

Mrs I Golysheva  
Ministry of Finance  
Tashkent

Re: UZBAT AO

As promised I enclose my suggestions for inclusion in a reply from the Ministry of Finance to the Cabinet of Ministers under the terms (paragraph 8) of the decree of the Cabinet of Ministers dated 20 June 1994. I hope these reflect the points discussed during our meetings and with Mr Abdoukadirov.

"To establish an equal taxation regime for the tobacco products of foreign and domestic make, it is recommended that:

- (i) imports be subject to excise tax and VAT in the same way as domestic product;
- (ii) that the excise tax be calculated on the cost of production plus profit (including excise) for domestic product and on the c.i.f. ("cost insurance freight") price (including excise) for imported product.
- (iii) that the rates of excise be 40% for filter cigarettes and 25% for plain cigarettes (including papirossy)
- (iv) that the VAT be calculated on the cost of production plus profit plus excise for domestic product and on the c.i.f. price plus excise for imported product.
- (iv) that the rate of VAT be 20%
- (v) that in the case of cigarettes manufactured in and imported from other countries in the CIS, credit be given for excise and VAT which can be evidenced as having been paid in those other countries. Subject to a maximum amount, if applicable, of excise and VAT leviable in Uzbekistan.  
  
In the case of cigarettes manufactured in countries outside the CIS no credit be given against excise and VAT leviable in Uzbekistan.
- (vi) that the above recommendations be introduced with effect from 1 August 1994.
- (vii) that Uzbekistan excise and VAT payable on imported cigarettes is paid by the importer prior to the release of the product by Uzbekistan customs for sale in the Uzbekistan market.

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- (viii) that discussions be commenced with UZBAT A.O on the method and implementation of some form of tax stamp (banderole) or tax marker system. Such system be introduced in order to facilitate the collection of excise and VAT by Uzbekistan on cigarettes sold here.

**Some points of justification:**

- (i) It is necessary to impose Uzbekistan excise and VAT on all cigarettes sold in the country, whether imported or domestic production. This in line with international trading practice and will ensure that Uzbekistan receives fair indirect tax revenues from all cigarettes consumed here.
- (ii) The present excise rates leviable on all cigarettes produced in Uzbekistan are too high to ensure the economic viability of the domestic industry and if applied to imported product would make them unaffordable and encourage widespread smuggling. (The recommended rates are the maximum which it is believed can be realistically set to spread the tax liability over all cigarettes sold in Uzbekistan without creating shortages and so reducing the revenue base.)

Under the existing Cabinet of Ministers decree no import duty is levied on cigarettes coming into Uzbekistan until July 1995. After that date consideration should be given to the imposition of a reasonable rate of import duty in order to protect the domestic cigarette manufacturing industry.

- (iii) The policing and collection of excise and VAT on imported cigarettes will be facilitated by an effective tax stamp or marker system, possibly similar to that used in Belgium or Hungary. Prior to the introduction of such system, the collection will be dependent on the effectiveness of border control by Uzbekistan customs.

Cigarettes imported from and manufactured in other CIS countries may have paid excise and VAT in the country of manufacture and in accordance with current practice and preferential trading arrangements in force, this should be allowed against Uzbekistan excise and VAT. Extra care must be taken on imported product which has merely transited through a CIS country into Uzbekistan. In these cases full Uzbekistan excise taxes and VAT must be paid prior to release by customs for sale in Uzbekistan.

DJ Bishop

Russian version personally delivered 15 July 1994

cc Dr AM Abdoukadirov

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