rate of **10%**, but exemptions are available to bring it down to zero in certain cases. Capital gains in some scenarios are exempt, dividends paid by zero-taxed manufacturing businesses are exempt, and income on the securities listed on the local stock exchange in prime categories is exempt.

The combination of Kyrgyz national tax exemptions and the general regulations of the Customs Union make Kyrgyzstan the optimal country for importing into the Customs Union area of any equipment, rolling stock and similar capital assets. Correct structuring can bring the rates of the **import duty**, the **import VAT** and the **profit tax** on subsequent exploitation of such assets down to **zero** at the same time.

To stimulate the business in the field of information technologies the Kyrgyz lawmakers introduced a special tax regime called «The High Technologies Park». Any business registered under this regime pays a **zero profit tax** rate and **zero VAT** and a discounted rate of Social Fund contributions on the salaries (17%). The sales are subject to 1% turnover charge to support the infrastructure of the Park. The regime can be used by any local company or foreign company's subsidiary which is in the business of software development, is an outsourcing interactive service center or is engaged in similar activities and sells its services primarily for export.

Activities which qualify for the High Technologies Park regime:

«— development of software, which includes: analysis, designing and programming of information systems, including those ready for implementation, analysis of informational needs and problems of users, designing, development, delivering and documenting of custom-made or ready-made software, including the software made to fit the requirements of specific customers, correction of software at the user's request;
— export of information technologies and software;
— establishment of interactive service centres and selling their services».
(source: Law on the High Technologies Park)

Many types of personal small businesses can opt to pay a fixed amount of income tax instead of being taxed on their profits. This system is called a «patent» system, and activities such as legal consulting or IT services can qualify. The cap on earnings for an individual businessperson using the «patent» system is around 110,000\$ per annum, before it gets taxed at the 10% rate. The fixed tax is very small and amounts to less than 1% of the sales.

Gold mining companies enjoy a special taxation regime which disregards profits but taxes their gross sales; the tax rate varies depending on several factors, but is very reasonable.

Unlike Cyprus or Malta or classic offshore centres, Kyrgyzstan — presenting very similar tax planning opportunities — is not a country anyone would call a «tax haven». It is one of the reasons why many international traders dealing with Russia (in imports and in exports) locate their trading companies in Kyrgyzstan. With certain structuring, the profits generated can be completely free of taxation, but the trader would nevertheless maintain a fully domiciled presence (called 'substance' by tax planners) in the country.

Taxation of individuals and opportunities for international planning

Individuals may acquire a residence permit in the Kyrgyz Republic by declaring their intent to do so and presenting a prescribed set of documents. For holders of the Russian passport the procedure is even simpler: there are no immigrant quotas and no requirement to obtain a work permit (in reciprocity to the same treatment of Kyrgyz nationals by Russia). Holders of other nationalities can establish legal presence in Kyrgyzstan through a slightly lengthier procedure.

To maintain the residence permit once it is issued Kyrgyzstan does not require any specific number of days to be spent in the country (unlike the UAE or many EU nations, for example).

Taxation of income of a Kyrgyz residence permit holder becomes an issue only when the individual spends over 183 days in Kyrgyzstan in a single calendar year (10% income tax rate). Otherwise Kyrgyz tax (10%) is applied only to the locally sourced income.

The Kyrgyz Republic does not participate in the system of exchanging financial account information for tax purposes with other countries (CRS). Consequently, no data on bank or brokerage accounts of Kyrgyz residents gets automatically passed to Kyrgyzstan.

As a matter of practice, the holders of Kyrgyz residence permits not spending over half a year in Kyrgyzstan can still file their tax declarations in Kyrgyzstan, report some income and pay the Kyrgyz 10% tax on it. The Government will surely not contest such a discretionary donation.

There are no 'controlled foreign company' rules in Kyrgyzstan, and thus Kyrgyz residents are taxed only on the distributed income of their foreign structures (such as companies, foundations or trusts). Even zero-tax zero-substance structures present a barrier against their income being attributed to the controlling individual or entity.

Kyrgyz residents and companies are free to open bank accounts around the world which further adds flexibility to the use of Kyrgyzstan in international planning.

Establishment of holding companies in Kyrgyzstan

- Although Kyrgyzstan is not a popular holding jurisdiction, establishing a holding company there can provide good tax benefits.
- If the tax law of any country makes it disadvantageous to use zero-tax entities as holding

companies for ownership of that country's local assets, please consider Kyrgyzstan. It has a 10% tax rate which should qualify as a good faith rate in many countries, and setting up real (not simulated) presence in Kyrgyzstan is easy. It should by definition satisfy any 'substance' requirements of the income source country.

