Copies left with N.ID in Uzbek.

cc Tony Johnston 4/5/94

26/4/94

UZBEKISTAN - CIGARETTE INDIRECT TAX TREATMENT

The current position regarding the indirect tax (import duties,excise tax and VAT) treatment of cigarettes in Ubekistan is as follows -

Import Duties

No import duties are levied on cigarettes coming into Uzbekistan from any source. This was re-affirmed by Government Decree of January 1994 until at least 1 July 1995.

VAT

Imports - not levied on import but supposedly levied at wholesale/retail stages.

Domestic - levied at a rate of 25% 0n the ex factory price plus excise tax. Applied at further stages through to retail.

Excise Tax

Imports - not levied on imports from any source.

Domestic Production - levied at four rates on the ex factory price plus the excise itself.

Class 1 cigarettes	40% (66.7%)
Class 2 + 3 cigarettes	25% (33.3%)
Class 4 cigarettes	15% (17.6%)
Papirossy	20% (25.0%)

The figures shown in brackets are the effective rates levied on the ex factory price.

At a meeting with the Fiscal Working Group on 21 April 1994 we were informed (and shown) that a decree of the Minister of Finance dated 1 March 1994 increased the excise tax on cigarettes as follows -

Previous

Class 1 40/90% (900.0%)

Class 2+3 25%/56% (127.3%)

Class 4 ~~Class 3~~ 15 34% (51.5%)

Papirossy ~~Class 4~~ 20/45% (81.8%)

? Possibly meant

(47%) 90%

(36%) 56%

(25%) 34%

(31%) 45%

This Decree has only to be gazetted in order to take immediate effect.

EXPLANATION OF CURRENT PRACTICE

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The non - application of indirect taxes to imports is because under the Soviet system true imports from third countries outside of the Soviet bloc were either non-existant or managed entirely from Moscow.

Within the Soviet bloc indirect taxes were in effect taxes on production and not taxes on consumption as is general international practice. Therefore cigarettes produced in say Russia would pay Russian taxes and then be free to move to any other country in the old Soviet Union without incurring any further taxes. This system is still applied between C.I.S. countries.

Quite simply the concept of levying indirect taxes on goods used for domestic consumption, regardless of source of supply, and waiving indirect taxes on goods produced for export is completely alien to them. There understanding of the world is that all countries pursue trading practices in line with their own. It would, in their understanding of trade,be highly inappropriate to levy indirect taxes in Uzbekistan on goods which they believed must already have paid taxes in the country of production.

Overcoming this 'mind set' and introducing the concept of raising and controlling excise taxes and VAT on imports is extremely difficult.

IMPORTANCE TO UZBAT

Using the crucial value for money segment as an example the impact of the inequality of tax treatment can be illustrated as follows -

Domestic (i)	Net Price	$US 4.64
	Excise (Class 1 - 40%)	3.09
	VAT (25%)	1.93
	Wholesale Price	9.66
Imports (ii)	Wholesale Price	5.50

(i) Projected ex factory price as at end 1993.
Exchange rate $1 = som 3700
(ii) Current c.i.f. price of TU134 from Bulgaria

Therefore unless equality of treatment is obtained a VFM brand manufactured by UZBAT would be some 75% more expensive than an equivalent import. If the new tax rates are implemented the the wholesale price for UZBAT would increase to $ 58.00 almost 1000% more expensive than the equivalent import.

NB. Wildy fluctuating exchange rates will of course effect the above.

INDIRECT TAX REFORM REQUIRED BY BAT

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Control procedures (although not so rigorous) will be required for C.I.S. imports also in order to ensure that domestic taxes have been paid and that the country concerned had not adopted the international practice of waiving excise on exports.

4. Level of Uzbekistan cigarette taxation

Immediate steps must be taken to ensure that the new rates contained in the Ministry of Finance Decree are not gazetted. An effective tax rate of 900% of the ex-factory price of class 1 cigaretts is clearly unacceptable.

5. Review of Tax Structure

An undertaking should be obtained from the Government to review both the rates of taxation and the structure of taxation (ad valorem or specific tax; tax base) within 12 months of the agreement.

FISCAL WORKING GROUP MEETING

In summary, whilst the Uzbek participants are still finding the concept of international trade practices regarding indirect taxes difficult to come to terms with and questioned the need for import duties when demand so out stripped supply, they were clearly interested in the revenue possibilities. Nabil Khodadad of MBP said that he accepted the vital importance of the equality of treatment and undertook to take this back to his negotiating team. They did not consider that futher meetings on excise were necessary until full negotiations were underway next week.

C.D.Dufty

22 April 1994

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