



**INTERNATIONAL
FINANCE CENTRE
DEVELOPMENT AGENCY**

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Crypto Mining Opportunities in Kyrgyzstan

Kyrgyzstan with its low electricity prices, a liberal tax system and absence of exchange controls or capital flow restrictions, provides a viable option for cryptocurrency miners to set up their business.

Electricity costs in the Kyrgyz Republic

Driven by social considerations, Kyrgyzstan maintains an ultra-low price of electricity for private users and a reasonably low one for businesses.

There are two electricity tariffs in Kyrgyzstan.

The private tariff, accessible only by private individuals, is 2,16 Soms (for consumption over 700 kWh per month) which is roughly equivalent to 0,031 US dollars / kWh at the current exchange rate of 68 Kyrgyz Soms for one US Dollar.

The enterprise tariff, which is for everyone else, is 2,24 Soms for 1 kWh, equivalent to 0,033 US dollars / kWh at the current exchange rate of 68 Kyrgyz Soms for one US Dollar.

Power availability

Power in the national grid is generally available to commercial users without limitation, save for very remote regions where the low capacity of the antiquated power lines may be an impediment. To obtain an industrial volume of electric power a direct contract with the regional power company (all are State-owned) is required.

Blackouts happen rarely but should not be completely ruled out, as the power distribution system is old and mainly dates back to the USSR era.

Private Power Generation

Private power generation is possible and is generally encouraged by the State.

While solar power is of very limited use (its cost is still much higher than the State-regulated tariffs), hydro-power generated by small-scale hydro turbines installed on mountain rivers is a viable alternative to plugging into the grid.

Internet Availability and Quality

Commercially available retail internet is of low quality and its cost is times higher than, for example, in Russia. This is due to limited connection the landlocked Kyrgyzstan has with the web. The only two available internet sources are lines leading from from Kazakhstan and from China.

Should the mining enterprise require a wide enough channel to communicate with the outside worldwide web, it is advisable to set up a proprietary internet channel instead of buying a retail internet package.

Import of Crypto Mining Equipment into Kyrgyzstan

Equipment used for cryptocurrency mining (classified as computer equipment, Class 8471) is generally subject to a 0% import duty and an import VAT at the rate of 12%.

However, the import VAT may be reduced to zero if the import is structured as contribution to authorised capital of a newly established Kyrgyz enterprise (i.e. if the foreign shareholder invests this equipment as capital).

Since Kyrgyzstan is part of the Russia-dominated Customs Union, many restrictive and overly intrusive rules originating in Russia which found their way into the common law of the Customs Union are now applicable in Kyrgyzstan. One such provision relevant to crypto mining is a requirement to obtain a license or another form of approval from the national security agency to import any "cryptographic equipment". The national security body in Kyrgyzstan is the GKNB - State Committee for National Security.

Standard video cards, although usable for a cryptographic process, most likely do not fall under the definition of "cryptographic equipment" and should be importable as regular commercial merchandise. However, equipment specifically designed for crypto mining, especially with no prior importation history in the Customs Union will require its technical characteristics to be certified as explained above. (Source: Section 2.19 of Annex 2 to the Resolution of the Eurasian Economic Commission Collegium of 21 April 2015 No 30 (Cryptographic Equipment))

Taxation of Crypto Mining

The business of 'mining' is subject to a general tax regime which imposes a 10% tax on profits and a VAT of 12% on locally sold goods and services (export services are VAT-free, and mining for the benefit of the foreign users of the internet should qualify as an exported service).

A tax-saving option exists which may be used to minimize the tax to practically zero.

The Kyrgyz Republic country has a very preferential tax regime, called The High Technologies Park, for export-focused IT businesses operating out of Kyrgyzstan. The companies that qualify for it, pay only a 1% charge on their gross sales for supporting the Park's infrastructure, and the Profit tax and VAT are reduced to zero. Not all IT businesses may get into the Park: the law provides that only those qualify that engage in "development of software, including programming of information systems (...), export of information technologies and software (...), being interactive service centers".

It would require some legal structuring to ensure that the local Kyrgyz enterprise engaging in blockchain mining will qualify into the Park by proving that it is developing software or an information system under a contract with a foreign customer. We will be happy to assist prospective applicants in going through the qualification process.

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Should you wish to explore the possibility of setting up a crypto mining operation in Kyrgyzstan, please contact us at salam@kyrgyzbusiness.com

We will be happy to assist you with:

- structuring your investment with minimal taxation
- import formalities for specialized equipment
- tax registration of your business
- ongoing administration of the accounting and tax filings
- negotiating the lease with the local authorities
- negotiating the electricity contract
- ongoing support and management of relations with the local authorities