- Once the income is taxed in a foreign country by way of withholding, there is no further taxation of it in Kyrgyzstan (provided the foreign country's withholding tax rate is 10% or higher) — the local law allows for a full set-off. And once the Kyrgyz company receives its profit, there is usually no problem to export or reinvest it without the need to pay dividends and suffer a withholding of the Kyrgyz tax on dividends.

- Since Kyrgyzstan is a member of the Customs Union, Russian 'controlled foreign company' (CFC) law is not applicable to companies incorporated there. Although Kyrgyzstan's profit tax rate is much lower than in Russia, Russian tax law exempts the Russian shareholders and controllers of Kyrgyz entities from the «look-through» taxation of the undistributed profits of such entities.

Benefits of Kyrgyz tax residency for individuals

- A territorial tax system for those not spending over half a year in Kyrgyzstan (only local source income is taxed).

- Kyrgyzstan is not a member of the global account information exchange system (CRS) and currently has no plans to join.

- The income tax rate is 10%; a fixed tax system is available for certain business activities (Eg. legal consulting and IT services).

- A zero tax rate is guaranteed for certain investments made through the local stock exchange.

- Resident permits are easy to obtain (just one visit required); official confirmation of the residence and the local tax registration (tax number) follows with the residence.

Visiting Kyrgyzstan

- Nationals of most developed nations do not need a visa to visit the Kyrgyz Republic or can get their visa stamped on arrival. Most others can obtain it online without the need to appear at a Kyrgyz consular office.

- The main air hubs through which you can get to Bishkek, the capital of the Kyrgyz Republic, are Istanbul, Dubai and Moscow. Regional flights from other cities are also available.

- Bishkek has world class hotels (such as the Hyatt) and very good quality local hotels not belonging to the global hotel networks.

Using Kyrgyz companies for international trade in goods / commodities

- Similar to low-tax Swiss cantons and offshore jurisdictions, Kyrgyzstan offers a number of tax saving opportunities to international trading companies established there.

- If the physical flow of goods / commodities takes place outside of Kyrgyzstan, the effective tax rate for such business can be as low as fractions of 1%.

- Russian exporters and importers often use Kyrgyz companies and Kyrgyz-domiciled subsidiaries of foreign companies as intermediary buyers and sellers of goods for Russia / from Russia, to optimize tax and logistical issues.

- The local Value Added Tax is charged only on domestic sales and is not applicable to international

commerce. The rate is 12%.

Deriving tax-free interest income from investments in Russia

Listing bonds or other debt instruments on the Kyrgyz Stock Exchange is a way to repatriate interest income from Russia free of the Russian withholding tax. In accordance with the Russian tax law and the Directive of the Russian Central Bank of 30 May 2017 No 4393-U, if a Russian project is financed with the proceeds of a debt securities issue listed at the KSE (the issuer may be a Russian company or a foreign SPV), Russian withholding tax on interest on such borrowing is not applied. Originally a Eurobond privilege, this tax stimulus was extended to cover the Kyrgyz Stock Exchange to ensure closer cooperation of the Customs Union States.

Kyrgyz law allows for local listing of both domestic and foreign-issued securities.

This tax saving opportunity is discussed in more detail in «A Gateway to Tax-Free Financing of Projects in Russia».

Trading securities and other financial instruments through Kyrgyzstan

Private investors not residing in Kyrgyzstan and managers of offshore corporate treasuries can structure their securities trading and investments through Kyrgyzstan for tax saving and efficiency. There is no withholding tax on capital gains from foreign securities.

A number of local investment companies are geared specifically to service international clients and manage their investment and planning solutions.

Australia	Canada	Singapore
Austria	South Korea	Slovakia
Belgium	Kuwait	Slovenia
Bosnia and Herzegovina	Latvia	United States of America
The Vatican	Lithuania	Finland
United Kingdom	Liechtenstein	France
Hungary	Luxembourg	Croatia
Germany	Malta	Czech Republic
Netherlands	Monaco	Switzerland
Greece	New Zealand	Sweden
Denmark	Norway	Estonia
Iceland	United Arab Emirates	Qatar
Ireland	Poland	Brunei
Spain	Portugal	Bahrein
Italy	Saudi Arabia	Japan