



АГЕНТСТВО РАЗВИТИЯ
МЕЖДУНАРОДНОГО
ФИНАНСОВОГО ЦЕНТРА

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An Ideal Country for Internet Business

Kyrgyzstan is not the Silicon Valley and can not boast a large concentration of innovative internet companies. However, from the regulatory and tax point of view it has perfect conditions for running an internet-focused business.

Taxation

Development of software and selling certain other IT services can be done tax-free, if the regime of The High Technologies Park is used. Only a 1% charge on the sales is payable to support the infrastructure of the Park.

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, including some IT services, 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**.

The general income tax rate payable by Kyrgyz residents is **10%**. Non-citizens spending less than 183 days in Kyrgyzstan pay the tax on the territorial basis, i.e. only on the Kyrgyz-source income.

Russia-focused IT services

Many IT development companies selling their services and products to customers in Russia opt to be operating out of Kyrgyzstan because of ultra-low taxation, absence of exchange controls and generally,

a more liberal business climate.

Acceptance of Kyrgyz-originating software in Government procurement contracts in Russia

In 2015 Russia drastically limited the use of foreign software by State-related entities, as a protectionist measure following its fallout with the Western countries.

Very recently Kyrgyzstan has been excluded from the application of this ban (Government Resolution No 1594 of 20 December 2017), and as of the 1st of January 2018 any software developed by a Kyrgyz company is allowed to be bought by any Russian Government-controlled or municipal entity on the same terms as if it was developed in Russia.

Personal data

Personal data regulations can be a serious impediment to the development of internet projects.

As a side comment, the United States do not have general personal data protection laws, only sectoral (such as relating to medical records or license plates). This provides a good basis for personal data handling companies such as Google, Facebook, Apple etc, to dynamically develop their business and stay competitive globally.

A law on the protection of personal data exists in Kyrgyzstan, but the lack of subordinate legislation and the (yet) absence of the national data controller makes it de-facto inoperative. Even if the law will be properly implemented, its provisions are quite liberal to business and should not create barriers to internet commerce, as, for example, in the EU or Russia.

Blockchain and crypto-projects

Cryptocurrency mining is regarded as a general commercial activity and is not subject to restrictions, provided it is done through a registered enterprise in compliance with tax law.

Private investment in crypto-assets is not subject to restrictions; crypto-focused investment services for customers can be offered by any licensed broker-dealer or asset management company. A detailed legal report on how to operate a blockchain-based / cryptocurrency business out of Kyrgyzstan is available; please email us to ask for a copy.

The only blockchain-related restriction in Kyrgyzstan is prohibition to use cryptocurrencies as a 'means of payment' in domestic transactions, but it is hardly a problem for operators of blockchain businesses out of Kyrgyzstan.

International payment systems are regulated by the National Bank of the Kyrgyz Republic (to legally operate a payment system within Kyrgyzstan for local residents its operator must obtain the approval of the National Bank). However, pure operation of the IT infrastructure or a development centre related to the payment system is regarded as a general IT business and is not subject to restrictions.

One may establish an own payment system in Kyrgyzstan; a set of regulations applies to its business, their focus being on the protection of local residents from fraudulent projects.

Business in the field of cryptography is not subject to State licensing (as, for example, in Russia) which provides a good basis for the development of innovations relying on cryptography without excessive bureaucratic meddling.

Internet commerce

Kyrgyzstan's membership in the Customs Union presents a unique opportunity to set up a hub for centralized import and further distribution of goods ordered by private customers on online platforms.

Location of the importing point in Kyrgyzstan can be especially beneficial given the plans of some Customs Union states to introduce high import duties and VAT on private parcels whose value exceeds a certain minimum value.

We are working on the legal aspects of this project now and encourage any interested companies to join us.

Raising capital for internet startups

Kyrgyzstan's own investment market is quite limited, but its legal infrastructure can be successfully used to source global investments into locally domiciled projects.

Liberal listing rules at the local stock exchange enable startup companies to launch quick IPOs and raise capital. An IPO on the Kyrgyz Stock Exchange can be a viable alternative to unregulated forms of fundraising, such as ICOs, especially because the Kyrgyz IPO can be structured to include the most innovative and democratic features of a token placement.

The Kyrgyz Stock Exchange has a special listing category for startup companies.